



# SMALLHOLDERS' ACCESS TO FINANCE THROUGH BANK



USAID  
AGRICULTURAL  
EXTENSION  
SUPPORT ACTIVITY  
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About 80% of the rural people in Bangladesh, especially smallholder farmers (owning land  $\leq 1.0$  hectare), are not participants of the formal banking channels which explains their significant reliance on Micro Finance Institutions (MFIs)/NGOs for traditional loans. In 2014, 693 licensed MFIs in Bangladesh disbursed USD 8.4 billion to their 34 million active borrowers<sup>1</sup>. However the effectiveness of microfinance has come under serious controversy because rather than benefitting the penurious rural farmers, it is trapping them into vicious cycle of debt which arise from extremely high interest payments and stringent repayment time.

In 2012, the USAID Agricultural Extension Support Activity (AESAs) project began implementation in the central and southwest regions of Bangladesh, which is a Feed the Future (FtF) Zone of Influence (a region afflicted with poverty and with increasing soil and water salinity).

In September 2014, the project conducted a study on access to microfinance and observed that, despite their socio-economic importance, smallholder farmers tend to have little or no access to formal credit, which limits their capacity to invest in technologies and inputs. The respondents also reported that traditional microfinance support faces a number of challenges, including: high interest rates, overlapping loans, insufficient repayment periods and lack of attention to the ultra-poor.

## RATIONALE OF A-CARD

Based on the study findings, in 2016, the AESA project started a new initiative titled “Smallholders’ access to finance through Banks”. In short it is known as “A-Card”. The initiative supports agricultural lending to farmers through a formal banking channel so that farmers are able to access the necessary credit to purchase agricultural inputs with minimum costs and flexible payment terms.

The loans will be offered to farmers at an annual interest rate of 10% with payback made at the end of a six-month term, unlike standard MFI loans, which generally have an annual percentage rate of 25-31% and require weekly repayments over a 46-weeks period.

## CONCEPTUAL OVERVIEW OF A-CARD

AESA project  
has been  
involved in their  
savings and borrowing  
activities since 2012 with  
these MFIs/NGOs.

The ‘A-Card’ model aimed to bring the smallholders in microfinance services through a formal banking system for their agricultural lending and using the ICT platform for savings and borrowing in improving their livelihoods.

The ‘A-Card’ model was initiated through partnering with a private commercial bank, four MFIs/NGOs and another USAID project supporting agricultural input retailers in the FtF zone. The commercial bank provides agricultural loans to the smallholders at a 10% interest rate with a six-month payback period, which may be paid off in single or multiple installments.

<sup>1</sup>Bairagi, S. and Shadat, W. B. (2016). *Cost Benefit Analysis of Traditional Versus Flexible Microfinance in Bangladesh*, Copenhagen Consensus Center, p.8.

Primarily, four project working districts in the FtF zone were selected to pilot the model for a period of one year. Additionally, four MFIs/NGOs operating in these districts is part of the alliance. This was initiated as many beneficiaries of the AESA project have been involved in their savings and borrowing activities since 2012 with these MFIs/NGOs.

This pilot is the only example to date in Bangladesh where a bank and MFIs/NGOs have partnered to extend micro-credit agricultural loans to farmers. Smallholder farmers traditionally had a difficult time securing loans from banks due to the rigorous process. Under this pilot, such barriers will be removed due to two factors:

- 1 Firstly, the farmers are already registered as clients with one of the participating MFIs/NGOs, and the MFIs/NGOs will ensure that all of the required 'Know Your Customer' forms and other validation requirements are collected in advance.
- 2 Secondly, Bank Asia will use their automated lending platform to process credit requests quickly and efficiently.

## UNIQUE FEATURES OF

### A-CARD

In A-Card initiative the participating farmers will be able to receive loans with lower interest and more flexible repayment options along with having the convenience of being able to use their debit cards to securely and easily purchase inputs from participating retailers. The A-Card model will be transformed the state of small agricultural loans in Bangladesh and other Asian countries, while also increasing uptake of digitally-enabled agricultural purchases.

### The unique features of the A-Card include the following

10% flat interest will be charged only on the amount that the farmers have used for input purchases resulting into reduction in their interest payment. This rate is substantially lower in comparison to the standard rate charged by MFIs/NGOs which averages 25% or more.

**Lowest possible  
Interest Rates**

The farmers will have to pay back after six months enabling substantial grace period for repayment which reduces their immediate burden for repayment prevalent under existing MFI/NGO's micro-credit scheme.

**Flexible Repayment  
Options for Time Based  
Crop Seasons**

Each input retailer is equipped with Near Field Communication (NFC) enabled smart biometric point of sale (PoS) devices, allowing farmers to buy inputs directly from them using A-Card which relieves the hassle of carrying cash. Also the retailers are paid by the bank immediately after purchasing from the farmers.

**NFC Enabled  
Digital Card**

Every purchase will be verified using fingerprint to ensure that only intended farmers have access to purchase rights of the inputs using the card from a verified input retailer under this initiative.

**Fingerprint  
Verification  
Functionality**

The input retailers and the farmers will have accounts at the bank in addition to the farmers maintaining account at the MFIs/NGOs. This creates a favorable environment for both these stakeholders to be beneficiaries of financial ecosystem and access other type of financial services as necessary over time.

## Integrated Access to Banking System

### OPERATIONAL FRAMEWORK OF A-CARD

The A-Card model integrates an operational framework which explains the overall activity flow in this project specifying which stakeholders are involved at what stages and how their activities revolve around the project's goals and objectives.

The operational framework is divided into a number of stages and are explained below (figure-1):

#### a. Initial stage: Identify & Train Local Stakeholders

The AESA project organizes the farmers into Farmer Producer Groups (FPGs) & link them with MFIs/NGOs. The potential agricultural input retailers are trained on the use of NFC enabled smart phones for mobile banking.

#### b. Development stage: Partnership between AESA, MFIs/NGOs & Commercial Bank

At this stage, the AESA project and the MFIs/NGOs collaboratively select smallholders and input retailers and help them to open bank accounts with the private bank through the MFI/NGO operated agent bank booths.

#### c. Operational stage: Providing Debit Cards to Farmers

At this stage, the bank provides NFC debit cards to the new account holders and limits the credit ceiling BDT 10,000 – BDT 20,000 (USD 125 – 250) according to the advice of the MFIs/NGOs. Farmers are able to purchase inputs from selected retailers using A-Card.

#### d. Repayment stage: Monitoring Credit & Payment Schedules

During the final stage, the MFI/NGO's credit officers will regularly monitor the smallholder households and give them advice about repayment schedules and amounts. The smallholders should repay the loan from six months from the date of lending.

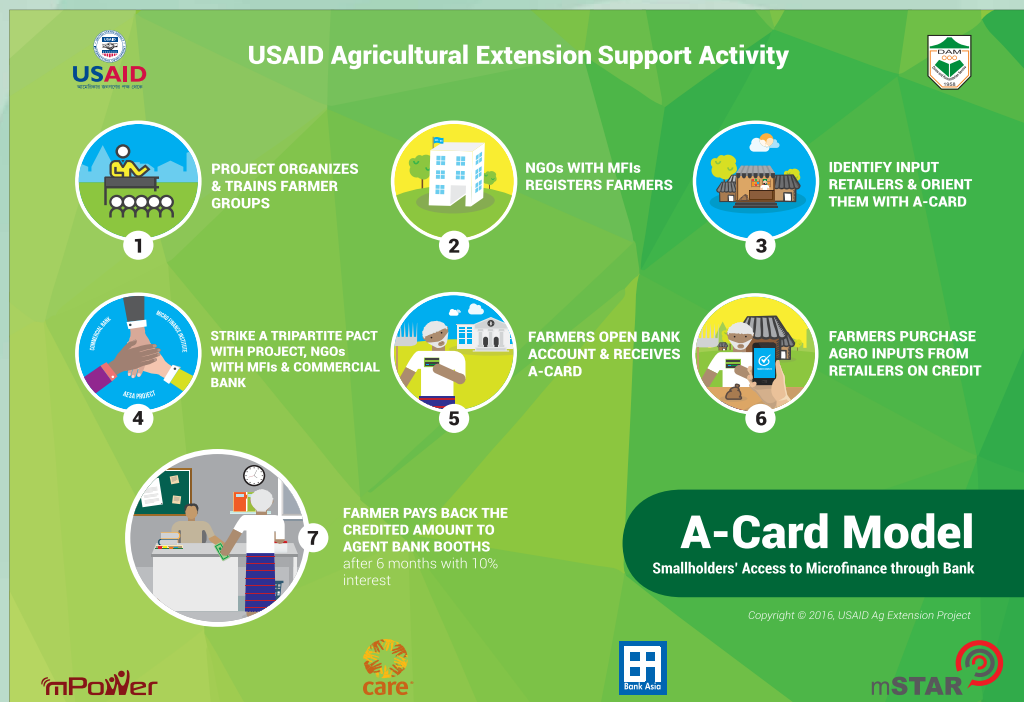


Figure-1: Operational framework of A-Card model

The following criteria will be followed to select a farmer eligible for receiving A-Card:

- Farmers owning total productive land area of at least 50 decimal;
- Farmers who were trained by the project on value chains;
- Not a loan defaulter from any MFI/NGO;
- Farmers having monthly stable income of at least BDT 6,000 (USD 75).

Four districts i.e. Faridpur, Bhola, Jessore and Khulna under AESA project area will be piloted initially. Under these districts, six upazilas will be covered by the A-Card initiative. About 4,000 smallholder farmers will be reached by this piloted initiative.

## BENEFITS TO STAKEHOLDERS

The A-Card Model framework mutually benefits all its stakeholders both in economic and financial terms. The benefits are accrued to the stakeholders in the following ways:

Farmers	Input Retailers
<ul style="list-style-type: none"> <li>- Creating an association with a formal financial institution;</li> <li>- Accessing micro-credit at the lowest possible rate with flexible payment terms;</li> <li>- Able to directly pay input retailers through A-Card without carrying cash;</li> <li>- No extra or hidden charges when purchasing inputs;</li> <li>- No urgency to sell crops to settle loan dues.</li> </ul>	<ul style="list-style-type: none"> <li>- Access to a fixed and large number of potential farmers who are using A-Card;</li> <li>- Reducing the needs of carrying cash;</li> <li>- Potentially allowing them to pay input companies or dealers via digital channels;</li> <li>- Creating a transactional history with a bank to avail other quality financial services if needed.</li> </ul>
Bank	Microfinance Institute (MFI)/NGO
<ul style="list-style-type: none"> <li>- Acquisition of a new and active customer base for a long term potential relationship &amp; investment prospects;</li> <li>- Building up brand value of Bank Asia in promoting financial inclusion for farmers;</li> <li>- Able to ensure that the loans disbursed are used only for the purpose of purchasing agriculture inputs;</li> <li>- MFIs being the guarantors ensure no risk pertaining to loan payment default by farmers.</li> </ul>	<ul style="list-style-type: none"> <li>- Earning interest on transactional commissions;</li> <li>- Partnership with a renowned bank increase the trust among the target population of these MFIs;</li> <li>- Increase possibilities to offer additional loans to the farmers;</li> <li>- Receiving capacity building support from AESA for their staff and farmers on nonfinancial services.</li> </ul>



## PARTNERSHIP MODALITY

### AESA Project

#### Responsibilities Include:

- Organizing FPGs & prepare selection criteria for A-Card;
- Identifying farmers' eligibility for receiving A-Card;
- Training FPG members and retailers;
- Sharing the cost of A-Card with the bank;
- Facilitating pay back of A-Card loans;
- Joining in a tripartite MoU with MFI/NGO and Bank for implementing, monitoring and expanding the A-Card model;
- Conducting pre/post surveys to assess the effectiveness of A-Card initiative.

### Microfinance Institute/NGO

#### Responsibilities Include:

- Registering and maintaining farmers' savings accounts;
- Collaborating with bank for operating A-Card;
- Recommending bank on credit ceiling for farmers;
- Maintaining term deposit account with the bank;
- Monitoring loan repayments and ensuring that farmers repay loans on time to the bank.

### Commercial Bank

#### Responsibilities Include:

- Opening bank accounts for farmers & providing A-Card;
- Establishing Agent Banking system with MFIs/NGOs;
- Providing monthly report to project management;
- Engaging in agreement with MFIs/NGOs to extend credit services.

## EXPECTED RESULTS

In August 2016, the project organized a launching event on A-Card to share the new initiative before multi-stakeholders and distributed A-Card among 30 smallholder farmers. At present 300 farmers are operating A-Card with 10 retailers in one piloted area and 700 farmers are waiting to receive the A-Card by January 2017. It is expected that:

- 4,000 smallholder farmers will receive A-Card by June 2017;
- 10,000 smallholder farmers will receive A-Card by December 2018; and
- 50,000 smallholder farmers will receive A-Card by December 2021.

#### The anticipated outcomes of A-Card include the following:

- Approximately 4,000 smallholders will have bank accounts and will have access to agricultural lending using the credit card by June 2017;
- Around 98% of borrowers will repay their loans and will maintain the repayment rates and schedule;
- About 80% of card holding households will abstain from overlapping loans from other MFIs/NGOs;
- Farmers' savings will increase with the MFIs/NGOs through agent banking arrangements;
- More than 60% of farmers will have higher productions of their agricultural crops;
- Approximately 50% of farmers will sell their produces at a higher price than that of previous years.

## SUSTAINABILITY PLAN

It is envisaged that the A-Card model will ensure high recovery rates due to low interest rate at 10% repayment only on used credit after six months. Registered farmers will continue savings with MFIs/NGOs, improve market linkages and strengthen collaboration between farmer communities, local MFIs and larger commercial banks. As farmers will continue using and building their credit records by continuing the use of digital card, the ICT platform, agent bank and hold a bank account, their self-confidence and preparedness for future commercial endeavors is envisioned to increase. Further, earnings from the interest rate is expected to pay for the organizational operational costs and upkeep of the ICT platform. Thus, this market-driven approach and collaborative sustainability plan envisions that the solution can grow in the targeted market without continual donor support.

## CHALLENGES & RISKS

The A-Card initiative may face following risks that may hamper its overall activities and plans:

- Unwillingness of any party to participate in the process;
- Changing of bank interest rate;
- Farmers may avail better opportunity of credit support with better terms and conditions;
- Natural disaster like flood, cyclone and drought may affect farmers' productions;
- Retailers may not practice fair price and supply quality inputs;
- Monitoring systems may not function after the project period;
- Agent banking operations by the MFIs/NGOs may not continue within the farmers' reach.

## FUTURE EXPANSION PLAN AND CONCLUSION

Given the initial reception of A-Card, we are hopeful of the possible scaling up of this model in other regions across Bangladesh in promoting financial inclusion of farmers and retailers under formal banking channels. In the second phase of this initiative, other value chain actors, such as local service providers (LSPs), input dealers, companies, millers and wholesalers will also be incorporated as part of this ecosystem, ensuring that all actors can be benefitted from the digitization of payments along the value chains.



## USAID AGRICULTURAL EXTENSION SUPPORT ACTIVITY



Project's new initiative A-Card:  
smallholders' access to finance through Bank

The A-Card initiative is a unique initiative of the project where the farmers are getting loans directly from a commercial Bank – Bank Asia with the assistance of microfinance institutions with a low interest rate and an extended payback period. The farmers can buy necessary agricultural inputs from selected local retailers through the NFC (near field communications) enabled smartphones and this is the first time in the country that a NFC card has been used for financial transactions for the farmers in rural Bangladesh.



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