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USAID AGRICULTURAL EXTENSION SUPPORT ACTIVITY

A-card: Progress and Prospects



ACARD

**Re-Shaking Microfinance
Systems in Bangladesh**



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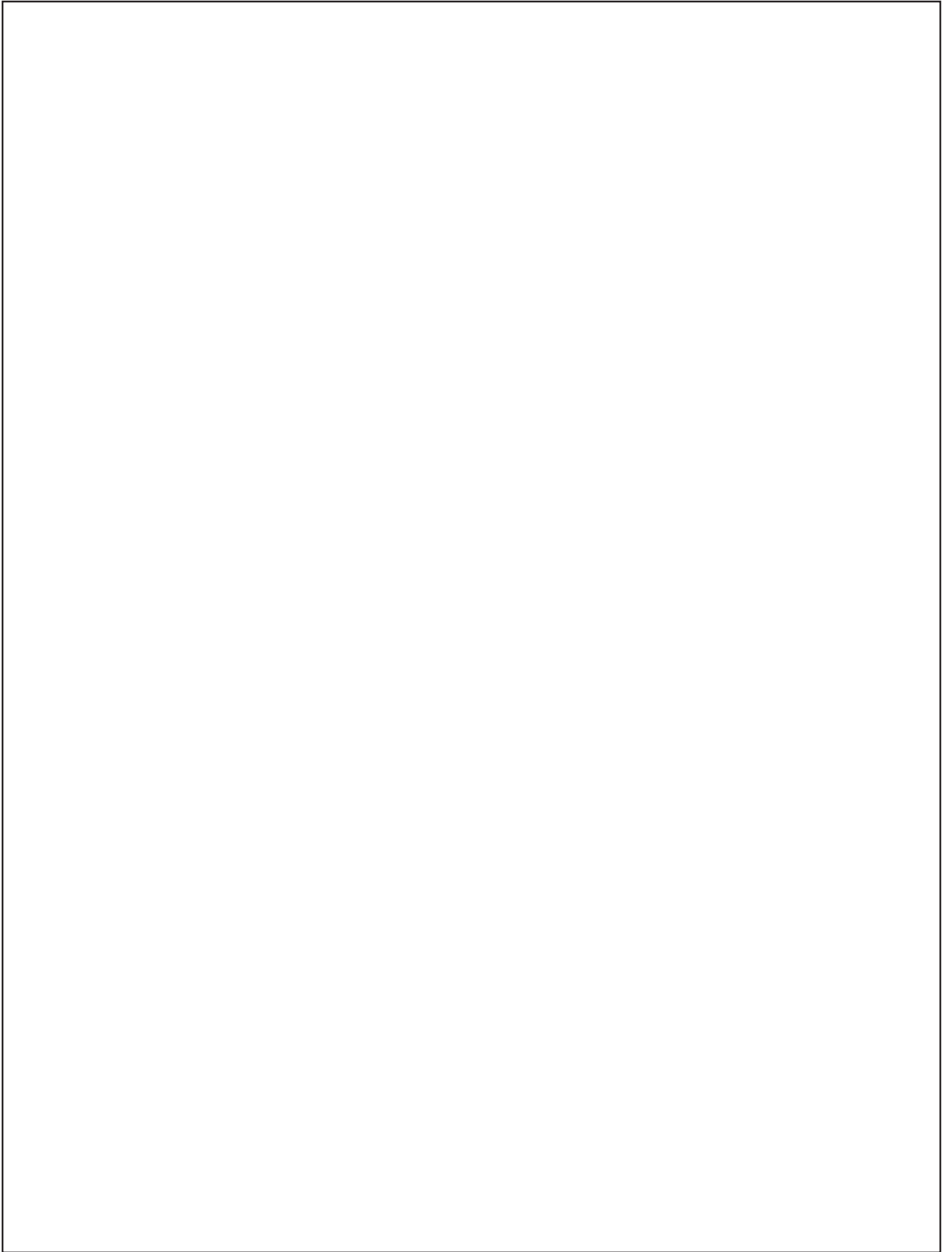
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Dhaka Ahsania Mission | CARE-Bangladesh | mPower

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Bank Asia



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TABLE OF CONTENT

1: BACKGROUND	P1
2: SMALLHOLDERS' CHALLENGES IN ACCESSING FORMAL FINANCE	P1
3: A-card PROCESS	P2-5
4: RESULTS	P6-7
5: KEY TO SUCCESS	P8
6: EXPERIENCES AND LESSONS LEARNED	P9

1. BACKGROUND

The development problem relates to satisfactory financing that smallholder farmers need for seasonal agricultural operations. Financial constraints are more pervasive in agriculture and related activities than other sectors, reflecting both the nature of agricultural activity and the average size of farms. Despite the rapid development of financial services, a majority of smallholders worldwide lack access to the key services they need to compete and improve their livelihoods.

In Bangladesh, about 80% of rural people, especially smallholder farmers (those owning land \leq 1.0 hectare), do not have access to formal bank credits and thus mostly depend on Micro Finance Institutions (MFIs)/NGOs for traditional loans. According to a recent study conducted by BRAC (2016), the share of the poor taking loans from banks had decreased from 5% to almost none during 1988 to 2014. The reverse has been observed in case of taking loans from NGO - the share of households taking loans from NGOs increased 12 times from 3.7 per cent to 43.8 per cent. 506 licensed MFIs in Bangladesh disbursed USD 10.5 billion to their 30.28 million active borrowers (2015, CDF Statistics). However, the effectiveness of microfinance to benefit the very poor has been called into question as poorer borrowers can become trapped into a vicious circle of debt.

2. SMALLHOLDERS' CHALLENGES IN ACCESSING FORMAL FINANCE

- 1** The root of the problem is that money lenders tend to offer only a limited menu of products, mainly with heavy collateral requirements that smallholder farmers cannot meet.
- 2** Wealthier farmers can obtain larger loans at lower cost from formal lenders because they can credibly pledge assets or future cash flows.
- 3** Asset-poor households, by contrast, are limited to considerably smaller loans at much higher rates because they have to turn to lenders who must substitute costly monitoring for collateral.
- 4** Lack of robust financial products for smallholders and their low risk taking capacity in investment agricultural farming. Moreover, high transaction cost for commercial banks in operating the services for the remote farmers restricts smallholders' formal financial inclusion.

3. A-card PROCESS

A-card ('A' stands for Agriculture) is a brand new micro-credit mechanism, only example in Bangladesh aimed at providing smallholder farmers financing to digital purchase of farm inputs at a low cost (10%) through the formal financial system linked to a debit card and ICT-enabled platforms.

Addressing the problem of smallholder farmers' lack of access to finance required a consultation among different stakeholders particularly in finding effective solution. It eventually led to the idea and design of the A-card model. In this regard, the USAID Agricultural Extension Support Activity (AESAs) project's interventions effectively engaged with different stakeholders including smallholder farmers, micro finance institutions (MFIs), formal lenders (i.e. banks) and rural agricultural inputs retailers. The aim of this collaboration was to work for a common goal with differentiated responsibilities. Some key factors that led to design A-card model include:

- Organize smallholder farmers with the help of government extension agents to form the farmer producers groups (FPGs) and develop their skills in adopting technologies for higher agricultural production. They participate in the MFIs conducted skill development training on financial literacy and household business planning to enter the process of formal agricultural lending;
- Identify potential solutions to provide easy access to financial services on constraints that smallholder farmers faced;
- Develop and pilot a unique model to generate information and feedback to address smallholder farmers' challenges in financial inclusion;
- Scale up of the new model in collaboration with a wide range of stakeholders with high quality and appropriate demand driven services for smallholder farmers.

A-card solves the demand-supply gap in the capital market by offering a unique win-win partnership model that not only provides the access to finance for farmers in favorable terms, but also enhances the capacity of the capital market to derive economic value out of untapped market opportunities. The A-card initiative is a unique digital finance solution that is fully aligned with agricultural loan management regulation of the Government of Bangladesh and operates with existing ICT technologies in the country.



3.1 UNIQUE FEATUERS

- (i) **Lowest possible Interest rates:** 10% flat interest is charged only on the amount that the farmers have used for input purchases, which is substantially lower than the standard rate charged by MFIs averaging 25%;
- (ii) **Flexible repayment time based on crop season:** payback time after six months enabling substantial grace period for repayment which reduces their immediate burden for repayment prevalent under existing MFI's micro-credit scheme;
- (iii) **NFC (Near Field Communication) enabled digital card:** each input retailer is equipped with 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 (through agent banking outlet operated by the partner MFI immediately after purchase by the farmers);
- (iv) **Align with government interest:** The A-card initiative is a unique digital finance solution that is fully aligned with agricultural loan management regulation of the Government of Bangladesh and operates with existing ICT technologies in the country.

The followings are the criteria in selecting a farmer for A-card:

- *Farmers owning total productive land area of at least 50 decimal;*
Or, farmers having at least two dairy cows or one bull for fattening;
- *Farmers who got project provided training on value chains;*
- *Not a loan defaulter from any MFI or other financial institute;*
- *Monthly stable income of at least BDT 6,000 (USD 75).*

3.2 IMPLEMENTATION

The implementation approach of the A-card service is based on a unique partnership model between some key players, each of whom has a unique role to play. Under the scope of the service, the subscribed farmers are given Near Field Communication (NFC) enabled debit cards, with credit ceilings of USD 125-250. A commercial bank (Bank Asia) provides the lending service, a local MFI providing the local agent banking service, and a group of pre-authorized agricultural input sellers who sell required inputs, which farmers buy using the debit card. Money is transferred from account to account when retailers connect to the bank database network through their NFC enabled smart phones. Retailers can then take out cash from nearest agent banking outlets operated by the partner MFI.

The key components of the operational framework can be briefly described as follows:

Initial stage: AESA organized the farmers into Farmers Producers Groups (FPGs) in alignment with value-chain crops and trained them on improved agronomic practices for better yields. AESA built relationships and networks through facilitating the FPGs' linkage with the MFIs that enabled farmers to start making savings deposits. The activity identified potential agricultural inputs retailers and trained them on the use of NFC enabled smart phones for mobile banking. AESA oriented them on the A-card model and supported their businesses in the process of joining the alliance.

Development stage: AESA, MFIs, and Bank Asia signed a Memorandum of Understanding (MoU) with mutually agreed terms and conditions on the implementation of A-card. AESA also signed bilateral agreements with each MFI to ensure support for nonfinancial services, farmer training on financial literacy, and business planning. Each MFI and bank also signed separate financial agreements regarding agent banking operations, profit sharing on smallholders' agricultural lending and maintenance of a term deposit account with the bank as collateral for the smallholders' lending.

AESA and MFIs collaboratively selected smallholder farmers and input(s) retailers to help open bank accounts with the participating bank through the MFI operated agent banking outlets. MFIs provided business planning and financial literacy training to the smallholders. MFIs deployed credit officers who specialize in agriculture to monitor and evaluate the performance of the smallholders' agricultural lending.

Operational stage: The bank provided NFC debit cards to the new account holders and limited the credit ceiling (USD 125 -250) per guidance by MFIs with 10% interest rate and with a six-month payback period. Farmers were then able to start purchasing inputs from selected retailers using the credit card. Bank Asia developed a mobile application to transfer money from farmers' savings account to the retailers' account. A-card applied continuous learning and improvement to determine the best model.

Repayment stage: MFI's credit officers regularly monitored the smallholders' households and advised them on repayment schedules and amounts. Six months from the lending date, the smallholders repaid the loan with 10% yearly interest rate at the MFI's operated agent bank booths. For any defaulted loan, the bank deducted the same amount from the MFI's deposited amount.

3.3 A-card Operational Model



Figure: Operational Steps of A-card



4. RESULTS

Primarily, USAID Agricultural Extension Support Activity (AESAs) project intervened three districts in the Feed the Future zone were selected to pilot the 'A-Card' model for one year. The initiative began through partnering with a private commercial bank (Bank Asia), three MFIs/N-GOs (Society Development Committee (SDC) in Faridpur, GrameenJanoUnnayanSangstha (GJUS) in Bhola, Dhaka Ahsania Mission (DAM) in Jessore and Socio- Economic Development Organization for the Poor (SEDOP) in Khulna) and another USAID project supporting agricultural input retailers in the FtF zone. The key results are-

Better access to credit: As of 31 July 2017, 3,100 farmers (of which 64% are women) have registered with three MFIs (i.e. Faridpur, Khulna and Bhola districts of Bangladesh) under the initiative. Total of USD 190,000 has been disbursed among 1,100 farmers of which 57% are women.

The first lot of loan receivers (465 farmers of which 63% are women) have made full payment of their loan (USD 77,000) through agent banking outlets. Another 200 farmers are waiting to make the payment by 31 August 2017. The registered farmers are maintaining their savings (about USD 15,000 as of July 2017) at regular basis with respective MFIs.

Private sector partners serve demand: A total of 30 inputs retailers are participating in the initiatives in three locations. Sale of the retailer through A-card constituted above 20% of their total sale in the last year. The benefits which retailers claimed are higher sale, knowledge on agro-inputs, escalation of income payment, close relation with SAAOs and getting more recognition.

High customer satisfaction: The project conducted survey results in the first lot of borrowers revealed that 43% borrowers were highly satisfied with the product while there were another 42% who also expressed their satisfaction moderately. Farmers stated that they were happy because they received loan with low interest rate and longer payback period; and had timely access to quality inputs from reliable input(s) retailers at fair prices.

Increased social capital: The timely available credit through A-Card supports their agricultural production and brings them social dignity as they are the only ones among their peer smallholders who have currently owned it and became role model.

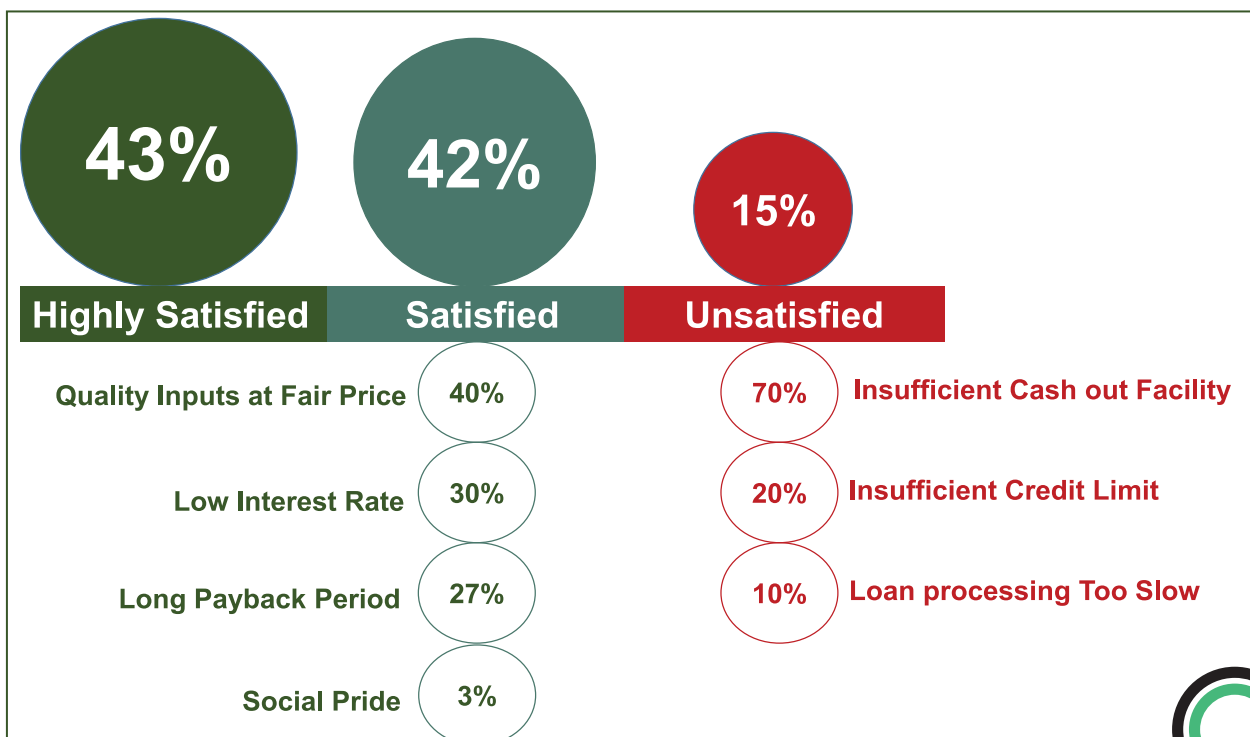
Farmers' Profile (300 samples)

*Average Age- 45 years | Average HH size-4.9
Average productive land – 180 decimal
Average HH monthly income- USD 250*

Results (300 samples)

*Production increased- 5.5%
Cost of production increased – 4.4%
Sale price increased- 15%
Product selling point- Home / local market*

Farmers' Satisfaction with A-card:



5. KEY TO SUCCESS

- ✚ The partner MFIs operating in the project working districts were invited to join the alliance as many beneficiaries of the AESA project had been involved in their saving and borrowing activities since 2012.
- ✚ One of the important success factors includes identification and selection of qualified retailers from the USAID funded Agro Inputs Project (AIP), which worked with 3,000 inputs retailers in the FtF zone (where the A-card initiative is piloted).
- ✚ The use of credit officers by partner MFIs with agricultural backgrounds is considered a significant success factor for agricultural lending. They are able to provide crop production training as well as training on value-chain based business planning to the farmers to encourage improved practices and higher production.
- ✚ Agent banking networks, mobile phone banking, and smart cards are the main attributes of the A-card model, which together reduce the costs of agricultural lending to smallholder clients. In joining the alliance the private bank had found that its diverse product for smallholders has provided them with an excellent competitive advantage in the rural agricultural lending market.
- ✚ Agricultural input(s) retailers are generally used to selling their products in cash or credit and have very limited knowledge about the use of Information and Communication Technology (ICT) for their businesses.
- ✚ In order to introduce agricultural lending, MFIs needed huge motivation as this was almost a ‘cultural shock’ for them to be involved in planning, implementation and resources for initiating an innovative business in partnering with a private commercial bank. They also required high-level management commitments, creative thinking, realistic growth targets and a readiness to adjust terms and practices.



The A-card enables smallholders to access agricultural lending from a formal banking system while developing a convenient avenue for saving and borrowing to improve livelihoods.

6. EXPERIENCES AND LESSONS LEARNED

- ✓ It is an opportunity for Bank Asia to have a competitive edge with a new product in the rural agricultural lending market. To the MFIs, it provided a new look of a diversified agricultural lending product with a commercial bank.
- ✓ The A-card model provided an opportunity where Bank Asia, MFIs and project could perfectly monitor that the disbursed amount is spent on agricultural production activities.
- ✓ It was very important to organize the farmers initially under a project's framework to bring them with value chain based crop production activities adopting improved agronomic practices.
- ✓ In the traditional system MFIs' credit officers spend roughly 90% of their time in the field. There is one agricultural loan officer to 150 clients. However, such a labor-intensive and costly approach is unlikely to scale. In contrast, under A-Card, one credit officer manages about 300 agricultural clients, which indicates higher operational efficiency and lower transaction costs per loan than those of the traditional system.
- ✓ The introduction of agent banking operations in rural areas has made it possible for unbanked smallholders to become account holders. The farmers now have access to ICT tools, as part of the platform, to facilitate their engagement with the agricultural lending market, which is considered as the trigger point for the operation of the A-Card model.
- ✓ It is identified that initially one to two years technical and/or financial assistance is required from an agricultural development organization to support the expansion or scaling up of the "A-card" model in other areas or in the post-project period.
- ✓ The piloted activity created ample scopes for further adaptation, revision and expansion of the A-card model in wider scale across the country.

FOR PROJECT STAKEHOLDERS

Systematic borrowing and non-cash lending helps the project, bank and MFIs/NGOs to perfectly ensure and monitor whether the disbursed amount is spent on agricultural production.



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