A-CARD

Smallholders’ Access to Finance through Bank

USAID Agricultural Extension Support Activity

Dhaka, Bangladesh

November 2016
Background

About 80% of the rural people in Bangladesh, especially smallholder farmers (owning land <= 1.0 hectare), are not participants of the formal banking channels which explains their significant reliance on Micro Finance Institutions (MFIs) for traditional loans. In 2014, 693 licensed MFIs in Bangladesh disbursed USD 8.4 billion to their 34 million active borrowers. 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 (AESA) project began implementation in the southwest region 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 for A-Card

Based on the study findings, in 2016, the AESA project started a new initiative titled “Smallholders” Access to Microfinance 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

The ‘A-card’ model was initiated through partnering with a private commercial bank, three (3) MFIs 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.

Primarily, three projects intervention districts in the FtF zone were selected to pilot the model for a period of one year. Additionally, three MFIs 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.

This pilot is the only example to date in Bangladesh where a bank and MFIs have partnered to extend micro-credit agricultural loans to farmers. Smallholder farmers have 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:

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

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Unique Features of A-Card

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

- **Lowest possible Interest Rates:** 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 which averages 25% or more.

- **Flexible Repayment Time based on Crop Season:** 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’s micro-credit scheme.

- **NFC Enabled Digital Card:** 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 purchased by the farmers.

- **Fingerprint Verification functionality:** 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 project.

- **Integrated Access to Banking System:** The input retailers and the farmers will have accounts at the bank in addition to the farmers maintaining account at the MFIs. 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.

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:

a. **Initial stage: Identifying & Training Local Stakeholders**

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

b. **Development stage: Partnership between AESA, MFIs & Commercial Bank**

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

c. **Operational stage: Providing Credit Card to Farmers**

   At this stage, the bank provides NFC credit 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. 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’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 of the lending date.
## Target Groups & Geographic Coverage

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 having at least one dairy cow or one bull for fattening;
- Farmers who got project provided training on value chains;
- Not a loan defaulter from any MFI;
- Monthly stable income of at least BDT 6,000 (USD 75).

Three districts i.e. Faridpur, Bhola and Kēhulna under AESA project area will be piloted initially. Under these districts, three upazilas will be covered by the A-Card initiative. About 4,000 smallholder farmers (owning productive agricultural land of size at most 0.25 ha) will be reached by the piloted initiative.

## Benefits to Stakeholders

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

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<thead>
<tr>
<th>Farmers</th>
<th>Input Retailers</th>
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<td>- Creating an association with a formal financial institution;</td>
<td>- Access to potentially a fixed and large number of farmers who are using A-Card;</td>
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<td>- Accessing micro-credit at the lowest possible rate with flexible payment terms;</td>
<td>- Reducing the need for them to carry cash</td>
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<td>- Able to directly pay input retailers through A-Card without carrying cash;</td>
<td>- Potentially allowing them to pay input companies or dealers via digital channels</td>
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<td>- No extra or hidden charges when purchasing input;</td>
<td>- Creating a transactional history with a bank to avail other quality financial services if needed</td>
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<td>- No urgency to sell crops to settle loan dues.</td>
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<th>Bank</th>
<th>Microfinance Institute (MFI)</th>
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<td>- Acquisition of a new and active customer base with potential for a long term relationship &amp; investment prospects</td>
<td>- Earning interest on float and other transactional commissions in their capacity</td>
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<td>- Building up brand value of Bank Asia in promoting financial inclusion for farmers</td>
<td>- Partnering with a renowned and scheduled bank, which may increase the trust that the target population has for these MFIs</td>
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<td>- Able to ensure that the loans disbursed are used for agriculture input purchase purposes only</td>
<td>- Increase potential to offer additional loan products to farmers</td>
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<td>- MFIs being the guarantors ensures no risk pertaining to loan payment default by farmers</td>
<td>- Receiving capacity building support from AESA for their staff and farmers on nonfinancial services</td>
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Partnership Modality

**AESA Project**

**Responsibilities Include:**
- Organizing FPGs & prepare selection criteria for A-Card;
- Identifying farmers eligibility for A-Card;
- Training FPG members and retailers;
- Sharing the cost of A-Card with the bank;
- Facilitating pay back of A-Card;
- Joining in a tripartite MoU with MFI and Bank for implementing, monitoring and expanding the model;
- Conducting pre/post surveys to assess program success

**Microfinance Institute**

**Responsibilities Include:**
- Registering and maintaining farmer’s savings accounts;
- Collaborating with bank in operation of A-Card;
- Recommending to bank on credit ceiling for farmers;
- Maintaining term deposit account with the bank;
- Monitoring loan repayments and ensuring that farmers repay loan on time to the bank.

**Commercial Bank**

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

**Expected Results**

In August 2016, the project has 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 100 farmers are operating A-card with 6 retailers in one piloted area and 900 are waiting to have the same by December 2016. **It is expected that 10,000 smallholder farmers will be receiving A-card by 2018 and 50,000 by 2021.**

The anticipated outcomes include the following:
- Approximately 4,000 smallholders will have bank accounts and will have access to agricultural lending using the credit card by March 2017;
- Around 98% of borrowers will repay their loans and will maintain the repayment rates and schedule;
- About 80% of cardholding households will abstain from overlapping loans from other MFIs;
- Farmers’ savings will increase with the MFIs through agent banking arrangements;
- More than 60% of farmers will report higher production of their field 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 model will ensure high recovery rates due to low interest rate at 10% and repayment only on used credit after six months. Registered farmers will continue savings with MFIs, 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 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 target market without continuing donor support.

Challenges & Risks

This project may subject to following risks that may hamper overall activities and plans:

- Unwillingness of any party to participate in the project;
- 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 production;
- Retailers may not practice fair price and quality inputs may not be supplied;
- Monitoring systems may not function after the project period;
- Agent banking operations by the MFI 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 (LSP) input dealers, companies, millers and wholesalers will also be incorporated as part of this ecosystem, ensuring that all actors can benefit from the digitization of payments along the value chain.