

Digital Financial Service Product Innovation #1

USAID promotes increased access to and usage of digital financial services in order to deepen financial inclusion, accelerate broad-based economic growth, and instill transparency into funding flows. This document is intended to provide insight into one of the digital financial service product innovations that [USAID's mSTAR/Bangladesh activity](#), implemented by FHI 360, has helped to introduce to Bangladesh.

OVERVIEW

USAID's Agricultural Extension Support Activity (AESA), implemented by Dhaka Ahsania Mission (DAM) in partnership with [CARE Bangladesh](#) and [mPower](#) is piloting a new initiative entitled 'Smallholders' Access to Microfinance through Bank: A-card' to provide smallholder farmers with agricultural lending. AESA is partnering with [Bank Asia Limited](#) and local microfinance institutions Society Development Committee (SDC), Grameen Jano Unnayan Sangstha (GJUS) and DAM Foundation for Economic Development (DFED) to test a micro-credit facility for farmers in Faridpur, Bhola, and Barguna districts. [USAID's mSTAR/Bangladesh project](#) is providing technical assistance to implement the aforesaid model in the pilot areas.

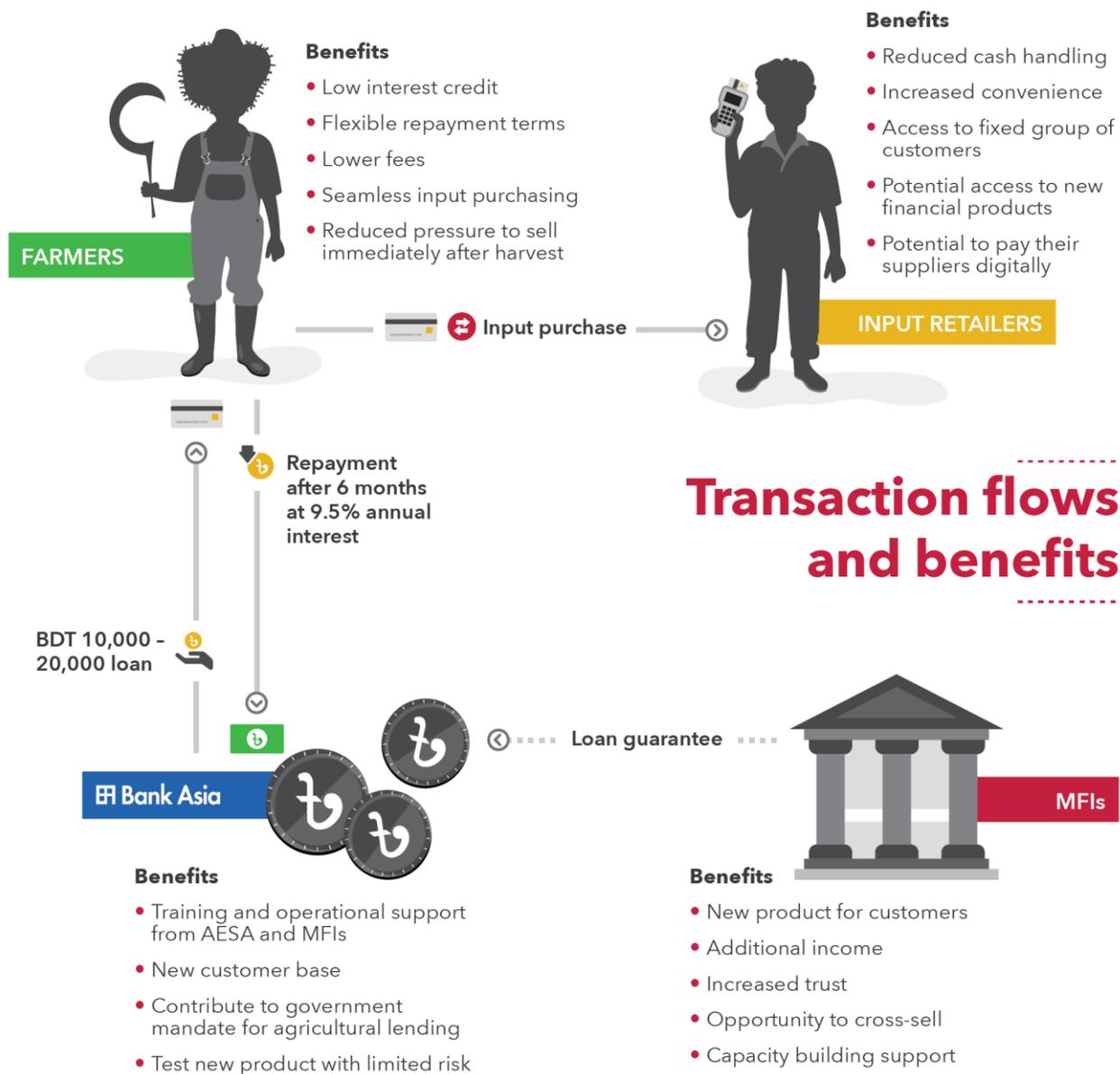
Under this pilot, Bank Asia Limited will open agent banking accounts for 2,500 farmers supported by AESA. In addition, each farmer will also receive an NFC-enabled Mastercard debit card for their account from Bank Asia Limited. An initial batch of 100 farmers have already received agricultural loans from BDT 10,000 to 20,000, with an additional 900 farmers receiving loans by December 2016, and another 1,500 farmers after that. The loans will be offered to farmers at an annual interest rate of 9.5% 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-week period.

"For the first time in Bangladesh, farmers have access to formal banking services using an NFC solution at their doorstep. [This is] an explicit approach towards achieving solid financial inclusion."
- Mr. Md. Arfan Ali, Managing Director, Bank Asia Limited

The pilot has also signed up ten input retailers in Faridpur from the [Agro-Input Retailers Network \(AIRN\)](#), which is managed by [USAID's Agro-Inputs Project](#). Each retailer will be equipped with NFC-enabled smart biometric point of sale (PoS) devices. This will enable farmers to buy inputs directly from these retailers using their NFC-enabled card, instead of having to first withdraw the balance of their credit in cash. All purchases will be verified using either their fingerprint, a one-time password (OTP), or their standard PIN, which will ensure that only intended farmers have access to their accounts. The same model will also be followed in the two other pilot regions (Bhola & Barguna). Eventually, visual confirmation based on the farmers' photographs in the system will also be added for further security.

This pilot is the first 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 due diligence process. Under this pilot, those barriers will be removed due to two factors. First, all of 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. Second, Bank Asia Limited will use their automated lending platform to process credit requests quickly and efficiently.

All told, participating farmers will be able to receive lower interest loans with more flexible repayment options, along with having the convenience of being able to use their NFC-enabled debit cards to securely and easily purchase inputs from participating retailers. If successful, this pilot could transform the state of small agricultural loans in Bangladesh, while also increasing uptake of digitally-enabled agricultural purchases.



BENEFITS TO STAKEHOLDERS

As a result of this pilot, participating farmers will benefit from:

- 1 | Access to micro-credit from financial institutions at the lowest possible interest rate and with the most flexible re-payment terms and conditions in the market.
- 2 | Creating a transactional history with a formal financial institution, which can potentially create more avenues to avail other quality financial services.
- 3 | Not needing to pay extra fees to input retailers or informal lenders as they will not need to purchase inputs from them on credit.
- 4 | Not having to urgently sell their crops immediately after harvest to settle dues, which will allow them more time to sell their crops at a better price.
- 5 | Being able to pay directly for inputs at participating input retailers via card, thus eliminating any cash out fee. This will also eliminate the risk of theft or potentially dealing with crumpled or counterfeit notes, as they will not need to carry cash with them to make input purchases.
- 6 | Being able to settle their loan dues remotely via Bank Asia's mobile application, saving them both time and money. While most participating farmers will not immediately be able to take advantage of this benefit due to the fact that they do not have smartphones, they eventually will as smartphone access becomes more prevalent.

Participating input retailers will benefit from:

- 1 | Reducing their need to deal with cash and their fear of keeping cash at their store due to potential theft. It will also reduce the risk of having to deal with crumpled or counterfeit notes. After each payment is made by farmers, it will be directly and automatically credited to their retailer's bank account.
- 2 | Creating a transactional history with a formal financial institution, which can potentially create more avenues to avail other quality financial services.
- 3 | Being able to receive dues from farmers at anytime from anywhere (if farmers use Bank Asia's mobile app). Farmers can also pay the dues from any Bank Asia Limited agent point or bank branch.
- 4 | Potentially being able to pay input companies or dealers via digital channels as well, which will save both time and money.
- 5 | Potentially having access to a fixed number of customers around the year, due to the fact that making purchases directly via NFC-enabled debit card will likely be easier for farmers than going to an agent point to cash out from their account first.

Bank Asia Limited will benefit from:

- 1 | The MFIs acting as guarantors, thus greatly reducing the risk of issuing loans to farmers.
- 2 | AESA and its MFIs arranging periodic workshops and trainings for farmers and input retailers to ensure proper awareness and usage of the offered services, along with highlighting the importance of loan repayment.
- 3 | Being able to rely on the presence of MFI and AESA staff to support operational activities like customer registration, loan applications, loan processing and disbursements.
- 4 | Acquisition of a new and active customer base with potential for a long term relationship.

- 5 | Having this contribute to requirements for them to offer 2.5% of their total yearly credit portfolio to the agricultural sector. Also, because it will be easier for farmers to use their NFC-enabled debit cards to make input purchases than other purchases, it can help to ensure that the loan is more likely to be used only for agricultural purposes.
- 6 | Showcasing that Bank Asia Limited is working with smallholder farmers, which is a direct act towards socio-economic development and achieving financial inclusion. In addition, it provides them an opportunity to test a new product with farmers so that they can prepare themselves to serve these target groups on a larger scale on their own, should they be interested.

Participating MFIs will benefit from:

- 1 | Being able to offer a new product to their customers, which will be more lucrative than other existing types of credit offers from the MFIs.
- 2 | Participating farmers being required to maintain savings with the MFIs, as they are acting as a guarantor to Bank Asia. This will generate additional fixed income for the MFIs.
- 3 | Earning interest on float and other transactional commissions in their capacity as Bank Asia agents.
- 4 | Partnering with a renowned and scheduled bank, which may increase the trust that the target population has for these MFIs.
- 5 | Potentially being able to offer additional loan products to participating farmers, since the loan amount may not be adequate to fulfil the totality of farmers' needs beyond inputs.
- 6 | Extended capacity building support from AESA for their staff and farmers on nonfinancial services, such as household financial management and business planning for crop production.

MORE INFORMATION ON PARTNER ROLES

SDC, DFED and GJUS will serve as Bank Asia agents in Faridpur, Barguna, and Bhola, respectively. They will also act as the guarantor for the smallholder farmers who are receiving micro-loans from Bank Asia in their district.

Bank Asia Limited will register farmers and input retailers into their agent banking platform and collect the necessary documents with help from partnering MFIs. Those documents will be scanned and uploaded from the MFIs' offices using Bank Asia's automated lending platform. Bank Asia will also do the necessary mapping and deployment of agent points in the pilot area to ensure smoother service delivery for farmers. Farmers can repay the loan amount by visiting any Bank Asia agent point.

AESA will help Bank Asia to register potential farmers and input retailers with the agent banking platform. AESA will also select and recommend farmers for loans. With the help of local MFIs, they will also arrange periodic workshops and training for farmers and input retailers to ensure proper awareness and usage of these services, along with highlighting the importance of loan repayment.

mSTAR/Bangladesh connected AESA with Bank Asia Limited to initiate discussions that led to this pilot, and has also provided ongoing technical support related to the design and promotion of the pilot. mSTAR/Bangladesh will also conduct pre- and post-surveys with participating partners and farmers to capture their experiences under this pilot.

WHAT'S NEXT?

In the second phase of this initiative, other value chain actors, such as 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.

DISCLAIMER

The views expressed in this publication do not necessarily reflect the views of the U.S. Agency for International Development or the U.S. Government.

This document is supported by USAID's Mobile Solutions Technical Assistance and Research (mSTAR) project (Award #: AID-OAA-A-12-00073). It was written by [Md. Majidul Haque](#) and [Josh Woodard](#). mSTAR offers on-demand technical assistance to support USAID implementing partners in Bangladesh with the transition from cash to mobile and electronic payments. To learn more about technical assistance options, contact Md. Majidul Haque, mSTAR/Bangladesh Technical Lead at mhaque@fhi360.org.

