

## Digital Financial Service Product Innovation #2

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

The Feed the Future Bangladesh Rice Value Chain (RVC) project funded by USAID and implemented by the [International Rice Research Institute \(IRRI\), Bangladesh](#), is partnering with [IFIC Bank Limited](#) with support from mSTAR/Bangladesh to pilot a new agri-credit facility for farmers in Jessore and Satkhira districts.

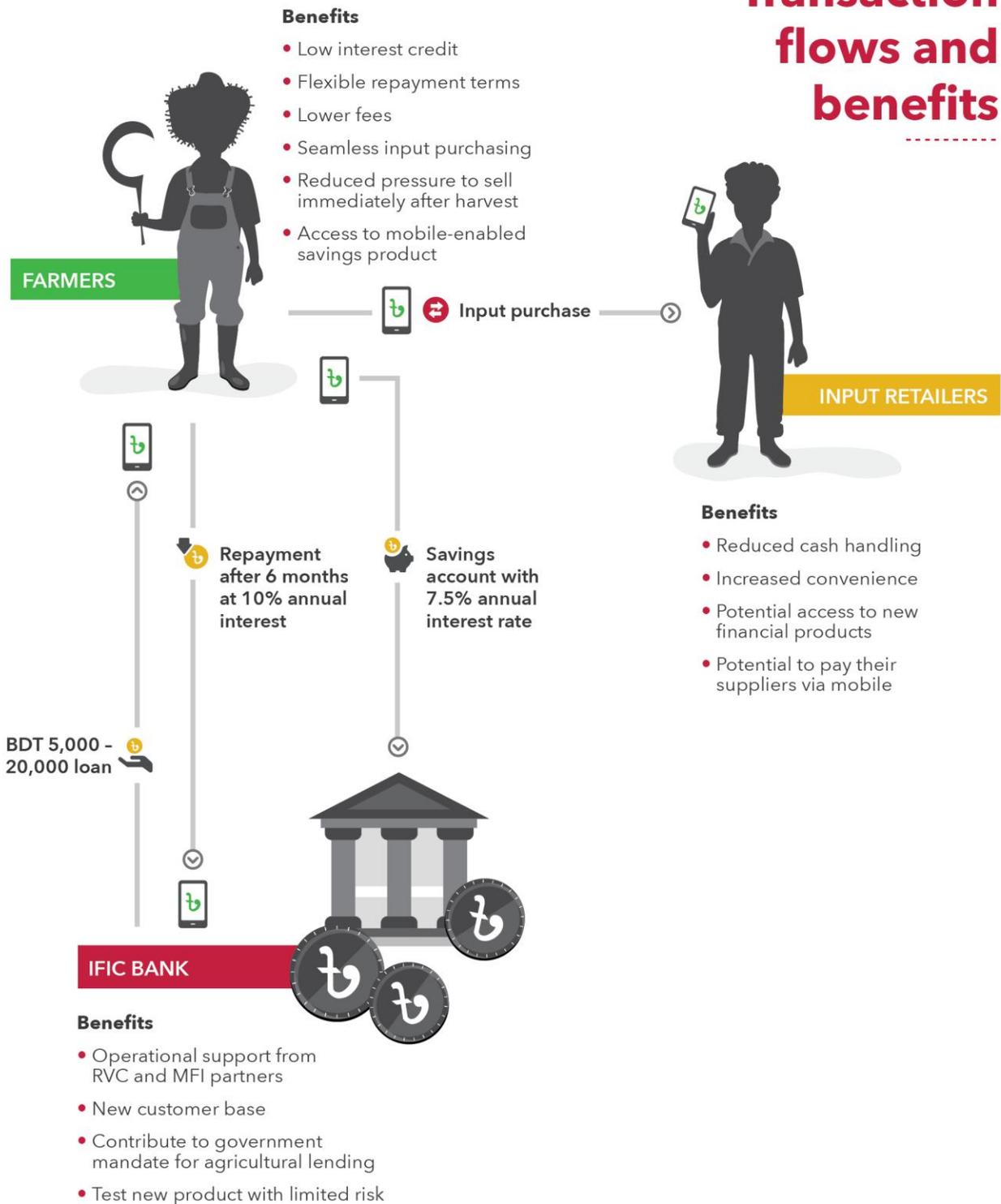
An initial batch of 100 farmers will be registered with IFIC Bank's mobile financial services (MFS) platform through which they will be provided with agricultural loans worth BDT 5,000 to BDT 20,000 (\$65 to \$255) via one of their core banking services, the 'Amar Account'. This is an overdraft facility integration that enables IFIC Bank to offer agricultural loan services to farmers via their MFS platform, which will be used only as a service delivery and collection channel. 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. This is a significant improvement over the standard MFI loan that farmers typically have access to, which generally has an annual interest rate of 25-31% and requires weekly repayments over a 46-week period.

The pilot will also sign up four input retailers from RVC's connected retailer network in Jessore and Satkhira. Each retailer will be registered and deployed as an MFS merchant using their own mobile handset. This will enable farmers to buy inputs directly from these retailers using their MFS account, instead of having to first withdraw cash. The cost of the transaction will be free to the farmers, although retailers will pay a fee of between 1.3 – 1.5% per transaction.

All purchases will be verified using the farmer's secret four-digit PIN, which will ensure that only the farmer has access to their account. This pilot will also encourage farmers to make monthly savings starting from only BDT 100 (\$1.30) per month. Deposit terms will range from one to ten years and will receive an annual interest rate of 7.5%.

This pilot is the first example to date in Bangladesh where a bank is extending micro-credit agricultural loans to farmers using the MFS channel. Smallholder farmers have traditionally had a difficult time securing loans from banks due to the rigorous due diligence process. Under this pilot, participating farmers will be able to receive lower interest rate loans with more flexible repayment options, along with having the convenience of being able to use their mobile phone to securely and easily purchase inputs from participating retailers. At the same time, farmers will have access to a mobile-based savings product offered by a scheduled bank, something that many of them have not previously had access to given the limited numbers of brick and mortar bank branches in rural communities.

# Transaction flows and benefits



## BENEFITS TO STAKEHOLDERS

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

- 1 | Access to micro-credit at the lowest possible interest rate and with the most flexible re-payment terms and conditions in the market.
- 2 | Access to a safe and secure quality savings scheme.
- 3 | Creating a transactional history with a formal financial institution, which can potentially create more avenues to avail other quality financial services.
- 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 | Not needing to pay extra fees to input retailers or informal lenders as they will not need to purchase inputs from them on credit.
- 6 | No cash out requirement, as they can directly pay to the input retailers via mobile. Thus there will not be any cash out fee.
- 7 | Being able to settle their dues remotely via mobile, which can save them both time and money.
- 8 | Not having to worry about theft or mugging as they will not need to carry cash to purchase inputs.

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 bank account.
- 2 | Being able to receive dues from farmers at anytime from anywhere.
- 3 | Creating a transactional history with a formal financial institution, which can potentially create more avenues to avail other quality financial services. One of the main reasons why the participating retailers have agreed to pay the transaction fee is because they may have access to credit products from IFIC Bank as a result of their participation.
- 4 | Potentially being able to pay input companies or dealers via digital channels as well, which will save both time and money.

IFIC Bank Limited will benefit from:

- 1 | Start up support from RVC and its local MFIs allowing them to test the concept at relatively low cost and risk that includes support for operational activities like customer registration, loan applications, loan processing and disbursements. These tasks will be taken on for a fee by local MFIs once the pilot phase become over.
- 2 | Acquisition of a new and active customer base with potential for a long term relationship.
- 3 | Having this contribute to requirements for them to offer 2.5% of their total yearly credit portfolio to the agricultural sector.
- 4 | Showcasing that IFIC Bank is working with smallholder farmers, which is a direct act towards socio-economic development and achieving financial inclusion.
- 5 | Being able to showcase and test their products so that they can prepare themselves to serve these target groups on a larger scale on their own, should they be interested.

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## MORE INFORMATION ON PARTNER ROLES

IFIC Bank Limited will register farmers and input retailers into their MFS platform and collect the necessary documents with help from local MFI partners, JCF and TMSS. Those documents will be scanned and uploaded via a web interface from the nearest IFIC Bank branch. IFIC Bank will also do the necessary mapping and deployment of agent points in the pilot area to ensure smoother service delivery on the farmers' end. Farmers will use their own MFS account to repay the loan amount to IFIC Bank.

The RVC project will help IFIC Bank register potential farmers and input retailers with their MFS platform. RVC shall also select and recommend farmers to IFIC Bank for loans based on agreed upon client criteria. RVC will also arrange periodic workshops and training for farmers and input retailers to ensure proper awareness and usage of these services, along with the importance of loan repayment.

mSTAR/Bangladesh initially conducted an [assessment](#) for the RVC project, which identified opportunities for mobile financial services for the farmers they work with. It then connected the RVC project with IFIC Bank Limited to initiate discussions that led to this pilot. mSTAR/Bangladesh will also conduct pre- and post-surveys with participating partners and farmers to capture their experiences under this pilot.

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## WHAT'S NEXT?

Based upon a positive outcome from this pilot, IFIC Bank Limited plans to extend the aforesaid credit and other offerings to more smallholder farmers. Both IRRI and IFIC Bank have plans to bring other value chain actors, such as input dealers, companies, millers and wholesalers into 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.

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