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Understanding Mobile-Enabled Agri-Credit Adoption among Rice Farmers

— Assessment Report —



September 2017
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THE SCIENCE OF IMPROVING LIVES

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EXECUTIVE SUMMARY

The mSTAR/Bangladesh project, working with the Rice Value Chain (RVC) Project led by the International Rice Research Institute (IRRI), conducted pre- and post-assessments in Jessore and Satkhira to understand the benefits, challenges and overall experience of farmers who adopted an agri-credit product delivered via IFIC Mobile Banking. This product provided loans for agricultural inputs to smallholder farmers amounting to BDT 10,000 (US \$125) with a six-month repayment period. This product stemmed from technical assistance that mSTAR/B provided to the RVC project to identify opportunities to introduce digital financial services (DFS) to their beneficiary farmers. More details on the technical assistance provided to RVC by mSTAR/B can be found in [this report](#) and addition details on the agri-credit product can be found in [this document](#).

This report details the findings from the pre- and post-assessments beginning with respondent's demographic information, including age, sex and education; their mobile phone ownership, access and usage patterns, and their knowledge, perceptions and behavior regarding mobile financial services (MFS) usage since the pilot provided agri-credit through the MFS channel. The findings reflect the benefits and challenges perceived by the key stakeholders. Some of the main takeaways from this assessment include:

- » While farmers from the pre-assessment were generally aware of MFS for person to person (P2P) money transfer services, the post- assessment findings found farmers to have broader awareness of other mobile financial services, such as merchant payment, utility payment, mobile top-up and saving money.
- » Farmers generally liked the idea of receiving the loan through the MFS channel, particularly in terms of its perceived security and time saved, as compared to other channels.
- » Almost all of the farmers interviewed (96%) in the post-assessment were satisfied with the loan product due to its flexible terms and conditions.

- » Farmers reported that the two main benefits from this loan was that it **enabled them to purchase higher quality inputs and to receive discounts for those inputs.**
- » Some farmers (14%) were able to store their crops for a couple of months after harvest as the six-month repayment period meant they were not under immediate pressure to sell to repay their loan. By delaying sales of their crops, **they were able to receive a higher price later.**
- » Some of the farmers perceived the cash out fee to be high, and limited transaction points were also reported as a major constraint by farmers.
- » Some of the farmers also lacked confidence in using their MFS accounts by themselves due to limited digital financial literacy and fear of incorrectly inputting their PIN.

Based on the feedback from stakeholders, we propose the following recommendations for improved delivery of agri-loans through MFS:

- » More merchant acceptance points will make it easier for farmers to make payments digitally.
- » Flexible or seasonal savings schemes for farmers might encourage further uptake of their MFS accounts.
- » Considering the target population's income, reducing the cash out fee and other charges associated with the loan might increase uptake.
- » Greater awareness raising and client support is required to increase the confidence of farmers and input retailers with using MFS. This should include initiatives to promote financial literacy of farmers.

I INTRODUCTION

1.1. Overview of Technical Assistance Request

USAID's Mobile Solution Technical Assistance and Research activity in Bangladesh (mSTAR/Bangladesh or mSTAR/B) received a technical assistance request from the International Rice Research Institute (IRRI) Bangladesh to support the USAID Rice Value Chain (RVC) project to help them to extend appropriate digital financial services (DFS) to their project beneficiaries, predominantly rice farmers. Starting in February 2016, mSTAR/Bangladesh provided the following technical assistance to IRRI based upon their request:

- » Conducted rapid assessment: The mSTAR/Bangladesh team, in collaboration with IRRI Bangladesh, conducted an assessment to understand the opportunities for DFS integration in the rice value chain in Jessore and Satkhira regions. That assessment analyzed the cash payment process and suggested possible areas for digitization. The report also outlined the challenges and opportunities of digitizing the payment streams. The findings assessment revealed integrating mobile financial services (MFS) within the rice value chain which would create more efficient and transparent payment streams. The report suggested suitable features to design financial products that would meet the farmers' needs. It also recommended initiatives that could be undertaken by relevant stakeholders to integrate MFS in the rice value chain. To learn more, refer to the [mSTAR/B RVC technical assistance report](#) and the [opportunities for DFS in the rice value chains infographic](#).
- » Facilitated discussions with financial service providers: Based on the assessment findings and recommendations, the RVC project wanted to pilot a suitable financial product in partnership with an interested financial institution. The mSTAR/B team facilitated several discussions with multiple formal financial institutions and assisted RVC in identifying one appropriate financial institution to partner with: IFIC Bank Limited (IFIC Bank). In September 2016, RVC partnered with IFIC Bank to launch a new agriculture loan (agri-loan) for farmers' through IFIC Mobile Banking.

OVERVIEW OF THE PILOT INITIATIVE: In 2016, the RVC project partnered with IFIC Bank Limited on an agri-loan product delivered through MFS, which aimed to accelerate smallholder farmer access to affordable loans to purchase quality inputs. Under this pilot initiative, a total of 95 farmers received agricultural loans from IFIC's core banking platform, worth BDT 20,000 each (US\$ 250), in their registered IFIC Mobile Banking account. The loan was offered at an annual interest rate of 10% with a six-month single balloon repayment tenure. This mobile bank account also offered savings opportunities to the registered farmers with a starting amount of only BDT 100 (US\$ 1.25). More details on this pilot can be found in this [DFS Product Innovation Overview](#).

OVERVIEW OF THE RICE VALUE CHAIN PROJECT: The Rice Value Chain project was a 15-month pilot project run by IRRI Bangladesh to support the private sector to improve the efficiency of the rice value chain. RVC implemented activities in 14 districts in southern Bangladesh.¹ It ran from October 2015 to December 2016.

¹ Jessore, Chuadanga, Magura, Jhenaidah, Khulna, Bagerhat, Satkhira, Faridpur, Rajbari, Madaripur, Barisal, Patuakhali, Bhola, and Barguna.

RVC promoted select varieties of crops grown in rice-based cropping systems, including fine-grained and aromatic rice varieties, such as BRRI dhan50 and BRRI dhan34, and high value crops grown in rotation with these rice varieties, such as lentils, mungbean, peas, oilseed mustard, and sunflower. RVC worked with seed companies and their retailers to make the seeds available to local seed producers who were part of the program. RVC also worked with more than 200 farmer groups, supporting them to access and plant seeds through training and linking them with markets. The project experimented with a group marketing approach in which farmers developed collection points through which crops were sold to traders, which aimed to reduce the transaction costs of traders and result in higher prices for farmers.

I.2. Assessment Objective and Sample Size

mSTAR/Bangladesh conducted pre- and post-assessments on the pilot with the objective to understand the benefits, challenges and overall experience of farmers who adopted this digital financial service.

The survey was conducted in the two pilot districts, Jessore and Satkhira. The mSTAR team conducted focus group discussions (FGD) and key informant interviews (KII) with farmers. A semi-structured questionnaire was developed for conducting FGDs and KIIs for both the pre- and post-assessment data collection. Close to half of the pilot farmers (48%) were selected for the post-assessment survey to understand the impact of DFS adoption. The details of sampling frame can be found in Table I below.

Table I: Sample details of pre-and post -assessment

Sampling	Name of Assessment	Numbers	
		FGD	KII
Farmer	Pre	1 (total 10 farmers)	10
	Post	4 (total 30 farmers)	16
Total		5 (total of 40 farmers)	26

I.3. Limitations

One major limitation of the study was the relatively the small sample size, which was due to the small size of the pilot. The pre-assessment covered 21% of the pilot group and the post-assessment covered 48% of the pilot group. Thus, the assessment findings provide an view on the user experience of DFS adoption of participating farmers, and is not meant to represent perceptions of all actors in the value chain. Another major limitation observed in both the pre-and post-assessment is the lack of participation of women in the assessment for following reason:

- » One of RVC project's beneficiary criteria was farmers should have at least 1 bigha (33 decimals) land either for homestead or cultivation. Rural women in Bangladesh often do own that much land, thus project could not find many women to participate.
- » Another reason mentioned by RVC officials is that women are generally not perceived as 'rice producers' due to their limited market access, information and limited decision making role. Thus, the respondents' composition reflects this fact.

2

ASSESSMENT FINDINGS

This section details the findings from the pre- and post-assessments, beginning with respondent's demographic information, including age, sex and education and moving into mobile phone access and usage. This section also looks at knowledge and perceptions of MFS, followed by views on the benefits of MFS and its challenges. Finally, feedback from the farmers regarding the agri-loan product is discussed. This report incorporates data from the IRRI-RVC projects' midline survey on the IFIC Mobile Banking service. That survey was conducted three months after disbursement of loans and three months before loan repayment began. It should be noted that the IRRI-RVC survey was conducted with all beneficiaries under that pilot while the mSTAR/B team post-assessment survey only included 48% of the pilot beneficiaries.

2.1. General Information

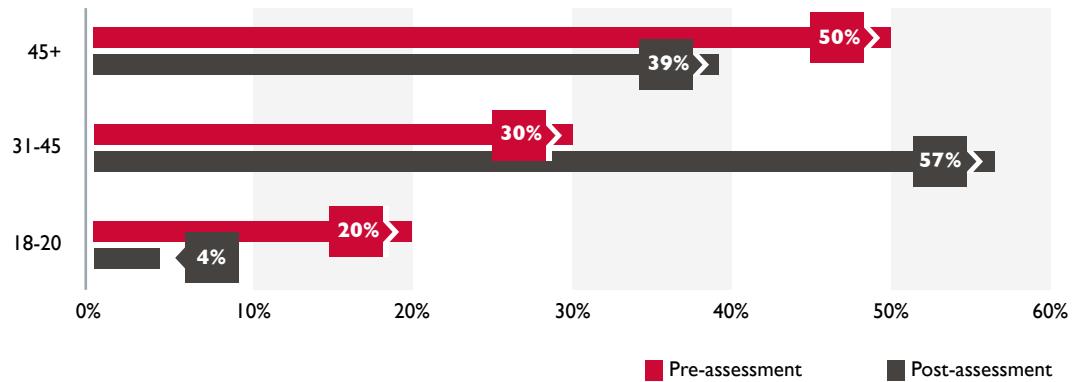
Demographic information

It was noted in both the pre- and post-assessment that all respondents were male. It was noted that males play the role of decision maker on purchasing paddy seed and other inputs, they have regular communication with market actors, and it was also perceived by many individuals in the target area that men have more knowledge about rice production than women. Despite significant contributions in rice cultivation and post-harvest work, women also rarely perceive themselves as 'rice producers' in social contexts. In fact, out of the 95 farmers participating in this pilot, only one was a woman. Therefore, the findings from this assessment are unfortunately biased entirely towards the perspectives of men.

The following tables provide additional demographic details.

AGE: It was noted in the pre-assessment that half of respondents were over 45 years old, while in the post-assessment more than half of respondents were aged between 31 – 45 years old. Figure 1 depicts the percentage of respondents in specific age groups.

Figure 1: Age of farmers in the pre- and post-assessments



EDUCATIONAL ATTAINMENT: During the pre-assessment, the majority of respondents received up to a secondary education, while in the post-assessment education up through higher secondary level was more common. Table 2 shows the educational attainment of pre- and post-assessment respondents.

Table 2: Education level of interviewed farmers

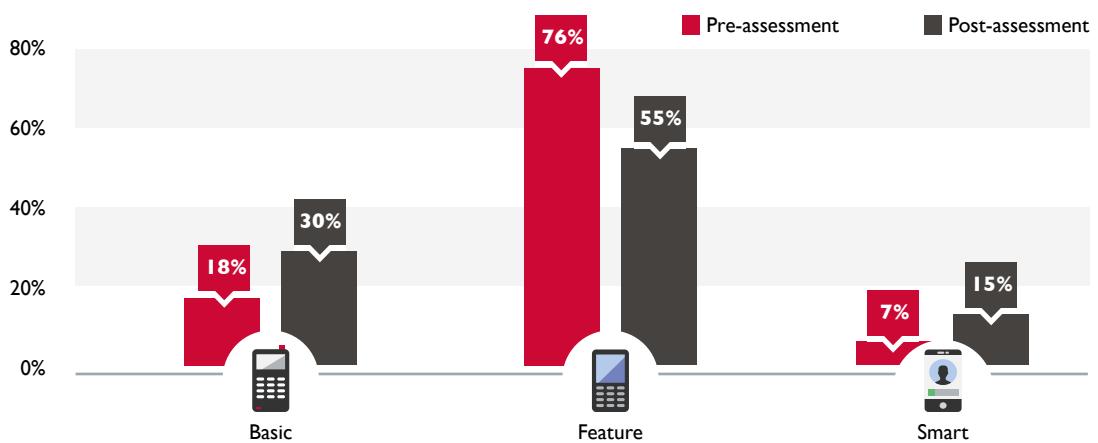
Education	Post-Assessment		Pre-Assessment	
	Number	Percent	Number	Percent
Elementary	17	37%	5	25%
Secondary	12	26%	9	45%
Higher Secondary	11	24%	2	10%
University	4	9%	2	10%
No education	2	4%	2	10%
Total	46	100%	20	100%

Mobile phone ownership and usage

This discussion was intended to gather information about access to mobile phones, ownership and usage, which was key information for implementing the RVC pilot. The pre-assessment showed that all interviewed farmers owned a phone.

Additionally, post-assessment results revealed that 96% of farmers owned phones, with the remaining two farmers reporting access to their household phone. These two farmers opened their IFIC Mobile Banking account with that household phone number. Both the pre- and post-assessment surveys observed that feature phones are the most common type of phone used by farmers. Figure 2 displays phone ownership by type of phone among farmers. It is worth mentioning that although the figure shows fewer basic and smartphone users in post-assessment, this is due to the larger sample size than the pre-assessment.

Figure 2: Type of phone owned by farmers in the pre- and post-assessment



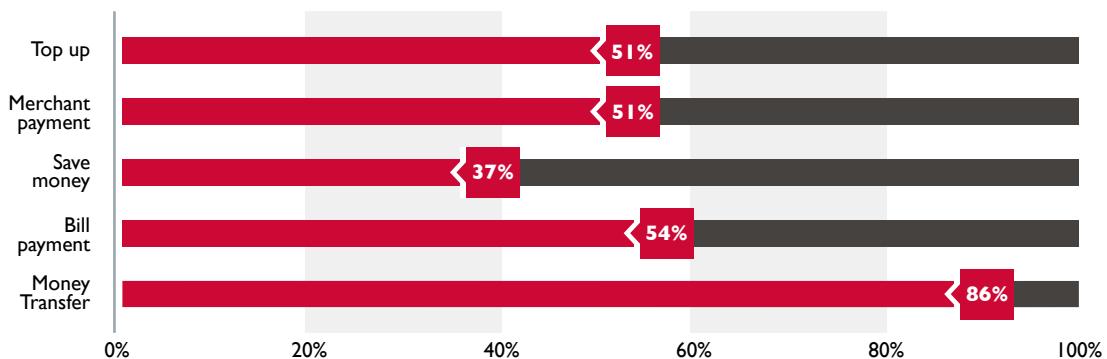
2.2. MFS Knowledge, Perceptions and Behavior

From the pre-assessment and post-assessment results, it was commonly observed that farmers were familiar with MFS particularly for money transfer services.

During the pre-assessment, only seven farmers were using MFS, which was limited to money transfers, specifically person-to-person (P2P) services. Five of the farmers interviewed during the pre-assessment shared that they knew MFS is convenient for long distance transactions as money could be easily sent and accessed any time from any part of the country. However, they were concerned about the cash out fee, limited understanding of how to use MFS and loss of their PIN.

Findings from the post-assessment revealed that 76% of surveyed farmers knew about other types of MFS features beyond their agri-loan. Respondents did not only know about money transfer but were also aware of other services such as merchant payment, utility payment, mobile top-up and saving money (Figure 3).

Figure 3: Awareness of different MFS features



As with the pre-assessment, almost all farmers surveyed during the post-assessment expressed concerns regarding usage and adoption of MFS, which are stated below:

- » Farmers felt that using MFS seemed difficult and thus often lacked confidence to use the service on their own.
- » Farmers feared that they might not be able to remember their PIN and thus would not be able to cash out their money.
- » Farmers were concerned with the high cash-out fee.

Despite the mentioned concerns, the post-assessment noted that almost all farmers generally liked the idea of receiving the loan amount through the MFS channel as it was perceived to be more secure and save time. It was also noted that prior to using IFIC Mobile Banking services, 57% of the farmers were already using other popular MFS providers, such as bKash and ROCKET. It is likely that many of them were using over-the-counter services rather than having their own account, although we did not capture that information. The most common use mentioned was for transferring money (P2P) and purchasing air time. Only one respondent mentioned merchant payments. Farmers shared that the usage was increased day by day as MFS offered convenience, especially for money transfer and top-up due to quick service. It was interestingly observed that of the interviewed farmers, half (50%) reported their willingness to use MFS for other services like bill payment and savings.

Understanding of the IFIC Loan

Farmers in the post-assessment were asked about their knowledge of the IFIC loan received through MFS. The following are their responses:

- » Interest Rate: Respondents were aware of the 10% annual interest rate and they had a clear understanding that they had to pay 5% interest rate for six months. This clear understanding of the loan product was also documented in the IRRI mid-line survey where 97% of the farmers were aware of the interest rate and the repayment tenure.²
- » Repayment tenure: All were aware of the six month repayment tenure
- » Flexible payment options: Respondents were aware of flexibility of repayment options, allowing them to either pay the loan in installments or repay the full amount in one payment.
- » Method of repayment: Farmers knew they could only repay the loan through their MFS account or by making a repayment at the nearest IFIC Bank branch.
- » Charges: Respondents misunderstood that the cash out fee was BDT 20 (US\$ 0.25) for BDT 1,000 (US\$ 12.5), even though the actual rate is BDT 18.5 (US\$ 0.23) for BDT 1,000 (US\$ 12.5). This could be due to agents charging more than the official rate.
- » Payment to retailers through MFS: It was found that all farmers knew that they could pay the retailers using their IFIC Mobile Banking account. Similarly, the IRRI mid-line survey found that most (67%) of their respondents were well informed about the cashless transferring process.

Despite the clear understanding of the loan product, some farmers still expressed several issues and the need for additional clarification. One major concern expressed by farmers was that, while they knew it was free to sign up for the account, they were charged BDT 375 (US\$ 4.68) when they opened the account. The charge was actually not for opening the account, but for the stamped paper on which the contract was signed. While this was explained by the IFIC Bank representative during the training, it appears it was not well understood by the farmers.



*Photo 1: Conducting assessment with farmers in JESSORE,
Photo credit: mSTAR/B*

Furthermore, during the post-assessment it was noted that 87% of farmers repaid the loan in full and 9% made partial repayment. When asked why they did not repay, two farmers explained that their crops were damaged this season due to floods and thus they were unable to repay the full amount.

Farmers were also asked during post-assessment whether they knew the consequences of not repaying the loan in time. Their responses are captured on the following page.

² Source: IFIC Bank Mobile Phone Banking Service Agricultural Loan Program: Report on survey of farmers receiving loans.

Table 3: Perception of consequences in case of loan default

Potential Consequences of Not Repaying the Loan	Number of Responses	Percent
Hassle of litigation from the bank	8	35%
Local and social dishonor	8	35%
Never get a loan from any financial institution	15	65%
Others- Cost incurred for lawsuit and paperwork	8	35%
No education	2	4%
Total	46	100%

In addition, the IRRI-RVC midline survey tried to understand how retailers would react to farmers if they were not able to repay the loan. Those findings revealed that the majority (63%) of the surveyed farmers perceived that retailers would not sell inputs on credit next time, some thought (28%) retailers would charge high interest on any credit they offered to farmers directly in the future and a few (8%) perceived that retailers might humiliate the farmers at the market.

2.3. Benefits of MFS

USE OF LOAN: The IRRI-RVC midline survey found that the majority (73%) of farmers in the pilot sample used the loan to purchase fertilizer and 18% used it for labor costs. Likewise, the post-assessment result noted that most of the interviewed farmers (83%) used the loan for purchasing inputs and 17% used their loan for harvest-related costs. Of the 17%, three farmers also invested part of loan in cattle purchases.

PURCHASE OF INPUTS: The IRRI-RVC midline survey noted that 67% of the surveyed farmers made their input purchases partly with their own cash and partly with the loan, while 5% purchased all inputs with the loan. Further, the post-assessment revealed that more than three-quarters (83%) of farmers paid for inputs in full at the time of purchase using the IFIC loan, rather than paying in installments. Farmers reported that it benefitted them in two ways. First, they could purchase quality inputs of their choice while earlier they were restricted to cheaper inputs. Second, they purchased at actual retail price whereas earlier they had to pay more due to purchasing on credit from the retailer. It was also noted during the discussion that 13% of the farmers believed that their yield was of a good quality due to appropriate application of fertilizer, which was possible because of the IFIC loan received.

SELLING BEHAVIOR: It was observed during the pre-assessment that farmers sold their produce immediately after harvest to pay outstanding dues or to purchase household items or inputs for the next crop cultivation. Another reason for selling produce immediately was a lack of storage capacity that hindered farmers from storing crops. Similar findings were also reported by the IRRI-RVC midline survey, which found that previously a majority (67%) of farmers purchased inputs partly in cash and partly on credit and 63% farmers perceived that retailers might not continue selling inputs on credit to farmers if they were unable to repay the retailer. As such, farmers always tried to meet their dues by selling their crops immediately after harvest.

On the other hand, due to the IFIC loan, the IRRI-RVC midline survey reported that 14% of interviewed respondents thought that this loan could assist them to get higher prices as they could store their harvest for at least one and a half to two months due to the fact that the planting cycle for rice is only four months and the loans were for a six-month period.

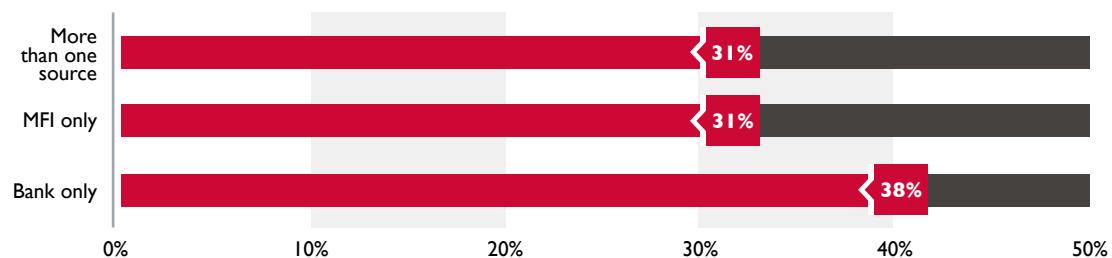
"I stored one-third of my crop to sell later. I sold part of my crops at a rate of BDT 700 per 50 kg, immediately after harvest due to family needs and then after one month I sold at rate of BDT 1,150 per 50 kg. Storing crops sometimes results in good income"

- Farmer, Satkhira

Further, the post-assessment result revealed that 39% of farmers stored their harvest after receiving the IFIC loan. Due to their comfort with not having to make repayment immediately, they stored crops for a month or more. Another 15% of the farmers mentioned that they did not have enough harvest to store, otherwise they would have stored for a better price. It is worth mentioning that all interviewed farmers had smaller than normal yields due to floods, thus it is possible that in normal years more farmers would store crops to receive better prices.

SAVINGS BEHAVIOR: From the pre-assessment, it was seen that 65% of the farmers regularly save using financial services from banks, MFIs and cooperatives. Amongst the 65%, it was further noted that 38% saved only in a bank, 31% saved in an MFI and 31% have simultaneous savings in a bank, an MFI and a cooperative. In the IRRI-RVC midline survey, it was also found that of all farmers, 64% had a savings account with a bank, though they did not ask about MFIs and cooperatives.

Figure 4: Savings behavior of farmers with formal savings

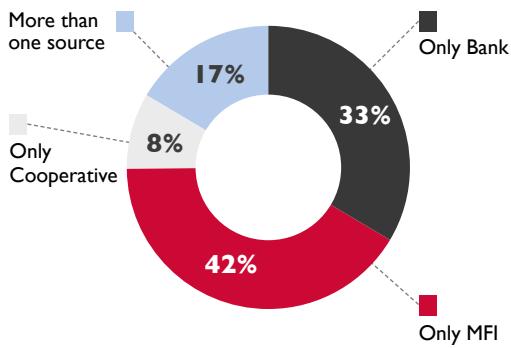


As the IFIC Bank loan product also contained a savings product, the post-assessment wanted to find out whether farmers adopted or changed their saving behaviors due to the assumed benefits of easier access and decreased travel and time investment. The results revealed that although farmers knew about the savings option, only four farmers occasionally kept a small amount of savings in the IFIC Mobile Banking account. Other than that, farmers mentioned the following reasons for not savings in the mobile bank account:

- » They wanted to understand more about the savings offer and were not sure whether to save using this product, as it was their first time using IFIC Mobile Banking. They were also concerned about whether this pilot MFS offer would be continued.
- » Damaged crops due to flood, thus no sufficient money for savings.
- » Distance of bank branch and agent points.
- » Concern about cash out fee when they need physical cash.

Nevertheless, 17% of farmers shared that they would like to deposit their money under savings scheme, like a Deposit Pension Scheme (DPS) using the MFS channel. It was observed that farmers wanted to avail more services, as they perceived IFIC Bank to be a renowned bank and believed their transaction references might bring future benefits such as larger loans. In addition, they thought saving through MFS would increase their time efficiency but were concerned about the cash out fee.

Figure 5: Different credit sources of farmers during pre-assessment



CREDIT SOURCE AND USER EXPERIENCE:

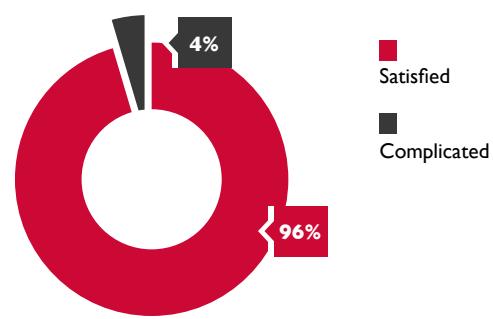
The pre-assessment revealed that 60% of interviewed farmers accessed credit from different financial institutions such as banks, MFIs and local cooperatives. A majority of interviewed farmers (42%) sourced credit from MFIs. Farmers reported that for small loans like BDT 10,000 – 30,000 (US\$ 125 – 375) they preferred MFIs as they are easier to access, though interest rates are higher. The second highest source accessed was banks. Two of the interviewed farmers had loans simultaneously with a bank and an MFI. Only one farmer accessed a loan from a local cooperative.

As previously mentioned, the pre-assessment showed that loans helped farmers to purchase inputs at the proper time and to pay the labor and harvesting costs. The farmer who received a loan from the cooperative reported high satisfaction with his experience as it was easy to access and had flexible payments. For the other two credit sources, banks and MFIs, the majority of farmers reported satisfaction, however a few farmers were unsatisfied with the high interest rate of MFIs and required collateral for banks. Table 4 depicts their credit experience with banks and MFIs.

Table 4: Perception of farmers of bank and MFI loans

Loan source	Number of farmers availing credit	Satisfied		Unsatisfied	
		Number	Percent	Number	Percent
Bank	6	5	83%	1	17%
MFI	7	5	71%	2	29%

Figure 6: Farmers experience with IFIC loan



On other hand, it was observed during the post-assessment that almost all (96%) of farmers reported their satisfaction with the IFIC loan experience and desire to continue with the service. Due to the size of the IFIC loan, BDT 20,000 (US\$ 250), no interviewed farmers needed additional loans from an MFI. Only two farmers reported that they felt the full process was complicated, though they still acknowledged the advantages of a low interest rate and flexible repayment tenure.

CONVENIENT TERMS AND CONDITIONS AND EASY ACCESS: During the pre-assessment, farmers shared their concern that, though accessing the loan from an MFI was easy, they charged high interest rates and the repayment terms were not suitable for them as it was based on weekly payments. Banks presented different difficulties, due to elaborate paperwork and the requirement of a mortgage to act as a security deposit for receiving a loan.

However, during the post-assessment, all farmers noted that they felt more comfort with the IFIC loan for following reasons:

- » It was offered with the lowest interest rate they had experienced, only 10% annually.
- » They received the loan within 15 days, and there was no significant paper work.
- » They did not need any guarantor, security deposit or mortgage, or other asset to meet any pre-condition for accessing the loan.
- » There was no savings requirement. Respondents clarified that, in order to take a loan from an MFI, there is a required savings component, and some require farmers to take a loan on a certain schedule, even when not needed.
- » The six-month repayment tenure with flexible payment mode was suitable for them, which improved their experience with the loan product.

“Even if I lost my mobile no one can snatch my money as only I know the PIN. I think it is more secure than carrying cash”

- Farmer, Satkhira

SAFE TRANSACTION METHOD: Findings from the pre-assessment revealed that farmers felt safe with cash transactions due to easy access, wide acceptance and ability meet their needs.

The post-assessment found that 70% of interviewed farmers perceived the transactions through MFS to be safe. They received the loan amount in their IFIC Mobile Banking account, which was PIN protected. They did not face the risk of torn or fake banknotes or of carrying cash. Nevertheless, 26% did not share any perceptions, as they had not conducted transactions through MFS beyond cashing out. Only two farmers shared that they did not perceive the method as safe because of recent reports of fraudulent activity resulting in stolen funds.³

TRAVEL: The pre-assessment results noted that farmers needed to travel one to three kilometers for savings deposits, loan collections and repayment to their nearest bank and/or MFI. Travel of this distance would take 20 minutes to more than an hour roundtrip, and cost BDT 10 – 25 (US\$ 0.12 – 0.31) roundtrip. Farmers typically had to visit the bank to deposit money, loan collection and repayment. For MFIs, field officials typically visit farmers' houses to collect loan installment payments and savings, so farmers only have to travel to MFIs to receive their loan.

Respondents during the post-assessment often repaid their IFIC loan by visiting the nearest IFIC Bank branch. Farmers mentioned they were not comfortable with repaying through agents due to high charges. To make payments, farmers reported travel distances ranging from 250 meters to 35 kilometers. The travel required between 10 minutes to more than two hours and cost BDT 10 - 80 (US\$ 0.12 – 1.00) including return. It was noted that due to limited access of IFIC agent service

³ <http://www.theindependentbd.com/printversion/details/16444>

points and high transfer fees, farmers did not experience reduced travel time and cost. However, farmers shared that to deposit the loan amount they chose one or two members of their loan group who went to the bank branch to deposit the loans for each person. Only one farmer shared that he tried to send money using Grameenphone's MobiCash service but found the service very costly.⁴

2.4. Challenges

This section discusses the challenges faced by farmers when transacting through MFS. Data from the post-assessment revealed that all farmers cashed out their loan and transacted through cash rather than MFS. The points below depict some pertinent reasons for doing so:

- » Very limited ability to utilize loans through MFS to make merchant payments, as most retailers did not have a mobile banking account, particularly through IFIC Mobile Banking. If they wanted to pay a retailer through their IFIC Mobile Banking account they would have to cash out, increasing their overall cost because of the cash out fees. Similar findings revealed in the IRRI-RVC survey showed that though most farmers (67%) knew the cashless transferring process they could not use it due to unavailability of merchant accounts among retailers.
- » Retailers were less interested in accepting payments through MFS channels due to limited transaction points. Wholesalers and companies are not widely utilizing payments through MFS from retailers, which increases the burden and cost for retailers accepting MFS payments. Farmers also reported that retailers did not have a full understanding of mobile banking, contributing to their lack of interest in receiving payment through MFS.
- » Cash out fees were perceived to be very high.
- » Mobile network problems often hinder accessing the account, for example to check balances.
- » Some farmers could not remember the mobile-to-mobile transfer process clearly as it was only shown to them one time and there was no nearby point where they could ask for assistance.
- » Some of the farmers (17%) did not receive the loan until after the farming/harvesting season had started. They had understood the loan's purpose as providing support for purchasing inputs, and felt the loan should be dispersed earlier. A late disbursement could cause late sowing and then impact production and income.

2.5. Feedback from Stakeholders

2.5.1. Farmers

Qualitative feedback was collected during the post-assessment from the farmers regarding further improvement of the IFIC loan product. The feedback is included here:

- » **Bigger loan size:** All farmers expressed that the loan amount should be BDT 40,000 – 50,000 (US\$ 500 – 625). They mentioned this amount so that they could use the loan money to cover the full costs during cultivation and harvesting, such as for irrigation, labor costs during cultivation and harvesting, and other associated costs.

⁴ Agent network for MFS with different partner banks. Presently it has partnerships with six banks. See <https://www.grameenphone.com/personal/financial-services/mobicash>

- » **Lower cash out fee:** Almost all farmers mentioned that they would like to make payments through MFS channels but were worried about transaction fees. They suggested a suitable fee would be BDT 10 (US\$ 0.12) per BDT 1,000 (US\$ 12.5).
- » **Repayment tenure:** All farmers preferred a one year repayment tenure with 10% interest rate as it would allow them two rice seasons to make repayment. The current repayment tenure of six months which increases pressure on farmers as they prepare for boro season.⁵
- » **More transaction points:** It was noted that they did not use the MFS channel as retailers did not have accounts and farmers also were not fully confident in how to use their MFS account. Farmers were therefore afraid of transaction failure and potentially losing their money. Farmers expressed an increased willingness to use MFS if more retailers were using it as well. Farmers also suggested that enabling the IFIC Mobile Bank account to transact with other MFS providers like bKash and ROCKET, would increase adoption among farmers.
- » **Debit cards:** Fifteen percent of interviewed farmers mentioned hearing about using debit cards for payment and expressed an interest in that option.
- » **Insufficient training:** Another concern expressed was that the training was too short to understand the process clearly. Since it was new idea and process to learn they required additional training and a contact point for help.

"We left the MFI for this loan, now if IFIC bank does not give us a loan then we shall have no choice but to access loans from the MFI"

- Farmer, JESSORE

» **Miscommunication:** It was noted that 17% of farmers heard this loan would not continue, which discouraged them from making repayment on time. One reason they also mentioned was their concern of not having sufficient funds to cover their boro (rice) season cultivation costs, including seed, fertilizer and other inputs, irrigation, labor costs and so on. Afterwards, they heard from IFIC bank

branch officers that if all farmers repaid the loan fully, then IFIC would continue providing the loans. The misleading rumors confused the farmers. Since they wanted to continue with the IFIC loan, they wanted to minimize such misleading communication in the future.

- » **Group approach:** Thirty-five percent of farmers mentioned that the loan could be provided through a group approach, where an elected leader will communicate with the bank on behalf of the group and will share information, while the loan responsibility remains on individual. mSTAR/Bangladesh previously conducted *an assessment* to identify opportunities for using DFS to help saving groups, which may provide some insights into how DFS can be used in group settings.

2.5.2. IFIC Bank

IFIC Bank shared their positive interest to scale up this agri-loan product further, if they can find appropriate development organization partners to work with. The IFIC official shared that they observed significant repayment from farmers and they agreed to scale up the loan size to as much as BDT 40,000 (US\$ 500), with extended repayment tenure with flexible installment facility. IFIC Bank also expressed interest to provide this loan to more farmers.

⁵ Boro season: One of three rice seasons in Bangladesh. Cultivation from December- February and harvest from April-May.

During discussion IFIC bank shared that due to the limited number of farmers in the pilot and observation of farmers' financial behavior, IFIC did not open new agent points closer to farmers as they had originally planned. However, they would like to open more agent points for counter service if they are able to scale up with more farmers.

IFIC Bank's Head of SME Banking shared that for effective execution of such scale up, IFIC Bank required strong monitoring support from development project partners and relevant stakeholders. They shared their understanding that IFIC could see maximum return if a development project partner could establish a sustainable monitoring system in the field. Although the bank branches communicated with a few farmers to make their repayments, it took significant effort on their part. However, given that most development projects only last for three to five years, having such a project establish a sustainable monitoring system seems unlikely.

Another point shared by the IFIC official is that farmers require financial literacy to use MFS and banking products. Such awareness required intensive mentoring, which could be initiated by different development project since they work closely with farmers and value chain actors.

IFIC also expressed concern about the sustainability of the relationship between the bank and farmers introduced to them through development projects. They explained that as farmers are familiar with project staff, they might lose confidence to communicate and continue using these services after project completion. Thus, awareness raising is also required in this aspect.

2.6. Recommendations

Based on the results of this pilot, it seems clear that demand does exist for agri-loans for farmers delivered via MFS. Although the sample size was small, the feedback was overwhelmingly positive, despite the fact that IFIC Mobile Banking is still a relatively small player in the MFS space, with a smaller agent footprint than some of its competitors. Based on the lessons learned from this pilot, we hope that other MFS providers will also consider offering similar types of services.

The following are recommendations based on the feedback from pilot stakeholders on how to improve the agri-loan product offered by IFIC Bank, although they may also have broader relevance to other MFS providers with an interest in deploying similar types of products.

- » There should be **more transaction points** with available merchant accounts through IFIC Bank to make it easier for farmers to make payments digitally. As from the post-assessment discussion, it appears likely that farmers would be more willing to utilize MFS if more retailers were using it as well.
- » **Flexible or seasonal savings schemes** for farmers with interest rates might encourage farmers to use IFIC Mobile Banking services, which would create a transaction history with a sustainable financial institution. The savings might enable the bank to offer additional loans against the deposit amount.
- » IFIC Bank should consider **reducing the cash out fee** and other charges for loan recipients. Stronger quality control of their agents would also help ensure that agents are not charging fees that are higher than the official rate. In addition, easing the registration process by eliminating or reducing the stamped paper cost (BDT 375, US\$ 4.68) would be perceived positively by farmers.

- » **Greater awareness raising and client support** is needed as the findings revealed low confidence on MFS transactions and savings due to limited understanding of farmers and retailers.
- » **Increase the number of agent points** for IFIC Mobile Banking services who are trained to assist farmers on how to avail the MFS services, troubleshoot their difficulties and mitigate confusion. IFIC shared that they could establish more agents if they see sufficient market potential, although they do not seem able to fully assess that market potential on their own.
- » Although farmers perceived MFS as useful for transactions, many respondents reported unclear or little understanding about the MFS transaction process and security features. MFS providers and other institutions should increase initiatives to **improve MFS and financial literacy** among farmers, which would encourage full usage of these service.

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