Digital Credit for Smallholder Farmers: a pilot in Myanmar

Early findings from the field
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We would like to express our sincere thanks to the Government of Korea to make this pilot happen.
Background
Problem

- Delivering financial services to smallholder farmers tends to be costly and difficult.
- Lack of access to such services reduces investment in agricultural inputs and lowers farmers’ productivity.
- Constraints preventing financial institutions to provide finance to smallholder farmers include:
  - cost of reaching farmers
  - high transaction costs for short-term small loans
  - difficulties in cash management in rural areas
  - limited financial track record of farmers
  - difficulties to assess agricultural production risk
Objectives

This project aims to test the use of big data and mobile platform as a way to reduce the cost of lending to smallholders.

- Test the ability of advanced ICT to deliver lending to smallholder farmers
- Prove it could reduce costs, risks to make it commercially sustainable for financial institutions
- Generate knowledge and learning to share
Project description
**Location**

2 townships in eastern Bago region
Key features of the digital lending platform

- Mobile based application interface for borrowers
- Digital data/process management
- Credit analysis
  - Traditional human based analysis
  - Telco Score
  - Agri Score
- Mobile money
Key stakeholders

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The Facilitator
- Project support function
- Vendor Procurement
- Support with research & design to help inform new product and processes
- Develop learnings and knowledge to share globally

Brac MFI
The Lender
- Ensure a robust lending process
- Maintain regulatory compliance
- Provide loans to smallholders
- Report on pilot progress (smallholder lending)

L-IFT
The Promoter
- Support of go to market activities
- Provide hands-on client support during the application process

Telenor
The Phone Data
- Provision of data for scoring
- Ensure compliance with regulatory issues relating to data sharing

aWhere
The Ag Data
- Provision of data for scoring

Ongo
Mobile Money
- Ensure direct channel access to smallholder farmers
- Provide agent support in pilot area

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**Activities**

- Field research to inform project design
- Development of strategy
- Building a digital platform
- Training
- Outreach
- 3 lending cycles – the iterative approach to develop and refine with every cycle
**Approach**

Human center design approach to design a product

- Understand
  - field research
- Define
  - design a prototype
  - field test
- Develop
  - strategy/products
- Deliver
**Approach**

High “touch” approach

Specially trained individuals to conduct hand-holding activities
Loan product overview

- Available for any crop
- No land title is necessary
- Loan amount: 150-500K kyat (approximately USD100-300)
- Loan duration: 5 month
- Repayment schedule: no payment for 3 month, 50% repayments on each end of 4th and 5th month
- Borrower must used a Telenor SIM card at least 6 month
## Outcomes

<table>
<thead>
<tr>
<th></th>
<th>Farmers reached</th>
<th>Completed applications</th>
<th>Approved loans</th>
<th>Disbursed loans</th>
<th>Repaid loans</th>
<th>Repayment rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1(^{st}) cycle</td>
<td>785</td>
<td>458</td>
<td>227 (141)</td>
<td>227 (141)</td>
<td>227 (141)</td>
<td>100%</td>
</tr>
<tr>
<td>2(^{nd})</td>
<td>957</td>
<td>709</td>
<td>453 (278)</td>
<td>453 (278)</td>
<td>453 (278)</td>
<td>100%</td>
</tr>
<tr>
<td>3(^{rd})</td>
<td>884</td>
<td>884</td>
<td>811</td>
<td>761 (573)</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

_Total number (number for women)_
Key findings
A loan product for smallholder farmers

• Demand for loan products among smallholder farmers is high – especially farmers who don’t have land title

• Repayment structure to accommodate farmers’ cash flow is vital

• The idea of interest rate (instead of actual interest amount) confused many farmers

• VERY high repayment rate (no default) – potential for business opportunities for commercial lenders
  - Balance between farmers’ needs and financial institutions’ operational/risk criteria to be commercially viable
Digitization – borrowers’ end

- Gap between mobile phone “ownership” and “usage”
  - Passive/limited use of their phones
  - Challenges around SMS, web browser, downloading apps
  - Fake smartphones are common
  - Phones bought abroad - difficult to change any settings without expert help

- Phones are frequently shared, lost, or broken; SIM card are often swapped

- Internet access in the rural area is still relatively poor
  - An offline solution is vital
  - Uploading large files (e.g. photo) is challenging

- Local reality vs international standard
  - Font/text: team experienced numerous issues with Myanmar text
  - KYC (Know Your Customer) process: e.g. birthday, address

- Privacy
  - Data privacy
  - A potential advantage in a long run

“I don’t know how to use the Internet... I never make calls, just answer.”
Digitization - lender’s end

• Digitizing loan ≠ complete automation
  o Balance between flexibility and efficiency
  o Time to build trust in technology
  o Frequent power outage

• Increased efficiency is a long-term goal

• Last one mile to deliver the digital service
Training of staff

- Role-play training worked well

- Sufficient training program for each function:
  - Credit officers (BRAC)
  - Field agents (L-IFT)

- Develop rapport among teams
Outreach

• Sufficient number of local agents
  o Local knowledge especially on farmers life
  o Familiarity with mobile tools
  o Hand-holding activities for each borrower

• Finding the right community leaders

• Group meetings - well attended with some challenges with bringing right people with proper documents

• Brochure to let potential borrowers bring homes
**Next steps**

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- Lessons learned to be applied on projects focusing on smallholder farmers in selected value chains (e.g. Pipeline project in Myanmar, Cocoa value chain in Ghana, Cote d’Ivoire)
- Tailored digital literacy training for smallholder farmers

*Across WBG>*

- A lending platform has been built and under continuous improvement so that bigger number of borrowers can be reached in the future; potential for IFC’s investment in selected micro finance institutions to expand or replicate the system.
- Farmers’ appetite and preference on financial products have been collected through interviews with selected farmers; potential to inform FCI’s advisory service on Myanmar Agriculture Development Bank.
- Issues around ICT infrastructure in the rural area and the level of digital literacy of farmers have been collected through interviews with selected farmers; potential to inform Digital Development GP’s Digital Myanmar project.
- Data protection / data management discussion
Thank You!
Appendix
Field research findings which informed the product design

- Even though majority of participants had smart phones, few knew how to use them for more than just making phone calls.
- Awareness of Mobile Money is high in the area, but not many people actually use it.
- Agricultural Practices

< NLP >
- Dryer soil, most crops require irrigation.
- Primary crops in the region are:
  - Rainy season: rice
  - Dry season: beans (mung beans, black turtle beans), Some seasonal vegetables (irrigation required), flowers
    Dry season rice (irrigation required)

< Daik-U >
- Near a river system
- Primary crops in the region are:
  - Rainy Season: rice
  - Dry season: beans (mung beans, black turtle beans), Corn (human consumption and animal feed), Peanuts
    Roots: Turmeric, little ginger, Artalut root, Seasonal vegetables: cucumber, lady’s finger, Roselle, watermelon, chill etc.
- Engagement Models: Completely digital model, mobile money agent model, BRAC agent model, input supplier model
  - Most popular model was the BRAC agent model to include BRAC officer only
    - comfort from in-person interactions
    - no other parties in between
    - more private than agent or supplier