



## Affordable Credit for Farmers

# Access to Finance Empowers Tomato Farmer



Oliar Rahman Firoj has been farming summer tomatoes in southern Bangladesh over the past three years. He dedicates his acre of land to cultivating this high-value crop, which commands prices four-to-five times higher than winter tomato varieties. However, the initial investment for this crop is also higher as the farmer needs to purchase heat-tolerant varieties of tomato seeds, install raised beds and rain shelters, and learn integrated crop management techniques, such as pruning, staking, sanitation, and curbing disease and pests.

Sourcing enough money for this up-front investment has been Oliar's primary challenge in previous years. In his first year of planting summer tomatoes, Oliar received credit from traditional money lenders. But these loans came with high interest rates that cut into his profits. Oliar considered purchasing inputs on credit, but that can cost up to 30 percent more than paying cash and would have reduced profits.

At a meeting with BRAC Bank and USAID's Agricultural Value Chains (AVC) project, Oliar was introduced to an alternative source of financing that would allow him to manage the upfront investment in quality inputs at a much lower interest rate.

AVC has been working in southern Bangladesh to improve selected value chains and build linkages between farmers and financial institutions. After a long negotiation with AVC, the BRAC Bank agreed to launch a new pilot agricultural loan program specifically for farmers working in the country's southern river delta region. This product provides farmers with a single installment loan at an interest rate of 11 percent per year. Farmers have three to six months to repay the loan, versus the weekly loan repayment plans set up by traditional money lenders. As a test case, BRAC disbursed 50,000 taka loans (approximately \$640) to seven tomato farmers including Oliar.

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Oliar was excited about this new credit option, especially with the lower interest rate and more manageable repayment schedule, which allowed him to buy the agro inputs he needed. Oliar wanted to capitalize on a gap in the tomato supply in the market, and started raising tomato



seedlings in early February, transplanting them to the field in early March—three months earlier than the normal summer planting schedule. The farmer wanted a second loan to pay the first, and then pay off the second loan with the harvest profits in June.

“The amount that I borrowed from BRAC Bank saved me 6,000 taka just by purchasing the inputs in cash this year. Besides, I was relieved from tensions of weekly repayment schedules for traditional lenders. Thanks to the BRAC Bank for supporting the summer tomato farmers, I purchased fertilizers in advance for the next season and expanded areas for summer tomato cultivation as I had cash in hand from the bank loan,” said Oliar.

In order to develop the financial literacy of the farmers, AVC developed a booklet titled “Agriculture Loans—Responsible Borrowing” in association with United Finance Limited. The booklet highlights the decision-making factors to consider for credit and financing options. In addition, AVC provided financial literacy training and effective use of credit in the region as part of an awareness-building campaign. Through this event AVC helped farmers keep financial records and track specific expenses to improve financial planning. Several farmers also opened bank accounts for the first time to conduct daily transactions.

The pilot program between AVC and BRAC was successful in prompting at least 25 farmers to apply for open bank accounts with the goal of receiving bank loans to finance investments that will allow them to grow their production and profits. With access to financial services, including bank accounts, credit, and formal loans, farmers’ bargaining power in society increases, as

they are equipped with the tools to earn more, save more, and invest more in their business.