

Pro-Poor Growth Story

Digital lending breaks barriers in smallholder agriculture finance

In October 2021, 48-year-old Kesul Setul opened a bank account for the first time.

Kesul is from Embor village in the Sumkar area north of Madang Province. Like many Papua New Guineans living in rural communities, Kesul is a subsistence farmer for whom access to essential services is minimal, including banking services. The farmer applied for a small loan of PGK500 (AUD200), enabled by a partnership between MDF, Kamapim Limited, MiBank and Global Systems Mobile Association (GSMA). Through this partnership, MDF supported GSMA to develop a data-driven digital credit product – the first of its kind in PNG.

‘Rural Loan’ is an agriculture loan that does not require savings or assets as collateral, both of which are a challenge to smallholder farmers. The inability to provide collateral or show credit history is a key barrier to smallholders’ financial inclusion. Instead, Rural Loan uses a digital scoring mechanism based on farmer profile data (e.g. number of vanilla vines), procurement data (e.g. transaction data) and crop survey data (e.g. land extent). With this information, smallholder farmers can apply for small loans, to be repaid over three to six months at an interest rate of 10 per cent.

MDF and Kamapim, with whom MDF already has another intervention, trialled a pilot of this financial offering in Madang Province in 2021. Over 500 smallholder vanilla farmers accessed the new service. Kesul was one of the successful applicants.



When I first opened a new bank account, I was so excited. I also applied for a bank loan, and I got PGK500 (AUD200) from MiBank. I have borrowed small amounts of money from friends and family but not from banks. This is something new to me and I am happy to try it out to see if it will help me and my family.

Kesul Setul,
Farmer



Vanilla farming is more tedious and labour-intensive than coffee and cocoa, especially during pollination season. Kesul invested his PGK500 well by hiring labourers to work in his vanilla garden to help with pollination and other tasks. As a result, he could use his earnings from vanilla sales to repay his bank loan even earlier than the due date.




I saw that I can save my money, pay my children's school fees and fund my family's needs. So, I plan to work some more and try to apply for another loan again.

Kesul

Access to the appropriate market for their produce is also a challenge to farmers in remote areas. It takes one to two days to reach markets in the town of Madang. Apart from poor road conditions and limited transport services, most families hesitate to go into town to sell their crops as they do not have family members there to accommodate them and they cannot afford to stay at a guest house. As a result, vanilla beans and other harvests often never make it to the formal market or are sold for a pittance of their worth.

MDF's intervention with Kamapim improved market access for farmers as the partner purchases vanilla beans in the communities and provides training on vanilla farming for quality production.



This service is right at our doorstep. We do not have to walk for days to the nearest road to catch a truck to Madang. And we have bank accounts now, which is very useful to keep our money safe.

Silim Nembian,
Female farmer, Sumkar District

For Kesul, he sees these new financial services as an opportunity for hope and a better future - not just for him and his family but for his whole community.

MDF will conduct a final evaluation of this intervention in 2022. If this intervention succeeds, MDF plans to link the digital loans approach with other sectors, such as coffee, cocoa, fresh produce and livestock, to help farmers across PNG access financial services that can improve supply and increase their income.

According to Kamapim and MiBank:



26

loans have been successfully approved since October 2021.



7

farmers have already repaid the loans.



PGK200-PGK600

(AUD75-230)

is the average range of the loans taken.

