CAB Training Cards

कृषि बैंकिंग महाविद्यालय, भारतीय रिज़र्व बैंक
विद्यापीठ मार्ग, पुणे–411016
College of Agricultural Banking, Reserve Bank of India
University Road, Pune-411016

10 Features of Agriculture Value Chain Financing

1. An agricultural value chain (AVC) consists of a series of activities that add value to a final agricultural product, beginning with the production, continuing with the processing, and ending with the marketing and sale to the consumer. It is commodity specific and area specific such as milk value chain in Gujarat or onion value chain in Nasik.

2. Value chain financing (VCF) is an approach to identify financing needs and financing gaps throughout the chain, finance providers and ways to improve access to financing. VCF takes a systemic viewpoint, looking at the health of the entire system viz., collective set of actors, processes and markets of the chain as opposed to creditworthiness of an individual lender-borrower within the system.

3. In the traditional forms of agri-finance, such as trade credit or bank finance, the financing is mostly asset based and "one size fits all" and the risks associated with farming are mostly transferred to farmers; whereas in a value chain approach, it is mostly cash flow and contract based and the risks associated with farming is leveraged between various payers in the value chain.

4. Agriculture++ is a value chain strategy based on Michael Porter's value chain analysis and cluster development. It encourages investments in the economic activities in the upstream (research and development, certified seeds, better agronomic practices), midstream (grading, sorting, processing) and downstream (packaging, food safety, traceability, branding) segments of the value chain.

5. The inter-dependent linkages of the chain and the security of a market-driven demand for the final product can provide suppliers, producers, processors and marketing companies with more secure access to procurement and sale of products.

6. Benefits of Agriculture Value Chain Financing are: *reduces costs of transactions, reduces risks of doing business (for bankers, farmers and other VC players) and improves access to finance as well as other services.*

7. Once a financial institution establishes the market-oriented logic for an investment, it leverages pre-existing relationships and *information* between value chain actors to assess risk and more effectively evaluates an individual's ability to service a loan. It helps in achieving economies of scale and reducing overhead costs.

8. There are different models of agricultural value chain development. The AVC may be driven by the producer (such as small farmers associations), the buyer (processors, exporters or traders), a facilitator (such as an NGO or government organization), or an integrated model (led by a supermarket or multinational).

9. Numerous financial instruments are used in financing value chains such as those based on the commodity or accounts receivable or fixed assets etc. These include various trade finance instruments, warehouse receipts, factoring, etc. and risk mitigation products such as forward contracts, guarantees, insurance etc.

10. Agricultural value chain financing (AVCF), which promotes specialization and enhances productivity and investments and the application of modern technology, also supports the increasing transformation and commercialization of agriculture to tap into the growing global agri-business market.

Compiled by
Shri Pankaj Setiya,
DGM & MOF

July 2018

The card is for information purposes only. Readers may refer to the relevant Laws/ Circulars/Guidelines in this regard.