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Value Chain Bankrolling: Strategy towards enhancing growth in Agriculture sector in India

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ABSTRACT: *Value chain has been an important concept in management offering improvement over the traditional supply or distribution chain, with an aim to optimize the chain and reduce it to limited links with each one performing an activity to enhance the value of the product and not merely the cost. Further, management of such value chain network should focus on cohesively taking the stake-holders along and sharing / spreading the benefits among them, such that the network becomes symbiotic and sustainable, and the process of value-addition & delivery gets ethical. The main objective of this research paper is to highlight the key value chain activities in context to agricultural products and suggests the importance of value chain financing which requires due attention from National and Regional level financing corporations.*

Keywords: *Value Chain, Value Chain Financing.*

I. INTRODUCTION

Today, the world is in the midst of a consumer revolution. The lifestyles, eating habits and the taste for the goods are changing drastically. The consumers in many countries are very conscious of what they eat and how they eat. People are not simply accepting the traditional lifestyle or the traditional eateries. Income levels have risen further influencing the tastes, choices and consumption patterns. This creates a new paradigm where the entire food system is driving the growth in agriculture and agribusiness, with better prospects for stakeholders. The choices, tastes are the driving factors for the value addition in agricultural supply chain.

A supply chain in agriculture can be thought of as a "farm to fork" process – from the inputs to production to processing, marketing and the consumer. Each level has one or numerous linkages. The unit value is increased as a product moves along the supply chain. Therefore, the value chain consists of a series of activities and relationships that add value to a final product, beginning with the production, continuing with the processing or elaborating of the final product, and ending with the marketing and sale to the consumer or end user. The interdependent linkages of the chain and the security of a market-driven demand of the final product provide the producers and processors with an assured market for their products. This reduces risk, thus making it easier to obtain financing and at lower cost from banks and other financiers. The linkages also allow financing to flow up and down the chain.

In fact, Value chain finance is not new, but is older than many forms of finance, especially in agriculture. What is new are the numerous new ways of providing such financing as well as the convergence and inter-linking of agribusiness and finance. It is receiving a lot of attention today. Business leaders in both finance and agriculture have come to realize that with the new innovations in communication technology, information management, etc., there is a wealth of new opportunities for them to profitably work together. It can be a win-win situation to reduce transaction costs and reduce risks. Many of these innovations are quite new, which is why we need to learn these innovations.

II. UNDERSTANDING SUPPLY CHAIN

The supply chain is an innovative management practice which insists on cooperative relationship between different players in the chain. Networking of farmers with suppliers of inputs and the processors is essential. It is nothing but a group organization which is connected to each other by flow of Products, Services, Finance and Information. The benefits of an integrated supply chain are:

1) Gives feedback to the farmer “to grow what sells."
2) Better price discovery.
3) Availability of best farming practices for ensuring good yield and quality.
4) Better post-harvest technologies to arrest deterioration.
5) Higher price due to sorting, grading etc.
6) Partial disintermediation by eliminating middlemen.

7) Extended shelf life of commodity due to processing / packaging etc.
8) It helps Indian farmers who lack market orientation.
9) It gives opportunity to have Industry – farmer Linkage.

III. VALUE CHAIN

Now, comes the concept of 'Value Chain' A value chain is a sequence of activities that a product passes through, with value added in each stage - from design, to the transforming of inputs, to the final market. These activities are carried out by a series of actors, who set rules and relate to each other in different ways, depending on the value chain. In chains dominated by the increasing concentration and power of retailers, value is increasingly derived by product differentiation and innovation that reduces cost and enhances the importance of reliable supply.

4.1 Developing the Fresh Produce Value Chain

Area	Present Scenario	Moving towards Future Scenario
Production	• Low yields • Production scattered over many Small farms • Outdated harvesting technologies • Inadequate information about prices, trends and customer needs	• Significantly higher yields • Use of modern technology • Better linkages with the market, more awareness about prices, trends and customer needs
Procurement / Transportation	• Traditional, agent driven procurement system • Extremely poor transportation infrastructure • Very limited cold storage facilities • High degree of wastage	• Improved post-harvest technologies available to most farmers • Efficient procurement system with few middle man • Reduced wastage due to better road / rail and refrigeration infrastructure.
Marketing / Distribution	• Produce is inconsistent in quality • Outdated, inadequate distribution infrastructure • Limited organized fresh produce • High degree of wastage	• Widespread organized fresh produce retailing, demanding high quality produce • Upgraded distribution export facilitated throughprovisions of adequate cold-storage/ pre-cooling infrastructure at ports/ airports

4.2 Value Chain Analysis

Value chain analysis helps us to identify key bottlenecks to economic growth, finds financial service gaps in terms of these key bottlenecks, and identifies and incorporates key actors in relevant value chains (such as those with the potential both for high growth and small enterprise participation). This tool can be useful in identifying financial services for which there is significant economic demand and interventions that can expand existing supply chain in efficient and sustainable ways. An analysis conducted by Kula and Farmer in 2004 (for USAID) included the following four steps:-

1) A cluster mapping of the region, starting with the key players in the identified commodity, and then layering on those entities providing services to the value chain – such as commercial agents, transporters, service providers, machinery repair businesses, insurance companies, and financial institutions.

2) An inventory of financial service providers – banks, finance, companies, NGOs, agribusinesses in the region, and the range and quantity of financial services they are currently providing; also the mutual finances / credit facilities provided among value chain partners.

3) Interviews of key stakeholders identified in the mapping and inventory exercises, focusing on three critical concerns:-

a) The opportunities for and constraints to increased growth and competitiveness of the agribusiness sector in the region,
b) the opportunities for and constraints to increased small holder participation in this growth, their benefit from it, and
c) The role for improved financial services in contributing to this growth.

4) Identification of the critical constraints:-

As such, a banker has to work out the opportunities to finance different players in the chain covering various components. The Branches should consider the whole range of activities in a chain that would establish backward linkage i.e. networking with input suppliers and forward linkages i.e. covering processors who buy these products and marketers.

Till recently, Bankers were financing separately or in isolation to the suppliers, farmers, contract farming firms, distributors, transporters, etc. Most of the bank credit was limited to production and harvesting. Financing the whole chain is a paradigm shift called for in bankers' approach. The increased participation of private sector in agri - marketing and elimination of middle men would open up a host of opportunities for the banking sector from production to organized retailing.

In view of the above, promotion of value chain has been identified as one of the core initiatives of the Bank in Agri-business. This will help in:-

a) Financing the whole chain that can cover large quantum at lower cost.
b) All commercial activities in the chain getting finance.
c) Loan recovery efforts.
d) Giving momentum to our agri-exposure.

IV. STEPS FOR CONDUCTING A VALUE CHAIN STUDY

A detailed step-by-step guide to take up the value chain study is as under:-

A. Collection of Data:-

i) Area and production Taluka-wise.
ii) Potential clusters & Surplus.
iii) Branches in potential clusters.
iv) List of progressive farmers in potential clusters.
v) Cost of cultivation and Scale of Finance.
vi) Innovative methods.
vii) Major inputs and its suppliers.
viii) Flow of farm produce & Procurement structure.
ix) Post harvest technologies to be introduced.
x) Processing facilities.
xi) Marketing.
xii) Export.
xiii) Research institutes and agencies.

B. Scope for Finance:-

i) Crop production
ii) Crop Procurement
iii) Crop Post harvest
iv) Crop Processing
v) Crop Marketing
vi) Innovative Finance

V. THE THREE-PRONGED STRATEGY

1) Know the market

As a banker, we should not only finance parts of a value chain, but rather be involved from top to bottom. In that way we could really know the market from "inside out" and the weakest links could easily be exposed and addressed accordingly. Also, transaction costs could be reduced through the integration of knowledge and flow. A look at the leaders in the food industry brings out that they often have dedicated food and agribusiness research analysts whocontinuously accumulate knowledge in their major sectors and inform and advise clients on all relevant issues through-out the value chain. For small farmers, they may also need a catalyst and may require an intermediary to facilitate this market knowledge and linkage, but the principle holds – 'know the market'.

A) Suggestion:

As our Technical Officer (Farm Sector) strength is going up, we may think of ensuring a dedicated Officer in each Circle and identify some specific commodities (if not one for one commodity). He /she will collect all the relevant market information and pass it on to the branches / clients for increase in agri-business growth by way of value chain.

2) Financing along the Value Chain

Risk, return and repayment carry the same importance for value chain finance as with any conventional finance. For finance within the chain, credit risk is actually seen as a subset of the overall value chain business risk. The return, or profitability, is similar and often is embedded into the process in such a way as to not even be explicit. Repayment risk is also often not simply a function of a client going to the bank and repaying his/her loan but is payment through delivery of the product or payment when the processor or exporter delivers. If there is a "seamless" integration in the value chain system, this risk is minimized and the costs reduced.

3) Strategic partnerships

Value chain finance, like value chain systems, is all about strategic partnerships which link together the essential products and services. These are not just up and down the chain but in every direction. Strategic alliances can improve competitiveness in a win-win situation.

VI. CONCLUSION

By using value chain bankrolling strategy in agriculture sector a farmer can ensure higher yield with the use of modern technology and efficient procurement system with few middle man. Currently India has only 10% cold storage facility of the overall produce and because of this reason it leads to waste as agriculture products have short product life cycle and research shows that 20-40% of the food grown in India ends up spoiling before it ever reaches consumers, but with this funding strategy India can rise its cold storage capacity and undoubtedly be come food supplier of the world.

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