

Microfinance Summit Nepal 2010 "Microfinance for Inclusive Economic Growth"

“Business Models for Value Chain Finance through Cooperatives”

Presentation of GTZ/INCLUDE

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1. Introduction

With regard to its focal point Value Chain Finance the 2010 Microfinance Summit endeavours answering these questions: i) what are the preferable potential products and services with regard to value chain finance; ii) how should a business model for value chain finance look like that could efficiently serve the microfinance sector (banks, microfinance institutions, finance companies, and credit cooperatives) ? All recent publications of value chain finance state that this is indeed an emerging issue and at the same time a complex topic. Therefore it is very timely and important that this Micro Finance Summit is treating Value Chain Finance in such a prominent manner.

Our presentation provides an overview on various types of value chain finance with specific reference on the role of cooperatives in providing financing for value chain actors. Various case studies from Nepal and other countries are presented. The paper is rounded up by a summary of lessons learned as well as recommendations for all actors dealing with the development of value chain finance.

In its Programme “Inclusive Development of the Economy (INCLUDE)” GTZ in Nepal supports selected value chains (e.g. honey, dairy, ginger) in various districts of the Terai and hillside regions. The programme comprises three components: public-private dialogue, local and regional economic development as well as access to finance for micro and small-scale businesses. In all components cooperatives play an important role as partners of public bodies, actors in value chain development as well as providers of financial and technical services.

2. Value chain financing as challenge for the financial sector

The changes in the agribusiness environment of today are been driven by changing consumer demand due to increasing income and changing lifestyles, enforcement of quality standards and food safety as well as progressing globalisation of the economy. As a result, an increasing number of actors are integrated into agricultural value chains. The existing value chains have become more coordinated, integrated, concentrated, interdependent, complex and global. Farmers, processors, traders, input suppliers and rural policy need to accept that value chains are the reality of the agricultural business today.

The need for reorientation also refers to financial institutions, since financing of agricultural value chains becomes more challenging: there is need to improve access to finance especially for small scale producers, to overcome high transaction costs, to promote equitable distribution of benefits among value chain actors.

Especially the concept of inclusive growth and of pro-poor growth, which is guiding this conference, builds on the premise that poor people are enabled to participate in markets e.g. for agricultural products. An important instrument employed world-wide to achieve this integration are value chains, which link producers, processors, traders and consumers for a particular product. Value chain promotion is expected to foster economic growth and to support poverty groups in benefiting from the additional income generated.

The approach of value chain promotion is a relatively new concept in Nepal. Consequently value chain financing for agribusiness still has very limited importance and scope. Financial institutions in Nepal still need to develop appropriate policies, institutions and services for value chain financing. Currently the agricultural sector is largely using traditional systems of financing i.e. individual arrangements from various informal and formal sources. In today's world of globalised markets and competition there are great limitations for such isolated approaches. Through development of successful business models for value chain finance the financial sector can play a vital role for the development of agricultural value chains and for inclusive growth in Nepal.

3. Effective value chain promotion with ValueLinks

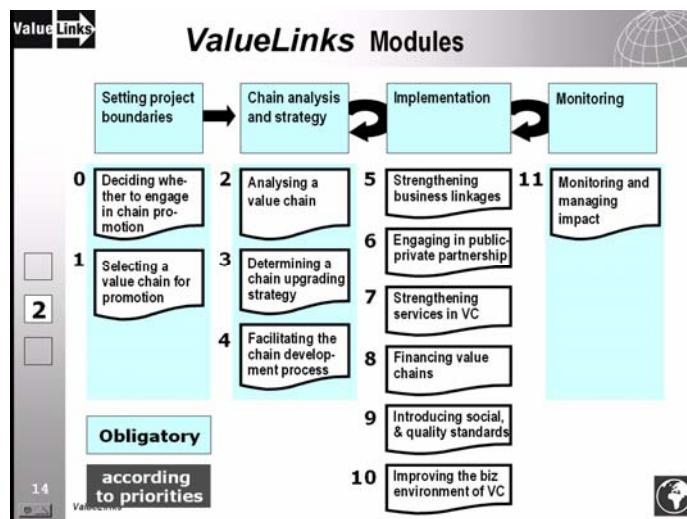
In its development efforts the GTZ program INCLUDE employs the ValueLinks methodology for development of value chains. This approach is entirely action-oriented and it has been

compiled by reviewing real-life experience and by building on lessons learned with rural development programmes and private sector promotion in many projects supported by GTZ.

The specific features of the ValueLinks approach include e.g.: addressing value chains as economic, institutional and social systems; focussing on action and implementation; creating synergies between value chain promotion and other economic development approaches; promoting cooperation between the public sector and private companies (public-private partnerships).

The ValueLinks approach structures the know-how of value chain promotion into 12 modules (details see below) organised according to the project cycle. It starts with the decision whether to engage in value chain promotion at all, and how to combine VC promotion with other development approaches (module 0). The first step in value chain promotion is the identification of a value chain to promote (module 1), followed by value chain analysis (module 2) and the formulation of a chain upgrading strategy (module 3). Module 4 presents know-how for facilitators of value chain promotion projects. The following modules are all devoted to the implementation of projects. Three major fields of action are distinguished – business linkages (modules 5-6), services (modules 7-8) and the business environment including standards (modules 9-10). Finally, module 11 closes the cycle with know-how on monitoring impacts and managing for development results.

The core of the *ValueLinks* methodology is contained in modules 1-4 and 11, which consist of know-how that is specific to the value chain concept. Modules 5-10, on the other hand, utilise and adapt knowledge from other related fields of development work. The graph below shows the modules of the ValueLinks approach and how they relate to the project cycle of value chain promotion.



Source: GTZ ValueLinks manual

ValueLinks module 8 on financing value chains comprises first of all an analysis of the needs for finance by value chain actors. Secondly, the available finance both within the value chain and by external financial institutions is analysed. This helps to identify gaps in finance with regard to actors, relationships, rules of play, range of services, and bottlenecks to growth. It then supports interventions and innovations to close the gap between demand and supply of agricultural finance. These business models recognize and incorporate market realities rather than replacing or distorting them.

The expansion of value chain finance is not an end in itself, but is a precondition for increasing the competitiveness and profitability of the value chain. At the same time a well functioning value chain is also an important precondition to make value chain financing effective. Characteristics of a functioning value chain include: effective chain governance enacted by a lead actor up to the specification of standards and of trade volumes etc.; effective vertical linkages between primary producers and the downstream value chain actors; effective horizontal linkages among primary producers (e.g. provided through a producer cooperative); a common understanding of value chain actors to meet the requirements of end markets and

financial institutions. In this regard it is important to note that ValueLinks goes beyond financial analysis and covers all other possible aspects of analysis and upgrading of a particular value chain. This supports a coordinated development of the value chain itself and of value chain finance provided for it.

4. Relevance and demand for value chain financing

In the beginning we would like to define our understanding of value chain finance as “finance based on the relationship between two or more actors in the value chain, either directly (one actor provides credit to another) or indirectly (one actor obtains credit from a financial institution based on a sales relationship with another actor).

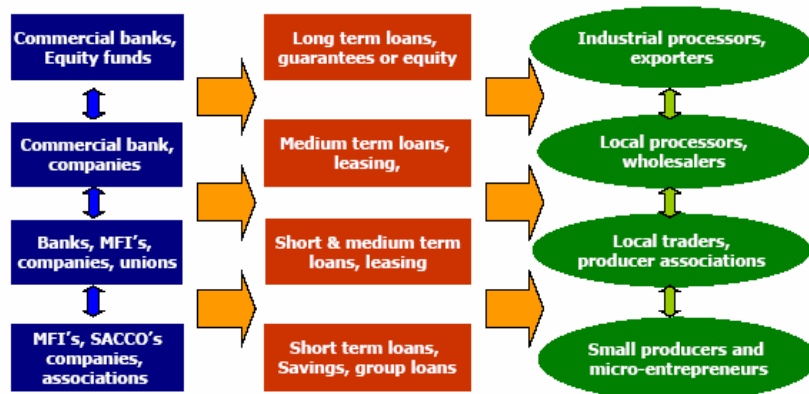
It is quite obvious that access to finance for value chain actors is an important precondition for efficient and profitable value-chain development:

- Small-scale producers have restricted access to external financial institutions due to lack of collateral (except produce), limited savings potential and being not attractive for financial institutions;
- Without access to finance, agricultural producers get stuck in low investment/low return production cycles and processors cannot expand to buy more produce from local producers.

On the other hand, we have to bear in mind that in value chains important bottlenecks exist that cannot be resolved through expansion of financial services alone. This refers e.g. to the need for basic research into productivity issues, necessity to meeting quality standards, need for the opening of markets. Finance therefore very often is not the primary constraint and in value chains there may be a number of non-financial issues that supersede finance. However, in general we can conclude that the right finance at the right time for value chain actors leads to greater efficiency, improved product quality and increased incomes.

Microfinance institutions therefore face the first challenge to recognize whether or not finance is the binding constraint in a value chain. If indeed it is, the second challenge is recognizing at which level finance is the binding constraint in the value chain.

We will now assess the demand for finance by the actors of the value chain. They comprise input suppliers and farmers at the bottom, processors and wholesalers in the centre, as well as exporters or retailers that sell the product to the final consumer at the top.



Source: Microned 2009

The financial needs at the various levels of the value chain can be systemized as follows.

Financial needs at the bottom level: primary producers, small-scale businesses

This level is most complex as it involves large numbers of small farmers and small-scale businesses. They need finance for working capital (e.g. seeds, labour) as well as for small investments (e.g. agricultural equipment, storage). This level is currently served mainly by MFIs and savings and credit cooperatives, which provide a variety of loan products for the

producers. Commercial banks are hardly active at this level due to the high transaction costs of micro loans. There is still unmatched financial demand for larger investment loans, loans which are tailored to the productive cycles of particular crops, and loans without physical collateral. Business models which are currently widely discussed are e.g. warehouse receipt schemes and contract farming. From within the value chain the financial needs are covered by trader credit from downstream value chain actors.

Financial needs at the middle level: producer organisations, processors and traders

At this level one finds many producer cooperatives and small-scale businesses, which demand working capital loans, larger investment loans, cash-flow loans etc. Their needs are hardly covered since they exceed the capacity of MFIs and credit cooperatives and are too small and too risky to be attractive for commercial banks. This service gap is often referred to as the “missing middle”. Very often finance at this level is provided by informal sources despite the fact that the actors could be valuable clients for formal financial institutions. It is here that new interventions in value chain finance are much needed, such as leasing, trade finance, guarantee schemes, overdraft facilities as well as institutional and legal provisions to mitigate lending risks.

Financial needs at the market level: industrial processors, distributors, exporters

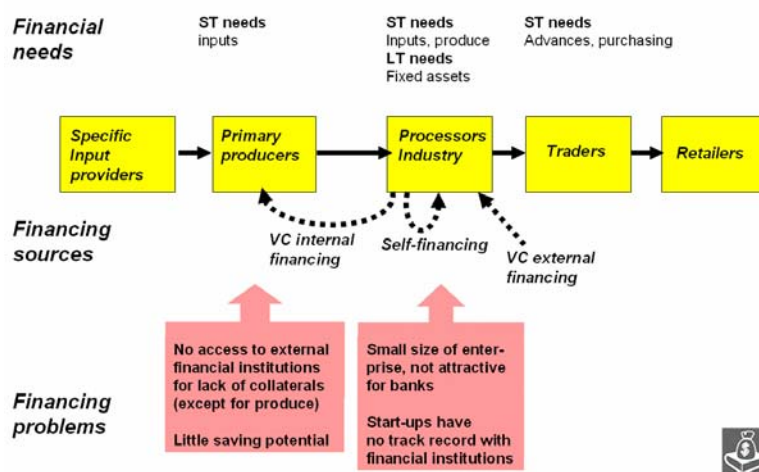
At this end of the value chain one finds smaller numbers of larger chain actors. With their larger financial needs and available collateral they have access to commercial banks. However there are still two major financing gaps: longer term investment loans for value chain upgrading and development of new markets; provision of equity finance, which is required by processing and marketing organisations to create a strong capital base. Such a base will enable them to obtain working capital loans and to extend trade finance to the small-scale producers upstream.

The financial needs of the value chain can also be categorised by the type of value chain financing which is being used.

Self-financing: Needs of investment capital and also to some extent of working capital can be covered by retained profits and by savings. Especially small farmers and small-scale businesses can benefit a lot from savings facilities and through them from loan products provided by savings and credit cooperatives.

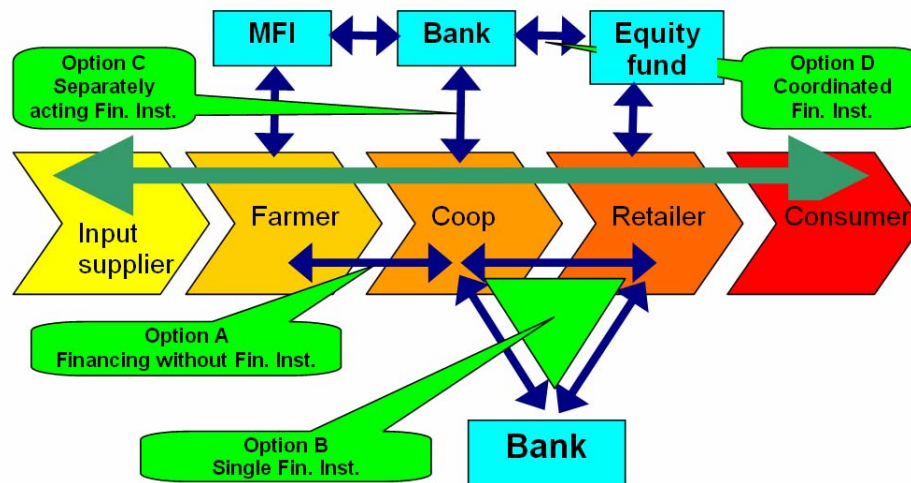
Internal or direct financing: This common type of value chain financing is internal financing from within the value chain, especially direct financing between the interlinked actors of the value chain (i.e. producers and one processor).

External or indirect financing: This type of value chain finance is provided by financial institutions (MFIs, savings and credit cooperatives, banks) from outside of the value chain.



Source: GTZ ValueLinks manual

Finally, we can analyse value chain financing from an institutional point of view. All major potential relationships between value chain actors and financial institutions can be seen in the following diagram.



Source: Microned 2009

The options for value chain financing are as follows:

Option A: Financing by value chain actors themselves along the value chain without involvement of financial institutions.

Option B. Financing by one financial actor in a tripartite cooperation with two different types of value chain actors (two levels of the value chain).

Option C. Financing of particular levels of the value chain (or types of value chain actors) by financial institutions acting separately from each other.

Option D. Financing of the entire value chain by financial institutions in coordination with each other.

5. Business models for value chain finance through cooperatives

There are various financial products and services that have been developed to finance value chains. In general they are categorised into those provided by value chain actors themselves (internal or direct financing) and those provided by external financial institutions (external or indirect financing).

In the following we will present the various types of value chain finance as they can be provided by cooperatives. This type of organisation is expected to be very appropriate for value chain development:

- Cooperatives combine at least two stages of a value chain within their organisation (e.g. production at member level and processing, marketing at cooperative level).
- The dual identity of members as owners of the cooperative and as the users of its services (suppliers, clients) increases trust and reduces overall cost of operations.
- Cooperatives have experience with transparent decision making processes, with balancing of interests and with attribution of benefits and therefore can contribute to the governance of the value chain.
- Cooperatives are deeply rooted into their environment and by principle are bound to contribute to social and economic development in their area of operation.

5.1. Direct or internal financing by cooperatives from within the value chain

A very common type of finance for value chain actors is internal financing from within the value chain, especially direct financing between the interlinked actors of the value chain (i.e. cooperatives and other types of suppliers, traders, input suppliers).

There are various types of “direct” value-chain financing involving cooperatives:

- a marketing cooperative for honey advances credit to small-scale bee-keepers;
- a supply cooperative provides inputs (seeds) on credit to members and accepts payment after harvest time;
- a producer cooperative extends technical assistance to its members against nominal fees to be paid after harvest.

From their very nature supply and marketing cooperatives are able to link various stages of value creation (e.g. production, processing, and distribution). They have the potential to become highly effective value chain actors for particular commodities like coffee, dairy, honey.

The required funds may be obtained from retained surplus in the commodity business of the cooperative. In this case no financial institution is involved, but the volume and term of loans will be very limited.

Alternatively, the cooperative may take a long-term loan in order to provide trader credit to its members. In this case the cooperative takes the risk of long-term financing of small-scale producers. However, the risk is limited since the cooperative has insights into the business performance and creditworthiness of its own members. Through trader credit the cooperative guarantees a steady supply of raw material to keep its own business running.

The direct financial flows between value chain actors (trader credit) often take the form of “in-kind” transfers in both ways. The lender advances inputs such as seed for payment at a later date. Frequently the borrower provides the repayment in kind as well, i.e. in the form of produce. In such cases no cash changes hands and no financial institutions like financial service cooperatives are required.

Trader credit involves short-term, seasonal loans, which are often limited to working capital. Even though it may have zero nominal cost it can include explicit or hidden real costs. As part of the arrangements embedded services such as assistance or advice may be provided.

The advantages and disadvantages of trader credit from the view point of lender (marketing cooperative) and borrower (farmer) can be seen as follows.

	Benefits	Disadvantages
Lender (Supply or marketing cooperative)	<ul style="list-style-type: none"> Helps ensuring required supply of raw materials for profitable operation. Reduced repayment risk as proceeds from sales are channelled through the processor and may be retained there. Dual role of borrowers as members and close personal contact reduce repayment risk. 	<ul style="list-style-type: none"> Cannot expand beyond the liquidity of the cooperative. Lending may be sub-optimal use of scarce capital and distract from investments. Lending may distract from the core business. Risk of side selling of produce by producers to third parties instead of honouring the purchasing agreement with the cooperative.
Borrower (farmer)	<ul style="list-style-type: none"> Alternative for producers without access to formal credit. Repayment schedule can be adjusted to the agricultural cycle. Relatively low nominal interest rate (if at all existing). Provides access of farmers to value chains with secure market channels. Expanding product sales through better yields via improved inputs. 	<ul style="list-style-type: none"> Limited to short-term working capital. No access to long-term loans for investment. Can prevent commercialization of producers (e.g. establishing processing cooperative). Limitation of choices for selling of produce. Lender obtains access to producer’s credit history. Full cost (incl. transaction costs and impact of lower sales price) is unclear and may be higher than external credit.

5.2. Indirect or external value chain from financial-service cooperatives

Indirect value chain finance is provided by external financial institutions, including financial-service cooperatives (Credit Unions, CU). In principle, they can provide many types of financial services to value chain actors:

- short and longer-term loans for working capital or investment purposes,
- leasing of equipment for processing, storage, transport etc.
- insurance in order to mitigate risks of production or storage.

Financial service cooperatives comprise savings and credit cooperatives, credit unions, and multipurpose cooperatives. Their operations are often centred on a particular locality or region. Loans are extended by the cooperative to its members, some of which are actors in value chains. The loan portfolio may be raised from savings of members or from a wholesale loan from a third party.

The cooperative has the advantage of being able to assess the creditworthiness of its members very well. This demands to evaluate the position and perspectives of the member as a value chain actor. Creditworthiness is supported by the existing interdependence and long-term business relationship between producers (farmers) and processor or buyer. Creditworthiness is constrained in case of a low importance of delivery from the member to the processor (e.g. in mass markets like dairy) and if the production process is easy to duplicate (mass products like crops, rice). The legal environment also needs to inspire trust and reduce risk for the financial cooperative.

The indirect financial products are embedded into the relationship between a financial institution on one side and producers, processors, traders as its clients on the other side. In many cases the financial service provider does not take into account whether the client is an actor of a value chain or not. There is a tendency that the opportunities which the value chain provides for the client are not reflected in the credit transaction. Consequently, potential benefits for the financial service provider (less risk) and for the borrower (lower interest rate) are not utilized.

The advantages and disadvantages of indirect credit from the view point of lender (financial service cooperative) and borrower (farmer) can be seen as follows.

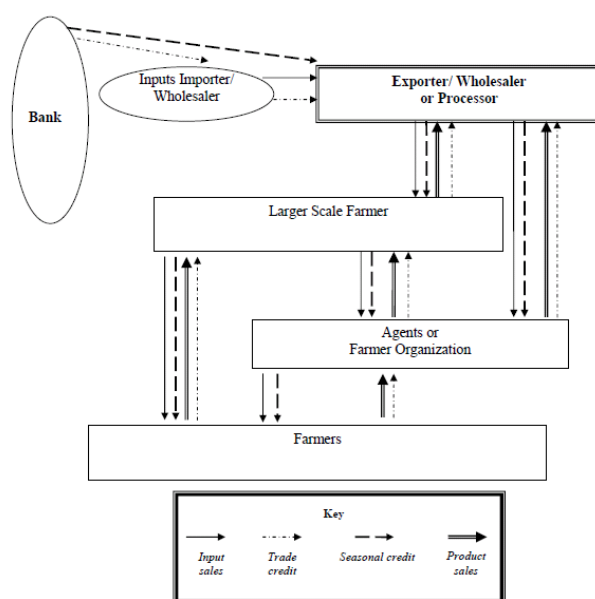
	Benefits	Disadvantages
Lender (financial service cooperative)	Reduction of credit risk through diversification of loan portfolio. Dual role of borrowers as members and close personal contact reduce repayment risk.	Cannot expand beyond the liquidity of the cooperative. Credit may be diverted to activities unrelated to the value chain. High transaction costs of multiple small loans. Need to evaluate and obtain collateral. Farmers may not be using inputs properly.
Borrower (farmer)	Freedom to choose source of inputs. Also available for longer-term investment capital. Can complement commercialization option of producers (e.g. establishing processing cooperative).	Higher nominal rate of interest compared to trader credit. Loan product may not match production time frame. Does not comprise access to inputs and technical assistance. Need to provide collateral. Need to invest savings to obtain access to credit.

But there are more opportunities to exploit than that. The real challenge lies in creating more and stronger bridges between the value chain and financial service cooperatives by combining models of direct and indirect value-chain finance.

In the following we examine two common types of value chain financing which combine elements of direct and indirect financing in order to assess their potentials and limitations:

- Contract farming: an agricultural supply and marketing cooperative advances finance inputs and technical assistance to its members as contracted farmers, which is (partly) supported by credit from a financial institution;
- Warehouse receipt system: a financial-service cooperative provides credit to farmers on the basis of warehouse receipts, which are issued by a marketing cooperative to depositors of non-perishable commodities.

Contract farming (or out-grower schemes) is a relationship between a buyer of agricultural produce and farmers. The latter may be organized in a producer cooperative or marketing cooperative.



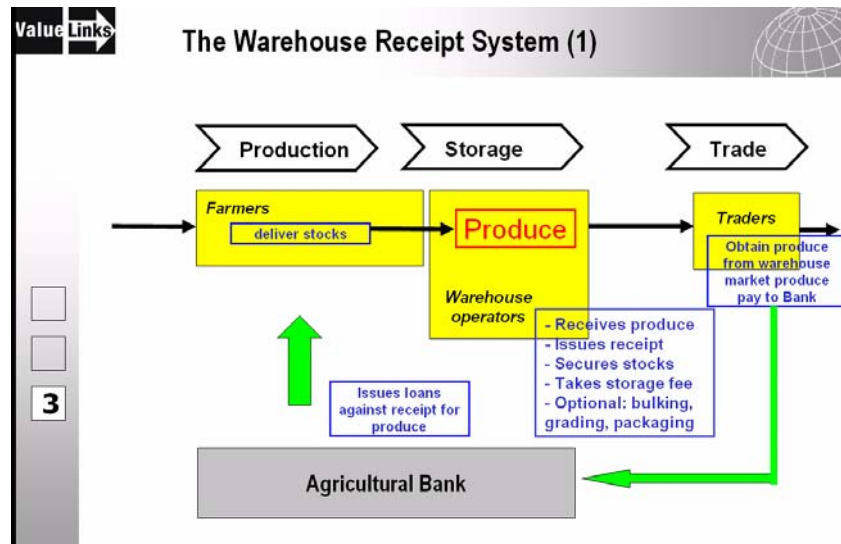
Source: Robert Fries, Banu Akin

The members receive funds in-kind or in-cash and are generally tied to a purchasing agreement. The buyer wants the producers to grow a certain crop and offers inputs on credit in order to ensure a reliable quantity and quality. It is often a well-respected and dependable entity while the farmers have demonstrated a capacity to provide high quality products to the buyer. The relationship has a long-term perspective and very often the buyer provides technical assistance and other services. This arrangement is often used for high-value, specialty products, such as horticultural products, for export crops, or for the dairy sub-sector. Contract farming comprises aspects of indirect financing if a financial institution recognizes the value of the close and reciprocal relationship between processor and producers and extends credit to the buyer.

	Benefits	Disadvantages
Lender (marketing cooperative and financial institution)	<ul style="list-style-type: none"> Cost-effective way to screen potential clients. Transforming sales contracts into assets for securing loans. Farming risk is held by the marketing cooperative, which can manage it better than the financial institution. 	<ul style="list-style-type: none"> Need to establish and provide embedded services which in the short term reduce profitability.

Borrower (producers, members)	Gain access to high-potential formal markets. Increase their productivity through embedded services such as technical and marketing assistance.	Often restricted to high-value crops. Limited benefit for individual small farmers, unable to produce high-value crops. Danger of exploitative relationship between processor and individual producers.
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The **Warehouse receipts system** can be used by a financial service cooperative, which provides credit on the basis of warehouse receipts. They are issued to farmers as depositors of non-perishable commodities at a bonded and certified warehouse, which can be operated by a marketing cooperative. This model allows producers using the deposited inventory as collateral for loans. It requires a financial institution to complete the transaction.



Source: GTZ ValueLinks manual

	Benefits	Disadvantages
Lender (financial service cooperative)	Cost-effective way to screen potential clients. Deposited produce is used as safe, dependable and liquid (easy to resell) collateral.	Requires an appropriate legal and regulatory framework to clarify and protect the rights of all actors (warehouse receipts act).
Warehouse owner (marketing cooperative)	Lower sales cost. Negotiable terms of relationship between warehouse and farmers. Transparent standards for produce can be enforced. Value adding through bulking, grading, packaging. Longer and secure storage as well as reduced spoilage. No side selling.	Danger that banks do not accept warehouse receipts as collateral, which puts the profitability of the warehouse at risk. High costs of investment and running without guarantee of utilization of the warehouse. Higher costs through observance of legal obligations.
Borrower (producers, members)	Delayed sales allow benefiting from higher market prices in off-season. Transforms produce into an asset to be used as collateral. Access to higher prices through better marketing, value adding, and consistent standards.	Difficult access to small-scale producers due to high costs of warehouses and high minimum volume for storage. Normally no access to technical assistance provided.

The disadvantages mentioned above for the cases of contract farming and warehouse receipt system are not seen as insurmountable drawbacks. They can be overcome by programming interventions:

- strengthening linkages between buyers and producers through formation of cooperatives,
- enabling smallholder farmer cooperatives to produce high value crops;
- promoting financial institutions in designing complex financial transactions such as loans based on warehouse receipts.

6. Opportunities in combining direct and indirect value-chain finance for financial institutions

Linking financial-service cooperatives to the value chain can be an effective way of transforming direct financing into a viable, long-term financing relationship. The following considerations allow determining opportunities and constraints for financial institutions.

- Fast growing value chains are generally capital deficient, do not have excess capital to lend, and have no competitive advantage in lending to small-scale producers. This creates chances for external financial institutions.
- The linkages between actors inside the value chain have a positive effect on their dealings with financial institutions. The established relationships facilitate credit screening, monitoring and enforcement and result in faster credit provision.
- The access to external credit complements the strength of value-chain relationships and provides more opportunities for financial flows between the actors within the value chain.
- Secure markets and improved skills through participation in the value chain make potential borrowers more creditworthy to financial institutions.
- The combination of direct and indirect value chain finance allows the processor to focus on commercial transactions and on non-financial services (marketing, inputs, technical assistance etc.) while the financial institution concentrates on the credit service itself.
- Through involvement of financial institutions more sustainability may be achieved, as it taps into a large potential pool of funds and transfers responsibility for the actual lending to a specialized entity with lending as its core business.
- Because of the involvement of regulated financial institutions, clients may have access to a greater range of services, including savings, leasing, transfers, investment credit, and insurance.
- For financial institutions it is important to estimate how external finance is perceived by the value chain actors with respect to extending or accessing trade credit and how the outside capital injected into the chain will influence existing financial flows.
- A situation must be avoided by which external financing replaces existing financial flows within the chain and small-scale farmers lose access to non-financial and financial services which they already had.

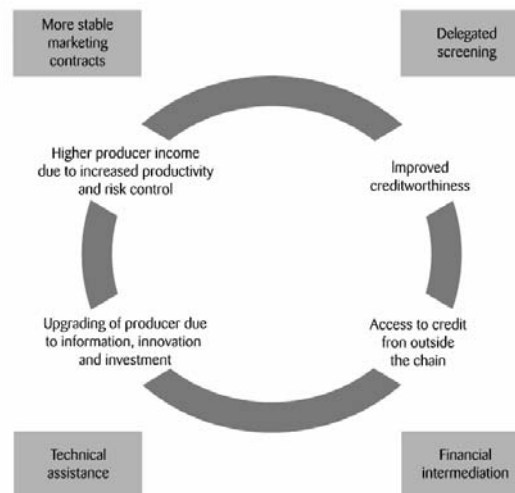
There are many opportunities, which may be exploited by financial institutions in value chain financing. Value chains are a growing market for financial products, they are important for regional development, and they allow financial institutions entering new market niches. They demand a clear sense of the chances and risks involved in lending to the value chain.

As regards their structures and incentives for lending to value chains financial institutions can be broadly grouped in the following institutional categories:

- Banks have shown an interest to provide credit to key players in value chains but are not cost efficient in lending to small-scale producers.
- Agricultural finance companies tend to specialize in financing high value crops which are of less relevance for small-scale farmers.
- Microfinance institutions may offer small farmers standard individual or group loans but have limited expertise in agriculture.
- Savings and credit cooperatives can also offer savings products, but are limited in their ability to develop payment schemes around agricultural cash flows (loans are tied to the amount of savings held by the borrower).

Therefore no particular type of institutions is ideally suited to cover value chain financing in its entirety. This demonstrates the need for collaboration between various types of financial institutions in the provision of value chain finance.

By constructing an ideal model of value chain financing we can establish a **virtuous circle of financing** (Geoffrey Chalmers). This approach starts from the observation that direct financing from inside the chain is not likely to meet the investment needs of value chain actors. It should be complemented by indirect financing from external financial institutions. Such access to finance facilitates the growth of production by farmers, the volume of processing and marketing and finally leads to the expansion of the entire value chain (see following figure).



Source: Geoffrey Chalmers, 2006

The idea behind the virtuous circle of external financing is that producers can build their creditworthiness with financial intermediaries. This happens when their market orientation develops through participation in a value chain. When farmers receive technical assistance from buyers or when the buyers guarantee purchase of the produce, they improve the chances for receiving loans from financial intermediaries. The existence of a contractual relationship improves producer creditworthiness as it allows the financial intermediary to delegate part of the task of screening the producers for credit risk to the processor or buyer. This reduces costs and risk without providing a high burden on the processor, as the required data are available anyway. Supported by their contractual relationships with other actors in the value chain, farmers are more likely to invest into higher product quality or better technology. With a permanent source of technical assistance farmers become more attractive to buyers. This in turn improves their income and increases their access to financing.

Farmers can enter the circle at any point and begin the circular movement of virtuous improvement, seizing the benefits of all these relationships. In implementing this approach still many questions need to be tackled: “Should we involve rather advanced farmers in the virtuous circle or would it be better to bring in others from outside and coming from backward

agricultural sectors? What interventions are most appropriate for each case? Which types of financial intermediaries are best suited to support the circle with finance?

7. Examples of value chain financing through cooperatives

7.1 Supply and marketing cooperatives as provider of direct value chain finance: Dos Pinos Dairy Cooperative in Costa Rica

The dairy cooperative has 1,300 members most of which are small farmers (61 percent deliver up to 500 l of milk per day). It provides farmers with everything they need to produce, including animal feed and equipment. Much of the required funds are supplied by the members and by the workers through their savings. The cooperative rarely seeks resources from financial markets. The cooperative has two direct financing services: a credit card service and farmer loans.

Through the **credit card service** members purchase inputs in the cooperative's farm and veterinary stores. This ensures an efficient service, greater control, and lower transactions costs. Members can also use the card to shop in other stores for items which are not available at the cooperative's own stores. The card scheme has these main conditions:

- The card covers a revolving line of credit up to each producer's payment capacity: 22.5% of subscribed and paid-in capital for purchases within the cooperative and 2.5% for purchases outside.
- Financing plans for purchases from outside sources with timetables and annual interest rates according to client preferences: from one week (0%) to 99 weeks (24%)
- Automatic loan repayments are deducted from settlement of milk payments.

The **farmer loan program** finances working capital and infrastructure investments, such as storage facilities, equipment and chilling tanks. It is offered with payment schedules ranging from two to five years. The loan scheme has these main conditions:

- Maximum loan amount depends on the credit record.
- Term for working capital loans up to two years for purchase of inputs and supplies.
- Term for investment loan up to five years for purchase of e.g. animals.
- All equipment is to be purchased from the cooperative.

The Finance Department sets guidelines for granting credit to members, including such features as payment schedules, credit limits, payment for milk deliveries, interest rates and credit record. The Finance Department stipulates the levels of authority for approval of loans and is responsible for program administration, oversight and collections. It has access to daily information updates on the status of loans granted by the cooperative.

Dos Pinos cooperative also supports indirect value chain financing. When members seek loans from external financial service providers, the financial institutions attach special importance to the cooperative's collection program. Dos Pinos pays its members on a weekly basis and withholds loan amortizations or other payments resulting from a direct contractual relationship between member and a financial institution. In addition the cooperative provides information on services available in the formal financial system, transfers loan funds to the member's internal account and makes weekly loan payments to external financial institutions which are deducted from settlement of milk deliveries. The cooperative has invested a lot in technology and in managing communication and information resources in order to achieve highly efficient credit monitoring and oversight operations.

Finally we need to ask, to what extent can the services mentioned above be applied in Nepal? The credit card service is a very efficient instrument but requires the set up of the necessary structures within the cooperatives and also the appropriate legal framework. It is recommended to facilitators of value chains in Nepal to establish the need for changes in the legal framework and to identify cooperatives which are interested and able to start a pilot project for the testing of this innovative service.

The trader credit described above can be implemented e.g. by savings and credit cooperatives in Nepal, provided the necessary funds are available. This appears feasible especially with regard to the provision of short-term working-capital loans. As far as long-term investment loans are concerned, we will present an alternative approach below.

7.2 Central cooperatives as provider of direct value chain finance: Kathmandu District Cooperative Union in Nepal

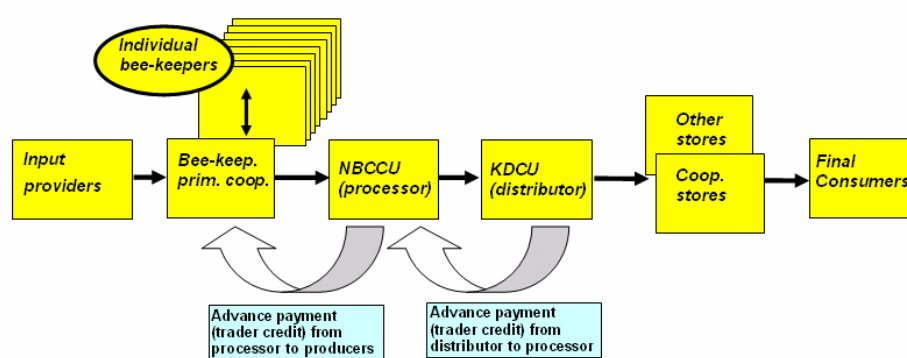
Bee keeping is an important agricultural sub-sector in many districts of the Terai and hillside regions of Nepal. Thousands of persons, many of them belonging to disadvantaged groups, utilize the freely available natural resources through keeping of bees. In the past honey was sold at local markets in an unprocessed state.

Most of the bee-keepers are members of local bee-keeper cooperatives, which provide assistance and equipment and also market part of the production. The cooperatives at primary level have affiliated to the Nepal Bee-keepers Central Cooperative Union (NBCCU), which is based in Chitwan district. Besides, most of the bee-keepers are also members of the Federation of Nepalese Bee-keepers of Nepal (FNBK). While the latter is offering technical assistance and represents the interests of its members, the NBCCU is in charge of collecting, processing, packaging, quality control and marketing of the honey.

In the year 2009 the NBCCU has established a processing and packaging facility in Narayangadh with a capacity of about 1 ton per day, which enables it to prepare a product that is ready for distribution. As an innovative venture this investment was supported by the Department of Cooperatives. In order to market the production NBCCU has concluded a long-term sales agreement with Kathmandu District Cooperative Union (KDCU). Among its members are primary level consumer cooperatives, which run many sales outlets in Kathmandu. Through the agreement, which foresees the delivery of a specified volume of honey per year, the consumer cooperatives have secured a steady supply of this product and the bee-keeper cooperatives have ensured the marketing of a large share of their total production. In addition both sides jointly finance the establishment of the brand name "Cooperative Honey" and a marketing campaign for honey in the domestic market.

As part of the agreement KDCU provides an advance payment to NBCCU, which represents an ordinary trader credit. These funds were raised by the member cooperatives of the KDCU, which benefit from marketing the products. These funds enable NBCCU to make advance payments to the bee-keeper primary cooperatives. They in turn use the funds to pay advances to bee-keepers at the time, when they deliver their honey to the primary cooperative. The individual bee-keepers depend on this fast payment as an important part of their cash income.

Through the above arrangement the cooperatives in the honey sub-sector have achieved the channelling of a share of total honey production the central region through the processing facility in Chitwan. The cooperation described above has been started only some months ago. Therefore the baseline data including total production in the area of operation and the share to be marketed by the central cooperative union still need to be determined in detail. The same applies to the impact of this initiative, i.e. the value added generated at each level of the value chain, the increase in income for producers, the benefit for consumer etc. At this point it is important to note, that this entire value chain is organised by cooperative organisations. It stretches from the bee-keepers as cooperative members in many districts up to the cooperative consumer stores in the capital.



7.3. Financial service cooperatives as provider of indirect value chain finance: WOCCU's phase model for integrated value chain finance in Peru

In partnership with Peru's National Credit Union Federation (FENACREP) and with funding from USAID WOCCU supports six credit unions in Peru to develop an integrated model of value chain finance for local producer groups in several value chains (cacao, coffee, dairy, guinea pigs etc.). In the period October 2007 to December 2008 over 1,000 loans were disbursed at a total value of 1.6 million USD and with about 3,700 beneficiaries, experiencing a delinquency rate of 2.65%.

To this end WOCCU and its partners developed a four-phase value chain finance methodology, which helps to assess and mitigate the specific risks associated with value chain financing and to design products which meet the various financing needs along the value chain. In the following the tasks at each phase of this approach are presented.

Phase I: Identify and evaluate potential value chains

- Analyse market demand for the product and ability of producers to meet the demand.
- Make a SWOT analysis of the entire value chain
- Identify intervention points along the value chain where access to finance could bring the greatest value to small producers and at the same time represent a good investment for the CU.
- Summarise findings in a map of potential financing options.

Phase II: Facilitate and leverage market linkages

- Have all value chain actors jointly identify problems, review their needs and commit to finding solutions.
- Assist the CU in obtaining production and financial data from value chain actors.
- Have value chain actors contractually agree on quality standards, on minimum purchase prices for produce and on non-financial services.
- Ensure that solidified business relationships between small producers and processors as well as secured market access are acknowledged by the CU as reduced risk of lending.

Phase III: Design the products and evaluate capacity to pay

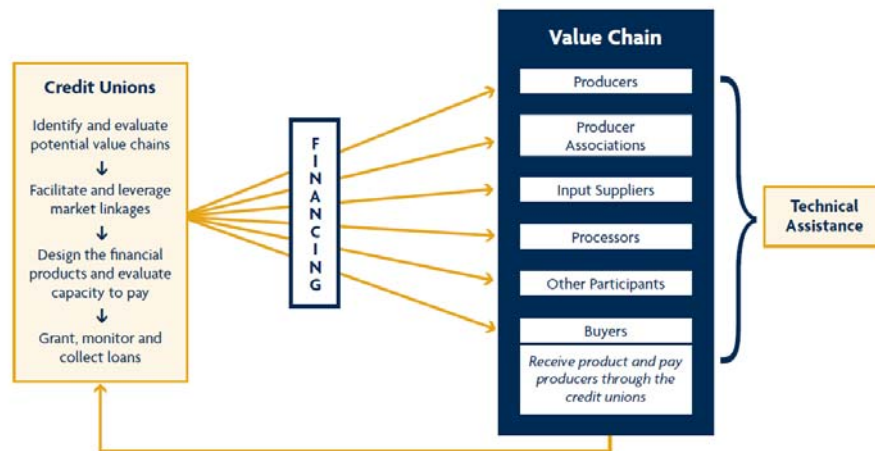
- Help the CU to analyze potential cash flows and to design a product that reflects the financing needs of the borrowers and the specific characteristics of each value chain.
- Ensure that disbursement and repayment schedules are based on production cycles.
- Determine competitive interest rates to cover costs and provide a profit margin.

- Help the CU to establish policies and procedures to address the associated risks.
- Determine the best combination of collateral and signed contracts to cover the loan.

Phase IV: Grant, monitor and collect loans

- Disburse loans in cash or in vouchers that permit borrowers to obtain discounted inputs (seeds, tools etc.) from other value chain actors.
- Let producer associations and technical assistance providers help monitor production.
- Ensure that the reduced operational costs of lending are reflected in the interest rate on loans.
- Have buyers channel payments to the producers or associations via the CU, which deducts the loan payment plus interest from the sales amount and deposits the remainder into the individuals' or producer associations' savings accounts.

The following graph presents the activities of CUs, which have to be undertaken for financing can be provided for the various actors along the value chain. It is a precondition that the CUs have been capacitated for the evaluation of opportunities and risks, for supporting of market linkages, for designing products, and for loan administration. In addition the CUs open their membership to all types of value chain actors and employ loan officers with agricultural expertise.



Source: WOCCU, 2009

As an important feature of this model financing is available to all value chain actors, such as input suppliers, producers, producer associations or cooperatives, processors and buyers. However the bulk of loans have been made to the small producers and producer associations as most vulnerable links in the chain. As all value chain actors became CU members, they gained access to additional financial services including savings and insurance.

The approach is demonstrated by the following example of the coffee value chain.

Small coffee growers received technical assistance and certification to grow high value organic coffee, but were unable to increase their incomes. This was due to lack of access to affordable financing, and few profitable opportunities to market their coffee.

Just like other financial institutions in the region the local CU considered small producers as risky clients. WOCCU encouraged the CU to use the phased approach described above to evaluate the risks and market opportunities of the coffee value chain. The evaluation revealed that buying agents provided the only source of financing for the coffee growers, but they required the growers to sell to them at well below market prices. At the same time loans from agents were not sufficient to cover the costs of production, so crop quality and yields suffered.

The assessment also revealed that coffee growers could earn more by selling to a producers' association that had a direct relationship with the commercial buyer. But the association lacked sufficient capital to pay the growers immediately upon delivery and to increase its bargaining power and achieve higher prices.

With financing needs clearly defined, the value chain actors gathered necessary information and the CU designed appropriate products. After all actors signed agreements, the CU disbursed loans to growers up to 70% of their production costs and in also made a short-term loan to the association so that it could pay the coffee producers upon delivery. The buyer agreed to purchase the coffee at a set price and to repay the loan through the credit union.

Since 2008 the CU has disbursed loans to about 450 producers and to the producer association. All loans were repaid on time and the growers' earnings increased by 53%.

7.4. Marketing cooperatives as intermediary between financial institution and small-scale producers: Siddhi Milk Producer Cooperative in Rupandehi District, Nepal

One of the most important agricultural sub-sectors in Nepal is the dairy sector, which is of greatest importance especially in the Terai region. Thousands of small-scale farmers keep a few milk cows and buffalos for milk production. Every day the milk is taken to local milk collection points, some of which are equipped with some test equipment and a chilling unit. From there the milk is collected by the milk processors like the public body Dairy Development Corporation (DDC) or private dairy firms.

The main bottleneck of many farmers is the small number of cows which they own and their low productivity. In combination with the small profit margin (due mainly to high cost of feeds) the milk producing activity is hardly able to sustain the farmer families.

In order to improve the situation one milk producer cooperative, namely Siddhi Milk Producer Cooperative in Rupandehi district has taken a very interesting initiative (the following information was reported by the cooperative). It originated from those of its 52 members (60% Janajathi or Dalit), who owned very few and only local cattle. As they were also constrained by small plots of land they were interested to obtain high breed cattle. They approached their cooperative for loans, which in turn approached the local DDC chilling center manager. From there the request was handed over via the DDC branch in Butwal to the DDC head office in Kathmandu. At that level the Himalayan Bank in Kathmandu was approached, which probably was in search for a project to fulfil its requirement to provide 3% of its loan portfolio to deprived sectors. Finally the Butwal branch of Himalayan Bank proposed a tripartite agreement between the Bank, the DDC and the milk producer cooperative, which was concluded in July 2009.

The tripartite agreement comprises in fact three different kinds of bilateral contracts:

1. Loan agreement between Himalayan Bank and milk producer cooperative on a specific amount of investment loan for the duration of 3 years at 9% interest rate. The loan is meant for onlending to individual members for purchasing of high-breed cattle. The loan is not secured by physical collateral but contains a binding commitment of the Board members to honour the parallel agreement with the DDC. The cooperative also agrees that the loan repayment will be covered by the proceeds of sales of milk to DDC.
2. Delivery agreement between DDC and the milk producer cooperative on delivery of the entire milk collected by the cooperative to DDC at the standard market price and for the duration of 3 years. In addition, DDC declares to guarantee the full amount of loan, which is provided by Himalayan Bank to the cooperative.
3. In addition, the cooperative concluded loan agreements with individual members for purchasing of high-breed cattle. The term is also 3 years and the rate of interest 10%. Instead of providing physical collateral the members commit themselves to deliver all their marketable milk to the cooperative. The member also agrees that the loan repayment will be covered by the proceeds of sales of milk to the cooperative.

At this point the preliminary impact of this credit arrangement at the level of the cooperative and its members can be assessed as follows:

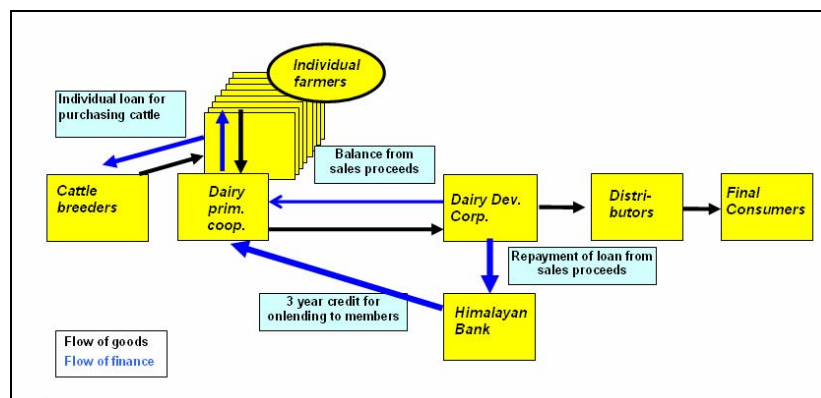
The cooperative expanded its membership with farmers, who were attracted by the chance to obtain high-breed cattle. The ratio of active members in the cooperative was raised to 100% through exclusion of members who were not fulfilling their obligations to use the services of the cooperative. In total the number of members increased from 52 members (partly inactive) to 54 (all active). As an administration fee the cooperative receives 1% margin of the total loan amount or approximately 10,000 NRS.

The members received loans according to their capacity to serve the loans in form of milk delivered to the cooperative. All together 19 members received loans to purchase a total of 25 high-breed cattle (1 member received 3 and 4 members received 2 cattle). Bulk purchasing was not done as members preferred to purchase cattle themselves. The increased veterinary requirements of the high-breed will be taken care of through JTAs, who have been employed with support from GTZ for the VDCs in the region.

Through the credit arrangement the number of cattle owned by all members increased from about 75 to about 100. Due to the additional cattle of high breed and the compulsory milk delivery the volume of milk collected by the cooperative increased from 100 liter to 250 liter per day. Based on the price of about 30 NRS for high fat milk the added value amounts to about 1,600,000 NRS per year. After deducting the total interest and loan repayment per year of 430,000 NRS the members enjoy a gross benefit (i.e. without considering production costs) of about 1,170,000 NRS per year.

The cooperative reports that the implementation of this tripartite agreement of value chain financing is without problems. It can be stated that it is clearly of great benefit to all partners. However, it is interesting to note that in Rupandehi only one similar agreement has been arranged so far (with a private dairy company and Laxmi Bank). There appears to be a great need for further dissemination of this effective business model to more milk producer cooperatives in the district and beyond. In addition, the cooperative needs to be consulted on how to utilize the value added to finance other necessary investments (chilling unit, testing equipment, milk cans).

Finally it can be said that through this tripartite arrangement a win-win situation for all involved cooperating organisations has been created: the cooperative members obtain access to investment capital without provision of physical collateral, the cooperative is able to multiply its trade volume, the DDC can secure its reliable supply of raw milk and the Himayala Bank runs a successful loan project in a deprived sector.



In addition, Siddhi Milk Producer Cooperative and some other milk producer cooperatives in Rupandehi district provide also direct value chain finance to their members. This is in the form of advance payments on milk to be delivered. This service is funded from own sources of the cooperative. The cooperative deducts the loan instalments from the sales price of milk

which is delivered by the borrowing member. The balance amount is deposited in the operational account of the member in the cooperative.

7.5. Producer cooperatives as organisers of a warehouse receipt scheme: Ginger producer cooperatives in Palpa district

In many parts of the Terai and the hillside regions the growing of ginger plays a very important role. Nepal is one of the leading producers of ginger worldwide but the respective value chains are not yet well developed.

Many ginger growers are organised in cooperatives, which provide them with inputs (seed) and technical assistance and are supposed to support the members in marketing of their produce. The major share of the production is sold immediately after harvest at prices which fall victim to the excess supply.

Ginger is a product, which can be stored for a relatively long period and which experiences a steep increase in price once the main harvesting season is over. This has led about ten Ginger producer cooperatives in Palpa district to develop the plan of joining forces in marketing their combined production.

They are currently developing a business plan for the establishment of a warehouse in Tansen, in which a large share of the annual production of their about 1,000 members will be stored. The deposited goods will be graded and packed and will then be marketed in the off-season period. The cooperatives intend to cooperate with an external financial institution, which will provide individual production loans to the cooperative members. The members agree to deposit a minimum share of their production in the warehouse. Later the sales proceeds will be channelled through the bank, which keeps the individual loan repayment. The balance will be transferred to the producer cooperative and disbursed in cash to its members.

7.6. Multi-purpose cooperatives as providers of comprehensive services for value chain development: Bukonzo Joint Cooperative Microfinance Society Ltd (BJCMS) in Uganda

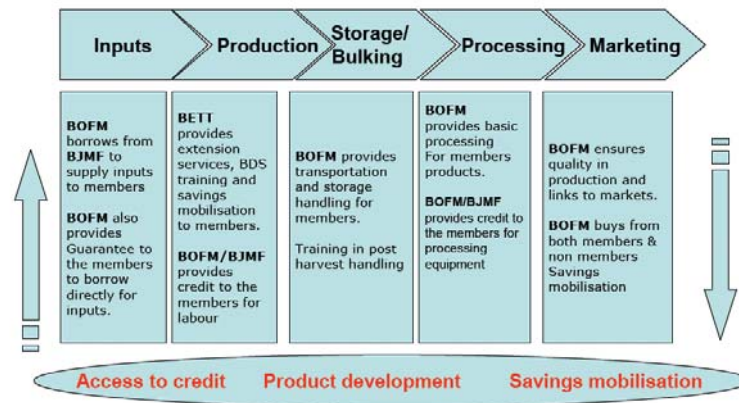
SNV provides capacity development to local organisations such as cooperatives to enable them better serve their members. It focuses on reducing poverty by increasing production, employment and equitable income opportunities.

Bukonzo Joint Cooperative Society (BJCS) is a self-initiative to improve returns by the local communities from coffee and honey through organised marketing systems, resource mobilisation and quality management. It started operations in 1999 as a production and marketing cooperative focusing on coffee and honey. Its current focus has expanded to include financial services and skills development as embedded services.

The project approach is aimed at maximizing returns through the support to major activities in the value chain and through utilizing undeveloped financial markets (credit, savings, insurance etc) to meet the needs of the small scale farmers, processors and marketers. To this end 3 semi autonomous units were formed each providing a different service: skills development, access to finance and marketing services.

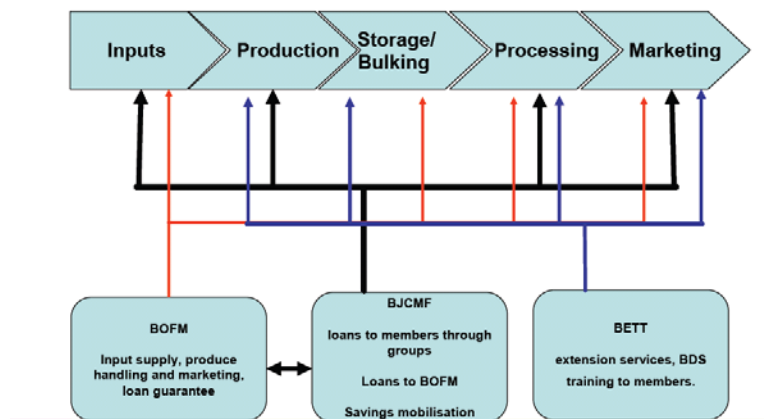
- Bukonzo Organic Farmers Marketing Association (BOFMA) for storage and marketing
- Bukonzo East Training Team (BETT) for extension, BDS and community mobilisation
- Bukonzo Joint Cooperative Microfinance (BJCM) SACCO for financing the other two components.

The following presents the specific services which are provided to fulfil the financial and non-financial needs of the members and of the other value chain actors.



Source: SNV, Uganda

The next graph shows how the three components collaborate in order to provide this comprehensive service package.



Source: SNV, Uganda

The preliminary results are as follows:

- Increase in volume of purchased coffee of over 200% (13 tons to 40 tons),
- Increase of membership from 11 groups with 165 members to 57 groups with 1,957 members (65% women).
- Reduced financing cost of production, e.g. for honey financing cost was reduced from 19% to 10% resulting in a 9% increase in the overall margin.
- Reduced interest rate on loans from 3% to 2% as a result of increased activities.
- Higher return on investment through supply of low priced inputs and higher than average prices on products.
- The cooperative controls 80% of the value chain activities.

Some lessons learned:

- Response to the need for financial services to support production processes in the value chain
- Enhanced savings mobilisation leads to reduced interest on loans
- Redistribution of returns from the production process to the members and the involved organisations through above average prices on produce
- Emphasis on autonomy of components in decision making strengthens governance
- The model shows how rural communities are key to their development and are able to establish business models that suit their own needs and environment.

- As the value chain segments can not operate independently the model offers a platform for developing integrated rural financial systems.
- Since microfinance is not able to address financial needs across the entire chain the model is open to integrate schemes such as warehouse receipt and trader credit.

8. Lessons learned on value chain financing

A number of lessons learned and strategies in value chain financing especially for small scale producers can be gleaned from various analyses and from project evaluations. They are particularly useful to financial service cooperatives, to other financial institutions and to development agencies.

1. It needs to be understood that non-financial barriers (e.g. lack of technology, deficient storage, and inefficient marketing channels) may supersede problems with access to finance.
2. The motivation of value chain actors to strengthen value chain finance should be based on the wish to increase income and not on the desire to improve access to credit.
3. Both the limits and the benefits of direct financing by value chain actors must be recognized.
4. Financial interventions must be designed on the basis of thorough value chain analysis (e.g. ValueLinks) on: capital constraints, financial flows throughout the chain and how they might compete with indirect financing; value chain governance; market trends; information flows; payment processes within the chain.
5. The combination of lending capacity of financial institutions and the high level of business information of value chain actors is highly beneficial.
6. In order to support poverty reduction, financial services should be complemented by training and consultation of small-scale producers.
7. In value chain finance the focus should be on utilizing economic opportunities and not on expanding outreach of financial services.
8. It needs to be ensured that market demand exists for the crops (buying contracts)
9. Create transparent and effective policies and procedures
10. Assess real financing needs based on cost and returns of production.
11. Consider providing investment capital for upgrading and expansion of value chains.
12. Identify the right leverage points for finance in the value chain (e.g. small-scale producers or larger buyers).
13. Establish appropriate guarantee on loans by using contracts or produce as collateral.
14. Adapt loan terms according to crop seasons
15. Distribute loans in vouchers to purchase inputs from pre-approved suppliers
16. Encourage farmers to diversify crop production
17. Support the change or perception and attitudes of borrowers in the value chain (e.g. through entrepreneurial training).
18. Channel payment of produce through the financial institutions, retain loan repayments and deposit the surplus in farmer's savings account.
19. Discover the still largely untapped potential for formal financial institutions to play a role in financing of agricultural value chains.

9. Implications and recommendations

Above we have provided an overview of the relevance and types of value chain financing through cooperatives. Furthermore, we have outlined some case studies of the involvement of cooperatives in value chain financing. From these analyses we can derive implications and recommendations, which are directed at government, farmers and their cooperatives, financial institutions and facilitators of value chain development.

1. *Implications and recommendations for government*

- To reform the regulatory framework in order to create opportunities for innovative financial products such as leasing, factoring, and warehouse receipt schemes.
- To ensure the use of warehouse receipts and crops as collateral.
- To support the development of market information systems and quality standards.
- To streamline legal systems and institutions for improved contract enforcement (e.g. credit reporting agencies, collateral registry).
- To support value chain facilitators and assistance services for value chains through cooperatives, NGOs and private sector entities.
- To maintain consistent and fair import policies and to discourage monopolies.

2. *Implications and recommendations for value chain actors including cooperatives*

- Farmers need to adopt a more entrepreneurial business mentality and higher productivity.
- Processors need to identify more markets and establish linkages with buyers.
- All actors need to develop the competitiveness and effective governance of the entire value chain.
- Cooperatives need to assist their members through training and consultation and need to learn how to facilitate value chain development.
- Small scale producers need to establish more cooperatives in order to improve access to value chains, to knowledge and to credit.
- Cooperative federations at all levels need to promote cooperatives, to provide capacity building and to ensure supervision.
- Cooperatives need to train their leaders and management and to strengthen their organisational structures.
- Cooperatives and their members need to be engaged in regional development initiatives in order to identify opportunities for value chain development especially for small scale producers.

3. *Implications and recommendations for financial institutions*

- Need to change their perceptions of value chain finance and discover that it holds many opportunities.
- Need to have a better knowledge of value chains and their perspectives and bottlenecks, e.g. by applying the ValueLinks methodology for value chain development.
- Need to reduce transaction costs and improve efficiency through information and communication technology.
- Need to design new, more appropriate financial products for value chain finance, e.g. warehouse receipt loans, investment loans.
- Need to learn cooperating in partnership with value chain actors (processors, buyers, suppliers) as well as cooperatives of small-scale farmers.

- Savings and credit cooperatives need to increase mobilisation of savings in rural areas.
- Need to identify existing direct value chain financing and to explore its expansion by indirect financing.
- Need to cooperate with various types of financial institutions in order to provide financing at all levels of the value chain (e.g. savings and credit cooperatives for farmers, micro finance institutions for processors, banks for distributors).
- Need to accept intermediaries (incl. cooperatives) as linkage between value chain actors (small-scale farmers) and formal financial institutions.
- Need to channel funds through other actors (e.g. buyers), who are in a strategic position to manage the risk (strong linkages with small scale farmers, better understanding of the requirements of the value chain and of market development).
- Need to invest in risk management schemes to better enable financial institutions reaching out to rural areas and intensifying financing of value chains.
- Need to explore integrated financing that reflects all the different interests of value chain actors and are able to spread risk throughout the chain.

4. Implications and recommendations for facilitators and supporters of value chain promotion

- Need to improve the analysis of value chain finance and especially the interaction between financial institutions and value chain actors.
- Assist in developing promising new models for value chain finance, improve dissemination and develop guidelines for implementation.
- Need to consult government on better framework conditions for value chain development and for value chain finance.
- Need to support facilities or lines of credit for granting of long-term credit for value chain actors, including the better mobilisation of savings in rural areas.
- Need to facilitate comprehensive approaches for value chain development, combining technical assistance, quality management, private sector involvement, product differentiation, development of producer groups, and effective governance in the value chain.
- Need to better exchange experience on value chain promotion and value chain finance and to disseminate them.
- Need to engage in pilot projects that link value chain actors and financial institutions through innovative business models.
- Need to ensure that the inclusion especially of primary producers from disadvantaged groups is sustained through financial services.
- Need to facilitate more finance from the formal sector to the central levels of the value chain (missing middle) through new types of linkages.
- Need to support a generally closer collaboration between chain actors and chain supporters including financial institutions

10. Outlook

Value chain financing is still underdeveloped in Nepal. There is a well developed financial sector and a cooperative sector looking back to over 50 of development. But in the past there were few agricultural value chains and financial institutions found it difficult to finance them or to develop products for value chain financing. In recent years, more cases of agricultural value chains can be observed such as in dairy and in honey. Some of these cases have been presented above.

The World Bank survey “Access to Financial Services in Nepal” of 2006 indicated that use of banks is rather limited, while financial NGOs and cooperatives play a large role in providing both deposit and loan services. In addition, informal borrowing far exceeds formal borrowing. While these figures have certainly improved, it demonstrates a rather low market share of banks, finance companies, financial NGOs or cooperatives, and microfinance institutions. Family and friends are large providers of loans to households and small businesses due to their advantages regarding timely provision of funds, limited administration and low requirements for collateral.

Despite many efforts by government and development projects formal financial institutions still need to improve their services to the business sector and the population. Limitations of access to and use of formal financial services especially refer to agricultural producers, small businesses and low-income households.

Nepal is rich in natural resources and can produce many kinds of agricultural products for own consumption and for export. In order to tap these still underutilized resources a joint effort is required to develop agricultural value chains with appropriate policies, institutions and support. The traditional system of agriculture and marketing should be complemented by value chains with modern and advanced technology.

The business models from Nepal which were reported in this paper clearly demonstrate the ability of farmers, cooperatives and financial institutions to design and implement value chains and financing arrangements. Considering the available opportunities and the great need for finance many more business models need to be developed and supported.

This demands a higher level of information on production potentials and marketing opportunities for value chain actors and for financial institutions. The large sector of MFIs and of savings and credit cooperatives as well as marketing and supply cooperatives faces the challenge to provide a strong contribution towards this end. In coordination with the other financial institutions they can support Nepal in utilizing new concepts of value chain finance for the benefit of everyone.

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