

Value Chain Inclusiveness: Unleashing the Potential for Increasing Agricultural Financing

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Introduction

This paper is the outcome of a study of value chain financing in Bangladesh sponsored by the Asian Development Bank during July 2013 to December 2014.

The Organizations Reviewed

During this period the author as a Consultant reviewed value chain development initiatives of 18 organizations/projects or supported by national and international organizations. The list is as follows:

1. Price	10. USAID (AVC Project)
2. Hortex Foundation	11. USAID Ag Extension Project
3. Katalyst	12. Heifer International
4. Care Bangladesh	13. PRAN (Crop & Dairy Hubs)
5. Practical Action Bangladesh	14. DOEL Group of Industries
6. Inspired: a EU Project	15. SCDP
7. IDE	16. City Bank
8. Helvetus	17. Trade Craft
9. Swiss Contact	18. Action For Enterprises

Value Chains Studied in Detail

Based on the initial reviews 5 AFVCs models were selected for detail study such as:

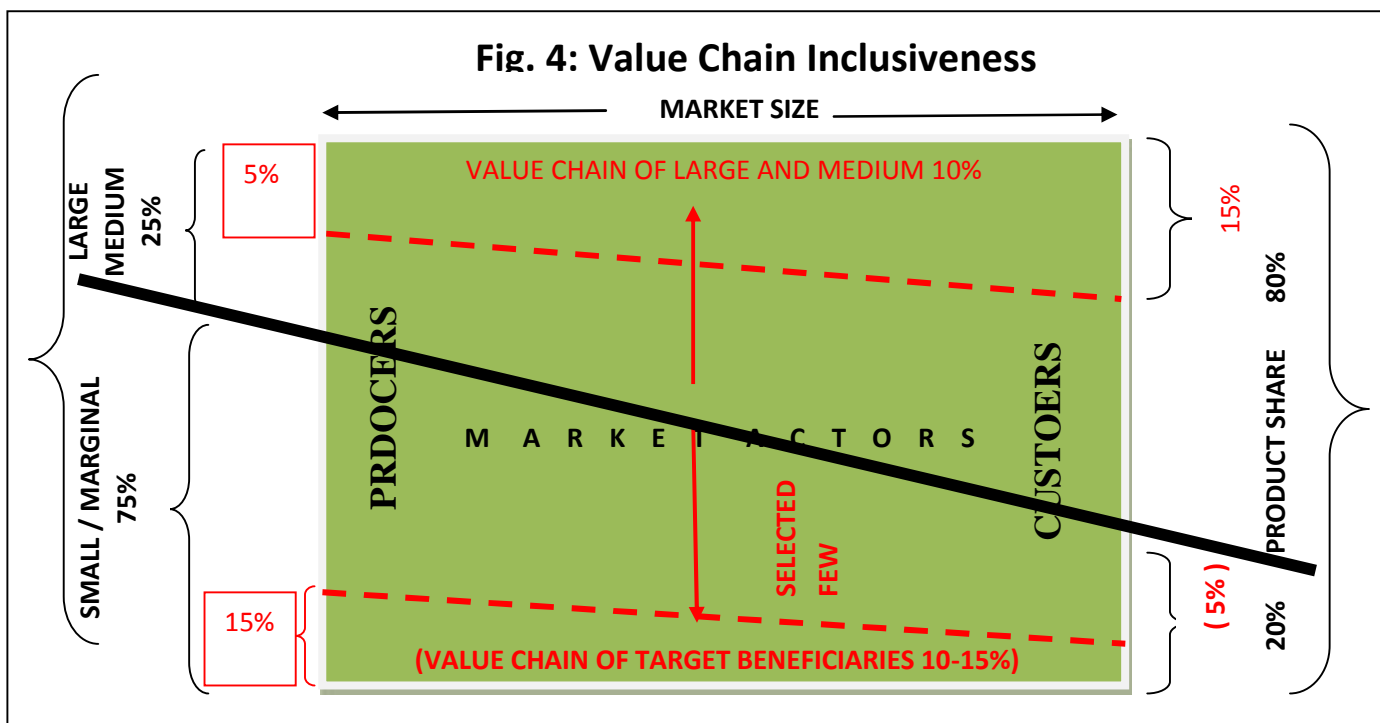
1. Production Inputs and Financing of Paddy Supply Chain of Jamuna Auto Rice Mills financed by The City Bank in Dinajpur district
2. Financing of Production Inputs - Input Suppliers of Maize Value Chain promoted by Katalyst and financed by Prime Bank in Rangpur
3. Beef Fattening Finance and Functions of Sales and Service Center of Practical Action, Bangladesh financed by BASA in Raigonj upazila of Sirajganj district
4. Financing of Fresh Vegetable Production in Noakhali sponsored by IDE and financed by ULC Limited

5. Comparison of Farm Association and Lead Farmer of SCDP and PRAN's Hub Systems in Natore

These selected AFVCs were studied in detail leading to identification of the key issues value chain financing in Bangladesh. The study of each of these value chains had different focuses as laid down in **Appendix A**.

Extent of Value Chain Inclusiveness

Concept of value chain is very much popular in the arena of agriculture development of Bangladesh. Almost all public and private sector agencies are somehow engaged in promotion or development of Value Chains in their own perspective and models either to ameliorate poverty by the NGOs or to streamline the supply chain of raw material by the private companies. In a geographical area none of the pursuits are **INCLUSIVE** to peoples, products and business of the stakeholders (**Fig. 1**).



Peoples Inclusiveness: All of those value chains were working with selected few of the stakeholders involved in production, trading, processing and consumption. Analysis shows that in a market place 75% are small operators who command only 20% of the market share, while 25% large and medium operators have 80% market share. In recent years all donor supported public and private initiatives are pro-poor with selected stakeholders who covers about 15% of producers and around 5% of market share. As a result their impact is not visible. Contrary, private initiative like PRAN and Katalyst covers large and medium operators of hardly 5% in the

market place covering about 15% product share mostly streamlining their supply chains. Vast majority of all categories of stakeholders remain outside the purview of value chains.

At certain stage the sponsors felt the necessity of finance particularly of producers and endeavored to link them with some banks, public or private, NGOs or financial institutions. Their coverage is still smaller than the value chain as many of the operators could be able to satisfy their terms and condition. As for example total coverage of ULC is financing of vegetable value chain was found to be 13.87% (2,774 faarmers) of the total number of farmers (20,000) organized by IDE as groups to facilitate marketing. IDE beneficiary were less than 10% of the agricultural community of the district. Very little is covered by the financiers as well as value chain promoters.

Area or Product Inclusiveness: All value chains are not only beneficiary exclusive but also area and product exclusive. Value chain promoters select targeted categories of beneficiaries few selected villages of few selected Unions of few selected upazilas of a districts so scattered that impacts on product and market is hardly visible in a national perspective.

Even the largest supply chain development component of World Bank supported NATP, now being expanded to 80 Upazila are exclusive to 400 families of a Upazila, 20 selected farmers in a group and 20 groups in a Upazila which is approximately 1% of the farming community of selected few villages of selected Unions of the Upazila .

Business inclusiveness: As most of the value chains are area, product and desired people exclusive finance also follow the same path. It has limited the scope of increasing finance as well as visible impact. AFVC Finance initiative should give priority to inclusive value chain or promote adoption of business inclusiveness of all stakeholders so that they can develop their business as whole, not just supporting transactions of a commodity

Conclusions

Value chain approach is a must for product and economic development as well as finance as it focuses on increasing productivity of all stockholders of the market and provides a risk free environment for finance due to its institutional base. Presently, approximately 10-20% people and products in a few selected unions, upazilas and districts are included under value chain development initiatives. On geographical area basis value chain inclusiveness in terms of people, product and business is essential both for product development and financing. As the inclusiveness will increase, the scope of increasing finance will increase. A completely inclusive value chain will absorb about 5 times more finance in a geographical area.

Appendix A: Summarized Study Proposals for Bangladesh and Cambodia

Subsector	Lead Agencies	Areas of Study
A. Bangladesh:		
1. Rice (Dinajpur)	<ul style="list-style-type: none"> ▪ City Bank ▪ Jamuna Ricemill 	<ul style="list-style-type: none"> ▪ FSCs between ricemill and farmers and use of FSC by PCB as collateral for lending to farmers ▪ Role and cost of NGOs in farmer group mobilization and improved access to finance
2. Corn/Rice (Rangpur)	<ul style="list-style-type: none"> ▪ NCC Bank ▪ Katalyst NGO ▪ Input Supplier 	<ul style="list-style-type: none"> ▪ PCB lending to farmers based on guarantee from input supplier ▪ FSCs and their contractual format for corn ▪ Role and cost of NGOs in farmer group mobilization and improved access to finance
3. Cattle fattening (Siraganj)	<ul style="list-style-type: none"> ▪ Practical Action NGO ▪ BASA MFI ▪ Jonjalipara Sales & Service Center 	<ul style="list-style-type: none"> ▪ Effectiveness of farmer associations in improving access of farmers to services and related role and costs of NGO ▪ Contract cattle fattening/profit sharing
4. Fresh vegetables (Noakhali or Barisal)	<ul style="list-style-type: none"> ▪ ULCL ▪ IDE 	<ul style="list-style-type: none"> ▪ Use of farmer current accounts for disbursements & repayments based on financial model for each type of vegetable ▪ Role and costs of NGO in group formation and technical support and loan recovery
5. Farmer mobilization for improved access to services	<ul style="list-style-type: none"> ▪ PRAN Company ▪ Practical Action 	<ul style="list-style-type: none"> ▪ Analysis and comparison of inclusiveness and costs of farmer association model versus the lead farmer/hub model.

FBA = Farm business advisor; FSC = Forward sales contract; IDE = International Development Enterprises; NCC Bank = National Credit and Commerce Bank; PCB = Private commercial bank; ULCL = United Leasing Company Limited; WRF = Warehouse receipt financing