Value Chain Finance: Beyond Microfinance for Rural Entrepreneurs

Reviewer: Daniel Zoltani

I recently participated in the workshop “Expanding Value Chains to Include the Poor” at the Microfinance Summit in the Philippines. The main question being: How can financial service providers, NGOs, Government and the private sector better integrate poor farmers and other micro entrepreneurs into value chains? In order to gain greater perspective on this issue before the conference, I picked up the book *Value Chain Finance: Beyond Microfinance for Rural Entrepreneurs.*

The book is the result of a “writeshop” collaboration between the Royal Tropical Institute and the International Institute of Rural Reconstruction in February 2009 in Nairobi, Kenya.

This book describes 13 cases from 10 countries around the where such initiatives have unclogged value chains, improved the lives of the rural poor, produced more and higher-quality agricultural products, and made the value chain more profitable for all concerned. The products range from chili to cotton and from fish to milk. The organizations involved range from cooperatives of forest dwellers who harvest leaves to make into disposable plates in India, to multinational firms that make potato crisps in Peru for sale in supermarkets.

In short, value chain finance is about establishing creative partnerships and bridging the gap between value chain actors and financial service providers. Although not the only factor in better integrating the poor into value chains, value chain finance is crucial for the following:

1. Access to adequate and timely financial services for all actors in the chain has proven a key element for success.
2. Value chain finance means linking financial institutions to the value chain, offering financial services to support the product flow, and building on the established relationships in the chain.
3. Their financial needs are generally too large for microfinance, but too small for commercial banks.
4. The purpose of value chain finance targeting the poorest is to reduce hard collateral requirements as barriers of entry by establishing relationships and trust amongst different actors in the chain.

For the value chain as a whole, financial services help to streamline and smooth relations in the chain. Trust among different actors can help revive the chain. The chain itself can upgrade because it carries a greater volume or a higher-quality product, which fetches a higher price, which will be to the benefit for all chain actors.

The book also reviews considerable innovation in financial products for investments in the value chain. These products include medium-term loans, temporary equity investments and leasing. Various strategies are used to reduce the risks, and barriers of entry including strengthening of groups of borrowers, parallel support services to borrowers, and risk-sharing among various actors.

The three topics of my discussion at the workshop included:

1. The chain of value chain finance: The Haiti Hope Project
2. Agricultural finance: Expanding Access to Finance in the Eastern Hills of Nepal: Mercy Corps, Nirdhan and Whole Planet Foundation.
3. Commitment to the whole chain: Community Livestock and Dairy Development Project – Bangladesh.