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A CASE STUDY

Conceptual paper on value chain financing : A vital tool for farm to market linkage in agribusiness

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ABSTRACT

The term value chain was first popularized in a book published in 1985 by Michael Porter, who used it to illustrate how companies could achieve what he called “competitive advantage” by adding value within their organization. At the heart of the agricultural value chain concept is the idea of actors connected along a chain producing and delivering goods to consumers through a sequence of activities. However, this “vertical” chain cannot function in isolation and an important aspect of the value chain approach is that it also considers “horizontal” impacts on the chain, such as input and finance provision, extension support and the general enabling environment. The approach has been found useful, particularly by donors, in that it has resulted in a consideration of all those factors impacting on the ability of farmers to access markets profitably, leading to a broader range of chain interventions. It is used both for upgrading existing chains and for donors to identify market opportunities for small farmers. Finance can be delivered directly by financial institutions to each link in the value chain or indirectly by one link to another that participates in the value chain. The value chain, therefore, encompasses the use of inputs such as land, labour, seeds, fertilizers and pesticides, part of which can be purchased with credit extended by other participants in the value chain (e.g. input traders) or by credit extended by pure creditors like banks. A joint product of credit and other products could be instrumental in mitigating the issues of high transaction costs of small value denominated loans and the credit risk of lack of effective collateral of small farmers. Thus, farmers have access to finance through increased credibility with institutions and breaking age old problem of mortgage which used to make agriculture a risky business. This paper is an attempt to identify successful models of value chain financing and to analyse the way forward.

KEY WORDS : Value chain, Rural finance, Market linkage, Sustainable rural development

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