

# **Agri Value Chain Finance Guide for Small Holder Farmers**

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# Background : Why Value Chain finance ?

Reduce  
Information  
Asymmetry

## Knowledge Based lending

Leverage Info available  
with off takers

- Crop Specific  
Customer Profiles
- Region culture /
- Market information

Lower  
Operating  
Cost

## Economic Density readymade

- Created by the VCF  
partners
- Build Payment  
Systems around  
them
- Shared monitoring &  
supervision Data /  
early warning

## Key Challenges in a Value Chain

- **Side Selling Risk** : determine the level of tightness in the VC . i.e. the legal , Social, motivation for farmers to stay loyal.
- **Entry Point** for the bank : Where does the power center of the value chain rest between the Processor, Aggregator and Farmer
- **The sustainability** of the Value chain , in terms of industry growth, product demand and strength and processes of VC partners.
- Finding the right **Geography** to operate in for a specific product
- Benchmarking **best practices** across VC's of different products.

## Why the Seed Industry ?

In 2012 HDFC Bank came upon seed company's looking for

- Payment solutions
- Off-balance sheet transactions for advances made to Seed Organizers (aggregators) followed.
- The bank currently works with 9 Seed Company's and their 1450 Seed organizers
- The next logical step for the bank was to take credit to the Farmers
- Challenge : how to select the best VC within the seed industry
- There was a requirement for a deep understanding of the dynamics and processes of the industry

## Mapping the Seed Industry

- 25% seed requirements met by the organized sector ,
- Growth rate ranges from 15 to 25% depending on the varieties
- Govt. Co's account for 40% of the volume, Pvt. Sector 60% which includes Local Company's, National Players , MNC
- Varieties include OPV, Hybrid & 1 GM variety.

## What was done

- Desk research on emerging trends in the development in Agriculture
- Deep dives were conducted at field level on Farmers , Organizers
- Meeting Company officials at different levels

Objective : To assess the risk at each level & scope the financing needs for product design

**Key Finding1 : Hybrid seed production offers a tight value chain**

- Operates in a highly controlled environment
- The process being very meticulous, requires a high level of technical support
- Companies keep a tight watch on output to prevent proliferation

**Key Finding 2 : Seeds with good potential and demand targeted ( Maize, Rice and Cotton and vegetables are products that can be targeted)**

- Products enjoy good demand growth
- Significantly higher revenues for the farmers compared to other crops
- High farmer loyalty
- Low risk of failure
- Potential to finance ( **lack of credit identified as a major pain area as advances offered by the SPOs / Companies do not cover total needs** )

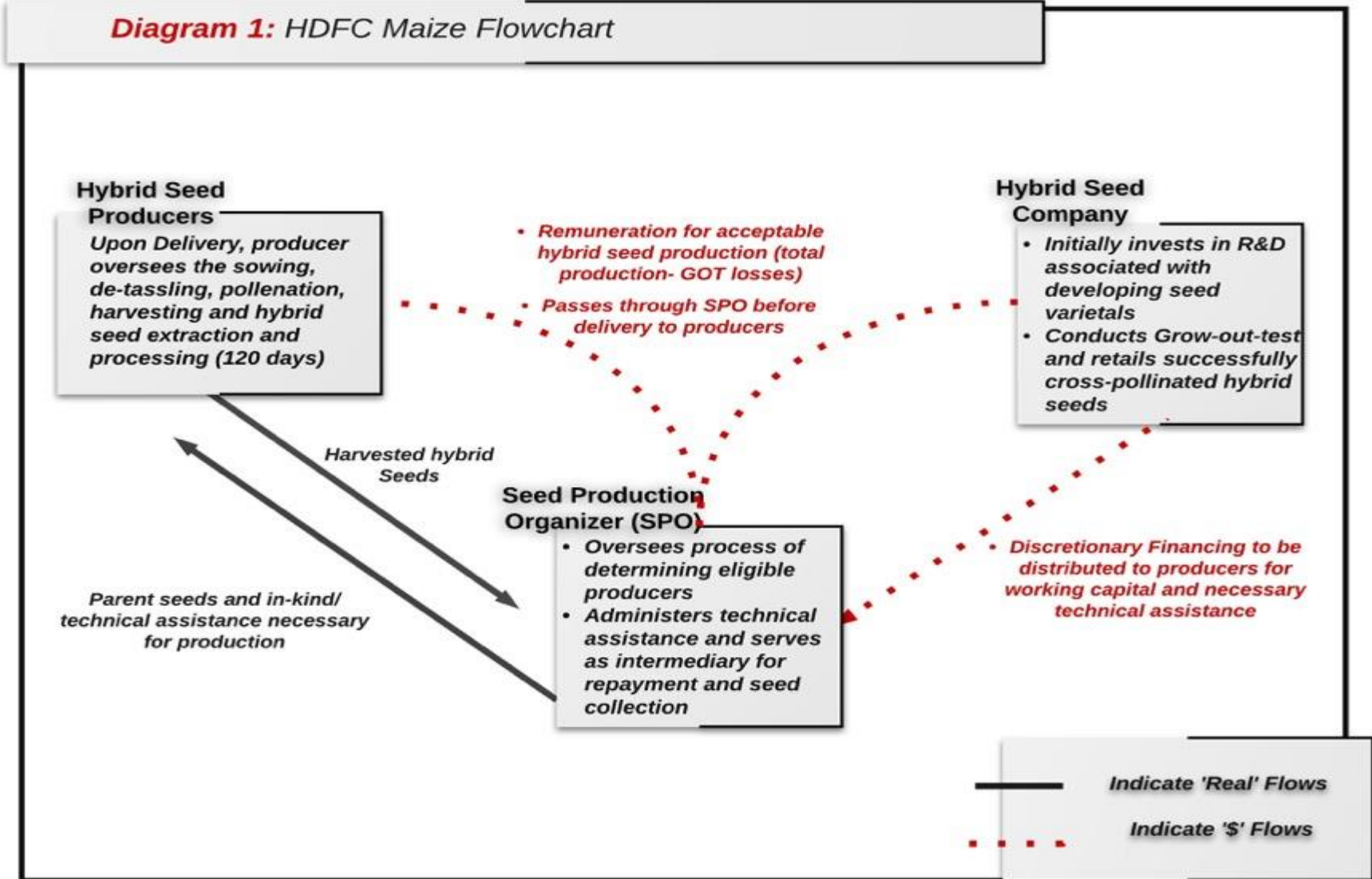
**Key finding 3 :** SPOs have a lot of power in the value chain, they play a critical role in balancing out risks for the company and farmers alike and put their reputation at stake

- As demand grows, their own means to provide advances to farmers get limited and a “first loss” product fits well into the scheme of things

**Key finding 4:** MNC companies exposed to Global systems are more committed to the entire value chain, but are willing to remain dependent on the SPO to manage the farmers.

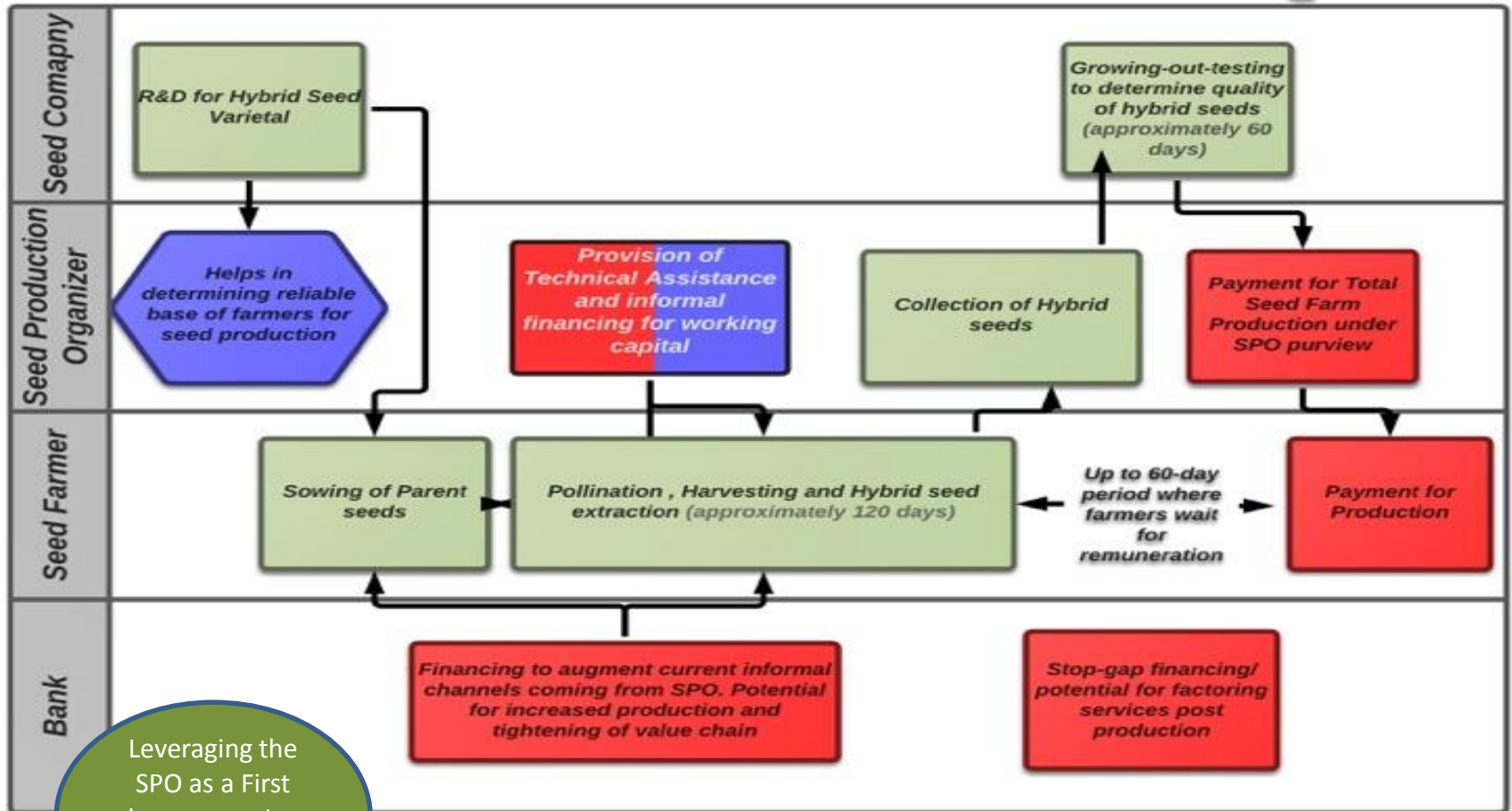
# Process for Hybrid Seed Production

**Diagram 1: HDFC Maize Flowchart**



- Processes
- Information
- Finance

## Hybrid Seed Flow Chart



Leveraging the SPO as a First Loss guarantor and increase credit flow

## Major lessons learnt

1. Farmers loyalty is very high due to availability of technical support and stable markets . In the seed industry a vintage of 10 or more years to a particular value chain is common
2. Versatility of the aggregator to manage a large farmer base for the company take on the risks associated with the farmers, provide farmers credit and payments when there are delays from the company
3. Many companies have paper contracts with farmers, but there is not much evidence of building a robust traceability system for sustainable practices

## Next Steps

- Credit Program development for Collateral Free lending to select Hybrid seeds
- Working with 4 of the existing Company names in the initial phase and targeting around 40,000 farmers through their respective SPOs
- The existing exposure of the bank to SPOs is based on guarantees offered by the company and is limited to select advances.
- This product program will expand the scope of advances and thus the volume of credit to the existing Farmer – SPO combinations as well as bring in the other identified company's in hybrid seeds that don't work with Guarantees



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