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**INDIA**

## NOTE FROM THE FIELD

# Accessing Finance in the Litchi Value Chain

**A project of the USAID-funded Practitioner Learning Program helps rural Indian litchi farmers access financial services through strategic alliances and market linkages**



Photo courtesy The SEEP Network

An association of litchi farmers meets with EDA Rural Systems representatives.

*To encourage banks to reconsider rural lending in the area, EDA has worked with growers to help them demonstrate their demand for credit and willingness to be loyal and valuable customers.*

Providing access to finance to India's rural poor is challenging given the high costs and risk often associated with lending in rural areas. For the litchi market in the Muzaffarpur District of Bihar State, challenges like poor transportation, limited access to technology, and a lack of credit information and collateral are exacerbated by a spoilage time of approximately 48 hours of the litchi fruits if they are not refrigerated.

EDA Rural Systems (EDA) in India is aiming to overcome some of the obstacles faced by the rural poor in accessing finance. Acting as a market facilitator, EDA is developing financial models to help increase access to finance through strategic alliances within the litchi value chain and external to it (through microfinance and rural financial institutions). Based on a litchi value chain assessment conducted in 2005 in Muzaffarpur, EDA developed three models to increase access to finance for litchi farmers:

1. Banks lend to litchi fruit grower associations.
2. Banks lend to litchi processors, pre-harvest contractors, and wholesalers of litchi fruits, who then lend to litchi growers.
3. Rural credit agents in villages link litchi growers and banks.

These approaches benefit all of the litchi value chain actors involved, from farmers who need finance for inputs such as irrigation, fertilizers, and insecticides to processors who need access to credit to more easily transport litchi fruits and pay advances to the litchi growers. Although early in the process, EDA is already beginning to find success with these models.

With a traditional repayment rate of only 60 to 70 percent, it is difficult to get banks interested in increasing their flow of finance to rural areas. To encourage banks to reconsider rural lending in the area,

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EDA has worked with growers to help them demonstrate their demand for credit and willingness to be loyal and valuable customers. Working with the State Bank of India (SBI), a bank with whom EDA has a solid reputation thanks to prior work in the honey subsector, EDA has submitted loan proposals from litchi grower's associations.

This model has led to the development of 51 litchi growers' associations, consisting of 15 to 25 growers per group, all of which now have direct lending agreements with local banks. SBI has disbursed 27 loans for new litchi plantations. Three additional commercial banks and one insurance company have all shown interest in financing litchi growers.

Beyond these direct bank-grower linkages, EDA has also facilitated finance linkages within the value chain. Finding that banks are not the only ones that can provide growers with greater access to finance, EDA has identified 20 pre-harvest contractors and five processors who will pre-finance litchi growers to have assured procurement of litchi fruits at the time of litchi harvest.

Looking to ensure the sustainability of all of these financing relationships, EDA has identified seven individuals to serve as rural credit agents. These agents will provide a link between the banks and the growers, helping growers develop loan proposals and helping the banks to identify good credit prospects. As they are from local villages, the agents can relate to the growers in a way the banks have not been able to. This approach has gained support from the District Developing Manager of NABARD, the country's apex agriculture

development bank, who says, "I see the need for such a rural credit agent model and the potential wider acceptance of this model by other banks."

*EDA is implementing one of seven projects participating worldwide in the 18-month, USAID-funded SEEP Practitioner Learning Program (PLP) in Strategic Alliances for Financial Services and Market Linkages in Rural Areas. This program explores and tests ways of using strategic alliances in rural areas to facilitate access to a range of financial and nonfinancial services and solutions that help microenterprises better integrate into growing markets, creating economic growth and wealth in poor, rural communities.*

*For more information on this program, please see the following publications at [www.seepnetwork.org](http://www.seepnetwork.org):*

*1. Lillian Diaz Villeda and Jennifer E. Hansel, "The Missing Link in the Value Chain: Financing for Rural Farmers and Microenterprises," Conceptual Note no. 1, The Practitioner Learning Program in Strategic Alliances for Financial Services and Market Linkages in Rural Areas, The SEEP Network and USAID, October 2005.*

*2. Lillian Diaz Villeda, et al. "Rural Finance for Value Chains Quarterly," Vol. 1, no. 1, The Practitioner Learning Program in Strategic Alliances for Financial Services and Market Linkages in Rural Areas, The SEEP Network and USAID, October 2005.*

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