# How can Value Chain Finance promote CSA adoption

TUM-CCAFS Webinar "Applications of agricultural value-chain finance: a global perspective", Technical University of Munich

18 December 2020, Cor Wattel, Wageningen Economic Research


WAGENINGEN
UNIVERSITY & RESEARCH

# Relevance of VCF for smallholder farmers

- VCF is a risk management tool, creates comfort, quite important in absence of securities in many developing countries, and with limited physical outreach networks of financial institutions in rural areas.
- But: target group is quite exclusive and limited: only 7% of smallholder operate in tight VCs, and another 33% in loose VCs! (CGAP 2013).
- Credit from VC companies is approx. 30% of all smallholder finance (Dalberg 2016)
- VCF uses classical bank methodologies (Agrifin Bankers Guide to AVCF, 2016); the art is in the application to a development context.

# Two mechanisms for link between finance and CSA adoption

1. Through supply chain responsibility of the VC companies (induced by CSR, certification, DFI financing, etc.) (see Oostendorp et al, 2019)
2. Through farmers’ voluntary adoption of CSA practices (R.Ruben et al 2019)
    - Direct link finance > CSA adoption
    - Indirect link finance > expenditure effect > CSA adoption?
    - Behavioural link finance > risk behavior > CSA adoption

# Credit and CSA adoption

- Credit – CSA link has mixed evidence:
  - Depends on investment profile of CSA (bulky investments? C/B risk profile) – f.i. effect of finance on adoption of Soil & Water Conservation more researched
  - Constraints on the demand side (do farmers wish to invest money in CSA? Risk attitudes & time preferences)
  - Positive or negative effect?