

**Keynote Speech by Governor Dr. Yuba Raj Khatiwada at
Nepal National Policy Dialogue on Agricultural Value Chain Finance
3-4 September 2013 (Dhulikhel, Nepal)**

Chairperson of the Opening Ceremony
Distinguished Resource Persons
Dear Participants

It is my pleasure to participate in this policy dialogue and share my views on Agricultural Value Chain Finance in Nepal. I am personally very glad to know that APRACA FinServAccess project is being implemented very soon in Nepal. I am confident that the project will be successful in achieving its goals and help in the sustainable development of agriculture in the country.

Agriculture sector is most crucial for inclusive and sustainable economic growth in Nepal. As this sector presently contributes more than one-third to the country's gross domestic product (GDP) and employs more than two-third of total labor force, economic growth of the country is largely determined by the performance of the agriculture sector. Moreover, a better performing agriculture is instrumental in promoting rural jobs, improving trade imbalance, reducing poverty and fostering equitable distribution of income. Intervention of agriculture financing in value chain leads to achieve inclusive growth and reducing rural poverty of Nepal.

I need not say that agricultural value chain financing is a means to transforming subsistence agriculture into a commercial one and thus raising income and creating employment opportunities of small farmers and agribusiness enterprises. As such, agriculture value chain finance is a strategy to intervene in different points of the value adding production process, namely (i) financing for the agricultural inputs, (ii) financing SME types of agribusiness, (iii) financing for large agro-based industries, (iv) financing for marketing to the retail vendors and (v) financing for extension services. The main categories of financial instruments commonly used in agricultural value chain finance include: (i) product financing (trader credit, input-supplier finance, marketing and wholesale company finance, lead-firm financing) , (ii) receivables financing (trade-receivables finance, factoring, etc), (iii) physical-asset collateralization (warehouse receipts finance, repurchase agreements (repos), lease-purchase), (iv) risk mitigation products (insurance, forward contracts, futures), and (v) financial enhancements (securitization instruments, loan guarantees, joint-venture finance, etc). As Nepalese financial market in general and rural financing in particular does not have most of these services and their instruments, it is necessary that initiatives are taken to this direction. The proposed project FinServAccess should be instrumental in developing such services and instruments.

Distinguished Participants,

Agriculture value chain finance (AVCF) is important at least for two reasons: first, a smooth AVCF enhances the efficiency of value chain and benefits the real stakeholder, through

safeguarding the small farmers, SME agri-businesses, and second, it intends to reduce the risks and cost of financing so that a favorable environment of agriculture financing is created. Major stakeholders of agriculture value chain finance (AVCF) like concerned government ministries, financial market regulators like the central bank, insurance board, securities exchange board, cooperatives department of the government, and financial system actors are to be in one place as the major agents of the AVCF. Particularly ministry of agriculture has to be there for policy and program formulation; ministry of finance for financial resource allocation to develop infrastructure in the agriculture value chain; ministry of commerce for distribution and exports, and ministry of industry for promoting processing and linking farms to industry. Other actors such as banks and financial institutions must be confident towards sound debt servicing of the stakeholders involved in the agriculture value adding processes. Banks financing through various points of agriculture value chain depends upon the policy provisions as well efficiency of the market forces in such a manner where the producers including the small farmers are assured of the purchase of their product by another actor of the value chain. The role of insurance companies is found crucial to manage risks and build up strong mechanism of agriculture value chain finance.

We have observed that many Asian and South Asian countries like India, Indonesia, Laos, Philippines, Thailand, Vietnam etc., are involved with the value chain financing through which they have succeeded to develop agriculture sector satisfactorily and thereby improve the status of poor and middle income farmers. Presently, some donors like ADB, IFAD, SNV are involved with the value chain financing on agriculture and rural development in Nepal. In this regard, ADB-supported project on Raising Income of Small and Medium Farmers Project (RISMFP) is at the implementation phase in the Mid-Western and Far-Western regions of Nepal since 2011. The main objective of this project is to support for increasing production of high value agro-commodities by small and medium farmers through reduction of market and business risks involving with value chain practices. NRB itself is one of the implementing stakeholders of this project.

Talking about government of Nepal policy responses on agricultural financing and development, the Nepalese government is in the process to implement its recently formulated Agriculture Development Strategy which also focuses agriculture value chain. The concept paper of the 13th 3-year Development Plan (2013-2016) also targets to grow the agriculture sector by 4.5 percent per annum during the plan period and focuses on commercialization of agriculture to achieve the growth target. The government has also recognized that financing of the agricultural value chain is essential to enhancing their sustainability and contribution to rural development.

However, there are several challenges to agriculture value chain financing in Nepal. First, there are policy lapses - there is lack of clear cut policy for providing the framework for agriculture value chain financing. Second, there is the absence of SME's in the value chain. Third, there is poor marketing infrastructure - marketing of products in an organized manner is handicapped by small units of production and fragmented market places. Fourth, there is gap in risk management - most of the clients have no collateral and thus are taken as a credit risk. Further, agriculture insurance is not sufficient and accessible to the real agribusinesses. Finally,

extension of financial services is critical - financial institutions are not willing to provide services in remote and rural areas due to lack of information and services.

Distinguished colleagues,

Allow me to speak a few words on how we are engaged in agriculture value chain financing. NRB has been heavily involved in agriculture and rural financing to bridge the financing gap. In this regard, the government, in coordination with NRB, has already unveiled the Micro Finance Policy in 2007. It basically aims at reducing poverty by the means of sustainable, easy and accessible micro financing services especially to the deprived/poor households and communities. Under the Deprived Sector Credit Program introduced by NRB in 1990, banks and financial institutions are required to allocate a specified percent of their total lending for the hardcore poor to involve them in various income generating activities. Recently, banks are also instructed to maintain 20 percent of their total credit to productive sectors by 2015 of which at least 12 percent has to be allocated in agriculture and power sector. With NRB initiation and in coordination with Insurance Board of Nepal, mandatory provision for agriculture insurance has also been made introduced. NRB has been actively involving in promoting agro-focused small and medium enterprises through refinancing mechanism.

NRB has also joined hand with the government to establish and manage a wholesale lending fund (Rural Self-Reliance Fund), which lends concessional fund to the cooperatives and the financial NGOs of rural areas for further lending to the deprived and poor households. The establishment of five rural development banks in five development regions during 1990s decade to do micro financing activities replicating Grameen model is another instance on NRB's commitment on enhancing access to finance for rural poor. NRB is also supporting the agriculture vs. rural development activities through its refinancing window.

Let me take this opportunity to thank APRACA for initiating FinServAccess Program in Nepal under South South Cooperation. Under the efficient leadership and effort of APRACA; Bangladesh, Cambodia, Myanmar and Nepal have got chance to launch the project "Enhancing the Access of Poor Rural People to Sustainable Financial Services Through Policy Dialogue, Capacity Building and Knowledge Sharing in Rural Finance" since 2012 onward. I hope this "National Policy Dialogue Forum on Value Chain Finance in Agriculture and Rural Development in Nepal" is one of the crucial steps of the mentioned program. I hope this two-day program would be able to draw effective policy inferences that will be applicable to APRACA-member countries to move ahead on agriculture and rural financing front.

Lastly, I expect this program to be more interactive touching upon some of the critical aspects of Nepal's rural financing framework. As we have multiple players in the rural financing guided by different laws and regulations, and as their interest rate structures are also different because of different costs of funds and operating expenses, this workshop may discuss on creating a level playing field among the rural financing institutions. Besides, the role of other stakeholders in the value chain could also be specifically identified. Linking input to agricultural production, agro-processing, marketing and distribution and exports of agro-products requires

more agencies besides financial institutions are involved in this process. NRB stands ready to support such programs in the days to come.

I would like to thank General Secretary of APRACA, the secretariat team, organizing members and secretariats from ADB/N and NRB for their untiring endeavors to organize such an important gathering and discussion in Nepal. I hope all the guests from APRACA member countries would experience the agricultural practices through field visits and enjoy the pleasant weather as well as our warm hospitality during your stay here in this beautiful place Dhulikhel.

Thank you.