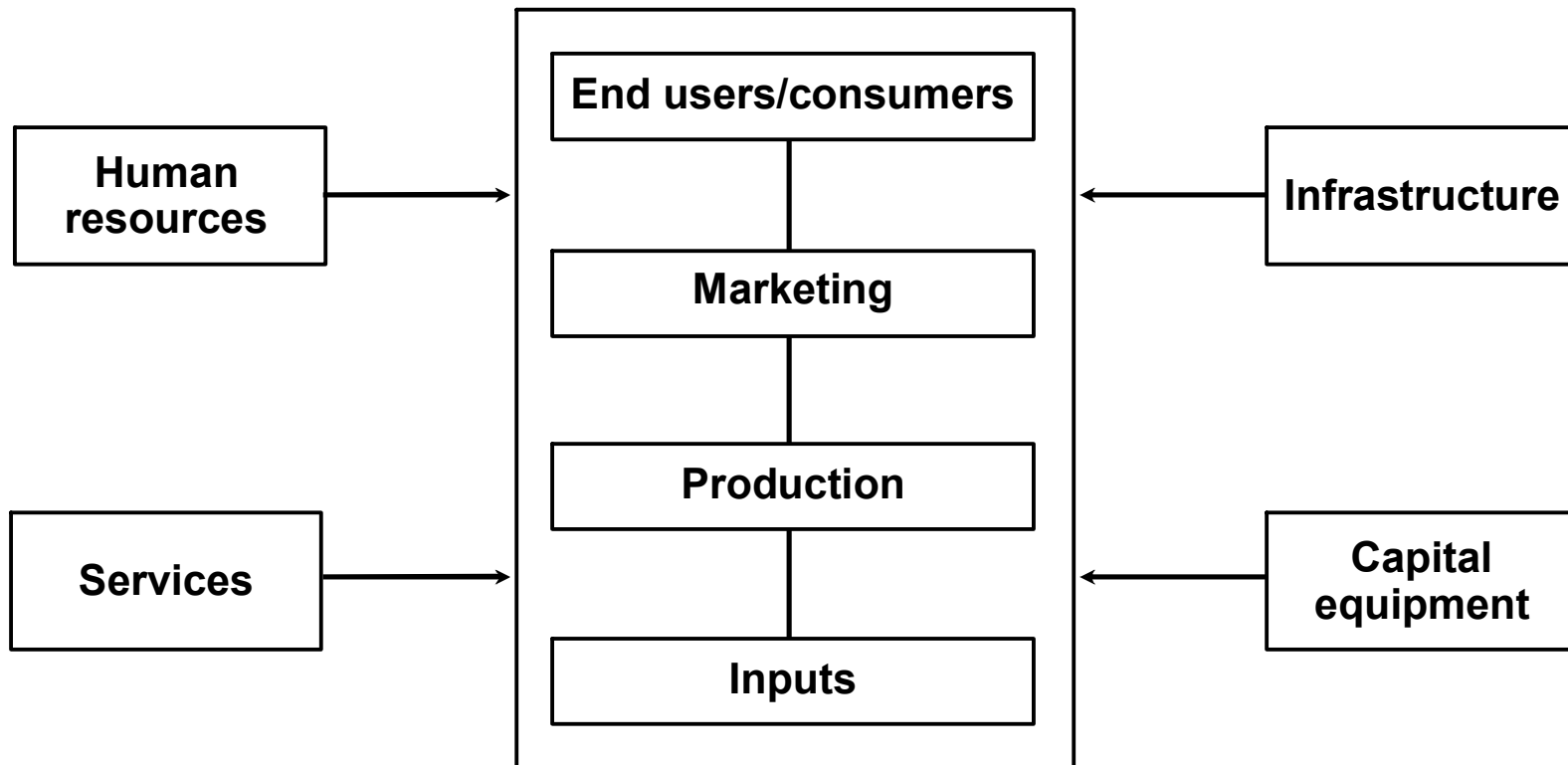


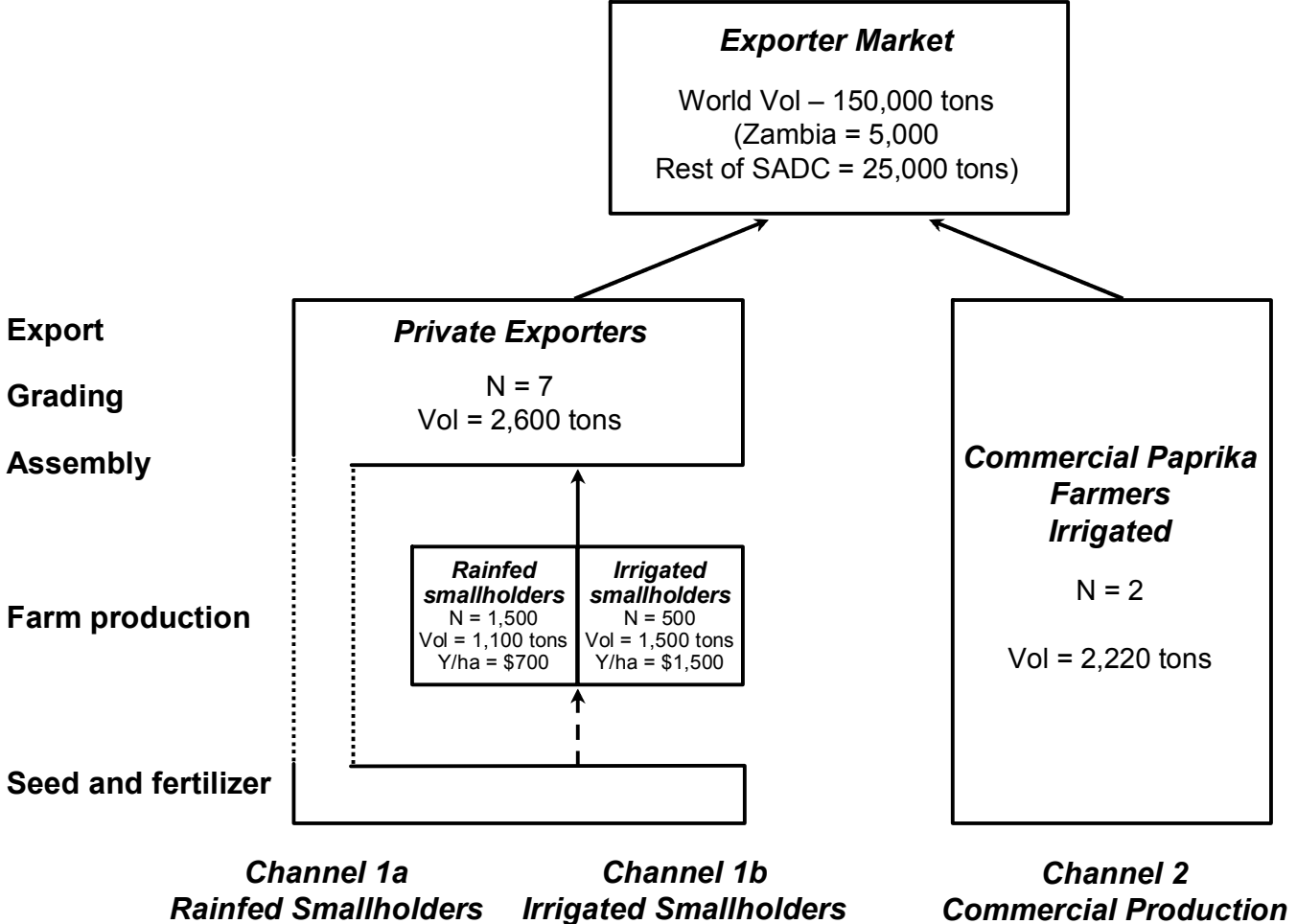
# **Analyzing and Financing Value Chains**

*Richard L. Meyer*

# Figure 1. Value Chain Concept

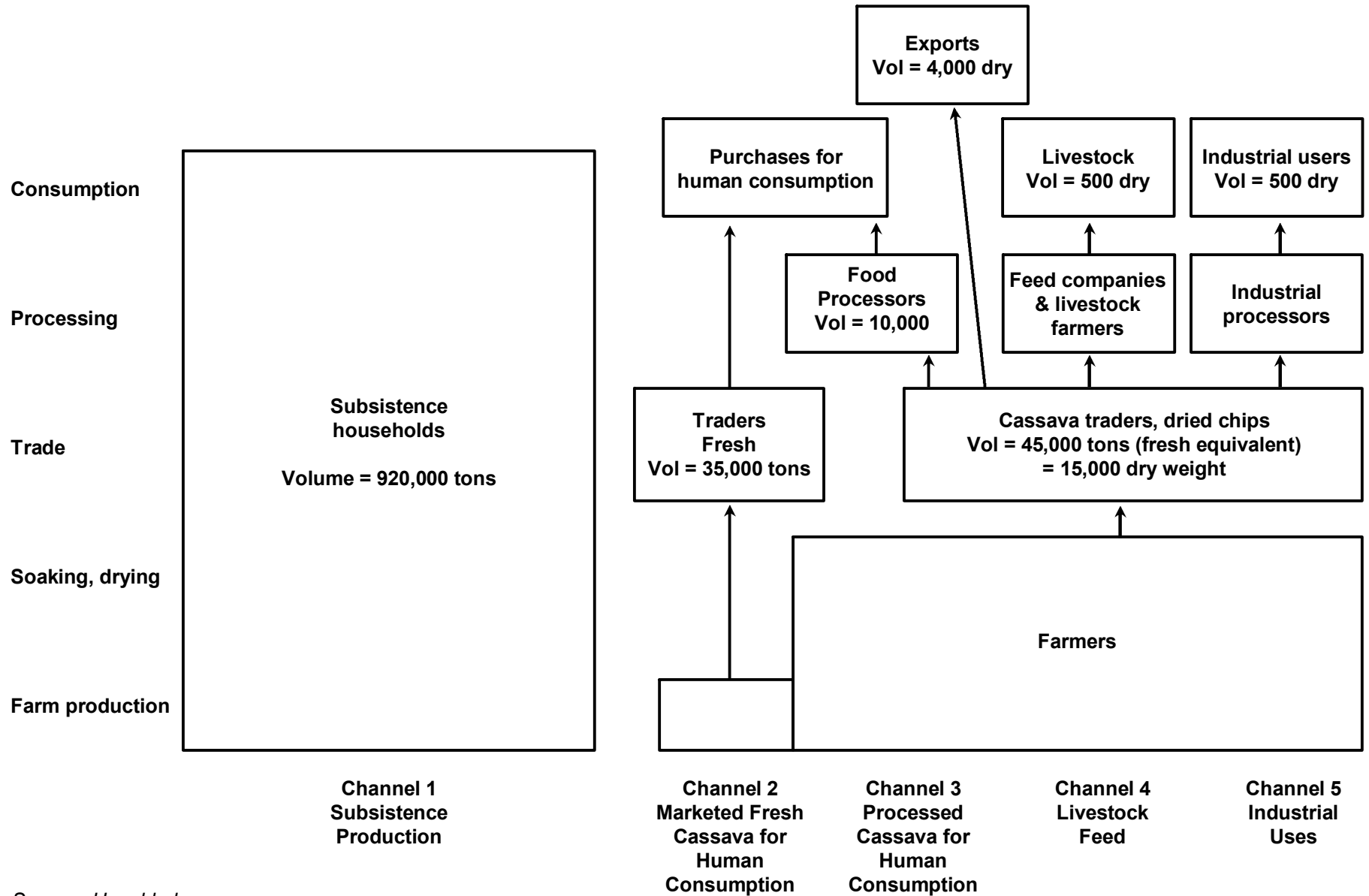


# Figure 2. Paprika Subsector in Zambia



Source: Haggblade

# Figure 3. Zambia Cassava Supply Chain



Source: Haggblade

# Topics being analyzed

1. Vertical coordination
2. Competition
3. Dynamics
4. Governance
5. Income distribution
6. Interventions

# Financial analysis of value chains

# Types of value chain finance

- Self-finance
- Direct informal within chain finance
- Indirect formal financial services from outside the chain

# Common problems of suppliers

- Information asymmetries (can and will borrower repay)
- High operating costs



# Common credit functions to be performed

- Client screening
- Client monitoring
- Contract enforcement

# Five analytical components of a financial lens

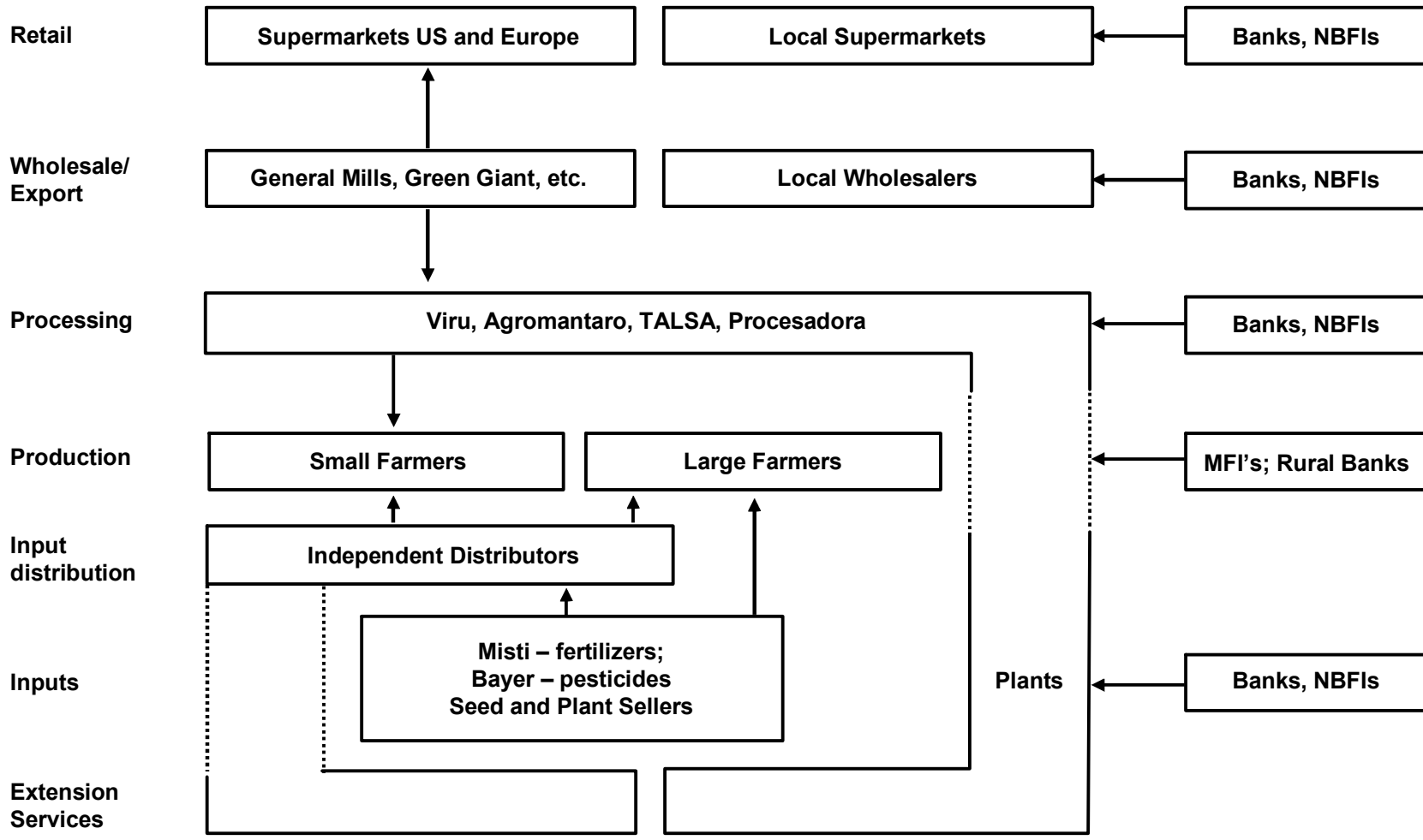
- Identify informal and formal financial relationships
- Outline key features of contracts
- Analyze how credit functions are performed
- Analyze legal systems, infrastructure, and social norms
- Identify possible interventions

# Three examples of a financial analysis of value chains

# Figure 4. Artichoke Value Chain, Peru

Functions

Formal Financial Links



**Key:** ↑ Financial links: who finances whom    □ Participant in value chain    ⋯ Broken line indicates skipped function

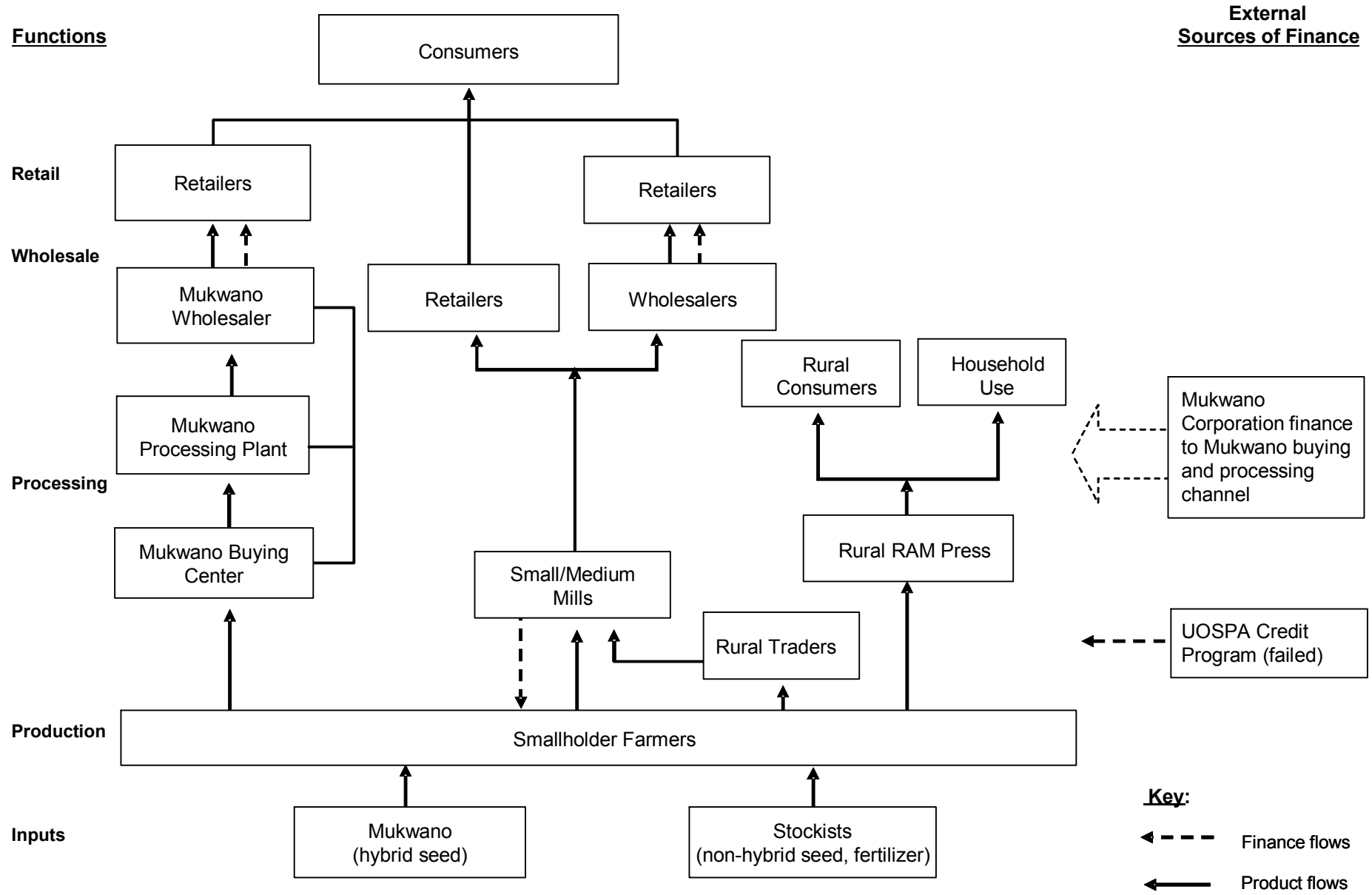
Source: USAID

**Table 1. Financial Patterns and Potential Demand for Finance, Artichoke Value Chain, Peru**

| <b>Value Chain Level</b>  | <b>Within Chain Finance</b>  | <b>Finance from Financial Institutions</b>                                  | <b>Potential Demand</b>                                       |
|---------------------------|--|---|---|
| <b>Retail</b>             | Receive supplier credit  | Bank loans, outside Peru  | None  |
| <b>Wholesale/ Export</b>  | Offer supplier credit to retailers<br>Offer contracts to processors  | Bank loans, outside Peru  | None  |
| <b>Processing</b>         | Contracts and advances for wholesalers<br>Offer supplier finance and technical services to producers                       | Short-term bank loans, 12% interest, 100% collateral                        | Medium and long-term investment finance for expansion         |
| <b>Production</b>         | Supplier finance and technical assistance from processor and input distributor   | Short-term NBFi loans, some facilitated by contracts, 2.5 to 3.5% per month | Medium to long-term credit or leasing to acquire fixed assets |
| <b>Input Distribution</b> | Offer supplier finance and technical services to producers<br>Receive supplier finance and volume discounts from suppliers | None  | Short-term finance  |
| <b>Input Supply</b>       | Offer supplier finance to input distributors and large producers   | Short-term bank loans, 12% interest, 100% collateral                        | None  |
| <b>Extension Services</b> | Processors and input distributors offer technical services to producers  | None  | None  |

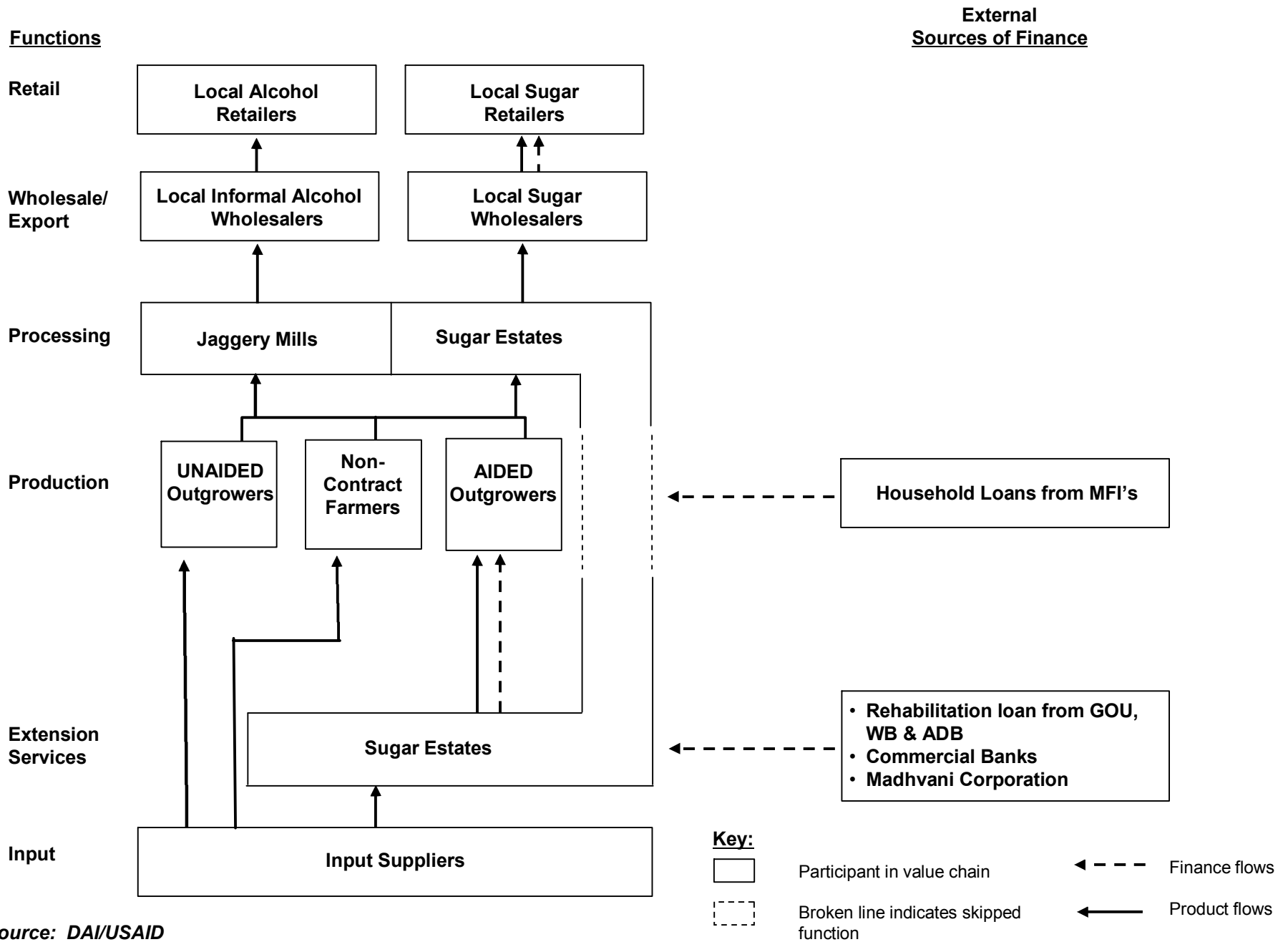
Source: Campion

# Figure 5. Sunflower Value Chain, Uganda



Source: DAI/USAID

# Figure 6. Sugar Value Chain, Uganda



Source: DAI/USAID

# Issues Raised

- Enforcing contracts (warehouse receipts)
- Alternatives for aiding small farmers
- Partnerships, alliances and linkages
- Capacity to sustainably reach large numbers (estimate profitability, cash flow analysis)



# CONCLUSIONS

- Value chain analysis focuses attention on priority interventions
- Encourages financial systems analysis as the logical next step