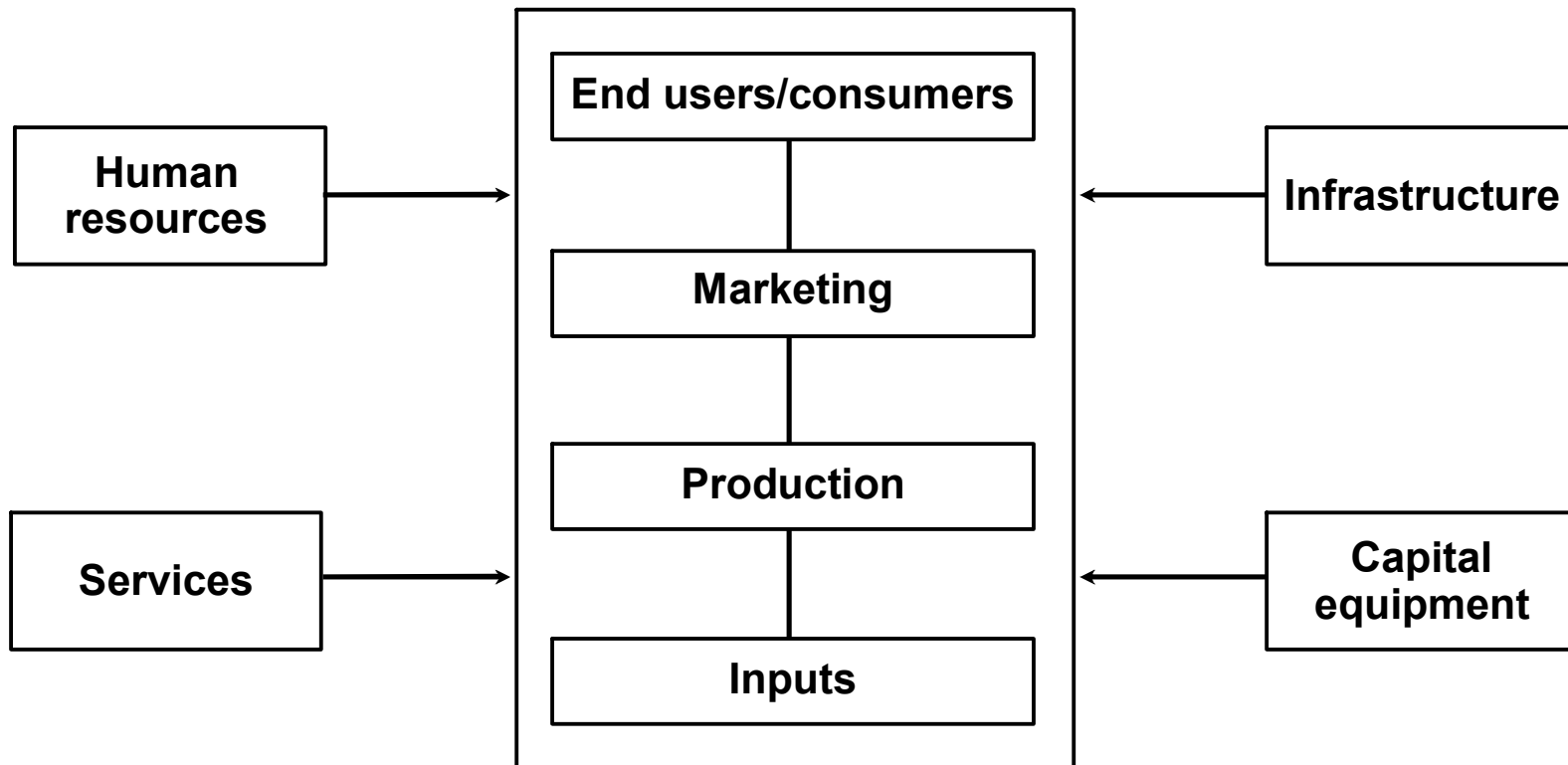


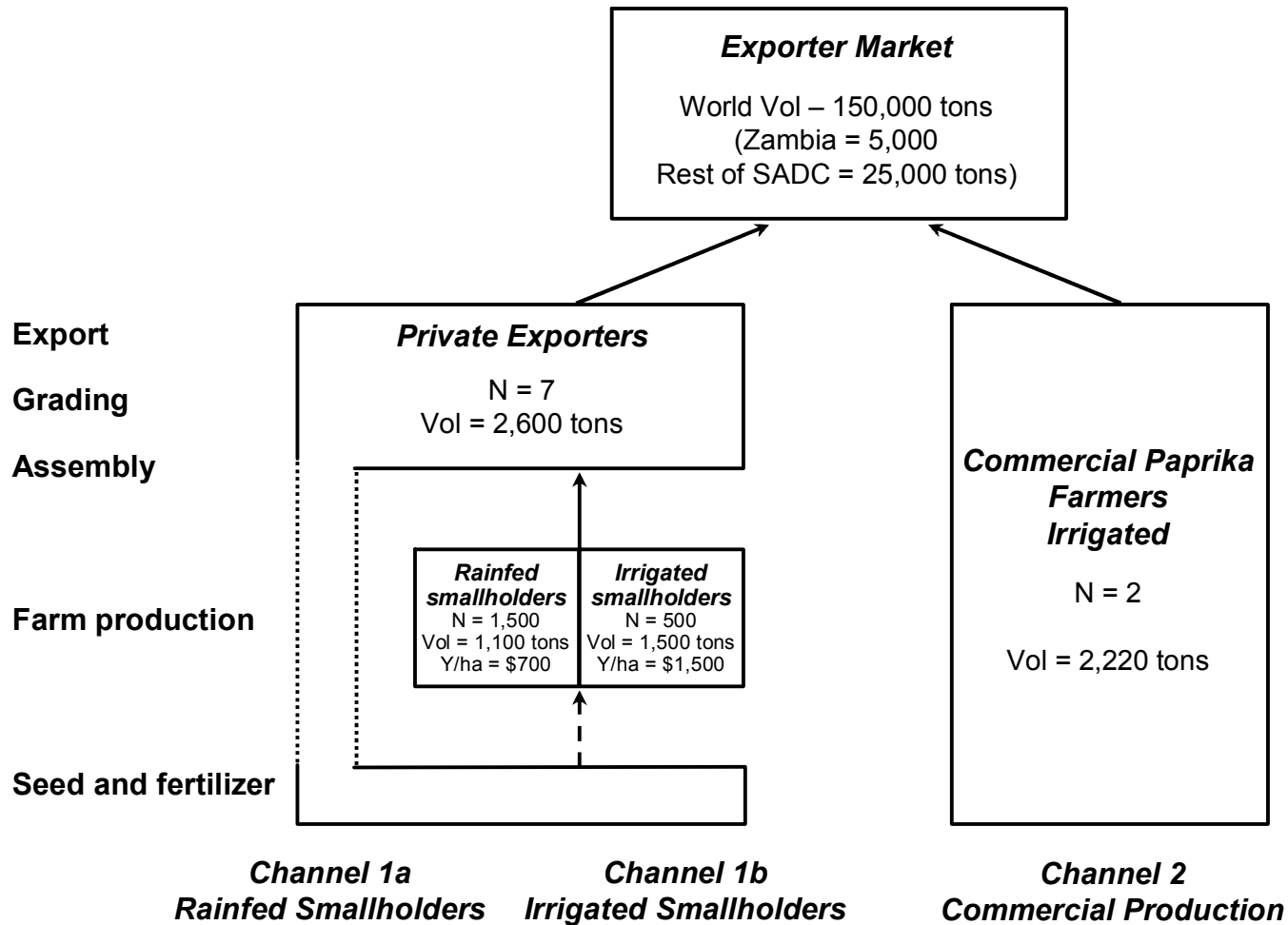
# **Analyzing and Financing Value Chains**

*Richard L. Meyer*

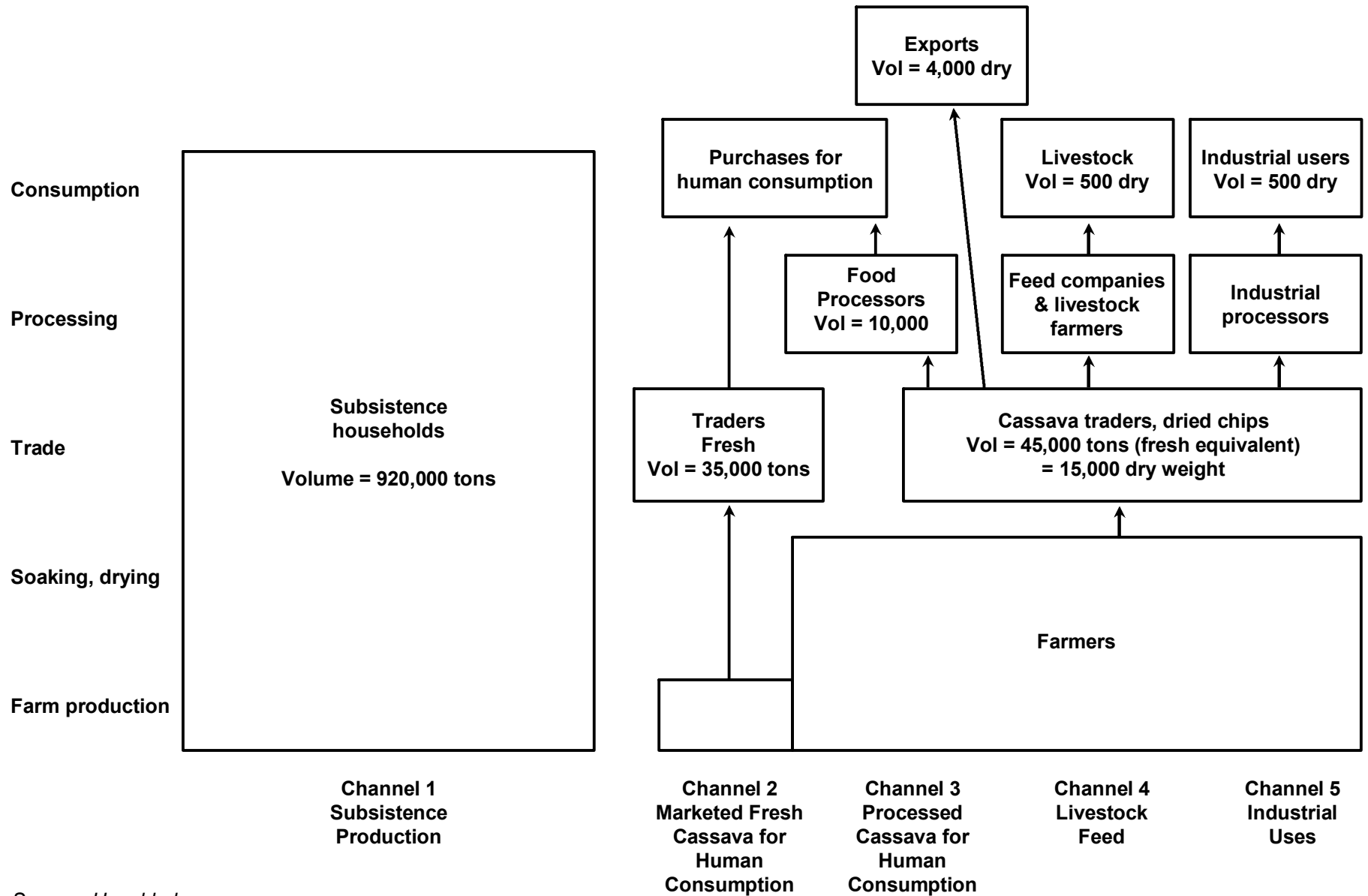
# Figure 1. Value Chain Concept



## Figure 2. Paprika Subsector in Zambia



# 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

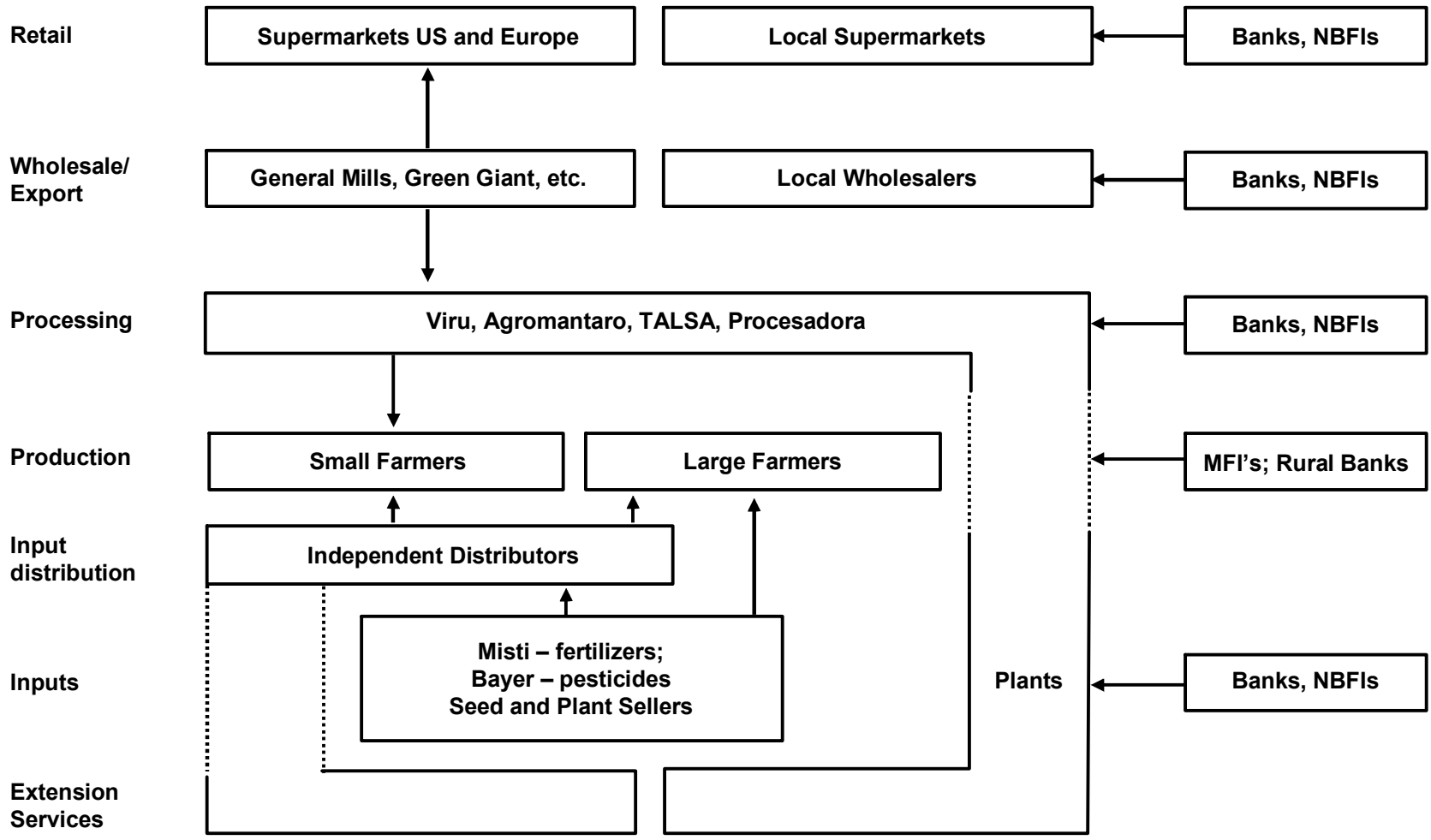
- Identify informal and formal financial relationships
- Outline key features of contracts
- Analyze how credit functions are performed
- Analyze legal systems, infrastructure, and social norms
- Identify possible interventions

# Three examples of a financial analysis of value chains

# Figure 4. Artichoke Value Chain, Peru

Functions

Formal Financial Links



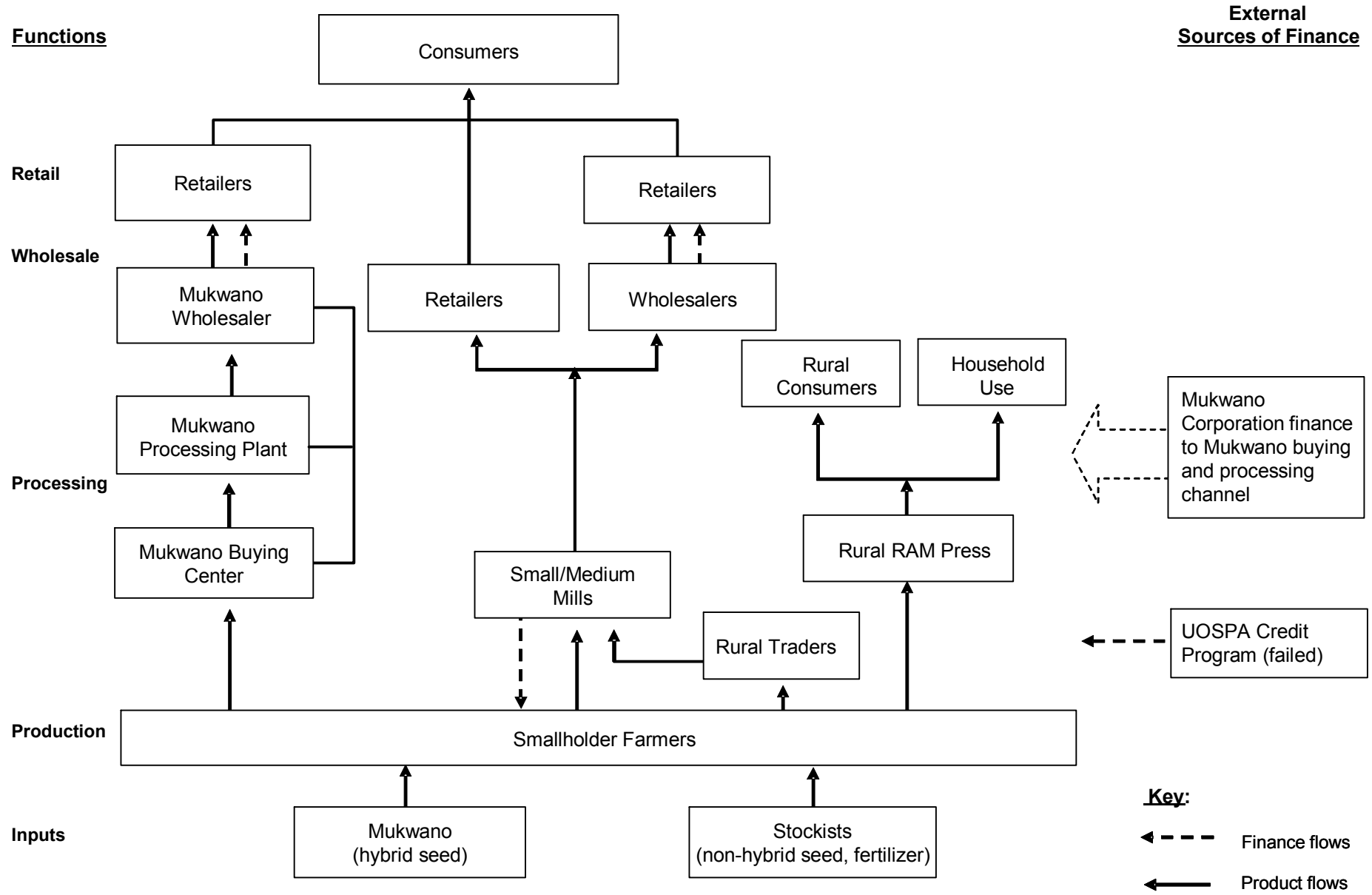
**Key:** ↑ Financial links: who finances whom    □ Participant in value chain    ⋯ Broken line indicates skipped function

**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 Offer contracts to processors	Bank loans, outside Peru	None
<b>Processing</b>	Contracts and advances for wholesalers 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 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

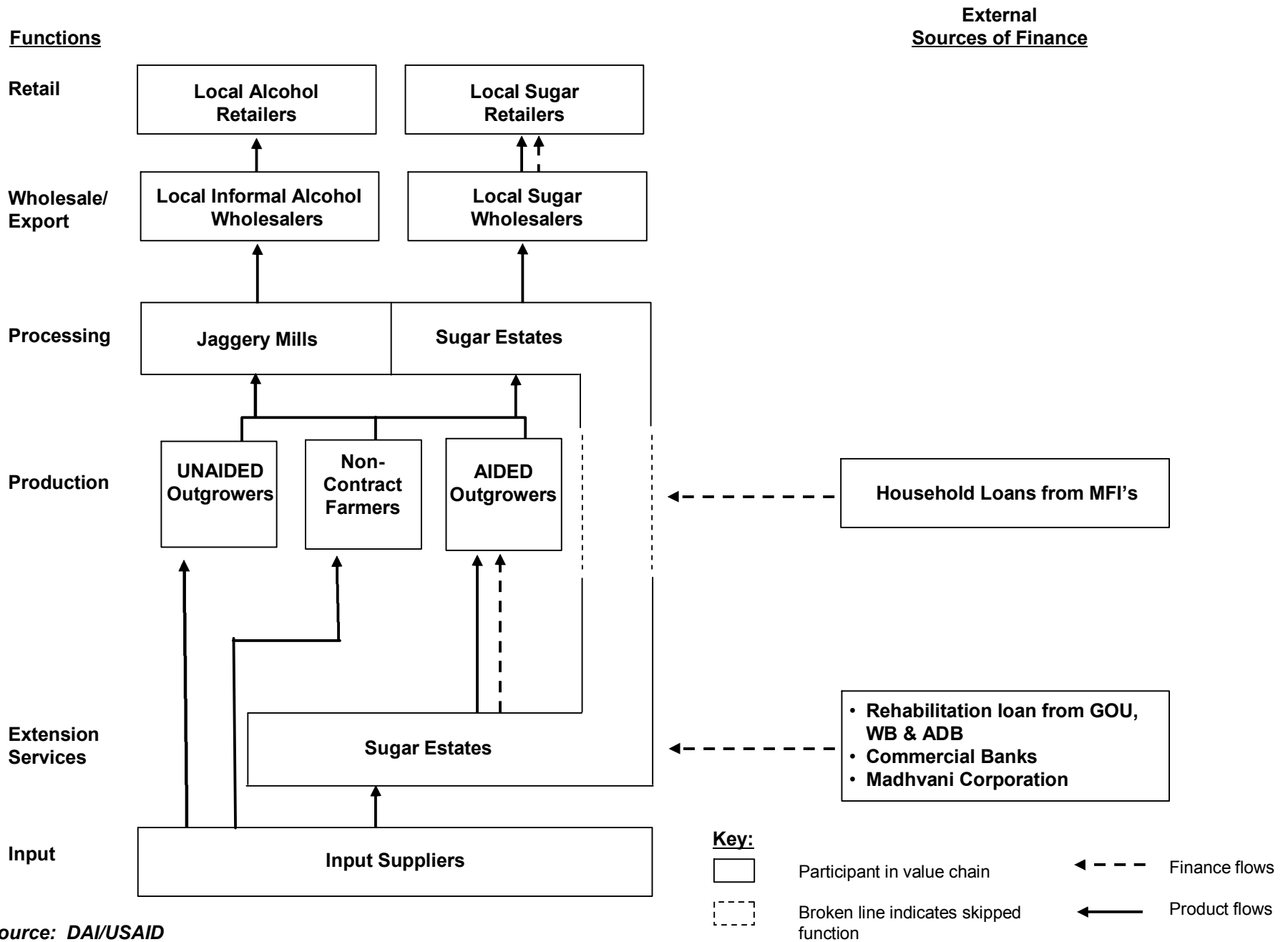
Source: Campion

# 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