

Value Chain Theory and Practice



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Rural SPEED
Rural Savings Promotion & Enhancement of Enterprise Development



Program

- Presentation and brief discussion of a value chain map for Sunflower.
- Using Analysis of Value Chains to identify risks and rewards to lenders.
- Group work mapping value chains and proposing financial products.



Sunflower Value Chain

Sunflower Value Chain Map

Based on small Northern Uganda farmers, typical bank financing, Processor and other input suppliers and Processor wholesale purchasing.

Category of transaction	Value (UGX/kg)	Value Added (UGX/KG)	Return on Investment	Months	Annual Return on Investment
1a. Input Supply Seed					
Hybrid Seed (transport and handling included)	(14.0)				
Commercial Finance (sourced off shore included above)	0.0				
Seed Price	14.0	0	0	1	0
1b. Other Inputs (Stockist)					
DAP	(19.5)				
Urea	(36.0)				
Round Up Herbicide	(6.7)				
Transport	(1.0)				
Handling	(0.3)				
Overhead (rent and utilities)	(0.5)				
Commercial Finance (1.83%/month + 2% Commitment Fee)	(1.3)				
Total Cost of Inventory	(65.3)				
Input Price	72.5	7.2	11%	1	132%





Sunflower Value Chain continued

2. Production					
Hired Labor	(84.0)				
Ploughing Services	(55.0)				
Purchased Inputs	(86.5)				
Total Costs of Production	(225.5)				
Farmgate Price	350.0	124.5	55%	4	166%
3. Transport and Handling					
Transport and Handling	(20.0)				
Trade Finance (prefinance from Processor)	0.0				
Subtotal Transport and Handling Local	(20.0)				
Total Farmgate, Transport and Handling Local	(370.0)				
Price in Store	400.0	30	8%	0.5	195%





Sunflower Risks and Opportunities

Transaction Point: Input Supply	
Risks	Opportunities
Retail price fall due to competition because margins are thin.	Short-term lending product of only one to two months to limit the exposure of the lender.





Sunflower Risks and Opportunities

Transaction Point: Production	
Risks	Opportunities
Production Inputs late/inadequate.	Short-term lending product of only one to two months to limit the exposure of the lender.
Farm gate price is below COP.	Forward contracting by major processors guaranteeing price and quantity prior to planting.
Loan term longer than production time.	Adjust the term of the loan product to match the seasonal production and marketing cycle.
Yield is lower than expected.	Pre-finance only a portion of the total COP.
Output may be side sold.	Lend only to producer where there is only one buyer for their product.
Financed inputs are misused.	Lend only to monitored producers.



Group Work

- Form four groups
 - Rice Production
 - Rice Processing
 - Tea Production
 - Tea Processing
- Group presentations

