

Analyzing and Financing Value Chains

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Figure 1. Value Chain Concept

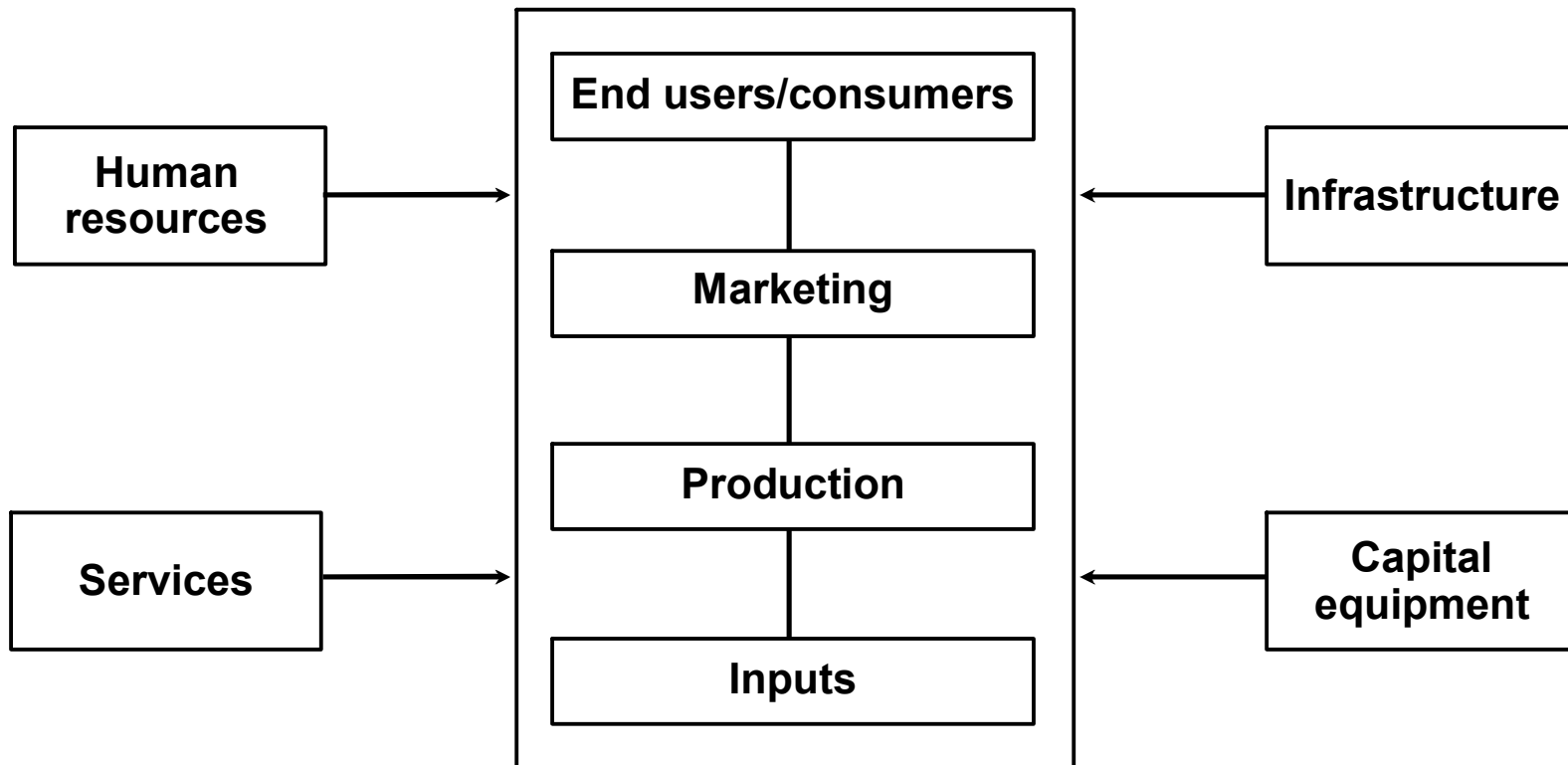
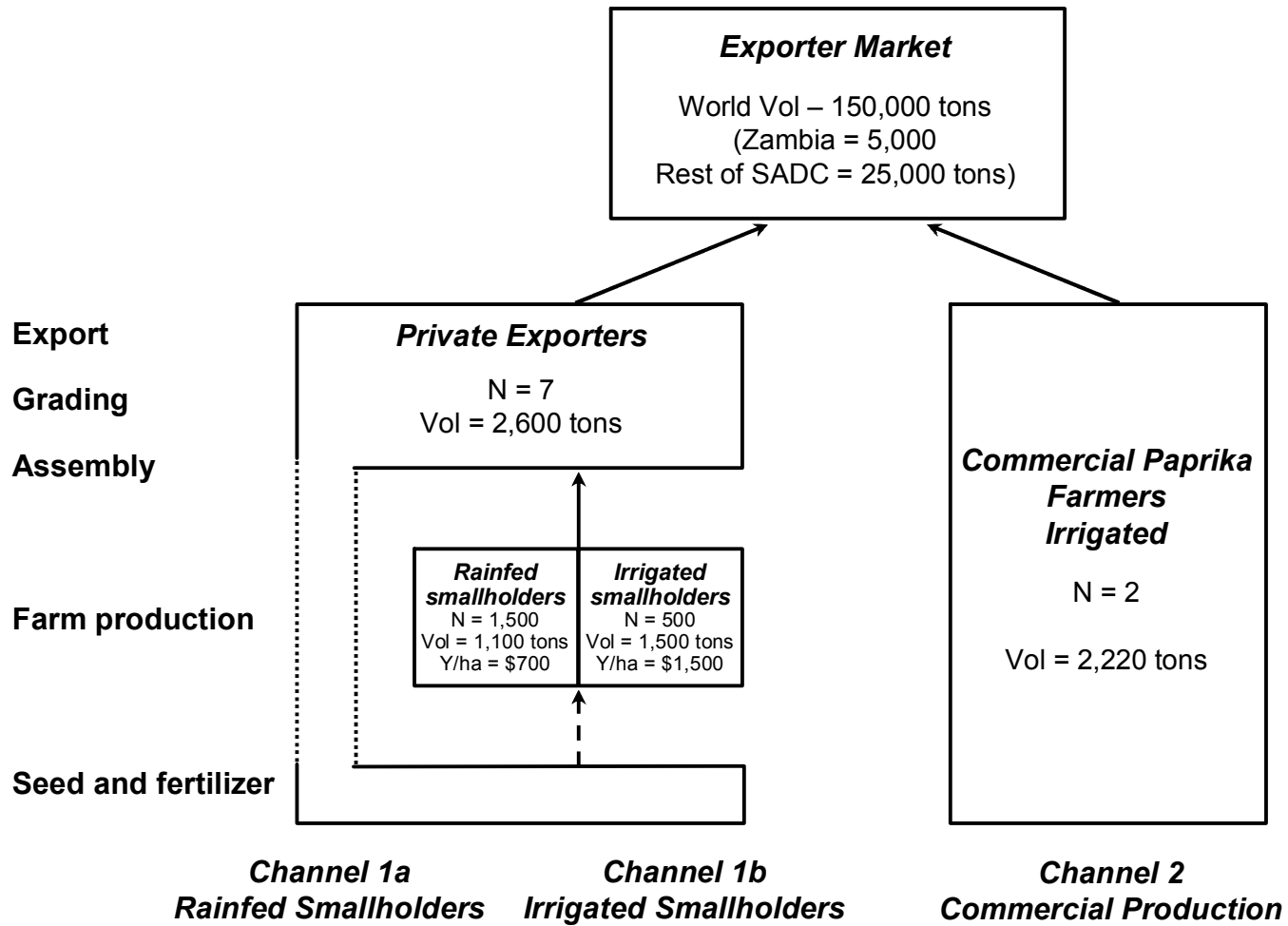
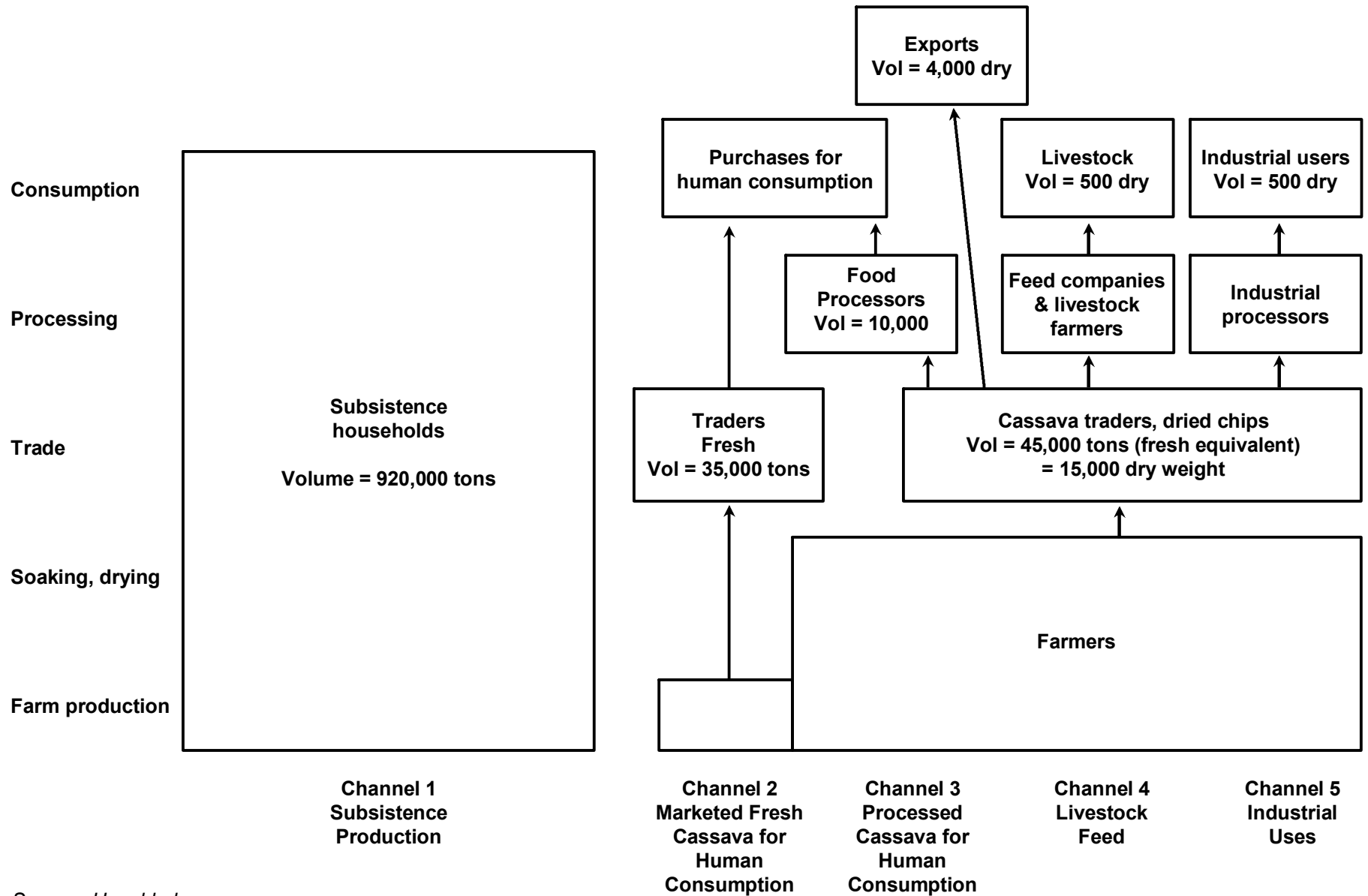


Figure 2. Paprika Subsector in Zambia



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

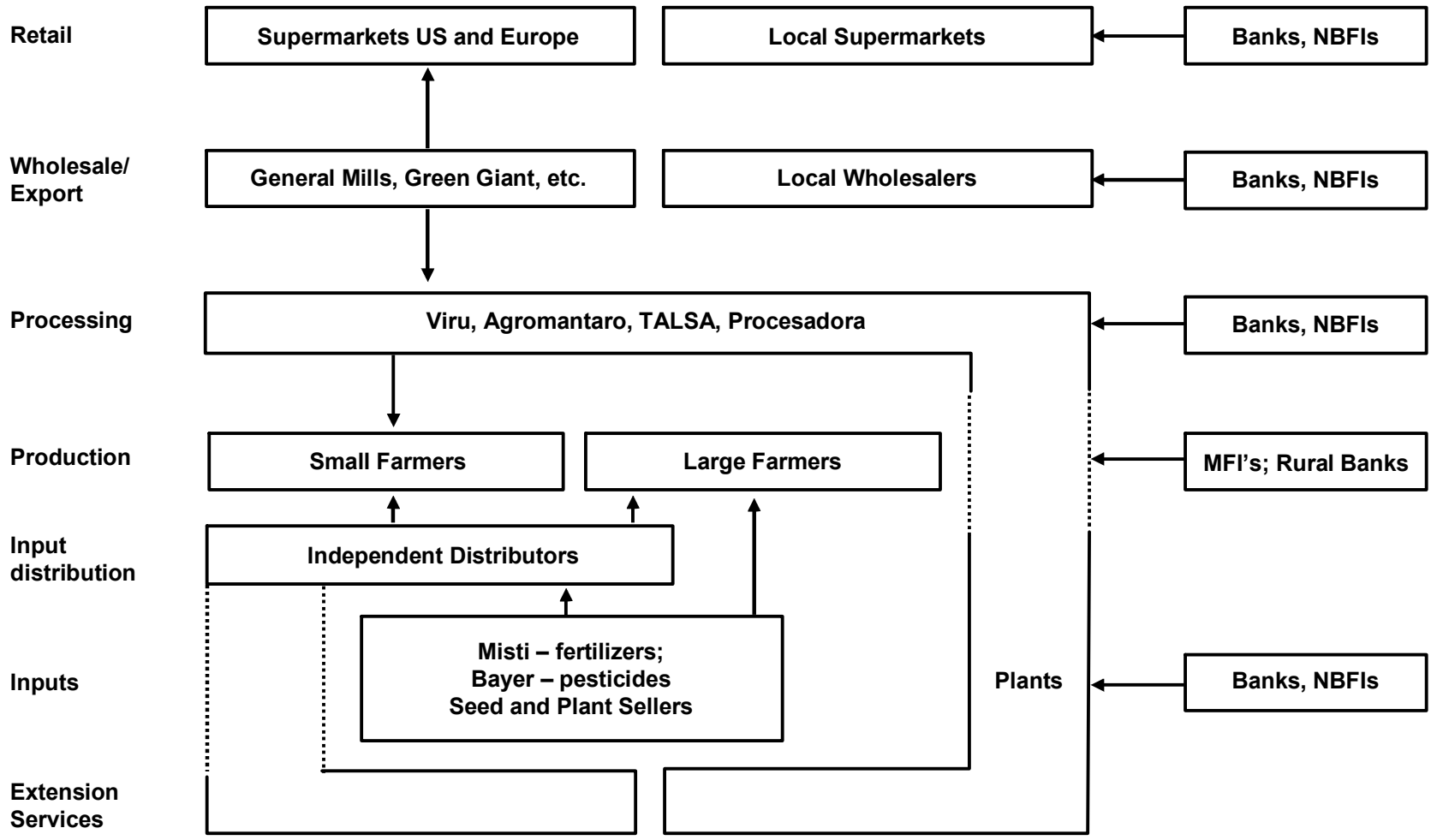
- Identify informal and formal financial relationships
- Outline key features of contracts
- Analyze how credit functions are performed
- Analyze legal systems, infrastructure, and social norms
- Identify possible interventions

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

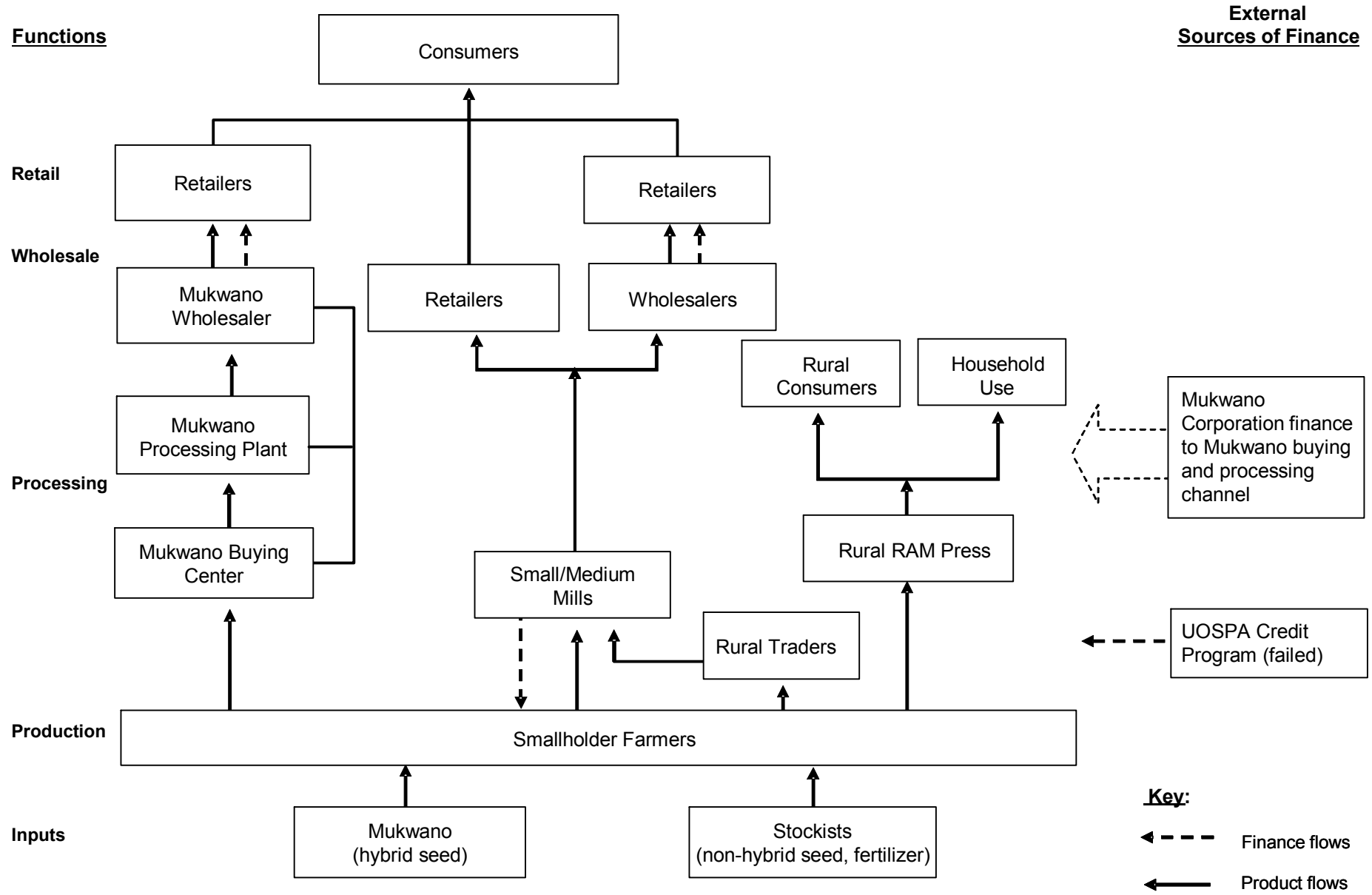
Source: USAID

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

Value Chain Level	Within Chain Finance	Finance from Financial Institutions	Potential Demand
Retail	Receive supplier credit	Bank loans, outside Peru	None
Wholesale/ Export	Offer supplier credit to retailers Offer contracts to processors	Bank loans, outside Peru	None
Processing	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
Production	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
Input Distribution	Offer supplier finance and technical services to producers Receive supplier finance and volume discounts from suppliers	None	Short-term finance
Input Supply	Offer supplier finance to input distributors and large producers	Short-term bank loans, 12% interest, 100% collateral	None
Extension Services	Processors and input distributors offer technical services to producers	None	None

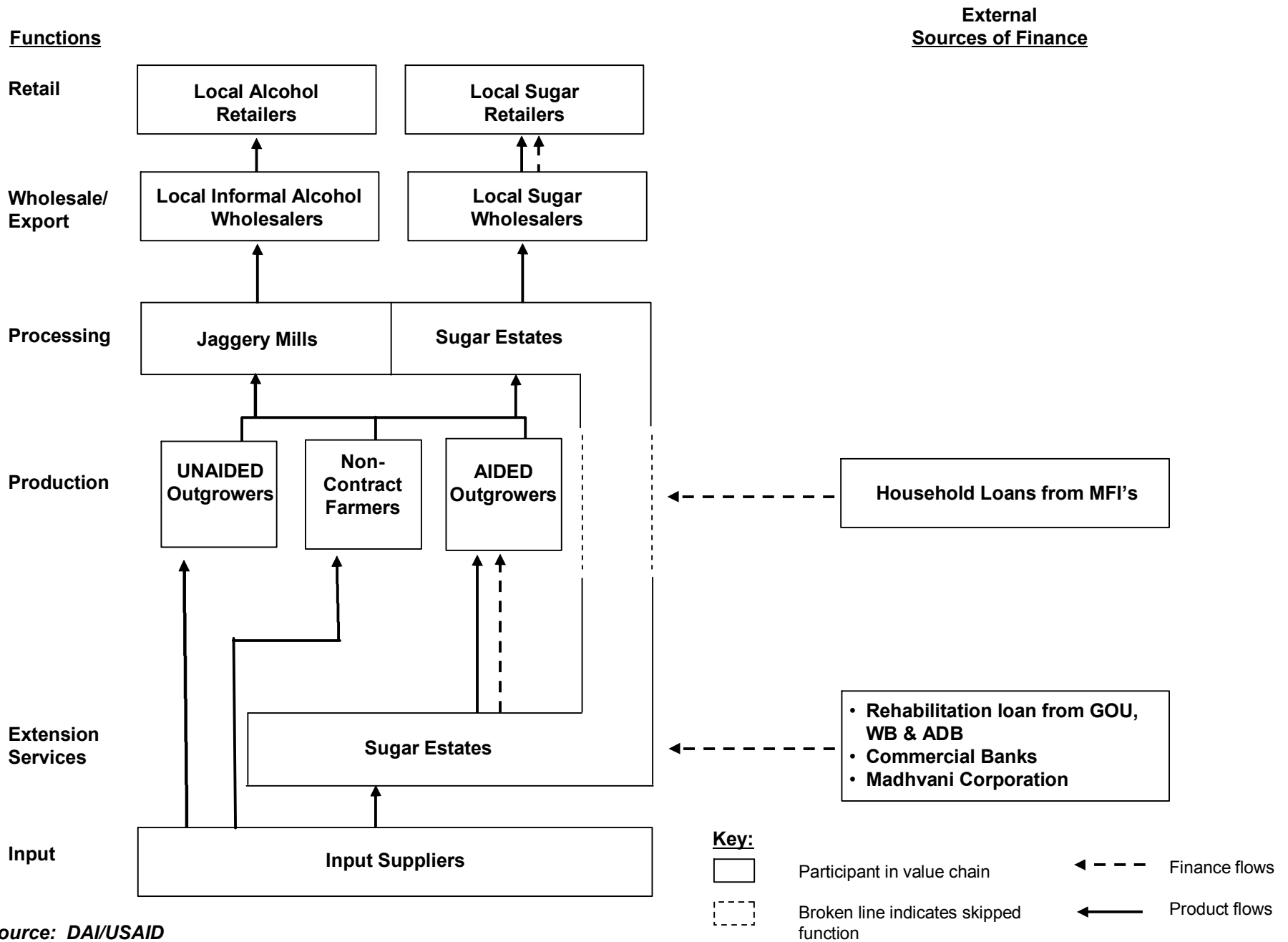
Source: Campion

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