THE VALUE CHAIN FRAMEWORK AND RURAL FINANCE

SEEP Annual Meeting

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ACDI/VOCA

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1. The Value Chain Framework is useful for expanding financial services and for developing enterprises.

2. Value Chain Finance is not new. It helps to fuel many enterprises. Can you believe it’s happened without us?

3. Financial institutions can learn from and engage more with value chain actors in order to develop new products and reach new markets.
WHAT IS A VALUE CHAIN?

- Global Retailers
- National Retailers
- Exporters
- Wholesalers
- Processors/Traders
- Producers
- Input Suppliers

- Sector-specific providers
- Cross-cutting providers
- Financial (cross cutting)
In assessing financial markets...

The greatest distinction between value chain and financial sector approach occurs at the core levels:

- Clients
- Retail Providers
WE OFTEN THINK ABOUT FINANCING VALUE CHAINS VIA FINANCIAL INSTITUTIONS
In Assessing Markets with VCA

• **Demand:**
  Focuses on most relevant financial services demanded because they help targeted enterprises to take advantage of opportunities for growth

• **Supply:**
  Identifies range of service providers, building on their records, perspectives and relationships
Financial Services

- Overdrafts/ lines of credit
- Investments, loans or savings to fund upgrading
- Working capital to purchase inputs or products
- Seasonal production loans
BARRIERS TO ENTERING THE RURAL MARKET

Costs and Risks

- Dispersed market
- Cost of infrastructure, communication and information
- Seasonality
- Shared production and price risks
- Historic Subsidies
- Limited collateral
### Value Chain Finance - Three Examples

<table>
<thead>
<tr>
<th>Trader Credit</th>
<th>Contract Farming/Outgrower Schemes</th>
<th>Warehouse Receipts</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Loan between buyer and seller</td>
<td>• Loans linked to purchase agreements</td>
<td>• Loans backed by receipts issued by safe, secure warehouse</td>
</tr>
<tr>
<td>• Grains and high value</td>
<td>• High value</td>
<td></td>
</tr>
</tbody>
</table>

- **Trader Credit**: Loans linked to purchase agreements, high value.
- **Contract Farming/Outgrower Schemes**: Loans linked to purchase agreements, high value.
- **Warehouse Receipts**: Loans backed by receipts issued by safe, secure warehouse.
VALUE CHAIN FINANCE - TRADER CREDIT

**Benefits**
- Inputs and product sales
- Higher yields
- Bulk input purchases
- *Tap future production for collateral*

**Learning**
- *Business information used to screen customers*

**Lessons for Financial Sector**
- Loan terms and structure reflect economic activity
- Financial Sector can increase trader credit through loans to larger VC actors
VALUE CHAIN FINANCE - OUTGROWER SCHEMES

Benefits
- More secure product and market
- Higher yields and quality
- Bulk input purchases & product sales
- Contracts for collateral, loan and sales terms, and product specs

Learning
- Business relations screen, train and monitor customers

Lessons for Financial Sector
- Loan terms and structure reflect economic activity
- Financial Sector can increase trader credit through loans to larger VC actors
VALUE CHAIN FINANCE - WAREHOUSE RECEIPTS

Benefits
- Extended sales season, higher prices, lower losses
- Bulk sales, sight-unseen transactions
- Collateral based on secure product, legal receipts

Learning
- Grading standards
- Receipts provide screening and security to banks
### VALUE CHAIN FINANCE
LIMITS & POWER RELATIONSHIPS

**Power / Learning / Benefit**

<table>
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<th>Trader Credit</th>
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<tr>
<td>Monopoly/ Unfair Pricing</td>
<td>Checked by market info and trader competition</td>
<td>Checked by need for reliable product</td>
<td>Without warehouse standards and inspection</td>
</tr>
<tr>
<td>Side-Selling</td>
<td><strong>Frequent, creating high default risk</strong></td>
<td>Less options due to closer monitoring</td>
<td>No. Product already deposited</td>
</tr>
</tbody>
</table>

| Enabling Environment   | Trust                                                                         | Enforceable contracts                                 | **Significant legislative/regulatory changes**         |

- Exploitative pricing – Cotton in Ghana
- Market information – Tea in Kenya
- Trader competition – Traders in Zimbabwe
VALUE CHAIN ACTORS & FINANCIAL INSTITUTIONS
THEIR RELEVANCE AND COMPLEMENTARY ROLES

Rural Finance Through….

Value Chain Actors
• Vertical transactions
• Make money on VC products
• Presence and depth of outreach
• Terms, conditions and risk/cost management fit economic activity
• Working capital to smaller players
• Embedded financial services – lower marginal costs, production and marketing benefits

Financial Institutions
• Horizontal transactions
• Financial products
• Outreach Potential
• Sound financial practices and technology
• Working capital to larger players, investment capital
• Efficiency of unbundled services
IN CONCLUSION: TO EXPAND RURAL FINANCE AND ENTERPRISE GROWTH...

Think outside **between** the boxes

- Investment Loans
- Financial Market Assessment
- Financial Intermediation
- Financial Institutions
- Clients
- Value Chain Analysis
- Buyers and Processors
- Banks and Producers
- Upgrading
- Embedded Services
- Economic Growth
- Financial Sustainability
- Cost recovery & risk management
- Upgrading
- Banks and Processors
- Economic Growth
THANK YOU