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THE VALUE CHAIN FRAMEWORK AND RURAL FINANCE

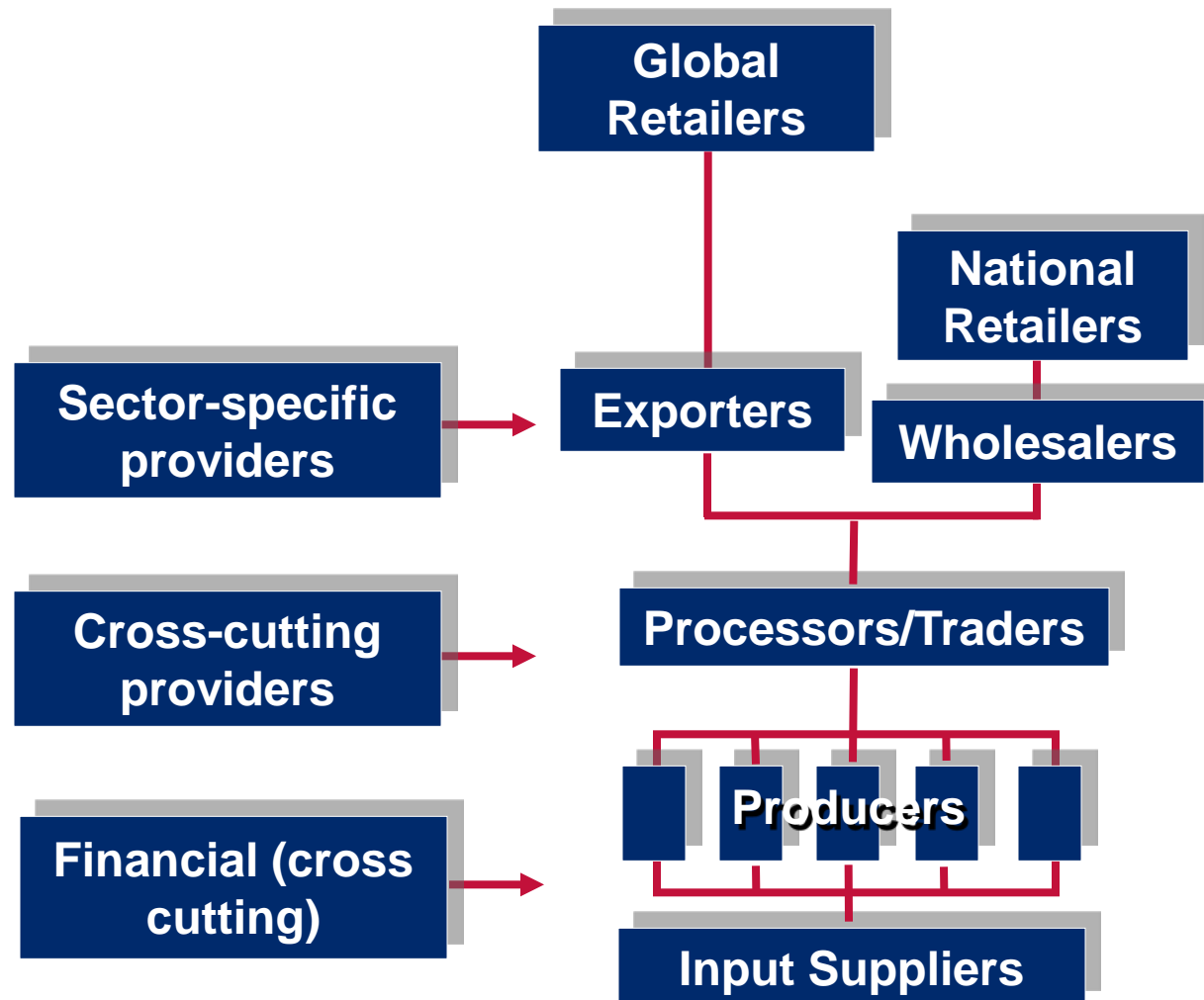
Bob Fries – ACDI/VOCA
Anicca Jansen – USAID

9/15/05

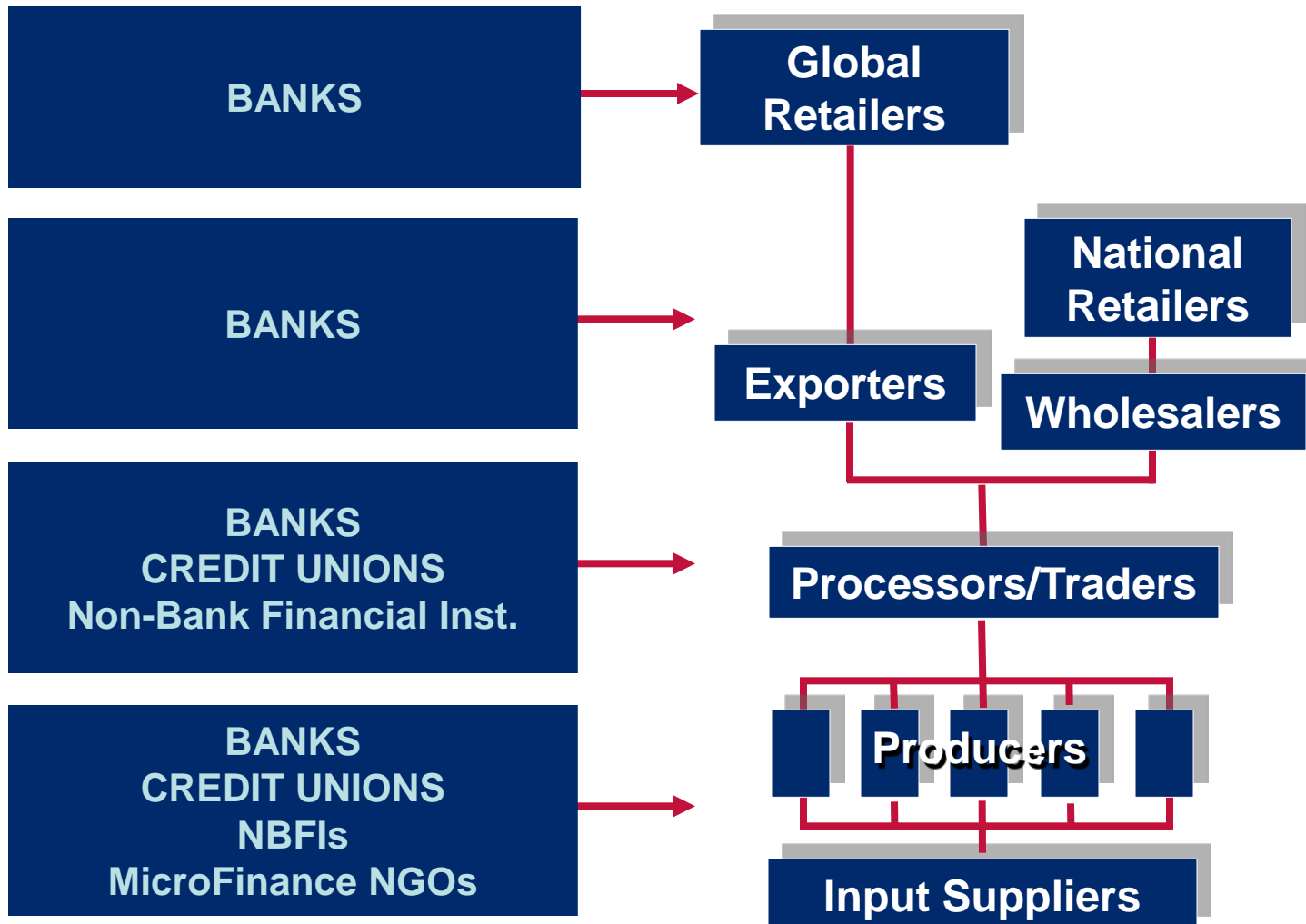
KEY MESSAGES

1. The Value Chain Framework is useful for *expanding financial services*, not just for enterprise development.
2. Value Chain Finance is *not new*. 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*.

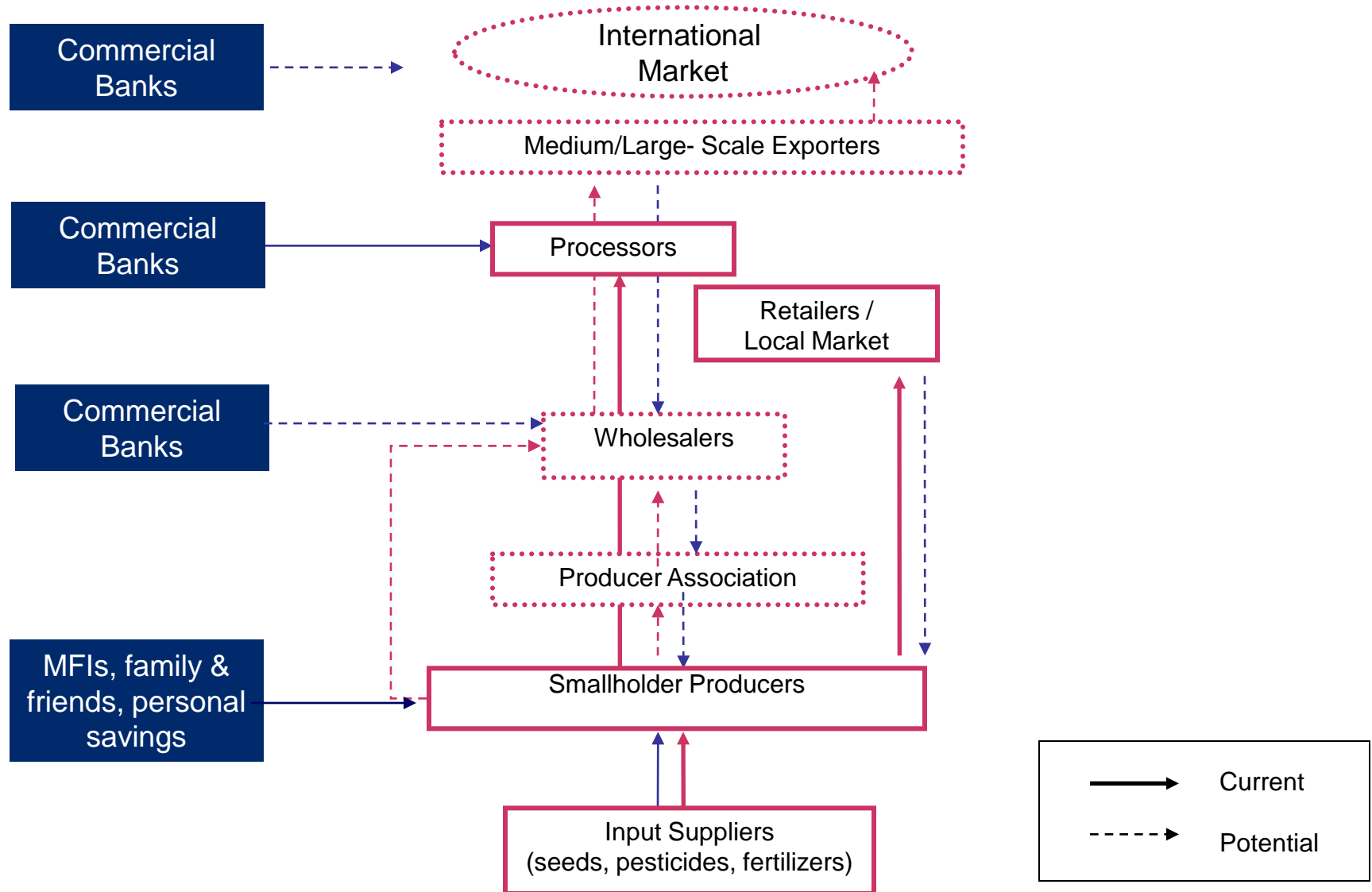
WHAT IS A VALUE CHAIN?



FINANCING VALUE CHAINS BY FINANCIAL INSTITUTIONS



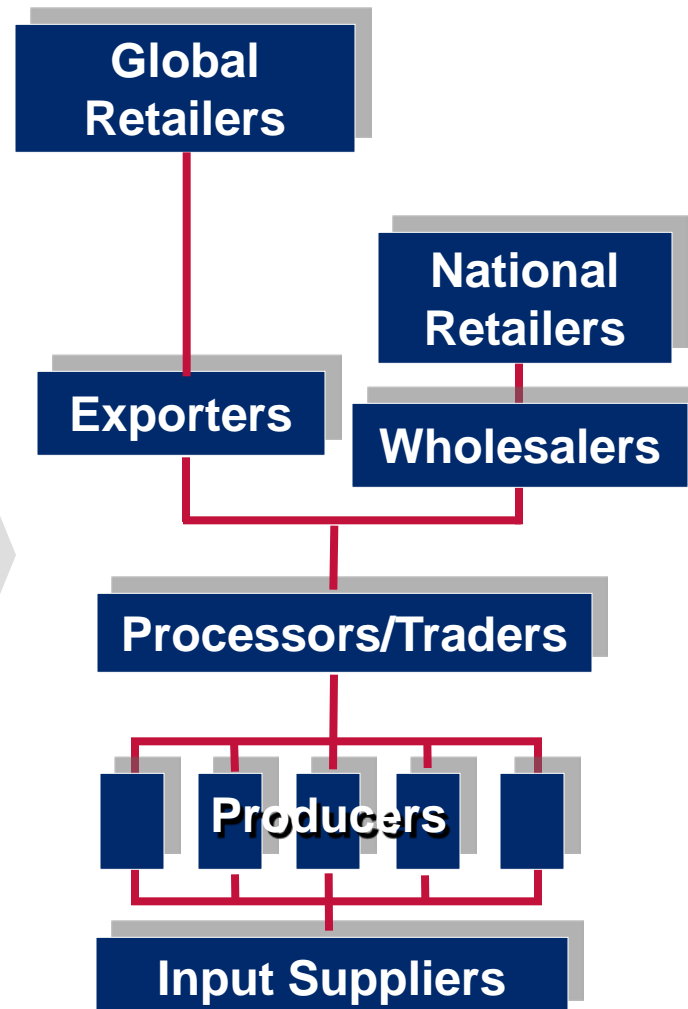
GETTING A MORE COMPLETE PICTURE HORTICULTURE SUBSECTOR: ALBANIA



VALUE CHAIN FRAMEWORK AND FINANCE

Financial Services

- Overdrafts/ lines of credit
- Investments, loans or savings to fund upgrading
- Working capital to purchase inputs or products
- Seasonal production loans



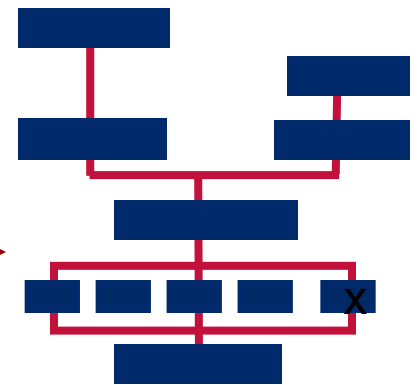
BARRIERS TO ENTERING THE RURAL MARKET

**Financial
Service
Providers**



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

Trader Credit

- Loan between buyer and seller
- Grains and high value

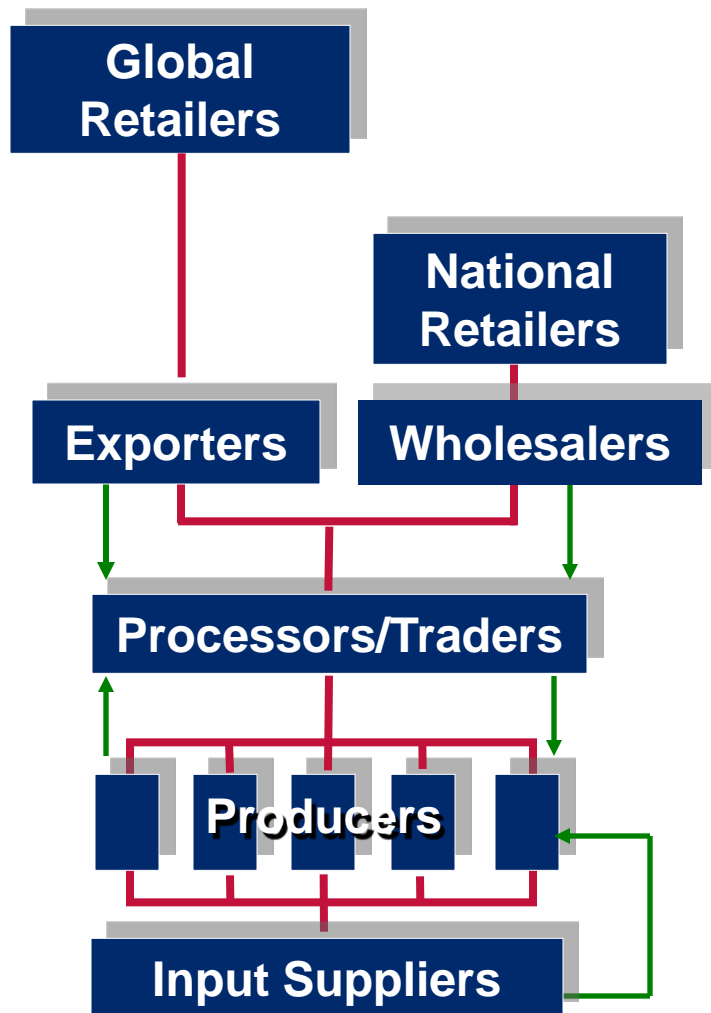
Contract Farming/ Outgrower Schemes

- 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*

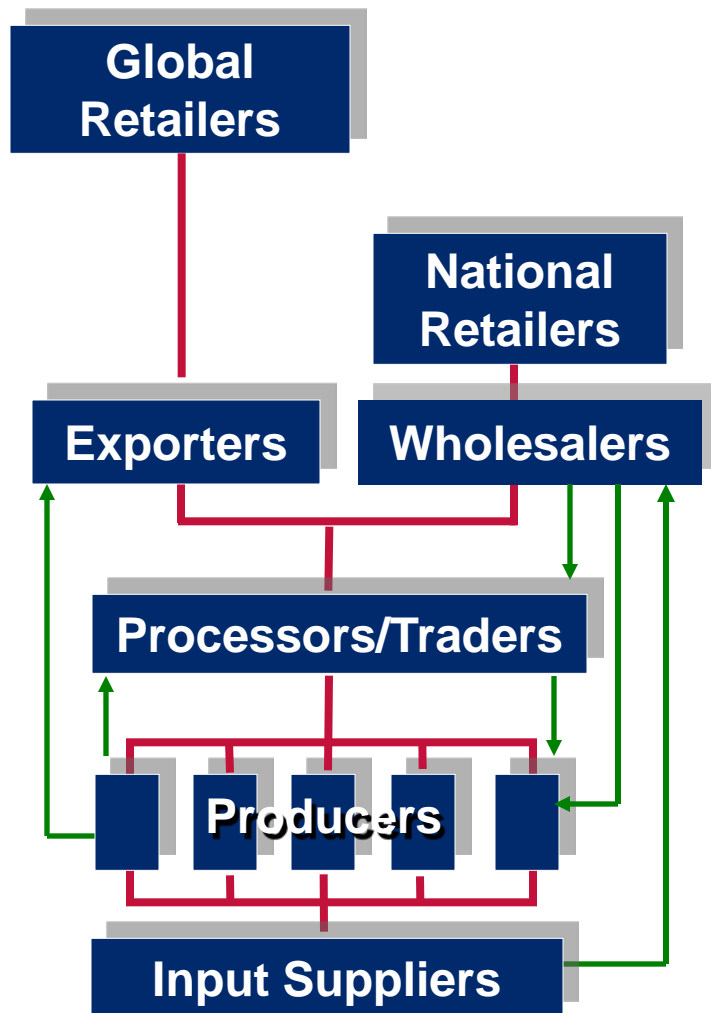
Learning

- *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

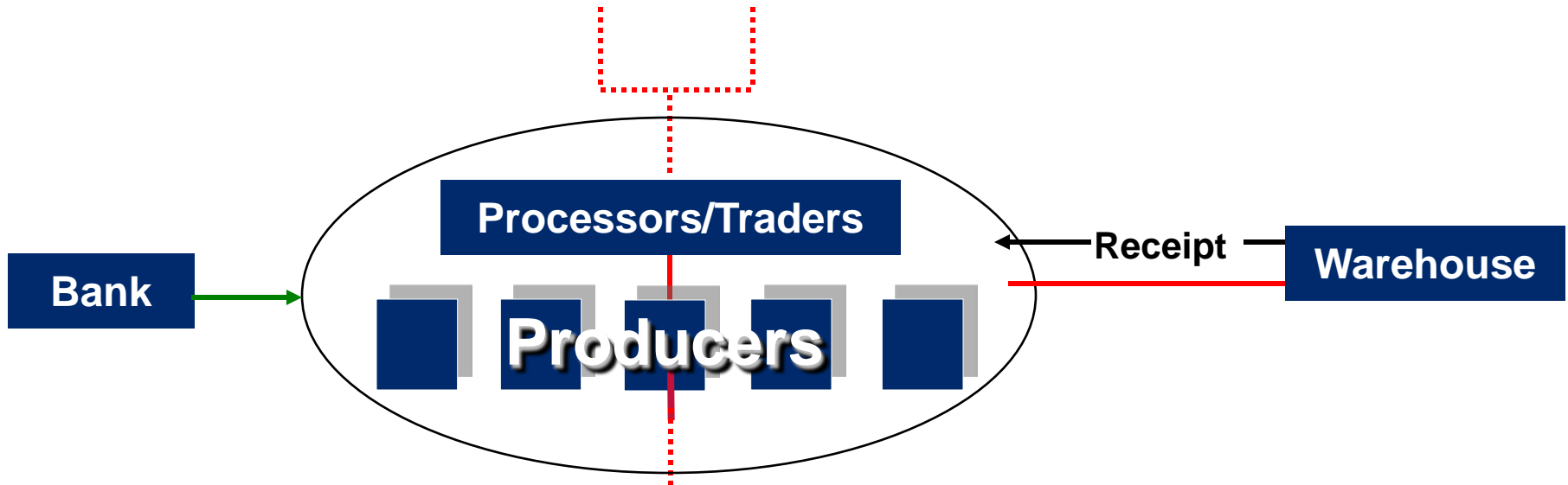
Learning

- 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

LIMITS	Trader Credit	Contract Farming	Warehouse Receipts
Monopoly/ Unfair Pricing	Checked by market info and trader competition	Checked by need for reliable product	Without warehouse standards and inspection
Side-Selling	Frequent, creating high default risk	Less options due to closer monitoring	No. Product already deposited
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 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



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QUESTIONS?

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**This presentation is based on the paper,
“Value Chains and Their Significance for
Addressing the Rural Finance Challenge”**

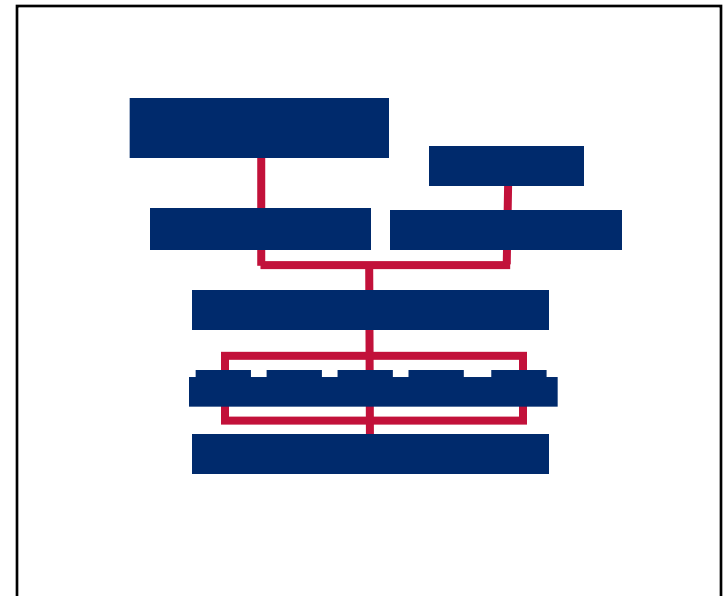
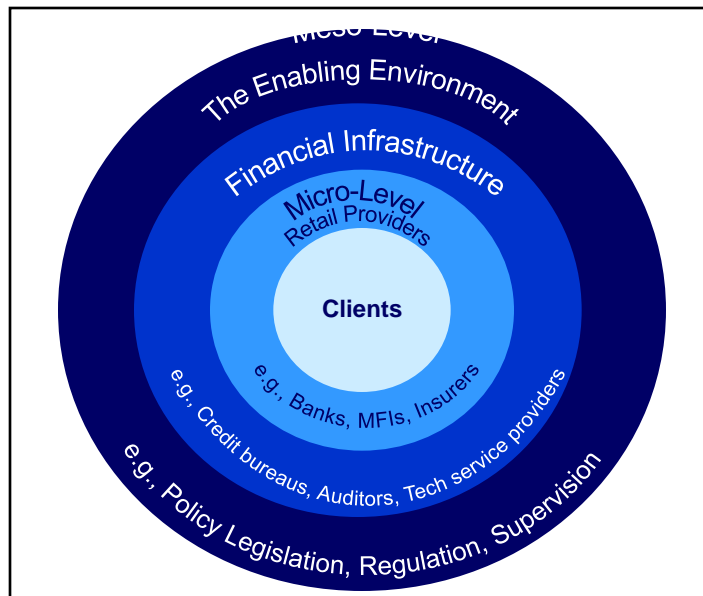
<http://www.microlinks.org>

IN CONCLUSION: TO EXPAND RURAL FINANCE AND ENTERPRISE GROWTH...

Think outside ~~the~~ **between** the boxes

Investment Loans
Investment Loans
Financial Market Assessment
Financial Market Assessment
Financial Intermediation
Financial Intermediation
Financial Institutions
Financial Institutions
Cost recovery & risk management
Banks and Producers
Banks and Producers
Financial Sustainability
Financial Sustainability

Upgrading
Upgrading
Value Chain Analysis
Value Chain Analysis
Embedded Services
Embedded Services
Buyers and Processors
Competitiveness
Banks and Processors
Banks and Processors
Economic Growth
Economic Growth





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THANK YOU