

FIELD Report No. 13:
Value Chain Finance Guide
TOOLS FOR DESIGNING PROJECT INTERVENTIONS
THAT FACILITATE INVESTMENT IN
KEY VALUE CHAIN UPGRADES

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FIELD Report No. 13: Value Chain Finance Guide

Tools for Designing Project Interventions that Facilitate Investment in Key Value Chain Upgrades

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Introduction

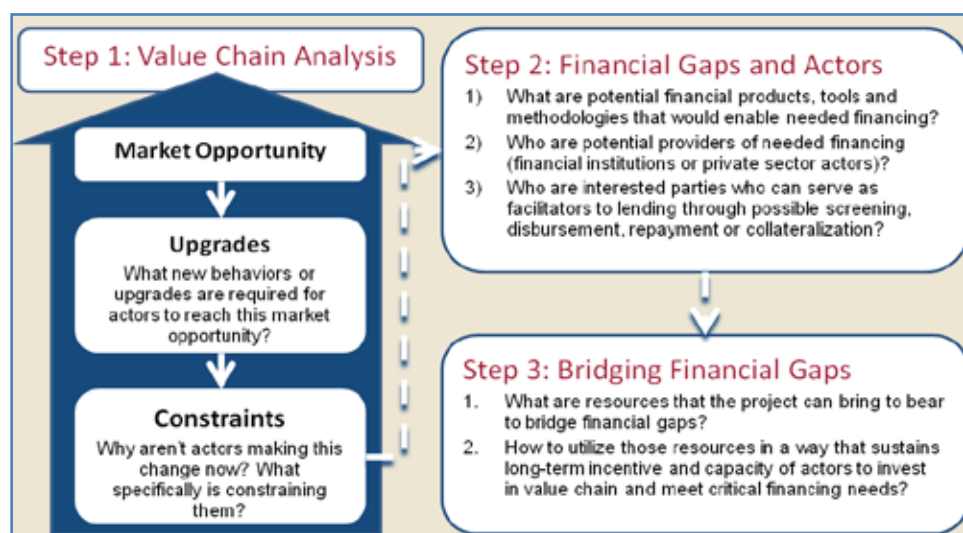
This guide is intended to provide tools and references to help practitioners—people who design, implement and support value chain development and agricultural finance programs—assess the financial products, strategic alliances and methodologies that can facilitate financing for investment in value chains. The approach builds on the value chain analytical framework to identify and prioritize specific upgrades that enable value chain actors to benefit from market opportunities, and then focus on the financing that is required to achieve those upgrades. The objective is not to expand financial services as an end in itself, but to expand those financial services most critical to the growth and competitiveness of selected value chains. The activities in this guide assume that value chains have already been selected and analyzed, and that their most promising market opportunities have been identified.

In value chain finance, actors within the value chain can play a direct role in financing other actors and/or an indirect role in facilitating loans from financial institutions by lowering transaction costs and repayment risks. There are many resources and publications on value chain finance and countless varieties of financial arrangements and mechanisms that may constitute “value chain finance.” However, a key challenge for practitioners is to identify the arrangements and mechanisms that are most appropriate for a specific market context and that will generate the greatest impact on the competitiveness of targeted value chains. This guide is intended to support a facilitative approach and provide a framework for discussions with stakeholders about ways of addressing common challenges. The tools in this guide can be used to prompt questions that lead to a better understanding of actors’ incentives and constraints and the potential roles they may play in bridging financial gaps. The value of the guide is largely tied to the ability of the practitioner to engage in a collaborative process with stakeholders through these exercises; it is important to recognize that it is not necessary to use every tool or fill in every blank but rather consider the key questions each exercise asks and understand how they pertain to the particular financial opportunity at hand. The tools are organized in three chapters which are outlined below.

1. **Value Chain Analysis** to determine which upgrades and investments in value chains will improve competitiveness. Tools help the user think through what changes are needed to make critical upgrades, and which of these changes require a financial investment.
2. **Financial Gaps and Actors** to identify stakeholders who can deliver financial products and services to facilitate identified investments. Tools and resources help the user evaluate the incentives and constraints of value chain actors and financial institutions.
3. **Bridging Financial Gaps** to design activities that help facilitate the development and expansion of these products and services. Tools help practitioners plan resources around strategic interventions that build the long-term capacity of the value chain to respond to its investment needs.

These three steps reflect a **market systems approach** to development interventions. The framework methodology asserts that purposeful, facilitative interventions can help stakeholders bridge gaps and invest in upgrades that will help them pursue promising market opportunities that lead to increased value chain competitiveness. As Figure 1 below illustrates, analysis should start with strategic market opportunities. These opportunities then focus attention on the most relevant upgrades, constraints and project interventions. Our experience shows that analysis that begins with constraints, financial products or interventions can produce plans that are less strategic, less focused and less effective.

Figure 1. Value Chain Finance Guide: Framework and Methodology



Tools at a Glance

As the graphic below illustrates, each phase of analysis has two templates that can be filled in to help project staff and stakeholders understand and articulate the critical market opportunities that are being pursued, the gaps in financial service delivery that are being addressed, and the roles and activities of project team members and other stakeholders. In addition to these templates, we have included two reference guides, one that maps out a range of financial products and services and one that identifies common gaps. These reference guides are designed to help in the application of such tools as the “Value Chain Strategy Framework,” the “Incentives and Constraints Table,” and the “Workplanning Guide.”

Figure 2 Reference Guides: Financial Product Taxonomy and Bridging the Gap Quick Guide

<i>VC Analysis Tools</i>	<i>Financial Gaps & Actors Tools</i>	<i>Bridging the Gap Tools</i>
1. Brain-storming Worksheet	3. Incentives & Constraints Table	5. Work-planning Guide
2. Value Chain Strategy Framework	4. Incentives Ranking Graph	6. Engaging Stakeholders Chart

Value Chain Analysis Tools

This first section provides tools to identify financing demands within a value chain. It is important to conduct assessments of value chains¹ prior to using these tools. A thorough assessment of the targeted value chain will provide answers to the fundamental questions posed in this section, in which case it may be possible to skip to the next. However, lessons learned through field testing have shown that these tools are useful for consolidating, organizing and articulating complex analysis into a clear strategy.

Tool 1: Value Chain Brainstorming Worksheet

The brainstorming worksheet provides a template for consolidating information from a broader value chain assessment and focusing in on investments that are critical to competitiveness. The tool starts with the market opportunity, which provides context for determining which upgrades are linked to higher returns. This helps to narrow the universe of upgrades to those that are necessary to reach a targeted market. Once the critical changes are identified, the worksheet focuses on the constraints that prevent an actor from making an upgrade. This logic makes it easier to consider more systemic constraints (such as trust between actors), which are often more subtle and may be overlooked. It puts the practitioner in the shoes of the actor and poses the question, “*Would you make this change, all things considered?*” This tool has particular value if used in a mixed group of experts representing different fields of expertise. While this guide focuses on investments, the tool can also be useful for analysis of nonfinancial upgrades and constraints.

Figure 3. Value Chain Brainstorming Worksheet

ACDI VOCA Expanding Opportunities Worldwide		Value Chain Brainstorming Worksheet:			
Market Opportunity :	<p>Articulate the specific market opportunity. This should convey product requirements in terms of price, quantity, quality and timeliness. It is important to be as specific and concrete as possible. A weakly defined or misunderstood market creates ambiguity in the upgrades that must happen and can result in misguided interventions. The Value Chain Wiki has resources on end-market analysis. A fill-in-the-black example is presented below to illustrate the kind of information a “market opportunity definition” should include.</p> <p><i>The (increased production/productivity/ introduction) of (key attributes: quality or variety) (crop) to (location) market in (season, if timing is critical) ...</i></p> <ul style="list-style-type: none"> - <i>when it enjoys a competitive advance against (competing product or actors) because of (reason), or</i> - <i>which will generate more income than (current product/market) because it (reason).</i> <p>“Market opportunity” example from Tajikistan: Increased production of tomato to the processed market which will generate more income than current levels because it will provide a stable and reliable market to complement the unpredictable fresh market.</p>				
	<p>↑</p> <p>Value Chain</p> <table border="1"> <tr> <td>Input Supplier→</td> <td>Producer→</td> <td>Processors↑</td> </tr> </table>			Input Supplier→	Producer→
Input Supplier→	Producer→	Processors↑			

Upgrades: What new behaviors or upgrades are required for actors to reach this market opportunity?

¹ http://apps.develebridge.net/amap/index.php/Value_Chain_Analysis

For each actor, identify the upgrades it must make in order for the value chain to reach the market opportunity stated above. These upgrades should be specific, measurable changes that define how an actor's behavior will evolve from its current practice. In theory, there are several ways each actor could do something better. However, this step asks the user to think of steps that are necessary and sufficient for the value chain to reach the defined market. The objective is to arrive at a set of strategic upgrades that will generate the greatest impact on the value chain. Use positive descriptions of upgrades rather than focusing on what is currently wrong.

↑ ↑ ↑
Constraints: Why aren't actors making this change now? What specifically is constraining them?
 Discuss what is preventing actors from making these upgrades on their own. Here is where the logic of the question "why not" is particularly useful. If it is not apparent why an actor doesn't make a change, this is an obvious point for follow-up investigation. Remember to focus on constraints that most directly impact an actor's behavior. Consider the lack of knowledge or resources as well as the incentives (what do they get out of making this particular change) and relationships (trust and confidence in being able to link with other actors in the value chain).

à EXAMPLE OF USE – TAJIKISTAN

This tool was applied in Tajikistan to evaluate the processed tomato value chain. The analysis helped to uncover a break in the value chain between processors (canning factories) and producers. Farmers were unwilling to invest in tomato production because of uncertainty that they would recover their costs. The fresh market price was unpredictable and processors were perceived as "cheating" farmers by failing to make on-time payments. As a result, farms simply started producing less volumes; with processors unable to source sufficient quantities, the competitiveness of the tomato industry in Tajikistan declined. The tool helped identify a market opportunity of increasing tomato production to supply the processed market, with sales complementing the less predictable fresh market.

Figure 4. Value Chain Brainstorming Worksheet -- Example from Tajikistan

ACDI VOCA Expanding Opportunities Worldwide		Value Chain Brainstorming Tool: <u>Processed Tomatoes</u>	
STEP 1: Market Opportunity:	Increase value of sales of price-competitive tomato products (juice for domestic and concentrate for export markets) that will generate higher incomes for current players which are heavily invested into the tomato sector which is losing market share to regional competitors and becoming increasingly unprofitable.		
↑			
Producer→		Processors↑	
Value Chain			
STEP 2: Upgrades: What new behaviors or upgrades are needed by actors to reach the market objective?			
-- Farms allocate more land for tomato production and invest in high productivity farm models (high yield inputs, mechanization). -- Farms sell larger volumes of production to factories versus speculation (only) of small amounts on fresh market prices as side income.		-- Factories shift production to products which are competitive (concentrate for export and juice for domestic market). -- Factories downsize operations to focus on increased efficiency both in terms of processes and new technologies. -- Factories improve supply chain to obtain greater quantity inputs to operate at higher capacity in order to lower fixed costs. -- Factories improve quality standards (through certification) to access new markets, which includes better packaging/marketing.	
↑		↑	
STEP 3: Constraints: Why aren't actors making this change now? What specifically is constraining them?			
--The market for tomatoes is unreliable, with significant price fluctuations in the fresh market and a history of factories failing to honor agreements to pay farmers in the past, which has created toxic levels of distrust between actors. --The potential ROI for tomatoes isn't attractive versus other crops without economies of scale. It is risky for farmers to invest to reach scale without assurance of a reliable market channel. The current trend is to produce little and sell to fresh market which may offer a high price.		-- Factories resources are tied up in turnover. This makes on-time payment of farmers challenging and small profit margin cannot accommodate for reinvestment in technologies. -- Factories cannot access reliable supply of tomatoes due to trust issues between farmers.	

Tool 2: Value Chain Strategy Framework

The value chain strategy framework provides a template for planning project interventions around key value chain upgrades. It builds off the brainstorming worksheet by moving from needed upgrades to the specific activities that will support them. It helps to bridge the analytical part of assessment to the practical requirements of work planning with limited resources. The strategy is meant to be a shared document that clearly illustrates why a particular intervention is needed to increase value chain competitiveness. As such, it takes note of the assumptions underlining particular activities, as benchmarks for the future. The strategy should be updated if assumptions evolve as the program progresses or new information emerges from implementation. Finally, the strategy is meant to be shared to get everyone (whether specialists, donors or project partners) on the “same page.” It is therefore designed to be a simple and easy way to communicate a vision for the value chain with beneficiaries. The process of vetting this strategy with beneficiaries and engaging with them as co-investors is an important part of effective strategy and program design.

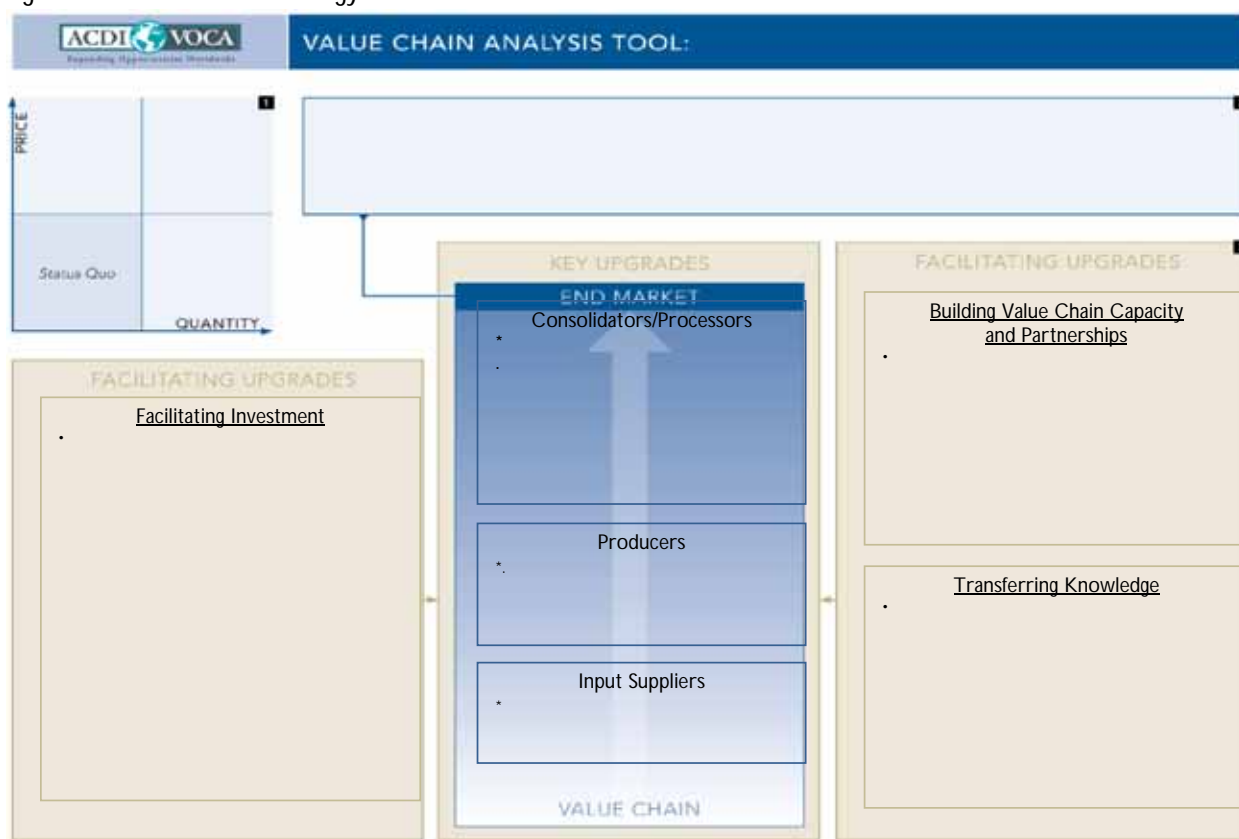
Reference Sheets 1 and 2 are helpful in prioritizing interventions that promote useful financial products with potential partners. The user should also refine the strategy sheet on an iterative basis with the *Financial Gaps & Actors* and *Bridging the Gap* tools that are presented in this guide.

Step 1 – Use the graph below to show the shift in quantity and/or price that will make the value chain more competitive. Competitiveness is not a zero-sum game in which finite opportunities are reallocated to one actor at the expense of another. Rather, the value chain as a whole must grow and provide increasing opportunities for actors along the entire chain. In this step, the value chain is graphed along the X-axis (quantity) and the Y-axis (price). Values depend on factors such as whether the value chain must increase output by expanding production (output) or productivity (output per unit); whether it must reach a niche market that offers a higher price; or some combination of X and Y.

Step 2 – Define the value chain objective based on the market opportunity as well as changes needed to reach the new market. The definition should give details of the product (e.g., variety, value-added) and the market segment (e.g., import substitution, local/regional market, export, seasonal window, etc.) and it should describe how the value chain as a whole will become more competitive (e.g., higher quality, greater efficiency, improved relationships). To the extent feasible, the user should set indicator targets for success.

Step 3 – For each actor identify the key upgrades for the value chain objective in the center column. In the columns titled Facilitating Upgrades, the user should describe the specific activities that will support these upgrades. These should be broken into categories: a) facilitating investment, b) building value chain capacity and partnerships, c) transferring knowledge, and, if applicable, d) enabling environment. Investment interventions can be informed by Reference Sheets 1 and 2 and outputs from the *Bridging the Gap* and *Facilitation Strategy* sections.

Figure 5. Value Chain Strategy Framework

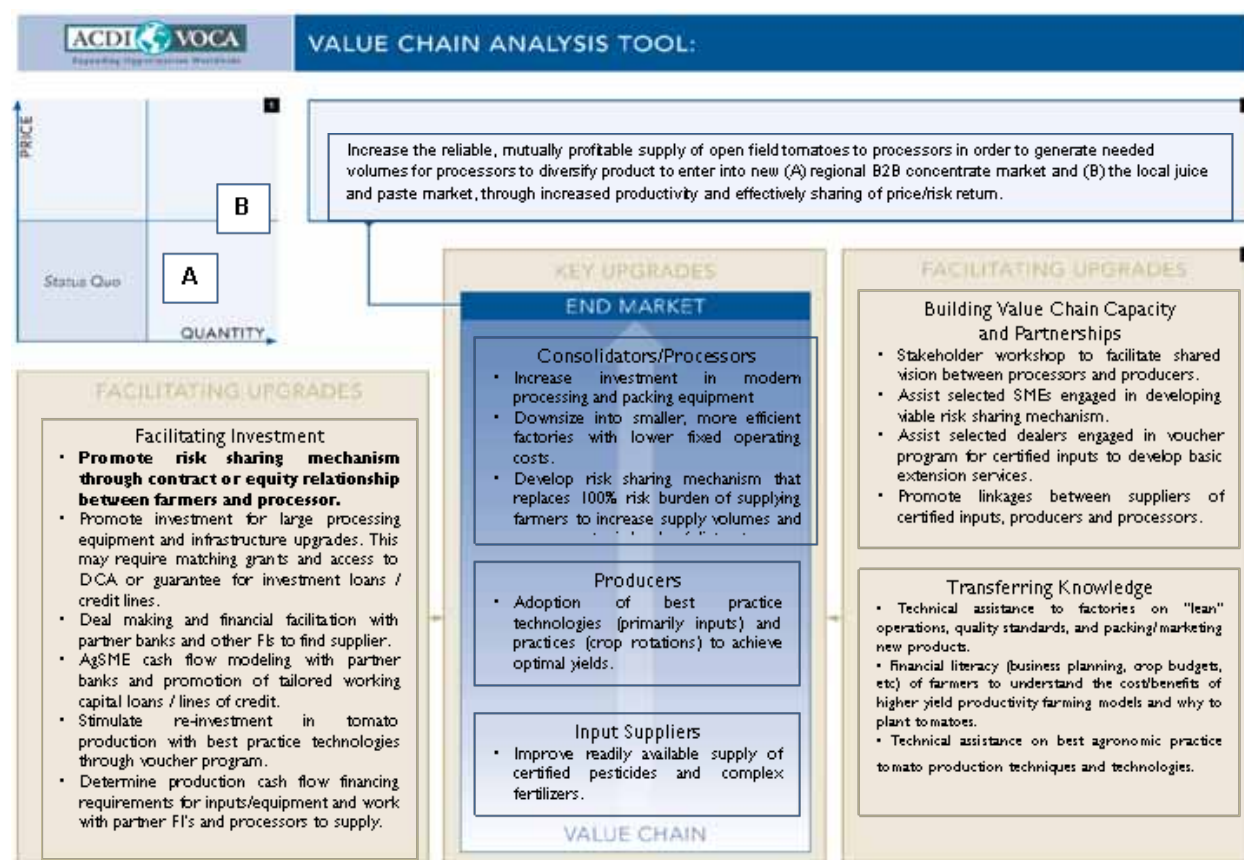


à EXAMPLE OF USE – TAJIKISTAN

The tool, see Figure 6 below, was applied in Tajikistan to the processed tomato value chain to move beyond the analysis from the brainstorming tool and determine which project interventions would address the trust issue between producers and processors which had effectively closed that potential market channel. The project staff determined that it would focus on developing risk sharing mechanisms through advance contracts and building relationships between progressive processors and reliable tomato producers.

[See next page]

Figure 6. Value Chain Strategy Framework – Example from Tajikistan



REFERENCE 1: FINANCIAL PRODUCT TAXONOMY

The following tables list products and services that can facilitate needed upgrades and investments. They also suggest stakeholders who might be well-suited to deliver them or facilitate their delivery. They can be used with Tools 2, 5 and 6 in identifying key products and activities, or in identifying potential collaborators with Tools 3 to 6. The first table looks at financing for producers and small enterprises, where the challenge is typically lack of access due to risks (borrowers lack traditional capital, it is difficult to assess their creditworthiness, etc.) and costs (they are in more remote areas, want smaller transactions, etc.). The table starts from the perspective of the financial demand, building from the question, "Who has a demand for financing what investment or activity?" It is then organized by 1) who has the proper mix of capacity, interest and incentive to supply this financing and 2) who has the proper mix of capacity, interest and incentive to facilitate this financing. Brief explanations and comments are provided from the perspective of the farmer or other small enterprise. The second table looks at financing for medium- to large-scale enterprises. These firms are better suited to access finance, as they have the collateral and financial demands that better align with traditional financial institutions. The challenge is finding products that are less costly and better suited to their financing needs. Accordingly, the table is organized by type of instrument, based on whether the funding comes from a business's assets, new equity or debt. Explanations and comments are presented from the perspective of a more formal business.

Figure 7. Demands for Financial Services of Farms and Other Small Enterprises

	Product	Sources	Facilitators	Secured	How it Works	Comments
Cash Flow	Savings	Producer	Financial Institutions (Formal & Informal)	N/A	Producer re-invests earnings into business. This is facilitated through current deposit accounts with banks, MFIs, cooperatives or associations.	The ability to access secure facilitates for savings is key. In rural areas and for poorer producers, informal groups (associations) may be more accessible mechanisms. Savings can be lower risk source of funds for both enterprises and financial institutions. However, there is usually a limit to how much financing can be generated through savings alone, particularly for informal groups. Improved inputs, upgrades and investment typically require access to outside capital – but savings can reduce the amount a farmer needs to borrow
	Short-Term Loan	Informal Financial Institutions	None	Solidarity / guarantee	Producers pool their own savings/capital to establish a loan fund that is accessible to its members. These may be savings and credit associations (VSLAs ASCAs, ROSCAs, credit cooperatives, SACCOs or other informal structures.	These are often very short-term loans appropriate to household consumption and emergency expenses, but do nonetheless improve cash flow. Governance is often a critical factor in the success of these financial vehicles.
		Formal Financial Institutions	Nonspecific	Nonspecific	Financial institutions directly evaluate cash flow of borrowers to determine their financing needs and repayment capacity. Regular monthly payments are made and often adjusted based on production cycle.	The success of direct financing by financial institutions depends largely on the institutions' ability to screen customers and structure loan disbursement and repayment schedules according to cash flow.
			Input Supplier	Unsecured	Financial institutions use input dealers' knowledge of reliable producers to screen potential clients. Input dealers may also play a facilitative role in transactions.	Ensuring farmers' access to credit can allow input dealers to expand sales beyond the existing liquidity limitations of their customers. The scale and network of input dealers are important considerations for such arrangements
			Buyers	Purchase agreement	Financial institutions are willing to lend based on a purchase agreement between a buyer and seller. Buyers have information on reliable producers and may build repayment functions into purchase agreement.	The willingness of the buyer to play this role depends on how relationships are structured with supplying producers. More formal arrangements allow for greater loan security. Look at negotiating positions of actors—In non-competitive situations, agreements may result in lower prices for producers.
			Associations / Cooperatives	Guarantee	Financial institutions lend to associations or cooperatives that on-lend to members who assume joint responsibility for repayment. This is often done through apex structures to increase scale and lower management costs.	Access to financing from a formal institution leverages the capacity of associations and cooperatives to lend to its members. The cooperative's governance structure is even more critical to the reliability of this mechanism.
	Factoring		Factor	Invoice	Financial institution or factoring company lends against receivables at a discounted price. Repayment is made through future cash flow (payment of invoices).	Reverse factoring allows financial institutions to collaborate with buyers, rather than suppliers, in order to aggregate a large number of small suppliers with accounts receivable. As with other buyer-specific financing mechanisms, the benefit of securing a reliable buyer and credit must be weighed against the risk of locking the producer into an unfavorable, price-taking position.

	Product	Sources	Facilitators	Secured	How it Works	Comments
	Inventory Credit		Warehouse Operators	Production	Producers pledge the value of their production, which is stored in a warehouse as collateral to a loan. Increasingly sophisticated financial arrangements (or warehouse receipts) may be possible. The purpose of inventory credit is to provide working capital to take advantage of seasonal price changes and avoid price gluts following harvest.	Many factors influence the feasibility of varying inventory-based collateral systems that can provide basis for lending. These include warehouse infrastructure and management systems, established grades and standards, solid regulatory and inspection frameworks, supporting insurance markets and legal basis for receipts as contracts. In addition, prices have to increase enough during the storage period to cover storage and other transaction costs.
INPUTS	Savings	Producer	Financial Institutions	N/A	Producers deposit earnings into current or term deposit accounts, and withdraw them at time of inputs purchase. Current accounts are useful for their flexibility, while planned term accounts are useful since they encourage producers to save for a specific purpose such as purchase of inputs.	Many rural residents have limited access to secure, licensed facilities. Increasingly, mobile technology may reduce cost of saving through m-wallet or m-banking services. M-banking often requires changes to bank regulatory environment. M-wallets, managed by mobile providers and nonbanks, can be launched without these regulatory changes but often have transaction and account balance caps. In addition, money that is not on deposit at a financial institution is probably not guaranteed or insured.
	Sales Credit	Input Supplier	Producer Associations	Unsecured	Input dealer sells inputs on credit to producers. The screening is often based on payment history. The terms may be on 30-60 day receivables or extended through the production cycle. Longer terms usually incorporate interest, while 30-60 day sales often have higher sales prices in lieu of interest.	The viability of this mechanism depends on input dealers' scale, management capacity and ability to access capital to on-lend. Input suppliers must carefully assess their capacity to provide credit to make sure they do not decapitalize their own operations.
	Advances	Local Trader	Producer Associations and Lead Farmers	Informal purchase agreement	Traders provide advances (in-kind or cash) to producers as part of a purchase agreement that can be either formal or informal; they typically specify agreed-upon volumes and prices. Traders are often intermediaries to larger buyers and provide additional services (market info, tech assistance).	Traders may directly finance with own capital or intermediate financing from a buyer. Traders are often locally based and provide a linkage between rural production areas and markets. There is potential risk for exploitative relationships.
		Processor / Exporter	Lead Farmers	Formal contract	Processors/exporters provide advances directly to farms as part of forward or future contracts, which stipulate to a degree future purchase volumes and pricing. These may be in-kind or cash advances, with interest costs built into the established selling price.	In these arrangements, the buyer takes on the risk of non-repayment (versus playing a facilitative role only). The willingness of buyers to directly finance is often tied to the market specifications for a particular product and the need to reliably supply set quality and quantities of product in a timely manner.
	Contract Farming	Lead Firm	Producer Associations and Lead Farmers	Outgrower contract	Lead firms contract farmers directly and provide inputs, technical assistance and routine monitoring of production. Firms guarantee purchase through contracts.	This is a more directed and instructional mechanism by lead firms. It limits risk but is also relatively costly and therefore appropriate to more technical cash crops where the incentives to secure supply are even greater. The benefit of a stable, secure market must be weighed against the reality that these arrangements put the farmer in the position of price taker
	Savings	Producer	Financial Institutions	N/A	Producers deposit earnings into term deposit accounts which earn higher interest rates. Deposits cannot be withdrawn until after the term has ended or by giving predetermined number of days notice.	Many rural residents have limited access to secure, licensed facilities. Increasingly, mobile technology may reduce cost of saving through m-wallet or m-banking services. M-banking often requires changes to bank

Product	Sources	Facilitators	Secured	How it Works	Comments
					regulatory environment. M-wallets, managed by mobile providers and nonbanks can be launched without these regulatory changes but often have transaction and account balance caps.
	Farmer Using Non-formal Savings	None	Solidarity / guarantee	Members deposit savings in regular amounts into group-managed fund. The fund may be held by a member or group of members or deposited into an account. Members break the fund and disburse members' savings at the end of a "cycle." These funds may be used in interim as capital for typically short-term loans among members.	Self-managed informal savings associations are prevalent in many countries with some using conditional savings to facilitate bulk purchase of equipment or inputs. Their ability to use revolving loan fund for longer-term investments is limited by timing issues for disbursements, and savings capacity of the group at large.
	Long-Term Loan	Financial Institution	N/A	Real property	Land tenure and property rights are often constraints to this type lending. Also, the longer the loan term, the more risk the lender assumes and thus the less they lend.
			Nonspecific	Legal (moveable) collateral	Producers may not have sufficient value to pledge for longer-term investment financing. The types and forms of acceptable collateral depend on the legal framework, a cost-effective and reliable registry system, a cost-effective system for taking possession of collateral when borrowers default and a market for items that are seized.
	Equipment Lease		N/A	Asset itself	Helpful in providing security for investors with limited collateral, provided there is a secondary market for the used equipment. Tax regimes may make leasing subject to taxation at points of purchase and lease payment. Also, a secondary market for the used equipment is usually needed to make equipment leasing profitable.
	Joint Venture in Infrastructure	Farmers	Farm Associations	N/A	Requires contract enforcement and/or trust between lead enterprises and investing producers and a reliable way for all partners to monitor future performance of the joint venture

Figure 8. Instruments for Financing Businesses

Product	How It Works	Use of funds	Source of finance or service provider	User	Secured
Existing Assets					
Cash	Business uses cash on hand	Working capital	Business's own cash flow	Business with working capital need	N/A
Current account	Business uses funds in current account or term deposit held at FI	Working capital	Licensed financial institution	Business with working capital need	N/A
Term deposit		Working capital; investment		Business with working capital or investment need	N/A
Factoring	Business sells accounts receivable for cash, at a discounted price. Financial Institution receives future cash flow.	Working capital	Financial institution	Legal entity, e.g., input provider, formal buyer, processor, exporter	<i>Accounts receivable</i> obtained by financial institution
Repurchase agreement	Business sells <i>financial security</i> (stock, bond, etc.) for cash, promises to buy back security at fixed price	Working capital	Financial institution or other lender	Large-scale actor	<i>Financial security</i> and a <i>forward contract</i>
Increased Equity					
Shares	Business sells shares of stock in business	Investment	Individual investors; institutional investors	Corporate entity	N/A
Retained earnings	Owners re-invest earnings	Investment	Business income	Legal entity	N/A
Increased Debt					
Sales credit/charge card purchase	Purchaser pays seller within short period after sale (e.g., 30 days)	Purchase	Seller	Buyer	Unsecured
Working capital loan (amortizing)	Borrower repays both interest and principal through life of debt	Working capital required by a product cycle or a business	Seller; financial Institution; buyer with forward contract relationship	Business with working capital need	Unsecured loans use personal guarantee or reputation; mortgages use real estate; other secured loans use movable property or financial securities
Investment loan (amortizing)		Investment over medium or long term	Financial institution; more rarely a seller	Business with investment need	
Interest only loan	Borrower pays interest only until maturity	Long-term investments;		Business needing	Secured or unsecured

Product	How It Works	Use of funds	Source of finance or service provider	User	Secured
Bullet loan	Borrower repays principal and interest paid at maturity	sometimes working capital over a product cycle		investment that yields delayed return	Secured or unsecured
Overdraft	Business withdraws more from its current account than deposit balance, pays interest on overdraft amount	Short-term working capital	Financial institution;	Buyers; processors; exporters	Secured or unsecured
Line of credit	Business borrows cash as needed, in tranches and up to a limit; interest and principal repayment throughout life of loan	Short-term working capital	Financial institution; more rarely a seller	Business with working capital need	Secured or unsecured
Bonds (secured or debentures)	Business issues debt security to investors, pays interest only until maturity	Long-term investments	Investor; bond market	Corporate entity	<i>Secured bonds</i> use business's collateral; <i>Debentures</i> are unsecured
Commercial paper	Business/bank issues unsecured ST promissory note (Up to 270 days)	Short-term working capital or debt obligations	Investor; money market	Corporation or financial institution with credit rating	Unsecured - paper priced based on credit rating
Lease	Rental payments for use of an asset not owned by user	Property/equipment	Financial institution; seller	Business needing investment that lacks collateral	Asset being leased

Financial Gaps and Actors Tools

The objective of the Financial Gaps and Actors section is to identify the financial products and strategic alliances that are most suited to address the financial gaps identified in the Value Chain Analysis section. As mentioned before, it is important that these exercises follow a broader value chain assessment to contextualize the relative incentives and constraints of actors to demand, deliver or facilitate financing. Generally, private sector partners are only willing to participate in financial arrangements that advance their self-interests, either by improving the supply of inputs they need for production or by securing a strategic or profitable market channel. It is important to understand how value chain governance, relations and linkages are structured to respond to market opportunities, because these factors will determine the success of a project intervention.

In value chain finance, strategic alliances are typically established between financial institutions and value chain actors to reduce transaction costs and lower risks that otherwise impede actors' ability to access traditional financial services. In such arrangements, private sector actors may directly finance a particular investment or cash flow need or they may help facilitate financing from a more formal financial institution. The most common ways value chain actors may facilitate financing include:

- **Screening Borrowers:** Value chain actors may have useful information about potential borrowers. This information can help financial institutions screen for reliability, evaluate profitability and/or assess the risk of default.
- **Disbursement/Repayment of Loans:** Value chain actors may play a direct role in loan transactions. They may be positioned to disburse loans on behalf the financial institution (in-kind or cash) and loan repayments can be channeled through them as well. These roles can help to lower transactions costs and reduce likelihood of arrears and default.
- **Default Risk/Collateral:** value chain actors may provide a form of "soft" (i.e. usually not "hard" collateral like land titles) collateral. This can be in the form of direct (formal or informal) guarantees or co-signing, assigning value to inventory in a warehouse, etc. Value chain actors may also provide some alternative which is acceptable to a financial institution in the case that legal collateral is not available to secure the loan. Purchase orders and buyers' contracts may provide a reasonable guarantee of repayment to the extent that a financial institution would waive traditional requirements. Even when buyers' contracts are not transferable (and thus are not truly a substitute for collateral), they can important nonetheless to the lender, since they can signal creditworthiness and thus decrease the default risk.

NOTE ON THE NEED TO AGGREGATE VALUE CHAINS:

In identifying financial gaps and actors that can help fill those gaps in the context of a project that is working with multiple value chains, it is helpful to aggregate those value chains. This might be done prior to the identification of financing gaps. In one case, we found it helpful to group value chains using the Value Chain Strategy Framework (see box 1 of Tool 2). Value chains that were seeking to reach new niche markets tended to have similar financing requirements and similar actors to collaborate with. The same was true of value chains that were focused more on expanding production and productivity. Box 4 from the Framework was also useful for grouping value chains that required facilitation to develop or expand the same or similar financial products. In this way, a project can identify types of actors and financial products that serve multiple value chains, before moving forward with Tools 3 to 6. This allows for greater efficiency, and avoids repetitive mapping of financial gaps, ranking of actor interest and capacity, and identification of interventions and collaborators.

Financial institutions and value chain actors could play many different roles in either providing or facilitating a financial product. Tool 3: Incentives and Constraints Matrix is intended to help identify three things:

- Who has an **incentive** (either identified/realized or not) to provide or facilitate financing;
- Who has the **capacity**—either actual capacity or commitment and interest in developing it—to provide or facilitate financing; and
- What specific **constraints** are standing in their way (why it isn't happening despite having incentives in place and/or capacity to do so).

This exercise can include financial institutions as well as value chain actors such as buyers, inputs suppliers and producer associations. For this reason, we briefly examine here the factors that commonly influence financial institutions and value chain actors' incentives, capacities and constraints.

Incentives: *What are the commercial interests of players in seeing a particular investment occur?*

- **Financial institutions** are, of course, in the business of providing financial services. However, this does not mean that they will perceive agricultural or value-chain-linked financial services as being an attractive option—and indeed, often they are not. That is, the incentive does not always exist, and financial institutions may not recognize it when it does exist. Essentially, financial institutions are interested in an investment insofar as they can make money financing it. Their interest in financing could surface in several ways: They may recognize a viable commercial opportunity where others have already demonstrated it; they may perceive or identify broader, untapped market demand; or they may have histories and/or missions that drive their focus towards specific types of markets or products. It is important to remember that profitability is the bottom line of financial service delivery. In this light, a particular investment or market is weighed with a careful consideration of costs, risks and returns vis-à-vis other possible investments and markets.
- **Buyers' (processors or exporters)** interests are also tied to their own profitability. Most commonly, buyers are interested in their own core business: sourcing reliable and timely products and then selling them. Buyers may have an incentive to help suppliers to access credit or other financial products to invest in higher-quality or greater quantities of production. In some cases they may even have an interest in directly providing that credit themselves if the perceived need is sufficiently urgent and the potential upside sufficiently attractive. This need is closely linked to the dynamics of the value chain and end-market requirements that drive production. Specifically, value chains with lead firms that are vertically integrated, or ones in which buyers source inputs from regular suppliers, are more likely to have incentives to provide or facilitate finance than less-structured value chains.
- **Inputs (or equipment) suppliers** have incentives to provide or facilitate financing in order to sell products to clients who are otherwise too cash-constrained to make the purchase. The degree of interest in direct provision of credit to regular customers is often tied to whether other credit options exist (is there "competition" from financial institutions?), the need to market their products (are they competing to gain new customers or retain existing ones by providing credit as an extra service?) and generally their perception of the risk of nonpayment. In terms of their willingness to facilitate financing, this is largely a function of the closeness of the relationship with clients. Arms-length or casual relationships typically do not engender trust and a sense of mutual benefit, whereas "neighborhood" farm stores or other types of inputs vendors with more intimate client relationships are more likely to recognize that it is in their interest to ensure access to financing.

- **Producer Associations** have a clear incentive to provide and/or facilitate access to finance to ensure greater returns to their members (themselves) and to increase the value of the suite of services they offer.

Capacities: *How are players positioned and do they have the capacity to help facilitate this investment?*

- **Financial Institutions'** capacity to deliver financing for a particular investment varies depending on a number of factors. There may be institutional limitations such as geographic isolation from clients, weak internal systems or limited skills and capacity of staff (knowing a particular sector, market or business). Even intangible factors such as institutional culture may make it difficult for financial institutions to reach a market. Where knowledge or capacity gaps exist, financial institutions' commitment to building that capacity becomes a crucial variable.
- **Buyers'** capacity to extend or facilitate financing depends on the nature of relationships with suppliers. Buying agreements, whether formal or verbal, may be useful channels for advances, embedded loan disbursement/repayment functions, or as a collateral substitute—all ways that buyers can help facilitate finance. This depends in turn on the extent to which the agreement has a perceived value between the agreeing parties, its ability to signal creditworthiness to lenders, and the likelihood that the parties will fulfill their obligations. In terms of facilitation, the nature of the relationship between actors is an important consideration as well. For instance, buyers' knowledge of suppliers may be limited if they buy on a more transactional basis. Moreover, buyers quite possibly have financial and institutional limitations on their own which prevent them from committing to purchase agreements or providing advances directly. Buyers' resources available for on-lending compete with those for its own investment, expansion, etc.
- **Input Suppliers'** capacity to provide sales credit to customers is tied closely to their own internal management, liquidity and ability to access credit. It often requires a specialized loan administration department, which can be costly and technically demanding. Input dealers' capacity to facilitate finance requires less internal management capacity, but may be limited by the extent of their knowledge of their clients' creditworthiness (whether they are both reliable producers and responsible borrowers), and their own perceived reputation with the lender, who would in effect delegate parts of the lending process to them.
- **Producer Associations'** capacity to provide finance is also primarily a function of their own internal management capacity and ability to access wholesale funds. This often requires a professional management team and stronger governance, which less-formal associations may not possess. The ability to facilitate finance depends on an association's credibility with the potential lender.

Constraints: *What are the reasons players with varying degrees of interest and capacity do not facilitate investment? (It is important to note that while the Incentives and Capacities sections refer to supply of financial services, this Constraints section asks "Why is it not happening despite this?" and includes non-supply-side constraints, notably, demand and regulatory/enabling environment constraints.)*

For the purposes of this guide, the various reasons are grouped in three categories:

- **Cost:** The costs of providing and facilitating financing must be weighed against potential benefits. In terms of direct financing, these include the financial, opportunity and transactional costs of providing a product or service. These same types of costs also apply to facilitation. There may be costs associated with becoming involved in the lending process; assuming risks for repayment if a guaranteed borrower does not fulfill


the repayment obligation; and diverting time and resources away from other activities that would provide a greater return. To note, for term lending, financial institutions typically rely on the time value of money concept focusing on recovering real costs in the economic conditions specific to the country, such as the relationship between profitability, inflation and costs of funds. Based on these indicators, investment opportunities will be compared relative to one another; key principles include "the higher the risk, the greater the hoped-for return must be"; "the higher the amount, the higher the risk" and "the longer the term, the higher the risk."

- **Real risk:** This is differentiated from the ever-present "perceived risk" (for example, a generalized belief that small farmers do not repay loans), which has more to do with lack of knowledge (see below). There are usually very real risks associated with either lending or facilitating lending to agricultural activities. These include credit risk, of course, but also production and market/price risks, since a failed crop or an inability to sell at the expected price can lead to nonpayment of a loan. In many circumstances, the lack of insurance products and services compounds these risks.
- **Knowledge:** Some actors have a recognized interest in providing or facilitating finance but lack the knowledge (management skills, or specific lending methodology) to do so. This category refers to the knowledge gap of the value chain actors; it also refers to the knowledge gap among potential clients. Low levels of financial literacy and lack of access to appropriate technical assistance (for example, GAP, pest control, etc.) are both important constraints that dissuade commercially-minded VC actors from either provision or facilitation of finance to poor or vulnerable populations.

In addition to the private actors discussed in this section, public and nonprofit sector actors play roles in bringing together the various actors, highlighting common incentives and win-win situations, and addressing the three areas of constraint, in particular the "knowledge" category. They will know (and may be providing assistance to) creditworthy producers who are using modern technologies, planting profitable crops and have access to reliable buyers. They can help financial institutions with screening and understanding the financial needs and cash-flow requirements of farms.

Tool 3: Incentives and Constraints Matrix


Figure 9. Incentives and Constrains Matrix

 Incentives and Constraints Matrix	
Financing Required:	Enter financial demand.
Actors:	<div>(Actor1)</div> <div>(Actor2)</div> <div>(Actor3)</div> <div>(Actor4)</div>
Incentive and Interest	
- Provide financing - Facilitate financing * Screening * Collateral * Disburse/collect	<p><i>Incentive and Interests</i></p> <p>A) Identify the commercial incentives of each actor to provide or facilitate the required financing. What do they stand to gain from the upgrade this financing will enable?</p> <p>B) Determine whether they realize this potential commercial incentive and/or if there are external factors preventing them from accurately assessing the potential commercial gains.</p>
Capacity	
- Provide financing - Facilitate financing * Screening * Collateral * Disburse/collect	<p><i>Capacities</i></p> <p>C) Describe the existing and potential capacity of an actor to provide or facilitate financing (assuming they have the incentive and interest). This question helps to determine the strengths of an actor and how well-positioned they are to provide or facilitate financing needed for the investment.</p>
Constraints	
Provide finance Cost Real risk Knowledge Facilitate finance Cost Real risk Knowledge	<p><i>Constraints</i></p> <p>Indicate what constraints are preventing an actor from providing or facilitating financing. This includes not only supply constraints but also demand and regulatory constraints. It may be helpful to group constraints by knowledge, real risk and cost.</p>

à EXAMPLE OF USE – JAMAICA

The tool was applied in Jamaica to evaluate which value chain actors could supply or facilitate financing required for seasonal purchase of inputs for production. Farmers failed to make timely purchase of needed input packages primarily because of cash flow limitations. For the scotch bonnet pepper value chain, the resulting low production volumes prevented the value chain from achieving a niche distinction because exporters couldn't supply a recognizable product. The tool helped to identify major constraints in the financial sector which limited credit available for this purpose. However, private sector actors had strong commercial incentives (even without a "realized" interest) to help facilitate or even potentially supply this financing. The project changed its approach to working with processors and input dealers to bridge this gap, in particular focusing on training of partners using cash flow modeling for farm production to evaluate financial demands and potential returns on investment.

Figure 10. Incentives and Constrains Matrix – Use in Jamaica

 Value Chain Incentives and Constraints to Facilitate Financing				
Financing Required:	Seasonal credit for scotch bonnet pepper production (purchase inputs)			
Actors:	Input Suppliers	Exporters/Processors	Banks	MFIs
Interest / Incentive				
- Provide Financing	Low – despite incentive to increase sales and current 30-day credit on sales to good customers, lack real institutional interest to extend financing for longer term	Low – unsecured markets and non-formalized supply relationships	Low – social responsibility perception only, negative experience and perceived high risk (govt. interference, farm not creditworthy).	Med – some need to expand beyond urban lending only, but negative past experience
- Facilitate Financing * Screening * Collateral * Disburse/Collect	High – no alliance with a potential finance supplier so haven't really considered, unexplored potential	High - reliably, timely and quality supply is important to own profitability		
Capacity				
- Provide Financing	High – broad networks and outreach, strong internal systems and capacity, some experience in ST sales credit	Low – lack cash flow or loan administration capacity, no experience in credit	Med – high institutional capacity, but not geared towards agriculture lending	Med – medium institutional capacity, some agriculture lending experience
- Facilitate Financing * Screening * Collateral * Disburse/Collect	High – provides technical assistance to farms, readily differentiate producers, knows risks/returns, input sales records	Med – have some more regular suppliers, purchase agreements		
Constraints				
Provide Finance Cost Real Risk Knowledge	No established loan department, institutional inertia N/A can screen and locally based to monitor No knowledge of managing credit longer term	Relatively low margins for processors, lack cash flow, loan administration costly Side selling is frequent with multiple market channels No knowledge of lending business	Opportunity costs, changing institutional culture, rural outreach Comparatively higher default risks than other sectors No internal knowledge of agriculture	Costs to strengthen loan systems, procedures and product development, rural outreach Weak historical repayment history Limited internal knowledge of agriculture
Facilitate Finance Cost Real Risk Knowledge	Need to link with a financial partner only N/A N/A	Facilitation requires more formalized relationships which increase costs N/A May only have handful of recurrent suppliers		

Tool 4: Incentives Ranking Tool

The Incentives Ranking Tool ranks actors, interest and capacity in a specific financial product. This is helpful when identifying potential collaborators and interventions for specific products. At the same time, it may be useful to analyze who is interested at the project level across a series of products and interventions. The Incentives Ranking Tool can help compare levels of interest and capacity across a wide group of stakeholders, including financial service providers, financial service facilitators and financial service consumers.

The tool consists of a nine box table. The top row and far right column indicate strong interest and capacity, respectively. The bottom row and far left column indicate low interest and capacity. The middle row and columns indicate moderate interest and capacity. In order to distinguish types of actors, simple formatting distinctions are applied. By combining these formatting distinctions, the graphic can illustrate when an actor can fit more than one type, for example a buyer who can be both a consumer and facilitator of financial services.

Figure 11. Incentives Ranking Tool

INTEREST	High	<u>Specify FS Consumers</u> Specify FS providers <i>Specify FS Facilitators</i>	<u>Specify FS Consumers</u> Specify FS providers <i>Specify FS Facilitators</i>	<u>Specify FS Consumers</u> Specify FS providers <i>Specify FS Facilitators</i>
		<u>Specify FS Consumers</u> Specify FS providers <i>Specify FS Facilitators</i>	<u>Specify FS Consumers</u> Specify FS providers <i>Specify FS Facilitators</i>	<u>Specify FS Consumers</u> Specify FS providers <i>Specify FS Facilitators</i>
	Low	<u>Specify FS Consumers</u> Specify FS providers <i>Specify FS Facilitators</i>	<u>Specify FS Consumers</u> Specify FS providers <i>Specify FS Facilitators</i>	<u>Specify FS Consumers</u> Specify FS providers <i>Specify FS Facilitators</i>
		ABILITY		
		Low		High

Key:
FS Consumers Underlined
Potential FS Providers in bold
Facilitators are in Italics

à EXAMPLE OF USE – JAMAICA

When this tool was applied in a planning exercise in Jamaica, it surfaced some interesting observations among stakeholders. The table below illustrates that the stronger interest and capacity to facilitate agricultural financing resides with public sector actors. Among potential lenders, a cooperative bank and some MFIs demonstrated significantly stronger interest than the commercial banks. Similarly, input providers had a strong capacity and potential strategic interest to facilitate financing, but little demonstrated interest in doing so. A more robust system of financing agriculture required the increased interest and capacity of commercial players to facilitate and deliver financial services, a diminishing role of the public sector actors in relative terms, and a strengthening of the potential borrowers' credit-worthiness. See Figure 10 below.

Figure 12. Incentives Ranking Tool – Example from Jamaica

INTEREST	High	<u>Hort. Producers</u> <u>Cocoa Association</u>	Cooperative Bank	<i>Ministry of Ag</i> <i>Development Bank</i>
			Specific MFIs	<i>Specific Cocoa Buyers</i>
	Low	Importers/ distributors	Commercial Banks	Input Dealers
		ABILITY		
		Low		High

Key:

FS Consumers Underlined

Potential FS Providers in bold

Facilitators are in Italics

REFERENCE 2: BRIDGING GAPS QUICK GUIDE

The following table maps out gaps that can constrain both the demand for and supply of financial services. The gaps for both type of actor are grouped under three main categories: knowledge gaps, resource or capacity gaps, and risks. Interventions for consideration by project team members and partners are presented for each gap. These are not exhaustive, but can be helpful in applying the other tools in this guide.

Figure 13. Bridging Gaps Quick Guide

Financial-related Gap		Description	Financial-related Intervention	Description
Borrower				
Knowledge	Financial monitoring	Borrower does not keep records and lack understanding of profitability.	Recordkeeping	Accounting or recordkeeping helps track past income and expenditures to better evaluate profitability and creditworthiness.
	Cash flow management	Borrower doesn't anticipate income/expenses.	Business and financial planning	Training in financial and business planning provides knowledge of how to use finance to improve cash flow and make investments.
	Understanding of finance	Borrower is not aware of financial products or lacks literacy to understand which are appropriate.	Financial literacy	Financial literacy training helps borrower access existing financial services.
Capacity	Collateral	Borrower does not have collateral that meets bank requirements.	Regulatory reform	Regulations may result in collateral requirements that result in populations unable to access finance.
			Financial product development	Alternative financial products (i.e. leasing, inventory credit, etc) or strategic alliances (guarantee, buyer contract, etc.) may be viable substitutes.
Risk	Return on investment	Borrower does not have return on investment to warrant market interest rates.	Financial Intervention specific to this activity is not advised at this time. Further evaluation is needed to determine if non-financial intervention (for example, TA, market linkages) can correct situation or if this is a nonviable activity.	
	Production risk	Borrower has significant risk of production failing, which will impact ability to repay.	Further evaluation is needed to determine if non-financial intervention can correct situation	
			Production insurance	Insurance products, particularly for agriculture.

	Market risk	Borrower may not be able to repay due to possible price drops.	Nonfinancial interventions may be required.	
			Purchase agreements	Purchase agreements provide security to hedge against price fluctuations and ensure reasonable project return to take finance.
	Household expenses	Borrower has household expenses/livelihood risks that impact business returns.	Nonfinancial interventions may be required.	
			Consumer finance	Consumer financial products may be relevant, such as savings/deposit services, insurance products and emergency/household loans.
Lender				
Knowledge	Screen reliability	Lender does not have information to determine profitability or willingness to repay.	Credit bureau	Credit bureaus (or if conditions do not yet exist, a “blacklist” of delinquent clients developed and maintained by interested parties) provide centralized information resources.
			Strategic alliances	Other actors can provide referrals based on sales/purchase histories or other knowledge of reliability.
	Assess profitability	Lender does not understand business or the key drivers of profitability for the potential borrower.	Specialized divisions	Financial institutions may hire tech-specific staff.
			Strategic Alliances	Financial institutions may rely on other actors with knowledge.
Capacity	Transaction costs	Lender is isolated from borrower due to infrastructure, distance or other proximity concerns.	Technology	Technologies such as cell phones can enable loan disbursements/repayments. Satellites can open up cheap remote offices.
			Intermediaries/franchise	Financial institution can contract local financial institution to administer financial product.
			Strategic alliances	Private actors such as various input retailers, buyers or associations can intermediate loan transactions to achieve efficiency and scale.
	Institutional	Lender lacks institutional capacity to deliver new product or reach a new market.	Institutional development	Institutional development support. Loan tracking, accounting software.
Risk	Opportunity cost	Lender faces an actual (versus perceived) opportunity cost of dedicating loan funds.	Alternative capital	Specialized loan capital sources for specific uses.
	Risk to entry	Lender faces risk of new untested market	Portfolio guarantees	Guarantees buy down part of the risk of default, which make it more attractive for financial institutions to lend to a new borrower and gain better understanding of this lending market.

Bridging the Gaps Tools

The earlier steps in this guide are designed to help users clearly articulate a strategy to make a value chain more competitive and to identify upgrades that are key to that strategy. They also help users consider facilitating activities, products and partners that are needed in order to achieve these upgrades. The third step includes two tools for incorporating the earlier analysis into a project plan of action. Consistent with a value chain approach, it is assumed that these actions will facilitate key upgrades by tapping and sustaining incentives for value chain actors to invest in increased competitiveness, by increasing their capacity to do so, by engaging them in the process, and by identifying clear exit strategies so that services provided by the project will not simply evaporate when project funding ceases.

Tool 5: Work Planning Guide


The purpose of the Work Planning Guide is to map out specific tasks and roles for the project activities that have been identified and prioritized in the course of the previous exercises. While some level of detail can be included here, this sheet is most useful as an overview for a workplan. Each row can be isolated as a separate exercise to fill in greater levels of detail, but the overview version is useful for showing in one page the “what” and “who” of the value chain finance project.

The first step is to prioritize activities. The basis for this should be the outcome of the previous analyses. Taking them into account, what have you decided will be the principal areas for project intervention? This can be very general (e.g., “value chain finance training for financial institutions”) or more specific (“develop new factoring product for two cooperatives”), or there can be overarching categories of activity with sublevels of tasks.

Next, decide which actors will be identified as partners in the prioritized activities. You can name them if they are unique to the activity (“Star Micro Bank”) or group them (“MFIs” or “commercial banks”). Further, you can include only financial institutions, or you can include value chain actors as well if you envision them having an important role in project implementation.

The next step is to describe the role of the project (add as many levels of detail as you view to be useful) and the role of the different partners. If it is useful, use visual tools such as font size to indicate the prioritization, for example, by putting the highest-priority or highest-potential partners in bold or in a larger font.

Figure 14. Work Planning Guide




Work Planning Guide

Intervention	Project Role	Role of Partners			
		Partner 1	Partner 2		
Intervention 1. Ex. <i>Financial literacy of farmers</i> (in rows below, indicate activities that support this intervention)					
Activity: <i>Develop Curriculum</i>					

Activity: Training of trainers					
Intervention 2.					

Figure 15. Work Planning Guide – An Example

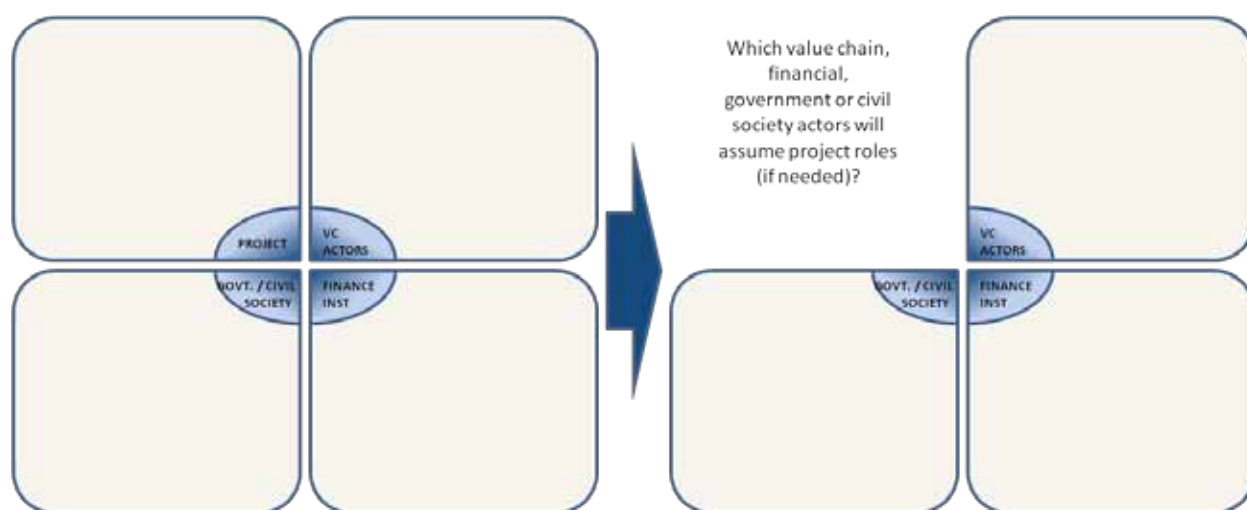
		Value Chain Finance Activity Planning			
Initiative	Project Role	Role of Fin Institution partners (Size indicates priority)			
		Banks	NBFIs	MFIs	VSL Clubs
Strengthening market and F.I. linkages					
Loans to Producer Groups	Project staff helps link actors, develop loan proposals, broker deals and coordinate with other initiatives.	Bank 1	NBFI 1	MFI 1, 2,3	
Equipment Loans	Project staff helps develop loan proposals and do economic analysis.	Bank 1, Bank 2	NBFI 1	MFI 1, 2	Potentially, VSLs can become vendors and service providers if they can access additional capital.
Building Supply-side Capacity					
Ag lending Business Plan and strategy	Project staff coordinates with a local consultant to work with the one MFI that already has demonstrated interest and capacity. Consultant develops business plan, recommendations on strategy, follow-up.			MFI 1	
Ag lending training and workshops	Project staff researches and adapts existing modules, and develop new ones. Use this intro-level training to gauge interest in this as a strategic direction, then follow up with more targeted TA in linking to value chain actors.	Bank 1	NBFI 1	MFI 2, 3, & others	VSLs
Building Demand-side Capacity					
Management, financial planning, FaaB to groups (and VSLs if possible)	ToT. Can adapt and use financial education and/or financial planning modules and materials.				VSLs

Tool 6: Engaging Stakeholders Chart²

Tool 6 focuses on interventions and the roles different actors will play in implementing them. These roles can also be organized by type of actor and presented in a dynamic manner (as in the second graphic below) to show how functions will change and continue beyond the life of the project. By considering and illustrating the role of the project in relation to other public sector, private sector and civil society actors, planners can more easily identify market roles and gaps, and consider whether or not they have developed effective exit strategies.

Identify key project activities or components. Use a sheet for each one, or color code the activities on a single sheet. For each activity, identify the key actors and their roles during the life of the project and following the project. In discussions with planners, look for gaps in project activities that need to be filled in order to increase the likelihood that desired roles will be carried out beyond the life of the project. Pay special attention to project roles that do not continue beyond the life of the project, and identify incentives that will make critical activities or services viable once project funding winds down. Refine the plan and the graphic accordingly.

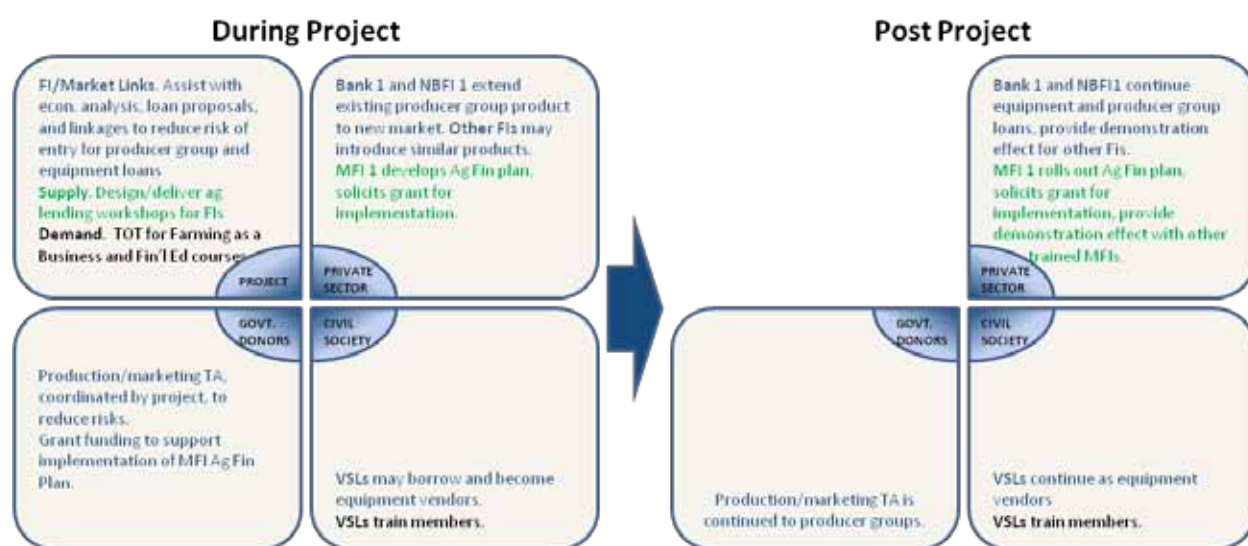
Figure 16. Engaging Stakeholders Chart



The example below presents the activities that were mapped out in the Work Planning Guide above, using this modified approach.

² ACDI/VOCA under the USAID-funded Accelerated Microenterprise Advancement Project: Business Development Services (AMAP BDS) Knowledge and Practice Task Order GEG-I-00-02-00016-00 Order #4

Figure 17. Engaging Stakeholders Chart – An Example



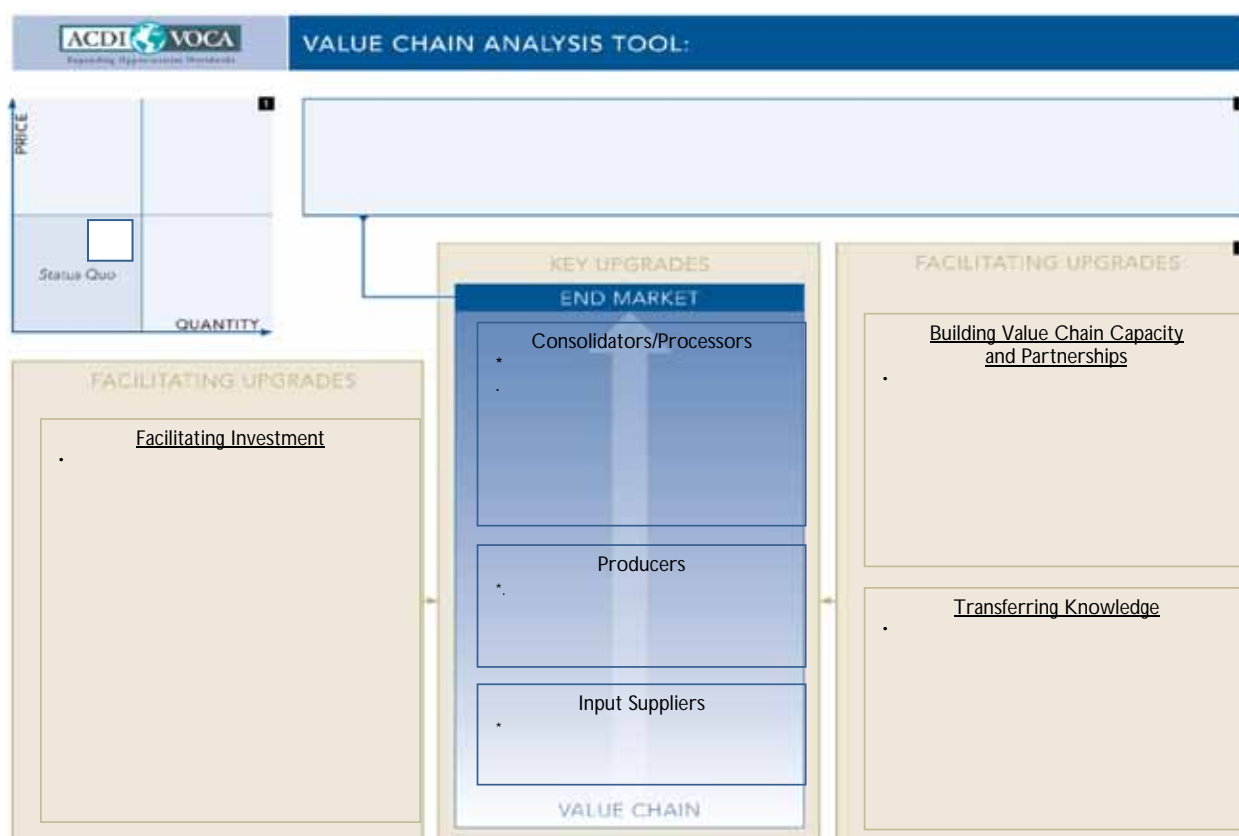
Tool 1 Worksheet




“Market opportunity” example from Tajikistan: Increased production of tomato to the processed market which will generate more income than current levels because it will provide a stable and reliable market to complement the unpredictable fresh market.



Tool 2 Worksheet



Tool 3 Worksheet

		Incentives and Constraints Matrix			
Financing Required:		Enter financial demand.			
Actors:	(Actor1)	(Actor2)	(Actor3)	(Actor4)	
Incentive and Interest					
- Provide financing - Facilitate financing * Screening * Collateral * Disburse/collect		<i>Incentive and Interests</i> A) Identify the commercial incentives of each actor to provide or facilitate the required financing. What do they stand to gain from the upgrade this financing will enable? B) Determine whether they realize this potential commercial incentive and/or if there are external factors preventing them from accurately assessing the potential commercial gains.			
Capacity					
- Provide financing - Facilitate financing * Screening * Collateral * Disburse/collect		<i>Capacities</i> C) Describe the existing and potential capacity of an actor to provide or facilitate financing (assuming they have the incentive and interest). This question helps to determine the strengths of an actor and how well-positioned they are to provide or facilitate financing needed for the investment.			
Constraints					
Provide finance Cost Real risk Knowledge		<i>Constraints</i> Indicate what constraints are preventing an actor from providing or facilitating financing. This includes not only supply constraints but also demand and regulatory constraints. It may be helpful to group constraints by knowledge, real risk and cost.			
Facilitate finance Cost Real risk Knowledge					

Tool 4 Worksheet

Figure 9. Incentives Ranking Tool

INTEREST	High	<u>Specify FS Consumers</u> Specify FS providers <i>Specify FS Facilitators</i>	<u>Specify FS Consumers</u> Specify FS providers <i>Specify FS Facilitators</i>	<u>Specify FS Consumers</u> Specify FS providers <i>Specify FS Facilitators</i>
		<u>Specify FS Consumers</u> Specify FS providers <i>Specify FS Facilitators</i>	<u>Specify FS Consumers</u> Specify FS providers <i>Specify FS Facilitators</i>	<u>Specify FS Consumers</u> Specify FS providers <i>Specify FS Facilitators</i>
	Low	<u>Specify FS Consumers</u> Specify FS providers <i>Specify FS Facilitators</i>	<u>Specify FS Consumers</u> Specify FS providers <i>Specify FS Facilitators</i>	<u>Specify FS Consumers</u> Specify FS providers <i>Specify FS Facilitators</i>
		Low	ABILITY	High

Key:

FS Consumers Underlined

Potential FS Providers in bold

Facilitators are in Italics

Tool 5 Worksheet

ACDI VOCA Expanding Opportunities Worldwide		Work Planning Guide			
Intervention	Project Role	Role of Partners			
		Partner 1	Partner 2		
Intervention 1. Ex. <i>Financial literacy of farmers</i> (in rows below, indicate activities that support this intervention)					
Activity: <i>Develop Curriculum</i>					
Activity: <i>Training of trainers</i>					
Intervention 2.					

Tool 6 Worksheet

