Rural Finance Initiative

RFI

Methodology of providing financial services using the Value Chain

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3. Strategy for working with the Value Chain:
   - PHASE 1: Focusing on anchor firm
   - PHASE 2: Focusing on producers or other actors on the chain
4. Implementation:
   - Preliminary phase: Mapping the chain and its scope (actors)
   - Collecting information: History, environment, actors, governability, markets, economic and financial analysis.
   - Results of the Analysis: Strengths and weaknesses
     - Financial needs
     - Needs related to strengthening of enterprises
   - SF Proposal
5. Practical Exercise

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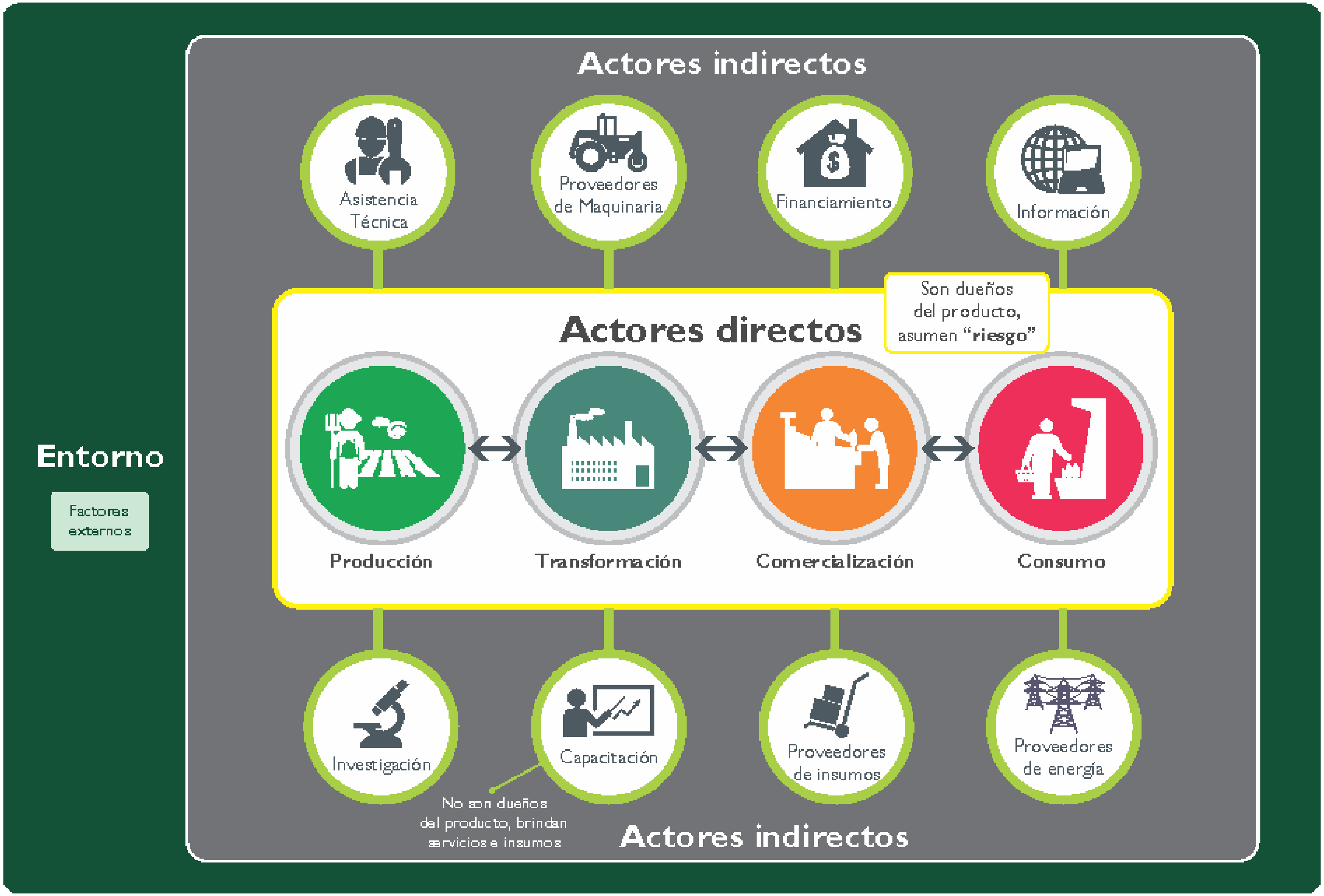
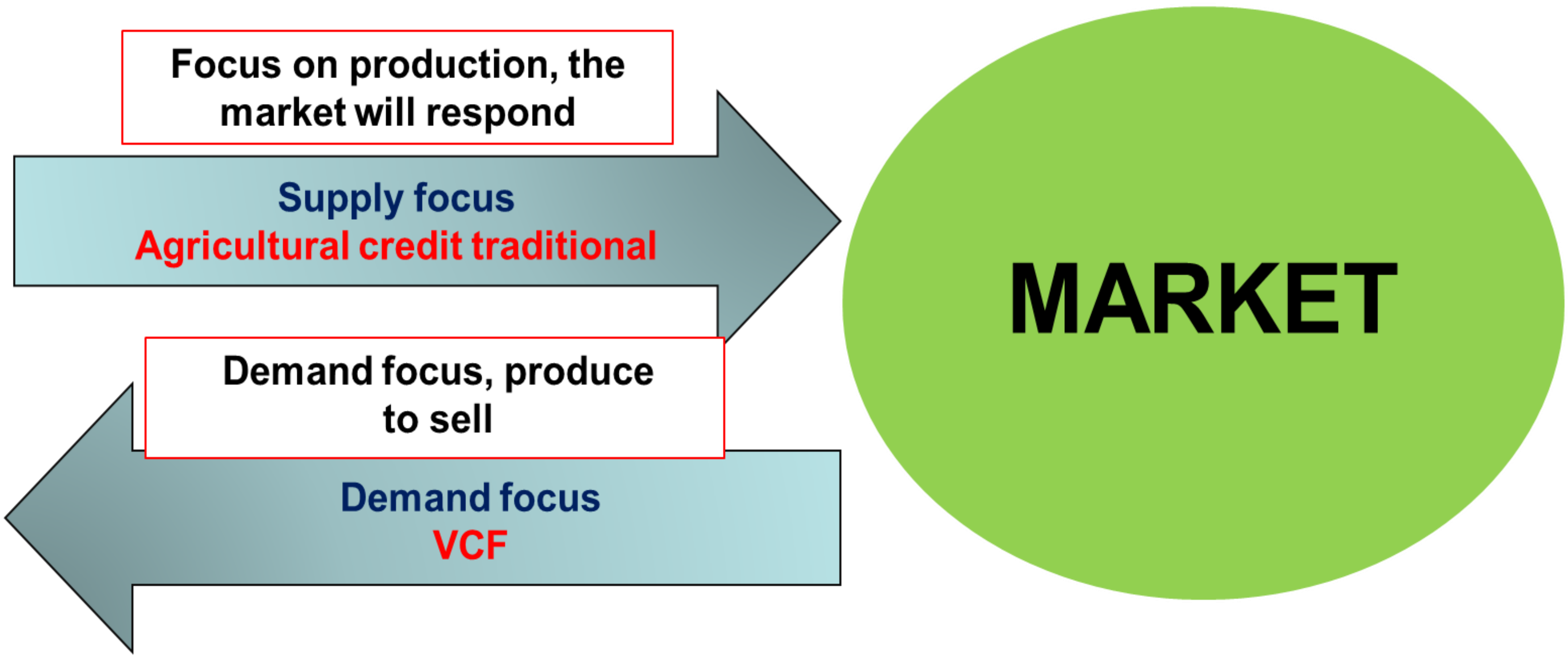
¿What is Value Chain Financing and what are its goals?

Esquema de la **Cadena Productiva**



Two Market Response approaches



Value Chain Financing

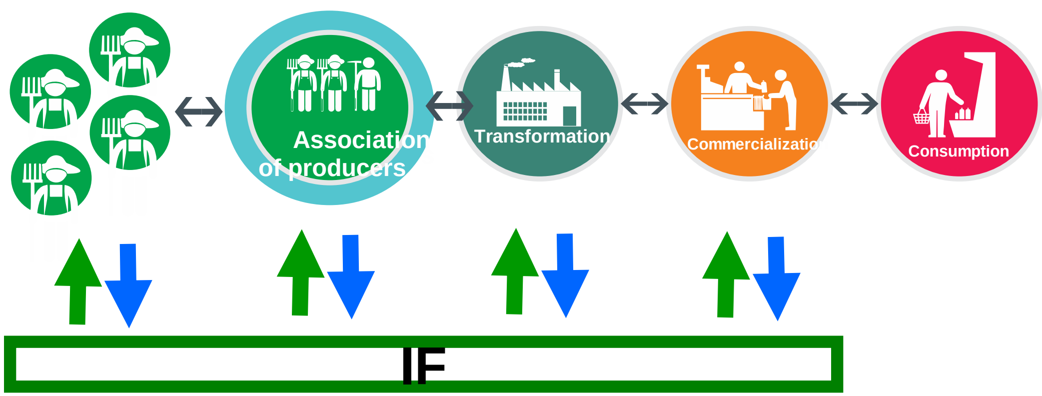
Direct

- Facilitated by buyers Credit in kind (inputs) or in cash (advances)
- High costs (price)
- Limited resource availability
- Generally for short-term working capital but not for medium or long-term financing

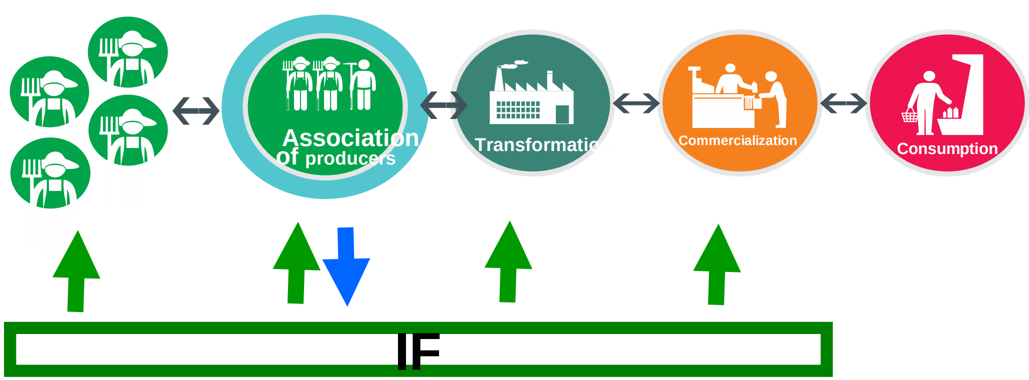
Indirect

- Provided by financial institutions
- Diversity in financial products and services
- Products: short-term working capital, leasing, warrant, long-term investment capital, etc.
- They develop long-term links Greater availability of resources and financing is its main activity
- It is more efficient than direct financing

Traditional Financing



Value Chain Financing- VCF



Traditional

- Direct attention to each actor in the chain
- High origination cost
- Cost of recovery and high administration.
- Individual risk analysis and approvals with emphasis on guarantees.
- Experience has shown greater risk.

VCF

- The anchor organization is used to obtain information and build an access channel to the actors in the chain.
- Decreases origination costs (uses information from the point of entry of the chain to serve other customers)
- Lower cost of recovery and administration.
- Perception of lower risk.

¿How does the methodology of value chain financing work?

By:

- Identifying productive links on the value chain within regions
- Mapping the actors, evaluating their characteristics and their relationships
- Identifying needs for financial services and **SDE**
- Establishing a supply of financial services and **SDE**
- Execution

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Strategy for working with the Value Chain:

PHASE 1: Focusing on anchor firm

- Anchor Firm: Organization that is able to distinguish the flow of resources within the chain Identification through features such as:
  - Commercialization
  - Transactions
  - Governance
  - information
- Objective: Establish a strategic approach in the that allows the systematic supply of financial services to the actors of the chain and that leads the chain project

Strategy for working with the Value Chain:

PHASE 1: Focusing on anchor firm

- Anchor firm referencing selection of producers characteristics such as:
  - Permanence in productive activity
  - Exclusive marketing through the anchor company
  - Associate active in the Organization
  - Payment behavior in the Revolving Fund
- Financing to increase productivity: chain project
- Financing from historical transactions with the anchor firm

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Implementation of Value Chain Financing Methodology

PHASE 1
PRELIMINARY

- PRODUCTIVE SECTOR: Principal activity
- SCOPE OF INTERVENTION: Actors/Links
- INITIAL MAPPING OF CHAIN Generalities

PHASE 2
INFORMATION GATHERING

- HISTORY: Constitution/creation. economic structure
- Environment: Administrative/financial characteristics. Environmmental impact. Infrastructure
- ACTORS: Direct/Indirect
- MARKETS: Supply/Demand. Sustainability. Access.

PHASE 3
INFORMATION ANALYSIS - STRATEGY

- STRENGTHS AND WEAKNESSES: Critical points and competitive advantages
- INTEGRATED RISK MANAGEMENT: Credit, operating, liquiity, market, gobernability
- BUSINESS PLAN: Roadmap to defining FS and **SDE** needs

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