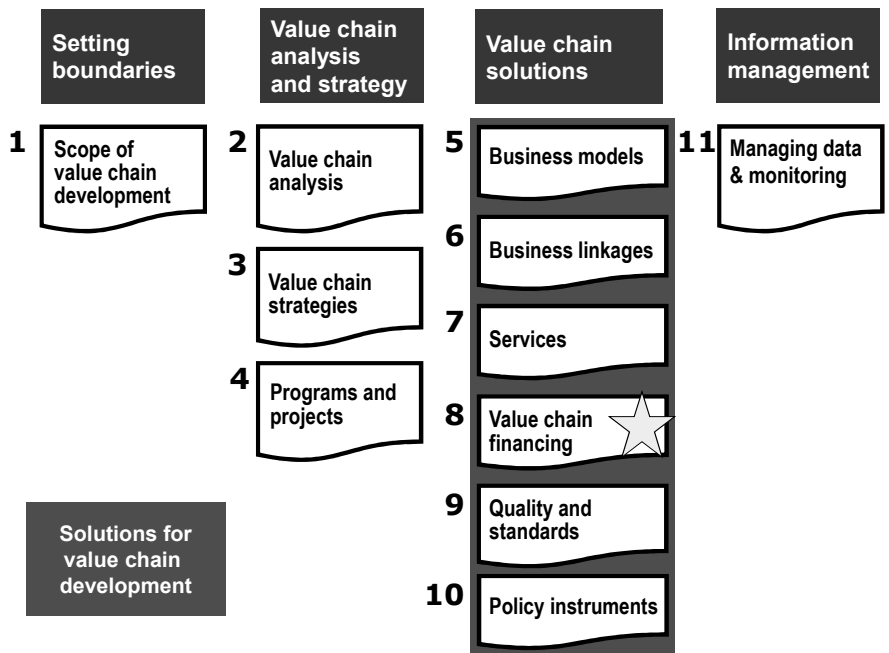




# ValueLinks Module 8

## Value chain finance

### Structure of ValueLinks 2.0





## Value Chain Financing Solutions

### Contents

- 1** Financing needs of value chains and VCD
- 2** Financing solutions
- 3** Risk management



## Financing needs of value chain development

### Classifying the financing needs arising in VC development

**1**

*...physical & financial capital*

*...institutional & human capital*

LT capital (fixed assets)  
ST working capital  
of operators

Funds for  
*building cooperatives*  
*vocational training*



LT capital (fixed assets)  
ST working capital  
of service providers

Funds for  
*associations*  
*staff training*



Rural infrastructure  
*(from resource management to communications)*

Funds for  
*improvement of organization and staff training*



## Financial Needs of VC Actors

### Typical financing needs of operator business models



1

**Short term working capital**  
2-6 months

Bridging the period between  
- purchase of inputs and sale of harvest  
- delivery of buyers

Bridging the period between  
- purchase of intermediate products and sale of product  
- delivery of products and payment of buyers

Bridging the period between  
- purchase (in bulk) and retail (store value)  
- Export of product and payment of overseas buyers

**Long term Fixed assets**  
2-5 years

Investment into  
- tree plantation  
- greenhouse  
- storage space  
- equipment, machinery

Investment into  
- buildings  
- equipment, machinery

Investment into  
- buildings  
- vehicles

5



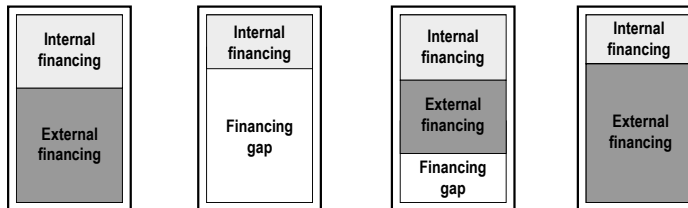
## Reasons for financing gaps along the VC

### Financing business models along the value chain



1

**Financing gaps**



**Reasons for gaps, e.g.**

- No access to credit for small size and lack of collateral;
- Little saving potential;
- Business model not attractive enough
- New entrants with no track record
- Small size
- Business model not attractive enough

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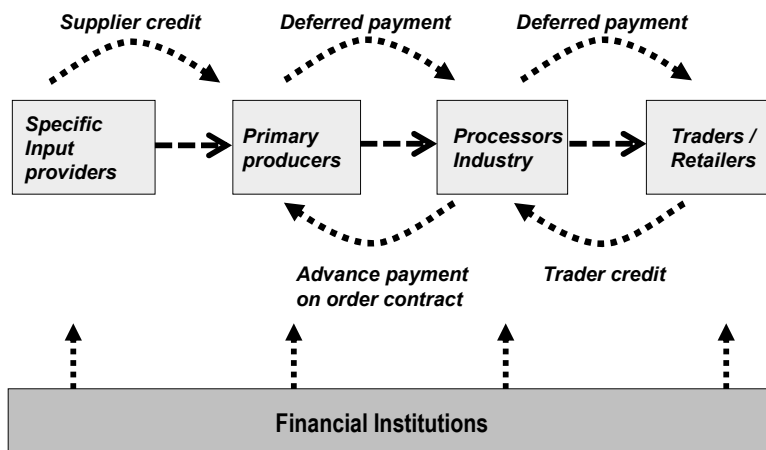
## Value Chain Financing Solutions

### Contents

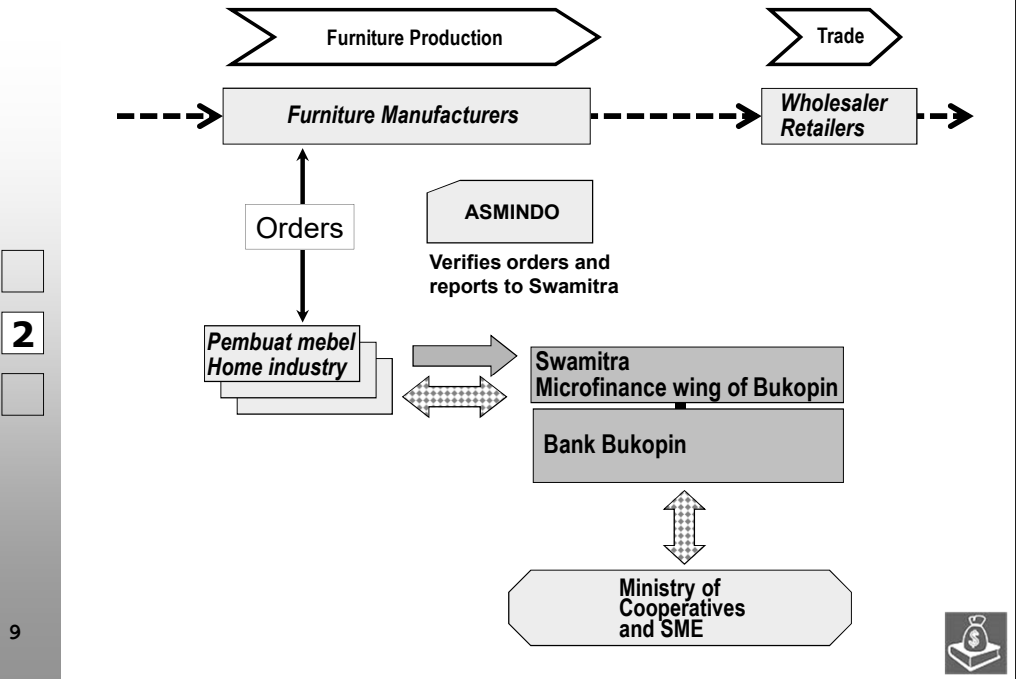
- 1 Financing needs of value chains and VCD
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## VC-Internal Financing Arrangements

### Internal / external value chain financing

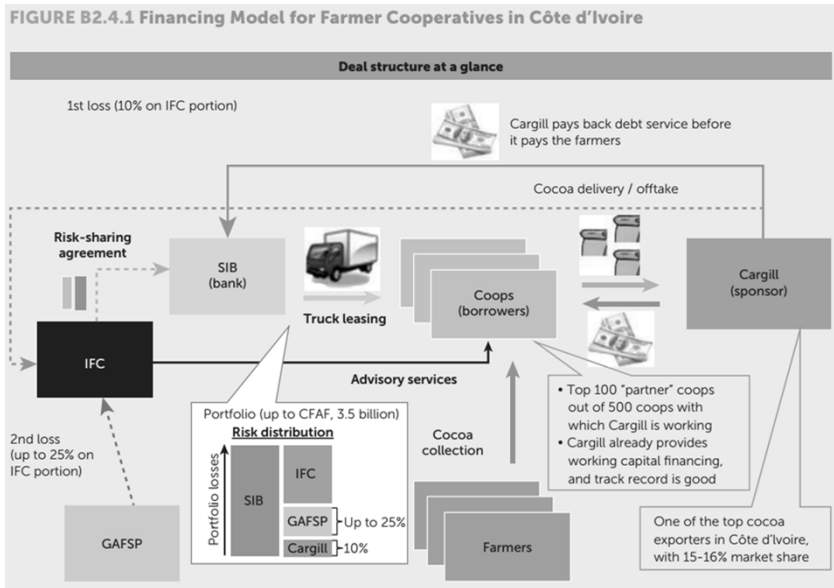


### Tripartite Finance

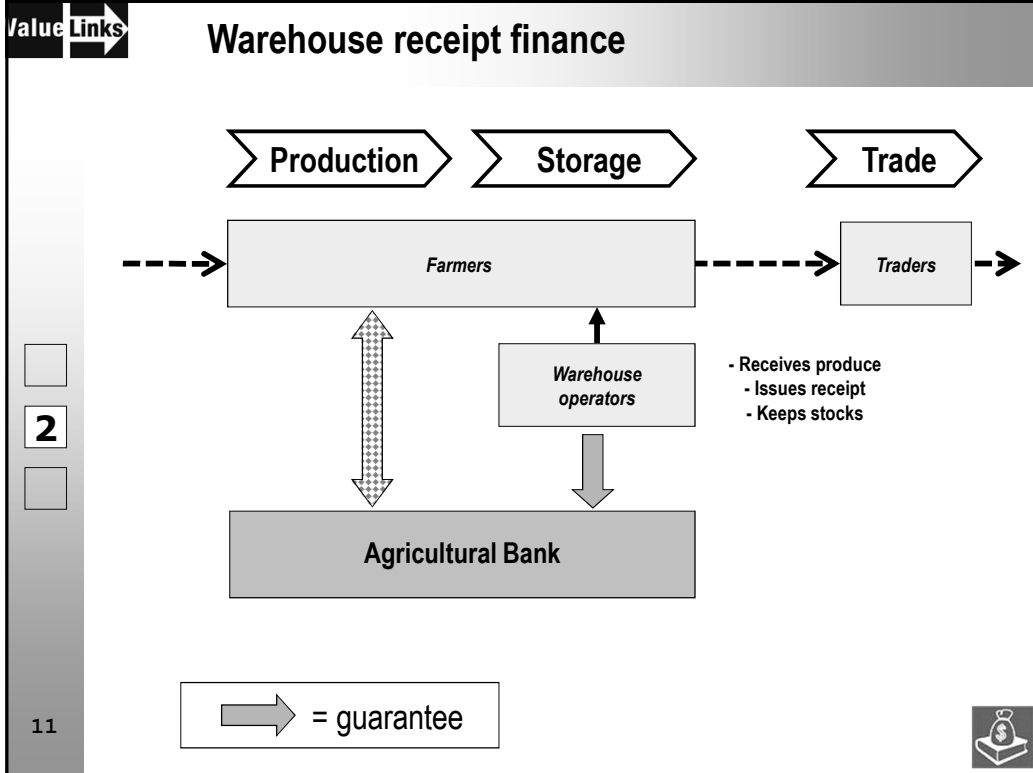


2


### Tripartite Finance – Example including leasing



Source: IFC 2017, [https://www.ifc.org/wps/wcm/connect/news\\_ext\\_content/ifc\\_external\\_corporate\\_site/news+and+events/news/impact-stories/affordable-credit-for-ivoirian-cocoa-co-ops](https://www.ifc.org/wps/wcm/connect/news_ext_content/ifc_external_corporate_site/news+and+events/news/impact-stories/affordable-credit-for-ivoirian-cocoa-co-ops).  
 Note: GAFSP = Global Agriculture and Food Security Program; IFC = International Finance Corporation; SIB = Société Ivoirienne de Banque (Ivorian Bank Corporation).



**Value Links**

 **Value Chain Financing Solutions**

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## Typical risks along agricultural VCs

<b>Weather risks</b>	Periodic deficit and or excess rainfall or temperature, hail, storms
<b>Natural disasters</b>	Floods and droughts, hurricanes, earthquakes and volcanic activity
<b>Biological risks</b>	Crop and livestock pests and diseases, food contamination
<b>Market risks</b>	Supply, demand, price changes, changes of quality and food safety requirements
<b>Infrastructure risks</b>	Degraded transport, communication, energy infrastructure
<b>Management risks</b>	Poor quality control, forecast and planning errors, use of outdated seeds
<b>Institutional risks</b>	Changing monetary and tax policies, uncertain legal policies, weak institutional capacity
<b>Political risks</b>	Security-related risks, national or international political and social instability

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## Risk Management Instruments

- **Technology development and adoption** (R&D, postharvest technology, software development, IT, education programs)
- **Enterprise management practices** (e.g. farm diversification, certification, Just-in-time management, inventory control, food safety practices, logistics planning, early warning systems)
- **Financial instruments** (e.g. credit, insurance, warehouse financing)
- **Investment in infrastructure** (e.g. transport / communication, energy, informatics and knowledge transfer, storage and handling, processing facilities, weather stations)
- **Policy and public programs** (regulatory measures, agricultural policies, property rights, labor laws, disaster management, safety nets)
- **Private collective action** (action by cooperatives, industry associations)

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<b><i>Natural Disasters</i></b>	<ul style="list-style-type: none"><li>▪ Disaster insurance</li></ul>
<b><i>Market related risks</i></b>	<ul style="list-style-type: none"><li>▪ Price index insurance</li><li>▪ Area index insurance</li><li>▪ Warehouse receipt</li></ul>
<b><i>Operational risks</i></b>	<ul style="list-style-type: none"><li>▪ Credit guarantee fund</li><li>▪ Contract farming</li><li>▪ Traditional insurances (e.g. hail)</li><li>▪ Savings and credit</li><li>▪ Micro life-insurance</li></ul>

**3**