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Financial Institution Resilience & STrengthening

Agriculture Finance – Applying a Value Chain Approach

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Ag Value Chain Financing (Part 1)

Objectives:

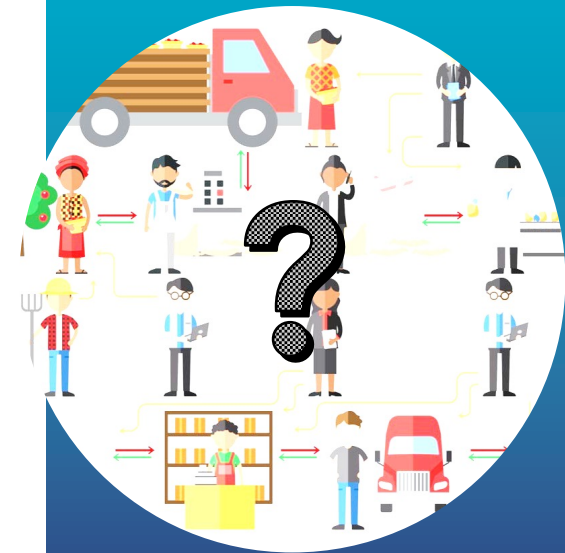
Ag Value Chain
Finance

Common language: Ag finance and AVCF concepts & terms

Determine if you are financing Ag sector (“unknowingly”?)

Clearer idea of what value chain finance is all about

Basics on implementing value chain finance: is it for me?



Ag Value Chain Financing (Part 1)

Topics:

1. What is a value/supply chain?
2. Are you financing the Ag value chain?
3. What is value chain finance?
4. Basics of implementing VCF

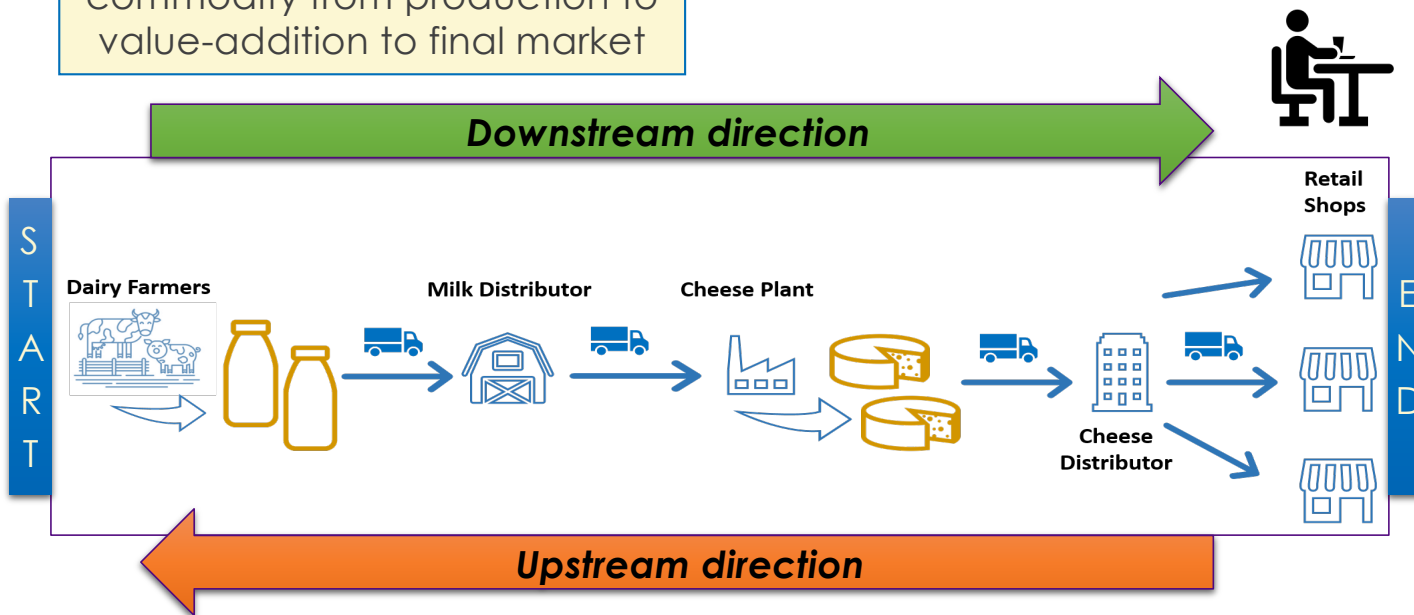


1. What is a value chain?

Plain and simple....:

A value/supply chain comprises all the **processes, actions** and **actors** needed to get a commodity from production to value-addition to final market

In Agriculture, the concept is often captured by the phrase: **"From farm to fork...or fingers"**



The concept is simple.

The realities and dynamics are less so...



1. What is a value chain?

The “zero-waste” concept:

Under the “circular economy”, or “**zero-waste**” concept, the value chain includes taking account of the waste produced by the product and its packaging

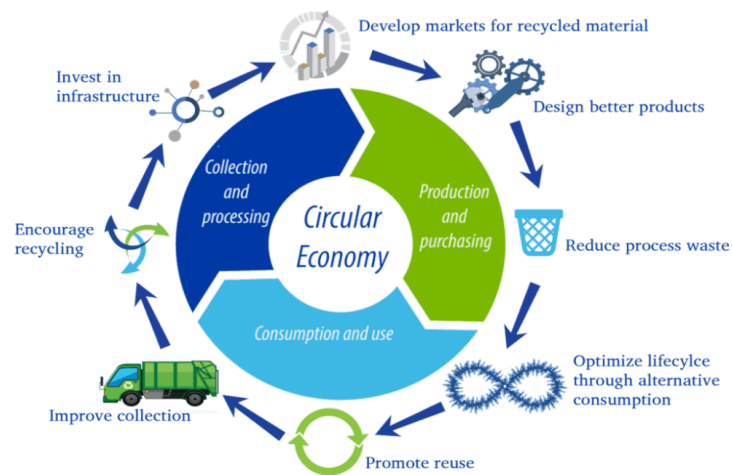
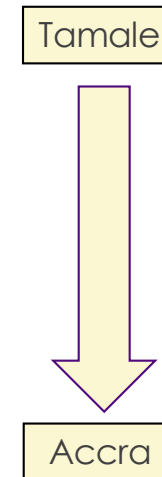
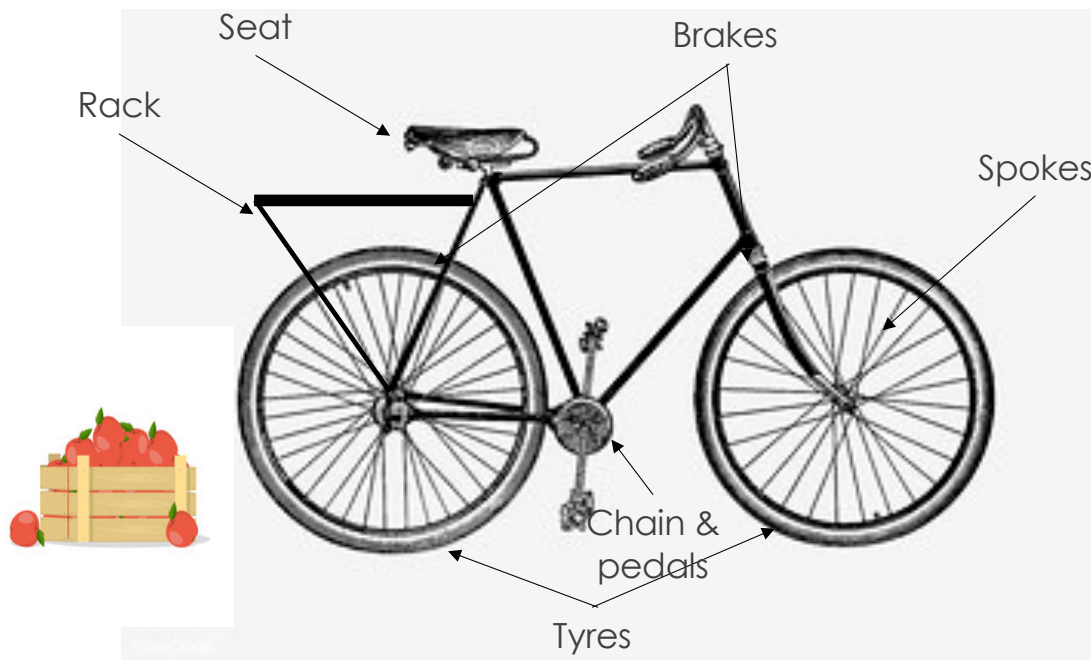


Image: Sustainable Global Resources Ltd.
Recycling Council of Ontario

1. What is a value chain?

Dynamics and dependencies:



All the “parts” (actors) of a value chain need to be in good working order, and need to **work smoothly together** to get the commodity from “A to B” with quality and quantity intact.

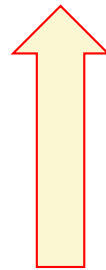
A breakdown with any part will have consequence on the entire chain.

1. What is a value chain?

Mathematically-speaking:

$$1 \times 1 \times 1 \times 1 \times 1 \times 1 \times 1 \times 1 = 1$$

$$1 \times 1 \times 1 \times 1 \times 1 \times 0 \times 1 \times 1 = 0$$



Oops!! Didn't see that coming...!

All the “parts” (actors) of a value chain are dependent and connected, like a mathematical formula.

If one link is weak or broken, the whole chain can be disrupted, if not stopped...

1. What is a value chain?

Some chains look like this:

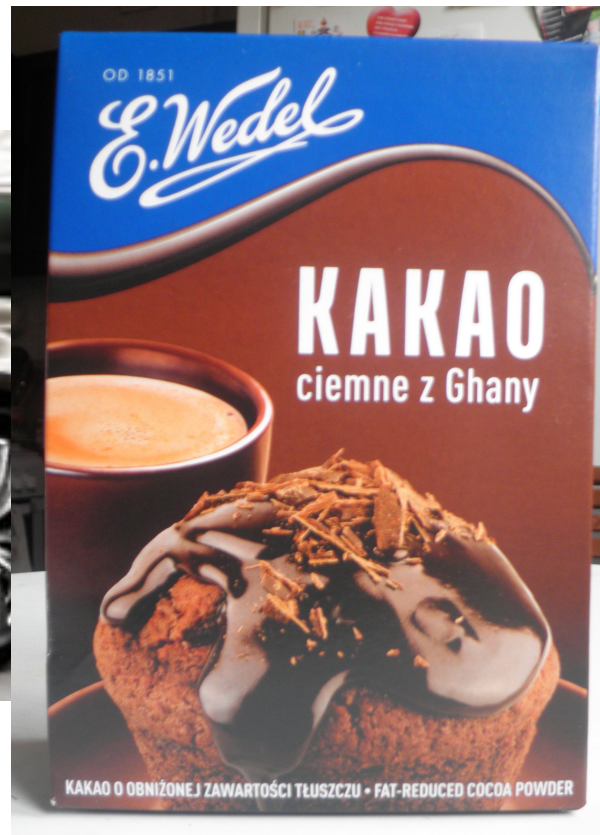


Some chains are relatively simple and short.

Less “moving parts” = Less “pressure points” = Less breakdown risk.

1. What is a value chain?

Some chains look like this:



Some chains are more complex, longer and have more “moving parts”.

Such chains have usually been built up over time and generally work smoothly.

Can you suggest some examples?

1. What is a value chain?

Some chains may even look like this:



Some value chains are dysfunctional and **plagued with many issues** that are not related to finance.

Issues around technical, logistics, relationship, or market failures

Do you know any chains like this?

2. Are you financing the AgVC? Do any of your clients look like this?

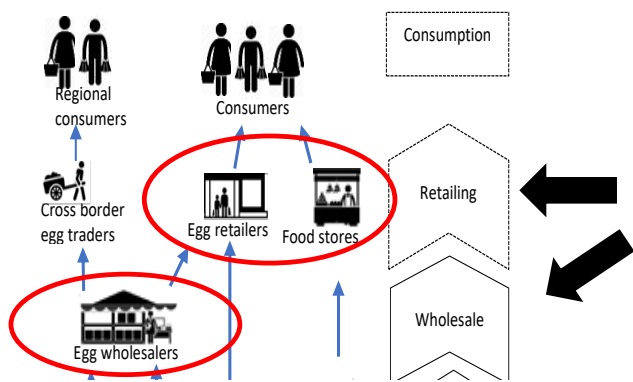
If so, you are financing the Ag-vet* value chain.



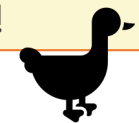
*Ag-vet = Ag and animal products

2. Are you financing the AgVC?

You can run, but you can't hide!



If it looks like a duck, walks like a duck, and quacks like a duck...it probably **is** a duck!



Are you financing these kinds of clients?

← What about these actors? Are they not linked to your clients?

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← What about these actors? Are they not linked to your clients?

The Ag sector is not only production...it is a **value chain of various actors.**

The actors are linked and depend on each other; therefore, the risks are also linked!

You can run, but you can't hide from a value chain!

3. What is value chain financing?

Defining VCF:

I would define value chain financing as:

- A. ~~Providing finance to a business in a value chain.~~
- B. ~~A set of financial products specially designed for actors in a value chain.~~
- C. An approach/framework to financing based on analysing the entire value chain before providing finance.
- D. ~~All of the above.~~
- E. ~~None of the above.~~



Value chain financing is first and foremost a financing **approach or methodology.**

On our “bicycle” value chain, if the brakes work but the tyres are flat, what do we have?

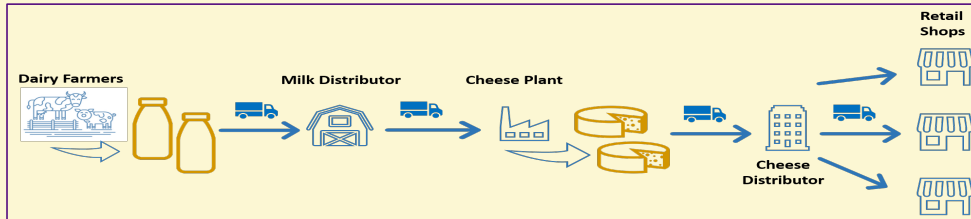
Note: a financial product is just a product. It is **not** value chain finance...!!

3. What is value chain financing?

Let's be clear...:

Ag finance vs. Ag value chain finance: a difference?

- **Ag finance** – how to finance the production level - products
- **Ag value chain finance** – a risk mitigation approach and framework - the entire chain is holistically taken into account; it is not a product or set of products



Ag Finance is concerned with how to finance the production level of the chain = **a sub-set of AVCF.**

The AVCF: All actors linked together in a chain = risks are linked.

3. What is value chain financing?

Think like a detective and a doctor:



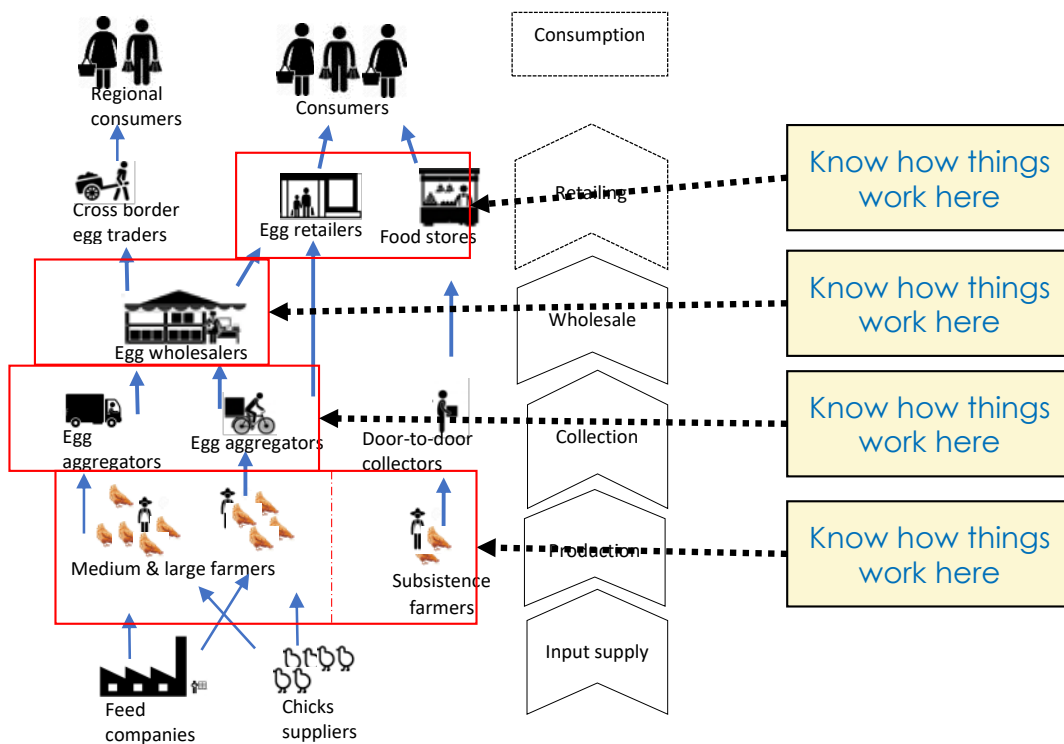
Investigate and diagnose the “illnesses in the chain”: the causes and locations.

Being aware is more than half the “cure”.

Big tip: not all chain “illnesses” can be cured with finance!!

3. What is value chain financing?

Understanding the whole picture:



Value chain financing means understanding the whole chain, from start to finish.

3. What is value chain financing?

In summary:



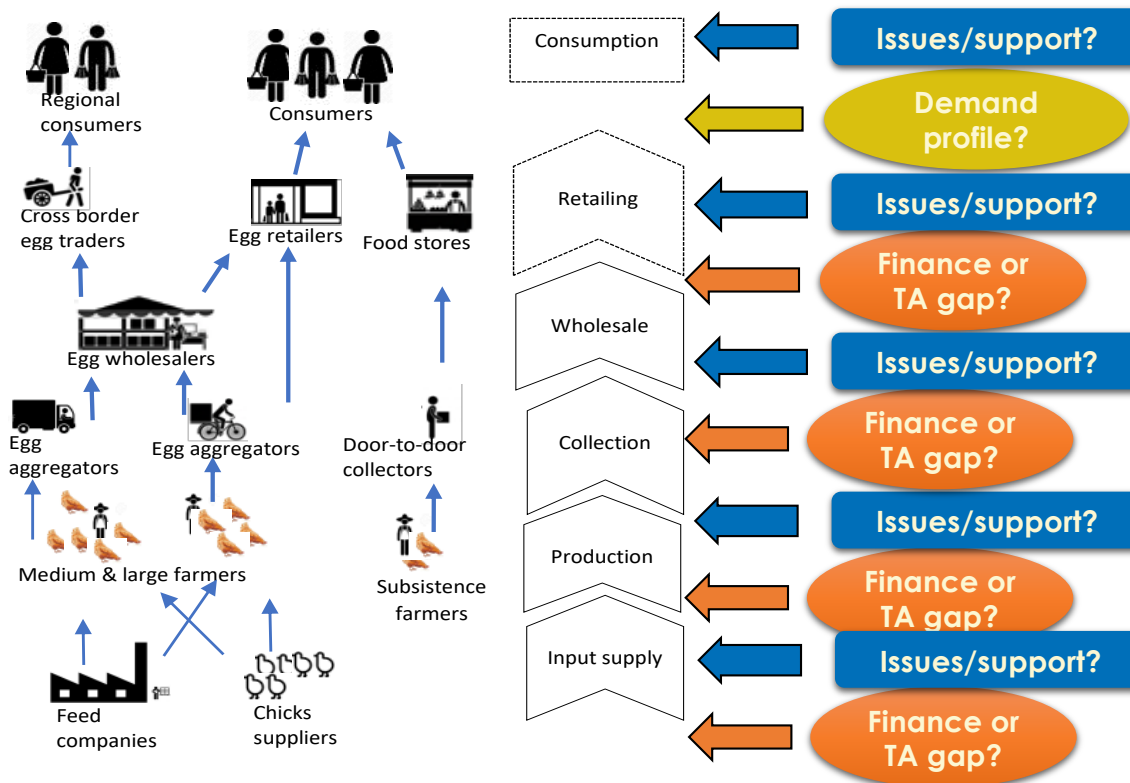
1. VCF is a diagnostic approach to expose risks along the entire value chain – it is part of risk mitigation management.
2. Implementing VCF can be very time-consuming and complex, at first.
3. All economic activities are part of a value chain...no exception and no escape.
4. Therefore, not implementing VCF is like financing blindfolded.



Even if we only finance 1 level of the chain, we must understand how the entire chain is structured and functions to really be able to mitigate risks: **relationships, bottlenecks, and motivations.**

4. Basics of implementing VCF

Mapping chain issues and gaps:

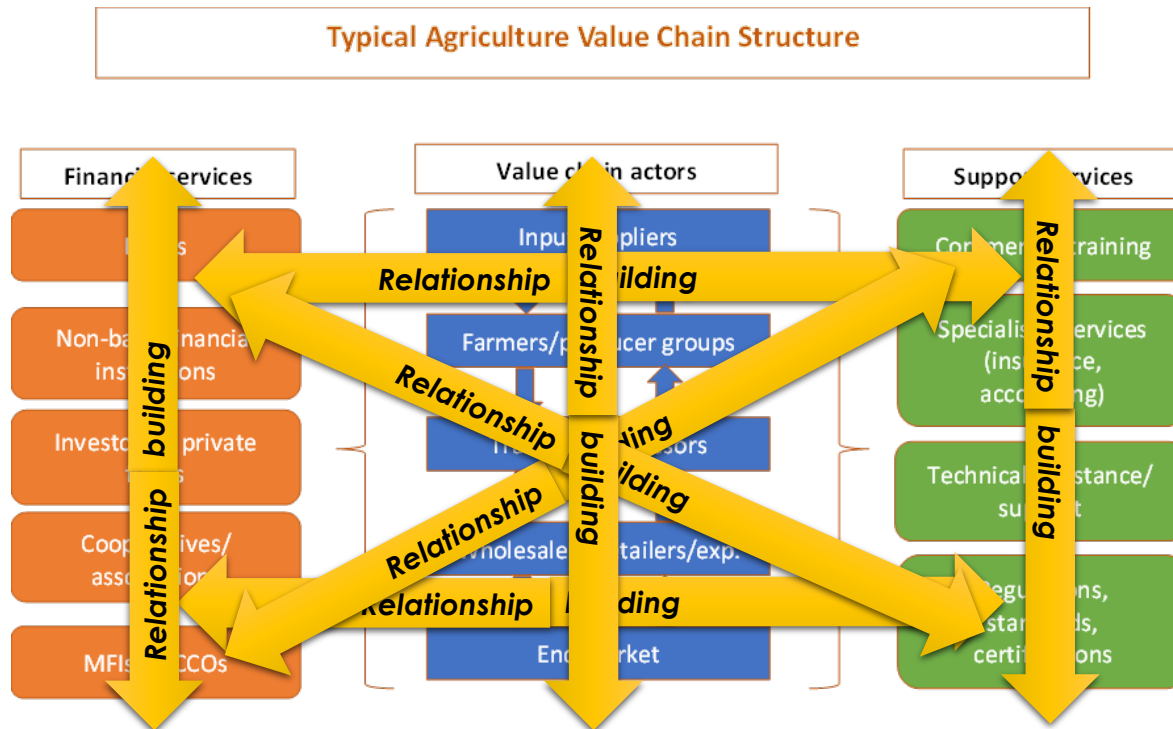


Know your client then **map** your client's chain - identify issues and gaps **at each level in the chain!**

Tip: A value chain mapping is best done by a VC expert (usually outsourced).

4. Basics of implementing VCF

Leveraging the value chain eco-system:



Every chain has multiple actors with different and important roles.

Linkages and **partnerships** are needed to strengthen the chain, reduce risks and ensure a smooth ride for all involved.

Knowing the **horizontal, vertical and cross-over relationships are essential!**

4. Basics of implementing VCF

The value chain map café:



Breakfast

- Egg value chain
- Dairy value chain (milk, cheese, yogurt)

Main courses

- Beef value chain
- Pork value chain
- Chicken value chain
- Maize value chain

Side dishes

- Tomato value chain
- Avocado value chain

Desert

- Strawberry value chain

Time to see one example of a value chain mapping.

Poll: choose which value chain mapping you would like to see.

4. Basics of implementing VCF

Levels in implementing VCF:

Level 0: Ignore the value chain – “blindfold finance”

Level 1: Be aware

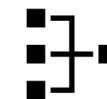
- ❑ Isolate the “illnesses”: start with what you have - classify by risk profile
- ❑ KYCC = Know Your Client’s Chain – map it and investigate!
- ❑ Diagnose root causes and try to mitigate

Level 2: Coordinate and partner (includes level 1, plus...)

- ❑ Build consultative/strategic relations with support organisations
- ❑ Cultivate synergetic strategies with other FIs financing the chain – cooperate rather than compete

Level 3: Pro-active, development strategy (includes level 1 & 2, plus...)

- ❑ Multi-actor financing facility packages



Isolate the “illnesses”.

Map and investigate.

Diagnose causes.

Mitigate.



Investigate like a detective,
diagnose like a doctor, act
according to your
capacity.

4. Basics of implementing VCF

Is AVCF for me?:

Why do it – what's in it for me?

- Ag is a high risk sector – if you're in it, the more you know the better
- Know your true concentration risk and PAR by value chain
- Focus mitigation strategies and leverage effective mechanisms
- Formulate pro-active portfolio concentration risk strategy

Which level of VCF to adopt?

- Determine how “deep” in it you are – PO concentration, PAR, VC length by value chain
- Growth ambitions
- Internal HR and skills capacity
- Financial “muscle” (level 3 requires a lot)



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Better idea of what value chain finance is all about

Basics on implementing value chain finance: is it for me?





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|-------------------|--|
| 8 February, 1:00 | Webinar: Ag Finance: Overcoming the Obstacles Discussion for Savings and Loans |
| 9 February, 1:00 | Webinar: Ag Finance: Overcoming the Obstacles Discussion for Rural Banks |
| 10 February, 1:00 | Webinar: Ag Finance: Overcoming the Obstacles Discussion for Microfinance and other institutions |
| 17 February, 9:00 | Workshop on Emotional Intelligence (Accra) – fully subscribed |
| 24 February, 9:00 | Workshop on Emotional Intelligence (Kumasi) |

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