IDENTIFYING A PROMISING VALUE CHAIN

MEASURING AND RANKING SUCCESS FACTORS

Assessment of a target value chain can be performed using a number of measures, beginning with the health and prospects of the overall value chain, through to the policy environment and evolutionary changes in the sector.

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INTRODUCTION

This step highlights a procedure for identifying a promising, high-potential value chain that a bank can target for value chain financing. The selection process, based on quantitative and qualitative criteria, helps banks to determine the

health and viability of different value chains and provides a guidance on how to select value chains with the most promise.

COMMERCIAL BENCHMARKS

Commercial viability should be evaluated through a holistic perspective, taking into consideration industry growth, investment (internal and external), fluctuations in price and production volume, variations in size of operations, and trends in international trade.

When choosing between different value chains, a financial institution can use a rating method based on scores for a number of quantitative, commercial criteria:

- Growth in industry, measured by value and volume of production over a specific period.
- Investment across the value chain, which is also an important signpost to specific risks and potential of an industry.
- Price volatility and changes in production volume, adjusted for seasonality.
- Size (measured as the value of production), which can be used to determine the attractiveness of a specific industry.
- Trends in international trade. These provide an indication of both the potential and the vulnerability of an agri-food industry sector and can offer particularly relevant insight regarding value chain financing.
- Financial flows into the industry, as these provide insight into how the financial market views the specific industry.

When choosing between different value chains, the financial institution can use a scoring method that ranks the results each of the criteria listed above.

Each value chain should also be assessed at the farm-level, considering annual growth in size of operation, yields (technology is often an important factor), value of production per growing unit, and the proportion of area planted that is ultimately harvested.

Additionally, the bank should find and evaluate its potential partners in the value chain using key financial benchmarks such as liquidity, cash flow leverage, debt service potential, and overall solvency.

POLICY AND STRUCTURAL ISSUES

Value chain evaluation must examine qualitative factors that might impact the attractiveness of the business proposition. Since value chain finance is often structured around the formation of long-term relationships as a strategy to

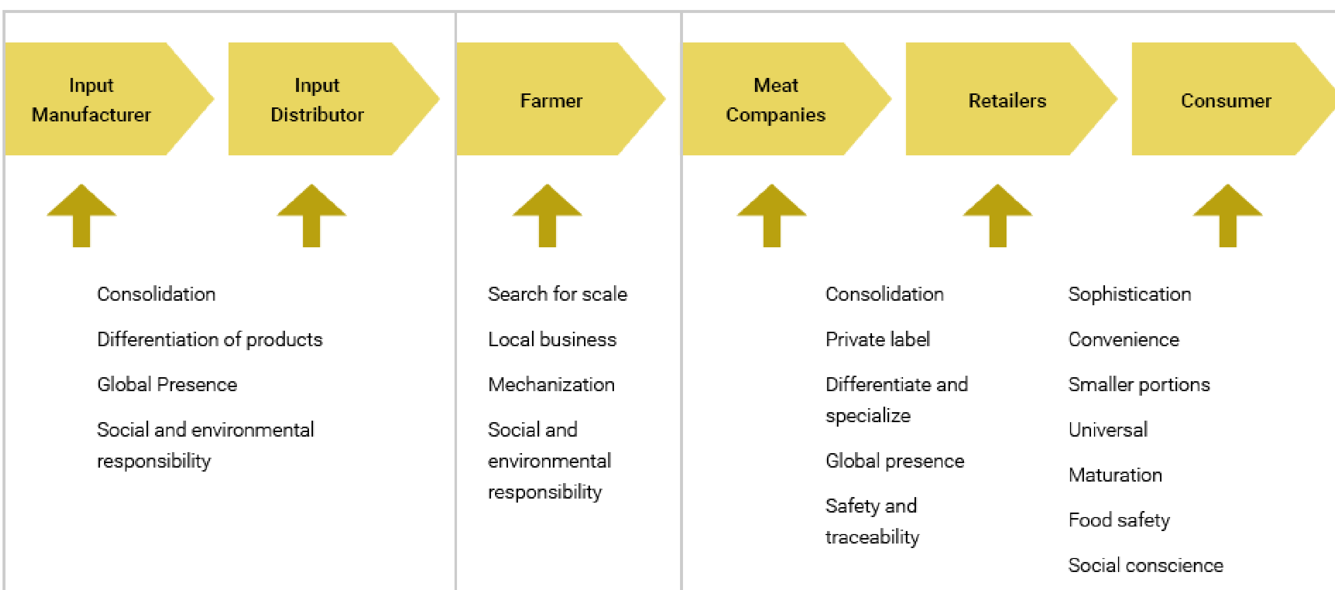
mitigate risks and offer a wider range of financial products, the more important qualitative criteria are the policy environment and structural changes taking place within the agri-food sector. Read more.

KEY SUCCESS FACTORS

Finally, the bank should look for success factors that help evaluate each member in the value chain. For input suppliers, success factors would likely include an ability to offer a diverse range of products to farmers and signs of consolidation among these players. For farmers, signposts might include the degree of mechanization and evidence of a desire to expand. The existence and growth of well-organized farmers' groups or associations are also success

indicators. For processors, signs of specialization and adherence to food safety and traceability regulations are useful. Consumer markets also should be evaluated for their degree of sophistication, their maturity, and their emphasis on food safety and issues of social awareness. Here is an example of the key success factors that Rabobank uses to assess the Brazilian Poultry Industry.

Success Factors in the Brazilian Poultry Industry



Source: Robobank, Brazil

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