MAPPING THE VALUE CHAIN

IDENTIFYING PARTICIPANTS, RELATIONSHIPS, FLOWS AND RISKS

Mapping the target value chain to identify key participants, their relationships and the flows of produce, information, services and finance provides confidence in the business proposition and ensures informed decision-making.

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INTRODUCTION

It is important to map out the key actors in the value chain and try to ascertain the flows of products, finance, information, and services amongst these actors. In this step, guidance is provided on how to map out the key actors in the chain, determine the relationships between actors and examine the flow

of information, product, finance and services throughout the chain. This step also highlights key risks to look out for that might comprise value chain financing opportunities.

KEY PLAYERS

Mapping of the agriculture value chain begins by identifying the main players, who usually fall into one of four groups.

Input suppliers

who provide farmers with a wide range of products and services including seed, fertilizer, livestock feed, veterinary services and medicines, machinery and farm technology. Read more.

Farmers

who grow the crops or raise livestock for sale. Read more.

Aggregators

who buy and pool farm production to sell up the value chain, and processors who transform the produce. Read more.

End markets

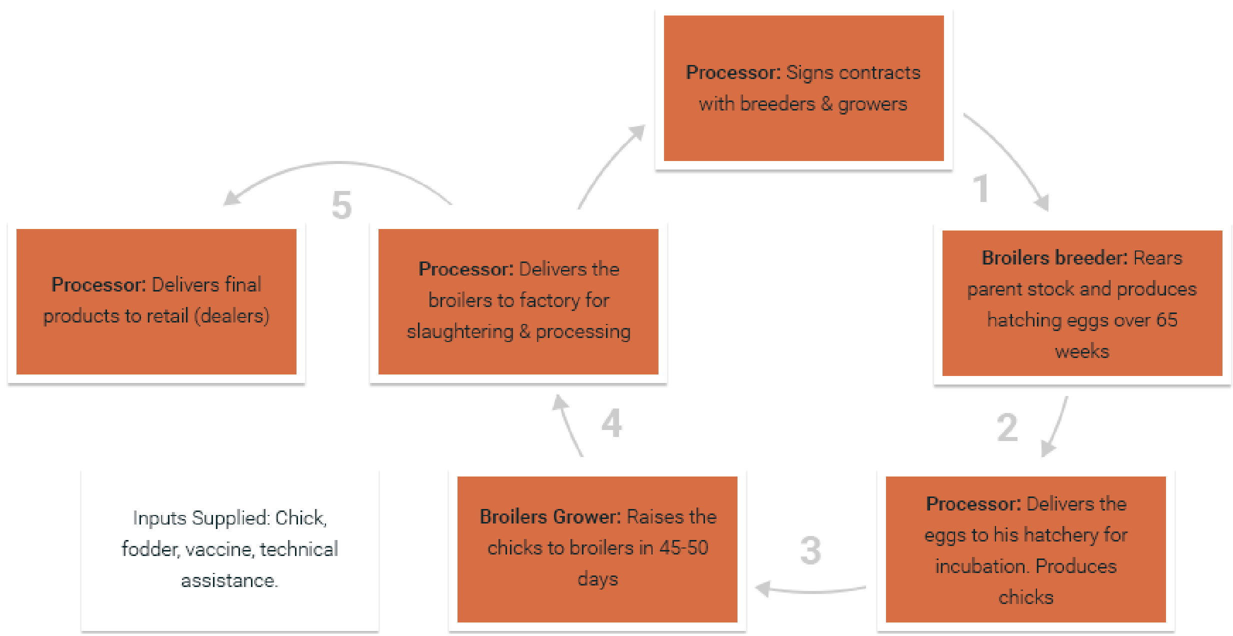
such as large and small-scale retailers, and consumers who purchase the finished products. Read more.

RELATIONSHIPS

By gathering appropriate market intelligence from a range of sources, banks can define the most important interactions between participants in the value chain. Analysis identifies the relationships and interactions among the central value chain participants, regarding them as either formal or informal. Formal relationships are usually characterized by legally enforceable contracts

between the parties, whereas informal relationships hinge upon verbal or other less tangible arrangements. This step also evaluates the strength of the relationships among participants to determine the ways they share risks and determines whether the value chain relies heavily on any one single participant or group. To understand the broiler value chain in Turkey, Yapi Kredi mapped out the relationships between chain actors as follows:

Turkish Broiler Value Chain



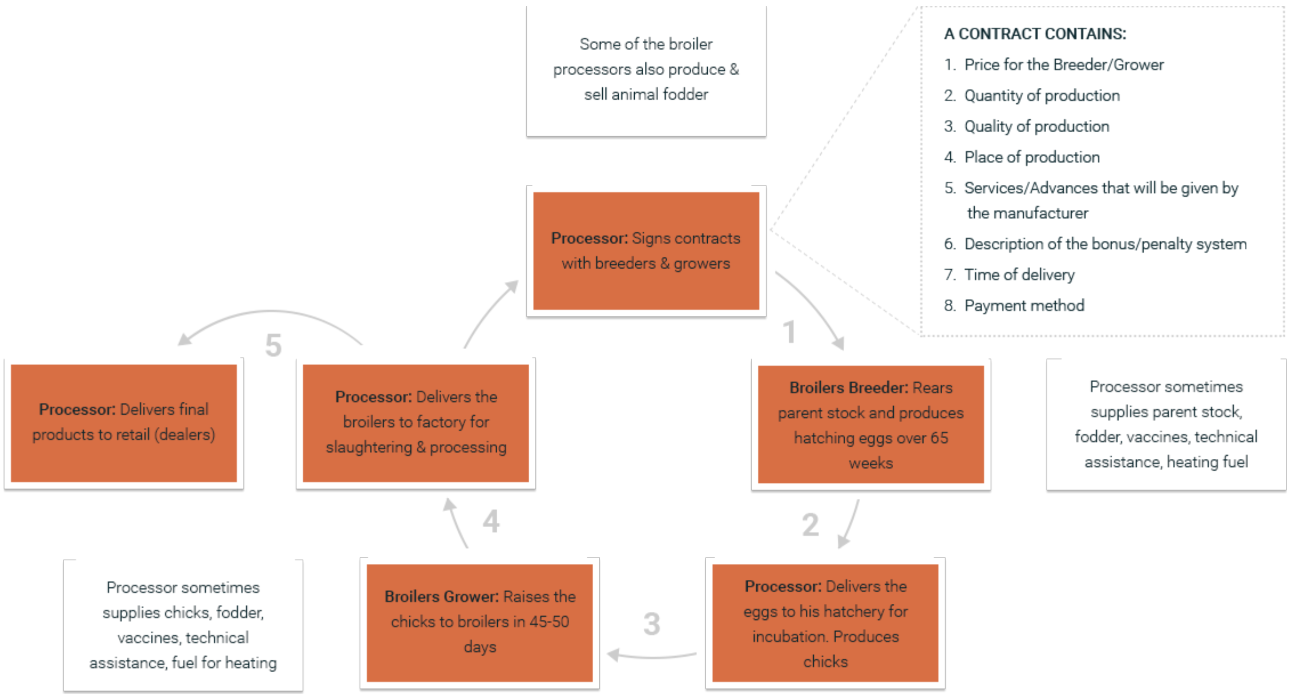
Source: AgriFin VCF Bootcamp, 2014

FLOWS

The third requirement is to understand the various flows within the value chain. Analysis should trace the path of produce from farm to table, including how it is stored and transported, whether and how it is processed, and if it is tested to meet standards of hygiene and quality or to satisfy consumer preferences. The exchange of information across the value chain is also important, and the bank should learn how information is gathered and shared by value chain participants.

Services also flow across the value chain, with some participants working to support other members through veterinary assistance or technical help, for example. Finally, financial flows will exist in a value chain even without the presence of formal financial institutions, and banks should map who is providing credit, to whom, and under what terms and conditions. See the additional information Yapi Kredi collected on the finance and information flows within the broiler value chain.

Flows, Relationships within Turkey's Broiler Value Chain



Source: AgriFin VCF Bootcamp, 2014

KNOW YOUR RISKS

In addition to the political and structural risks, the most important risks to understand when mapping a target value chain are:

1. **Production-related risks** include changes in both expected output and product prices. They typically stem from weather effects, disease or insects, food safety scares or changes in international markets.
2. **Side selling risk,** in which suppliers fail to honor delivery commitments to the aggregator or the processor and therefore imperil loan repayment. To the extent that there is a high level of competition among buyers, the risk of side selling increases.

3. **Aggregator risk,** which may be the most significant, arises from the need to ensure alignment of the aggregator's operations and aims with the bank's business model, as well as actions by the aggregator that might delay or disrupt the flow and on-sale of product.
4. **Downstream product risk** arises as the aggregator sells or moves product downstream, be it processed or not. These include payment and contract compliance, among others. This category includes risk stemming from growing competition in the market and the aggregator's own management capacity.
5. **Client-level risks** include, liquidity, leverage of cash flow, payment capacity, and solvency.
6. **Reputational risk,** stemming from the aggregator or lead firm acting as a conduit for the bank's financial services and products.

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