ADAPTING BANK STRUCTURE AND OPERATIONS

REVIEWING POLICIES, STRUCTURES, AND CONTRACTUAL ARRANGEMENTS

A bank using the value chain approach will need to identify and align its operational divisions – from treasury to regional offices – in support of this model, assigning clear responsibility for the various tasks needed to boost agriculture lending.

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INTRODUCTION

This step examines the adjustments the bank may need to make when adopting a VCF approach. While the mainstream functions of the bank

remain, the scope of their work changes due to the need to incorporate the intra-value chain relationships among the bank's clients in the chain.

ASSIGNING RESPONSIBILITY

Primary responsibility for a value chain banking relationship typically depends on the nature of the relationships of bank individuals or teams with the trade or agribusiness side of the value chain. Rather than creating a dedicated 'value-chain department', banks tend to manage their value chain engagements by allocating specific analysis and processing

functions across their existing units; e.g., marketing, sales, commercial credit, agricultural credit, risk management, etc. For example, if the value chain finance operation will expand upon an existing relationship with a major processor or aggregator,

the office in charge of that client relationship may then hold primary responsibility for the entire operation. If, however, a value chain operation will reach out to multiple aggregators, responsibility might be shared among several regional managers. When entering a brand new value chain using a pilot project within the bank's existing standards, a small team drawn from several units could be assigned responsibility for design and implementation. As the relative importance of VCF operations in the bank's portfolio increases, the bank may create a specialized team with primary responsibility.

CREDIT POLICIES AND PROCESSES

Value chain finance does not necessarily require major changes in credit policies and processes, albeit loan contracts with different value chain participants can include special clauses grounded on value chain relationships. However, analysis of credit proposals and client assessments differ from conventional loans. The bank usually evaluates

the stability of the aggregator's or processor's relationships with suppliers and considers any production risks, going beyond the traditional assessment of the viability of the client's business. A bank may collect and analyze information for a value chain as a 'project' and create forms and pro-forma reports for internal processing.

CONTRACTUAL ARRANGEMENTS

The nature of contractual arrangements between the bank and its value chain clients vary widely depending upon the legal environment for business transactions. In the value chain finance model, the quality (i.e. enforceability) of contracts between value chain participants

impacts how the bank will set collateral requirements for aggregators and farmers, including first-loss guarantees from processors.Risk management provisions make reference to formal contracts between aggregators and producers and their enforceability

as part of the criteria in evaluating aggregators. If formal contracts between producers and an aggregator exist and are enforceable, then an “assignment of claim” is introduced in favor of the bank at the time the bank assumes the funding role. This means that the aggregator (or processor) will play the role of loan collector for the bank as part of their agreement.

LOAN MANAGEMENT

Loan implementation and monitoring typically follows the bank’s established practices, albeit with the recognition of the value chain context. In one example, a bank defined criteria for placing customers on a watch list in cases of delayed repayment. It also created a list of basic principles to follow in such a situation that consider whether the problem is temporary or permanent, and if the

problem affects only one party in the value chain or all participants. Information is subsequently entered into the risk monitoring system, and in the customer’s file. Loan monitoring and early warning systems under the value chain financing approach will include consideration of the overall value chain risks, and not just those directly associated with the individual client.

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