



USAID
FROM THE AMERICAN PEOPLE

FS SHARE
FINANCIAL SECTOR KNOWLEDGE SHARING

STRENGTHENING AGRICULTURAL VALUE CHAIN LENDING

TRAINING MANUAL

SEPTEMBER 2012

This document was produced for review by the United States Agency for International Development. It was prepared by Chemonics International Inc. for the Financial Sector Knowledge Sharing Project, delivery order number EEM-E-03-05-00006-00.

CONTENTS

Acronyms	i
SECTION I. INTRODUCTION	1
SECTION II. TRAINING MODULES	3
Module I. Value Chain Finance	3
Module II. Value Chain Mapping	6
Module III. Integrating Value Chain Finance Into Your FI	7
Module IV. Management Information System	8
Module V. New Product Development	8
Module VI. Marketing	9
Module VII. VCF Loan Policy Manual Development	9
Module VIII. VCF Procedures Manual	10
Module IX. Underwriting Analysis for VCF Loans	10
Module X. Loan Servicing	11
Module XI. Marketing	12

ACRONYMS

AVCF	Agricultural Value Chain Finance
FI	financial institutions
IT	information technology
SME	small and medium-sized enterprise
SWOT	strengths, weaknesses, opportunities, and threats
VC	value chain
VCF	value chain finance

SECTION I. INTRODUCTION

This Value Chain Finance Training Guide accompanies the Agricultural Value Chain ToolKit. The purpose of this Training and Resource Guide is to provide modular training sessions on key sections of the toolkit to:

- Increase the knowledge base of financial institutions (FIs) — banks, and non-bank financial institutions — microfinance institutions (MFIs), credit unions and their federations — board and staff, including senior and mid-level management and staff in particular, credit officers, marketing, and clientele staff
- Assist management and staff to identify and adapt areas of the toolkit that are of key strategic importance to them to their own specific needs
- Bring about change in the way your FI does agricultural value chain finance (AVCF) whether or not your FI board and management opt for creation of an agricultural value chain unit
- Help provide tools and guidance to develop a sustainable business line in AVCF from “emerging” smallholders who treat agriculture as a business, who have marketable surpluses, and who are willing to adopt new technologies up the agricultural value chains (AVCs).

This Agricultural Value Chain Toolkit Training Guide follows the structure of the AVC Toolkit. It consists of training session notes, slides, other training materials and tools; case studies, tables, exercises, and spread sheets; additional resource materials; and useful Web addresses.

Training Methodology and Techniques

This training guide is based on adult learning techniques and seeks to provide interactive learning sessions. Field work and visits are considered of critical importance to successful use of this training guide and toolkit.

Adult training methodology can be a powerful tool to build ownership and bring about change — change management. Depending on the FI, participants may have some knowledge of agricultural finance and probably grew up in a farming community, but they may lack an understanding of the concept of value chain finance (VCF) and its implications for how they and their FI need to do business.

By allowing trainees to participate actively, through presentations, brainstorming, and direct engagement with VC members, participants build ownership. As their trainer, you are given an opportunity to jump-start and accompany the change management process for developing a sustainable AVCF business line.

Prior to the Training

Prior to the training, send a questionnaire to participants and management. This will allow the trainer to assess the current agricultural and value chain knowledge of the trainees and adapt the training program to their needs.

The questionnaire should elicit information about the training participants: academic qualifications, work experience, and expectations. If possible, trainees, if they are coming from branch offices, should be ready to make a 10- to 15-minute presentation about what they or other FIs are doing in AVCF in their area.

The questionnaire to management provides a snapshot of the FI's status concerning agricultural or AVCF prior to the training. Before previous toolkit training sessions, the trainers conducted institutional diagnostics that provided the team with a deeper understanding of the FI's systems, strategic or business plan, and management and staff training and technical assistance needs. It allowed the trainers to see if and how AVCF is integrated into the FIs' strategic/business plan.

Often AVCF is not mentioned in the FI's overall five-year plan, or there may be a draft plan from one manager. If this is the case, the training can be an important catalyst for senior and branch managers and regional staff to develop an articulated AVCF strategic/business plan. This is a crucial step in taking ownership and bringing about inclusive institutional change management.

In this guide, the training is presented as one continuous training program. The reality is that, while all the themes may be touched upon during the training, this is an iterative change process that takes time and involves all departments and most of the FI's management systems. Over a 12- to 18-month period, management will make changes, and additional training and technical assistance will be required.

Depending on the FI's needs and the maturity of its systems, it may prefer to select different items from the toolkit and the training modules that it wants the trainer to cover in initial training.

During the Training Program

Each morning, prior to starting new presentations, the trainer should ask participants to share key items that they learned from the prior day's training. This provides the trainer the opportunity to draw out and reinforce key lessons and to clarify any misconceptions that may have arisen.

SECTION II. TRAINING MODULES

Module I. Value Chain Finance

Learning Objectives

At the end of this module the participants should understand and be able to apply the following:

- The concept of agricultural value chains and the importance of strategic partnerships: why they are important to financiers and how they can be used as a risk mitigation and cost reduction tool
- Key strategies and models that successful African FIs (banks and federations of credit unions and other MFIs) have used to succeed

Session 1: PowerPoint Presentation on Value Chains

Presenter: The trainer

Take time during or at the end of the presentation to allow participants to share their own examples of VCs and VC actors in their region or branch.

The Equity Bank case study focuses on the power of savings mobilization in AVCF. Equity Bank's savings first approach coupled with outreach and technology to show that AVCF can be done on a profitable basis in rural areas.

The CoopBank Kenya story shows how a strategy based on wholesale finance to SACCOs (credit unions) and direct finance to agricultural cooperatives and small and medium-sized enterprises (SMEs) can succeed. It provides an example of how such a financial institution has learned to monitor its wholesale portfolio to SACCOs and provides a view of how their risk management system works.

Major risks and potential mitigation factors shows how some key risks can be mitigated using VCF techniques.

Handouts

- Successes in African AVCF the Equity Bank Kenya Case
- Coop-Bank Kenya Case Managing risk at the SACCO (credit union) level
- Main types of risk and their mitigation

Session 2: Presentations by Participants on Their Own Experience in Agricultural or AVCF

Presenters: Participants (each presentation should take 10 to 15 minutes, with 10 minutes for questions and discussion)

This activity provides two starting points. First, it allows participants to internalize some of key points from the concepts covered during the PowerPoint presentation on VCF. Second, it represents a starting point for the process of developing an AVCF strategic or business plan at the branch, regional, and national levels.

At the end of the presentation, the trainer should recapitulate key points that have come up. These need to be written on the board and kept as a record of the session. The theme of institutional market research and strategic or business development throughout the FI should be developed throughout the training. At the end, it should be one of the key tasks left for senior, middle, and staff before follow-on training or technical assistance.

Making this a participatory process with branch staff helps to ensure their buy-in, which is a critical factor in developing a successful AVC portfolio.

Session 3: Presentation on a Specific Value Chain

Trainer: If possible, someone from a VC strengthening organization

The presentation will allow participants to better understand how this VC strengthening model works and the elements of a strategic partnership between their FI and the VC strengthening organization. As an operational result of the training, such a relationship can be formalized at the end of the training by a memorandum of understanding between the two parties.

Session 4: Field Trips to Value Chain Participants

Time: One-half to a full day

Organization of the field trips:

- Trainees should be organized into groups of three or four
- Each group should visit two VC members
- An effort should be made to identify and visit different types of VC members, from smallholder SME farmers to farmer group associations or cooperatives, nucleus farmers, aggregators, SME processors, and input suppliers
- It is useful to have a more experienced person in each group
- Depending on the mix of trainees (e.g., management and staff) this can be a good opportunity to include a commercial marketing person, a client service person, or other management staff in a group (a senior staff member who accompanied staff

on two field trips completely changed their position concerning VCF and effectively became a VCF champion)

After the field trips, each group is required to make a PowerPoint presentation on their findings. These presentations should be kept in a training archive for future use.

Field “work” should be integrated throughout the training. As sessions cover other topics (loan appraisal and underwriting, monitoring, etc.), the field visits become testing exercises that reveal how credit staff ask questions and obtain the necessary information, and what changes are needed to best structure prescreening and loan applications and memoranda should.

Depending on the experience of participants, there can also be training sessions on what questions to ask a SME processor, nucleus farmer, aggregator, and others. While each person’s style may be somewhat different, having a common understanding of questions to ask and information to collect is critical.

After each presentation and at the end, the trainer should draw out key points.

Session 5: FAO Case Study Rubber Outgrowers and Sorghum Producers

Presenter: Trainer

The key importance of the FAO case study is that it compares and contrasts two VC models — an outgrower scheme in which the market channel is very narrower defined, with few opportunities for side selling, and a VC model involved with a much larger number of strategic partners, including a corporate purchaser, a VC strengthening organization, nucleus farmers, and smallholder sorghum producer groups. Both provide lessons for all parties. The rubber outgrower stands out as an example of best practice communication and transparency in linking the grower purchase price to international markets with a complex formula that has been very well explained to outgrowers and is reviewed every year. The sorghum case illustrates the importance of communication, transparency, and auto governance by the groups in choosing their own nucleus farmer instead of having one chosen for them.

The follow-on handout provides an inclusive business checklist that FIs and other strategic partners can use as a measuring stick to see if partners — in particular, smallholder farmers, are being treated in an inclusive way that can lead to a strong and lasting strategic partnership.

Handouts

- FAO case study on rubber outgrowers and sorghum producers in Ghana
- Inclusive business checklist (business innovation center)

Module II. Value Chain Mapping

Learning Objectives

At the end of the module, the participants should understand the concept and process of mapping and how to develop terms of reference and apply mapping techniques in product development.

Session 1: Value Chain Mapping PowerPoint Presentation

Presenter: Trainer

The PowerPoint presentation covers the purpose of mapping and guidelines for developing terms of reference. After the presentation, the trainer will share some results from mapping studies for a particular value chain.

Handout

- Sample scope of work

Session 2: Practical Applications in VC Mapping PowerPoint Presentation and Exercises

Presenter: Trainer

In this presentation, the trainer will present a step-by-step process for developing a product based on mapping techniques. This will involve reviewing financial examples.

Formal mapping studies tend to be financed by donors. Left to their own devices, most FIs opt for more practical, lower-cost options. This can include having college students and credit staff do some of the basic survey work after training. The source guide on which this session is based, describes a step-by-step process for product development and how credit staff can conduct simple sensitivity analysis to test key factors such as price changes.

Handouts

- Sample scope of work for a value chain mapping exercise
- Examples of mapping exercise and their results
- Excel spread sheet
- Financial training exercises
- Source Book: A Comprehensive Guide to Agricultural Loan Product Design for Uganda's Rural Financial Intermediaries, by Richard John Pelrine and Asaph Besigye, Rural Speed and Chemonics International

Module III. Integrating Value Chain Finance into Your FI

Learning Objectives

At the end of this module, trainees will understand how to develop a corporate strategy and how to apply the key points in business plan development.

Session 1: PowerPoint Presentation of Strategic and Business Planning

Presenter: Trainer

The trainer will go over the parts of a strategy and business plan development.

Session 2: Practical Business Plan Application

Group work: trainees will be organized in groups of three or four and be given a specific task. This could include developing a strategy and business plan for their region, branch, or the FI as a whole. If the later, the groups will be given separate tasks within the overall development of the business plan.

Groups will present their plans to the training group for critique. The comments will be noted, and participants will be responsible for adjusting their plans.

This activity will be part of an ongoing process after the training as staff return to their branches and conduct more market research. When possible — and with management approval — groups may use college students to conduct basic research on VC clients and their specific needs.

Handout

- Business plan outline

Module IV. Management Information System

Learning Objective

At the end of the module, participants will understand why additional parameters may be required to properly manage the AVC portfolio risk. They will identify the changes and new parameters required to properly track different VCs and different types of clientele.

Session 1: Developing New Parameters for the FI's Agricultural Value Chain Portfolio

Presenter: Trainer

The trainer will guide participants in identifying new parameters for the AFV portfolio. At the end of the session participants will have developed a new set of parameters.

Module V. New Product Development

Learning Objective

At the end of the module participants will be able to understand and apply the key concepts of new credit product development.

Session 1: New Product Development PowerPoint Presentation

Presenter: Trainer

The PowerPoint presentation covers the guidelines for new product development in the toolkit and illustrates different types of borrowers and loans based on the tables in the toolkit. The presentation also highlights a sample product sheet.

Session 2: Development of Three New Products

Group work: Participants will be divided into three groups. Each group will be responsible for developing a product using the process and guidelines presented in the first session.

Handouts

- Guidelines for new product development (Toolkit)
- One example of a product sheet

Module VI. Marketing

Learning Objectives

At the end of the module, the participants will understand some key market concepts and guidelines and will be able to apply them to develop and roll out new products.

Session 1: Marketing Principles and Guidelines

Presenter: Trainer

The presentation will provide overall guidelines and focus on such key concepts as co-branding. While some FIs may opt for a more traditional rollout processes, including media and other marketing channels, the distinction of AVCF is that it involves a more proactive approach to client selection. This means that credit staff and commercial officers must actively seek clientele who fit their criteria. The danger of a mass media campaign is that it generates a huge volume of raw demand that the branch does not have the capacity to process and that makes it difficult to focus on the best potential clients.

In the training, it is better to focus on co-branding opportunities such as delivery of discounted and free inputs from input suppliers to the FI's clients or on financing shows on rural radio stations to improve smallholders' technical knowledge base. Training should also focus on bringing other staff, such as commercial officers and branch credit clientele personnel, up to speed on how to deal with the target clientele.

Module VII. VCF Loan Policy Manual Development

Learning Objective

At the end of the module, participants will understand and be able to apply the key elements needed in a loan policy manual.

Session 1: VCF Loan Policy Manual Development PowerPoint Presentation

Presenter: Trainer

Through the PowerPoint presentation, the trainer will review the key guidelines and elements that need to be included in an AVCF loan policy manual.

This is a medium term-project that will require work at the management level to develop and arrive at consensus for an AVCF loan policy manual.

Module VIII. VCF Procedures Manual

Learning Objective

At the end of this module participants should understand and be able to apply the general guidelines for the development of a procedures manual.

Session 1: VCF Procedures Manual PowerPoint Presentation

Presenter: Trainer

The PowerPoint presentation highlights the key elements required in a VCF procedures manual

Session 2. Review of Key Forms

Presenter: Trainer

The presenter will go over some key forms and processes, including the pre-screening criteria, process and template and the loan application process. Following the presentation, the trainer will guide participants through the process of adjusting the pre-screening form as necessary.

Session 3: Reviewing and Adjusting Loan Application Forms

Group Work: Two groups will look at the most useful forms and make adjustments as necessary.

This is a medium-term project that will require work at the management level to develop and arrive at consensus for an AVCF loan policy manual.

Module IX. Underwriting Analysis for VCF loans

Learning Objective

At the end of the training session, participants will understand and be able to apply the key elements of loan underwriting, including financial analysis.

Session 1: Credit Underwriting and Appraisal Overview

Presenter: Trainer

The trainer will provide an overview of the process.

Session 2 and Beyond

Presenter: Trainer

The trainer will focus on key steps and documents in the process, present relevant documents, and get feedback from participants. During follow-on sessions, participants will modify the templates as necessary and conduct beta testing in the field.

Handouts

Handouts will include forms in Toolkit annexes and a variety of case studies and financial exercises in the resource section of the Training Guide.

- Product sheets
- Process flow
- Financial analysis
- Crop budgets
- Crop protocols
- Key ratios
- Cash flow analysis exercises
- Scenario analysis
- SWOT analysis of different products
- Other examples and exercises
- Rating example
- Trainer's notes

Module X. Loan Servicing

Learning Objective

At the end of the module, participants will understand the key concepts and guidelines for loan servicing.

Session 1: Loan Servicing PowerPoint Presentation

Presenter: Trainer

The trainer will cover overall guidelines for loan servicing. Following the presentation, the trainer will help participants identify potential adjustments that they may feel are necessary, given their products and clientele.

Module XI. Marketing

Learning Objective

At the end of the module, participants will understand the key concepts and guidelines for portfolio management.

Session 1: Overview Portfolio Management PowerPoint Presentation

Presenter: Trainer

The trainer will cover overall guidelines for portfolio management. Following the presentation, the trainer will help participants identify potential adjustments that they may feel are necessary, given their products and clientele.

Session 2: Development of a Loan Monitoring System Tailored to the FI's Specific Requirement

Group work guided by the trainer: Based on the standard guidelines presented in Session 1, participants will work with the trainer to make adjustments to their specific needs.

Depending on the diversity of clientele and products, this may require several monitoring systems. The monitoring system for an association of farmers or a cooperative would be very different from the requirements for monitoring an aggregator or a nucleus farmer. Monitoring systems will also depend on strategic partnerships. In some strategic partnerships, such as that of a FI and a nucleus farmer or aggregator working with farmers' groups, the strategic partner provides services (plowing, harvesting, and shelling as well as inputs). Nucleus farmers and aggregators have their own system for managing their business relationship with farmers' groups. This includes internal forms and procedures for dealing with the groups as well as key informants — within groups and in the community. This strategic partnership reduces the amount and form of monitoring that FI staff must do. In this case, the trainer and participants should choose one example.

Annexes on flash drive or DVD

- Slides for each session
- Case studies
- Financial case studies
- Competitive analysis other FIs
- Cash flow tool
- Loan application tool
- Rating tool

U.S. Agency for International Development

1300 Pennsylvania Avenue, NW

Washington, DC 20523

Tel: (202) 712-0000

Fax: (202) 216-3524

www.usaid.gov