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FS SHARE
FINANCIAL SECTOR KNOWLEDGE SHARING

FS SERIES #5: VALUE CHAIN FINANCE

MODEL SCOPE OF WORK

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The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

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ACRONYMS

DCA	Development Credit Authority
EGAT	Bureau for Economic Growth Agriculture and Trade
FS Share	Financial Sector Knowledge Sharing Project
GDP	gross domestic product
ICT	information and communications technology
IT	information technology
LPG	loan portfolio guarantee
MABS	Microenterprise Access to Banking Services
MFI	microfinance institution
MIS	management information system
MSACCO	Malawi Union of Savings and Credit Cooperatives
MSE	micro and small enterprises
MSME	micro-, small-, and medium-sized enterprises
MSOW	model scope of work
MTZL	Mobile Transactions Zambia
NAFIN	Nacional Financiera
NBFI	nonbank financial institution
OIBM	Opportunity International Bank of Malawi
POF	purchase-order finance
PROFIT	Zambia Production, Finance, and Improved Technology Program
SACCO	saving and credit cooperative
SME	small- and medium-sized enterprise
SOW	scope of work
TA	technical assistance
USAID	United States Agency for International Development
USG	United States government
VAT	value-added tax
VCF	value chain finance
WHR	warehouse receipt

INTRODUCTION

The United States Agency for International Development (USAID) Bureau for Economic Growth Agriculture and Trade (EGAT) created the Financial Sector Knowledge Sharing Project (FS Share) to collaborate with USAID missions to develop effective and efficient financial-sector programs that increase access to financial services and develop well-functioning markets worldwide. USAID awarded Chemonics International, Inc. the FS Share delivery order under the Financial Sector Blanket Purchase Agreement. FS Share has a three-year period of performance, July 2008 through July 2011.

Through the FS Share Task Order, USAID EGAT and Chemonics proactively collaborate with missions to identify financial-sector priorities and develop strategies and programs for growing the financial sector. FS Share identifies financial-sector best practices and aggregates them through model scopes of work (MSOW), primers, diagnostic tools, best-practice case analyses, and other tools. These deliverables are disseminated to USAID missions for use in financial-sector programs. FS Share can assist with implementation and connect mission staff to external resources on best practices. In response to mission demand, FS Share delivers presentations and other knowledge-sharing endeavors.

Objective of This FS Series

The objective of this model scope of work is to provide U.S. government (USG) program designers with sample language to integrate into effective programming on value chain finance. To complement this programming tool, FS Share produced an accompanying primer and diagnostic checklist. The primer, diagnostic checklist, and model scope of work are included in *FS Series #5: Value Chain Finance*.

This FS Series was developed by Caroline Averch, Eve Hamilton, and Timothy Stuckmeyer of Chemonics International and reviewed by the FS Share project management team.

FS Share Rapid Response Hotline

For assistance identifying resources and addressing questions about designing programming that incorporates VCF, contact FS Share Project Manager Roberto Toso at (202) 955-7488 or rtoso@chemonics.com, or Deputy Project Manager Melissa Scudo at (202) 775-6976 or mscudo@chemonics.com. To access the FS Share task order and EGAT assistance on any mission, financial-sector program, scope of work (SOW), or procurement questions, contact:

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MODEL SCOPE OF WORK

This section provides a *generic* MSOW for undertaking a comprehensive exercise to determine if and which interventions to support VCF in USAID-assisted countries would be appropriate. It complements and draws upon information in the primer and it can be used in conjunction with the VCF Diagnostic Checklist to ensure all relevant points related to VCF programming are covered.

The MSOW provides USAID missions guidance in designing effective VCF programs. It covers an enhanced value chain analysis that addresses all dimensions of existing VCF flows and gaps for particular value chains in a given country, identifies the impediments in the market, and prioritizes feasible, market-development interventions USAID or its implementing partners might undertake.

The MSOW has been prepared for flexible use, adaptable to the needs of individual design teams. Some missions may be more advanced than others in the value chain analytical process, and may need to undertake only the enhanced finance portion of the analysis. Design requirements may also vary by the geographic scope of the contemplated VCF initiative and/or the specific value chains targeted (e.g., cash crop, food crop, highly organized). In all cases, the MSOW can serve as a starting point for program designers who will then construct the specific SOW needed for their particular requirements. Depending on the complexity of the effort and number of value chains involved, USAID missions may complete this exercise internally and/or have implementing partners undertake this work.

The MSOW is structured in sections, adaptable to the specific content and requirements of individual missions. However, it does not include any staffing, timing, or budget factors, which will be determined by specific project needs. The MSOW includes the following sections:

1. Objectives
2. Background and Rationale
3. Tasks and Activities
4. Conclusions and Recommended Interventions
5. Next Steps

MODEL SCOPE OF WORK

1. Objective

The purpose of this MSOW is to provide comprehensive analysis and recommendations for interventions to support increased, more efficient, and more affordable access to VCF for [insert value chain(s)] in [insert country, region within country]. [Include as appropriate] The exercise is specifically focused on identifying solutions to assist value chains that [include target populations, increase women's participation, enhance food security, and other considerations important to the mission]. The Scope of Work includes an enhanced analysis of existing VCF within the specified value chain(s), identifies gaps in needed financing, and ends with conclusions and recommendations that prioritize feasible development interventions for USAID/(insert country)'s consideration.

2. Background and Rationale

[Paragraphs citing USAID mission strategy, programming, and other concerns that place the content of the Scope of Work in broader context and highlight any specific expectations of the exercise.]

3. Tasks and Activities

- Based on the information provided in the value chain analysis report, conduct an enhanced value chain analysis that includes the following steps (see primer and related resources for details):
 - Map and analyze financial services provision by value chain actors and financial institutions
 - Examine accessibility of financial services and products
 - Examine governance within the value chain(s) to determine if certain actors have disproportionate power relationships compared with other actors. Are these relationships mutually beneficial or exploitative?
 - Analyze value chain actors' financial acumen and bankability. Do firms have collateral that can be used for loans? Do firms have basic understanding of financial reporting? Do they pay taxes and keep accurate financial documentation?
 - Examine finance policy environment. Are there legal, regulatory, or tax issues that constrain the flow of finance within value chains? Are contracts recognized and enforceable?

If there has been no initial value chain selection or holistic value chain analysis to examine end-market opportunities, upgrading requirements, and the broader constraints and opportunities around these, begin with this stage, using existing value chain analysis tools and approaches.

- Complete comprehensive credit supply and demand studies within each value chain at a more detailed level. The end product of this exercise will offer detailed data on

credit currently provided and used by input suppliers, smallholder farmers, farmer associations, processors (including commercial farms/estates), aggregators, wholesalers, retailers, and other actors in the value chain. The credit supply and demand studies will include, at minimum:

- A list of the firms and organizations (including donors and donor programs) that are currently providing credit, credit guarantees, and other financial services to and between value chain participants
 - Volume of credit extended by each supplier
 - Nature and form of credit by supplier to the sectors (i.e., whether in kind, cash, etc.)
 - Credit terms (i.e., term of the loan, payment mechanisms, allowable grace periods, interest rates, processing fees, and collateral requirements, if any)
 - Profile of credit recipients/borrowers in the sectors (i.e., characteristics of supported clientele)
 - Geographical distribution of clients
 - Experiences and trends seen in the market: repayment rates, defaults and losses. Particular note should be taken of credit suppliers that have significantly increased or reduced credit activity to the sector over the years, with explanations as to why and capturing lessons learned.
- Consider possible uses of DCA credit enhancements and guarantees as a means to remove market impediments and accelerate expansion of lending with new products or to new borrower types within value chains. Based on information obtained during the credit supply and demand studies about the potential value chain participant borrowers, test the receptivity of financial institutions to lending to these borrowers using new products, services, or techniques with a partial risk-sharing arrangement through a DCA guarantee. This can be completed as part of the credit supply and demand study or as a separate SOW for a DCA feasibility and market assessment.
 - Consider possible uses of technology (e.g., mobile phones, tools to correct information asymmetries, or more advanced loan monitoring and collection systems) that would reduce costs and increase the efficiency of financing for value chain participants. This can be completed as part of the credit supply and demand study, or as a separate SOW for a financial services technology assessment.
 - Conduct stakeholder meetings aimed at beginning to mitigate information asymmetries about potential value chain borrowers. The objective of the meetings will be to clarify and further refine, as needed, the VCF maps; share information about opportunities and gaps, potential approaches, tools, financial products, and services that might be designed to increase VCF.
 - Summarize conclusions and describe opportunities for high-impact USAID interventions to meet the stated objectives.

4. Conclusions and Recommended Interventions

Conclusions drawn from the completion of the above tasks and activities will be provided in a summary form, but separated by overall conclusions and those pertinent to specific value chains.

Recommendations will be provided for high-impact USAID interventions in detailed form, including an analysis of the benefits and estimated costs of each choice. At minimum, recommendations should include:

- Strategy, activities by component, and specific steps to be followed to expand credit to selected value chains
- Potential implementers of the various activities and their proposed roles
- Recommended types of financial products and services appropriate for each of the target value chain participants based on existing and potential inter-firm relationships and contracting mechanisms
- Ideal providers of such financial products and services
- Approaches, techniques, and tools for working with the financial products/services providers
- Recommendations, if any, for utilizing DCA guarantees or other partial-risk mechanisms
- Recommendations, if any, for integrating technology solutions to increase efficiency and reduce costs

5. Next Steps

As a follow-on deliverable, once USAID/(insert country) has determined which of the recommendations it is interested in pursuing, prepare a document explaining the next steps involved in proceeding to full-scale design of the VCF initiative. This planning document will include specific activities to be undertaken, a timeline and implementation plan, level of effort, budget, and other elements, as required.

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