© pixabay

SouthBridge Inclusive Financial Solution to Optimize Agricultural Value Chain

Concept Note, *December 2018*

SOUTHBRIDGE

Context: Limited financing with inadequate conditions for the agricultural value chain player

Agriculture in Sub-Saharan Africa represents **50% of employment**, generates **25% of GDP** but only received **5% of the available financing**.

Within the same value chain, we also observe **disproportionate levels of interest rates** ranging from **1% - 2% to 20% - 22%** depending on where you sit across the value chain even though the underlying product remains the same.

Our proposal: Leveraging an optimal value chain

SouthBridge would like to provide an inclusive financial solution (SIFS) under a blockchain financing platform with an existing contractual agreement with all the players (smart contract).

- A **unique and optimal interest rate**
- The overall risk through the value chain will be **transferred/shared** to/by the bigger players with lower credit risk
- A partial guarantee offered by insurance companies, collateral management companies and financing institutions
- Quality and volume controls will be provided by a collateral management company at every step of the value chain
- Possibility to **hedge part of the expected production** to provide an additional security buffer to the operation

Clear impact and advantages for the small players/farmers:

- Access to credit at competitive rate
- Fund disbursement on time
- Guarantee of adequate fertilizer/quality input that will ensure better yield/harvest
- Increase of their margin at the end of the cycle

For the fertilizers company, entering the process provides extended market share and a better control of the value chain.

For multinationals, the system allows for transparency, traceability, and improvement in the quality of the production and comes with a guaranteed volume.

Other things being equal, this process **multiply the available financing for agriculture by 5x/10x**.

Maize & Corn value chain – Zimbabwe

Maize is **the most important grain crop** in Zimbabwe as it is a staple food for the majority of the population. Its value chain is characterized by the **important role of the government in the pricing mechanism and regulation framework**, which secures a buying price to the farmers.

However, a guaranteed price is not enough to ensure the chain sustainability and only focuses on one aspect of the chain.

The SIFS model mitigates the potential risks across the chain while providing cheaper funding/higher margin to the farmers.

- The mechanism brings efficiency and optimization
- The SIFS model is **scalable** to the whole agricultural sector
- For the government, it provides a transparent, traceable ecosystem with real-time data exchange which makes easy for the **extension of the value chain towards industrialization**

Pilot phase Implementation methodology: Maize chain in Zimbabwe

1) Deploying Proof of Concept and a MVP (Minimum Viable Product).

2) Establishment by SouthBridge of a value chain consortium fully supported by the local government; Fertilizers partner (OCP); Multilateral (AGRA); DFIs (AfDB, IFC); End buyers and other smaller players across the chain.

3) The consortium will agree the **commercial terms (quantities, prices/margins)** across the chain with the government.

4) The farmers will receive the fertilizers from the consortium at a pre-agreed price with **no cash transfer**.

5) At the harvest season, maize is collected from the farmers at the pre-agreed price and once the quality and quantity has been validated by the collateral management company, **the farmers receive their margin instantly**.

6) The **same process is replicated at each step of the value chain**.

Contributor

Hamet Aguemon
Partner, Côte d'Ivoire
hamet.aguemon@southbgroup.com

Hamet is an accomplished professional with fifteen years' experience in the financial sector. He is specialized in Debt, Credit and Restructuring in Sub-Saharan Africa.

SouthBridge
December 2018

www.southbgroup.com