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***Revolutionising finance for agri-value chains***

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**Linking Rural Entrepreneurs to Financial Services**

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**Executive Summary**

Despite significant growth in active lending to commercial African agriculture, total lending to commercial agriculture remains between 1 and 3 percent of total commercial debt. For a continent that has the highest economic growth, agriculture contributing about 35 percent of Africa's GDP and agriculture employing about 65 percent of the economically active population.

Ninety percent of Africa's production is carried by smallholders and any breakthrough to change the access to finance landscape will have to involve the smallholder farmer. This involvement has to increase the smallholder farmer's profitability from the entire agricultural value chain to generate the much desired increase in productivity.

Zed Group has embarked on a number of initiatives through Farmer Organisations and Rural entrepreneurs to create an active and business oriented agribusiness that can integrate a number of value chain activities directly or through coordination of value chain actors. The incentive in this effort is private interest for all the value chain actors (Farmers, Entrepreneurs, Input suppliers, offtake and financial service provider). Our efforts start with securing the market and then working to link the smallholders into the market.

The Farmer Organisation or entrepreneur has to have the capacity to manage or coordinate all market related activities i.e. purchase of inputs, delivery of inputs to the farmers, mechanisation services, manage production credit, data collection and advisory services. This approach is motivated by the fact that there is very limited data available on African agriculture in a form that can be used to analyse and predict individual farmer trends. The risk perception held is therefore not backed by scientific analysis and the assumed risk premium is high coupled with the other transactional costs associated with distance and infrastructure. In the integrated value chain the Farmer Organisation or the entrepreneur is responsible for the relationship management and drawing up the risk profile of the farmers within his or her ecosystem.

The rural entrepreneurs are in operation but in most cases only address the needs of a particular segment within the value chain i.e. provide mechanisation services, buyer of produce, etc. Very few rural entrepreneurs are attempting the fully integrated value chain due to resource constraints and time required to get it running in a financially sustainable manner. The financial environment is not conducive for the buyer of the produce such as a multinational company to lead the process. It is increasingly common to find that the multinational is placing focus on the procurement process and not the entire value chain as the multinational manages its potential liability. This leaves the onus to manage and meet the production costs on the other value chain actors. This of course carries a number of risks, which in the non-integrated value chain approach are carried by the various rural entrepreneurs in the various segments of the value chain. Current efforts involve working with all the key value chain actors to create an integrated ecosystem that allows the farmer to take centre stage, share in the benefits and risks across all segments of the value chain.

In general, there is a massive need to establish a business model which is smallholder farmer centric. Once established, the smallholder farmer centric businesses could lead into an exponential growth phase in which scaling up is achieved through the various ICT platforms available across the market. It is now more of a question of what comes first but I am an advocate of let us start with what is available.