AGR Q1 Report 2020: AGR & AFAP Covid-19 Agriculture & Agribusiness Stimulus Package

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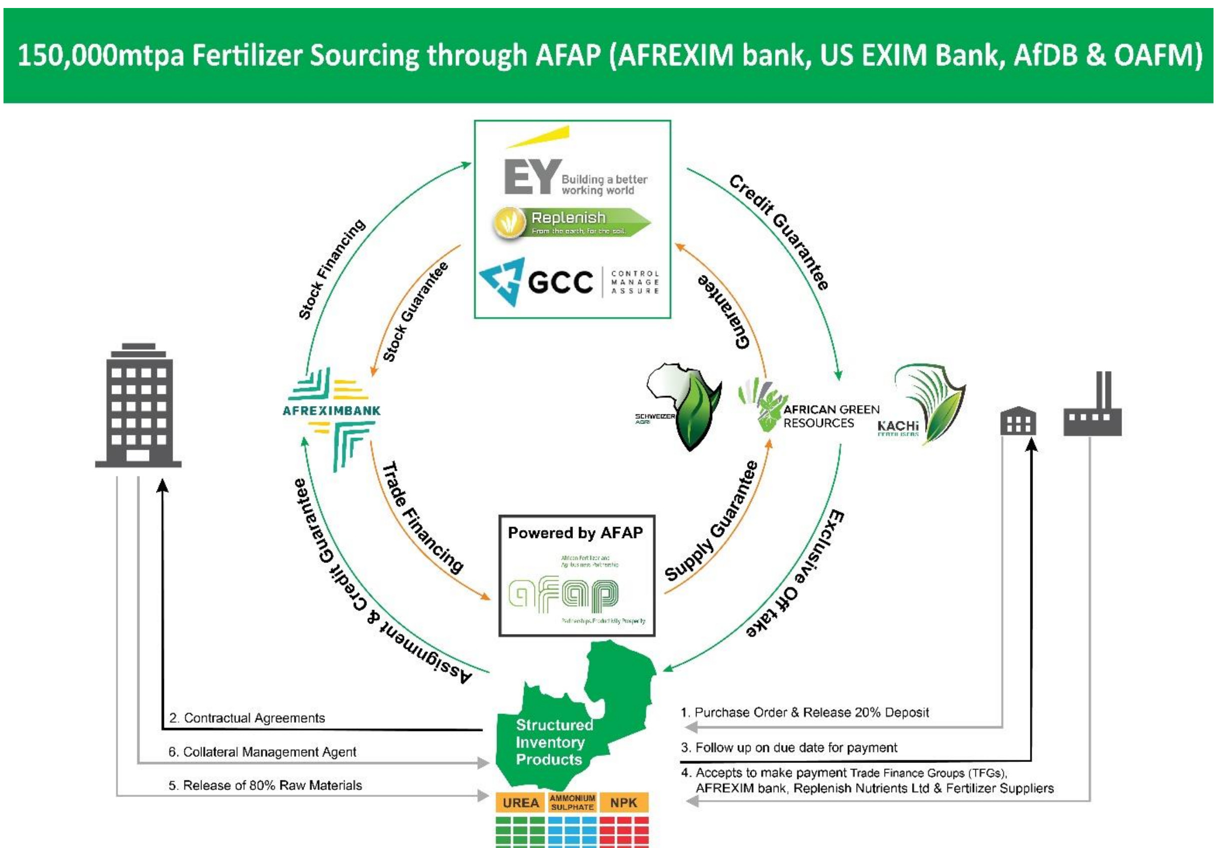
Agriculture – especially small-scale farming – is a vital part of the Zambian economy. The sector employs most of the country's labor force and accounts for an estimated 21% of the southern African nation's GDP. Smallholder farmers produce up to 80% of the staple maize in the sub-Saharan country.

But despite its significance, the sector's potential remains mostly unrealized. This is largely due to farmers' lack of access to adequate financing, according to a report released in 2016 called *Africa Agriculture Status* by the Alliance for a Green Revolution in Africa (AGRA). World Bank statistics released last year indicate that less than 3% of total bank lending in Africa goes to agriculture although the sector accounts for about 70% of all employment and over 40% of GDP. In addition, funds generally have not reached smallholder farmers – many of whom remain unbanked and do not possess the assets needed for traditional financing collateral.

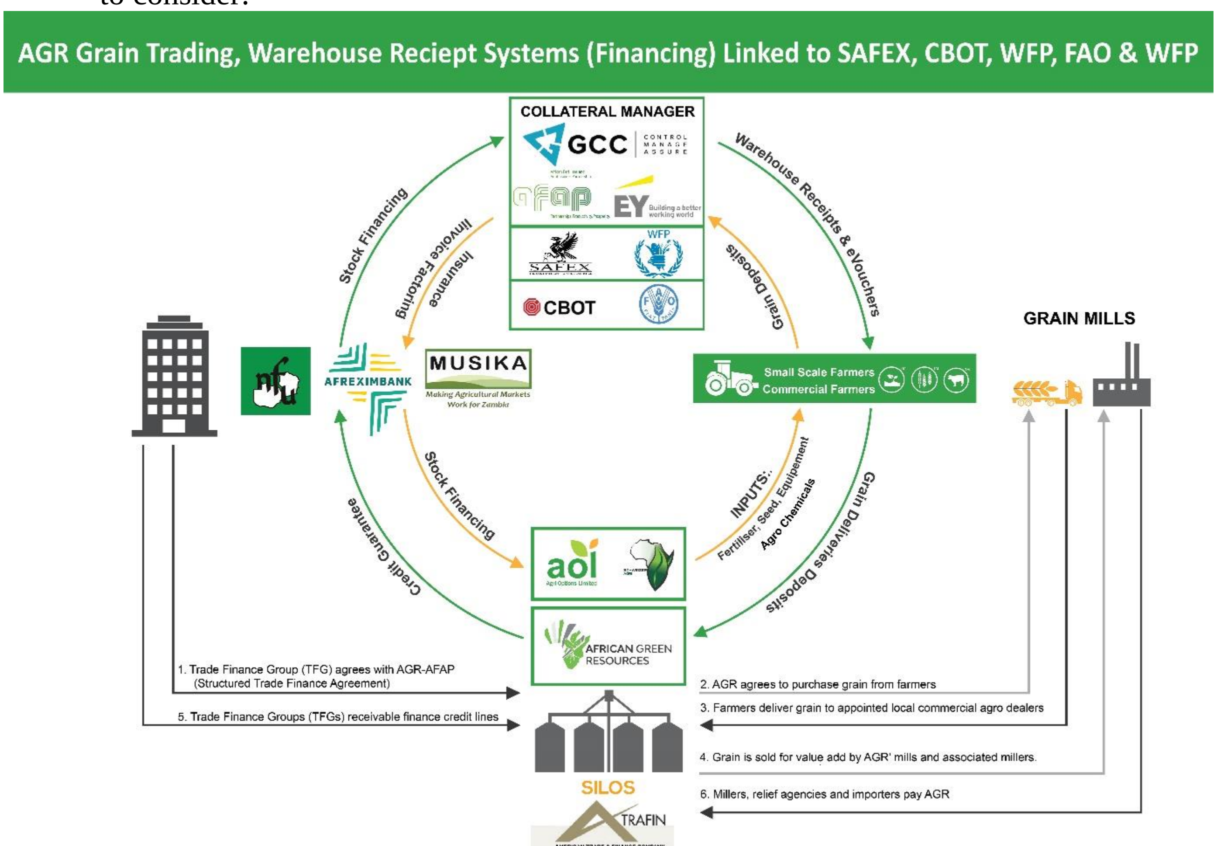
There is a growing consensus especially after the COVID-19 pandemic that Zambian or regional agribusiness transactions require innovative strategies to meet their agriculture investment needs and commitments, especially in the grain sector where the private sector can get involved.



African Green Resources (AGR) and its partnerships are keen to expand their commercial farming book in Zambia particularly in Mkushi farm block after the COVID-19 epidemic. This includes input finance (Aid for TradeTM) in the form of ferts, fuel, chemicals and implements or equipment to existing and new Agri Options Limited (AOL) customers against a soya or other grain off take contract.

The proposed Covid19 Agriculture and Agribusiness Stimulus offer is:

- Fertilizer and fuel can be placed on farm on extended credit terms sufficient to plant and harvest the crop and get paid.
- Payment for the inputs will be by way of deduction from the sale of the crop (soya, maize or wheat)
- Interest will be charged at an agreed %/month after 30 days – as per our normal terms and conditions
- We have three offers for the grower, first to AOL members and second to none members to consider:



1. A $385/mt minimum offer with a 90/10 split on any upside i.e. if the market went to $420/mt the grower would receive 90% of the $35 upside and be paid $416.50. The market price would be determined by the weighted average of Grain Traders Association of Zambia, Novatek, Mount Meru or Global and at time of delivery At the AOL silo complex.

2. Alternatively offer a $400/mt flat price to the farmer which would be locked in through a warehouse receipt system.

3. Thirdly the grower would be given a minimum offer with a 5/95 split on the value add price if the soya would be value added into TSP to be added to his warehouse receipt coupon that is redeemable only for procurement of future fertilizers, seed, chemicals or implements at maturity.

Opportunity for warehouse receipt systems

Warehouse receipt system can provide a solution to the lack of assets that limits small and rural farmers from accessing traditional capital. Warehouse receipt systems allow farmers to store goods in return for a receipt. This means that they can sell their produce at a later time, when prices aren't slumped due to high supply. In addition to providing a secure place to store produce, farmers can also collateralize their warehoused commodities to cover credit from financial institutions.
"As an innovative credit tool, warehouse receipt systems, among other benefits, reduce the pressure on the farmer to sell the commodity immediately after harvest, when prices are normally low and reduce post-harvest losses."

However, these warehousing systems have not yet been widely adopted in Africa. There are two main challenges. The first is securing the resources to manage the system. The second is convincing farmers to choose storing their produce until it reaches a better price, over selling immediately after harvest. Regulations enabling bankers and insurers to accept stored produce as collateral will also need to be introduced.

Digital payments platforms for de-risk lending

Microfinancing remains a vital source of capital for agricultural producers. Initiatives such as out growers Input Support Scheme, Aid for TradeTM's risk-sharing programme in Zambia, will have leveraged technology to develop new ways to provide loans to farmers such as through the COVID-19 Agriculture & Agribusiness Stimulus Package (Structured Inventory Product)".

Aid for TradeTM is a farmer App designed to help 250, 000 small scale farmers access lower cost of agriculture finance and manage the risks of lending to them, manage the micro finance' operating expenses and still remain well above global levels.

Aid for TradeTM will be linked to Agri Options or local kiosks with mobile banking and payments features designed to manage or drastically cut transaction costs, facilitate access to financial services such as insurance, savings and credit. In addition, Aid for TradeTM digital financial services will generate data to help our investors and lenders de-risk their offering by better understanding small-scale farmers and the rural economy.

Ultimately this "Will improve information about a borrower's intentions and ability to repay their loans, psychometric technology will be used in various communities and biometric technology will also be used as a cost-effective way of applying 'Know Your Customer' requirements when enrolling rural clients who often do not have identification documentation."