Agriculture Growth Accelerator

Unlocking Agriculture Potential through Medium Sized Farms in Kenya

EQUITY GROUP FOUNDATION

Presentation on Agriculture Markets and Finance

26th January 2016

Kingdom of the Netherlands

EQUITY Bank • Your Listening, Caring Partner

Equity Group’s vision is to be the champion of the socio-economic prosperity of the people of Africa

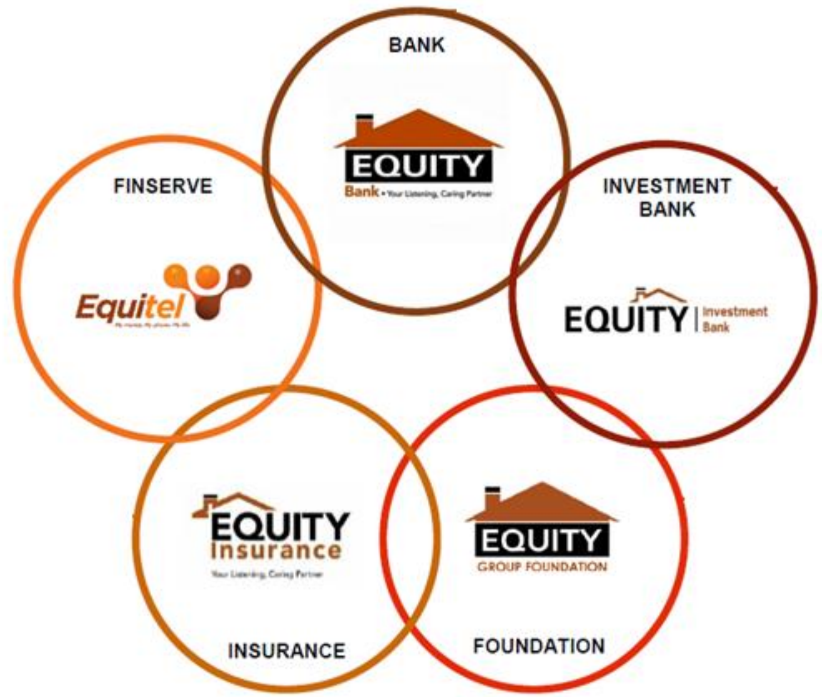
PURPOSE

We exist to transform the lives and livelihoods of our people socially and economically by availing to them modern, inclusive financial services that maximize their opportunities.

VISION

To be the champion of the socio-economic prosperity of the people of Africa.

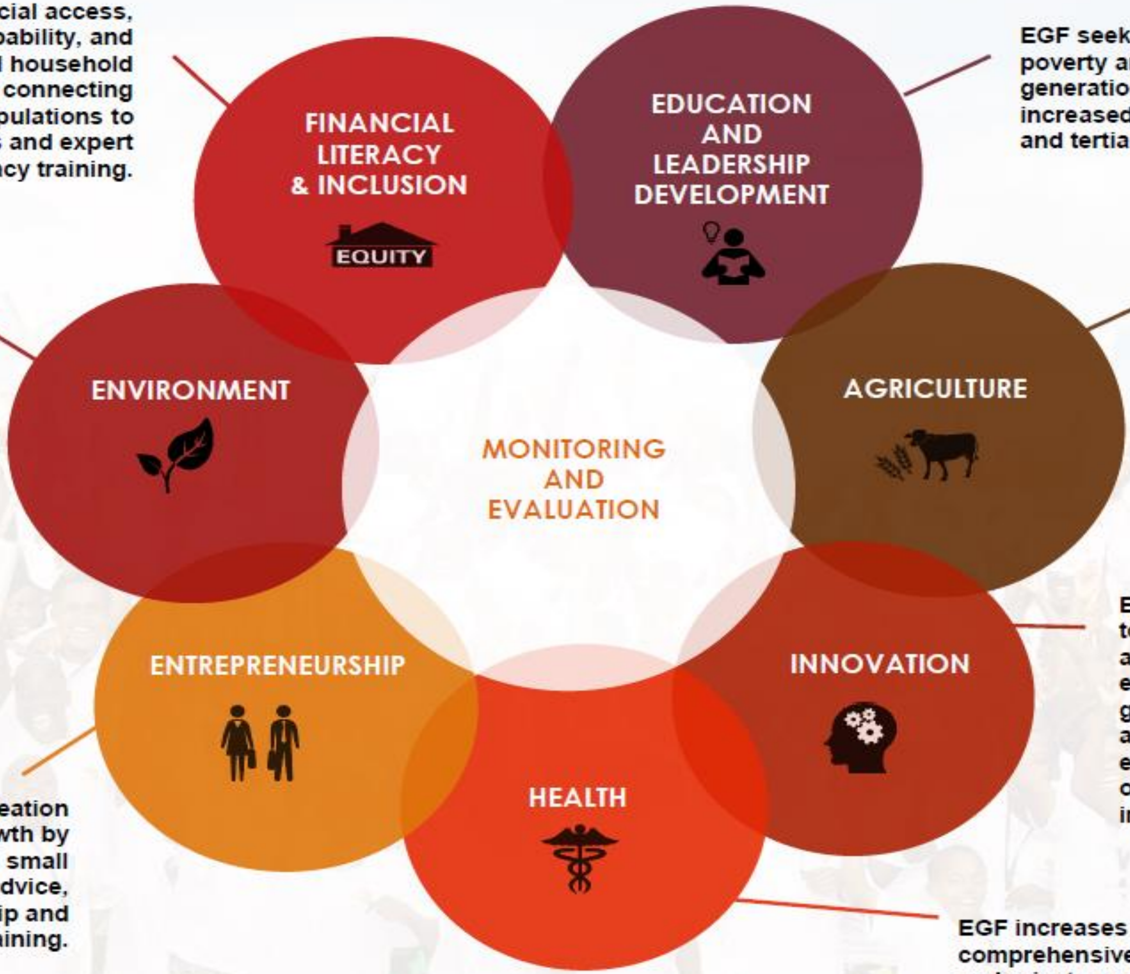
Equity Group Business Units



Equity Group Foundation manages 7 cross cutting programs

EGF improves financial access, financial capability, and individual and household financial security by connecting low-income populations to bank accounts and expert financial literacy training.

EGF seeks to break the cycle of poverty and develop the next generation of leaders through increased access to secondary and tertiary education.



EGF promotes the conservation and smart use of natural resources by expanding forest cover, improving water security and promoting the use of renewable energy and energy-efficient technologies.

EGF helps create jobs, improve market access, and expand agricultural production by working in partnership with small and medium-sized farmers to increase their production capabilities, business acumen, and access to technology and financial services.

EGF has a strong commitment to innovation in all of its program areas in order to promote new ideas, experimentation and, eventually, greater impact and scale. Priority areas of focus include education innovation and the offering of unique content and services to improve lives via mobile.

EGF stimulates job creation and economic growth by providing micro and small entrepreneurs with advice, mentorship and entrepreneurship training.

EGF increases access to comprehensive health financing and private sector-led, affordable, high-quality, and standardized health services.

We realized that low levels of commercialization results in food insecurity and low agriculture incomes

Challenges Faced by Agriculture Sector

Production

- **Low yields** due to **insufficient** use of **quality inputs** and **poor agriculture practices**
- **Underutilized land** and **resource base** due to of **high cost** of **quality inputs** and **finance**
- **Variable** agriculture **yields** due to **limited irrigation** systems

Markets

- **High post-harvest losses** due to poor or **limited storage** infrastructure and use of pest management strategies
- **Limited ability** to **pay** for transport results in **low prices** at **farm gate**

Business Management

- **Limited knowledge** of farm-level **profitability**, due to **non-existent record keeping** practices
- **Co-mingling** of farm **enterprise funds** and **family expenditures**
- Limited formal business registration
- Limited **capital reinvestment** into **business**

Agriculture System

- **Under resourced agriculture extension** program
- **Fragmented supply chain with many bottlenecks**
- **Lack of affordable and accessible practical training centers**
- **High cost of credit**
- **Youth and women particularly marginalized**

Results in food insecurity, low incomes and low livelihoods

To improve agriculture incomes and growth, we focused on farm level growth and sector reform

Growth in income & Reinvestment in Agriculture

Farm Level Impact

- **1 Increase Production**
  - Increase yield per unit (acre/head/throughput)
  - Increase number of units
  - Good production practices
- **2 Improve market access & linkages**
  - Improve timing of sale to market
  - Promote crop diversification & standards
  - Enhance local & international market access
- **3 Enhance business management**
  - Reduce pest & post harvest losses & theft
  - Improve management systems & decision making
  - Reduce risks through irrigation

Sector Impact

- **4 Enabling Environment**
  - Research & policy advocacy
  - Improved agriculture training tools and centers
  - Economic agriculture finance
  - Integration of Agriculture Supply Chain using ICT

The Growth Accelerator's intervention on Agriculture Markets

Agriculture Markets Highlights	Program Interventions
1. Agriculture marketing begins with production decision - what to produce, how much to produce, how to produce and how to distribute. 2. There is need for mutual interdependencies between producers and middlemen. 3. Involvement of other private players in market systems e.g. input companies, machinery suppliers, traders is very vital. 4. Consumers always want produce at the lowest price possible so there is need to enhance efficiencies at all levels.	• Program trains farmers to make value chain decisions with market the market in mind. • Middlemen & traders are not seen as a threat to farmers, rather enablers. Producers need the traders, and traders need farmers' produce. We bring them to plan together. • The program trains both farmers, along with others participating in the value chain. • Farmers are trained on good agricultural practices to increase yield and technologies to reduce loses, thereby increasing profit margins. • Farmers are trained on market dynamics and will have access to Marketing Information System.

The Growth Accelerator’s intervention on Agriculture Markets

Lessons Learnt

1. Marketing systems are dynamic. They are competitive and involve continuous change and improvements.

2. Farmers of quality produce efficiently prosper in agriculture.

3. Agriculture marketing has to be customer oriented and should be able to provide farmers, farmer organizations, transporters, traders or processors with value.

4. Players in Agriculture value chain should understand buyers requirements, including what produce they want and their business conditions.

5. It’s necessary to address the challenges of perishability, seasonal production and price volatililty.

6. Produce Quantity , Quality and Consistency is at the core of securing sustainable markets.

The Growth Accelerator's intervention on Agriculture Finance

Agriculture Finance Highlights

1. The banking sector in developing countries lend a smaller share of their loan portfolio to agriculture (avg 3% of portfolio), yet agriculture contributes a significant share to GDP & employment.
2. Farmers require financial services for agriculture and home loans, savings, payment systems and insurance.
3. High transaction cost in agriculture are due dispersed populations, inadequate infrastructure and high risks with rain fed agriculture, and low quality inputs.
4. Lack of collateral makes it hard for banks to lend – ie poor verification of titles and property.
5. Training on financial education, production and agribusiness plays a large role in de-risking farmers.

Program Interventions

- Through the bank, more than 1.2M people have been trained on financial literacy, which has built the confidence of farmers to open accounts and access loans and on how to manage their finances.
- The bank has developed wide range of agriculture products that lend to all the players in agriculture value chain.
- The program has trained farmers in financial management and record keeping. Farm record templates are availed to beneficiaries making appraisal and credit rating easier.
- EGF, Scope insight and Financial Sector Deepening are designing a bundled financial product suitable for SME farmers.
- Farmers are trained on financial management, record keeping and business planning, making it easier for them to access financial services and the bank has better credit rating when records are available.

The Growth Accelerator's intervention on Agriculture Finance

Lessons Learnt

- It is important to identify financial needs of all segments of agriculture sector before designing a financial product
- Agricultural financing can be de-risked by addressing individual (credit risk assessment, linkages to market) and systemic risks (insurance, accepting movable collateral)
- Identify appropriate delivery channel that reduces risks e.g. aggregating farmers, forming farmer based organizations, use of mobile banking technology.
- Value chain financing - financing interlinked processes from farm to consumer increases efficiency and reduces lending risk.
- Flexible credit scheme increases uptake of agricultural financial products.
- Financial literacy increases lending efficiency and reduces default rates.
- Involvement of financial institutions in securing market for farmers' produce reduced market related challenges and hence good financial performance.