

# MANAGEMENT CONFERENCE FOR AGRICULTURE SECTOR 23RD – 25TH APRIL, 2014 IMPERIAL HOTEL, KISUMU

RISK MANAGEMENT IN AGRICULTURE SECTOR.  
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# What is Risk

- “chance ”of something “bad” happening.
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- Exposure to possible outcomes that cannot be accurately predicted or completely controlled.
- Production and prices are uncertain,so income and welfare are never guaranteed.



# Risk, Profit & Goals

- Profit=returns to risk
- Risk earns profit
- Managers make choices from among risky alternatives
- The reward for taking on business risk is attaining profits and reaching other goals
- Bearing greater risks, improves opportunities for higher profits and loftier goals
- Risk reducing strategies will likely increase costs and moderate other goals





# Managing risk

- Understanding risk
- Identify your sources of risk
- Analyze your risk bearing ability and tolerance
- Become familiar with risk management tools
- Develop and implement a risk management plan



# Understand and Identify sources of risk

- Production
- Marketing
- Financial
- Human resource
- Legal and environment



# Sources of risk

- Production- variations in output due to weather, pests, disease, timing, etc.
- Marketing- unpredictable prices and markets.
- Financial- loss of equity and borrowing capacity.





# Sources of risk

- Human resource-issues centered around employees or family members
- Legal and environmental-laws or programs reflecting society's priorities and industry's mandates
- Impact of natural resource base



# Risk bearing ability & tolerance

Start with..

- Production & market review
- Financial statements & budgets
- Examine capacity, efficiency, solvency, liquidity, profitability, repayment ability
- Consider how much risk you are currently exposed to in your operation.
- How much risk am I willing to retain?
- What risks need to be shifted to others?





# Risk management tools

## Action

- Lessen the odds
- Transfer, shift
- Mitigate, lessen impact

## Examples

- Maintain equipment
- Multiple suppliers
- Carry insurance
- Contract services
- Extra capacity
- Spread sales



# Production and risk management

- Follow recommended practices
- Maintain equipment & facility repairs
- Extra production capacity
- Employ new technology
- Enterprise diversification
- Consider contract production or custom hire
- Crop/revenue insurance



# Marketing risk management

- Market through alternative channels
- Spread sales over season
- Review harvest & storage decisions
- Enter in sales and/or price contract(s)
- Increase direct sales
- Consider value added products/services





# Financial risk Management

- Improve financial record keeping
- Develop business plan, communicate with lender
- Set financial & enterprise goals
- Reconsider business size, expansion or contraction
- Review/reschedule loan terms
- Consider leasing
- Consider outside employment



# Human resource risk management

- Adopt sound hiring practices
- Communicate often with employees
- Recognize good performance
- Provide adequate training
- Evaluate alternative labour sources
- Practice family decision making
- Develop an estate/business transfer plan



# Legal risk management

- Evaluate business structure
- Review insurance coverage, contacts
- Consider optional business arrangements
- Manage liability





# Environmental Risk Management

- Become familiar with environmental issues
- Comply with regulations
- Maintain adequate records
- Follow best management practices
- Address concerns about food safety, pesticide drift, manure runoff, etc.



# Risk management Plan

## Final Steps

- Develop and implement the plan
- What must be done?
- Who's responsible?
- What's the timeline for specific tasks?
- How will you evaluate results?



# Risk management Planning Forms

- Form 1.initial risk management assessment
- Form 2.risk management priorities
- Form 3.plans of action for priority risks





# Risk management

- Matching your goals and expectations of business success with your ability to accept a certain amount of risk and to take actions to reduce the possibility of unfavorable outcomes.



## Note :

- The various risk responses have different effects on the farm business, but none of the responses can provide protection from all types of risks. As a result most farmers use a combination of production, marketing and financial responses in their risk management strategy. Because farmers differ in their goals and attitudes as well as their personal and financial situations their risk management strategies also differ.





# Integrated risk management strategies:

- Risk balancing is fundamental to risk management to most farmers. If they take an action in one aspect of the business which increases risk, an offsetting action is taken to maintain the total risk at a constant level.
- Because of the multiple sources of risk, comprehensive strategies that integrate several responses to variability are often necessary for effective risk management. The particular combination used by an individual farmer will depend on the individual's circumstances, types of risks faced and risk attitudes.
- The risk responses available to an individual and the degree to which one can make use of a response are affected by factors outside the individual's control.
- Part of good risk management is recognizing what is feasible and effective in individual circumstances.
- A comprehensive strategy integrating production, marketing and financial responses will reduce risk more effectively than will a series of separate and individual responses.
- The best integrated risk management strategy depends on individual circumstances i.e. a farmer's goals and risk attitudes, expectations about the future, equity position, resources available, financing available, market availability. As these factors change, so will the best strategy.





# END....

- Qs and As
- THANK YOU

