

AGRIBUSINESS

ICPAK Forum

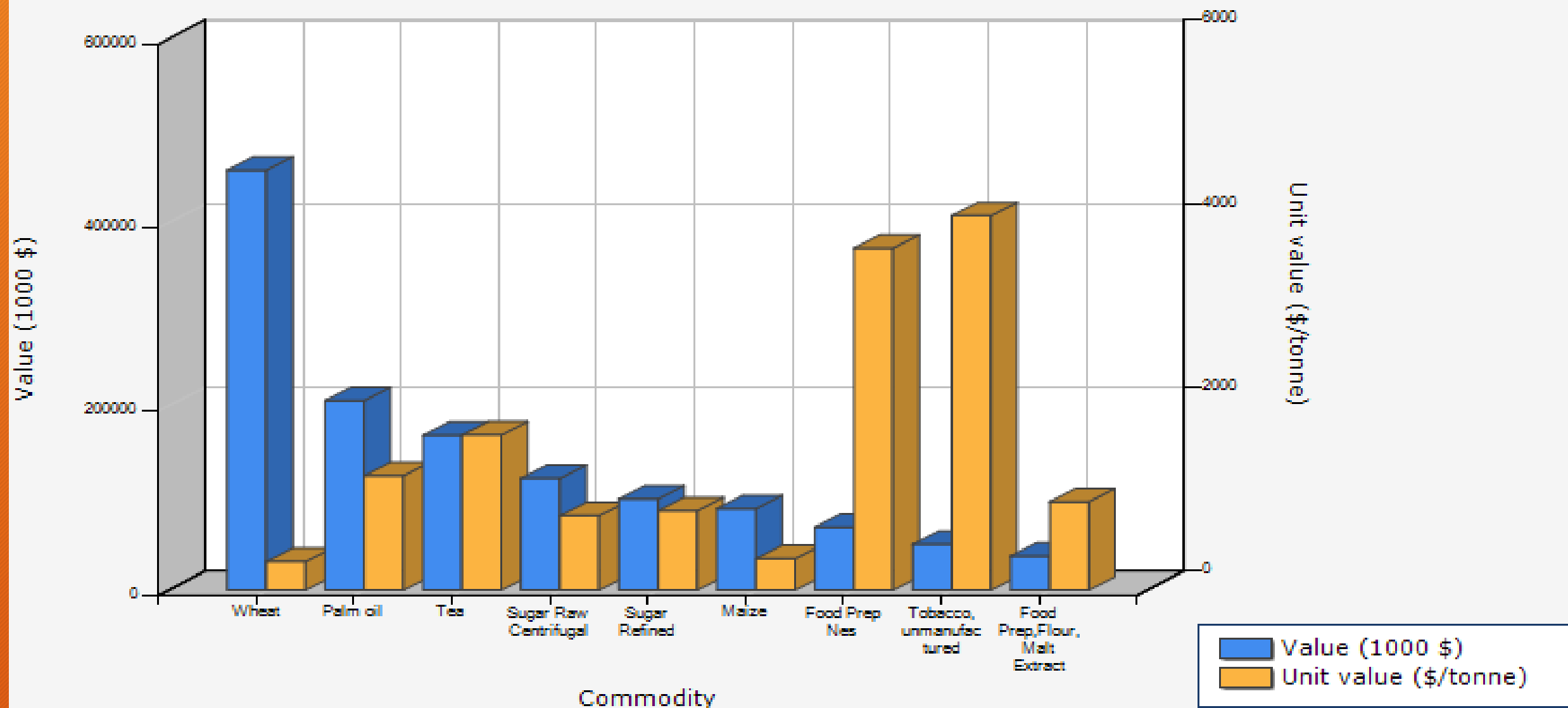
Naivasha-13th July 2016

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Background

- Agriculture, the mainstay of Kenya's economy, currently contributes 26 per cent of the GDP directly and another 25 per cent indirectly.
- The sector also accounts for 65 per cent of Kenya's total exports and provides more than 18 per cent of formal employment.
- More than 70 per cent of informal employment is in the rural areas.
- The agricultural sector comprises six subsectors—industrial crops, food crops, horticulture, livestock, fisheries and forestry—and employs such factors of production as land, water and farmer institutions (cooperatives, associations).

Top imports - Kenya - 2011



Rank	Commodity	Quantity (tonnes)	Flag	Value (1000 \$)	Flag	Unit value (\$/tonne)
1	Wheat	1467709	1	457146	1	311
2	Palm oil	165702	3	206260	2	1245
3	Tea	99762	6	168541	3	1689
4	Sugar Raw Centrifugal	149935	4	121663	4	811
5	Sugar Refined	114626	5	99195	5	865
6	Maize	258525	2	88757	6	343
7	Food Prep Nes	18390	19	68451	7	3722
8	Tobacco, unmanufactured	12217	27	49776	8	4074
9	Food Prep,Flour,Malt Extract	38508	15	37059	9	962
10	Peas, dry	47341	13	30381	10	642
11	Beans, dry	51697	11	28589	11	553
12	Fatty Acids	30176	17	28187	12	934
13	Flour of Maize	46601	14	26016	13	558
14	Flour of Wheat	50766	12	23971	14	472
15	Breakfast Cereals	18596	18	20886	15	1123
16	Sorghum	58223	9	19466	16	334
17	Milk Whole Dried	3664	50	17610	17	4806
18	Wine	6436	40	16594	18	2578
19	Cake of Soybeans	69215	7	14523	19	210
20	Bever. Dist.Alc	2380	56	13979	20	5874

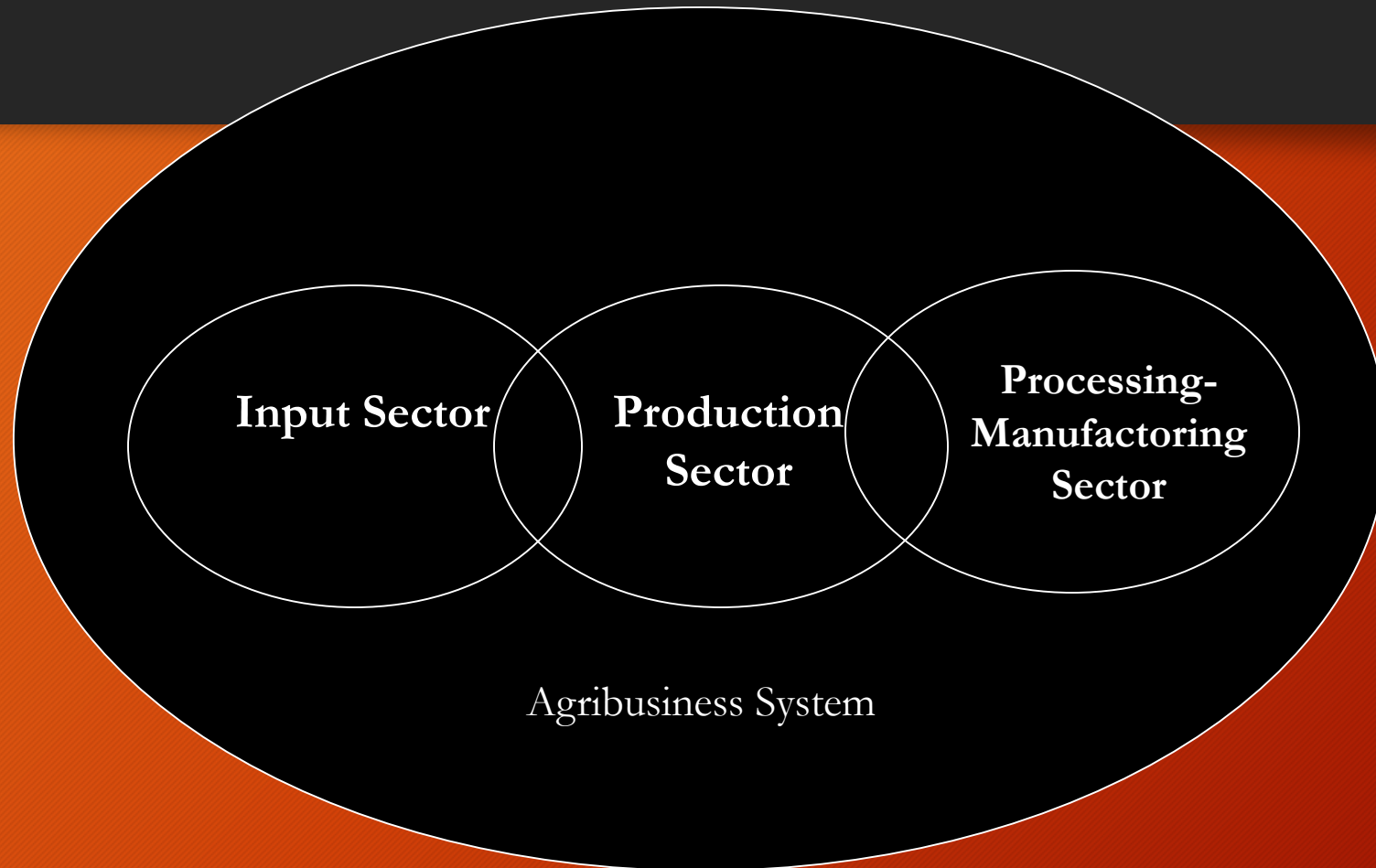
Agribusiness definition;

- “An industry engaged in the producing operations of a farm, the manufacture and distribution of farm equipment and supplies, the processing, storage and distribution of farm commodity”
- Merriam-Webster's Dictionary

“Links” in the Agribusiness chain

- Primary production of raw materials(unprocessed food)
- Tertiary transformation of commodities into value added products where value is derived from process of transformation
- Supply of inputs to the primary and tertiary sectors
- Wholesale and retail provision of processed or unprocessed foods and related products to consumers
- Provision of educational, financial, and technical services to all sectors

The Agribusiness System



Note: the success of each part depends upon the proper functioning of the other two!

Agribusiness financing challenges: Institution perspective

- Many agricultural markets are imperfect, lacking information and communications infrastructure.
- Transaction costs are high and the volume of business in remote rural areas, where many poor people live, cannot support the cost of a bank branch.
- The problem is worsened by a low density of population and poor infrastructure in rural areas

Cont'

- Small size average farm size, low population density, higher loan servicing costs due to limited lending volume and high information costs
- No branches or a limited branch network in rural areas
- Lack of collateral or adequate security among rural people
- Lack of technical knowledge at the bank level to evaluate and analyze the creditworthiness of rural customers
- Risk correlation when lending to farmers: all borrowers are affected by the same risk, such as low market prices and reduced yields due to the weather
- Underdeveloped communication and transportation infrastructure

Agribusiness financing challenges: Farmer perspective

- Lack of collateral
- Lack of consistent income
- Changing weather patterns and seasonality
- Rural small holder farmers perceived as risky
- Lack of value chain aggregators.
- Lack of developed markets
- Poor infrastructure
- Poor training
- Lack of extension services



Challenges of agribusiness start-ups

- Capital
- Cash flow management
- Business planning
- Financial records
- Poor management-capacity
- Get rich quick-Vs Lean start up approach
- Business models



Opportunities in Agribusiness

- Growing population-market
- Opportunity for value addition
- Value chain financing
- Viable Partnerships-with Cooperatives ,associations
- Available Human resource
- Favorable Government Policies
- Vast irrigation potential. Kenya's irrigation potential is estimated at 540,000 ha of which only about 105,000 ha is exploited.
- Value addition. Value addition includes processing, branding, quality certification and accreditation, as well as farm-level quality improvements that the market values



Product development considerations

- Value chain approach vs individual approach
 - Market needs approach-contractual market and agreements
 - Input providers-agreements with input providers on-time provisions
 - Service providers-insurance ,extension services formal engagement
 - Training-consider package approach
- Grace period
- Customized repayment period
- Fair interest rate
- Bullet/balloon payments

AGRICULTURAL SECTOR DEVELOPMENT STRATEGY 2010-2020

- Empower farmers by strengthening producer organization
- Improve regulatory frameworks
- Review taxation on agriculture
- Improve the agricultural extension system
- Establish an efficient agricultural research system
- Increase competition in the supply of agricultural inputs • Improve access to financial services and credit
- Promote market orientation
- Encourage growth of agribusiness
- Develop and implement land reforms and an agricultural land-use

THANK YOU