



FINANCING DAIRY SECTOR

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DAIRY SECTOR IN KENYA



- Dominated by small scale farmers producing over 80% of the total milk produced in the country; the rest comes from large scale dairy farmers and farms owned and managed by dairy processors. Over 1mio households produce milk in Kenya.
- Dairy production in Kenya contributes about 7 % and 19 % to total GDP and agricultural GDP respectively (KNBS, 2009).
- The country has experienced a rise in milk production and revenues there from. Currently production has risen to over 4billion litres annually valued at over 800mio US\$.
- Milk in Kenya comes from cows, camels and dairy goats with cows taking the lead.
- Milk processing in Kenya is done by both formal and informal sector. Formal sector consists of over 30 registered processors.
- The Kenya Dairy Board oversees the dairy business in the country and sets rules and regulation in the sector including licensing of dairy traders.

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WHY FINANCE DAIRY SECTOR?



- Dairy sector contributes approx. 19% of Kenya's agricultural GDP meaning a substantial contribution to the country's economy.
- Kenya's dairy sector is predominantly run by small scale farmers who without reliable and sustainable finance partner may not succeed in the venture.
- There has been a lot of sensitization of modern dairy farming methods which have high capital costs and as such the need for financial support from FIs.
- The Government has in the recent years structured dairy farming and as a result attracted a lot of entrepreneurs into the sector thereby creating demand for credit in the sector.
- The need to support dairy trading under the reviewed regulations and standards that call for higher financial investment.

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SEGMENTATION OF DAIRY FINANCING

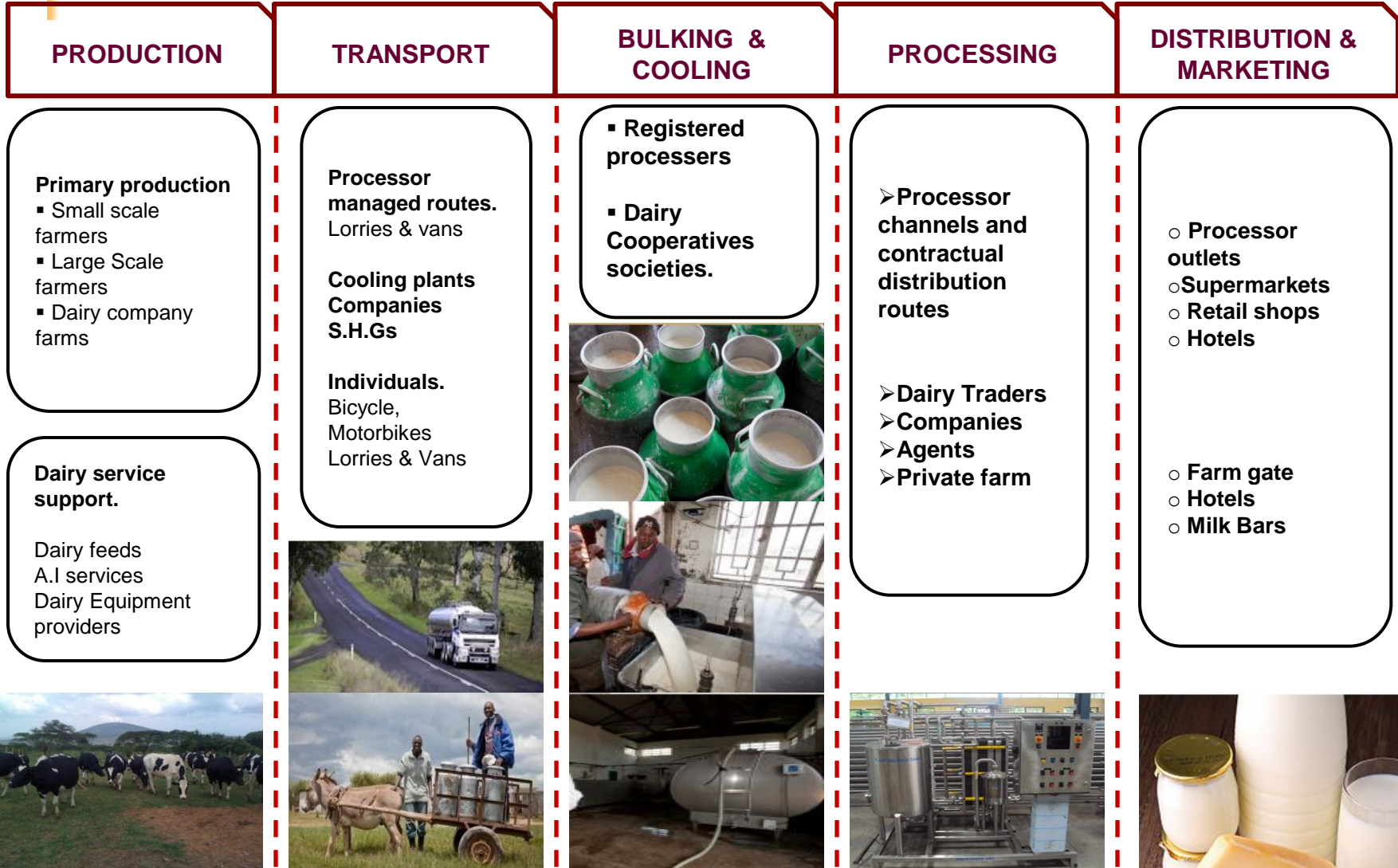


- Dairy financing in EBL is done through value chain approach. This entails focusing on inputs supply, primary production, value addition until the dairy products is ready for consumption.
- Dairy financing clients therefore include;
 - Inputs suppliers and vet services providers
 - Farmers/producers and producer groups
 - Raw milk buyers/farm-gate off-takers
 - Transporters and raw milk bulkers
 - Dairy processors
 - Distributors of end products.

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VC MOVEMENT



THE KEY VC PLAYER



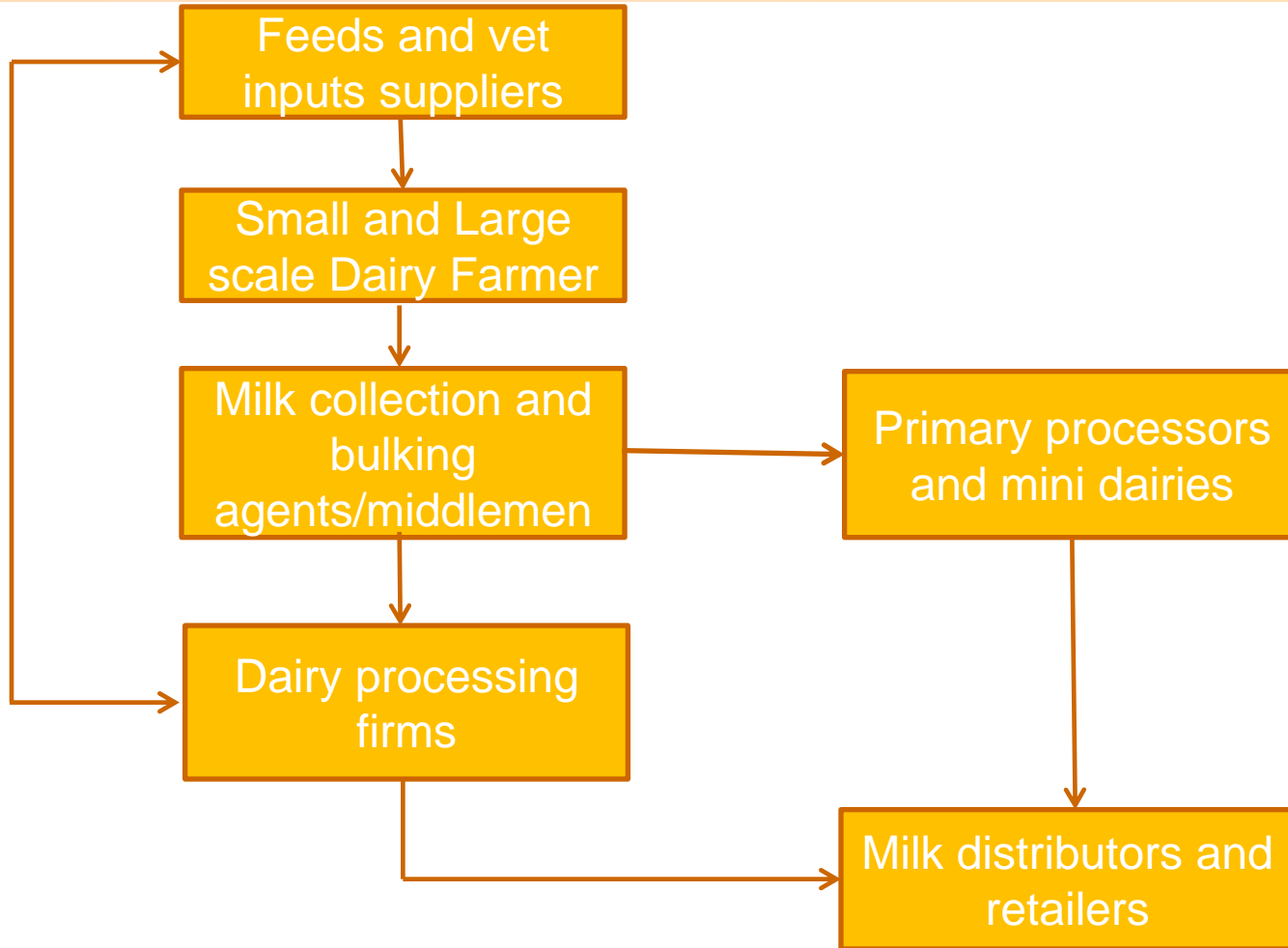
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FINANCING APPROACH



Financing through the entire chain



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MAIN FINANCING COMPONENTS



- Establishment of dairy grazing farms (includes buying of land, construction of sheds, establishment of feeds/pastures, etc.)
- Buying of high producing dairy cows sourced from registered dairy breeding farms.
- Mechanization of dairy farms – milking machines, feed processing equipment, milk storage facilities, etc.
- Waste management through establishment of biogas digesters and compost manure distribution.
- Financing of farmers/individuals to set up dairy cooling/chilling and processing plants
- Financing of A.I services providers to buy motorbikes and semen cans.
- Working capital for animal feed manufacturers and suppliers.
- Corporate financing to large dairy processors for plant installations, working capital, assets acquisition, capital expansion, etc.

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OTHER FINANCIAL SERVICES



- Insurance products for livestock, self and other farm and/or factory assets.
- Electronic payment solutions for milk suppliers and workers in large dairy entities.
- Savings platform for dairy producers and dairy workers.
- Social development needs to support the VC players especially small scale farmers e.g. school fees, medical fees, etc.
- Financial investment products such as buying of shares, fixed deposits, etc
- Financial literacy training – agribusiness management and financial management
- Technical and market linkage – connecting farmers to established raw milk buyers, dairy breeding farms, AI service providers, etc.

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THE PROCESS



- **FARMERS**

- **Eligibility**

- One must be a commercial dairy farmer keeping a minimum of two mature dairy cows.
 - Have at least one year dairy farming experience however basic.
 - Able to ascertain existence of a market for their milk – supply contracts, past sale records, milk outlets, etc.
 - If financing is meant for purchase of additional dairy cows, be able to raise a certain amount as a way of commitment to the investment.
 - Reliable source of feeds.

- **Steps**

- Initial contact/meeting with the farmer to establish financing needs.
 - Farm visit by the lending officer to understand the venture
 - Visit to the breeding farm (where applicable)
 - Loan application, appraisal, decision, disbursement, payment to suppliers.
 - Follow up and monitoring.

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THE PROCESS



- **PROCESSORS & INTERMEDIARIES**

- **Eligibility**

- Proper licensing by the Kenya Dairy Board and other relevant licensing authorities.
 - Feasibility study reports for the establishment to be financed.
 - Valid pro forma invoices for the equipment and installations to be financed.
 - Available expertise in case of new venture.
 - Owner's contribution as may be agreed with the Bank.

- **Steps**

- Initial meeting with the client.
 - Site visit to appreciate the running of the venture and the extent of investment in relation to the financial need.
 - Loan application, business/client visit, initial evaluation.
 - Credit analysis, decision making, contracting & perfection.
 - Disbursement by phases based on the stages of equipment acquisition and installation.
 - Credit performance monitoring.

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ILLUSTRATION - FINANCING ACQUISITION OF A DAIRY COW



Credit opportunity & origination

- Farmer approaches EBL and discusses the financing need. This may also happen in the field as EBL officer is making client/field visits, field days, etc.
- Farmer deposits owner's contribution of between 20 – 40% of the total purchasing cost in EBL's account.
- Borrower fills loan application forms and submits other relevant documents such as milk selling contracts, copy of land ownership deeds or leasing and occupancy certificates, ,pro-forma invoice/quotation from the breeding farm.

Credit Evaluation

- EBL officer conducts a farm visit to establish the existence of dairy farming venture. Also establishes the preparedness of the applicant in fodder preparation, building of structure/grazing shed, assess the husbandry, securities pledged, etc.
- EBL officer pays a visit to the breeding farm to establish the availability of the animal, registration and breeding license. Peruses the breeding trail for the animal to be purchased.
- Confirms with the milk buyers on the existence of the contract.
- Analysis the financials and risks of financing. Subjects the proposal to CAMPARI and requisite credit committees

Credit documentation and contracting

- Preparation and execution of offer letters. Securities perfection as applicable.
- Procuring irrevocable payment commitment from the milk buyer/processor.
- Applicant secures livestock insurance and transportation permits for the animal. Submits the payment advise to the Bank for payment to be processed.

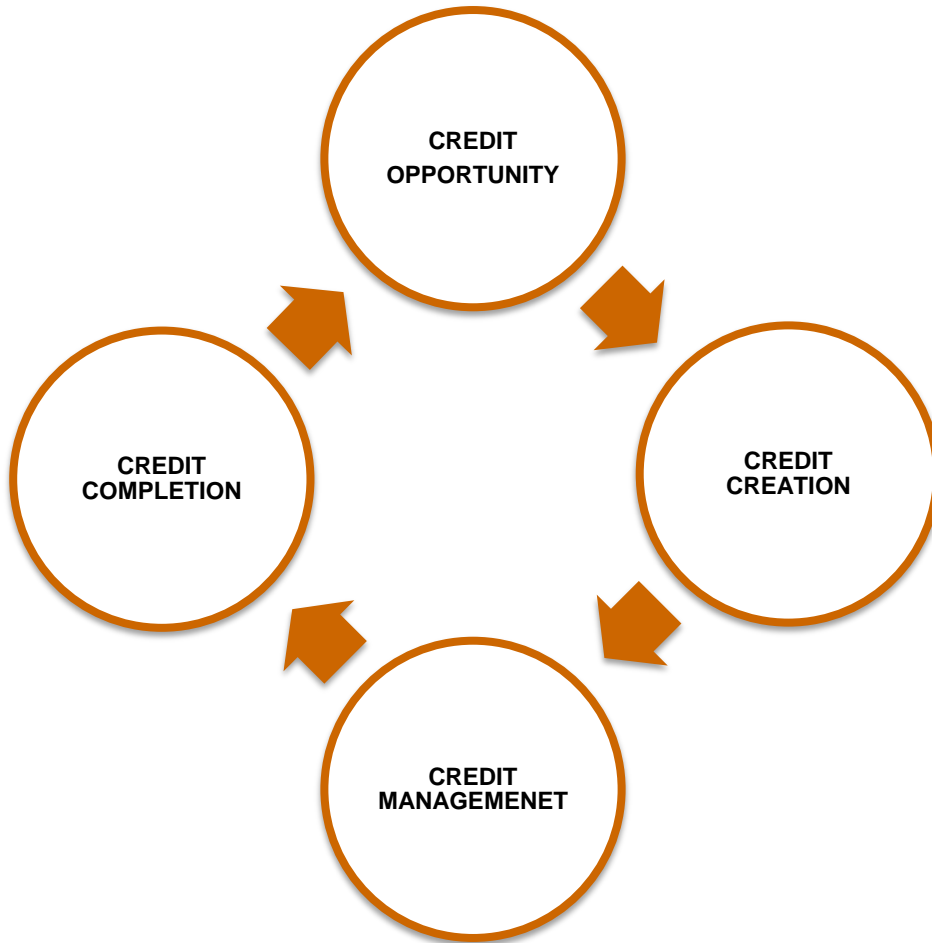
Credit Administration

- Loan disbursement, payment done to the seller of the cow – loan + owner's contribution
- Grace period of max 3months offered to the applicant to allow calf-down.
- Proceeds for milk sales received from the buyer/processor and monthly installments deducted for the loan payment – max loan period of 24months – 36 months. Payment also made thru' EBL's ABCs.
- Insurance renewal done annually with EBL's interest noted on the cover.

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THE PROCESS AT A GLANCE



Credit Opportunity

- Identifying the customer/need
- Pre application interaction.
- Credit application

Credit Creation

- Credit appraisal
- Risk analysis
- Approvals & decisioning
- Documentation
- Disbursement

Credit Management

- Supervision & monitoring

Credit Completion

- Loan clearance
- Preparation for another credit opportunity

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CHALLENGES IN DAIRY SECTOR FINANCING



- Small scale farming is still largely practiced as a way of life by majority as opposed to it being done as a business hence there lacks keen attention to use of modern production methods that can sustain dairy production profitably and perpetually.
 - Financial literacy training to instill business thinking
 - Technical linkages to enhance farming methods
- Farmers rarely have a say in the pricing of their raw milk while most of the buyers shy away from signing formal contracts that guarantee prices for the farmers. This means financing is done on speculated prices in most instances.
 - Financing based on historical performance and good credit history
 - Financing through groups – collective price negotiation capability

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CHALLENGES Cont.

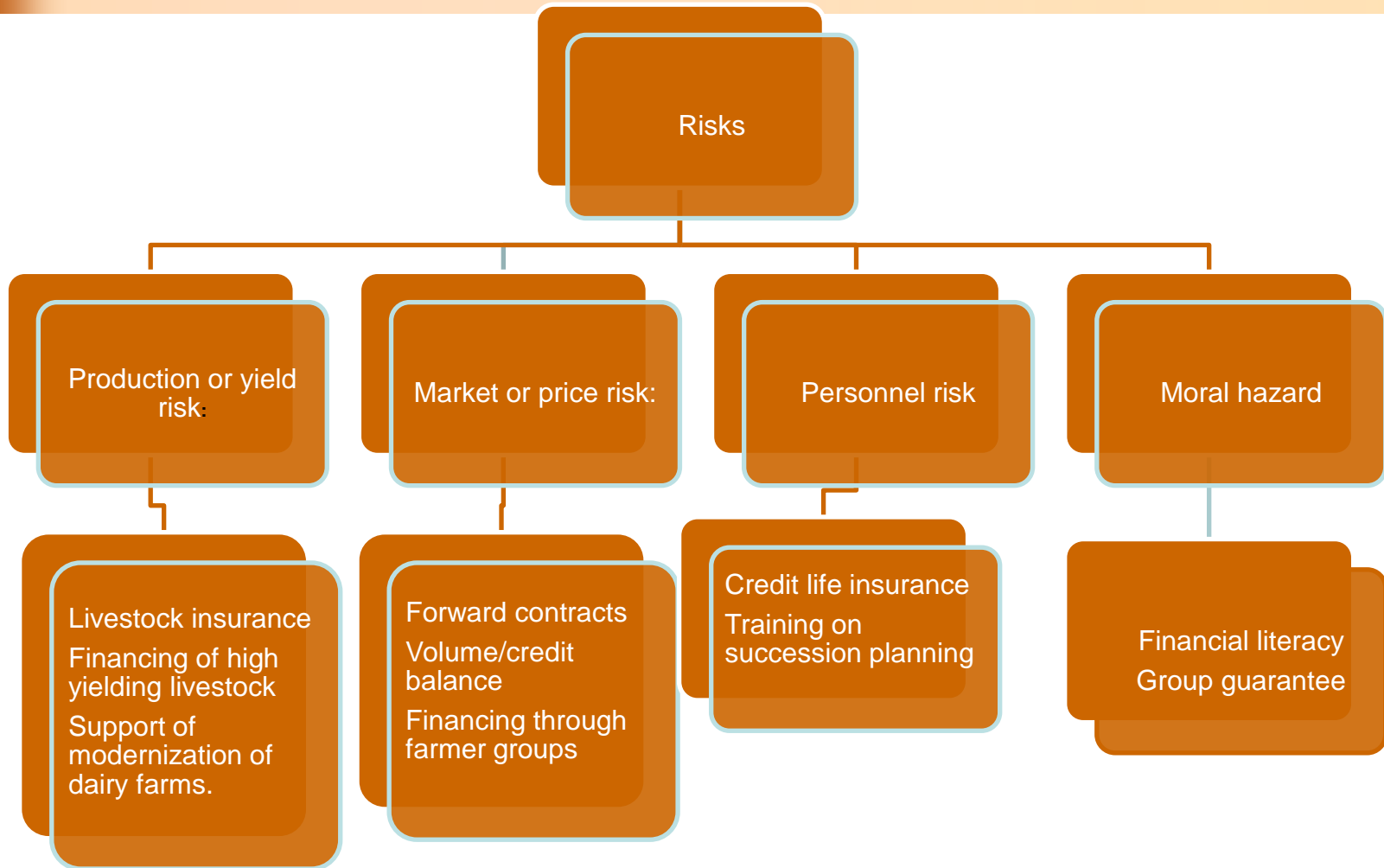


- Poor infrastructure that makes it difficult for FIs to get to the farms as they evaluate credit and financing needs. This makes it costly to run credit especially where farmers concentration is low.
 - Zoning of client for aggregated financing approach that's economical to EBL
 - Use of agency banking and mobile banking (EZZY 247) for loan collection
- Volatile prices of animal feeds that makes it difficult for both the farmers and FIs to forecast cash flows accurately.
 - Linking farmers to technical advisors on feed management
- Poor record keeping among small scale farmers in the sector.
 - Financing literacy training
- Most of the dairy sector players in small scale processing lack proper succession planning and hence demise of the proprietor may culminate to the end of the business. This may also affect the credit performance with the FI.
 - Advisory through training on business management
 - Close monitoring of the relationship
- Sudden unforeseen changes in the regulatory framework most often than not challenge the existence of already running entities that also affect their relationship with the FIs.
 - Being an active stakeholder in the sector

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Risk management



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TRANSFORMING DAIRY SECTOR



THANK YOU!!!

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