LENDING TO AGRI CO-OPERATIVES

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Who is Co-op Bank?

- Started by Agric marketing co-ops in 1965.
- To provide affordable financial services to them and their members. (3500 saccos + 10,000 marketing coops representing 10m members).
- They are strategic investors holding a 65% stake.
- 3rd largest (assets) 95 branches, 450 ATM 4th by Profitability.
- 2.4 Million individual customers, 3000 staff members.
- Sectors served include coffee, tea, dairy, grain, livestock.
Doing Business with Co-ops

- Owners of the bank and elect delegates who elect the Board.
- Supervised by the MOCD, under Commissioner of Co-ops who sits on the Board.
- 80/20 rule under Relationship Managers.
- Besides lending the bank offers capacity building to societies.
- They have Sacco’s that run FOSAS which are linked to the Bank systems via Sacco link.
Lending Model

- Members save and borrow from the society (X3 check off or 30:70 debt ratio).
- Society borrows wholesale funds from the bank for on-lending.
- Lending is based on TMA, leveraging on guarantee funds and legal charge for those with good securities.
- Approval process is by committee.
- Monitoring, early alert meetings, follow-ups by RM’S, grading of facilities to manage risks & restructuring.
Sources of revenue for the bank include interest income from loans.

Shared commissions on Sacco link, franchised products like bank cheques & moneygrams, Sacco personal loans commissions, win-win for both.

Agency banking commissions and M-banking win-win for both.

Forex commission on produce receipts e.g. coffee.
Lending model con’td

- Profitability is blend with other business approaches e.g. value chain finance end to end.
- Incomes are good as volumes driven are huge hence turn over's despite the small fee recovery.
- Pricing is risk adjusted as base rate is below others by bases point.
- Insurance for both crop and animals assists in minimizing losses on associated risks.
- Tripartite agreements, letters of undertaking and MOU’s assist in market linkages hence minimizing market risks.
Key success factors

- Capacity building assistance e.g. technical advisory services & training to improve on governance is a must.

- Relationship Management & business approach through partnerships is key for a win-win.

- Government support on policy matters is very critical (SASRA, Governance & Ethics Commission).

- Tailor made products that make societies relevant to their members.
Growth strategies

- Offering an ICT platform to operate and access bank information.
- Turning tier two co-ops both Sacco & marketing into vibrant business entities.
- Recruitment of MBO’s into Saccos which is a huge untapped market using the BOP approach (Chama’s).
- Formation of Farmers co-operatives in non traditional Co-op sectors e.g. tobacco sorghum, barley and poultry value chains.
The bank’s agriculture loan book is Ksh. 7 Billion (US$83 million) as at December 2011.

Projected growth of 30% by December 2012.

The attrition rate is 36%.

The number of active Co-operatives are 4000 wholesale borrowing.

The rest of the clients are individual farmers, companies and groups.
Unfavorable marketing structures, mainly dictated by end of the chain players.

Decline in production due to low commodity prices.

Diversion of the produce to evade loan repayment.

High gearing in societies due to multi-borrowing from millers/agents and banks.

Low interest in farming by the younger generation in favour of white collar jobs.

Traditional packaging of credit e.g. FILS and Working Capital loans, CAPs.

Loss of confidence and trust in the marketing chain by farmers.
Challenges/Risks cont..

- Lack of adequate mechanism to hedge against poor price and vagaries of weather.
- Weak management structures at society level.
- High poverty levels that raises appetite for credit default.
- Land tenure- over sub division of land to unmanageable levels.
- Changing weather patterns which affects yield.
Solutions/Risk Mitigation

- Strengthening co-operative unions to establish their own mills/processing plants – better prices.
- Capacity building on financial management.
- Incorporate agriculture insurance to cushion societies against vagaries of weather.
- Linkages of co-operative societies to international market for their proceeds.
- Strategic partnerships with donors for affordable credit to societies.
Co-operative Societies assist in realizing
Vision 2030 on financial services.

Financial Services: The 2030 vision for financial services is to create a vibrant and globally competitive financial sector promoting high-levels of savings and financing for Kenya’s investment needs. Kenya also intends to become a regional financial services centre. This will be achieved through: (i) Undertaking legal and institutional reforms to make Kenya more competitive as a financial centre (ii) reforms in the banking sector that will be undertaken to facilitate the consolidation of small banks in Kenya to larger and stronger ones; (ii) introduction of credit referencing in the country; (iii)streamlining informal finance and Savings and Credit Co-operative Organisations, as well as micro-finance institutions; (iv) deepening financial markets by raising institutional capital through pension funds, expanding bond and equity markets, as well as tapping international sources of capital.