New Models for Lending to Small and Medium Agricultural Enterprises

Presented by
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Vision: To be the champion of the socio-economic prosperity of the people of Africa.
Mission: Statement: We offer inclusive, customer-focused financial services that socially and economically empower our clients and other stakeholders.

EQUITY BANK

- Equity Bank commenced business on registration in 1984.
- It has evolved from a Building Society, a Microfinance Institution, to now the all inclusive Nairobi Securities Exchange and Uganda Securities Exchange public listed Commercial Bank.
- Has over 6.3 million accounts, accounting for over 57% of all bank accounts in Kenya, making it the largest bank in the region in terms of customer base
- Operates in Kenya, Uganda, South Sudan, Rwanda and Tanzania

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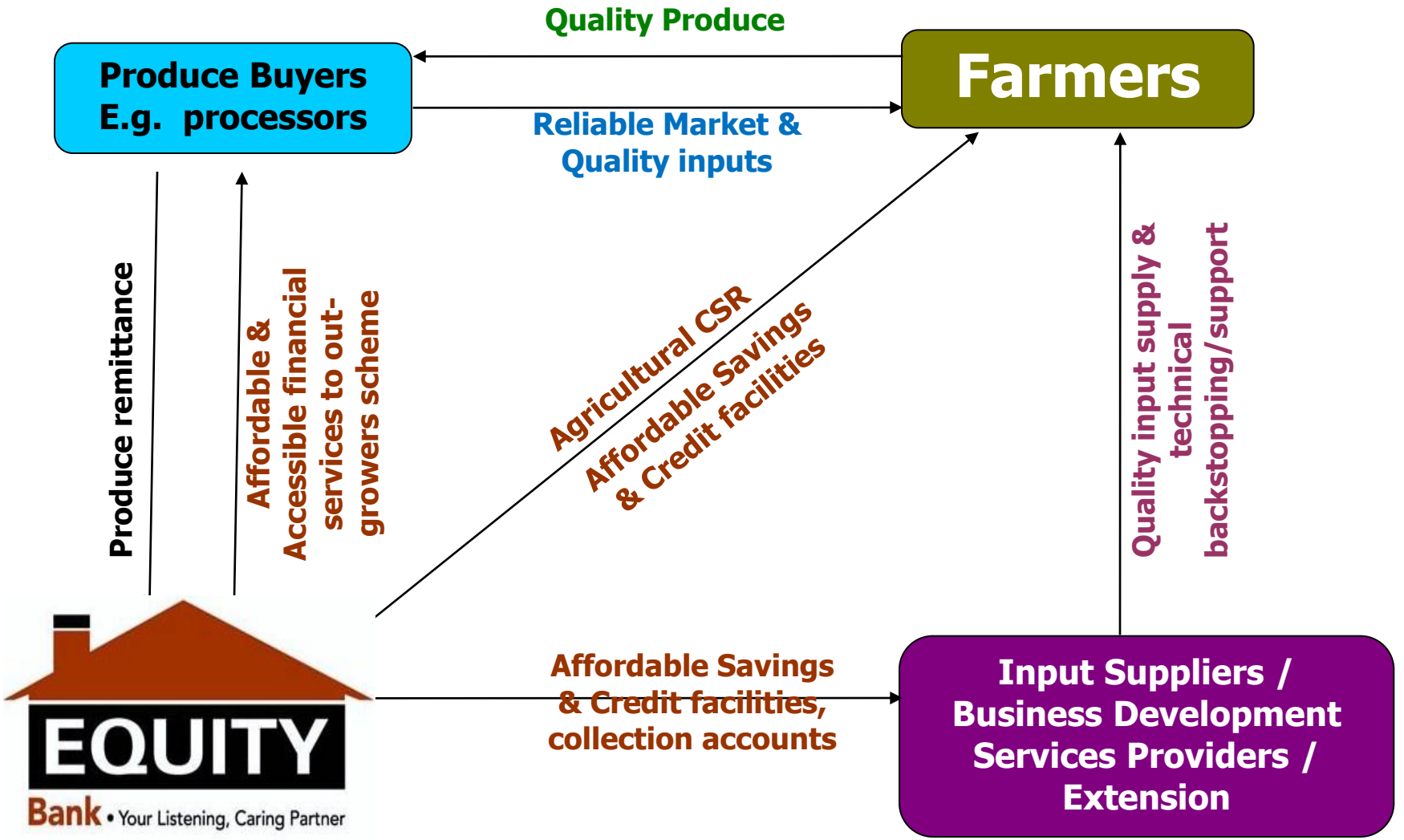
The problem

- Lack of access to appropriate farming inputs and implements
- Ever rising production costs
- Lack of technical/agronomic skills to support their production and agribusiness management – inadequate BDS and extension services
- Lack of organised market and adequate market information resulting to unfavourable prices and farm produce wastage
- Poor storage facilities for farm produce in addition to poor infrastructure
- Over–reliance on quite unreliable rains and unfavourable weather patterns

Solution

- Credit products relevant to farmers' needs and aligned to their agricultural activities (loans for farming inputs, purchase of agricultural equipment, post harvest credit, etc)
- Mobilizing farmers in groups so as to ease their borrowing requirements on collaterals and generate critical volumes for market linkages.
- Loan products specially designed for financing of modernized and irrigated farming to enhance sustainable production.
- Financing inputs suppliers/agro dealers to be able to supply farmers with inputs especially during planting seasons
- Financing buyers/processors of agricultural commodities for working capital to be able to offer market to farmers for their produce – plus creating linkages where possible.

Value chain financing (Equity's Approach)



Success Factors

1. Value chain financing concept :

   - Allows integration of the various players in agricultural production, processing and marketing
   - It defines the various roles of players while at the same time, scope and purpose of partnerships are clearly established.
   - It enhances synergy through forward and backward linkages between various value chain actors
   - Helps in identification of existing and/or arising gaps

Success factors (cont…)

1. Partnerships
   - Partners Achieve economies of scale
   - Enhance specialization in areas of strength
   - Spread risks among the parties
2. Constant interactions with players
   - Understanding of the agribusinesses involved
   - Early detection of failure
   - Timely advice

Agric Lending Challenges

- **Moral hazard:** The borrower/farmer may decide to change his/her economic behavior after obtaining credit.
- **Production and yield risks:** Agricultural yields are generally uncertain, as natural hazards may impact on farm output.
- **Price and market risks:** Price uncertainty due to market fluctuations is particularly significant where market information is lacking or scanty, or where markets are imperfect.
- **Lack of diversification:** when the enterprise fails, credit repayment becomes a challenge.
- **External interferences** such as politics affecting agricultural markets is a common feature in many developing countries.
- **Poor succession planning:** Small scale farmers rarely maintain a succession plan that clearly shows how their agribusiness entities will run after they retire or cease to exist.

THANK YOU

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