LENDING TO AGRI CO-OPERATIVES

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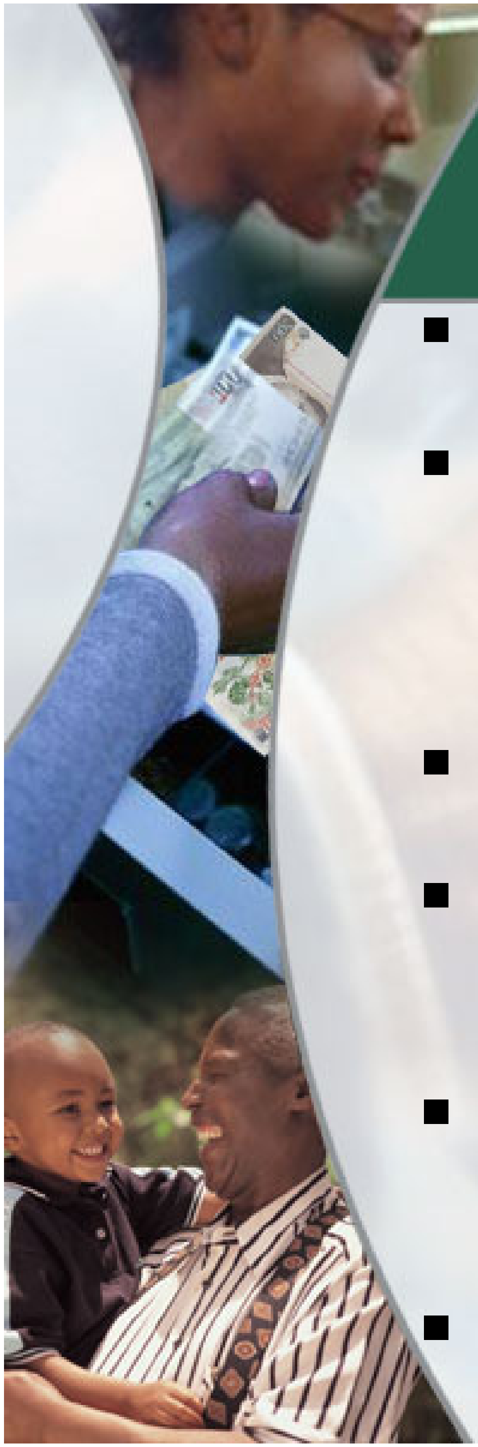


Who is Co-op Bank?

- 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.
- 3^{rd} largest (assets) 95 branches,450 ATM 4^{th} by Profitability.
- 2.4Million 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 30:70debt 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.

Lending Model con’td

- 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.

Business Volume

- 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.

Challenges / Risks in Agric-societies Financing

- 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.

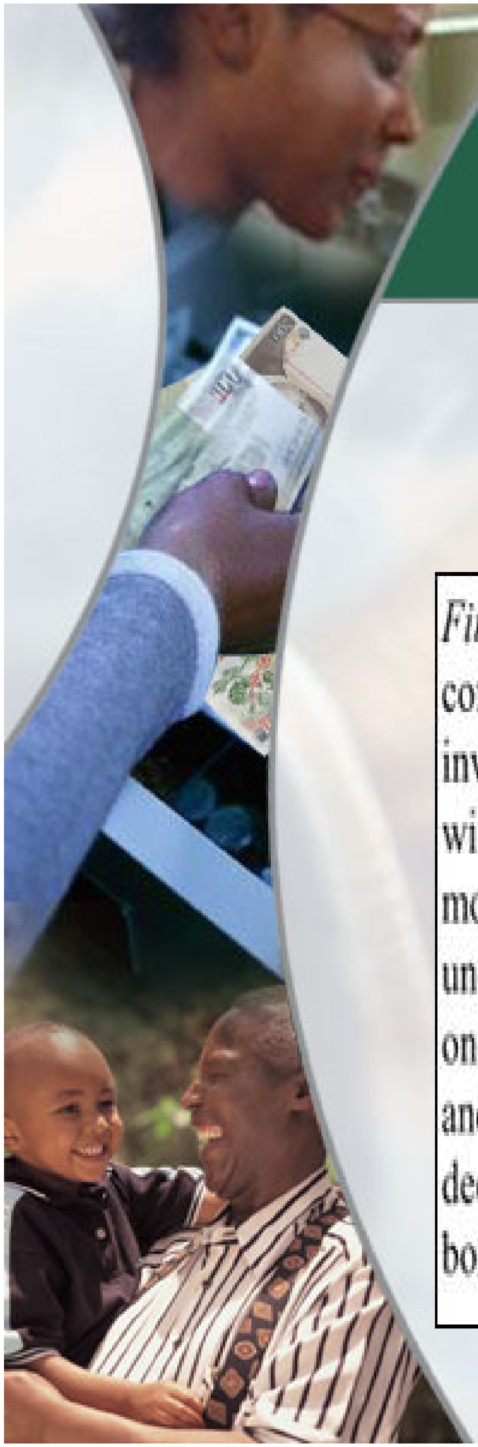
Challenges/Risks cont..

- 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.

CONCLUSION



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.