

“My Chat with a Bank CEO”



Sammy Langat, CEO Transnational Bank

TOPIC | AGRIBUSINESS

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BRIAN ANUSU : Bwana CEO, how big is agribusiness potential in Kenya?

Sammy Langat: Brian thank you for getting us started...

Agribusiness is all business involved in agricultural production including farming, contract farming, seed supply, Agro-chemicals, farm inputs, wholesale distribution, marketing, packaging and branding...

So it is a considerable sector which accounts for more than 25pct of the GDP. It is estimated that seven out of 10 Africans are engaged in farming in one way or another.

Tadeo Tito: Hi, Karibu sana Bwana CEO, let me shoot the first question Sammy, there has been a lot of talk of Agribusiness being a key player in the economy, what aspect of agribusiness are we talking about, is it production, is it value addition and what is the key focus for you as a banker?

Sammy Langat: Tadeo...thank you for your question...today we are talking about the entire value chain...from seed to mouth...from a financier's perspective.

I would like to share about value addition...about 91 percent of the total agricultural exports are in raw or semi processed form so in my view the country loses billions of shillings through lack of value addition.

ENOCK BETT: Mr. CEO, what are you doing to cut the cost of accessing agricultural finance to engage in agribusiness especially for the youth who could not be having any collateral?

Sammy Langat: Enock...thank you for your question...agricultural financing based on value chains will need to consider who buys what and when within the value chain...and everyone in the chain must be presented at the time of financing. Youth who are engaged within the value chain are advised to aggregate (form groups) so as to be able to enhance their credit worthiness.

I advise youth to seek supplier contracts before approaching financiers or initiating production...that way the supply contract becomes the collateral for the bank.

CHRISTINE VULIMU: This (Agriculture) has forever been the backbone of this country. I am glad we are back there. Does this include the population with small gardens in their backyard?

Sammy Langat: Christine...you raise a point which is very important and speaks to the small holder (backyard) farmer...agribusiness considers only what goes into the market, so if it is to the market, even if that market is your neighborhood, then you are in agribusiness.

Paul Kabui: In line with what Christine Vulimu asked....when venturing into farming what is the recommended size of land to ensure economic of scale hence break even in the investments made?

Sammy Langat: I see a question from Paul Kabui about how much is needed to start an agribusiness. First and foremost, we don't look at money first in agribusiness...the most important thing is the market for the product (demand).
Once you establish demand, you must have the capacity to sustain the supply and level of output quality for the long term...also as just as with any other business venture, you would want to ensure that you are profitable.

Job Kavoya: Dear Mr Langat, I'm a business analyst in the public sector. Operational efficiency (the pace with which to access credit) the banking industry is hindering credit growth in agribusiness industry, what is the industry's response to this issue?

Sammy Langat: Job I see your question about what are banks doing to finance agribusiness. To respond I would like to address some of the issues in agriculture, I mentioned before the need for value addition which must be addressed by the agribusinesses.
A financial institution wants to be assured of loan repayment, hence a farmer is more likely to be financed if he/she can demonstrate that they have a market (demand); that they are operating within a value chain; and that the risk issues (loss risk, etc) have been addressed. A bank also will be looking for the returns, i.e. that the business is profitable for the long term.

Wangui Muturi: Good morning Mr.Langat, I am also keen to know what solutions the bank offers those who are in the middle of the chain i.e. Wholesalers, marketers, Distributors etc. I suppose it is not entirely advisory?

Sammy Langat : Welcome Wangui, for those operating in the middle of the value chain, i.e. wholesalers, financiers will use different kinds of instruments for lending, such as LPO financing, invoice discounting, asset finance, and working capital.

Alexander Kimani: Bwana Lagat, can the banks use legally owned land as collateral for improvement in likes of drilling water for irrigation for sustainable growth and making repayment friendly?

Sammy Langat: Alexander I would say yes, banks do use legally owned land for collateral...if you would like to clarify the point...please do.

Eric Omondi : As already noted by Brian, very many Kenyans are involved in farming, however, our view of farming as a pillar of economic growth has not been positive, how is the bank

promoting not just financing for the established farmer but also reaching out to the small scale farmer who may improve their living standard through appropriate farming techniques?

Sammy Langat: Eric Omondi, it is true, many Kenyans are involved in small scale farming. There are quite a number of small holder farmers, who are also suppliers of commercial entities. There are quite a number of organizations which support capacity building for these farmers. Banks also undertake similar capacity building programs for their clients.

Charles Odida: Are banks willing to overlook farmer's ability to repay their loans faster and promptly for the sake of long term sustainability of their agribusiness?

Sammy Langat: Charles Odida, banks can schedule your repayments according to the cash flow of the agribusiness venture...insurance for your agribusiness is highly advisable so as to mitigate possible risk.

Nicholas Chepkwony: Hello Sir, there is usually a disconnect between marketing by the banks and risk assessment. Most of the farmers or agribusiness entrepreneurs may not be keeping proper record to the satisfaction of banks to qualify for credit. What is Transnational Bank doing to bring many on board?

Sammy Langat: Nicholas Chepkwony...I see your question about how banks are helping farmers have good records. One of the interventions is capacity building by financiers...also we have seen that digital platforms (mobile apps) are helping farmers keep track of their records -- credit records, payments, income, all of which bankers use to make a lending decision.

CHRISTINE VULIMU: Is it possible for the banks to encourage mentorship programs. Allowing those who have walked the journey to hold others hands.

Sammy Langat: Paul Kabui, Christine, I see your points about mentorship...we should always feel free to ask their bank for capacity building, networking and mentorship...for example Transnational Bank will be launching an agribusiness mentoring sessions starting in march...so watch out for that news...you can follow us on our Twitter handle (@tnblkenya).

Ken Kobia: Good morning all? It's funny that 7 out of 10 Africans are engaged in farming in one way or another yet hunger is a constant, chronic pain in Africa. What exactly is the problem?

Sammy Langat: Ken Kobia...that is a great observation that 7 of 10 Africans are in farming yet we have chronic hunger...in my view, a lot of farmers are operating outside of value chains resulting in post-harvest losses, inaccessibility to the market, and poor prices...in Turkana for example they have the highest number of livestock...11 million...yet they have the highest poverty index. My view is that they do not consider the market value of their livestock and if they were to sell for example they would convert the livestock into monetary value...so I

encourage farmers to always the monetary value of whatever it is they are producing, and see farming as a business.

Franklin Wanjala: Good Morning Sir, what tailor made financial products are available for agripreneurs in comparison with products that are tailor made for women, youth, people with disability in accessing credit keeping of financial records in regards to best practices.

Sammy Langat: I see questions from Franklin and others about tailor made products for agripreneurs. In financing agriculture a bank will use different instruments, different tenors, different disbursement methods, and different risk management techniques (including insurance, price sensitivity), it is important then that an entrepreneur who is considering starting an agribusiness venture to visit a bank for a tailor made solution because this is a specialized sector that requires tailor made solutions.

Paul Kabui: In line with what Christine Valimu asked...when venturing into farming what is the recommended size of land to ensure economic of scale hence break even in the investments made.

Sammy Langat: Paul Kabui raises a point about how much land one needs to start an agribusiness...I would say that first, let us not look at the sector from a production only point of view...i.e. ukulima...there are many more opportunities in the value chain, especially the route to market, which includes bulking (i.e. buy from many farmers and supply); value addition (i.e. processing); local sales and distribution; packaging and branding products; there is also technology prospecting -- looking at ways to mechanize the farming process.

I also would say that it is not the size of land that should limit you...for example, if your product is maize, you will need a sizeable amount if you will be supplying on contract; but if it is mushrooms the land would be much smaller.

Patrick Kiao: Good Morning everyone. Mr. CEO. My question revolves around the failing of some of the bank products that are supposed to energize and shape up agribusinesses by providing the much needed initial investment capital. Are Banks failing in this quest by providing products (i.e agric loans) that are not flexible enough to accommodate the dynamic agricultural environment? What is the remedy to this? Is there a positive impact that Brokers / Middle men play in enhancing Agri-businesses?

Sammy Langat Patrick, thank you for your point about flexibility, we raised earlier the need for customers to discuss with their banks...I think brokers can have a positive impact because they play a key role in aggregation / bulking which improves the pricing on the product and also availability in the market.

Emma Wacira: In the practical sense, if I have a small parcel of land and I am looking for capital, I walk up to the nearest branch, sell my idea that I wish to plant say potatoes for sale, what are the documents/requirement likely to be asked from me as collateral? Also can a bank take

collateral against expected harvests? In terms of the bit to demonstrate demand, is the bank asking for a market/feasibility study from a recognized data collection company or how can a prospective borrower provide for such a

Sammy Langat: Emma...I see your question about what to do when you are at the idea stage...to increase your creditworthiness i shared earlier the need for first determining and demonstrating your market (demand); i advised that one way is to secure a supply contract as a collateral before investing; another way is to start small...build a track record with the capital that you have, and as you grow seek alternative financing.

Peter Mbiyu: Where do you see the next growth frontiers in the agribusiness sector?

Sammy Langat: Peter I think the next growth frontiers are in value addition; and innovation.

Waliggo David: what are banks doing to facilitate the three tier system as in banks finance stock brokerages find the markets and insurance firms insure but all this is money intensive?

Sammy Langat: Waliggo...thank you for your point...there is an initiative underway to set up a commodities exchange to address the point you raise.

Mureri Ntwiga: Yes, Sammy, I have seen apps like Farmdrive that are coming up to encourage record keeping...my question is, are the banks liaising with these providers to have some sort of history to act as security for lending?

Sammy Langat: Mureri...thank you for the example of Farmdrive, banks are using the information from these systems.

EVANS TUITOEK: Morning Mr. Langat, what do banks take as security or collateral when financing agribusiness? And can the bank use milk/maize deliveries to KCC or NCPB to get payments in your institution.

Sammy Langat: Evans your example about a bank using milk or maize deliveries is acceptable collateral, depending on the bank policy.

ADAM MUTHAMA: Morning, Mr. CEO...The major challenge for farmers is to understand the gross margin on the activity to be able to rationally compare with the cost of borrowing. Many farmers, especially smallholder producers, don't know their costs or realized returns, so they can't reasonably judge whether borrowing costs are high or low relative to their capacity to repay the debt.

Sammy Langat: Adam, I agree with your view, we always advise farmers to watch their costs. If farmers are able to track their costs, then perhaps their returns are higher than they know, and therefore their ability to meet the loan repayment is assured.

OCHIENG LINUS GERALD: As a young person, I have much interest in agribusiness but just as many of my peers the challenge is capital. Title deed has lost its value and majority of banks now turn it down. How can one go about this?

Sammy Langat: Ochieng Linus, and all the youth, I encourage you to get together, start an investment group (chama) through which you can start saving; explore business opportunities and a market for your agribusiness.

Athman Mohamed Athman Ali: Good morning. Are facilities for this sector available in multiple currencies? Could I take out a USD loan, for example, to benefit from the relatively low interest rates for USD loans? And what would be the requirements?

Sammy Langat: Athman, there are other currencies, primarily US Dollar and Euro...basically any major currency provided that the earnings are in the same currency.

Other comments

Emma Wacira: Mr. Langat, I totally concur with you on value addition. If we worked harder on the value addition element as opposed to over concentrating on raw exports, then we will surely create much more income.

Tadeo Tito: I agree with Alvin, if only there was support, I can bet you there are a number of young and even older people who are willing to venture even in the arid zones and make money there. Financial support is the main issue I suspect.

Keziah Mutua: Charles, I think that banks structure loan repayment according to the source and frequency of income. Let's say your tea proceeds are paid twice a year, the loan installments coincide with those payments. However, if your farming is supplements/supported by another business such as a wholesale shop or supermarket, then maybe monthly installments are better. Isn't that so Bwana Lang'at?

Emma Wacira: But the government and devolved governments has to play a large role in creating the necessary support and irrigation infrastructure in these arid areas.

Keziah Mutua: I believe it would be fine to move to the agriculture in the arid regions once as a country we have fully harnessed the potential in 'agricultural' zones.

Brian Mong'are: The rapid growth in technology has seen many aspects of the world change, the least affected by this is agriculture, If the institutions that help finance and incubate tech startups and were to play a bigger role in encouraging Agritech innovations, maybe this would help change perceptions and bring in new techniques in farming like hydroponics.

Keziah Mutua: I hope we will all be invited to network and learn more during the Transnational Bank Agribusiness forum in March. Thank you Mr. Lang'at for breaking down the whole agribusiness topic from the financier's perspective.

Joyce Lesham: Interesting I have never considered "the route to market" as an opportunity.

Athman Mohamed Athman Ali: Just to add on to the last point by Mr. Langat, on the commodities exchange, there is an initiative I learnt about yesterday from the Grameen foundation that seeks to set up an e-warehouse so that farmers can be paid upfront or access finance without having to wait for the right time/right price to sell their goods... but reap from future projected prices in the market. The Grameen foundation is at the Greenhouse Ngong road if you need more information.

Also, as another point of information, there is a grant fund (www.lift-fund.com) that the members here could look at. If the agribusiness will lead to the reduced costs of goods or will create employment through value-adding services or has an innovative way of getting products to the export market therefore innovating logistics... it could get funded

Sammy Langat: Thank you Athman for sharing this information.

Sammy Langat: Ladies and Gentlemen, this has been awesome...a very interactive forum...and I want to invite you all for another session hosted by the bank in March...please follow us for more updates on Twitter... Thank you all for your time. I have learned from you a lot and I hope you also have learned something about agribusiness. Farming is cool...agribusiness is better!

Repeated Questions

Wangui Muturi: Good morning Mr. Langat, I am also keen to know what solutions the bank offers those who are in the middle of the chain i.e. Wholesalers, marketers, Distributors etc. I suppose it is not entirely advisory?

Unanswered questions

Shiques Simatwa : Mr. CEO, thank you for your time to shed some light on agribusiness, I would like to ask; with the increase of youth interest in farming what are the banks doing to aid in either expanding / starting or giving the necessary push this venture?

Brian Mong'are: Mr. CEO, the number of people involved in farming is quite high in Kenya and Africa as a whole. The biggest problem I think we face as farmers is that farming is not considered as economically viable especially in small scale. How can we change this perception especially in our youth and how can financial institutions play a role in this?

CHRISTINE VULIMU: Could we then add a positive voice by removing fear of the loans and making the small scale know that it is safe to enter the banks for help?

Alvin Mokaya: Morning all. With regards to agribusiness, I feel as Kenyans we have divided the country in agricultural and non-agricultural zones. Some areas such as North Eastern Kenya have been abandoned by the agri-prenuers due to weather issues. However, fact is there are some countries like Spain which are drier than our North Eastern province but they are feeding Europe. Are banks keen on tapping and enhancing potential opportunities in such areas and offer tailor made packages for agri-prenuers willing to invest in these regions? Otherwise, agribusiness growth will stunt at some point if we don't expand this space right?

Hannington Otieno: Are banks flexible in grace period, e.g. a pig farmer takes at least six months for piglets to mature and sell. Can banks accommodate grace periods that long?

