
EXPLORING DIFFERENT FINANCING STRUCTURES IN THE HORTICULTURAL MARKET

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THE VARIOUS FINANCING REQUIREMENTS

- EQUITY
- CAPITAL EXPENDITURE (CAPEX)
- WORKING CAPITAL

EQUITY FINANCE

- Reasonable commitment of own funds expected
- Typically 30 to 50% of total project cost
- May be together with outside investor (joint venture)

SOURCES OF FINANCE

- Micro-Finance Institutions (upto 3 years)
- Commercial bank loans (3 to 5 years).
- Development bank loan (3 to 5 years).
- European Investment Bank (EIB) Loans (minimum 6 years and maximum 12 years).
- Export Credit Agency structured financing (may be long term upto 7 - 10 years).

MICRO FINANCE INSTITUTIONS

- 50 micro finance institutions.
- Operate in various parts of the country
- Co-operative Bank, Post Bank, K-Rep, Kenya Women Finance Trust, Ecumenical Church Loan Fund, Ebony, Faulu Kenya, Pride Kenya etc.

MICRO FINANCE LOANS

- Local currency
- Small amounts e.g. Kes. 100,000, 1,000,000 etc.
- Upto 36 months
- Given to groups or individuals
- Simple security arrangements
 - Individual guarantees within a group
 - For individuals log books, title deeds etc.
- Interest rates upto 25%

COMMERCIAL BANK LOANS

- Local currency or foreign currency.
- Tenor 3 - 5 years.
- May have a grace period of typically one year.
- Amount borrowed related to the balance sheet e.g. Debt equity ratio, gearing level and debt servicing capacity.
- 53 commercial banks and finance institutions.
- Pricing typically Bank base rate plus margin of 2.5% to 5% depending on risk profile.
- Security required

EIB LOANS

- Horticulture business is eligible.
- From EIB Approved Financial Intermediaries (10)
- Tenor 6 years minimum, 12 years maximum
- Grace period upto 2 years (exceptional upto 4 years)
- Amount borrowed minimum Euro 50,000 (Kes. 3,500,000), maximum Euro 1.5 million (Kes. 105,000,000)
- EIB finances 50% of total project cost for foreign currency loans and 30% for Kenya shilling loans. (May go upto 50% if promoter provides matching funds).
- Security is required.

EIB LOAN PRICING

- Interest rate applicable to the AFI is set by EIB at the time of loan approval by EIB.
- The rate normally reflects EIB international lending rates but competitive
- Euro loans are offered at fixed rates.
- Interest margin negotiated between AFI and project promoters.
- Overall interest rate generally more competitive than commercial bank loans e.g. may be below 10% p.a.

EIB LOAN PRICING

Interest Rates for Kenya Shillings Loans

- Rate for interest calculated on a monthly basis by CBK
- Choice between fixed and variable interest rates on local currency loans.
- The rate of interest is computed based on average of bank deposit rates/treasury bill yields e.g. for the month of April 2001 it is 9.56% p.a.

EIB LOAN PRICING

Interest Rate (Cont....)

- Interest rates are designed to be competitive to the AFI and borrower without distorting the local market rates.
- Bank margins are not controlled but expected to be reasonable.
- Generally, the overall interest rate is better than commercial bank Kenya shilling term loan borrowing rates.

LIST OF EIB APPROVED FINANCIAL INTERMEDIARIES

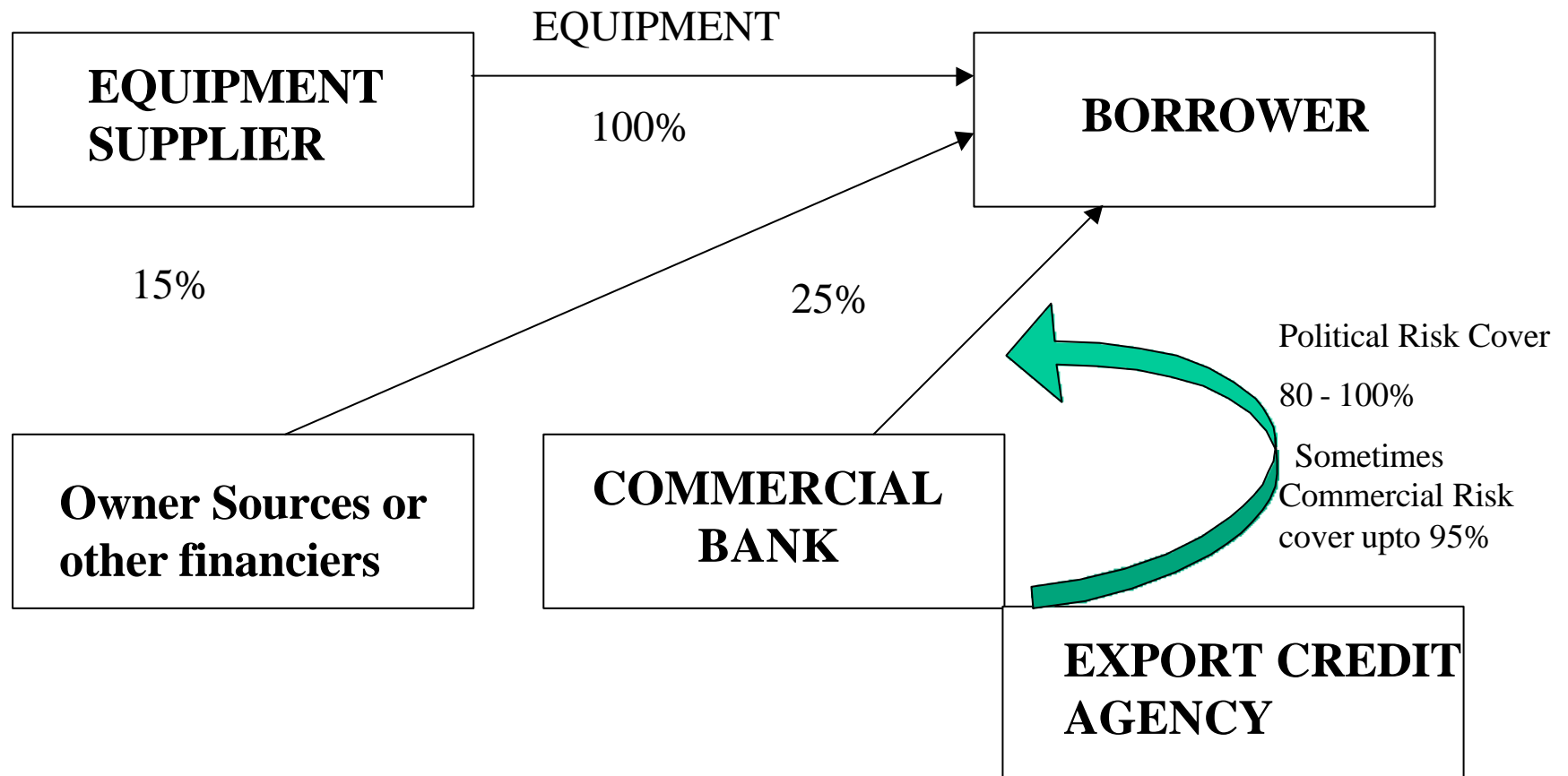
- ABN AMRO Bank
- Barclays Bank of Kenya Ltd
- Credit Agricole Banque Indosuez
- Development Bank of Kenya Ltd
- East African Development Bank
- Industrial Development Bank
- Kenya Commercial Bank
- National Bank of Kenya
- Stanbic Bank
- Standard Chartered Bank Kenya Ltd

STRUCTURED FINANCE/ CAPITAL MARKETS

Medium/Long term financing of investments in capital equipment through:

- Export Credit Agency Structured Financing (HERMES, COFAC etc)
- Financing through multilateral agencies (IFC, CDC, FMO, EIB - A-B Loan structures.
- Capital Market corporate bonds and notes.
- Syndications

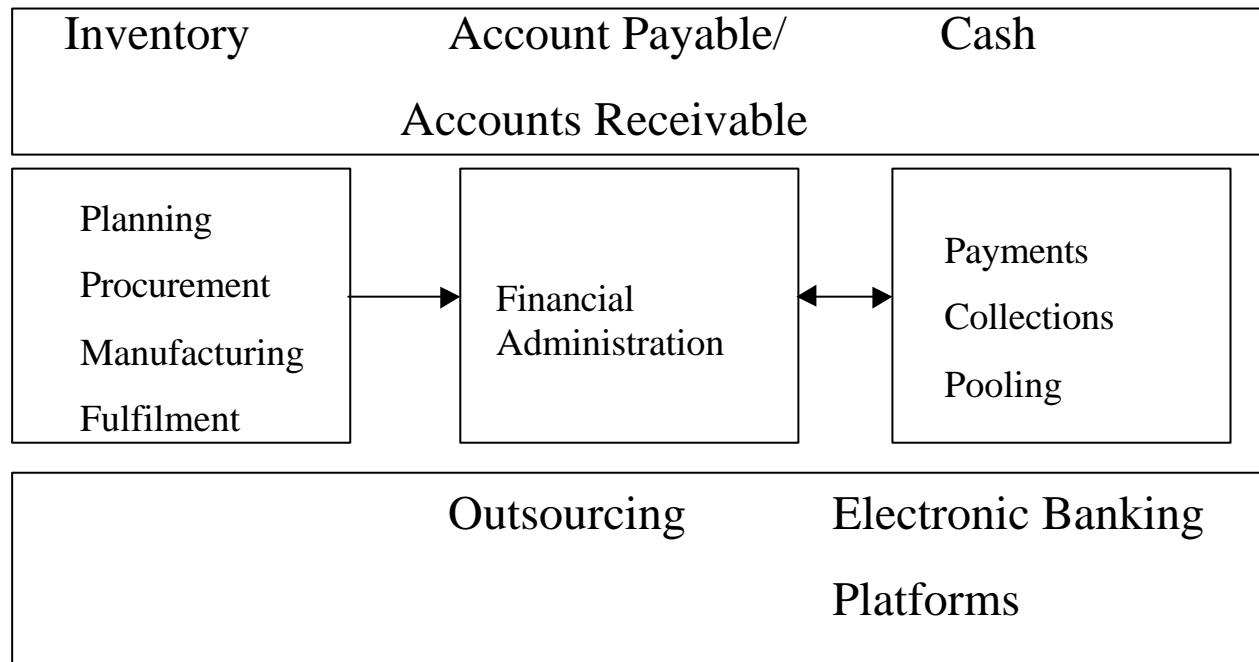
STRUCTURE FINANCE/ CAPITAL MARKETS



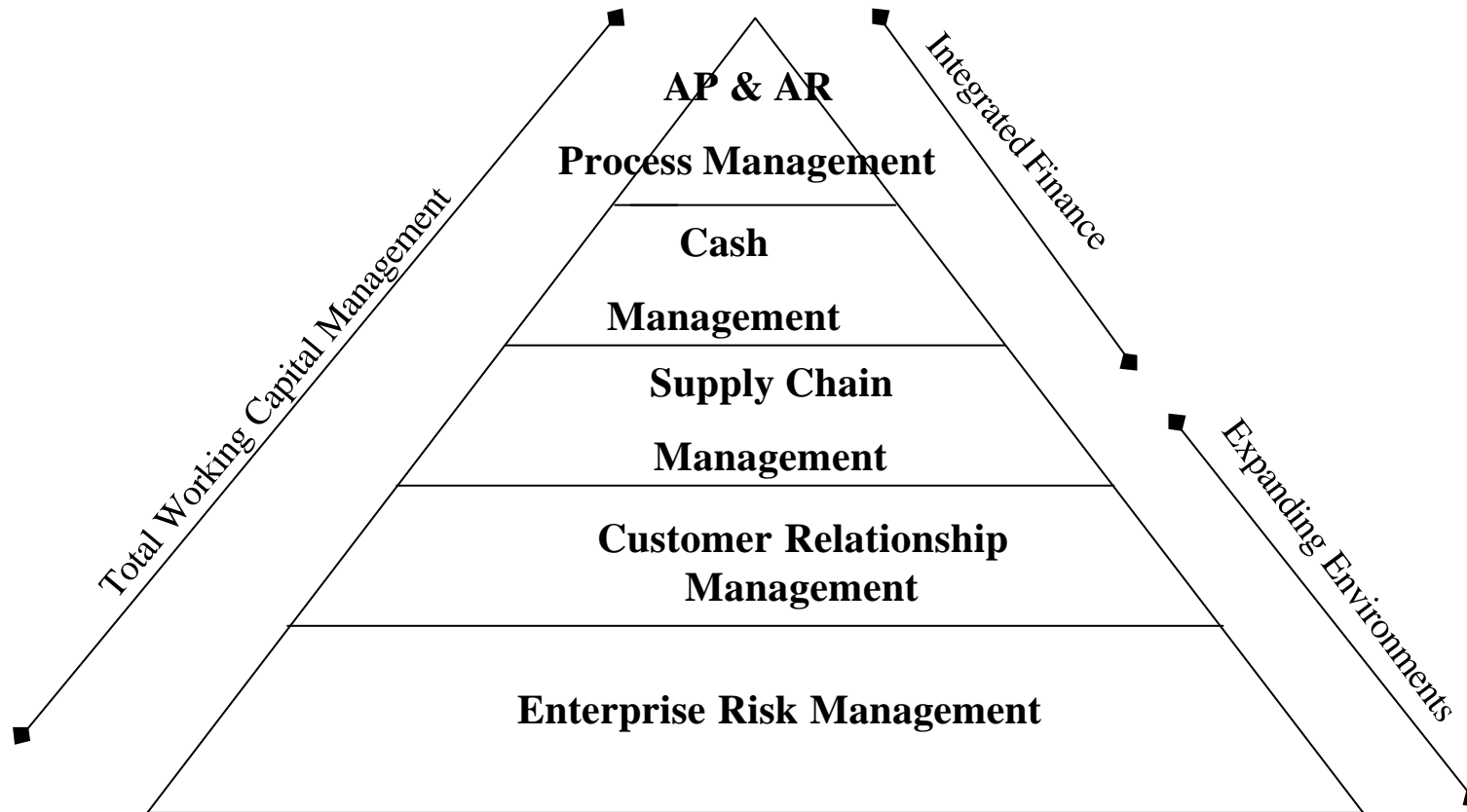
WORKING CAPITAL FINANCE

- Overdrafts from Commercial banks and Micro-finance institutions.

WORKING CAPITAL MANAGEMENT



TOTAL WORKING CAPITAL MANAGEMENT



GENERAL ISSUES TAKEN INTO CONSIDERATION

- Project planning (Financial discipline)
- Production ability
- Organisation / Management
- Management information e.g. financial reports (Information Technology)
- Marketing arrangements / ability
- Environmental impact (measures to avoid pollution)
- Financial stability - cashflow management and adequate capitalisation levels.