Gatsby Africa | ILRI International Livestock Research Institute | CGIAR | AgThrive

Unlocking investment for the Kenyan Livestock Sector

Briefing Note

February 2024

Executive Summary

Livestock* is a chronically underfinanced sector across Africa compared to the value it generates for GDP, nutrition, and livelihoods. In Kenya alone, the sector contributes to 25 million livelihoods and 42% of agricultural GDP at a value of more than $10 billion, with demand expected to rise by 40-50% by 2030.

Without the necessary investment, the industry will be unable to keep up with growing demand.

Recognizing this, Gatsby Africa, the International Livestock Research Institute (ILRI) and AgThrive carried out a study on the Kenya livestock investor landscape, exploring how to unlock more investment in Kenya and across Africa.

Key Findings

Livestock represents an under-invested but growing opportunity for investors.

1. **A range of impact investors and commercial banks are interested in investing in the livestock sector.** Investors with an impact focus are looking for promising opportunities and many are at least open to livestock investing, prioritizing benefits for smallholder and pastoralist producers. Commercial banks are looking to increase the size of their livestock and agriculture portfolios but are risk averse.

2. **Past investments have been concentrated in more established value chains such as poultry and dairy,** however, investors have diverse interests in all value chains and throughout the supply chain from primary production to processing.

3. **A number of constraints are holding investors back or causing them to price finance too high.** These include investors' perceptions of risk, lack of deep sector knowledge and lack of information on good investment opportunities.

This brief outlines the actions that investors, businesses, donors, and other development practitioners can take to support increased investment in the livestock sector, both in Kenya, and across sub-Saharan Africa.

*For the purposes of this report livestock includes poultry (eggs + meat), cattle (meat + milk), and sheep and goats (meat + milk).

The Methodology

The study analyzed the historical livestock investments and current investment strategies of almost 90 investors, which included development finance institutions (DFIs), impact investors and commercial banks open to agriculture investing in Kenya. It assessed:

1. The investment opportunity for livestock businesses from the different investor types mentioned alongside.
2. The constraints to livestock investing as perceived by investors.

We assessed investors based on their likelihood to invest in livestock and prioritized the higher potential investors

		Impact Investors	DFIs	Commercial Banks
Longlist	Investors in agriculture with geographic scope in Kenya	57	26	5
Shortlist	Investors with livestock investments + other investors assessed as likely to invest in livestock	30	17	4
Virtual Inverviews	Investors actively building pipeline in Kenya and targeting livestock	14	3	4

Scope

Through secondary data analysis and consulting industry experts, the team first assessed the initial longlist of about 90 investors for their likelihood to invest in livestock. Subsequent interviews of a sub-set of investors sought to shed light on investor funding mechanisms and ticket sizes and the challenges they were experiencing, and to establish future interest in livestock investing.

The study only analysed investors operating in Kenya with an existing investment pipeline in agriculture. Of the investors analysed, only 40% disclosed their livestock deals. Thus, it is likely that several livestock investors and a significant number of transactions are not included. Commercial banks did not disclose deals, so our assessment of these participants was limited to qualitative data from interviews. The study was undertaken between June and November 2023 during which time over 20 investors were interviewed.

The Investment Landscape

Historical Investments - Africa

The study found that 31 investors had disclosed information about 51 deals in 9 livestock subsectors across 19 African countries since 2010.

Of the 51 deals, 28 had also disclosed financials (amounting to $165 million): 80% from DFIs and 20% from impact investors.

- **DFIs invested 4x as much as impact investors, but had far fewer deals** (33 for impact investors vs 18 for DFIs).
- **Impact investors made smaller investments – averaging $3M** – focusing on small and medium-scale livestock businesses. They would invest in a range of company sizes and stages, including early-stage ventures.
- **In contrast, DFIs tended to make larger investments, averaging around $7M**, in more established companies.
- **Debt was the preferred funding instrument**, making up over 50% of investments. While impact investors had similar ticket sizes for debt and equity, DFIs tended to make much larger equity investments when they did use it, compared to debt.

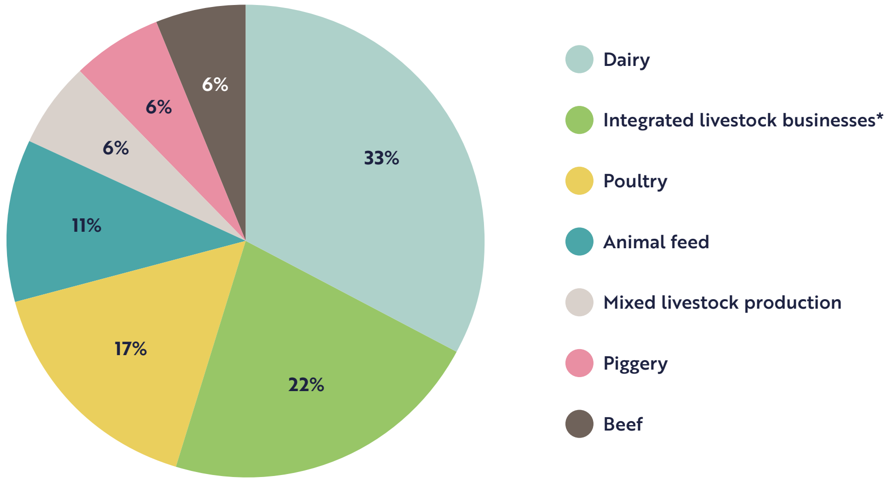
19 Countries in Africa

Countries with investments

DFIs and impact investors made more deals in structured value chains – dairy, poultry and integrated businesses – however, they still invested in a diversity of value chains, just to a lesser degree.

DFIs

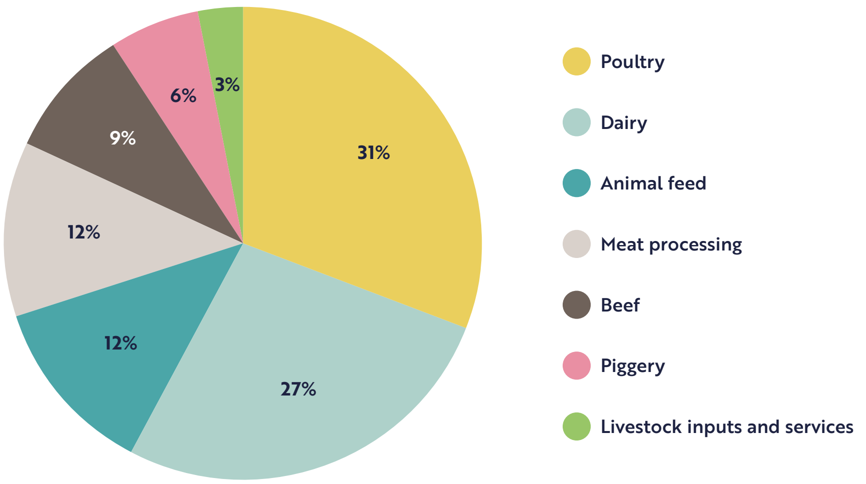
Dairy, integrated businesses and poultry accounted for 70% of deals



Deals per livestock subsector N=18

Impact Investors

Dairy and poultry captured >50% of deals



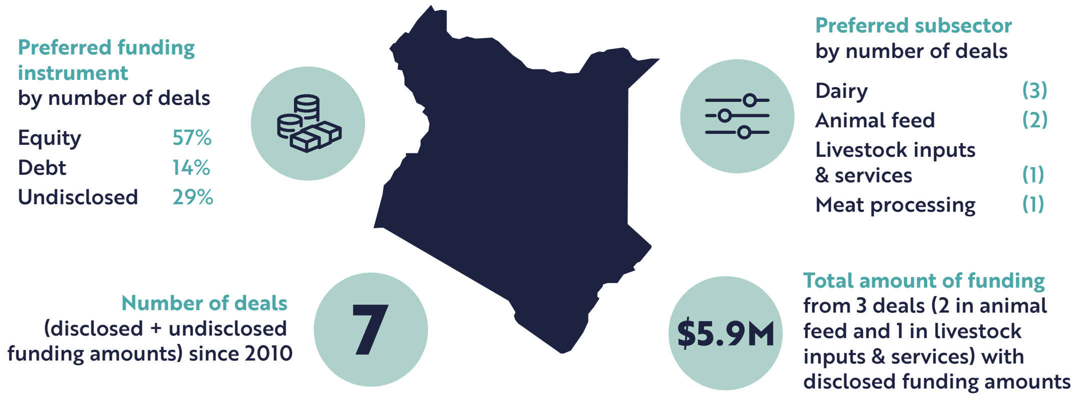
Deals per livestock subsector N=33

Historical Investments - Kenya

In Kenya, there have been 7 disclosed deals by impact investors since 2010, but no major DFI deals.

Impact Investors

There have been 7 deals across 4 livestock subsectors in Kenya since 2010. This mirrors trends across Africa, where investors tend to prefer subsectors they are familiar with and have a deeper understanding of, and that have more formal and structured offtake markets.



Commercial Banks

The study interviewed 4 commercial banks that are actively looking at the opportunity in livestock. There is positive indication that banks in Kenya increasingly have targets for growing the size of their livestock portfolios. Some banks are developing tailored products for specific subsectors and business models; for example, working capital loans for feedlot operations in the beef value chain. Banks are also investing in building pipeline and providing technical assistance to businesses to help them improve their investment readiness (e.g. KCB through the KCB Foundation). Note that information related to size of pipeline or funding amounts disbursed was not shared.

* Integrated livestock businesses refer to large, vertically integrated (from production to processing) and often diversified businesses

Key Findings

The opportunity

DFIs, impact investors and commercial banks all offer different opportunities for livestock businesses depending on level of business maturity, subsector, role in value chain, ticket size and funding instrument.

	Impact Investors	Global DFIs	Local DFIs	Commercial Banks
Funding amounts	$200K - 3 million	> $5-10 million	Variable, can do less than $5 million	Few thousands to >$50-100 million
Instrument	Some do both debt and equity, many specialise	Debt preferred, but also do equity	Debt preferred, but also do equity	Primarily debt
Risk appetite	✓✓✓	✓	✓✓	✓
Subsectors	Primary production to processing. Current: poultry, dairy, feed, meat processing. Open to others	Post-production. Current: dairy, integrated/mixed, poultry, feed. Open to others	Potentially all subsectors, depending on mandate of DFI	Current: dairy, poultry, beef (lesser extent). Open to others
Impact themes	Smallholders, livelihoods, gender, youth	Smallholders, jobs & livelihoods, economic development, gender, youth, ESG	Jobs, rural livelihoods, economic development, gender, youth	Less of a requirement to meet impact themes

Global DFIs, such as the Development Finance Corporation, provide more opportunities for large, diversified, and integrated businesses that seek investment ticket sizes of $5-10M and over. These DFIs typically are risk averse, and do not fund untested business models. They also have stricter Environmental, Social and Governance (ESG) requirements.

Local DFIs, such as Kenya's Agricultural Finance Corporation, often offer tailored solutions for specific subsectors and can offer ticket sizes appropriate for the average business in specific value chains. These local DFIs are mandated by the government to grow targeted sectors and support rural development and livelihoods. They tend to have higher risk appetites than the global DFIs.

Impact investors (non-DFI) offer ticket sizes typically in the $200K-$3M range, which is well suited to agriculture and livestock SMEs. These investors tend to have the highest risk appetite, and some invest in early-stage ventures. However, these investors are unlikely to invest in multiple businesses in the same subsectors in the same country, as they tend to diversify their portfolios.

Commercial banks can be flexible in ticket sizes offered and have potential to be a scalable solution within the livestock sector. However, banks are risk averse and therefore interest rates and collateral requirements are often prohibitive for the average livestock business in Kenya.

Hypothetical investment opportunities

Investor discussions revealed characteristics of several examples of potential investments they might consider:

	Impact Investor	Global DFI	Local DFIs	Commercial Bank
Type of business	**Alternative animal feed**	**Integrated poultry business**	**Beef feedlot**	**Meat processor and retailer**
Opportunity profile	Start up and working capital for an alternative animal feed company producing a new formulation utilizing crop manufacturing by-products	Combination of a long-term loan facility and working capital to a meat processing and export company for capacity expansion and the acquisition of additional livestock	Working capital loan to a feedlot business for purchasing animals and feed, with repayment holiday period – interest rate of 9-11%	Loan to purchase new slaughter line and value-addition machinery for sausages and burgers
Ticket size	$500K	$10-15 million	$50K	$3-4 million
Business profile	Early-stage company with a proven business model and 2-year audited financial statements	Mature company with a proven track record and 3-year audited financial statements	Business owner with experience in the livestock sector, with collateral (e.g. land ownership)	High-growth butchery with a proven track record and 3-year audited financial statements

What's holding investors back?

The study found that investors are keen to enter the sector, recognising livestock as a vibrant and growing opportunity in Kenya and across Sub-Saharan Africa. However, there are several challenges preventing them from doing so.

Lack of structured offtake markets + informality in the sector

Without clear offtake contracts and reliable pricing mechanisms, investors see too much uncertainty in return on investment. One investor interviewed pulled out of a potential poultry investment as the company's end market was highly unstructured and volatile.

Risks at the primary production level

High production risks related to disease, weather and theft coupled with low technical capacity to address the risks leads to nervous investors. One investor interviewed halted an investment in a meat processing company as the farmers supplying the processor had lost most of their livestock due to drought and the company had not set up appropriate mechanisms to support these farmers in mitigating such risks.

Lack of traceability and quality standards

Without traceability investors find it difficult to use livestock as collateral. Furthermore, investors mentioned that lack of traceability hinders a company's ability to access lucrative export markets, reducing the company's attractiveness.

Cannot easily find good investment opportunities

Investors don't see enough livestock investments – these opportunities are not getting into investor 'pipelines'. One investor interviewed said that only 10% of the agricultural pipeline reaching them is livestock related.

Lack of 'investor ready' businesses

Businesses often lack essential documentation (e.g. business plans financial models, audited financial statements) necessary for investors to evaluate them. And when these exist, business plans and financial projections are often weak, with faulty assumptions.

So, what does this mean?

1 For investors...

- Demand for investment is growing from high performing livestock businesses, both in Kenya and across the continent.
- An active rather than passive approach to developing pipeline to include livestock businesses may be required in the near term.
- Collaborating with other investors and donors can help reduce the risk of investments.

2 For businesses...

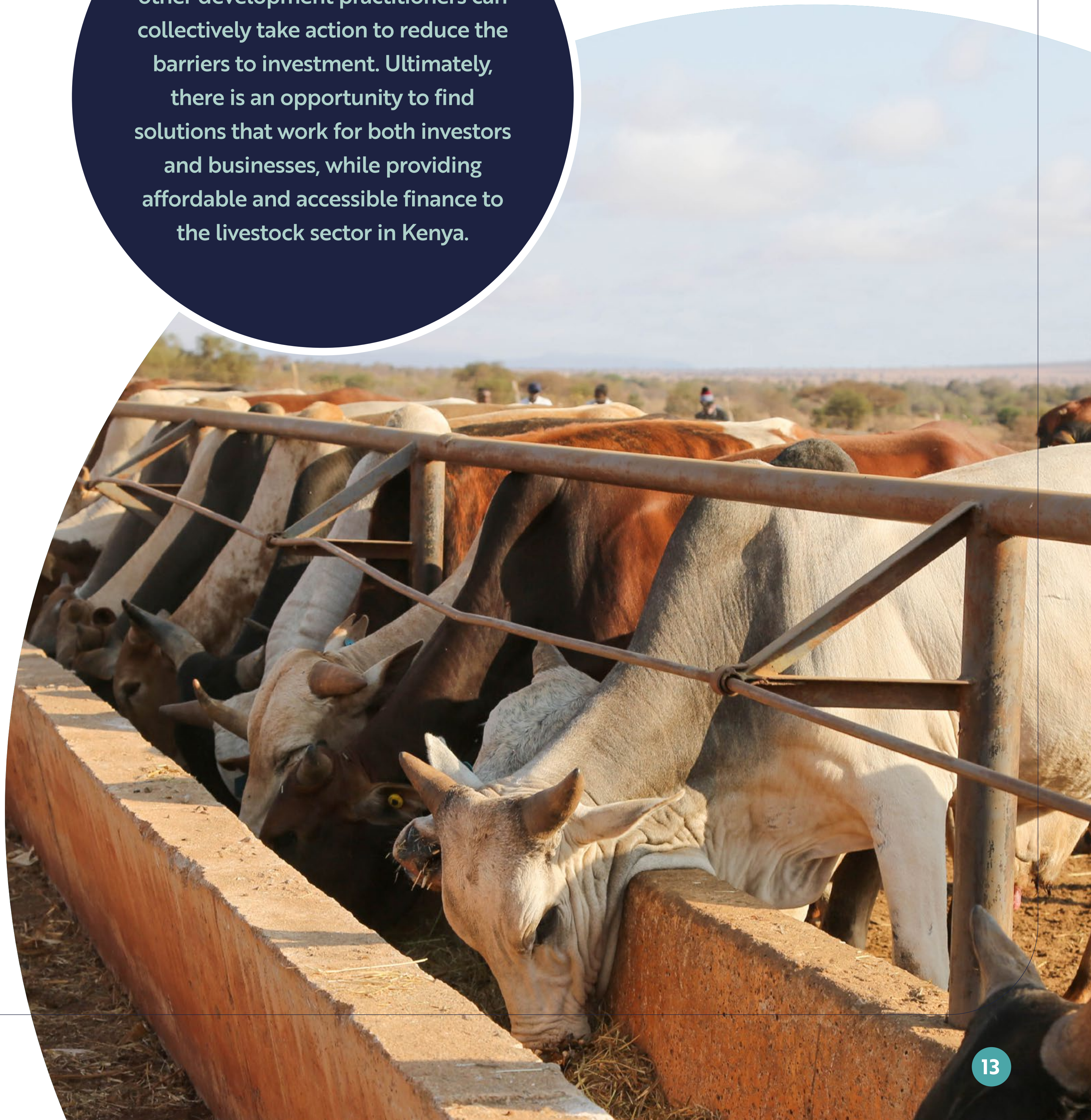
- There is an investor out there for every livestock business type no matter the risk profile, ticket size, funding mechanisms (debt, equity, other) or value chain.
- Impact investors and commercial banks are higher potential for SME livestock businesses, while larger scale businesses can consider DFIs.
- To receive finance from non-DFI and DFI impact investors, businesses need to show clear impact for smallholder farmers and pastoralists.
- There are steps businesses can take to ensure they are more "investment ready" and able to attract the right investment.

3 For donors and other development practitioners...

- Businesses need technical support to become "investment ready," particularly when trying to manage sector specific risks and address environmental concerns.
- Sharing data, analyses, and key learnings on livestock investment opportunities with investors, including detail on specific countries, subsectors and businesses, can help to address the existing knowledge gap and accelerate investment.
- By collaborating with investors there is an opportunity to find new mechanisms to reduce risk or bring down the cost of finance, helping to accelerate and expand investment both within Kenya and across the continent.

Opportunities for Action

Businesses, investors, donors and other development practitioners can collectively take action to reduce the barriers to investment. Ultimately, there is an opportunity to find solutions that work for both investors and businesses, while providing affordable and accessible finance to the livestock sector in Kenya.



Challenge	What can businesses do...	What can investors do...	What can donors and other development actors do...
Lack of structured offtake markets + informality in the sector	• Formalize payment systems through a bank so revenues can be tracked • Enter enforceable, contractual agreements		• Support efforts to test innovative business models that connect producers and offtakers more formally • Develop efficient, transparent payment systems • Invest in information transparency and access
Risks at the primary production level	• Be able to answer investor questions about the key risks in their industry (e.g. production, trade) • Take action to mitigate these risks, e.g. for production, put in place industry standard biosecurity measures	• Where technical assistance facilities exist, provide advice and support to businesses to improve risk management and resilience	• Provide technical support to livestock businesses to implement risk mitigation measures • Develop practical industry best-practice guidance based on feasible approaches demonstrated elsewhere • Work with government to strengthen resilience of the sector (e.g. policy, infrastructure, data, research)
Lack of traceability and quality standards	• Implement industry standard food safety and quality solutions (e.g. HACCP)		• Support policy efforts and fund initiatives to test and implement national traceability and quality standards
Cannot easily find good investment opportunities	• Identify and target investors based on the business's investment needs and business model	• Invest in pipeline building	• Fund pipeline building initiatives, and link investors to investable opportunities (e.g. through online platforms, investor forums, accelerators)
Lack of 'investor ready' businesses	• Have accounts audited regularly • Develop a robust business plan with realistic growth projections • Ensure impact is clear (e.g. smallholder farmers, environment, climate, social equity) • Keep all investor required documents up to date and professionally designed and edited • Consider hiring a business advisory firm	Co-create innovative financial mechanisms – for example: • Invest in a dedicated livestock accelerator program or a dedicated livestock investment fund • Invest in de-risking and incentivizing mechanisms through blended finance (e.g. loss guarantee for loans) • Create clearer guidance for businesses on the investor requirements and provide support if needed to guide businesses on developing the required documentation	

Glossary of terms

Commercial Banks (national)	Financial institutions that accept deposits, and make various loans and offer basic financial products to individuals and small businesses
Debt	Lenders provide money for a fixed period, which businesses pay back with interest – with this instrument businesses retain ownership of the company
Development Finance Institutions (DFI)	Specialized banks or subsidiaries set up to support private sector growth and innovation in developing countries – can be global or local
Equity	Investors provide funding for an ownership stake in the company – no repayment of initial investment is expected, cash is kept in the business to fuel growth
Impact Investors	Investors seeking to generate a measurable, beneficial social or environmental impact alongside a financial return
Investors	In this report, the term investor is used to include global and local DFIs, impact investors and commercial banks
Livestock	For the purposes of this report livestock includes poultry (eggs & meat), cattle (meat & milk), and sheep and goats (meat & milk)

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