

# Pilot Short & Medium Term Finance to Small Scale Coffee Farmers in Kenya (CFC/ICO/020 )



## Status Report

May 2008



## Project Goal

**To Provide Sustainable Access to Financial Services Particularly Credit to Small Holder Coffee Farmers in Kenya**

### Objective:

To increase the benefits to smallholder coffee farmers through the creation of a **suitable, sustainable** and **replicable** inputs credit system

### Expected Outputs:

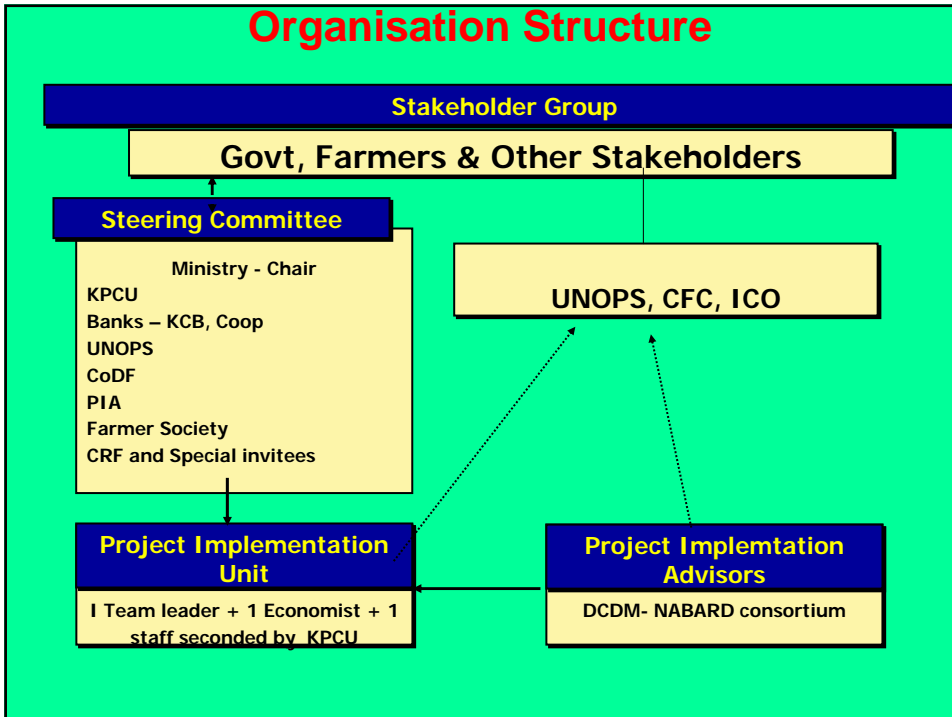
Development of financial product, delivery systems and building of capacity of participating institutions and small holder farmers.



## Principals of the Project

- Beneficiary Driven
- Market Driven
- Efficient Allocation of Resources
- Design Replicability
- Builds on Existing Systems

## Organisation Structure





## **Problems of Financing Small Holder Coffee Farmers**

- Inadequate financial resources / Collateral;
- Declining Coffee production;
- Reducing Coffee quality;
- Low price realization.



## **Shortcomings of the existing Credit Systems**

1. Lending is primarily collateral based;
2. Lending based on farmer's past production levels;
3. Uncertainty over credit availability;
4. Inadequate credit – An average of only 25 % input financing provided each year.



## Shortcomings of the existing credit systems cont'd

5. No recognition of labor cost in financing;
6. Credit not always timely;
7. Lack of intensive monitoring of credit use;
8. The marketing agents and the banks do not always remit the coffee sale proceeds to the farmers in time.



## The Financial Product (Credit+) and Delivery Systems



## Product Features

- Provision of adequate and timely credit to farmers;
- Provision of Extension Support to farmers to improve productivity and quality;
- Implementation of an intensive monitoring system of end use of credit through joint liability groups;
- Adoption of an inclusive approach by making the farmers participate and own the project



## Product Features

- Financing is based on number of trees as the primary basis;
- Joint Liability groups of between 5-25 farmers with a group leader and 4 nominees trained in coffee ***Nutrition, Pruning, Pest & Disease Management, and Picking & Delivery Supervision.***
- Model is based on 90 percent bank loan, farmer to contribute 10 percent
- It is expected that the initiative will lead to increased coffee production.

## Calendar of Farm operations

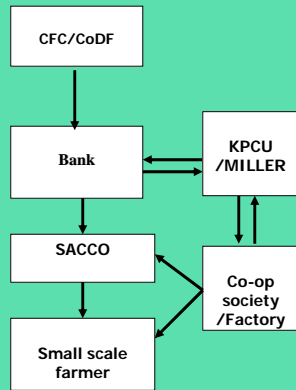
| Inputs applications /operations       | Jan | Feb | March | April | May | June | July | August | Sept. | Oct. | Nov. |
|---------------------------------------|-----|-----|-------|-------|-----|------|------|--------|-------|------|------|
| 1.Canopy Management- Pruning          | ■   |     |       |       |     | ■    |      |        |       |      |      |
| 2.Desuckering                         |     |     |       |       |     |      |      |        |       |      |      |
| 3.Fertilizers application             |     |     |       | ■     |     |      |      |        |       | ■    | ■    |
| 4. Manure application                 |     | ■   |       |       |     |      |      |        |       |      |      |
| 5. Pesticides and Fungicides spraying |     |     | ■     | ■     | ■   | ■    | ■    |        | ■     | ■    |      |
| 6.Herbicides application              |     |     |       |       |     | ■    |      |        |       |      |      |
| 7. Harvesting- Main                   |     |     |       |       |     |      |      |        |       | ■    | ■    |
| 8. Harvesting - Fly                   |     |     |       |       | ■   | ■    | ■    |        |       |      |      |
| 9. Transport of cherry to wet mills   |     |     |       |       |     | ■    | ■    |        |       | ■    | ■    |

## Credit Operations Chart

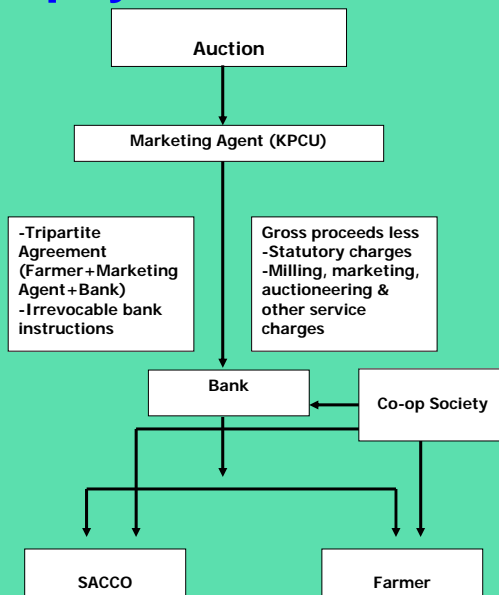
| Details  | Jan | Feb | March | April | May | June | July | August | Sept. | Oct. |
|--|-----|-----|-------|-------|-----|------|------|--------|-------|------|
| <b>First Year</b>                                |     |     |       |       |     |      |      |        |       |      |
| Appraisal and sanction of credit                 | ■   |     |       |       |     |      |      |        |       |      |
| Credit disbursement                              | ■   |     |       |       | ■   |      |      |        | ■     |      |
| Monitoring of credit utilisation                 |     |     | ■     |       |     |      | ■    |        |       |      |
| Credit Recovery                                  |     |     |       |       |     |      |      |        |       |      |
| <b>Second Year</b>                               |     |     |       |       |     |      |      |        |       |      |
| Appraisal and sanction of credit                 | ■   |     |       |       |     |      |      |        |       |      |
| Credit disbursement                              | ■   |     |       |       | ■   |      |      |        | ■     |      |
| Monitoring of Credit utilisation                 |     |     | ■     |       |     |      | ■    |        |       |      |
| Credit Recovery ( First years disbursement)Credi |     | ■   |       |       |     |      |      |        |       |      |
| <b>Third Year</b>                                |     |     |       |       |     |      |      |        |       |      |
| Appraisal and sanction of credit                 | ■   |     |       |       |     |      |      |        |       |      |
| Credit disbursement                              | ■   |     |       |       | ■   |      |      |        | ■     |      |
| Monitoring of credit utilisation                 |     |     | ■     |       |     |      | ■    |        |       |      |
| Credit Recovery (Second years disbursement)      |     | ■   |       |       |     |      |      |        |       |      |



# Lending Structure



# Repayment Structure





## **Achievements / Results**

1. Project is currently benefiting 2,000 small holder farmers in the selected pilot region;
2. Out of the 2000 farmers, 600 farmers have so far been financed for their input and labour requirements;
3. Technical assistance and capacity building support provided for bank/Sacco staff, factory and other players.



## **Achievements / Results cont'd**

4. Successfully formed 43 Joint Liability Groups (JLGs) from the 2000 farmers and 4 Common Interest Groups (CIGs) within the small estates;
5. Effective Supervision and extension services provided to the farmers
6. Successfully developed and implemented Information Technology System at the farmers, Society / Sacco and Bank levels.





## **Achievements / Results cont'd**

7. Ability to use the IT system to track coffee produce from the factory, the mills / Curing plants and to the market. The system has also been designed to track repayment proceeds from the market to the bank, society / Sacco and then finally to the farmers.
8. Improved coffee husbandry practices and increased market for coffee inputs.
9. Development of a Farmers' Passbook for credit supervision and farm activity record keeping



## **Critical Achievement**

**Successfully Developed  
Credit Lending Product and  
Delivery mechanism and  
Infrastructure.**



## Challenges

1. Delay in obtaining credit funds for disbursement especially in the earlier part of the Project
2. Unpredicted rise of input prices e.g. fertilizers, fungicides etc.
3. Fluctuations in Coffee Prices
4. Need to implement the pilot project in the other two coffee agro ecological zones in Kenya so as to test the product further and to benefit more small holder farmers as earlier envisaged in the Project.



## Study Visit to India



Example of Coffee Farming in Kodagu District



### Study Visit to India: Aided Further Project Improvement

- **Agricultural Lending:**
  - Lending to Self Help Groups and Joint Liability Groups
  - Lending for both agricultural and non-agricultural purposes in the surrounding area covering villages mainly dependent on coffee
  - Record recovery percentage close to 100%
  - Lending schemes include:
    - Self Help Groups
    - Kissan Credit Card
    - Grameena Bank
- **Critical Information on:** Research, development, extension, quality upgrading, market information, and the domestic and external promotion of Indian coffee
- **Obtained Key Insight on:** market liberalization, crop insurance, subsidies, local coffee consumption, environmental protection, coffee database (Statistics on area, production, exports, consumption of coffee, market information) among others.



### Recommendations on Way Forward

- ❑ **Price Risk Mitigation** – Request to urgently implement the price risk mitigation activity that had been approved by CFC along side the current Small Holder Farmers Input Credit Project.
- ❑ **Request for additional budget support to implement Pilot Extension** - In the other two coffee agro ecological zones in Kenya to benefit more small holder farmers.
- ❑ **Further Support for a Full Roll Out** – To enable Small Holder Farmers in other Regions of Kenya and Africa to Benefit from the Project.



**THANK YOU FOR YOUR SUPPORT!**

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