FINANCING COFFEE: A KENYAN EXPERIENCE

PRESENTED BY

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MANAGING TRUSTEE, COMMODITIES DEVELOPMENT FUND
COMMODITIES FUND AT A GLANCE

BUSINESS
FINANCING FARMERS

CLIENTS
SMALL HOLDER FARMERS/ESTATE FARMERS/COOPERATIVE SOCIETIES

SERVICES/MANDATE
PROVIDING ACCESSIBLE, AFFORDABLE CREDIT AND FINANCIAL SOLUTIONS TO THE COMMODITY SECTOR

FUND SIZE
$USD 235 MILLION

FUND SIZE
$USD 23.5 MILLION

SPECIFIC TO COFFEE

IMPACT
78,000 COFFEE FARMERS +400,000 OTHERS

ELIGIBILITY
COFFEE FARMERS WITH A PRODUCTION RANGE BETWEEN 0.5 - 3 KG OF CHERRY/TREE

FUND SIZE
FUND SIZE

SPECIALISTIC TO COFFEE
CURRENT COFFEE FUNDING STATUS

- Government of Kenya financing through Commodities Development Fund largely remain the main source of coffee financing.

- The sub sector is less attractive to private investors due to long turnover periods and a client base considered ‘high risk’

- Commercial banks are shying away from financing coffee farmers.

- The sub-sector is in need of approximately US $ 100 Million to meet its credit demand.
LENDING APPROACH

Direct lending
- Directly to Individual farmers
- Directly to societies, women groups, youth groups and companies

Intermediary approach
- Wholesale
- Conduit approach
FINANCING ALONG THE VALUE CHAIN APPROACH

FARMERS
- Farm Establishment
  - Establishment Inputs
  - Cherry Advance
  - Farm level Asset financing

FACTORY/SOCIETY
- Primary processing
  - Bulk input
    - Cherry Advance
    - Asset Financing - Drying beds, Pulpers etc

MILLERS/UNIONS
- Secondary processing
  - Milling machines
  - Transport
  - Storage Facilities

MARKETERS
- Marketing Certification
- Shipping Warehousing

COFFEE SHOPS
- Establishment
  - Pre export financing
  - Certifications Financing
  - Duka La Kahawa

CREDIT FLOW
MERITS OF WOMEN INVOLVEMENT IN COFFEE

- **Source of labour:**
- **Leadership Quality:** Very few women hold leadership positions in cooperatives, less than 15%
- **Sustainability** of the coffee sector
- **Economic development;** Govt. agenda
WOMEN BORROWERS IN FIGURES

- Slightly over 17% of total borrowers are women
- Only 7% of total amount borrowed went to women
BORROWERS IN NUMBERS

TOTAL NUMBERS OF BORROWERS APROXIMATELY.
83000

- Women: 7%
- Men: 76%
- Estate Farmers: 17%
% VOLUMES IN KENYA SHILLINGS BY BORROWER

VOLUMES OF LOANS IN KSHS.

- 200,000.00
- 400,000.00
- 600,000.00
- 800,000.00
- 1,000,000.00
- 1,200,000.00
- 1,400,000.00

ESTATES
WOMEN
MEN
PERFORMANCE OF LOANS GIVEN TO WOMEN

• Average Repayment Rate

OVERALL

MEN

WOMEN

72%  74%  76%  78%  80%  82%  84%  86%  88%  90%  92%

Series1
CHALLENGES OF FINANCING SPECIFIC TO WOMEN IN COFFEE

• Land ownership
• Access to information
• Cultural beliefs
• Collateral challenges
## GENERAL CHALLENGES P OF FINANCING COFFEE SECTOR

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<tr>
<th>Financing Challenges</th>
<th>Interventions Undertaken</th>
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<td>Dispersed and remote location of coffee farmers presents a challenge in credit delivery.</td>
<td>Formation of lending partnerships with 26 rural-based financial institutions.</td>
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<td>Lack of adequate collateral.</td>
<td>Adopt social collateral (group lending) to make credit easily accessible to deserving coffee farmers.</td>
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<td>High cost of production due to high cost of inputs</td>
<td>The Fund continues to facilitate bulk acquisition of inputs among cooperatives to minimize costs of production to growers.</td>
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<td>Governance issues among cooperatives</td>
<td>Work closely with other sector players to build capacity for improved governance of cooperatives</td>
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## General Challenges of Financing Coffee Sector

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<td>Unpredictable weather patterns affecting coffee production, leads to losses in</td>
<td>Training farmers to incorporate climate change management in coffee farming. Financing</td>
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<td>potential revenue which is likely to affect loan repayments.</td>
<td>irrigation infrastructure, rain water collection in the farm and at factory levels</td>
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<td>Lack of a social support system which in the past encouraged farmers to remain in</td>
<td>Offer cherry advances to smallholders as an incentive to remain in coffee production.</td>
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<td>coffee production e.g. cherry advance to meet farmers’ daily needs as the farmer</td>
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<td>awaits payment in six months.</td>
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<td>Delays in coffee payments leads to multiple borrowing among smallholders increasing</td>
<td>Developed an M-Banking service to facilitate convenient, cost-effective and a faster</td>
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<tr>
<td>the level of indebtedness.</td>
<td>mode of payment.</td>
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OTHER CHALLENGES AFFECTING LOAN REPAYMENTS

- Poor quality coffee attract poor prices and hence less income for the farm
- Cooperate Governance challenges in FCS leads to mismanagement of funds
- Use of obsolete technologies in coffee processing
- Poor Agricultural practices
KEY LESSONS LEARNT

• Strong farmer groups is key in financing the coffee sector effectively and efficiently

• The repayments of loans by farmers depends on application of GAP. The fund must get involved in ensuring that GAP is followed by their beneficiaries.

• Advancing loans to Farmers who are financially illiterate is doomed to fail
WHAT WE ARE DOING

• Deliberate targeting – Women and Youth groups- going to where women are instead of waiting for women to come to us.
• Alternative collateral – e.g. Group guarantee.
• Capacity Building - encourage women and youth participation
• Collaborations with other women and youth focused organizations.
WHAT WE ARE DOING

• Encourage women and youth to engage in other value chain activities e.g coffee shops, roasting etc.

• Collaborating with county governments in supporting women leadership in coops; through legislation
INTEGRATED COFFEE PRODUCTION PROJECT - TOWARDS 100,000 METRIC TONNES IN 2020

- Competition from real estate development in farms bordering the city of Nairobi and other towns in the Central Region
- Replacing old trees and old varieties of coffee with new improved varieties.
- Mobilize Expansion of coffee farming to non-traditional coffee regions to replace those taken by real estate

Poor Quality of coffee

OLD COFFEE TREES
ASANTE SANA