Pilot Short & Medium Term Finance to small scale coffee farmers in Kenya

CFC/ICO/20
March 2009

The Stakeholders of the Project
- Project Funding body -- CFC
- Project Supervisory body -- ICO
- Project Executing Agency -- PEA
- Government Ministries
  - Ministry of Agriculture
  - Ministry of Co-operative Development & Marketing, etc
- Government Agencies
  - Coffee Board of Kenya
  - Coffee Development Fund
  - Coffee Research Foundation
- Project Implementation Unit -- PIU
  - KPCU - Kenya Planters Co-operative Union
- Project Implementation Advisors -- PIA
  - DCDM - De Chazal Du Mee & Realtime Computer Systems
- Financial Institutions -- Micro Finance Institutions / Banks
- Clients (farmers) and their associations

The Stakeholders of the Project

Goal/Objective & Expected Outputs
Goal/Objective:
To increase benefits to small scale coffee farmers, through the creation of a suitable, sustainable & replicable input credit scheme

Expected Outputs:
Development of financial products, policies, legal frameworks & systems with appropriate contribution from ultimate users & beneficiaries of the project
Trained officers, trained farmers & intermediaries; enlightened institutions; comprehensive technical manuals & training brochures; all derived from practical experience in various aspects of commodity finance
Link these farmers with the providers of credit (lenders)

Demerits of existing credit systems
- Loan products are primarily security based
- Lending is based on previous years’ production
- Uncertainty over credit availability
- Advance inadequate at ~25% of input required
- No recognition of labor cost in financing
- Credit not always timely
- Lack of intensive monitoring of credit use
- Lender not remitting sale-proceeds to borrower on time
- Lack of an enhanced IT system & database that provides farmer details

The Project’s Credit Scheme
This scheme introduces new concepts such as:-
- It bases financing on a scientific ‘business plan’ for the farm -- this uses future as opposed to past production data
- Farmers are trained on the use of a ‘package of best practices’ -- a passbook to record activities per coffee calendar is provided
- Farmers are organised into groups to facilitate credit risk management through monitoring the application of credit funds, best practices and provision of cross-guarantee
- Labour costs are included in the credit provided -- whether the farmer uses his own or hired labour
- Focus is on the requirement of the coffee tree, as a basis for lending. Tree requires $1 of input to provide potential return of $3
- Innovative IT system incorporated into the scheme

THE SCHEME/PRODUCT IS THEREFORE DUBBED “Credit+”

Need for Input Credit

This scheme introduces new concepts such as:-
The Approach of this product is to:-

- Provide adequate and timely credit to farmers
- Provide extension support to farmers in order to improve quality and productivity
- Put in place a system for intensive monitoring of end use of credit through Joint Liability Groups and other formations
- Utilize an IT system that maintains a farmer database thus enabling the lender to “Know Your Customer (KYC)” for effective credit appraisal & risk management
- Adopt an inclusive approach by ensuring that the farmer participates in and owns the project

The Credit+ Product

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Monitoring, additionally uses a passbook that has been designed to capture activities of the farmer once he/she has been provided with the necessary credit.

Field Extension Support

Farmers and factory staff receive training on good agricultural practices

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Training Session in Progress

The Results -- achievements

- Increased Productivity
- Increased Quality
- Lending during Year I
- Design/development of IT Software and training on the same

The factory has sent in an appeal for assistance to acquire additional drying beds due to the anticipated increase expected in coffee deliveries.

Increased Productivity

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Increased Productivity contd.

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Increased Productivity contd.

Improved coffee husbandry has led to better quality & increased production. Actual statistics indicate an increase of 176% for participating coffee farmers:

- 2007/08 – 243,693 kg
- 2008/09 – 672,303 kg

Farmers’ Quotes

- ‘We are now seeing a come back of coffee like it used to be before, when farmers would spend nights delivering cherry to factories’ P. Munyi - Sec/Manager, Karithathi

- ‘Last time the bearing of my coffee was as it is right now, I harvested 20,000 kg of cherry from 3,570 trees’ Mrs. A. Gitari - Giwa Estate

Increased Quality

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<th>Grade and Class of coffee</th>
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<th>Project (2008/09)</th>
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<tr>
<td>E3</td>
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</table>

Lending: The Results – achievements contd.

- Lending for Year I was successfully carried out using the Credit+ product (which utilises an IT software developed under the project)
- The pilot project has benefited 3,000 farmers (directly & indirectly)
- 1,300 farmers have so far received credit
- Timely disbursements for inputs & labour were made in accordance with the coffee calendar and input cost estimate models
- Participating financial institutions have shown growing willingness to continue lending, further they have taken up to actively monitoring loans by participating in technical farm visits
Delivery of inputs financed through the Credit+ Product

Compound fertilizer

Lime

Note: The project ensures that capacity of factory & financial institution staff is enhanced to enable them meet their obligations under the project credit scheme.

The Project IT Software

Produce Accounting for Farmers Earnings and Deductions (PAFED)

Introduction

The software has resulted in savings in transaction time and costs

- The software facilitates efficient management of input lending to small scale coffee farmers under the Pilot Project
- The system maintains a database containing information on the farmers including farm records, personal details, production trends and other details necessary for credit risk management
- The system keeps track of coffee from harvesting/weighing to the final sale/auction
- The system processes payment to members while at the same time making debt recoveries
- To accomplish the above, the system has various modules

The Project IT Software

The IT software modules include:-

- Members’ details;
- Forward lending;
- Farm management;
- Transactions;
- Monitoring (this monitors compliance to best farm practices of individuals)

The Project IT Software

Information Flow

The Project IT Software

Benefits/Advantages of PAFED

- Improved data management
  - Farm, land holding/usage information maintained
  - Detailed & accurate production cost estimates maintained
  - Credit requirements established (through automated forward lending module)
  - Produce and debt records maintained (debt recovery streamlined)
- Connects to the coffee activity calendar (which is the basis for determining financing & for monitoring credit usage)
- Hosts and maintains multiple debt registers and ledgers

The Project IT Software

Benefits/Advantages of PAFED contd.

- Has enabled savings in terms of both finance and time
  - Payment process reduced from several weeks to minutes
  - Payment administration costs reduced significantly
  - Bank charges arising from pay out credits eliminated due to EFT*
- Payslips are produced for farmer detailing gross earnings, deductions and net pay.
- Tracking system enhances farmers’ earnings based on quality of coffee delivered
- Warning bulletin concept for monitoring farmer compliance to good crop husbandry practices

*EFT= Electronic Funds Transfer
Way Forward

Price Risk Mitigation
It was noted in the last ICO meeting & has been repeated in all project reports that there is urgent need to deal with the Price Risk component which the project in its current form has not addressed

Scaling up of the IT component
- Further exploration & development of a Smart card system
- Connectivity, network, tracking & others

Support for Full roll-out
There is a need to have more farmers benefit from the developed product through a roll-out to other regions outside the pilot area including other countries

Replication to other agricultural products
Adoption of this input credit model into a total farm development package that would comprehensively cover a cross section of agricultural products

Overall Result
Critical Achievement -- The pilot project has successfully developed the Credit Product, Delivery mechanism & Infrastructure, resulting in HAPPY FARMERS!!!!

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