

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

CFC/ICO/20
March 2009

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The Stakeholders of the Project

- > Project Funding body -- CFC
- > Project Supervisory body -- ICO
- > Project Executing Agency -- PEA
UNOPS - United Nations Office for Project Services
- > 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

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Goal/Objective & Expected Outputs of Phase III

Goal/Objective:
To increase benefits to small scale coffee farmers, through the creation of a suitable, sustainable & replicable inputs 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)

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Demerits of existing credit systems
These were formally studied under Phases I & II of the project

- > Loan products are primarily security based
- > Lending is based on previous years' production
- > Uncertainty over credit availability
- > Advance inadequate at $\approx 25\%$ 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

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Need for Input Credit

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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 of 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+"

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The Credit+ Product

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
- 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
- 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

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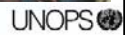


Training Session in Progress

Farmers and factory staff receive training on good agricultural practices



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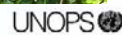


Field Extension Support

Farmer Training – Estate farmers receiving training and advice



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The Results -- achievements

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

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Increased Productivity



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Increased Productivity contd.



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

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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
07/08 – 243,693kg
08/09 – 672,303kg

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Increased Productivity contd.

Managed Boron Deficiency



Before inputs / Solubor

After Inputs / Solubor



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Increased Productivity contd.

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 20,000kg of cherry from 3,570 trees' Mrs. A. Gitari - Giwa Estate

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Increased Productivity contd.

Farmers' Quotes contd.



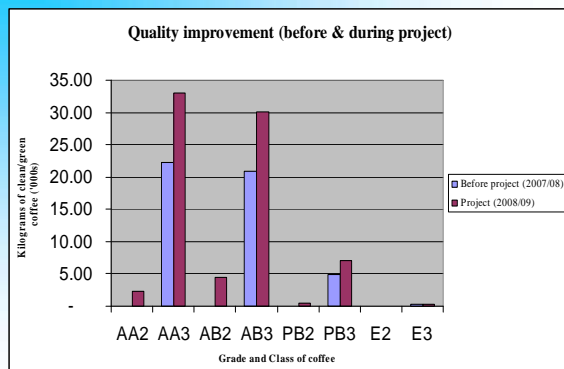
I have not seen this kind of farm productivity in 10 years

C. Kigomo-Sarma Estate

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Increased Quality



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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

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Lending contd.;

The Results – achievements contd.

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

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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

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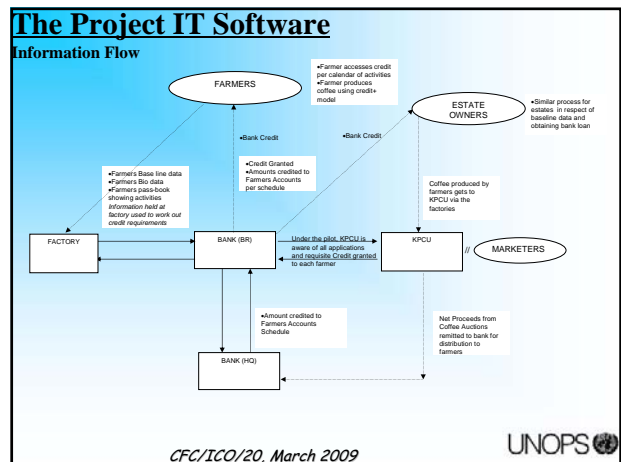
The Project IT Software

The IT software modules include:-

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

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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

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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

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Way Forward

1. 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

2. Scaling up of the IT component

- > Further exploration & development of a Smart card system
- > Connectivity, network, tracking & others

3. 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

4. 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

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Screen-shot of member database record

Member Record

Personal Information
Member No: 111 **Name:** MILLICENT WANJIRA NJINE **ID No:** 3122844
Address: P.O. Box 82 Kianyaga Kianyaga

Member Status: CFC Active **JLG Code:** 25 **Kgs Per Plant:** 2.52

Banking Information
Bank Code: 10 **Name:** KDFSS - KIAMUTUGU **A/C No:** 0067-01-111

Produce	Total	Financial	Total
Chery1 Delivery	-1332	Chery1 Earnings	8400
Chery2 Delivery	-228	Mbuni Earnings	
Mbuni Delivery		CAPS	
		KDFSS LGANS	
		Farm Input Advances	
		Cash Advance	
		Shares Contribution	
		Farmers' Procents	100

Buttons: Save Changes, Transactions, Photo/Signature, Statistics, Close

*Detailed demo of software available, those interested are invited to watch it at the secretariat conf. room at 2.30p.m.
 In addition, a more detailed report of this presentation is available with the secretariat for anyone interested in the more detailed information*

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Overall Result

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



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