

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



**Project Completion Report (Oct. 2005 - Sept. 2010)**



### Brief Background

- **Location of the Pilot** : Kenya
- **Duration of Pilot project** : Five years
- **Estimated Total Cost** : USD 3,044,900
- **Financing sought from CFC:** USD 1,444,900 (Grant)  
USD 1,000,000 (Loan)
- **Counterpart co-financing** : USD 600,000 (KPCU)



## Pilot Project Goals

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

### 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 a financial product, delivery systems and building of capacity of participating institutions and small holder farmers



## Project Stakeholders

Project Funding body – **Common Fund for Commodities**

Project Supervisory body – **International Coffee Organization**

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 Ltd**

Project Implementation Advisors -- PIA

**DCDM - De Chazal Du Mee / NABARD Consultancy Services (NABCONS) consortium & Realtime Computer Systems**

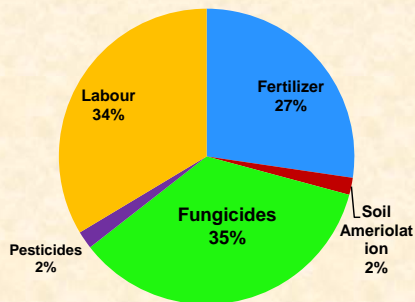
Financial Institutions -- Micro Finance Institutions (MFIs)/ Banks

**Coffee Development Fund, Kirinyaga SACCO & Embu SACCO**

Clients (farmers) and their associations

## Production Cost Analysis


Average Year 1 Costs



- On average, farm inputs accounted for **66%** of total farm costs, explaining why most farmers could not afford inputs.
- Hence the need for input credit to be availed!

Average Costs

## Project Structure



**Phase One:** A study of the previous experiences on input credit schemes in Kenya

**Phase Two:** A study of the financing systems in Kenya, and the design of the credit structure

**Phase Three:** Pilot Project Implementation – Testing of the credit structure & delivery mechanism



## Credit Plus (+)

A farmer and **crop centric micro-credit** product dubbed “**Credit+**” was developed with the following features:

- Provision of adequate and timely **credit** to farmers based on the variety and number of coffee trees as the primary basis, calendar of activities, efficient loan structures and computerized farmers’ database;



## Credit+ features Contd.

- Provision of **Extension Support** to farmers to improve coffee productivity and quality;
- Intensive monitoring of use of credit through **Farmer Groups** of 5-25 farmers, each with a group leader and 4 trained “experts”;
- Model based broadly on 90 percent bank loan, with the farmer contributing 10 percent in form of farm labor;



## Credit+ features Contd.

- Co-operative farmers were jointly liable for their loans, whereas, the slightly larger estate farmers provided collateral for individual credit, whilst jointly acquiring inputs & accessing extension services;



## Credit+ mechanism

### The loan component

- Lending commenced in October 2007
- Loan funds to test the “Credit+” product were provided by the Coffee Development Fund (CoDF) of Kenya
- The CFC component of USD1,000,000 that was to be used for on-lending to farmers was not accessed and was therefore not utilised

## THE RESULTS...



## The Results

### PRODUCTS & TECHNOLOGY DEVELOPED

- A lending product dubbed “Credit+” was developed, this product is based/plat-formed on:-
  - Good production and processing practices supported by quality inputs; training; extension & supervision services
  - A customised system of Information Technology (IT system)
- The following were also developed along with the “Credit+” product:-
  - Technical manuals
  - Training and extension resources
  - Farmer passbooks (which was developed for use in recording all farm activities)



## The Results contd.

### “ORGANISATIONS – Farmer Business Units” BUILT

- An efficient system of organization and management of coffee farmers was developed. This involved organizing the farmers into groups referred to as Joint Liability Groups (JLGs) and Common Interest Groups (CIGs)
- Done in order to enhance:- field supervision, credit monitoring, coffee tracking and payments, and loan repayment
- 1400 smallholder coffee farmers directly participated in the pilot & were organized into 135 JLGs
- 21 small & medium estate farmers were organised into 4 CIGs



## The Results contd.

### PARTICIPATING FARMERS & PEOPLE TRAINED

- The “Credit+” product was tested in 2 districts from which 3 pilot sites were selected, each representing differential coffee growing zones
- Each group of farmers that was formed, had a group leader, and, 4 representatives selected & trained in: **Coffee Nutrition, Pruning, Pest & Disease Mgt, and Picking & Delivery Supervision;** for the groups benefit
- On the whole, the benefits for good coffee-husbandry extended to over 5,000 farmers in the pilot districts
- 25 staff of the on-lending institutions were trained

## The Results contd.

### Improved Coffee Trees!






**Trees BEFORE Project Intervention**



**Trees AFTER Project Intervention**

## Farm Productivity... More than Doubled!

### Cherry production in Kgs



	Kiunyu Factory – Project	Kiunyu Factory - Non-project	Total
2007/08	243,693	158,002	<b>401,695</b>
2008/09	672,303	292,812	<b>965,115</b>
<b>% Increase</b>	<b>176</b>	<b>85</b>	<b>140</b>





## Improved Coffee Quality...

*Production Quality in 000's Kg of clean/green coffee*

Coffee grade/class	BEFORE project (2007/08)	AFTER Project (2008/09)
AA2	-	2.26
AA3	22.20	32.98
AB2	-	4.47
AB3	20.86	30.11
PB2	-	0.49
PB3	4.97	7.03
E2	-	0.02
E3	0.33	0.36



## Summary Of Results

1. Successful testing of the "Credit+" product. It has been demonstrated that this product can now be utilised by banks and other financial institutions for lending to farmers (previously perceived as risky ventures)
2. Successful development & implementation of the IT System at the Farmers outlet (Society) & at the lending institution (SACCO)
3. The project attained remarkable rates of loan recovery, of 95% and above

## LESSONS LEARNT...

### Lessons Learnt...

- This project had several stakeholders & parties involved. It was learnt that Pre-project stakeholder consultation better facilitated implementation
- The choice for implementation partners to work with is crucial to success of the project
- The different roles for the project stakeholders had to be institutionalized clearly, before successful implementation could begin
- The private sector (banks & MFIs) & small/medium scale enterprises (farmer societies & estates) were enticed to stay with the project by the prospect of sustainability that the project offered





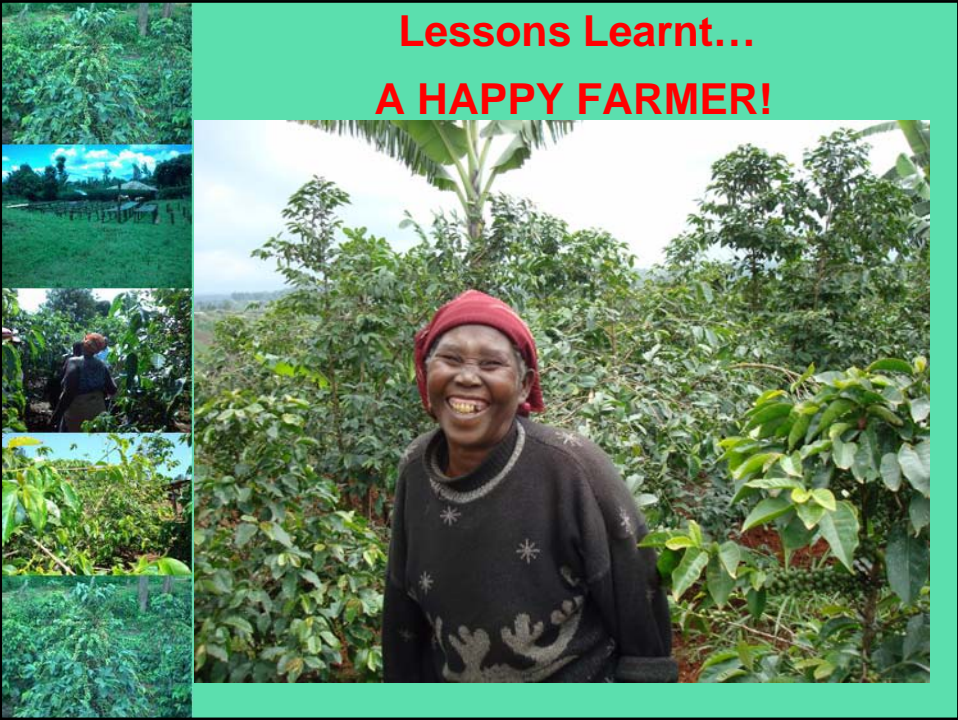
## Lessons Learnt...

- There was need to allow for necessary modification(s) to occur on the project design
- A configuration to support post-project continuity needed to be in place. This was the case for involving national stakeholders represented by Government. It was also vital to get private-sector buy-in to ensure that continuity is realized
- Contributions were drawn from existing players to help develop a product eventually targeted for their use
- For this reason banks participated enthusiastically in the development of this product



## Lessons Learnt...

- The inclusion of an IT aspect gave this project a futuristic inclination, most private (and support) organizations were willing to put up a stake since they saw IT as the future
- A message of “empowerment” was continually communicated to the farmers so they could come to believe in their own very critical position in the chain
- The pilot project demonstrated that coffee productivity improved with resulting improvement in farmers’ livelihoods





## Some Key Issues ...

1. Only a limited number of smallholder farmers are benefiting from the Project as it was restricted to specific Pilot Sites within Kenya
2. There remained an uncertainty that fluctuations in Coffee prices could lead to diminished returns to the farmers. This led to farmer indecisiveness on whether or not to apply for input credit

**RECOMMENDATIONS...**



## Recommendations

### SCALING UP/OUT

- Scaling up of the product in Kenya, Uganda & Tanzania
- Scaling up in other coffee growing countries
- Replication in other commodities



## Recommendations

### PRICE RISK MITIGATION

- It is necessary and urgent that the Price Risk Mitigation component is addressed
- A request has been put to CFC / ICO to commence the Price Risk Mitigation project
- The objective(s) of which would include to:
  - Stabilize incomes to the coffee farmers
  - Eliminate or reduce indecisiveness on application for credit (using this input credit model)



## Request to the council

- With regard to the foregoing recommendations for scaling up of these successes to other coffee growing countries (Uganda & Tanzania) which is in keeping with the original project document a proposal has been prepared
- This ICO Council is hereby requested to authorize the secretariat to send this proposal to the CFC for consideration



## Acknowledgements

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**THANK YOU!**

**PRESENTERS' CONTACTS FOR FURTHER INFORMATION:**

- Susan Njoroge, National Project Support Officer,  
Project Executing Agency, UNOPS,  
Tel. +254 762 1144, [SusanN@unops.org](mailto:SusanN@unops.org)
- Salesio Mbogo, Project Team Leader,  
Project Implementation Unit  
Tel. +254 722 830021; [smbogo@gmail.com](mailto:smbogo@gmail.com) or  
[smbogo@kpcultd.co.ke](mailto:smbogo@kpcultd.co.ke)