

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



**Progress Report on Micro Finance Project**

# 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 (MFIs)/ Banks

Clients (farmers) and their associations



# PROJECT GOALS

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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.



# HOW DID WE DO IT?

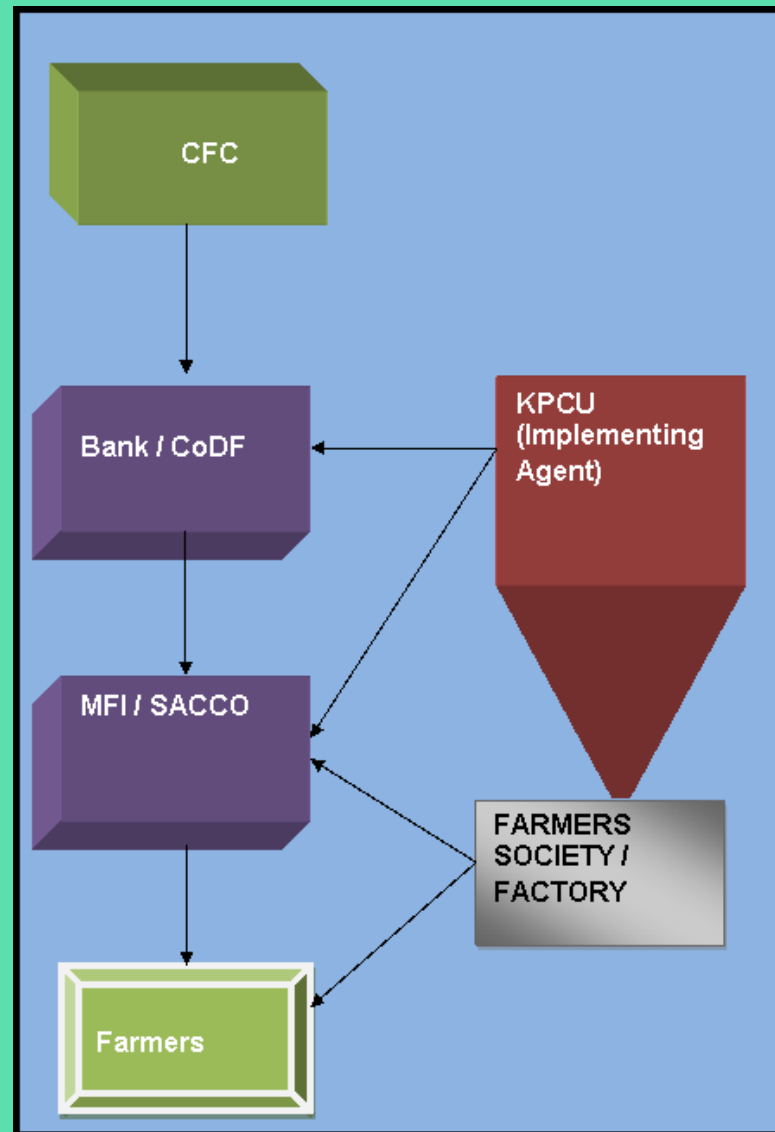
.....The Credit+  
Product

# Product Features

- Provision of adequate and timely credit to farmers pegged on the number of trees as the primary basis, calendar of activities, efficient loan structures and computerization of farmers' database;
- 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 of between 5-25 farmers with a group leader and 4 nominees trained by the Project Implementation Unit (KPCU) in ***Coffee Nutrition, Pruning, Pest & Disease Management, and Picking & Delivery Supervision.***
- Model is based on 90 percent bank loan, farmer contributes 10 percent of labour requirement



# The Lending Structure



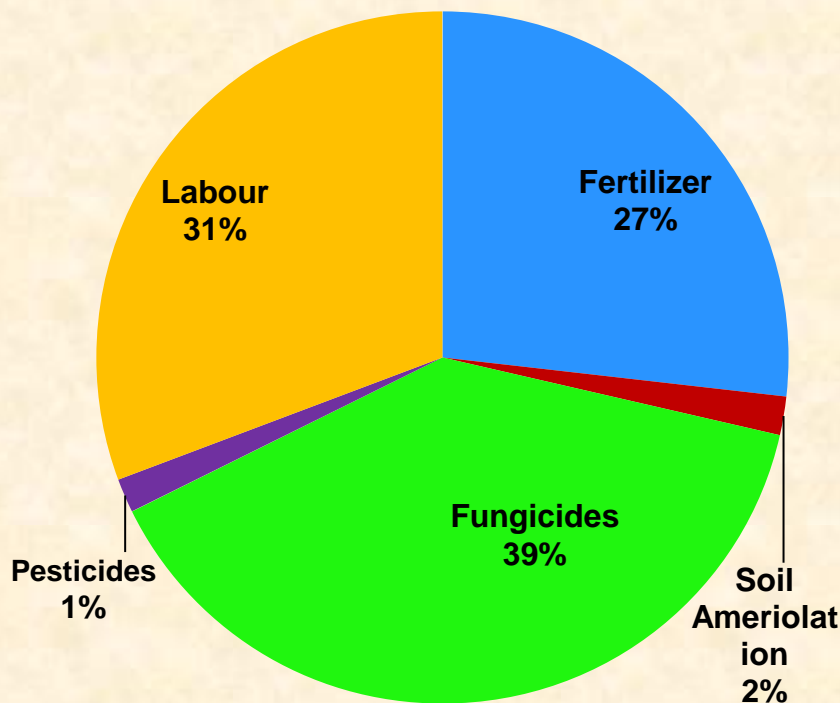
# How We Did it...

- Lending commenced in October 2007.
- About 600 farmers participated in Upper Midland zone One (UM I) Pilot site in Year I of lending, representing approx. 60% of the factory membership
- The Small holder farmers formed 43 Joint Liability Groups, each with a Group Leader and 4 “experts” (Pruning, Nutrition, Disease and Pest Control and a Coffee Delivery Supervisor).
- A farmers’ passbook used to record all farm activities.
- 12 small and medium estates mostly from UM II and III participated – organised in 3 Common Interest Groups (CIGs).



# PRODUCTION COSTS ...

## Year 1 Costs -1<sup>st</sup> Pilot Site

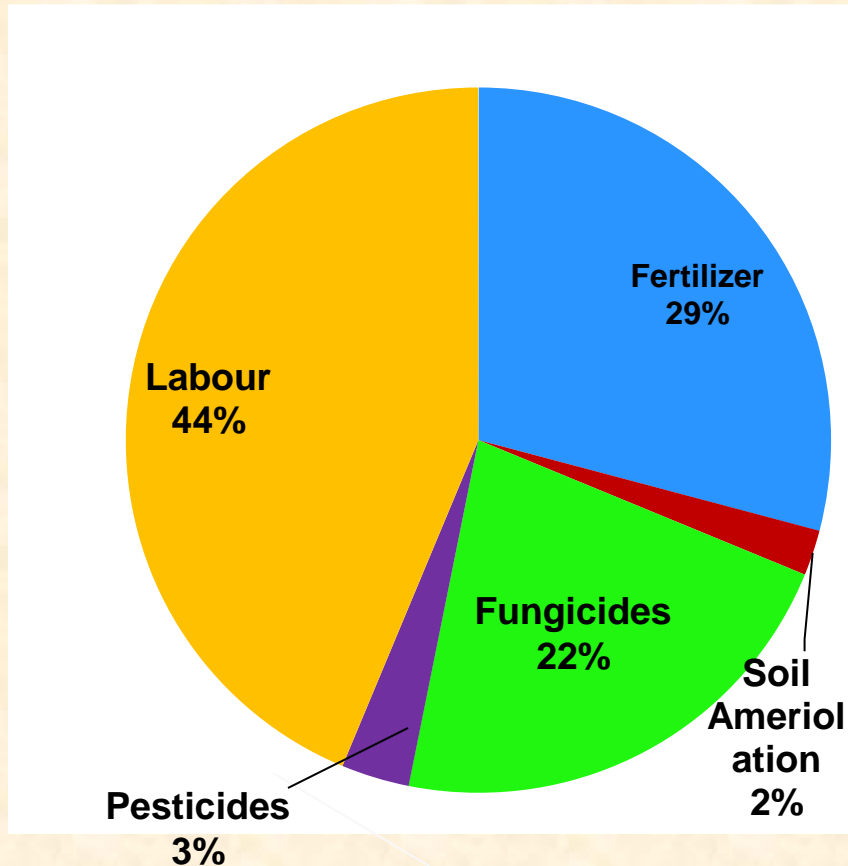


- Physical farm inputs accounted for **69%** of total farm costs for the **Small holder farmers**
- Fungicides constituted the highest cost at this pilot site due to high Coffee Berry Disease (CBD) incidences at AEZ I.

**Karithathi**

# Production Costs ctd...

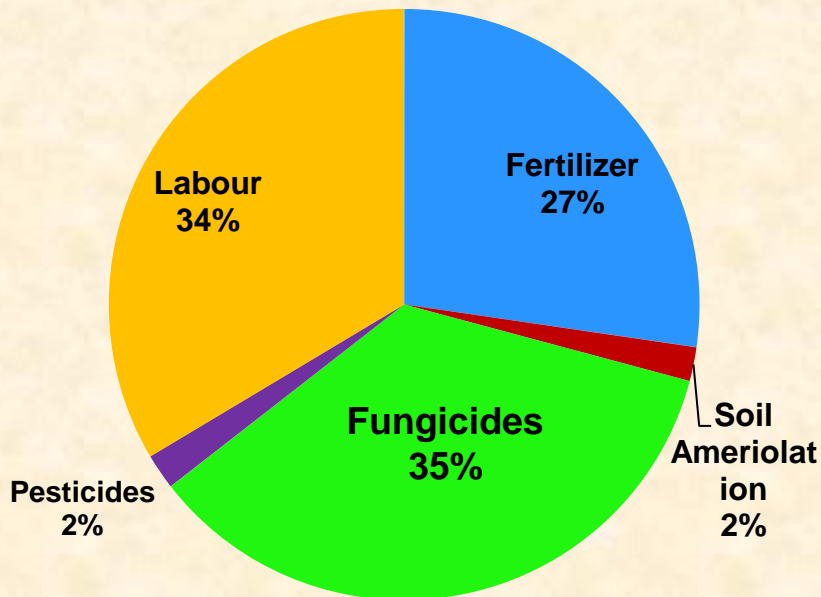
## Year 1 Costs-Estates Pilot Site



- Cost of pesticides higher (3%) while that of fungicides is lower (22%) at the Estates Pilot Site than at the 1<sup>st</sup> Pilot Site because most estates are in the warmer AEZ II
- Cost of labour higher (44%) because more funds were disbursed to cater for the primary processing costs at the farm level.

# Production Costs Ctd...

## Average Year 1 Costs



## Average Costs

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

**THE RESULTS.....**

# Improved Coffee Trees!



**Trees BEFORE Project Intervention**



**Trees AFTER Project Intervention**

# Farm Productivity...Almost Tripled!

## Cherry production in Kgs

|                       | Kiunyu<br>Factory –<br>Project | Kiunyu<br>Factory -<br>Non-<br>project | Total          | Kabingara<br>Factory | Soc Total        |
|-----------------------|--------------------------------|--|----------------|----------------------|------------------|
| 2007/08               | 243,693                        | 158,002                                | <b>401,695</b> | 104,518              | <b>506,213</b>   |
| 2008/09               | 672,303                        | 292,812                                | <b>965,115</b> | 234,282              | <b>1,199,397</b> |
| <b>%<br/>Increase</b> | <b>176</b>                     | <b>85</b>                              | <b>140</b>     | <b>124</b>           | <b>137</b>       |

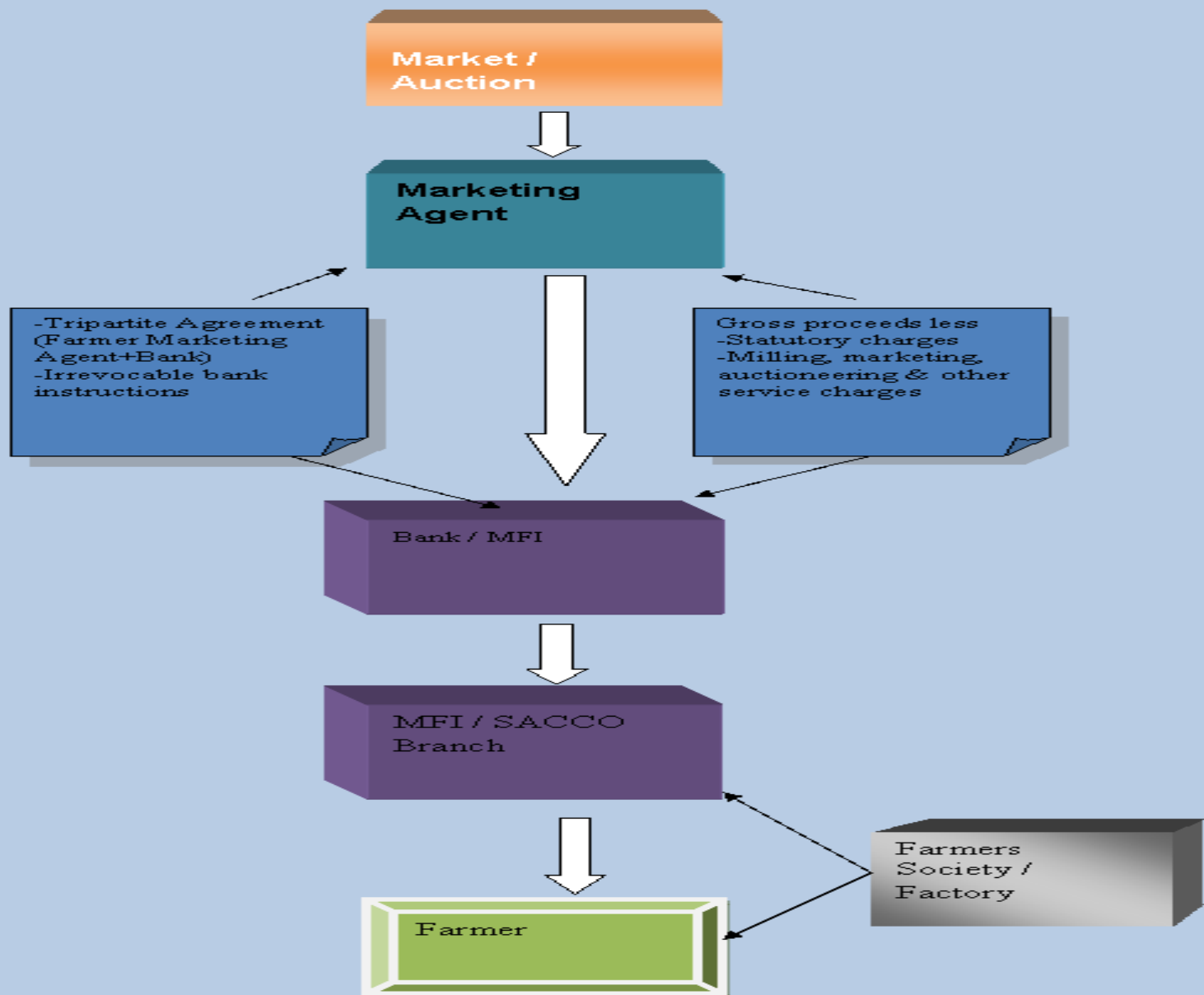
# Improved Coffee Quality.....

*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                    |

# Loan Performance.....

# Loan Repayment Structure!



# Loan Performance.....

- In year 1 of Lending, total loans including interest was **KSh 10,735,285 (USD 137,631-@ sh78)** in 2007/08 that was advanced to pilot test the developed farmers credit system.
- Amount recovered so far from the small holder co-operative farmers is **KSh.9,072,030.50 (USD 116,308)**.
- Amount recovered so far from the estates is **KShs.1,120,129 (USD 14,360)**.
- Thus, Total recovered: **KSh 10,192,159.98 (USD 130,668) representing 95% recovery.**
- **The project targets close to or 100% loan recovery.**



# Key Milestones



# Key Milestones

1. Successful development and testing of a micro-credit lending product and delivery mechanism that can now be utilised by banks and financial institutions for lending to farmers that were previously perceived as risky ventures.
2. On going lending at 2 OTHER pilot sites / factories: 60 JLGs have been formed in the 2<sup>nd</sup> pilot site (at UM II zone) comprising over 321 Small holder farmers. Further, 13 more JLGs comprising 79 farmers have been formed in the 3<sup>rd</sup> pilot site (at UM III zone).

# Key Milestones...

3. The Project is currently benefiting directly and indirectly over 5,000 farmers in the selected pilot areas. About 1,400 farmers have been financed for their input and labour requirements.
4. Increase in Joint Liability Groups (JLGs) from 83 to 112 in the 2 initial pilot sites.
5. Common Interest Groups (CIGs) also increased from 3 to 4 in the 2<sup>nd</sup> year of lending at the Estates pilot site.
5. Successful development & implementation of an IT System at the Society.



**Challenges...**

# Challenges

1. Looking at Kenya and Africa as a whole, only limited small holder farmers are benefiting from the Project as it was only restricted to specific Pilot Project Sites within Kenya
2. Uncertainty in Coffee prices causing fluctuations of returns to the farmers



**Way Forward**

# Replication

- **Upscaling & replication of the product in Kenya.**
- **Dissemination of product knowledge in other African countries so that more small holder farmers can benefit from the positive results of this pilot project.**
- **This micro-finance product, if replicated throughout the continent, has the potential to more than triple the productivity of key commodities grown by small holder farmers, especially coffee in Africa.**



# Price Risk Mechanism

- As has already been noted, the Project tripled small holders' farm productivity in the Pilot areas.
- However, the actual income to the small holder farmers could have been much higher had price fluctuations been addressed.
- Indeed, the Project had envisaged this situation and had factored in a Price Risk Component to address fluctuations in Coffee Prices so as to stabilize incomes to the farmers.
- **It is therefore necessary and urgent that the implementation of the Price Risk mitigation project already approved by CFC/ICO commences even if it is first going to be on a pilot basis in Kenya, Uganda and Tanzania, followed by replication thereafter.**



# THANK YOU FOR YOUR SUPPORT!

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