

# *Using value chain financing to make money grow on trees...*

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# Objectives

- Background and constraints
- Intervention to address constraints
- IBL's Role as a Facilitator
- Success achieved
- Challenges faced
- Lessons learned in facilitating a value chain financing intervention

# Background Information

- Avocado is the most important export fruit crop in Kenya
- In year 2004 over 15000 tones valued at over KES 1 billion were exported
- Main production Districts: Maragua, Thika, Kiambu, and Muranga
- Main commercial cultivars: Fuerte, Hass

# Constraints

- Farmers do not know what to spray, when to spray, how to spray
- Farmers lack knowledge and facilities for proper handling and storage of agrochemicals
- Farmers cannot gain access to or afford high cost (upfront) of agrochemicals, spray equipment, and labor

# Constraints

- Lack of inputs and knowledge in crop husbandry result in diseased and under-ripe fruit
- Non-existent business services market
- Increasingly rigid production standards in Europe (traceability, MRLs, EurepGap) require appropriate use of pesticides
- Poor reputation on international market

# Intervention

- Kenya BDS, a USAID funded program invited proposals from BDS facilitators to address constraints in agrochemical spray services
- IBL designed a program to commercialize pest and disease control services
- Contract awarded to Ideal Business Link (IBL)

# IBL as Facilitator

- Identified and developed independent service providers;
- Sensitized farmers on need for integrated pest management (IPM) and agrochemical spraying services;
- Developed a spraying regime that meets market requirements and shared it with different exporters who approved it
- Held discussions with different financial service providers to identify potential partners to work with

# IBL as Facilitator

- Equity bank selected as the most suitable partner
- Negotiations held with Equity bank to extend credit facility to farmer groups for agrochemical services backed by strength of supply contract with exporter;
- Coordinated signing of MOU between exporters and Equity bank
- Provided technical support in developing a suitable financial product for small scale avocado producers and development of promotional materials for new product

# Equity Bank agreed to:

- Develop an appropriate loan product to meet the needs of the avocado farmers.
- Waive the traditional requirements for collateral
- Accept the supply contract signed between the farmer groups and exporters as security for loans.
- However, individual farmers to sign chattels mortgage to enhance their commitment to repay loans

# Equity Bank agreed to:

- Establish a check of system where the exporter pays farmers through the bank, which deducts scheduled loan payment before releasing net proceeds to the farmer.
- Send their credit officers to the farmer groups meetings to educate them on the loan application process
- Allow farmers to complete and sign the loan forms in their usual meeting places and submit them to the bank for processing
- Develop promotional materials for the new financial product

# Loan application process:

- Farmer groups who have signed a supply contract with an exporter approach Equity bank for an agro chemical loan facility;
- Individual group members complete a loan application form and chattel agreement form (for the whole avocado season);
- Application forms are consolidated at group level and the group submits one loan application for the consolidated amount to the bank;

# Loan application process:

- Bank approves the loan and issues a letter of offer to the group clearly indicating the amount approved for the entire season.
- Members of the group who wish to pay cash for services deposit cash into the groups' savings account held at Equity bank.
- The group advises / instructs the bank to hold cash received under 'lien' to ensure it cannot be withdrawn for other purposes.

# Loan application process:

- To get the agro chemical spraying services, the farmer group fill a requisition form for chemical spraying services from commercial Service Provider's (SP's).
- Details in the requisition form include number of trees to be sprayed; how many will be paid for in cash and how many will be paid for through the loan facility from Equity bank.
- On the strength of information received, a SP delivers service and raises a services delivery note to be signed by individual farmers to acknowledge receipt of services.

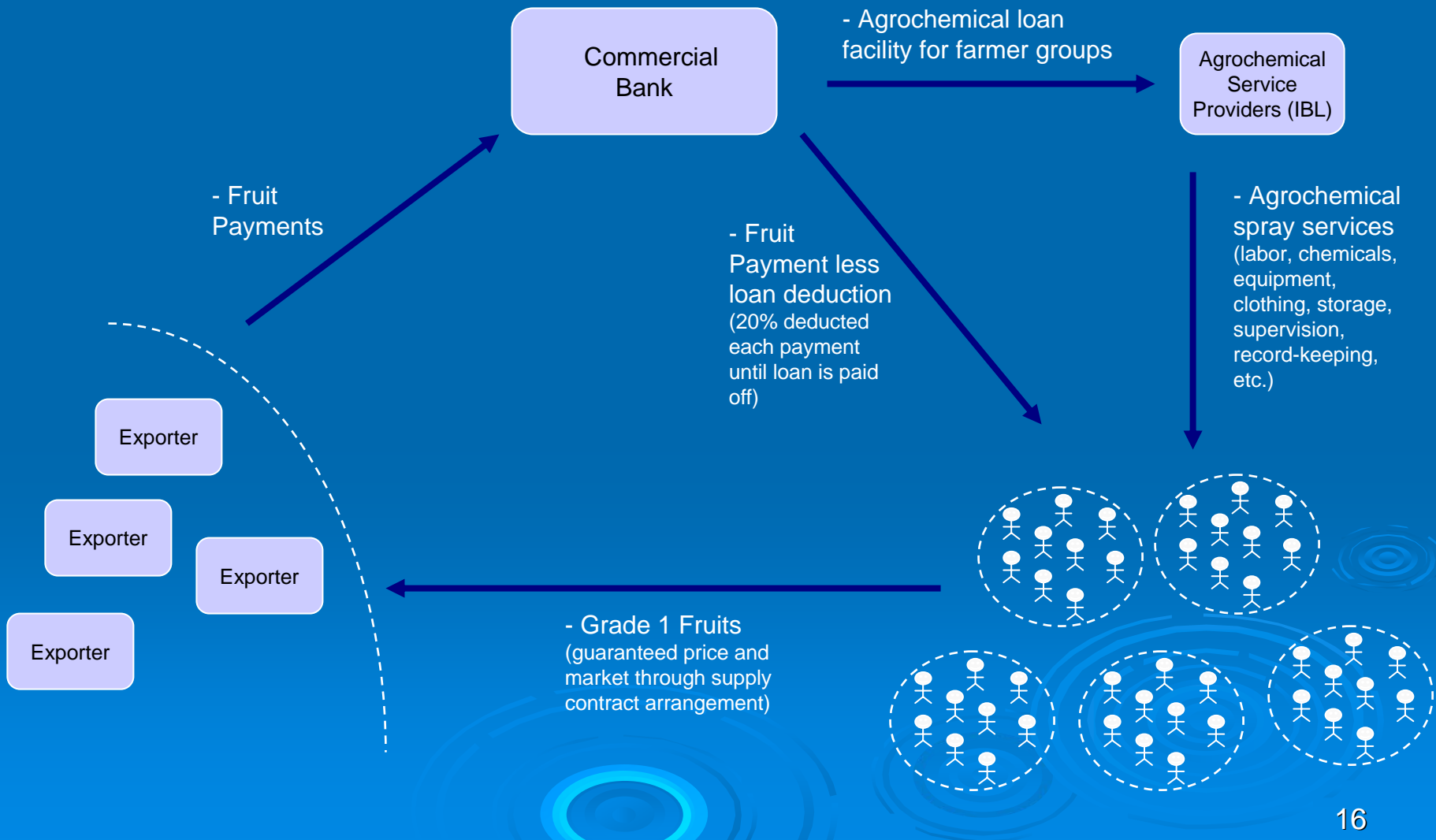
# Loan application process:

- Consolidates delivery notes for services rendered to individual farmers and one invoice is raised for the farmer group;
- The authorized signatories for the group endorse the invoice for payment and submits the invoice for settlement to Equity Bank.
- The bank debits the group's loan account and credits SP.

# Loan Recovery

- Loan plus interest accrued is recoverable from the sale proceeds of the avocado to the exporter.
- When farmers deliver their fruits to the exporters, the exporters remit payment to the bank (with details breaking down payment by group).
- The bank then pays farmer group less 20% deduction for the loan repayment until the loan is cleared.
- Loan is fully repaid within 3 months once harvesting commences

# Model for Sustainability



# Achievements Made

- The loan facility enthusiastically received by farmers with more than 95% of farmers in the groups applying for the facility and only less 5% are paying cash for services.
- 3,500 farmers accessing commercial spray services
- 38 commercial SP's with access to modern tools and equipment for agro chemical spraying services providing services to farmers
- More than 25,000 trees sprayed in the current avocado season
- 3 cycles of spraying already done
- More farmer groups applying for the loan facility

# Expectations

- 4,000 farmers accessing agrochemical loan facility in first year
- At least 40,000 avocado trees receiving spray services during first year
- Grade 1 yields increasing from less than 25 pieces to over 300 pieces per tree during first year
- Eventual replication with mango and passion fruit smallholders

# Lessons Learnt

- Awareness creation among farmers on opportunities available for them is critical for success
- Services / products must be customized to meet the specific needs of different customers
- Financial education for farmers is very important
- Different stakeholders in the value chain must work together for the mutual benefit of all stakeholders

# Lessons Learnt

- The strength of the entire value chain depends on the performance of every single partner in the value chain.
- The competitiveness of the final product corresponds to the capacities of the weakest link in the value chain.
- Innovation holds the key to solving the problems facing small scale products
- Stakeholders must be willing to think and work outside the 'box'
- Flexibility is important in designing financial products and services in order to give customers a choice

# Challenges Faced

- Initial reluctance by farmers to sign the chattels mortgage forms due to fear of bank loans
- Farmer education is a time consuming process and during the pilot phase, only two cycles of spraying were done
- Internal wrangles in the farmer group adversely affect the loan application process leading to delays
- The competitiveness of the final product corresponds to the capacities of the weakest link in the value chain.

# Challenges Faced

- Farmers applying for the avocado loan product when they have no trees.
- SP's go to provide services only to find there are no trees
- Farmers indicating fewer trees on the loan application than they actually have
- Illiteracy – some farmers cannot sign the loan application form

# Key Innovations

- Commercial bank has agreed to reach out to small holder farmers
- Loan product tailored in a flexible manner to minimize interest payable by farmers
- Waiver of traditional security requirements
- Illiteracy is not a barrier to accessing loans as farmers can append their thumb prints
- Signing of MOU's with stakeholders in the value chain to facilitate loan repayment