



## **Purchase for Progress (P4P) Kenya**

### **Role of Markets in Rural Agricultural Financing in Kenya: A Case Study on Smallholder Farmers and Traders Involved in Grain Supply to WFP**

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#### **1. INTRODUCTION**

Despite the potential Kenya has to produce enough staple food and be self sufficient, the country continues to be food deficient and relies on imports to feed its population. Several factors contribute to this scenario, one of them being lack of capital and access to affordable financing for smallholder farmers and small scale traders. Rural agricultural financing has evolved to some extent and several organizations are providing financial services in Kenya. However uptake of the loan products remains low mainly due to the lack of awareness by farmers and collateral required by financial institutions. The Alliance for a Green Revolution in Africa (AGRA) in partnership with Equity Bank Limited, the International Fund for Agricultural Development (IFAD) and the Kenya Ministry of Agriculture availed a loan facility of US\$50 million in 2008. The loan targeted access to agricultural financing for 2.5 million farmers and 15,000 agricultural value chain members such as rural input shops, fertilizers and seed wholesalers and importers, grain traders and food processors. This paper reports on the importance of an assured market in facilitating farmers and traders to access agricultural loans through the Purchase for Progress (P4P) programme in Kenya. Nearly \$200,000 was disbursed to farmers and traders using the WFP-P4P contracts as a catalyst for the banks to release the loan. These loans offered opportunities for farmers to invest in agricultural production, marketing and in the construction of stores. One trader benefited from asset loan to buy a truck. Banks benefited from WFP market and from the loan services to expand their clientele. The major challenges reported by farmers were the late disbursement of funds by the banks and the lack of information regarding the availability of loans. The banks mentioned that late and incomplete application for loans by farmers; loan repayment defaults due to misconception by some

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farmers that the money was provided free by the government were the major constraints. More needs to be done on awareness creation to involve more farmers in the financial scheme. Farmers also need more training on the loan requirements to shorten the loan disbursement period.

### **1.1 The World Food Programme and the Purchase for Progress (P4P) Initiative in Kenya**

WFP is the leading humanitarian aid agency of the United Nations system. Food aid is one of the many instruments that can help to promote food security, which is defined as access of all people at all times to the food needed for an active and healthy life. The policies governing the use of World Food Programme food aid must be oriented towards the objective of eradicating hunger and poverty. The ultimate objective of food aid should be the elimination of the need for over reliance on food aid<sup>i</sup>.

The Purchase for Progress (P4P) initiative is a WFP five-year pilot project that seeks to ensure that food assistance is part of a long-term solution to the hunger challenge. It integrates WFP purchasing power with the technical contributions of other partners to connect small-scale farmers and small scale traders to markets to increase their incomes. In Kenya, WFP works with partners to promote smallholder farmers in the marketing of staple food crops (maize, sorghum, beans, cowpeas, and pigeon peas) by building their capacities to meet the market requirements. P4P engages partner-supported farmer organizations (FOs) and agro-dealers/small traders in pro-smallholder competitive tendering, direct and forward contracting modalities to buy food commodities. Thirty FOs and 7 small traders have successfully supplied to WFP under P4P 4,000 MT of food commodities worth \$1,2 million since 2009.

### **1.2 Lending Environment in Agricultural Sector in Kenya**

Roughly four out of every five Kenyans live in rural areas, with many of these relying directly or indirectly on agriculture for their livelihoods. Results of the Financial Access 2009 study showed that 36% of this rural population has no access to any form of financial service<sup>2ii</sup>. Access to financial services by smallholder farmers has been challenging due to the reluctance by financial lending institutions to target this category of borrowers. In the last three years, the situation has evolved with the public private partnership between the Ministry of agriculture, Equity Bank, IFAD and AGRA. More banks (Cooperative Bank, Kenya Commercial Bank and Family Bank) have since come on board to finance smallholder farmers, in partnership with the government. However,

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<sup>2</sup> FinAccess 2009 report: Financial National Survey report, FSD Kenya



uptake of these loans remains low mainly due to lack of collateral required by the banks prior to granting the loans.

A range of loan products have been offered by different local banks since the above-mentioned partnership. Some of the loan products are mentioned here. **Kilimo Biashara** targets cereal growers. It is specifically designed for the purchase of farm inputs. The interest rate charged on this loan is 10% per annum. The farmers apply for the loan and once approved, the money is channeled through agro-dealers who then supply inputs to the farmers. **Kilimo Supa** loan is a loan product offered to farmers for any farming activity including marketing of products at 15% interest rate p.a. **Asset finance** is yet another loan product offered by banks to fund the purchase of assets. The interest rate charged is 8% p.a. Few other banks offer loans whose interest rates range from 8 to 18% p.a. Other sources of loans in Kenya include and are not limited to state owned institutions such the Agricultural Finance Corporation, savings and credits cooperatives (SACCOs), informal money lenders, community based credit providers, local traders/stockists and other microfinance institutions/NGOs<sup>iii</sup>.

It has been found that most of the farmer organizations and traders contracting with WFP for food supply needed cash to cater for post-harvest handling and aggregation costs. Some of the farmers contributing to the stock need cash on delivery for their commodities at the aggregation store, to meet their immediate needs. Although there has been an attempt by the WFP/P4P team to negotiate agricultural financing for the suppliers with banks, these discussions never came to a successful conclusion. However, from P4P implementing partners and some suppliers who have been awarded WFP contracts, we discovered that banks were providing loans based on WFP contracts.

## **2. PURPOSE of the PAPER and METHODOLOGY**

The purpose of the paper is to share the lessons drawn from the implementation of P4P in Kenya particularly in facilitating farmers and traders' access to agricultural financing.

P4P Kenya has registered 60 farmer organizations (FOs) and 35 agro-dealers/traders as WFP vendors. Since the P4P inception in 2009, forty FOs and 12 agro-dealers/traders have been contracted to supply various commodities to WFP. Data were gathered for twenty-two FOs during a P4P baseline survey conducted in late 2009 – early 2010 to evaluate the loan status of potential P4P vendors. Subsequent data collected from 2010 to 2011 from the FOs and agro-dealers supplying food to WFP through P4P were recorded. The respondents are from Rift Valley, Western, Nyanza and Easter provinces of Kenya (figure 1). They were asked if they had access to agricultural or business loan. If



the answer was ‘yes’, the respondents were asked to provide the name of the bank along with the terms of the loans (amount, repayment period, interest rate, collateral provided). The number of the beneficiaries of the loan disaggregated by gender was also recorded. The respondents were also requested to provide comments on constraints faced when applying for the loan. Those who had applied for loans using P4P contracts as catalyst were asked to mention it. In case the respondents had applied for loans and were not successful, they were requested to provide the reasons for the rejection by the banks. If the respondents never applied for a loan, they were asked to provide the reasons why the application was not done.

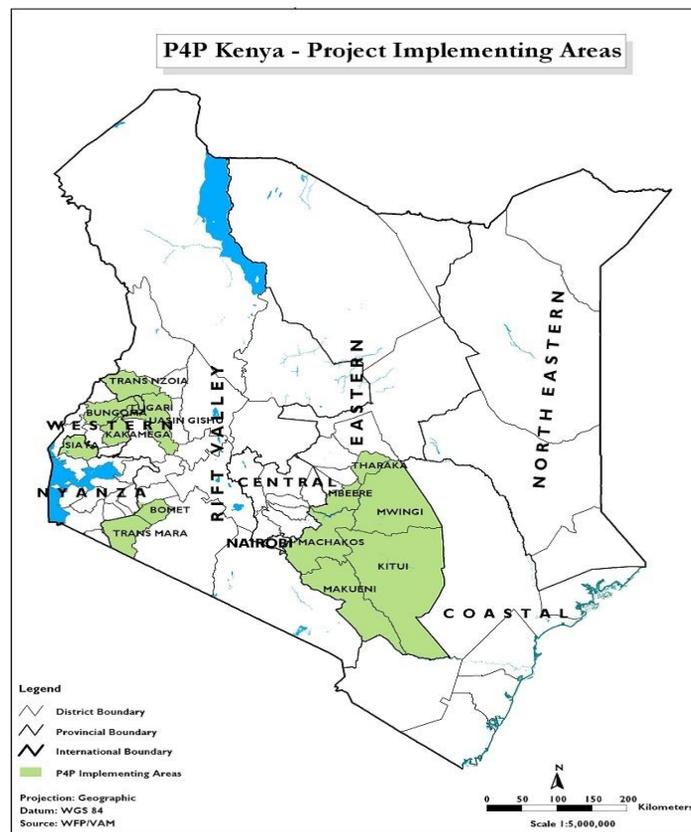


Figure 1: Map of P4P Implementation Areas.

### 3. RESULTS and DISCUSSION

#### 3.1 Results

Data on farmer organizations and traders who received loans using WFP contracts are recorded in tables 1 and 2.



**Table 1:** Information on Loans Received by WFP/P4P Suppliers in 2010 – 2011

Suppliers' Code(1)	Loan Amount (Kes)	Interest Rate (%)	Date of Loan
FO A	700,000	10	Apr-10
FO B	496,000	10	May-10
FO B	2,780,000	15	Dec-10
FO B	2,573,000	10	Mar-11
FO B	4,010,000	15	Aug-11
FO C	1,502,000	10	Mar-11
FO C	819,000	15	Aug-11
FO D	500,000	10	Apr-10
FO E	N/A	N/A	Under Negotiation
Trader A	2,000,000	8	Jul-11
Trader B	3,000,000	13	Jul-11

(1) The names of WFP suppliers are kept confidential

**Table 2:** Loans' Beneficiaries Disaggregated by Gender

Suppliers' Code	Loan Amount (Kes)	Men		Women	
		Number	Amount (Kes)	Number	Amount (Kes)
FO A	700,000	34	700,000	0	0
FO B	9,859,000	29	7,800,000	8	2,059,000
FO C	2,321,000	14	1,547,750	8	773,250
FO D	500,000	1	27,778	17	472,222
<b>Total</b>	<b>13,380,000</b>	<b>78</b>	<b>10,075,528</b>	<b>33</b>	<b>3,304,472</b>



## 3.2 Discussion

### 3.2.1 Access to Agricultural Finance by Farmer Organizations and Traders

Most of the farmer organizations involved in WFP are self help groups that existed for purposes other than grain marketing. A baseline survey conducted in 2009 - 2010 indicated that the majority of the farmer organizations didn't have agricultural loans and didn't apply for any. The first reason for not applying for loan was the absence of need for credit mentioned by 36% of the organizations. The second reason was the lack of knowledge about loans availability and accessibility expressed by 21% of the respondents. High interest rates and lack of collateral were cited in 10% of the responses each (responses recorded from 22 FOs).

Baseline survey of traders indicated that 53% of them received loans from the banks for grain bulking while 30% were resourced financially from microfinance institutions. Other sources of loans for traders are friends (10%), input suppliers and others (7%).

Over time, FOs with WFP contracts for food supply were encouraged to form umbrella groups with the support of implementing partners. Improved access to information and use of WFP contracts as part of the collateral required by the banks has increased the FOs and small traders' access to credit (Table 1). A total of 10 loans worth \$200,000 were disbursed to five FOs and two small traders/agro-dealers using P4P contracts as a guarantee for loans reimbursement. One of the banks requires a deposit of 10% of the total value of the loan requested as part of the consideration for loan approval during the first application. Groups applying for loans on subsequent occasions are approved using the P4P contract only. Access to loans by these suppliers was impressive since they had never accessed loans before P4P (Box 1). Three of the five organizations are able to repay loans per cultural season and apply for new loans for the next seasons. Some other banks do not require deposit but according to the farmers, they are not easily accessible. The interest rates vary from 8 to 15% p.a. for the different loans.

**Box 1: How this Community Based Organization got its loan from one bank.**

During a P4P team field visit to some of the groups supplying food to WFP through the partnership with the Academic Model Providing Access to Healthcare (AMPATH) in January 2011, The Manager of the local branch of one of the major banks in the area was invited to appreciate the grain aggregation process by WFP clients. This was a way of introducing the two parties into a business relationship that might benefit them. During the visit, we witnessed the aggregation of more than 200MT of food commodities for delivery to WFP. The parties exchanged contact information and the next day the group leaders visited the local branch of the bank in Eldoret. In March 2011, the group was awarded an input loan worth KES 1,502,000 (\$16,326) and a cash loan for commodity aggregation of KES 819,000 (\$8,902) in July 2011.



### **3.2.2 Uptake of Loans by Different FOs and Small Traders**

Data reported here pertain to farmer organizations involved in trading mainly maize and to a lesser extent sorghum, beans, cowpeas, and pigeon peas. The FOs and small traders have different capacities in the uptake of loans. Some FOs have taken up to 4 loans whereas others have taken only one. This is mainly due to delay in repayment as a result of defaults by some members, and in other cases, FOs have requested for extension to repay the loan due to financial constraints. The lowest loan value was the equivalent of KES 496,000 (\$5,391) while the highest was KES 4,010,000 (\$43,590). On average, traders have been able to access relatively higher amount of loans from banks using P4P contracts than did farmer organizations. The loan amount is based on the value of the contract – the bigger the contract, the higher the possibility of accessing more money.

### **3.2.3 Beneficiaries and Gender**

Loans have been disbursed to farmer groups either in the name of the organization or to individual members of the groups. The money is used to pay members of the group or other individual farmers selling their commodities to the group to honour WFP contracts. Individual members can also access the cash loan to buy additional grains to contribute to the stock sold to WFP. The number of farmers who benefited from the loans in the FOs is 111 out of which 78 are men and 33 women (Table 2). Women represented 30% of the beneficiaries of the loans. Individual farmers received on average KES 129,173 (\$1,404) and KES 100,136 (\$1,088) respectively for men and women. From the reported data, it is evident that more men are benefitting from the loans than women. Furthermore, monetary gains are higher for men than women.

### **3.2.4 Opportunities and Constraints**

Loan applicants were asked about the opportunities presented by the loans' schemes and challenges they faced when applying for loans and managing the same. The majority of farmers see the availability of loan as a major catalyst for an increased agricultural production. Some of the groups have invested in ambitious projects of building their stores thanks to the market offered by WFP and the loans provided by the banks. The latter see the WFP market as an opportunity to increase their clientele. Indeed, banks have been facilitating payment to farmer organizations by disbursing money to individual who had contributed to the WFP stock. This implies opening a bank account for each farmer, hence extending the banks' customers base. One trader used the asset loan to buy a truck for his business.



Most of the applicants complained about delay in the disbursement of the loan. The waiting time from application to loan disbursement is two to seven months. Some of the funds for farm inputs were released late when the planting season was over. Default in the repayment of the loans makes it difficult for farmer groups to apply for loans next time.

Banks reported that applicants submit their loan application late in the season and sometimes with incomplete documentation, which delays the processing of the application. In some cases members have the misconception that they are benefiting from free money from the government hence they need not to repay the loans.

#### **4. CONCLUSION**

WFP/P4P suppliers have been monitored from the inception of P4P in Kenya in 2009. While it is clear that the partnership between Government, banks, IFAD and AGRA had facilitated access to input loans for farmers, WFP market helped improve this relationship between banks and borrowers. Furthermore, it facilitated new relationship with P4P suppliers and access to repeat agricultural and cash loans for marketing. Men benefitted more from the loans in numbers and in the monetary values received by individual farmers than women. Access to loans remains a challenge for farmers due to lack of information, late submission of loans application. Misconception by some farmers on loan repayment and repayment default continue to be a barrier for easy access to bank loans. More awareness needs to be done to improve women access to these loans and WFP focus on pulses could improve loans uptake by women. It is expected that new and current WFP suppliers will apply for more loans and increase the amount of the loans in order to access more inputs, increase production and respond to WFP and other buyers' demand.

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<sup>i</sup> [www.wfp.org](http://www.wfp.org)

<sup>ii</sup> Financial Sector Deepening (FSD) Kenya: FinAccess 2009. Financial National Survey Report

<sup>iii</sup> In B. Kibaara and J. Nyoro. Expanding the Agricultural Finance Frontier: A Kenyan Case. Institute of Agricultural Policy and Development, Kenya. Proceedings of the AAEE Conference (2007), pp 287-290