SCOBICS
SUSTAINABLE COMMUNITY BASED INPUTS CREDIT SCHEME

A GUIDE TO SCOBICS

A KEFRI-ICRAF-Imperial College London lending initiative for resource poor smallholder farmers in Western Kenya Region

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Foreword

National poverty surveys consistently show the highland districts around Lake Victoria to be amongst the poorest in Kenya. Based on agro-climatic conditions, these districts should be a food surplus area. Instead, they are heavily dependent on food imports partly due to low investment in either organic soil fertility enhancement technologies or inorganic fertilisers. To invest in soils, farmers need to access credit, so as to be able to acquire inputs for more intensive agricultural production.

Development of viable mechanism for seasonal credit delivery system for the poor has generally proved be an intractable problem in the liberalized Africa agricultural market system. Reasons include the high cost of administering small loans to dispersed, poor producers and the problem of 'strategic default' (whereby borrowers avoid repaying loan even when the have capacity to do so), which is exacerbated by the inherent uncertainty surrounding rainfed agricultural production system and the difficulties in monitoring and follow-up of borrowers. Whilst microcredit has generally proven ill-suited to the need of seasonal agriculture producers, there is evidence that microcredit organizations in Kenya and elsewhere are now seeking ways of serving rural poor that are heavily dependent on agriculture.

An action research project on Linking soil fertility and improved cropping strategies to development interventions (R7962) funded by the UK Department for International Development's Natural Resource Systems (Research) Programme and executed by Kenya Forestry Research Institute (KEFRI), The world Agroforestry Research Centre (ICRAF) and Imperial College, London has been working with small-scale poor farmer in developing a community based credit scheme for agricultural inputs, known as Sustainable Community Based Input Credit Scheme (SCOBICS) for seasonal agriculture producers. Experience to date has emphasised the importance of identifying village level committees and groups who understand the importance of repaying loans in order to access more and of ensuring that borrowers plan a variety of means of loan repayment, in case a particular crop performs poorly. Semi-literate producers used to semi-subsistence production thus need plenty of training – plus access to the other coordinated extension services and use of decision support systems before they can be confident of benefiting from, and repaying, credit. However, where these conditions are in place, they should comfortably repay an interest charge of 20%, which may be considered the *minimum* required for a sustainable rural lending operation and thus permitting viable financial service provision.

Please feel free to give us your comments.

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1 Background

SCOBICS[1] began with efforts by ICRAF in 1999 to promote the use of rock phosphate fertiliser amongst farmers in pilot villages of Sauri sub-location, Siaya District, through the provision of credit in kind. Previous research efforts in these sub-locations, spanning a number of years, had shown that enhanced soil fertility for crop production and food security required the application of a combination of nitrogen and phosphorus elements to the soil. Whilst much of the required nitrogen could be obtained through a variety of organic technologies (including the use of improved fallows and biomass transfer), sufficient phosphorus could only be obtained through the use of purchased inputs. Whilst the scope of SCOBICS has broadened over time, the initial objective of enabling farmers to enhance the fertility of their soil for crop production and food security remains central. SCOBICS thus provides agricultural production inputs (chiefly improved seeds and fertilizers) to semi-subsistence farmers as credit in kind. Loans (inputs) are disbursed on an annual cycle, being delivered to borrowers in January to March in time for long rains season planting activities, with repayment required in November-December (although loan collection does begin before this).

Until June 2005, SCOBICS operated as part of a broader KEFRI-ICRAF-Imperial College London research project, based at KEFRI-Maseno and funded by the Natural Resource Systems Programme (NRSP) of the UK Department for International Development (DFID). This project has now come to an end and efforts are ongoing to hand the operation of SCOBICS to a commercial microfinance service provider.

[1] SCOBICS stands for Sustainable, Community-based Input Credit Scheme.

The NRSP-funded project aimed to promote integrated crop management within Western Kenya and had four main components:

- the production and dissemination of decision support tools to enable farmers to make coherent, informed choices about which crops to plant and how to protect the natural resource base upon which they depend. The project aimed to promote an appropriate balance between organic and inorganic production technologies and to encourage farmers to select crops on the basis of their performance in terms both of financial and soil fertility indicators;
- exploration and development of marketing channels to support the production of crops that are well suited to the production conditions of the Western Kenya highlands;
- ensuring adequate provision of high quality seed of priority crops and varieties;
- SCOBICS itself.

1.1 The Operation of SCOBICS Until 2003

Under ICRAF management, the pilot credit scheme expanded to take in an additional sub-location (Nyamninia) plus a range of groups associated with the Tatro farmers' organization. It also expanded to support provision of improved maize and bean seeds as well as the original rock phosphate (RP) fertiliser. In 2001, the management of the scheme was transferred to the KEFRI-Maseno-based, NRSP-funded project, its mode of operation changed and the name SCOBICS was born. In the 2003 long rains season, two Ministry of Agriculture and Rural Development extension "focal areas" - Ebukhaya and Gongo - joined the scheme. As of October 2003, the total size of the scheme was KShs 435,388[2].

[2] Some of this represents loans outstanding since 2002.

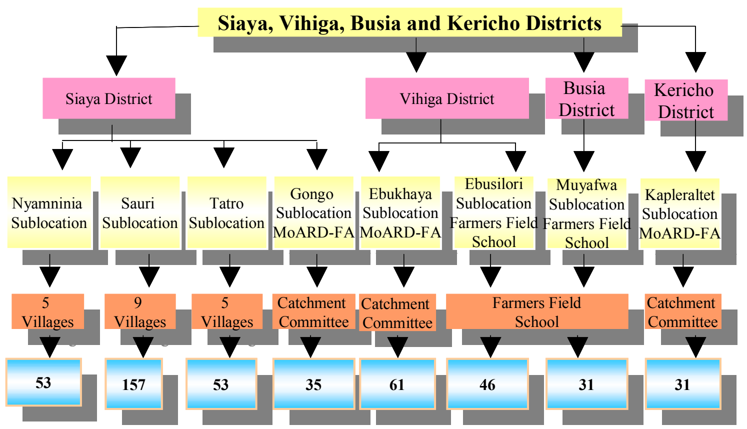
Up to and including the 2003 lending cycle, the scheme worked through either village / sub-locational or catchment committees. These were originally established either by a previous ICRAF-run project or by the Ministry of Agriculture and Rural Development to support the promotion of agricultural production technologies. Committee members played a key role in deciding which farmers could deservedly receive credit and in channelling repayment from these farmers back to KEFRI (formerly to ICRAF). Starting with the 2002 long rains season, each sub-locational committee was given an annual credit allocation, based on the previous year's repayment performance, and was given the responsibility of compiling farmers' requirements for RP, TSP and DAP fertilisers, plus maize and beans seed, up to the total sum fixed by SCOBICS. How the committees accomplished this was left up to them. The compiled requirements were returned to KEFRI-Maseno by the beginning of December and a competitive tendering process was instigated to choose a supplier for the products demanded. The winner of this process[3] was contracted to acquire the required inputs, repackage them as necessary and distribute them to a central location within each of the three sub-locations. This distribution took place in early February, in good time for planting in the long rains season.

The administration and recovery of credit represented a significant additional responsibility for committee members and one that was not always compatible with their original roles. Therefore, for the 2004 long rains season a new system of operation, based on smaller borrower groups, was introduced.

SCOBICS has also continued to expand geographically. In 2004 three new groups joined the scheme: Ebusiloli catchment committee in Vihiga district, Muyafwa farmers' field school in Busia district and Kaplelartet farmers' field school

[3]For both 2002 and 2003 the winner was Jumbo Agrovet, an input stockist with a store in Luanda. The tendering process remains a part of the operation of SCOBICS. In 2004 the winner was SCODP. In 2005 three stockists – Midland Emporium, Soko Farm Inputs and Jumbo Agrovet – were selected to each deliver part of the scheme's total requirements.

in Kericho district. In 2005 Wakulima Youth Group in Ochinga joined the scheme. In 2005 the value of loans disbursed was thus KShs 1,269,838.



1.2 Rules and Procedures for the Operation of SCOBICS in 2004 and 2005

This section explains how SCOBICS has worked since the beginning of the 2004 lending cycle. A later section reviews experience with this and indicates changes that will need to occur if SCOBICS is to be successfully transferred to a commercial microfinance service provider.

1.3 Who Will SCOBICS Work With?

It has always been SCOBICS' intention to progressively expand into new sub-locations and districts within Western Kenya, providing that it is shown that existing procedures can lead to an adequate loan repayment performance.

Our experience has been that there is a high level of interest in SCOBICS amongst members of farmers' groups in Western Kenya who hear about the scheme. Geographic expansion of the scheme has, therefore, taken place in consultation with the COSOFAP secretariat[4], with the project team at KEFRI-Maseno looking for new groups to work with that fulfill the following basic criteria:

- Are there strong leadership structures are in place? (Amongst others, the District Extension Coordinator will be consulted on this).
- Does the group represent (or demonstrate potential to reach out to) a reasonable proportion of the local community?
- Has the group/area received any extension advice regarding organic technologies for soil fertility management?

In principle, the project team would also have considered independent applications from groups wishing to join SCOBICS, again using the same basic criteria for assessment of suitability. In such cases, members of the project team would have visited the group/area making an application and/or requested that community representatives visit to Maseno to make their case before making a final decision.

When a new area has been accepted into the scheme, its initial credit allocation has been decided by the project team, based on the size of the area and the team's judgement regarding the strength of the relevant community organisations and the understanding of the farmers about integrated crop management.

[4]Consortium for Scaling Up Options for Increasing Farm Productivity in Western Kenya (see http://www.ugunja.org/cosofap/consortium.htm)

1.4 The Role of Borrower Groups

Starting with long rains 2004, SCOBICS lending has been based on borrower groups of 5-10 members. These have either been groups of borrowers from existing areas who have repaid their previous loans or groups of new borrowers in newly accepted areas. Borrowers have been asked to organize themselves into groups, i.e. select whom they wish to associate with. Any prospective borrower who has not been accepted into a group by his/her peers has not been allowed to take a SCOBICS loan. Each group has also been required to select a "contact person", who acts as the main channel of communication between SCOBICS and group members as a whole.

A group of borrowers discussing DSS

Each group is given a credit allocation for the year. In the case of existing groups, this is based on the total value of loans repaid by group members the previous year. In the case of new areas, it is a proportion of the initial allocation made to the sub-location or catchment as a whole. It is then up to group members to decide how to divide this allocation amongst themselves. Once a group's loan applications have been accepted (see below) and the inputs delivered to members, it is the responsibility of group members to encourage each other to repay their loans. The contact person are trained in record keeping and have responsibility for collecting loan repayment from group members and passing the sums collected onto SCOBICS staff.

No loan repayment is solicited before July, thereby granting a grace period in the months leading up to the long rains harvest (the lean season). However, SCOBICS staff aim to visit each borrower group once per month from July onwards to encourage repayment. Regular repayment by individual borrowers is not insisted upon, but making some repayments early can take the pressure off a borrower (group) towards the end of the year.

1.5 Interest Rate

SCOBICS charges a basic interest rate of 20%, irrespective of when the loan is repaid (up to ten months from the time of input distribution). Late repayments are subject to an additional 20% "penalty" interest charge. In addition, the borrower loses access to credit for one or more years.

1.6 Determining Annual Credit Allocations for Existing Groups

At the start of a new lending cycle, an existing group's annual credit allocation is a function of its repayment performance during the previous year. Table 1 shows the basic link between past repayment performance and future allocation.

Table 1:Linking Current Repayment Performance with Future Credit Allocation

Repayment Rate in Current Year(s)	Total Credit Allocation in Following Year compared with Current Year
99-100%	Double
95-98.9%	+ 50%
90-94.9%	Same
80-89.9%	- 25%
Below 80%	Excluded

Repayment rate is calculated in terms of the total sum of money outstanding at the start of the year, *not* just new loans *nor* the number of borrowers who received loans. Where a group fails to repay 100% of its outstanding sum by the end of a year (but exceeds the minimum 80% level), the balance is rolled over into the following year, with an additional 20% interest charge levied.

Regardless of the allocation made to their borrower group, an individual borrower who fails to repay 80% of their outstanding balance by the end of a given year is not eligible for a further loan the following year. They are, however, be eligible for readmission into the scheme – subject to the consent of their fellow group members – once they have *fully* cleared the balance remaining.

Where a group achieves loan repayment of 95% or more, so becomes eligible for an expanded credit allocation, it is up to group members to decide whether the additional sum should be used to:

- Increase the size of the loans taken by existing members
- Incorporate additional, trusted borrowers into the group as new members.

However, where the addition of new members takes a group above the ceiling of 10 people (this has not happened yet), the group will be expected to subdivide, with each half forming a group in its own right, with its own contact person and its own repayment incentives.

1.7 Excluding a Group from Participation in SCOBICS

Similarly, if a borrower group as a whole does not achieve the necessary 80% repayment rate in a given year and is excluded from participation in SCOBICS, it is allowed to rejoin the scheme as and when its outstanding debts have been repaid *in full*. These debts will, however, incur an additional interest charge of 20% for each year that they remain unpaid.

Groups are expected to develop their own mechanisms for encouraging loan defaulters to repay, presumably relying on some form of peer pressure.

However, for both groups and individuals, only *one* re-admittance is permitted. Failure to repay a second time after re-admittance to the scheme will lead to permanent exclusion.

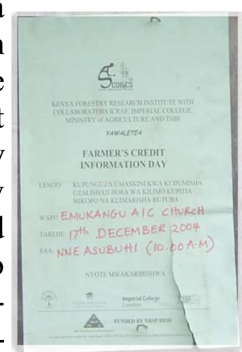
1.8 Annual Lending Schedule

The following schedule has been set for the 2005 annual lending cycle:

- Loan repayment collection begins;
- December 5th-21st 2005 (according to area): Credit Information Days (see below). All outstanding loans are to be repaid on or before these days, so that eligibility for credit and loan allocations for 2006 can be calculated;
- December 23rd 2005: loan application forms for the 2006 season to be returned to KEFRI-Maseno (except Kericho, where applications will be required earlier and tender process will be handled separately);
- Week beginning December 26th 2005: tender invitations distributed to stockists;
- January 16th 2006: contracts signed with local stockists for the supply of required inputs;
- February 15th 2006: inputs available for distribution to, or collection by, farmers.

1.9 Credit Information Day

A Credit Information Day is held in each participating sub-location or catchment area at the end of each annual lending cycle. Existing borrowers are encouraged to attend. For prospective new borrowers, attendance is a necessary (but not sufficient) condition for being accepted into the scheme for the following annual lending cycle. Credit Information Days provide an opportunity for SCOBICS staff to explain to (new and) prospective borrowers the rules and procedures of the credit scheme. It also provides an opportunity for further sensitisation of farmers to the principle of integrated crop management that the scheme



seeks to support. New borrowers are asked to organize themselves into the desired groups of 5-10 members and to select their contact persons. Loan application forms for the forthcoming annual lending cycle are provided to contact persons during the Credit Information Day.

Farmers attendinge biophysical training during credit information day

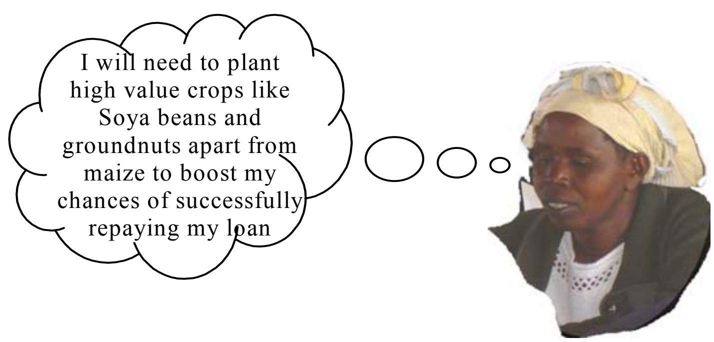
A farmer expressing her views during a credit information day

1.10 Screening of Loan Applications

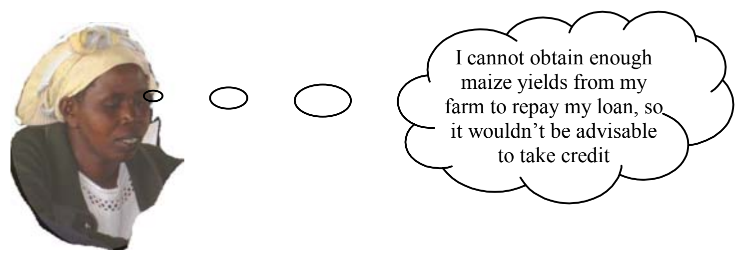
In principle, once someone is accepted into membership of a borrower group, their loan application (as agreed with other group members) is accepted. However, SCOBICS exists to promote integrated crop and soil fertility management in its areas of operation. Moreover, it is aware that the taking of loans in the context of rainfed smallholder agriculture can be a highly risky business. Therefore, it seeks to ensure that its borrowers are equipped to make productive use of loans that it advances.

To this end, before a borrower's loan application is recorded on the official loan application sheet, it is expected that the borrower will discuss the following issues with a trained resource person from within their community:

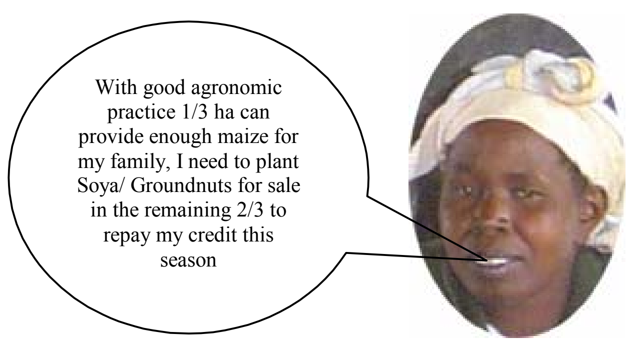
- Their proposed cropping and land management activities during the forthcoming year, with reference to the decision support tools developed by the NRSP project;



- the expected (financial) benefits of taking a loan. If these are not twice the loan cost or more, then the person should be advised not to borrow;



- *three* plausible ways of repaying the loan during the course of the year in question. One or more of these should be unrelated to crops, in case both long and short rains seasons are bad. Where two options are crop-based, ideally one should be related to long rains production and one to short rains production. A simple rule should be that no one is allowed a loan without a clear plan, across the two seasons, to plant one or more crop(s) other than maize that are intended primarily for sale.



Still being a small scheme, SCOBICS does not yet operate any form of insurance to cover borrowers against bad seasons or other unforeseen eventualities (e.g. illnesses or deaths). Thus, it is important that borrowers consider how they will manage to repay their loans under these various circumstances.

1.11 Input Acquisition and Distribution

Procedures for acquisition, repackaging and distribution of inputs are worked out on an annual basis. The basic model is that SCOBICS organises a competitive tender process to determine which local stockist(s) will undertake these activities and at what price. The contract includes delivery of all the inputs to a central location within each relevant sub-location or catchment area on a mutually agreed date.

Delivery of inputs to a central location selected by committee or group

However, other options are also possible and have been used so far in Kaplelartet, as the farming season starts earlier there than in the other areas served by SCOBICS. Other options include:

- The area committee or contact persons specify a stockist whom they want to handle input acquisition, repackaging and distribution. SCOBICS then negotiates a price with this dealer, to include delivery of all the inputs to a central location within the sub-location or catchment area on a mutually agreed date;
- The committee or contact persons specify a stockist whom they want to handle input acquisition and repackaging. SCOBICS then negotiates a price with this dealer. However, no distribution costs are included. Instead, individual borrowers visit the stockist, collect and sign for their inputs.

Over time, SCOBICS hopes to develop relationships with local stockists, such that farmers can eventually deal directly with stockists in a triangular arrangement between borrower, input provider and credit provider (see below).

1.12 Record Keeping

Once inputs have been distributed to borrowers, SCOBICS staff prepare a spreadsheet for each participating borrower group indicating who has borrowed what. This spreadsheet is distributed to contact persons as soon as possible after input distribution has taken place (hopefully by March 15th). It is used to record *all* repayments made by group members to contact persons and to calculate the outstanding loan amount after each payment.

In addition, *all* repayments made under the scheme are recorded on official receipts bearing the SCOBICS logo. Contact persons are provided with official receipt books for this purpose. Receipts are in triplicate, with one copy to remain with the contact person, one to be given to the borrower and one to be passed onto SCOBICS staff. In addition, whenever contact persons make payments to SCOBICS staff members, two copies of an official receipt slip should be signed by both parties, with one copy being retained by each party.

1.13 Management of the SCOBICS Account

Individual borrower accounts within SCOBICS are maintained on a computer database at KEFRI-Maseno, with a regularly updated copy maintained at Imperial College London, Wye Campus, UK, as back-up.

The SCOBICS fund (initially 15,000 pounds sterling provided by NRSP) acts as a revolving fund with its own bank account into which loan repayments are deposited. The joint signatories of the account are James Ndufa (KEFRI-Maseno) and Qureish Noordim (ICRAF-Kisumu), whilst Colin Poulton (Imperial College London) provides periodic internal auditing checks (in addition to any official, external audits that are carried out).

2 PERFORMANCE OF THE SCOBICS SCHEME

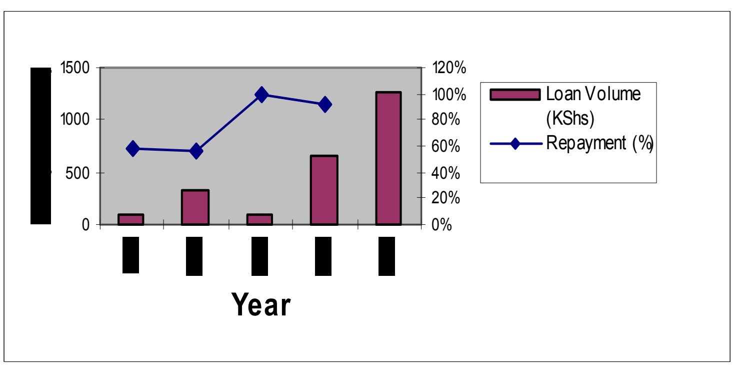
2.1 Portfolio Size and Repayment Performance

Figure 1 shows the total value of new loans disbursed by SCOBICS each year along with the overall loan repayment performance for all completed lending cycles. Average loan size in 2004 was KShs 2483 (around US$32). In 2005 this rose to KShs 3931 (around US$52) as members of most existing groups that had repaid their 2004 loans in full chose to increase their individual loan allocations for 2005 rather than to increase the number of members in their groups. Nevertheless, US$52 remains a relatively small average loan size, even by microfinance standards. The minimum and maximum loan sizes taken in 2005 were KShs 290 (US$3.81) and KShs 19,456 (US$256) respectively.

The fall in loan disbursements in 2003 shown in Figure 1 reflects the difficulties of ensuring repayment under the initial lending model, whereby the repayment incentives outlined in Table 1 operated at the sub-locational or catchment level, rather than at the level of small groups of 5-10 borrowers.

Figure 1:SCOBICS Loan Portfolio Size and Repayment Performance, by Year

Meanwhile, Table 2 shows the performance of the 46 small groups that participated in the scheme in 2004. This shows



that, whilst the majority of groups achieved full loan repayment, six groups did not effectively function as groups, hence exerting no positive peer pressure for repayment. We return to the issue of borrower training below.

Table 2: Loan Repayment Performance by Group (Number of Groups), 2004

2.2 Who Are We Reaching?

Repayment	Kap	Muy	Ebs	Ebk	Gon	Tat	Nya	Total
<80%			3	1	2			6
80-89.9%				3	2			5
90-94.9%		1		2				3
95-98.9%		1						1
99%+	5	4	5	4	1	10	2	31
Total	5	6	8	10	5	10	2	46

Meanwhile, Figure 2 shows the wealth profile of SCOBICS borrowers, based on a survey of both borrowers and non-borrowers that was conducted in early 2005 in Ebukhaya, Gongo and Nyamninia. Using a composite wealth indicator developed under the NRSP-funded project[5], wealth quartiles were created based on the scores of the non-borrower respondents. It was then found that the majority of SCOBICS borrowers came from households in the top wealth quartile (quartile 1), although around 30% did come from quartiles 3 and 4. This provides an interesting insight into both who participated in the original contact groups (e.g. catchment area and sub-locational committees) and whom these people thought could be trusted to repay loans as the scheme has expanded. Other analysis from the same survey suggests that:

- Borrowers are more likely to participate in other savings and credit groups that exist locally than non-borrowers.

[5]This indicator was developed from participatory wealth ranking exercises conducted in Siaya and Vihiga districts and encompasses: the access of the household to various non-farm income sources, education of the household head, land holding, livestock holding, land and labour hiring practices, housing and nutritional status.

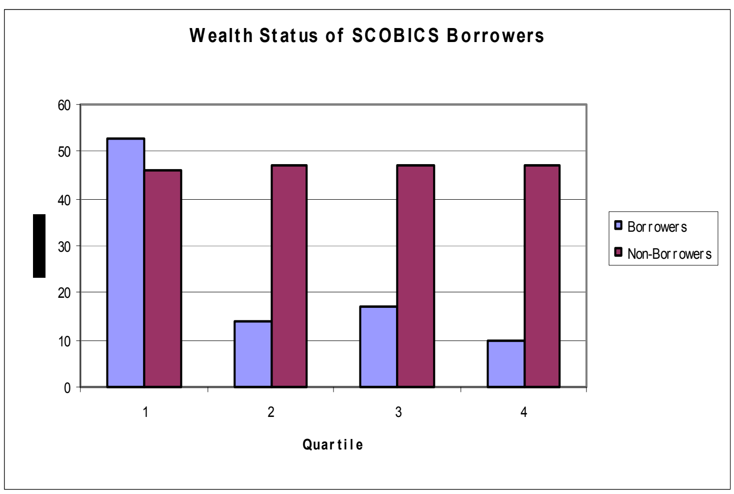
By doing this, they perhaps signal both their demand for financial services and their trustworthiness;

- The spread of SCOBICS within given sub-locations is quite limited, reflecting the extent of the social networks of the original contact groups.

We note that, whilst the majority of SCOBICS borrowers come from the top wealth quartile in the areas concerned, these are amongst the poorest areas in Kenya, so the majority of borrowers are still poor by any nationally accepted definition.

Figure 2: Wealth Profile of SCOBICS Borrowers, based on Composite Wealth Indicator

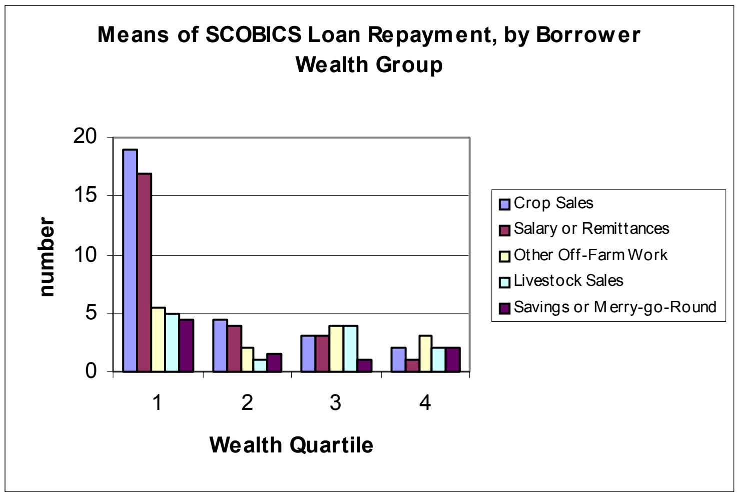
Finally, Figure 3 presents the income sources that borrowers from the different wealth quartiles used to repay their most



recent SCOBICS loan (generally 2004, although some ex-borrowers were also included in the survey sample). Perhaps surprisingly, only 41% of respondents relied on crop sales wholly or partly for loan repayment. Moreover, it was quartiles 1 and (to a lesser extent) 2 that were most heavily dependent on crop sales. The other main income sources used by these two groups for loan repayments were salaries and remittances. In contrast, quartiles 3 and 4 were relatively more dependent on other off-farm work and livestock sales. Within the fifth category of financial income sources, quartiles 1 and 2 used savings, whereas quartiles 3 and 4 used payouts from merry-go-rounds.

These findings show that, whilst SCOBICS loans are deliberately targeted at supporting household agricultural production, this production activity has to be seen in the context of the wider livelihood strategies of the borrower households. They also reinforce the experience of SCOBICS to date that, whilst there is some scope for collecting regular loan repayments from borrowers, not all borrowers are able to make repayments every month. (Thus, for example, livestock sales and merry-go-round payouts are one-off events, whilst most borrower households only make occasional crop sales for particular purposes, if they make any at all).

Figure 3: Means of SCOBICS loan repayment by borrower wealth group



3

SCALING UP THE SCOBICS CREDIT SCHEME

3.1 Portfolio Size

It has always been the desire of the project team to develop SCOBICS to such a size and repayment performance that it becomes viable for a specialist financial organisation, such as Wedco, to take over its operation as a pilot project for seasonal agricultural lending in Kenya more generally. However, the break-even portfolio size of such an organization is somewhere in the region of KShs 6–7 million for a single loans officer. Even assuming that the average loan size rises further to KShs 6000 – sufficient for the purchase of two 50kg bags of fertilizer, plus maize, beans and soyabean seed for one acre for each borrower – attaining this total portfolio size would require the scheme to expand to 1000 borrowers or more. This is the equivalent of 100-200 borrower groups. The current model of scheme operation is based on the loans officer dealing almost exclusively with contact persons, except at key events such as Credit Information Days, and it is feasible that one loans officer could deal with 100-200 contact persons. However, dealing with 100-200 contact persons would require that they were located in reasonable proximity to each other (not spread from Kericho to Busia as at present). Thus, in its immediate expansion, SCOBICS' priority has to be to increase its borrower density in its core areas around Siaya and Vihiga and not to take on additional groups outside of these areas. This then raises the question of whether 1000 creditworthy borrowers can be identified within these core areas.

3.2 Borrower Training

Since 2003 SCOBICS has worked with staff from Wedco to provide training to borrowers and, in particular, to contact persons. Training has covered the disciplines of financial planning, loan repayment and record keeping as well as familiarization with the technical extension materials developed to strengthen the soil fertility management practices that underlie demand for inputs. We share the accepted microfinance wisdom that borrower training is critical to loan repayment performance. However, so far training has been conducted after borrowers have been accepted into the scheme and received their first inputs, not before. The latter is preferable as commitment and responsiveness to the training programme can be used as part of the screening process for new borrowers. However, realistically such training would have to take place around November if it were to feed into the decisions taken during the Credit Information Day. Unfortunately, this is the time when loan collection activities are at their height and hence time the time of the loan officer is most scarce. This is an issue that requires further attention.

3.3 Moving Towards an Input Voucher System

A specialist microfinance organization is unlikely to be willing to undertake the tendering process and related activities associated with direct provision of loans in kind to borrowers. One way to move away from provision of loans in kind, whilst still supporting seasonal agricultural production through enhanced access to inputs, is to shift to an input voucher scheme. Thus, participating stockists in the areas of operation of the loans scheme would sign a memorandum of understanding with the microfinance organisation, whereby they accepted "official" input vouchers and would exchange them for agricultural inputs, whilst the microfinance organisation would agree to redeem vouchers from stockists within a stated period after receipt. Thus:

- borrowers would receive input vouchers from the micro-finance organisation (rather than receiving inputs as at present)
- they would exchange them for the inputs of their choice at the participating stockist(s) of their choice
- the stockists would send the vouchers back to the micro-finance organisation for redemption
- the borrowers would repay the microfinance organisation in cash.

Such an arrangement could contribute to strengthening the business of agricultural input stockists within western Kenya. Moreover, it should also reduce the critical "turn-around" time between collection of past loans and disbursement of new ones (in which the time consuming element to date has been the tendering process). This would allow later collection of loans, giving crop prices a few weeks extra to rise after the short rains harvest before borrowers had to make their crop sales to finance their loan repayment. An input voucher scheme is currently being developed by a Rockefeller Foundation-supported project of the Agricultural Market Development Trust (AGMARK) in western Kenya.

However, to provide an adequate level of support and service to borrowers, stockists would simultaneously have to be encouraged and enabled to stock a wider range of products than they currently hold. Fertilizer is not a major problem here, with the possible exception of rock phosphate - which few SCOBICS borrowers opt for anyway. However, few of the improved seed varieties supplied through SCOBICS can currently be obtained through local stockists.

3.4 Support to Agricultural Production during the Short Rains

In line with the technical recommendations of the wider NRSP-funded project, SCOBICS has in 2005 further expanded the range of products it supports so as to include both top dressing nitrogen fertilisers (CAN or Urea) and improved seeds for additional crops (e.g. soyabean, sunflower, groundnuts, cowpea). Some of these additional crops may be grown during the short rains season (August to December). However, at present all loans continue to be applied for and approved at the end of the calendar year. There is a possibility of collecting loans from some borrowers in July, so as to disburse new loans specifically for the short rains season, although this has not yet been formally requested by any borrowers. Loans issued for just one agricultural season could carry a lower interest rate than the 20% currently charged for the full annual cycle.

[7]Borrowers have consistently requested that the loan repayment deadline be extended, as market prices are generally around their lowest in November and December. However, whilst the tendering process is in place and new loans need to be disbursed by mid-February, this is not possible.

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