

PHASE:	Research Station	50 – 500 farmers	<b>1,000 – 20,000 farmers</b>	Full Scale
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### Introduction

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In 2007 and 2008, One Acre Fund farmers in Kenya repaid their loans using their maize harvest. We asked farmers to repay their loans using their maize harvest because there appeared to be an opportunity for One Acre Fund to (1) make loan repayment easier for farmers and (2) purchase maize from farmers at above-market prices. One Acre Fund planned to purchase maize from farmers at central collection points, store it until the price increased, and sell it to bulk purchasers.

We set up village-level buying stations at community gathering points, and informed farmers when they would be able to sell their maize at the buying stations. Due to concerns about the quality of the maize that farmers wanted to sell, staff went to households in advance, pre-certified their maize, and put it into bags that they sewed up. Farmers brought the pre-certified maize to the buying stations, where One Acre Fund collected it and transported it to a warehouse for storage.

### Why it Failed

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This program was a good idea in theory, but in practice, it was unsuccessful for several reasons:

- 1. Farmers did not like repaying their loans with maize instead of cash.** In 2007, the maize payment program was attractive because One Acre Fund offered above-market prices for maize, and there were limited options for selling at an equivalent price. In 2008, maize prices increased 48% on the year<sup>1</sup> and farmers were more easily able to access higher prices for their maize. In that situation, which was more typical of the Kenyan maize markets, farmers preferred to sell their maize on their own, and use cash to repay One Acre Fund. In 2008, our loan repayment dropped to 85% (from 97% in the 2007 season), a key indicator that the maize payment program was not popular with clients. There was no way to predict in advance that farmers would not like this program, but after we received negative farmer feedback, we adjusted operations accordingly.
- 2. The program was logistically complex, which made it impractical to scale up.** Farmers brought their maize to centralized collection points where One Acre Fund field staff collected and transported the maize to a central warehouse for storage. Each of these steps required substantial resource commitments and drew from core operations and programmatic expansion. Often times, the field staff had to check each individual bag of maize, coordinate new collection times, and request bag replacements. Operating such a logistically complex program at scale would have been a tremendous resource burden.
- 3. The low-quality maize used for payment required extensive inspection.** Different variables needed to be monitored at collection, including moisture content, pests, and fungus. The maize that was used for payment was often of low quality, meaning that staff had to devote time and resources to intense inspection measures. If low-quality maize ultimately made it through to the warehouse, this could result in grain loss.
- 4. Bulk purchasers placed less emphasis on quality, which affected the financial viability of the program.** The premium that One Acre Fund placed on quality assurance was not always

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<sup>1</sup> FAOSTA, 2007/08 Maize Producer Prices (USD/ton)

## Farmers First

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met by those who purchased the maize. We calculated that purchasers would need to pay a certain price for the program to be financially sustainable. However, prices were not always as high as we had projected.

## What We Learned

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Our maize payment taught us valuable lessons about the importance of seeking feedback from clients about repayment structure, and the necessity of balancing operational complexity with impact.

- **Farmers prefer to pay cash throughout the season, instead of waiting until the end of the season to pay.** Farmers simply did not like using maize as payment if they had the option to pay in cash. In addition, the maize payment program encouraged large, end-of-season payments rather than consistent payment throughout the season. The lower repayment rate in 2008 showed that it is preferable to accept cash repayment throughout the season than to offer a program that incentivizes waiting until the end of the season to repay. In 2009, we started accepting cash payments on a completely flexible schedule, and our repayment rate increased to 98%.
- **Market facilitation is a less operationally complex way to achieve impact.** Aggregation, storage, and sale of maize ultimately drew resources away from core operations and expansion without significant added value to the farmer. By focusing on less direct interventions such as improved storage, farmers are empowered to access local markets on their own at more opportune times during the year. The greatest market access impact to date has come from improved home storage. We have found that providing farmers access to home storage products and training on how to use those products can boost farmer profit per acre by \$89.
- **A good idea in theory might still be unpopular with farmers in practice.** The maize payment program reinforced the importance of small-scale trials that test demand for a product or service with actual farmers. A good product in theory could be a good product in practice, or it could be a product that farmers disliked—for any number of reasons that are impossible to determine without conducting a trial.
- **It might make sense to run a maize buyback program in other countries where One Acre Fund operates.** Based on farmer feedback and market research in Tanzania, it appears that a maize buyback program might be widely popular with farmers. As part of a larger market access trial, we included a maize repayment option in some of our collections to gauge farmer interest. While official numbers for dollar impact per farmer are still pending, results from focus groups indicate farmers are very enthusiastic about the program.