

Juhudi Kilimo: Providing financing for Kenyan smallholder farmers

JUHUDI KILIMO



Initiative Description

Juhudi Kilimo provides asset financing and technical assistance to smallholder farmers throughout Kenya. The company joined the Business Call to Action in 2011.

Juhudi's goals include:

- Expanding asset financing and technical assistance to rural farmers in order to reach 100,000 farmers by 2015, of whom over 50 per cent will be women, benefiting 500,000 rural Kenyans in all; and
- Increasing the incomes of the farmers Juhudi supports by 50 per cent.

Business Model

Agriculture and related activities employ 75 per cent of the Kenyan workforce.¹ However, most farmers produce only enough for their subsistence, and therefore remain poor. Over 60 per cent of Kenyan smallholder farmers and their families live on less than US\$2 per day, and 76 per cent subsist on less than US\$4 a day.² They lack the training and access to capital needed to develop their farms into businesses. An estimated 9 million rural smallholder farmers in Kenya alone are in need of financial services.

In order to tackle this financing gap, Juhudi Kilimo was founded in 2009

For rural Kenyan farmers working in subsistence agriculture, it can be difficult to access credit to invest in productive assets such as high-yield dairy cows, green-houses and irrigation equipment to improve food production and generate income. We seek to bridge that gap through our commitment to provide rural smallholder farmers with the opportunity to build their agri-businesses.

Nat Robinson
CEO of Juhudi Kilimo

as a spin-off of K-Rep Development Agency, a Kenyan microfinance incubator. Juhudi offers tailored asset

1 CIA World Factbook, Kenya. <<https://www.cia.gov/library/publications/the-world-factbook/geos/ke.html>>

2 Kenya Agriculture. Encyclopedia of the Nations. 2008 <<http://www.nationsencyclopedia.com/economies/Africa/Kenya-AGRICULTURE.html>>

financing to thousands of smallholder farmers, especially women.

Juhudi's loan methodology is based on the group-lending process popularized

by the Grameen Bank in Bangladesh, in which farmers' groups self-monitor the repayment of the loans. Juhudi operates throughout Kenya and has issued over 40,000 loans worth over \$23 million to

smallholder farmers. Its success has led to plans for scaling up in Kenya and replicating the model throughout East Africa.

How it Works

Juhudi has raised over US\$14 million in debt financing to grow its Kenyan lending operations from organizations such as Kiva.org, Ford Foundation, Rockefeller Foundation, Deutsche Bank and responsAbility. Juhudi's current shareholders include the social investors Acumen Fund, Grameen Foundation, and Soros Economic Development Fund. Field support and training are delivered through partnerships with Kenya's Ministry of Livestock, SwissContact and TechnoServe.

Asset microfinance

Juhudi's loans target productive assets such as dairy cows, chickens and irrigation equipment, which generate immediate and sustainable income for farmers (from the sale of milk, produce or eggs). These assets are often insured and can act as a form of collateral in case of default, reducing the farmers' risk of greater poverty through indebtedness.

Many smallholder farmers do not own their land or other assets required for financing – this is especially true of women farmers. Juhudi requires only a 15 per cent refundable deposit and a group commitment to guarantee each other's loans. The average annual interest rate on loans is 33 per cent, but ranges from 31 per cent to 41 per cent depending on size once fees and insurance are included. This is below the average market rate of 36 per cent for microfinance institutions in Kenya, with some well-established organizations charging up to 50 per cent.³



Loan Officers administer to rural clients through a network of field offices. To establish credit worthiness, the loan officers perform appraisals on farms, and recommend the most appropriate and affordable financing products. These products finance income-generating assets that are also sourced from local suppliers. Juhudi also makes sure that these assets, whether livestock or irrigation systems, are of high quality: stringent requirements have been developed for assets to be financed. All assets financed by Juhudi are insured through the Kenyan Cooperative Insurance Company (CIC) for death, disease, fire and other contingencies for an additional fee.

Group lending

Lending is based on farmer groups. Where these groups do not yet exist, Juhudi sets them up. The groups are usually based in the same geographic area and engage in similar farming activities such as dairy or poultry. The group membership fee covers training costs and creates an incentive for group members to work together.

Each new group receives two months of training from Juhudi before it is eligible to take a loan. Many group members are new to formal loan products and require education in bookkeeping and the risks and benefits of finance before they can manage loans. Group members act as guarantors for each other and are responsible for loan repayment – both individually and as a collective.

3 <http://www.mftransparency.org/data/countries/ke>

Results Achieved

To date, Juhudi has provided 40,000 loans that have allowed rural Kenyan farmers earning less than US\$2 a day to increase their incomes and productivity. In this same period, Juhudi has financed over 18,000 cows which have produced an estimated 61 million litres of milk worth \$16.4 million in income for the farmers during their loan periods.

Business Impact

Serving smallholders' financial needs is Juhudi's core business. After the initial pilot program was finished, Juhudi was officially established in 2009 and has raised over US\$14 million as a base by working with a host of local and international partners. Juhudi charges its clients an average interest rate of 33 per cent. The company achieves an average repayment rate for all loans is 96 per cent – well above average in East Africa. As a result, the company reached its break-even point with a loan portfolio of just over US\$4 million in 2012, and was able to start generating positive returns on the equity.

Juhudi has been honoured for its approach to financing smallholder farmers with several international awards. These include the Schwab Social Entrepreneur of the Year Award, which was given to the company at the World Economic Forum in 2011. In 2013, Juhudi was recognized by CIO Magazine's CIO 100 list which

recognizes companies globally for their innovative uses of technology. The Citi Foundation also provided one of Juhudi Kilimo's farmers with a Citi Micro-entrepreneur award in 2013.

Development Impact

Nearly half of all Juhudi Kilimo's clients are women, who benefit more than just financially. In Kenya, men typically own the household assets. Giving women access to these assets is a means of empowering them.

Most of the assets provided by Juhudi's financing not only produce income, but provide supplemental food for family consumption, fertilizer and employment. For example, a farmer with a high-yield dairy cow producing over 20 litres a day can reserve several litres for home use and sell the remainder locally. Milk consumption has an important impact on family health, particularly for children. In 2013, Juhudi financed 4,231 cows that together produce on average 558,492 litres of milk per month. At an average price of 23 Kshs per litre, one cow will generate 3,036 Kshs (US\$33.884) in milk per month, some of which can be used at home and some of which can be sold. In addition, cow dung is used as fertilizer to enhance crop yields or stored to generate biogas for cooking fuel. As their businesses grow, smallholder farmers are able to provide employment to other community members as well.

Key Success Factors

Extensive partnerships and technology

Joining with a range of local and international partners has allowed Juhudi to raise the financing needed as a portfolio base to lend effectively. Juhudi has also been able to leverage technology to help scale its business through a cloud-based loan tracking system called MFI Flex. The loan officers of Juhudi who work in the rural areas of the country are all equipped with tablets that connect over the 3G mobile networks and provide real-time data on repayment information of the farmers. The tablets also allow the loan officers to conduct their loan appraisal and deliver valuable agriculture training through videos screened for the clients. Juhudi is beginning to integrate this cloud.

Understanding clients' needs

Juhudi recognized that loans to finance assets would be the most productive way to reach smallholder farmers in Kenya. Since Juhudi requires a relatively low refundable cash deposit of 15 per cent and lends through farmers' groups instead of individuals, clients' commitment is ensured. Just as importantly, Juhudi's loan products are tailored to clients' needs. For example, grace periods on the loans allow the cows to start produce milk first and thus farmers to generate revenues before repayment starts.

In addition, the company has established Juhudi Lab with the mandate to research, innovate and incubate, pilot and test new products before they can be rolled out to the farmers to ensure that they meet the specific needs. The Lab is also charged with establishing whether the current products need to be re packaged or improved to meet the changing needs of the rural farmers.

Innovations

that improve lives



Next Steps

More effective client data

To broaden the measurement of social impact, Juhudi is collecting more individual client data. However, it faces a significant challenge in physically reaching each farmer in remote rural areas. To address this, Juhudi has developed an IT tool that allows farmers to report production and sales, complete the Grameen Foundations Progress out of Poverty

assessment and provide feedback directly via mobile phones. This technology will allow Juhudi to more effectively evaluate its social impact on farmers and respond to their business needs.

Scale up inside of Kenya and across East Africa

The company is well poised to scale up to other regions within

Kenya and across East Africa. It is projected to serve a total of 100,000 active borrowers over the next five years.

Increased investment capacity

Juhudi aims to gain additional financing from partners in order to reach more of the estimated 9 million smallholder farmers who require access to credit.



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