

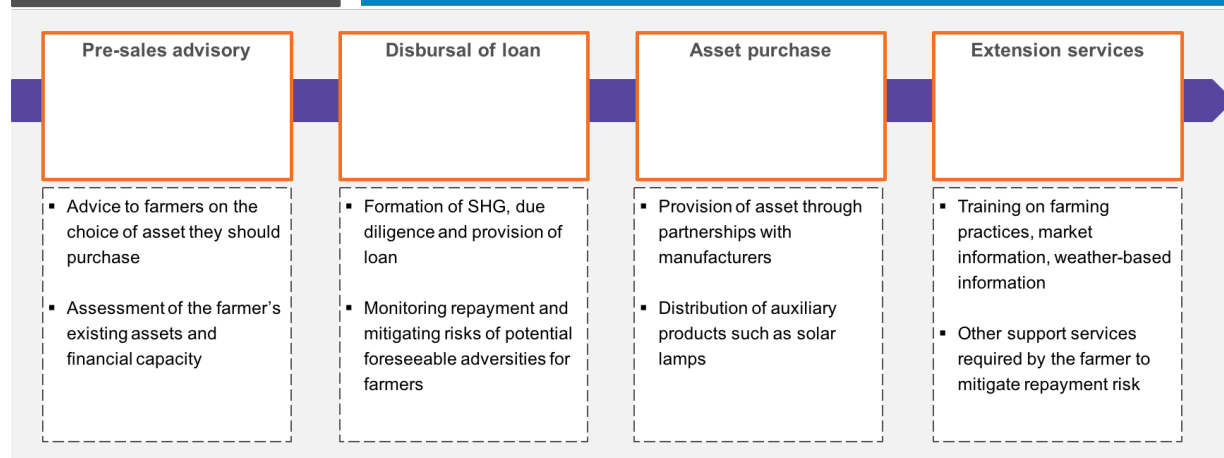
CASE STUDY: JUHUDI KILIMO



Founding year: 2009
HQ: Nairobi, Kenya
Countries of operation : Kenya
Orientation: For-profit
Employees: 172
Turnover: USD 3.2 million (in 2015)

The per capita food productivity in Kenya is 30% lower than that in the rest of Sub-Saharan Africa resulting in 21% of total food consumption being imported or received as food aid. Many of these rural poor smallholder farmers are unable to access to financial services required to acquire more productive farming assets to increase yields on the farms because of lack of collateral or business assets required for financing by MFIs.

Juhudi Kilimo addresses this problem by providing innovative micro-asset financing to the rural smallholder farmers. The assets produce a cash flow (such as selling milk or eggs) and there is a reduced risk since the asset financed can also act as collateral in the event of default. It also undertakes capacity building for farmers in collaboration with the Ministry of Agriculture in Kenya. Installments are typically covered by the extra revenue from the asset purchased. Multiple layers protect the farmer from bad indebtedness – the group guarantees the loans, the asset bought acts as collateral, and the animals purchased are insured.



Operating Model

Juhudi Kilimo is a for-profit spin-off of K-Rep Development Agency, a Kenyan microfinance incubator. It offers loans for assets that can generate income and act as collateral. The key products offered by Juhudi Kilimo include: animal financing for high-yielding dairy cows and poultry; farm equipment financing for irrigation equipment, water tanks, milking sheds, pumps, and grain mills; and green energy financing for products such as clean cook stoves and solar lighting systems. It lends to groups of 15-20 farmers where members co-guarantee their loans, reducing default rates to only 3 percent. Juhudi requires a prior commitment (Loan Guarantee Fund) of 15 percent of the intended loan amount. Each new group receives 2 months of training from Juhudi before members are eligible to take loans. Group members who are new to formal lending receive training on basic book keeping, loan management and the risks and benefits of finance.

Juhudi's clientele consists of 99 percent group lending and 1 percent individual lending.

Farmers can get a first loan of up to Ksh 100,000 shillings (USD 1,040 for a dairy cow). Juhudi Kilimo qualifies clients to receive progressively higher loans as farmers repay their loans, reassessing a farmer's debt capacity at each level. Starting with loans of ~USD 1,000, farmers can apply for up to double the earlier amount at each successful full repayment, with a cap at ~USD 10,000. Every loan goes through a new credit appraisal, and approval is not automatic. It also offers top-up loans for energy devices (such as solar lanterns and improved cook stoves), education and emergency to its most loyal clients. This allows them to keep the churn rate at just 5 percent.

Loan officers cater to rural clients through a network of 21 field offices across Kenya. Each loan officer serves up to 350 clients within a 45km radius. To establish credit-worthiness, loan officers conduct loan appraisals on farms, and recommend the most appropriate and affordable financing product. These loans finance income generating assets that are sourced from local suppliers. The loan officers capture and store real-time client data on their tablet through a cloud-based loan tracking system. This allows them to process loan applications more efficiently, which has greatly improved client satisfaction. This technology also helps to track loan officers' performance and client repayment rates.

Juhudi Kilimo partners with NGOs and extension service providers (both, Government and private) to offer training and information on best farming practices to its clients in rural Kenya. To help farmers in accessing market information, Juhudi Kilimo works with other players in the value chain such as rural milk cooling plants and poultry marketers. It has collaborated with iCow through support from GALVmed and Ford Foundation to develop a mobile communication platform and video training kit to provide agricultural advice to its borrowers.

Juhudi Kilimo has started conducting yearly SMS surveys and has tested sending payment reminders to its clients, increasing zero-delay repayment.

Financial Sustainability

Juhudi has raised over USD14 million in debt financing from organizations such as Kiva.org, Ford Foundation, Rockefeller Foundation, Grameen Credit Agricole, Fefisol, Alterfin, Deutsche Bank, Triple Jump, responsAbility, Global Partnerships and Regmifa. Juhudi's current shareholders include social investors, namely, Acumen Fund, Soros Economic Development Fund, and Grameen Foundation. Field support and training are delivered through partnerships with Kenya's Ministry of Agriculture Livestock & Fisheries, SwissContact and TechnoServe.

Over 80 percent of the revenues come from interest on loans, while the rest is split between loan application fees, membership fees and passbook fees. Juhudi Kilimo tries to balance self-sufficiency and impact to farmers. It limits costs of serving dispersed rural populations and outreach by leveraging SHGs to do initial screening, collect repayments and recruit new members. Since it does not take deposits, its cost of funds is as high as 16 percent-18 percent unlike those of banks or deposit-taking microfinance institutions. Currently, Juhudi lends to farmers at a flat rate of 20 percent per annum, making a margin of about 6 percent -- compared to interest rates of 20 percent-25 percent charged by the rest of their peers. Juhudi also receives grants, typically in the range of USD 20,000, for technical assistance projects (such as outreach and marketing, hiring experts to train staff and farmers clients and acquiring technology solutions to improve on business efficiencies and service delivery to customers).

Juhudi has more than 31,000 active borrowers and a 1 billion Kenyan shillings (USD10 mn) loan book with PAR >30 days at <3 percent. It broke even in August 2015, having brought in new management in April 2015. The company has since invested in internal controls and reorganized the business to improve operational efficiencies, staff productivity and capacity development. This resulted in an operational self-sufficiency (OSS) of 123 percent. Juhudi has adopted innovative cost saving technologies such as Safaricom's MPESA mobile money transfer system and Electronic Funds Transfer (EFT) in disbursing loans to client. To manage risk, it designed a loan product for livestock farmers (dairy animals) that includes insurance and vaccination against major diseases. The financed livestock (approximately 15 percent of the outstanding portfolio) are insured against death and disease at a cost of 3 percent of the value of the cow.

Impact

Most of the assets provided by Juhudi's financing not only produce income, but also provide supplemental protein-rich food for families, fertilizers and employment. The additional income earned is also used by farmers to pay their children's school fees. Half of Juhudi's customers are

women who are empowered to make key household decisions and are less likely to suffer from gender related conflict and violence. Juhudi Kilimo has partnered with F3 Life which combines credit scoring with training on environmental best practices such as soil conservation and water management. Farmers are required to practice environmental friendly farming as a requisite to receive loans. Juhudi also provides credit to buy energy efficient products (e.g., solar lamps and improved cook stoves) through partnerships with SEs such as Ecozoom, Biolite, Orb Energy and Greenlight Planet.

Challenges and Lessons

Many agri-financiers shy away from the sector due to numerous risks or provide funding to Juhudi at a high cost. Most of the available financing instruments in the country are not designed to match with agricultural cycles which often result in seasonal income to farmers. Juhudi's financiers expect them to pay back quarterly or monthly and thus to ensure cash flow, the farmers have to pay back monthly. High operation costs in rural areas due to poor infrastructure and low levels of literacy also pose a challenge for Juhudi. Juhudi Kilimo requires capital that is synchronized to planting seasons.

Juhudi also faces several risks associated with market fluctuations and weather changes. In order to address this, they provide insurance covers to farmers so as to cushion them in case of disease outbreak, loss of livestock etc. It is also currently exploring additional insurance products such as weather index crop insurance, health insurance and political violence insurance. It uses peer pressure from guarantors to encourage defaulting farmers to pay, and in some cases, they also use auctioneers.

Road Ahead

Juhudi Kilimo is piloting loans to individuals with its best clients who ask for larger loans than what the rest of the group is willing or able to guarantee. It has also piloted loans for new types of products such as biogas digesters, water tanks and solar water pumps. In addition, it is planning to allow small top-up loans for good clients (as is already done for solar lanterns and improved cook stoves). It plans to introduce mobile loan disbursements and repayments. It is also experimenting with training videos and training presentations on the tablets and portable projectors on specific technical advice on agriculture practices. It has established Juhudi Labs 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.