



Investment Proposal Summary

Summary

Juhudi Kilimo LLC is a newly established for-profit enterprise with a strong social mission that provides investors with an opportunity to contribute to the socially responsible economic development of rural Kenya. It has a unique approach to supporting economic activity across the agribusiness value chain, from production of raw products to processing and delivery of finished goods: by **providing asset financing** and **linkages to technical assistance funding** to **smallholder farmers** as well as to **rural small and medium enterprises**.

In order to take full advantage of its potential as an agent for rural economic development and increase its product offering, **Juhudi is seeking approximately USD 5 million of investments over the next two years.**

Investment Opportunity (in '000 USD)	Equity	Quasi-Equity	Debt	Grants
1 st Closing (Sept '09)	1,000	600	-	250
2 nd Closing (Jun '10)	1,000	-	2,000	250– 500
Total Funding (2009-2010)	2,000	600	2,000	500– 750

Juhudi plans to **expand its current offering of financing to smallholder farmers** and **develop a new product line focused on rural enterprises**. Through this new product line, Juhudi will provide much-needed financing of productive assets for rural enterprises – businesses that create value-added and personal wealth, and serve as economic engines, including in the agricultural sector, which employs 75% of Kenya's workforce.

The K-Rep Group and the Grassroots Business Fund (GBF) are partnering to develop Juhudi Kilimo into a nationwide presence that serves the financial needs of smallholder farmers and rural enterprises. K-Rep Development Agency (KDA), a subsidiary of the K-Rep Group, incubated the asset financing program for five years before it was restructured into Juhudi Kilimo and will continue to provide support. GBF has been providing capital while building capacity within the organization through funding for technical assistance.

Company Overview

Juhudi's mission is *"to provide market-driven, wealth-creating financial services throughout agribusiness value chains that produce a positive impact on the women and men rural smallholder farmers."*

With an established track record, demonstrated social impact, little competition in much of rural Kenya and high unmet demand, Juhudi is positioned for the rapid expansion of operations that will bring it to profitability. While facing challenges ahead, Juhudi has the opportunity to overcome these, become a leader and serve as a model in the social enterprise field.

Juhudi's product lines bring added value to the largest economic field in rural Kenya – agriculture – by financing assets that offer long-term gains in productivity and provide sustainable wealth

SPONSOR PROFILES

K-REP GROUP: The K-Rep Group is a conglomeration of for-profit and not-for-profit organizations providing a variety of services. These include K-Rep Bank Limited, a commercial microfinance bank, K-Rep Fedha Services, a company that provides management services to village banks called Financial Services Associations, and K-Rep Development Agency, a research and product development NGO in the microfinance sector.

The K-Rep Group is able to use the synergies between its subsidiaries' activities to mutually support and advance each other.

GRASSROOTS BUSINESS FUND (GBF): The Grassroots Business Fund was established through the restructuring of the Grassroots Business Initiative, part of the World Bank's International Finance Corporation. GBF is committed to creating bottom-line solutions to poverty by strengthening the capacity and performance of grassroots organizations that are strategically positioned to deliver strong social and economic impact.

GBF delivers a unique blend of financing and technical assistance that helps its clients create scalable businesses, achieve sustainability, and attract socially-minded investors.

This Investment Proposal Summary was prepared on the basis of information provided by Juhudi Kilimo and has been reviewed and approved by Juhudi Kilimo. It is subject to changes needed to reflect subsequent business developments. Grassroots Business Fund does not accept responsibility for the accuracy or completeness of this Investment Proposal Summary. Each recipient is expected to make an independent assessment as it may deem necessary with respect to any decision to provide funding to/invest in Juhudi Kilimo.

creation. By attracting and directing grant-funded technical assistance to its clients, Juhudi maximizes the benefit of those assets and creates opportunities for entrepreneurial growth, while improving the performance of its own portfolio.

Juhudi, an independent organization, has an established five-year track record as a program within K-Rep Development Agency, an antipoverty NGO that performs research and product development for the microfinance sector. This initiative provided financing to over 7,000 smallholder farmers, 46% of them women. On April 1, 2009, all of the program's assets were transferred to Juhudi Kilimo LLC. With the K-Rep Group as one of its sponsors, Juhudi has the opportunity to access the broad knowledge network and potential synergies within the Group's companies, including KDA as well as a microfinance bank and a village bank management service.

Juhudi was supported in its restructuring by the Grassroots Business Fund, a US-based social investment organization, formerly part of the World Bank's International Finance Corporation. Juhudi has access to GBF's (like K-Rep Group's) broad network of leaders in the field of social enterprise. GBF is providing loan funding to expand Juhudi's portfolio, as well as grants to support an extensive program of capacity building, including improvements in efficiency, expansion of management staff, staff training, and diversification of products and services offered. GBF is also helping with fundraising, tapping into its network of partners, donors and socially minded investors. GBF is working closely with Juhudi to pursue their shared focus on providing business development services to rural farmers and enterprises, helping rural value-addition, and supply chain improvement.

Business Strategy

Rural asset financing is an innovative approach to poverty alleviation that provides access to wealth-creating assets such as cows, goats or irrigation systems that generate income to increase living standards and provide for loan repayment.

What's distinctive about Juhudi?

Juhudi offers **financing of productive assets** paired with linkages to basic and affordable **business support** to both *Smallholder Farmers* and *Rural Enterprises*.

This approach to **poverty alleviation** supports **sustainable wealth creation** in *rural communities*, establishes **local engines of income generation**, and generates **employment, economic growth** and **dynamism** as well as **demand for inputs**.

Asset financing differs from micro credit in that loans are linked to specific assets, which are acquired over a period of time, as opposed to general loans which may be used for consumption or emergency spending. In its five years of incubation of this product line, KDA acquired valuable knowledge that has been transferred to Juhudi through its 33 staff members distributed throughout the country in 7 field offices.

The Juhudi Kilimo theory of economic change posits that economic development can be brought to rural Kenya by providing a growth path for rural smallholder farmers, leading from an initial wealth-creating asset to next-stage agribusinesses and larger rural enterprises. These opportunities are created through the provision of financial products as well as access to technical assistance services that introduce the business discipline, knowledge and skills needed to scale up and succeed. Leveraging the experience of KDA, Juhudi Kilimo will empower smallholder farmers

and also address the next step in the agribusiness value chain by supporting rural enterprises such as milk chilling plants, coffee mills and mango processing plants. These activities confer social benefits as well as a path to profitable, sustainable commercial operations for Juhudi and its clients.

Products/Services

Smallholder Farmers: Juhudi provides smallholder farmers with the capital they need to invest in farm machinery or other productive assets, on terms compatible with agricultural production. These financial services enable the rural poor to increase their productive assets, thereby increasing the households' productivity and income for the long term. Assets financed include dairy cows, poultry, artificial insemination equipment, cooling equipment, irrigation equipment, beehives and processing tools. Technical assistance linkages may include building skills such as basic bookkeeping and accessing market information, or may focus on asset-specific technical training.

Rural Enterprises: Juhudi is expanding its product line to serve larger rural businesses among the estimated 1.8 million micro, small and medium enterprises existing in Kenya. Juhudi seeks to increase its social impact while growing and diversifying its portfolio by fostering and offering expanded services to rural enterprises. These wealth-creating businesses introduce engines of income generation to their communities, providing employment as well as needed services and demand for inputs. By offering financial services paired with direct technical and business assistance, Juhudi will provide key support to this underserved class of enterprises and would be able to expand its impact throughout agribusiness value chains, from smallholder production of raw products to processing plants and delivery services. Technical assistance linkages may include consultancies or staff training addressing financial management, market research, technology upgrades, and a range of other business needs.

What's special about Asset Financing?

- **Less risk** – actual asset may be repossessed in default
- **Cost effective** - less tightly regulated
- **Regular cash flow** – all assets financed are intended to have regular cash flows attached for better loan repayments
- **Economic impact** – productive assets provide growth opportunity

Market Opportunity and Competition

Agriculture and agro-related activities generate employment for about 75% of the Kenyan labor force. The target market for Juhudi Kilimo includes the estimated 16 million rural smallholder farmers in need of financial services, creating a market for these services estimated at \$1.1 billion.

A majority (63%) of the target smallholder farmers live below the poverty line and 76% subsist on less than \$4 a day. Poor rural Kenyans are trapped in a cycle of subsistence economy, full of limitations and with no opportunity for wealth creation. They lack income-generating enterprises or business assets and are therefore denied financial services by the country's many microfinance institutions, which have limited rural reach and serve only 8% of the population.

Kenya hosts a crowded field of competition for microfinance institutions (MFIs) with about 20 major players, yet very few can offer micro asset financing to the deep rural communities tapped by Juhudi Kilimo. Financing wealth-creating assets to rural smallholder farmers and small enterprises is quite a new concept in Kenya. Several small and independent money lenders and local regulated Savings and Credit Cooperatives (SACCOs) occasionally take up asset financing of farm equipment in isolated instances but no organization's branch network is as expansive in the rural regions as that of Juhudi Kilimo.

Major banks face government requirements that make opening rural branches prohibitively expensive. By focusing on asset financing Juhudi avoids these restrictions and can open smaller branches in low-density rural areas, with the potential to use the K-Rep Group's network and support.

Projected Results

The driver for Juhudi's success is its capacity to increase its portfolio. This growth is subject to capital availability. Profitability is expected to be achieved by 2010, leveraging the increase of Rural Enterprise financing, enhanced collection rates and better use of Juhudi's operational capacity.

	2009	2010	2011	2014
Outreach				
Outstanding Portfolio ('000 USD)	1,091	4,847	7,323	17,702
Non Cumulative No. of Borrowers	2,146	6,558	8,660	11,274
Rural Enterprises as % of Portfolio	5%	7%	9%	15%
Sustainability/Profitability				
Operational Sustainability (%)	38%	100%	127%	151%
Return on Assets (%)	-12%	0%	3%	6%
Return on Equity (%)	-27%	0%	10%	24%

Rural Enterprises, although small in number compared to the total number of borrowers at first, have great potential for impact. Judging on the experience of micro credit, loans to rural enterprises are expected to be at least 10 times larger than those to smallholder farmers (currently averaging \$500); they will represent a significant percentage of the *Outstanding Portfolio* in monetary terms.

Financing Plan and Returns to Investors

An expected **local currency return** is presented below based on initial projections. These returns are highly dependant on Juhudi's grant funded business strengthening work. Juhudi is expecting to raise between \$5.1 and \$5.35 million in equity, quasi-equity, debt and grants over the next two years from investors who share its vision. A first closing will be held by September 2009, with a second scheduled for June 2010.

Funding	Amount ('000 USD) over 2yrs	Investor Returns (IRR) over 5yrs
Equity (1st Closing - Sept 09)	1,000	25%
Equity (2nd Closing – June 2010)	1,000	19%
Quasi-Equity	600	17%
Debt	2,000	11%
Grants	500 – 750	-
Total Funding (2009-2010)	5,100 – 5,350	

Juhudi has the potential to deliver high returns, provided it is able to raise enough funds to scale up its operation. A potential return of 25% is subject to currency depreciation and the availability and cost of local currency funding. By becoming highly profitable, Juhudi will become an attractive investment, securing its ongoing operation, and delivering continued incremental economic and social impact (see section below) throughout rural Kenya.

Social Impact

By **financing income-generating assets** and channeling grant funding for **business development services** to its clients, Juhudi helps to build and sustain **wealth-creating rural activities**. By becoming a **sustainable, profitable institution**, Juhudi will continue generating social and economic value beyond 2014.

Preliminary Social Return on Investment (SROI) calculations suggest that **every dollar invested** in Juhudi has the potential to **generate up to 20 dollars** in **social and economic benefit**.

It delivers incremental economic value by:

- Providing **access to productive assets** that will continue generating income after the loan period
- Supporting **Rural Enterprises that generate jobs** and add value to smallholder producers
- Increasing the **sustainability** of its clients economic activity **through technical assistance**

Made possible by Juhudi's services, **rural enterprises**, many of them agricultural processing plants, bring income-generating activities, jobs, greater market access and new services to rural communities. These businesses **raise the living standards of their owners, employees and suppliers**, and can develop into self-sustaining **engines of wealth-creating economic activity in rural areas**. Limited access to financing and entrepreneurial opportunities in rural areas has prevented the development of this kind of value-adding economic activity.

Juhudi Kilimo has the potential to reach **25,000 direct smallholder farmers** and **200 rural enterprises** and therefore **impact the lives of half a million rural Kenyans**

In order to meaningfully measure and demonstrate the social benefits of its activities, Juhudi is developing a monitoring and evaluation (M&E) framework. In order to collect and report high-quality, reliable data to its investors, Juhudi will integrate M&E into all of its business processes, making the collection of current and accurate data a part of its day-to-day operations.

Management Team and Governance

Juhudi's governing board will be comprised of members representing the K-Rep Group, GBF and other investors and donors.

Aleke Dondo will serve as the first Managing Director of Juhudi Kilimo and use his 21 years of in-depth start-up experience with small enterprise development at the K-Rep Development Agency. To manage the spin-off transition, Aleke will continue to share responsibilities with KDA and Juhudi through 2009.

Albert Onchiri is the recently-promoted Operations Manager of the Smallholder Farmer Asset Financing product line and formerly Chief Accountant and Field Officer. A Chief Financial Officer (CFO) and Rural Enterprise Manager will be hired to strengthen Juhudi's management. **Nat Robinson**, a volunteer with the MBA Enterprise Corps, will provide management support to the company in its initial phase.

Key Risks

- **Collection rate:** The KDA Asset Finance Program had historic collection rates around 97%, although in 2008 it went down to 92% due to the combination of social unrest in the rural areas and the fact the Program didn't have a Manager during that period. Juhudi will maintain the high collection rates already demonstrated in the past by strengthening its management and providing training for its staff.
- **Margins:** As a program within a non-profit organization, the Asset Finance activity was mainly fueled by grants or subsidized loans. As a for profit entity, Juhudi will have an increase amount of commercial debt. With higher funding costs than KDA and operating costs high at first due to the size of its portfolio, it is important for Juhudi to keep a sufficient *Operating Margin* in order to achieve profitability. Therefore, Juhudi will monitor and adjust its product offering in order to establish and maintain a healthy spread between its *Operating Margins* and its *Lending Rates*.
- **Size / Viability:** Juhudi needs to get to a USD 6 million portfolio to break even. The timing and the total availability of funds will determine how fast Juhudi grows to a sustainable size. An initial equity base, a continuing inflow of debt for significant portfolio growth, and grants to cover early technical assistance will support the rapid expansion of Juhudi's operations.

Contact Information

More information, including a full business plan, is available on request.
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