



**MARKET-LED SUSTAINABLE
AGRICULTURE FOR
DEVELOPMENT IN EAST AFRICA**

INVITATION TO SOCIAL IMPACT INVESTORS

Kilimo Trust

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About Kilimo Trust

Kilimo Trust is a specialized resources mobilization and management non-profit that facilitates wealth creation and poverty reduction through agriculture and agri-business development in the member countries of the East African Community (EAC) – Burundi, Kenya, Rwanda, Tanzania, and Uganda. The mission of the Trust is to expand market-led sustainable agriculture for development in East Africa. Therefore, the Trust invests both grants and soft loans to enhance exploitation of market opportunities by especially small and medium size producers. It does this by supporting the development of well integrated agricultural value chains, through support to what it considers to be three pillars of effective value chains.

First, through the grants it makes, the Trust supports technical and institutional innovations along key agricultural value chains. The aim is to build networks of champions along the value chains, who access, adopt and commercially use knowledge, technologies, and best practices to optimizing productivity and profitability of enterprises.

Second, the Trust supports the enhancement of economies of scale in production systems, to enable producers to meet the quantities, quality standards, and timely delivery demanded by their partners in the value chain. We call this “building scales that attract investment”.

For the third pillar, the Trust mobilizes private sector investment through different approaches, such as:

- “First-loss” loan guarantees to enhance the supply of commercial financing and investment in the context of agricultural value chains; and
- Co-investment with agro-industries and agribusinesses to build partnership schemes that link smallholder and medium size producers to guaranteed markets.

The Trust was established in 2005 as an East Africa-based Trust focusing on agricultural development. This was made possible by a generous support from the Gatsby Charitable Foundation (GCF) of the UK and the Rockefeller Foundation (RF) of the USA. In the FY 2008/09 ending June 30th 2009, the Trust spent a total of US\$ 2.3 on grants and projects to spend US\$ 4.4 million in the FY ending June 30th 2010. The plan going forward is to attract funding from other social impact investors so as to increase the annual rate of grants to US\$ 6 million.

Governance: The Trust is registered under the Laws of the Republic of Uganda and is governed by an international Board of Trustees, comprising three permanent trustees, and five others appointed for a term of three (3) years, renewable once. The Trustees are well respected professionals, business people, and entrepreneurs from different countries and backgrounds with a wide range of experiences in their individual fields.

Management: The Trust is managed by a strong team of five senior technical staff, as well as a strong finance and administration department.

This document briefly describes how the Trust works and invites social impact investors interested in supporting market-led agriculture for development in East Africa to partner with the Trust.

Financial Instruments Used by Kilimo Trust to Enhance Investment and Commercial Financing in Agricultural Value Chains

Grants to produce public good products: Most of these target the small and medium producers' enterprises, whose participation in agricultural value chains would enhance the scale of business opportunities for more established agribusinesses, agro-entrepreneurs and the value chain in general. This is usually at the onset of an identified business opportunity, when it is not certain that the benefits from this opportunity can be maximized for the benefit of anyone private sector investor. In this arena the Trust supports:

- R&D (see Box 1), designed to increase the availability of the knowledge needed to drive technological and institutional innovations along key value chains;
- Agricultural extension and other technical services designed to increase knowledge, change attitudes, and improve skills of farmers and other agro-entrepreneurs;
- Business development services (BDS) focused at improving farming as a business among small and medium scale producers; and most importantly
- The development of "body corporate" producers' organizations that can execute legally binding contracts with other actors in the Value Chain (see Box 2). The outcome of this investment is the generation of viable small and medium producers' enterprises, which are ready to become partners with other actors in agricultural value chains.

Box 1: R&D Interventions to Facilitate Innovations along Key Value Chains

Striga is the most pervasive and damaging parasitic weed threatening cereal production in sub-Saharan Africa. Striga affects all the major cereal crops such as maize, sorghum, and upland-rice, and it is estimated that the pre-harvest yield losses in just three countries (Uganda, Tanzania and Kenya) amount to some US\$437 million per year. This is more than US\$1.0 million a day! Kilimo Trust and the Gatsby Charitable Foundation (GCF) have been leading supporters of research work to develop a Biological Approach to Striga Control, called "Push-Pull", through an international collaborative effort led by *icipe*. So far it is estimated that nearly US\$ 7 million has been spent in the development of this novel technology. Push-Pull is a low input and environmentally sustainable technology for addressing Striga, stemborers and low soil fertility problems in cereal production systems. The system comprises intercropping desmodium, a fodder legume, between rows of cereals combined with a surrounding crop of Napier grass, a stemborer trap plant. Desmodium dramatically reduces the level of Striga infestation by the dual effects of germination stimulants and post-germination inhibitors produced by its roots. This is a tactic that suppresses and eliminates Striga in cropped fields and also controls stemborers while improving soil fertility through nitrogen fixation and addition of organic matter. Both Napier grass and desmodium provide forage for cattle and goats. The push-pull technology works for maize, sorghum, millet and upland rice. Kilimo Trust is now coordinating the mobilization of public sector investment to leverage the needed private investment to scale-up push-pull and other proven technologies and practices for controlling Striga. Efforts are also being made to build a multi-faceted regional-international consortium to ensure that efforts by different actors are well coordinated and integrated across regions and across time.

Enhancing Capacity of SME Agribusinesses: The Trust provides capital (in the form of soft loans) for investment in equipment and other capital goods by SMEs of farmers and other entrepreneurs in the targeted value chains. These capital interventions (Box 3) are aimed at engaging Private Sector investment in all aspects of agricultural value chains, from inputs supply, production services, value addition processing, and marketing. The aim is to create a bridge for those producers and other agro-entrepreneurs graduating from the "grant-biased" support described above, but not yet fully qualified to access commercial loans. The soft loans are paid back at a lower or zero interest rate. The outcome of this investment is the generation of "graduates" in small and medium size agribusinesses that are capable of utilizing market opportunities, executive contract farming, and attract private sector commercial financing. The envisaged impact is a more robust, resilient and competitive value chain that is creating positive economic, social, and environmental impact within and where possible beyond the value chain.

Box 2: Public Good Interventions to Attract Private Investments

Kilimo Trust through a regional program called Maendeleo Agricultural Technologies Fund (**MATF**) is using grant funding to Improve Incomes and Profitability of Cashew Production Enterprises in Southern Tanzania. The grant funding has been used to pay for “facilitation services” needed to assist cashew farmers to establish and strengthen farmer associations leading to groups of associations incorporating a company. Through this company, the producers have:

- Obtained an organic certification,
- Established own cashew processing factory that enables them to retain a higher proportion of the value,
- Executed a sales contract with final buyers for their value added cashew products,
- Secured a licence to purchase inputs in bulk directly from manufacturers – reducing the cost of for example sulfur from US\$1000/MT to US\$150/MT, and
- Established an extension service run by the farmers themselves.

A similar project funded through MATF and implemented by Technoserve for Speciality Coffee in Northern Tanzania has lead to a US\$46.9 million four-year grant to TechnoServe by the BMGF to replicate and scale-up the outcomes in Tanzania, Kenya and Rwanda.

Through the MATF alone, Kilimo Trust together with the Gatsby Charitable Foundation have already invested in 55 similar projects in Uganda, Tanzania and Kenya, at an average cost of US\$120,000 per project bringing the total investment to US\$6.6 million. A further US\$ 2 million has been used on cross-cutting issues and management to support these projects.

Box 3: Engaging the Private Sector through Soft Loans

Kilimo Trust is providing a soft loan in parallel with a grant to a project designed to foster sustainable adoption of productivity enhancing production technologies by smallholder farmers, with the aim to make appropriate fertilizers and other improved inputs commercially available in the selected districts of Western and Eastern Uganda in packages that are affordable to smallholder farmers. While the grant component is being used to pay for “facilitation services” such as those described in Box 2; a parallel loan fund of approximately US\$280,000 has been given to an association of fertilizer importers and distributors (UNADA) to support the establishment/strengthening of rural fertilizer/inputs retail network.

The Association is using the soft loan to:

- Support at least 2 large-scale national inputs/fertilizer suppliers to enhance capacity to procure and distribute fertilizers in smaller-sized packs;
- Strengthen at least 6 regional distribution centers (one for each district) to engage in wholesaling of a variety of package sizes for fertilizers; and
- Operationalize a mechanism for participating local input dealers to stock and sell appropriate fertilizers on a sustainable commercial basis.

The expected outcome will be to establish a sustainable supply and market for at least 300MT of assorted fertilizer in various package sizes including small packs sold to smallholder farmers through UNADA rural stockiest. It is expected that UNADA will be able to fully repay the revolving credit fund by Yr. 5, after initiating the project.

Kilimo Trust has made three other similar soft loan interventions in Uganda and Kenya for a total of US\$ 1.2 million with stream of repayments expected to run between 2010 and 2013.

Agricultural Loan Guarantees: The Trust is involved in Loan Guarantee (first loss basis) with four banks in East Africa (Box 4). The **main objective** of this initiative is to institutionalize in commercial banks, credit products for the agricultural sector with emphasis on smallholder farmers and SMEs participating in key agricultural value chains.

The initiative is designed to achieve three major specific objectives:

- i) Leveraging commercial banks to expand lending to the agricultural sector and thus bring a significantly large volume of lending to the sector, through innovative risk sharing arrangements.

- ii) Stimulate a large proportion of farmers and SMEs in agricultural value chains to graduate from depending on grant and soft loans funding and access commercial financing and in the process build assets, enhance their credit history and rating, so as to graduate as attractive clients of commercial financial institutions.
- iii) Build a database on the performance and benefits of commercial lending to the agricultural sector that will:
 - Allow the banks to establish a better estimate of the true degree of risk associated with lending to the sector, and
 - Provide justification for grant funding requirement to remove genuine weakness inherent in the credit support environment.

Box 4: Leveraging US\$50 Million in Commercial Loans to Smallholder Farmers and Associated Agribusinesses in Tanzania and Uganda

Kilimo Trust has teamed up with the Alliance for a Green Revolution in Africa (AGRA) to provide First Loss Loan Guarantees to Stanbic Bank - Uganda, and Stanbic Bank – Tanzania, to enable each to create an innovative US\$25 million fund for smallholder farmers and small- and medium-sized agricultural businesses working with these farmers in agricultural value chains. The Guarantee fund placed by AGRA and Kilimo Trust is US\$2.5 million for each bank, to support the disbursement of US\$25 million in loans over the next three years – with repayments within the next 5 years. The overall plan is to direct 40% of the loans under the facility to formal agribusinesses dealing with inputs and outputs marketing within the target value chains, and 60% to primary producers via farmers associations or associations of smallholders incorporated as companies'. Therefore, the target of the facility will include:

- a) **Agribusinesses** willing to provide **Guaranteed Markets** to producers, which will access credit from the scheme to expand handling, processing and trading capacities. Also, inputs (seed and fertilizer) suppliers will be able to secure financing to expand their operations. To qualify for loans, under the Guarantee Scheme, agribusinesses will need to demonstrate partnerships with producers based on binding contracts of guaranteed off-take, and minimum prices.
- b) **SMEs** that are engaged in agro-processing, storage and transportation of agricultural produce will be supported to expand their operations of value addition activities in the rural areas. The financing will give them better working capital needed to: purchase produce from producers, and invest in handling, processing and transportation facilities.
- c) **Farmers** will use the credit line provided by the scheme to accelerate adoption of improved technologies and practices that require significant capital outlay.

The scheme is designed to build on investment opportunities made possible by agricultural development programs and projects (such as described in boxes 1 – 3 above) of the Government, international development organizations and NGOs. Therefore, the scheme is establishing Win-Win partnerships with NGOs, other organizations, and agricultural development projects, which have as their mandate an interest to link their clients with commercial credit. The aim is to have the partner NGOs and projects serving as “feeders” of potential deals for the 60% of the credit line to be dedicated to farmers and/or their organizations.

Inviting Social Impact Investors to Kilimo Trust to Enhance its Resources for both Grant and Investment Interventions

Kilimo Trust is looking to expand its size to be able to cover all its three instruments described above. The previous section has described the model of intervention by Kilimo Trust. This model of intervention is very close to what was called for by the US Secretary of State Hillary Clinton in her message on the World Food Day, where she said that “...*this means strengthening the entire farming chain from labs where scientists develop improved seeds, to fields where farmers are laboring sunup to sundown, to the roads and the other infrastructure where the harvest occur and where food is bought and sold ...*”. This is what Kilimo Trust is requesting social impact investors to invest in by supporting small and medium-sized agribusinesses in East Africa, through Kilimo Trust and other similar organizations.

The investor can make contribution to the Grants Fund, the Soft Loan Revolving Fund, or the Loan Guarantee Fund.