Microleasing

Transforming the lives of micro entrepreneurs and smallholder farmers through an innovative financial solution
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The preparation and announcement of the United Nations Sustainable Development Goals in 2015 will bring renewed focus and a concentration of energy and resources over the next 15 years to help put an end to extreme poverty worldwide.

For far too long, the innate and enterprising spirit of populations throughout the world’s developing regions has been stunted by a lack of access to information, skills, resources and markets. But we have seen in recent years a transformation in international cooperation and economic development that has brought new stakeholders, innovative partnerships, renewed commitments to measurement and acute awareness of the importance of identifying and disseminating best practices.

Swisscontact has kept a pace and increased its investment in knowledge and content management in order to support, track and communicate more broadly our lessons learned and “proof of concept”. Most notably, we have been active in and contributed to evaluation methodologies used by the Donor Committee for Enterprise Development (DCED) as part of our broader commitment to contributing to global development innovation and fostering best practices. We also helped in 2009 to launch Juhudi Kilimo, an asset-back financier in Kenya, through technical assistance support.

We are pleased to share with you the results of these efforts, particularly our insights into microleasing as an innovative financing solution for providing rural producers and small enterprises with the productive assets so essential to expanding capacity and increasing incomes. This report goes further still, and explores the role that early stage catalytic philanthropy can play in technical assistance, business growth and the achievement of investment-readiness for small and medium-sized businesses alike.

We recognize that there are many effective approaches to pursuing development goals, but we believe there is untapped potential in microleasing and the collaborative partnerships often needed between philanthropic and investment communities. My colleagues and I invite you to consider joining us and our partners in expanding this new model for financing development throughout East Africa and into Latin America, and we look forward to hearing from you.

Samuel Bon
CEO and Executive Director
Swisscontact
More than 3.1 billion people – representing 47% of the world’s population – live in rural areas¹.

It stands to reason that income opportunities are extremely limited, not only for farmers specifically but for small entrepreneurs more generally. Nearly 75% of the total population in developing countries lives on less than US $4.00², more than 50% on less than US $2.50 and approximately 20% on less than US $1.25 per day. This basic level of income does not provide for any kind of investment that is geared towards improving livelihoods.

Access to financial services in particular is an insurmountable obstacle for the vast majority of smallholders and micro entrepreneurs. The reason is related to the lack of any sort of credit history, collateral or business assets. They are therefore not considered creditworthy. Instead, they depend on a variety of mainly informal financial sources, which tend to come at a very high cost and risk to the borrowers.

Microfinance institutions, which have traditionally served the financially excluded, usually offer three kinds of financial products – loans, savings and money transfers. The loan products are, however, mostly collateral-driven and repayment cycles are not structured to meet the cash flow of producers at the bottom of the pyramid.

There are as a result multiple obstacles for smallholder farmers and micro entrepreneurs to access suitable financial solutions to develop their businesses and to integrating themselves into local, national and even international agricultural supply chains. The lack of effective business development skills also hampers the ability of farmers to seize the opportunity to produce surplus stock to supply larger factories, companies or traders with products that are in demand.

2. Microleasing – an innovative solution to increase livelihoods

Microleasing — which is derived from contract-based, lease-to-buy models in developed countries — addresses the aforementioned issues and eliminates the need for individuals to borrow or commit their resources up front. Risk is mitigated instead by a collateralized and insured asset and creditworthiness is based on future prospects and potential cash flows, rather than on an individual’s past credit history.

A microleasing product consists of the following key elements:

- Lease to pre-finance the purchase of a productive asset (e.g. livestock, basic agricultural tools)
- Insurance for both the lessee and the asset — this helps to mitigate risk for the financing institution; and
- Training for the lessee on the use and maintenance of the asset, helping to achieve optimal results and increased production.

Definition of a “Productive Asset”

A productive asset enables a micro entrepreneur to immediately generate revenue from an asset. Productive assets increase production, productivity and competitiveness and allow for better access to markets. The range of productive assets is diverse and includes livestock (e.g. dairy cows/goats, cattle, chickens), beehives, hand plows, irrigation pumps, biogas bags, donkey carts and more.
Microleasing products can be offered through multiple channels. These include leasing companies, savings and credit cooperatives (SACCOs), microfinance institutions (MFIs) and commercial banks. However, it is important to note that microleasing is its own financial ecosystem involving multiple stakeholders and partners, as illustrated in the table below.

<table>
<thead>
<tr>
<th>Investors</th>
<th>Provide crucial investments to pre-finance assets, support technical assistance and build robust capital stock to meet the demands in required assets.</th>
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</thead>
<tbody>
<tr>
<td>Local financial service providers</td>
<td>Offer microleasing products on the ground. Examples include commercial banks, saving groups and microfinance institutions.</td>
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<tr>
<td>Asset suppliers</td>
<td>Deliver productive assets.</td>
</tr>
<tr>
<td>Third party service providers</td>
<td>Ensure that the assets are fully productive and functioning before delivery. Examples include trainers, maintenance companies and veterinarians.</td>
</tr>
<tr>
<td>Insurance companies</td>
<td>Insure micro entrepreneurs and their assets in case of default.</td>
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<tr>
<td>Technical service providers</td>
<td>Educate financial staff in both microleasing and the needs of the agricultural sector, as well as train micro entrepreneurs in financial management and agro-related best practices.</td>
</tr>
<tr>
<td>Lessee groups</td>
<td>Provide co-guarantees for the leased asset.</td>
</tr>
<tr>
<td>Lessees (farmers or entrepreneurs)</td>
<td>Lease assets, augment productivity and increase income.</td>
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</table>

A range of contracts, agreements and working relationships between these stakeholders are necessary to ensure that micro entrepreneurs can readily gain access to productive assets.
How does microleasing work?

1. Interested entrepreneurs/farmers subscribe to their local microleasing service provider and receive training on forming groups, group dynamics and organizational development.

2. Once the group is successfully formed, lessees go through a credit process, apply for a lease and finally sign a contract with the financial service provider.

3. The financial service provider closes a contract with one or several suppliers for various assets in the portfolio. Lessees pay suppliers directly for the leased assets after they have been shown to be fully functioning or in full health (for living assets) by third party service providers.

4. The supplier delivers the asset/s directly to the lessee.

5. The insurance company has an agreement on premiums with the financial service provider and sets up an insurance policy with the lessee – for himself, as well as for the acquired asset/s.

6. The lessee pays back the lease to the financial service provider with revenues gained from the productive asset.

The figure below illustrates the key players in microleasing as well as necessary agreements and financial flows.
The main benefits of microleasing include the following:

• The asset can be paid off over time with income generated through the asset itself (e.g. through increased milk production from dairy cows or increased crop yields due to an improved irrigation system). This avoids credit debts that spiral out of control.

• There is no need for collateral because the productive asset is owned by the leasing company/supplier until it is fully paid.

• The financial service provider does not disburse any cash to the lessee, which eliminates the risk of loans being used for other purposes, such as paying off a loan offered by another financial service provider.

• In general, there is a grace period between the receipt of the asset and commencement of payment on the lease.

• Microleasing contracts can be structured to meet the cash flow needs of the lessee and represent a viable vehicle for building up savings, enhancing and diversifying incomes and therefore stabilizing consumption and shielding or cushioning from risk.

• In addition to the asset, micro entrepreneurs receive training on the use and maintenance of the asset.

• Lessees and assets are fully insured, which means the lessee does not stand to lose money or fall into poverty in event of a default. This is key for risk mitigation and contributes to lower interest rates.

Client Story: Janet Kebati Monyenye, born 1952, Magena Kenya

Background: Janet lives in Kisii County, a small town in Western Kenya. She has worked in agri-business for many years and plants maize, millet and sorghum, and started dairy farming in 2008 when she leased a cow from Juhudi Kilimo. Janet was able to acquire the cow through microleasing, thereby providing her with a way to secure her finances and re-invest her savings. As her business grew, Janet was able to diversify her income by acquiring a second cow, raising chickens and renting two acres of land for growing bananas and staple foods. In 2014, Janet was employing two full-time workers and had an average monthly income of over US $215.00 (the Kenyan average is US $84.00).

Looking ahead: Janet plans to build a dairy unit and to buy a chaff cutter, which will make feeding her dairy cows easier and more efficient, and reduce harmful grazing. She also plans to increase the number of chickens she raises since there is market demand for eggs and meat.
3. Proof of concept: Swisscontact's approach and role in microleasing

Swisscontact promotes the concept and growth of microleasing as an innovative financial product to support smallholder farmers and micro entrepreneurs with increasing their livelihood.

Swisscontact acts as a facilitator and conducts feasibility and market studies, convenes preliminary dialogues with the necessary stakeholders (e.g. banks, insurance companies, farmer groups, training providers), and supports the negotiation of contracts between key microleasing parties. Pre-financing of the required assets is key to meeting the demand and Swisscontact has also helped to link microleasing service providers with investors.

Technical support is provided for training financial service providers and farmers, product development, and installing monitoring structures.

Together with its microleasing partners, Swisscontact assesses the regulatory environment for microleasing in order to ensure that the final design of the products meets the regulatory requirements of a given country. The supply and training needs of farmers are also prioritized in order to maximize outcomes.
Client Story: Hosea Kiplagat, born 1979, Kitale, Kenya

**Background:** While Hosea currently practices agribusiness with great passion and determination, this was not always the case. Growth of Hosea’s enterprise did not actually begin until his friend referred him to Juhudi Kilimo in 2006 and Hosea was able to lease his first dairy cow. His life started to change tremendously from that day on. Hosea owned 20 cows by 2011, and he was also able to venture into horticulture with the revenue he received from selling some of his cows. He planted ten acres of tomatoes in a traditional maize growing area and he was able to further diversify his crops and supply local markets and supermarket stores. Following the purchase of another 14 acres, Hosea began crop rotation farming, including planting beans and maize. He used the increased revenues to buy a small lorry to transport his products directly to his clients. Today, Hosea has two permanent staff and employs up to 50 workers during the harvest season. Due to his skills in modern farming, Hosea also acts as a model farmer and shares his skills in diversifying crops with his neighbors.

**Looking ahead:** Hosea has realized big returns in agriculture — especially in tomato farming and he now plans to purchase additional land and build larger green houses in order to further increase his yields. He also intends to modernize his dairy farming processes and expand his transport business.
4. Scaling up: Building microleasing through technical assistance and investment


In partnership with K-Rep Development Agency³, Swisscontact initiated the first microleasing pilot in the Kenyan market in 2006. The underlying motivation for this collaboration was the belief that delivering productive assets instead of loans would be an efficient approach in addressing access to finance hindrances for smallholder farmers. Few financial services were available to smallholder farmers at that time, knowledge and capacity about specific needs were low and there was a lack of sufficient funding.

Swisscontact sought philanthropic support from Credit Suisse, its longstanding funding partner, to back up the innovative yet untested model. Credit Suisse had existing activities in the microfinance sector and was interested to catalyze new financing paradigms, including through this promising new mechanism. Credit Suisse ultimately provided a grant of US $180,000 to support the microleasing pilot in Makueni district.

“The Credit Suisse has a very holistic approach to microfinance and impact investing, linking the top with the base of the income pyramid with grants and impact investments. We support innovative solutions like microleasing with our grant capital in order to bring new well-developed approaches to financial services and enable them to get to a sustainable, and investable, state.”

– Laura Hemrika, Impact and Microfinance Capacity Building Initiative, Credit Suisse

The product was subsequently structured and piloted – with the first assets being dairy cows, chickens, drip irrigation pumps and beehives. Technical assistance was provided concurrently in the form of training for farmers in financial management and agro-related skills.

Credit Suisse’s philanthropic investment made it possible for Swisscontact to conduct market research for validating the demand for commodities, feasibility studies for new assets, partner evaluations and training of staff, as well facilitating the process of bringing all the relevant stakeholders together.

Following the completion of the pilot in April 2009, the first independent microleasing company in Kenya – Juhudi Kilimo Ltd. – was born as a spin-off of the K-Rep Group and approved by the Kenyan Capital Markets Authority. The K-Rep Group facilitated and supported the initial spin-off and were the first shareholders along with the K-Rep Group itself, Acumen, Soros Economic Development Fund and Grameen Foundation. At the time, Juhudi Kilimo employed 22 staff members and served 2,000 clients with a financial volume of approximately US $705,000.

Swisscontact has made ongoing efforts to ensure the viability and growth of the company, as well as to meet the increasing demand for leased assets, by identifying and linking potential investors to Juhudi Kilimo to ensure sufficient funding for future phases.

2010-2014: Bringing to scale – Philanthropic Investment

In 2010, with Juhudi Kilimo poised for growth, the Ford Foundation provided Swisscontact with a US $50,000 grant for technical assistance to support organizational growth strategy and geographic expansion.

Juhudi Kilimo was supported with the ongoing technical assistance, including: product development and refinement, human resource and leadership development, marketing and outreach strategies, as well as representing the company in print media, road shows and market centers. The Juhudi Kilimo staff was also trained in management tools, fundraising and features of the agricultural sector.

Swisscontact’s organisational support during this period helped make Juhudi Kilimo “investment ready” and served to secure program-related investments from the Ford Foundation and Rockefeller Foundation that totaled more than US $1 million. The viability of Juhudi Kilimo as a business led the Grameen Foundation to make an equity investment of US $520,000.

“Prior to making a PRI in Juhudi Kilimo, the Rockefeller Foundation conducted thorough due diligence and found that the grant-funded technical assistance provided Juhudi Kilimo with a sound foundation for economic impact and business growth.”

– Brinda Ganguly, Associate Director, Rockefeller Foundation
Venture philanthropy nevertheless continued to play a pivotal role in Juhudi Kilimo’s growth. Credit Suisse complemented and built on Juhudi Kilimo’s successful efforts to raise investment capital for growth by making a grant to Swisscontact for an additional US $850,000 in 2011-2014 to support a large-scale rollout in Kenya, expansion into new value chains and technical assistance for organizational development. The funds also provided support for replication in Tanzania and Uganda.

Clients and the value of leased assets increased on a continuous basis as well: clients increased from 3,471 in 2010 to 9,493 in 2012 (+173%) and the value of leased assets from US $2.93 million in 2010 to US $7.79 million in 2012 (+165%).

Aside from Credit Suisse, the Ford Foundation made an additional US $500,000 program-related investment in order to reach more smallholder farmers and rural enterprises in Kenya. Additionally, the Soros Economic Development Fund invested over US $525,000 at that stage.

Juhudi Kilimo has been able to continuously develop and maintain strong relationships, which has helped the company to secure strategic long-term partners that have ensured ongoing support for microleasing and the smallholder farmers and micro entrepreneurs it aims to serve.

Juhudi Kilimo’s emergence as a profitable social business in this period further demonstrated how philanthropy, coupled with debt and equity investment, can support sustainable development finance.
As of 2014, approximately 20,300 micro entrepreneurs (of which 49.5% are women) benefitted from microleasing and the provision of assets worth more than US $18 million. These micro entrepreneurs were able to increase their incomes and productivity, with rural producers and micro entrepreneurs having in many cases doubled or even tripled their incomes in 12-24 months with new high-yield dairy cows and other assets. A repayment rate of more than 95% could be maintained throughout the years.
Juhudi Kilimo has demonstrated its capacity to build a profitable microleasing model in the agriculture and agri-business sectors, and recently launched Juhudi Labs to expand the leasing model into technology and solar energy sectors. This capacity for innovation and expansion has captured the attention of investors. As demonstrated in the table below, Juhudi Kilimo had over US $7 million in debt and equity financing by January 2015 from multiple investors, including Acumen, Grameen Foundation, Rockefeller Foundation, Ford Foundation, Soros Economic Development Fund, Kiva, Alterfin, responsAbility, Deutsche Bank and FEFISOL.

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<th>Equity Investment</th>
<th>Debt Investment</th>
<th>Grant Investment</th>
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<tr>
<td>Total US $2,500,000</td>
<td>Total US $4,100,000</td>
<td>Total US $1,000,000</td>
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Total amount of Equity, Debt and Grant investment by January 2015
Funders and partners have had a positive experience with microleasing in Kenya and have made philanthropic commitments for pilot projects and early stage technical assistance in East Africa and Latin America. This approach to expansion echoes “The Initiative for Smallholder Finance’s Report”\(^4\) (December 2014) on Rethinking Technical Assistance to Unlock Smallholder Finance, which calls for donors to “direct more funding to supply side technical assistance” and for “technical assistance providers and donors to coordinate across the supply side and the demand side to share perspectives and deploy financial tools...”

Microleasing cannot, however, be introduced as a “one-size-fits-all” financial product. Replication requires thorough market analysis to identify suitable value chains and market systems, comprehensive feasibility studies, identification and careful selection of suitable partners and facilitation of contract negotiations, and suitable early-stage venture philanthropy. It is also important to select the appropriate distribution channels for shortening the time-to-market for the new product, diversify the supply by using multiple financial services providers, have reliable investments to pre-finance assets and provide capacity building. Pragmatism and attention to local market conditions, enabling environments and the potential of target sectors are all key considerations for an effective microleasing strategy.

**East Africa**

Building on success in Kenya, microleasing made its first inroads into Uganda in 2012. Initial efforts contended with a microfinance landscape and regulatory framework remarkably different to that of Kenya, and practitioners had to learn about the market and identify viable agricultural value chains and suitable partners. Instead of relying on one partner to implement microleasing, Swisscontact identified additional distribution channels and focused on developing the capacity within commercial banks seeking downstream markets, as well as Savings and Credit Cooperatives (SACCOs).

The feasibility studies conducted in Uganda led to additional considerations for microleasing pilots in Rwanda and Tanzania. Credit Suisse saw the opportunity and value in replicating the model beyond Kenya and committed further grant support to initiatives in East Africa. By targeting the major economies in the East African Community (EAC), which are actively seeking to harmonize financial regulatory practices, Swisscontact is able to provide the proof of concept for innovative financing to spur economic growth within the EAC countries.

In 2013-2014, the Swiss Capacity Building Facility (SCBF) supported feasibility studies in eight Latin American countries to assess the local regulatory frameworks and market potential for microleasing. The studies employed the best practices of South-South cooperation and included site visits and meetings of Latin American development finance professionals with Juhudi Kilimo representatives.

Based on its findings, Swisscontact launched microleasing projects in El Salvador (beekeeping sector), Nicaragua (dairy, baking) and Peru (quinoa, dairy). Second round funding for these projects has already been secured from the SCBF and technical assistance commitments from Credit Suisse and the Peru Opportunity Fund.

Client Story: Jimmy Luwagga, born 1988, Kiboga District, Uganda

Background: Jimmy was born into a family with six children in the remote rural village of Kabuga. He dropped out of school because his parents could not afford to support him any further. Jimmy observed the high maize production in Kiboga district but he did not have the capacity to acquire the needed maize-processing machine. He therefore became a member of Kiboga Food Farmers’ Initiative Savings and Credit Cooperative (KIFFI SACCO) and was able to receive two small loans, which he repaid in time. Despite this success, though, he was not able to access the credit needed to acquire a maize miller, which would have helped him to enhance his family’s business.

Fortunately, Swisscontact supported the KIFFI SACCO in 2012 to develop microleasing products and Jimmy was one of the first beneficiaries. He was then able to obtain the maize miller and received additional training in agri-business, modern farming practices, entrepreneurship and basic financial management (i.e. record keeping). His life has changed significantly since he was able to increase his income. Jimmy managed to buy a motorcycle to transport his raw and processed maize to the market and he employs two villagers to work on the maize miller. He also makes the maize miller available for his home community.

Looking ahead: Jimmy plans to provide feed to other farmers in poultry and pig farming and he wants to start other enterprises in these fields. He also plans to increase the acreage for maize due to the demand on the market.
Swisscontact Technical Assistance Facility

Triggered by the success and impact of the microleasing proof of concept, Swisscontact and its partners have continued their commitment to this innovative financial solution. Evidence of the impact of these efforts has been identified in adjacent practice areas, most notably in enterprise development and resource efficiency. The field of economic development has grown increasingly dynamic — fueled by an engaged community of venture philanthropists, market-driven public-private partnership models and private sector solutions supported by impact investing networks — and Swisscontact launched a Technical Assistance Facility in order to better leverage these converging trends. The Facility provides an opportunity for early-stage catalytic and venture philanthropy to seed new businesses that become competitive, capable of growth and investment-ready, as well as innovations that increase productivity and income of rural producers and micro enterprises.

For more information about the Technical Assistance facility, please see: www.swisscontact.us/tafacility

Partners
Swisscontact was established in 1959 as an independent organisation by prominent individuals from the worlds of commerce and science in Zurich, Switzerland. It is exclusively involved in international cooperation and has carried out its own and mandated projects since 1961, maintaining close ties with the private sector since it’s founding.

Swisscontact is active in 28 countries, and has a workforce of over 900 employees. The organisation promotes economic, social and ecological development by successfully integrating people into the local economy and creates opportunities for people to improve their living conditions as a result of their own efforts.

The presence of a viable private sector is central to sustainable economic development. Through its projects, Swisscontact promotes the creation of functioning market structures and appropriate framework conditions, in order to improve the competitiveness of local businesses. In this way, disadvantaged people can be integrated into the economy and increase household incomes through employment and small business formation.

Swisscontact concentrates on four core areas of private sector development:

- **Skills Development**: Enabling access to the labor market and creating the conditions for gaining an occupation and earning an income;
- **SME Promotion**: Promoting local entrepreneurship with the goal of strengthening its competitiveness;
- **Financial Services**: Creating access to local financial services that offer adapted credit, savings, leasing and insurance products; and
- **Resource Efficiency**: Promoting the efficient use of resources through energy-efficient production methods and promoting clean air and sustainable waste management practices.

Swisscontact's peers have recognized the organization for its pioneering work in the microleasing field, and representatives of the organization are regularly invited to speak at conferences, lead working groups and participate in economic growth forums. In 2014, the OECD Development Assistance Committee awarded Swisscontact the DAC Prize for Taking Development Innovation to Scale for its Katalyst project in Bangladesh.
We create opportunities

Swisscontact Switzerland
Swiss Foundation for Technical Cooperation
Hardturmstrasse 123
8005 Zurich
Switzerland

www.swisscontact.org

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