

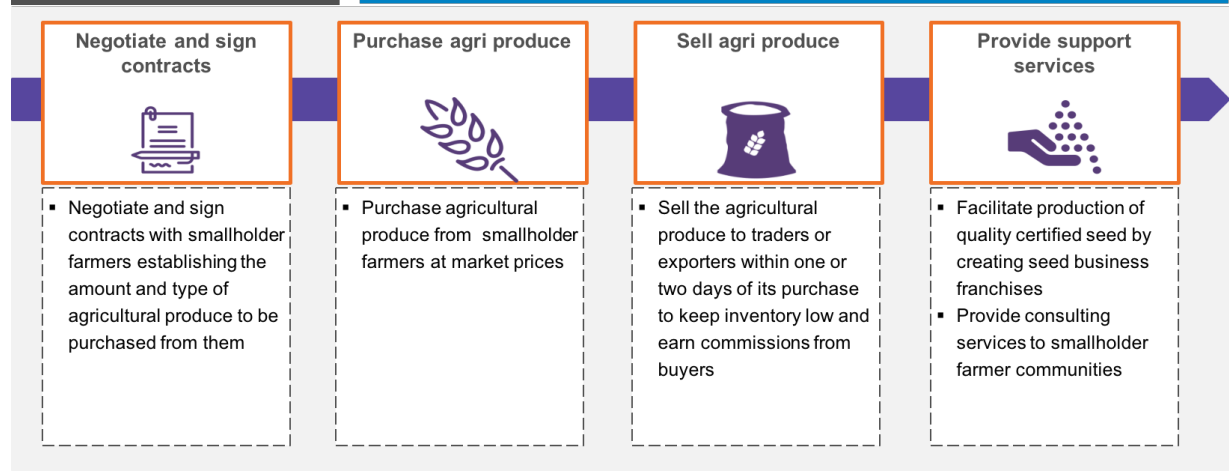
CASE STUDY: KILIMO MARKETS



Founding year: 2010
HQ: Arusha, Tanzania
Countries of operation : Tanzania, Kenya
Orientation: For-profit
Employees: 224
Turnover: USD 6.6 million

Local buyers and middlemen exploit farmers by paying them less than market prices for the agricultural produce. In the absence of adequate information and access to markets, farmers are forced to sell the produce to them.

Kilimo Markets provides comprehensive post-harvest business solutions for smallholder farmers in Tanzania. It is a farmer-owned business model that is replicable and scalable over a wide area, and aims to benefit smallholder farmers. It partners with farmers to provide quality inputs, contract management services to small hold farmers, and warehouse operation and logistics support. It buys and aggregates agricultural produce from smallholder farmers at market prices and sells it to traders, thereby earning a commission from them. The enterprise promotes sustainable development in its areas of operation by providing smallholder farmers confirmed linkage to markets to sell their agricultural produce. This results in increased agricultural production and increased income of smallholder farmers. It has **served over 2600** smallholder farmers in its areas of operation.



Operating Model

Kilimo Markets engages in trading of grains and pulses, sesame, groundnuts, beans and maize. It exports to different markets including South Africa and Kenya for maize; South Asia, Africa and Europe for beans; and India for pulses. It procures raw produce from smallholder farmers through buyback arrangements at fixed prices, and exports it through forward contracts. It thus connects farmers to better market opportunities. In addition, Kilimo Markets provides extension services.

Kilimo Markets has several subsidiaries, one of which is Kilimo Markets Limited Market Brokerage Service (KMB), which is licensed as a warehouse operator that provides both, access to affordable finance and efficient warehousing for smallholder farmers. It brokers contracts with smallholder farmers and also manages grain as collateral. KMB operates in the Tanzania warehouse receipt system in partnership with a leading national bank. The bank provides finance to the entire value chain of this business unit. This arrangement helps smallholder farmers have access to easy and affordable finance by depositing their agricultural produce in the Kilimo Markets warehouse.

Kilimo Markets sought to address two key challenges of smallholder farmers, namely, market links, and inadequate financing and contract facilities.

Another subsidiary, Kilimo Markets Seed Growers Services (KMSG) facilitates production of quality certified seeds by creating seed business franchises owned and managed by the Farmer Marketing Associations (FMAs) and the parent company Kilimo Markets. Kilimo Markets also provides

consulting services to smallholder farmer communities organized into FMAs. It provides training on various topics including savings-led microfinance, farmer financing solutions, agriculture best practices, productivity, and resource management. The enterprise also provides training to smallholder farmers in enterprise development and management, agribusiness registration, supply chain management, and entrepreneurship. Kilimo Markets leverages partnerships with government extension agencies and research institutes to ensure sustainability. It is actively developing partnerships with private and NGO partners.

Financial Sustainability

Kilimo Markets ensures financial sustainability using its strategy of aggregating smallholder produce in large quantities, and maintaining low inventory through efficient matching of contracts. The enterprise buys produce from the smallholder farmers at market prices and sells it within one or two days. The high volumes afford economies of scale which helps the enterprise negotiate better prices from the buyers. In 2015, it sold nearly 300-500 tons in single contracts. The primary source of revenues for the enterprise is income from the sale of exports. Other sources include fee for training and advisory services, and rent for warehousing facilities.

Some of the top cost components for the enterprise include transportation of produce, payment to farmers. Another important cost component is the cost of finance loaned from banks. Some of the initial funding sources of Kilimo Markets include finance from a bank that the enterprise had partnered with in the first two years of operation, and grant money from a challenge. The bank provided USD 90,000 to Kilimo Markets over a period of two years. It also received USD 150,000 from African Enterprise Challenge Award in 2011. Kilimo Markets achieved break-even last year; however it is not yet profitable.

Impact

Kilimo Markets has already served over 25,000 smallholder farmers, and has paid them over USD 3 million in premiums for their agricultural produce. In the absence of the enterprise, the smallholder farmers would receive at least 30 percent lower price from the local buyers. The enterprise promotes sustainable development in its areas of operation by providing smallholder farmers confirmed linkage to markets to sell their agricultural produce. This results in increased agricultural production and increased income of smallholder farmers.

It is expected from past experience that at least 60 percent of the beneficiaries will be women because of the way the groups, especially the VSLGs are formed and trained that appeal to women more than men.

Challenges and Lessons

Kilimo Markets faces a dearth of qualified personnel, who could support business activities in several ways including the operational activities and specific activities such as keeping a note of the subsidies permitted for the business model. The enterprise also mentions inadequate access to capital and infrastructure, bureaucratic struggles, and policies at regional level as other critical challenges.

The enterprise is planning its expansion, especially in South Asian countries including India. However, it has been facing several roadblocks. The enterprise has limited understanding of government policies, taxation rules and regulatory framework in India. It also faces challenges because of bureaucratic inefficiencies, and instability in prices due to trader cartel. Kilimo Markets has also gone through extreme situations wherein the enterprise encountered, non-adherence and breach of contractual agreements by buyers, including large processor firms.