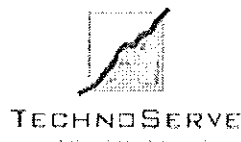

KESFIC
Kenya Smallholder Farmers
Investment Company Ltd.

in partnership with



S Y N A P S E
MARKET ACCESS FUND

and

 **AMR Research**

Kenya Smallholder Farmers
Investment Company
PO Box 3560-40100
Kisumu, Kenya
Tel: (254) (722) 654-930
info@kesfic.com otienos@swiftkisumu.com
<http://www.kesfic.com>

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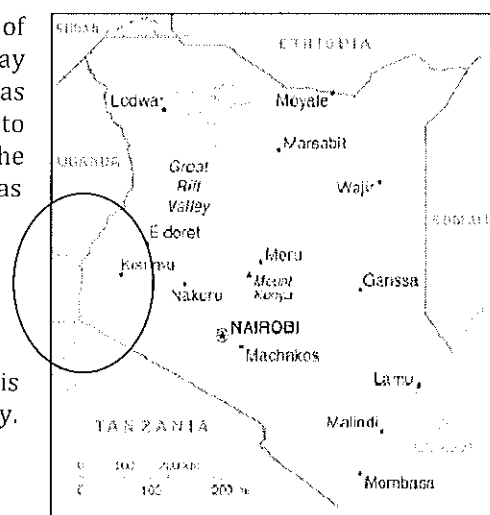
Executive Summary

In August 2006, TechnoServe established the Kenya Smallholder Farmers Investment Company (KESFIC), a farmer-owned, limited liability company to support the marketing efforts of the groundnut farmers in five districts of Western and Nyanza Provinces in Kenya. KESFIC's initial strategy was to take advantage of seasonal price variations and provide farmers access to more profitable markets. In the past, KESFIC had purchased raw groundnuts, rurally, at low prices during harvest season, then sold to urban markets at a premium when supply was diminished and prices higher.

This strategy achieved gross profits, yet not at optimum levels. Consequently, KESFIC sought to go beyond the basic bulking, storage and trading of groundnuts and move rapidly into the second phase of its strategic plan: value-added production. This move required additional financing; KESFIC's financing source: The Synapse Fund.

1. The Region

The western region of Kenya is home to nearly 30% of the country's population. Agriculture is the mainstay of the local communities, with maize dominating as the primary crop. Increased land pressure has led to land fragmentation with most families subdividing the small plots of land among their siblings. This has resulted in declining agricultural productivity, driving the region into a poverty trap and pushing most farmers to the brink of despair. According to the latest survey conducted by the government, Western Kenya is grappling with a 75% poverty level. This situation is aggravated by the fact that this area also has the highest HIV-AIDS rate in the country.



2. Lucrative Legumes Project

In this region, TechnoServe in September 2005 launched a two-year legume commercialization program, *Lucrative Legumes*, funded by the United States Department of Agriculture (USDA). Working in partnership with the International Crops Research Institute for the Semi-Arid Tropics (ICRISAT) and Catholic Relief Services (CRS), TechnoServe's objectives for the project were established:

... to increase productivity and sales of smallholder farmers and entrepreneurs in the legume sector. ... TechnoServe will work with all parts of this value chain in an integrated manner to strengthen the chain and to capture more value at each stage. ... The program will result in economies of scale and new, more profitable market channels for farmers, and new markets and higher volumes sold for legumes processors and bulk exporters.

Groundnuts and other legumes offer KESFIC farmers a promising cash crop alternative to maize, especially since TechnoServe and its partners have been working to introduce early maturing, improved seed varieties. Legumes have the added advantage of nitrogen fixing capacity, enabling farmers to improve overall agricultural productivity when legumes are rotated with other crops.

3. KESFIC Background

With support of US \$125,000 for technical assistance from BetterWorld Together Foundation and the Adesium Foundation, TechnoServe in August 2006 established the Kenya Smallholder Farmers Investment Company (KESFIC), a farmer-owned, limited liability company to support the marketing efforts of the groundnut farmers in five districts of Western and Nyanza Provinces in Kenya.

The overall goal for KESFIC was to improve farmers' access to high value markets and generate increased incomes for the smallholder shareholders. To ensure commercial viability and long term sustainability, TechnoServe would train farmers to invest in a commercial enterprise to open market opportunities. Specifically, TechnoServe and partners would establish the business, assist in staff recruitment, and set up management and financial systems. Farmers would then be invited to purchase shares in a bid to turn over full ownership of the business to smallholder farmers, with TechnoServe providing on-going management capacity-building over a one-year period.



In Kenya, groundnut prices fluctuate significantly according to local supply and demand, especially in relation to seasonal weather conditions. Because of price trends are predictable, smallholders would benefit by bulking and storing produce, then marketing when prices are high. Benefits from such a model are subject to supply, storage and marketing costs as well as the opportunity cost of capital held during the season.

KESFIC's initial strategy was to exploit these seasonal price variations as well as to provide better access to profitable markets. Specifically, KESFIC had been purchasing groundnuts rurally at low prices during harvest season, then selling at a premium in urban markets in the off-season. The gains from these operations are to be shared with the farmer-shareholders and suppliers in the form of dividends and bonuses, respectively.

In its second phase, KESFIC has sought to pursue value-added processing for groundnuts to achieve higher profitability, generating greater returns for local farmers. In the future, KESFIC plans to process other local crops (e.g. maize and beans), contract for input supplies, and provide consumer credit to its members. This multifaceted approach will serve to spread the risk of failure due to single-crop trading.



4. The Synapse Fund Lending, Value-added Processing, and New Markets

KESFIC has sought to move rapidly into the second phase of its strategic plan, value-added processing. Initial market assessments for processed groundnuts have indicated promising potential. TechnoServe, on behalf of KESFIC, has been approved for a loan of US \$25,000 from The Synapse Fund to develop the processed groundnuts business for KESFIC. The KESFIC business plan includes developing attractive products and markets, including new sales outlets.

Implementing this plan requires financing for capital equipment, technical assistance and working capital. Since this type of financing fits the charter of The Synapse Fund, the TechnoServe/KESFIC proposal was approved.

In addition to providing financing for value-added production and expansion to new markets, KESFIC will receive assistance in supply-chain management from AMR Research of Boston. An immediate result of the new partnership with Synapse and AMR is the serious prospect for selling to the bulk of KESFIC production to General Mills, the world's sixth largest food company. Discussion of KESFIC market expansion are underway between The Synapse Fund and General Mills.

