

21 January 2024

Innovations Session N°17

The potential of African regional markets:
Successes from SMEs and Smallholders



INNOVATIONS
SERIES



Mobilizing finance for agricultural SMEs in Africa



What is Aceli Africa?



Aceli Africa (“Aceli”) is an **incentive facility** that seeks to build a thriving market where capital flows unlock the growth and impact potential of small- and medium enterprises (SMEs) in the agriculture sector

- ❖ **Data-driven** based on economics of agri-SME lending
- ❖ **Market-level** with 37 lenders across Kenya, Rwanda, Tanzania, and Uganda
- ❖ **Impact-aligned** to reward loans to new borrowers and those that meeting higher standards for impact



Why agricultural finance?



65% of people work
in Agriculture
in East Africa



5% Agriculture receives less
than 5% of commercial
bank lending

Why agricultural SMEs?

SMEs have the potential to drive inclusive agricultural growth



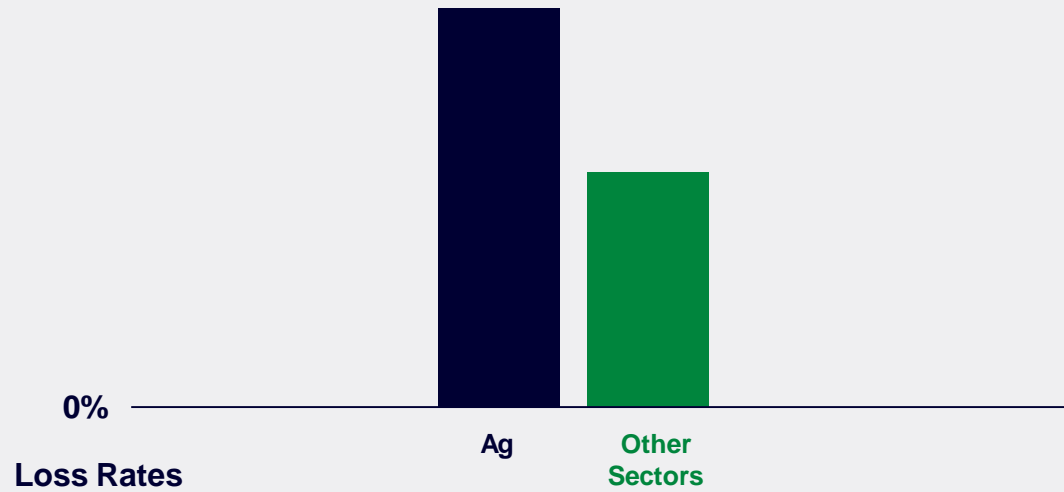
But 3 in 4 lack access to finance

Why does this gap exist?

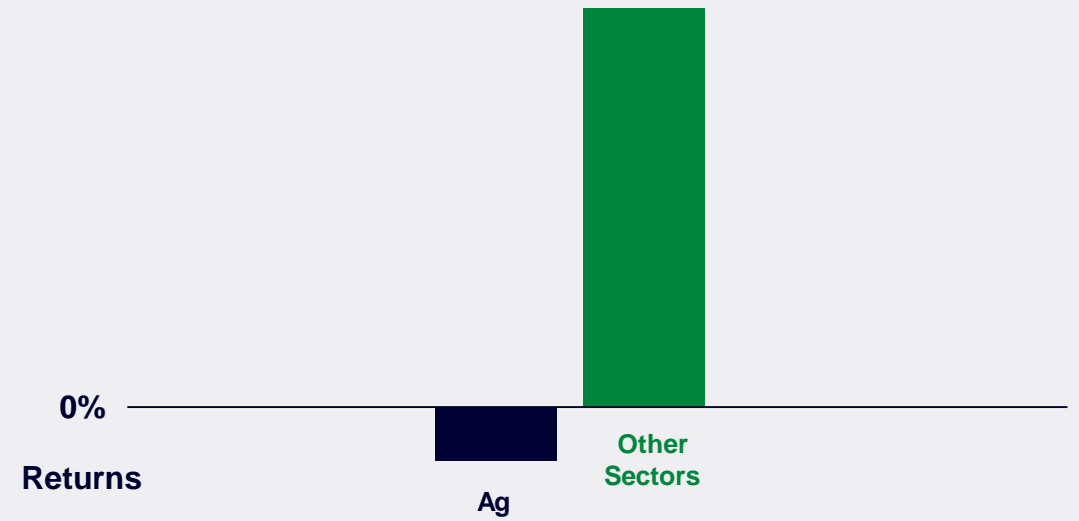


Financial benchmarking data from **35 lenders** on economics of **22k agri-SME loans** totaling **\$4.5 billion**

2X Higher Risk



Lower Return

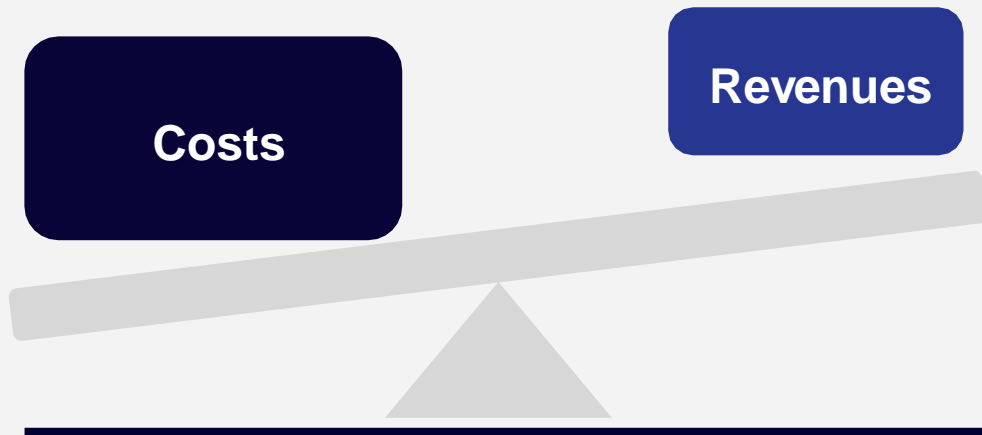


Aceli's vision: re-balance economics for agri-SME lending to align with impact



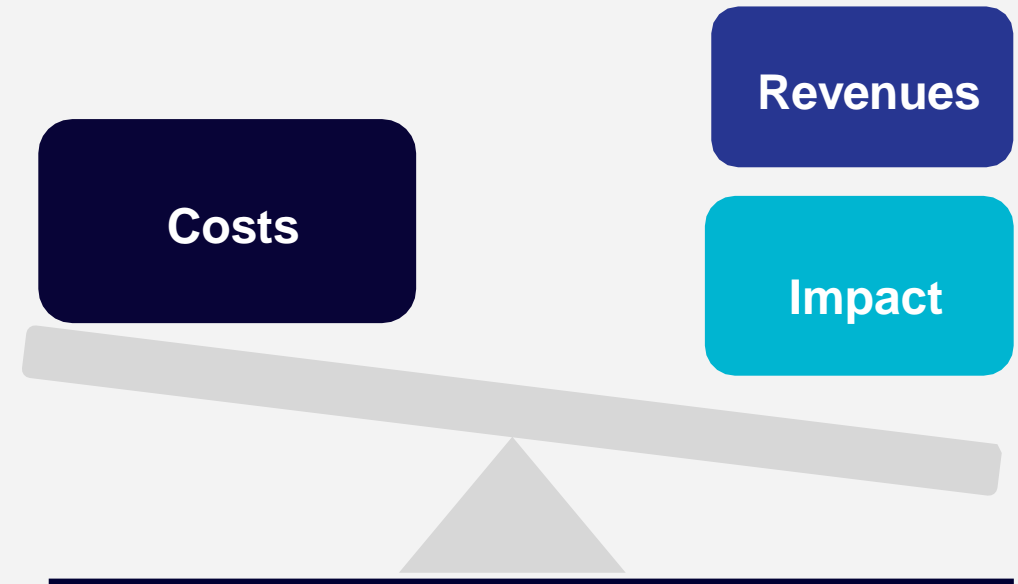
The status quo

AGRI-SME LOANS ARE UNPROFITABLE



Rewarding high-impact agri-SME loans

AGRI-SME LOANS ARE PROFITABLE



Aceli addresses challenges with solutions tailored to the least served segments of the market

Weak enabling environment

Challenges

High risks

Low Impact incentives

High costs

Limited addressable demand

Lender knowledge constraints

Solutions

i. Portfolio first-loss cover

+

ii. Origination incentives

iii. Impact bonus

Increase high-impact lending

iv. TA for SMEs

+

v. Capacity building for lenders

Expand demand and strengthen lenders' capacity to serve it

vi. Independent evaluation to inform policy

What is Aceli focus?



Demonstration model focused on East Africa



DONOR FUNDING

\$64m committed to date



ACELI OFFERINGS

- Financial Incentives for lenders
- Technical Assistance for SMEs & Lenders
- Data & Learning



IMPACT TARGETS – 2028, EAST AFRICA



Unlock \$1.2 billion in lending



Improve livelihoods for 2 million smallholder farmers & workers



Demonstrate scalable & replicable model



Qualifying loan criteria

Loan Tenor

> 3 months and < 5 years

Interest on loans

Interest and fees should be within market range

Loan Amount

- Origination Incentives: \$25K-500K
- Portfolio First-Loss Cover: \$25k-\$1.75M

Loan Purpose

For agricultural use including: working capital, CAPEX, factoring, leasing, etc.

Borrower Impact

- Annual Revenues: > \$50k and < \$3M (for origination incentives) or < \$10m (for 1st loss) **and**
- At least one of the following
 - Market access for at least 25 smallholder farmers
 - Inputs or other services for at least 100 smallholder farmers
 - Employs at least 5 full-time employees
- Loans that meet higher standard for i) food security & nutrition; ii) gender inclusion; iii) youth inclusion or iv) climate smart practices are eligible for additional incentives

Exclusion

Value Chain: Tobacco and other International Finance Corporation (IFC) exclusions
Purpose: Non agricultural loans, refinancing, restructured loans, overdraft
Environmental & social: e.g., deforestation, violation of labor laws

Financial incentives (1/2): Risk



Objective: increase lenders' risk appetite by absorbing incremental risk

Product: portfolio-level first loss

Design:

- ❖ Applies to loans of **\$25k-\$1.75M**
- ❖ **2-9%** of each loan paid into **reserve account** (~5% average)
- ❖ **Higher %** based on **risk** (new borrowers) & **impact bonuses** (climate & environment, food security & nutrition, gender inclusion, youth inclusion)
- ❖ **Reserve builds** up as loan volume increases
- ❖ Available to **cover any losses at portfolio level**
- ❖ **Complements** typical 50% loan guarantee offered by others



Objective: defray transaction costs to motivate lending to smaller, underserved SMEs

Product: origination incentives

Design:

- ❖ Applies to loans of **\$25k-500k**
- ❖ Payment of **2-14% of loan amount** depending on loan size, new vs returning borrower, and impact bonuses (same as previous slide)
- ❖ **Payments are unrestricted**, typically used for hiring new agri specialists, training staff, paying for field visits, conducting value chain analyses

Impact Bonus

FOOD SECURITY & NUTRITION



Food Security

- Inputs that improve farm productivity
- Climate adaptation (e.g., crop insurance, weather info)
- Diversification of food crops
- Reduce food loss

Nutrition

- Supply nutritious foods that contribute to a diverse and healthy diet for African consumers

CLIMATE & ENVIRONMENT



Regenerative

- Restore soil health and apply holistic land and ecosystem management practices
- Promote biodiversity, agroforestry and forestation of the ecosystem

Circular

- Design out waste and pollution
- Apply bio-economy solutions and re-use by-products

GENDER



Inclusion

- Farmer suppliers (40%+ women)
- Employees (40%+ women)
- Customers (majority of products benefit women)

Leadership

- Ownership (majority female owned)
- Senior Leadership (25%+ women)
- Board (30%+ women)

YOUTH INCLUSION



- Shareholding (30% by youth between 15-35 years old)
- Senior leadership positions (30% youth) OR board participation (30% youth)
- Farmer suppliers (25 - 50 farmers, 40% youth OR 50+ farmers, 30% youth)
- Full-time employees (FTE) (5-35 FTEs, 40% youth OR 35+ FTE, 30% youth)

Aceli lending partners



KENYA



TANZANIA

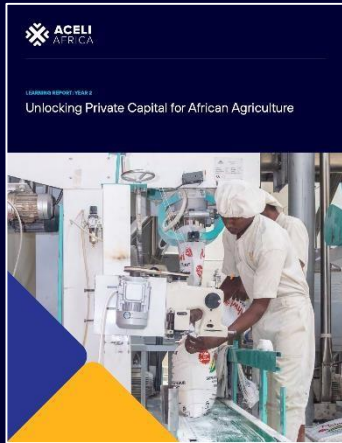


RWANDA



UGANDA

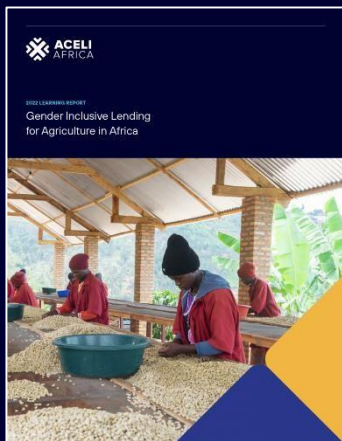




Year 2 Learning Report:
Unlocking Private Capital
for African Agriculture
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2023 Financial
Benchmarking Report
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Learning Brief: Gender
Inclusive Lending for
Agriculture in Africa
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Learning Brief: The Effect of
Central Bank Policies on
Lending to Agricultural SMEs
in East Africa
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Learn more at www.aceliafrica.org



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Thank you

