

**LEARNING REPORT: YEAR 3**

# Unlocking Finance for African Agriculture



## BACKGROUND

Aceli Africa (“Aceli”) is a market catalyst mobilizing finance for small- and medium-enterprises (SMEs) in the agriculture sector. Aceli offers financial incentives to unlock financing by a marketplace of commercial banks and non-bank lenders across East and Southern Africa. These incentives consist of portfolio first loss coverage that shares in the risk and origination incentives that defray the high transaction costs of serving agri-SMEs. Increased access to finance is critical for agri-SMEs to realize their growth and impact potential: creating economic opportunities for farmers and workers, particularly women and youth, boosting food security and nutrition across Africa, and contributing to a healthier and more resilient planet.

Aceli’s incentives target loans ranging from \$15k-\$1.75M, with a particular focus on loans in the \$15k-\$200k range that are well below the level typically reached by international development finance institutions and impact investors. Through our incentives program, Aceli aims to: i) accelerate the maturation of a more competitive and efficient lending market; and ii) build the evidence base demonstrating that the development return of these incentives and the economic activity they unlock far exceeds their cost. Aceli plans to progressively reduce incentives for lower-risk market segments, while making the case that donors and, increasingly, African governments can cost effectively advance their development priorities for segments requiring on-going support (e.g., smaller loan sizes, primary production, and regions susceptible to extreme climate conditions). Such an approach of publicly funded enabling policies underpinning commercial markets is consistent with how middle- and upper-income countries stimulate investment and provide a buffer against systemic risks in agriculture and other strategic sectors of their economies.

### KEY METRICS AS OF YEAR-END 2023

**2020**  
LAUNCH

**35**  
LENDING PARTNERS

**\$152M**  
CAPITAL MOBILIZED  
via 1567 loans

**\$97k**  
AVERAGE LOAN SIZE

**883k**  
FARMERS & WORKERS  
40% women

**5**  
COUNTRIES  
Kenya, Rwanda, Tanzania,  
Uganda, Zambia

This Year 3 Learning Report is structured around the three headlines below. It begins by presenting high-level metrics from Aceli’s financial incentives program and data trends in agri-SME lending across East Africa. It then delves into lender behavior change and emerging data on the additionality and impact of loans across different size segments as a precursor to more in-depth analysis on value for money in future publications. The report builds upon data and analysis in Aceli’s prior learning and benchmarking reports. In the final section, we share some of the questions we are grappling with and plan to explore in upcoming publications. We invite readers who are not already familiar with Aceli’s model to begin by reading this [overview](#) and [previous reports](#) for additional context.

## Report Headlines

As we enter Aceli’s fourth full year, we are reflecting on our experience to date and sharing our latest learning grouped around three themes:

- 1. Loan size:** The largest opportunity for bridging capital supply and demand to generate our intended impact is at ticket sizes well below both our original target and the focus of other donor-funded agricultural SME finance initiatives. Aceli’s approach has evolved from pre-launch expectations that most of the addressable market would be in the \$200k-\$1M range (based on the [data available](#) at that time) to a growing recognition that there is far greater unmet but still addressable demand down-market. Lender adoption has focused on smaller loans and Aceli has pivoted to meet the market where it is by lowering our loan size minimum from \$50k during design, to \$25k at launch in 2020, and further adjusting to \$15k in 2023 for certain high-impact market segments. This shift increases access to finance for unserved SMEs, particularly those owned by women and youth, but it also involves tradeoffs in the absolute amount of capital mobilized and associated capital leverage ratio.



- 2. Lender behavior:** Sustained lender behavior change requires a combination of i) incentives to shift the risk-return profile of financing agri-SMEs and ii) deep engagement aligning strategic commitments with operational realities. Data from Aceli-supported loans and feedback from lenders indicate a material shift in lenders' collective reach to new geographic areas, value chains, and enterprise profiles, particularly women- and youth-owned SMEs, since joining the incentives program. There are also emerging trends as many lenders are rolling out new financial products, such as warehouse inventory receipts, to extend financing to SMEs with limited fixed assets to offer as collateral. Progress in any given area varies between institutions and changes in lender strategy and product offering typically take 6-12 months or longer. Over the past year, Aceli has developed a Lender Activation Tool ([see more on page 11](#)) to assess each lender's capabilities and inform our capacity building tailored to influence its strategy and practices. We believe this engagement, alongside the financial incentives for lenders, technical assistance for SMEs to expand addressable demand, and stronger enabling policies, are all needed as part of a coordinated approach to catalyzing a more competitive and efficient agri-SME finance market.
- 3. Evidence-based policies:** Aceli's data points to an emerging case for African governments and international donors to boost inclusive economic growth by allocating more funding and strengthening enabling policies for agri-SMEs, particularly those requiring finance at the lower end of the SME range (\$15k-\$200k). At each decreasing loan size segment within the Aceli range (\$15k-\$1.75M) there is a correspondingly higher volume of SMEs that are either completely unserved by the financial markets or significantly underserved. Our data indicates that the lending economics for smaller loan sizes require higher incentives on a percentage basis because of the high transaction costs relative to the income these loans generate from interest and fees. At the same time, the underlying performance to date of Aceli-supported loans is slightly better for smaller ticket sizes than larger ones. Section 3 of this report details how smaller SMEs collectively engage a large volume of farmers and workers. Unlocking the growth and impact of these SMEs will accelerate the transition to more productive and inclusive agricultural economies.



As Aceli continues to scale up our incentives offering in East Africa and expand in Y4 to Zambia, our learning agenda is focused on five themes:

- ✦ Within the agricultural "missing middle" (i.e., larger than microfinance but smaller than corporate), how do **financing gaps** vary by enterprise size, financing need, value chain, geography, and other characteristics?
- ✦ How does **enterprise performance** vary by market segment and what interventions – across capital supply, demand, and enabling environment – can most efficiently accelerate agri-SME growth?
- ✦ How does the **depth of impact** on farmers, workers, and the environment vary between agri-SMEs of varying profiles and what are the spillover effects to other actors in the value chain?
- ✦ What is best-in-class **value for money** for market interventions bridging the agri-SME financing gap while delivering high capital additionality and impact on people and planet?
- ✦ Drawing on evidence related to each of the above, how can national governments target their **enabling policies** to optimize market development with limited resources?

**SECTION 1**

# Meeting the market where it is

The largest opportunity for bridging capital supply and demand to generate our intended impact is at ticket sizes well below both our original target and the focus of other donor-funded agri-SME finance initiatives.

## 1.1 Lenders are utilizing incentives to scale up agri-SME financing down-market

In Aceli’s third full year of operations, lending partners almost doubled the number of loans registered for incentives from 433 to 845. New lenders continue to sign up for the program with 24 lenders registering at least one loan as of year-end 2022, 35 in 2023, and at least seven more projected for 2024. With lenders typically ramping up their activity in the second and third years of participation, we expect the volume of loans registered for incentives to double again in 2024 and continue to grow rapidly over the next few years.

While Aceli’s ultimate objective of catalyzing a more competitive market for agri-SME finance remains unchanged, our experience implementing the incentives is substantially different than what we originally envisioned, as highlighted in Diagram 2.

Diagram 2

### Key performance indicators

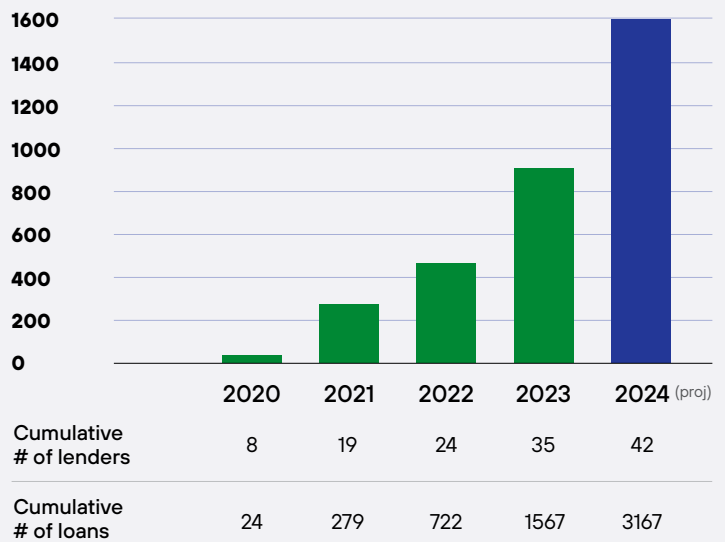
Projections then (pre-launch) and now

Key performance indicators	Original projections 2020 - 2025	Cumulative thru year-end 2023	Revised projection 2020 - 2025
# of lenders	15-20	35	45
# of loans	1,500	1,567	5,500
Capital mobilized	\$700M	\$152M	\$500M
Avg loan size	\$467K	\$97K	\$91K
Capital leverage	17.5x	9.9x	9x
Loans by lenders domiciled in Africa	50%	93%	90%
Loans to first-time borrowers	30%	62%	50%
# of farmers & workers (% women)	1.1M (30%)	\$883k (40%)	2.2M (40%)

Diagram 1

## Growth in lender utilization of Aceli incentives

Number of loans



Above target (to date) / increasing target (revised) ■  
Below target (to date) / lowering target (revised) ■

**Some of the indicators that have shifted include:**

- ✦ **More lenders.** With 35 lenders participating to date and many more slated to join in 2024, we are seeing interest from many more market actors (2x and growing) than anticipated. [See here for a full list of Aceli’s lending partners.](#)
- ✦ **Weighting to African banks.** Commercial banks domiciled in East Africa comprise the largest share of lenders by type (61% compared to 21% non-bank financial institutions and 18% multi-country social lenders) and banks account for an even higher proportion (77%) of the loans. As of year-end 2023, Aceli’s lending partners have a combined 1,702 branches and most banks are expanding their branch networks outside of major cities and closer to agricultural production zones. Following this trend, we expect that banks will drive the majority of lending to agri-SMEs in our target size range, especially in food crops and other domestic value chains requiring loans in local currency.
- ✦ **Non-bank lenders address important market gaps.** At the same time, a small but growing cadre of non-bank financial institutions (NBFIs) is offering specialized products such as factoring and equipment leasing that fill important gaps in the market. International social impact lenders tend to focus on loans at the middle and upper end of Aceli’s range and offer unsecured or semi-secured loans based on cash flows; they also set a high bar in their impact orientation and often facilitate technical assistance alongside their financing.

- ✦ **Loans to smaller SMEs add up.** We originally projected that the majority of loans would be in the \$200k-\$1M range with smaller tails on either end. Instead, 92% of loans have been under \$250k while just 3% have been \$500k-\$1.75M (see Diagram 3a). While the larger loans go to SMEs that individually have much higher revenue and reach significantly more farmers and workers, SMEs receiving loans under \$250k collectively account for 73% of total SME revenues compared with just 12% for SMEs receiving loans of \$500k and above (Diagram 3b). See Section 3 for more detailed discussion of enterprise and impact metrics by loan size.
- ✦ **Less capital mobilized and lower capital leverage ratio.** Smaller average loan size (\$97k actual vs. \$467k projected) has meant that total capital mobilized is well below projections (\$152M actual at year-end 2023 compared with \$420M projected). Likewise, capital leverage (measured as capital mobilized / cost of financial incentives) is correspondingly lower (9.9x v. 14x) as smaller loans require relatively higher incentives based on the high transaction costs compared to the interest and fee income these loans generate. Note: these leverage ratios are still well above the average leverage ratio of 4x for blended finance facilities globally based on data gathered by Convergence Finance.<sup>1</sup>
- ✦ **Higher loan volume and capital additionality.** At the same time, capital additionality has far exceeded projections. Aceli defines a **new borrower** as one that has not received a loan of \$25k or more from any source for the past three years (more detailed

Diagram 3a

**Percentage of loans by size segment**

Total loans: 1,567

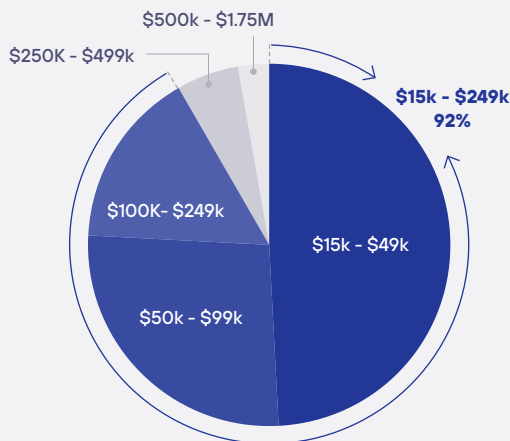
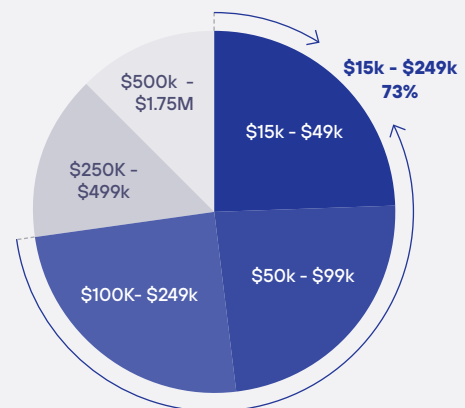


Diagram 3b

**SME revenue by loan size segment**

Total SME revenue: \$977M



<sup>1</sup> "How much does a dollar of concessional capital mobilize?" by Andrew Apampa, Convergence Finance.

definition in footnote).<sup>2</sup> Using the percentage of loans to new borrowers as one proxy for additionality, the 63% of loans going to new borrowers is double both the 30% we projected and the benchmarks from the broader market data presented in Section 1.2. The impact measurement firm 60 Decibels surveyed a sample of SMEs receiving Aceli-supported loans and found that 84% do not have access to similar financing from other lenders. Note: Aceli also assesses the additionality of loans to returning borrowers (e.g., through reduced collateral requirements or longer loan tenors).

- ✦ **Strong impact profile at SME level.** On a purely numeric basis, Aceli is on pace to double our reach from a target of 1.1M to 2.2M farmers and workers. Beyond these numbers, we are particularly



#### IMPACT ON FARMER & WORKER LIVELIHOODS: PRELIMINARY FINDINGS

60 Decibels has also conducted surveys with a sample of farmers and workers linked to SMEs receiving Aceli-supported loans. Preliminary findings indicate that 72% of farmers are gaining market access and feeling more secure in their livelihoods based on their relationship with an SME receiving Aceli-supported financing compared to 13% who report feeling neither secure nor insecure in their livelihoods, 12% who feel slightly insecure, and 2% who feel very insecure. We hypothesize that when SMEs are able to access to finance on a timely basis and affordable terms, farmers will in turn have better access to markets and other services that improve their livelihoods. We are gathering data to test this hypothesis with a range of SMEs over multiple production cycles.

Meanwhile, 89% of workers report higher salaries than their previous employer (or other primary source of income) and more than 40% report that the SME is their first formal employer. We plan to share more detailed findings for a larger sample and a second round of surveys with the same respondents to track changes pre- and post-loan later in the year. Aceli is drawing upon these findings to refine the criteria for our incentives, capacity building for lenders, technical assistance for SMEs, and partnerships with other organizations offering complementary services.

interested in the depth of impact based on the quality of market access and other services that SMEs offer farmers and the salaries and benefits provided to workers. Analysis on the impact of financing at SME level based on interviews with a sample of entrepreneurs is presented in Aceli's [2023 Aggregate Impact Snapshot](#).

- ✦ **Better than expected loan performance.** To date, Aceli's lending partners have made claims for credit losses totaling \$331k or just 6% of the amount that Aceli has deposited into lenders' first loss reserve accounts. However, default claims are a lag indicator as the volume of new loans registered for incentives is ramping up, the average loan tenor is 24 months, and lenders make claims several months after the loan goes into default and they have pursued standard collection procedures. The percentage of loans that are non-performing for 90 days or more is a better predictive indicator; that figure was 5% of the outstanding loan balance across all Aceli lending partners as of year-end 2023, which is slightly below the 6–8% range we projected.

We are testing our initial assumptions about which loan profiles are riskier based on value chain, ticket size, and other factors and seeing some unexpected trends to date. For example, loans to SMEs at the primary production stage of the value chain (i.e., directly exposed to climate and other production risks) are performing better than those in processing. Smaller loans are also performing better than larger loans. As we expand the pool of loans over multiple crop cycles, we aim to develop data that can be used both by lenders to inform risk-based interest pricing and by policymakers such as Central Banks in how they regulate lending to the agriculture sector.

On balance, there are several factors indicating that the incentives are activating a more competitive and inclusive marketplace after three years. These include: more lenders participating than projected; weighting to lenders domiciled in East Africa; significantly high loan volume and additionality; and strong impact profile of SMEs receiving loans. The trends we are seeing in the incentives program are consistent with the broader market trends observed in this year's financial benchmarking data, most of which covers loans that have not received Aceli incentives.

<sup>2</sup> Since lowering the loan size minimum to \$15k in 2023 for loans meeting impact criteria related to women, youth, and environment, we consider loans in the \$15–\$25k segment as "new" if the SME has not accessed a loan of \$15k or more from any source in the last three years. For loans \$25k and above, Aceli continues to define a new borrower as one that has not received a loan of \$25k or more from any source for the past three years.

## 1.2 Utilization of Aceli incentives tracks rapid growth in the broader agri-SME lending market

In collaboration with Dalberg Advisors, Aceli recently released a [financial benchmarking report](#) covering data from 20.3k loans totaling \$1.2 billion issued from 2019–22 by 35 lenders that are now participating in Aceli’s incentives program. The data includes loans ranging from \$10k–\$2M originated in Kenya, Rwanda, Tanzania, and Uganda. The majority of the loans either pre-date Aceli’s engagement with lenders or do not otherwise qualify for Aceli incentives (e.g., loan size or duration were outside Aceli’s range).

Aceli-supported loans account for 10% of the loans in the dataset for 2021–22 and are likely to be a growing share of the dataset in future years. Despite this limited overlap, we include high-level findings from the benchmarking analysis in this learning report for two reasons: 1) to provide context on the evolution of the agri-SME finance market in the region going back to 2019; and 2) to underscore the rationale for Aceli’s increasing focus on loans under \$200k given the concentration of borrowing demand and the challenging lending economics to serve these smaller size segments.

### Key findings from the financial benchmarking include:

- ✦ **Bank lending to agri-SMEs is ramping up.** Lending value to agri-SMEs more than tripled from \$153M in 2019 to \$497M in 2022 and bank lending to agriculture doubled as a share of total portfolio allocation from just 2.0% in 2019 to 4.1% in 2022. With the balance sheets of most participating banks growing year-on-year, even modest increases in overall allocation to agriculture can add up to significant expansion in absolute terms.
- ✦ **Most loans are at the lower end of the size range.** For example, in 2022, loans ranging from \$10k–\$200k represented 94% of the loans in the dataset and 50% of lending value.
- ✦ **All loan size segments are growing in volume with the segment for smaller loans growing fastest.** While all loan size segments had annualized growth rates of at least 30% over the past three years, the smallest segment (\$10k–\$25k) had the fastest growth of 60%. This trend is consistent with the concentration of loans receiving incentives in Aceli’s smallest segment (\$15k–\$49k).

- ✦ **A small number of loans at the upper end of the range account for a material share of value.** Loans in the largest segment from \$500k–\$2M comprised only 2% of loans by number in 2022 but accounted for 30% of the total amount.
- ✦ **Outreach to new borrowers is a lead indicator for continued sector growth.** Lenders issued 33% of the loans to new borrowers. Influenced by the policy initiatives described below, Tanzania was a positive outlier with 56% of loans going to new borrowers, while other countries ranged from 22–34%. Aceli’s incentives are designed specifically to generate capital additionality and are achieving this result with 62% of Aceli-supported loans going to new borrowers despite using a narrower definition of “new borrower”<sup>3</sup> than the one used in the market analysis.
- ✦ **Aceli incentives reduce the opportunity cost for commercial banks with more profitable alternatives.** Notwithstanding economic shocks from COVID-19 and global instability, banks in East Africa continue to be extremely profitable as shown in Diagram 4. Government 10-year bond yields offer attractive and relatively safe returns at 10–17% with minimal effort. Meanwhile, Aceli incentives have lifted average returns for agri-SME lending across the region from 3.2% to 6.5%. These returns, while lagging other sectors, may begin to be attractive for lenders that see growth opportunities in the agriculture sector. In addition to growing their loan portfolios, lenders may be able to capture increased deposits from agri-SMEs and the economic activity they generate (see [TCB example](#) in Section 2). Lastly, lenders also gained favor from their own governments and from development partners that allows them to tap into lines of credit, capacity building, and loan guarantees.
- ✦ **Larger loans are more profitable than smaller ones (see Diagram 5).** This data illustrates why many lenders are reluctant to serve smaller loan segments, particularly the large volume of SMEs seeking \$10–25k or often seeking larger loan amounts but not meeting collateral requirements to qualify.

<sup>3</sup> Note: the definition for “new borrower” in the benchmarking data is more expansive (new to the lender) than the one used for Aceli’s incentives (first loan from any financing source in the past three years). See footnote on page 6 for more detailed definition.



Diagram 4

### Commercial bank profitability

Average profit before tax, % of gross revenues, 2022  
(all numbers converted to USD)

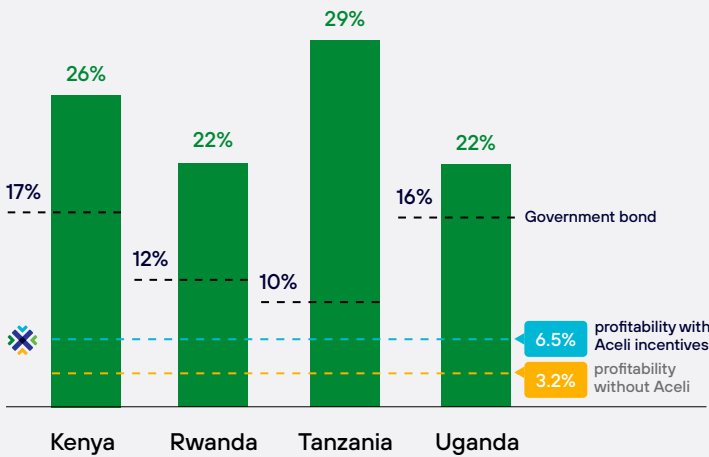
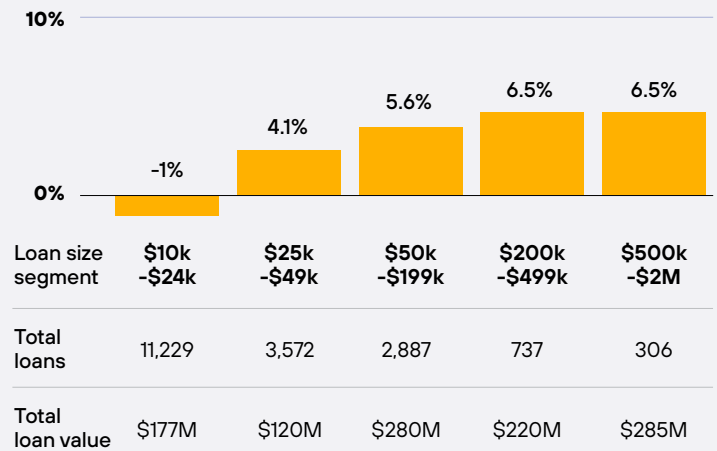


Diagram 5

### Profitability by loan size

East African banks, 2019-2022

Net profit/loss



### THE ROLE OF POLICY IN AGRI-SME FINANCE: TANZANIA CASE STUDY

Policies enacted in 2021 by the Tanzanian government in response to COVID-19 highlight the effect that a stronger enabling environment can have on the agri-finance sector. Specifically, the Tanzanian government established a Tanzanian Shilling (TZS) 1 trillion fund (roughly \$435 million at the time) to be channeled through financial institutions for agricultural lending. Banks accessing these funds pay an annual interest rate of 3% in TZS and are required to lend to the market at rates of no more than 10% in TZS. Participating banks are subject to reduced minimum reserve requirements that allow them to deploy more capital in the market.

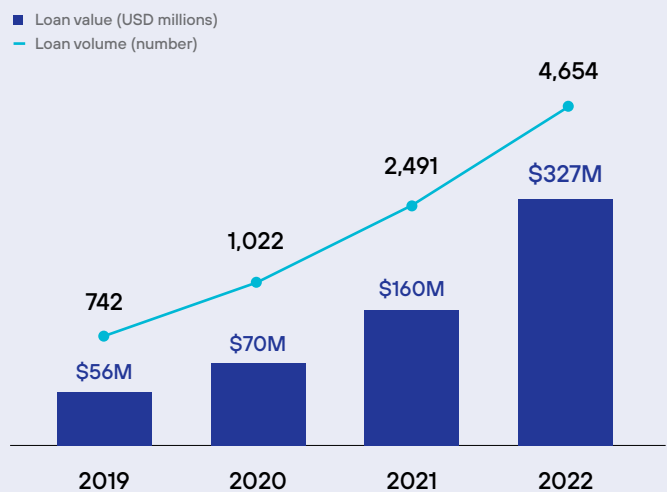
Given the significant volume of these funds relative to the overall agri-lending market in Tanzania, this policy has improved bank liquidity, stimulated a substantial increase in agri-lending (see Diagram 6), and lowered interest rates for agricultural lending among the institutions in Aceli’s dataset from 20.6% in 2019 to 11.4% in 2022. Notably, the low-cost government funds have thus far been extended only to Tanzania’s two largest commercial banks, CRDB and NMB. Expanding this affordable capital to other lenders could further increase agricultural lending in Tanzania across an increasingly competitive market.

*Note: To be clear, Aceli was not involved in enacting the policies described above; however, our incentives amplify the effects of the policies. For example, a*

*large majority of loans in Tanzania that are receiving Aceli incentives are going to new borrowers (84%) and Tanzanian lenders are outperforming lenders in other countries in terms of the share of loans going to businesses owned by women and youth. The initial success of these complementary approaches offers a blueprint for how affordable capital and incentives can stimulate higher volume and more inclusive agri-lending. Further analysis is required to assess the cost-benefit or value for money of each approach.*

Diagram 6

### Tanzania loan volume & value





**SECTION 2**

# Activating lenders to serve the agri-SME market

Sustained lender behavior change requires a combination of: i) incentives to shift the risk-return profile of financing agri-SMEs and ii) deep engagement aligning strategic commitments with operational practices.

## 2.1 Lenders are developing a more favorable view of the agriculture sector over time

Of lenders participating in the incentives program for at least one year, 81% report that their current perception of the agriculture sector is better than before joining the program, while 19% report it has remained the same and none report it has worsened. This is notable during a period of macroeconomic instability. The surveys only included lenders participating in Aceli’s incentives program (i.e., there is no comparison group) so findings cannot be attributed specifically to Aceli. However, lenders’ satisfaction with the program suggests there is a positive correlation (see the [financial benchmarking report](#) for lender feedback on incentives program).

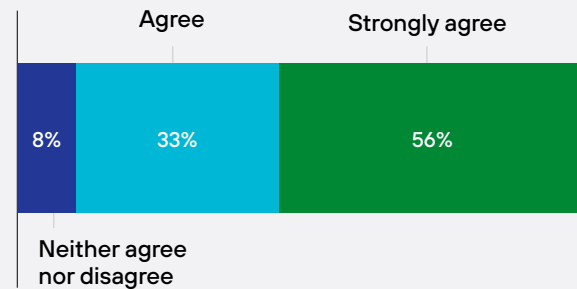
**Senior leadership support for agri-SME lending is stronger than expected.** We have been positively surprised by the level of professed commitment to agri-SME lending among senior leaders at Aceli’s partner lenders. As shown in Diagram 7, more than half of respondents (primarily middle managers leading agribusiness functions) strongly agree with the statement

that “senior leaders in my institution are strongly committed to lending to agri-SMEs.” At the same time, Aceli’s experience with lenders underscores the challenges of translating this high-level support into significant and sustained behavior change. We have seen that senior leadership buy-in and financial incentives such as those offered by Aceli are *necessary but not sufficient* ingredients for lenders that have only dabbled in agri-SME lending in the past to serve this market effectively at scale.

Diagram 7

### Leadership commitment to agri-SME lending

Senior leaders in my institution are strongly committed to lending to agri-SMEs. (Strongly agree to Strongly disagree, N = 36 lenders)



#### FROM STRATEGY TO OPERATIONS: THE CASE OF BANK OF KIGALI

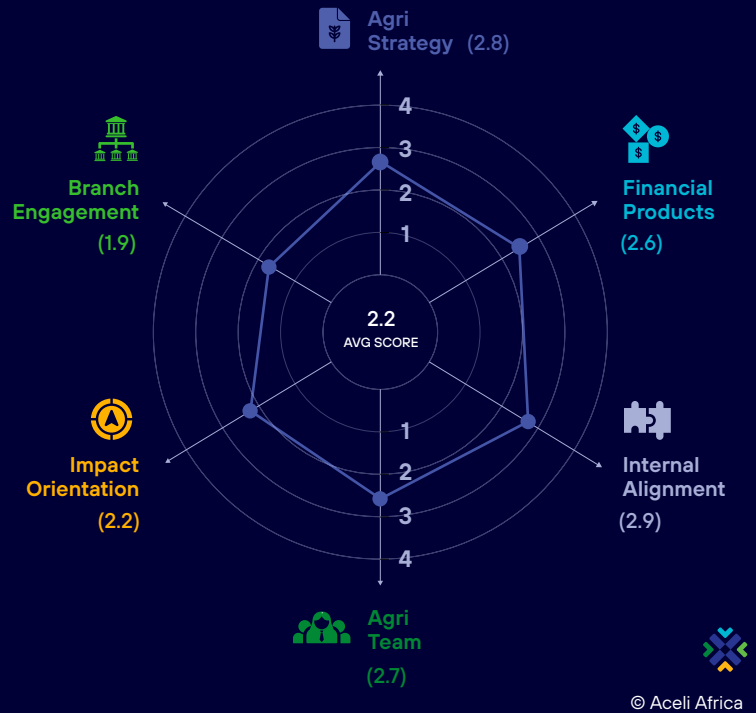
Bank of Kigali (BK) is the largest commercial bank in Rwanda. In recent years the bank has established a five-year agricultural lending strategy, set ambitious growth targets for the sector, created a dedicated agriculture department, and hired and trained agriculture specialists. BK has also adapted its product offering by: tailoring repayment terms to the seasonal cycles in crops such as coffee and tea; extending unsecured loans up to ~\$40k for high-performing cooperatives in dairy, maize, and rice; and financing via warehouse inventory receipts and factoring for enterprises with limited fixed assets to offer as collateral.

In the first six months after joining the Aceli incentives program, BK had relatively modest lending volume (14 loans registered for incentives in the first half of 2023); by mid-year, the bank had integrated the incentives into its operations, including key performance indicators that are reviewed on a weekly basis. In addition, the bank modified its performance rewards for staff by paying the majority of Aceli’s origination incentives into a bonus pool for a cross-section of middle managers, frontline staff originating and monitoring loans, and even back office staff involved in credit administration. Another portion of the incentives is set aside for team building activities and staff training. The bigger picture shift: agriculture is increasingly recognized as a priority sector by BK not just in its strategic messaging but throughout its operations. In aggregate, these operational changes are starting to bear fruit with BK issuing 27 loans in Aceli’s range in the second half of 2023 and projecting significant growth for 2024.

## Aceli Lender Activation Tool

Over the past year, Aceli has developed a Lender Activation Tool based on six indicators briefly described below. To date, we have used this tool internally to guide our lender engagement and capacity building support. We are now integrating the tool into tailored feedback reports on how lenders benchmark to their peers and impact data to support their journey towards larger scale, more profitable, and higher impact agricultural lending.

We rate each lender on a scale of 1-4 across each of the six dimensions. The visual at right shows the composite scores for all Aceli lending partners based on our year-end 2023 assessment. The overall average score is shown in the middle. In aggregate, lenders score best on Internal Alignment. Branch Engagement, a category specifically relevant for banks, is the dimension where lenders score the lowest and a litmus test for measuring their overall mobilization for agri-lending. We have noted improvements in Impact Orientation as more banks formalize their ESG policies and participate in gender lens investment trainings offered by Aceli in partnership with Value for Women; nevertheless, banks still lag on Impact Orientation relative to social lenders, which collectively score 3.6 on this indicator.



### Lender activation indicators

#### Agri Strategy

Is agriculture a clearly-stated strategic priority for the lender, complete with accountability structures to boost performance in this sector? Is agriculture a sizeable share of the lending portfolio?

#### Financial Products

Does the lender offer financial products that are tailored to the financing needs of the agricultural market segments targeted in its strategy?

#### Internal Alignment

Is there buy-in at the top of the organization and across key decision-making functions (e.g., business banking, credit risk, treasury, legal & compliance) to push growth in the portfolio?

#### Agri Team

Is the agricultural team sufficiently resourced and empowered to execute the lender's strategy?

#### Impact Orientation

Are lenders orienting their strategies, products, and operations to seek out and serve high-impact, underserved agri-SMEs? Are lenders integrating impact metrics into due diligence, decision-making, and reporting?

#### Branch Engagement

Have banks trained and empowered their branches to implement their agri strategies? Are HQ objectives integrated into the reward and accountability structures at branch level?

## 2.2 Lenders are shifting their strategies and practices

Diagram 8 captures responses from 24 Aceli lending partners who had participated in the incentives program for at least six months as of Q3 2023. A significant majority of lenders report increased focus on new borrowers (73%) and new value chains (62%) over the past year. These responses align with the profile of Aceli-supported loans where 62% are going to new borrowers and several lenders report expanding their coverage areas with Aceli's origination incentives defraying their operating costs.



### FINANCING NEW GEOGRAPHIES AND YOUTH ENTREPRENEURS: THE CASE OF EFTA

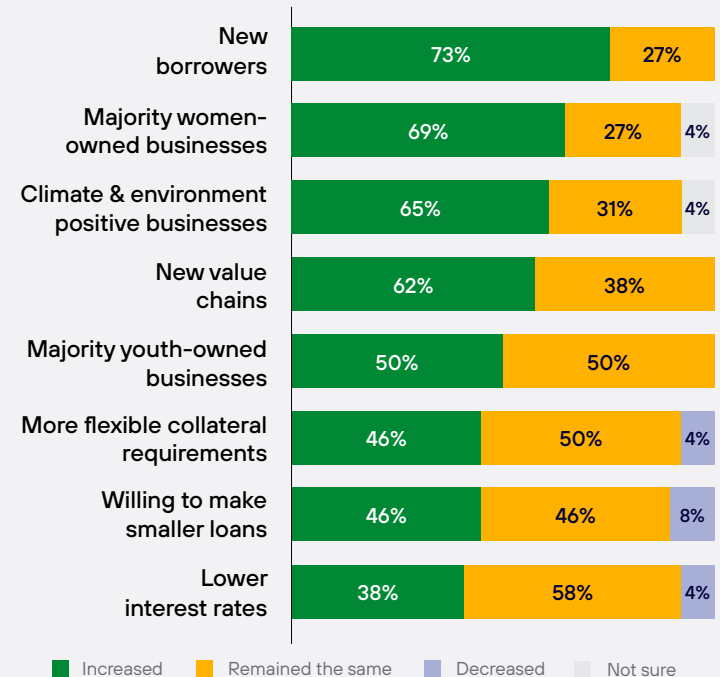
EFTA is a Tanzanian NBF that specializes in equipment leasing for agri-processing, vehicles, tractors, and other farm equipment. Prior to joining Aceli's incentives program, EFTA limited its geographic coverage to a two-hour drive radius from its eight branches. With support of Aceli's incentives, EFTA has removed this geographic restriction and has **more than quadrupled its overall agri-lending volume** from 16 loans to agri-SMEs in 2021 to 71 in 2023. **More than half of these loans are going to SMEs beyond EFTA's previous coverage area** and 30% are in 11 districts where EFTA was previously inactive. EFTA has also issued 99 loans totaling \$1.6M to agri-SMEs that are in these new districts but fall below Aceli's loan size threshold; it has made a further 31 loans to SMEs operating in other sectors outside of agriculture in these districts. This is a powerful example of the **positive spillover** effects of Aceli's incentives on EFTA's reach. From an inclusion perspective, 30 of EFTA's loans in 2023 went to youth-owned SMEs. While EFTA is not specifically targeting youth entrepreneurs per se, its equipment leasing product does not require additional collateral so EFTA's growth and increased geographic coverage area create opportunities for youth entrepreneurs with limited assets or track record in remote areas.

Other measures of lender practices have shown more moderate improvement. Just under half of lenders report increased appetite for smaller loans (46%), which tend to be less profitable, and a similar number (46%) indicate that they have reduced their collateral requirements (often this

Diagram 8

## Lenders' reported changes in strategy & practices

How has your institution changed its lending practices on the following dimensions over the past year?



takes the form of extending larger loans for a given amount of collateral that has already been pledged by an SME). Thirty-eight percent of lenders have lowered interest rates for borrowers, with several specifically citing Aceli's origination incentives as the impetus; the majority of lenders report steady interest rates, which is a notable finding in the context of rising interest rates over the same period globally.

### Increasing finance for women, youth, and climate.

The positive responses from lenders on the dimensions of women, youth, and climate & environment (69%, 50%, and 65% of lenders report increased appetite to lend to each group, respectively) mask underlying challenges in financing SMEs across these categories. For example, as of August 2023, 51% of Aceli-supported loans went to SMEs that meet the [2X criteria](#) for gender inclusion with most qualifying on the basis of meeting the threshold criteria of 40%+ farmer suppliers or employees. However, only 9% of these SMEs were majority women owned. An even smaller percentage of loans (4%) went to SMEs owned by youth aged 35 and under. The proportion of SMEs meeting Aceli's impact bonus for climate & environment (17%) also lagged our target of 20% and is well below what is needed to build an agriculture sector that stewards natural resources while both adapting to and mitigating climate change.

Importantly, lender attitudes have been shifting over the past few years with many recognizing the business case of serving more women-owned businesses. Aceli's partnership with Value for Women has supported several lenders in defining tailored strategies and financial products for women entrepreneurs. For example, Family Bank in Kenya has developed a "Women's Product Proposition" with targeted communications for women entrepreneurs and loans with reduced collateral requirements. With this approach, complemented by Aceli's incentives, the bank has increased its financing for women-owned agri-SMEs from just three in 2021 to 24 in 2023. There is also positive spillover beyond the loans Aceli is supporting as many of Family Bank's loans are now going to women-owned SMEs that fall below Aceli's minimum loan size threshold.

## 2.3 Incentive adjustments and their impact to date

To accelerate lender activation in priority impact areas, we adjusted our financial incentives in August 2023 specifically for loans to women-owned, youth-owned, and climate & environment SMEs ([see Aceli impact policy for definitions](#) of all three). Changes focused on both expanding the pool of SMEs eligible for Aceli-supported loans (by lowering the minimum loan size from \$25k to \$15k) and increasing the origination incentive to motivate lenders to seek out and serve SMEs in each of these three areas.

- ✦ **Loan uptake for women- and youth-owned businesses.** In the first four months following the adjustments, the share of loans going to women-owned SMEs more than doubled (from 9% to 20%) while loans to youth-owned SMEs increased from 4% to 13%. Of the 87 women- and youth-owned SMEs receiving Aceli-supported loans in this period, 73% were accessing a loan of \$15k or more from any source for the first time. Notably, the average loan size and average revenues for women- and youth-owned SMEs are *less than half* the average for SMEs owned by males 35 and over. While it's still early to make conclusions, this relatively modest market intervention appears to demonstrate both high elasticity in capital supply and substantial addressable demand among SMEs that previously had limited access to finance.
- ✦ **Limited uptake for climate & environment SMEs.** By contrast, there has been minimal increase over the same period in the percentage of loans going to SMEs that meet Aceli's climate & environment (C&E) impact criteria. Aceli's C&E bonus rewards loans to SMEs practicing regenerative agriculture and/or circularity in re-using waste products or renewable energy. Note: this definition intentionally does not include many climate-smart practices (e.g., crop insurance, drought-resistant seed) that build farmer resilience in adapting to climate change but do not necessarily have planet-positive benefits and are therefore included under Aceli's food security and nutrition impact bonus.
- ✦ **Technical assistance (TA) for SMEs with C&E business models.** Aceli partners with incubators, accelerators, and other actors to identify high-potential agri-SMEs that have planet-positive business models and coordinates with service providers to offer TA that prepares these enterprises to access and manage financing.
- ✦ **Matchmaking** to link SMEs with C&E business models to financing. We are also considering whether to offer interest rebates for C&E businesses accessing finance for the first-time as a way to on-board them into the formal financial market.
- ✦ **Advisory for SMEs to adopt C&E practices.** Aceli is partnering with an advisory firm in Uganda on a pilot basis to support SMEs in adopting circular and regenerative agricultural practices. Based on learning from this pilot, we will look for ways to partner with other actors and scale up these services in coordination with our incentives program.
- ✦ **Capacity building on climate finance** for lenders, similar to Aceli's gender lens advisory with Value for Women.



**BRANCH ACTIVATION: TCB CASE STUDY**

An estimated 1.9M Tanzanian smallholder farmers grow cassava, including roughly half of farm households in the Kigoma region near the border with Burundi and Democratic Republic of Congo. Cassava production in Kigoma typically involves sustainable practices such as crop rotation, low mechanization, minimal synthetic fertilizer, intercropping with maize and beans, and traditional integrated pest management. However, limited access to finance has previously constrained productivity, market access, and associated benefits on farmer livelihoods and food security across the region.

Founded in 1925, Tanzania Commercial Bank (TCB) has historically shied away from agriculture: when the bank joined Aceli’s incentives program in mid-2021, its agribusiness portfolio was \$7.5M or roughly 2% of its total loan book. But TCB had a latent asset: 83 branches distributed across the country, including in key agricultural regions such as Kigoma.

When TCB first considered lending to cassava enterprises in Kibondo district, it was deterred by the distance of the SMEs from its Kigoma branch, the limited fixed assets SMEs could offer as collateral, and the bank’s lack of experience financing cassava. Aceli’s incentives have shifted TCB’s outlook relative to:

- ✦ **Cost:** TCB reports that Aceli’s origination incentives covered the bank’s additional cost of fuel and time to visit SMEs, enabling it to expand its geographic coverage (see Diagram 9), conduct a market study to understand the cassava value chain, and structure a new warehouse receipts loan product.
- ✦ **Risk:** Aceli’s portfolio first loss coverage shifted TCB’s risk appetite allowing it to accept inventory as collateral in lieu of fixed assets.

From a base of zero cassava loans in Kigoma (or anywhere across the country), TCB issued nine loans totaling \$817k under its new warehouse inventory receipt product in 2022. All nine SMEs repaid on time and the bank also noticed a spike in deposits, which strengthened the internal business case for TCB to scale up the warehouse receipts product. In 2023, TCB increased cassava lending five-fold to over \$4M, including larger loans to the original nine borrowers, loans to eight new SMEs with support from Aceli incentives, and an additional 13 loans to cassava SMEs that were too small to qualify for Aceli incentives. Increasing demand for cassava from aggregators has raised prices for farmers and the branch is now providing insurance to farmers who, for the first time, see cassava as an investment. The growth in lending, deposits, and services has quadrupled branch

Diagram 9: TCB agri-SME lending in Northwest Tanzania



profitability and TCB has begun offering the warehouse receipts product from other branches and to other crops with an initial pilot in 2023 of four new borrowers in coffee, maize, and rice.

**Livelihood impact.** Collectively, the 34 SMEs provide market access for 2,900 smallholder farmers and employ 143 full-time workers. Aceli’s learning partner, 60 Decibels, conducted surveys of 131 farmers supplying one of the

SMEs and found that 99% reported accessing commercial markets for the first time, 100% reported livelihood improvements, and 92% cited yield improvements from fertilizer use and hiring labor to weed.

In the words of one 22-year old cassava farmer, “I have bought an agricultural land and was able to build my own house.”

**SECTION 3**

# Building evidence to guide “value for money” decisions

Aceli’s data points to an emerging case for African governments and international donors to allocate more funding and strengthen enabling policies for agri-SMEs, particularly those requiring finance at the lower end of the SME range (\$15k-\$200k).

## 3.1 Lenders are developing a more favorable view of the agriculture sector over time

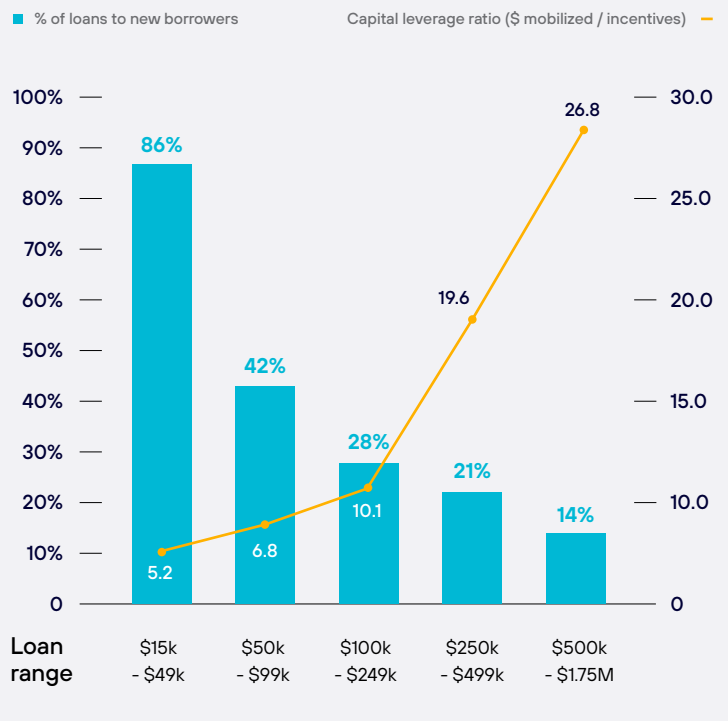
Aceli’s [Year 2 Learning Report](#) presented data on how the percentage of loans to new borrowers (as a useful if imperfect proxy for capital additionality) is inversely related to the leverage ratio of our financial incentives. With more than twice as many loans in this year’s incentives data and reduced loan minimum to \$15k for certain high-impact loans as described above, we subdivided loans under \$100k into two categories: \$15k-\$49k and \$50k-\$99k. The findings in Diagram 10 are striking: 86% of loans in the smallest category are going to new borrowers compared to just 14% of loans above \$500k. Beyond additionality and leverage ratios, other metrics suggest that the high volume of smaller SMEs at the lower end of Aceli’s size range collectively represent an important segment for inclusive economic growth.

- 1. Loan volume is concentrated at smaller ticket sizes.** Almost half of loans receiving incentives (49%) are in the smallest size range from \$15-\$49k and 92% are under \$250k. Overlaying this data onto the additionality data in Diagram 10 at right showing the much higher percentage of first-time borrowers in the smaller segments, we conclude that the financing gap is disproportionately weighted to the smaller loan sizes. We also infer from this data, feedback from our partners, and

Diagram 10

## Relationship between new borrowers and capital leverage ratio by loan size

Loans receiving incentives 2020-2023



our prior experience as lending practitioners that a much larger share of SMEs remains unserved or underserved at the smaller end of Aceli’s range (and below our minimum) than at the higher end of the range and above it.


2. **Larger SMEs engage substantially more farmers & workers.** SMEs receiving loans of \$500k-\$1.75M engage ~33X more farmers and workers than SMEs receiving loans in the \$15k-\$49k range.
3. **However, SMEs accessing smaller loans in Aceli’s dataset collectively reach a slightly larger share of the rural population than SMEs accessing larger loans.** Across the five size segments, 55% of farmer suppliers and workers are associated with SMEs receiving loans under \$250k.
4. **Average SME revenue varies by loan size but not proportionally.** More specifically, the average loan size in the \$500k-\$1.75M range is \$732K or 23x the \$32k average for the \$15k-\$49k range. This variance is substantially larger than the revenue variance (i.e., ~9x or \$2.99M / \$328k). Another way to look at this is that SMEs in the smaller loan size bracket are accessing financing amounts that are roughly 10% of their prior year’s revenue while SMEs in Aceli’s largest loan bracket are accessing financing that is 24% of revenue. We interpret these figures – and aim to test this hypothesis as we gather more data – to mean that the smaller SMEs are receiving much less financing than they need and can responsibly

absorb. Notwithstanding this disparity, our analysis of a modest but growing number of SMEs returning for a second year of Aceli-supported financing suggests that SMEs in the smaller loan size brackets under \$100k are growing faster than SMEs in the larger brackets above \$250k. More surprisingly, smaller loans are actually performing better than larger loans (the percentage of non-performing loans at 90 days is 3% for loans \$15k-\$49k and 5% for loans \$500k-\$1.75M). While there are rational reasons for conservative lending to smaller SMEs (e.g., limited collateral and management capacity), with the right incentives to defray lenders’ transaction costs and protect their downside, lenders can tap into a market with substantial growth potential *and* impact.

5. **The total revenue for SMEs in the smaller loan size categories is significantly greater than those in the large category.** SMEs in the smallest size range collectively generate twice as much revenue as those in the largest range and SMEs receiving loans under \$250k account for 73% of the total revenue (see Diagram 3b). Again, from a policy perspective, national governments that want to increase employment and expand their tax base may want to invest in supporting agricultural SMEs, particularly smaller ones that are less likely to operate in the formal economy at the moment but could be motivated to formalize with access to growth opportunities.

Diagram 11

## Impact metrics by loan size segment

	Loan range	\$15k-\$49k	\$50k-\$99k	\$100k-\$249k	\$250k-\$499k	\$500k-\$1.75M
1	# of loans	728	396	230	82	40
2	Avg # of farmers & workers per SME	146	210	1,289	2,417	4,834
3	Total # of farmers & workers	106k	83k	296k	198k	193k
4	Avg revenue per SME	\$328k	\$589k	\$1.04M	\$1.78M	\$2.99M
5	Total revenue	\$239M	\$233M	\$239M	\$146M	\$120M
6	Avg purchases by SME per farmer supplier	\$1,662	\$1,627	\$428	\$346	\$383

**6. While depth of impact is difficult to measure, it is notable that smaller SMEs buy more per farmer than larger SMEs and also spend a larger share of topline revenue on crop purchases.** SMEs

receiving loans under \$100k purchase from far fewer farmers than SMEs receiving loans above \$100k but smaller SMEs also purchase a higher dollar amount per farmer (~4x) than larger ones. Across all loan size segments, roughly 3% of topline revenues goes to full-time employees and an average of 59% of topline revenues goes to farmer suppliers to secure their crops. While SMEs across all loan segments ranging from \$50k-\$1.75M spent, on average, 53% of their topline revenues on crop purchases from farmers, SMEs in the \$15k-\$49k segment spent 71% of their revenues on crop purchases. We are intrigued by this difference and plan to probe further in the coming months.

In the absence of more comprehensive data about agricultural SMEs across the market, the findings above are limited at the moment to the loans Aceli has supported. However, we believe that the overall market dynamics in terms of the total number of SMEs, their collective revenues, and the share of farmers and employees they engage are likely skewed even further to smaller SMEs. We base this inference on: the lending economics across size segments per Diagram 5 in Section 1.2 (i.e., we expect that lenders prioritize serving SMEs in the more profitable size segments); the volume of activity weighted to smaller loan sizes; and the much higher percentage of new borrowers at the smaller size segments.

### 3.2 Evidence for action

In our [Y2 Learning Report](#), we discussed the dearth of evidence in the agri-SME finance sector and Aceli's aim to expand the evidence base for stronger enabling policies. Aceli's multi-pronged data and evaluation approach includes annual financial benchmarking; evaluation of lender behavior and SME access to finance; surveys on SME access to finance and farmer and worker livelihoods; and evaluation on the effect of technical assistance on SME investment readiness and access to finance.

Beyond evaluating our direct interventions, we also aim to build evidence across the broader agri-SME finance sector. To that end, in January 2024, Aceli and IGC issued an open call for proposals via an [Agri-SME Evidence Fund](#) to support policy-relevant research at the intersection of agriculture, finance, and SMEs and that goes beyond the scope of Aceli's direct activities. For example, research might delve

into topics such as how business formalization affects access to finance, enterprise growth, and other measures of economic development or whether marginalized groups such as women and youth benefit equally when agri-SMEs have improved access to finance? The Evidence Fund will focus initially in East Africa with the aim of influencing policies that strengthen the enabling environment for an inclusive and sustainable agri-SME finance sector.

Aceli launched in 2020 with a five-year plan and a longer-term vision for catalyzing more competitive and inclusive capital markets supported by stronger enabling policies for agri-SME finance across East Africa and beyond. As we approach the final year of this first phase, we are focused on deepening impact in Kenya, Rwanda, Tanzania, and Uganda while also adapting the incentives model to other markets through Aceli's direct expansion to Zambia and our advisory partnership with [Coa](#) in Mexico. We are building an evidence base that will inform our programmatic adjustments and contribute data and learning for sector development. Learning priorities include:

1. **Financing gaps.** Within the "missing middle", how do financing gaps vary by enterprise size financing need, and other characteristics (e.g., crop, type of SME)? What share of SMEs in each size segment are being adequately served by finance, underserved, or entirely unserved?
2. **Enterprise performance.** How do loans perform across different borrowers – crop, stage of the value chain, enterprise revenue, enterprise type (e.g., farmer organization vs. private SME)? What percentage of the smaller enterprises grow to the larger segment and on what time horizon? What market interventions at what costs can increase the number and accelerate the timeline for SME growth?
3. **Depth of impact.** How does the depth of impact on farmers, workers, and the environment compare between agri-SMEs of varying profiles? What approaches on both the capital supply and demand sides are particularly inclusive for women and youth? What are the business, environmental, and livelihood benefits associated with uptake of climate adaptation practices by agri-SMEs and their farmer suppliers? How does impact risk, or "the likelihood that an enterprise's impact performance will diverge from expectations," vary by enterprise profile? <sup>4</sup>
4. **Value for money.** How should practitioners and researchers measure capital additionality and

<sup>4</sup> Definition of impact risk by Impact Management Project accessed on [Impact Frontiers](#), February 5, 2024



impact related to agri-SME interventions in order to produce comparable value for money analyses? What is “best in class” value for money for capital supply side interventions such as Aceli’s financial incentives or loan guarantee facilities? To what extent is there a compelling development impact return on investment for donors and policymakers to support SMEs that have modest growth in addition to those that are growing more rapidly? What are the spillover effects, both positive and negative, associated with increased access to finance for agri-SMEs (e.g., tax payments and export earnings at a macroeconomic level; access to education, health, and other services at a household level; climate resilient agricultural practices; gender-based violence; rural-urban migration)?

**5. Enabling policies.** In addition to targeted, evidence-based incentives, what enabling policies are most effective in stimulating a vibrant agri-SME sector? How can central bank regulations be adjusted to remove constraints to agri-SME lending while still ensuring prudential oversight of the financial sector? What other policies related to business formalization, taxation, investment, and trade, among others, are needed to build a sustainable food system and inclusive agricultural economy?

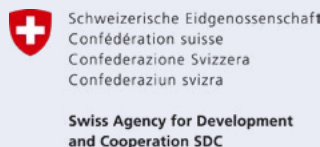
Aceli’s approach will continue to iterate as we track how lenders and SMEs respond to our incentives, capacity building, and engagement. We hope our learning can contribute to solutions for bridging the agri-SME financing gap in other geographies and possibly in other sectors as well.

Aceli would like to thank our donors for their support and partnership:

**ANCHOR FUNDERS**



Ministry of Foreign Affairs of the Netherlands



We also thank: Bill & Melinda Gates Foundation, Good Energies Foundation, Mulago Foundation, and Rabelais Trust.

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