ACELI AFRICA

Produced in partnership with Dalberg

Profitability of Agricultural SME Lending in East Africa

2023 Benchmarking Report

Report Content

Section 1. Foreword and Executive Summary

Introduction

Aceli Africa (Aceli) is a **market incentive facility** launched in September 2020 to mobilize lending for small- and medium-enterprises (SMEs) in the agriculture sector. Access to finance for agri-SMEs is critical for unlocking their growth and impact potential, including: creating market access for smallholder farmers and employment for workers, particularly women and youth; boosting food security & nutrition in Africa; and contributing to a healthier and more climate-resilient planet.

In 2018-19, Aceli and Dalberg Global Development Advisors (Dalberg) gathered data from 31 lenders on the loan-level and portfolio-level economics of 9.3k loans totaling $3.5 billion to agricultural SMEs. **The data indicated that risk in agricultural SME lending is twice as high as in other sectors and that financial returns are significantly lower.** These findings informed the design and launch of Aceli's financial incentives for agricultural SME lending in Kenya, Rwanda, Tanzania, and Uganda. Aceli and Dalberg continue to gather lender data on an annual basis to track trends and guide adjustments for Aceli's incentives, which aim to mobilize $1.4 billion in agri-SME lending and improve livelihoods for 3.6M farmers and workers by 2028.

This report focuses on data gathered for an additional 13.2k loans issued by 31 lenders to agricultural SMEs in East Africa during the period 2019-21. In addition to quantitative analysis at both loan- and portfolio-levels, the report includes an assessment by Dalberg of the initial results of Aceli's financial incentives based on data from the first 16 months of operations thru year-end 2021 and interviews Dalberg conducted with participating lenders from June - August 2022.

Aceli offers lenders two types of financial incentives: 1) Portfolio first-loss cover (FLC) is a risk mitigation tool for agri-SME loans of $25k-$1.75M with incentives accruing in a lender's reserve account as it makes more loans and then available to cover losses across the lender's portfolio of qualifying loans. 2) Origination incentive (OI) are cash payments to lenders to defray the high transaction costs for originating loans ranging from $25k-500k to agricultural SMEs.

Introduction

- **The 2023 Benchmarking expands and updates data on the volume, distribution, and economics of Agri-SME lending in East Africa. Somewhat surprisingly, lending among the actors participating in this study increased during the period 2019-21 despite the COVID-19 pandemic.** Aceli and Dalberg note that this increase is largely independent of Aceli's interventions, given the timing relative to Aceli's launch in late 2020 and limited reach during the data period.

- **At the same time, the findings reinforce the need for incentives such as those offered by Aceli.** The recent growth in agri-SME lending is from a low base that still represents <5% of lenders' overall portfolios. Banks remain cautious about lending to the sector, as evidenced by short tenors, stringent collateral requirements, and the low profitability of agri-SME loans in the absence of incentives. Aceli's incentives improve the economics on agri-SME loans for all lender types, materially boosting profitability for banks, albeit still below returns from other sectors and low-risk government bonds. The incentives bring non-bank financial institutions (NBFIs) and social impact lenders, whose overall profitability is below that of commercial banks, closer to breakeven on their agri-SME lending.

- **Incentives are also shifting lender practices in promising directions** as lenders expand to new ticket size segments, new value chains, and more remote geographies. Some lenders have also lowered collateral requirements, reduced interest rates, and are targeting enterprises aligned with Aceli's impact bonuses for gender inclusion and climate & environment. Based on the data and interviews it conducted with the lenders, Dalberg concludes that Aceli's model is beginning to achieve its objectives, while also noting continued barriers and the multi-year time horizon required for more significant and lasting change. With Aceli entering a third year of operations, the learning from this benchmarking analysis and lender interviews is informing adjustments to Aceli's incentives. As of year-end 2022, Aceli's incentives have supported 30+ lenders in issuing 713 loans totaling $84M. More detail on Aceli's impact metrics and learning up to year-end 2022 are captured in slides 45-46 and in Aceli's Year 2 Learning Report.

Executive Summary: Data trends (2019-2021)

This 2023 Benchmarking Report is based on analysis of ~13.2K loans with a value of $749M USD**,** issued from 2019 to 2021 by 31 banks, non-bank financial institutions (NBFIs), and international social lenders in Kenya, Rwanda, Tanzania, and Uganda. **Agri-SME lending by these actors grew significantly from 2019 to 2021 (45% annual increase in loan value, 57% annual growth in number of loans)**; similar growth rates occurred from 2017 to 2021 among lenders who reported data over that full period. Notable trends:

- **The largest volume growth is driven by commercial banks issuing smaller loans** of $10k-50k in Kenya and Tanzania and activity across the region is increasingly concentrated in food crop value chains;
- **Social lenders and NBFIs represent a modest share of the total lending volume but fill gaps not served by commercial banks,** including unsecured loans, factoring, and equipment leasing; and
- **COVID created market uncertainty** and led some agri-SME lenders to be conservative with loan tenors and collateral requirements, but the **relative resilience of agriculture generated increased interest among lenders in expanding their agri-SME portfolios.**

Nevertheless, agri-SME lending remains a challenge; lenders cite high sector risks and high operating costs as the leading barriers to lending; these challenges translate into high interest rates and onerous collateral requirements for borrowers. Despite high interest rates and collateral, many lenders struggle to lend profitably to agri-SMEs.

Aceli incentives shift the economics for agri-SME lending: the margin on these loans increases from 0.4% to 4.5% for banks and comes closer to breakeven for NBFIs and social lenders. **Even with incentives, banks may still face an opportunity cost to lending to agri-SMEs**, as overall profitability in other sectors is more than twice as high on average, while government bonds are a lower-risk, higher-return option as well. This opportunity cost is reflected in loan portfolio composition with agri-lending comprising 3-5% of total portfolio for most banks and much lower levels going to agri-SMEs.

Yet all the banks in the data set indicate senior-level commitment to growing their agri-SME lending for a range of reasons: the sector offers opportunities for reaching a previously underbanked customer base; agriculture was relatively resilient during the pandemic; and national governments, which have significant influence on access to larger opportunities outside of agriculture, are pushing banks to prioritize the sector.

Executive Summary: Initial results of Aceli incentives (Sept 2020-Dec 2021)

Early evidence of Aceli's contributions is promising, with lenders reporting increased lending to smaller ticket size segments, new value chains, more remote geographies, and enterprises that are gender inclusive and planet positive. **Aceli's value proposition addressing high transaction costs and sector risks has been particularly evident for loans in the $25k-200k range,** well below the level typically reached by international development finance institutions and impact investors.

Capital additionality has been high (53% loans going to new borrowers, 30% increase in loan size for repeat borrowers). The **impact profile** of Aceli-supported loans **has exceeded targets for gender inclusion and food security & nutrition,** but is **below target for climate & environment.** Incentives boost loan profitability: Dalberg's analysis estimates that profitability for bank loans receiving incentives grows from 0.4% to 4.5%; the gap to breakeven is closed for NBFIs from -10.9% to -2.4%, and for social lenders from -7.3% to -2.8%

Lenders are using incentives to **offset the costs of loan origination and monitoring in remote geographies** they previously did not serve as well as to **hire new staff** and **train staff** in the technical aspects of agri-lending. Dalberg finds that Aceli complements other support mechanisms (e.g., guarantees), and is unique in targeting origination practices and incentivizing increased lender risk appetite to grow agri-SME lending portfolios.

Lenders note a few challenges utilizing Aceli's incentives:

- **Onboarding can be a deterrent,** with 4 of 17 participating lenders noting they considered dropping out of Aceli's process due to the application and accreditation process, as well as the data and reporting requirements;
- **While lenders understand and immediately respond to Aceli's origination incentive, it takes longer for them to incorporate the first-loss cover into their risk appetite:** higher volume lenders recognize the value of FLC but lenders with smaller portfolios perceive it as insufficient;
- **More staff training on the incentive criteria is needed**, particularly for field staff of banks with many branches; and
- **Lenders have initially focused on understanding Aceli's incentives and express growing interest in Aceli's other offerings**, including technical assistance for SMEs, capacity building for lenders, and SME-lender matchmaking.

Benchmarking approach

The study was conducted during Q2-Q3 2022 and covers 1) lending data for the period 2019-21; and 2) interviews by Dalberg with lenders on their experience with Aceli

What are recent trends in agricultural SME lending in East Africa?

- Aceli and Dalberg gathered loan-level and portfolio-level data from **31 lenders on 13.2k loans totaling $749M**
  - Loan-level data focused on all loans ranging from $10k-$2M issued by participating lenders from 2019-2021 in Kenya, Rwanda, Tanzania, and Uganda; analysis included characteristics about loan amount, crop, financial product, loan tenor, interest and fee income, loan performance, and loan provisioning amounts if applicable
  - Portfolio-level data included costs (broken out by origination, servicing, and cost of funds), portfolio size, composition, profitability, growth trends, challenges facing lenders, and outlook on lending to the agricultural SME market

What are lenders' experience with Aceli?

- Dalberg conducted interviews with **17 lenders** that have been participating in Aceli's incentives program for 12+ months on how the incentives have affected their risk appetite and loan terms, and how they are using income from the origination incentives?
- Dalberg also interview 9 lenders that have recently joined the program or were in the process of joining to gather their perspective
- Additional data and learning on 713 loans totaling $84M supported by Aceli's incentives thru year-end 2022 is available in Aceli's Year 2 Learning Report.

Donor acknowledgement

Thank you to Aceli's anchor funders:

USAID FROM THE AMERICAN PEOPLE

FEED THE FUTURE The U.S. Government's Global Hunger & Food Security Initiative

Ministry of Foreign Affairs of the Netherlands

Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

IKEA Foundation

Foreign, Commonwealth & Development Office

UKaid from the British people

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Catalytic Capital Consortium

MacArthur Foundation

OMIDYAR NETWORK

The ROCKEFELLER FOUNDATION

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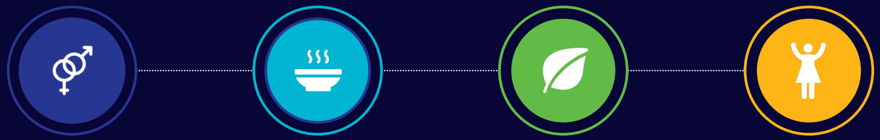
Section 2. Overview of Aceli's Incentives for Agricultural SME Lending

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 30 lenders across Kenya, Rwanda, Tanzania, and Uganda
- **Impact-aligned** to reward loans to new borrowers and those that meeting higher standards for impact across gender inclusion, food security & nutrition, climate & environment, and youth inclusion*



*Aceli added an impact bonus for youth inclusion in May 2022 (*i.e.*, outside the period covered in this report)

Why agriculture?

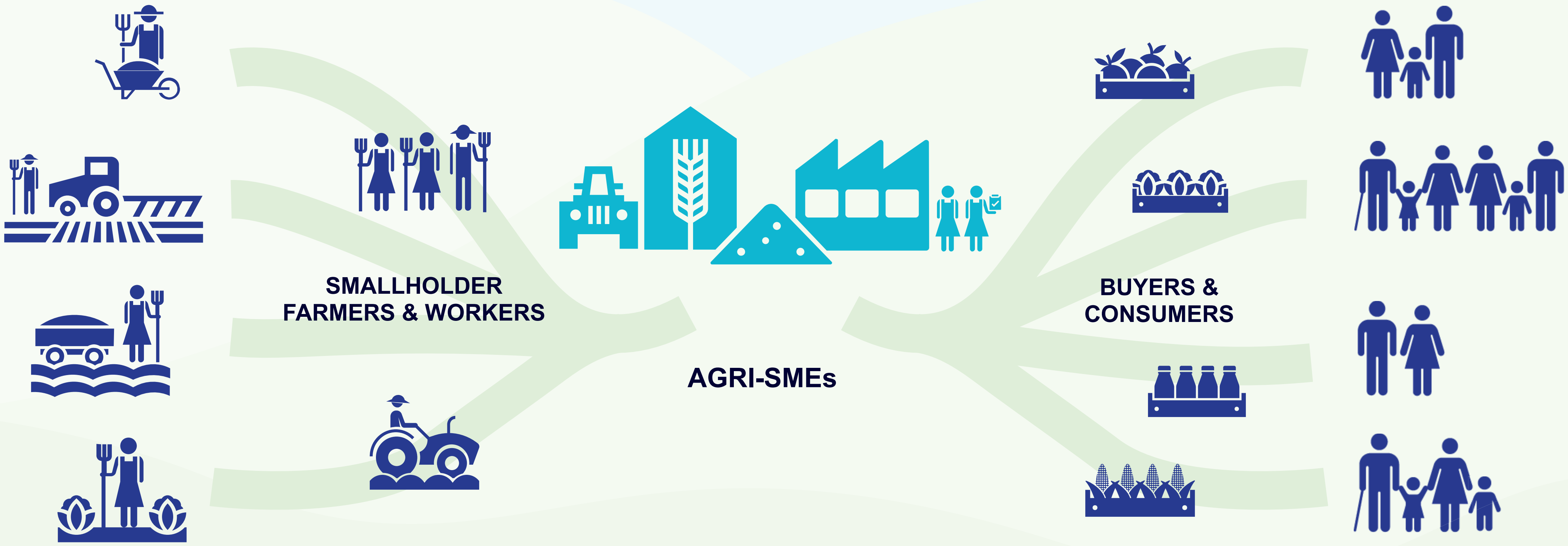
65% of the population in East Africa depends on agriculture for their livelihood but only ~ 5% of bank lending goes to the sector

65% of people work in agriculture in East Africa

5% Agriculture receives ~5% of commercial bank lending

Why agricultural SMEs?

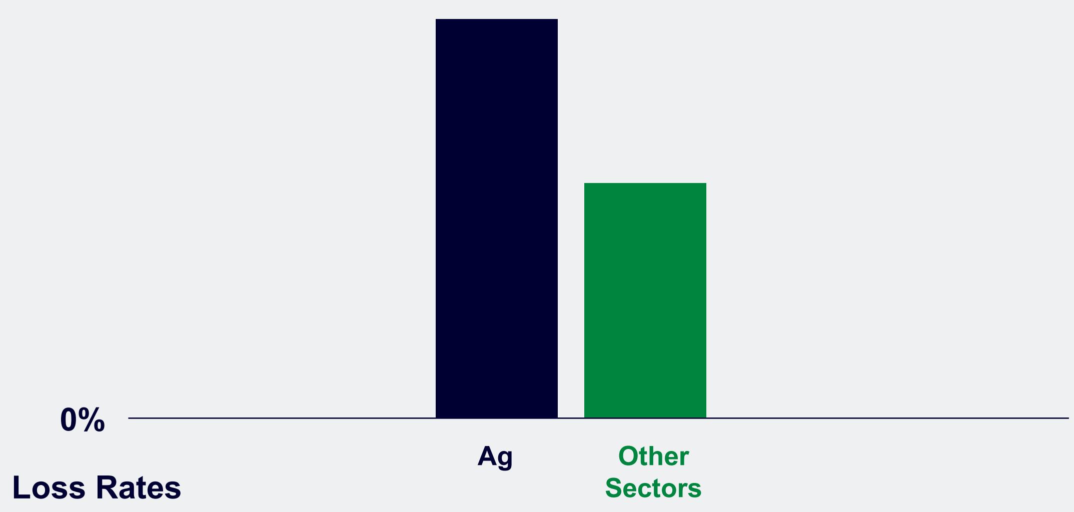
SMEs have the potential to drive inclusive agricultural growth – but 3 in 4 lack reliable access to finance



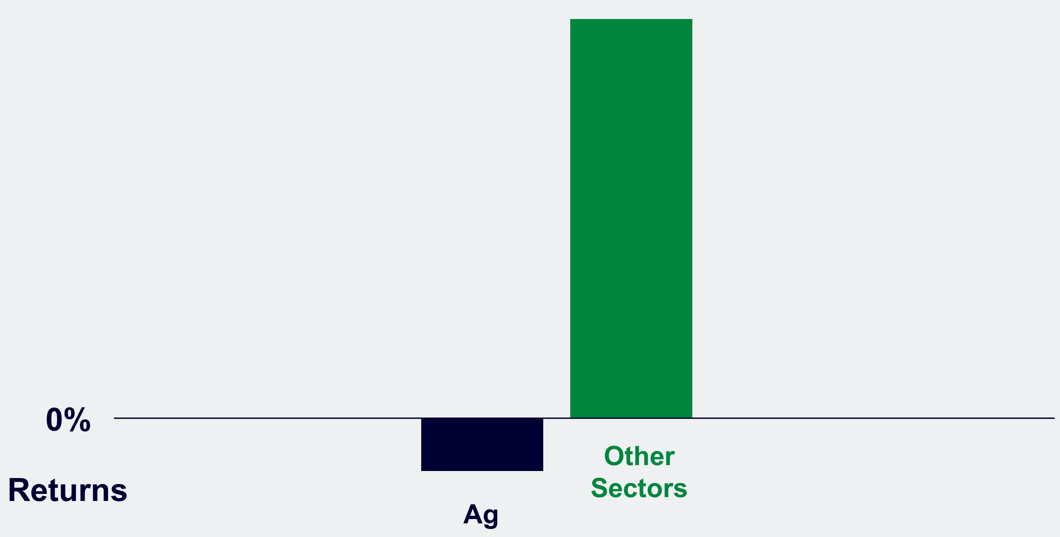
Why does this financing gap exist?

Data findings: Challenging economics of agricultural SME lending

2X Higher Risk



4-5% Lower Return



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

The status quo

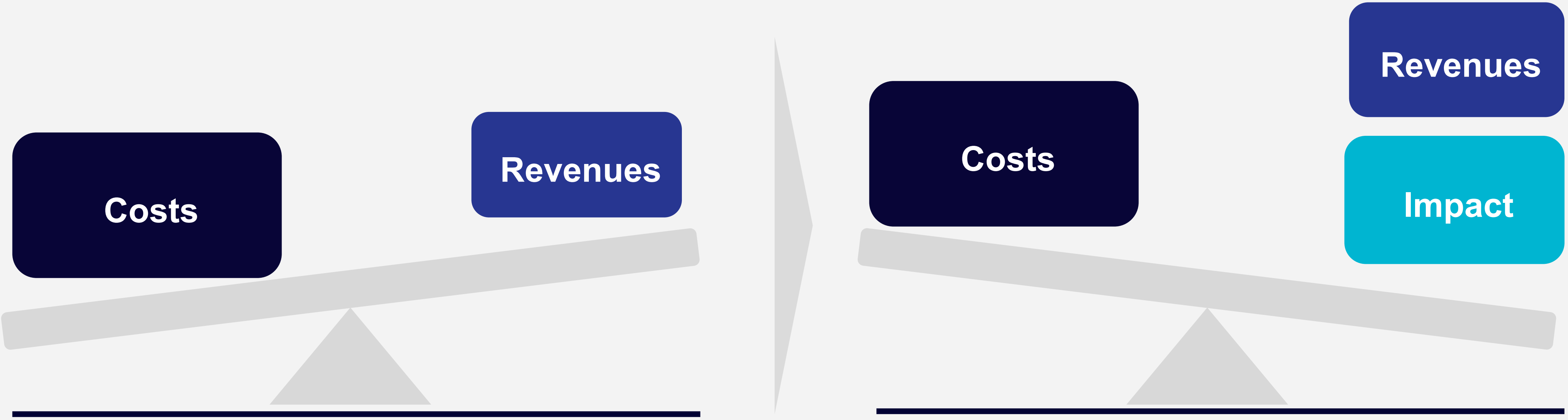
Agri-SMEs loans tend to be unprofitable, and lenders do not derive financial value from the impact these loans generate in the form of improved farmer and worker livelihoods, food security, climate resilience, etc.

Rewarding high-impact agri-SME loans

Aceli places financial value on the livelihoods and environmental impact generated by agri-SME loans, compensating lenders for the risks and costs of making these loans so they become more attractive for lenders

AGRI-SME LOANS ARE UNPROFITABLE

AGRI-SME LOANS ARE PROFITABLE



Aceli's demonstration model is focused on East Africa

DONOR FUNDING

$64m committed to date

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Good Energies POWER FOR A BETTER WORLD

Ministry of Foreign Affairs of the Netherlands

Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Swiss Agency for Development and Cooperation SDC

ACELI OFFERINGS

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

IMPACT: 2020 - 2025, EAST AFRICA

- **Unlock $600M in lending**
- **Benefit 1 million Smallholder Farmers**
- **Demonstrate scalable & replicable model**

Aceli offers two types of financial incentives to unlock high-impact lending for agricultural SMEs

INCENTIVE PRODUCT	BASELINE INCENTIVE +	ADDITIONALITY INCENTIVE +	IMPACT BONUS =	TOTAL INCENTIVES
1. Portfolio First-Loss Cover (FLC) to increase lender risk appetite for under-served SMEs (loans of $25k-1.75M)	Up to 4% of loan value deposited into lender's reserve account	Up to 2% for loans to new borrowers	Up to 3% for loans meeting impact bonus criteria (gender, youth, food security & nutrition, climate & environment*)	**2-9% of loan value** deposited into lender's reserve account to cover first losses across lender's portfolio of agri-SME loans
2. Origination Incentives (OI) to increase lender risk appetite particularly for under-served SMEs (loans of $25k-500k)	Up to $6k payment to lender	Up to $4k for loans to new borrowers	Up to $6k for loans meeting impact bonus criteria	**$2-16k in direct payments** to lender for each qualifying loan to defray operational expenses

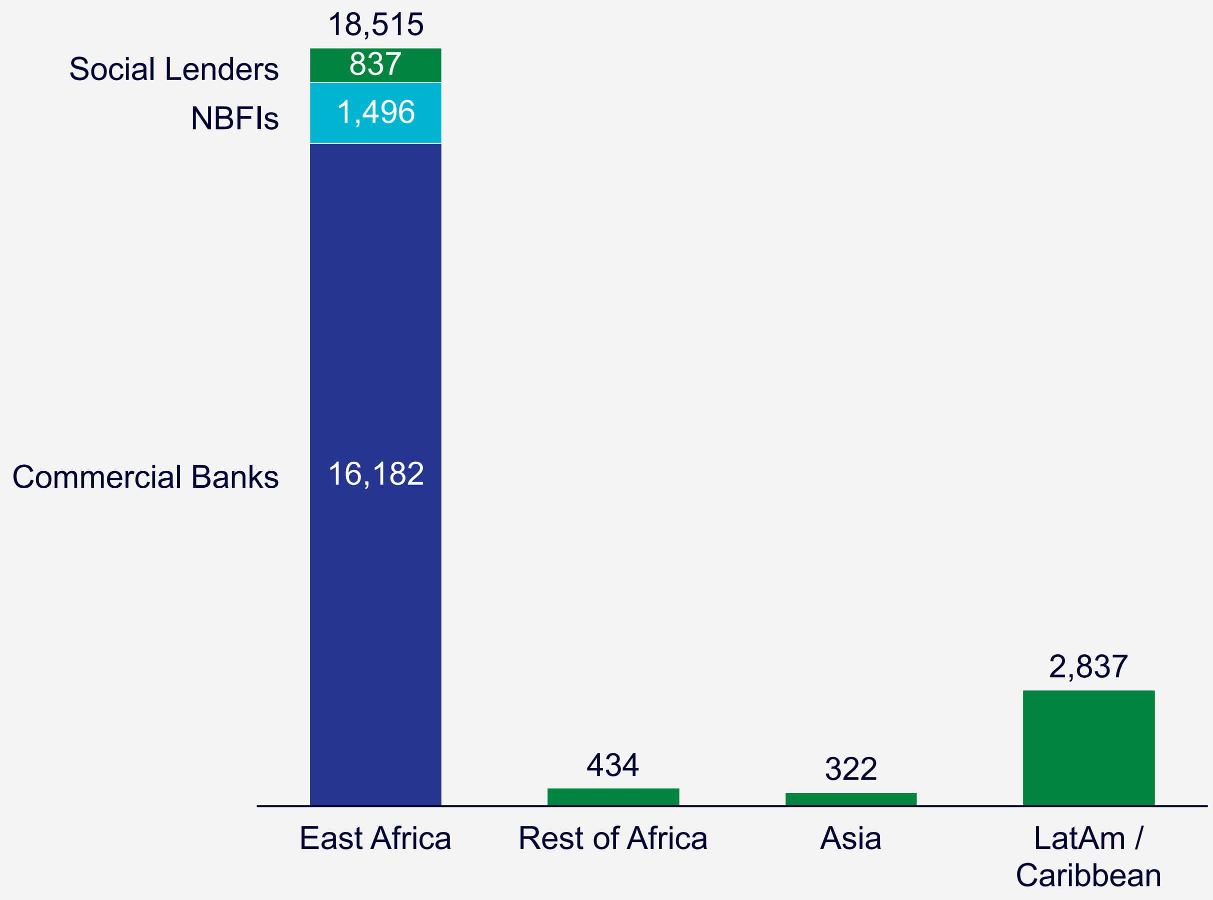
*Aceli added an impact bonus for youth inclusion in May 2022 (*i.e.*, outside the period covered in this report)

Section 3. Financial Benchmarking Results of Agri-SME Lending

Overall dataset: The benchmarking dataset consists of 22K Agri-SME loans made from 2011-2021 and totaling 4.4B USD

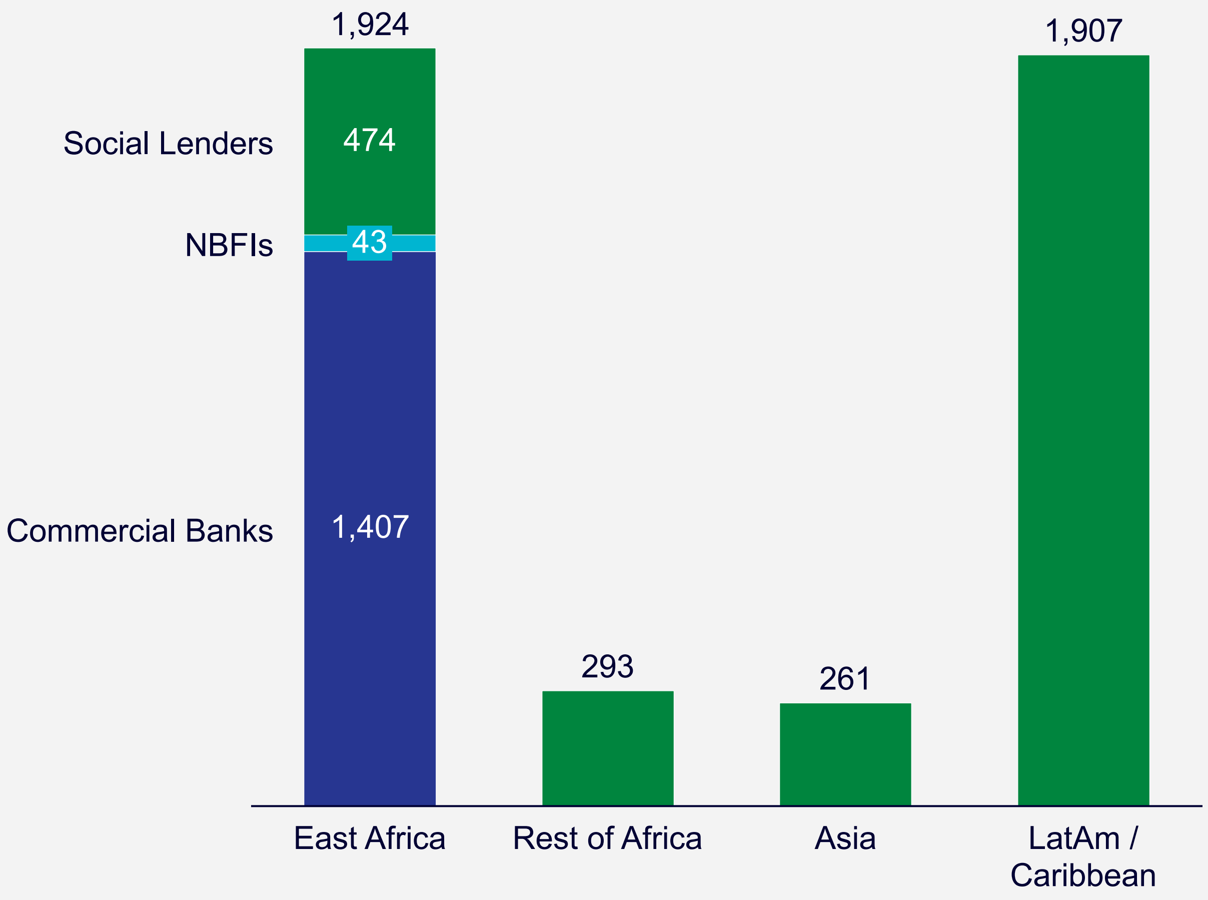
Total loans by region and lender type

Number of loans in database, 2011-2021



Total loan value by region and lender type

Value of loans in database, USD millions, 2011-2021

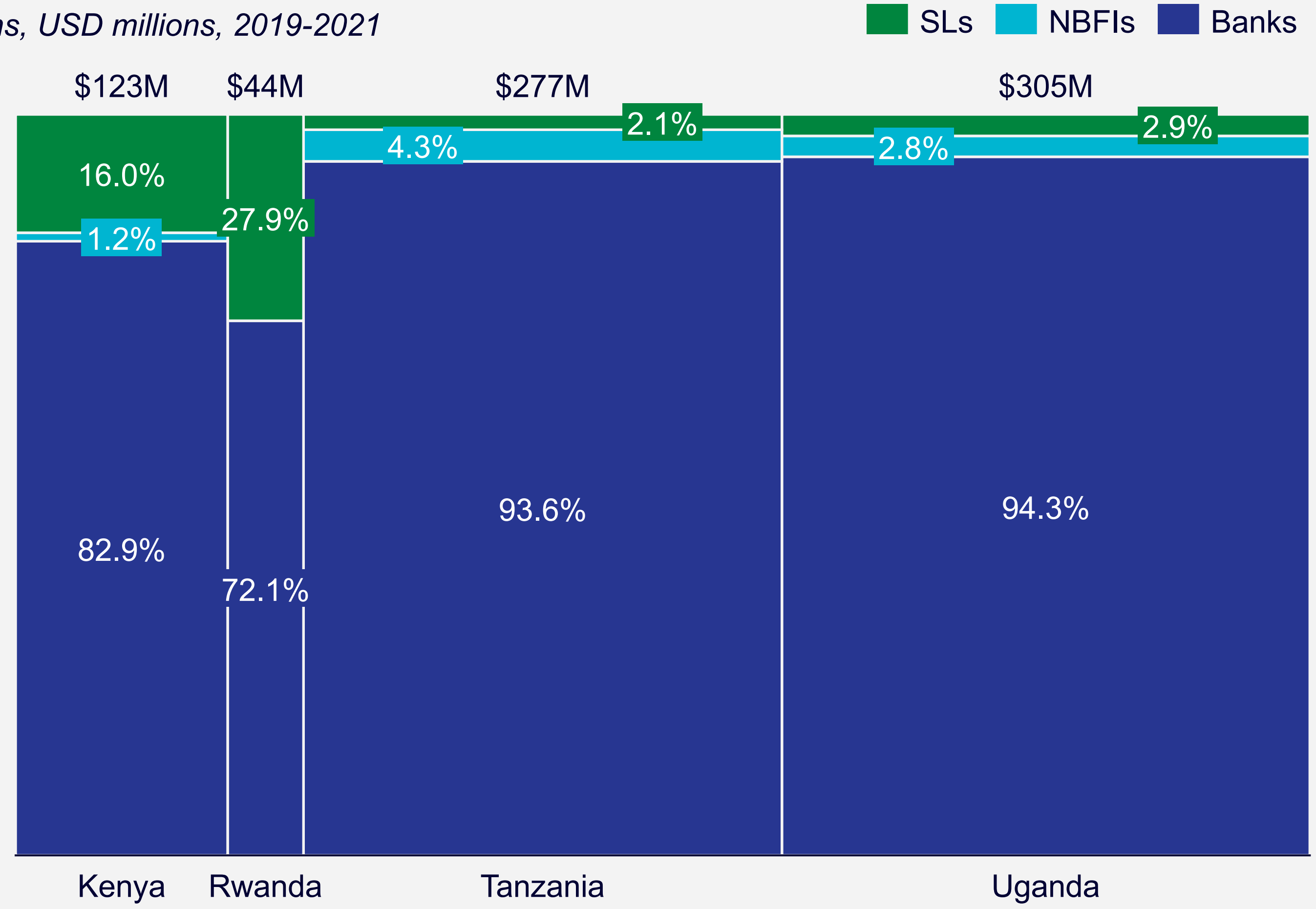


East Africa data: The analysis presented in this report focuses on 13.2K loans issued in East Africa in 2019-2021 and totaling 749M USD

13.2K loans from 31 lenders

Total loan value by country and lender type

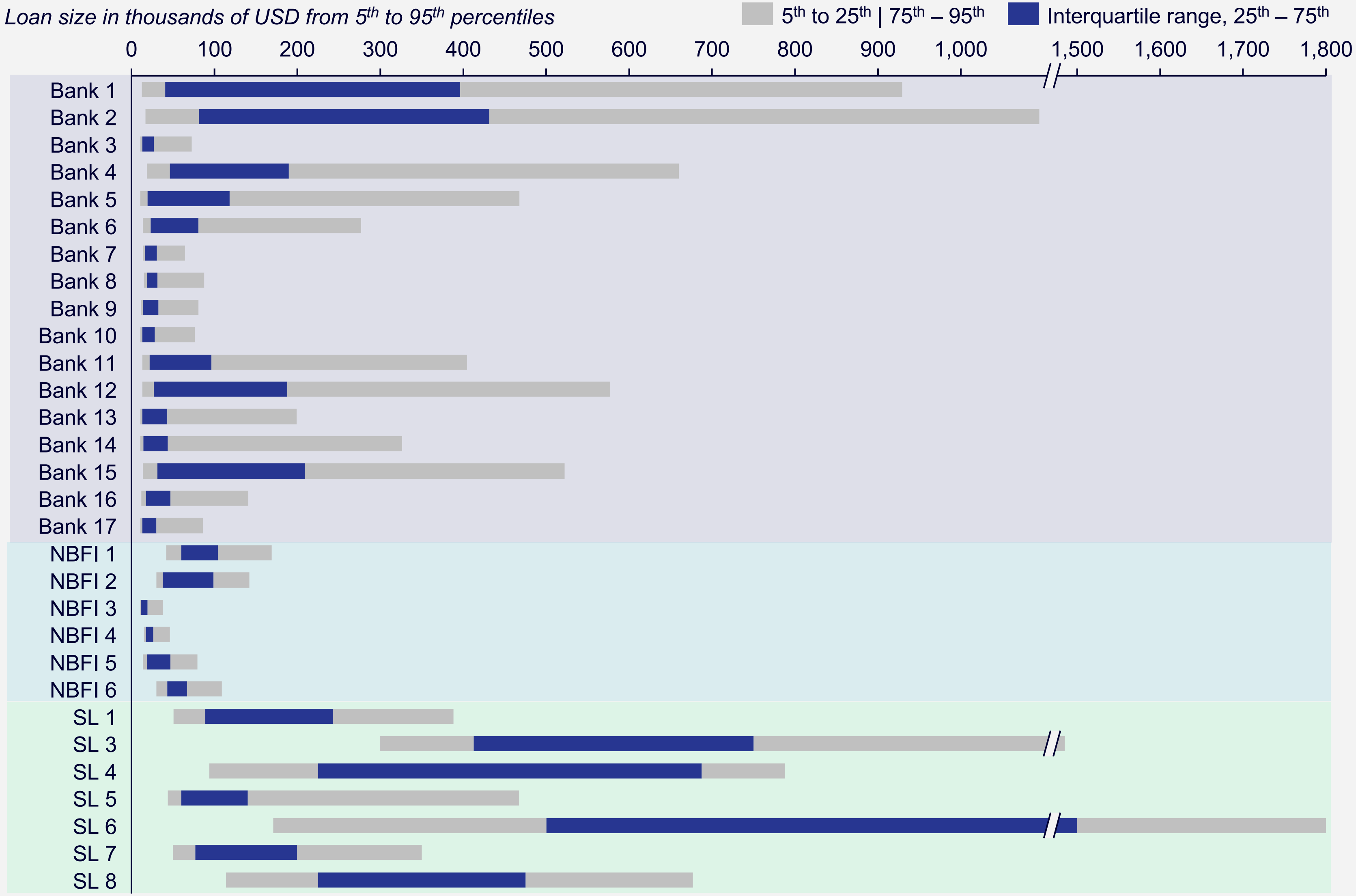
Value and % of loans, USD millions, 2019-2021



- In the dataset, commercial banks account for the largest share of lending across the region
- Social lender share varies drastically by geography: higher in Kenya and Rwanda, significantly smaller in Tanzania and Uganda
- NBFIs account for the smallest share across the region but are more active in Tanzania than social lenders

Ticket Sizes: Lenders target different parts of the market: NBFIs focus on small loans while banks and social lenders serve a wider range

Loan portfolio range

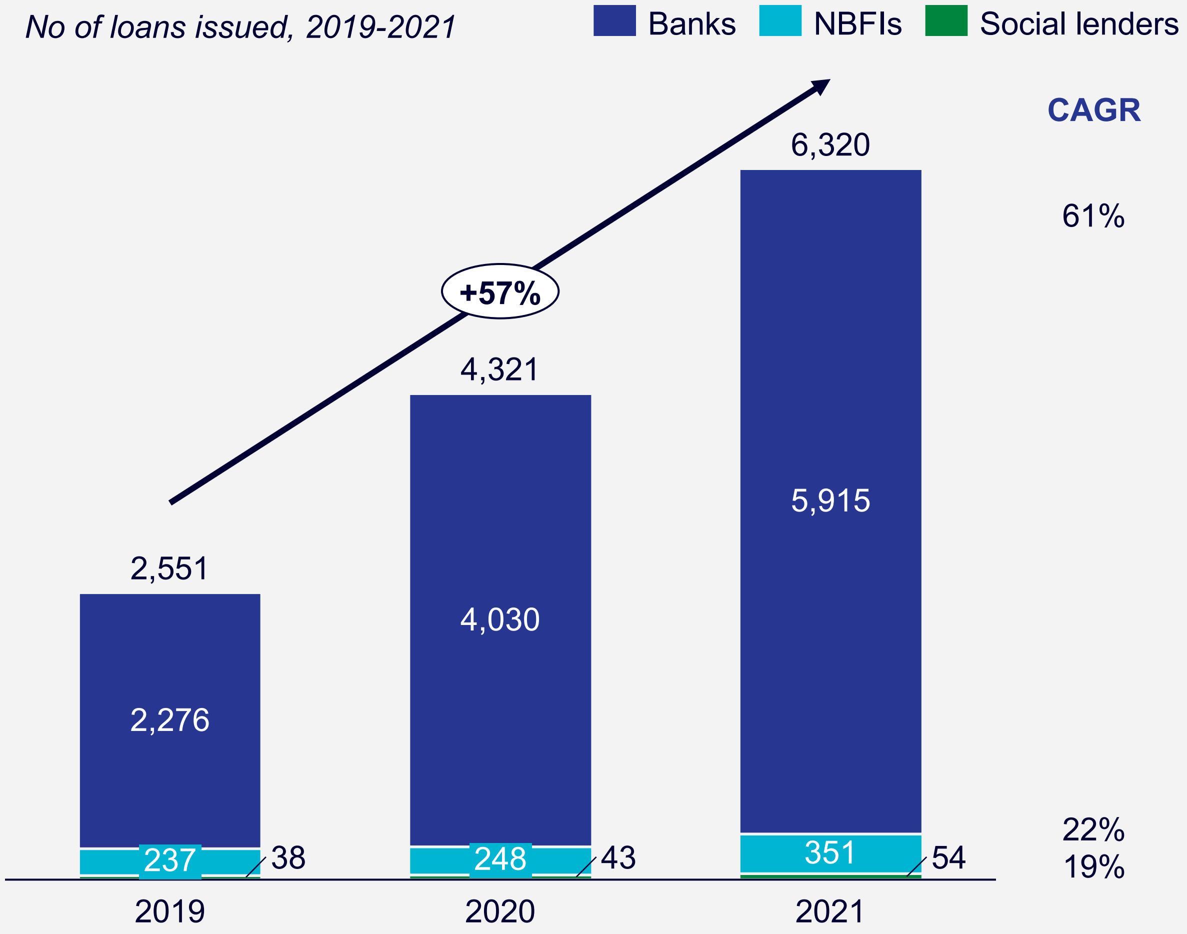


- Non-bank financial institutions (NBFIs) focus on small-ticket loans
- Banks also serve small ticket sizes but have a much wider size range than NBFIs
- Social lenders have higher minimum loan amounts and focus on larger loans overall

Growth Trends (2019-2021): Agri-SME portfolios grew annually by 57% in number and 45% in value with banks driving most of this growth

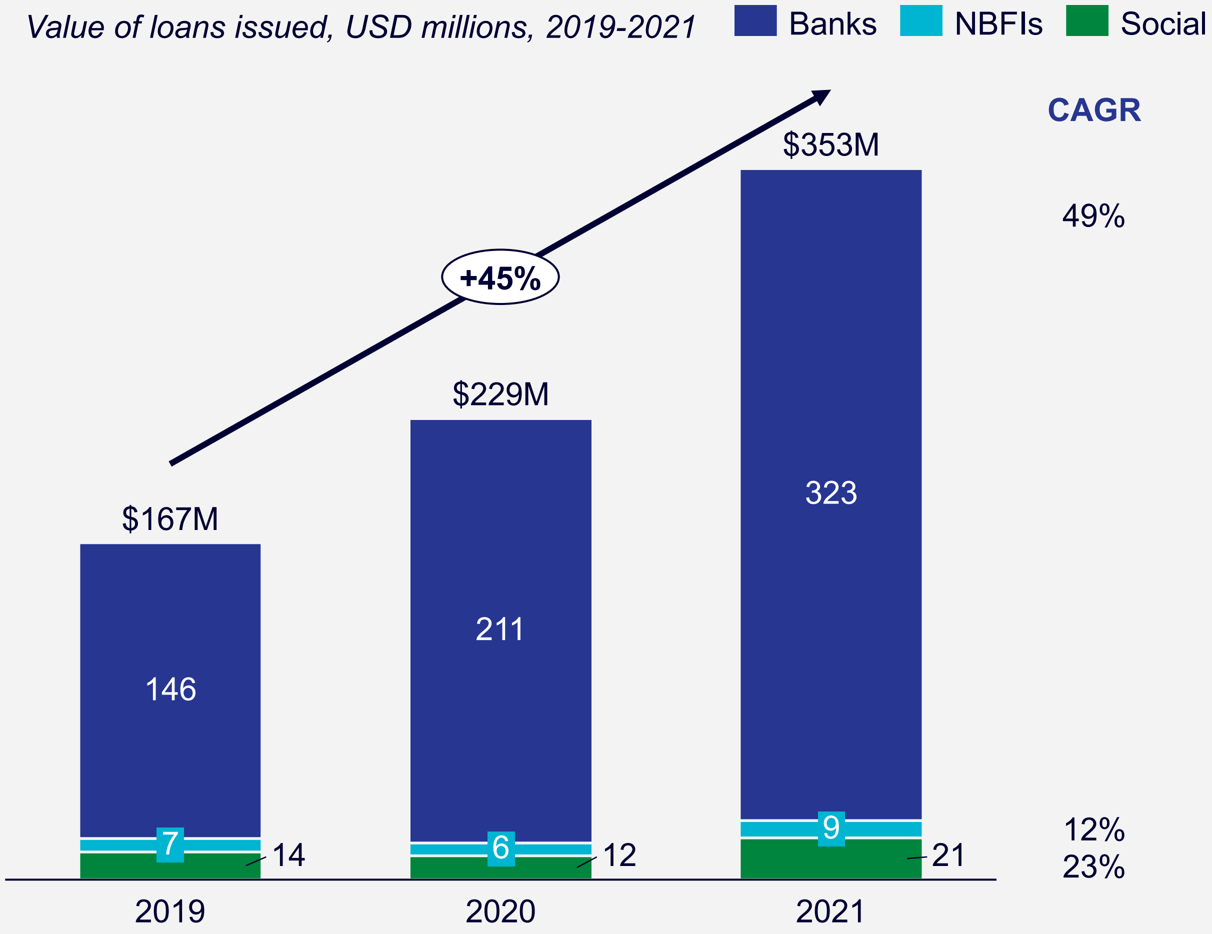
Loan volume growth by lender type

No of loans issued, 2019-2021



Loan value growth by lender type

Value of loans issued, USD millions, 2019-2021

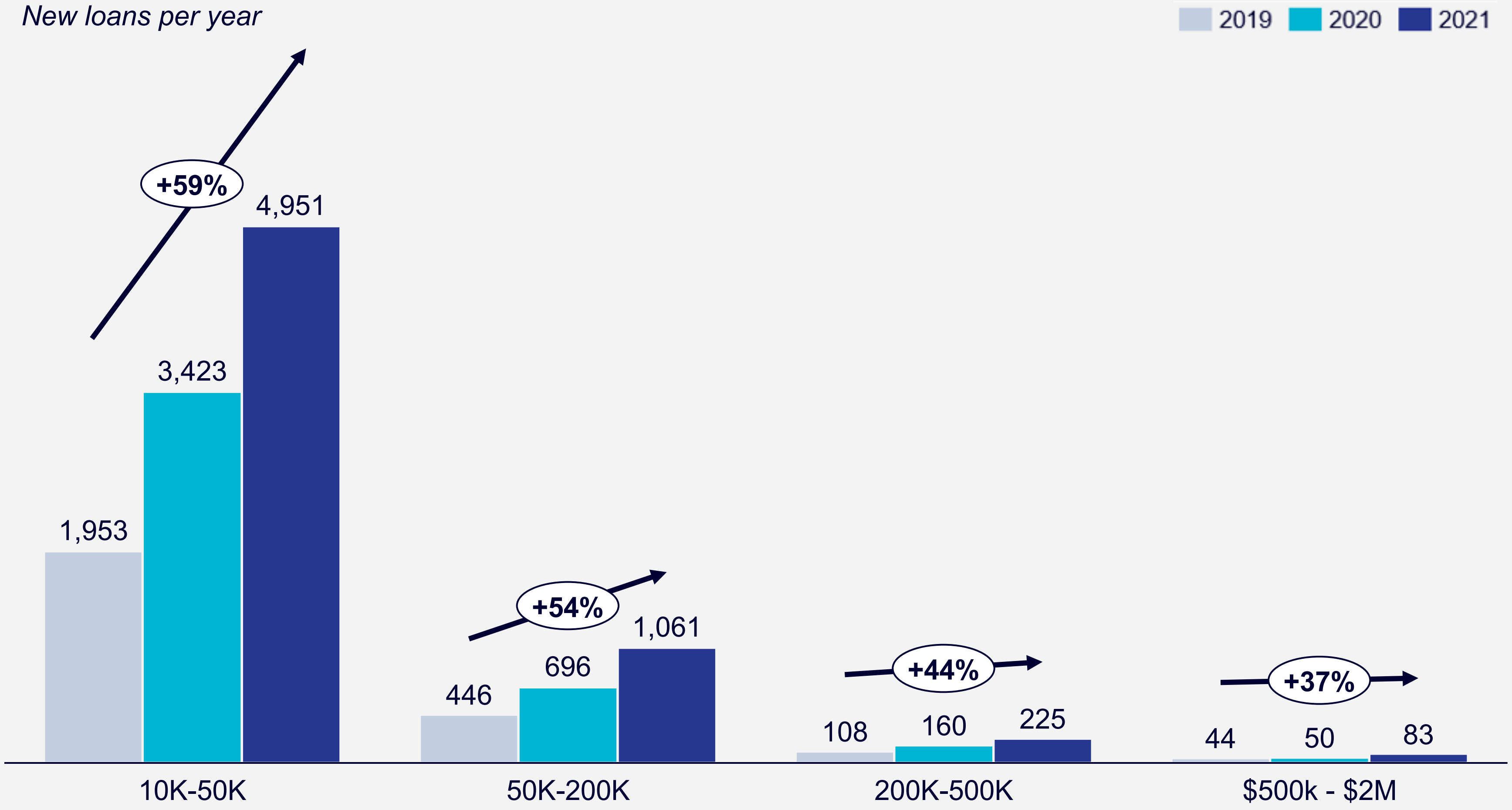


Note: For the 28 lenders reporting data back to 2017, the five-year growth trends were similar to the three-year trends shown above: 53% annual growth in loan volume and 30% in loan value

Snapshot, Agri-SME Lending Growth: Growth in smaller ticket sizes accounted for almost all of the increase during the COVID-19 period

Agri-SME Loans Issued by Ticket Size

New loans per year

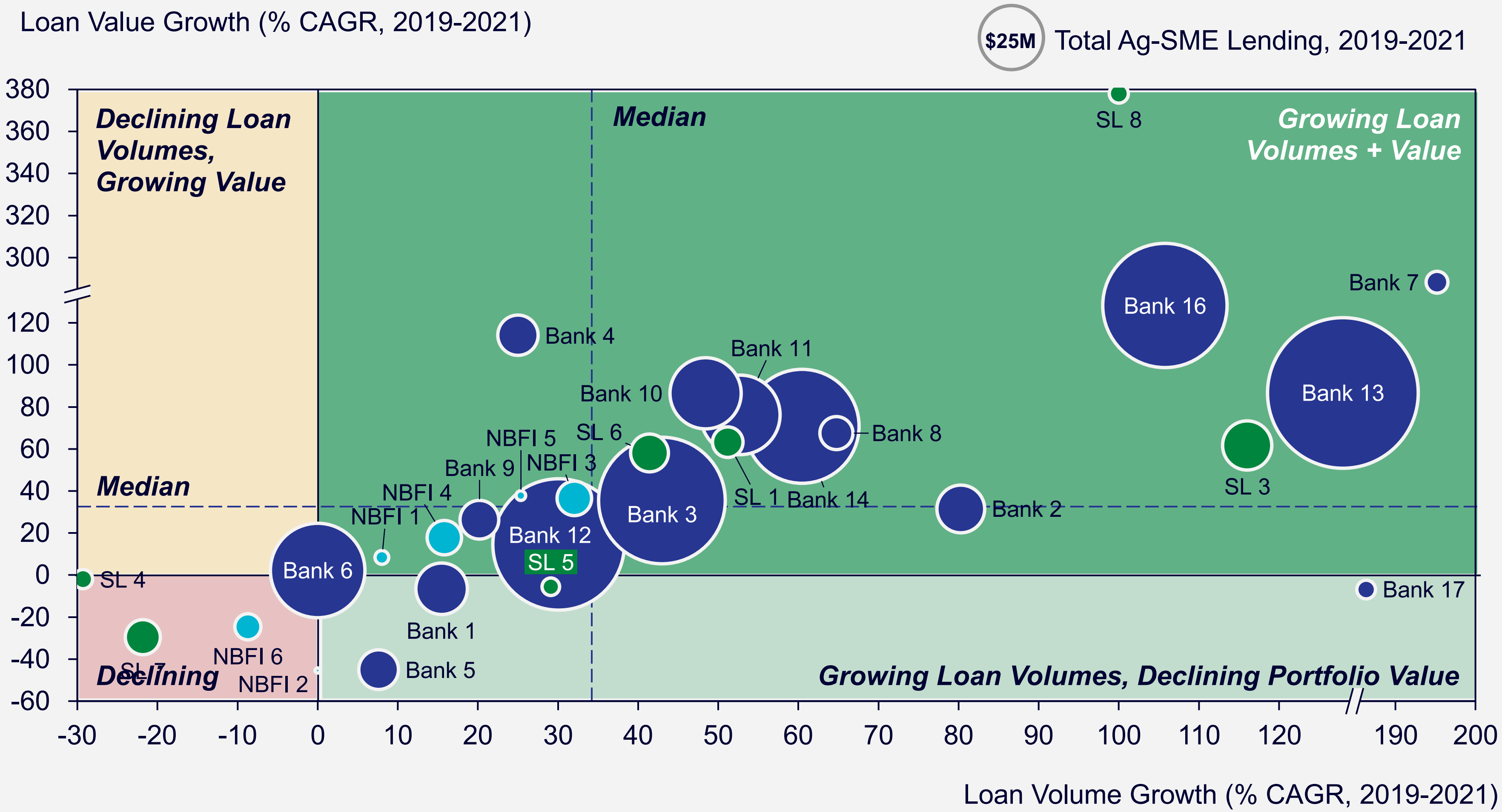


- Lenders in the dataset grew their agri-SME portfolios during the Covid-19 pandemic
- By country, Tanzania and Uganda saw the fastest growth in the USD 10-50K range and Kenya in the 50-200K
- There are a limited number of agri-SMEs that can absorb loans of $200k-$2M

Note: Ag-SME and overall loan portfolio data reported for 2018 to 2021 for most lenders; some lenders reported only from 2019 or only through 2020
Sources: Dalberg analysis; Aceli 2022 benchmark data.

Snapshot, Agri-SME Lending Growth: Banks drove most of the loan volume growth; NBFIs and social lenders still expanded lending, but for niche offerings

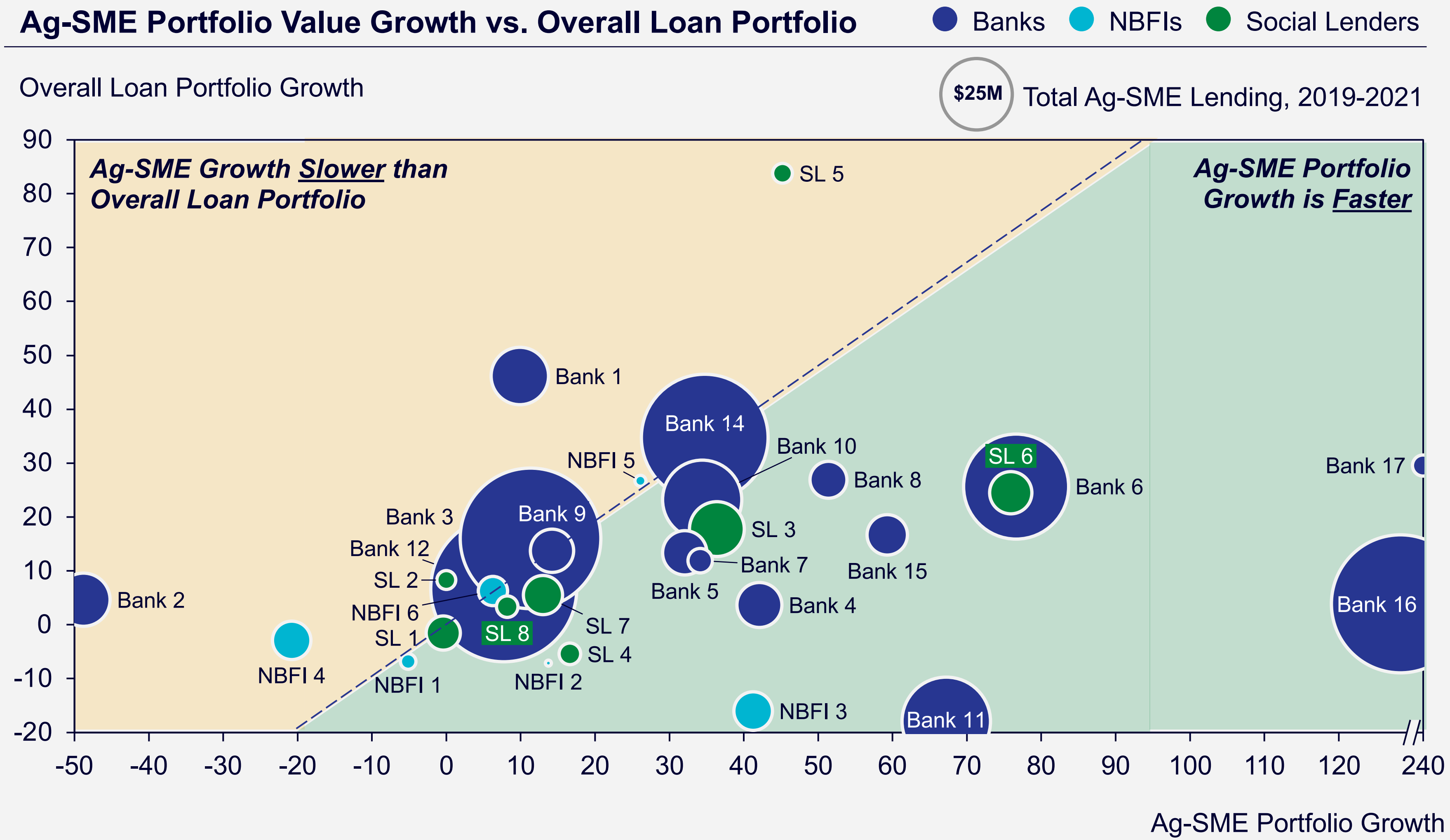
Loan volume and value growth by lender



- Increases in lending by commercial banks drove overall volume growth with every bank increasing agri-SME loan volume and/or value
- 7 banks reduced average ticket sizes (volume growth > value growth)
- Most NBFIs and social lenders held course with modest volume and value growth; growth trends among social lenders were more variable

Snapshot, Agri-SME Lending Growth: Notably, Agri-SME portfolios grew faster than overall loan portfolios among lenders in the dataset

Ag-SME Portfolio Value Growth vs. Overall Loan Portfolio



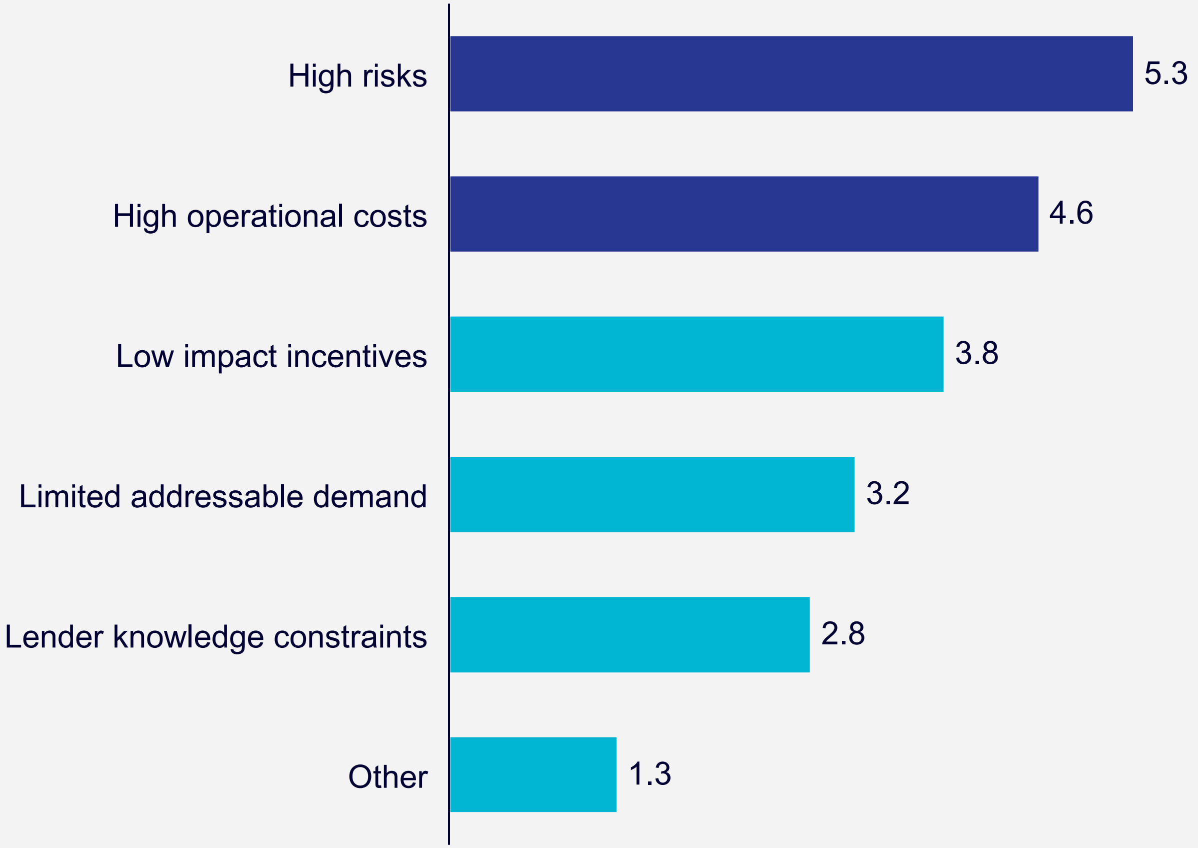
- Faster agri-SME growth may reflect resilience of the food & agriculture sector vs. other sectors during Covid
- However, agri-SME lending started from a small base and remains a small share (~3-5%) of the overall portfolio for banks, though it is slightly larger for NBFIs (~20%) and social lenders (~17-20%)

Notes: Ag-SME and overall loan portfolio data reported for 2018 to 2021 for most lenders; some lenders reported only from 2019 or only through 2020. Averages by lender type are weighted based on loan portfolio size and the ranges reflect the averages from 2019 to 2021. Sources: Dalberg analysis; Aceli 2022 benchmark data.

Despite this growth, lenders continue to struggle with market challenges, particularly high risks and high operating costs

Challenges in agri-SME lending

How would you rank the following challenges from your experience working with agri-SMEs? (N = 26 lending institutions)

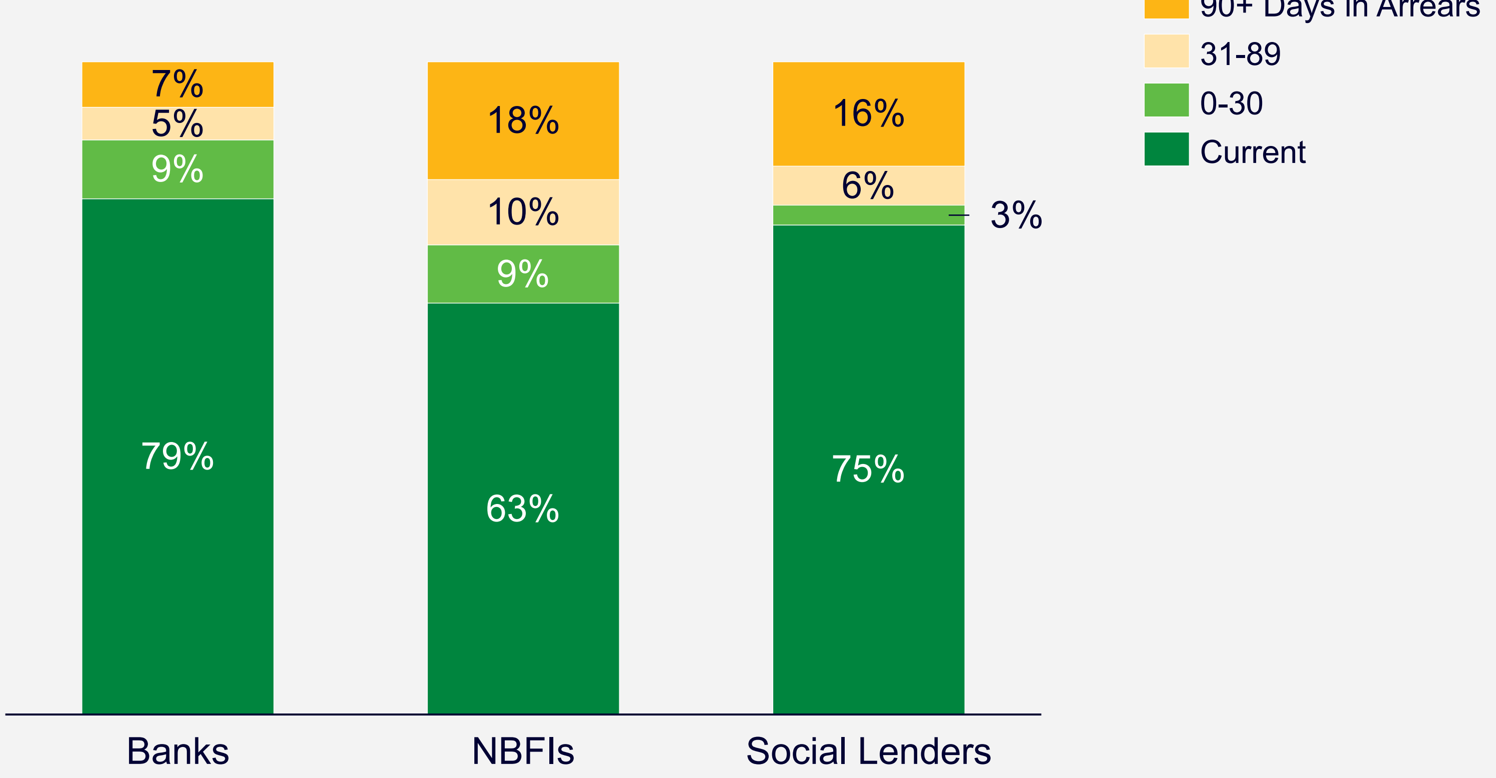


Note: Lenders asked to force rank responses weighted on a 1 to 6 scale (highest-ranked challenge = 6, second-ranked-challenge = 5, etc.)

Portfolio at Risk for Agri-SME loans is higher than levels across all sectors

Portfolio at Risk (PAR)

Share of outstanding loan principal, totals in USD thousands, 2019-2021

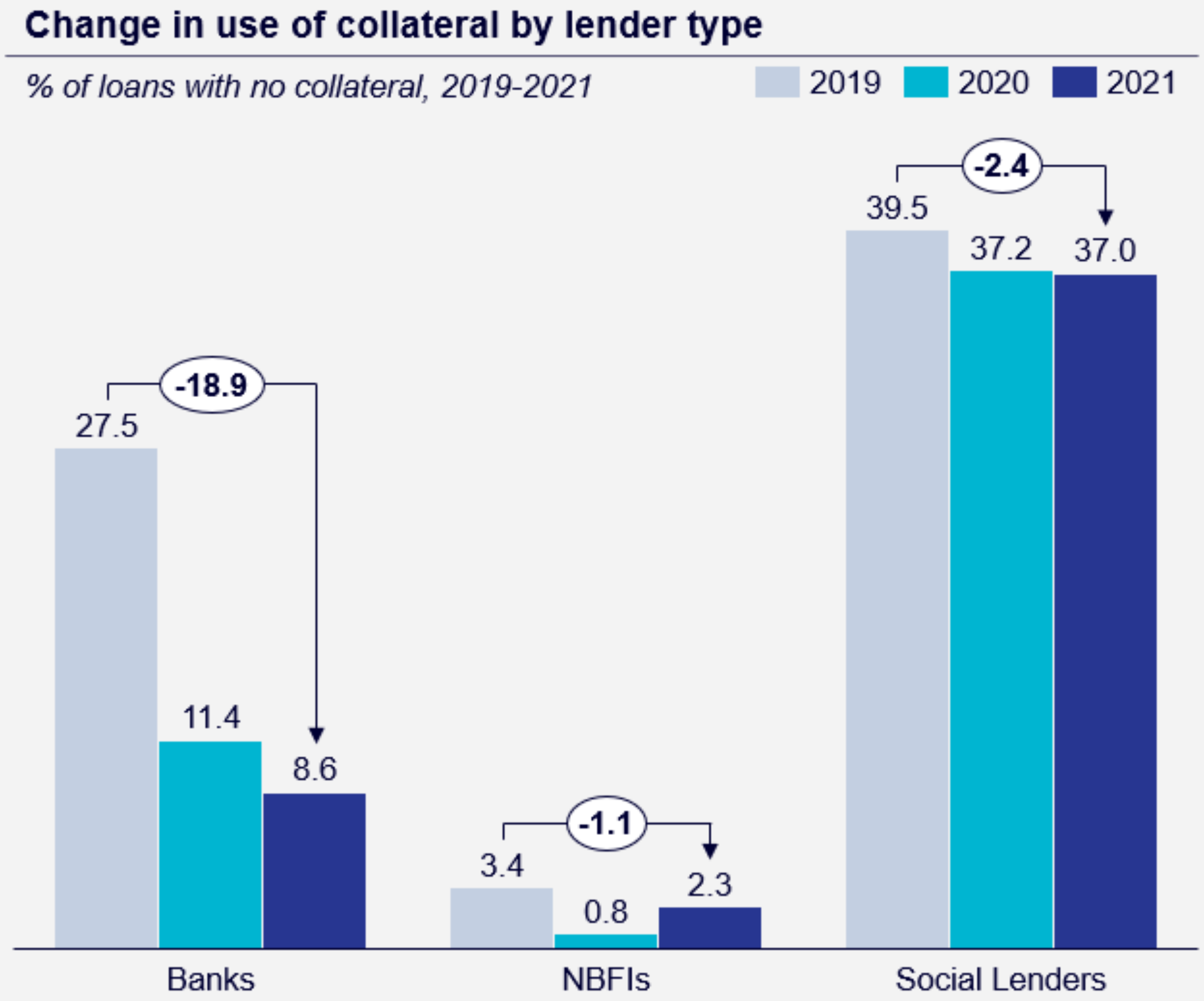


	Banks	NBFIs	Social Lenders
% PAR > 30 Days	**12%**	**28%**	**22%**

- Though banks have lower PAR levels than NBFIs or social lenders, PAR30 of 12% is significantly higher than for other sectors. Central Banks in East Africa require commercial banks to provision for loans at risk beyond 30 days, steering capital away from agriculture to lower risk sectors.
- The relatively better performance of banks relative to NBFIs and social lenders is also a function of their product offering and risk appetite. Social lenders are much more likely to lend uncollateralized (see next slide) while NBFIs focus on innovative financial products and target unbanked customers.

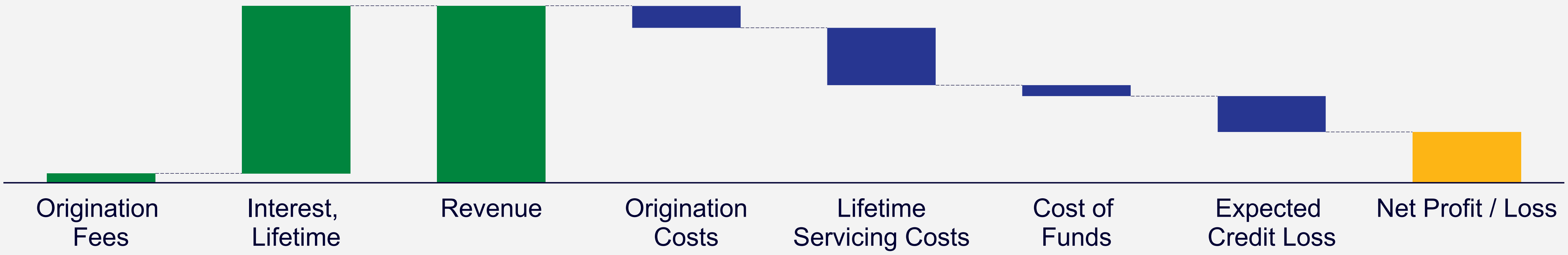
Note: Calculated on outstanding portfolio balance for all available years.

While social lenders have maintained a large share of uncollateralized loans, banks have become more cautious even as their Agri-SME portfolios have grown



Section 4. Preliminary Analysis of Impact of Aceli Incentives Program

Dalberg and Aceli jointly developed a methodology to assess the profitability of Agri-SME loans for lenders based on four dimensions



Origination fees as share of loan size and interest rates and tenor used to calculate the **expected revenue over the life of the loan**

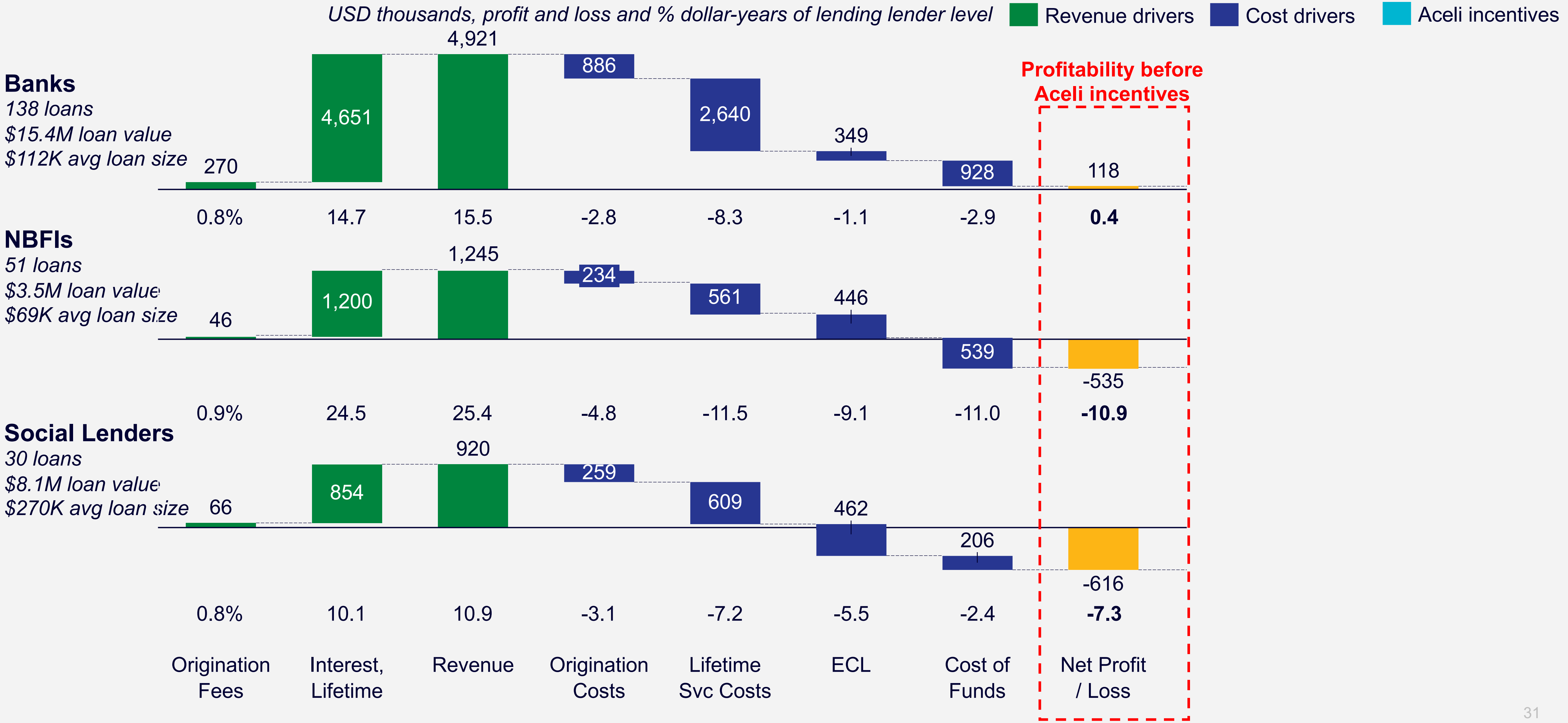
Staff and other overhead estimated and allocated for agri-SME lending, then split between origination and servicing based on estimated time demands

Cost of funds per lender self-reported by lenders or calculated *(interest expense ÷ total liabilities)*

Expected credit losses based on reported write-offs and haircut based on days outstanding of outstanding loan balance

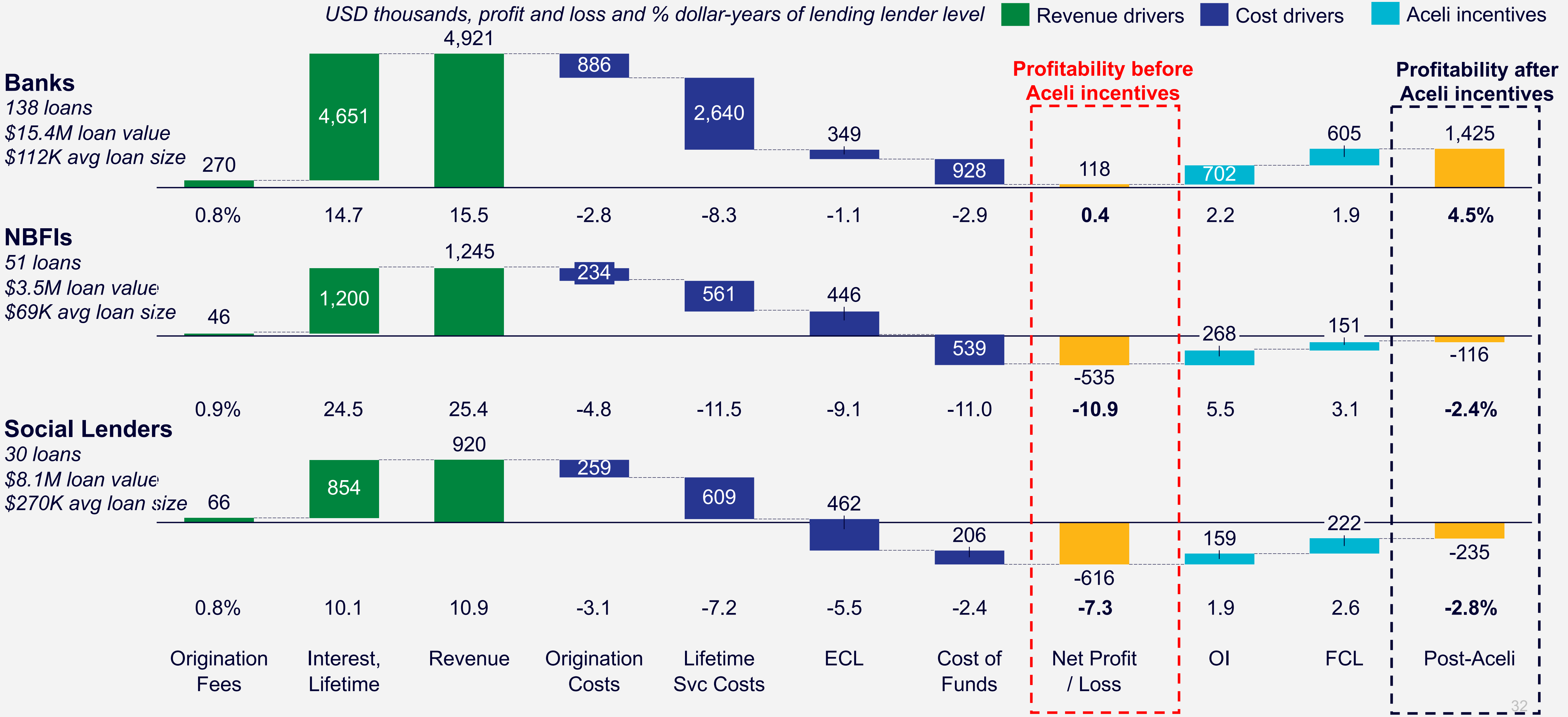
The **dollar-years of lending per loan** (based on size and tenor) to allow like-for-like comparison of profitability drivers across loans of different tenors and lifecycles (e.g., new loans vs. paid-off loans). Analysis yields **estimate of profit or loss per loan in absolute dollar terms,** as well as an **estimated % return per dollar-year of lending**

Using the methodology, agri-SME loans barely break even for banks and are unprofitable for other lenders (before accounting for Aceli incentives)



Note: Profitability estimates included in analysis are only from banks that have earned incentives, weighted according to total approved Aceli loans.

Aceli incentives significantly boost the margin for banks and bring other lenders closer to breakeven on agri-SME loans

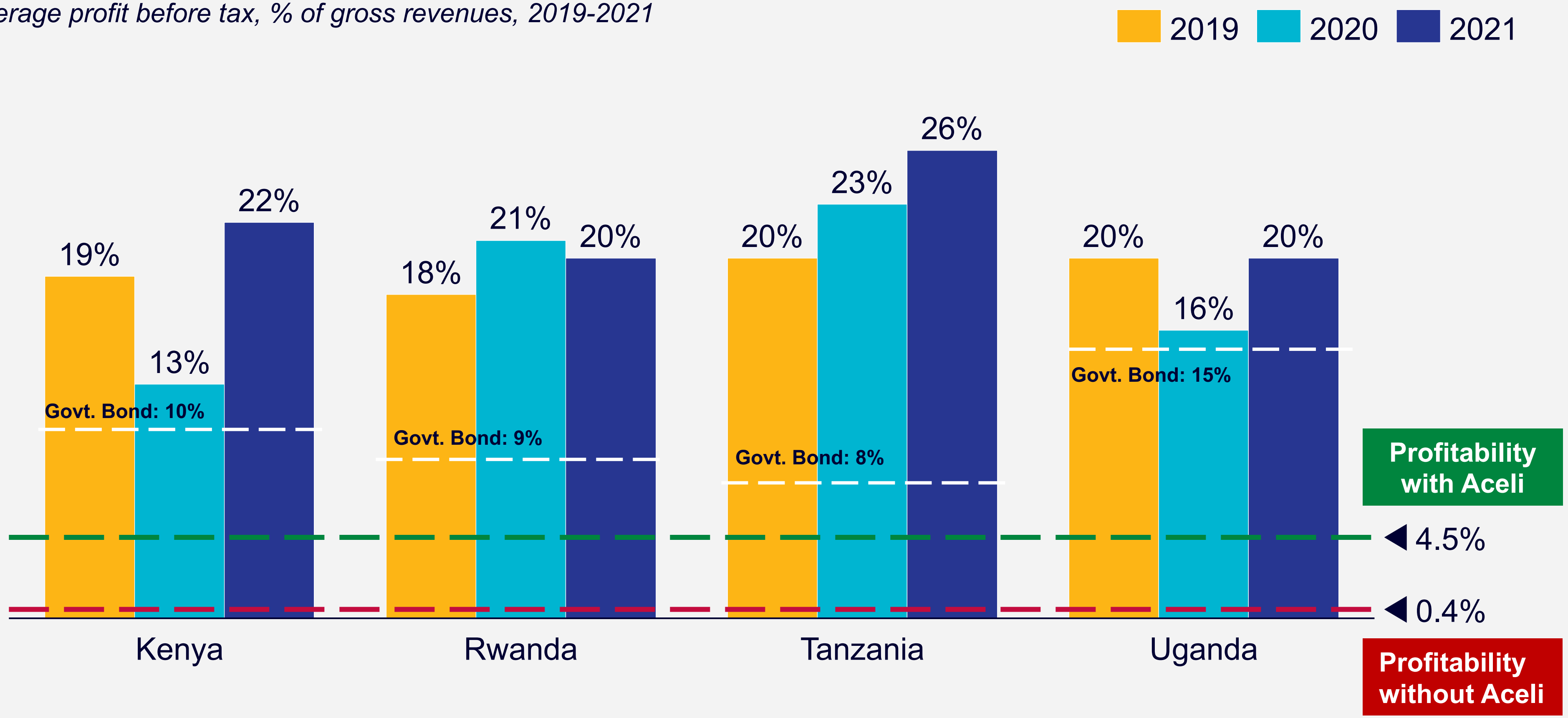


Note: Profitability estimates included in analysis are only from banks that have earned incentives, weighted according to total approved Aceli loans.

Yet despite the margin boost, most banks face an opportunity cost relative to their overall business and to low-risk, low-effort options such as gov't bonds

Commercial Bank Profitability (Overall v. Agri-SME Lending)

Average profit before tax, % of gross revenues, 2019-2021



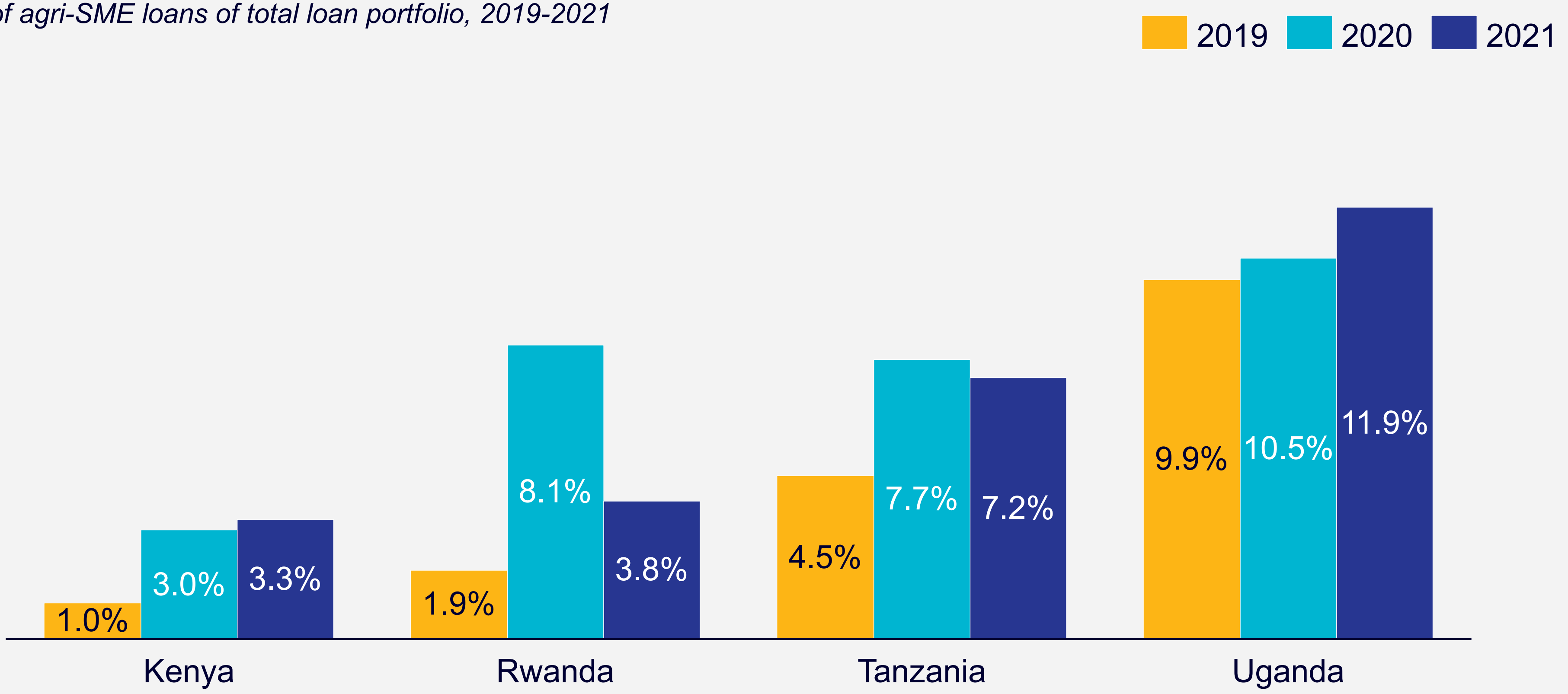
- Overall profitability at banks is much higher than the 4.5% enabled with Aceli incentives
- Government bond yields offer low-risk returns at 8-15%
- Aceli incentives raise profitability, but Agri-SME lending is still less profitable than alternatives

Note: Return on Assets or Equity is a common way to evaluate bank financial performance, but profit before tax (PBT) is shown here as it is a more familiar, intuitive calculation. PBT is after depreciation and amortization, and the margin is calculated relative to gross revenue (interest income, fees, trading income, forex income, and other revenues) without interest expense or bad debt provision. The profitability calculation of 4.5% with Aceli incentives follows a different methodology based on the Aceli incentive effect net of revenues, costs, expected losses, and cost of capital over the full life of a loan, not within a single financial year; however, this comparison provides an indicative way to demonstrate opportunity costs for lenders. Source: Data & analysis & lender annual reports.

Agri-SME lending continues to account for a small percentage (3-12%) of bank portfolios relative to the sector's contribution to local economy (20-26%)

Agri-SME Lending

Share of agri-SME loans of total loan portfolio, 2019-2021



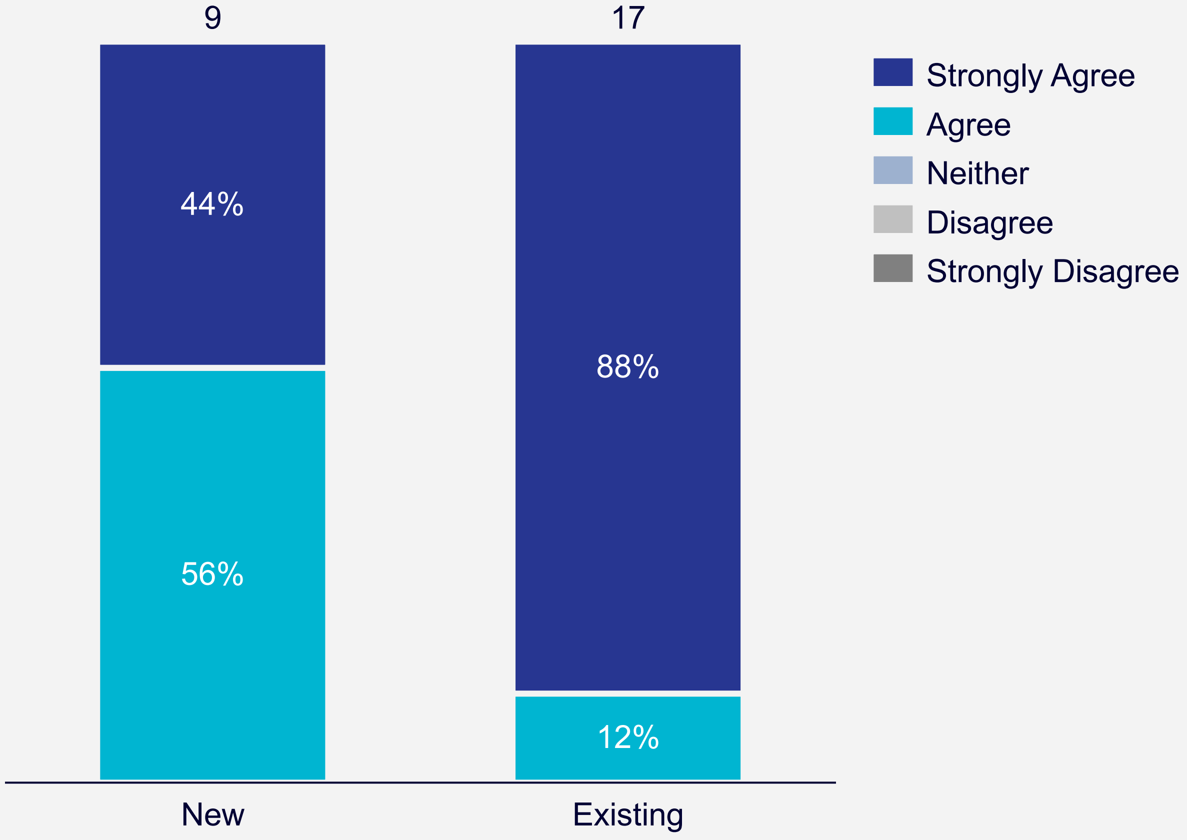
Agriculture as share of GDP	Kenya	Rwanda	Tanzania	Uganda
	22%	24%	26%	24%

Note: Agri share of overall lending represented are for the latest years for which official data are available. Kenya: 2021; Rwanda: 2018; Tanzania: 2021/2022; Uganda: 2018. Source: Central Bank of Kenya; Bank of Tanzania; Rwanda Ministry of Agriculture; Uganda Economic Policy Research Center

Nevertheless, senior leadership at many banks (including all Aceli partners) are beginning to prioritize agriculture in their institutional strategies

Leadership Commitment to Agri-SMEs

Lending to Agri-SMEs sees strong commitment from senior leadership in my organization. (Agree or Disagree, scale 1-5, N = 9 new and 17 existing lenders)



All 26 lenders responded 4 or 5 on 1-5 scale about leadership commitment to Agri-SME lending. This is notable given that lending to agriculture sector in general and Agri-SMEs specifically have not been priorities historically for many lenders, particularly commercial banks

*"The bank put **agri-financing as a key pillar of its 4-year strategy.** We started from scratch and agricultural lending is now the fastest growing sector for the bank, with over 500% growth so far in 2022. The bank has raised agricultural lending as a percentage of our overall loan book'*

– Commercial Bank, Kenya

*"**The only resilient sector for us through COVID remained agriculture**, because Uganda's culture is agriculture – and so we had a lot of investments and our appetite remained high in agriculture." – Commercial Bank, Uganda*

Preliminary results suggest that Aceli incentives are spurring measurable changes in lending practices

Segments	Test questions
Ticket size	Were there any changes in average ticket size for Aceli approved loans?
Tenor	Are Aceli qualified loan tenor longer than lenders average agri-SME tenor?
Interest rates	Are Aceli approved loans being issued with lower interest rates than the lender's portfolio average?
Collateral requirements	Are lenders requiring less stringent collateral requirements for Aceli approved loans?
Product type	Which types of loans are existing lenders supporting with Aceli?
Value chain	Are Aceli approved loans benefiting more informal or value chains?

- **14 lenders had been working with Aceli for over 12 months and had qualified 166 loans** for at least one incentive through Q4 2021, representing ~2.3% of their total agri-SME portfolio
- **Uptake of the incentives has been strong, with new loan volume in Aceli-supported size segments outpacing overall agri-lending portfolio growth** (27% quarter-on-quarter increase for the Aceli segment from Q4 2020 to Q4 2021 vs. 6% for the overall portfolio)
- **53% of Aceli-supported loans are going to new borrowers**
- **Ticket sizes for Aceli-approved loans are materially larger** across all lender types, and **loan tenors are longer by 1.5 and 3.5 months for banks and NBFIs,** respectively
- **Average interest rates for Aceli loans are lower by 0.6 to 4.8 pts** across the lender types, while collateral requirements also appear to be lower for banks and NBFIs than for the broader portfolio
- **Aceli-approved loans are slightly more likely to be in informal value chains** (i.e., food crops for consumption within Africa as opposed to cash crops for export); no clear pattern is evident yet on Aceli's effect on the mix or choice of loan products, if any

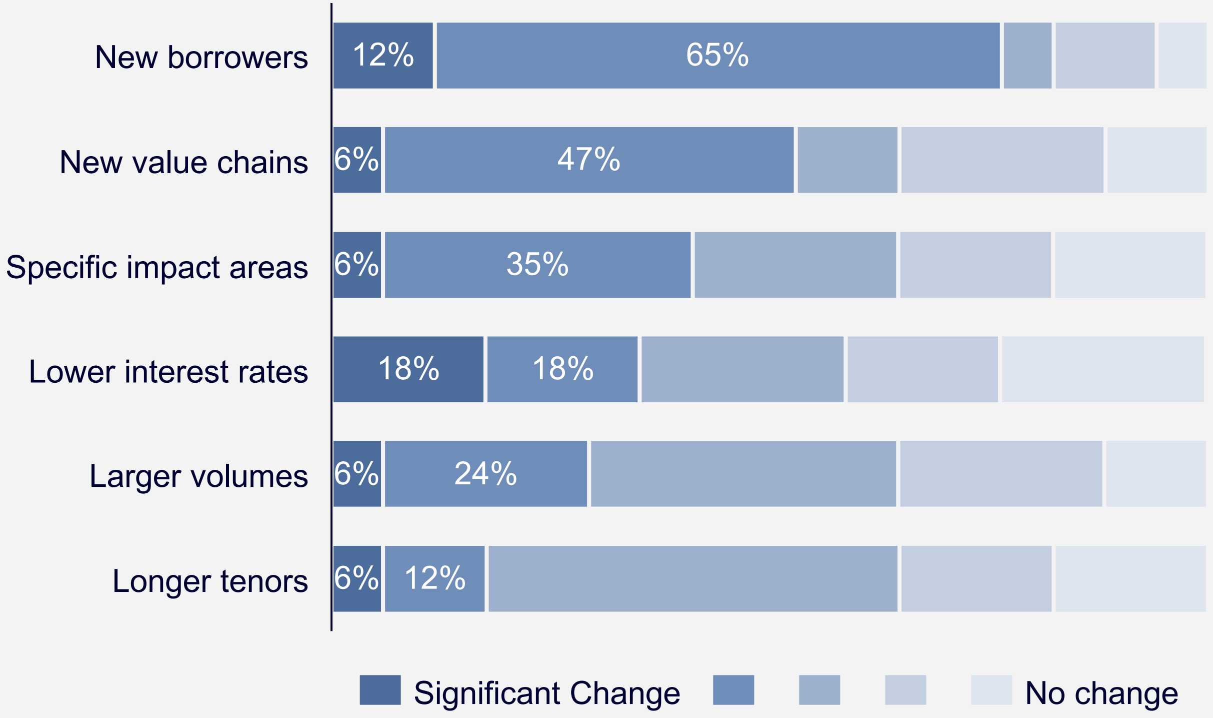
Aceli's incentives have motivated lenders to consider new value chains, borrowers, impact areas, and lending terms

Reported changes in lending practices

% of respondents, N = 17 lenders

How has the organization changed on the following dimensions over the past year?

"Lending [to / at]…"



*"**It's given us an opportunity to go to new value chains**. We are in advanced stages of going into biodiversity and green financing, plus we've introduced a new product in aquaculture all because of interventions with Aceli…"*

– Commercial Bank, Uganda

*"Previously we would have hesitated to provide loans below $200,000 … **all the tickets below $200,000 that you see in [our portfolio] are linked to Aceli**"*

– Social Lender

*"Aceli helped us to build confidence…it meant that **the bank was a lot more comfortable extending credit for longer periods.**"*

– Commercial Bank, Uganda

*"For SMEs, we take 80% of the forced [collateral] sale value…so it means the maximum amount of loan you can get will be 80% of that forced sale value, but because we are booking a loan under Aceli we can take 120% of the forced-sale value. The implication here is that **if your loan is under Aceli, you can get a higher ticket size.**"*

– Commercial Bank, Uganda [5]

Lenders credit Aceli for shaping or boosting the way they approach under-served segments such as women-owned SMEs

*“**The gender lens training [offered by Aceli and Value for Women] was great. It exposed us to several issues and enabled us to create our gender commitment and strategy statement**. The training also guided us on the best way to improve our marketing strategies through our website and social media channels.”*

– NBFI, Uganda

*“[Aceli’s impact bonuses] **are going to increase our outreach to those disadvantaged demographics**. We already have products, even agri, which are specifically tiered towards women. We have an algorithm and a product of agri loans for women in agriculture which are strategic undertakings towards promoting their access to credit. With Aceli coming on-board, it is going to further supplement our efforts and support us in reaching out to women.”*

– Commercial Bank, Uganda

*“Aceli has emphasized the use of the ESG criteria which we previously did not consider. **We are also trying to do more impact-driven activities such as investing in women, and the bank is limiting its investment in value chains on the Aceli exclusion list.”***

– Commercial Bank, Tanzania

*“Women have remained our area of focus. However, **when Aceli came in, it changed our focus from only women at the micro level – mainly coming in the form of groups – to women-led SMEs.”***

– Commercial Bank, Uganda

Sources: Lenders surveys and interviews 2022; Dalberg analysis

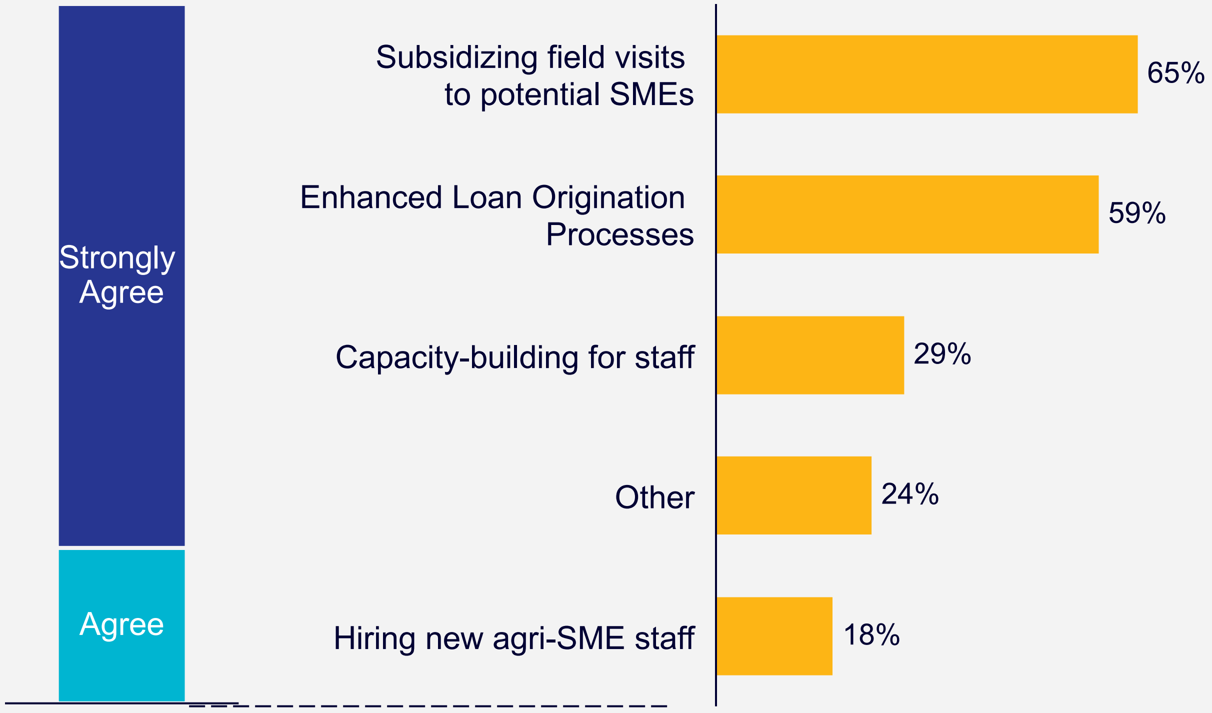
Origination Incentives (OI): Lenders report using OI to offset the costs of loan origination and monitoring and to build their agri team’s capacity

Lender feedback on Origination Incentives (OI)

% of lenders, N = 17

Is OI effective for your organization?

How has your organization utilized OI received from Aceli?



***The origination incentive is very inspiring for the bank and our bosses are even thinking of bringing in new resources** so that the Agriculture Department can have a large team to be quicker in handling and assessing customers’ requests.*

– Commercial Bank, Rwanda

*“**We have used part of the incentives to build capacity for our teams**…they were trained on basic lending knowledge, and we have also conducted training on engagement of women and youth on our lending criteria”*

– Commercial Bank, Tanzania

*“Most agriculture related investments are located in rural areas, so you need to travel or go to the rural areas to find these customers. **It is expensive to monitor or to source these customers, but the origination incentive covers that part.”***

– NBFI, Tanzania

*“Origination incentives are one of the things we looked at keenly and they’ve helped us to cover a number of our needs…it's an area that we feel is going to help us so much in **managing our costs like sales and marketing, as well as client visit and evaluation.”***

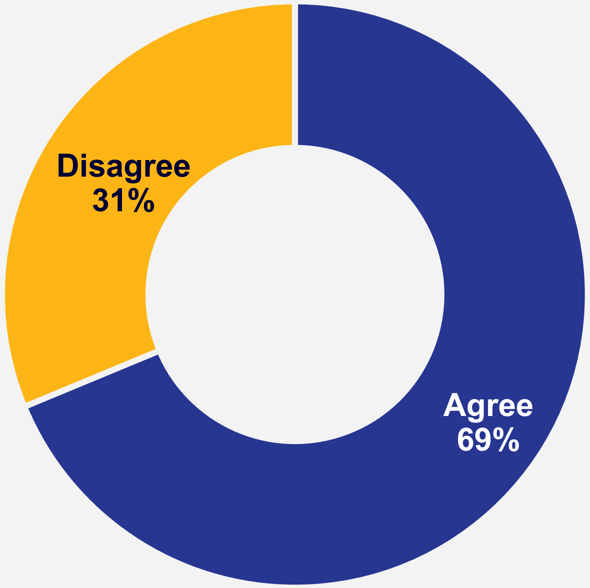
– NBFI, Uganda

First Loss Cover (FLC): Compared to OI, feedback is mixed for FLC, with less enthusiasm from lower volume lenders & those targeting loans <$25k

Lender feedback on FLC

% of lenders, N = 16

View that FLC meets the organization's needs…



*"It's the cumulative aspect of that first loss that if it's not used, it goes into an escrow account and it just compounds. And I think that **it's genius because you will no longer be looking at a credit call that you're making on the loan-by-loan basis, you are now looking at portfolio building."***

– Social Lender

*"For anyone who doesn't look at the future, [FLC] will look very small. **However, if I do so many good deals and the loans are paid off, my accumulated 6% is going to build a portfolio in my bucket that I can always use even to cover 100% of certain deals that are perceived risky."***

– Commercial Bank, Uganda

*"Our motivation [for not utilizing Aceli's incentives] would be on the **first loss guarantee, which we found to be very low at 4% or thereabouts compared to the amount of reporting** you have to do."*

– Social Lender

*"**This FLC is not something we can count on to continue our aggressive growth in agriculture.** This means that there is need for Aceli to expand the scope or the range of these incentives to also capture borrowers who are below the $25K."*

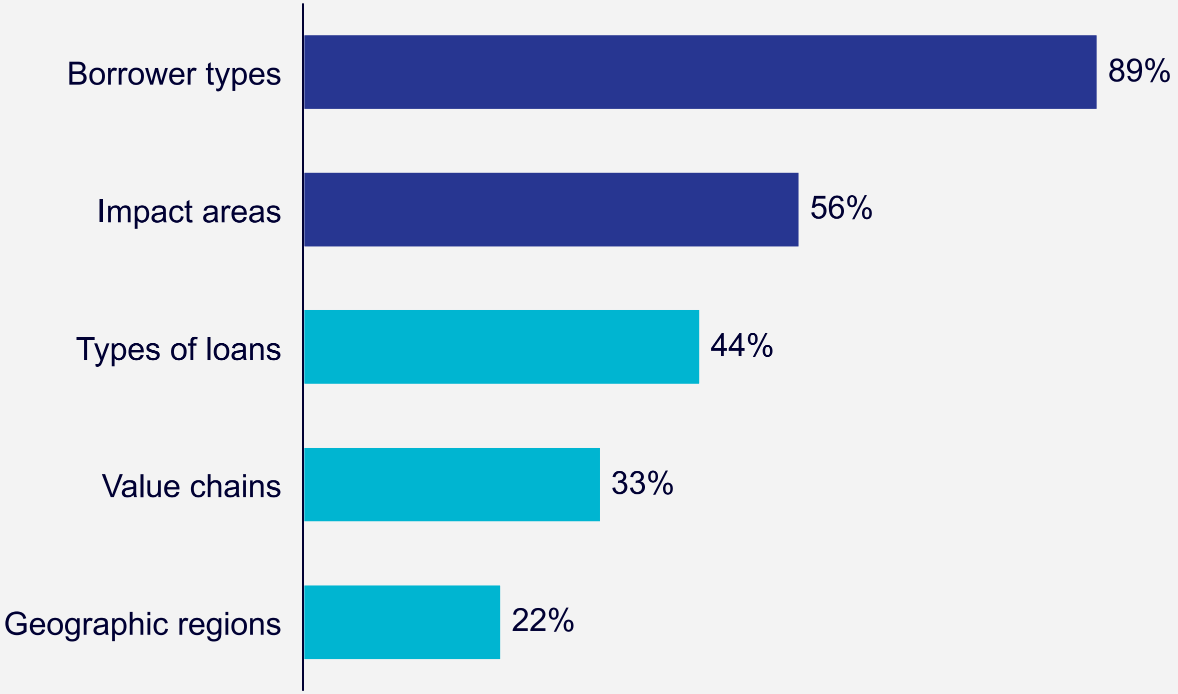
– Commercial Bank, Kenya

New Lenders: New Aceli partners are optimistic about the ways in which the incentives will influence them, especially in reaching new borrower segments

Expectations of changes with Aceli

% of respondents, N = 9 new lenders

Yes / No: Aceli is expected to have a strong impact towards increasing agri-SME lending in my organization regarding specific…



"The sector has got challenges, and some of the products that we have seen that Aceli offers, for example first loss cover, can help in de-risking*… we can then be able to confidently serve as many as SMEs as possible."*

– Commercial Bank, Uganda [1]

"The credit guarantee facility that they offer … brought a lot of encouragement to us, to even show our analysis team that there are partners who are really willing to support the bank *in ensuring that we get farmers access to finance, and not only farmers in organized value chains, but also those in value chains that are not quite organized"*

– Commercial Bank, Kenya [2]

Appendix

Definitions and acronyms in the report

- **Bank:** Financial institution, either privately or publicly owned, that is regulated as a deposit-taking institution by the Central Bank in its country of domiciliation in East Africa
- **Non-bank financial institution (NBFI):** Lender domiciled in East Africa that is not subject to Central Bank regulations as a deposit-taking institution
- **Social lender:** Multi-country lending institution domiciled outside of Africa that has an explicit social-impact mission related to its lending
- **Portfolio first-loss cover (FLC):** Aceli financial incentive to mitigate the risk of agri-SMEs loans ranging from $25k-$1.75M; FLC incentives accrue in the lender's reserve account as it makes more loans and the reserve is available to cover losses across the lender's portfolio of qualifying loans
- **Origination incentive (OI):** Aceli financial incentive made in the form of cash payments to lenders to defray the high transaction costs for originating loans ranging from $25k-500k to agricultural SMEs
- **Qualified loans:** Loans from lenders that have been accredited by Aceli and that meet eligibility criteria specific for one or both of Aceli's financial incentives (FLC and OI)
- **New lenders:** Lenders that have joined or are in process of joining Aceli's incentives program but have not yet registered any loans for incentives
- **Existing lenders:** Lenders that have joined Aceli's incentives program and have registered loans for incentives
- **New borrowers:** SME that has not received a loan of $25k or more in the past three years from <u>any</u> lender prior to receiving an Aceli-supported loan from one of Aceli's lending partners
- **Returning borrower:** SME that has received a loan of $25k or more in the past three years <u>either</u> from the lender registering the loan for incentive with Aceli or from another lender
- **Compound Annual Growth Rate (CAGR):** The annual percentage growth for, e.g., number of loans in a lender's portfolio

Aceli Lending Partners – as of February 2023

KENYA

- Family Bank – With you, for life
- Credit Bank – My Friend, My Bank
- FACTS
- Sidian Bank – Own Tomorrow
- Co-operative Bank – We are you

RWANDA

- Development Bank of Rwanda (BRD) – We empower you – www.brd.rw
- Bank of Kigali – Financially transforming lives
- Equity
- bpr Bank

MULTI-COUNTRY LENDERS

- alterfin
- mce Social Capital
- incofin Investment Management
- Shared Interest – Investing in a fairer world
- SIDI – Solidarité Internationale pour le Développement et l'Investissement
- MISSIO INVEST

TANZANIA

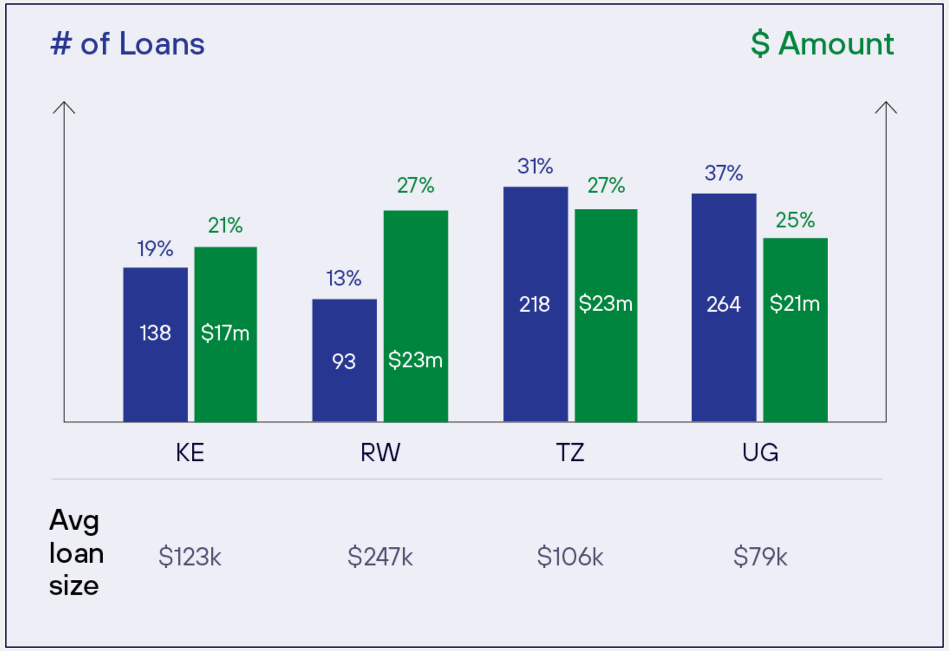
- TADB – Tanzania Agricultural Development Bank – "The Farmers' Bank"
- CRDB Bank – The bank that listens
- Tanzania Commercial Bank – Growing stronger together
- Azania Bank
- EFTA Equipment Loans
- NMB – Close to you
- SME Impact Fund

UGANDA

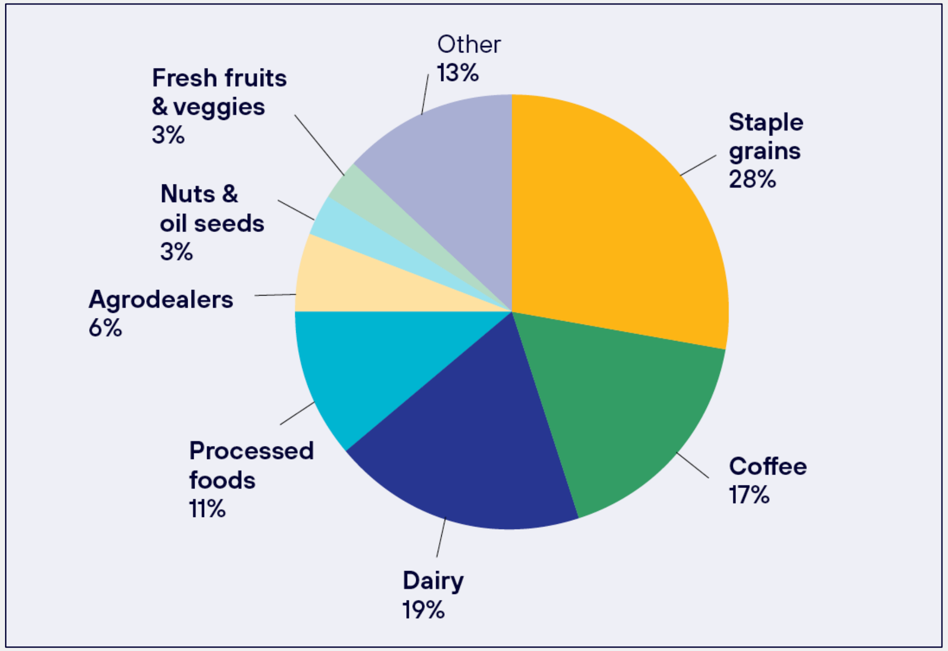
- FACTS
- Equity
- FINCA
- Finance Trust Bank – Putting Women First
- MANGO Fund
- PostBank – Empowering you
- Opportunity Bank
- dfcu Bank – ...with pleasure
- Centenary Bank

Aceli loan volume by country and crop type thru year-end 2022

Loan distribution by country



Loan distribution by crop type



Impact metrics thru year-end 2022

METRICS			METRICS
Capital raised: $64M to date (2020-2025) of which $37M is for incentives **Lenders registered:** 37	**Loans disbursed:** 713 **Capital mobilized:** $84M ($118k average loan size) **Capital additionality:** 53% of loans made to first-time borrowers **Repeat borrowers:** Loan size increased 26% from Y1 to Y2 and enterprise revenues grew 30%	**Enterprise revenue:** $542M baseline **Farmers linked to markets:** 429k (44% women) **Full-time jobs:** 16k (38% women)	**Purchases from farmers:** $168M baseline **SMEs that meet higher standards for:** Climate & environment: 19% Gender inclusion: 59% Food security & nutrition: 59% Youth inclusion: 38%

For more information, contact:

info@aceliafrica.org