2021 LEARNING REPORT: YEAR 1

Unlocking Private Capital for African Agriculture

BACKGROUND & ACKNOWLEDGMENTS

Continuing disruptions from COVID-19 and a worsening climate crisis have amplified the longstanding need for investment in African agricultural value chains that are inclusive, resilient, and environmentally sustainable. Aceli Africa ("Aceli") is a market catalyst leveraging public and philanthropic resources to unlock agricultural lending that generates social and environmental impact.

Launched in September 2020 with an initial focus in Kenya, Rwanda, Tanzania, and Uganda, Aceli Africa partnered with 24 lenders in our first year. While the idea for Aceli originated at a global level among international impact lenders that are members of the Council on Smallholder Agricultural Finance, it has rapidly evolved to include commercial banks and non-bank lenders domiciled in East Africa, which now make up the majority (15, or 63%) of participating lenders. Aceli's core product offerings are two types of financial incentives to mitigate the risk and improve the returns of agri-SME lending.

Increasing the supply of capital is essential in agriculture and many other sectors, but it is not a panacea. To build a thriving and inclusive capital market, Aceli pairs financial incentives with capacity building for both SMEs and lenders to expand the addressable demand and link it to capital supply. Aceli's financial incentives, as well as these "beyond capital" activities, are described in more detail in the Appendix and on Aceli's website. Data analysis from the loans Aceli supported in Year 1 will be regularly updated on our website.

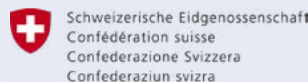
This learning report focuses on:

- Lessons from Aceli's first year implementing financial incentives for lenders.
- Aceli's approach to testing and evaluating how catalytic capital can be optimally targeted to mobilize lending that is additional in the market and generates substantial impact.
- Targets for 2022 and aspects of Aceli's design and initial implementation that may be relevant for blended finance or catalytic capital approaches in other sectors or geographies.

Aceli would like to thank our donors for their support and partnership in launching this new initiative amid the COVID-19 pandemic:

ANCHOR FUNDERS ($10M+)

Ministry of Foreign Affairs of the Netherlands



We also thank: Good Energies Foundation, Mulago Foundation, USAID Invest, and the Catalytic Capital Consortium (C3), an initiative supported by MacArthur Foundation, Omidyar Network, and Rockefeller Foundation and administered by New Venture Fund to build the evidence base for risk-tolerant, flexible, and patient investments that address critical global challenges.

INTRODUCTION

Mobilizing private capital for impact at scale

An estimated 65% of the population in East Africa depends on agriculture for their livelihood, but less than 10% of commercial bank lending goes to the sector. This imbalance is emblematic of the capital scarcity that exists across almost every sector in low- and middle-income countries—resulting in an estimated $2.5 trillion annual gap in the financing required to achieve the UN Sustainable Development Goals (SDGs) by 2030.

Aceli Africa is a market incentive facility launched in September 2020 to mobilize $600M in private sector lending to small- and medium-enterprises (SMEs) in the East African agriculture sector by 2025. This report distills learning from Aceli's first year of implementation and highlights three areas for deeper exploration in the years ahead:

01

Mobilizing Private Capital

How can public and philanthropic resources (often referred to as blended finance or catalytic capital) be targeted most effectively to attract private sector investment?

02

Targeting Capital for Impact

How can private investment be steered to optimize social and environmental impact and what meaningful measures (beyond the amount of capital mobilized) can we use to assess progress toward this objective?

03

Spurring Adoption & Replication

How can the learning from this model spur adoption across the agricultural finance market in the focus countries and replication in other sectors and geographies?

Aceli is currently operating in Kenya, Rwanda, Tanzania, and Uganda. We do not make loans directly to agricultural SMEs nor provide capital to lenders for them to lend. Rather, we offer two types of financial incentives to shift the risk-return profile and increase lenders' appetite to make loans ranging from $25K-$1.75M to agricultural SMEs that previously had limited access to finance. Financial incentives are calibrated based on an original dataset covering the economics of agri-SME lending from 35 agricultural lenders, ranging from commercial banks to international social lenders to finance companies offering specialized loans such as equipment leasing or factoring.

For more information on Aceli's product offering see the Appendix or Aceli's website.

KEY TAKEAWAY

01 The private sector got involved

Blended finance models—often hailed as the solution for converting the billions of dollars currently provided for development assistance into the trillions required to achieve the SDGs—have struggled to mobilize private sector investment. A 2018 report by Convergence Finance found that blended finance models at a global level and across a range of sectors have, on average, mobilized $4 of investment for every dollar of donor subsidy. The leverage ratios are lower in Africa (2.4x) and in the agricultural finance sector (3.3x) where Aceli operates. Perhaps most notably, after removing investments made by public entities, such as development finance institutions, each dollar of donor funding only mobilized $1.10 in private capital.

In Aceli's first year of operations, 24 lenders signed up to participate in the financial incentives program. The vast majority of these lenders are privately owned (22, or 92%) and domiciled in East Africa (16, or 66%). Aceli's financial incentives generated a leverage ratio of 12x ($26.6M in lending at a cost of $2.2M in donor-funded incentives). This leverage ratio is well above industry benchmarks from the Convergence report, and we expect it will increase to 15-20x by 2025.

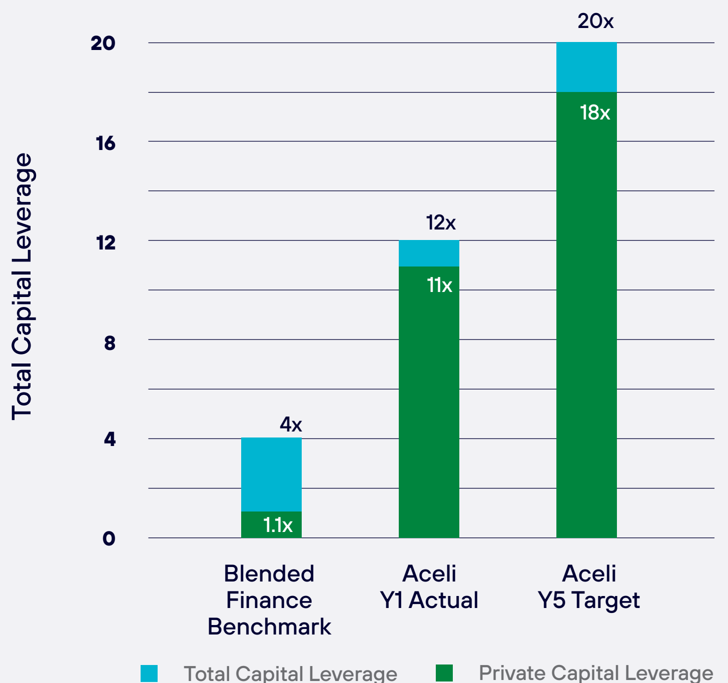
Developing partnerships with private sector lenders has taken time—and is now yielding results. Much of the setup period for Aceli from 2018-2020 involved pitching lenders on our vision, wrangling their legal and compliance teams to sign non-disclosure agreements, muddling through lending data that was not easily comparable between institutions, and training lenders on our financial incentives criteria and loan registration processes. COVID-19 caused additional delays as banks adjusted to working remotely, extending both review times for legal agreements and the onboarding period for lenders to adjust their policies to make use of the incentives.

Notwithstanding these obstacles, the broader trend has been unmistakably positive. Internal champions succeeded in navigating institutional processes to sign up for an unconventional model. Another signal of progress: Several lenders, primarily commercial banks in the region, are now approaching Aceli after seeing their competitors utilize the incentives (as we finalize this report two months into Year 2, three additional lenders have signed up and several more are in process). In short, there is substantial pull from private sector lenders, particularly at the regional level in East Africa.

These dynamics underscore the higher risk/higher reward of a marketplace approach to blended finance. The setup period (almost three years in the case of Aceli) may exceed the 18-24 months typically required to establish a new fund that makes direct investments in Aceli's target market. However, the additional year in setup time (with a few of those months directly linked to delays from COVID-19) should be weighed against improved reach and scale over time. By drawing upon the existing operating footprint and capital of players that are already in the market but have yet to fully activate these assets, the Aceli model has quickly generated a volume and diversity of lending activity that would have taken years to achieve in a new investment vehicle. This leads us to our second lesson learned, detailed below.

Diagram 1

Aceli Capital Leverage vs. Blended Finance Benchmark



[1] *Leverage of Concessional Capital, Convergence Finance, 2018.*

KEY TAKEAWAY

02 What matters most?

Capital mobilized is well below target, but additionality and impact metrics exceed expectations. Much of the sector dialogue related to blended finance or catalytic capital focuses on headline numbers for total capital mobilized. By this measure—and relative to pre-launch targets based upon lenders' overly optimistic projections—Aceli fell short on two key metrics. We set a goal of supporting 225 loans with financial incentives and mobilizing $56M in lending to agricultural SMEs. We fell slightly short for number of loans (205, or 91% of target) and well below target for capital mobilized ($27M, or 47% of target).

The key driver of the shortfall in topline lending was the relatively small average loan size: $130K actual vs. $250K projected. This loan size underscores that Aceli is targeting a market segment that has been virtually untouched by previous development finance initiatives. Unpacking the profile of these smaller loans illustrates the limitations of evaluating blended finance mechanisms based solely on capital mobilized—and thus the need for a more comprehensive set of metrics:

Capital Additionality

While COVID-19 reduced lenders' overall risk appetite and limited their ability to originate and monitor loans, Aceli's lending partners utilized the incentives to substantially expand access to finance for agricultural SMEs. Forty-eight percent of loans supported by Aceli's incentives went to first-time borrowers (vs. a pre-COVID target of 30%).

48%
OF LOANS TO FIRST-TIME BORROWERS

52%
OF SME REVENUE IS PAID TO FARMERS & WORKERS

Inclusion

Increasing access to finance for agricultural SMEs is a positive indicator, but only a means to the end of improving livelihoods and contributing to a healthier environment. To promote inclusion, Aceli requires that all loans meet minimum thresholds in terms of providing market access for smallholder farmers and employment for workers. Collectively, the 205 SMEs receiving Aceli-supported loans channel 52% of their topline revenue, or $86M, as crop purchases from 241K smallholder farmers and salaries for 3.7K full-time workers (note: these are baseline figures that reflect the collective profile of the SMEs at the time they received their first Aceli-supported loan; we will be assessing how these enterprise, farmer, and worker metrics change over time).

Aceli's financial incentives are tiered with impact bonuses for capital additionality (i.e., higher incentives for loans to first-time borrowers) and for loans to SMEs that meet a higher bar across one or more priority impact areas:

63%
OF SMES ARE GENDER INCLUSIVE VS. INDUSTRY TARGET OF 30%

241k
FARMERS ACCESSING MARKETS

Gender inclusion. Aceli has adopted the 2X Challenge criteria for gender inclusion used by leading development finance institutions for their investments. Under the 2X standard, an investment is gender inclusive if it meets criteria across at least one dimension (e.g., ownership, management, employees, suppliers) while an investment portfolio is considered "gender inclusive" if 30% of its investments meet the criteria. In Year 1, 63% of loans supported by Aceli met the 2X Challenge criteria, with 22% of the loans meeting the criteria on the basis of women's ownership and 41% on one of the other criterion. While Aceli is pleased to be far exceeding the industry benchmark, we believe the bar should be set higher and are beginning to explore with other stakeholders a "gender inclusive+" rating for SMEs that meet inclusion criteria across multiple dimensions.

[2]Aceli defines first-time borrowers as those that have not received a loan greater than $25K from any source in the past three years. Thus, an SME that received a loan of $50K from Lender 1 in 2019 would not be considered a new borrower if it receives its first loan of $75K from Lender 2 in 2021.

Food security & nutrition. Recognizing that finance has historically flowed to more formal value chains—such as coffee and tea going to export markets—Aceli set a goal that at least 50% of the loans receiving incentives would be for food crops primarily sold within Africa. In Year 1, 54% of loans qualified for Aceli's Food Security & Nutrition impact bonus. These loans are across several crops (maize, rice, dairy, fresh fruits and vegetables) ranging from input supply to primary production to processing. Going forward, we aim to support more SMEs that are contributing to nutrition in the local market.

Climate-smart & resilient agriculture. Aceli seeks to promote approaches along agricultural value chains that restore soils, protect forests and biodiversity, reduce waste, and utilize renewable energy. In Year 1, 22% of the loans qualified for Aceli's Climate-Smart & Resilient Agriculture impact bonus (vs. an initial target of 20%). We plan to raise this target in future years as environmental practices among SMEs and their affiliated farmers improve, stemming in part from technical assistance). For example, Aceli is also piloting, in partnership with Precision Development and regional forestry experts, a program to provide technical support for eight SMEs in Rwanda and Uganda that manage tree nurseries. The technical assistance helps the SMEs expand their reforestation efforts and trains over 3k farmers in how to plant and care for the tree seedlings.

Going forward, Aceli plans to enhance our impact bonus program and support continuous improvement in social and environmental practices at both SME and farmer levels. Priorities for 2022 include:

- Piloting a new impact bonus for Youth Inclusion (note: unlike gender inclusion, where we were able to draw upon the established 2X criteria, no standard exists for Youth Inclusion; thus we have designed our own, based on the gender inclusion framework, and expect to iterate as we implement and learn);
- Expanding capacity building for more SMEs around reforestation and other farm- and enterprise-level practices to improve their environmental footprint and strengthen climate resilience; and
- Partnering with technical experts to pilot capacity building for SMEs to improve their gender practices related to sourcing, workplace policies, and management opportunities.

Beyond unlocking more capital for high impact agri-SMEs through our financial incentives program, Aceli is testing ways to support these SMEs in generating more social and environmental impact.

Impact

The inclusion numbers summarized above are promising indicators that Aceli is supporting loans to SMEs that can have a significant effect on rural economies. Interestingly, the baseline data from Year 1 shows a bifurcation in the profile of new and repeat borrowers: New borrowers are significantly smaller in terms of revenue, sourcing reach and purchasing volume from farmers, and employment. As shown in Diagram 5, new borrowers receive relatively smaller loans that require higher levels of incentives (hence the lower leverage ratio vs. repeat borrowers) to achieve higher capital additionality. But these elevated incentives may be justifiable depending on the level of enterprise growth and impact associated with access to finance.

Diagram 2 for Benefit Breakdown of Incentives depicts how upstream donor funding for Aceli cascades down through incentives to lenders, loans to SMEs, and targeted impact at the level of SMEs, farmers, workers, and the environment. Going forward, we will be working with our data and learning partners Dalberg Advisors, International Growth Centre, and 60 Decibels to answer the following questions (see next page),

Learning Questions

1

Do Aceli's incentives shift lender behavior to increase financing for agricultural SMEs?

(i.e., outputs from Aceli's financial incentives in the form of capital additionality)

2

Does increased financing, in turn, lead to improved business performance?

(i.e., enterprise-level outcomes)

3

Does improved business performance lead to improved livelihoods for farmers and workers alongside other measures of social and environmental impact?

(i.e., household, community, environmental impact)

4

Are there unintended consequences at the level of the marketplace, lenders, enterprises, farmers, or workers?

(e.g., market distortions, reinforcing rather than counteracting disparities related to gender, encouraging agricultural production that has negative effects on the environment)

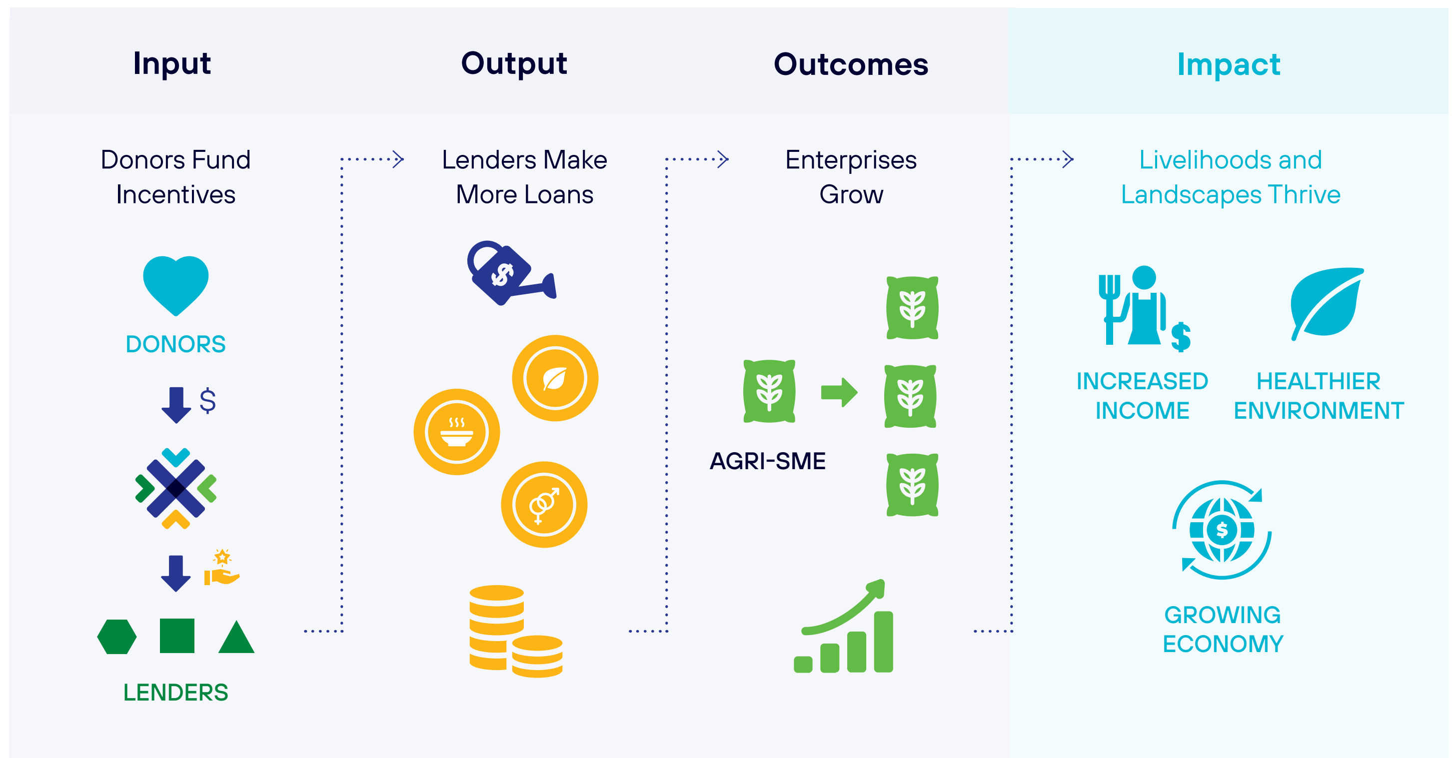
5

How does the incremental impact generated by Aceli's activities compare to the cost of the incentives and their administration?

(i.e., value for money or impact return on investment)

Diagram 2

Benefit Breakdown of Incentives



METRICS

Capital Raised:

$62M to date (2020-2025) of which $35M is for incentives

Lenders Registered:

24 to date (16 domiciled in East Africa, 8 international)

Loans Disbursed:

205

Capital Mobilized:

$26.6M ($130k average loan size)

Capital Additionality:

48% of loans made to first-time borrowers

Enterprise Revenue:

$183M baseline

Farmers Linked to Markets:

241k (47% women)

Full-time Jobs:

3.7k (38% women)

Repayment Rate on Loans Supported:

Future metric

METRICS

Purchases from Farmers:

$81M baseline

Salaries for Workers:

$5M baseline

SMEs that Meet Higher Standards for:

Climate-Smart & Resilient Agriculture: 22%

2X Challenge Criteria for Gender Inclusion: 63%

Food Security & Nutrition: 54%

Key:

Donors

Incentives

Banks

Local Non-bank Financial Institutions

International Social Lenders

Capital / Service Providers

Loan

Agriculture

KEY TAKEAWAY

03 Iterating to a scalable and replicable model

Aceli has three inter-related objectives to create both near-term and long-term impact at scale:

Generate $3 in incremental income for farmers and workers for every $1 in donor funding.

Over the next five years, we aim to generate impact that significantly exceeds the cost of financial incentives and their administration. Our target here is $200M in incremental income for over one million farmers and workers relative to $60M in total cost (i.e., $3+ in incremental income for every $1 in donor funding). These costs include $40M in financial incentives for lenders, $10M in technical assistance to SMEs and lenders, and $10M in project management (note: the costs of data & learning and innovation are not included in these figures).

Catalyze a more competitive and efficient marketplace.

Beyond this direct impact, we seek to catalyze a more competitive and efficient marketplace where lower levels of subsidy are required in the future. We expect that some market segments (e.g., larger ticket sizes in more formal value chains and regions closer to urban centers) may graduate entirely from incentives while others may require continued but reduced support. Our goal is to reduce incentives by close to 50% and increase leverage ratios from 12x to 20x+ (average of 15x over the five-year period) for loans with comparable impact profiles by 2025.

Spur adoption and replication of a high-leverage, high-impact model.

Ultimately, we aim to demonstrate a high-leverage, high-impact model and build an evidence base that convinces policymakers in Kenya, Rwanda, Tanzania, and Uganda to fund similar financial incentives on a larger scale. This would provide an exit for donors while strengthening the enabling environment to sustain continued investment and inclusive growth in the agriculture sector. It could also serve as a blueprint for applying a data-driven, marketplace approach to mobilizing increased capital and/or services to other high-impact, low profitability markets.

Replicability

In recent months, we have fielded numerous inquiries about how Aceli's model could be adapted to other countries (Egypt, Georgia, Guatemala, India, Lesotho, Malawi) and sectors (off-grid energy, youth employment, and water, sanitation and health). While Aceli will not have the capacity to pursue most of these opportunities ourselves, we hope our learning can contribute to how other models are designed and implemented. A few areas that may be particularly relevant:

Market pre-conditions. First, we do not believe a model like Aceli's is appropriate for all sectors and geographies. Market context matters. Specifically, there should be a critical mass of both private sector capital providers and borrowers or investees (i.e., capital supply and demand) such that incentives can bridge the gap. These pre-conditions may not be the case in conflict or fragile states or in countries where state-owned banks predominate.

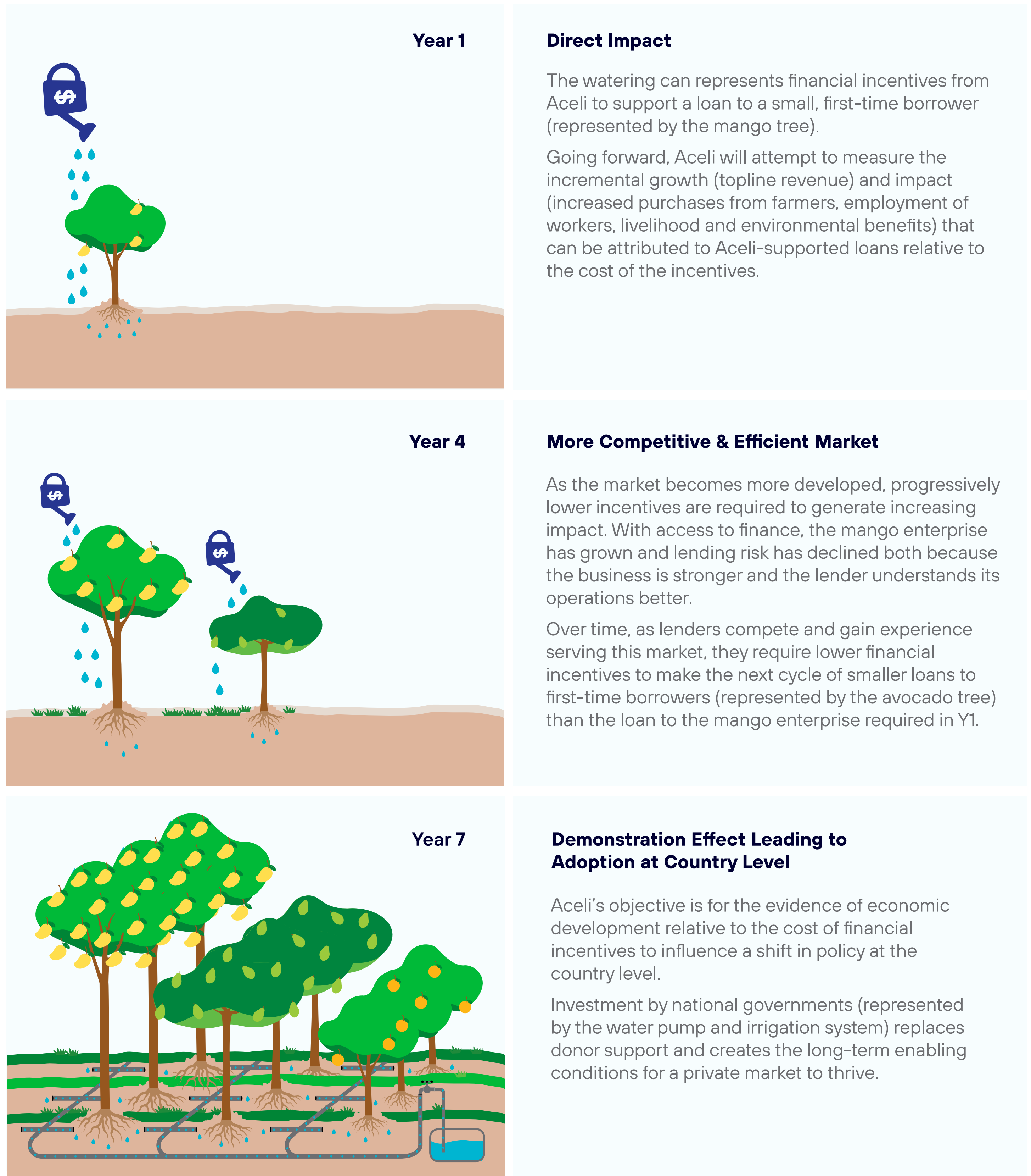
Capital or service provision. While the Aceli model focuses on mobilizing increased lending, similar approaches could be applied to equity investments or even to provision of goods and services (as long as, per the point above, there is critical mass of private sector actors who respond to financial incentives).

Tradeoffs between rigor, precision, and adoption. The ideal market context for designing a mechanism like Aceli would include reliable data for both financial performance and impact, as well as a significant number of actors that are responsive to highly targeted incentives. Of course, it is virtually impossible to obtain reliable financial performance and impact data across a range of actors in most markets that require this type of intervention. In designing Aceli, we sought to strike a balance between, on the one hand, applying rigor in data analysis and precision in targeting impact while, on the other hand, recognizing the limitations of available data and the likelihood that market actors would respond to highly targeted incentives. In several instances, we erred on the side of a simplified offering to spur more immediate up-take by lenders. For example, Aceli initially offers almost identical incentives across and within our four focus countries even though some countries and sub-regions are currently better served by lenders than others. Over time, we expect to introduce variation in the incentives to promote more targeted outcomes.

Industry Example: Expanding access to services through impact-linked finance. Aceli's origination incentive for lenders is similar in design to the Social Impact Incentives (SIINC) developed by Roots of Impact in collaboration with the Swiss Agency for Development Cooperation and the Inter-American Development Bank. SIINC has been applied in various contexts, including with Clínicas del Azúcar, a healthcare provider serving diabetic patients in Mexico. Clínicas del Azúcar previously targeted mostly middle-class patients who could afford its services. SIINC payments reward Clínicas del Azúcar for every low-income patient that it serves, thus incentivizing it to extend its reach into marginalized communities. SIINC payment levels are currently calibrated to Clínicas del Azúcar's operating economics but this model could potentially be scaled up to a marketplace level, along the lines of Aceli, where a standard incentive is offered to various service providers that compete to deliver quality care most efficiently.

Diagram 3

Impact Return on Investment



Direct Impact

The watering can represents financial incentives from Aceli to support a loan to a small, first-time borrower (represented by the mango tree).

Going forward, Aceli will attempt to measure the incremental growth (topline revenue) and impact (increased purchases from farmers, employment of workers, livelihood and environmental benefits) that can be attributed to Aceli-supported loans relative to the cost of the incentives.

More Competitive & Efficient Market

As the market becomes more developed, progressively lower incentives are required to generate increasing impact. With access to finance, the mango enterprise has grown and lending risk has declined both because the business is stronger and the lender understands its operations better.

Over time, as lenders compete and gain experience serving this market, they require lower financial incentives to make the next cycle of smaller loans to first-time borrowers (represented by the avocado tree) than the loan to the mango enterprise required in Y1.

Demonstration Effect Leading to Adoption at Country Level

Aceli's objective is for the evidence of economic development relative to the cost of financial incentives to influence a shift in policy at the country level.

Investment by national governments (represented by the water pump and irrigation system) replaces donor support and creates the long-term enabling conditions for a private market to thrive.

Designing a data-driven, marketplace approach to catalyze private sector activity for impact. The process that we went through to design Aceli could be applied in other contexts along the lines of the following:

STEP 1:

Select an issue/market where there is high impact, but low financial profitability

The goal is to provide enough incentive to "tip the scale" so that market actors increase capital or service delivery. This requires paying for impact in sectors where there is a mismatch between the capital or services that customers demand (e.g., loans in agriculture, access to energy, affordable housing) and the financial sustainability of the capital or service provider to meet this demand.

STEP 2:

Analyze economics and impact

The Aceli model is applicable where there is some ability to measure the economics and impact associated with provision of capital or services. For example, financing (or other service delivery) is for a finite time period, over which capital (or service) providers' risk, return, and major cost components (and ideally the impact of capital or service provision) can be estimated.

STEP 3:

Consider options for incentivizing investment/service provision and choose the highest impact relative to the lowest cost

Collect, standardize, and analyze data to determine the economics of serving this market relative to the desired impact, and subsequently put a transparent "price" on the incentive offering for desired impact.

STEP 4:

Create a marketplace where incentives spur more high-impact investments/services

Scale and cost effectiveness are likely to be better if a wide range of finance or service providers compete in the market on a pay-for-results basis, rather than if all services are delivered through a single provider that can be supported directly.

STEP 5:

Shift the marketplace over time to a higher ratio of impact to cost (i.e., smart subsidy phases down/out as market becomes more competitive)

If market participants increase their activity, greater scale and insights from serving the market may lead to cost efficiencies, improved product offerings, and/or heightened competition. This should expand access and increase the impact on underserved populations while reducing the cost to stimulate this market activity.

Diagram 4

Aceli's Design Approach

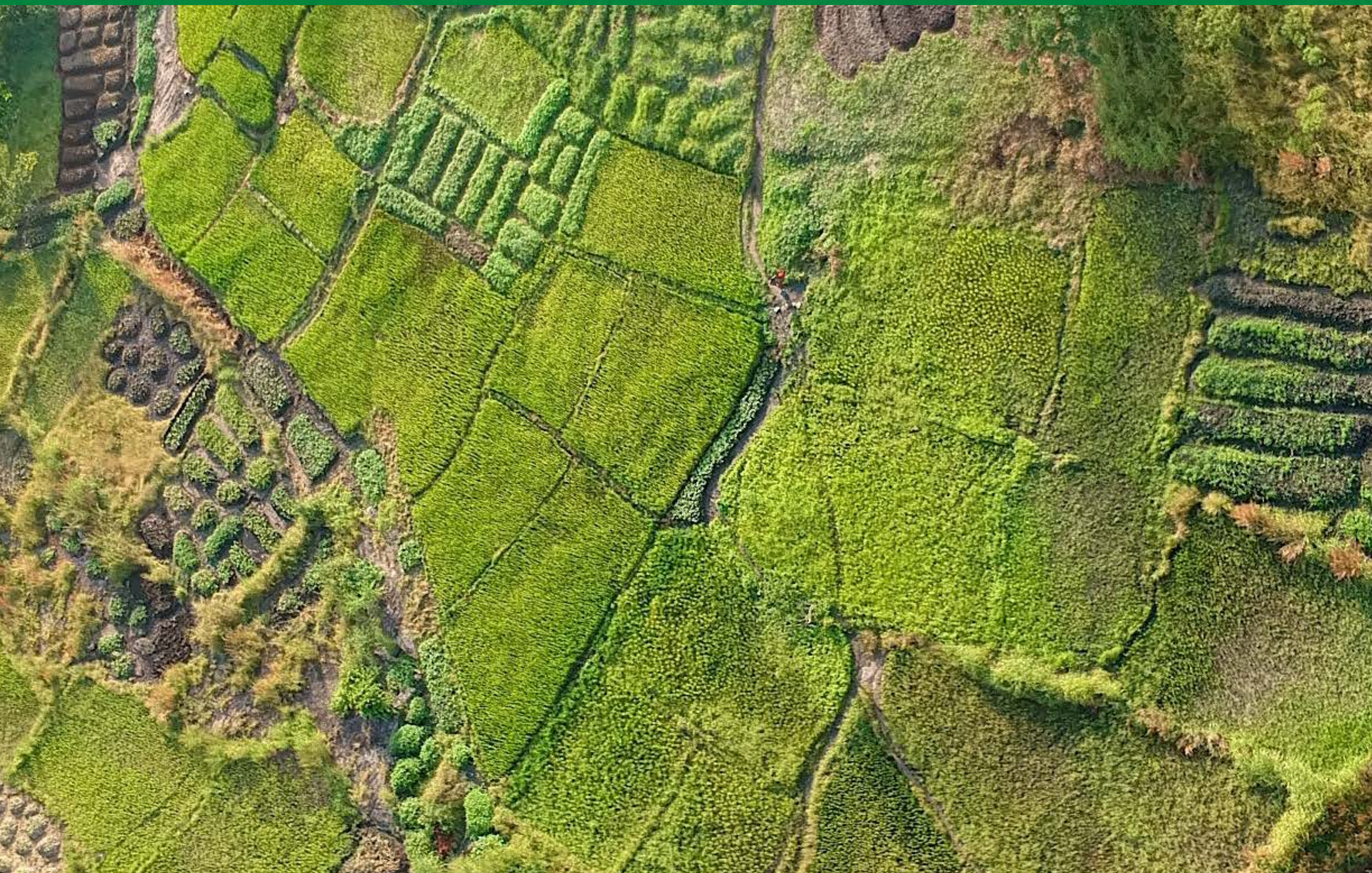
Looking Ahead

Amid the ongoing challenges posed by COVID-19 and climate change—compounding the finance gap that pre-dated both—the need for investment in the African agriculture sector is more urgent than ever. Aceli's experience in Year 1 indicates that there is market pull from private sector lenders. We expect that 2022 will be a year of significant growth and learning in terms of how incentives can steer capital toward higher-impact activities.

Aceli's priorities for 2022 include:

- **Onboard several new lenders,** including leading commercial banks across the region.
- **Increase volume of high-impact loans supported.** Aceli is setting a target of providing financial incentives for at least 400 loans totaling $75M in 2022 (note: lenders are forecasting significantly higher growth, but we have discounted those projections as the business environment remains unpredictable with the continued effects of COVID-19).
- **Incorporate new funding partners to support this growth.** We are pleased to welcome as anchor funders the Dutch Ministry of Foreign Affairs and UKAID through the British High Commissions in Dar es Salaam and Kampala. The Catalytic Capital Consortium (C3) is supporting continued data analysis, learning, and sector engagement, including this learning report.

The knowledge and practice of blended finance and catalytic capital must evolve rapidly to keep pace with pressing global challenges that require capital well beyond the public and philanthropic resources available. Aceli is committed to working in partnership, pushing boundaries, and sharing our learning—both successes and failures—on this journey.



Appendix

The concept for Aceli originated with the Council on Smallholder Agricultural Finance (CSAF), an alliance of 17 international social lenders to agricultural small- and medium-enterprises (SMEs) that collectively share learning and promote industry standards. In May 2017, CSAF members met to discuss the challenges of growing their lending to agricultural SMEs, particularly in sub-Saharan Africa. The idea for a market-level incentive facility emerged from this conversation and ensuing dialogue with other lenders, donors, and stakeholders in the agricultural finance sector.

Over the course of 2018 and 2019, CSAF and its institutional partners, Global Development Incubator (GDI) and Dalberg Advisors, gathered data on the economics of lending to agricultural SMEs. The findings indicated that risk in agri-SME lending is at least twice as high as in other sectors and returns are substantially lower even when the elevated risk is mitigated. Informed by this data, GDI built a team of agricultural finance professionals to design Aceli Africa, with the goal of unlocking increased private sector lending to agricultural SMEs. The initial geographic focus is Kenya, Rwanda, Tanzania, and Uganda. Aceli's product offering, approach to data and learning, and progress to date are summarized below.

Product Offering

Aceli Africa seeks to align the risk-return expectations of capital supply with the addressable demand among agricultural SMEs. On the capital supply side, Aceli offers lenders:

Portfolio First-Loss Coverage ranging from 2-8% for loans of $25K-$1.75M. Participating lenders earn money into a reserve account for every loan that meets impact criteria. The more high-impact loans they make, the more coverage they receive. This mechanism is designed to absorb the incremental risk of lending to underserved SMEs while ensuring that lenders have substantial "skin in the game" since they take the majority of the risk on each loan.

Origination Incentives compensate lenders for the lower revenues and higher operating costs of making smaller loans ($25K-500K) to early-stage SMEs that would not otherwise be profitable to serve even if the loan repays at a market interest rate.for a lender to qualify for the first-loss coverage and origination incentives above, it must demonstrate that a loan benefits smallholder farmers and/or low-wage workers.

Impact Bonuses are provided in the form of higher first-loss coverage and origination incentives for loans to businesses that are gender inclusive (using the 2X Challenge criteria)

Alongside financial incentives to unlock increased capital supply for agri-SMEs, Aceli also expands addressable demand and brings capital supply and demand into greater alignment through:

Technical assistance at both the pre- and post-investment stage for agricultural SMEs to strengthen their financial management capacity to access and manage credit.

Capacity building for lenders to adapt their product offering, enhance their staff expertise, and improve their systems and processes so they are better suited for the agri-SME market.

Innovation investments to promote technological and other business model improvements that drive down the costs of agri-SME lending, so the market becomes more competitive and requires less support in the medium term.

Data & Learning

Aceli continues to collect data and adjusts financial incentives as the market becomes more efficient. Independent evaluations by International Growth Centre and 60 Decibels assess the impact of lending on credit-constrained business as well as farmer and employee livelihoods. These findings will inform the business case for country-level public investment that replaces donor funding and sustains a competitive and inclusive agricultural lending market.

Activities & Progress During Year 1

In addition to engaging lenders with financial incentives—which is the focus of this learning report—Aceli has launched several activities to strengthen the effectiveness of the incentives, deepen our impact, and plant the seeds for a more competitive financial market supported by a stronger enabling environment in the long term. A subset of these activities during Year 1 include:

Technical assistance. In collaboration with Africa Management Institute, Wylde International, and several other implementing partners, Aceli has facilitated technical assistance for 94 SMEs across the four focus countries to improve their capacity to access and manage financing.

Appendix

Capacity Building. Aceli is partnering with an advisory firm, Moving Frontiers, to pilot an engagement with one commercial bank that will inform an expanded offering in the coming years. Capacity building will support lenders in adapting their product offering, systems, processes, and staff expertise to serve agri-SMEs at greater scale.

Gender Lens Investing. In partnership with Value for Women, Aceli has offered a series of four workshops with 15 of our partner lenders to raise awareness about how to translate their high-level institutional commitments into concrete measures to make both their loan portfolios and their internal practices more gender inclusive.

Innovation. Aceli has teamed up with Alliance for a Green Revolution in Africa to sponsor two Innovation Challenges: the first is focused on business models to improve financial records for agri-SMEs (in process), while the second aims to lower transaction costs in agri-SME lending (planned launch in Q1 2022).

Policy. After identifying a gap in the literature, Aceli has drafted a comparative analysis of how Central Bank regulations and other government-level policies affect agri-SME lending in Kenya, Rwanda, Tanzania, and Uganda. We have begun discussing these findings with stakeholders across the region to generate dialogue around how to strengthen the enabling environment in each country.

Communications. Aceli strives to share learning and engage in sector dialogue related to agri-SME finance in East Africa, as well as blended finance and catalytic capital across sectors and geographies more broadly. Some of these communications include:

- A blog series in Next Billion focused on the design process for Aceli;
- Case studies on Aceli by Convergence Finance and Just Rural Transition;
- Aceli's commitment as an ally for the ClimateShot campaign launched by FCDO and the Climate Change, Agriculture and Food Security program of the CGIAR;
- Recognition from Capital for Climate as one of 36 investment vehicles promoting nature-based solutions; and
- Participation in several industry events, including panels convened by IFAD at COP26, Alliance for a Green Revolution Forum, African Development Bank, and USAID.

Expansion. With funding from USAID INVEST and support from Dalberg Advisors, Aceli is conducting a market assessment to determine whether a similar model would be well-suited to mobilize increased lending to agri-SMEs in Latin America; this analysis is initially focused on Guatemala, Honduras, and the southern states of Mexico.

Diagram 5

New Borrowers vs. Returning Borrowers

The metrics for new borrowers compared with returning borrowers indicates that the former are smaller and at an earlier stage of development than the latter. While capital additionality is high for loans to new borrowers, the level of incentives needed to stimulate them is correspondingly higher (reflected in the lower capital leverage ratio). Similarly, new borrowers buy from fewer farmers, purchase less volume per farmers, and employ fewer workers. Aceli and our learning partners will be tracking both new and returning borrowers to assess how they grow over time and optimize our incentives for greatest impact.

	# of loans	Avg loan size	Avg SME revenue	Capital leverage ratio	# of farmers per SME	Payment per farmer	# of workers per SME
New Borrowers	101	$58K	$316K	6x	436	$205	13
Returning Borrowers	104	$199K	$1.28M	17x	1,894	$365	24
Total (all loans)	205	$130K	$806K	12x	1,176	$332	18