



**PRINCIPLED INTEREST:**

*A DEVELOPMENT FINANCE LEARNING SERIES*



**USAID**  
FROM THE AMERICAN PEOPLE

**MARKETLINKS**

# The Risks and Returns of Facilitating Agriculture Finance Solutions

November 12, 2020

*Welcome!*

*Please introduce yourself in the chat and take our poll.*



# WELCOME



**Sashi Jayatileke**

Team Lead, Development Finance  
USAID/PSE Team

## AGENDA

- USAID/Feed the Future's Ag Finance approach
- Lessons Learned in Blended Finance for Agriculture
- Q&A

# USAID'S APPROACH TO AGRICULTURE FINANCE



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Team Lead, Development Finance  
USAID/PSE Team



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Agriculture Finance Team Lead  
USAID/Resilience and Food  
Security

# KEY OBJECTIVES FOR THE SESSION



**Songbae Lee**

Agriculture Finance Team Lead  
USAID/Resilience and Food  
Security

- **Learn**
- **Understand**
- **Think**

# Lessons Learned in Blended Finance for Agriculture: *How to reach Smallholder Farmers?*



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# SMEs have the potential to drive inclusive agricultural growth



# Private sector, data-driven approach

31

Lenders

9.1k

Loans

\$3.7bn

Loan value

AgDevCo<sup>+</sup>

alterfin

(absa)

DEVELOPMENT  
BANK OF RWANDA  
BRD  
We empower you

Centenary  
Bank

BENEFACTORS LTD.

GLOBAL  
PARTNERSHIPS

incofin  
INVESTMENT MANAGEMENT

Credit Bank  
My Friend, My Bank

dfcuBANK  
...wsp. prosiurim

EQUITY  
Bank  
The Learning, Giving  
Financier Partner!

EQUITY  
FOR TANZANIA  
FINANCIAL SERVICES GROUP

FACTS

kiva

OIKO  
CREDIT

MADISON  
FINANCIAL SERVICES Plc

NCBA

NMB

MANGO  
Fund

SME Impact Fund

Rabobank

responsAbility

rootcapital

SHARED INTEREST  
INVESTING IN A FAIRER WORLD

Triodos Bank

OPPORTUNITY BANK

Stanbic Bank  
A member of Standard Bank Group

TADB  
Tanzania Agricultural  
Development Bank  
"The Farmers' Bank"

Tpb Bank  
Grow with Us

## Data findings: Economics of agricultural SME lending

**Risk**

**2X**

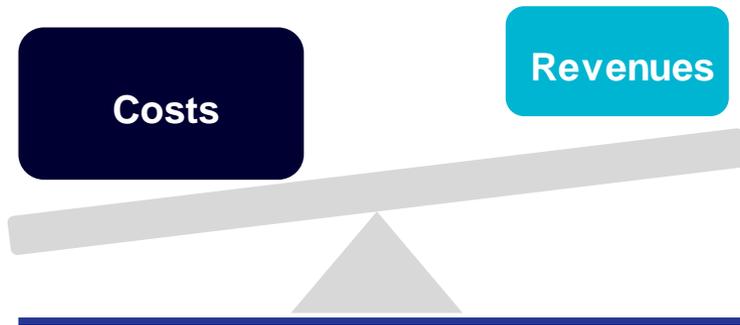
**higher**

**Returns**

**4-5%**

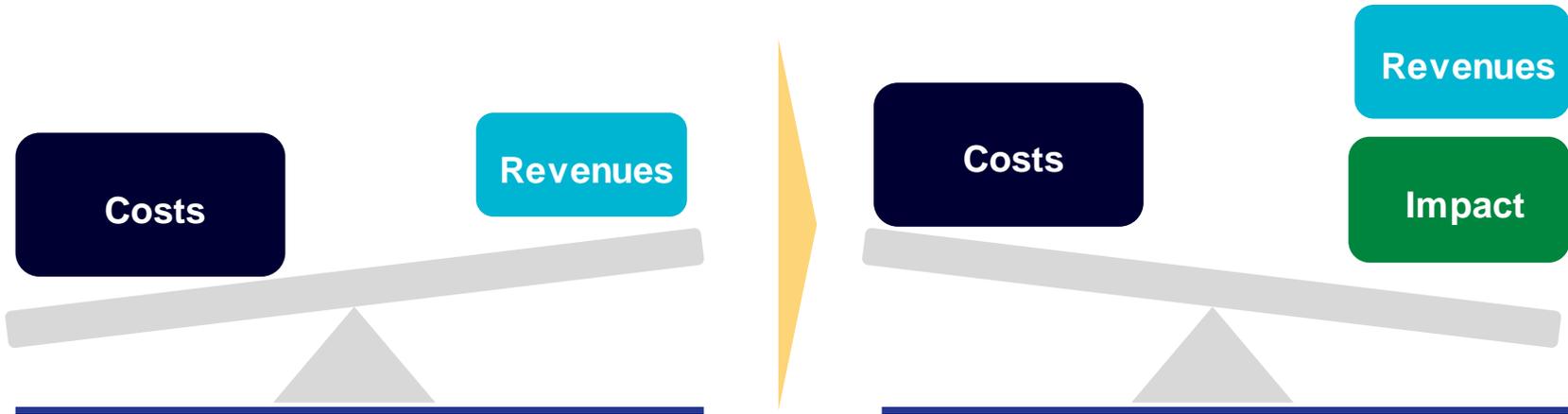
**lower**

## Re-balancing the economics



The status quo  
**UNPROFITABLE**

## Re-balancing the economics



The status quo  
**UNPROFITABLE**

Aceli's vision: reward impact  
**PROFITABLE**

## Three-pronged model focused in Kenya, Rwanda, Tanzania & Uganda

### 1. **Increase capital supply** for loans of \$25k-\$1.5M

- a. **Risk:** portfolio first-loss cover (2-8%)
- b. **Return:** origination incentives for loans <\$500k
- + **Impact bonuses:** gender inclusion, food security & nutrition, climate-smart & resilient agriculture

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- Technical assistance for SMEs
- Capacity building for lenders

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- Technical assistance for SMEs
- Capacity building for lenders

### 3. Build evidence to inform blended finance and policy solutions

- Data collection to adjust financial incentives
- Independent evaluation to contribute to sector learning and solutions at scale

A large yellow arrow pointing from the left towards the text on the right.

**\$700M lending to inclusive agri-SMEs by 2025**

## Initial learning

- **Data & market gaps:** see financial benchmarking reports ([www.aceliafrica.org](http://www.aceliafrica.org))
- **It takes time** to build relationships, sign legal agreements, change lender behavior
- **There are no silver bullet solutions** – multi-pronged approaches are needed at market level

## Initial learning

- **Data & market gaps:** see financial benchmarking reports ([www.aceliafrica.org](http://www.aceliafrica.org))
- **It takes time** to build relationships, sign legal agreements, change lender behavior
- **There are no silver bullet solutions** – multi-pronged approaches are needed at market level
- **Capital leverage can be a relevant metric – but it only tells part of the story**
  - Aceli is targeting capital leverage of 17x+ (\$40M financial incentives to lenders → \$700M in lending)
  - Capital leverage on first seven loans is 7.5x as avg loan size is \$90k – **are we falling short?**
  - Additionality: all seven loans are to new borrowers, five meet criteria for food security bonus, three for gender inclusion (all above projected)
  - Impact on enterprise growth and farmer & worker livelihoods: **TBD**

# Lessons Learned in Blended Finance for Agriculture: *How to reach Smallholder Farmers?*



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# Kenya Investment Mechanism (KIM) Basics

- **5 year contract** (2018 - 2023) in response to an RFP
- **US \$23.7 million** to facilitate \$400M now with funding from:



- **\$10M incentive pool** of subawards motivating financing closure amongst transaction advisors and FIs
- Prime contract fee structured as “**Pay for Results**”
- **Target Populations:** SMEs, microentrepreneurs, smallholder farmers, women, youth
- **Target Sectors:** Agriculture (livestock, dairy, horticulture), regionally traded products, clean energy for agriculture, health, WASH, Prosper Africa
- **Target Geographies:** Originally 17 Kenya FTF counties, now regional focus
- **Impact measurement** of financing closure as well as how financing is impacting actors along the chains



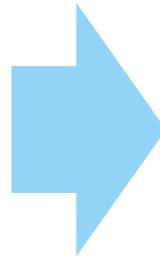
# Kenya Investment Mechanism (KIM) Workstreams, Activities and Results Sought

## Workstreams

## Activities

## Results Sought

Generate Demand for Finance in Target Sectors



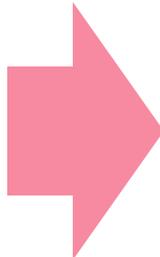
Complex transaction assistance



Build domestic business advisory service provider (BASP) market



Expand Supply of Finance in Target Sectors



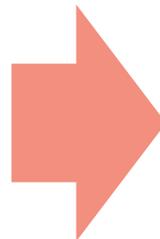
TA and Training to FIs

Smart incentives to FIs



Policy development supportive of unlocking financing and sector growth

Strategic Partnerships with the Private Sector to Innovate in New Financing Models



Form and implement strategic partnerships to uncover new business models to deliver financing affordably and at scale to upstream actors



\$400M in New Financing Injected into KIM Target Sectors, which drives systemic and sustained transformation by FIs, BASPs, firms and farms

Sustainable pathways out of poverty and improved food and energy security for vulnerable populations



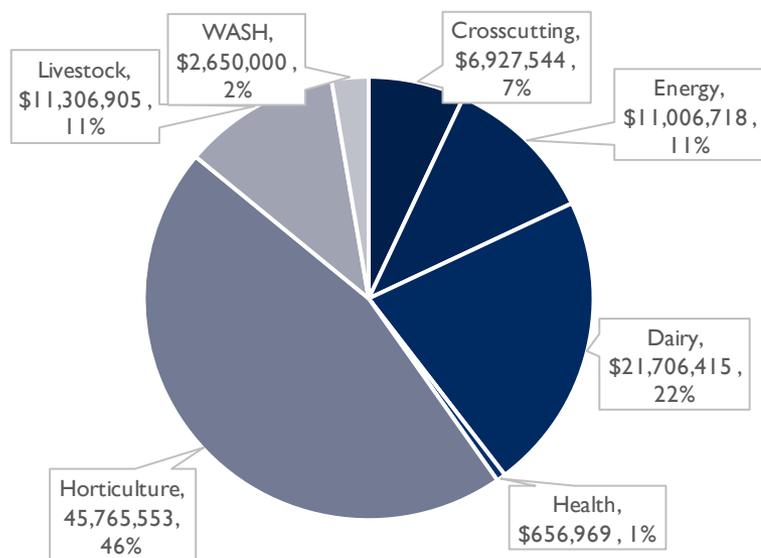
= Activities to which “pay for results” incentives are applied

# KIM Results to Date (August 2018 – September 2020)

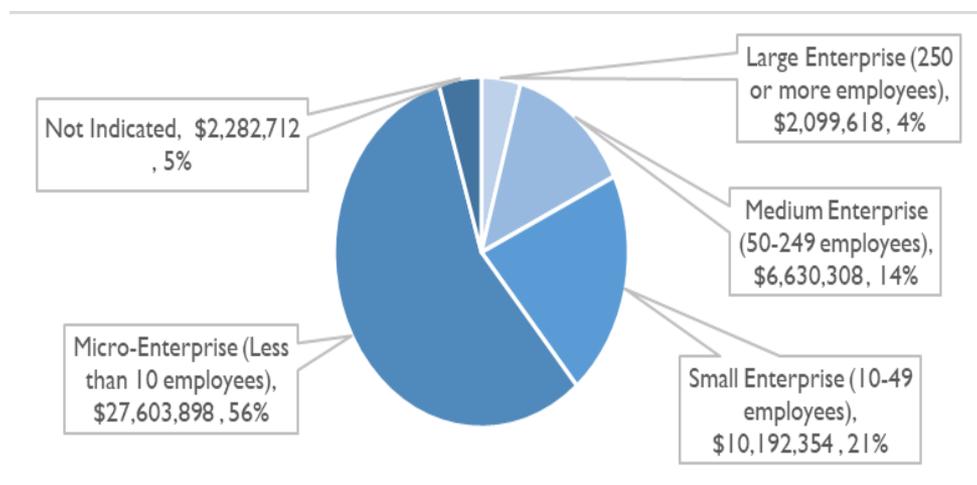
**Capital Facilitated (Cumulative): \$121M for target sectors**

(Results split evenly between BAS (7) & FIs (17) and \$5M via direct facilitation)

**Distribution of Financing to Target Sectors (Year 2)**



**Distribution of Financing to Target Populations (Year 2)**



Performance Indicator and 2020 Target	Actual Results 2020 FY	Cumulative Results (Y1+Y2)
1 public-private partnerships formed	7	7
76 MSMEs including farmers receiving business development services from USG-assisted sources	62	99
40 BASPs trained in deal-making	51	56
38 MSMEs paying for BAS	39	61
20 FIs receiving capacity strengthening	21	21
\$122M of investment opportunities identified (pipeline)	\$465,525,973	\$679,766,185

Value of Current Pipeline:  
**\$679M**

# KIM Learnings

Different markets respond differently to the incentives and approaches previously piloted by Palladium in Ghana (FinGAP), Latin America and Eastern Europe

## What's Working?

- **High Quality Transaction Advisors that were operating in Kenya** prior to KIM are achieving results as planned
- **FIs are taking advantage of supports and incentives**, especially MFIs at unprecedented rates; open to TA to expand DCA usage
- **Environment favorable to innovation** means investors and entrepreneurs keep flocking to Kenya to start new businesses
- **Many strategic partners** interested in partnering with KIM to pilot and expand new, inclusive lending models at scale for upstream actors
- **Close, Collaborative Relationship with USAID** team to solve funding challenges, smooth reporting, funnel referrals.

## What Was Unanticipated?

- Prolonged procurement = **team recruited was unavailable at project start**
- **MFI lending quickly** outstripped capacity of financing tracking system
- **Local BAS market slower to develop** than originally anticipated
- **Commercial banks not responding as quickly as predicted** (elusive “first movers”)
- **Energy funding** unavailable at award, additional funds came with new reporting requirements
- **Shifts in Scope** required numerous work plan amendments, strategy shifts, broadened scope, not always more funding
- **Process to obtain fee** labor intensive, mix of subjective and quantitative evaluation factors
- **COVID-19 impact:** Kenya's FIs reduced lending by 60% in last 6 months. Impact likely felt in 2021.

# Palladium's experience with these programs is informing an evolved design of "Beyond Aid" financing facilities that support broader market system transformation at greater scale



USAID Financing  
Ghanaian Agriculture  
Project (USAID-FinGAP)

Kenya  
Investment  
Mechanism (KIM)

## What We've Learned

- 1 No silver bullets**  
Incentive subawards to FIs can be powerful motivators of finance under the right conditions but were NOT the highest ranked incentive among FIs. BAS incentives are questioned for sustainability and inclusivity.
- 2 Need to think bolder**  
These successful programs are making only small dents in total agriculture financing demand, and their benefits are not distributed equally along the chain, from FIs to farmers/MSMEs. More inclusive approaches are needed.
- 3 If farmers lose, we all lose**  
Most farmers lose money on agriculture and are unaware. New financing must lead to 5-10x growth for farmers AND more sustainable use of land to be worth the investment.
- 4 It takes more than money.** The #1 predictor of small farmer success is a secure market. Even with unprecedented financing, SHFs still struggle to achieve profitability, find stable markets and access TA.
- 5 Have the end in sight at the beginning**  
Structure interventions for long-term viability from day one so benefits continue, including standardized impact measurement for all actors.

## How Our Designs Have Evolved

### Focus on pipeline generation challenge

The main challenge is not the availability of capital, but the identification and structuring of opportunities that are attractive to investors and bring benefits to all.

### New blended finance facilities are needed

We need bolder, more collaborative designs of facilities that support configurations of actors (e.g. corporates, SMEs, TA providers, smallholders and sources of finance) to transform systems that drive inclusive growth.

### Importance of people-centric systemic thinking

Solutions need to inclusively integrate communities and small-scale producers and firms into business models that improve livelihoods, financial viability and landscapes, and proactively measure this new value created.

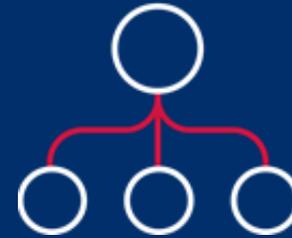
### Private sector involvement

Large corporates play a key role in business ecosystem transformation through commitments to more direct and transparent sourcing as well as providing the TA and technology needed for modernization. The selection of MSMEs to support should be driven by growth opportunities and demand for products.

### The role of the Catalyst

Bringing together the key corporate, financing and community actors requires a catalyst to structure and operate a business model or facility that works for all the actors. Palladium is pioneering new structures and facilities with corporate anchors in multiple markets.

# Q&A



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# LEARN MORE

- [Aceli Finance Benchmarking Report](#)
- [CSAF 2020 Annual Report](#)
- [Palladium's Kenya Investment Mechanism Mobilises \\$100 Million for Agribusinesses Ahead of Schedule](#)
- [Happy Cow, Happy Life](#)
- [Smallholder and Agri-SME Finance and Investment Network \(SAFIN\)](#)
- [Transforming the Agrifinance Market System in Ghana](#)
- [Agri-lending: Lessons learned from Ghana](#)

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<https://www.marketlinks.org/finance-wiki/finance-wiki>