



2022 LEARNING REPORT

# Gender Inclusive Lending for Agriculture in Africa



## INTRODUCTION

In 2021, a woman-owned coffee enterprise in Rwanda received its first formal loan of \$100,000 from a lender that was supported by Aceli's financial incentives. The loan enabled the entrepreneur to improve production on her own coffee farm, purchase from 1,425 farmers (including 537 women) and employ nine workers (six women). Within a year, the business increased revenues by 60%, more than doubled its coffee purchases from farmers, repaid its loan, and accessed a new loan of \$150,000.

Meanwhile, a maize aggregator in Rwanda also received its first formal loan in 2021 of \$30,000. While this business is owned by a male entrepreneur, it creates economic opportunities for numerous women employees (six of its 15 full-time workers are women) and farmer suppliers (101 of the 123 smallholder farmers selling to the enterprise are women). These examples are a microcosm of what Aceli aims to achieve with our financial incentives: shift the risk-return profile to make it more attractive for lenders to serve agricultural small and medium enterprises (agri-SMEs). Specifically, Aceli aims to mobilize \$600M in lending to 1,500 enterprises by 2025 and thereby unlock their growth and impact potential, particularly for women entrepreneurs, employees, and farmers.

In recent years, development finance institutions and impact investors have embraced the need for a "gender lens", "gender smart", or "gender inclusive" strategy in their investing. Increasingly, African banks are recognizing a market opportunity to serve women customers and entrepreneurs. Yet across this range of financial institutions, critical gaps remain in converting growing interest into practice.

## BACKGROUND ON ACELI

Aceli Africa is a market incentive facility designed to increase lending to high-impact agri-SMEs. Launched in 2020, Aceli is currently working in Kenya, Rwanda, Tanzania, and Uganda with 27 financial institution partners, including commercial banks and non-bank financial institutions domiciled in the region as well as international impact investors. Participating lenders are eligible for i) portfolio first-loss coverage to share in the risk of loans ranging from \$25k-\$1.75M; and ii) origination incentives to compensate for the lower revenues and higher operating costs of making smaller loans (\$25K-500K) to early-stage SMEs that might not otherwise be profitable to serve, even if the loan repays at a market interest rate. Aceli's incentives are tiered to offer lenders larger rewards for loans to higher impact SMEs as described [here](#).

## WHY GENDER INCLUSION IN AGRICULTURE

The rationale for promoting gender inclusive investing is clear: it is both the right thing to do morally and the smart thing to do economically. Women form a majority of the agricultural workforce in East Africa as farmers and employees in agricultural value chains, but there is a vast gender gap in economic opportunities across the sector. Similar gaps persist at the level of senior management, board, and business ownership, where women entrepreneurs struggle to access capital relative to their male counterparts. Overcoming these disparities will require a range of interventions from policy changes to shifts in cultural norms around gender roles. While no single actor can tackle these alone, it is essential that every actor aiming to build a more prosperous African agriculture sector – or a thriving economy more broadly – integrate gender inclusion into their strategy.

## This learning report focuses on

### 01 Approach

Aceli's experience adapting the 2X Criteria for gender inclusion to lending for agri-SMEs in East Africa

### 02 Data

Our data and learning from the first 22 months of offering impact-linked financial incentives for lenders

### 03 Opportunity

What Aceli and our partners are doing to close the economic opportunity gap for women and outstanding questions for further experimentation and learning

# 01 Approach

## ADAPTING 2X FOR AGRICULTURAL SMES IN AFRICA

In designing Aceli's gender inclusion impact bonus, we drew upon the 2X Challenge framework launched in 2018 by leading development finance institutions. The 2X framework deems a business gender inclusive if it meets any of the following criterion:



### ENTREPRENEURSHIP

Women have a majority stake (51%) in the business or were the principal founders



### EMPLOYMENT

The business has at least 40% women employees and has at least one "quality" indicator in the form of a policy addressing barriers to women's quality employment



### LEADERSHIP

Women represent 25% of business' senior management or 30% of its Board or Investment Committee<sup>3</sup>



### CONSUMPTION

The business provides goods or services that disproportionately benefit women

2X has also established a threshold where an investment portfolio is considered gender inclusive if at least 30% of the underlying investments meet the 2X Criteria.<sup>2</sup>

On the whole, the 2X framework was well-suited to Aceli's target market. However, we made two adjustments to calibrate the criteria to agri-SMEs lending in East Africa by:

## I. Adding a fifth criterion for farmer suppliers

Specifically, we adopted the same 40% threshold for assessing gender inclusion among farmer suppliers that is used by 2X for employment. In the case of agri-SMEs, the largest number of women affected by the enterprise are often its farmer suppliers. For example, the SMEs receiving the 467 loans covered by the data sample in this report employ 4k women while purchasing crops from 178k women. Given the significance of this latter dimension for how agri-SMEs can create economic opportunities for women, Aceli opted to create a fifth criterion separate from the employment metric (which remains relevant in its own right, particularly for SMEs working at the processing stage of the value chain).

## II. De-emphasizing the quality indicator

We also decided to omit the requirement for a quality indicator that 2X includes in its employment criterion. This

decision was a practical one based on two sets of considerations:

**Data availability.** Aceli assesses whether loans meet our impact bonuses based on a combination of: 1) information reported by lenders from their due diligence on SME borrowers; 2) audits of loan documentation for a sampling of loans; and 3) site visits for a sampling of SMEs by an independent firm. We felt that including the quality indicator on top of substantial reporting requirements would be burdensome to lenders, and that without additional training and oversight of our lending partners, the reported information may not be reliable.

**Enterprise capacity.** While we strongly agree with the quality indicator in principle,<sup>4</sup> the approach seems better suited for larger investments in financial institutions or companies that have a dedicated human resources function. This is rarely the case for the primary segment targeted by Aceli: agri-SMEs with 5-50 employees and limited formal policies. Going forward, we may revisit this decision as part of a strategy to promote continuous

<sup>2</sup> 2X also has a definition for financial institutions that are gender inclusive.

<sup>3</sup> 2X has recently increased the senior management threshold to 30%.

<sup>4</sup> Examples that fulfill the quality indicator are provided by 2X and include: "Recruitment - Have a clear gender lens in hiring, to eliminate bias and diversity pipeline; Retention - Ensure an inclusive working environment for all women in the workplace; Career Advancement - Support women's progression and leadership in the workplace." For more information, see <https://www.2xchallenge.org/criteria>.

improvement in gender-related hiring and human resources practices among SMEs receiving Aceli-supported loans.

Aceli initially adopted the 2X target for a gender inclusive portfolio of 30% of loans meeting the 2X Criteria. To date, more than twice as many agri-SMEs receiving Aceli-supported loans meet the 2X Criteria. At the same time, we recognize that the criteria is a starting point, not a final destination. In May 2022, Aceli revised our [impact policy and bonus criteria](#). While retaining the 2X framework and criteria definitions overall, we decided to sub-divide Aceli's gender inclusion impact bonus into:

- 1. Gender leadership** includes ownership, board members, and senior management; and
- 2. Gender participation** consists of suppliers, employees, and consumers.

Loans to SMEs that meet at least one criterion in either of the two sub-categories are deemed gender inclusive per the 2X standard and receive the gender impact bonus. Loans that meet criteria in both sub-categories are awarded a double impact bonus so lenders are additionally motivated to seek out and serve these enterprises.



Pauline Kamau, owner of Sopa Supplies, Kenya.  
Credit: Partners in Food Solutions

## 02 Data

### METRICS FROM ACELI-SUPPORTED LOANS

The dataset reported here covers the 467 loans totaling \$62M (average loan size of \$133k) registered for financial incentives from September 2020 – June 2022. We highlight notable trends and also call out specific areas that merit additional action and learning in text boxes with a

**The largest number of women benefiting from Aceli-supported loans are captured in the new gender inclusion criterion created by Aceli: farmer suppliers.**

The enterprises receiving Aceli-supported loans collectively employ 9.8k workers, including 4k women (41%), and create market access for 427k smallholder farmers, including 178k women (42%).

**SMEs that meet the gender inclusion criteria create economic opportunities for a substantially larger number of women than agri-SMEs that do not.** This point may seem obvious but the numbers are striking nonetheless. Comparing the 319 SMEs that meet the gender inclusion criteria with the 148 that do not: 41% of the farmers supplying gender inclusive SMEs are women compared with 21% of the SMEs that do not meet the inclusion criteria. The breakdown is similar for employees: 43% compared to 24%.

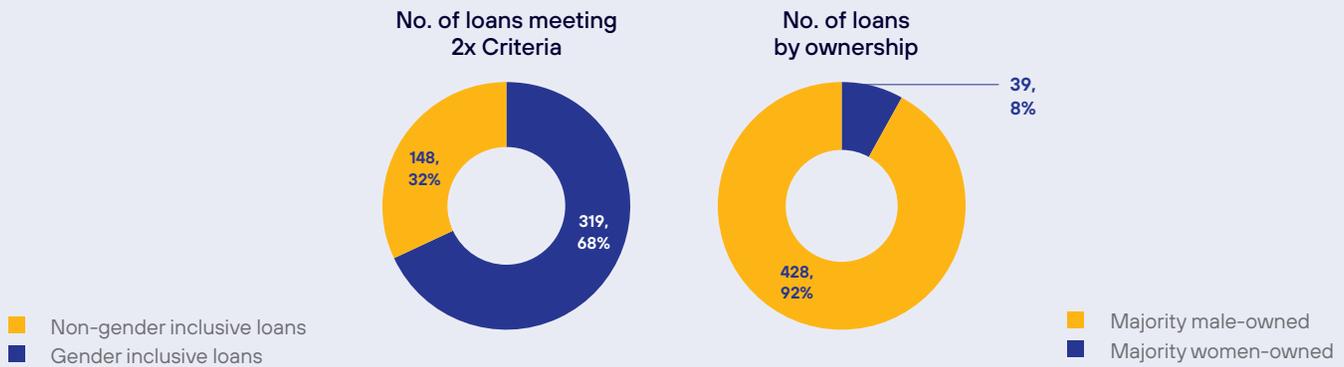
**\$62M** IN TOTAL LENDING TO 467 AGRISMEs

**41%** OF THE 9.8K EMPLOYEES ARE WOMEN

**42%** OF THE 427K FARMER SUPPLIERS ARE WOMEN

**Gender inclusion is distinct from women’s ownership.** While 68% of Aceli-supported loans go to SMEs that meet the 2X Criteria for gender inclusion, only 8% go to businesses that are majority women-owned. As only 39 of the SMEs are majority women-owned, the vast majority of women suppliers and workers (98% and 92%, respectively) are linked to majority male-owned SMEs. Aceli is setting a target of increasing the percentage of loans going to women-owned SMEs by 150% (from 8% to 20%)

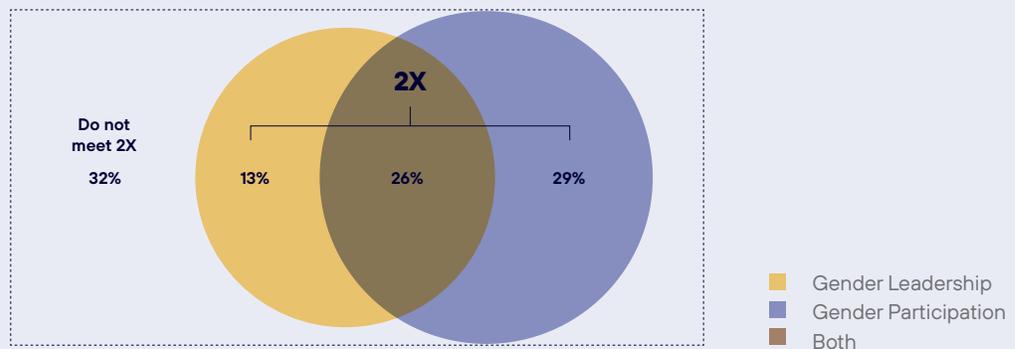
**Diagram 1. Gender inclusion and women’s ownership**



**A larger share of SMEs meet 2X based on metrics of women’s participation compared to leadership.** A breakdown of Aceli-supported loans indicates that 55% meet the Gender Participation sub-criteria, 39% meet the Gender Leadership sub-criteria, and 26% meet both. Thirty-two percent of the loans do not meet the 2X gender inclusion standard at all.

**Diagram 2. Percentage of loans supported by Aceli that meet 2X Criteria**

(467 loans as of June 30, 2022)



Some access to finance initiatives promoting gender inclusion focus specifically on women-owned businesses. We share in this commitment to shift the balance so that women-owned businesses comprise a much larger share of agri-SMEs in the market as well as those accessing loans supported by Aceli. We also believe it is important to expand market interventions and sector dialogue to other types of gender inclusion beyond business ownership. Specifically, 60% of the 467 loans supported by Aceli meet the 2X gender inclusion and are majority male-owned. In addition, all of the SMEs in our sample that are women-owned also meet at least one of the other gender inclusion criteria. Overall, Aceli-supported loans meet the 2X Criteria based on: women employees (43% of total loans), senior leadership (31%), board members (22%), or farmer suppliers (21%).

**Diagram 3. 2X Criteria**

2X Criteria	No. of Loans	% of Loans
>40% Employees	201	43%
>25% Senior Leadership	147	31%
>30% Board	107	22%
>40% Suppliers	98	21%
>50% Shareholders	39	8%
>50% Products	11	2%

**High intersectionality: Aceli-supported loans also generate impact across several other high priority areas.** In recent months, the 2X community has been discussing ways to incorporate a commitment to Diversity, Equity & Inclusion (DEI) into the 2X framework as many of the women-owned or women-led businesses receiving investment at a global level are not from under-represented groups. Aceli is tracking how enterprise metrics related to gender inclusion intersect with DEI and other impact objectives related to climate, food security, and capital additionality. Of the 319 Aceli-supported loans that meet the 2X Criteria:

 **2x + DEI**

319 (100%) meet the gender inclusion criteria based on the role of indigenous African women (as opposed to ex-patriates from other continents) in the business

 **2x + Climate**

73 (23%) qualify for Aceli's impact bonus related to climate & environment

 **2x + Food**

150 (47%) contribute to food security in Africa by selling food crops domestically (as opposed to crops such as coffee or vanilla for export)

 **2x + Capital additionality**

141 (44%) are to first-time borrowers<sup>5</sup>

*Note: the percentage of SMEs meeting Aceli's impact bonus for climate & environment is similarly low for SMEs that qualify as gender inclusive as well as for those that do not. This underscores the broader imperative both to facilitate access to finance for SMEs with climate-positive business models and to support continuous improvement of climate and environmental practices for the others. This will be a topic of an upcoming learning brief.*

<sup>5</sup>Aceli defines a first-time borrower as a business that has not accessed a loan of \$25k or more from any source in the past three years.

**Revenues for women-owned SMEs are less than half those of male-owned agri-SMEs.** Our data indicates that SMEs that are majority women-owned receive lower average loan amounts (\$98k v. \$137k for male-owned) and have substantially lower revenues (\$367k v. \$865k for male-owned). These differences exist despite no significant differences in the value chains in which the respective SMEs operate. However, women-owned businesses receive larger loans relative to their annual revenues compared to male-owned businesses (46% v. 38%).



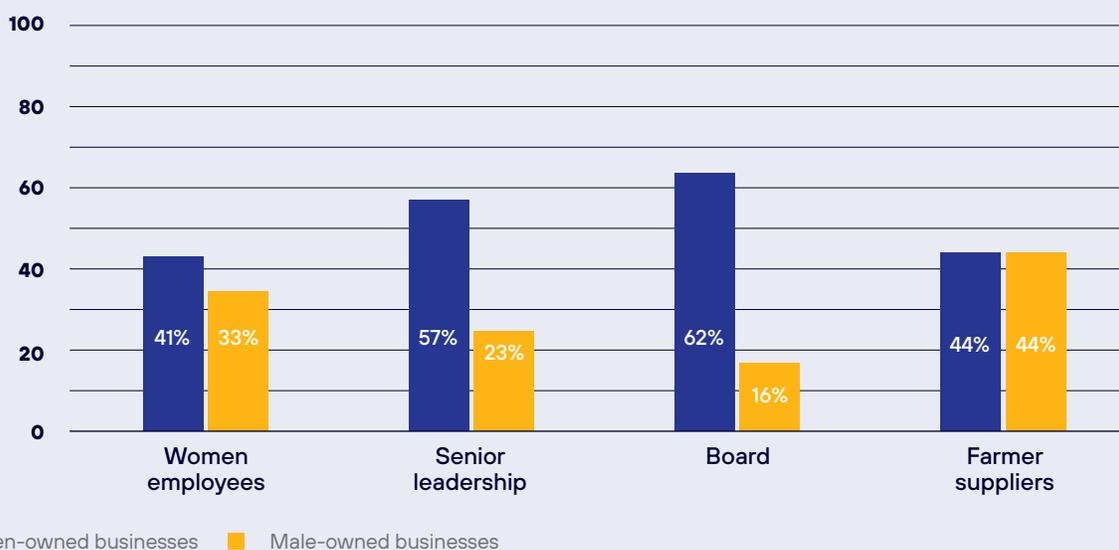
- I. What factors explain the larger average revenues for male-owned SMEs (e.g., number of years of operation, assets at year of founding, higher rates of accessing finance)?
- II. Do the differences in average loan size relative to SME revenue for women- and male-owned SMEs apply across country and value chain? (The current dataset is not large enough to draw meaningful conclusions.)

**Women-owned businesses are more gender-balanced.** Compared to male-owned businesses, women-owned businesses hire a slightly higher percentage of women employees (41% v. 33%) and are significantly more gender-balanced in senior leadership (57% of leadership roles held by women v. 23%) and in their boards (62% v. 16%). However, both women- and male-owned businesses purchase from a similar percentage of women farmers (44% for both groups).



- I. What conscious and unconscious bias factors are most influential in hiring and promotion decisions for low- and semi-skilled positions, managerial positions, and board selection?
- II. There is a growing business case for gender-balance in various contexts<sup>6</sup> – does a comparable business case exist (or can it be developed) for agricultural SMEs and for the capital providers serving them?
- III. What approaches are most effective in shifting the gender balance for male-owned SMEs?

**Diagram 4. Women’s representation in agri-SMEs**



<sup>6</sup> For example, in *Moving Toward Gender Balance in Private Equity and Venture Capital* (2019), the IFC finds that gender-diverse firms in emerging markets funds, excluding East Asia, had a 19% higher IRR than the median. *The Economics of Banking on Women* (GBA Global Women’s Market Survey) found A global analysis of banks that are part of the Financial Alliance for Women found that the non-performing loan rate for women small-business customers is 33% lower than the rate for male-owned small businesses.

**Other aspects of inclusion are less clear-cut and underscore the importance of increased data and research.** For example, while the women-owned businesses in the sample hire a higher proportion of employees relative to their revenue (1 full-time employee for every \$27k in revenue for women-owned SMEs v. \$51k for male-owned), they report paying lower average salaries to full-time employees (\$1,071 v. \$1,706). Women-owned businesses work with fewer smallholder farmers on a relative basis (1 farmer for every \$834 in revenue for women-owned v. \$535 for male-owned). They also buy less per farmer on an annual basis (\$316 v. \$369) and allocate a much smaller percentage of overall revenues to purchasing crops than male-owned businesses (38% v. 69%).



**I.** Further data and analysis is required to draw conclusions as to whether these differences hold independent of value chain, value chain stage (e.g., primary production v. processing), country, or other factors.<sup>7</sup>

**Diagram 5a.** Sex-disaggregated impact metrics

	Avg # of full-time employees (FTE)	Avg # of women FTEs	% of employees who are women	Avg # of farmers	% of farmers who are women
<b>Women-owned SMEs</b>	13.5	5.6	41%	440	44%
<b>Male-owned SMEs</b>	17.1	5.7	33%	1616	44%
<b>Total</b>	<b>16.8</b>	<b>5.7</b>	<b>34%</b>	<b>1524</b>	<b>44%</b>

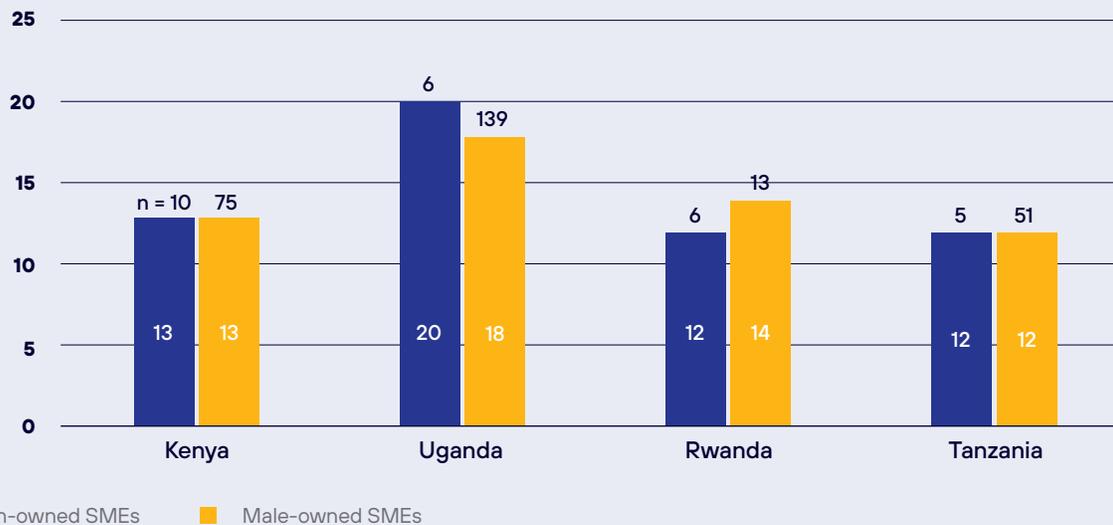
**Diagram 5b.** Sex-disaggregated impact metrics

	Avg annual revenue	Avg annual salary per FTE	Avg amount paid to farmers	Purchases from farmers as % of revenue	Amount purchased per farmer
<b>Women-owned SMEs</b>	\$367k	\$1,071	\$139k	38%	\$316
<b>Male-owned SMEs</b>	\$865k	\$1,706	\$596k	69%	\$369
<b>Total</b>	<b>\$823k</b>	<b>\$1,647</b>	<b>\$560k</b>	<b>68%</b>	<b>\$367</b>

<sup>7</sup>Aceli categorizes SMEs as operating in formal or informal value chains based on the degree of aggregate risk tied to factors such as buyer risk, currency risk, product risk, price risk, political risk, and climate risk. Most cash crops sold for export are considered formal value chains (i.e., lower risk) while food crops such as staple grains sold for domestic markets are classified as informal (i.e., higher risk). Women- and male-owned SMEs in the dataset are similarly distributed between these two categories.

**Do lenders treat women-owned SMEs differently than male-owned enterprises?** Interest rates are comparable across most countries, with higher rates for women-owned SMEs in Uganda and lower rates in Rwanda, albeit based on a very small sample.<sup>8</sup> Women- and male-owned businesses receive a similar percentage of the loan amount they request (~89% across ownership categories). It also appears that collateral requirements are similar irrespective of ownership. While the apparent absence of differential treatment is encouraging, the status quo will not redress longstanding inequities. Rather, applying a uniform policy for collateral will perpetuate the gender imbalance since men, on average, have more assets than women.

**Diagram 6. Average interest rate across countries\***



\*Analysis only includes local currency loans issued by commercial banks.



- I. Is there a business case for lenders to adjust their terms for women borrowers (e.g., if it can be demonstrated that women-owned SMEs have higher repayment rates than male-owned SMEs)?
- II. In the interim period while this data is being gathered, are there opportunities to re-balance the financing disparity by offering preferential loan terms for women-owned SMEs?

## Are Aceli's incentives having an effect on lender behavior?

There are preliminary indications that the incentives are starting to influence lender behavior on gender inclusion as intended:

- ✘ **Lower interest rates.** One Tanzanian lender accessed low-cost capital from the Tanzanian government that enabled it to lower its overall interest rates to agri-SMEs from 13% to 10%. In response to Aceli's impact bonuses for loans to gender and youth inclusive businesses, the lender has further reduced interest rates for those SMEs to 9%. While the 1% reduction may seem modest, it is material when considering the lender's thin margins based on a 3% cost of capital, average industry losses for agri-SME lending of 3-4%, and the lender's operating costs.
- ✘ **Expanded reach.** A Ugandan lender reports that "[W]hen Aceli came in, it changed our focus from women only at the micro level, mainly coming in the form of groups, to women-led SMEs." With support from Aceli's incentives and accompanying technical assistance (described in a [case study](#) by Value for Women), a Kenyan bank has developed

<sup>8</sup>In Uganda, interest subsidies provided by the government-funded Agricultural Credit Facility (ACF) bring down the interest rate to 12% for many loans. Further investigation and a larger sample size would be needed to determine whether the ACF interest subsidies disproportionately benefit male-owned SMEs.

a more proactive strategy for reaching women-owned businesses. Since 2020, it has nearly doubled the number of women-led agri-SMEs it is financing from 35 to 69.

- ✦ **Positive and negative ESG screens.** A Tanzanian bank notes: “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 [such as tobacco].”
- ✦ **What gets measured gets done.** A Kenyan bank reports: “In most cases, we don’t capture the gender of the borrower, we don’t identify whether the borrower is a youth, what crop they deal in... It’s a learning point for us now that if we have to report to Aceli, we have to...meet those [data] gaps.”

## 03 Looking Ahead

Aceli is committed to accelerating gender inclusion in the agricultural SME sector and contributing to SDG 5 more broadly. Some of the strategies we are designing or implementing include:

**1. Steering capital to impact.** The adoption of a “double impact bonus” described in Section 1 is an example of how we intend to continue refining our incentives so lenders are motivated to seek out and serve more women-owned and gender inclusive SMEs. Going forward, further refinements could include a scoring system with even higher rewards for loans that meet several of the 2X Criteria. Another area under consideration is how to promote continuous improvement in gender practices (e.g., related to employment, sourcing, leadership, and governance) both for businesses that do not yet meet the 2X Criteria as well as for those that do. We expect our approach to evolve as we learn more from our lending partners and also as their capacity and appetite to engage in gender inclusion increases.

**2. Bridging the gap between capital supply and demand.** Simply put, motivating lenders is not enough. In parallel, it is essential to expand the addressable demand of high-impact SMEs and bring capital providers and enterprises together. To advance gender inclusive lending in general and particularly to achieve our target of at least 20% of Aceli-supported loans going to women-owned SMEs by 2025, Aceli is taking the following actions:

- ✦ **Referral partners.** We are building a network of partners, including industry trade associations and development organizations (e.g., Agricultural Council of Tanzania, Kenya Private Sector Association, Uganda Women Entrepreneurs Association Limited) that can identify and refer women-owned SMEs to Aceli’s technical assistance program for SMEs as a future pipeline for lenders.
- ✦ **Technical assistance (TA).** To date, the pre-investment technical assistance in business and financial management offered by Aceli with our implementing partners Africa Management Institute and Wylde International has supported 124 SMEs across our four focus countries; 27% of these SMEs are women-owned and these SMEs have a higher

graduation rate from the program (71%) than their male-owned counterparts (59%). We are actively recruiting more women-owned SMEs and have set a target for women-owned SMEs to comprise at least 40% of participants in the TA program by 2025.

- ✦ **Matchmaking.** Many SMEs complete the technical assistance program and still struggle to access finance. In response, Aceli is building a matchmaking program to connect high-potential SMEs with our lending partners.

**3. Accompanying lenders on their Gender Lens Investing journey** by partnering with the advisory firm [Value for Women](#) to offer introductory workshops, as well as a second round of customized advisory engagements for lenders that are motivated to develop and implement gender action plans.

**4. Promoting continuous improvement at SME level** by disseminating tools such as Value for Women’s Gender-Smart Nexus for SMEs to self-assess their gender practices. We are also considering offering group-based or individualized advisory to SMEs on how to improve gender practices related to employment, sourcing, leadership, and governance.

**5. Sharing learning and engaging in a growing community of practice** that includes Value for Women, 2X and its newly merged partner, Gender Smart, and many others.

### CONCLUSION

Aceli has been operating for just two years as of the date of publication. We share the experiences and data in this brief in the spirit of open dialogue and continuous improvement. We look forward to on-going learning with our partners and from the growing sector of practitioners testing and refining approaches for a more gender inclusive economy and society.



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