



Aceli Stakeholder Convening

Entebbe, Uganda
March 2024

In March 2024, more than 200 attendees from Kenya, Rwanda, Tanzania, Uganda, and Zambia came together in Entebbe, Uganda for Aceli's stakeholder convening on agricultural SME finance. Participants included senior leaders, agribusiness managers, and frontline loan officers from 50 lenders as well as technical assistance providers, industry associations, donors, and policymakers from across the region.

Designed as a dialogue in the spirit of "coming together to do hard and important things," the goals of the convening were to share learning and orient to solutions across three areas:

-  **Translating strategic commitments** by lenders into **operational practices** to increase agri-SME lending;
-  **Expanding reach** to underserved populations and **deepening impact** related to women and youth, food security and nutrition, and climate and environment; and
-  **Facilitating collaboration** between actors working to unlock the growth and impact of agri-SMEs across capital supply, capital demand, and enabling environment.

Translating Strategic Commitments into Operational Practices

Commitment from senior leaders is necessary but not sufficient on its own to activate agri-SME lending. During the event, Aceli introduced a Lender Activation Tool (featured on p. 10 of Aceli's [Year 3 Learning Report](#)) to guide lenders on their implementation journey. The tool is organized around six indicators of activation:¹

- i) **Strategy.** While agri-lending is not new, many lenders have recently begun to formalize their approach. Strategic directives are coming from Boards of Directors and C-Suite, often influenced by government mandates to prioritize agriculture, to develop sector-specific strategies. This is an important start, and it must be paired with a longer-term commitment across the five areas outlined below.
- ii) **Product offering.** Many lenders noted that their new agri strategies target specific value chains with more tailored approaches. These include adapting their collateral requirements to leverage relationships with anchor off-takers and utilizing enabling infrastructure, such as warehouse receipts in countries where regulations are established. Many lenders also have an allocation for uncollateralized loans below a certain size threshold; while modest in absolute terms, these allocations allow lenders to reach new borrowers, particularly farmer organizations and SMEs owned by women and youth, who often lack collateral to qualify for traditional SME loans.
- iii) **Agri-team.** Recognizing the particularities of agriculture, several lenders are using Aceli's origination incentives either to train existing staff in agriculture or to hire agronomists and train them to be bankers. Increasing staff capacity for agriculture creates a positive feedback loop as a higher volume of lending and more incentives can be reinvested into agri-lending.

¹ Note: the indicators are not organized sequentially and implementation will vary by institution.

- iv) **Internal alignment.** Some lenders have taken a top-down approach to formalizing their agri-lending, while others have cultivated senior leadership buy-in from an energetic agribusiness manager upwards. In both scenarios, engaging senior leaders – not just CEOs but the entire Executive Committee and Board – as well as key stakeholders such as credit risk and treasury, has been essential for increasing capital allocation to agriculture and aligning risk appetite to sector targets. Lenders shared examples of bringing senior leaders and credit risk staff on due diligence trips to raise awareness and cultivate buy-in. Several highlighted the value of Aceli's benchmarking data and incentives in convincing internal stakeholders to increase capital allocation to agriculture.
- v) **Impact orientation.** One notable theme was the strong commitment to impact expressed by many commercial banks. Some are government-owned and cited the influence of their public shareholders to increase domestic food production and reduce reliance on imports. Others are privately-owned and responding to policy directives from their governments. A third group noted trends across the financial sector related to the UN Sustainable Development Goals and expressed a desire not to be left behind. The common theme for all these groups was the dual recognition that: (1) there is overlap in their commercial interests and impact imperative; and (2) they have an institutional responsibility to contribute to impact.
- vi) **Branch engagement** (for lenders with a branch network). Many lenders are cascading Aceli's incentives to the profit and loss statements at the branch level to incentivize branch managers to step up their agri-lending. Similar to the positive feedback loop outlined above related to investments in agri teams, sharing incentive revenues with branches creates a positive cycle where branch staff are, in turn, motivated to seek out and serve more agri-SMEs. The emphasis on impact embedded in Aceli's incentives reinforces lenders' institutional commitments by linking branch profitability to borrower characteristics such as ownership by women or youth, production or processing of food crops, and environmental practices.

Aceli will be making the Lender Activation Tool available to lending partners and accompanying them in assessing and addressing their needs over time.

Expanding Reach and Deepening Impact

Beyond increasing capital flows to agri-SMEs, Aceli aims to build a more inclusive, sustainable, and resilient food system. Stakeholders noted progress in key areas and identified priorities for continued investment and improvement:

Building the market together. A Kenyan bank expressed a broader sentiment when it noted that Aceli's incentives have helped the institution see new business opportunities.

Steering lenders to unserved market segments: adapting incentives for women- and youth-owned SMEs. Since Aceli lowered the loan size minimum for incentives from \$25k to \$15k in August 2023, the uptake of loans to women- and youth-owned SMEs has been far greater than expected and capital additionality is high: more than 80% of these loans are going to first-time borrowers. The lower size threshold for the incentives amplifies a recent trend where many lenders are developing specialized financial products and marketing strategies tailored specifically for women entrepreneurs. Many challenges remain: identifying and targeting women and youth entrepreneurs; expanding lender risk appetite to lower collateral requirements; ensuring that interest rates are affordable to first-time borrowers; and cultivating more internal gender champions (particularly "[HE for SHE](#)" champions).



Transforming lenders into climate leaders. There is growing interest among lenders to develop concrete strategies both for managing climate risk and financing climate solutions in agriculture. Many lenders noted that Aceli's incentives have raised awareness related to climate and environment. At the same time, lenders are lagging in their knowledge of climate-positive business opportunities and few have adapted their product offering to serve these gaps. Several stakeholders highlighted the importance of donors aligning on climate terminology and reporting measures.

Bringing innovation to scale. Discussion of innovative financial products offered by non-bank financial institutions (NBFIs) identified both the constraint faced by NBFIs in accessing affordable capital and opportunities for them to partner with banks to leverage the strengths of both operating models.

Increase financing for primary production. Several stakeholders noted the need for more financing focused on primary production. To date, just over 30% of Aceli-supported loans are for primary production and the trend of lenders using origination incentives to expand their geographic coverage is extending financing to more remote farming regions. Increasing the availability of financial products such as warehouse receipts and credit for farm inputs should be high priorities.

There is an important role for technical assistance (TA) in expanding the addressable demand for capital. On the panel featuring three Ugandan entrepreneurs who have participated in Aceli's TA program, one said *"I am not afraid to apply for a loan now that I understand the requirements."* Another noted, *"TA helped us define our business understanding, strengths, and the different financial products we could assess. Without this I would not have known that I needed working capital."*

While pre-investment TA can play a critical role in preparing SMEs to access finance, there are several qualifications and suggested improvements:

- Many agri-SMEs are simply not ready for TA focused on access to finance;
- Some SMEs, particularly groups such as women entrepreneurs who have been excluded in the past, may benefit from outreach and priming before signing up for pre-investment TA;
- Pre-investment TA on its own is often not enough and should be supplemented by support in preparing documentation and other requirements to qualify for financing;
- TA should not stop with access to finance as many SMEs need on-going accompaniment to manage finance effectively;
- Lenders and TA providers noted the value of engaging directly to coordinate their expectations and interventions;
- Commercial Banks should proactively share their products, especially those targeting women entrepreneurs, as this information often does not reach SMEs.

Facilitating Collaboration

There is increasing interest among lenders, industry associations, policymakers, and other stakeholders to take coordinated action in addressing barriers to financing agri-SMEs and compounding challenges related to climate, food security, and economic opportunities for a growing population.



Next level data. Lenders report that Aceli's benchmarking analysis (see the [2024 financial benchmarking report](#)) provides a mirror to assess their operations relative to their peers. They particularly appreciate the [impact reports](#), which address questions from their government and development partners. Donors confirm that data on agri-SME lending economics has enabled them to make the case internally to fund incentives. There is a strong appetite to build upon this foundation. Lenders request more detailed data on loan performance for different value chains to guide their product development and risk-based interest pricing. Data-driven and tech-enabled approaches to credit scoring that are increasingly common for retail / micro-lending have yet to penetrate the agri-SME market but hold significant promise. Stakeholders also see potential for data to inform regulatory policies such as loan provisioning requirements. Aceli is exploring how to offer more value from our data for lending partners, policymakers, and the broader sector.

Strengthening the enabling environment for financial products, such as warehouse receipts and collateral management agreements (CMAs), using alternate collateral. Inventory finance products are key for developing more formal value chains, especially for staple grains and other non-perishable crops. Several challenges must be addressed. The limited number of collateral managers, coupled with concerns about their professionalism, creates barriers to widespread adoption. Technical assistance for collateral managers and investment to expand the number and strength of collateral manager companies could generate more robust demand for these services. Parallel efforts to regulate CMAs under the oversight of Warehouse Receipt Systems boards with a clear process for claims could increase the quality of storage facilities and logistics infrastructure and the accountability of service providers. Pricing fluctuations of commodities stored in warehouses pose risks that could be mitigated by a buffer fund. Further coordination by industry associations and policymakers across the region could facilitate exchange of learning and best practices.

Strengthening the enabling environment. A presentation by the Uganda Bankers Association highlighted challenges related to regulations for loan provisioning, risk-rating credit guarantees, and industry codes. Industry associations and policymakers from other countries noted similar challenges and expressed interest in a more coordinated regional policy dialogue to share learning and best practices on these and other regulatory and policy issues.

Optimizing donor and government funding to catalyze finance for agri-SMEs. Approaches similar to Aceli's are needed to mobilize finance across a wider range of the agricultural market (e.g., equity, debt both above and below Aceli's size range). A more robust data and evidence base will enable donors and governments to optimize limited concessional funds for capital additionality and impact. Improved donor coordination could streamline reporting for lenders and borrowers and enable more effective advocacy related to policy and regulations with national governments.

Peer-to-peer learning. Many lenders cited specific learning that they gathered at the convening from their peers in other countries and plan to bring home. Several requested more opportunities for ongoing peer-to-peer learning. In the coming months, Aceli will be exploring how to strengthen the emerging community of practice for lenders and partners across the region.

