



# Agricultural SME Lending in East & Southern Africa

Financial Benchmarking Report 2025



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# Executive Summary | Lending trends



- This report focuses on data from Aceli Africa's 41 lending partners on 32k agri-SME loans issued from 2020-2023 ranging from \$10k to \$2M and totaling \$1.98 billion across Kenya, Rwanda Tanzania, Uganda, and Zambia.
- The **number of loans grew at an annual rate of 31% from 4,800 in 2020 to 10,900 in 2023**. Following an increase of 32% from 2021 to 2022, growth slowed in 2023 with the number of loans increasing by 14%.
- The **total value of loans grew from \$295 million in 2020 to \$540 million in 2023**. However, the **2023 loan value decreased by 16%** from 2022 as a result of a shift towards smaller loan sizes, primarily in Tanzania.
- **Locally domiciled commercial banks account for 94% of the loans** in the dataset compared to 5% for non-bank lenders domiciled in the region and less than 1% for international social lenders.
- For the 26 commercial banks in the dataset, aggregate agri-SME portfolios grew at an annual rate of 26% from 2020 to 2023, outpacing the 14% growth in their overall portfolios (*i.e.*, including all sectors and loan sizes). Based on these trends, **agri-SME lending as a share of total bank lending increased by 33%**, albeit from just 3% of the loan portfolio to a still-modest 4%.
- The **growth in agri-SME lending for 2020-2023 was largely driven by Tanzania**, where favorable enabling policies increased the supply of affordable capital to banks for on-lending at low interest rates beginning in 2021.
- Segmentation of agri-SME loans across the five countries highlights the following key trends:
  - There has been a notable **shift towards smaller ticket sizes**, particularly in Tanzania where loans in the \$10-25k and \$25-50k ranges have grown the fastest.
  - Local agri-SME **interest rates generally declined or remained stable** across most countries. However, average **interest rates in Kenya increased by 4%** to 18% in 2023, driven by a hike in the Central Bank's base lending rate.
  - Top agri-SME value chains vary across countries, with the **largest share of lending overall going to coffee, maize, and livestock**.

# Executive Summary | Risk & profitability



- An analysis of the non-performing loan (NPL) ratio for agri-SME portfolios compared to overall loan portfolios from a subset of Aceli's lenders reveals that, on average, **agri-SME NPLs are 1.4 times higher than the overall NPL ratio**. This is a reduction from the 2x differential in our 2019 analysis, but the lower average masks year-on-year variation. While higher-volume lenders are improving their risk management, all lenders are confronting the challenges of extreme weather. With the majority of agri-SMEs still unable to access credit from formal sources, we continue to believe that the **overall risk of agri-SME lending is even higher than this data indicates – i.e., risk in agri-lending is real even if perceived risk may sometimes be inflated**.
- **The average profitability of agri-SME bank loans is 3.5%**. This modest positive return pales in comparison to average overall bank profitability of 28.3% and alternatives, such as treasury bonds, which generated an average return of 16.2% across the five countries over the past four years. This significant gap highlights the **opportunity cost for lenders, which can achieve substantially higher returns outside of agriculture**.
- **Profitability in agri-SME lending also varies significantly across lenders**. A subset of high-volume banks successfully leverage economies of scale to generate returns of 8-12%, while most banks experience modest or even negative profitability on their agri-SME portfolios. Banks with more profitable agri-SME lending have either streamlined operating costs at lower ticket sizes or focus on larger loans, where cost efficiencies and pricing structures can improve margins.
- Smaller loans within the \$10k-2M range are relatively expensive to originate and service, leading to losses despite higher interest rates and similar expected credit losses and cost of funds compared with larger loans. **Loan profitability ranges from -2.2% for bank loans in the smallest segment (\$10-25k) to 8.4% for loans in the largest (\$500k–2M)**. Returns for the larger loans are still well below government bond yields, underscoring the opportunity cost that limits banks' appetite for agri-SME financing.
- **Non-bank financial institutions (NBFIs) and international social lenders serve specialized market niches, providing high-impact, tailored loan products** that meet the needs of underserved agri-SMEs. However, **their operating costs are significantly higher**, leading to negative profitability of -6.8% (NBFIs) and -16.8% (social lenders). Some NBFIs are beginning to achieve the economies of scale required to reach profitability.

# Executive Summary | Impact of Aceli's incentives



- **88% of Aceli's lending partners have a positive outlook on the agri-SME sector**, with existing partners (those participating in Aceli's incentives for more than one year) showing a more favorable view compared to new lending partners.
- **Existing partners report changes in strategy and practices across several areas**, with the most significant improvements in buy-in from senior leadership and credit/treasury teams since engaging Aceli. In addition, lenders' needs evolve as they mature. Initially, their focus is on building expertise, but they increasingly focus on expanding access to capital to scale their agri-lending efforts.
- Lenders also report **increases in lending to new borrowers and new value chains**, which includes serving businesses with a high impact profile (e.g., food crops, owned by women or youth) and lending at improved terms over the past year.
- 90% of lenders report that Origination Incentives (OI) have had a significant impact on their activities (compared to 81% last year). Lenders mainly use OI to defray travel costs to agri-SMEs in remote areas, conduct value chain studies, develop tailored loan products, hire new agri-specialists, and train existing staff. Several lenders also pass through benefits in the form of lower interest rates to borrowers.
- 73% of lenders report that the portfolio first-loss cover (FLC) has had significant impact compared to 42% last year. This shift in perception is linked to the growth in lenders' FLC reserves as they issue more loans. Agri portfolio managers use these growing reserves to make the case to their credit risk and treasury departments to increase risk appetite and capital allocation and flexibilize collateral requirements.
- **Aceli's incentives boost the profitability of agri-SME lending by ~3%, but lenders still face an opportunity cost when allocating capital to agri-SMEs.** Aceli's incentives are not designed to address this full gap but rather to absorb systemic risk and defray transaction costs enough to motivate lenders to allocate more capital and staff to serve the sector.
- As lenders increase their agri-SME lending, they earn more incentives **creating a positive cycle of enhanced capacity and expertise, improved risk management, higher profitability, and portfolio growth.**

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# Background | Building a dataset on agri-SME loans



[Aceli Africa](#) (“Aceli”) is a market catalyst launched in 2020 that seeks to build a thriving market where capital flows unlock the growth and impact potential of small- and medium enterprises (SMEs) in the agriculture sector.

In 2018-19, Aceli and Dalberg Global Development Advisors (Dalberg) gathered data from 31 lenders on the loan-level and portfolio-level economics of 9.3k loans totaling \$3.5 billion to agricultural SMEs. The initial data indicated that risk in agricultural SME lending is twice as high as in other sectors and that financial returns are significantly lower. These findings informed the design and launch of Aceli’s financial incentives for agricultural SME lending in Kenya, Rwanda, Tanzania, and Uganda.

Aceli offers lenders two types of financial incentives (see slides 38-39 for more detail):

- 1) Portfolio first-loss cover (FLC) is a risk mitigation tool for agri-SME loans of \$15k-\$1.75M with incentives accruing in a lender’s reserve account as it makes more loans and then available to cover losses across the lender’s portfolio of qualifying loans.
- 2) Origination incentives (OI) are cash payments to lenders to defray the high transaction costs for underwriting and managing loans ranging from \$15k-500k to agri-SMEs.

Aceli partners with Dalberg to update the financial benchmarking analysis annually. The findings reveal trends in agri-SME lending and inform adjustments to Aceli’s incentives so they can optimize growth and impact in an evolving market.

**This report focuses on data collected in 2024 on 32k agriculture loans disbursed from 2020-23 and valued at \$1.98B.** The dataset includes information from Aceli’s 41 lending partners operating across Kenya, Uganda, Rwanda, Tanzania, and Zambia. The report provides both quantitative data on lending trends at the loan and portfolio levels and qualitative insights from lenders regarding their agri-SME lending experience, particularly since accessing Aceli’s incentives. Additionally, it includes an analysis of the impact of Aceli’s incentives on lender behavior and lending economics.

Aceli tracks the broader impact of our interventions through a variety of channels, including an annual learning report and other publications on our [website](#). As of March 2025, Aceli’s incentives had supported 3,427 agri-SME loans totaling \$293M. Capital additionality is high with 61% of these loans going to first-time borrowers. SMEs accessing financing are growing topline revenues at an annual rate of 24% and follow-on loan sizes are increasing by 26%. Collectively, these businesses facilitate market access for 1.5 million smallholder farmers and provide 53k full-time jobs. Aceli’s incentives are tiered to offer higher rewards to lenders for serving agri-SMEs that increase the supply of affordable and nutritious foods for African consumers, create economic opportunities for women and youth (see [2024 learning brief](#)), and promote environmentally sustainable practices.

# Background | Benchmarking approach & key learning questions



This report is divided into three key sections, each designed to answer important learning questions:

- **Agri-SME Lending Trends (slides 11-16):** This section analyzes 32k loans ranging from \$10k to \$2M and issued from 2020-2023 in Kenya, Uganda, Rwanda, Tanzania, and Zambia. The key questions are:
  - What is the current state of agri-SME lending among Aceli's partner institutions?
  - How have lending volumes and segments evolved over the past four years?
- **Risk & Profitability Analysis (slides 18-24):** This section consists of a preliminary analysis on non-performing loans (NPLs) across a subset of Aceli's lending partners. It also includes an examination of the revenue and cost drivers, along with profitability trends, for agri-SME loans issued by Aceli's lending partners. The analysis aims to answer:
  - How risky is agri-SME lending compared to lending in other sectors?
  - How profitable is agri-SME lending for partner institutions?
- **Aceli's Impact (slides 26-36):** This section evaluates the impact of Aceli's offerings on lender behavior and lending economics. The analysis combines quantitative data on lending economics and qualitative data collected through surveys and interviews with lenders. It seeks to answer the following:
  - How have lenders' behavior and perceptions of agri-SME lending evolved since partnering with Aceli?
  - How do partner institutions utilize Aceli's incentives?
  - What is the impact of these incentives on lending economics?

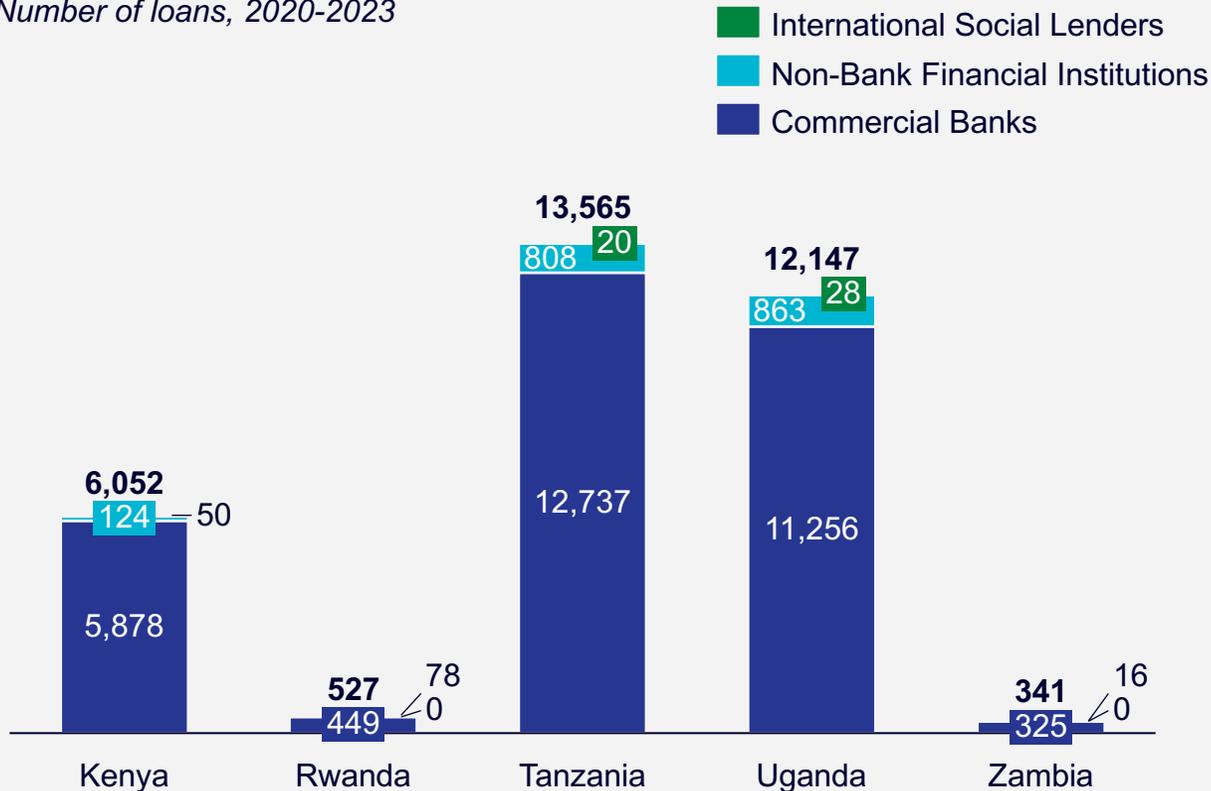
Aceli has developed a standardized methodology to segment agri-SME loans and estimate profitability by analyzing interest rates, tenors, fees, origination and servicing costs, cost of capital, and expected credit losses. By applying this standardized approach across all participating lenders, we can develop a comprehensive perspective on agri-SME lending in East Africa, identifying patterns and variations across the industry. Further details on the methodology are included in the Appendix.

# Background | Benchmarking dataset



## Current benchmarking study

Number of loans, 2020-2023



- Over the years, Aceli has developed a dataset comprising 60k agri-SME loans disbursed from 2011-2023 and totaling \$8.5 billion.
- The initial dataset from 2018-19 focused on international social lenders with weighting to Latin America while follow-on studies have focused in East Africa.
- **This benchmarking study focuses on 32k loans totaling \$1.98 billion and disbursed from 2020-2023 in Kenya, Rwanda, Tanzania, Uganda, and Zambia.**

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**Agri-SME Lending Trends**

Covers all 32k agri-SME loans from \$10k-2M issued by Aceli's 41 lending partners from 2020-2023

*Risk & Profitability*

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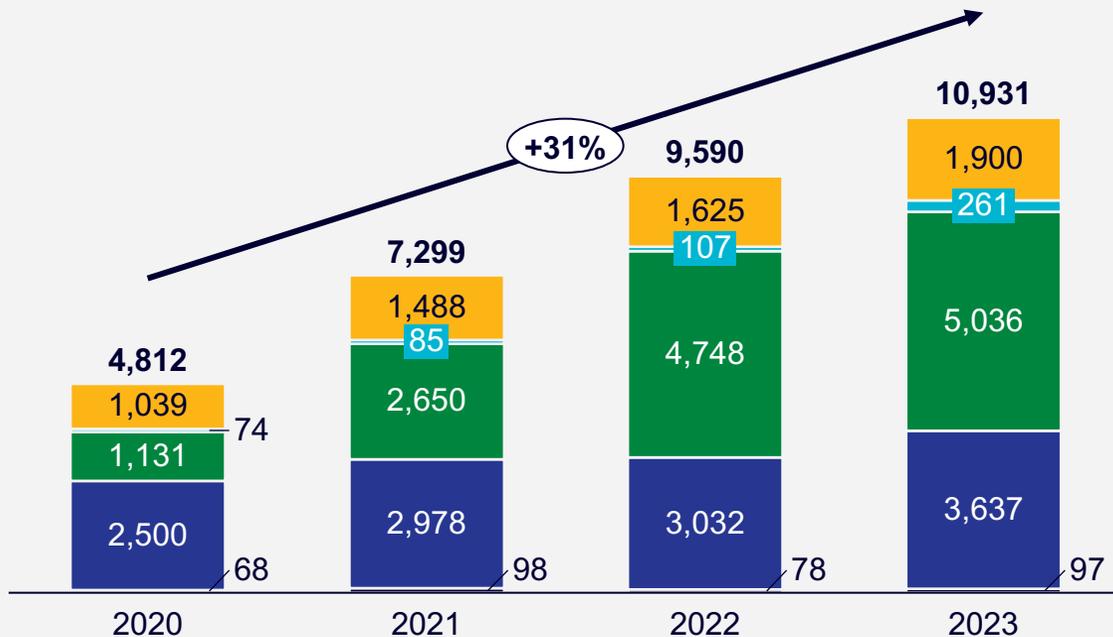


# Lending Trends | Loan volume increased by 14% in 2023



## Total loans issued by country across lending partners

No of loans issued, 2020-2023



- Agri-SME lending volumes grew across all five countries from 2020-2023, with Tanzania driving the majority of the growth, supported by favorable enabling policies. See [2024 benchmarking report](#) for more detail.
- However, growth in loan volumes slowed in 2023 to 14%, compared to 31% in 2022 and 52% in 2021.
- Tanzania, Uganda, and Kenya accounted for the largest share of lending volumes, while Rwanda's share was smaller related to the size of its market. Nevertheless, Aceli gathered data from a significant portion of the high-volume lenders from each of these four countries.
- Zambia represented the smallest share of lending, as Aceli only recently began operations in the country and collected data from a limited number of the country's high-volume lenders.

Number of lenders submitting data from each country

Kenya	Rwanda	Tanzania	Uganda	Zambia
15	10	14	16	6

Note: The loans database includes 41 supported institutions. Some of these, particularly social lenders, operate in multiple countries and are therefore counted in each country where they are present. This "double counting" means that the sum of institutions by country exceeds the total of 41 unique institutions in the database.

Sources: Aceli Benchmark Data 2024

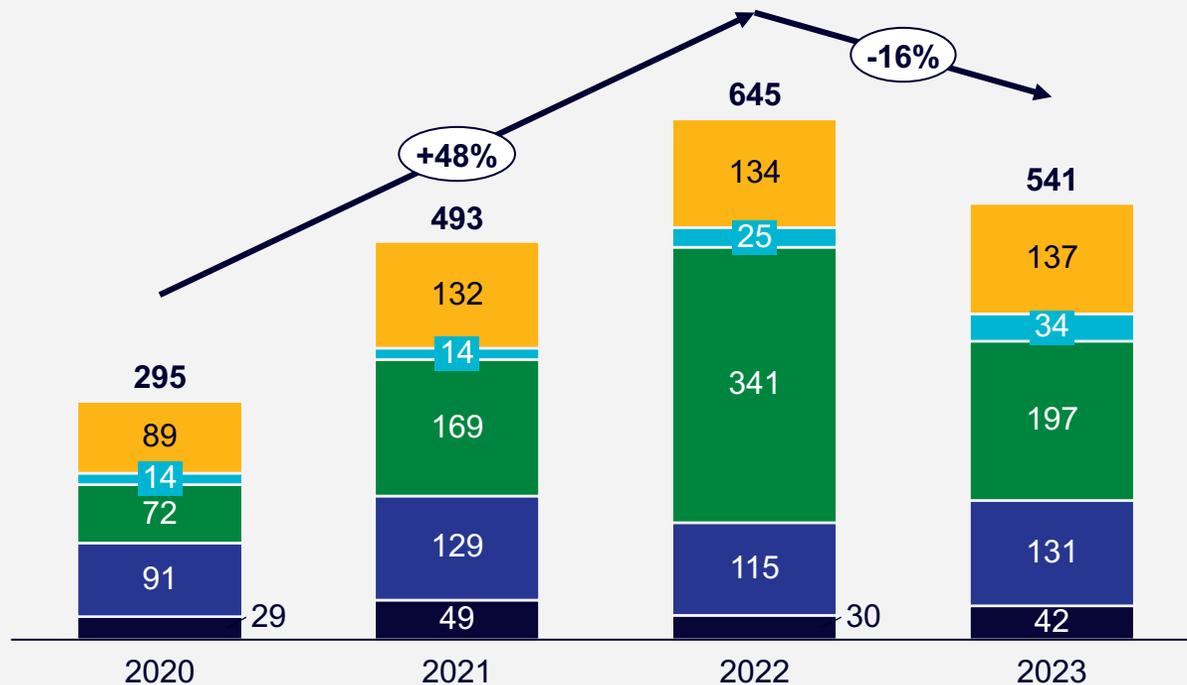
# Lending Trends | Total value of agri-SME loans dropped by 16%



## Total loan value by country across lending partners

Value of loans, USD millions, 2020-2023

■ Kenya
 ■ Tanzania
 ■ Zambia
 ■ Rwanda
 ■ Uganda



- The **value of agri-SME loans** issued by Aceli's 41 lending partners **increased across all five countries from 2020-2022 at an annual growth rate of 48%**.
- However, despite a growth in the number of loans issued, the **total value of agri-SME loans decreased by 16% in 2023**, primarily due to lenders in Tanzania shifting towards smaller loan sizes.
- By contrast, **the value of loans increased modestly across all other countries** during the same period.

# Lending Trends | Agri-SME lending outpaced overall growth of banks' loan portfolios



## Agri-SME share of overall portfolio value, 2020-2023

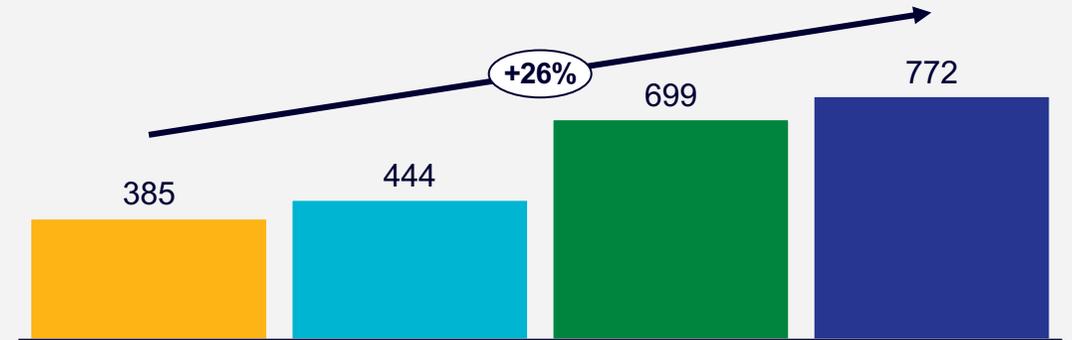
Percentage of overall portfolio ■ 2020 ■ 2021 ■ 2022 ■ 2023



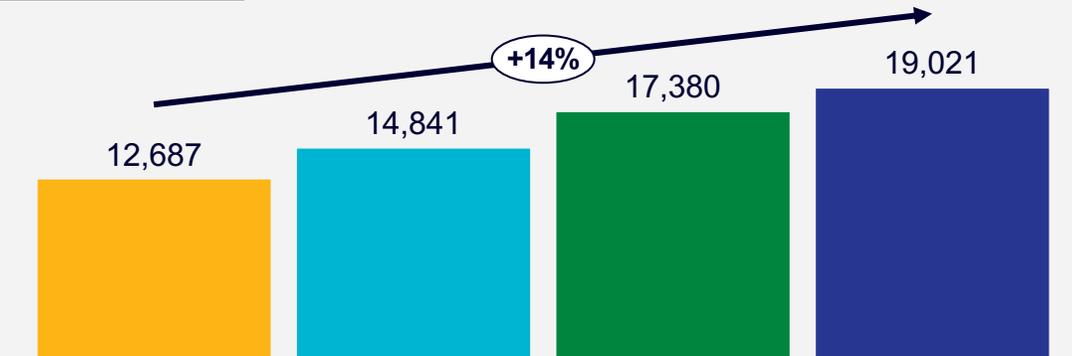
## Agri-SME & overall portfolio values, 2020-2023

Year-end Portfolio Value, USD millions, 2020-2023

### Agri-SME Portfolio



### Overall Portfolio



- The share of agri-SME loans in overall lending across Aceli's partner institutions grew from 3% in 2020 to 4% in 2023. The share remained relatively stable between 2022 and 2023, driven by a decline in the value of agri-SME loans issued in 2023.
- Overall, the **agri-SME portfolio grew at an annual rate of 26%**, outperforming the 14% growth seen in overall lender portfolios. This translated to a **33% growth in the agri-SME share of overall lending** even as overall portfolios increased by 50% during this period.

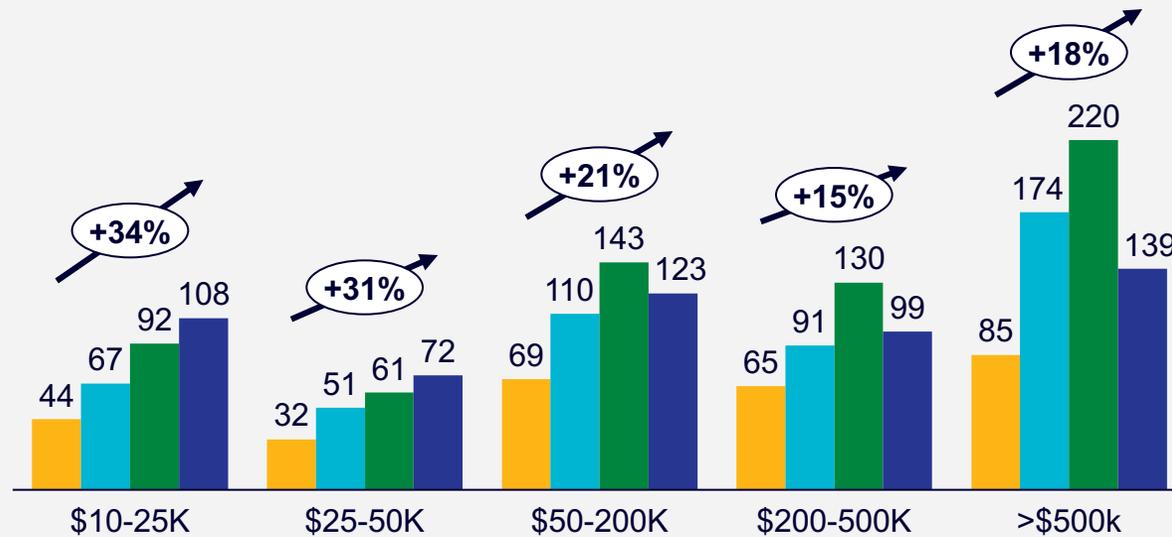
# Lending Trends | The number of loans increased across all size segments from 2020-22, but there was a notable shift to smaller loans in 2023



## Loan value by ticket size, 2020-2023

Value of loans issued per ticket size category (USD million) and CAGR

2020 2021 2022 2023



- Loans in the \$10-50k segment have steadily grown from 2020 to 2023 with an annual growth rate of 31%+ during the period.
- On the other hand, loans above \$50k grew significantly from 2020-2022, but dipped in 2023 largely driven by a shift to smaller ticket sizes in Tanzania.

*“We received funding from the social arm of the bank – the strategy is to make sure we keep funding smaller ticket sizes and manage those accounts better.”*

- Bank, Uganda

*“We have [collateral] flexibility for loans under guarantee programs or Aceli, particularly for smaller SMEs that might not have access to traditional collateral forms.”*

- Bank, Tanzania

*“When Aceli started, it increased our appetite for smaller loans. Thanks to the incentives, we’ve expanded to smaller and riskier segments we hadn’t targeted before.”*

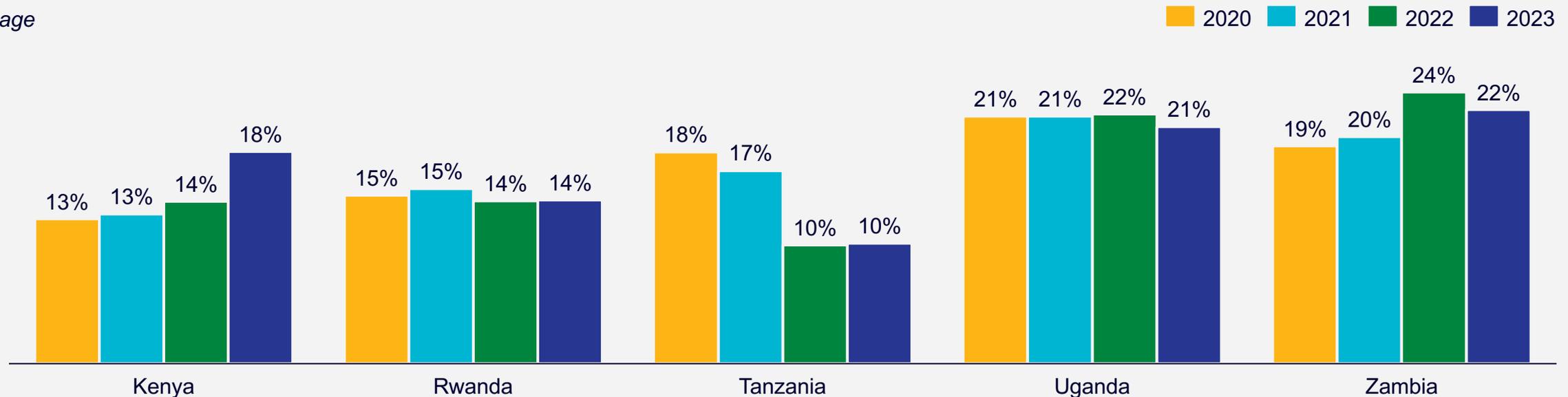
- Social Lender

# Lending Trends | Interest rates vary across the region with macroeconomic conditions and enabling policies producing divergent trends



## Average interest rates by country, local currency, 2020-2023

Percentage



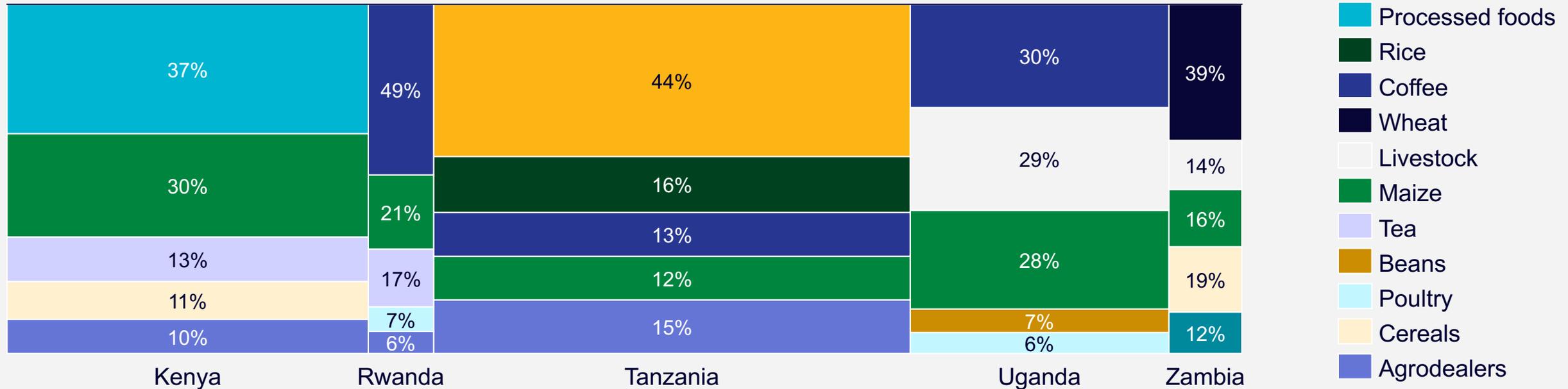
- Local bank interest rates for agri-SME loans declined across all countries except Kenya where rates increased by 4% to 18% in 2023, driven by a hike in the Central Bank's base lending rate.
- In Tanzania, interest rates dropped from 17% in 2021 to 10% in 2022 and 2023, following a government initiative to channel \$435M through the Central Bank to commercial banks for lending to the agriculture sector.
- The slight decline in agri-SME interest rates for Rwanda, Uganda, and Zambia aligns with broader trends in the countries' overall interest rates and macroeconomic conditions.

# Lending Trends | Top agri-SME value chains vary across countries but have been stable over the past few years



## Top 5 value chains by loan value across the five focus countries, 2020-2023

Percentage of loan value



- In Rwanda and Uganda, coffee and maize account for the majority of agri-SME loans.
- In Zambia, most of the loans are directed to producers and wheat is the leading value chain.
- In Kenya, processed foods represent the top value chain as lenders target value addition.
- Tobacco is the top value chain in Tanzania. While Aceli does not support tobacco loans, the benchmarking data includes loans from sectors beyond those supported by Aceli.
- Overall, maize (15%), coffee (10%), and livestock (9%) represent the largest share of loans in the dataset.

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# Risk & Profitability | Methodology overview



In 2018-2019, Aceli collected data from 31 lending institutions across Africa, Latin America, and Asia to analyze the economics of agri-SME lending. This [analysis](#) focused on the risk and returns of agri-SME loans compared to other sectors. The key findings were:

- Risk in agri-SME lending is at least twice as high as that in other sectors.
- Returns on agri-SME lending are, on average, 4-5% lower than returns from other sectors.

**This report updates risk and profitability analyses to reflect changes in the agri-SME lending market in our focus countries in East & Southern Africa.**

## I. Risk

For the updated analysis, Aceli has been collecting data on agri-SME non-performing loans (NPLs) and write-offs from partner institutions. However, many lenders struggled to provide reliable NPL data, and even more were unable to provide write-offs data. As a result, **this preliminary analysis is based on NPL data from 17 commercial banks that could provide reliable data, representing 50% of the dataset**. This subset of lenders offers a representative mix of financial institutions across Aceli's countries of operation.

Given the gaps in the write-offs data, this analysis focuses solely on NPLs. Although write-offs are generally considered a more accurate reflection of lender loss given default (LGD), NPLs are being used here as an initial indicator of the risk profile of agri-SME loans compared to other sectors. This shift from using write-offs to NPLs differs from the 2018–2019 analysis. Moving forward, Aceli will continue to collect both NPL and write-offs data as we update our findings. For clarity, **non-performing loans (NPLs) are defined as loans that are more than 90 days past due**. In this analysis, agri-SME NPLs are compared to overall NPLs, which include loans from all sectors.

## II. Profitability

We have also analyzed the profitability of the 32k agri-SME loans issued from 2020-2023 across different lender types and ticket sizes. Aceli has developed a standardized methodology across the different lenders to estimate loan profitability that assesses revenue drivers (interest and fees) and cost drivers (origination and servicing costs, expected credit losses, and cost of funds). For more details, see the appendix.

In addition to profitability analysis, we also examine the opportunity cost of investing in agri-SME loans compared to other investment options available to lenders.

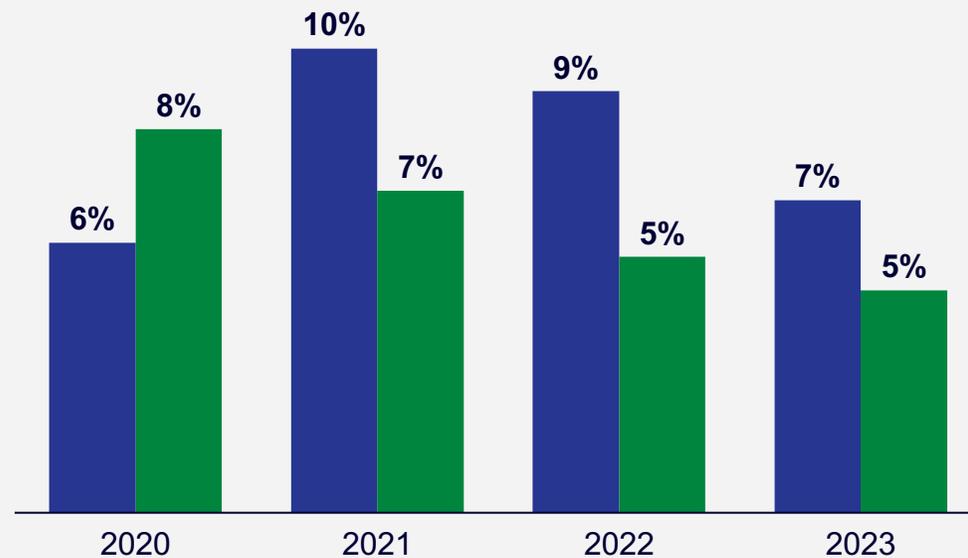
# Risk | Non-performing loans (NPLs) for agri-SME portfolios among banks continue to be higher than NPLs for their overall loan portfolios



## Agri-SME & overall portfolio non-performing loans

% of portfolio value, 2020-2023

■ Agri-SME NPL ■ Overall NPL



*N = 17 commercial banks*

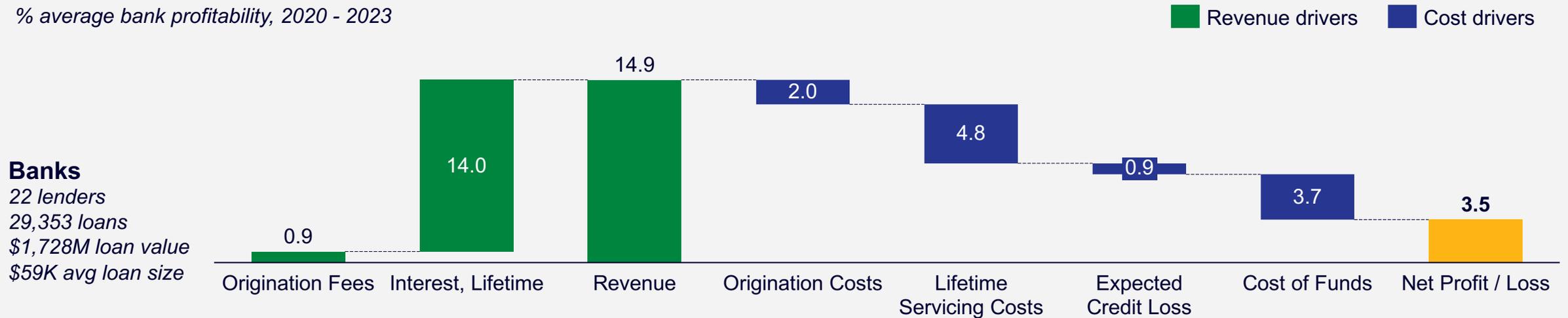
- Agri-SME NPLs have consistently been higher than overall portfolio NPLs for banks, with the exception of 2020 when agriculture demonstrated more resilience than other sectors as food demand remained stable during COVID-19. Additionally, interventions such as loan moratoriums and restructures helped reduce non-performing loan ratios.
- On average, **agri-SME NPLs are 40% higher than the overall NPLs for commercial banks**. This is a reduction from the 2x differential in our 2019 analysis, but the lower average masks year-on-year variation. While higher-volume lenders are improving their risk management, all lenders are confronting the challenges of extreme weather.
- With the majority of agri-SMEs still not accessing loans from commercial banks and banks currently serving the most credit-ready borrowers, **we believe this NPL data from issued loans understates the risk associated with lending to agri-SMEs** as a broader segment.

# Profitability | Commercial banks leverage scale and low-cost funds to achieve modest profitability in their agri-SME lending



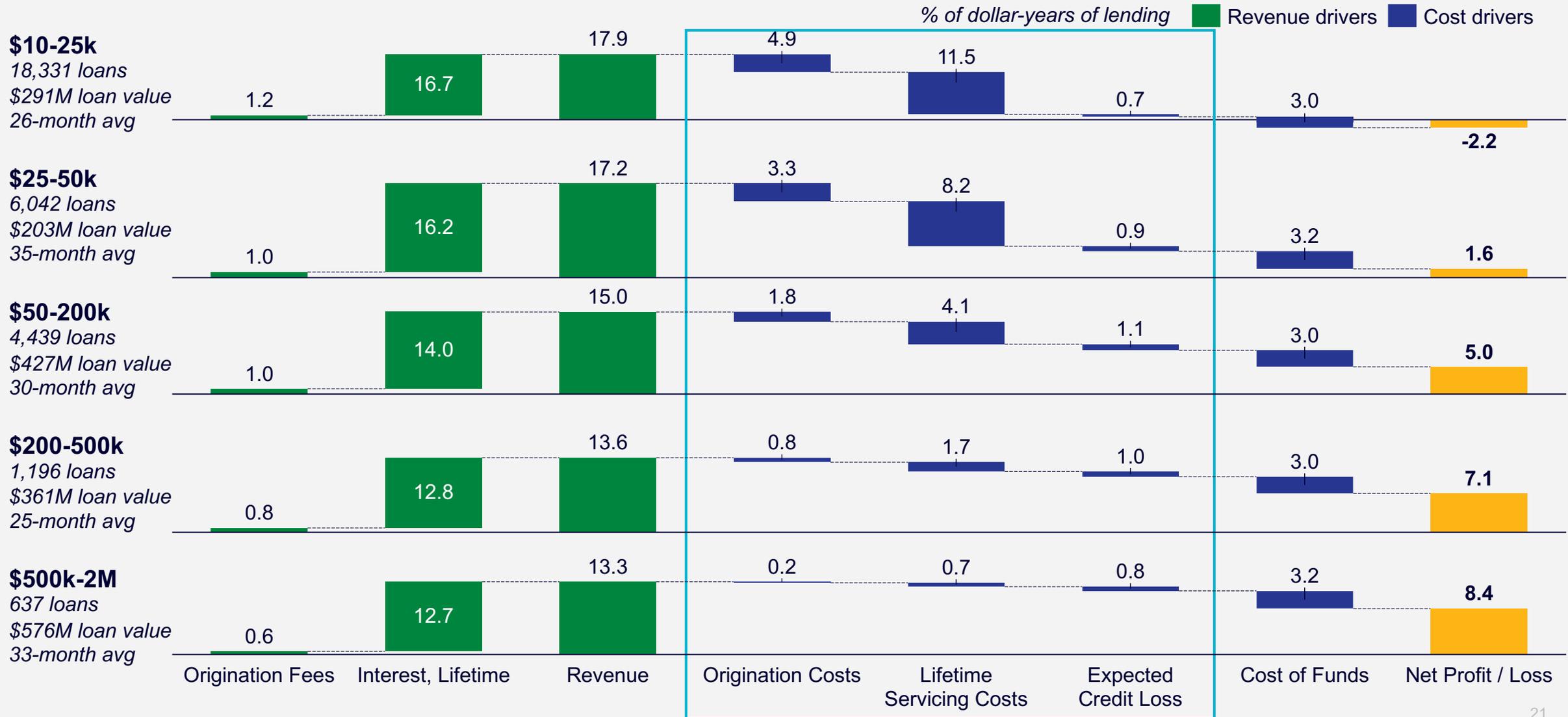
## Average commercial bank profitability

% average bank profitability, 2020 - 2023



- Commercial banks account for the vast majority of agri-SME lending in the region and represent 94% of our dataset.
- The average commercial bank achieves a small profit margin of 3.5% on agri-SME loans.** Banks' ability to leverage economies of scale across a multi-sector platform and their extensive branch network reduces loan origination and operational costs, while access to low-cost customer deposits provides a significant funding advantage relative to non-bank financial institutions. We focus on profitability as a simple average because we believe that serving the volume and breadth of needs across the agricultural sector requires a competitive marketplace with many actors.
- At the same time, it is notable that **profitability varies across banks**. A subset of high-volume lenders effectively harness economies of scale to enhance profitability, whereas most banks experience only modest returns or even negative returns on their agri-SME portfolios. **When weighted by loan value to capture market share, overall agri-SME profitability increases to 5.3%.**

# Profitability | Smaller loans cost more to originate and service, leading to losses or low profitability despite higher interest and fee income



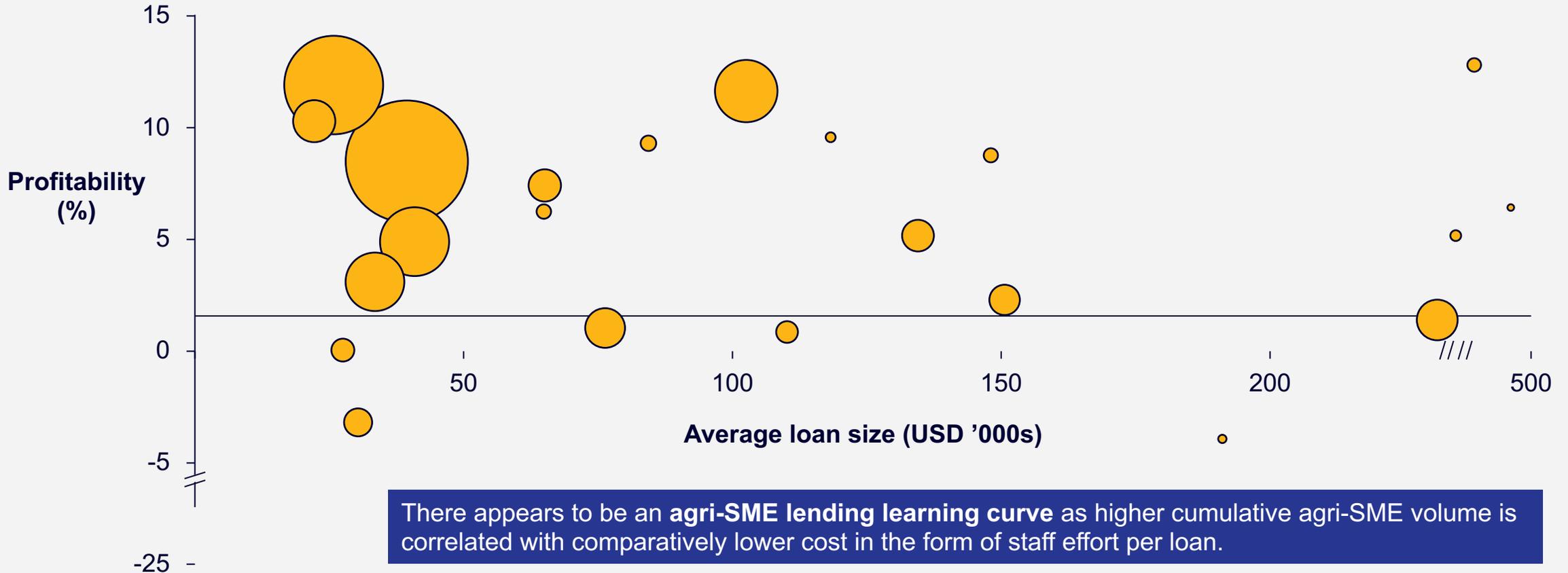
# Profitability | Banks achieve profitability through economies of scale at lower ticket sizes and/or by targeting larger ticket sizes



## Commercial bank profitability against average loan size

Profitability % | Average loan size in USD thousands

Commercial bank, number of loans



# Profitability | NBFIs and social lenders serve market niches with specialized products, but high costs erode profitability and limit scale



## Average lender profitability

% average lender profitability, 2020 - 2023

**NBFIs**  
7 lenders  
1,791 loans  
\$47M loan value  
\$26K avg loan size



**SLs**  
7 lenders  
192 loans  
\$69M loan value  
\$361K avg loan size



- NBFIs, typically much smaller than banks, charge higher interest rates but face elevated loan origination and servicing costs. Their higher cost of funds further erodes profitability, often resulting in net losses on their agri-SME portfolios.
- Social lenders, despite accessing lower-cost capital, charge lower interest rates than both banks and NBFIs. High loan origination and servicing costs continue to strain their profitability, leading to losses on their agri-SME portfolios.
- Both NBFIs and social lenders focus on niche markets through high-impact, specialized loan products. With the exception of a few NBFIs that are beginning to achieve economies of scale, the lending economics for NBFIs and social lenders constrain their growth.

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Covers the 1.6k agri-SME loans from \$10k-2M issued by Aceli's 41 lending partners from 2020-2023. Average loan size and profitability for these loans are slightly higher than the full dataset of 32k loans presented in the previous sections



# Impact of Aceli's Incentives | Overview



This section presents insights from both lender surveys and interviews, capturing lenders' experiences with agri-SME lending since partnering with Aceli. The analysis also includes lenders' utilization of Aceli's financial incentives and the effects of incentives on lending economics. Samples sizes and methodology do not allow us to draw causal conclusions; attribution to Aceli should be caveated accordingly.

Survey responses are segmented by lender category to track how lender experiences and perceptions evolve over time:

- **Existing lenders:** Lenders that have partnered with Aceli for more than one year at the time of the survey.
- **New lenders:** Lenders that have partnered with Aceli for less than one year.

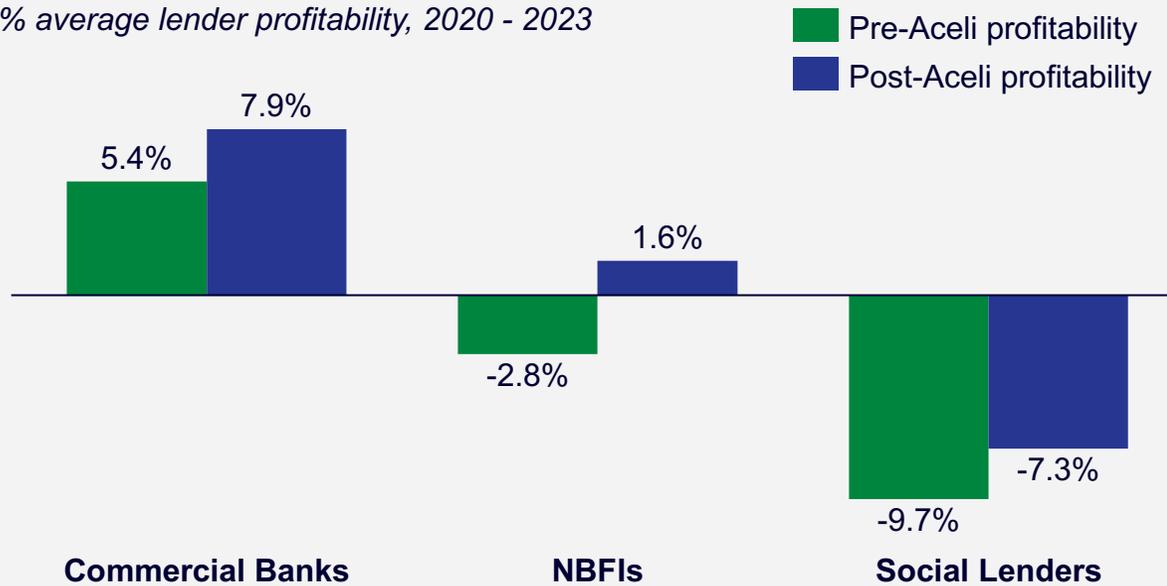
Aceli's partner lending institutions benefit from a range of offerings, including:

- **Financial incentives:** Aceli provides two primary financial incentives to encourage agri-SME lending (see slides 38-39 for more detail):
  - **Portfolio First-Loss Cover (FLC):** A risk mitigation tool that covers a portion of loan losses for qualifying loans ranging from \$15k-\$1.75M to increase lenders' risk appetite.
  - **Origination Incentives (OI):** Payments to lenders, offsetting the high transaction costs associated with originating loans to agri-SMEs, particularly those ranging from \$15k to \$500k.
- **Capacity building:** Aceli supports lenders in enhancing their capacity to serve agri-SMEs through tailored technical assistance focused on strategy, financial product offering, and staff training.
- **Data and learning:** Aceli provides lenders with data and insights to inform their lending strategies including detailed analytics on agri-SME loan performance and trends and peer networking to share best practices and learning.

# Impact of Aceli's Incentives | Incentives boost profitability by ~3% across lender types, motivating lenders to shift resources and serve agri-SMEs

## Average lender profitability

% average lender profitability, 2020 - 2023



- By the end of 2023, Aceli had provided \$15.5M in incentives for 1,607 loans totaling \$155M across 32 lenders for a capital leverage ratio of 10x.
- Loans receiving Aceli incentives have a higher average loan size compared to the overall dataset. Additionally, many Aceli-supported loans are still in their early repayment stages and have experienced minimal defaults to date. These factors contribute to higher profitability for Aceli-supported agri-SME loans (e.g., average bank profitability of Aceli loans is currently 5.4% without incentives and 7.9% with incentives, compared to 3.5% for overall bank agri-SME portfolios).
- Despite higher profitability, Aceli-supported loans still yield lower returns than alternative investments like government bonds.
- Incentives help narrow the opportunity cost gap by expanding margins for banks and helping NBFIs achieve profitability, enabling them to scale agri-SME lending.
- For social lenders, incentives reduce losses, but agri-SME lending remains unprofitable, requiring cross-subsidization from other geographies and sectors, such as microfinance.

## Loans supported by Aceli, 2020 - 2023

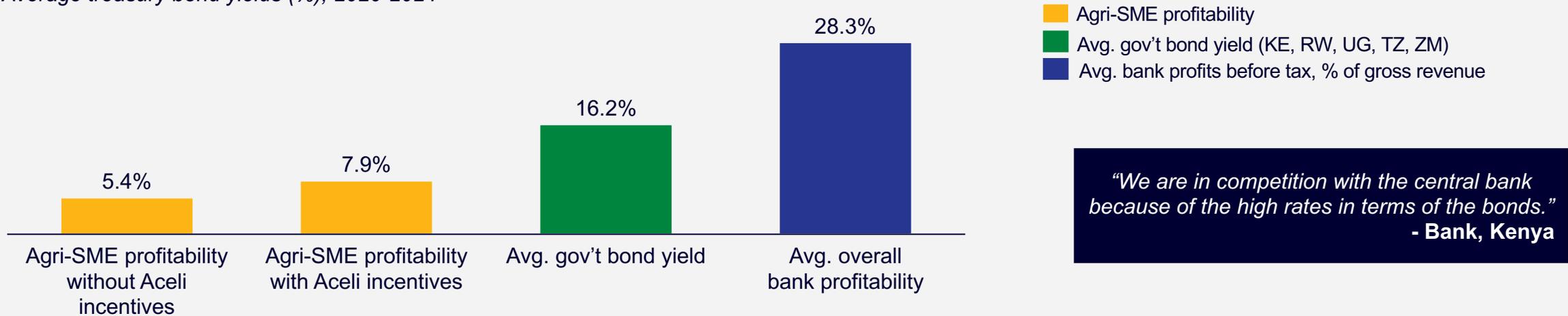
Lender type	# of lenders	# of loans	Loan Value	Incentives
Banks	19	1241	\$115M	\$12.2M
NBFIs	7	284	\$13M	\$2.1M
Social lenders	6	82	\$27M	\$1.2M

# Impact of Aceli's Incentives | While Aceli improves agri-SME profitability, banks continue to face an opportunity cost relative to treasury bonds & other sectors



## Profitability: Overall, government bonds, Agri-SME profits with & without incentives

Average treasury bond yields (%), 2020-2024

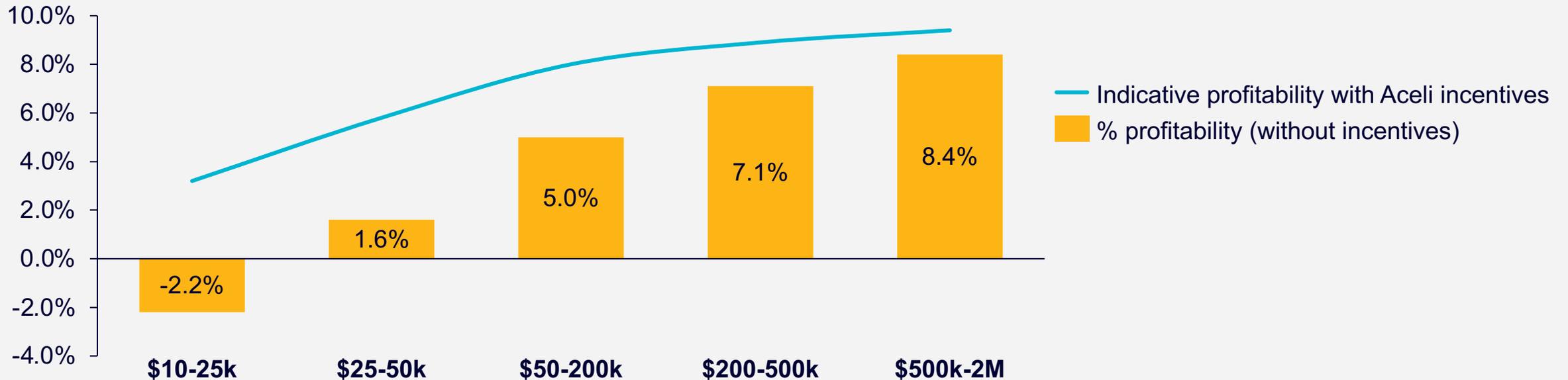


- Aceli incentives improve the lending economics for participating banks, increasing returns from 5.4% to 7.9%. However, despite these gains, **agri-SME lending yields remain significantly lower than the average bond yield of 16.2% and overall bank profitability of 28.3%.**
- Given the yield gap, banks still face a considerable opportunity cost when allocating capital to agri-SME lending instead of higher-yielding, lower-risk government securities.
- Using Kenya as an example, by mid-2024, banks in Kenya were the largest holders of government securities, accounting for 43% of total government-issued securities. At the same time, due to economic uncertainty and perceived credit risks, commercial banks reduced private sector lending and redirected liquidity toward risk-free government securities.

# Impact of Aceli's Incentives | Incentives are weighted to smaller loans to attract more lending in these segments where access to finance has been most limited



Commercial bank profitability, %



- Aceli's graduated incentive structure addresses a fundamental market challenge: while the vast majority of agri-SMEs are at an early stage of development requiring loans under \$50k, these ticket sizes offer unattractive returns.
- To counterbalance these economics, Aceli incentives are highest for smaller loans and lenders are gravitating to the \$10-50k range. **80%+ of Aceli-supported loans in these size ranges go to agri-SMEs accessing formal finance for the first time.**
- With access to finance, **agri-SMEs are both growing (annual revenues are increasing 24%) and accessing larger follow-on loans (26% increase in second cycle)**

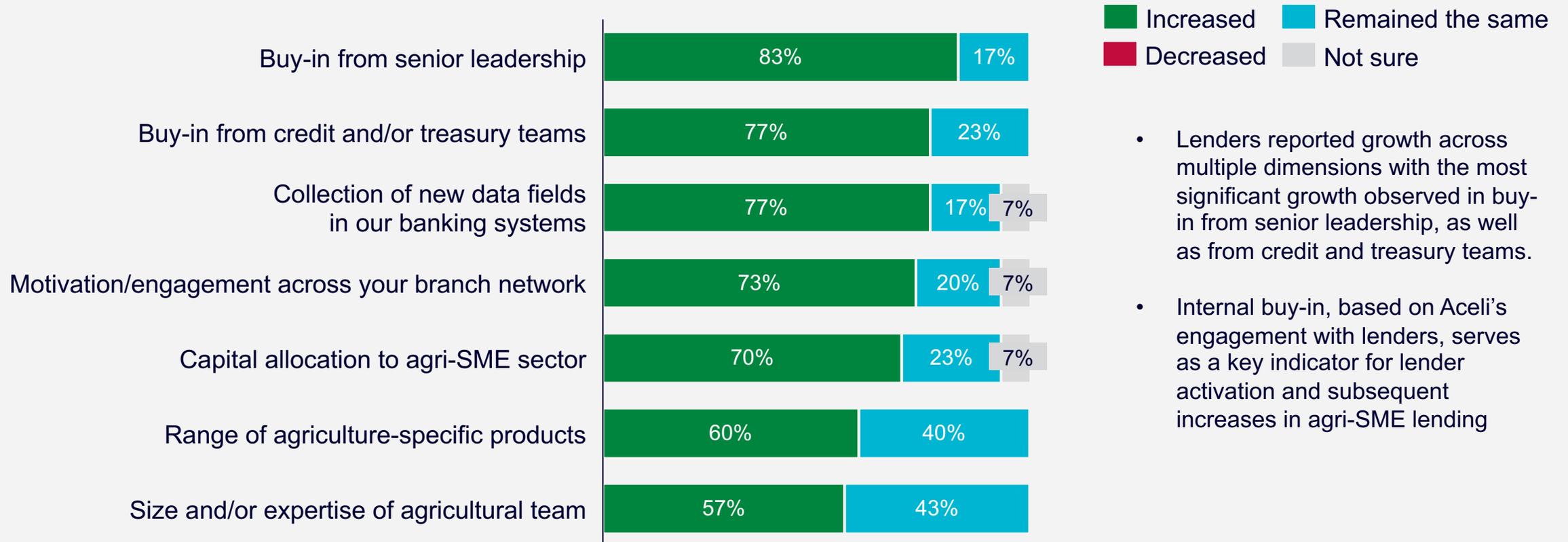
# Impact of Aceli's Incentives | Lenders report a positive shift in attitude from senior leadership & credit/treasury teams since joining Aceli's incentives program



## Reported changes

% of lenders, N = 30 existing lenders

**How have the following dimensions changed in your organization since joining the Aceli program?**



# Impact of Aceli's Incentives | Lenders report increased outreach to new borrower segments and improved loan terms



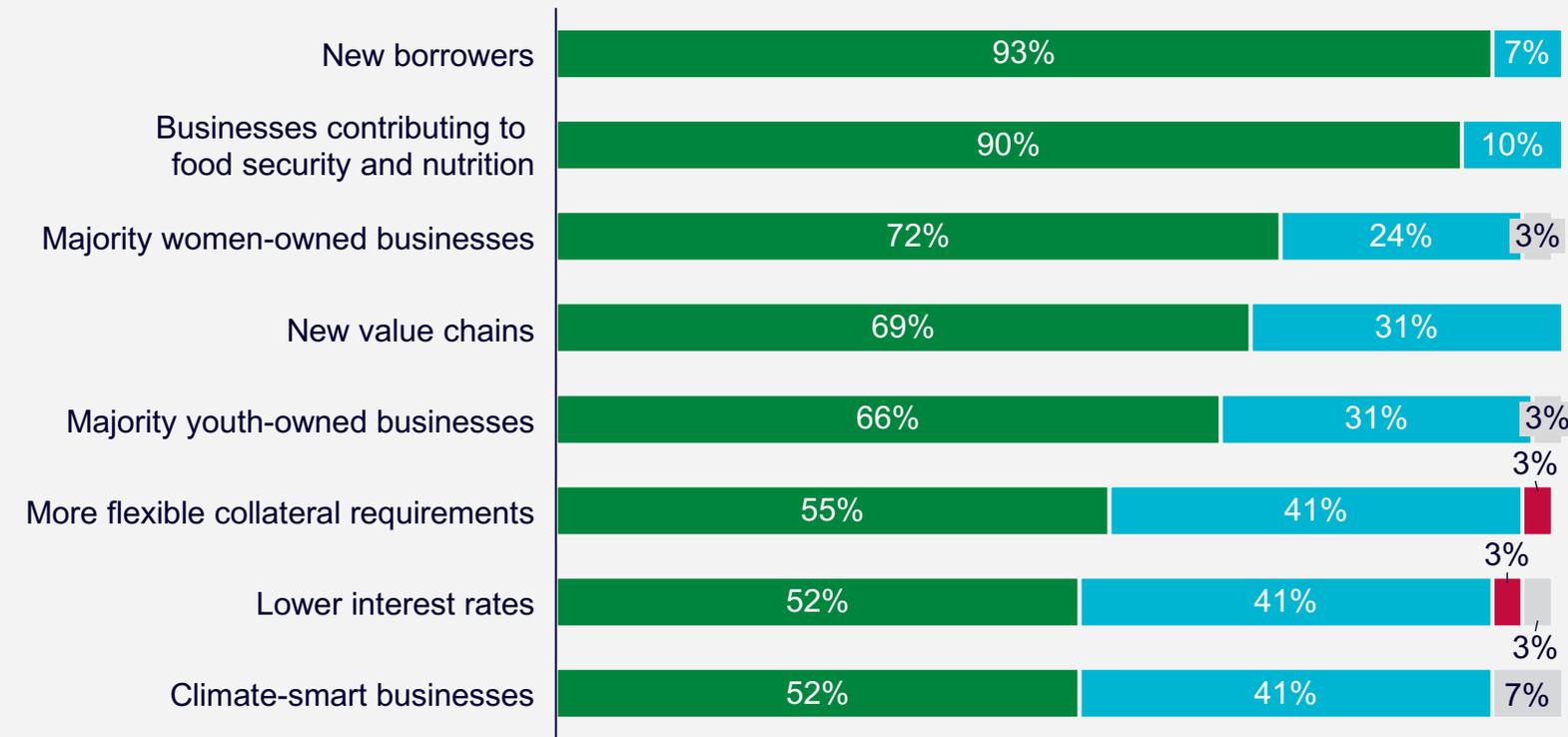
## Reported changes

% of lenders, N = 30 existing lenders

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

“Lending [to / at / with]...”

Increased Remained the same Decreased Not sure



*“We **increased new borrowers** because we built out some portfolios due to the incentives that we couldn't consider before.”*  
- Social Lender

*“Aceli allowed us to **enter value chains** that we have never targeted before, it gives us the opportunity to go really bottom of the market.”*  
- Bank, Kenya

# Impact of Aceli's Incentives | As lenders mature, their most urgent needs shift from building expertise to increasing access to capital to scale lending



What is most needed to scale up agri-SME lending within your organization? (Rank factors from 'Most Needed' to 'Least Needed')

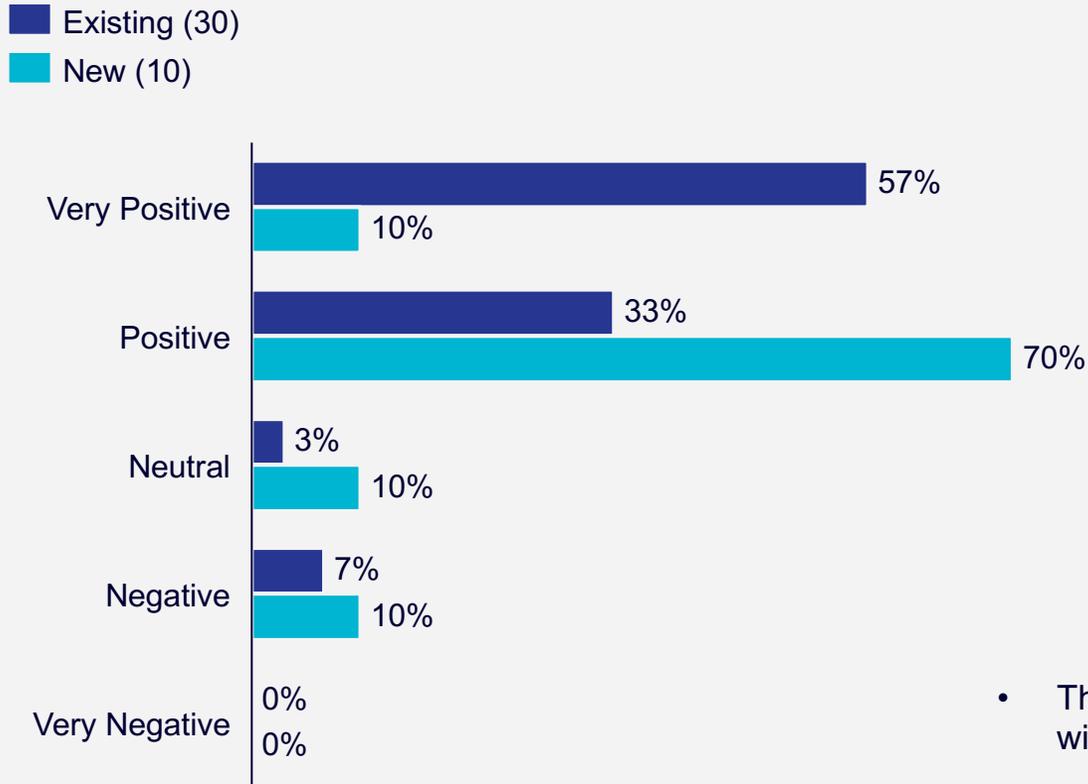


- The needs for scaling agri-SME lending vary between new and existing lenders. New lenders typically begin with a focus on building internal expertise in agricultural lending. As their agri-SME lending grows, their primary need shifts to securing more capital for on-lending, a trend reported by existing lenders.
- This shift highlights the importance of accompanying incentives with affordable capital to maximize a reinforcing cycle of lender activation and portfolio growth.** The enabling policy by the government of Tanzania to increase banks' access to affordable capital and the related growth in number of loans and reduction in interest pricing offers a positive for other countries to emulate.

# Impact of Aceli's Incentives | Existing lending partners are slightly more positive than new lenders about lending to the agri-SME sector



## What is your organization's current perception of lending to the agri-SME sector?



## What were the main factors that contributed to your perception of the sector? (sourced from survey responses)

*"The top management from Board recognize agriculture finance as "Mission critical" because it speaks to the bank mission."*  
**- Commercial Bank, Uganda**

*"We look at repayment rates across sectors. Our Agri sectors are generally doing well."*  
**- NBF, Uganda**

*"Historical performance of some facilities under primary agriculture & current drought being experienced [inform negative perception]."*  
**- Commercial Bank, Zambia**

*"It is positive due to the sector's importance to the national economy and employment, but we are also mindful of the imminent challenges it faces."*  
**- Commercial Bank, Tanzania**

- The majority of surveyed lenders have a positive perception of the agri-SME sector, with existing lenders expressing a slightly more favorable view.
- Lender perceptions are influenced by various factors, including historical experience in the sector, internal organizational strategies, and national economic priorities.

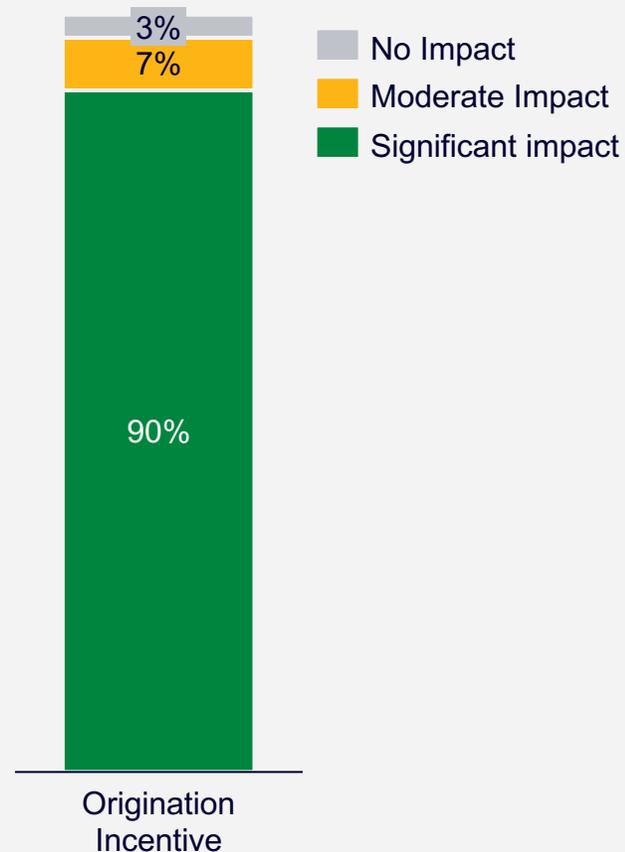
# Impact of Aceli's Incentives | Almost all lenders report that origination incentives have had a significant impact



## Lender feedback on Origination Incentives (OI)

% of lenders, N = 30 existing lenders

### Impact of OI



### Q: How has your organization utilized origination incentives received from Aceli?



- **With most donor-funded initiatives focused on addressing risk, Aceli's origination incentives (OI) are particularly popular.** 90% of lenders report that OI has had a significant impact on their activities up from 81% last year.
- **Most lenders use OI to defray the high transaction costs** of agri-lending, including subsidizing field costs to serve agri-SMEs that are farther away from their branches and improving loan origination processes.
- Lenders are increasingly passing on the benefits of OI to borrowers in the form of lower interest rates and more flexible collateral requirements.
- Lenders also use OI to build staff capacity and motivate staff with bonuses for loan officers and, in some cases, credit risk and back office staff as well.

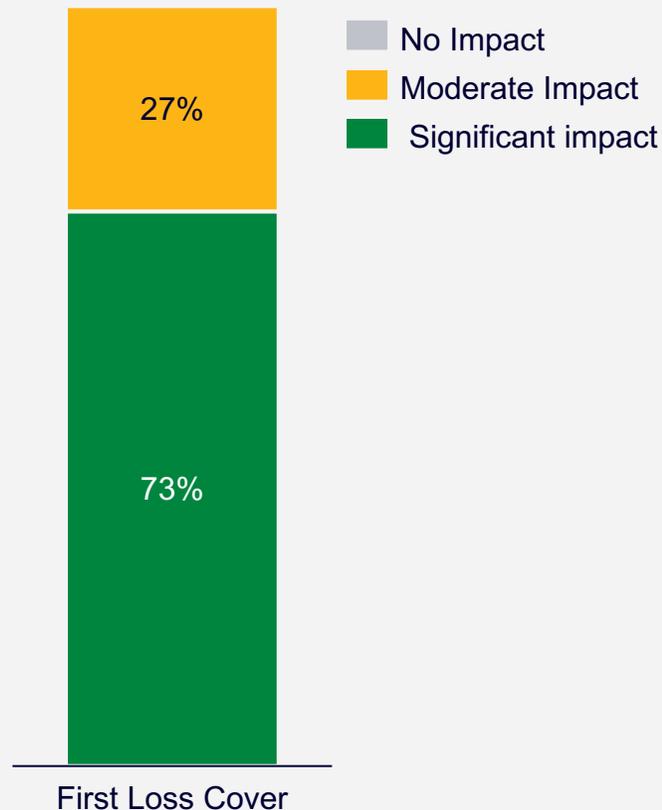
# Impact of Aceli's Incentives | A growing share of lenders report that the portfolio first-loss cover has had a significant impact



## Lender feedback on First Loss Cover (FLC)

% of lenders, N = 30 existing lenders

### Impact of FLC



- Lender perception of the Portfolio First-Loss Cover (FLC) has improved significantly, with 73% of lenders now reporting that FLC has a significant impact on their organization, compared to only 42% last year.
- This shift in perception is largely attributed to the growth in lenders' FLC reserves as they continue to issue more loans. By design, FLC is a portfolio-level intervention that grows as the number of loans increases, providing coverage for losses across the portfolio.
- Aceli's FLC is a funded guarantee (*i.e.*, sits in a dedicated account within commercial banks), which has a larger effect on lender risk appetite than the more typical unfunded guarantees available in t.
- **Lenders report in interviews that the growth in FLC reserves has helped build internal buy-in and has also increased their organization's risk appetite.** This aligns with the observed increase in lending to new borrowers, more flexible collateral requirements, and other key trends highlighted in previous sections of this report.



We aim to refine the methodology and enhance the data and insights each year. Priorities for 2026 include:

- **Expanded coverage in Zambia** – As more lenders join Aceli’s incentives program, we will incorporate a broader dataset from Zambian financial institutions.
- **Insights from lender agri-SME activation journeys** – We will analyze and share key learnings from the activation process of Aceli’s partner lending institutions.
- **Deeper analysis of non-performing loans** – Our research will explore NPL trends by country, lender type, and additional segmentation to provide more actionable insights.
- **Segment operating costs** – Deep-dive into the cost allocation approach for a subset of higher volume lenders that have adapted their processes to serve SMEs of different sizes profitably.
- **Leveraging technology to drive efficiencies** – Identify best practices for sourcing, underwriting and monitoring agri-SME loans.
- **Refinements to our methodology** – Continuous improvements in data collection and analysis to strengthen our findings.

*Note: The benchmarking report serves as a companion piece to Aceli’s learning report (planned publication Q3 2025). While the benchmarking report delves into comprehensive agri-SME lending trends and performance, the learning report focuses on insights derived from Aceli’s incentives program.*

*Executive Summary*

*Background*

*Agri-SME Lending Trends*

*Risk & Profitability*

*Impact of Aceli's Incentives & Looking Ahead*

**Appendix**



# Definitions & Acronyms in the Report



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



**Objective:** increase lenders' risk appetite by absorbing incremental risk

## Design:

- ❖ Applies to loans of **\$15k-\$1.75M**
- ❖ **2-9%** of each loan paid into **reserve account** (~5% avg)
- ❖ **Higher %** based on **risk** (new borrowers) & **impact bonuses** (environment, food security & nutrition, women, youth)
- ❖ **Reserve builds** up as loan volume increases
- ❖ Available to **cover any losses at portfolio level**
- ❖ **Complements** typical 50% loan guarantee offered by others

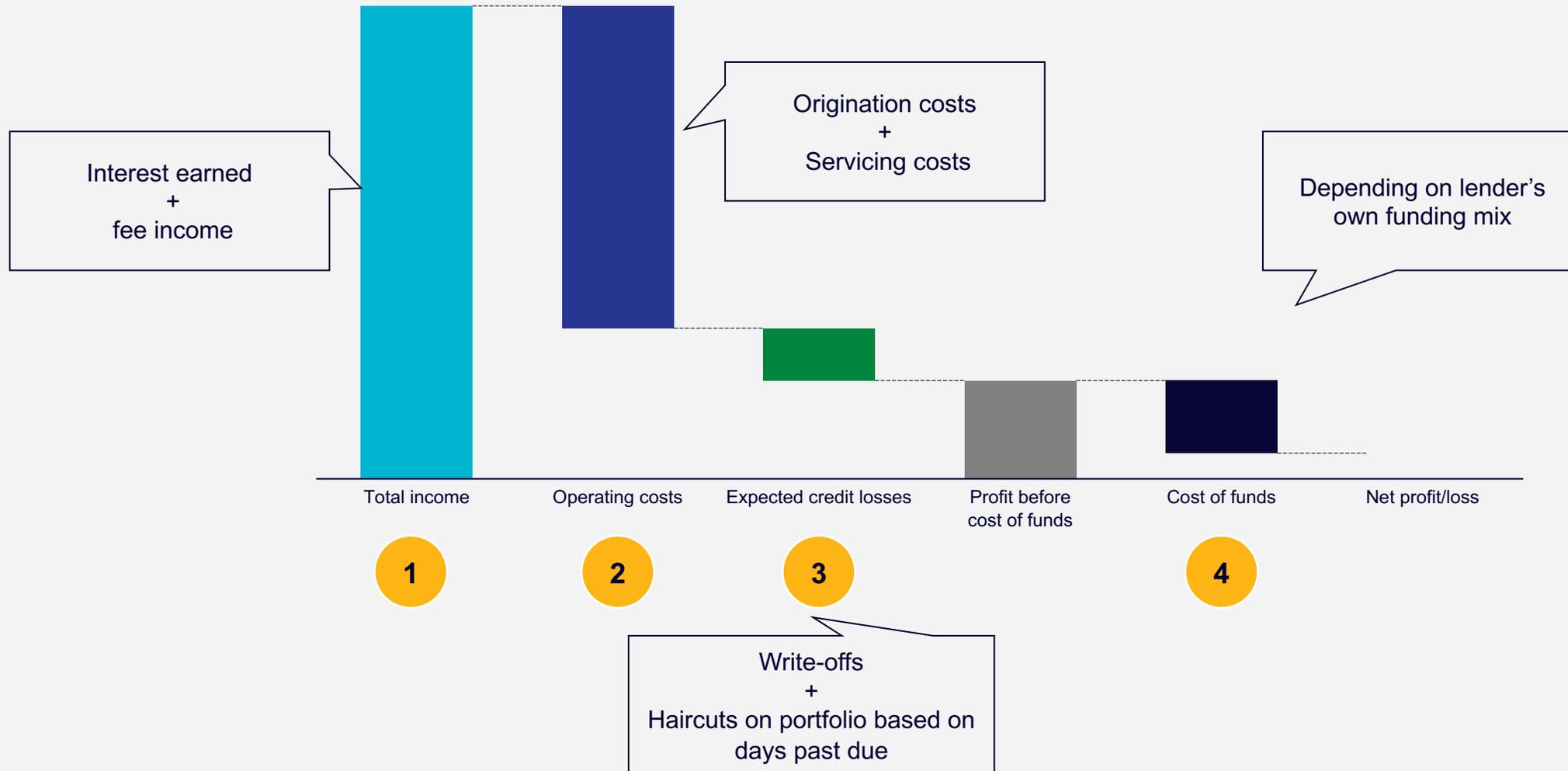


**Objective:** defray transaction costs to motivate lending to smaller, underserved SMEs

**Design:**

- ❖ Applies to loans of **\$15k-500k**
- ❖ Payment of **2-16% of loan amount** depending on loan size, new v. returning borrower, and impact bonuses (same as previous slide)
- ❖ **Payments are unrestricted**, typically used for hiring new agri specialists, training staff, paying for field visits, conducting value chain analyses

# Methodology: We analyzed lender loan performance on four dimensions that drive loan profitability (I/III)



# We analyzed lender loan performance on four dimensions that drive loan profitability (II/III)



## Dimension

## Approach

1

### Total income

interest earned + fee income

$$\text{Interest income} = \text{Dollar years of lending}^1 * \text{Annual interest rate}(\%) \quad + \quad \text{Fee income} = \text{Loan size} * \text{Origination fees}(\%)$$

2

### Operating costs

Origination costs + servicing fees

$$\text{Origination costs}^2 = \frac{\text{Estimated average agriSME costs per year} * 30\%}{\text{Number of agri originations}} \quad + \quad \text{Servicing costs} = \frac{\text{Average cost per active loan}^2 * \text{Tenor}}{12}$$

*Average agriSME costs per year:*

$$= \text{Estimated agri staff costs, i.e.} \left( \frac{\text{Total FTE staff}}{\text{Total staff}} * \text{total staff costs} \right) + \text{Estimated agri non staff costs, i.e.} \left( (\text{Total operating costs} - \text{staff costs}) * \left( \frac{\text{Average outstanding agriSME loans balance}}{\text{Entire organization outstanding balance}} \right) \right)$$

$$\text{Average cost per active loan} = \frac{\text{Estimated average agriSME costs per year} * 70\%}{\text{Number of average active loans}}$$

$$\text{Average active loans} = \frac{\text{Average tenor of agri - loans in portfolio}}{12} * \text{agri originations}$$

# We analyzed lender loan performance on four dimensions that drive loan profitability (III/III)



## Dimension

## Approach

3

### Expected credit losses

*Write-offs + Haircuts on loans in portfolio*

*Total write – offs<sup>1</sup> + Expected haircuts = Outstanding balance (if not written off) \* Recovery rate (%) based on lender type*

#### Haircut provision rates for different lender types

- **Banks & NBFIs:** 100% for loans 365+ Days Past Due (DPD); 50% for 180-364 DPD; 25% for 90-179 DPD; and 0% for 0-89 DPD
- **GSLs:** 100% for loans 365+ DPD; 75% for 180-364 DPD; 50% for 90-179 DPD; 25% for 30-89 DPD; 0% for 0-29 DPD

4

### Cost of funds

- Primarily, we used cost of funds provided by different lenders
- If banks or NBFIs did not provide cost of funds, this was calculated from publicly available financial statements ( = *Total interest expense / Total liabilities*)
- If GSLs did not provide cost of funds, 3% was used based on inputs from previous Aceli lender profitability analysis