ACELI AFRICA

Adapting Financial Products to Better Serve Agri-SMEs

2026

The Challenge of Applying Standard Financial Products to Agri-SMEs

Agricultural small- and medium-enterprises (SMEs) operate with a different rhythm than other businesses: their revenues are seasonal, their assets are often movable rather than fixed, and their growth cycles are measured in harvests, not quarters. Yet commercial lenders in East Africa generally offer the same standardized loan products to agri-SMEs as they do to others. They do this because the modest returns do not justify the investment required to defray high transaction costs and mitigate risks (both real and perceived) of serving agri-SMEs. The resulting one-size-fits-all approach is ill-suited for the realities of lending to agri-SMEs. This is for two reasons:

1. **COLLATERAL POLICIES** often prioritize formal land titles and buildings. This effectively excludes agri-SMEs with limited fixed assets, especially those led by women and youth entrepreneurs who are less likely to hold titled property. They also generally require coverage ratios of 120%-150%. In many rural communities, land titles may not exist or are heavily discounted compared to urban property. Movable assets like equipment, inventory, or livestock are often not recognized as eligible collateral.

2. **FIXED REPAYMENT SCHEDULES** overlook the seasonality and cash-flow dynamics of agricultural businesses. A typical loan structure requires consistent monthly repayments and rarely includes a grace period, whereas agri-SMEs manage business cycles that take several months to generate revenue. Rigid repayment expectations create liquidity pressure during periods with little or no cash flow, which can be especially challenging precisely when agri-enterprises need flexibility (e.g., in the case of delayed rains).

The consequences of these product design gaps are significant. Agri-SMEs are either excluded from financing altogether or only able to access loan amounts well below their operational needs. With limited access to finance, agri-SMEs purchase less from smallholder farmers, create fewer jobs, and do not realize their full potential to contribute to healthy food systems and prosperous economies.

By defraying costs and sharing risk, Aceli's financial incentives improve the business case for agri-SME finance and generate a positive lender activation cycle: lenders move from cautious, ad-hoc participation to strategic investment in the sector, building their capacity to serve more of the market and to serve it better. In line with this progression, many Aceli partner lenders have shifted their approaches to agricultural SME product design in meaningful ways.

The short case studies below highlight a range of approaches lenders are using to tailor finance to better serve agri-SMEs. The examples include both adjustments in direct response to Aceli incentives as well as adaptations aligned with lenders' broader agricultural portfolio growth strategies.

Financial Product Adaptation: Collateral

STANDARD APPROACH: Banks require collateral coverage ratios of 120%-150%; internal policies prioritize fixed assets (e.g., titled land or buildings) over movable collateral (e.g., crops or light equipment).

ADAPTED APPROACH	EXAMPLE	PARTNER
Lenders accept **lower collateral ratios**.	With Aceli's portfolio first-loss cover, Centenary Bank (Uganda) introduced preferential terms for Aceli-qualified loans, including reducing collateral requirements from 120% to 80%. This shift effectively increases the potential loan amount by up to 50% for the same collateral.	Centenary Bank
Lenders accept **less formal types of collateral**.	Alongside reduced collateral ratios, Centenary Bank (Uganda), with Aceli's guarantee in place, reduced its reliance on conventional collateral for larger agri-SME loans. These changes made it possible to rely on unregistered land and family-held land permissions as collateral, significantly expanding lending to agri-SMEs.	Centenary Bank
Lenders issue **unsecured loans** for agribusinesses.	In response to Aceli incentives, I&M Bank (Kenya) increased its ceiling for unsecured loans for agri-SMEs from KES 5M ($38k) to KES 10M ($77k). The bank has reported strong uptake: 139 of the 194 loans (72%) qualifying for Aceli incentives in 2025 were unsecured, compared to just 13 of 58 loans in 2024 (22%). As these numbers indicate, the bank's increased risk appetite is driving significant growth in its reach to smaller, under-served agri-SMEs.	I&M
Lenders leverage **tripartite agreements** to facilitate payments on unsecured loans.	Family Bank (Kenya) provides financing in value chains including maize, rice, wheat, sunflower, dairy, coffee, and other export crops through tripartite agreements with local companies, off-takers, and cooperatives. Through this model, the bank provides unsecured working capital of up to KES 5 million to primary producers and agri-SMEs. The bank also offers unsecured stock financing up to KES 10 million for cereals and high-growth export businesses. These tripartite agreements enable the bank to manage risk effectively while reinforcing supply chains for corporate agriculture clients.	FamilyBank With you, for life

Financial Product Adaptation: Repayment Schedules

STANDARD APPROACH: Banks use standard asset-backed loans with monthly payment schedules starting after the first month.

ADAPTED APPROACH	EXAMPLE	PARTNER
Lenders offer **seasonal loans** tailored to the SME's harvest and cash-flow cycle, including **grace periods** during initial months.	Since partnering with Aceli, I&M Bank (Kenya) launched the Kilimo Banking Initiative to expand agribusiness financing; this included restructuring product terms to align with agricultural income cycles, including a one-time bullet repayment at the end of the harvest cycle. These adjustments have been implemented without compromising portfolio quality: the bank reports a non-performing loan ratio that is significantly below the industry average for agri-lending.	I&M
Lenders adopt collateral models such as **warehouse receipts**.	Tanzania Commercial Bank (TCB) used Aceli's portfolio first-loss cover to shift its risk appetite and accept inventory as collateral through warehouse receipts financing in lieu of collateralizing loans with fixed assets (learn more here). Having never lent to cassava SMEs before, TCB made 9 loans under the warehouse receipt model in 2022. Over the following two years, it reached 41 additional cassava borrowers through this product. This progression demonstrates how a targeted pilot can catalyze broader market engagement.	Tanzania Commercial Bank
Lenders adopt **cash-flow lending** as the primary approach to loan approval.	NMB (Tanzania) uses a collateral-based evaluation in its first lending cycle to an agri-SME, then transitions into a blend of structured and cash-flow-based approaches based on the borrower's absorptive capacity during the consecutive cycles depending on the status of sub-sectors.	NMB Close to you
Lenders target lending products to **specific value chain actors**.	Equity Bank (Uganda) has introduced a loan product for grain trading that allows traders to access up to USD $1.4M unsecured, based on cash flows and stocks.	EQUITY

The Impact of Adapting Financial Products

When the risk-return profile of agricultural lending becomes commercially viable, lenders are more motivated to invest in the systems and staff needed to serve the sector strategically. As the examples above demonstrate, targeted incentives can prompt lenders to test practical changes — adjusting collateral policies, repayment structures, and approval processes — that make agri-SME lending more effective and more profitable for both lender and borrower. While regulatory constraints continue to shape how far banks can innovate around collateral in particular, these cases show that meaningful flexibility exists within current frameworks. Note: in parallel, Aceli and our partners — such as country-level Bankers Associations — have established policy working groups in each of the five countries where we operate to identify regulatory barriers and promote reforms.

Through these tailored products, lenders have not only improved and grown their portfolios but also uncovered high-impact spillover effects. Several institutions have reported increases in loans to women- and youth-owned businesses after introducing more flexible collateral requirements and tailored loan terms. This was not necessarily through intentional targeting, but rather a positive and unintended consequence of the product design changes themselves.

Further, as lenders respond to Aceli's incentives, which cover loans ranging from $10k-$1.5M, many also become more active in issuing agri-loans outside this range. For example, EFTA is now offering loans of $3k for smallholder farmers to access walking tractors, a change that the Managing Director attributes to Aceli's incentives. The Chief Relationship Officer of Opportunity Bank Uganda shared: "Origination incentives have allowed us to cover more geographic areas, look at cash flow rather than traditional collateral, and enter new value chains like vanilla."

As lenders gain confidence, accumulate performance data, and refine these approaches, they are fundamentally revising their perspective on the agricultural SME market. **Borrowers that were previously marginalized by standardized products are now viewed as compelling clients with a clear business case and potential to scale.**