Programme for Rural Outreach of Financial Innovations and Technologies (PROFIT)
SAFIN, OECD Africa
Case Study

1st October 2019, Nairobi

AGRA
Growing Africa's Agriculture

Outline

1. BACKGROUND

About AGRA

Putting the smallholder farmer at the center of the continent's **growing economy.**

OUR GOAL

To increase the incomes and improve food security for **30 Million*** farming households in **11 countries by 2021.**

*9 Million Directly & 21 Million indirectly

Our Inclusive Finance Approach

Components of a Functional Inclusive Finance System

NATIONAL GOVERNMENTS & THEIR FUNDERS

AGRA provides technical support and grants to:

- **Develop and deploy tailor made Blended Finance tools that include guarantees, Credit Lines, M grants , technical assistance & insurance elements.**
- **Improve policies and regulations for agricultural finance**

RISK SHARING FACILITIES

FINANCIAL SERVICES PROVIDERS (FSP)

AGRA provides grants and technical expertise to:

- Train and support FSP staff to design and deploy agricultural finance products that have reduced costs and risks
- Link FSPs to risk sharing opportunity offering by government and value chain actors

SMEs & FARMERS

AGRICULTURAL SMEs

AGRA provides grants and technical expertise to:

- Contribute to a rating ecosystem and common language on creditworthiness of agri-SMEs
- Contribute to a Business Development services (BDS) ecosystem for agri-SMEs to improve their finance-ability

SMALL SCALE FARMERS

AGRA provides grants and technical expertise to:

- Accelerate innovative business models for financial services provision to staple crop smallholder farmers
- Develop and deploy finance solutions to make farmers more resilient.

Rural economy in Kenya

- The rural economy in Kenya was/is mainly dependent on smallholder subsistence agriculture, accounting for:
  - over 75 % of total agricultural output and
  - 70 percent of marketed agricultural production. (The World Bank. 2008).

- An Agricultural Policy Review (APR WB 2008) showed that
  - agriculture-led growth in Kenya was more than twice as effective in reducing poverty, Vs to industry-led growth.

Rationale for AGRA's role in PROFIT

- ***Developing models and business case*** *that enable the use* development finance to leverage private commercial finance into agricultural transformation. E.g. d*evelop tools for Blended finance such as Risk Sharing facilities and Technical assistance to agricultural value chains*

- ***Developing Innovative ideas*** *for integration of SMEs and Smallholder farmers and* acceleration of transformation at farmers level.

- ***Support Government*** *to generate evidence for policy formulation and creating and enabling environment for private sector Investments in agriculture value chains.* Contribute to Blended finance debate at global arena.

PROFIT is aligned to AGRA's IF Strategy.

Working with Governments

Developing models

Developing Innovative ideas

2. Problem Statement/ Challenge

Financial landscape - Market assessment

- Assessment of Kenya's financial sector revealed the following:
  - vibrancy and rapid growth in the sector.
  - CB sub-sector had **high *liquidity but high risk perception to agri sector)*,**
  - MFI/DTM sub-sector ***(good outreach but Low liquidity - mismatch)***;
  - SACCO sub-sector ***(governance & lack of appropriate products)***

- Kenyan financial sector landscape in the context of agricultural finance – revealed a number of gaps:
  - unequal access (**lack of breadth**);
  - exclusion of the poor (**lack of depth**),
  - narrow range of services (**limited variety**),
  - products do not match demand **(poor quality)**,
  - non-optimal interest rates plus high transaction costs (**high cost**),
  - fragile institutional sustainability (**lack of permanence**)

Challenges to be addressed-PROFIT

- Major constraints to increasing efficiency/productivity in SHF -Enterprises in rural areas are:
  - **limited access to financial services** and
  - **technical assistance** for the SHF & SMEs to enhance productivity & market linkages.

  - The CB sector had considerable **High liquidity but its risk perception** of small-scale stakeholders in the agricultural and rural sectors was very high.

  - Deposit –Taking Microfinance institutions **(DTMs) High Outreach and Low Liquidity** & were still in their nascent stage and constrained in mobilizing deposits as a source of financing which they could commit to expanding their services into rural areas.

  - Most Microfinance Institutions (MFIs) and **DTMs also lacked value chain approach** to financing and were unable to address financial constraints along value chains.

3. PROFIT Blended Finance Solutions

PROFIT Interventions

De-risking the agricultural sector RSF & CL

BSS to both **demand & supply side**

Financial Graduation

PROFIT Blended finance Interventions

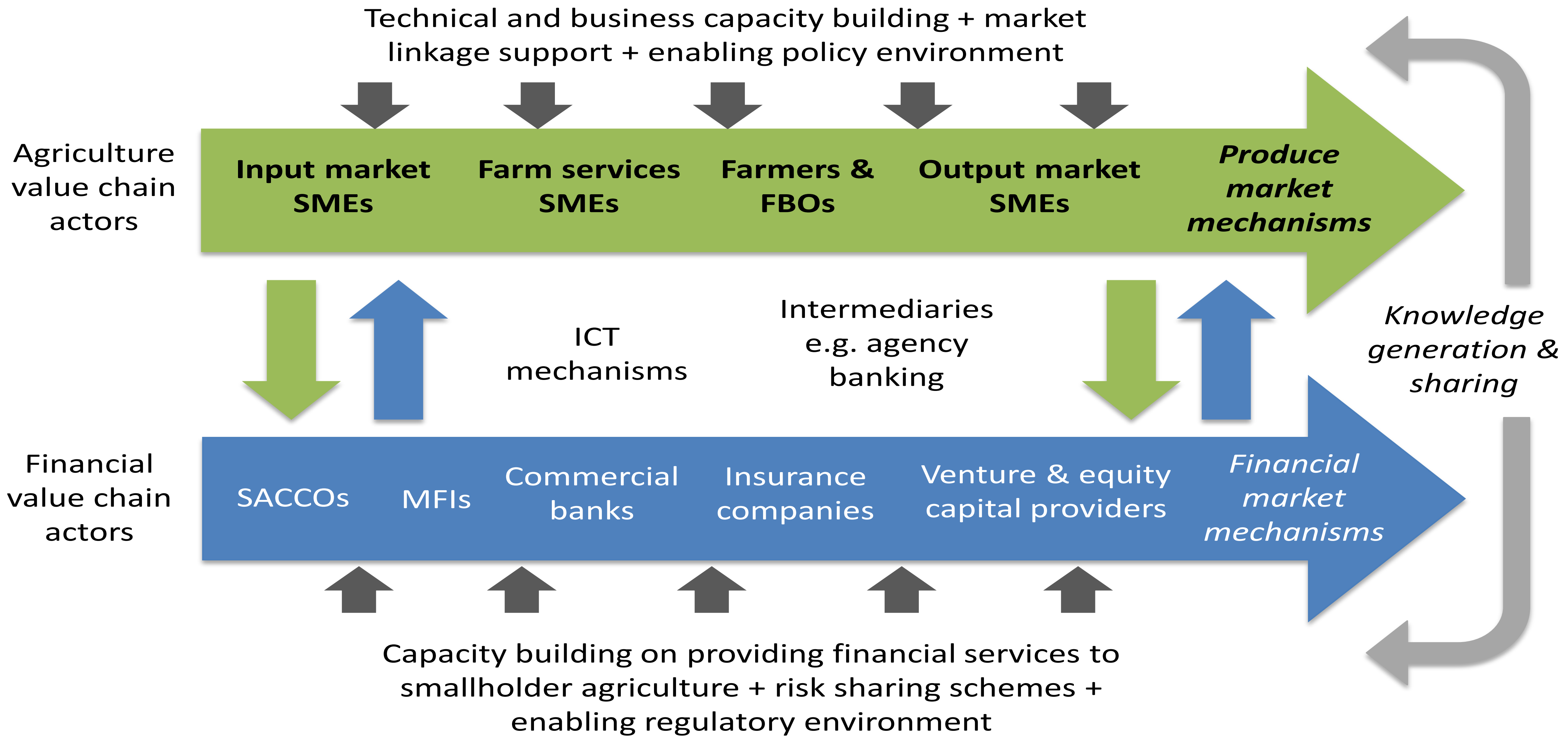
(1) **Rural Finance Outreach and Innovation** with its associated sub-components of

- *Risk Sharing Facility (Address risk perception)*
- *Credit Facility and; (Improve Liquidity)*

(2) **Technical Support Services** comprising of

- *Business Support Services and (Demand stimulation)*
- *Financial Product development (Supply support)*

Approach & Theory of Change for PROFIT

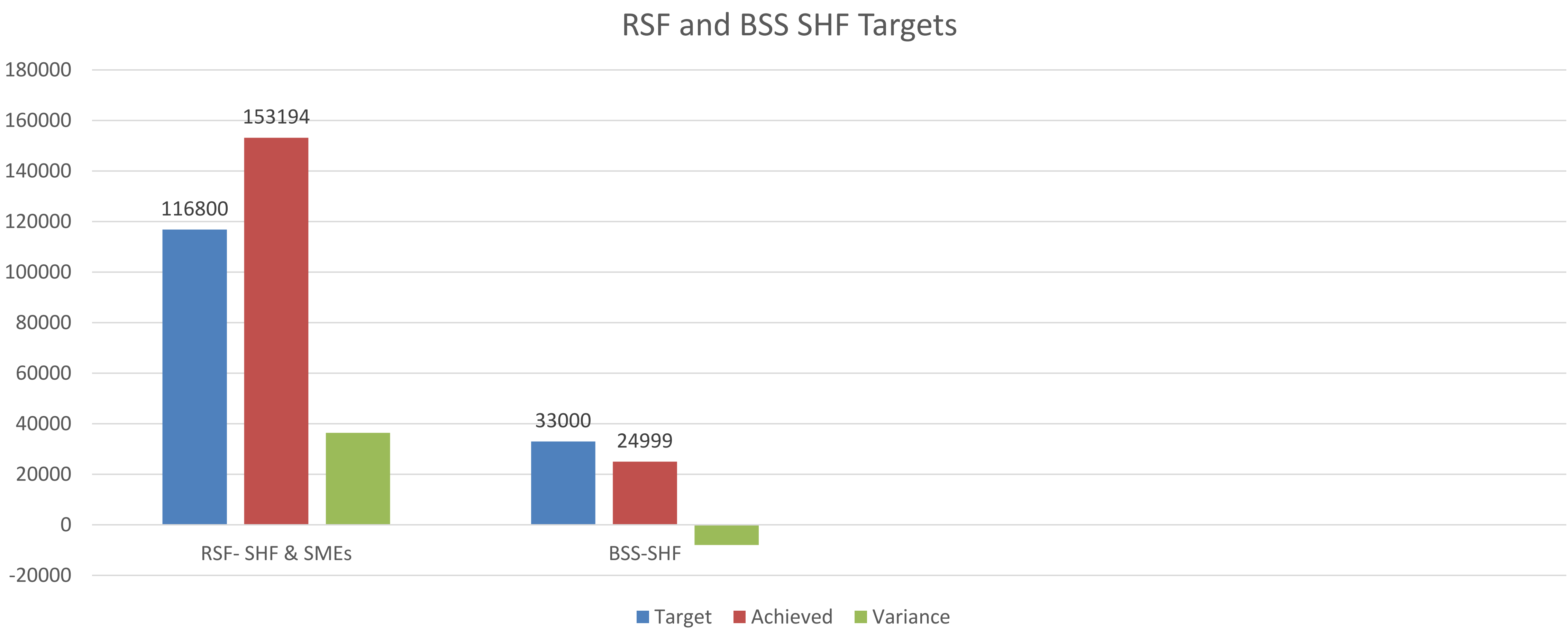


4. Achievements/ Outcomes

Implementation Progress – June 2019

		TARGET	ACHIEVEMENT	%	COMMENTS
RSF	No. of smallholder farmers reached	116,800	153,194	131%	• Capacity building for innovative products that reduce on risk • staff training on AVCF and • robust credit management system.
	Disbursements	41.4 million	32.86 million	79%	• This will continue to grow as the banks learn .
	Leverage ratio	6 times	4.75 times	79%	• The PFIs are working on deal pipelines and new solutions that will increase their portfolio.
BSS	Capacity building of farmers	33,000	24,999	74%	• TA for Cereals Value chain was not recruited due to Time constraints.
	SACCOs	50	45	90%	• 8 SACCOs did not undertake the all four modules of technical assistance.
	PFI	6	6	100%	• All the deliverables were done with the MFBs giving sign offs for the work done.
	SMEs	300	283	94%	• The performance for Eastern and Western regions was 150 and 133 SMEs respectively.

PROFIT Smallholder Farmers Targets



Progress on RSF June 2019

	AFC	BBK	TOTAL
Loan disbursements	$23.7 million	$9.15 million	**$32.86 million**
Number of borrowers	1,029	19	**1,048**
Beneficiary outreach	111,563	41,631	**153,194**
Leverage	6.4 times	2.9 times	**4.75 times**
Risk exposure	0.4 million	0	**0.4 million**
PAR	9%	0%	

RSF Portfolio per Value Chain- June 2019

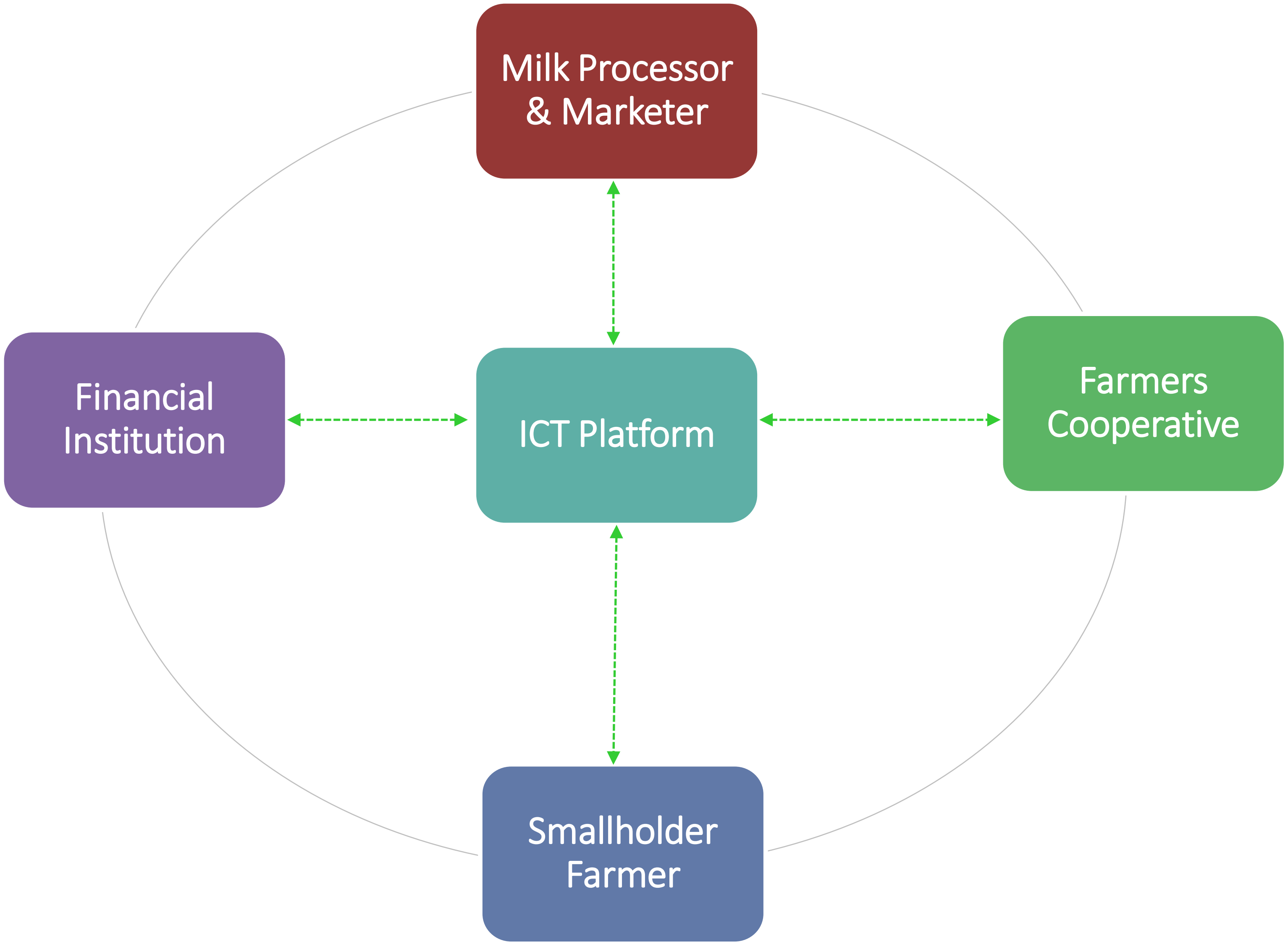
	AFC	BBK	Total	Portfolio size(%)	Beneficiary Outreach
	USD	USD	USD		
Mixed Value Chains	5,629,000		**5,629,000**	**17%**	**50,059**
Cereals	9,065,025	1,000,245	**10,065,270**	**31%**	**40,932**
Dairy	2,285,369	1,700,000	**3,985,369**	**12%**	**16,175**
Horticulture	794,530	6,387,000	**7,181,530**	**22%**	**29,011**
Livestock	5,929,838	71,750	**6,001,588**	**18%**	**17,017**
Grand Total	**23,703,762**	**9,158,995**	**32,862,757**	**100%**	**153,194**

5. Models and Outcomes

The lending Models Developed (PROFIT)

- The anchor Borrower model (BBK)
- The wholesale lending model (AFC)
- The Integrated model (Banks/MFIs/SACCOs)

The Anchor Models



The Wholesale Models- AFC

Financial Institution

1.Extends wholesale credit to SACCOs and MFIs.

2.Reduces on the transaction cost of lending to smallholders

3.Risk mitigation as the risk is passed onto the SACCO/MFI

4. Reduced hard collateral requirement

SACCO/MFI

1.On lends the money to agricultural value chain actors.

2.Improved liquidity

3.Build loyalty from the members

SMEs & Farmers

1.Are able to access loans from the SACCO/MFI based on their needs.

2.No need for hard collateral as social collateral applies.

3.Ease of access to credit since they trust the SACCOs more than commercial banks

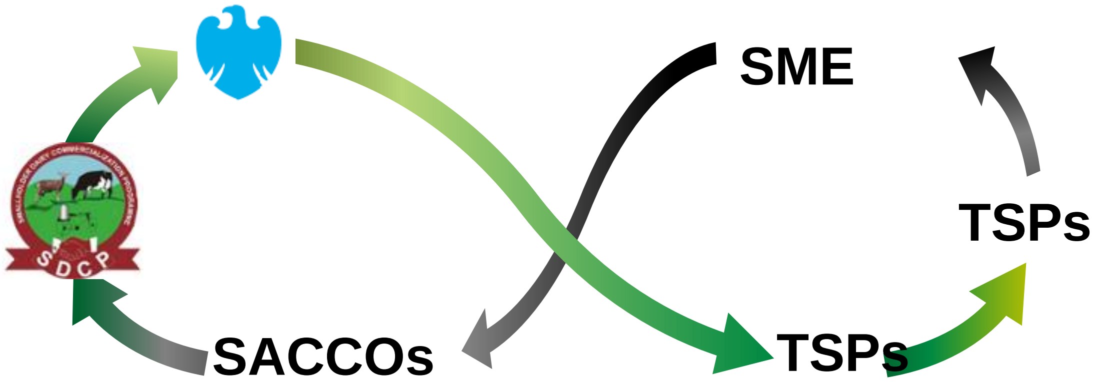
4. Can save in MFI/SACCO

The integrated Models with collaborations-CB/SACCO/SME

BANK: Value chain financing of working capital to Processors

PROCESSOR: Buying from farmers and providing services in partnership with other stakeholders

IFAD-SDCP: Farmer training in production practices and group dynamics including financial literacy



TSP: Technical assistance to Bank to develop agriculture finance products

SACCOs: On boarding of a SACCO to provide payment solution to members and also financial services

TSP: Training SME processors in developing sustainable inclusive business models

6. SELECT IMPACT STORIES

Case 1: Agricultural Finance Corporation

- **Supported to refine the anchor model and system development:** FITNES and integrating with Bakers realm
- **Developed alternative delivery channels** – Wholesale financing to SACCOs and MFIs for greater outreach
- **Use of alternative collateral** from SACCOs and MFIs – has also influenced lending to SHFs
- **Improved portfolio quality** – PAR 30 days <20%, Default rate <9%
- **New Products:** affirmative products targeting the women and youth e.g. WAAW product and Enable Youth programme

Case 1: Agricultural finance Corporation (AFC)

Before PROFIT

- Struggled with reaching smallholder farmers profitably using its traditional collateral-based lending,
- Faced by very high NPLs (PAR 30 days as high as 60%) – also frequent write-offs by the Govt.
- Products that are not aligned to the Institution mission nor demand

After PROFIT

- PROFIT has been of assistance in the AFC transformation both in system development, staff training and development of alternative delivery channels for outreach.

Select Impact Stories
Case 4: Tower SACCO & Mwendi Kurima Farmers Coop

- Tower SACCO (initially Nyandarua Teachers SACCO) was registered in 1976 and has a current membership of 90,000 total asset base of KES. 9 billion and loan book of KES. 7.5 billion.
- With the support of PROFIT, the SACCO has transformed its lending to the agriculture sector through farmers friendly financial products.

- Through a partnership with LDA, 1,500 farmers from Mwendi Kurima Farmers Coop have been trained in and linked to the SACCO for financing

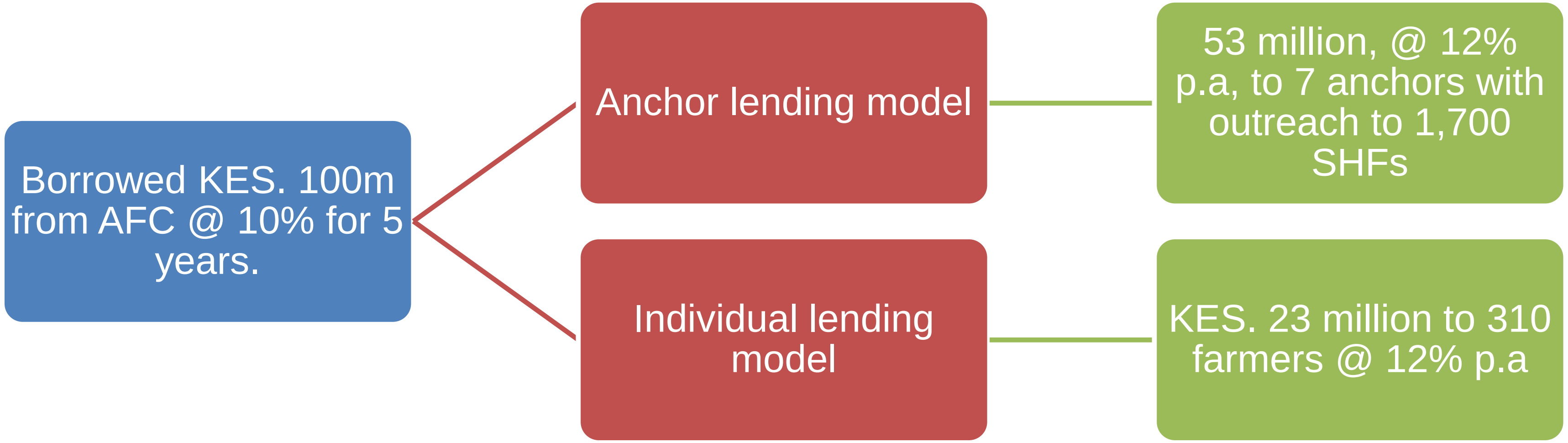
- Potato farmers have been linked to Sereni Fries (accessing credit from BBK) and Tropical heat, who have signed a contract to purchase potatoes at KES. 30 and KES.40 per Kilogram, depending on the potato variety.

- Some of the problems the farmers had included; access to finance, certified seeds, farm inputs and organized markets.

- In addition to input credit the SACCO has partnered with input suppliers where the farmers can access seeds, fertilizers etc. which is recovered from the sales of ready produce.

Select Impact Stories
Case 2: CRAW Model -Universal Traders SACCO

- The SACCO previously experienced challenges in lending to SHFs due to their small land holding, lack of tangible collateral and poor record keeping
- With the PROFIT capacity interventions and loan from AFC, the SACCO has increased its lending portfolio to the target value chains
- The SACCO has increased its risk appetite for lending to the PROFIT value chains by using unique AVCF products and Risk Management Framework
- The loan from AFC has boosted the SACCO’s liquidity and enabled them to de-risk lending to SHFs by using innovative products and offering technical services to the borrowers.



7. Challenges &Lessons Learned

Challenges

- In agricultural lending access to accurate, timely and relevant data is key to making lending decisions. This is currently lacking in the industry.
- CB only understand structured value chains where they can see end to end cash flow.
- Need for Robust M&E and Information Management system that can capture information from private sector players up to the SHF level. Anchor player does not keep records of impact.
- Collaboration between government and private sector can be challenging (process Vs Results)

AFC Quotes

“Development of bankers realm and parametrization at the product level has enabled the automation of credit delivery and reduced the turn around time for AFC. It has also enabled technology to provide more on the platform to enable the approval processes to move faster”

“The FITNES-MIS is robust with GIS maps, KYC and photos. This has reduced the use of Wells Fargo who used to move the documentation up and down to head office and field and regional offices. This cost AFC KES88 million” Thanks to support of PROFIT

Echoka, Meso, Omugaka, AFC

Lessons Learned

- **BSS** is key in structuring the value chains and reduce risks for FI to lend.

- **Credit guarantees** are useful in improving risk appetite of commercial bank for agricultural sector, in well structured value chains.

- **Capacity** needs for SMEs and SHFs vary which strengthens the need for collaboration between productivity enhancement programmes and financial investments.

- **Evidence** based policy influence is best placed to achieve results for transformation.

- **Replication** *AGRA* is facilitating replication of success in Ghana- GIRSAL, Rwanda and potentially Ethiopia

8. WAY FORWARD

Way Forward

- PROFIT has demonstrated a proof of concept: new opportunities have arisen as:
  - agricultural insurance packages,
  - Need for use of technology that would spur more lending to agriculture;

- Scale Up of concept: There is need to make the proof of concept fully sustainable and scale it up to include more financial institutions.

- Moving forward the challenge is to continue to support the development of financial systems that provide sustainable access to financial services for the large numbers of smallholder farmers

- RSF: In the interim period there is need for RSF, AGRA and NT are discussing MoU for continued support. Long term solutions are being discussed with NT

Way Forward

- Policy environment: creating a conducive environment for FSPs to develop and offer appropriate financial products for agricultural and rural clients.
- There is need for the CBK to make a prudential requirement to the FSPs to increase lending to the agriculture sector

- M&E: There is need to incorporate a systematic M&E technical service provider to provide the third eye in the implementation and reporting in a programme like PROFIT.

- Innovation in agriculture lending to build on the lessons from PROFIT to develop innovative products.

Thank You