Programme for Rural Outreach of Financial Innovations and Technologies (PROFIT) SAFIN, OECD Africa Case Study
1st October 2019, Nairobi
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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
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.

Components of a Functional Inclusive Finance System

Our Inclusive Finance Approach

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.

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

• 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 of development finance to leverage private commercial finance into agricultural transformation. E.g. develop 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

Technical and business capacity building + market linkage support + enabling policy environment

Agriculture value chain actors

Input market SMEs
Farm services SMEs
Farmers & FBOs
Output market SMEs

Produce market mechanisms

ICT mechanisms
Intermediaries e.g. agency banking

Financial value chain actors

SACCOs
MFIs
Commercial banks
Insurance companies
Venture & equity capital providers

Financial market mechanisms

Capacity building on providing financial services to smallholder agriculture + risk sharing schemes + enabling regulatory environment

Knowledge generation & sharing
4. Achievements/ Outcomes
### Implementation Progress – June 2019

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

RSF and BSS SHF Targets

- RSF-SHF & SMEs: Target 116800, Achieved 153194, Variance -20000
- BSS-SHF: Target 33000, Achieved 24999, Variance -8001
Progress on RSF June 2019

<table>
<thead>
<tr>
<th></th>
<th>AFC</th>
<th>BBK</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan disbursements</td>
<td>$23.7 million</td>
<td>$9.15 million</td>
<td>$32.86 million</td>
</tr>
<tr>
<td>Number of borrowers</td>
<td>1,029</td>
<td>19</td>
<td>1,048</td>
</tr>
<tr>
<td>Beneficiary outreach</td>
<td>111,563</td>
<td>41,631</td>
<td>153,194</td>
</tr>
<tr>
<td>Leverage</td>
<td>6.4 times</td>
<td>2.9 times</td>
<td>4.75 times</td>
</tr>
<tr>
<td>Risk exposure</td>
<td>0.4 million</td>
<td>0</td>
<td>0.4 million</td>
</tr>
<tr>
<td>PAR</td>
<td>9%</td>
<td>0%</td>
<td></td>
</tr>
</tbody>
</table>
### RSF Portfolio per Value Chain - June 2019

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

- Milk Processor & Marketer
- ICT Platform
- Financial Institution
- Smallholder Farmer
- Farmers Cooperative
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 - C B/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

**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

**SME**

**TSPs**

**TSP:** Technical assistance to Bank to develop agriculture finance products
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.

Borrowed KES. 100m from AFC @ 10% for 5 years.

Anchor lending model
53 million, @ 12% p.a, to 7 anchors with outreach to 1,700 SHFs

Individual lending model
KES. 23 million to 310 farmers @ 12% p.a
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)
“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