



FEED ^{THE} FUTURE

The U.S. Government's Global Hunger & Food Security Initiative

FEED THE FUTURE KENYA CROPS AND DAIRY MARKET SYSTEMS ACTIVITY

IMPROVING ACCESS TO FINANCE FOR AGRICULTURE MARKET SYSTEMS IN RESOURCE POOR ENVIRONMENTS: LEARNINGS FROM KCDMS

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I. Introduction

Access to and application of financial capital is a central driver to inclusive value chain strengthening and improved agricultural market systems. At the primary level, smallholders need to purchase quality inputs, adopt new practices or technologies, scale their production, harvest, and store safely. Off-farm market actors need increased and efficient capacities for processing, trading and diversifying product base and expanding their share of the markets. All these activities require input credit and insurance services, working capital, asset acquisition and other capital investments, which present significant financing opportunities for the financial services sector.

However, according to ISF¹, only 25% of the annual demand for credit by smallholders and agribusinesses in Sub-Saharan Africa is met. This is because access to finance and associated costs present pressing challenges - the cost of credit being the most significant driver of funding constraints. The Development countries traditionally, have had information imbalance between borrowers and financiers, collateral requirements, cost of finance including interest and other fees, and capacity of actors feature as the most significant constraints to finance access in developing economies. This is compounded by climate and market-related risks. The incidence of these limitations is much more on the smallholders who feed the value chain with the critical trade produce. On the other hand, providers of capital are constrained by the risks and costs associated with serving smallholders and small and medium agribusinesses (to identify, assess, and complete financing transactions) as they are highly fragmented, widely dispersed and many times financially illiterate or without adequate information or the required documentation. A balance of these conflicting positions on the capital supply and demand sides has often been elusive, but consistency in effort has yielded tremendous progress following multi-stakeholder (Governments, Development organizations like Financial Sector Deepening - FSD Kenya and Foundations, central bank) interventions over time.

The Feed the Future Kenya Crops and Dairy Market Systems Activity (Kenya Crops and Dairy) is a five-year (Oct 2017– November 2022) Activity of the USAID-funded Feed the Future initiative implemented by RTI International. The Activity is aimed at improving productivity and development of competitive, resilient, and sustainable dairy and horticulture market systems in selected counties in Eastern and Western regions of Kenya. This was to be achieved by facilitating the private-sector market driven partnerships and investments that assure development of promising value chains through increased productivity, quality improvements and greater supply chain efficiency. Financing was identified as a key factor in the intensification and diversification of agricultural value chains. For this reason, Kenya Crops and Dairy implemented several approaches to increase access to finance among agro-enterprises and small-holders.

2. Kenya Crops and Dairy Access to Finance Interventions: Plan and Strategic Thrust

Kenya Crops and Dairy finance interventions were double-edged, targeting: i) the stimulation of supply and demand, and ii) de-risking demand side. Specifically, Kenya Crops and Dairy adopted the following approaches to enhance the success and sustainability of the interventions.

- a) Supply augmentation: Facilitated strengthening of the capacity of capital providers' (being principal market actors), their value proposition for, and addressing risk factors in agribusiness finance. This enabled scale in breadth and depth of credit providers to meet demand and address the constraints that limit the expansion of capital supply in agriculture and related supply chains.

¹ Institute of SmallHolder Finance

- b) Demand stimulation: Activated demand, largely driven by a value-based market ecosystem that enabled information flow, incentives to seek capital derived from increased borrower confidence at production and markets levels² coupled with reliable linkages to the financial sector.

The Kenya Crops and Dairy theory of change targeted farmers and off-farm enterprises (market actors) with interventions aimed at multiple market system changes, leading to increased household and business incomes from agriculture investment activities at impact level. The strategic objectives of Kenya Crops and Dairy' plan under access to finance were mainly to facilitate farm level and off-farm micro, small and medium enterprises (MSMEs), and large enterprises to access affordable capital from credit providers and other sources to increase agribusiness investments. Secondly, to facilitate credit providers to scale supply and reach an expanded range of agribusinesses through business model and technology innovations, impactful products, and enhanced technical capacity. The program targeted to reach 65,710 enterprises and facilitate ██████████ through debt to smallholders and firms and catalyze additional ██████████ investment from SMEs and large firms in cost-share contributions. To do this, the market systems changes sought by the Activity included the following:

- a) Increased number of financiers and intensity of agriculture finance in the Kenya Crops and Dairy ZOI
- b) Enhanced diversity and suitability of credit products for agriculture
- c) Increased number of de-risked ventures and agribusinesses investing their operations to scale enabling smallholders to access diverse financial products, and
- d) Increased financial knowledge among market actors.

3. Achievements

Kenya Crops and Dairy leveraged market systems pathways and financial inclusion tools to build an ecosystem of agriculture finance partnerships, build capacity and de-risk market actors, and strengthen value chain relationships through chain-wide relationships. In addition, Kenya Crops and Dairy anchored informal finance channels such as Village Savings and Loans Associations (VSLAs) as avenues to extend micro-credit to youth and women-owned MSMEs, agricultural insurance to reduce climate-related risks for farmers and financial institutions, and ICT to drive the rapid expansion and modernization of financial services throughout Kenya. Kenya Crops and Dairy undertook the following initiatives:

- a. *Co-invested with financial institutions to develop and scale physical infrastructure and IT systems for agriculture finance:* provided co-investment grants to FSPs to deepen and expand their geographical and client outreach to rural and agriculture segments.
- b. *Supported development of technical capacity to Finance Institutions for agricultural lending:* Delivered technical assistance (TA) to financial institutions through local business development service (BDS) providers and staff capacity development to serve agriculture finance segments.
- c. *Brokered high value finance and private capital through a blended finance approach:* Catalyzed and unlocked private capital by leveraging co-investment grants to de-risk entrepreneur equity and external funding, enabling increased investments.
- d. *Originated pipelines that linked finance demand and supply:* Leveraged financing partnerships through direct linkages, business-to-business (B2B) forums, and finance clinics, to enable access to SME and corporate credit and financial instruments.

² The likelihood of a market actor to borrow is determined by the possibility of conversion of products to cash through markets

- e. *Promoted finance ecosystem pathways:* Kenya Crops and Dairy made investments in value chain partnerships and coordination, anchor approach³, ICT adoption that spotlights finance flows and application of financial instruments while mainstreaming women and youth.

Out of these initiatives, Kenya Crops and Dairy facilitated ██████ of agriculture credit access to 49,938 farmers and enterprises (91 percent farmers, 9 percent SMEs) working in partnership with 29 financial service providers during the life of the project.

3.1 Co-invested with financial institutions to develop and scale infrastructure and systems for agriculture finance

In line with the market systems changes (a) and (b) sought in 2 above, Kenya Crops and Dairy made finance supply-driven co-investments of ██████, with 6⁴ financial service providers (FSPs) based on their willingness and appetite for agribusiness deals and alignment to proposed investments. This was for the purpose of a) strengthening their capacity to serve the agribusiness finance segment, b) expanding their geographical and client outreach and intensification of agribusiness finance within the Kenya Crops and Dairy ZOI (featuring dimensions such as new outlets, acquisition of technology, marketing/outreach activity), and c), tailoring agricultural financing packages and process improvements for serving smallholders in horticulture and dairy value chains. Some of the traction results from these investments are stated in Box I below.

Box I

- i) Kenya Crops and Dairy and Bimas Kenya MFI made essential co-investments enabling the MFI to increase its agriculture portfolio size by 15% and enhance its portfolio management and business development capabilities. The interventions included geographic expansion, business model transformation, capacity building for staff and clients, technology investments to enhance money business and loan processing, and marketing. The MFI launched two new outlets in new geographies, Kitui and Taita Taveta Counties in 2019. The two new branches are experiencing continued growth with 80% of the portfolio consisting of products targeting agribusinesses, youth, and women. With this success, Bimas extended its footprint in Taita Taveta County by opening a second own-funded branch in Taveta Town in July 2021 and obtained a loan facility of ██████ from Kiva to finance its agriculture portfolio.
- ii) Musoni Microfinance expanded its rural brick and mortar outreach with two new locations in Kakamega and Kitui Counties. The MFI also relocated its Migori outlet to a more accessible location in partnership with Kenya Crops and Dairy. Musoni's focus is on farmers and rural traders and the three branches were critical outlets for distribution of its "*kilimo booster*"⁵ agricultural loan product. To affirm this, Musoni's Chief Operating Officer noted that "Our business is growing exponentially in these new branches at 30-40% rates of growth in clients and loan portfolio parameters." The co-investment program integrated *kilimo booster* market promotion and client training in Kakamega, Kitui, Migori, Kisumu, Kisii and Makueni Counties, business model enhancement through upgrades in digital client onboarding and credit scoring, staff capacity building and completion of installation of Bank DMS technology. This has enabled online and efficient approval of loans and services to clients with Musoni availing ██████ in credit to 6,902 agri-businesses.

³ Credit based on the strength of a value chain nexus/actor such as an offtaker/buyer or agrodealer

⁴ Bimas Kenya MFI, Faulu MFB, KUSCCO, Cherehani Africa, Myfugo, and Musoni Microfinance

⁵ Kilimo booster loan is a data and value chain driven agriculture finance product by Musoni Microfinance, whose purpose is to boost capital investments by farmers and off-farm agri-enterprise

- iii) Cherehani Microfinance, with a strong rural digital finance and financial literacy model targeting women and youth, partnered with Kenya Crops and Dairy to upgrade its digital platform, open new marketing outlets in Kakamega and Homabay Counties, and boost its staff capacity. The co-investments enabled the institution to reach and service more clients in the dairy and horticulture value chains. By the end of the period of performance, Cherehani had mobilized 2,836 new clients and had extended ██████ worth of loans. The firm also obtained a ██████ loan facility from a debt investor to capitalize the expansion of its operations. The loan was advanced on the strength of the need for loan liquidity to serve the new markets.
- iv) To revitalize agriculture finance at Faulu Kenya Microfinance Bank, Kenya Crops and Dairy made co-investments to strengthen the agribusiness finance and risk staff capacity, establish agriculture finance hubs, client training, and market outreach. The bank established 14 agri-hubs in 10 branches, hired seven staff dedicated to agribusiness finance, and developed a training curriculum for clients/farmers to enhance their financial education. Following the clear segmentation of agri-based financing from other credit products, the bank has built a ██████ agriculture portfolio from the ground up. In 2022, and out of the 6 supported MFIs, Faulu contributed the highest percentage (55%) of value of agriculture-related financing as a result of USG assistance facilitated through Kenya Crops and Dairy.

3.2 Supported the development of technical capacity for agricultural lending

To strengthen the capacity of financial institutions (supply side) to serve the small and medium agribusiness sector, Kenya Crops and Dairy provided TA to FSPs through BDS providers and human capital skills enhancement. The assistance addressed dimensions such as staff capacity (to originate, assess and grant credit), strategy, products, process and efficiency improvements, and governance. The TA enabled financial institutions to widen and deepen their agri-related financing. As shown in the examples in Box 2, this assistance was two-fold: First, in collaboration with Strathmore Business School Kenya Crops and Dairy supported the delivery of a comprehensive training on *Financing Agribusiness Value Chains* to 80 staff drawn from 14 institutions across banking, SACCO, and microfinance bands and secondly, rolled out a Kenya Crops and Dairy and Finance Institution cost-shared BDS initiative, through financial service consultants, to 11 financial institutions in development of strategies (and more in the context of global shocks the institutions and farmer/businesses were going through), develop new agricultural financial products, and mainstream climate change considerations in their product portfolios. The interventions here had impact on intensification of agriculture finance, suitability of strategies and products, and increased the knowledge base for agricultural credit in financial institutions.

Box 2

- i) In 2021, Kenya Crops and Dairy collaborated with Strathmore Business School to facilitate training of 80 staff from 14 financial institutions on *Financing Agribusiness Value Chains*. The core of the training included opportunity identification, strategy, business modelling, developing business cases, and risk analysis and mitigation. As a result of the training, positive traction was observed in form of strategic and operational orientation towards agribusiness lending in at least 50% of the institutions. An example of this is participation of the staff in review of agribusiness strategies and products, and to identify bottlenecks in agri-financing at their institutions. In addition, this training significantly enabled better understanding of the Kenya Crops and Dairy' intentions and approach by the financial institutions and their appetite for providing finance to grant partners and their linked farmers.

- ii) Yehu Microfinance developed an agribusiness strategy, re-engineered and piloted eight agriculture credit products for dairy, poultry, horticulture, and agriculture assets. This has enabled the MFI to have a differentiated approach to agri-lending and a distinct agri-portfolio. Following the pilot and roll-out, Yehu disbursed ██████████ to 453 smallholder farmers and agribusinesses. The MFI projects to grow its agribusiness portfolio by 10% to 25% by 2025. Besides this, the TA enabled Yehu to carry out a feasibility study for a new branch location, informing a decision for the institution to set up a Taveta town branch.
- iii) Through the TA, ECLOF MFI scaled its dairy finance approach that is climate-smart-investment driven. To implement this financing model, the MFI instituted partnerships with dairy cooperatives such as Kaptama in Bungoma County to extend finance to dairy farmers. ██████████ had been disbursed to 62 dairy farmers through this approach to fund climate smart investments such as biogas installations, water solution, animal structures and breed improvement. The MFI is establishing other partnerships in this trajectory.

3.3 Brokered high value finance and private capital through the blended finance pathway

Kenya Crops and Dairy leveraged de-risking through its co-investment grants to catalyze and unlock high value capital for growth-oriented enterprises. The objective was to increase the pool of investment funds by blending grant funds with commercial capital to mobilize working capital for increased operations and other relevant investments. Kenya Crops and Dairy maintained a pipeline of finance deals closed with various financiers (banks, DFIs, Non-Bank investors) side by side with the matching grant. Kenya Crops and Dairy co-invested ██████████ in grant funds to buy down risk for external funders and owner equity investment therefore catalyzing private capital mobilization. Through financing collaborations with nine out of the 29 partnering financiers, 22 private sector partners accessed agricultural credit through blended financing mechanism. Some of the outstanding cases are presented in Box 3.

Box 3

- i) Through a financing arrangement with Agricultural Finance Corporation (AFC), seven SMEs accessed ██████████ in the form of debt matched with ██████████ from Kenya Crops and Dairy' grant fund. Through this arrangement, the debt was unlocked for capital expenditure and working capital needs of the enterprises through a de-risking mechanism for selected budget items. Grant funds were applied across other critical business development aspects. The enterprises benefiting from this arrangement included those in poultry production and processing, input suppliers, dairy enterprises, fodder enterprises, avocado and mango processors.
- ii) Biofarms Ltd., a leading horticultural export firm, partnered with Kenya Crops and Dairy in raising blended funding to install and operationalize a modern avocado packing line. Round one grant funding of ██████████ unlocked a ██████████ financing facility from Rabo Foundation and a ██████████ loan facility from Equity Bank. Following successful implementation of the first round of Kenya Crops and Dairy funding, a second-round grant of ██████████ was blended with a ██████████ from Equity Bank for acquisition of avocado oil processing equipment.

- iii) Through partnership with Kenya Crops and Dairy, Chicken Basket Ltd., a poultry VC enterprise, secured a [REDACTED] credit and equity investment facility from Heifer Shared Impact, heavily de-risked by the co-investment. This enabled the enterprise to invest in supply chain infrastructure, liquidity, and value chain supply.
- iv) On the strength of operational expansion, roll-out of innovations and co-investment with Kenya Crops and Dairy ([REDACTED]), MyFugo Microfinance raised a total of [REDACTED] from two impact investors to finance its loan fund.
- v) Some enterprises such as Obwombe Enterprise (poultry production and marketing), Nyarkadera (input supplier), Avepo Agrovet (input supplier) and Eden Dairy (dairy processor) were able to access a subsequent round of financing without matching grants in collaboration with USAID/KIM. Additionally, enterprises such as Goshen, MyFugo, iProcure, Musoni Microfinance sought commercial capital for additional investments through KIM in their graduated phase.

3.4 Originated pipelines that linked finance demand and supply

Kenya Crops and Dairy established and maintained direct and non-direct (collaborative) relationships with agriculturally aggressive FSPs with the objective of directing demand. While the blended approach was suitable for direct (grant co-investments) collaborations, the Activity facilitated demand driven financial linkages for non-direct partners, and direct partners in need of additional credit for various uses. On the strength of market activities and programs implemented with the Activity, government, and other private sector actors, the partnerships with FSPs were leveraged to raise capital. Through direct linkages, Business to Business Forums (B2Bs) and finance clinics, Kenya Crops and Dairy leveraged the partnerships to originate and facilitate finance. Besides SME financing, Kenya Crops and Dairy stepped up brokerage for small enterprises and aggregated farmers to ease financial institution plug-ins in its ZOI. These collaborations with select FSPs contributed significantly to [REDACTED] mobilized by the Activity to farmers and SMEs (being 9% of beneficiaries).

- i) Finance Clinics - Kenya Crops and Dairy organized 13 finance clinics in Business to Business (B2B) and Business to Customer (B2C) formats aiming at brokering finance. The Activity carefully selected businesses, organized farmer groups and fit-for purpose bench of financial service providers. The purpose of the financial clinics was 3-fold: to increase financial knowledge of market actors; to build financiers' understanding of agri-enterprises, and to establish beneficial relations between the demand and supply side including financial closures.
- ii) Direct introductions and linkages - Based on collaborative relationships, Kenya Crops and Dairy made select introductions of private businesses and farmer groups to financial institutions and provided information on collaborative market activities and investments. By the introductions and information, the FSPs could assess credit profiles and make informed lending decisions. For example, Magos Enterprises, a Kenya Crops and Dairy grant partner in inputs supplies and based in Kisumu, accessed [REDACTED] credit from KCB for working capital. Kenya Crops and Dairy activities with cooperatives, traders, processors and exporters presented favorable financing cases and the Activity undertook extensive efforts bringing together over 4,000 businesses to expose them to the available financing opportunities.

- iii) VSLA Development Activity - FSPs such as Musoni MFI, Bimas Kenya, Vision Fund and KCB Mobigrow program leveraged Kenya Crops and Dairy' VSLA capacity building to provide additional capital to the groups and finance assets. These FSPs and the groups are transitioning or seeking a blend of informal to formal financing. VSLAs mobilized [REDACTED] and extended about [REDACTED] in credit to their members.

3.5 Promoted Finance Ecosystem Pathways

Kenya Crops and Dairy made investments in Value Chain (VC) partnerships and coordination with the systemic objective of promoting a viable/reliable financial marketplace. The harnessed relationships involving smallholder consumers, businesses, investors, and FSPs enabled data visibility, flow of payments, structuring of demand and financing. Coupled with an anchor (targeted buyers, agro-dealers, and service providers) approach, predetermined flow of finance and application of financial instruments while mainstreaming women and youth, financing pathways opened up. Since agriculture finance thrives well in organized, coordinated, and structured value chains, Kenya Crops and Dairy focused on investments and capacity building initiatives that enable actors to sufficiently play their part in enabling financing, such as business capacity, value chain coordination and adoption of ICT.

- i) Facilitating win-win relationships between market actors - Kenya Crops and Dairy facilitated structuring of partnerships between financial institutions and organized farmer groups. Such is the case between MyFugo MFI and three cooperatives (Siaya, Vihiga and Sirikwa) where the latter accessed in-kind credit for dairy animal acquisition. Cherehani Africa was assisted to engage and commence business relationships with sweet potato producers and dairy groups in Bungoma County. Agro dealers such as Nyarkadera (Migori) and Magos (Kisumu) rolled out agro-input network models powered by technology to embed robust agro-dealer in kind lending to farmers in form of quality inputs.
- ii) Tripartite arrangements and scheme financing - Kenya Crops and Dairy facilitated anchor-based finance schemes leveraging product off takers. Tripartite lending arrangements enable finance through actors hedging performance risks and building trust. For example, Bimas Microfinance and Makueni Fruit Processors Cooperative partnered to finance integrated pest management (IPM) technologies in Makueni County following the launch of the FFFZ⁶ campaign. Nzamka Farmers' Cooperative, Burton and Bamber (B&B) Ltd, and Musoni Kitui entered into a tripartite agreement whereby farmers from the cooperative could access finance from Musoni for sweet potato and mango value chain investment with B&B as the off taker.
- iii) Collective marketing structures and co-ordination with targeted buyers, agro-dealers and agricultural value chain service providers enabled the completion of potential financing loops that in turn enabled FSPs to tap into value chains with financial products. This enabled demand aggregation of farmer groups, service providers (in-direct actors), and rural savings and loans groups to present viable financing opportunities to financial institutions.
- iv) ICT adoption by businesses, a benefit for them and farmers they serve. An example in this is Tangakona that fully adopted the use of Eprod solutions, which the firm integrated with QuickBooks for detailed financial reporting. The company uses Eprod to provide information

⁶ Fruit Fly Free Zone Campaign

and generate sales and payment reports to farmers. A total of 500 active farmers are enrolled in the system enabling the company to have a 360-degree view of its farmer profiles and raise interest for credit from Equity Bank.

- v) Kenya Crops and Dairy focused on strengthening VSLAs' organizational and financial capacities to enable their transition into formal finance. This enabled women and youth to save and access formal credit, in addition to their pool of funds, to make agriculture related investments.

4. Key Challenges Negatively Affecting Project Results

Several challenges were encountered in the enhancement of access to finance for agriculture market systems which include the following:

- i) The onset of COVID-19 heavily disrupted business operations, markets, and business cashflows for almost two years. This impacted cash flows, the confidence of business owners and financiers' appetite. FSPs slowed down new loans disbursements and expansion plans. For instance, an MFI that had planned to open five new branches scaled down to two. Another microfinance company whose co-investment grant had been approved withdrew from a project whose thrust was expansion in Western Kenya. To accommodate this and related unprecedented changes, Kenya Crops and Dairy and partners renegotiated and redirected investments to other viable areas such as technology improvements to adapt and align new business conditions. The global impact of COVID-19 on logistics and consumption impacted export sales and importation of equipment purchased abroad for partners leading to higher costs and delays and affecting cashflows respectively.
- ii) Impact of climate change and other shocks on agriculture: Kenya's Eastern region has for the last three years experienced erratic rainfall patterns, and this has resulted in reduction of agricultural productivity. The occurrence of natural risks such as army worms, torrential flooding in the Western Region, and the locust invasions elevated the risk profile of on-farm and off-farm enterprises. Notwithstanding, most FSPs opted to lend to non-agricultural sectors, effectively starving farmers and the agriculture MSMEs of the capital needed for agribusiness investments.
- iii) Due to varying approval processes, aligning and sequencing disbursements from financiers and grant funds in the blended arrangements was challenging. The availability of loan funds before grant funds and/or long periods there-between and vice versa meant that some investments were delayed, leading to a loss of a season or sales, impacting cashflows.
- iv) Kenya Crops and Dairy anticipated to promote micro-leasing and lease financing as a credit product especially in the processing space. Leasing frees up working capital that would otherwise be held up in capital investment, enabling the business to generate sales. This, however, did not take off at scale due to limited options for the products and low demand attributable to low product knowledge and understanding of the model. Two earmarked leasing partners⁷ did not take off business operations in the country.
- v) Low financial literacy levels into credit products and instruments continue to have an impact on demand for those products especially at the production level. On the other hand, risk perceptions and preferences for financing certain value chains and alternative sectors continues to impact supply of credit especially to long-maturity crops.

⁷ Fahari Biashara & CoolCap Ltd

5. Key Lessons and Recommendations

Several learnings and recommendations can be deduced from Kenya Crops and Dairy's implementation of access to finance interventions in resource constrained settings that include the following:

- i) **Diverse lenders/investors, rather than exclusive relations has potential to produce pronounced results:** Due to the varying financial needs across market system actors, and varying financier appetites and lending/investing mechanisms, partnerships/collaboration with a wide array of them presents broad opportunities for financing. Kenya Crops and Dairy worked with 29 FSPs in the project life. While partnership management and operational intensity could be intensive, this diversity and spread lead to higher achievements.
- ii) **Early structuring of financier relationships is principal for success:** The potential for success in schemes such as the blended approach with AFC could have yielded higher results had it been pre-arranged in the project design and rolled out alongside the co-investment grant funding. Results obtained in the one year of its implementation were significant, a point at which most of the funds had been committed. A parallel roll-out has a high potential of success and is recommendable.
- iii) **Co-investment of matching funds for agriculture and related sectors are effective in unlocking private sector funds including external finance:** Under the blended finance alone, ██████████ was mobilized for investment projects. This confirms that smart application of grants can be an effective de-risking tool. Additionally, setting aside a budget towards investment/financial readiness especially for those raising debt financing would have helped to accelerate and convert some unsuccessful cases.
- iv) **There is need for greater use of and knowledge of de-risking instruments:** FSPs (even small ones) desire credit guarantee schemes for agriculture loans to enable them to lend more to farmers because of reduced or shared risks. Greater alignment of incentives and DCA credit guarantees steered by USAID-KIM could have yielded higher results. This was pointed out by Qwetu Sacco during the learning sessions in Taita Taveta County. There is need for greater understanding of the credit guarantee mechanisms among FSPs.
- v) **Ecosystem approach to facilitate finance requires patience and time:** While significant results have been achieved through the ecosystem pathways (VC strengthening and market actor coordination) that empower sustainable FI plug-ins, this requires longer periods to build trust and build incremental value in the relations e.g., value of sales especially in new markets. Aspects and pathways such as contract farming, tripartite and forward contracts take time to get wide acceptance and build reliable history and take precedence in much desired self-liquidating, cashflow based finance. Despite this reality, they are recommended for their demonstrable system sustainability and tremendous long-life dividends.
- vi) **Capacity building of credit staff on agribusiness VC financing is a significant supply side enabler in unlocking the agribusiness portfolio growth for FSPs.** Despite traditional high-risk perceptions, preferences and adverse sector selection, significant results were achieved in partnerships where FSPs' staff capacity was enhanced and where staff retention was high. In incidences of fluid staffing, results were significantly affected. FSPs are increasingly investing in building capacity to finance agriculture. For example, four FSPs cost-share the TA fees at a rate of up to 25 percent while all 11 cost-shared expenses outside the consultancy. It is recommended that the financial services sector and the development sector sustain or accelerate this momentum.

- vii) ***It is worthwhile to track additional expansion and investments experienced out of the project catalyzed growth.*** For example, to support new businesses out of the investments with Kenya Crops and Dairy, MyFugo and Bimas raised significant capital to finance a new lending portfolio from other Impact investment funds. Bimas opened a Voi-branch off-shoot in Taveta, while Cherehani Africa developed an application⁸ to efficiently serve the dairy cooperatives and groups linked to financing.
- viii) ***Opportunity to expand agriculture insurance:*** There is still very low supply and uptake of agricultural insurance. Kenya Crops and Dairy intended to initiate interventions with the insurance industry especially those that bundle with credit. Despite wider engagement of leading insurance companies, only one project took off. There is need for further enquiry into the mechanisms, investments and collaborative approaches that could be viably undertaken in this space especially for the horticulture value chains.
- ix) ***There is loaded value in partnerships between market system development projects and FSPs:*** Lenders increasingly demonstrated affinity for and considered originating deals from partnerships with projects in the agriculture sector such as Kenya Crops and Dairy who provide a first stage filter in the due diligence process. These tight partnerships are recommended for impactful mobilization of capital.
- x) ***Sound and agile business models are able to attract long-term capital:*** Despite the shocks arising from Covid-19, army worm and locust invasion, and flooding of 2019, some businesses have continued to access capital while others do not. Agile businesses such as the franchising agro-input suppliers and those who have adopted technology had higher chances of obtaining external capital. High impact and agile business models are recommended to private sector businesses.

Overall, a recommendation for consistency in efforts to bridge the gap between supply and demand using pathways Kenya Crops and Dairy utilized is worthwhile. There is need for concerted efforts from all stakeholders towards ecosystem strengthening and national efforts to improve agriculture private sector access to finance. This includes multi-sectoral policy interventions to unlock financing, reforms in financial infrastructure and pursuance of the innovative de-risking instruments and models continuum.

⁸ Fuga App- Developed at a cost of [REDACTED]