MAKING THE CASE

East Africa

Case Studies on Inclusive Economic Development

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Background

1.1 Context

Approximately 65% of the population in East Africa, specifically Kenya, Rwanda, Tanzania, Uganda, and Zambia, depends on agriculture for their livelihoods (Aceli Africa, 2023a), and agricultural growth is twice as effective at reducing poverty as growth in any other sector. Small and medium-sized enterprises (SMEs) play a crucial role by aggregating and linking smallholder farmers to markets, generating employment, and improving food security by replacing expensive imports with locally produced, affordable food. The formal financial sector's involvement in agriculture remains quite limited: only 5% of commercial bank lending in East Africa goes to the agriculture sector (Aceli Africa, 2025c).

The main challenge this region's economy faces is the massive financing gap required to support agricultural SMEs. 75% of agricultural SMEs lack reliable access to finance (Aceli Africa, 2023a). The high-risk, low-return nature of this sector stems from the seasonality of production and is exacerbated by increasingly extreme weather events. Lending risks to agri-SMEs are at least twice as high as in other sectors, and returns on lending are on average 4-5% lower than returns from other sectors (Aceli Africa, 2025b).

Women entrepreneurs, in particular, often struggle to meet collateral requirements for loans because of cultural norms that limit land title ownership (Aceli Africa, 2024b). Governments, lenders, and development partners in this region increasingly focus on long-term national development (ISF Advisors, 2025b). Priority areas include promoting economic inclusion for women and youth, improving food security and nutrition, enhancing climate resilience and environmental sustainability, and supporting macroeconomic stability (Aceli Africa, 2024a).

1.2 Building a More Equitable Economic Environment

Aceli Africa is modeling inclusive finance by using a blended finance model to unlock private lending for SMEs. Launched in 2020 and operating in Kenya, Rwanda, Tanzania, Uganda, and Zambia, Aceli addresses the systemic barriers that prevent banks and non-bank financial institutions from serving agri-SMEs, especially those owned by women and youth.

Aceli's model deploys financial incentives via origination incentives and first-loss cover. The Origination Incentives provide upfront payments to lenders for each eligible loan disbursed to an agricultural SME, with higher bonuses for loans that deliver strong social or environmental impact (Aceli Africa, 2025b). This mechanism compensates for the high transaction costs associated with smaller loan sizes and motivates lenders to extend credit to enterprises that might otherwise be deemed too risky or unprofitable. Complementing this, the Portfolio First-Loss Cover offers partial protection against borrower defaults by absorbing a share of potential losses in lenders' agri-SME portfolios (Aceli Africa, 2025b). This safety net lowers lenders' exposure and encourages them to expand lending to new and underserved market segments. Beyond financial incentives, Aceli provides technical assistance and advisory support to help lenders embed gender-inclusive strategies, adjust collateral requirements, and develop products better suited to marginalized borrowers.

Aceli's model has catalyzed a measurable shift in East Africa's agricultural finance ecosystem. As of March 2025, the program has facilitated 3,427 agri-SME loans worth $293 million, directly supporting over 1.5 million smallholder farmers and creating 53,000 full-time jobs, 38% of which are held by women (Aceli Africa, 2025b). Supported SMEs report an average annual revenue growth of 24%, demonstrating the economic vitality that follows improved access to finance (Aceli Africa, 2025b).

3,427
Agri-SME loans

1.5
Million smallholder farmers supported

53,000
Full-time jobs created

2.0

Built For All: Applied

2.1 Pillar One: Equitable Access to Resources and Opportunities

Strengths

Aceli Africa's model most closely advances the Built for All pillar 'Equitable Access to Resources and Opportunities' (Franco, A., Vogel, D., Ivey, J., Humes, N., & Shapiro, S., 2025), because its core goal is to change who can access finance, and on what terms. This approach directly supports the ideal outcomes of this pillar in three primary ways:

1. Making financial systems accessible and affordable.

By using public and philanthropic funding to share risk with private lenders, Aceli lowers the barrier for commercial banks to lend in agricultural value chains they have historically avoided. This brings formal finance within reach of rural enterprises that have been excluded from traditional credit markets (Aceli Africa, 2025a).

2. Creating pathways to build wealth and economic opportunity.

Capital is directed toward businesses that generate livelihoods for groups that are often underserved in the region's formal economy, including women, youth, and smallholder farmers. With access to working capital and growth finance, these enterprises can expand operations, create jobs, and increase the incomes of the farmers and workers they engage (OECD, 2025).

3. Addressing systemic discrimination in access to capital.

Aceli does not treat all loans as equal. Lenders receive stronger incentives when they finance businesses that advance inclusion, such as women-led enterprises, companies that employ young people, or firms investing in climate-smart and food security-related production. By tying financial rewards to inclusive outcomes, Aceli challenges structural bias in who receives capital and begins to normalize lending practices that are more equitable by design (Aceli Africa, 2025a).

Ultimately, Aceli's model goes beyond simply channeling capital. It invests in the capabilities of both borrowers and lenders. For SMEs, Aceli provides technical assistance so businesses can manage loans responsibly, grow revenue, and create income for owners, workers, and smallholder farmers. On the lender side, Aceli supports financial institutions in designing agriculture strategies, tailoring products to agri-SMEs, and training staff to serve this sector. Together, these efforts strengthen both sides of the market for sustained lending and lasting impact. Additionally, by publishing annual benchmarking data on agri-SME lending in East

Africa, Aceli continuously adapts its model based on data-driven evidence (Aceli Africa, 2025b).

Opportunities

Most lending so far moves through commercial banks (Aceli Africa, 2025b). That brings scale, but banks do not always offer the kinds of finance different agri-SMEs need (seasonal working capital, inventory finance, equipment leasing, purchase-order finance). Aceli could extend its incentives and risk-sharing to a wider set of lenders, such as value chain financiers, specialized agrifinance firms, and cooperatives, to reach smaller and more informal SMEs that banks still do not serve well.

2.2 Pillar Two: A Level Playing Field for Work and Competition

Strengths

Aceli advances a level playing field for work and competition by correcting persistent market failures that prevent productive capital from reaching agricultural SMEs, and in doing so, targets the “missing middle” (Aceli Africa, 2024b). By 2022, their incentives supported 713 loans worth US$84 million, reaching 429,000 farmers and 16,000 jobs (Aceli Africa, 2023b). They also made lending more profitable, enabling banks and microfinance lenders to serve smaller and rural enterprises. Nearly half of all loans went to first-time borrowers, showing new capital is reaching entrepreneurs previously left out (Aceli Africa, 2023b).

Second, regarding barriers faced by marginalized communities in accessing work, Aceli explicitly targets women- and youth-owned SMEs, thereby reducing exclusion. For instance, after lowering the minimum loan size for women- and youth-owned enterprises from US$25k to US$15k, the share of women-owned business loans increased from 8% to 22% (Aceli Africa, 2024b). Also, as of 2022, 59% of Aceli-supported loans qualified for the gender inclusion bonus (Aceli Africa, 2023b). This signals material progress towards creating fairer conditions for work and enterprise for historically excluded groups.

With Aceli, inclusion and profitability go hand in hand. For instance, lowering loan sizes for women-led SMEs creates lasting and fair growth. Additionally, Aceli’s focus on job quality, wage equity, and childcare, will help women stay in the workforce and promote long-term inclusion (Aceli Africa, 2024b).

Opportunities

The growth of agri-SME lending in East Africa, with loan volume up 83% from 2020 to 2023 - signals a few opportunities (Aceli, 2025b). To mitigate the risk of profitability small lenders pose to banks, governments can implement policies that support smaller loans as demonstrated by Tanzania's success in reaching downmarket segments (Aceli, 2025b). Expanding outreach to new types of borrowers can also position the market to diversify income streams. Training, financial literacy, and digital tools can also help entrepreneurs scale sustainably and improve profitability. Lastly, the growing market shows an opportunity for more jobs, processing, and other related services.

2.3 Pillar Three: Collective Stewardship of Shared Resources for Future Generations

Aceli's efforts partially align with the ideal outcomes under Pillar Three, particularly in promoting collective stewardship and intergenerational responsibility across actors. Its incentive model is intentionally tiered to reward lenders who direct capital toward agri-SMEs that expand the supply of affordable, nutritious food, create economic opportunities for women and youth, and, most importantly, adopt environmentally sustainable practices. As of 2025, the share of "climate-smart businesses" has risen by 52% (Aceli Africa, 2025b).

The organization has also begun to evolve its approach by promoting donor and government co-financing for higher-risk areas such as primary production and regions most exposed to climate shocks (Aceli Africa, 2024a). This is an important step for Acelia toward sustainable, intergenerational stewardship. Finally, Aceli's recent climate and environment-specific incentive adjustments, introduced in August 2023, include technical assistance for SMEs with climate-positive business models, matchmaking to connect them with financing, and advisory support to help firms adopt circular and regenerative agricultural practices (Aceli Africa, 2024a). Together, these initiatives indicate meaningful progress toward embedding environmental awareness and long-term sustainability within the agricultural finance ecosystem.

Opportunities

While Aceli is already embedding stewardship principles through incentive design and cross-sector collaboration, there are opportunities to further sustain and deepen their impact. **First,** the share of SMEs that currently meet Aceli's climate & environment bonus is only 17%, which is below the 20% target (Aceli Africa, 2024a). On top of existing incentives, Aceli could consider developing loan products that directly reward agri-SMEs adopting measurable sustainable farming practices, such as regenerative soil management or reduced fertilizer use, or processing and storage facilities using renewable energy sources.

Second, Aceli could expand its collective-stewardship function by piloting community-anchored financial mechanisms like cooperative guarantees, rotating savings and community funds, or interest rebates for first-time climate adopters to link local community wealth creation with long-term asset management. In parallel, some incentives could be redirected from lenders towards improving borrower capabilities – for example, in digital bookkeeping, climate-risk management, and mobile finance – so SMEs can accumulate human and social capital needed to sustain growth beyond any single loan cycle and also potentially extend their impact across industries and sectors.

Finally, stronger collaboration with governments will also be key to sustaining Aceli's impact. By co-financing investments in green infrastructure, such as renewable-energy systems or water-efficient technologies, Aceli and public actors can jointly support cleaner production while improving the livelihoods of farmers and economic stability of rural areas. Beyond infrastructure, continuous government engagement will be needed to align Aceli's incentives with national development and climate strategies in advancing policies that enable healthy ecosystems for future generations.

3.0

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