







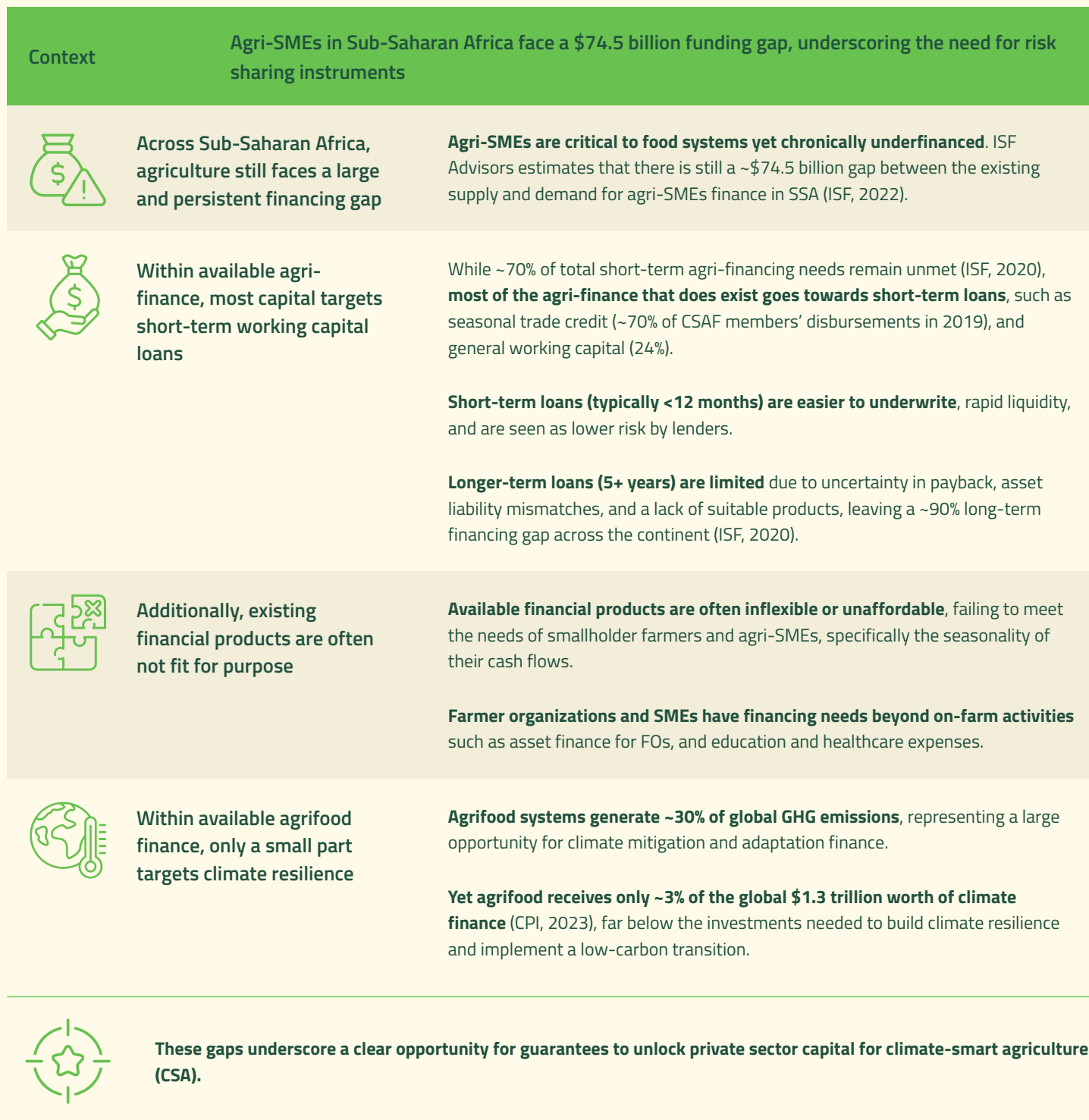


## 2.2. The Agri SME Financing Gap

Despite its economic importance, agriculture therefore remains underfinanced. Estimates indicate a persistent agri-SME financing gap of approximately USD 74.5 billion in Sub-Saharan Africa. Existing finance is heavily channeled toward short-term working capital, while longer-term financing for capital expenditures, infrastructure, and farm renovation remains scarce.

At the same time, only a small share of overall climate finance is directed toward agrifood systems, despite their significant contribution to global emissions and their central role in climate adaptation. **This misalignment underscores the need for targeted financial instruments that can address both risk perceptions and structural market failures.**

Figure 2 - Agri-SME financing gap and allocation of agri-finance



Sources: ISF Advisors; CSAF (2020); State of the Sector; ISF Advisors (2022), The State of the Agri-SME Sector: Bridging the Finance Gap; ClimateShot Investor Coalition (2023), Landscape of Climate Finance for Agrifood Systems (2023)



## 3.2 Current Lending Patterns and Constraints

Banks currently prioritize trade finance and working capital linked to export oriented value chains with proven off take arrangements. Interest in climate smart investments exists, but remains cautious and selective, particularly where investments involve longer tenors, delayed cash flows, or weaker collateral structures.

Figure 4 - Current bank lending patterns and areas of cautious interest

Deep dive	
Banks tend to prioritize established export value chains, with pragmatic, yet limited, interest in climate-smart agriculture	
Commercial banks typically manage risk by spreading exposure across established value chains (VCs), rather than investing in more resilient, climate-smart practices. Cautious interest in a few areas could translate into actual lending with well-designed, fit-for-purpose guarantees.	
 What commercial banks finance today	 Where cautious interest exists
<p><b>Established VCs with proven offtake and export earnings</b></p> <ul style="list-style-type: none"> <li>▪ <b>Trade finance (TF) and working capital (WC) for export cash-crops</b> (e.g., coffee, tea, cocoa, grain/seed trading) via short-term, seasonal lines typically backed by offtake agreements.</li> <li>▪ <b>Well-structured domestic value chains</b> (e.g., dairy), anchored by cooperatives or aggregators with strong offtake and/or clear collateral (e.g., inventory/receivables).</li> </ul> <p><b>Short-to-mid-term working capital instruments</b></p> <ul style="list-style-type: none"> <li>▪ <b>Seasonal working capital lines</b> (typically &lt;12 months); USD/Local currency mix depending on export revenues.</li> <li>▪ <b>Capex loans only for strong borrowers</b> with hard collateral.</li> </ul>	<p><b>Promising but underinvested sectors</b> (e.g., livestock, potatoes, fruits &amp; vegetables) seen as risky due to infrastructure gaps, particularly in countries facing significant rain-dependency and lack of storage solutions.</p> <p><b>Sectors of national importance but weak structuring</b>, such as tea in East Africa (high cost, low competitiveness) or rice in West Africa (weak structuring and competitiveness).</p> <p><b>Crop rehab &amp; renovation (R&amp;R) loans</b>, difficult given 2–3-year grace periods, late breakeven, and delayed cash flows.</p> <p><b>Expansion of asset finance</b>, seen as risky (long repayment periods, collateral gaps) and with limited internal capacity for long-tenor loans.</p>



### Key Takeaways

Rising policy pressure has not yet translated into strong, proactive green lending. Commercial banks continue to prioritize **established value chains**, with climate-smart agriculture pursued mainly opportunistically when it supports **diversification or delivers clear returns**.

Forestry and tree-crop investments are viewed as climate-relevant but constrained by **long gestation periods**. However, a few banks are exploring irrigation, cold storage, and **CSA-aligned infrastructure** as emerging risk-mitigation opportunities.

**Well-designed guarantees can meaningfully de-risk these frontier areas**, improving bank comfort and catalyzing capital into more sustainable and resilient value chains.

Source: ISF analysis based on interviews commercial banks across Côte d'Ivoire, Nigeria, Kenya, Uganda and Zambia (N=20).



Policy type	Côte d’Ivoire	Kenya	Nigeria	Uganda	Zambia
<b>Capital controls</b>	<b>Neutral to constraining:</b> significant operational challenges (admin. burden).	<b>Supportive:</b> Liberalized and open capital markets.	<b>Constraining:</b> Highly restrictive capital controls, chronic FX shortage and unpredictable legislation.	<b>Supportive:</b> Liberalized and open capital markets.	<b>Neutral:</b> Liberal capital markets but fragile with the potential for sudden capital controls.
<b>Currency regimes and volatility</b>	<b>Stable:</b> CFA peg to EUR via WAEMU.	<b>Moderate volatility:</b> Managed free float with occasional interventions and steady depreciation trend.	<b>High, erratic volatility:</b> highly managed float with frequent devaluations and multiple exchange rates.	<b>Moderate volatility:</b> Managed free float; steady depreciation; occasional market-driven volatility.	<b>Very high volatility:</b> Free float, highly sensitive to commodity prices.

■ Constraining   
■ Neutral   
■ Supportive

**Note:**

\*In markets like Kenya, Nigeria, and Uganda, higher CAR minimums (12–15% vs. Basel's 8%) may limit banks' lending but also make guarantees more valuable if recognized for capital relief.





Source: ISF analysis

First, prudential regulation and capital adequacy frameworks strongly influence banks' incentives to use guarantees. In most assessed countries, Basel II or III standards apply, often with capital requirements set above the Basel minimum. Where guarantees are not recognized for capital relief, particularly when provided by unrated guarantors, their usefulness is limited, as they do not reduce risk-weighted assets. As a result, guarantees are typically used as collateral substitutes rather than tools to support portfolio expansion or longer tenors. Clearer regulatory treatment and supervisory guidance can materially improve their effectiveness.

Second, macro-financial conditions such as capital controls and currency regimes shape the feasibility of guarantee-backed lending. Restrictive capital controls and foreign-exchange shortages increase operational risk, particularly for trade finance and foreign-currency loans. High exchange-rate volatility further shortens loan tenors and raises pricing. In more liberal and stable environments, banks are better able to use guarantees across a wider range of products, including investment and infrastructure finance, helping explain cross-country differences in uptake.



Figure 7 – Example investment opportunities

Example investment opportunities	Description
 <p><b>WC tenor &amp; limit extensions for established VCs</b></p>	<p>Extend working capital (WC) tenors (1–3 years) and increase borrowing limits for revolving WC facilities in established value chains, with strong smallholder farmer (SHF) participation and/or financing linked to CSA practices.</p>
 <p><b>Processing CAPEX in established &amp; nationally important VCs</b></p>	<p>Finance processing equipment and machinery purchases for small to mid-sized processors, particularly when linked to CSA practices within their supply chains. Focus on established and nationally strategic value chains working with SHFs and having the ability to impact livelihoods.</p>
 <p><b>Climate-resilient infrastructure loans</b></p>	<p>CAPEX financing for infrastructure (e.g., cold chain, irrigation) in climate-exposed VCs, where banks have interest but perceive high risk. Guarantees help banks better understand and price risks, encouraging greater participation.</p>
 <p><b>Portfolio guarantees supporting R&amp;R loans in established VCs</b></p>	<p>Portfolio guarantees to banks lending to cooperatives and other farmer organizations for long-term renovation and replanting (R&amp;R) of established value chains, with on-lending to SHFs.</p>
 <p><b>WC tenor &amp; limit extensions for newer/riskier VCs</b></p>	<p>Extend WC facilities for value chains that are newer to banks and considered as riskier, with lower structuration and/or smallholder-dependence. These typically require higher coverage, TA, or additional incentives to engage banks.</p>
 <p><b>Expansion of trade finance products</b></p>	<p>Expand trade finance offerings, in particular for export-oriented value chains to support sustainable growth and competitiveness, but also transaction-based when involving local SMEs.</p>





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