Commodity-backed Financing for Agri-SMEs:

Opportunities and Challenges for Scaling Up Commodity-backed Working Capital Loans for Agri-SMEs in Africa

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01

Introduction and Background

This research report focuses on the challenges to and potential solutions for scaling commodity-backed working capital loans for agri-SMEs in Sub-Saharan Africa. These are working capital loans where the underlying commodity serves as the collateral, replacing the requirement for fixed assets as collateral. The report also provides an overview of the current status of such lending, relying on a survey of 23 financial institutions across 9 countries in Sub-Saharan African. While agri-SME definitions can vary significantly, this report focuses on financing businesses that would need approximately USD 1mn-USD 2mn in working capital, but with a range from USD 750k to USD 10mn[1]. As such, the report aims to be complementary to Aceli's research and work on scaling lending to agri-SMEs, which has targeted lending in the range of USD 25k-USD 250k–although they can go up to USD 1.75mn[2].

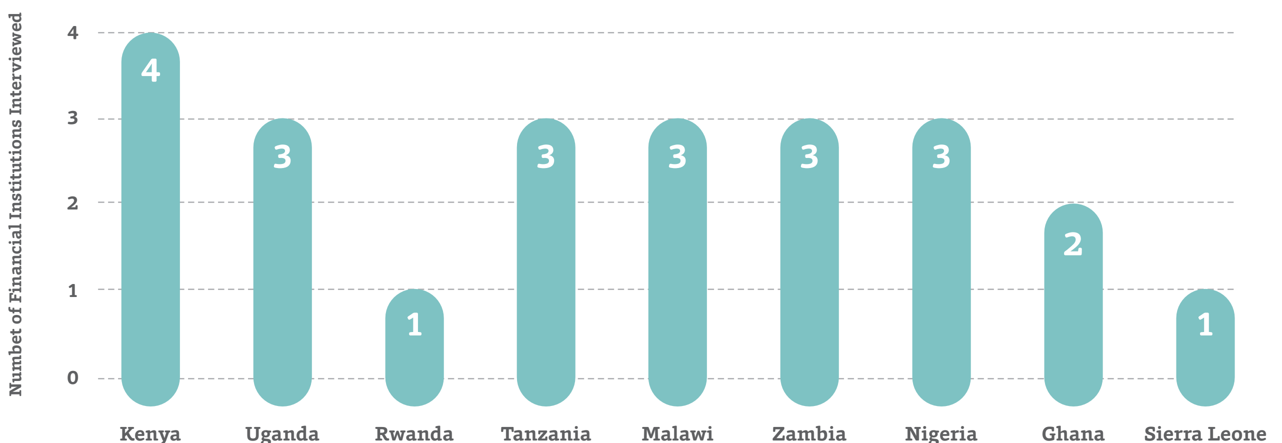
1. Local financial institutions use a range of terms to define businesses in this ticket size, from "mid-sized corporate", to "commercial business" even to corporate in the case of smaller markets such as Malawi.
2. Aceli Africa. "Learning Report: Year 2. Unlocking Private Capital for African Agriculture". 2023.

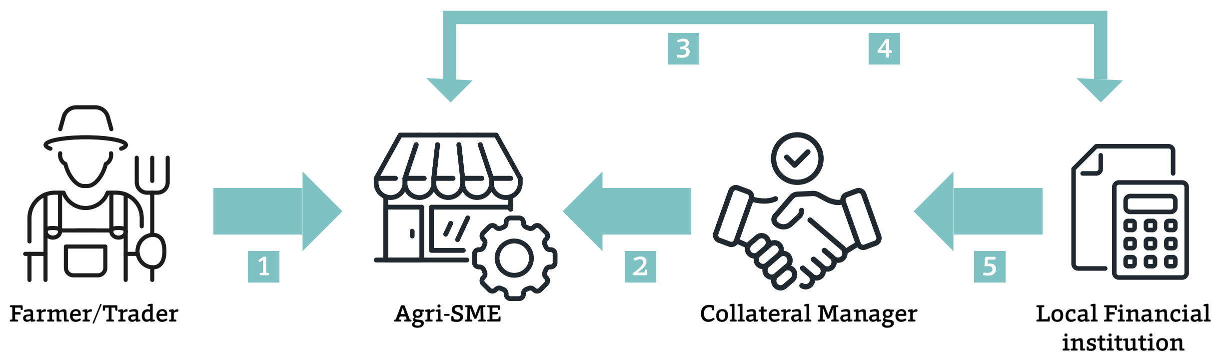
Defining commodity-backed finance and Collateral Management Agreements (CMA):

Used commonly by financial institutions interviewed for the report, commodity-backed finance serves as a catch-all phrase to cover a range of financing options in which the underlying commodity being traded serves as the collateral for the loan.

In the context of commodity-backed finance, collateral management agreements were the contractual tool most commonly mentioned during interviews. These entail a financing arrangement in which the lender provides senior debt funding to the borrower in the form of a short-term revolving facility (usually over 6-12 months). The facility is secured purely by the underlying assets being financed (typically non-perishable commodities), and finances 70-80% of the value of the goods. Funds are only disbursed against warehouse receipts issued by a third party collateral manager. The price of the goods are valued based on the market price provided by a third party, i.e., the price discovery agent.

Graph 1: Number of Financial Institutions Interviewed per Country





1. The SME buys the commodity from farmers and/or traders during the harvest season—making use of optimal prices—and then deposits the commodity into a warehouse under a Collateral Manager.
2. The Collateral Manager ensures that the commodity meets pre-defined quality standards before acceptance. If acceptable, it takes the same into custody for and on behalf of the local financial institution, and then issues the SME with a warehouse receipt.
3. The SME draws down the loan by submitting a warehouse receipt to the Local Financial Institution. Upon ensuring all conditions have been met, the Local Financial Institution releases funds to the SME, which frees up additional cash flow to enable the SME to make further commodity purchases.
4. When the SME requires access to the commodity for processing, the SME makes the necessary repayment to the financial institution by depositing money into the escrow account held with the Local Financial Institution.
5. The Local Financial Institution then instructs the Collateral Manager to release commodities paid for to enable the SME process and fulfill its customer orders.

Commodity-backed working capital solutions are important because they help agri-SMEs in Sub-Saharan Africa to:

- **Improve on net margins:** as the agri-SMEs are able to buy commodities at bulk when prices are optimal rather than when the agri-SME have internal cash flow available (and prices may no longer be optimal).
- **Benefit from better quality goods:** by purchasing products during the main harvest season–when quality is best–the agri-SMEs can avoid later-season purchases of products that have been held in sub-optimal storage conditions. This also improves their net margin.
- **Leverage efficiencies of scale:** by being able to buy the full amount of commodities required to run facilities at scale or trade at scale enables them to benefit from economies of scale. Traders may also benefit from better prices when selling larger quantities.
- **Seize growth opportunities despite limited access to fixed assets for collateral:** Through all the above, agri-SMEs are able to grow their existing business without the need for additional fixed assets as collateral, which is a key hurdle for accessing funding for many agri-SMEs.
- **Adapt to changing weather patterns:** Agri-SMEs are able to adjust to changing weather patterns that alter the harvest season which is the prime buying time in terms of prices and quality.

Such financing tools can also have broader economic and food security implications, as in some cases they can allow aggregators and processors to effectively provide input financing to farmers, provide farmers with stable off-take markets and can help reduce post harvest losses.

Despite the importance of commodity-backed working capital solutions, the funding gap for agri-SMEs in Sub-Saharan Africa remains significant.

The financial institutions interviewed that are leading the way in commodity-backed working capital solutions have not even scratched the surface of the estimated working capital needs.

- **The estimated financing gap for agri-SMEs in Sub-Saharan Africa is USD 65bn** for "medium-sized value chain agri-businesses with USD 200k to USD 15mn in revenue.[3]"
- **Total commodity-backed working capital solutions reported by 15 of the participating financial institutions:** USD 139mn (0.2% of the financing gap)

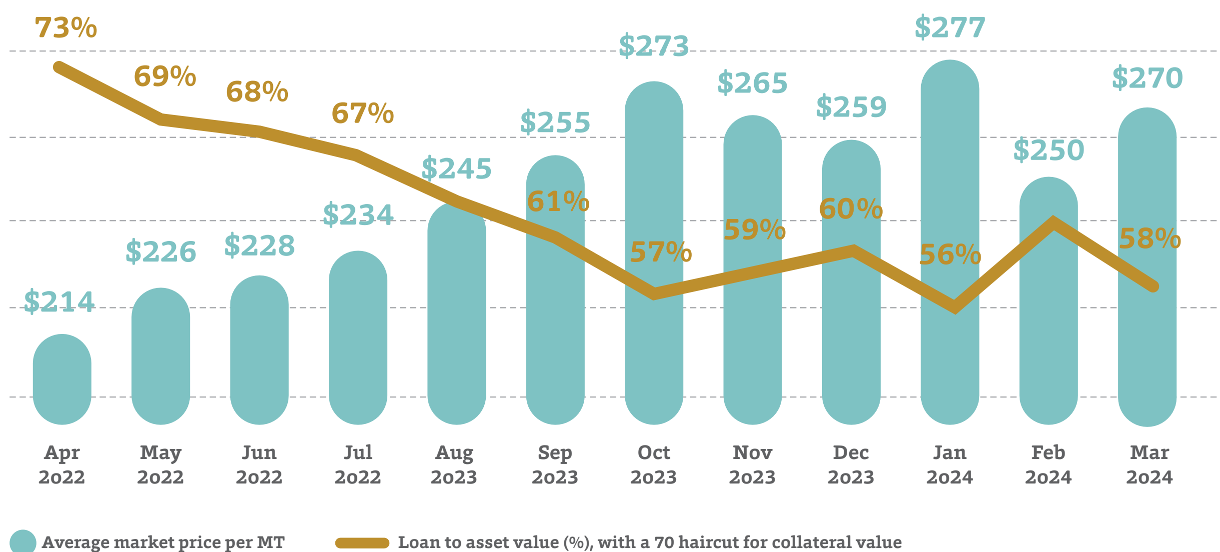
It is important to note that only four of the 15 financial institutions interviewed that provided lending volume data account for almost 80% of that USD 139mn. Additionally, there were several tier-1 banks that reported currently doing less than USD 5mn of such financing.

Illustrating the repayment implications financial institutions must manage with commodity-backed working capital loans:

Before diving into the report findings, it is useful to visualize how banks structure commodity-backed working capital loans. The below example considers a USD 2mn loan.

1. **Loan Principal Amount:** USD 2mn
2. **Loan to value ratio:** This represents the percentage of the commodity value the bank is willing to accept as collateral–banks reported usually using a 70-80% haircut.
3. **Value of the commodity underpinning the loan (stipulated in the loan agreement):** USD 2.85 mn. This is the full value of the value of the underlying commodity.
4. **Margin Calls:** Typically the LTV will fluctuate throughout the loan tenor as the commodity price increases and decreases. If the LTV goes beyond the set limit of 70-80% the Borrower will usually need to either make a cash deposit or provide additional commodities to bring the

Graph 2: Example of LTV development during the season as prices fluctuate



3. Dalberg. The Economics of Agri-SME Lending in East Africa. 2018

value back down. Throughout the course of the year, the LTV usually drops given the agri-SME buys during the harvest season when prices are lowest and then stores the commodity as prices increase. This serves as an additional buffer for the lender.

The graph above is an example using maize pricing data from Zambia over a 12-month period (the target timeframe for CMA). In this example the agri-SME used CMA financing to purchase maize during the harvest months (April to June) at an average price of USD 222/MT and then stored it in a lender-controlled warehouse for a few months before buying it back from the lender for processing. As shown, the LTV drops to roughly 60%.

Report Methodology:

Given the well-documented gap in working capital solutions for agri-SMEs, the research focused on 45 minute interviews with decision-makers at local financial institutions to obtain insights regarding:

- Current offering of commodity-backed working capital solutions: Types of working capital, volume of commodity-backed working capital portfolio for agri-SMEs; Non-performing loans as a % of the total portfolio
- Barriers to offering the solution or challenges to scaling the existing offering
- The type of support needed to enable the lender overcome the identified challenges

Due to the sensitive nature of some of the information, interviewees provided data under the condition it only be shared in aggregated form.

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Data on the Current Status of Commodity-Backed Financing

The key findings from the interviews with local financial institutions on the current state of commodity-backed working capital solutions are:

1. **Most institutions interviewed have at least tried commodity-backed finance, and they are interested in expanding it. CMA is a preferred contractual arrangement for such lending, with 19 of 24 reported having used CMA.** With such loans, financial institutions tend to haircut the commodity's value at 70-80% of the prevailing market price.

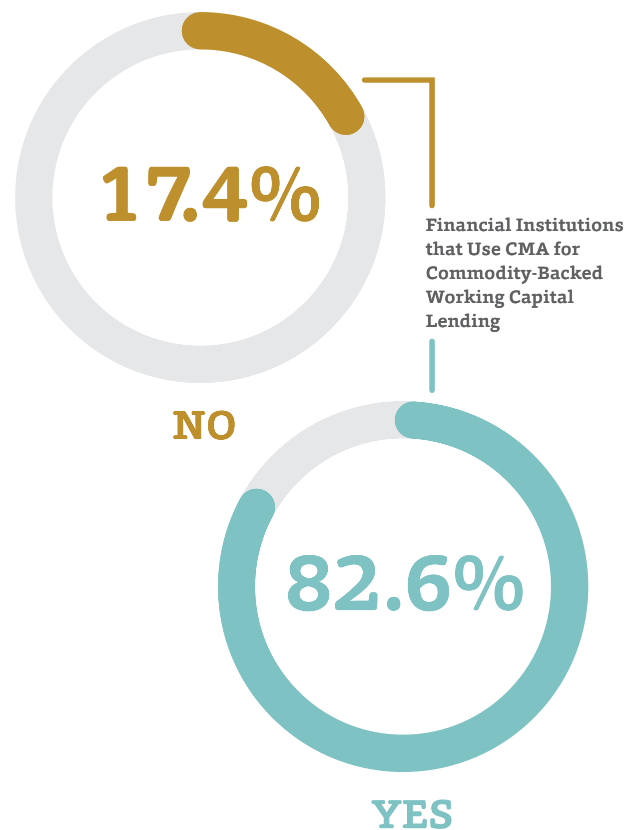
2. **Overall, such lending however remains extremely low compared to demand.** The aggregate CMA portfolio of interviewed institutions was USD 150mn against a funding gap of USD 65bn. Several institutions mentioned that they only consider ticket sizes over USD 5mn or some even over USD 10mn, thereby leaving a gap for the target ticket size.

3. **Tier-2 banks appear to largely be leading the way in commodity-backed working capital solutions for agri-SMEs.** Out of the 24 interviewed institutions, there were four who had a CMA lending portfolio of USD 20mn or more to the target ticket size. Only one of the four institutions handling over USD 20mn in such loans is ranked in its respective country's top five banks by total assets. This suggests that there is a group of Tier-2 banks that have invested in understanding this loan segment as a way to differentiate themselves.

4. **In the targeted ticket range, reported rates for non-performing loans are low--under 5% and in most cases near 3%.** This suggests that the risks of this ticket segment can be managed and quantified.

5. **Although use of CMA in this ticket segment is growing, financial institutions mentioned a number of challenges that can limit access.** These include a limited number (often 1 or 2) of reliable collateral management firms per country, relatively high cost of lending due to the collateral manager fees and limited digital integration between CMA management platforms and the financial institutions particularly streamlined digital processes for approval and monitoring of quality and prices.

Graph 3: Percentage of financial institutions already providing CMA facilities

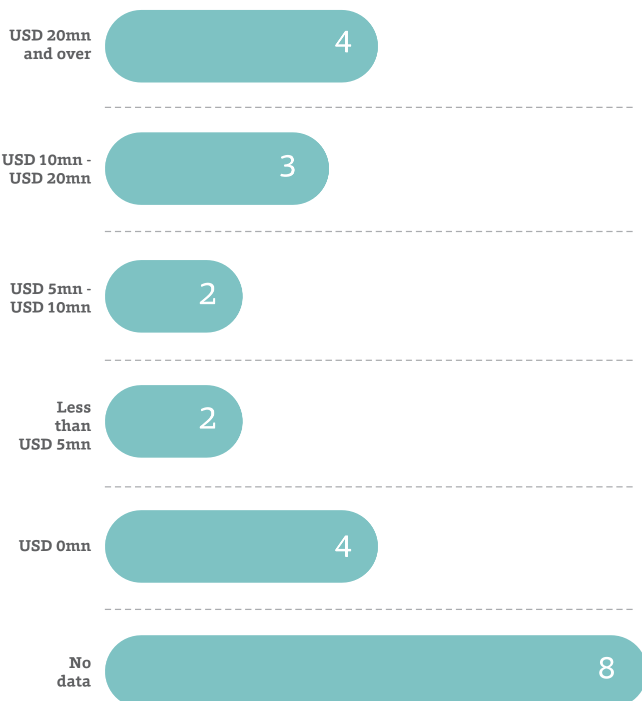


In all, 15 financial institutions shared data on the amount of commodity-backed working capital they provide to agri-SMEs. Their aggregated portfolios amount to just under USD 150mn in total loans. That amount is set against an estimated USD 65bn financing gap for agri-SMEs. In terms of overall lending volume, as well as ticket size and terms, the leading financial institutions came from Nigeria and Tanzania, with volume in Uganda growing. This likely is due to a combination of factors: the presence of more developed and formalized value chains–for example, cashew and cotton in Tanzania or coffee in Uganda. However, in the case of Nigeria, the high volumes of staple crops might also be reducing the risk of commodity-backed lending for crops that lack formalized export off-takers.

There were more limited examples of commodity-backed finance below USD 10mn for Ghana, Sierra, Leone, Malawi, and even Zambia. In the case of Zambia, the financial institutions interviewed have rarely provided commodity-backed finance below USD 10mn and are not providing it below USD 5mn. Those institutions said a key challenge is that the agri-SMEs that would require less than USD 5mn in working capital often lack their own storage facilities for CMA contracts, which is a requirement of the bank.

Reported non-performing loans are below 5% in the targeted ticket size. Although only nine financial institutions provided data on NPLs, seven of them reported NPLs below 5% for loans to agribusinesses that would require at least USD 1mn to USD 2mn in working capital. Most of those institutions reported non-performing loan rates as being closer to 3%, with one in Nigeria even affirming 1%. For agri-SMEs that would require loans lower than USD 1mn, NPLs did appear to rise–with two institutions mentioning that non-performing loan rates are closer to 7-9% under that USD 1mn ticket size.

Graph 4: Financial institutions categorized by size of their commodity-back working capital portfolio



Tier-2 financial institutions appear to provide the largest amount of commodity-backed working capital to agri-SMEs. The report's sample size within each country is relatively small, but it is worth noting that only one of the four banks identified that provides over USD 20mn in commodity-backed funding was amongst the top five commercial banks (by total assets) within its respective country. The remaining three are either in the top 10 or only in the top 15.[4] This suggests it is worth further identifying two types of lenders within each country:

1. The innovative tier-2 commercial banks that have invested in the relevant risk management capabilities, and are currently growing their commodity-backed working capital portfolios
2. Additional tier-2 commercial banks that are interested in developing this business segment, but have yet to invest or fully understand the required risk mitigation capabilities.

It is worth noting that some of these institutions have seen rapid expansion of such facilities. One in Tanzania/East Africa reported USD 20mn in commodity-backed financing for 2023, with an expectation to reach USD 40mn by end of 2024. They believe that only represents 5% of the market opportunity in value chains they are comfortable with. Another financial institution in Nigeria reported that access to capital is quickly becoming the hurdle for growing beyond USD 30mn.

Emerging Growth Areas Not Captured by Current Data

Bank of Kigali: Recently announced two commodity-backed lending facilities representing a combined USD 70mn that it is beginning to deploy. One facility is focused on coffee while the other targets staple crops.

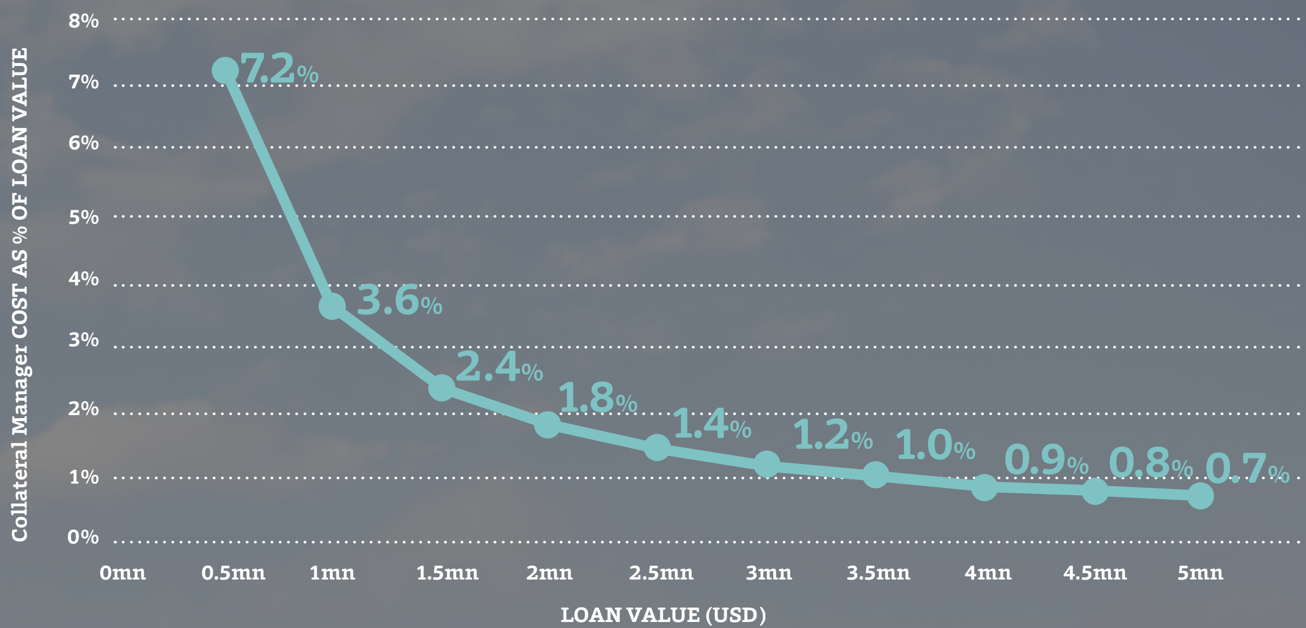
Collateral Management Agreements: As noted above, CMA's are one of the main contractual structures financial institutions reported using for commodity-backed financing. The table below outlines the key challenges and dynamics highlighted by interviewees for this specific structure.

Some financial institutions highlighted CMA pricing because there are a number of agri-SMEs that are largely engaged in trading commodities without providing much value addition. As the graph below shows, for lower ticket sizes the cost of a collateral manager can represent an added cost of 3-6% of the loan value. That can quickly affect the agri-SMEs margins.

Table 1: Key challenges and dynamics highlighted by interviewees

	DETAILS
Limited number of reliable collateral managers per country	• In most countries, financial institutions reported knowing of at least three to five CMA firms • However, most reported they only trust working with one or two firms–usually the international firms
Risks related to collateral managers	• Commodity disbursement without bank approval or awareness • Poor quality management of the commodity, leading to post-harvest losses and reduced value of the commodity • Theft of fraud
Cost of collateral managers	• Reported at USD 2,000 to USD 4,000 per month • Includes full-time personnel monitoring the warehouse, inspecting quality at times, and recording disbursements of the commodity • That pricing is separate from interest charged by the bank on the loan

4. Tanzania's top banks by assets. Nigeria's top banks by assets. Uganda's top banks by assets https://www.pulse.ug/business/ugandas-top-10-banks-by-assets/4pxcrcq. Kenya's top banks by assets.


Graph 5: Cost of collateral manager facility as a % of the loan value over a 12 month scenario, assuming a middle-range monthly cost of USD 3,500 for the collateral manager
Collateral Manager COST AS % OF LOAN VALUE
8%
7%
6%
5%
4%
3%
2%
1%
0%
7.2%
3.6%
2.4%
1.8%
1.4%
1.2%
1.0%
0.9%
0.8%
0.7%
0mn
0.5mn
1mn
1.5mn
2mn
2.5mn
3mn
3.5mn
4mn
4.5mn
5mn
LOAN VALUE (USD)

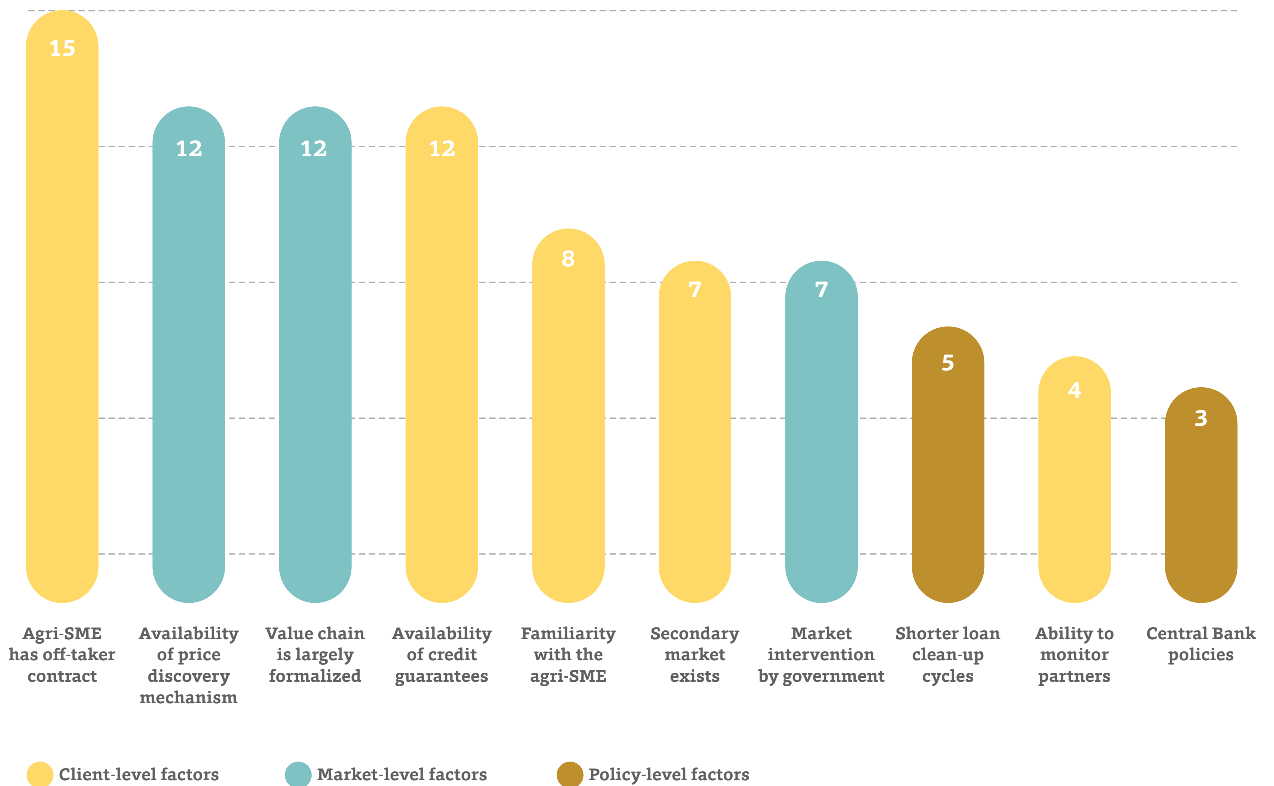
03

Key drivers for commodity-backed financing by local financial institutions

In interviews, local financial institutions framed their evaluation of commodity-backed lending to agri-SMEs largely through a value chain lens. Within a value chain, they highlighted a range of market, client, and policy level factors that play a role in their decision to extend commodity-backed working capital in the report's ticket range.

Graph 5 below ranks, according to the number of financial institutions that mentioned them, the types of factors that influence loan evaluations at the value chain level. The three tables that follow the graph provide greater detail on each of those factors–i.e., examples and in some cases, methods for addressing or mitigating an underlying risk.

Graph 6: Market, client, and policy factors at value chain level mentioned by financial institutions



Tier-2 banks appear to largely be leading the way in commodity-backed working capital solutions for agri-SMEs.

Table 2: Market-level factors

MARKET-LEVEL FACTORS	DESCRIPTION	TIMES MENTIONED
Mechanisms for reliable price discovery	Value chains with regular and reliable pricing data allow financial institutions to quantify their exposure to market price fluctuations, and in turn, to haircut the loan to collateral value appropriately. Examples of pricing data mentioned in the interviews include: ● Uganda Coffee Authority (with daily pricing) ● International market pricing for cacao ● Commodity Insight Africa (CIA), a South African company that provides daily pricing reports on a range of commodities across the continent	**12**
Established secondary market	This makes it easier for banks to offload commodities efficiently, ideally via 3rd party actors, in the case it needs to act on the collateral. This is important because most banks interviewed lack expertise in the operational side of trading commodities.	**7**
Presence of formal off-takers	This refers to value chains with a significant presence of off-takers that require formal contracts. Export-oriented value chains tend to have a greater presence of such off-takers. Domestic-oriented value chains can be more challenging, but there are options–processors, reliable government buyers, international organizations like the World Food Programme, etc.	**12**
Presence of reliable CMA firms	Most financial institutions report that there are only 1-2 CMA firms in their country that they trust working with. Regular evaluations of CMA firms is important. Additionally, banks want to move toward digital systems for requesting and approving commodity disbursement and payment	**4**

Notes on price discovery mechanism: It is worth noting that even if a financial institution did not highlight this factor explicitly, almost all financial institutions interviewed focused on value chains that either have easy-to-access pricing data or where it is possible to see an off-taker contract with built-in pricing.

Table 3: Client-level factors

CLIENT-LEVEL FACTORS	DESCRIPTION	TIMES MENTIONED
Familiarity with the agri-SME	Banks highlighted that the normal risks of an agri-SME engaging in price speculation or mismanaging funds are concerns, as is the risk that the business struggles to navigate market-related risks. The latter include managing price fluctuations, quality management, and where relevant, being able to navigate international transactions. As such, banks reported that familiarity with the agri-SME is critical. They usually start offering commodity-backed loans to existing customers. In addition to knowing the client, this often affords them greater visibility on transactions and historical information on off-taker contracts. Innovative financial institutions however use a range of tools to become familiar with new clients. This for example includes having a large network of rural agents that can vet clients and regularly visit warehouse facilities, client and collateral managers.	**8**
Familiarity with the agri-SMEs off-taker	Reliable or established off-takers can provide off-take contracts, which give local banks greater confidence that the agri-SME will be able to sell the financed product at reasonable pricing. Financial institutions largely trust export-oriented commodities over domestic-oriented, but not exclusively. Examples included staple crops in various countries that have a stable off-take market. A contract is not enough to fully de-risk the loan, as enforceability can remain an issue, but it helps banks evaluate the ability of an agri-SME to sell. Additionally, trusted off-takers can enable financial institutions to finance value chains they might normally see as too risky. Examples include: • Maize purchases in Uganda by FAO and World Food Programme • Sorghum purchases by Guinness in Ghana	**15**
Shorter clean-up cycles for 1-year working capital facilities	Some banks reported using 180-day clean up cycles on 1-year working capital facilities as a way to reduce repayment risk. Others mentioned a focus on agri-SMEs with multiple inventory cycles in a year. Single inventory cycles can work for crops with formalized off-take markets–cashews or coffee as an example. The formalized export market gives banks greater confidence that the agri-SME will be able to sell at reasonable prices.	**5**
Leverage existing credit guarantees	Still prevalent with a significant amount of working capital facilities, guarantees help meet collateral requirements and provide protection against the risk of high losses on an individual loan. One East African lender said, "[f]or loans over USD 1.5mn, the credit exposure becomes the main challenge, and so credit guarantees become more important than support with transaction costs." The leading financial institution by volume of commodity-backed finance noted that 80% of such lending is backed by a credit guarantee–usually able to cover 50% of principal losses.	**12**

Although the importance of having familiarity with the agri-SME came up often in interviews, it did not mean that the agri-SME has to be an existing client for a financial institution to start providing commodity-backed working capital. Financial institutions mentioned a number of tools they use when starting to provide commodity-backed financing for the first time to a client. Although some of these methods mean the tool is not technically CMA, they might represent useful risk mitigation tools for a first or second loan.

- **Large network of rural agents to perform close monitoring of first time clients**

- **Ring-fence payments with off-takers, via letters of credit or assignment of contract arrangements:** For domestic transactions, tripartite agreements or assignment of contract arrangements can help ensure payment. Six financial institutions mentioned using such tools at times.

- **Cash deposit on initial loans:** A number of banks require this on a first loan to a new client, with the idea of reducing or eliminating the requirement once a track record is established.

- **Observe the agri-SME conduct one to two trading cycles before extending commodity-backed financing**

It is worth noting that financial institutions appear to view current use of credit guarantees through the lens of client-level risk, as opposed to market-level risk. Improved analysis of historical pricing dynamics and agri-SME characteristics could enable credit guarantee providers to design the guarantees more around market-level risk, thereby allowing a relatively smaller volume of guarantees to enable a larger total volume of commodity-backed working capital.

Policy-Level Factors: These are also often value chain specific. Regulatory topics came up frequently in interviews, with a few common themes.

Table 4: Policy-Level Factors

POLICY-LEVEL FACTORS [5]	DESCRIPTION	TIMES MENTIONED
Market intervention by governments	Financial institutions mentioned a range of government interventions that can increase repayment risk by value chain. The focus was often on food security crops, namely maize, but not exclusively. The key thing is for the financial institution to be aware of potential risks, and how it can affect pricing. • Export ban on food security crops, like maize • Import bans in export markets–such as pulses into India • Minimum farmgate pricing floors that can affect export options	**7**
Central Bank regulations	A few institutions, particularly in Tanzania, mentioned Central Bank policies that have an effect on commodity-backed working capital lending: **Unsecured lending as a ratio of core capital ratio:** In Tanzania, for example, unsecured lending reportedly cannot exceed 5% of a bank's core capital. As a result, fixed assets and credit guarantees become a requirement to expand commodity-backed financing above certain ticket levels. **NPL limits:** Rwanda and Tanzania reported Central-Bank mandated limits at 5%, with significant consequences for banks that exceed those limits.	**3**

CASE STUDIES: Highlighting Innovative Approaches to Expand Commodity-Backed Working Capital Solutions

- **Successful Strategies for Financing the Next Cohort of Agribusinesses:**

In Nigeria and Tanzania, innovative financial institutions mentioned that a key challenge is figuring out how to extend commodity-backed working capital to a cohort of rapidly growing agri-SMEs that have limited to no credit history with commercial banks. In addition to having limited fixed-asset collateral, these businesses often lack formal business structures and processes, and in some cases, may not yet be tax compliant. One financial institution in Nigeria laid out a series of practices that helps them onboard new agri-SMEs with lending up to approximately USD 1mn-USD 2mn, although it can go higher.

- **Bank agent presence near commodity aggregation points:** Allows the bank to develop relationships with and then monitor potential customers, as well as collateral managers.
- **Observe the potential client handle one or two trades before providing financing:** The idea is to understand how the potential client conducts business.
- **Formalizing business structures and becoming tax compliant:** In fast growing regions, the bank can find traders handling significant volumes but without tax compliance. In these cases, the bank has provided business development services, reporting that agribusinesses can often become compliant (and able to receive financing) within several months.
- **Risk profiling based on who the client is purchasing commodities from:** With different risk profiles based on whether they purchase from farmers or aggregators.

- **Expanding commodity-backed financing into domestic value chains by developing a deep understanding of which government off-takers are able to pay on time:**

Interviewees often expressed concern over domestic-oriented value chains due to the risk of government intervention and a more limited number of formalized off-takers.

One East African financial institution that does significant commodity-backed financing cited timely repayment by government off-takers as its greatest challenge in such lending. However, the lender also explained that it has successfully grown that lending segment by developing a strong understanding of which government departments are able to pay in a timely manner. Understanding that government off-takers represented a significant market opportunity, the bank decided to invest in quantifying and managing the corresponding risk by department or ministry.

04

Areas of Support from Development Financial Institutions and the Donor Community

The 23 financial institutions interviewed for this report all expressed interest in starting to provide or in expanding commodity-backed financing for agri-SMEs. Although overall lending remains extremely low compared to demand, the report identified four institutions currently providing over USD 20mn in commodity-backed financing, and another five that are starting to grow portfolios between USD 5-USD 10mn.

In trying to understand what has allowed some institutions to grow this type of lending, it is interesting to note that almost all financial institutions interviewed reported having access to credit guarantees and a number reported knowing of Central Bank lending windows offering subsidized rates. **While access to guarantees has helped facilitate such lending, it does not explain why some financial institutions have grown commodity-backed working capital solutions and others have not. The financial institutions that have been successful have identified and then managed at the value chain level a range of market, client, and policy level risks.** This has allowed them to extend such facilities to existing clients, as well as enable them to onboard new clients.

Types of commercial banks to prioritize for partnership: Among the 23 financial institutions interviewed for this report, tier-2 lenders are leading the way in growing commodity-backed finance. Additionally, there are many other tier-2 lenders interested in growing such lending but who are more constrained to invest in the necessary risk mitigation mechanisms. Both of these types of lenders could be ideal partners, as they face a greater need for differentiation than tier-1 lenders.

Types of support for foundations and DFIs to offer, organized by if it addresses a market, client or policy-level risk: Reflecting the key findings of the report, the tables below lay out scopes of support that foundations and DFIs can consider to help grow and scale commodity-backed working capital solutions.

Table 6:

MARKET-LEVEL SUPPORT	
Price discovery mechanisms	• Support the cost of acquiring data from Commodity Insight Africa data for tier-2 financial institutions during a trial period. • Invest in organizations that can develop improved pricing data for value chains at country or regional level.
Credit guarantees tailored to market risks	Tailoring guarantees increasingly to market-level risk so as to expand their reach and increase their multiplying effect. A number of financial institutions expressed interest in a structure that provides protection if market pricing of a commodity drops below certain thresholds for extended periods. For example, if average pricing over a 2 month period fell to 50% of the historical average, the guarantee might help cover the corresponding margin call that banks must make.
Mitigating CMA-related risks	This could include a range of options: • **Provide a list of "top-performing" collateral managers groups and best practices by country:** perhaps this include an evaluation system, as well. • **Support linking the digital platforms of financial institutions with CMA inventory management systems:** to further mitigate the risk of unapproved disbursements and quality management oversights. • **Value Chain Studies:** developing and publicly sharing value chain studies identifying the most optimal value chains for CMA lending and identifying the key risks and opportunities in each value chain.

Table 7:

CLIENT-LEVEL SUPPORT	
Tailor made credit guarantees that incentivise new products and new clients	Providing 100% guarantees for first-time clients to enable financial institutions to introduce CMA as a new product and have the ability to learn for 1-2 seasons. This should be accompanied by hands-on training at financial institution level.
Technical assistance to help financial institutions introduce CMA lending to agri-SMEs	This should include training on ow to structure, implement and monitor CMA facilities: understanding what value chains are suitable, what partners to onboard, what key eligibility criteria must meet in different value chains, how to monitor facilities etc.
Business development services to help agri-SMEs formalize business operations	As mentioned in the earlier case study, such facilities could be designed around the need of a defined cohort of agri-SMEs by country. Banks would play a key role in defining these needs.
Connect working capital facilities with fixed asset credit windows	A number of financial institutions mentioned that the next cohort of agri-SMEs requiring commodity-backed working capital solutions often also face a financing need for productive assets. The donor community can work with local financial institutions to link facilities focused on productive assets.
Mitigating CMA-related risks for smaller agri-SMEs	A time-limited blended finance window could help allow smaller agri-SMEs–perhaps those needing USD 500k to USD 750k–grow to a level where their revenue and cost structure could more easily tolerate market pricing in a CMA contract. This could provide an impact benefit while mitigating the risk of a need for a permanent financial subsidy.

Table 8:

POLICY-LEVEL SUPPORT	
Forums to convene key stakeholders on relevant policies	Donors and the DFI community have a role to play in supporting research and conferences on key regulatory topics, with the participation of regulators, that could help accelerate commodity-backed financing. This could include: • Appropriate regulatory frameworks for CMA • Central Bank policies that affect commodity-backed working capital

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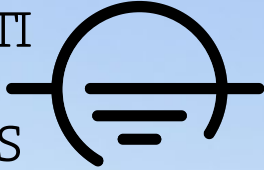

Enabling sustainable growth and development in Africa takes more than knowing numbers.

It takes knowing Africa.
Samawati is an Africa-based impact and investment advisory firm whose purpose is to direct capital strategically to the private sector in Africa, so it becomes a catalyst for sustainable growth and development across the region. We have an experienced team of investment and development professionals based in Nairobi and Kampala with a diversified network of local subject matter experts in more than 20 key markets across Sub-Saharan Africa.

Our activities support the following Sustainable Development Goals of the UN (SDGs):

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