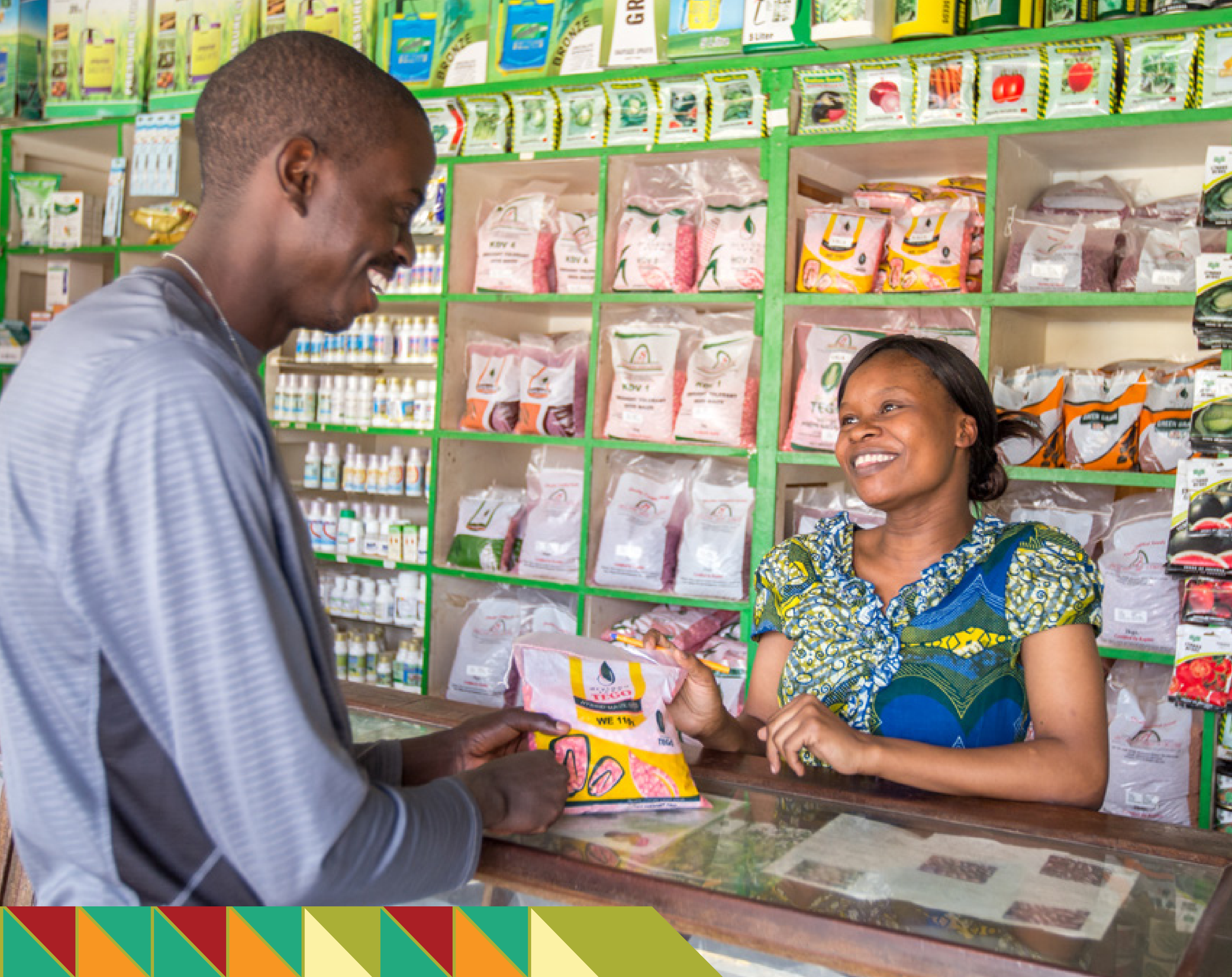

Mobilizing Agricultural Finance

Toward a Common Language Between Lenders and Agri-SMEs in Sub-Saharan Africa

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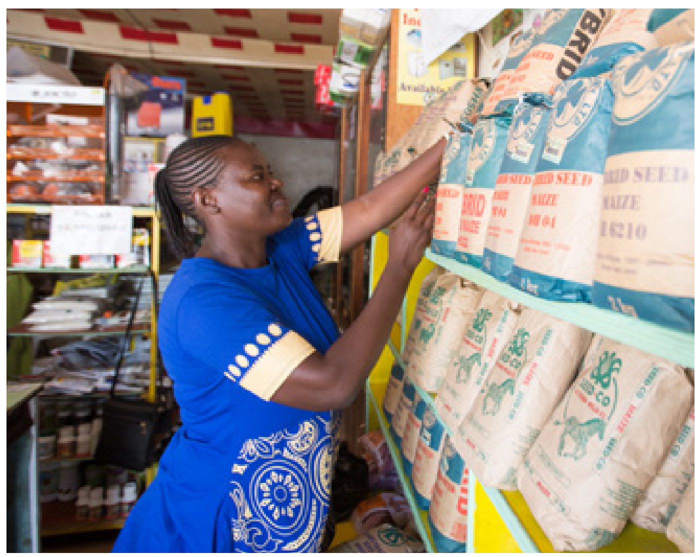
COVER PHOTO: AGRA Image Library

1 Executive Summary

Agriculture in sub-Saharan Africa contributes to the economic development, employment, and food security of the continent. Agricultural small and medium enterprises (agri-SMEs) are key actors in agricultural value chains, which also channel finance and technology to farmers. While agri-SMEs face many challenges and barriers, access to finance is frequently identified as a critical barrier to their growth and resilience. Improving the information flow between lenders and agri-SMEs can help address this finance gap. Currently, lenders do not have clear and standard lending requirements and, in turn, agri-SMEs are not always clear on what factors can make them creditworthy.

In recognition of the need to narrow this finance gap, the Center for Financial Inclusion (CFI) and SCOPEinsight, in partnership with the Alliance for a Green Revolution in Africa (AGRA), worked to create a standardized set of bankability metrics that can serve as a common language between lenders and agri-SMEs. Lenders can use the metrics to gain a clear overview of the state of an agri-SME's business that is robust enough for the lender to make an informed decision of whether to continue with due diligence, reducing the amount of time it takes to conduct a pre-screening and initial assessment. In addition, agri-SMEs and the service providers that support them can use the metrics to understand the expectations of lenders, so they can better prepare for the financing assessments.

This report presents the context and value of a common language, identifies bottlenecks in lenders' strategies and processes in assessing the bankability of agri-SMEs, and details the bankability metrics themselves. It concludes with calls to action for key stakeholders to not only adopt the metrics but also nudge others and ignite a systemic change to unlock access to finance for agri-SMEs.



2 Toward a Common Language

Addressing the information needs of lenders and agri-SMEs to help overcome the finance gap

The agriculture sector plays a critical role throughout sub-Saharan Africa. More than half of the labor force in the region is employed in agriculture, and the agriculture sector contributes an average of 15 percent of the region's gross domestic product (GDP).[1] With a population that will double by 2050, estimated to account for more than a quarter of the global population,[2] growth of the agriculture sector will be key to food security and meeting the needs of that growing population.[3]

Agri-SMEs[4] — including farmer organizations, processors, input providers, producers, and distributors — are a critical backbone of the sector and play essential roles along the entire value chain. They are also often conduits of finance and technology to farmers and play a role in aggregating otherwise dispersed smallholder farmers, often including women, youth, and low-skilled workers.[5]

Despite the important role agri-SMEs play in sub-Saharan Africa, they often lack the financing they need to grow and expand their business. Lenders struggle with the high cost of serving these businesses, which are often located in rural, hard-to-reach areas. In addition, the informal business practices and reporting mechanisms of these often complex businesses make it difficult to assess the creditworthiness of agri-SMEs, and to help overcome the common perception of high risk of the agricultural sector overall. Due to these challenges, credit to agri-SMEs tends to be concentrated among lower-risk, well-known value chains,[6] and characterized by a high loan size. For instance, analysis of the Council on Smallholder Agricultural Finance's (CSAF) portfolio indicates that agri-SMEs with revenue below USD $250,000 account for less than 15 percent of the total portfolio by volume with only a handful of lenders serving those businesses.[7]

On the other hand, agri-SMEs struggle to determine the information that lenders need to finance their businesses. Our interviews with lenders identified significant variation in lending requirements and a lack of knowledge on agriculture finance and agribusiness practices that may make it challenging for them to evaluate risks in the sector. The lending process in this space is not specific to agriculture and often resembles general lending strategies. Lenders tend to have unpredictable information requests, which, when combined with the large amount of information they request upfront, leads to time-intensive sourcing, pre-screening, and evaluation processes.

These challenges result in an annual financing gap estimated at $65 billion for agri-SMEs in sub-Saharan Africa with financing needs between $25,000 and $1.5 million. This is out of a total annual financing gap estimated at $180 billion across enterprises of all sizes in sub-Saharan Africa.[8]

To help address this financing gap through improved information flows between lenders and agri-SMEs, SCOPEinsight and the Center for Financial Inclusion (CFI), in partnership with the Alliance for a Green Revolution in Africa (AGRA), conducted research with 90 lenders and industry experts, analyzed datasets from CSAF[9] members and SCOPEinsight, and conducted desk research to develop a set of bankability metrics for agri-SMEs. A detailed research methodology can be found in Appendix I.

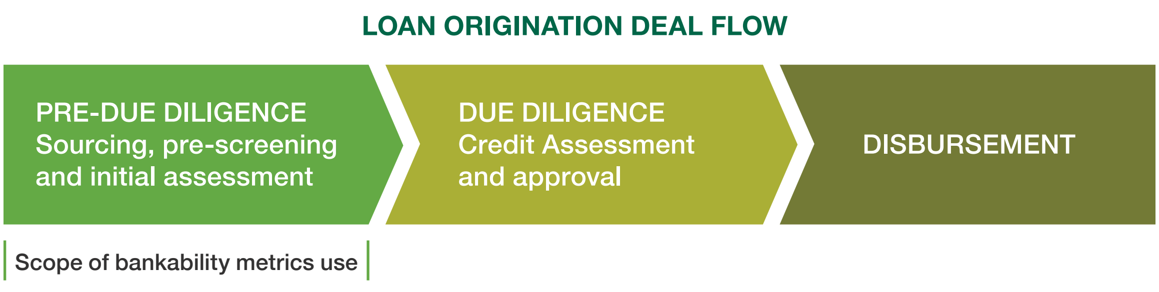
A standardized set of bankability metrics, to be used during pre-due diligence assessments of agri-SMEs (as in Figure 1 below), would alleviate some of the existing barriers faced by SMEs in accessing finance by serving as a common language between agri-SMEs and lenders.

For lenders, the metrics would provide an overview of the state of an agri-SME's business that is robust enough for the lender to make an informed decision about whether to continue with due diligence. Additionally, the metrics can help reduce the amount of time it takes to conduct a pre-screening and initial assessment.

For agri-SMEs and the service providers that support them, the metrics would clarify the expectations of lenders, so they can better prepare for the assessments and respond to the lenders' information requests more quickly and efficiently. With more standardized information requirements from lenders, agri-SMEs could also better focus their efforts to improve recordkeeping and business practices to increase their likelihood of accessing credit.

Similar efforts in other sectors to bridge the finance gap through common metrics have proven effective. For instance, to help narrow the climate finance gap for small-scale producers, IFAD recommended public actors establish a common definition and methodology for information reporting, taking into consideration the needs and priorities of the private sector to ensure widespread use.[10] Additionally, MIX, starting in 2002, partnered with public and private actors to create a common language through the development of common metrics, which contributed to fueling investment in microfinance and was used to assess thousands of financial service providers globally.[11]

FIGURE 1: Proposed agri-SME bankability metrics can support the pre-due diligence phase of deal flow



3 The Challenge of Assessing the Bankability of Agri-SMEs

To develop a set of bankability metrics, CFI and SCOPEinsight conducted research with 90 lenders and industry experts to understand how lenders currently evaluate agri-SME businesses. The research identified several key insights that were used to inform the proposed metrics.

Lenders have difficulty prioritizing the most important metrics.

Due to the high cost of due diligence, lenders tend to collect a lot of information pre-due diligence such that it is rare for lenders to reach and complete due diligence and not go through with a deal. However, the list of information collected is so long that a clear minimum set of priority bankability metrics could save lenders time and help evaluate risk more efficiently. When asked to prioritize, lender responses varied significantly from quantitative metrics like business size, profit, and balance sheet strength to qualitative ones like management experience, governance strength, and smallholder impact.

While most lenders request generic business metrics during pre-due diligence, practices vary beyond these basic business metrics.

While many lenders also request information specific to agricultural businesses or information on social and/or environmental impact, definitions for these metrics — if defined at all — vary, and substantial variation is also found as to when and how they are considered by lenders. International lenders, for example, commonly consider metrics specific to cooperatives and social impact. Cooperative-specific metrics may look at post-harvest practices, quality of produce, the level of extension services for members, the percentage of production sold by members to the cooperative, and access to inputs. Social impact was also a recurring theme across many lenders, and those that prioritize social impact look at factors such as smallholder reach, percentage of female employees, wages, and the nature and number of beneficiaries of an investment. However, these metrics were not included in the proposed bankability metrics because lenders should prioritize the minimum necessary information they need during pre-due diligence, and verify the rest during due diligence.

Lenders are aligned on the importance of management capacity, governance, and financial performance in determining bankability.

While financial performance metrics are more straightforward to define, ascertaining management skills and governance capacity is challenging, and most lenders were not able to clearly identify the specific metrics they use for these indicators. While they are difficult to measure, analysis of CSAF portfolio and client data on agri-SMEs in sub-Saharan Africa clearly demonstrates that governance and internal management are the primary reasons for default,[12] making the ability of lenders to assess against these themes essential to successful lending.

Lenders prioritized several proxies that can be used to measure management capacity and experience, including: years of experience, division between board of directors and management, and the manager's level of commitment to the business. For financial capability of the management, lenders wanted to see records of income/expenditure, dedicated finance staff, and prepared financial projections.

Leveraging insights from the research, CFI and SCOPEinsight developed a set of bankability metrics based on factors identified by lenders, like financial performance, management capacity and governance, and general information on the business activity. If adopted, these metrics would provide a common language for agri-SMEs and lenders to better facilitate information sharing during the pre-due diligence phase of determining creditworthiness, and help contribute to increasing the flow of capital to agri-SMEs.

These proposed metrics alone are not meant to provide lenders with definitive credit decisions, as every lender has a unique risk appetite and applies different thresholds to the factors that contribute to risk. The proposed bankability metrics are meant to complement a lender's eligibility criteria, such as legal registration and audited financial statements, as well as other lender-specific requirements, such as social and/or environmental impact. In addition, these metrics do not evaluate the agricultural nature of these businesses, which lenders would want to evaluate as part of their due diligence process following an initial screening.

BOX 1: SCOPEinsight's assessment dataset validates the prioritized focus areas

CFI and SCOPEinsight analyzed SCOPEinsight's datasets on the professionalism of agri-SMEs[13] to understand whether the proposed set of bankability metrics are indicative of successful lending. The 400+ indicators in the dataset are used to calculate overall performance and professionalism scores that reflect how well an agri-SME's business is managed, their management capacity and maturity, and a number of other dimensions ranging from governance, off-taker contracts, and environmental impact, to profit and loss.[14]

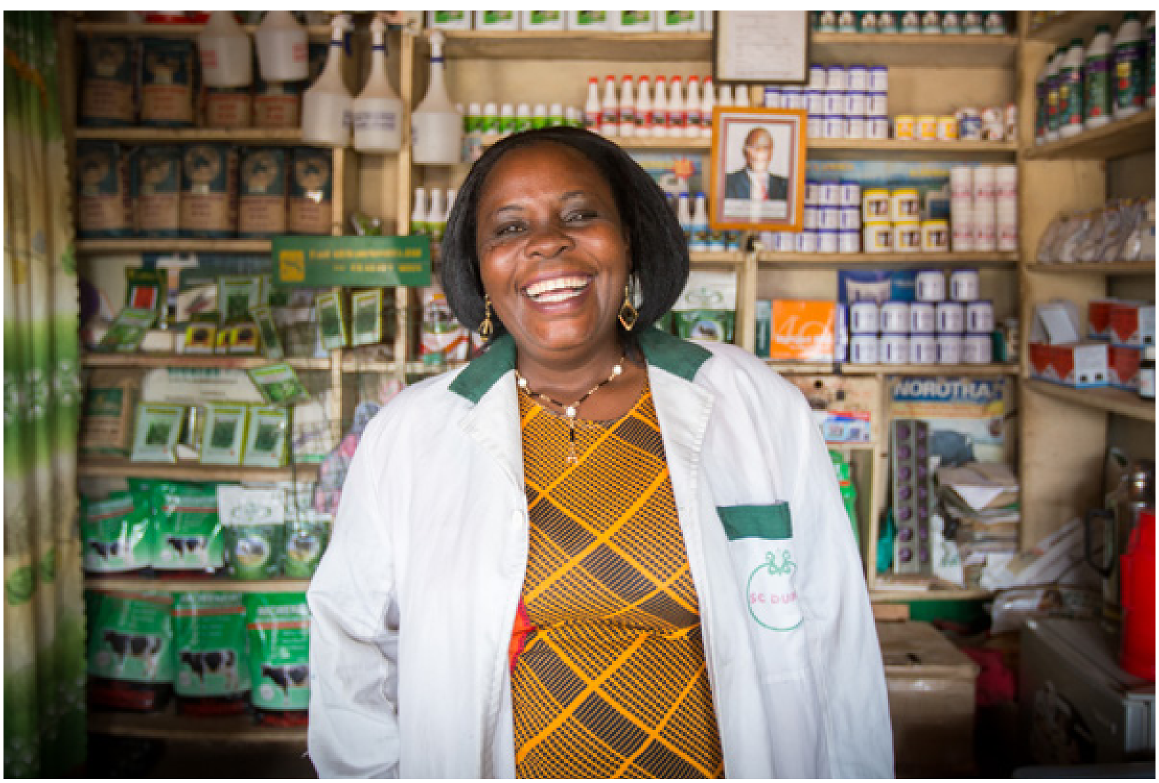
A key influencer analysis of each SCOPEinsight dimension determined which of these had the greatest influence on an agri-SME receiving a loan (see Figure 2). We found that high scores in the "marketing strategies" (including pricing and market monitoring), "internal organization" (including risk and compliance), "governance," and "business planning" dimensions increased the likelihood of an agri-SME receiving a loan, implying increased creditworthiness. For example, when the governance score is "professional," an agri-SME is 1.77 times more likely to receive a loan. "Marketing strategies" ranked amongst the highest; contracts and pricing, which is included under this dimension, is one of the metrics that was frequently mentioned in our research and is included in the bankability metrics. While "financial management and administration" was also ranked amongst the top influencers, the analysis validated our research findings that metrics related to business professionalism, management, and governance are critical in determining creditworthiness.

Analysis focused on earlier-stage agri-SMEs determined an increased likelihood of receiving a loan when scores were high in the dimensions of robust recordkeeping and monitoring, designing a marketing strategy, thorough business planning, and governance. Further investigation revealed that the earlier-stage agri-SMEs that had not yet accessed finance had low scores in the "financial planning, budgeting, and sourcing" dimension and "support from capacity builders and NGOs" dimension, suggesting that these are two areas agri-SMEs can focus in their efforts to access finance.

FIGURE 2: Top 8 key dimensions influencing agri-SMEs receiving a loan

KEY INFLUENCERS OF RECEIVING A LOAN

WHEN...	...THE LIKELIHOOD OF AN AGRI-SME RECEIVING A LOAN INCREASES BY...
Marketing strategies score is professional	1.91x
Internal organization score is professional	1.81x
Governance score is professional	1.77x
Business planning score is professional	1.74x
Record keeping and monitoring score is mature or professional	1.71x
Financial planning, budgeting, and sourcing score is mature or professional	1.69x
Market related risks score is mature or professional	1.61x
Financial management and administration score is mature or professional	1.54x



4 The Bankability Metrics

LIMITATIONS AND EXCLUSIONS

The proposed bankability metrics are designed for use by lenders during the pre-due diligence phase to help determine whether or not to continue with the due diligence phase. These metrics should not be used to define a clear-cut “Yes” decision on a finance deal; a complete application and due diligence process from the lender should determine the final approval for financing.

Furthermore, in an effort to identify metrics with the greatest common ground among lenders, the proposed metrics do not include certain metrics that some lenders might consider during a pre-due diligence bankability assessment, such as proof of certification. This set may exclude, for instance, other metrics that are collected during pre-due diligence but would be better collected and verified during due diligence when lenders often review an agri-SME’s entire loan application in detail (e.g., collateral, cash flow). Lastly, the proposed metrics do not include impact measurement metrics which are largely requested by impact lenders, but should only be collected once bankability is determined (e.g., improve farmers’ lives or offer technical assistance).

ELIGIBILITY CRITERIA

Despite some observed differences, our interview and survey results show that lenders commonly use a select set of metrics to pre-screen agri-SMEs. Many lenders set thresholds on some of these metrics (e.g., revenue less than $250,000), establishing them as eligibility criteria. This set of eligibility criteria typically includes metrics in the following areas: company information, business information, finance request, and financials. Metrics within these categories typically include: legal registration, products and services, years in operation, loan amount requested, annual revenue, and presence of audited financial statements. However, eligibility criteria diverge when it comes to other lender-specific criteria, such as focus countries, value chains, social and environmental impact, and collateral requirements. While these criteria are essential components of an overall assessment, they are only a subset of the metrics required to assess bankability.

LEVERAGING OTHER STANDARDS INITIATIVES

Prior to initiating this work of developing the proposed bankability metrics, we reviewed other standards initiatives to determine whether they could be leveraged for bankability assessments of agri-SMEs in sub-Saharan Africa. Our review of several standards, including IRIS+,[15] SME Measurement Toolkit,[16] FAST,[17,18] COSA,[19] GRI[20] and iPAR,[21] suggested that while they also aim to improve data consistency, they are not appropriate to determine the bankability of agri-SMEs in sub-Saharan Africa for several reasons:

- They are not sector- (e.g., agriculture), geography- (e.g., sub-Saharan Africa) or finance-specific (e.g., access to finance). (SME Measurement Toolkit, COSA, GRI)
- They include a long and comprehensive list of metrics that cannot be implemented in its entirety without clear reporting challenges. (FAST, SME Measurement Toolkit, IRIS+)

- A considerable number of them are designed with a specific impact and sustainability measurement lens, making the focus limited. (COSA, GRI, iPAR, FAST)

Where possible, however, in creating the bankability metrics, we have referenced some of the above standards to improve re-use and harmonization. For example, for the financial metrics, the proposed metrics use the names and definitions proposed by IRIS+, which are widely accepted definitions.

REPORTING CAPACITY

Agri-SMEs in sub-Saharan Africa are a diverse set of organizations with varying levels of formal business practices and readily available, accurate data. According to lenders, robust recordkeeping and strong business management skills among agri-SMEs in the region are a challenge. Our analysis of the agri-SME data from CSAF and SCOPEinsight, coupled with expert interviews, demonstrated the varying degree of agri-SMEs' ability to report certain data (completeness) and of sufficient quality (accuracy), largely related to their size and maturity level. Data reporting challenges are not necessarily linked to one specific metric over another; however, reporting financial data is especially challenging for SMEs. It is important for lenders to keep the reporting capacity in mind when requesting information, and something we considered in our selection of the bankability metrics.

METRICS CLASSIFICATION

The proposed metrics are organized according to lending requirements in the pre-due diligence part of the lending flow and are split into two main categories, in accordance with the typical loan origination deal flow: general metrics and bankability metrics. Lenders start a deal flow process with sourcing and pre-screening (as in Figure 2), during which they reference general information on the business, included in the general metrics section. Lenders then continue with the initial assessment step where bankability is assessed. Together, the metrics during the pre-due diligence phase provide a holistic picture of an agri-SME's financial readiness, and a lender can make an informed decision as to whether to continue the deal flow and progress to due diligence.

FIGURE 3: Classification of proposed agri-SME bankability metrics

LOAN ORIGINATION DEAL FLOW

PRE-DUE DILIGENCE		DUE DILIGENCE
SOURCING AND PRE-SCREENING	INITIAL ASSESSMENT	
A: General	**B: Bankability**	*More detailed metrics, customized per lender*
A1: Company information	**B1:** Business activity	
A2: Contact information	**B2:** Governance	
A3: Finance request	**B3:** Financials	
A4: Documents		

GENERAL METRICS

During the sourcing step, lenders mainly seek background information on the company to establish their long list of potential borrowers and request available documentation that will be referenced throughout the deal flow. During pre-screening, lenders consider details of the finance request to create a short list for further assessment. The main sections under the general category are:

- **A1: Company information** — Business activity, business type, registration and tax ID, organization structure, etc.
- **A2: Contact information** — Location, address, and primary contact details
- **A3: Finance request** — Loan amount requested, financing purpose, timeframe when financing is needed, and how it will be repaid
- **A4: Documents** — Comprehensive list of financial and legal documents

BANKABILITY METRICS

During the initial assessment, lenders aim to determine the bankability of an agri-SME and decide whether to proceed with due diligence. The bankability metrics provide a clear and robust picture of an agri-SME's business activity, governance, and financial performance — the three areas of focus identified by lenders. The metrics are further classified by which of the 5Cs of credit[22] — capital, condition, character, capacity, and collateral — they address. The main sections under the bankability category are:

- **B1: Business activity** — The metrics in this section provide information on the organization size (number of employees), experience (years in operation), business activity (top commodities/products), links to markets (top clients), and level of indebtedness (financial disclosure).
- **B2: Governance and management capacity** — Despite the wide variety of information lenders seek on governance and management capacity, the selected metrics aim to provide ample information on the management team, their experience, dedication, and decision-making processes. While the metrics in the other two categories are mostly quantitative, the governance metrics are qualitative.
- **B3: Financials** — The financial metrics selected include balance sheet and income statement indicators (e.g., revenue, cost of goods sold, assets, liabilities) to provide an overview of the financial capacity of the business. These metrics are complemented by financial ratios calculated based on the information provided in documents (e.g., audited financial statements) and indicate the state of the business in terms of liquidity, solvency, and level of indebtedness.

GENERAL METRICS

SECTION A1: Company information

METRIC NAME	DESCRIPTION
Business ID/Registration number	Unique identifier provided by the relevant national company registration authority
Tax ID/Tax account	Unique identifier provided by the national tax and revenue authority
Organization type (by legal ownership)	Ownership structure as registered with relevant national authority
Business description	The purpose of the company
Organizational structure	Overview of any divisions and their reporting lines within the company
Primary activities of business	Primary activities in the context of the relevant value chains
Financial statements and auditing status and history	If financial statements have been audited by a registered accounting firm, auditing status and number of years this has been the case

SECTION A2: Contact information

METRIC NAME	DESCRIPTION
Street City State or region Country	Address as registered with the relevant national company registration authority
Legal name	Full name as registered with the relevant national company registration authority
Commercial or trade name	Common name, if different from legal name
Website Phone Number	General contact information
Name of primary contact Title of primary contact Email of primary contact	Contact information of primary point of contact

GENERAL METRICS (continued)

SECTION A3: Finance request

METRIC NAME	DESCRIPTION
Loan amount requested	Target value of loan and if this is flexible
Currency requirement	Local, foreign, or either currency required
Date loan is required	Target date to receive loan
Loan purpose	Relevant categories of loan purpose
Specifics of loan use	Specific activities or items to be financed by this loan
Length of loan	Target loan term in years
Repayment intentions of the loan	Specifics of how the loan will be repaid

SECTION A4: Documents

METRIC NAME	DESCRIPTION
Registration	Documents, including constitutional and registration documents, created when the company was established
Management CVs	For current managers
Fiscal year-end financial statements	Balance sheet, income statement, and cash flow statement for the previous three fiscal years
Year-to-date financial statements	Balance sheet, income statement, and cash flow statement through the most recent fiscal quarter end
Financial statement projections	Balance sheet and income statement for the first 12 months of the requested loan with quarterly projections beyond one year, if applicable
Tax clearance certificate	As submitted to the relevant national tax and revenue authority
Technical certificates	As may be required for the company to handle food, produce seed, sell agrochemicals, etc.

BANKABILITY METRICS

SECTION B1: Business activity

METRIC NAME	DESCRIPTION	AN INDICATOR OF (5CS)
Year founded	Year the organization was founded (GIIN IRIS OD3520)	Condition
Number of employees	Number of all employees in the business, including full-time, part-time, and temporary employees	Condition
Top three commodities/products (by share of sales)	Top three commodities/products of the business by share of sales (value)	Condition
Top three clients (by share of sales)	Top three clients by share of sales (value), preferably for the past two years. For each, include: client type (by place in value chain), years of relationship, current contracts	Condition
Disclosure of financial obligations and donations	All outstanding debts, donations or grants. For each, include: provider, total amount, amount outstanding, security, purpose, start date, end date	Capacity
Current contracts specify pricing	Current contracts clearly define pricing for the products sold	Condition

SECTION B2: Governance

METRIC NAME	DESCRIPTION	AN INDICATOR OF (5CS)
Dedicated manager for each business function	Separate manager dedicated to each of: finance, operations, human resources. For each, include: name, qualifications, experience	Character
Experience of the key business managers in the business and industry	Number of years and positions held	Character
Recent changes in management	Recent changes in management and reasons why	Character
Level of commitment of the business manager to the business	The level of commitment of the business manager to the business through indications of other current professional occupations	Character
Clear division of authority between management and board	Level of independence and consensus in the management team's decision-making process	Character
Shareholders and their individual share of capital	Top 10 shareholders by share of capital. Exception: For cooperatives or producer associations with more than 30 members, only shareholders holding 20% or more of total shares	Capital

BANKABILITY METRICS (continued)

SECTION B3: Financials

METRIC NAME	DESCRIPTION	AN INDICATOR OF (5CS)
Sales revenue	Value of the revenue from sales of the organization's products/services during the reporting period, for the past three years, if applicable (GIIN IRIS PI1775)	Capacity
Cost of goods sold	Value of direct expenditures attributable to the production of the goods sold by the organization during the reporting period, for the past three years, if applicable (GIIN IRIS FP9049)	Capacity
Net income (Net profit)	Value of the organization's net profit, calculated as total income minus total expenses, taxes, and cost of goods sold during the reporting period, for the past three years, if applicable (GIIN IRIS FP1301)	Capacity
Total assets	Value, at the end of the reporting period, of all of the organization's assets, for the past three years, if applicable (GIIN IRIS FP5293)	Capacity
Total liabilities	Value of organization's liabilities at the end of the reporting period, for the past three years, if applicable (GIIN IRIS FP1996)	Capacity
Total equity	Value of the residual interest, at the end of the reporting period, in the assets of the organization after deducting all its liabilities, for the past three years, if applicable. Net assets is equivalent to total assets minus total liabilities. (GIIN IRIS FP5317)	Capacity
Current ratio (*calculated*)	= Current assets / Current liabilities	Capacity
Leverage ratio (*calculated*)	= Total liabilities / Total equity	Capacity
Return on assets (*calculated*)	= Net income / Total assets	Capacity
Cash flow coverage ratio (*calculated*)	= Cash flows from operating activities / Total debt	Capacity

A detailed template of which fields should be collected to populate the metrics above, as well as guidance on validating them, can be found in Appendix III.

5 The Bankability Metrics as a Call to Action

Without a common set of bankability metrics, lenders will continue to face high transaction costs in the pre-due diligence phase, and agri-SMEs will continue to lack the information and clarity needed to be credit-ready. Lenders are seeking attractive investments, but agri-SMEs need to know what is required of them to become bankable.

We envision these metrics can be used by lenders, donors, Technical Assistance (TA) and Business Development Service (BDS) providers, and agri-SMEs in the following manner:

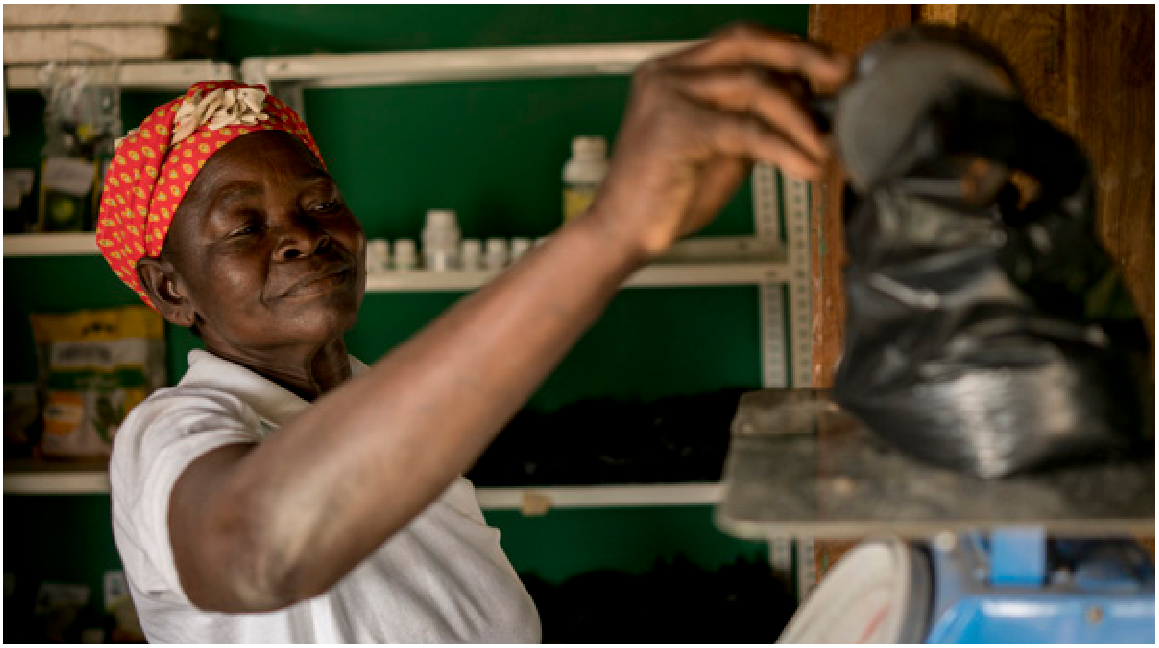
- **Lenders** — Lenders, ranging from local financial institutions to internationally operating funds, can request prospective agri-SMEs to submit bankability metrics during the pre-screening process, early in the discovery phase. This could allow lenders to confidently make a pre-due diligence decision based on the information that the agri-SME provides with greater efficiency, once lender expectations are made clearer.

  Additionally, lenders can share the metrics with the NGOs, incubators, and service providers they work with to provide these organizations with more clarity on lenders' expectations. These actors can support agri-SMEs in their path to becoming creditworthy. As a result of both opportunities, lenders could gain efficiencies in their process, while the path to bankability for agri-SMEs gets shorter and clearer.

- **Donors** — Donors can play a game-changing role by prescribing that the bankability metrics are used as an output of their funding recipients' agri-SME professionalization work. Donors can also encourage the local financial institutions they support to use the bankability metrics as proposed above. As a result, donors could maximize their leverage by reaching a large number of agri-SMEs. Also, employing standardized metrics could enable donors to track and readily compare their different programs, making it possible to report on the broader impact of their access to finance facilitation.

- **Technical assistance and business development service providers** — TA and BDS providers can use the metrics to identify the pain points where agri-SMEs may not be able to report on or meet them and build agri-SMEs' capacity accordingly. In this way, the metrics could help TA and BDS providers target their support to agri-SMEs and improve their capacity to seek financing.

  To expedite uptake of the metrics, TA and BDS providers can ask lenders in their network to identify their minimum lending requirements using the metrics, establishing a clear eligibility baseline for each lender. Moreover, providers can build and work with "champion" agri-SMEs in order to demonstrate the importance and success of adopting these metrics.



- **Agri-SMEs —** The bankability metrics can increase an agri-SME's awareness of lender requirements during pre-due diligence. Agri-SMEs can proactively prepare to report these metrics during their preparation for finance, which could save them time in compiling information for lenders and improve their chance of receiving finance by being better prepared to provide the information required by lenders.

- **Research and thought leaders —** These bankability metrics are a starting point to develop a common language between agri-SMEs and lenders. Researchers can conduct pilots with a variety of stakeholders to further validate the value and limitations of these metrics, test our calls to action, and contribute to the impact evidence base.

MOVING FORWARD

Beyond these calls to action, which will require continued multi-stakeholder collaboration, future phases of this program could consider two areas to advance uptake of the metrics sector-wide: metrics expansion research and a metrics-based information solution. Research could: 1) explore the value and limitations of expanding the bankability metrics to broaden lenders' understanding of agri-SME risk; 2) include social impact metrics that may include climate risk mitigation, gender equity, and inclusivity; and 3) test the validity of the metrics application beyond sub-Saharan Africa (to Central and South America, for example).

An information solution, in the form of an online portal that uses these metrics as a linking pin, could enable lenders to lower the cost of finding agri-SMEs with the appropriate risk profile, while broadening, diversifying, and strengthening their deal pipeline. By providing visibility into new agri-SMEs, this portal could also catalyze new agri-SME lending. Validating this value proposition and the viability of a portal would be necessary next steps.

It will take concerted action by lenders, service providers, and donors to validate, test, and adopt the bankability metrics. But if they do so, and their efforts are supported by industry actors working to address the full range of challenges faced by agri-SMEs, the bankability metrics can be an important enabler of access to finance for agri-SMEs so they can grow their businesses and meet the food needs of the future.

Appendices

APPENDIX I: Research Methodology

Literature review — We reviewed several reports, articles, and studies to develop a comprehensive understanding of agri-SME bankability assessment in sub-Saharan Africa. The results of the research were used to: 1) refine a definition of agri-SMEs for validation with industry actors; 2) identify the main challenges faced by agri-SMEs and understand the role of information gap in the lack of capital flow to these businesses; and 3) help draft an initial set of bankability metrics with relevant context.

Interviews with industry actors — CFI and SCOPEinsight consulted with industry actors, including social lenders, local financial institutions, technical assistance providers, business development service providers, and industry researchers with experience in lending to agri-SMEs in sub-Saharan Africa. The scope of these interviews was to: understand the main steps and pain points of the lending process, validate the minimum set of lending criteria, and identify what lenders consider to be important indicators of bankability and why.

Analysis of pre-due diligence forms — The feedback from the interviews was complemented with detailed information on the metrics that lenders use in their pre-due diligence forms. The goal of the exercise was to analyze the extent of the information that lenders request from agri-SMEs before proceeding with due diligence, identify the common metrics among lenders, and prioritize the key ones.

DATA ANALYSIS

- Seven data partners (all CSAF members) submitted data on their current portfolio and client impact indicators. To ensure that the research remained focused and relevant, the data analysis focused on a selected set of countries in Africa that were considered "core countries" (Kenya, Rwanda and Uganda) and "periphery countries" (Ethiopia, Ghana, Ivory Coast, and Tanzania) after consultations with key stakeholders. This selection aims to ensure representation from different parts of the continent. We received data from seven CSAF members on their portfolio and client information, for 142 clients and 246 loans, totaling $83M in disbursements in 2019. The average and median loan approved amounts reported were $723k and $400k, respectively. The results from the CSAF data analysis, on over 100 agri-SMEs, are used in the main arguments and findings throughout the report.

- We analyzed data from SCOPEinsight's standardized, data-driven tools used to assess an agri-SMEs level of professionalism, and looked for the drivers behind getting a loan. SCOPEinsight scores assess agri-SMEs on eight different dimensions and 16 sub-dimensions covering topics ranging from governance, prices, off-taker contracts, and environmental impact to profit and loss. An agri-SME's performance is rated on each dimension from 1 to 5, where 1 is "very immature" and 5 is "quite professional." The dataset included over

400 metrics on the professionalism of 2,336 agri-SMEs, including both agri-SMEs that received finance and those that had not. The results from the SCOPEinsight analysis are used throughout the report, namely, to shed light on agri-specific approaches to bankability assessment.

Bankability metrics draft review — The draft bankability metrics went through two rounds of review, combining offline feedback from an advisory group and key project stakeholders, with working sessions to discuss the selection of the metrics and their relevance.

Bankability metrics validation survey — The conclusions from our interviews with industry actors, the analysis of pre-due diligence forms, and the feedback from the several rounds of review contributed to the development of a survey that was distributed to a larger pool of industry actors through existing partnerships and open to the public through social networks. The purpose of the survey was to validate whether our findings on the lending process to agri-SMEs and the proposed bankability metrics reflected their experience in the agri-SME lending in the region. Of the 72 individuals who responded, by type of their organization, 45 percent represented professional service providers (including TA and BDS providers), 36 percent funders or formal financial institutions, with the remainder mostly value chain organizations or consultants. By geographical scope of their organization, 60 percent had a global or continental purview and 40 percent regional or national.

APPENDIX II: SCOPEinsight Assessment Dimension Components

DIMENSION	COMPONENTS
Marketing strategies	Client demands Pricing strategy Marketing strategy Value adding activities
Internal organization	Bylaws Human resources risk Human resources Performance management Record keeping Availability of documentation Corruption
Governance	Management Hiring of the management Quality of management staff Objectives of management Accountability of management Independence of management Continuity of the management Remuneration of the management team General assemblies Board of directors Remuneration for board of directors Succession of board members Division of responsibility Supervisory committee

APPENDIX II: SCOPEinsight Assessment Dimension Components (continued)

DIMENSION	COMPONENTS
Business planning	Available business plan Vision and mission Strengths and weaknesses Business objectives Strength of business plan Business performance monitoring
Record keeping and monitoring	Financial reporting Financial statements External audit Cost and sales price Liquidity Access to financial information Use of insurances Financial monitoring
Financial planning, budgeting, and sourcing	Financial planning Approval of budgets Investment plan Business surpluses Membership contribution External finance Pre-finance Funding from donors Reserves
Market related risks	Awareness of market risks Mitigation of market risks Contract negotiation Contract management Competition Price risk management
Financial management and administration	Financial information system Accounting documentation Financial data Asset register Responsibility for daily financials Financial policies Cash handling

APPENDIX III: Bankability Metrics Data Collection Form

The data collection form is an Excel template that can be used by lenders to request the data required for the bankability metrics from agri-SMEs. The fields and their organization in the template have been designed to make completion by the agri-SME simple and straightforward, so some sections do look different as a result, for example Governance. Included in the template are details of the type and validation for each field, to guide lenders who want to modify their existing forms and templates. For those who want to circulate this template as-is to agri-SMEs, it is recommended that these details are removed or hidden.

APPENDIX IV: Organizations Interviewed

For this research we interviewed a range of industry actors, as listed below.

TYPE	GEOGRAPHIC COVERAGE	ORGANIZATION
Funder	Global	Alterfin, Ceniarth, Genesis Charitable Trust, Incofin, MCE Social Capital, Oikocredit, Open Capital Advisors, Rabobank Rural Fund, Root Capital, Shared Interest Society
Formal Financial Institution	Kenya	KCB Bank
	Nigeria	Sterling Bank
Value Chain Organization	Global	Syngenta, Heineken
Professional Service Provider	Global	TAPBDS, Wellspring

Notes

1 "OECD-FAO Agricultural Outlook 2016-2025." Food and Agriculture Organization of the United Nations. 2016. https://www.fao.org/publications/card/en/c/f0589695-58d9-425c-8be2-7dc065e5602f/.

2 "Africa's Population Will Double by 2050." The Economist. March 26, 2020. https://www.economist.com/special-report/2020/03/26/africas-population-will-double-by-2050.

3 Ehui, Simeon. "Protecting Food Security in Africa During COVID-19." Brookings. May 14, 2020. https://www.brookings.edu/blog/africa-in-focus/2020/05/14/protecting-food-security-in-africa-during-covid-19/.

4 There is significant variation in the definition of SME size categories, which often rely on a combination of number of employees, assets, and revenues. Even for a categorization based on the number of employees, there is substantial variation in definitions across countries. For the purpose of this study, we use the term "agri-SMEs" broadly, to include both those engaged in primary production, as well as agricultural businesses engaged in activities all along the agricultural value chain. Those engaged in primary production can include individual farmers, farmer-based organizations and cooperatives, or larger enterprise farm operators.

5 "New Study Challenges Funds and Governments to Invest in African Agrifood SMEs." Food & Business Knowledge Platform. March 14, 2018. https://knowledge4food.net/new-study-challenges-funds-and-governments-to-invest-in-african-agrifood-smes/.

6 "Bridging the Financing Gap: Unlocking the Impact Potential of Agricultural SMEs in Africa." Aceli Africa. September 2, 2020. https://aceliafrica.org/bridging-the-financing-gap-unlocking-the-impact-potential-of-agricultural-smes-in-africa/.

7 Analysis of CSAF members' data. See Research Methodology in the Appendix I for details.

8 Dalberg and KFW, 2018. Africa Agricultural Finance Market Landscape.

9 CSAF consists of 13 private lenders who come together on a pre-competitive basis to share learning and develop industry standards to promote healthy growth in the financial market serving SMEs in the agriculture sector.

10 "Examining the Climate Finance Gap for Small-scale Agriculture." IFAD. November 2020. https://www.ifad.org/en/web/knowledge/publication/asset/42157635.

11 Hadi, Omar, and Bob Cull. "A Big Win for Data Users: World Bank Unveils MIX Market Database As Open Data." World Bank Blogs. March 4, 2020. https://blogs.worldbank.org/opendata/big-win-data-users-world-bank-unveils-mix-market-database-open-data.

12 Analysis of CSAF members' data. See Research Methodology in the Appendix I for details.

13 Analysis of SCOPEinsight data. See Research Methodology in the Appendix I for details.

14 See SCOPEinsight Assessment Dimension Components in the Appendix II for details.

15 "Welcome to IRIS+ System | the generally accepted system for impact investors to measure, manage, and optimize their impact." Global Impact Investing Network. Accessed December 17, 2020. https://iris.thegiin.org/.

16 "Results measurement: SME Measurement Toolkit." International Labour Organization. Last modified October 3, 2019. https://www.ilo.org/empent/Projects/the-lab/WCMS_723492/lang--en/index.htm.

17 "Building a Common Framework for Impact Assessment." Finance Alliance for Sustainable Trade. Accessed December 17, 2020. https://www.aspeninstitute.org/wp-content/uploads/files/content/docs/ande/Integrating%20Tools_FAST%20SIAMT.pdf.

18 FAST is no longer active but was considered as it also sought to assess agri-SMEs.

19 "Indicator Library Master List." Committee on Sustainability Assessment. Accessed December 17, 2020. https://thecosa.org/master-list/.

20 "Standards." Global Reporting Initiative. Accessed December 17, 2020. https://www.globalreporting.org/standards/.

21 "iPAR." iPAR. Accessed December 17, 2020. https://iparimpact.com/ipar-metrics-library.

22 "5 Cs of Credit — Overview, Factors, and Importance." Corporate Finance Institute. Last modified April 22, 2020. https://corporatefinanceinstitute.com/resources/knowledge/credit/5-cs-of-credit/.

CENTER FOR FINANCIAL INCLUSION

www.centerforfinancialinclusion.org

The Center for Financial Inclusion (CFI) works to advance inclusive financial services for the billions of people who currently lack the financial tools needed to improve their lives and prosper. We leverage partnerships to conduct rigorous research and test promising solutions, and then advocate for evidence-based change. CFI was founded by Accion in 2008 to serve as an independent think tank on inclusive finance.

SCOPEINSIGHT

www.scopeinsight.com

SCOPEinsight is the leading company offering standardized tools to measure the level of professionalism — a proxy to bankability — for agribusinesses. These assessments lead to a robust data-set which allows benchmarking and comparing. The data provides actionable insights and facilitates better decision-making for the agribusinesses and their stakeholders. SCOPEinsight's scalable system is applicable to every country, every type of agricultural organization, and every crop. Since 2010, SCOPEinsight has trained over 700 assessors who have conducted nearly 4,300 assessments in 45 countries spanning 19 agricultural sectors and reaching more than 10 million farmers. Clients include multilateral development and food security organizations, NGOs, multinational traders & processors, and financial institutions.

ALLIANCE FOR A GREEN REVOLUTION IN AFRICA

agra.org

Alliance for a Green Revolution in Africa (AGRA) is a partnership-driven institution that is African-led and farmer centered. Established in 2006, AGRA places smallholder farmers at the center of the continent's growing economy by transforming their farming beyond the solitary struggle for survival, into thriving businesses. Our partners include African governments, researchers, development partners, the private sector and civil society working primarily with smallholder farmers — men and women who typically cultivate staple crops on two hectares of land or less. Our five-year strategy (2017–2021), aims to catalyze and sustain an inclusive agricultural transformation through integrated, country-based investment plans in 11 countries with a high potential for success. The focus is on increasing incomes and improving food security for 30 million farm households with support that strengthens the capacities of governments and private sector through policies, programs, and partnerships that increase productivity and access to markets and finance. AGRA drives the bulk of its investments through the Partnership for Inclusive Agricultural Transformation in Africa (PIATA) with funding from the Bill & Melinda Gates Foundation, the Rockefeller Foundation, The German Federal Ministry of Economic Cooperation and Development (BMZ), the UK Foreign, Commonwealth & Development Office (FCDO), and the United States Agency for International Development (USAID).

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