



Co-finance Mechanism

A guide on the Agricultural Finance Corporation and Feed the Future Kenya Crops and Dairy Market Systems Activity

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Project overview

Feed the future Kenya Crops and Dairy Market Systems (KCDMS) Activity is a five-year (Oct 2017– Sept 2022) program of the United States Agency for International Development (USAID). It is funded as part of Feed the Future, the U.S. Government's global hunger, and food security initiative that helps to increase agricultural production and reduce poverty and malnutrition in Kenya. The KCDMS activity is being implemented in twelve counties (**Kitui, Makueni, Taita Taveta, Homa Bay, Migori, Kisii, Kisumu, Siaya, Kakamega, Bungoma, Busia, and Vihiga**) and is designed to spur competitive, resilient market systems in Kenya's horticulture and dairy sectors.

The Agricultural Finance Corporation (AFC), a Government owned Development Finance Institution (DFI) has a mandate to develop agriculture and agricultural sector in Kenya through provision of credit. AFC operates 46 branches in Kenya. AFC has been lending to the agriculture sector since 1963 and has renewed its funding commitment for the sector with increased allocations for financing horticulture and dairy.

AFC and KCDMS have entered into a partnership with an intention of facilitating agri-finance in the counties of mutual interest to agricultural and agriculture Micro, Small Medium (MSMEs) and large enterprises.

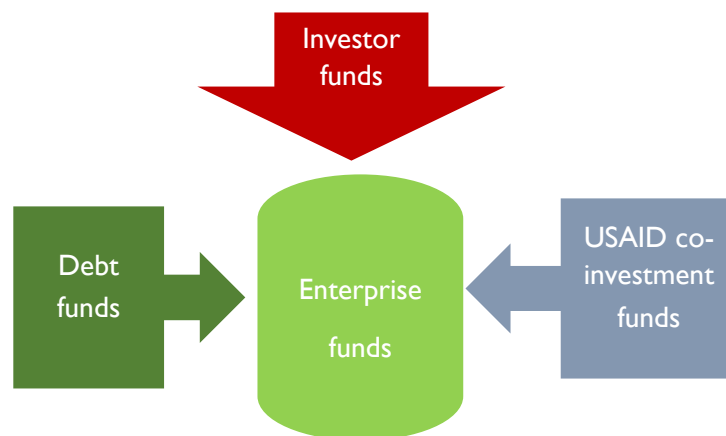
To facilitate this, the two organizations have devised a co-funding mechanism for agricultural enterprises. The mechanism targets high impact enterprises to the agribusiness sector within the zones of common interest.

Rationale

- Financing is a critical ingredient to fuel investment at the farm and off-farm levels
- Commercial funds are the most available source of finance for agribusiness investors
- Access to these funds, specifically credit is constrained by a range of factors.
- The factors include but not limited to: Collateral, capacity of actors to service debts, availability of flexible and customized facilities and value chain structure (market factors).
- KCDMS has devised a cocktail of pathways that involve financial capital providers
- KCDMS has partnered with Financial institutions such as Banks, DFIs, MFIs and SACCOs with an intention of increasing demand and supply of finance to the sector in its Zone of influence
- The activity is facilitating linkages between enterprises and financial institutions and vice versa

A. Blending finance for agribusiness enterprises

Fig: The Blended funds concept



- KCDMS PIF Funds:** This is a non-refundable co-investment funding aiming at improved marketing and production of dairy and horticulture products.
- Debt Funds:** This is a loan facility provided by AFC for investment in business improvement. The loan funds are provided at competitive rates of 10% p.a on reducing balance rate.
- Investor Funds:** This is the investment by the business owner(s)

B. Purpose: To provide/facilitate finance for high impact agribusinesses. High impact means strong and performing businesses with increased capabilities to buy and sell to a high number of small holder farmers in

various value chains. Funds under this mechanism targets business needs such as: purchase of capital assets, Business expansion, working capital, marketing and extension, technological investments etc. Various needs will be matched with the various sources.

C. Eligibility:

An agribusiness operating (buying or selling) in the counties above. The business can be a partner to KCDMS or an existing AFC client.

D. Mechanism:

The funding mechanism involves provision of funds from KCDMS's Partnership and Innovation Fund (PIF) and debt funds from AFC in addition to capital provided by the entrepreneur(s).

E. Basic qualifications for KCDMS PIF Funds:

1. A privately owned business entity
2. Operating in the specified zones/Counties: Buying or selling in the 12 counties
3. Commodities of primary focus include: dairy, fodder/feeds, horticulture (mango, passion fruit, sweet potato, avocado, banana, and pineapple)
4. Scalable business model and market potential: feasible, with high growth prospects
5. Impact: Able to impact number of farmers, youth and women to be reached
6. Sustainability: viable, environmentally sound, raw materials, management
7. Applicant contributes (cost share) to their business project: 50/50 basis
8. Financing under KCDMS PIF KES 2,500,000 and KES 25,000,000. A minimum of upto Kshs. 500,000 will be considered specifically for youth and women enterprises.

F. AFC basic qualifications

1. Bankable business proposal/plan
2. Demonstrated impact and outreach to small holder farmers
3. Demonstrated management capabilities
4. Active participation in targeted value chains and regions
5. Operational business for three years in value chains targeted under the program
6. Certifications and approvals from relevant regulatory bodies
7. Acceptable and adequate security

G. The Process

i) Channel 1:

- a) Those who have applied and are successful in KCDMS's partnership fund will have the opportunity to be funded for cost share and other capital from AFC.
- b) A recommendation* by KCDMS to the funding will be provided
- c) The businesses must meet the basic qualifications for loan funding. During the process or on approval of the grant facility, the business will make an application for loan funding from AFC.
- d) AFC will conduct assessments and evaluate as per the set criteria.

ii) Channel 2:

- a) AFC clients who are applying for and qualify for loan facilities and meet qualifications for grant funding may prepare and submit proposals as per KCDMS guidelines.
- b) A recommendation* from AFC towards the funding will be provided
- c) Proposal will be evaluated and aligned to the business and KCDMS activity objectives.
- d) Approval for the grant facility will be sought and disbursed as per agreed schedules.

**Recommendation: Will provide details on the level of finance, the purpose of finance and any significant conditionalities Disbursements under the 2 channels will be harmonized for best and most impactful results.*



Outcomes: Significant number of agro-enterprises with sufficient capital to undertake growth projects from the leveraged capital sources

Other benefits: Access to BDS Services and proposal support from USAID/KIM

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