



ICSIAPL project Learning brief

July 2025



Blended finance and technology transfer in the forage value chain and integrated landscape management

Background

The agricultural sector is the least funded sector in Kenya by the formal financial institutions despite being the largest sector in terms of GDP contribution that stands at over 50% GDP contribution directly and indirectly). Despite this significance, access to finance remains a huge challenge for Kenyan farmers. According to the Fin Access 2019 report, only approximately 3.2% of Kenyan farmers utilise formal borrowing for agricultural financing. This statistic prompts an investigation into the barriers that impede access to formal credit and the potential consequences for agricultural productivity and rural development. Sale of assets, income from non-farm employment or businesses and social networks are the major sources of capital for investing in this sector.

Additionally, most conventional loan structures are designed with fixed monthly repayments, assuming a borrower has a steady and predictable income stream like a salaried employee. However, this model does not align with the financial realities of smallholder farmers, whose income is typically seasonal. For example, a farmer might take a loan in January to purchase inputs for maize production but will not earn any significant income until the harvest in August. Despite this, the loan requires monthly repayments starting in February, when the farmer has no income.

This mismatch creates financial stress, increases the risk of default, and can trap farmers in cycles of debt. This shows the need for financial products that are tailored to agricultural cycles such as loans with flexible repayment schedules, grace periods, or lump-sum payments after harvest to truly support the livelihoods of farmers.

Over the last five years (2020 – 2025), the ICSIAPL project focused on transforming livestock keeping systems in Kajiado, Taita Taveta and Narok Counties through forage value chain development and building resilience of agro-pastoralists and other livestock keepers, including ranches, through promoting improved livestock production systems, rangeland management and biodiversity conservation. This brought out the need to embed access to finance for the livestock keepers in the project area to facilitate adoption of new technologies in forage production, conservation and Integrated Landscape Management (ILM) practices that were promoted by the project. To deter some of the constraints in Agri finance, the project embraced various financial models based on project design, context and needs, in addition to embedding gender equality and social inclusion. This was with a view that financing is very important in commercialisation and development of SMEs along the forage value chain (FVC) nodes and Integrated Landscape Management (ILM).



Financial models/strategies used

To promote technology transfer and adoption, the project promoted and applied various financial models depending on the context and needs of the target groups. The project worked with Small and Medium Enterprises (SMEs), Cooperatives, Community Based Organisations (CBOs), Self-Help Groups (SHGs) and Water Resource Users Associations (WRUAs) to achieve its objectives. The various models used were:

Innovation Fund

This Fund was developed to promote mechanised fodder production and conservation, improved rangeland management and private sector driven forage seed distribution and demonstration in the project area. The project developed Innovation Fund Guidelines and Applications Forms, held information workshops and supported the applicants whose applications were approved with further operationalisation of their business plans, choice of forages and farm equipment, and by giving technical advice during implementation. The Fund was designed as a 50%/50% co-funding instrument with a maximum contribution by ICSIAPL of Kshs 3.0 million, followed by an additional Kshs 1.5 million from the ICSIAPL project for 5 of the 12 Grantees for follow-up investments in 2024/25. The Grantees (12) included ranches (5), individual farmers (2), a CBO (1) and seed companies (4). The own contribution of the Grantees was the same as - but usually significantly more than - the grants provided by ICSIAPL. Banks such as Equity Bank, Kenya Commercial Bank (KCB), Diamond Trust Bank (DTB) provided in most cases loans to the Grantees to cover their own contribution. The activities funded ranged from farm machinery and equipment, inputs (forage seeds, fertilisers, crop protection), forage storage facilities (haybarns), investments in rangeland restoration and fencing. The ICSIAPL project provided technical assistance to the grantees to ensure that the business cases were economically viable and sustainable.

Small Investment Fund

After rolling out the Innovation Fund, the project team realised that the Fund requirements and application process was too rigorous for micro businesses such as SHGs, CBOs and cooperatives, whose membership is often composed of youth and women.

This resulted in the launch of the Small Investment Fund (SIF) that offered applicants a grant of Kes 250,000 (or higher up to Kes 0.5 or 1.0 million) in some exceptional cases) and a reduced own contribution of 25%, with SNV contributing 75% of the total budget. SIF grantees who successfully implemented their grant agreement were able to apply for a second grant to scale up their businesses, with one youth grantee even receiving up to four grant agreements starting with a first grant of Kes 40,000 and last grant of Kes 565,650. In total, ICSIAPL invested 10,413,737 while the groups co-contributed 4,182,860 KES. The 25% own funding mainly came from group members' savings, Village Loans Associations (VSLAs) or Savings and Credit Cooperative Societies (SACCOs).

Community Managed Financial Model

As the project expanded across the three counties, it recognised the role of community-managed financial models such as Village Savings and Loan Associations (VSLAs) and Savings and Credit Cooperative Organizations (SACCOs). These models supported the SIFs by serving as key sources of group co-financing. To strengthen these financial mechanisms, the project conducted capacity needs assessments and delivered targeted training tailored to the specific needs of each group. The training focused on areas such as savings mobilisation, cost-reduction strategies, and financial management at both group and individual levels.

Seed Fund

ICSIAPL had a budget of circa Kshs 6.0 million to hand-out small quantities of 3 different novel forage seed varieties to for livestock keepers or commercial forage producers, to pilot in their farms. The beneficiaries (in total 1,150) were farmers that were exposed and trained to ICSIAPL's demo plots established by KALRO and showcasing up to 20 different forages suitable for the agro ecological zone where the demo plot was located. The project developed Seed Fund Guidelines and Application Forms and organised seed fairs across the three counties that converged forage seed suppliers, financial institutions and farmers.

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To strengthen these financial models the following interventions were carried out:

- **Institutional capacity development:** Participatory training needs assessment of the cooperatives and other community groups were done. Training was conducted in terms of institutional strengthening in governance, leadership, business processes, and financial management.
- **Technical assistance to groups /SMEs in managing finances and the business models:** The project grantees were not only given funds but also the skills to manage them and run profitable businesses that could survive after the ICSIAPL project end, through business coaching and mentorship. Forward and backward linkages were also created during the project implementation period
- **Individual farmer capacity development:** To sustain the financial models and the micro enterprises, capacity building in terms of savings mobilisation, borrowing, cost cutting measures, investment and business skills development was done. This was in a bid to improve their business operations and level of savings, while maintaining quality loan portfolios within their group managed financial models.
- **Facilitating forward and backward linkages:** The project helped the groups to develop linkages with input suppliers (i.e. for seeds, fertilisers, pesticides, farm equipment, dairy goat breeders etc.), markets (meat and milk processors), financial institutions and development projects at the County or by other NGOs. This was to ensure a market-led orientation of the groups and further support where needed after ICSIAPL ended (e.g. through the DRIVE project for livestock insurance, NAVCDP, ASDSP-II, KCSAP).

Lessons learned

- Financial education is key to unlocking financial inclusion in ASAL areas. During training sessions, the farmers all through were not aware of their potential in terms of savings and investments they can mobilise internally from their community-based organisations. This awareness was increased by identifying ways to save based on the group members' own situation their livelihood activities. They realised that one does not have to earn a lot of money to start saving and to do small but meaningful investments.
- Sustainable adoption and upscaling of technologies need contextualised tailor-made financing mechanisms backed by technical assistance that will foster ownership and enhance business acumen for sustainability.
- Conventional banking is important for SMEs requiring heavy investments but have outgrown the community managed models because of limited cashflows. For example, most of the Innovation Fund grantees who co-financed 50% or more of their investment plan, accessed loans from conventional financial institutions/banks to meet their obligation.

The amounts borrowed ranged from Kes 1 – 8 million. To ensure thriving business cases, technical assistance is key to ensure that huge investment have a positive return on investment and are worthwhile.

- Agri financing is very crucial in building the community's resilience and mitigation of climate change effects. Most of the farmers have knowledge of forage production and conservation but many are preserving their fodder as standing hay because access to finance for construction of storage facilities and access to mechanisation services is a problem. This prevents them from harvesting multiple cuts per season or year and the grass gets overgrown negatively affecting the nutritional value.
- A phased approach to increasing investments has proven highly effective in supporting the sustainable growth of the business cases. Several grantees received multiple rounds of funding ranging from two to as many as four grants as their businesses matured and required additional capital to scale. Following the successful implementation of initial grants, grantees were eligible to apply for subsequent funding based on demonstrated profitability and business growth. This progressive model enabled groups to reinvest their profits and leverage additional grants, ultimately allowing them to double or even triple their initial investment capacity. The approach has supported steady, healthy business development while minimizing financial risk.

Opportunities and conclusions

There is great potential in Kenya's Arid and Semi-Arid Lands (ASALs) to enhance livelihoods. Opportunities are vast if synergies and partnerships with development programmes and private sector are well explored and are embedded in the project design phase.

- **Co-Designing Financial Products with the Private Sector:** Commercial banks and other financial institutions can collaborate with farmer groups to develop tailored financial products that align with the unique needs of agri-businesses across various value chain nodes. These products should incorporate flexible repayment schedules linked to agricultural cycles (e.g., harvest seasons) rather than rigid calendar months. This is especially relevant for capital-intensive areas such as mechanisation and forage production.
- **Incentivising Investment in Regenerative and Value-Adding Models:** To create systems, change and re-investments in the businesses created, it is important that in financing the business operations, decisions are made with a view on making profits and are therefore market-led. Technical assistance to enhance knowledge and skills is usually crucial to maximise the return on investments and realise these profits.