



Embassy of the Kingdom
of the Netherlands



Master Class: Smart Finance for Smart Water Solutions

Facilitated by
National Irrigation Acceleration Platform

Date: 20th July 2018

**Venue: SNV Netherlands Development Organization, Ngong Lane,
Off Ngong Road, Nairobi**

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"Smart Finance for Smart Water Solutions" is the theme of a master class being organised by WARREC/JKUAT and SNV in Nairobi on July 20th, 2018. The aim of the master class is to convene key financial service providers, DFI's, impact investing stakeholders and irrigation solutions providers to stimulate debate on the potential financial models that could unlock the opportunities in financing the smallholder irrigation value chain in Kenya. This document provides the background for this master class, and elaborates on our efforts to stimulate knowledge networking and evidence based advocacy in smallholder irrigation development in Kenya.

Background:

Smart Water for Agriculture (SWA) is a 4 year program implemented by a Consortium of partners that consist of SNV Kenya, MetaMeta, The Royal Tropical Institute (KIT), Practica Foundation and Aqua for All. The program aims to improve food security through optimized water availability and efficiency by small and medium farmers and businesses. SWA promotes more effective irrigation development jointly with farmers, and interaction, joint learning, coordination and cooperation among stakeholders involved in the development of farmer-led irrigation.

To address the issues of water stress in Kenya and to ensure the uptake of irrigation solutions among smallholder farmers, the SWA program in collaboration with WARREC, the Water Research and Resource Center of Jomo Kenyatta University of Agriculture and Technology, has set up the National Irrigation Acceleration Platform (NIAP). NIAP is a multi-stakeholder consultation framework, which aims to initiate, support and scale innovations around smallholder irrigation in Kenya.

On 12th April 2018, WARREC and SNV had organized a workshop "Promoting Farmer-led and Market based Smart Water Solutions for improving smallholder irrigation in Kenya". The workshop brought out the key developments in the smallholder irrigation sector and challenges faced by the different stakeholders in upscaling Smart Water Solutions (SWS) in Kenya.

Based on the feedback from the workshop, "Access to Finance" has emerged as the biggest challenge faced by the smallholder irrigation value chain actors.

While the Kenyan finance ecosystem has an evolved landscape of service providers including 160 licensed SACCOs, 9 microfinance banks, 23 credit-only MFIs and 43 banks, there are critical gaps in serving different segments of the irrigation value chain, from the smallholder farmers to technology enterprises, distributors, retailers and related agribusinesses.

There is still a reluctance from financial service providers (FSPs) to invest in smallholder irrigation because of perceived high risks of agriculture related to weather unpredictability, pest & disease outbreaks, low entrepreneurial attitude of many farmers, price fluctuations of crops, poor infrastructure, and poor market information. Farmers are also not able to demonstrate good decision making skills around irrigation technology adoption, business management practices, etc. that provide a track record and illustrate their capacity to become bankable.

Notes from Workshop Stakeholder Group – Financial Institutions:

- Issues around access to finance - perceived versus real risks;
- Support development of new financing products focused on farmer-led irrigations given high R&D costs and risks;
- Access of all FI to funds at reasonable rates to allow lending to farmers at lower rates, possibly through creation of common "Pool of Funds";
- Improving linkages between FI and service providers.

It is also acknowledged that irrigation and smart water use is one of the essential ways of reducing risks in agriculture, making farming less rainfall dependent and more profitable. However, adopting or acquiring smart water technology means that irrigation technology providers need capital to reach the smallholder farmers. However, these enterprises usually

fall into the 'missing middle' in agricultural finance. This is a result of being seen as too small and too risky to most FSPs, who resort to high collateral requirements that these enterprises often don't have or charging inflated 'risk premium' interest rates that are unaffordable.

The Smart Water for Agriculture program has undertaken a study to link the supply and demand side of access to finance, which provided some practical recommendations to improve financial access for the irrigation value chain actors in Kenya, specifically the smallholder farmers.

Recommendations:

- "Savings" as a means of financial inclusion should be promoted amongst groups. This will reduce the cost of borrowing.
- Explore leasing as an option from leasing companies and the minimum amount that can be availed and repayment options under this arrangements
- A re-financing model be explored between commercial banks and rural financial intermediaries such as KCB, Equity, Cooperative Bank etc.
- Explore inter-linked financing mechanisms with input, technology suppliers, insurance companies and other FSPs.

SWA program has also been using its innovation and investment fund to support qualified FSPs to reduce their risks and facilitate swift supply of credit to specific target groups identified by the program.

Based on the program experiences so far and the recommendations from the study and first NIAP workshop, it is clear that scaling-up investments will require innovative finance mechanisms and models. This can be achieved only through partnerships among stakeholders in the irrigation value chain.

WARREC and SNV-SWA therefore, invite key national level stakeholders involved in financing smallholder irrigation development to a master class to share knowledge and experiences around emerging finance models in agriculture finance, and jointly develop potential financial models that could unlock opportunities in financing the irrigation value chain in Kenya.

Program:

Time	Agenda	Facilitator
09:00	Registration	NIAP Secretariat
09:30	Opening Remarks and Introductions	Prof. Bancy Mati, WARREC
09:45	Opportunities around Smart Water Solutions – SWA Studies and potential Decision Making Tools	Ms. Jackline Muturi, SNV
10:00	Is the smallholder irrigation sector investment ready?	Ms. Florence Kariuki, SNV
10:15	Case Presentation: Bio-digester Finance Africa	Mr. Bert van Nieuwenhuizen, SNV
10:45	Tea Break	
11:00	Discussion - Unlocking opportunities for investments in Smart Water Solutions	Ms. Sheena Raikundalia, Intellectap
13:00	Wrap-Up and Lunch	Prof. Bancy Mati

Expected Outcomes of the Master Class:

- An understanding of the smart water solutions for smallholder farmers in Kenya and the main issues hampering the uptake of these solutions
- Development of new financing models that could increase access to credit for scaling the uptake of smart water solutions
- Improving linkages between financial service providers, impact investors and smart water solution providers

About the Organizers:

WARREC – JKUAT

JKUAT is an Institution of higher learning established in Kenya under the Universities Act No. 42 of 2012, through the JKUAT Charter signed on 1st March 2013. The University's objectives and functions include inter alia, to provide directly or indirectly, or in collaboration with other institutions of higher learning; facilities for quality training, research and innovation in agriculture, engineering, technology, enterprise development, health sciences, social sciences and other applied sciences, and integration in teaching, research and effective application of knowledge and skills to the life, work and welfare of the citizens of Kenya. JKUAT has established the Water Research and Resource Center (WARREC) as a center of excellence for research, science, technology and innovation in the broad fields of the water sector.

SNV

SNV is a not-for-profit international development organization, working in Agriculture, Energy, and Water, Sanitation & Hygiene. Founded in The Netherlands in 1965, SNV has built a long-term, local presence in 38 countries across Asia, Africa and Latin America. SNV's global team of advisors work with local partners to equip communities, businesses and organisations with the tools, knowledge and connections they need to increase their incomes and gain access to basic services – empowering them to break the cycle of poverty and guide their own development.