

ONE



Re-imagining Kenya's Agri-Food Financing Future

Cover photo: Hannah Chebet from Green Sprouts, and agribusiness based in Kenya, 2021.

Executive Summary

Kenya's agricultural heartbeat is faltering. While the sector contributes over 22.5% of the national Gross Domestic Product (GDP) and employs over 70% of the rural workforce, its financial arteries are clogged by decades of underinvestment and donor dependency. The sudden withdrawal of external financing combined with tightening fiscal space has exposed this model's frailties. However, the core findings of this paper reveal that the prevailing shortcomings are not simply about funding shortfalls. Additionally, it outlines strategic pathways for transitioning toward a resilient, market-driven, and domestically anchored financing framework so that the sector doesn't flatline.

1.1 Key Findings: Structural Underinvestment and Financing Gaps

Public expenditure on agriculture in Kenya remains persistently low (approximately 3-4% of national budgets), far below the 10% continental commitment under the Comprehensive Africa Agriculture Development Programme (CAADP) and the Malabo Declaration. This sustained underinvestment led to a dangerous dependency on external financing which has effectively substituted for weak domestic capital mobilization.

At the continental level, a structural financing gap estimated roughly \$200 billion annually continues to constrain agricultural transformation, particularly for agri-SMEs that remain underserved by formal finance. Commercial banks allocate less than 5% of lending to agriculture, reflecting entrenched perceptions of high risk and low returns.

External financing has historically functioned as a stopgap measure for domestic underinvestment, rather than a catalyst for sustainable systems. The abrupt withdrawal of major development partners, particularly the collapse of the United States Agency for International Development (USAID) in 2025 has created both: A financial vacuum (loss of grants and concessional funding), and an operational vacuum (loss of extension services, technical systems, and coordination platforms).

1.2 Immediate Socio-Economic Impacts

The withdrawal's ripple effects have been swift and systemic rather than purely financial. Farmers have lost access to important agronomic knowledge and extension services, resulting in declining productivity and reduced resilience to climate variability. This vulnerability is further compounded by structural risk mispricing in agricultural finance, driven by climate volatility, weak extension systems, and external price shocks, resulting in credit rationing and elevated borrowing costs.

At the same time, the removal of subsidized inputs has increased production costs, forcing households into difficult trade-offs that affect broader welfare outcomes. These pressures have propagated across value chains, weakening demand for inputs, machinery, and services, and contributing to a contraction in rural economic activity.

Yet amid the wreckage, green shoots of resilience are emerging. Farmers and agribusinesses are beginning to restructure market engagement by seeking direct access to buyers, targeting higher-value markets, and reducing reliance on intermediaries. Concurrently, there is a gradual shift toward engagement with domestic financial institutions, indicating an emerging transition toward locally anchored financing models. These responses, however, remain constrained by deeper structural and policy limitations.

The funding crisis has exposed long-standing institutional weaknesses, including fragmented policy frameworks, weak inter-ministerial coordination, and limited accountability in enforcing public investment commitments. Devolution has further amplified coordination challenges, with counties designing and implementing agricultural interventions without strong alignment mechanisms with national frameworks, resulting in fragmented planning and uneven execution. Land tenure insecurity continues to restrict access to credit by limiting the use of land as collateral, while regulatory unpredictability and instances of state interference deter private investment. Furthermore, limited preparedness for evolving global standards such as sustainability and trade compliance requirements places additional pressure on farmers and exporters.

1.3 Strategic Pathways

Building structural resilience: Strengthening policy and regulatory foundations is essential to reducing systemic inefficiencies and restoring investor confidence. Targeted tax relief on key agricultural inputs and machinery can help lower production costs and improve competitiveness. At the same time, mandatory policy coherence and impact reviews across agriculture-related sectors including trade, energy, and water are necessary to eliminate regulatory contradictions. Strengthened oversight mechanisms will also be important to align public expenditure with continental commitments and ensure accountability in implementation.

Devolution-related coordination gaps also require attention, particularly the misalignment between national and county-level agricultural planning. Establishing structured coordination mechanisms will be pivotal to improving the coherence of agricultural investment, extension delivery, and infrastructure development across all levels of government.

Unlocking domestic capital: Mobilizing and de-risking domestic capital is central to building a sustainable financing ecosystem. Expanding and redesigning public credit guarantee schemes can reduce perceived lending risks and unlock commercial finance for smallholders and agri-SMEs. A central structural shift is the emergence of country-owned value-chain finance systems, with improved coordination between public and private actors. Complementing this, the digitization of farmer identities and transaction histories, leveraging existing mobile money ecosystems can improve creditworthiness assessments and enable more inclusive financial access.

Promoting aggregation through professionally managed cooperatives will further enhance scale, reduce transaction costs, and strengthen the investment case for the sector.

Re-imagining partnerships: Realigning donor engagement is critical to ensuring long-term sustainability. Development partners should transition from direct service delivery toward system facilitation, focusing on strengthening institutions, building local capabilities, and crowding in private investment. Grant-based models should increasingly be replaced with co-investment structures that promote local ownership and accountability. In parallel, targeted financial relief mechanisms such as temporary loan restructuring or moratoria during periods of acute stress can help stabilize farm-level productivity without creating long-term dependency.

Introduction

Agriculture is the bedrock of Kenya's economy, contributing over [22.5%](#) of the annual Gross Domestic Product (GDP) and an additional [27%](#) indirectly through linked sectors like manufacturing, distribution, and service sectors. It remains the nation's primary export engine accounting for about [65%](#) of total exports and employs the majority (over [70%](#)) of the rural workforce. Despite this central role in national food security and macroeconomic stability, the sector is increasingly defined by chronic [fiscal fragility](#).

The persistent underinvestment at the national level has systematically reinforced Kenya's reliance on external financing to sustain agricultural development programs. Reinforcing this vulnerability, the national budget for the 2025/26 financial year allocated [KES 47.6 billion](#) (approximately USD 366 million) to the agricultural sector, a 12.8% (KES 7 billion) contraction from the previous year's allocation of [KES 54.6 billion](#). This downward trend in domestic funding occurs even as the sector's requirements for climate adaptation and modernization grow.

For decades, development partners including the United States Agency for International Development (USAID), the International Fund for Agricultural Development ([IFAD](#)), the European Union (EU), and the [World Bank](#) have bridged the investment gap through technical assistance and capital injection. These efforts are closely aligned with advancing national frameworks, including the [Agricultural Sector Transformation and Growth Strategy](#) (ASTGS), which serves as Kenya's medium-term (2019-2029) blueprint for transforming agriculture into a competitive, inclusive, and sustainable sector by improving the income of small scale farmers, increasing agricultural output and value add, strengthening value chains, and increasing household food resilience.

The persistent underinvestment at the national level has systematically reinforced Kenya's reliance on external financing to sustain agricultural development programs.

However, this donor-centric model faces an existential threat. A sharp [decline](#) in international aid flows has been triggered by shifting donor priorities, as Western nations increasingly divert capital towards [domestic economic recovery](#), the green energy transition, and urgent [geopolitical priorities](#). Adding to this challenge is [Kenya's](#) classification as being at high risk of debt distress which has severely narrowed the country's fiscal environment. This fiscal strain creates a crowding-out effect, where a significant portion of national revenue is diverted to [debt servicing](#) rather than agricultural development.

This intersection of declining international aid and internal fiscal constraints has created a financing gap that renders current dependency a strategic vulnerability. Consequently, there is an urgent need to transition from a donor-centric model to a diversified, resilient domestic financing framework. This paper seeks to navigate this shifting landscape by pursuing three interconnected objectives. First, it assesses the immediate **socio-economic impacts** of international donor funding contractions on the national agri-food sector. Second, the study maps the **prevailing policy environment** to identify systemic bottlenecks that hinder the development of the sector. Ultimately, these insights are synthesized to propose **strategic, evidence-based pathways** for establishing a more self-sustaining financing future for Kenya's agricultural sector.



Mapping the Agri-Food Investment Landscape:

3.1 Macro View of Agricultural Financing Landscape in Africa

Agriculture remains the strategic anchor of continental development, formalized through the [Sustainable Development Goals \(SDGs\)](#), the [African Union's Agenda 2063](#), and the recently adopted [Kampala Declaration](#) on building Resilient and Sustainable Agrifood Systems (2025). This latest framework reaffirms the

Comprehensive Africa Agriculture Development Program (CAADP) as the primary vehicle for transformation, targeting a [45%](#) increase in agrifood output by 2035.

However, a persistent implementation gap continues to undermine these ambitions. More than two decades after the 2003 Maputo Declaration and later reaffirmed under the 2014 Malabo Declaration, compliance with the mandate to allocate at least [10%](#) of national budgets to agriculture remains the exception rather than the rule. The 4th [CAADP](#) Biennial Review (2024) revealed that average public expenditure on agriculture across African Union member states remains well below the agreed threshold, at approximately [2.4%](#), indicating a significant disconnect between continental policy aspirations and national fiscal priorities.

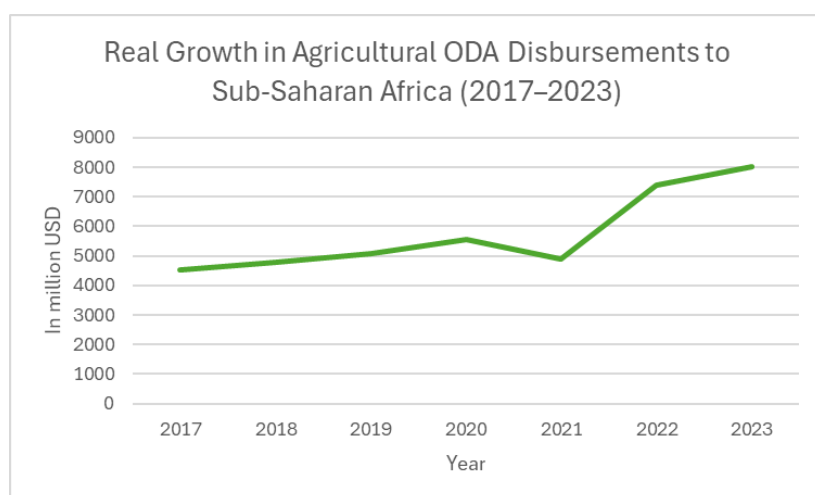
This persistent underperformance reflects a broader pattern of low political prioritization of agriculture within national development agendas, despite the sector's central role in employment, food security, and economic transformation. The chronic underinvestment in agriculture at national levels was met in the late 2000s by a renewed surge in external engagements catalyzed by the 2008 global food price crisis. At the 2009 L'Aquila Summit, G8 countries pledged roughly [USD 20 - 22 billion](#) over three years to support sustainable agriculture and food security globally, a commitment that helped redirect donor resources toward agricultural development efforts in Africa and other regions. This surge effectively positioned donor finance as a compensatory mechanism for chronic public underinvestment in the sector.

The continental perspective reveals a dire structural financing deficit that fundamentally constrains agricultural development across Sub-Saharan Africa (SSA). While the region possesses abundant natural capital, the agricultural sector is estimated to face a vast annual funding gap of approximately [USD 200 billion](#). This pervasive gap reflects underdevelopment across technologies, production, value addition, and distribution, with insufficient tailored financing from both public and private sources. A significant portion of this deficit (over [35%](#)) is concentrated among agricultural small and medium-sized enterprises (agri-SMEs) whose borrowing needs typically falls between [USD 25,000 and USD 1.5 million](#), and hence, falls outside the larger investment thresholds preferred by most formal financial institutions and commercial lenders.

Moreover, the agri-sector receives less than [5%](#) of commercial bank lending in Africa. The reluctance of formal finance stems from the perception of agriculture as [high-risk](#) and low returns, with anticipated returns around [3-5%](#) and lower than other [sectors](#) of the economy. This view is exacerbated by climate change impacts, price volatility, and the limited track record of smaller businesses.

While Official Development Assistance (ODA) has been instrumental in driving progress in the sector, this support has become increasingly volatile. Global

economic headwinds alongside rising debt challenges have significantly narrowed the fiscal space for national governments to fund agriculture, intensifying the dependency on external aid just as those aid flows are becoming less reliable. The structural challenge is thus twofold: mobilizing capital at the required scale while simultaneously addressing the deep-seated risk perception that funnels investment away from the most productive yet vulnerable segments of the agricultural economy.



Source: FAO. 2024. [FAOSTAT](#): Development Flows to Agriculture

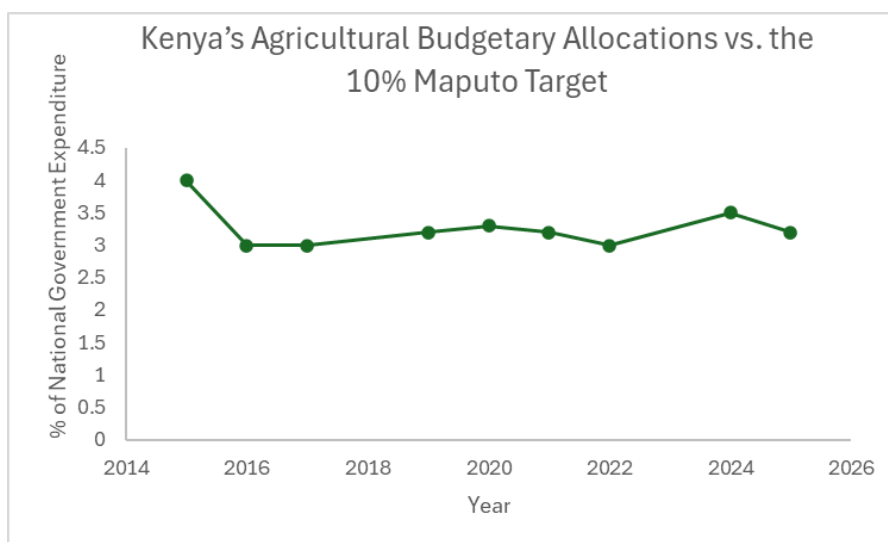
The data used here indicates an upward trend in ODA disbursements to Africa’s agricultural sector, reflecting an increase of approximately 77% over the period. Disbursements grew steadily between 2017 and 2020, indicating sustained donor engagement, before experiencing a temporary contraction in 2021. This 2021 dip was likely driven by the global reallocation of fiscal resources toward COVID-19 emergency health responses. However, this downturn was followed by a sharp rebound in 2022 and 2023, with disbursements reaching their highest levels in the series. Overall, the trend suggests that external financing has become increasingly imperative in sustaining agricultural investment, reinforcing the argument that ODA has acted as a compensatory mechanism for persistent domestic underinvestment.

3.2. Kenya’s Agriculture Financial Landscape

Kenya’s budgetary allocations have consistently fallen short of the Maputo declaration target. National Investment in the sector has been lagging at [3.2%](#) of total government expenditure which is much lower than the 10% envisioned in the Malabo declaration.

The graph reveals that Kenya’s budgetary allocation to the agricultural sector has remained persistently low and structurally below the 10% Maputo benchmark

throughout the period under review. Allocations fluctuated narrowly between 3.0% and 4.0% from 2015 to 2025, with no sustained upward trajectory. The trend reflects chronic underprioritizing of agriculture in national fiscal policy, hence, indicating a prolonged implementation gap between Kenya’s continental commitments and actual budgetary practice.

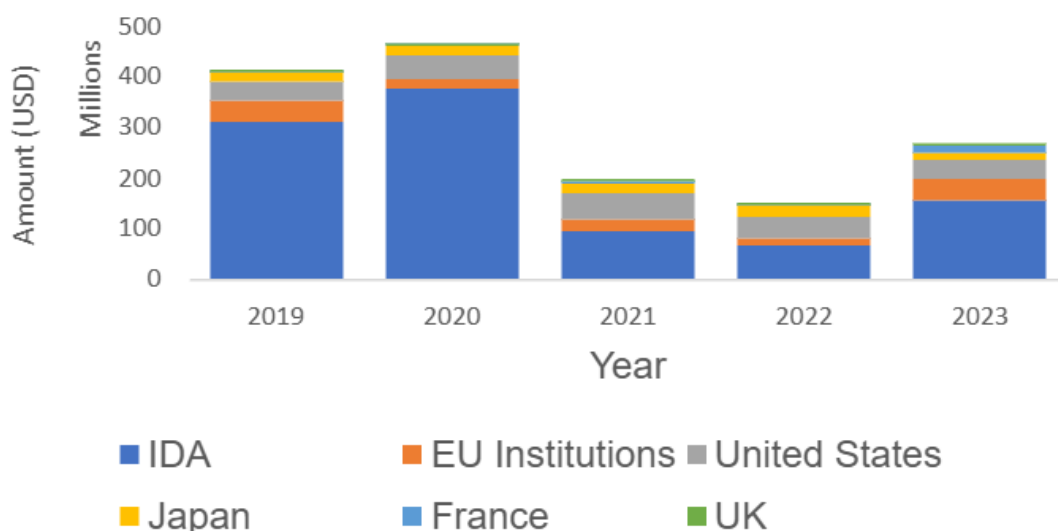


Source: Author’s calculations based on data from the [Kenya Bureau of Statistics \(KNBS\) Economic Surveys \(2015-2025\)](#), [International Budget Partnership](#) and the Republic of Kenya, [National Treasury Budget Policy Statements](#)

Kenya’s persistent domestic underinvestment has institutionalized a heavy reliance on external financing to sustain its agricultural transformation. This dependency is illustrated in the 2025/26 national budget, where Kenya allocated [KES 47.6 billion](#) (approx. USD 366 million) to the sector with a significant portion of this amount contingent upon external aid, grants, and concessional loans¹. While the World Bank remains the largest multilateral creditor with a [USD 690 million](#) (KES 100 billion) commitment to multi-year development projects in 2024, bilateral support has historically been anchored by the United States.

¹ While external financing is a primary driver of the budget, specific disaggregated data defining donor funds as a fixed proportion of the total agricultural budget is not currently made public by the National Treasury.

Multilateral and Bilateral Aid to Kenya's Agricultural Sector (2019-2023)



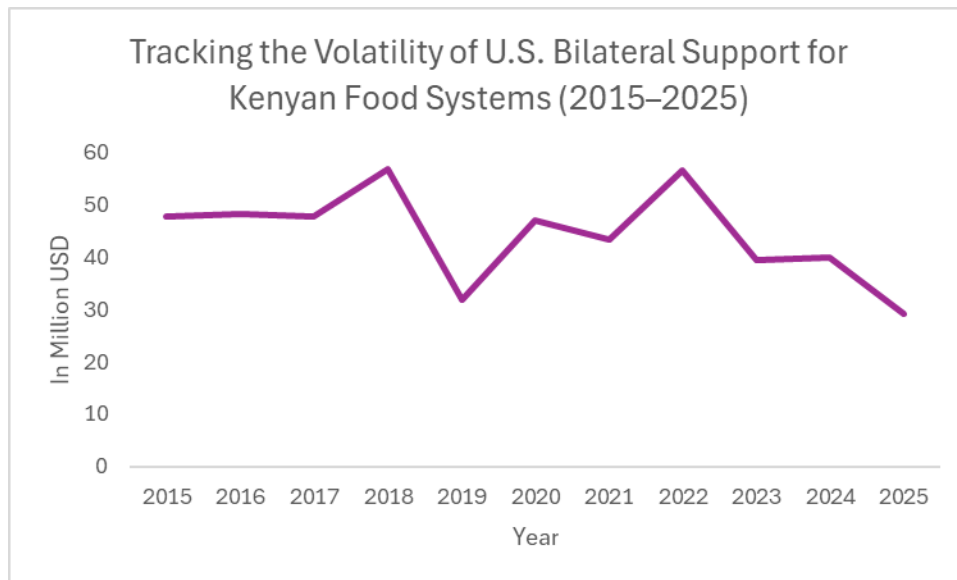
Source: OECD Development Assistance Committee

Prior to the funding decline in 2025, the United States was a major development partner to Kenya. US financing, primarily directed through its strategic [Feed the Future \(FtF\)](#) initiative, provided development funds, estimated at [USD 39 million](#) in 2024 for the development component of agriculture, alongside significant emergency humanitarian food aid. These funds were not mere budgetary supplements; they served as high-leverage catalysts for systemic change, focusing on private sector engagement, resilience building in arid lands, and strengthening county government capacity.

This seismic shift created a profound dual crisis: a massive financial vacuum resulting from lost grants and humanitarian funding, more critically, an operational vacuum due to the elimination of essential technical services.

The operational stability of USAID was shattered in early 2025 by the abrupt termination of its operations. Driven by the "America First" agenda pivot, this institutional collapse terminated an estimated [83%](#) of US development programs in Kenya. This seismic shift created a profound dual crisis: a massive financial vacuum resulting from lost grants and [humanitarian funding](#), more critically, an operational vacuum due to the elimination of essential technical services, such as the [Famine Early Warning Systems Network \(FEWS NET\)](#). The rapid withdrawal

exacerbates the sector’s fiscal vulnerability and threatens to reverse years of gains in market development and the resilience of smallholder farmers.



Source: [USAID Foreign Aid Explorer Data](#)

The trend shows that USAID support to Kenya’s agricultural sector has been uneven and unpredictable over time, rather than following a stable or progressive path. While there were periods of increased funding, particularly in 2018 and 2022, funding also declined sharply with allocations falling to their lowest level in 2025. This pattern suggests that external donor support is subject to shifts in priorities and funding cycles, making it an unreliable substitute for sustained domestic investment.



Qualitative Findings

The findings in this section draws on semi-structured interviews with a cross-section of stakeholders across Kenya's agri-food system, including researchers, value-chain actors, agricultural engineers, and policy and finance consultants. This breadth of perspectives supports a system-level interpretation of the impacts of donor funding contraction and the structural constraints shaping sectoral performance.

4.1.1 The Immediate Socio- Economic Impacts of Donor Funding Contraction

Across interviews, respondents consistently emphasized that the most immediate and disruptive consequence of donor funding cuts was not the loss of cash transfers, but the sudden withdrawal of embedded non-financial support systems. For decades, donor-funded programs support has underwritten agronomy services, extension support, and access to subsidized inputs. Their abrupt withdrawal has caused a sharp shock in agricultural productivity, particularly for smallholder farmers who have become structurally dependent on these services/support from donors.

The most immediate and disruptive consequence of donor funding cuts was not the loss of cash transfers, but the sudden withdrawal of embedded non-financial support systems.

The erosion of agronomy and extension services emerged as the most critical impact. Interviewees noted that donor support had effectively substituted for weak public extension systems, facilitating knowledge transfer on best practices, crop management, and responses to climate variability. With these services withdrawn, farmers face declining yields, increased vulnerability to crop disease, and weaker adaptive capacity to shifting weather patterns. As one key informant interviewee from the coffee sector observed, *“the biggest gap that aid has created is the access to knowledge transfer and best practices, so the agronomy services, farmers are lacking that now and obviously the effects are in quantities that farmers are producing due to that lack of understanding and how to manage it.”* Overall, the loss of on-the-ground expertise has immediate consequences for output volumes and farm-level decision-making, particularly in the context of increasing climate stress.

This vulnerability is compounded by structural risk mispricing in agricultural finance. Multiple stakeholders emphasized that agriculture remains classified as inherently high-risk due to climate uncertainty, weak extension systems, and geopolitical shocks (including fuel and input price volatility linked to external conflicts). This reinforces credit rationing and high interest rates, even when demand for finance exists.

Simultaneously, the withdrawal of subsidized inputs has imposed a severe cost shock on farmers. Inputs that were previously accessed at low or zero cost, such as fertilizers, seeds, or equipment, must now be purchased at market prices.

Respondents in the coffee and manufacturing sector highlighted that many farmers had not internalized these costs into their production planning, having operated for years within donor-supported systems. *“It affects them straight away, something that was coming without pain is now there, but you must spend money to get it. They have not gotten used to spending money to buy that for, say, six years or ten years. Suddenly they must set aside and stop something else. They will now stop school fees to buy fertilizers.”* The result has been painful trade-offs at the household level, with expenditure on education, health, or consumption displaced by the need to finance agricultural inputs.

These impacts have propagated along the value chain. Reduced purchasing power among aid-supported end users has constrained demand for machinery, equipment, and services, affecting private suppliers upstream and downstream.

Interviewees stressed that donor withdrawal therefore generates multiplier effects beyond farmers themselves, contracting entire local agri-food value chains and reinforcing a broader slowdown in rural economic activity.

4.2 Adaptive Responses and the Turn Toward Market-Led Resilience

Despite the severity of these shocks, the interviews also revealed an emergent process of adaptation and restructuring. Funding contractions have accelerated a shift, albeit uneven and incomplete, away from aid dependence towards market-oriented and domestically anchored solutions. *“We are readjusting upstream looking for more direct markets where the pricing has a premium to absorb that shock and we also eliminating certain elements of the supply chain. So as much as the aid has now diminished the market, the market has restructured itself in the favor of the farmer,”* says a stakeholder from the Agriculture and Sustainable Farming Organization.

At the farm and organizational level, respondents described efforts to reconfigure market engagement to absorb higher production costs. This has included seeking more direct access to buyers, targeting premium markets, and reducing reliance on intermediaries to improve farm-gate prices. While not universally accessible, such strategies reflect a pragmatic attempt to internalize shocks through improved market positioning rather than external subsidy.

In parallel, organizations that previously relied heavily on donor finance are increasingly engaging with domestic financial institutions. Interviewees pointed to growing efforts to negotiate tailored credit arrangements with local banks, including preferential loan terms and longer tenures for farmer groups. This shift reflects recognition that long-term resilience requires integration into domestic financial systems, even as respondents acknowledged persistent challenges related to interest rates, collateral requirements, and risk perception.

A recurring theme was the need to redefine the role of external partners. Stakeholders argued that donor agencies should move away from acting as de facto system operators and instead focus on enabling local actors. This entails supporting firm-level capabilities, strengthening institutions, and crowding in private investment rather than substituting it. One respondent captured this succinctly by noting that development partners are not permanent participants in national systems and should therefore prioritize facilitation over direct provision.

4.3 Structural and Policy Constraints Exposed by Aid Volatility

While adaptive responses are emerging, the interviews highlighted that aid volatility has primarily served to expose long-standing institutional and political economy failures that continue to impede sectoral development. These constraints shape both the severity of the shock and the limits of market-led adjustment.

A dominant theme was policy fragmentation and weak coordination across government. Respondents described a landscape characterized by ministerial silos, inconsistent directives, and limited communication across agencies/limited consultation with farmers and producer organizations. Even basic policy processes are poorly synchronized, creating regulatory uncertainty and undermining investor confidence. As one of the interviewees, a representative from a farmer-wide-umbrella association noted, *"sometimes there's a contradiction between livestock and agriculture policie[s]. Sometimes climate policies affect agriculture policies. Sometimes is that there's an irrigation minister who is there introducing new policies. So, there's a lot of lack of alignment of policies, especially in agriculture only related ministries but also those ministries that feed into agriculture."*

At a deeper political economy level, stakeholders additionally identified weak political prioritization and fragmented accountability as structural constraints, noting that agriculture often lacks a sustained political champion. Comparative reference was made to Uganda, where higher-level political prioritization has translated into stronger yield performance and more coherent policy execution.

Another stakeholder from a farmers organization noted that, *"most times the policies that are passed in Parliament are loaded with interests by politicians and external players rather than the farmers themselves."* For farmers, cooperatives, and agri-SMEs, what should function as an enabling policy framework instead becomes a source of uncertainty that discourages investment and weakens the sector's ability to absorb donor-funding shocks.

This governance fragmentation is further compounded by devolution dynamics, where counties independently design agricultural interventions without structured national alignment mechanisms. This has resulted in fragmented implementation and inefficiencies in extension delivery and infrastructure planning, reinforcing coordination gaps between national and sub-national systems. A senior representative of the Eastern Africa Farmers Federation further illustrates this coordination gap through Kenya's response to external regulatory shocks. Referencing the EU Green Deal and its new sustainability standards for agricultural exports, key agricultural institutions and producer organizations were not meaningfully engaged in preparation. As he explains, *"we found that even the regulators are not ready... the players don't even know what the implications will be."*

More broadly, this reflects a structural weakness in anticipatory governance, where Kenya's institutions largely remain reactive rather than prepared for external regulatory and market shifts. As a result, global policy changes are transmitted downstream to farmers and exporters without adequate institutional buffering, amplifying risk rather than managing it.

Also, responsibility for climate finance and accreditation channels sit primarily with environment and finance ministries, leaving agriculture structurally marginal in shaping responses. As a result, farmers and agri-exporters face rising compliance costs without corresponding institutional support, extension, or financing mechanisms. Hence, the brunt of these global policy shifts is transmitted to farmers through these fragmented institutional channels that amplify risk rather than manage it.

Interviewees also highlighted a persistent accountability deficit in policy implementation. Formal commitments, such as budgetary allocation of targets under continental frameworks, are frequently announced but weakly enforced. Monitoring and oversight institutions were described as insufficiently empowered or incentivized to challenge deviations between stated policy objectives and actual fiscal outcomes, perpetuating a cycle of underinvestment in agriculture.

Beyond policy design, structural constraints continue to magnify financial risk in the sector. Insecure land tenure arrangements limit the ability of smallholders to use land as collateral, constraining access to formal credit and reinforcing dependence on informal finance. A key structural constraint consistently highlighted is the mismatch between formal financial collateral systems and informal rural asset structures. This creates systemic exclusion even when financial inclusion rates appear high.

Geographic and climatic conditions also further elevate production risk, particularly in arid and semi-arid regions, hence emphasizing the importance of public investment in water management, soil conservation, and climate adaptation infrastructure.

Finally, governance failures manifested through excessive bureaucracy, regulatory unpredictability, and perceived state capture were repeatedly identified as deterrents to private investment. Respondents pointed to instances where policy interventions, particularly in input markets, have crowded out private actors rather than strengthened them. These dynamics not only undermine investor confidence but also weaken the very market systems that are now expected to compensate for declining donor support. This was especially evident in the fertilizer sector, where the state intervention has disrupted private market participation.

“Government policy coherence has been at least quite disconnected, and in some cases, it has undermined the private sector. For example, in the fertilizer sector, many private fertilizer companies have gone out of business or ramped down significantly. And that’s an issue of state capture and politics,” says a technical expert.



Strategic Pathways

To bridge the financing gap and mitigate the shocks of aid volatility, Kenya must pivot toward a framework of self-sustaining growth. The following strategic pathways provide a blueprint for this transition, focusing on policy coherence, capital mobilization, and a fundamental realignment of the donor-recipient relationship.

5.1 Policy and Regulatory Reforms for Competitiveness and Coherence

The findings from the interviews reveal that policy fragmentation, fiscal inconsistency, and regulatory distortions significantly amplify the shocks related to the abrupt withdrawal of donor aid. Hence addressing these gaps is a prerequisite for both long term growth and agricultural resilience

Implement a Favorable Tax and Trade Regime:

The current tax and trade framework undermines local production and value addition by inflating input costs and weakening competitiveness. One policy option to address this constraint is the selective reduction of indirect taxes on essential agricultural machinery and priority inputs, which could ease cost pressures and improve producer margins in the short term.

Stakeholders further emphasized that Kenya's agriculture sector suffers not only from cost burdens but also from structural lack of value capture domestically. Comparative examples (e.g., Côte d'Ivoire's cashew processing model) highlight the importance of completing value chains within-country to increase margins, attract investment, and reduce export of raw value.

Similarly, carefully designed, time-bound fiscal incentives for domestic agro-processing and value addition may help crowd in private investment, support job creation, and enhance export readiness. The effectiveness of such measures would depend on clear eligibility criteria, fiscal sustainability, and alignment with broader industrial and trade policy objectives. Without some form of targeted fiscal relief, market-led adaptation by farmers and firms is likely to remain constrained by structurally high production costs.



Enforce Policy Coherence and Accountability Across Government Institutions:

Interview evidence points to weak inter-ministerial coordination as a central deterrent to investment. A recurring recommendation from stakeholders was the need for a high-level political champion for agriculture finance, alongside strengthened institutional accountability mechanisms linking ministries, counties, and parastatals under a unified performance framework.

Agriculture should be explicitly elevated as a national economic and food security priority, warranting stronger coordination mandates and higher, more predictable budgetary allocations. All relevant ministries including Trade, Energy, Water, and Transport should be required to subject sector-relevant policies to a binding coherence and impact review to eliminate contradictions and align incentives. Strengthening oversight mechanisms to ensure compliance with budgetary and policy commitments is essential, particularly in the context of leveraging regional opportunities such as the African Continental Free Trade Area (AfCFTA).

5.2 Mobilizing and De-Risking Domestic Capital

As donor funding recedes, the sustainability of Kenya's agri-food sector increasingly depends on its ability to attract and absorb domestic capital. However, the findings from interviews reveal that high perceived risk, weak collateral frameworks, and limited data continue to exclude agriculture from affordable and long-term finance.

Without targeted intervention, these constraints will continue to undermine both farmer's resilience and private investment, regardless of improvements in policy coherence or donor design.

A central structural solution identified by stakeholders is the development of country-owned value-chain finance systems, rather than donor or partner driven models. These systems are intended to organize financing around agricultural value chains, with stronger domestic ownership and coordination across actors.

Enhance Risk Mitigation and Credit Guarantee Schemes:

Land tenure insecurity, informal leasing arrangements, and production volatility also significantly elevate lending risk, leading to high interest rates or outright credit rationing. To curb this, public credit guarantee schemes can be expanded and redesigned to cover a meaningful share of potential losses on commercial loans extended to certified smallholder groups and agri-SMEs. Properly structured guarantees can partially substitute for land-based collateral, reduce risk premiums, and crowd in private lenders who would otherwise avoid the sector. To maintain financial discipline, these mechanisms should be performance-based, time-bound, and linked to clear eligibility criteria, including basic record-keeping and participation in recognized producer organizations. When combined with regulatory reforms, credit guarantees can act as a catalytic instrument rather than a permanent subsidy.

Transform Farmers into Investment Units via Data and Aggregation:

Beyond risk-sharing instruments, a structural shift is required in how farmers are assessed by financial institutions. Findings from interviews consistently pointed to the absence of reliable data on production, income, and transaction histories as a central barrier to credit access. A coordinated push to digitize farmer identities, farm records, and financial transactions leveraging mobile money platforms and existing digital infrastructure can be prioritized as a credible underwriting foundation. In parallel, policy and technical support should incentivize the aggregation of farmers into professionally governed cooperatives or producer organizations. Within value-chain finance structures, these reforms improve risk pricing, strengthen contractual linkages, and make agricultural lending more commercially viable. Aggregation also reduces transaction costs, improves bargaining power, and provides the scale necessary for engagement with commercial banks, insurers, and large off takers. Together, data transparency and aggregation enable a shift from treating farmers as high-risk individuals to recognizing them as organized investment units capable of absorbing larger volumes of capital under structured financial arrangements.

5.3 Realigning Donor Support for Sustainable Impact

The qualitative findings reveal that the withdrawal of external donor funding not only resulted in immediate shocks but also revealed the fragility created by long standing aid dependent delivery models. Stakeholders consistently highlighted that the challenge is not the withdrawal of aid but rather the way in which aid has historically substituted for domestic systems rather than strengthened them. Hence, realigning donor support is critical to building the resilience of the agri-food sector.

Pivot from Project Actor to System Facilitator

There was strong convergence that donor withdrawal has exposed over-dependence on external system delivery.

Hence, subsequent future donor engagement should intentionally shift from project-level implementation toward a system facilitation role. When donors function as system actors, directly providing inputs, services, or market coordination, they inadvertently crowd out local institutions and distort incentives. Given the temporary nature of aid, this model leaves the sector vulnerable to abrupt withdrawal.

Instead, donors should prioritize enabling functions that strengthen domestic actors. These include building firm-level capabilities, supporting the professional building of farmer organizations, strengthening public extension and regulatory institutions, and improving sector-wide data systems. This facilitative role recognizes that sustainable transformation must be driven by actors embedded within the national system.



Enforcement of Co-Investment and Local Ownership

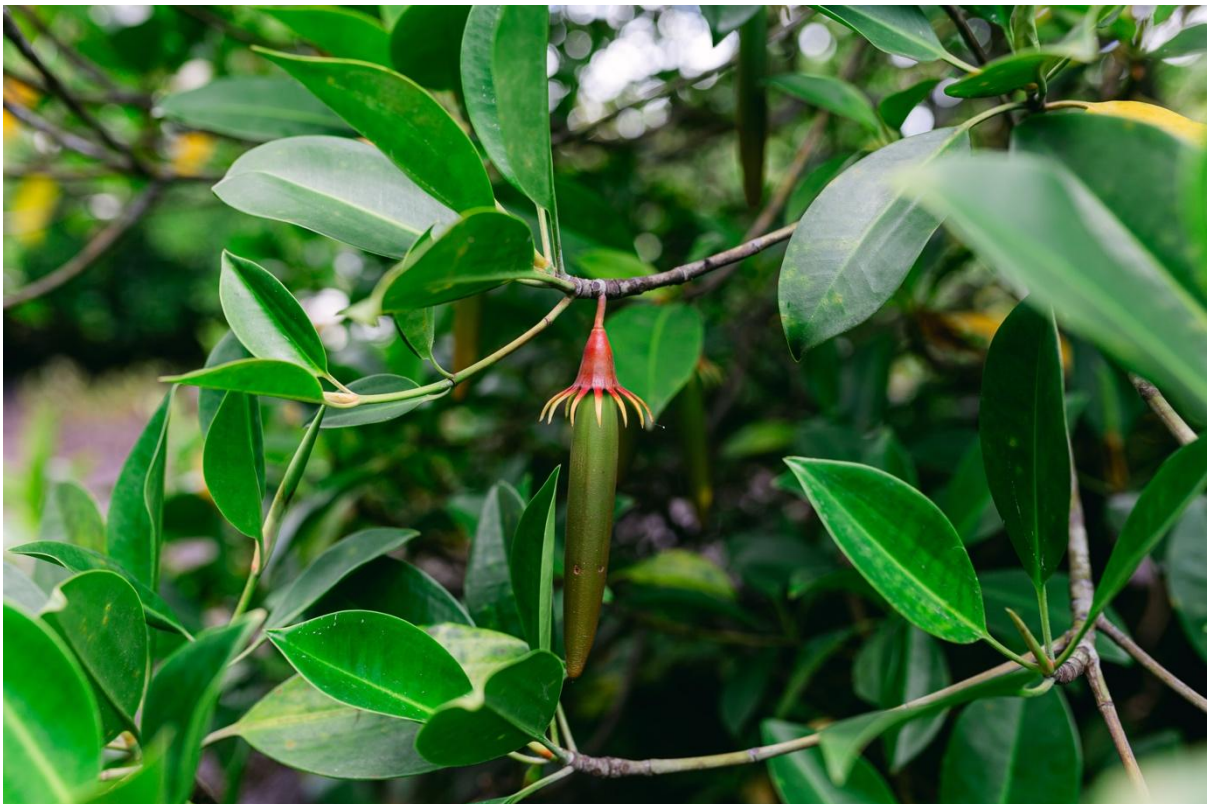
To counteract the dependency model and improve sustainability, donor-funded interventions can be structured as co-investment platforms rather than grants detached from local contribution. Requiring modest financial stake from primary beneficiaries, such as farmer groups, agri-SMEs, or sub-national governments creates stronger incentives for ownership, maintenance, and long-term viability.

Interviewees stressed that even minimal contributions can significantly improve project outcomes by shifting perceptions from entitlement to investment. Co-investment also provides a practical screening mechanism, helping to direct limited donor resources toward actors with demonstrated commitment and capacity.

Reorienting Donor Support Toward Long-Term Structural Transformation

Findings from qualitative interviews revealed that past donor engagement has been the prioritization of short-term, easily measurable outcomes over long-term structural change. Stakeholders highlighted the need for funding horizons that align with the realities of agricultural transformation, which requires sustained investment in infrastructure, institutions, and capabilities over extended periods.

Donors should therefore adopt longer planning and financing cycles, with success measured not only by immediate outputs but by durable improvements in productivity, market integration, and institutional performance. This approach is better suited to addressing systemic constraints and complements domestic policy reforms and capital mobilization efforts.



Introducing Financial Relief Measures

Evidence from interviews points to the need for temporary relief mechanisms during periods of acute stress. Farmers are particularly vulnerable to sudden price volatility, climate shocks, and abrupt financing gaps following donor withdrawal. Without short-term protection, these shocks can force distress sales of assets, reduce investment in subsequent seasons, and undermine household welfare.

To address this gap, the government, working in partnership with commercial banks, can provide temporary interest moratoria, repayment holidays, or loan restructuring options during officially declared agricultural emergencies or periods of severe market disruption. Such measures would function as a risk shock absorber rather than a permanent subsidy, helping to stabilize farm households and preserve productive capacity. An additional cross-stakeholder insight is the reframing of such measures as part of a permanent agricultural shock-absorption architecture, rather than ad hoc emergency responses. This positions financial relief, insurance, and restructuring tools as structural components of resilience systems rather than temporary interventions.

