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Impact Fund Solutions

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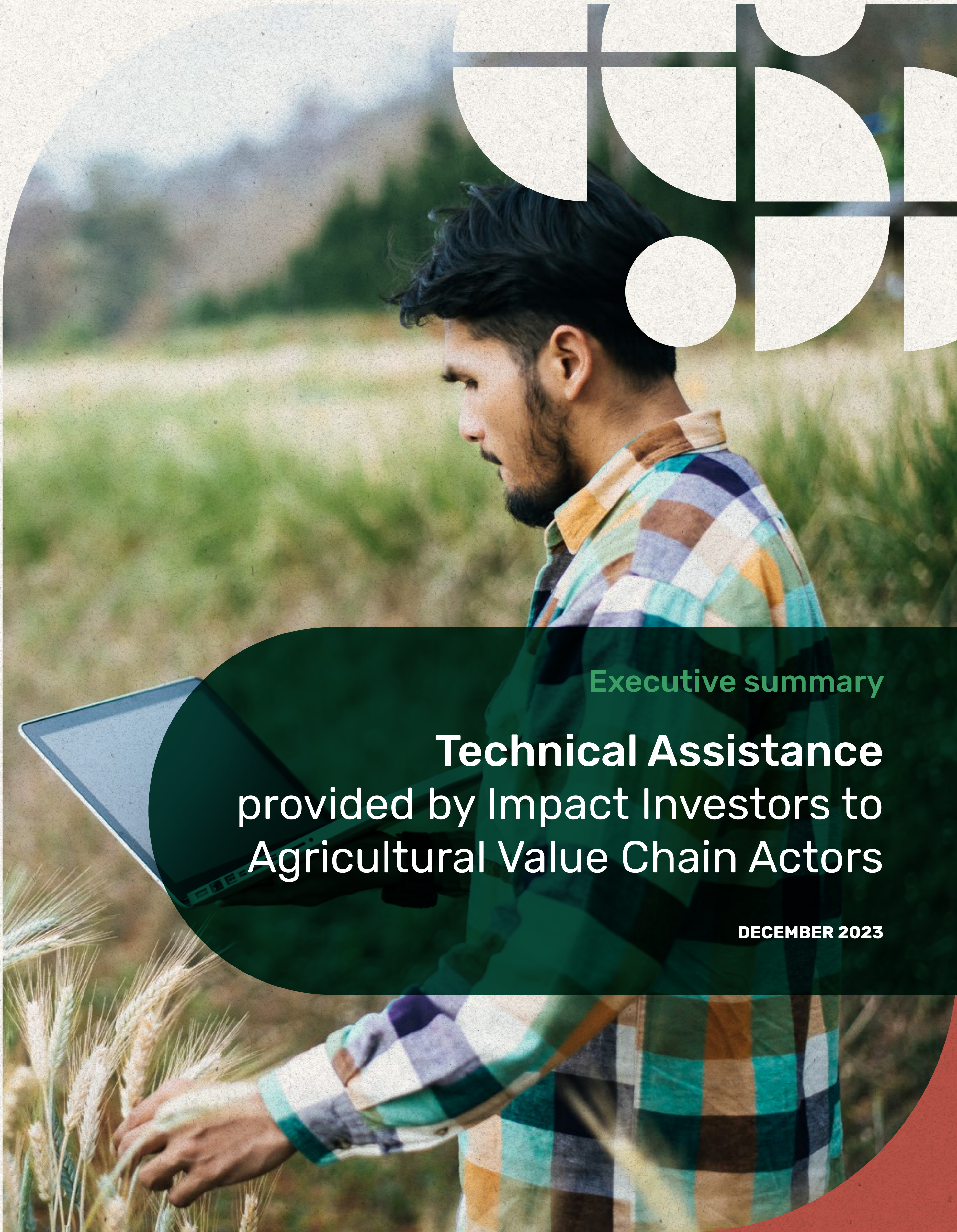

Executive summary

Technical Assistance provided by Impact Investors to Agricultural Value Chain Actors

DECEMBER 2023

about ADA and the SSNUP programme

Appui au développement autonome (ADA) is involved in inclusive finance in Africa, Latin America and Asia and focuses on three main topics: youth entrepreneurship, agricultural and forestry value chains and access to basic services. These activities address three transversal themes: climate change, gender and the use of digital technologies. ADA is the coordinator of the Smallholder Safety Net Upscaling Programme (SSNUP), a 10-year programme which aims to strengthen the safety nets of 10 million smallholder households through technical assistance and investment in agricultural value chains, resulting in an improved well-being of 50 million low-income people. Funded by the Swiss Agency for Development and Cooperation, the Liechtenstein Development Service (LED) and the Luxembourg Directorate for Development Cooperation and Humanitarian Affairs, SSNUP works as a facility to co-finance the technical assistance projects of impact investors active in the field. ADA ensures the coordination as well as the knowledge management component of the whole programme.

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about Tameo

Tameo is a Swiss impact investing specialist serving the financial industry with independent expert solutions. Tameo guides investment funds, managers, and investors through the entire impact investing journey. It offers the most comprehensive online database of impact funds, customised analyses, and independent valuations. Through its research and advisory services, Tameo empowers clients to move towards best-in-class impact measurement & management. Tameo acts as the business services manager of the Swiss Investment Fund for Emerging Markets (SIFEM).

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The views expressed in this report are those of the authors.

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Acknowledgments

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Legal disclaimer

EXECUTIVE SUMMARY

Recent studies on the financing gap for agricultural value chain actors (AVCA) highlight their persistent unmet financial needs. Distinct funders cater to these enterprises: high-growth AVCAs attract venture debt and equity financing, mature ones are typically served by commercial banks, NBFIs, and impact funds, while less profitable and less mature ones rely on public development banks and social lenders.

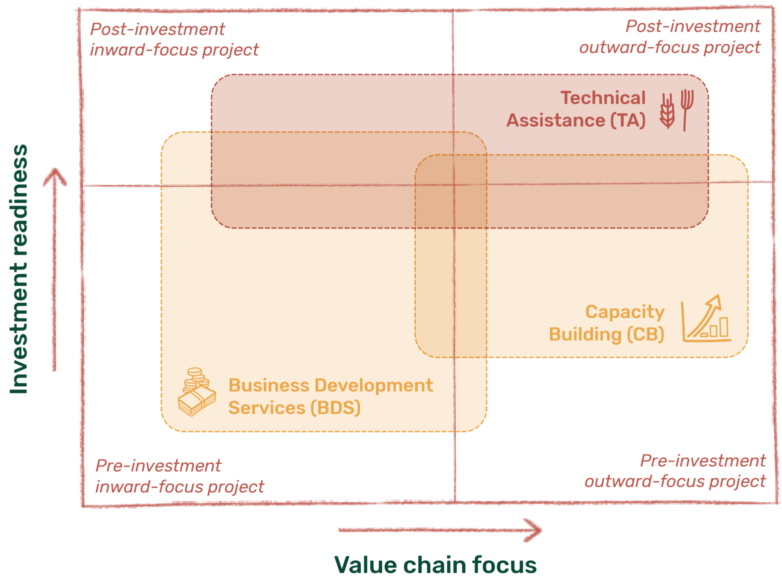
Recognising the financial challenges faced by AVCAs, this study emphasises the critical role of Technical Assistance (TA) in enhancing professionalism, creating investable projects for impact investors, and supporting post-investment growth and impact.

Study objectives and methodology

The study aims to delineate the scope and key attributes of TA projects for AVCAs in developing countries, particularly those provided through Technical Assistance Facilities (TAF) overseen by impact investors.

Mapping TA, capacity building, and business development services

Acknowledging the interconnected nature of TA, capacity building, and business development services within the industry, the study endeavours to enhance clarity by delineating these activities along two dimensions. These are the investment readiness of the beneficiary organisation and the intervention's focus within the value chain. The second dimension can be distinguishing between "inward" orientation, emphasising the beneficiary organisation, and "outward" orientation, with activities being directed towards other value chain actors such as suppliers, clients, and smallholder farmers.



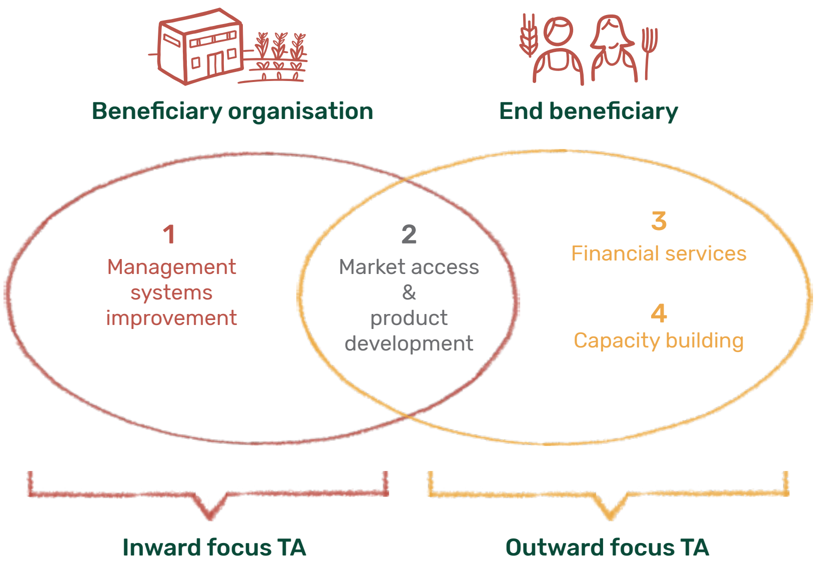
Acknowledging that most AVCAs are not in an investable stage, the study shows proportionally higher sizes for the pre-investment boxes, which include technical assistance projects geared towards investment readiness. However, as the present study focuses on TAF managed by impact investors, the primary emphasis is on post-investment TA.

Data collection involved a comprehensive approach, combining quantitative data and stakeholder interviews. A diverse cohort of 14 impact investors, spanning from small organisations to large investors with a global footprint, provided valuable insights and facilitated discussions with beneficiary organisations and other key actors in the TA landscape.

The impact investors featured in the study are predominantly located in developed countries, and their primary focus is directed towards sub-Saharan Africa, followed by Latin America and the Caribbean, Eastern Europe and Central Asia, South Asia, and ultimately East Asia and the Pacific. Notably, these investors employ diverse strategies in terms of sector of investment. While some exclusively concentrate on the food and agriculture sector, others pursue a multi-sector approach, investing into microfinance and financial inclusion, climate and energy initiatives, SME development, water and sanitation, as well as education. Consequently, the portfolio allocations to the food and agriculture sector varies significantly among these investors, ranging from 100% to as low as 5% for certain participants.

A new typology for TA projects

Limited data availability and standardisation pose challenges in evaluating the efficiency and effectiveness of TA projects. To address this issue, the study proposes a typology for categorising TA projects and a set of metrics for consistent evaluation across projects. It considers both the primary activities and orientation toward the internal or external facets of the value chain, recognising that TA projects in the sample predominantly focused on four categories of projects, namely financial services delivery, capacity building, market access and product development, as well as management systems improvements.



To clarify, development of new financial services should be included in the financial services delivery category, while the market access and product development category only pertains to non-financial services.

This approach aims to enable the industry to gradually accumulate insights into the effective deployment of TA funds. It also aims to be applicable beyond the agricultural sector.

The study seeks to provide valuable insights into the universe of TA when provided by impact investors. It further delves into challenges, opportunities, and offers actionable conclusions for effective TA design and implementation, along with contributing to industry standardisation.

Key findings

Over the past three years, impact investors reported 243 TA projects in the agricultural sector, with a total budget of EUR 14.8 million and a median project size of EUR 33.3k. These are usually short-term projects, with a median duration of 14 months, and primarily targeting sub-Saharan Africa.

The study sample in key figures

243
projects
over the past 3 years

€ 14.8M
cumulative
budget

€ 33.3K
median
project size

14
months
median duration

Post-investment TA

96%
of cumulative budget

80%
in terms of number of projects

Sub-Saharan Africa

77%
of cumulative budget

76%
in terms of number of projects

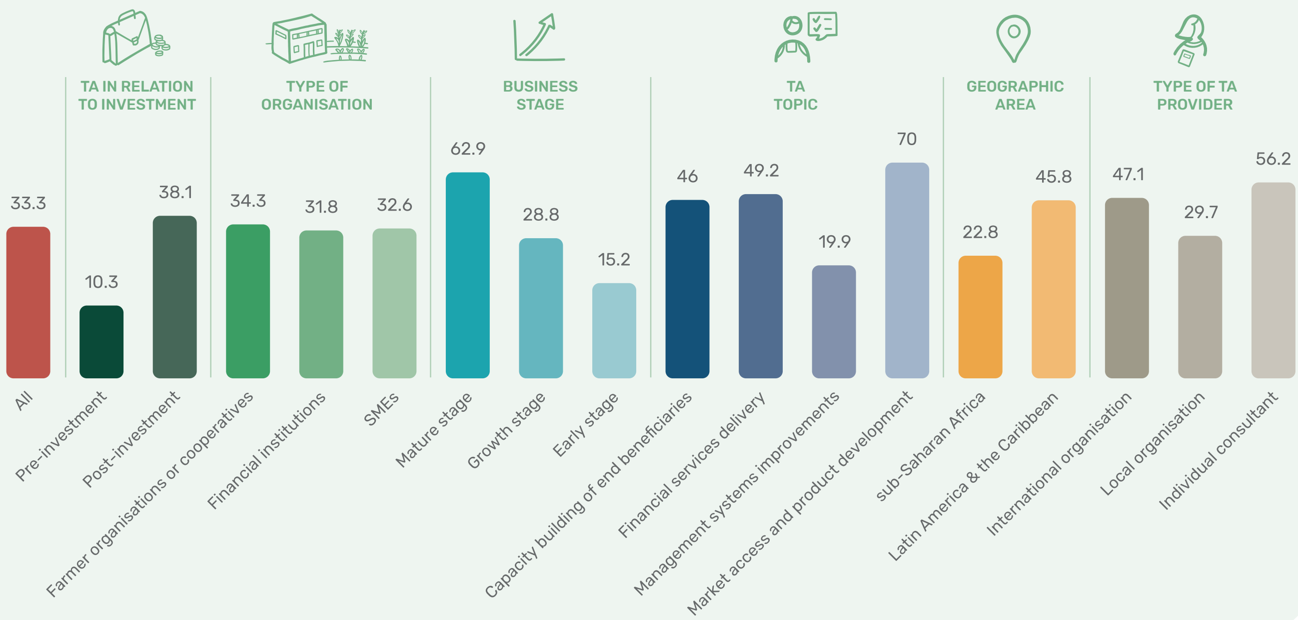
Local consultants (individuals or organisations)

72%
of cumulative budget

52%
in terms of number of projects

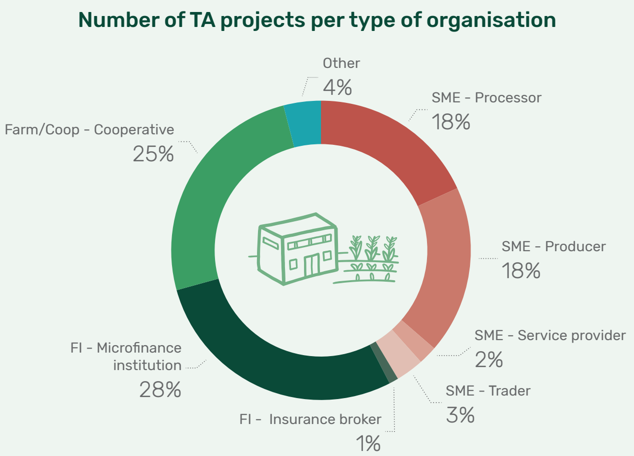
Substantial distinctions in project sizes became evident as the data was segmented across various dimensions. These included the stage of intervention (pre- and post-investment TA), the type of beneficiary organisations, different business stages, the nature of projects based on the proposed typology, the geographical focus, and the specific type of TA providers.

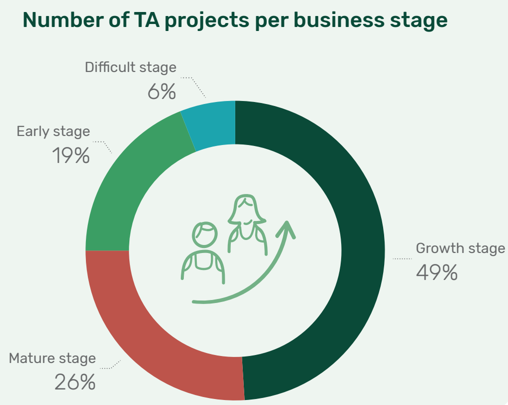
Median project size (EUR thousands)



Beneficiary organisations range from financial intermediaries to SMEs and farmer cooperatives and are at different business stages. TA projects provided to SMEs represented more than half of the total budget and 41% of the sample in terms of number of projects. Mature companies secured approximately one-third of the total budget, with project sizes twice the median project size of the entire sample. When looking at the project count, they account for 26% of the total sample. Growth-stage companies constituted nearly half of the sample in terms of both budget and project count, while early-stage companies represented a fifth.

The scope of the TA project is closely intertwined to the growth stage of the beneficiary organisation. Early and growth stage AVCAs typically receive TA projects tailored to address well-defined issues, while their more mature counterparts can benefit from more comprehensive projects.

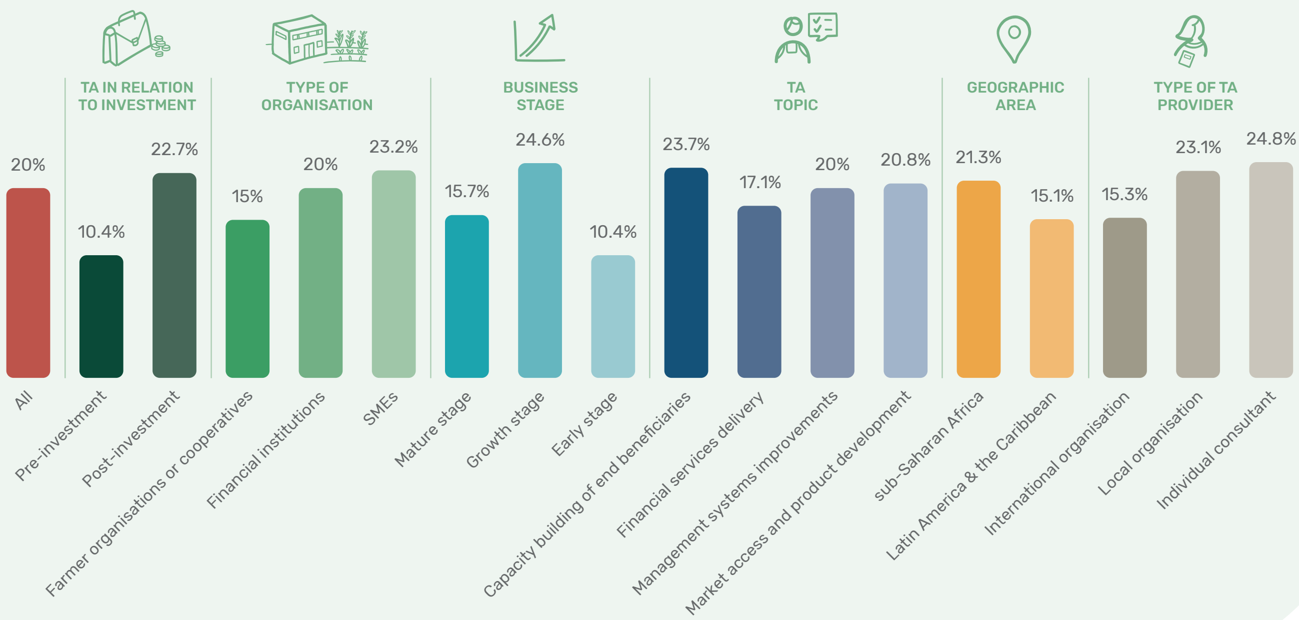




Typically, projects that are more complex and comprehensive, like offering financial and non-financial services to smallholder farmers, enhancing product offering and accessing new markets, tend to also have larger project sizes. Initiatives centred on improving management systems display lower project sizes.

Virtually all participants engaged in the study recognised the importance of the AVCA contribution to the total budget, underscoring its significance for the project's success. The various dimensions mentioned above, such as the type of beneficiary organisation or the business stage, also appear to have an impact on the level of that contribution.

Median AVCA contribution (% of total project size)



While the median AVCA contribution stands at 20.0% of the project's total budget, this figure was typically higher for SMEs, in the mid-range for financial intermediaries and lower for farmer organisations. The median AVCA contribution required for early-stage companies also indicates some degree of adaptability in the terms of reference (TOR).

A final noteworthy point worth underscoring is the notable preference exhibited by impact investors and beneficiary organisations for collaborating with local entities in the execution of TA projects. This inclination is rooted in these organisations' intimate familiarity with the local context and their geographical proximity to recipients and beneficiaries. Importantly, industry stakeholders underscored the imperative to foster and bolster local markets of TA providers.

Challenges and opportunities

In-depth interviews with stakeholders shed light on critical considerations that can shape the effectiveness and efficiency of TA projects. From issues related to capacity and communication to the intricacies of TOR, budget allocation, project scope, impact measurement, and overall coordination, the following points outline these challenges and opportunities.

Communication

Communication challenges among stakeholders impact the successful implementation of TA projects. A recommended three or four-way dialogue involves donors, impact investors, beneficiary organisations, and providers during project design and development of the TOR.

TOR

Flexibility in adjusting TOR after project launch to adapt to early findings and external factors is key. It should extend to key elements, including the team responsible for the TA project, overall budget, and duration.

Budget allocation

While early-stage companies receive a smaller share of the total TA budget, the impact thesis in terms of additionality is strong. To enable impact investors to allocate TA budget, and investments more generally, towards this stage of business, the development and use of innovative financial instruments is key to de-risk investments. Notably, public funders can play a crucial role by adopting blended finance strategies.

TA budget needs to be allocated across all types of companies and business stages.

Project scope

TA projects often target specific needs and may lack a holistic assessment. Recommending more holistic, longer-term projects could lead to more successful results. The process could also be adapted to the scale of the project. Upstream collaborating between TA providers and impact investors could be further improved, beyond merely responding to calls for proposals.

Impact measurement

Beyond creating a positive impact for smallholder farmers and AVCAs, impact investors engage in TA for multiple purposes, including to reduce investment risks, improve beneficiary organisations' attractiveness, and potentially gain a competitive edge in the eyes of AVCAs. However, measuring and reporting on the outcomes within TA interventions is challenging and puts forward the difficulty of attribution of the outcome to the TA project, given how exogenous factors drive business performance. In this context, continuing to monitor key performance indicators (KPI) in the long-term, after the completion of the TA project may help identify these outcomes.

Proposing standardised impact KPIs

To assess the impact of TA projects on investment risk, capital mobilisation and value chain stakeholders, the study proposes a limited set of standardised KPIs applicable across the industry. It comprises the following indicators:

- Change in employment
- Change in sales turnover (for agri-SMEs and cooperatives)
- Change in agriculture portfolio (for financial institutions)
- Change in agriculture portfolio directed to smallholder farmers (for financial institutions)
- Change in total number of clients
- Change in smallholder farmer clients
- Outreach of the TA project to smallholder farmers, including gender disaggregated data
- Additional investments sourced

Coordination

The study emphasises the need to better define the roles of various stakeholders involved in financing the agricultural sector. Pre-investment TA initiatives should be further evaluated, and coordination among funders and TA service providers should be improved, facilitating the graduation of agri-SMEs and cooperatives into investment-ready opportunities.

Capacity

Impact investors reported a median of 37.5% of organisations in their food and agriculture portfolio benefiting from TA, with the total TA budget estimated at 1% of the total outstanding portfolio in the sector over the last three years. During interviews, impact investors mentioned that allocating more grant money to support structural costs of managing a TAF could be an opportunity to provide TA more consistently across impact investors' portfolios.

To address the challenges highlighted above, a set of several recommendations were set forth for future TA projects design and implementation, including the inclusion of an additional budget for unexpected adjustments in TORs, allocation of TA budgets over a period, specifying AVCA contributions in TAF policies, improving collabouration among impact investors and TAFs, and earmarking budget in TORs for impact measurement on a longer time frame.

As the TA market in agriculture remains fragmented, standardisation, data access, and knowledge-building conversations are deemed essential for the success of impact investors, donors, TA providers, and AVCAs in achieving their respective goals.

about
the SSNUP programme

The aim of the 10-year programme is **to strengthen sustainably the safety nets of 10 million smallholder households** resulting in an improved well-being of altogether 50 million low-income and highly vulnerable people through a systemic agricultural value chain development approach.

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