

# The Underserved Middle: Defining excluded enterprises in agricultural value chains

RESEARCH BRIEF 02

October 2020







Commercial Agriculture for Smallholders and Agribusiness

The CASA programme is a flagship programme of the UK Foreign, Commonwealth & Development Office (FCDO) and is intended to increase global investment in agribusinesses which trade with smallholders in equitable commercial relationships, increasing smallholders' incomes and climate resilience. The programme aims to help agribusinesses to scale up and trade in larger commercial markets. As part of its work CASA generates new evidence and analysis that supports a stronger, fairer and greener agribusiness sector.

CASA is a consortium of organizations (CABI, NIRAS and Swisscontact) working with associate partners (IIED, Malabo Montpellier Panel and TechnoServe).

2020 ©FCDO

## Contents

Executive Summary .....	3
1. Introduction .....	5
2. Defining the underserved middle .....	5
3. Understanding the financing gap for the underserved middle .....	10
4. Opportunities to invest in the underserved middle identified in Africa and Southeast Asia .....	12
5. Conclusions and recommendations .....	13
Acknowledgements .....	13
References .....	14

## Table of Figures

Figure 1: Distinguishing the underserved, missing and hidden middle .....	7
Figure 2: Characteristics of agricultural SMEs in the underserved middle .....	8

## Executive Summary

This brief is intended to establish the concept and quantify the size of the “underserved middle” in the agricultural value chains of sub-Saharan Africa, Latin America and Asia; this is the sector underserved by financial, policy and market-making institutions. The aim is to build on existing concepts and published information to provide clarity to the investor community and their financing partners on the definition and size of the underserved middle, as well as on existing opportunities for investment, as identified by the Commercial Agriculture for Smallholders and Agribusiness (CASA) programme.

The underserved middle represents a diverse range of small and medium-sized enterprises (SMEs) at all stages of the value chain<sup>1</sup> – though predominantly downstream of production – characterized as being unable to exploit the potential to scale up that exists in the market due to their effective exclusion from normal market-supporting policies, financing and institutions. This exclusion is largely due to the size of the enterprises: they are typically larger than micro enterprises, which can self-finance and operate successfully within their local social, political and economic ecosystem, but are smaller than large companies, which are attractive to external financiers and have the capacity to engage with and influence decision makers and institutions.

Although figures are not available for the number of agricultural SMEs or their specific financing needs, very rough estimates of the financing gap range from \$170 billion annually for all smallholder financing needs in sub-Saharan Africa, Latin America and Asia to \$100 billion for agricultural SMEs in sub-Saharan Africa alone.<sup>2</sup> More recent thinking is currently being done by Reardon and Jayne, and by institutions such as the World Bank on the complexity of the underserved middle, particularly in terms of access to finance, institutions and policymakers. Whilst formal financing remains difficult to obtain and is expensive, informal sources are likely to be more important than previously thought. Both the demand and supply of formal and informal financing vary considerably by type of enterprise and funding need. However, investors and other stakeholders also need to consider how changes to policy, regulation and infrastructure will unshackle excluded SMEs and release their ability to scale themselves up.

---

<sup>1</sup> This includes the collaborative bodies that bring private sector actors together, such as producer marketing organisations, cooperatives and interbranch associations.

<sup>2</sup> Including in ISF Advisors, 2019. [Pathways to Prosperity 2019: Rural and Agricultural Finance State of the Sector Report](#).

## 1. Introduction

Hundreds of thousands of SMEs in sub-Saharan Africa and South Asia engage with smallholder farmers, mostly downstream in agricultural value chains, where they aggregate, process, transport and sell agricultural and food products. In increasingly liberalized markets, these dynamic enterprises are responsible for bringing 80% of locally consumed food in African markets from farm to fork<sup>3</sup> – a demand expected to double by 2050. They are fundamental in food commodity value chains, where they occupy small local niches, trading, processing and transporting products onwards multiple times to bring them to the market. The large numbers of these value chain actors can act to diversify the pool of potential purchasers of smallholder output. However, since each actor in the value chain requires a margin and as low end-market prices are substantially set by global markets, greater price pressure is put on smallholder producers, leading to a perpetuation of low incomes and poverty.<sup>4</sup> Supporting SMEs to both emerge and scale up is therefore key to consolidating value chains; this will improve incomes for poor farmers and significantly increase the volume of food reaching urban markets to satisfy the growing demand caused by population growth and urbanization.

There are numerous challenges facing SMEs, but research to date has largely concentrated on their ability to access formal finance to grow. The role of informal finance is, in general, poorly understood but it is likely to be at least as important as more formal finance, especially for scaling up SMEs. In order to create a better understanding of the scale of the financing challenges facing this sector, this brief seeks to gather available information on the size and structure of the funding gap for both agriculture and these enterprises in particular.

However, there is an increasing appreciation that SMEs also face equally significant impediments in accessing other essential market system infrastructure, including the policy and regulatory environment, market information, energy and low-cost transport. Better understanding the core features that characterize these enterprises will enable governments and other actors to focus their policy and investment efforts on supporting and stimulating a conducive ecosystem for the private enterprise to thrive.

The brief concludes by highlighting examples of interventions to support SMEs in the underserved middle in CASA's pilot countries of Uganda, Malawi and Nepal. These interventions cover not only assisting companies to access finance, but also to removing market impediments that exclude SMEs from policymaking and other regulatory and organizational challenges.

## 2. Defining the underserved middle

SMEs are seen as the engines of economic growth and employment in all sectors and across geographies. As such, ensuring that they can operate in a beneficial regulatory environment with adequate access to finance and factors of production is crucial to the overall health of market-based economies and the welfare of their citizens. As markets in many sub-Saharan Africa and South Asian economies have liberalized over the past 20 years, SMEs – and their collaborative associations, which bring together a number of SMEs in the same sector – have emerged as key value chain actors. In the agriculture sector in particular, SMEs predominate in downstream parts of the value chains, especially in the area of food for local consumption.

The underserved middle includes, in the early stages of the value chain, small but growing input supply companies and agri-dealers. In the production part of the value chain is a growing cohort of medium-sized commercial<sup>5</sup> farmers with aspirations to engage more

---

<sup>3</sup> Reardon *et al* 2019b.

<sup>4</sup> [https://agripofocus.com/upload/post/Article\\_Middlemen1451937332.pdf](https://agripofocus.com/upload/post/Article_Middlemen1451937332.pdf)

<sup>5</sup> FCDO defines commercial farmers as those who willingly/intentionally sell at least half of their production.

broadly in the local agribusiness space through aggregation and the value addition of crops grown by other smallholders. Further downstream are aggregators, processors, transporters and retailers marketing agricultural and food produce to both domestic and regional markets.

The underserved middle is being effectively excluded from exploiting its potential because even though there are mechanisms that could be made available to facilitate access to finance, policymaking and institutions, these are not being provided.

### Excluded from development financing

Scaling enterprises need finance to grow. They initially self-fund with savings, reinvested profits and informal sources of capital from family and community. Early sources of formal financing come from value chain partners, microfinance institutions (MFIs) and other concessional lenders. SMEs trying to graduate from these financing sources onto more commercial forms of bank loans find that they often cannot access them due to cost, non-availability of funds and a lack of formal registration, account history or collateral. Concessional funding through impact investors and other development finance institutions (DFIs) is mainly targeted at larger ticket size (above \$2 million and higher) investments of debt, equity and quasi equity. SMEs are therefore left in what has become a broadly accepted concept over the past decade of the 'missing middle', where their investment needs are too large for highly concessional funders, such as grant-making bodies, and local level micro financing institutions but the costs of reaching them are too high for banks, DFIs and impact and other investors<sup>6</sup>. Enterprises in the 'missing middle' are looking for financing between \$50,000 and \$2 million, with a concentration in the sub \$100,000 range, almost exclusively in debt<sup>7</sup>. They may be able to secure substantial funding for operational costs through value chain partners but be unable to secure funding for capital investment.

### Exclusion from policymaking

In the last five years, Reardon *et al.*<sup>8</sup> have posited that a significant part of this cohort of agricultural SMEs is not 'missing' but actually thriving, although it is 'hidden' from the policy debate despite driving agricultural production and therefore food security for both Africa and Asia. The consequence of being hidden is that state and other actors do not adequately understand or take into consideration the needs of these enterprises; this leads to inappropriate market interventions and a poor enabling environment for these companies.

The focus of attention in the 'hidden middle' concept is the midstream of the value chain between the farmer and retailers – traders, truckers and processors – especially in food value chains which handle 80% of food consumed in sub-Saharan Africa. Although Reardon *et al.* concentrate on the midstream of the value chain, they also note that the private sector has largely replaced government and parastatal enterprises upstream. Whilst input supply is usually made up of larger firms producing or importing agri-chemicals and machinery, Devries<sup>9</sup> identifies domestic emerging SMEs as increasingly prevalent in the area of seed multiplication and marketing to farmers.

### From missing middle to hidden middle to underserved middle

The underserved middle therefore represents **a diverse range of SMEs at all stages of the value chain; these are characterized as being unable to exploit the potential to scale that exists in the market due to their effective exclusion from normal market-supporting policies, financing and institutions.** They are not unfortunate victims of

---

<sup>6</sup> CSAF, 2019 ; Nordhagen et al., 2019. <https://doi.org/10.36072/dp.1>; ISF Advisors, 2019. [Pathways to Prosperity 2019: Rural and Agricultural Finance State of the Sector Report](#); and Dalberg, 2012.

<sup>7</sup> An analysis of data from member financial institutions of the Council of Smallholder Agricultural Finance, 2018, *The Economics of Agri-SME Lending in East Africa*, Dalberg, noted that 'bank lending to agri-SMEs requiring \$100k+ is limited, heavily collateralized, and not tailored to agri-SMEs' seasonal cash flows and other needs'.

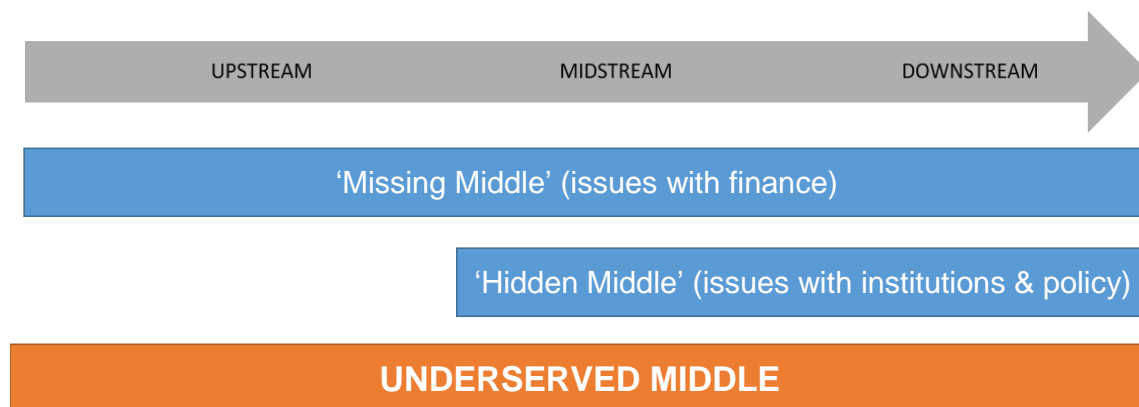
<sup>8</sup> Reardon *et al.* 2019a.

<sup>9</sup> Devries, Chapter 10 in AGRA 2019 African Agriculture Status Report.

challenging environments, but are not being provided with the mechanisms to facilitate access to finance, policymaking and institutions that should be available.

Figures for investment demand remain vague (see below) and may well be overestimated due to the higher risks and transaction costs for SMEs that make many of these businesses unprofitable and difficult to loan to or invest in.<sup>10</sup> However, these risks and costs could be substantially mitigated – and access to formal financing improved – if governments provided mechanisms that made markets work for SMEs, including: infrastructure for transport, communication and power; transparent legal frameworks and dispute arbitration services; business advisory and support services and policies; predictable, transparent and equitable trade and taxation policies; and agricultural research and development and extension services.<sup>11</sup>

**Figure 1: Distinguishing the underserved, missing and hidden middle**



### The underserved middle in agricultural value chains

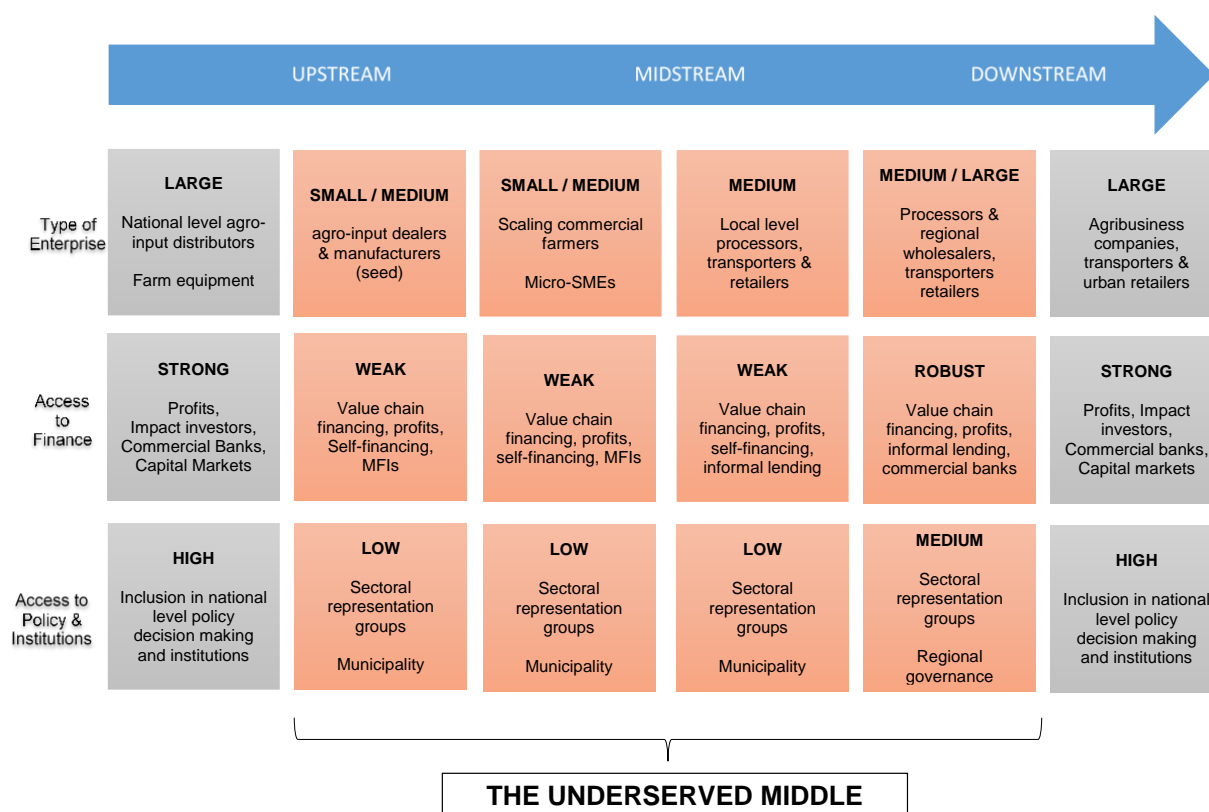
Figure 1 presents an overview of the characteristics of the underserved middle, showing its position, point of entry and role in the agricultural value chain, as well as how it is excluded from finance, policy and institutions.



<sup>10</sup> Jayne *et al.* 2020, in preparation.

<sup>11</sup> AGRA 2019. *The Hidden Middle: A quiet revolution in the private sector driving agricultural transformation.*

**Figure 2: Characteristics of agricultural SMEs in the underserved middle**



### Typical enterprises in the underserved middle

Enterprises in the underserved middle are small: they occupy a specific local niche in the value chain and are mostly but not exclusively downstream of production; most are not innovative or expected to grow rapidly or to a great size. Furthermore, many are informal. **They fulfil important but not very glamorous roles in making value chains work and create a substantial proportion of employment.**<sup>12</sup> They are unsuitable for equity due to their less formal organizational structures, difficulty in valuing them and their low expected returns. In most cases, these enterprises need relatively small amounts of debt financing, but at rates lower than those provided by banks, which face high costs when serving SMEs.<sup>13</sup> Instead, they are likely to access value chain financing from larger businesses with whom they have buying or selling relationships; this ties them to specific partners. They may prefer to use informal finance, despite its costs, due to its convenience and availability. In general, they are not effectively represented at industry or geographical level in the design and implementation of policy actions that affect them.

<sup>12</sup> Reardon *et al.*, 2019a.

<sup>13</sup> In the economics of SME lending in East Africa, CSAF estimates that operating costs in sub-Saharan Africa are 22% higher than in other regions and credit losses 205% higher.



Typical enterprises include agri-dealers supplying producers with farming inputs, aggregators sourcing and part processing products from farmers (who may be farmers themselves), transporters, local processors and food manufacturers and local-level retailers.

### The inclusion of scaling commercial producers

An important cohort in the underserved middle is represented by scaling commercial farmers. Although the vast majority of farmers, even in countries without land pressure, are smallholders (for example, over 90% in Tanzania), the value of

production from larger, commercially oriented farmers is substantial (almost 50% of the additional value of farm production between 2008/09 and 2014/15). Recent estimates show that of the 558 million farms in low- and middle-income countries, approximately 30% are cultivating between two and 20 hectares of land. Jayne,<sup>14</sup> referencing Dorward's framework of 'stepping up' farmers,<sup>15</sup> suggests that 10% of the estimated 125 million smallholders in sub-Saharan Africa have the potential to become agricultural SMEs, although only an estimated 4–5% manage to do so. Jayne also notes that many of the medium-sized farmers have been local investors moving into agriculture, especially following the global rises in food prices in 2007/08. More recently, the cohort of medium-sized farmers has increasingly been formed from farmers who had successfully scaled from smallholdings, although this varies between the countries surveyed.

Scaling primary agricultural producers have the potential to expand their production operations so that they also buy from or sell to smallholder subsistence farmers. Their sources of finance are currently poorly understood. It is, however, clear that in areas with a concentration of scaled commercial farmers, there tends to be additional investments in the value chain; these can have beneficial spillover effects for smallholder farmers, including higher crop income, increased use of mechanization, labour market opportunities and better nutrition.<sup>16</sup>

#### A fictional example of an enterprise in the underserved middle

Kiboko Grains is a local-level grain buyer which buys from smallholders before grading, cleaning, drying and packing for a regional-level consolidator. Over time, Kiboko Grains identifies better farmers and engages with them to produce under a contractual arrangement, providing inputs in advance to ensure high-quality production and volumes. Kiboko Grains can either use finance from the regional-level consolidator or take the supply contract to their local microfinance institution to borrow seasonal crop finance.

As the business grows, Kiboko Grains realizes that genuine, high-quality seed is a problem, so the company decides that they need to move into the seed multiplication business. This requires a longer-term investment in buying land and seed production technology, but also certification services for the seed produced. The investment is long term and requires a large amount of money from the microfinance institution, but Kiboko Grains has insufficient investment security to meet commercial financing requirements.

The state-controlled seed certification process is not run by enough staff so cannot certify the seed, meaning that any excess produced must be sold as grain at a lower price. Kiboko Grains is a member of a local grain buyers association, but the organization is not able to collect dues from other members and is effectively moribund, meaning there is no effective way to complain about the seed certification service to government.

<sup>14</sup> Jayne *et al.*, 2019. Are medium-scale farms driving agricultural transformation in sub-Saharan Africa? *Agricultural Economics*.

<sup>15</sup> This notion is more comprehensively elaborated in DFID's Conceptual Framework on Agriculture (2015).

<sup>16</sup> *Ibid.*

### 3. Understanding the financing gap for the underserved middle

#### The size of the financing gap

There is no comprehensive sizing of the demand and supply of finance for agricultural SMEs in developing countries,<sup>17</sup> and given the variety of estimates, as set out here, this paper cannot seek to define the size. This also makes it difficult to define where interventions are required to stimulate increased lending without distorting markets. A series of papers by the consultancy company Dalberg (for various clients) has attempted to quantify the size of the demand and supply of investment finance in the agricultural sector in Asia, Africa and Latin America. The methodology is based on estimates of the number of farmers and their indicative long- and short-term financing needs on the demand side, and aggregated financing estimates from formal and informal sources.

This approach generated an estimate in a 2012 study<sup>18</sup> for financing needs of \$450 billion for smallholders and agricultural value chains together. An improved methodology in 2016<sup>19</sup> generated a total financing demand from rural households for agricultural finance of \$200 billion and estimated that only 25% of all smallholder finance needs were being met. A 2018 study on sub-Saharan Africa alone for KfW, again by Dalberg, indicated a funding gap of \$100 billion for SMEs,<sup>20</sup> most of which required less than \$1.5m per deal.

The updated analysis in a 2019 study by ISF shows that \$240 billion of smallholder financing needs (which included an additional \$50 billion of non-agricultural finance) was being provided from a range of formal financial institutions (\$21 billion) and value chain actors (\$30 billion) and informal sources (\$17 billion), leaving a gap of \$170 billion; 75% of the non-agricultural financial needs in South Asia and 50% in sub-Saharan Africa are met, leaving most of the financing gap in the agricultural component. Although \$70 billion in financing is being provided, some segments remain almost completely unfunded – for example, 98% of long-term agricultural financing needs are unmet. Of the funding provided by financial institutions, half comes from state-directed banks, which are entirely lacking in sub-Saharan Africa and prevalent mostly in South Asia.

In 2016, the World Bank<sup>21</sup> estimated the financing gap for expansion of agricultural output in Africa at \$11 billion annually, with significantly more needed for mid and downstream agribusiness activities. In Nigeria alone, the working capital requirements for agribusinesses are estimated at between \$4.6 billion and \$6.5 billion. Although a financing gap is not given, formal finance is largely restricted to off-farm, downstream value chain actors, and whilst increasingly important, is still limited, expensive and difficult to obtain in the countries studied.

#### Emerging trends

Several emerging trends in the last five years have exacerbated the financing gap for SMEs in agricultural value chains in both Africa and Southeast Asia. These include decreases in overall lending, a declining number of borrowers accessing funds and a decrease in

---

<sup>17</sup> 2019 Pathways to Prosperity, ISF Advisors.

<sup>18</sup> 2012 Catalysing Smallholder Finance, Dalberg.

<sup>19</sup> 2016 Inflection Point, ISF Advisors.

<sup>20</sup> Dalberg and KfW, Africa Agricultural Finance Market Landscape, 2018, quoted in The Economics of Agri-SME Lending in East Africa, Dalberg, 2018. There is an error in some references to this study which is currently being corrected by Dalberg where the SME financing gap is given as \$180bn – this is the financing gap for both SMEs and farmers.

<sup>21</sup> 2018 Financing Agribusiness in Sub-Saharan Africa: Opportunities, Challenges, and Investment Models. World Bank.

financing to the private sector.<sup>22</sup> The financing gap has also widened as a result of lenders' focus on more formal value chains and the provision mainly of short-term finance to export-oriented farmer organizations in targeted value chains.<sup>23,24</sup> There were fewer borrowers in 2018, but there was an increase in small-ticket lending and lending to private entities.

The lack of data on the scale and profitability of financing the agricultural sector is due variously to concerns over data confidentiality and competition and to more practical issues of standardization of data and analyzing it at a sectoral level.<sup>25</sup> This has been offered as a reason why both the banking sector and third-party financing sources, such as Development Finance Institutions (DFIs), find it difficult to develop products and interventions in the agricultural sector. The availability of data is particularly important given the growing interest in blended finance for catalyzing private sector investment in developing country markets which could also include agriculture.<sup>26</sup> In an early step to address this, the Council for Smallholder Agriculture Finance (CSAF), again supported by Dalberg, provided a dataset from its members of more than 6,300 loans, including 2,900 from East Africa with a transactional worth of \$650m. This shows that commercial lenders serve a wide range but concentrate on the \$25–\$500K segment, with an average size of \$200K and an interest rate in the range of 13–20%. The analysis found that working capital loans were marginal due principally to high operating costs, but asset financing was more profitable. Overall, agri-SME lending was less profitable than other activities. Innovative financing organizations, such as Aceli Africa – itself part-funded by UK aid – are emerging to use data that is available to develop new products to mobilize capital for smallholder agriculture.

### Impact of COVID-19

The COVID-19 pandemic can be expected to have significant negative impacts on SMEs in the agri-food sector in sub-Saharan Africa and Asia, both in terms of increasing costs and of constraining access to finance, policymakers and institutions. In the short term, cancelled contracts due to reduced demand, lack of access to markets and lack of storage will have significant impacts throughout the value chain. Governments will not have the financial resources to be able to compensate businesses for increased costs and loss of earnings, or to provide the kind of stimulus needed to banks and other financial institutions to ensure that they keep lending. In the medium term, SMEs will face increased costs as production and processing takes aspects of social distancing into consideration. In the event that the pandemic is not brought under control, most business models will need to be re-tooled, which will require rethinking of risk and the cost of providing finance by financial institutions. It is therefore expected that the global financing gap for agri-food SMEs will increase.

### Gender differences in accessing finance

Women operate and lead a third of agri-SMEs in Africa and in Southeast Africa. These SMEs face far more constraints in accessing finance in both regions<sup>27</sup> than SMEs led and managed by men. The African Development Bank estimates that the financing gap for women-led SMEs in African agriculture is \$15.6 billion, against KfW estimates of \$100 billion for all agricultural SMEs. The trend toward investment through formal channels may further disadvantage women-led agri-SMEs, as women have a greater tendency to access financing through informal channels than men.<sup>28</sup>

---

<sup>22</sup> 2019 Pathways to Prosperity, ISF Advisors.

<sup>23</sup> *Ibid.*

<sup>24</sup> Dalberg, 2012.

<sup>25</sup> The Economics of Agri-SME Lending in East Africa, Dalberg, 2018.

<sup>26</sup> *Ibid.*

<sup>27</sup> Africa Development Bank, 2019. Affirmative Finance Action for Women in Africa.

<sup>28</sup> Zhu & Kuriyana, 2016. Gender related constraints faced by women SMEs. APEC Policy support Unit Policy Brief 5.

## 4. Opportunities to invest in the underserved middle identified in Africa and Southeast Asia

CASA is being piloted in Malawi, Uganda and Nepal, where 30 interventions have been identified in six value chains selected for their potential to promote the commercialisation of smallholders. Each seeks to address systemic market challenges, and whilst they all include aspects of raising investment finance, they also seek to engage with policymakers and other physical and institutional infrastructure to unblock the dynamic growth potential of SMEs to scale, with solutions that can be widely replicated.

In **Nepal**, where *underdeveloped road networks* make transporting raw milk expensive, CASA is working with Nepal Dairy to support local-level processors attract investment so that they can produce basic products for their urban market production. Nepal Dairy will provide technical advice on processing equipment, facility design and production standards as well as contracts for the supply of part-processed products. This will enable local dairies to increase the quality of their output, absorb seasonal excess milk production and integrate this into formal production systems.

With raw milk prices set centrally *without consulting smallholder producers* and 40% of production controlled by a state-owned company, CASA is supporting the National Dairy Development Board – which represents producers and processors – to develop an inclusive pricing system and negotiate its implementation with the government. This will better reflect input costs to give farmers a fair price for their milk and ensure that processors can secure an adequate volume of raw milk.

In **Malawi**, the poultry sector is *dominated by a duopoly* of integrated enterprises who are able to exclude other producers of feed, chick and broiler meat. This leads to higher prices and lower quality inputs for emergent smallholder producers, who struggle to compete. By helping Charles Stewart Day Old Chicks to raise finance to establish new feed production facilities and improve marketing, CASA will push the whole sector to produce higher quality inputs for all farmers.

The aquaculture industry is currently struggling with the quality of its feed, which is imported from neighbouring Zambia as demand is not yet strong enough for a national producer to emerge. CASA will support the industry representative organization, the Innovative Fish Farmers Network Trust (IFFNT), to lobby the government to implement a *VAT reform process* on fish feed to stimulate demand and enable a local production capacity to develop. To respond to the need for this local production, Lenziemill is being supported by CASA to *raise investment finance* to expand into floating feed production.

In **Uganda**, the bean sector is a significant food and cash crop but faces underinvestment at the aggregator level, leading to low prices and poor quality. Supporting a cooperative NRACE to *raise investment finance* for capital equipment and advisory support to producers will begin to commercialise the value chain, in an approach with substantial scope for replication both nationally and regionally.

Sesame producers and processors are missing out on lucrative overseas markets as they cannot *meet quality and phytosanitary standards*, even though Uganda has a standard for the crop. Working across the value chain and with both private and state actors, CASA's partner Southern and Eastern Africa Trade Information and Negotiations Institute (SEATINI) will raise awareness of standards and strengthen the capacities to implement them. This will overcome regulatory hurdles to export and develop an approach to other crops destined for export markets. CASA is also *raising finance* for the sesame sector, working with Tru Trade and Equator Commodities to raise funds for the establishment of processing and packaging facilities.



## 5. Conclusions and recommendations

In the agri-food sector of sub-Saharan Africa and Asia, an increasingly complex picture is emerging of a dynamic private sector with a proliferation of SMEs where enterprises struggle to scale because they are unable to effectively access market mechanisms of finance, policymakers and regulatory and physical infrastructure. These excluded enterprises are typically SMEs larger in size than self-financing, locally limited micro enterprises but smaller than large companies who can attract external finance and engage with decisionmakers and institutions.

There has been only limited work done in generating an understanding of the overall scale of the financing gap, but what has been done points to a significant shortfall in supply of both formal and informal finance, ranging from \$100 billion to \$170 billion per annum. Formal finance remains expensive and difficult to obtain for enterprises and frequently unprofitable for financial institutions to provide due to cost, limited sectoral understanding and high default rates. The level and characteristics of the informal finance sector are poorly understood and probably underestimated, but in many cases represent the main source of capital for SMEs.

However, accessing finance is often not simply about the availability of funding but is also influenced by market failures that challenge the ability of enterprises to generate profits and thus their ability to take on loans and investments. The physical and legal infrastructure necessary to sustain an environment conducive to economic and business growth is often underdeveloped. SMEs in the underserved middle are generally too small or lack effective industry-level representation to be able to influence the institutions that develop the policies which affect them. Yet resolving these challenges and releasing the potential of the private sector is not necessarily expensive, time-consuming or politically difficult. This suggests that investors need to look at the broader business ecosystem as much as the specific business when seeking to invest.

The CASA programme provides catalytic support to six sectors in three countries to unlock systemic market failures and enable enterprises to escape from the underserved middle. These interventions will generate replicable evidence that amplify the case for investors to do business with SMEs in the underserved middle, challenge governments to remove barriers to growth, improve the efficiency of value chains and increase farm-level incomes.

## Acknowledgements

The CASA team is grateful for the insights provided by experts interviewed: Thomas Jayne of Michigan State University (Department of Agricultural, Food, and Resource Economics, Michigan State University) and Melanie Machingawuta (TechnoServe).

This brief was edited in collaboration with Mat Hague.

## References

- African Development Bank. 2019. Affirmative Finance Action for Women in Africa: Bridging the Finance Gap for Women in Africa. African Development Bank: Abidjan.
- AGRA. 2019. Africa Agriculture Status Report: The Hidden Middle: A Quiet Revolution in the Private Sector Driving Agricultural Transformation (Issue 7). Alliance for a Green Revolution in Africa: Nairobi.
- CSAF. 2019. State of the Sector. CSAF.
- CASA. 2019a. Malawi Poultry Sector Analysis: Progress Report. June. CASA Malawi Country Team/DFID. Unpublished project report.
- CASA. 2019a. Investor and Investment Support Stakeholder Survey Brief. Commercial Agriculture for Smallholders and Agribusiness. DFID: London.
- CASA. 2019b. Malawi Aquaculture Sector Analysis: Progress Report. June. CASA Malawi Country Team. Unpublished project report.
- CASA. 2019c. Bean Sector Analysis Progress Report. June. CASA Uganda Country Team/DFID. Unpublished project report.
- CASA. 2019d. Nepal Vegetables Sector Analysis Progress Report. June. CASA Nepal Country Team/DFID. Unpublished project report.
- CASA. 2019e. Nepal Dairy Sector Analysis: Progress Report. June. CASA Nepal Country Team/DFID. Unpublished project report.
- Dalberg. 2012. Catalyzing Smallholder Agricultural Finance. Citi Foundation/Skoll Foundation/Root Capital/TechnoServe/The Aspen Institute.
- Dalberg. 2018. The Economics of Agri-SME Lending in East Africa, Dalberg/ CSAF.
- DeVries, J. 2019. Development of SME Seed Companies in Africa: The AGRA Experience. In AGRA. 2019. Africa Agriculture Status Report: The Hidden Middle: A Quiet Revolution in the Private Sector Driving Agricultural Transformation (Issue 7). AGRA: Nairobi.
- DFID. 2015. DFID's Conceptual Framework for Agriculture. November.
- Doran, A., McFayden, N. and Vogel, R.C. 2009. The missing middle in agricultural finance: Relieving the capital constraint on smallholder groups and other agricultural SMEs. Oxfam Policy & Practice: Agriculture, Food and Land 9(7): 65–118.
- Gatsby 2019. Development Finance: How it can enable the growth and transformation of agriculture. Wellspring/CEPA. Gatsby Africa: Nairobi.
- ISF Advisors. 2016. Inflection Point: Unlocking growth in the era of farmer finance. ISF Advisors and Rural & Agricultural Finance Learning Lab.
- ISF Advisors 2019. Pathways to Prosperity: Rural and Agricultural Finance. State of the Sector Report - 2019. ISF Advisors, Mastercard Foundation, Rural & Agricultural Finance Learning Lab.
- Nordhagen, S., Condés, S. and Garrett, G.S. 2019. Blended finance: A promising approach to unleash private investments in nutritious food value chains in frontier markets. Nutrition Discussion paper #1. Global Alliance for Improved Nutrition: Geneva.
- Reardon, T. 2015. The hidden middle: the quiet revolution in the midstream of agri-food value chains in developing countries. Oxford Review of Economic Policy 31(1): 45–63.
- Reardon, T. et al. 2019a. Private Sector's Role in Agricultural Transformation in Africa: Overview. In AGRA 2019. Africa Agriculture Status Report: The Hidden Middle: A Quiet Revolution in the Private Sector Driving Agricultural Transformation (Issue 7). AGRA: Nairobi.
- Reardon, T. et al. 2019b. The Quiet Revolution and Emerging Modern Revolution in Agri-food Processing in Sub-Saharan Africa. In AGRA 2019. Africa Agriculture Status Report: The Hidden Middle: A Quiet Revolution in the Private Sector Driving Agricultural Transformation (Issue 7). AGRA: Nairobi.
- Zhu, H. and Kuriyana, C. 2016. Gender related constraints faced by women SMEs. APEC Policy Support Unit Policy Brief 5. Asia-Pacific Economic.



Commercial Agriculture for Smallholders and Agribusiness

