

Effectiveness of agri-business incubation

IN EMERGING MARKETS

Alberto Didoni, Varcando Ltd.

September 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.

2020 ©FCDO

Executive summary

Agribusiness incubators play an important role in developing the technology and value chains that let small agricultural businesses thrive in developing countries and emerging markets. Incubators are, therefore, a key contributor to these economies, boosting prosperity and reducing poverty, and there is increased interest in supporting interventions aimed at accelerating or incubating agribusinesses. The topic is especially important now, as public funding is likely to come under pressure in the aftermath of the COVID-19 pandemic.

However, scant evidence has been collected on the effectiveness of such interventions at generating additional investments in the sector. This paper remedies this lack.

The objectives of this paper are to: i) identify examples of incubators of small and medium-sized enterprises (SMEs) that have successfully catalysed investment into the agricultural sector over the last 10 years; ii) identify and analyse types of agribusiness incubators; iii) provide evidence on the results and impact of the different incubation models and, where applicable and information is available, on gendered impacts; and iv) draw conclusions on whether interventions aimed at accelerating and incubating SME agribusinesses are effective in supporting increased investment in the sector. There is a dearth of comparative data and peer-reviewed literature around these questions. The Commercial Agriculture for Smallholders and Agribusiness programme (CASA) has therefore collected evidence via primary research (websites, annual reports and phone calls with key experts and incubator managers), as well as secondary research where appropriate.

A note on terminology:

Incubators and accelerators are mechanisms that help small and growing businesses (SGBs) grow and expand. However, the distinction between an incubator and an accelerator is often blurred. Incubators are usually defined as organizations that operate at the idea stage (pre-business model) and prototype stage (with a business model and plan but not yet generating revenue). Accelerators are usually defined as operating at the stage when revenue is being generated and finance provided by friends and family, as well as when revenue is accompanied by third-party finance and profits are being produced at scale. The terms are often used interchangeably, particularly in emerging markets. **In this paper, “incubator” will refer to both types of entity.** We will use the term “incubatee” to indicate a company that receives ongoing support from an incubator.

Conclusions:

a) Two types of incubator

This paper finds that agribusiness incubators can broadly be divided into two groups: those focused on promoting agricultural value chains and those focused on supporting early-stage investments in technology – so-called technology transfer incubators. However, incubators are often created to provide solutions to a specific issue but then expand into other areas as they pursue additional opportunities.

The success of **technology transfer incubators** in promoting technologies depends on numerous variables. These include the quality of universities and research centres in a country, the pool of entrepreneurs the incubator is able to attract, the technology and products that an incubatee develops, the presence of early-stage financing instruments and the market uptake for the products and services an incubatee offers.

Unlike agricultural value chain incubators, technology transfer incubators **diversify their technical and mentoring support** across a number of technologies and industries. When possible, they provide seed investments in start-ups active in different areas and products. These incubators thus effectively adopt a risk diversification strategy that mitigates excessive exposure to any single sector or company.

Agricultural **value chain incubators** usually promote enterprises involved in a **limited range of crops**, and so face a more concentrated set of risks. Provided that agricultural value chains are chosen appropriately and the incubation process is well structured, incubators face operational risks – such as logistics and negotiations with buyers – that can be mitigated. However, these types of incubators are highly exposed to production-related risks affecting the agricultural sector in general, such as changes in pricing, weather conditions and the incidence of pests and diseases.

b) Six leading incubators

Following a wider analysis of 20 incubators, this paper identifies six leading institutions that have been successful in running agribusiness-oriented incubator and accelerator programmes in emerging markets: ABI-ICRISAT and Villgro in India, CenTev/UFV in Brazil, Fundación Chile in Chile, One Acre Fund in East Africa and Timbali in South Africa. All six incubators have succeeded in either graduating companies out of their programmes to attract commercial funding or in incubating a significant number of micro and small enterprises to become part of established value chains. The activities carried out by these six incubators during the last decade greatly improved the chances of survival of start-up agribusinesses during the first three years of activity.

The main reasons this paper finds for their success are that they are **professionally run**, have kept a **strong focus** on their objectives and have developed **efficient and well structured incubation processes** to attract incubatees and institutional funding. Successful incubators also offer a range of services that allow start-ups to expand. These include high quality mentors, access to infrastructure and markets and a well developed ecosystem of early-stage investors.

As they mature, agribusiness incubators are increasingly developing tailored models of support. Some, such as Fundación Chile and Villgro, have ventured into areas beyond agribusiness; some, such as ABI-ICRISAT and Once Acre Fund, have exported their methodologies to other countries; and others, such as ABI-ICRISAT and Villgro, have become technical assistance providers to other incubators. In some cases, incubators have evolved to become fund managers.

c) The roles of donors and investors

It is important to note that, while all of the incubators analysed in this paper have catalysed significant investments in the agribusiness space, they are all **highly dependent on donors and state funding for their operation**. This is because they focus on supporting high risk start-ups and, in most cases, smallholder farmers that cannot afford to pay the full cost of their services.

Donors can support incubators by financing high risk activities, letting the private sector finance incubators' support low risk activities, such as training programmes for growth stage companies. By working with SGBs and promoting investments in the agribusiness sector, incubators contribute to building the ecosystem and strengthening the sector which, in turn, generates positive spillover effects that go beyond the direct outcomes achieved with specific companies.

d) Strong links with early-stage commercial investors

Strong links with early-stage commercial investors are necessary for agribusiness incubators to flourish and should be further incentivized. This could take many forms, such as investors sitting on selection committees or becoming mentors of selected incubatees. Forms of

partnership can also be considered under which investors become sponsors, invest in incubators or award monetary incentives to incubators for reaching certain milestones.

e) Measuring success

Foundations and development organizations can be a catalyst for collecting **data to compare incubators' performances**. They could require incubators to collect more robust data from their incubatees and alumni on a more regular basis. Standard measures of success can be inferred by collecting data on a regular basis on companies' turnover, profitability, staff and the level of commercial investments attracted (equity and debt) by those companies.

Global standards are also needed to evaluate incubators from a value for money perspective, as comparing key performance indicators (KPIs) is not sufficient. To assess in an objective manner whether their resources have been used effectively, donors, public institutions and foundations need to monitor their use. This, coupled with rigorous evaluations of the performances of incubatees and non-incubatees, will incentivize further investments in the ecosystem.

Agribusiness incubators can serve as a platform for donors and social investors to cater to **women entrepreneurs** and, more broadly, to reduce gender disparity. This can be done either by supporting technology transfer incubators to apply a gender lens in their selection of incubatees or by making sure that incubatees' solutions and products take the needs of female clients into consideration. For value chain incubators, donors should insist on a gender lens approach to selecting which value chains to focus on.

To access the full report, please go to: <https://bit.ly/2GDxaEH>



Commercial Agriculture for Smallholders and Agribusiness