CASA
Commercial Agriculture for Smallholders and Agribusiness

The development impact of concessional finance to agri-business

A RAPID EVIDENCE REVIEW

September 2020

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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 programme partners (Technoserve, IIED, Malabo Montpellier Panel) and associate partners. This report was commissioned by CABI and the research was conducted by Wellspring.

Executive Summary

The provision of concessional finance has become an increasingly important tool to support enterprise development, especially where financial markets are underdeveloped. For the purposes of this research, concessional finance is defined as that which is extended on terms and/or conditions that are more favourable than those available from the market. This can be achieved, for example, via lower risk adjusted return expectations; terms and conditions that would not be accepted/extended by a commercial financial institution; and/or by providing financing to a borrower/recipient not otherwise served by commercial financing. Risk mitigation tools, guarantees and first-loss products are also included when they are provided on concessional terms.

The Foreign, Commonwealth & Development Office (FCDO) of the United Kingdom (UK) has committed funding to a range of concessional finance investors in the agriculture sector, including significant sums for the CDC Group (the UK's development finance institution), AgDevCo (a specialist agribusiness impact investor), the Global Agriculture and Food Security Program (GAFSP) Private Sector Window, and the Africa Enterprise Challenge Fund (AECF). FCDO also makes smaller contributions to more specialized institutions as well as collaborative interventions with other donors in the agriculture sector. These organizations cover the spectrum of investment themes, from close-to-market interest rates for more established businesses to long-term, low- or no-interest debt with packages of advisory support for early stage or highly innovative business models. They deploy a wide range of instruments, some funded, which includes all types of concessional debt and equity; and others unfunded, which covers risk mitigation tools, guarantees and first-loss products when they are provided on concessional terms.

Implementing partners use different methods for monitoring and reporting the performance of the concessional funding provided by donors, using both customized measurement mechanisms or those based on more broadly accepted standards such as the Donor Committee for Enterprise Development (DCED). Research ranges from light touch human interest case studies to more formal longitudinal analysis using rigorous statistical survey methods. Academic institutions are increasingly contributing quality research, particularly to the assessment and understanding of development impact, often in partnership with impact investors. Donors themselves both directly engage in research but also provide the majority of the funding for evidence-based learning in both investors and academia.

After more than a decade of concerted investment and innovation in the concessional finance space, particularly in sub Saharan Africa and South Asia, there is increasing interest in understanding whether these interventions are providing the development impacts expected and which financing tools and institutions are most effective for different types of farmer and or food market systems. These lessons will allow good practices to be replicated in future and implementation modalities to be improved to maximize development impact and financial performance.

Scope of the research

A Rapid Evidence Assessment (REA) approach using a combination of key informant interviews and targeted literature searches of publicly available information has been used to answer the following questions:

> *What is the **evidence** supporting the **development impact** of **different forms of concessional finance to agribusinesses** (e.g. DFIs, impact investment, challenge*

funds) with respect to job creation, better living conditions, access to nutritious foods and climate resilience? Where are ***the major evidence gaps****?*

The REA considered a number of finance sources, including **development finance institutions** (DFIs) that work principally through institutional structures, **impact investors** that provide investment capital in exchange for both finance and social returns and **challenge funds** that competitively allocate resources for social returns but with some expectation of financial return or capital preservation.

By reviewing information databases and the websites of industry bodies and investors, the REA identified 83 academic papers, investor reports and other published documents that met a series of high-level search definitions. The REA did not use unpublished or draft information that is not available in the public domain. The documents identified were screened against eligibility and quality criteria set by FCDO's Strength of Evidence criteria, resulting in the number of relevant evidence sources declining to 38 documents, among them impact assessments, technical studies and academic research. The other 45 documents were excluded from the review. While 38 documents is a limited number of studies, this compares favourably with similar research such as ODI's 2019 DFI impact study[1] which considered 43 studies examining the development impact of investment in all sectors - rather than the single sector in this review.

The research is intended to assess the sufficiency of the available evidence to measure the development impact from concessional finance. Any lack of evidence for a particular impact does not infer that there is an absence of that impact, simply that the evidence base needs to be strengthened.

Key findings

Overall findings on the availability of evidence

The evidence base linking the provision of concessional finance to the achievement of development impact is limited.

Overall, 22 of 38 studies were ranked as medium or high quality, based on the size, quality and consistency of their content. Of these, ten were high quality with the majority being research papers published by academic institutions. Impact assessments were most often ranked as low quality (16 out of 25), because they are frequently short summary analyses for broad, non-specialist consumption. A review of the better-quality papers found that the evidence supporting the achievement of development impact from investments was often mixed. The number of studies that matched the inclusion criteria – that is, relevance to benefits for semi-commercial smallholder farmers and agribusinesses – was quite modest.

Findings on types of development impact

The studies included a range of eight development impacts, reflecting the breadth of investor's social objectives. Of these, two 'core' metrics in the agriculture development context were most commonly found: farmer productivity and farmer income. The evidence base for these two metrics were examined further within the sample:

- *Farmer productivity* – Studies measured the impact on yields either directly at farm level or indirectly through portfolio reviews and / or studies. Overall, the evidence from the studies was limited and presented mixed findings. For instance, some of the studies present evidence that the provision of concessional finance has had a positive role in

[1] Attridge, Calleja, Gouett and Lemma (2019) The impact of development finance institutions: rapid evidence assessment.

increasing farmers’ productivity. However, two of the studies raised concerns about the quality of the way in which farmers’ yields are measured and reported.

- *Farmer incomes* – Again, medium- and high-quality studies were based on field-level research, but there were not enough to make firm conclusions. However, they provide some evidence that farmer incomes can be improved, particularly where the provision of concessional finance helped to strengthen the relationship between farmers and a formal cooperative or agribusiness that offered the farmers a premium for their produce (as well, in some instances, as the provision of technical assistance and other services).

Of the three thematic impacts of jobs, nutrition and climate change, whilst there was some limited evidence available on jobs the impacts of nutrition and climate change, although often mentioned, was not sufficiently analyzed within studies to be included in the evidence base.

Findings on the types of concessional finance investors

The majority of studies concentrated on impact investors but were not considered to be high quality. The overall conclusion was that evidence concerning different types of investors is generally lacking. However, some limited findings could be discerned:

- Twenty-two of the 38 studies concerned impact investors, although only five were rated medium or high sources of evidence, limiting the conclusions that could be drawn. Where these funds are additional (i.e. when the investor is providing investment or the investment generating outputs that would not have occurred otherwise) – they can help strengthen linkages of farmers to commercial value chains and reduce side-selling.
- For DFIs, there is some evidence that patient capital is important to enable agribusinesses to grow, including through the development of blended finance instruments that enable greater risks to be taken.
- In total four studies on commercial banks were found. Three of the studies provided some evidence that the banks’ investments in agriculture had delivered positive developmental impacts, potentially enabling an increase in investment to the agriculture sector that would otherwise not have occurred.
- Studies of challenge funds were found to have provided some evidence that the funds had contributed towards the creation of decent work and supporting improved outcomes for smallholder farmers within outgrower models.

Conclusions

The majority of the studies that most directly present information linking investments and development impacts are produced by the investors themselves in the form of case studies. They meet the needs of these institutions in terms of marketing and the provision of high-level findings to a non-technical readership, but they lack the rigour of better resourced and evidenced studies.

A focus on the medium- and high-quality studies that do exist demonstrates that it is possible to generate interesting findings that link the provision of concessional finance to increases in farmer yields and incomes. More qualitative studies also provide an in-depth appreciation of how rural communities function and the factors that can influence the effectiveness of concessional investors in smallholder farming systems.

However, there are currently not enough high-quality published studies to provide confidence in the quality of evidence available linking the provision of concessional finance to development impacts. This precludes consideration of the effectiveness, efficiency and value-for-money of the different types of investor.

The demand for accurate measurement of the impact of this approach is relatively new and the limitations of the data and analysis are not surprising. Investors are currently taking steps to improve the quality of the evidence base with a number of implementing partners planning to publish studies that assess the development impact of their investments over the coming years. CDC Group has been developing a comprehensive assessment of the quality of the existing evidence base linking the provision of finance and developmental impact; the study is planned for publication in the first half of 2020. Its initial findings suggest – like this REA – that there are gaps in the evidence base.

Recommendations seek to address both the underlying drivers for generating and using quality research as well as the practical aspects of implementing research in a cost-effective manner.

It proposes that:

- The *quality of data and primary level research* can be improved by capital providers enforcing the use of existing measurement and reporting standards for implementing partners. Research should remain 'right sized' to the needs, budgets and capacity of stakeholders, as well as to the availability of data and other issues such as commercial confidentiality.
- More should be done to *use the findings* from studies that have been commissioned but have not been published, even if they contain negative messages. Content that has been published in summary form could be edited for consumption by different stakeholders, anonymized or used as input into additional research under specific conditions of confidentiality.
- The existing *sector co-ordination* structures at a regional or global level should lead the identification of research priorities, focus resources and disseminate learning. Examples of the key gaps in the literature include:
  - Evidence that considers the roles and business models that incubation funds can use to support effectively an increase in the pipeline of investable SMEs in the agribusiness sector.
  - Analysis of how SMEs are funding their growth, their financing needs and how investors can work most effectively with them in the future.
  - Categorizing and then reviewing the effectiveness of the different modes of concessional finance investment that are operating within the market.
- Increasing the *contribution of independent researchers* and academics to the evidence base by identifying and removing current impediments and, if necessary, providing financial support. The providers of concessional finance should, in collaboration with their funders and wider stakeholders, provide more resources to collect data appropriate to research needs and verify it through objective analysis.

To access the full report, please go to: https://bit.ly/2EP6jFa

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