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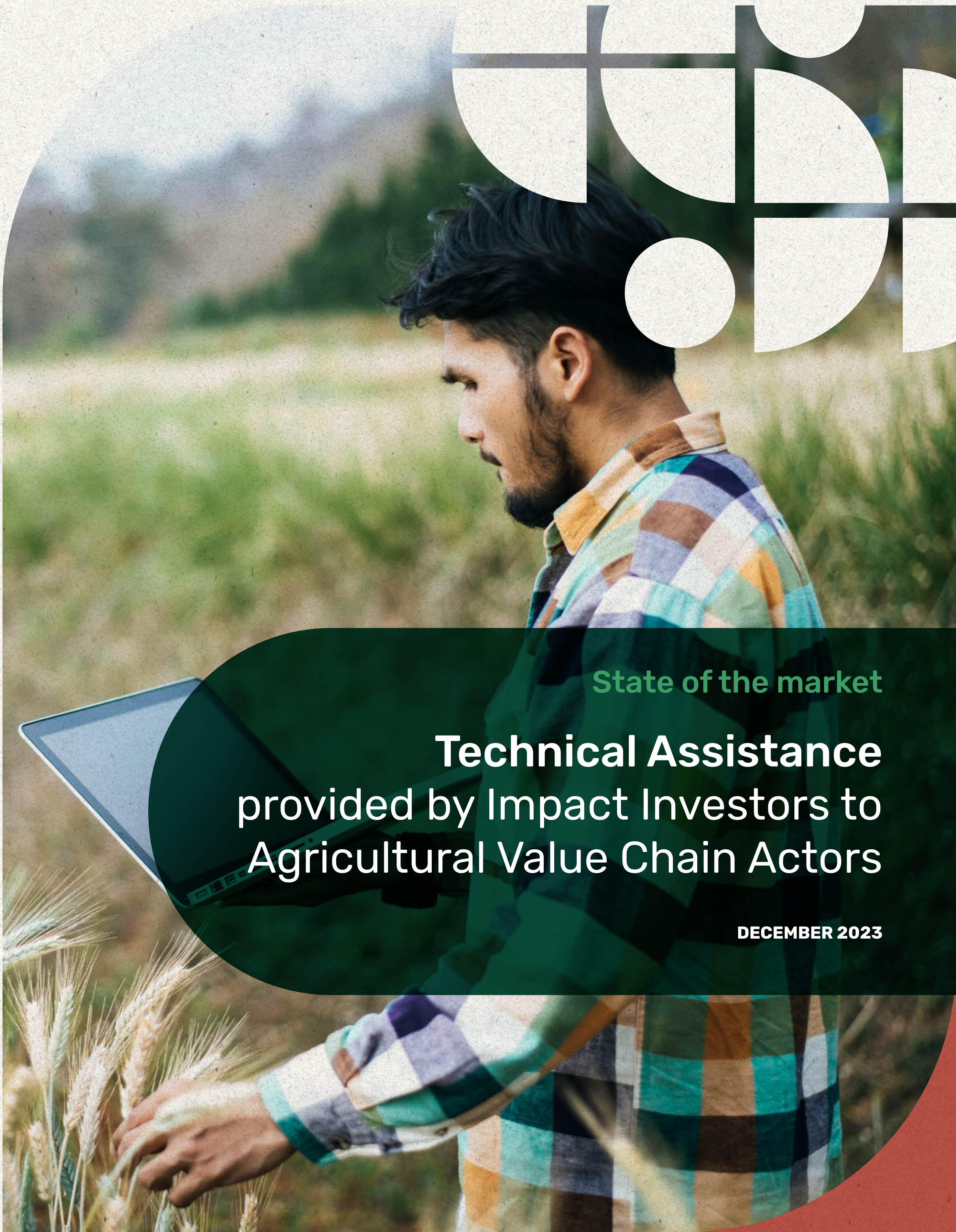

State of the market

# 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

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## List of acronyms

| | |
|---|---|
| **ADA** | Appui au Développement Autonome |
| **AVC** | Agricultural value chain |
| **AVCA** | Agricultural value chain actor |
| **BDS** | Business development services |
| **CB** | Capacity building |
| **CSAF** | Council on Smallholder Agricultural Finance |
| **DFI** | Development finance institution |
| **ESG** | Environmental, social and governance |
| **EUR** | Euro |
| **FI** | Financial intermediary |
| **KPI** | Key performance indicator |
| **MFI** | Microfinance institution |
| **NBFI** | Non-bank financial institution |
| **NGO** | Non-governmental organisation |
| **PAIF** | Private asset impact fund |
| **RCT** | Randomised control trial |
| **SDGs** | Sustainable development goals |
| **SF** | Smallholder farmer |
| **SH** | Smallholder household |
| **SMEs** | Small and medium-sized enterprises |
| **SSNUP** | Smallholder Safety Net Upscaling Programme |
| **TA** | Technical assistance |
| **TAF** | Technical assistance facility |
| **TOR** | Terms of reference |
| **USD** | United states dollar |

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# EXECUTIVE SUMMARY

# 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.

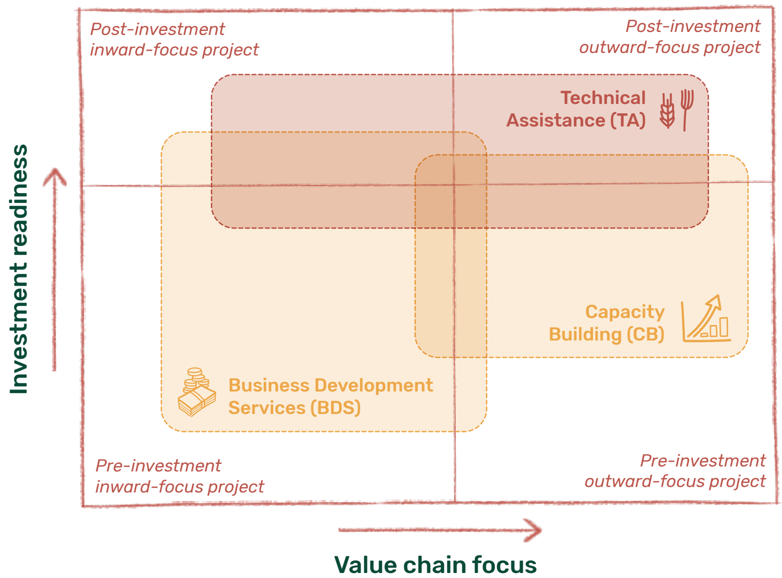
Recognising the financial challenges faced by AVCAs, this study emphasises the critical role of Technical Assistance (TA) in enhancing professionalism, creating investable projects for impact investors, and supporting post-investment growth and impact.

## 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.



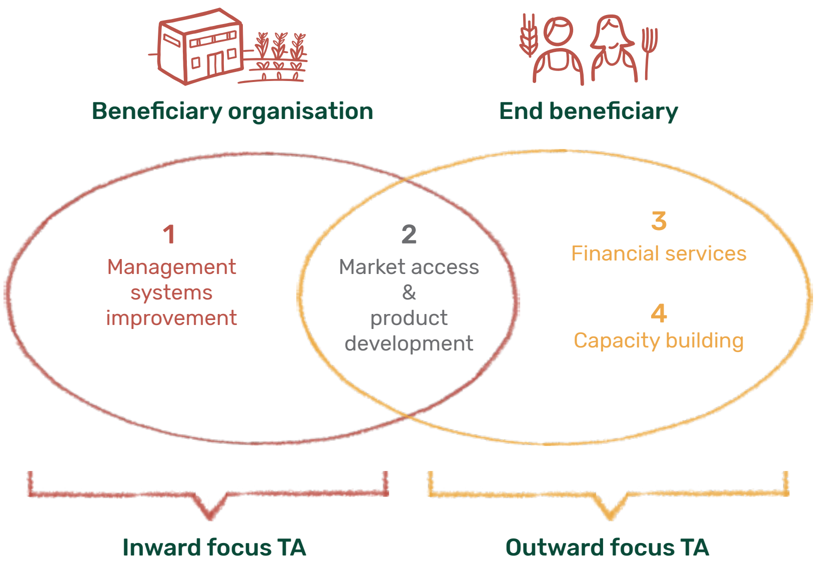

Acknowledging that most AVCAs are not in an investable stage, the study shows proportionally higher sizes for the pre-investment boxes, which include technical assistance projects geared towards investment readiness. However, as the present study focuses on TAF managed by impact investors, the primary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

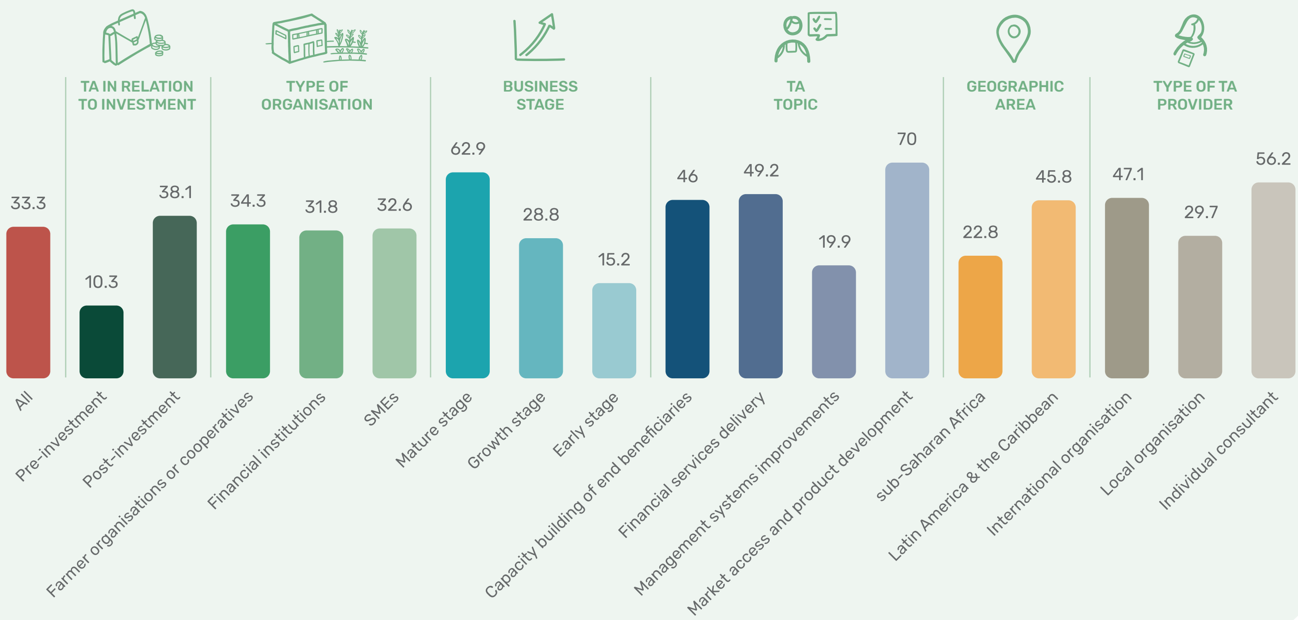
**Local consultants (individuals or organisations)**

72%
of cumulative budget

52%
in terms of number of projects

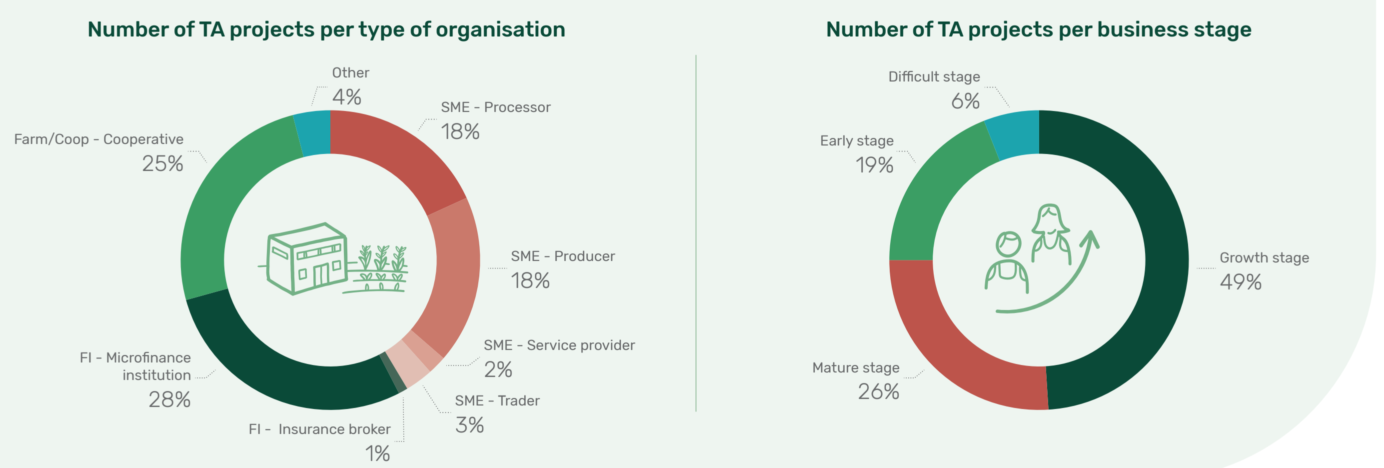
Substantial distinctions in project sizes became evident as the data was segmented across various dimensions. These included the stage of intervention (pre- and post-investment TA), the type of beneficiary organisations, different business stages, the nature of projects based on the proposed typology,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

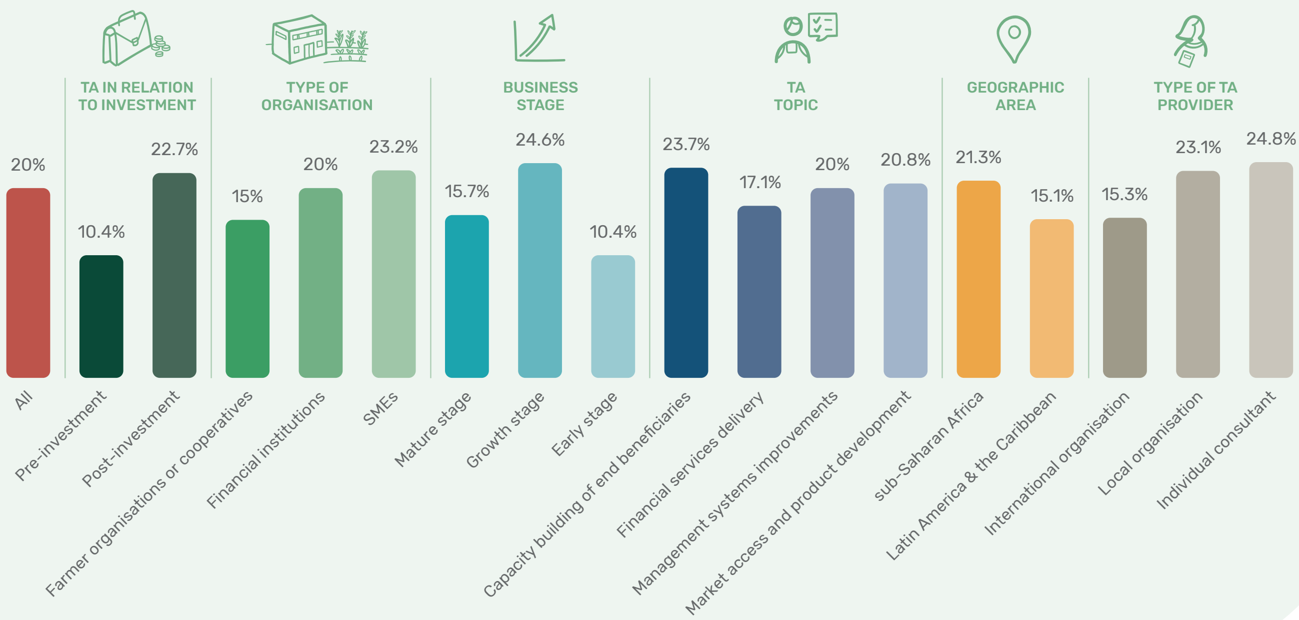
The scope of the TA project is closely intertwined to the growth stage of the beneficiary organisation. Early and growth stage AVCAs typically receive TA projects tailored to address well-defined issues, while their more mature counterparts can benefit from more comprehensive projects.




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

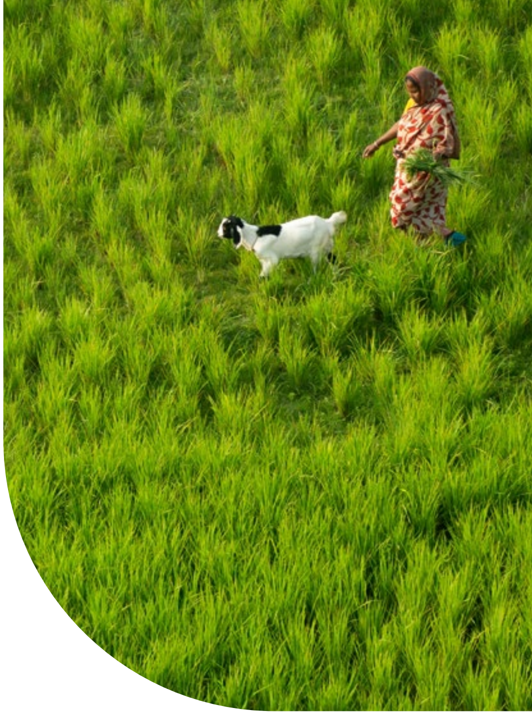
Impact investors reported a median of 37.5% of organisations in their food and agriculture portfolio benefiting from TA, with the total TA budget estimated at 1% of the total outstanding portfolio in the sector over the last three years. During interviews, impact investors mentioned that allocating more 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.

# INTRODUCTION AND RATIONALE

# INTRODUCTION AND RATIONALE



In 2016, approximately 80% of the world's poor resided in rural areas, with an estimated 500 million individuals being in smallholder households engaged in small-scale and low-productivity farming.[1] These smallholder households face multiple challenges in accessing essential resources like technology, inputs, finance, and market information. Additionally, they remain highly vulnerable to external shocks such as extreme weather and price fluctuations. Recognising that agricultural sector growth plays a pivotal role in poverty reduction, there is a pressing need to reinforce AVCAs.

To overcome these disparities, development agencies have subsidised various projects and approaches in the agricultural sector over the past four decades. Today, a more private sector-oriented approach has emerged, where technical assistance facilities (TAFs) are attached to Impact Investment Funds.

These technical assistance (TA) projects may support the expansion of beneficiary organisations' business, encourage responsible and sustainable business practices, and promote climate-smart farming practices in line with agroecological principles by smallholder households. In addition, current debates also discuss the impact of TA projects in terms of providing a competitive advantage for investors and attracting more private capital into the agriculture sector.

Although the value of TA strategies is acknowledged by various stakeholders[2], the measurement and reporting of their outcomes and efficiency remains a challenge. The complexity of assessing and comparing the effectiveness of TA persists due to the diverse approaches employed in its provision and the absence of standardised evaluation methods to gauge its impact.[3] To tackle these challenges and facilitate more informed decision-making, it becomes crucial to establish shared frameworks for comparing projects and enhancing monitoring and evaluation processes.

In response to the needs of smallholder households, the Luxembourg and Swiss development agencies, along with Lux-Development, and in collaboration with ADA, have launched the Smallholder Safety Net Upscaling Programme (SSNUP). This ten-year programme aims to strengthen the safety nets of 10 million smallholder households, resulting in an improved well-being for 50 million low-income and highly vulnerable individuals through a systemic approach to agricultural value chain development.

### The programme focuses on three specific outcomes

1

**Smallholder households**

**enhance productivity and resilience** through improved agricultural risk mitigation and sustainable farming practices.

2

**Agricultural value chains (AVCs)**

**are fortified** with sustainable environmental and social business practices, leading to increased income, job creation, and enhanced food security.

3

**Investments**

**increase to finance** the expansion of AVCs adhering to global responsible agricultural investment principles and sustainable standards.

In addition, SSNUP emphasises knowledge management and dissemination through **workshops, end-beneficiary surveys, and studies on specific topics common to several TA projects.**

[1] World Bank, 2016. Who are the Poor in the Developing World?
[2] CASA Programme, 2020. Bridging demand and supply of private investment capital.
[3] TechnoServe, 2019. A framework to analyse the objectives, approaches, and value of TA facilities supporting agricultural investment funds in Africa.

This research builds upon previous studies in the agricultural sector, including the 2019 TechnoServe study titled "A Framework for Analysing the Objectives, Approaches, and Value of TA Facilities Supporting Agricultural Investment Funds in Africa," and the recent studies published by ISF Advisors in March 2022 and March 2023, which offer highly valuable insights into the finance gap for the agricultural small and medium-sized enterprises (agri-SMEs) sector[4], as well as into the effectiveness and efficiency of business development services (BDS)[5].

The aim of this study is to make a valuable contribution towards delineating the scope and key attributes of TA projects intended for AVCAs in developing countries. This research particularly centres on TA initiatives facilitated through facilities overseen by impact investors, with the overarching objective to enhance the resilience of smallholder farmers and promote the sustainability of AVCs. In line with recommendations put forth by IFS Advisors, the study proposes a typology for categorising TA projects and a set of metrics to be consistently evaluated across projects.[6] This approach will enable the field to gradually accumulate insights into the effective deployment of TA funds.

## Financing the agricultural sector

In Sub-Saharan Africa and Southeast Asia, there is a substantial financial demand estimated at USD 160 billion for around 220,000 agri-SMEs.[7] However, only about USD 54 billion of this demand is currently met through formal financial channels. The primary source of this financing is local commercial banks, contributing USD 40 billion, with a focus on established agri-SMEs like aggregators and local processors. They offer short- to medium-term debt with strict collateral and covenant requirements, and often use risk guarantees from public donors, particularly when lending to agri-SMEs. Non-bank financial institutions (NBFIs) add an extra USD 6 billion, providing specialised financial products collateralised against tangible assets or receivables. They often receive guarantees and concessional capital from development finance institutions (DFIs), philanthropic organisations, and overseas development aid providers. Public development banks also play a role, with USD 4 billion allocated to financing agri-SMEs, and social impact lenders and funds contribute USD 3 billion, mainly supporting export-oriented cash crop value chains. Private equity and venture capital funds contribute a smaller USD 1 billion.

The financial needs of agri-SMEs vary, from sustaining growth to adapting to changing circumstances. At the top of the market, high-growth agri-SMEs attract venture debt and equity financing for aggressive expansion. In the middle of the market, more mature agri-SMEs are served primarily by commercial banks, NBFIs, and impact funds to support ongoing operations and progressive growth. At the bottom of the market, less profitable and less mature agri-SMEs are served by public development banks and social lenders with short-term trade finance and working capital loans.

**To address these challenges, several change priorities have been proposed. Notably, they centre on:**

- ✓ **intentionally growing a greater number of agri-SMEs** into commercially viable prospects to anchor local bank markets for finance;
- ✓ **building the capacity, creating incentives, and establishing the necessary infrastructure** for local banks and funds to profitably serve smaller and less commercial agri-SMEs;
- ✓ **enhancing the efficiency and effectiveness of blended finance, including TA.** This would be achieved by improving coordination among various stakeholders, establishing standards, and enhancing reporting requirements.

Specifically, with regards to the last point, TA plays a crucial role in advancing agri-SMEs along the access to finance spectrum. It aids in enhancing their level of professionalism, creating a pipeline of investable projects for impact investors, and supporting their growth and impact post-investment.

4 ISF Advisors, 2022. The state of the agri-SME sector – Bridging the finance gap.
5 ISF Advisors, 2023. Effectiveness & Efficiency of Business Development Services (BDS) for Agri-SMEs.
6 ISF Advisors, 2022. The state of the agri-SME sector – Bridging the finance gap.
7 ISF Advisors, 2022. The state of the agri-SME sector – Bridging the finance gap.

# METHODOLOGY AND DEFINITIONS

**Technical Assistance** provided by Impact Investors to Agricultural Value Chain Actors

# METHODOLOGY AND DEFINITIONS

The outputs of this study were produced through a blend of quantitative data analysis and stakeholder interviews conducted during the months of June to August 2023.

The first stakeholders approached were impact investors running TA projects in agriculture, in most cases through dedicated TAFs.

**Two groups of impact investors were identified and formed part of the survey outreach sample:**

1. **Impact investors part of the Smallholder Safety Net Upscaling Programme (SSNUP)**
2. **Impact investors part of the Council on Smallholder Agricultural Finance (CSAF)**

Some of the investors overlap the two categories, being both members of the CSAF and participants in the SSNUP. The initial list of impact investors to be contacted amounted to 22 organisations active in agriculture and TA.

All 22 organisations were contacted and requested to share their database of TA projects in agriculture over the past three years, starting from the beginning of 2020. Impact investors responded with data on a total of 243 TA projects within the agricultural sector, collectively amounting to a budget of EUR 14.8m across 13 investors. Typically, a TA project is directed towards a sole beneficiary organisation in a particular country. This approach allowed us to aggregate sector-level figures, offering insights into the key characteristics of TA projects provided by impact investors and identifying the various types of organisations who benefited from TA.

Additionally, qualitative, one-to-one interviews were conducted with the same set of investors and one extra investor with past TA activities in agriculture, bringing the count of total interviews to 14 organisations.

Drawing upon an in-depth assessment of the private asset impact fund landscape conducted by Tameo, there are currently 84 investment vehicles fully dedicated to the food and agriculture sector. These funds are affiliated to 58 investment managers. Additionally, at least 71 funds were identified that, while not exclusively centred on food and agriculture, incorporate these areas into their overall investment strategies.[8] This last figure is based on a sub-sample of funds reporting detailed portfolio allocations, and it is expected that more funds in the universe are allocating part of their impact portfolio to the sector. Consequently, there are at least 93 investment managers actively engaged in the food and agriculture space. This signifies the involvement of 80 companies beyond those explicitly mentioned in the following list.

*Table 1* ***List of organisations interviewed (impact investors):***

- AgDevCo
- Alterfin
- Bamboo Capital Partners
- Global Partnerships
- Grameen Credit Agricole
- Incofin Investment Management
- NESsT
- Oikocredit
- responsAbility
- Root Capital
- Shared Interest
- SIDI
- SME Impact Fund
- Symbiotics

[8] Tameo Impact Fund Solutions, 2023. Private Asset Impact Fund Report 2023.

The purpose of these targeted investor interviews was to verify and expand on qualitative information related to the processes, challenges, and opportunities in TA. Furthermore, the discussions with impact investors enabled us to identify organisations currently benefiting from TA interventions jointly funded by the SSNUP, and for whom impact investor could facilitate discussions with Tameo.

The goal to engage with these organisations was to leverage the lessons learned from select TA projects. However, given the relatively recent start of the SSNUP programme, and delays experienced for some projects, it was not possible in most cases to select projects already completed. As a consequence, 16 interviews were conducted with different beneficiary organisations – their perspectives being invaluable in meeting the study's goals.

Finally, additional discussions were conducted with the following actors in the TA space (providers, donors, networks, and research providers) to further contextualise the findings through the expertise of key players within the TA value-chain:

*Table 2* ***List of organisations interviewed (networks, service providers, donors, and research providers)***

- Agribusiness Market Ecosystem Alliance (AMEA)
- Agriterra
- Argidius Foundation
- Horus Development Finance
- International Fund for Agricultural Development (IFAD)
- ISF Advisors
- Microfinanza
- SCOPEinsight

After aggregating and synthesising the qualitative information from the interviews, Tameo developed a consolidated market sentiment with key takeaways linking the quantitative TA data to the interviews.

With the aim to provide context for the findings of this study in relation to other publications in the field, the table below offers a summary of the methodological similarities and differences between the recent ISF Advisors' study on business development services (BDS) and the current research on TA.

*Table 3* ***Presentation of methodological similarities and differences with ISF Advisor's study***

| | ISF Advisors (March 2023) | This study |
|---|---|---|
| Median project size | USD 2.7k | EUR 33.3k |
| Data source | BDS providers | Impact investors (SSNUP and CSAF) |
| Sector | Agriculture | Agriculture |
| Scope | Acceleration, incubation, technical assistance, coaching, consulting, and other forms of non-financial support | Technical assistance provided by impact investors |
| Provider scale | Local and global | Local and global |
| Geography | East and West Africa | Global (emerging markets) but high focus in Sub-Saharan Africa |
| Type of enterprise | Agri-SMEs and transitioning/growth-oriented agricultural enterprises | Financial service providers, agri-SMEs and cooperatives |
| Stage of enterprise | Early, growth and late stage | Early, growth and mature stage |
| Growth profile | High-growth ventures and traditional business | N/A |
| Service delivery model | Tailored services (individual-based) and group-based | Mainly tailored support |
| Type of TA/BDS | Core business support and access to finance mainly | • Capacity building of end beneficiaries<br>• Financial services delivery<br>• Management systems improvements, and<br>• Market access and product development |

Two major differences are the origination, with the data collected from BDS providers for the ISF study, and the focus on post-investment TA for the present study as it focuses on TA provided by impact investors. This leads to significant variations in terms of project size, with a median of USD 2.7k in the ISF study and EUR 33.3k in this study.

[9] ISF Advisors, 2023. Effectiveness & Efficiency of Business Development Services (BDS) for Agri-SMEs.

In terms of the segmentation of beneficiary organisations, the study relied on the SSNUP's classification systems, which comprises the categories presented in the table below.

*Table 4* ***Type of organisations within the sample***

| | Organisation sub-types | Comments |
|---|---|---|
| Financial intermediaries | • Microfinance institutions<br>• Insurance brokers | The financial intermediaries in the sample exhibit a median agri-portfolio of about USD 3m and an agri-loans clientele of approximately 10,000 clients. |
| SMEs | • Producers<br>• Processors<br>• Traders<br>• Service providers | SMEs in the sample exhibit a median workforce of 194 employees and median annual turnover of approximately USD 2m. These metrics are aligned with the definition provided by the International Finance Corporation (IFC).[10] However, it's important to note that enterprises with less than 10 employees or more than 300 employees and/or sales below USD 100k or above USD 15m were not excluded from this category. |
| Farmer organisations or cooperatives | • Cooperatives | Farmer cooperatives in the sample display a median workforce of 10 employees and median of 714 members. The median annual turnover stands at approximately USD 400k. |

In addition, the study classified beneficiary organisations according to their business stage. These definitions differ slightly from the ones provided by ISF Advisors, as highlighted in the table below. In the definition retained, the study did not refer to revenues or profitability.

*Table 5* ***Business stage definitions***

| | ISF Advisors (March 2023) | This study |
|---|---|---|
| Early stage | A company before growth stage that has a core management team and a proven concept or product but is not cash flow positive. | Refers to companies just launched or refining the business model. |
| Growth stage | A company that has received one or more rounds of financing and is generating revenue from its products or services. | Refers to companies in the process of scaling to achieve full potential. |
| Mature / late stage | A company that has proven its concept, achieved significant revenues compared to its competition, and is approaching cash flow break-even or positive net income. | Refers to companies having achieved certain scale and proven financial sustainability. |

The type of beneficiaries, business stages and type of TA were self-reported by impact investors. For the type of beneficiaries and type of TA, the study aimed to complete missing information as much as possible through desk research and reviewing the project descriptions and documentation provided. And finally, the study allocated each project according to the proposed typology developed building on the categorisation framework create in the context of the SSNUP programme.

[10] International Finance Corporation classifies SMEs as enterprises with employee counts ranging from 10 to 300, assets valued between USD 100 thousand and 15 million, and annual sales falling within the range of USD 100 thousand to 15 million.
https://www.ifc.org/en/what-we-do/sector-expertise/financial-institutions/definitions-of-targeted-sectors

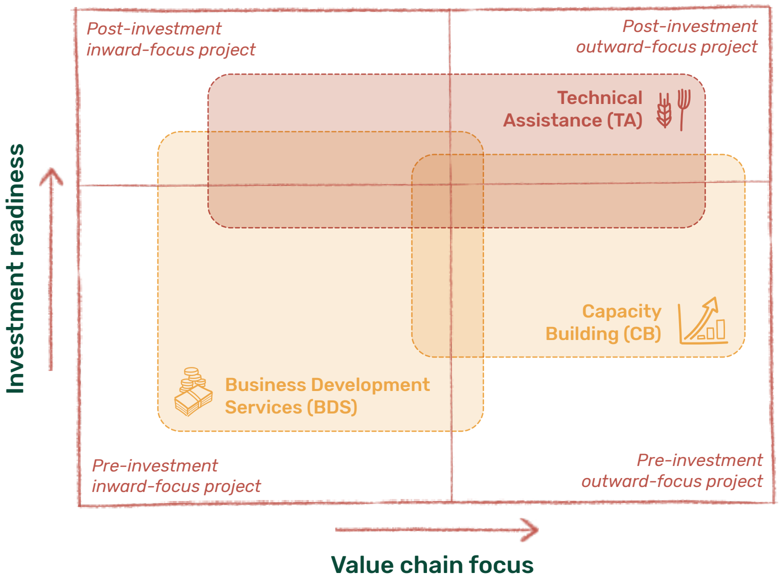
Before diving into a descriptive review of the TA value chain in the context of impact investors running TAFs, it is important to touch base on the definition of TA.

**The following definitions were provided by ISF Advisors[11] for different blended finance approaches in the agricultural finance space:**

- **Value Chain / Business Development Support:** donor-funded programme that employs sector experts and business advisors who work with agri-SMEs to improve business fundamentals and/or investment readiness.
- **Single Fund TAF:** donor-funded TAF that provides pre- or post-investment support to strengthen commercial viability and impact of portfolio investees of an investment fund.
- **Multi-fund TAF:** donor-funded TAF associated with multiple investment funds or financial institutions, each of which submits applications for grants to support their portfolio investees.

In the industry jargon, TA is often used interchangeably with terms such as capacity building (CB) or business development services (BDS) - something that was confirmed in many of our interviews. Most of these stakeholders tend to agree however, in their own words, that TA is somewhat of a broader terminology that encompasses BDS and CB. The figure on the right illustrates the interconnected nature of these endeavours, looking at two key dimensions: the investment readiness of the beneficiary organisation (both pre- and post-investment) and the intervention's specific orientation within the value chain. The latter can be categorised as "inward" when emphasising the beneficiary organisation itself, and "outward" when directed towards other actors in the value chain, interacting with the organisation as suppliers, clients, etc., such as smallholder farmers. It acknowledges that most AVCAs are not in an investable stage, with a higher size for the pre-investment boxes, including 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.

*Figure 1* ***Illustration of overlaps and differences amongst CB, BDS and TA***




**The industry is yet to adopt a widely accepted definition of TA. Nonetheless, market consensus around what TA entails generally includes the following:**

- ✓ **TA is an advisory service for current or potential investees, with or without a defined budget.**
- ✓ **TA is a targeted intervention to support an identified development need.**
- ✓ **TA can include BDS and CB.**
- ✓ **TA is delivered over a defined timeframe.**

This study does not aim to define the clear-cut boundaries of TA, which is arguably a more specialist's debate. Rather, our research looks to build a sound knowledge base for the industry and dedicated programmes in moving forward with an effective understanding of what agri-focused TA looks like in terms of characteristics, challenges, opportunities, and impact.

11 ISF Advisors, 2022. The state of the agri-SME sector – Bridging the finance gap.

# TA VALUE CHAIN AND TYPOLOGY


**Technical Assistance** provided by Impact Investors to Agricultural Value Chain Actors

# TA VALUE CHAIN AND TYPOLOGY

This chapter provides a general overview of the business model of TAFs run by impact investors. It also outlines a new classification of TA projects to help build the industry discourse towards more standardisation in positioning each TA project according to the nature of the project and primary beneficiaries.

## The TA value chain and institutional set-up

Some impact investors have a longstanding history of offering TA, a practice deeply embedded in their DNA. They often run TA operations through dedicated TA teams and facilities. Other investors are newer to the field, having recently initiated such endeavours. The first organisations receiving TA projects from impact investors were generally microfinance institutions (MFIs) as they have formed the core type of portfolio companies of impact investors in sectors related to financial inclusion.

Over time as investors moved into the agricultural space, TA projects started to target farmer cooperatives, agri-SMEs and other actors engaged in the AVC. They followed suite to an expansion of agriculture financing that the market witnessed within impact investor strategies, thanks to the proliferation of specialised investment funds in agriculture, or the expansion of capabilities from historical financial inclusion investors who started onboarding agriculture as one of their core investment offerings.

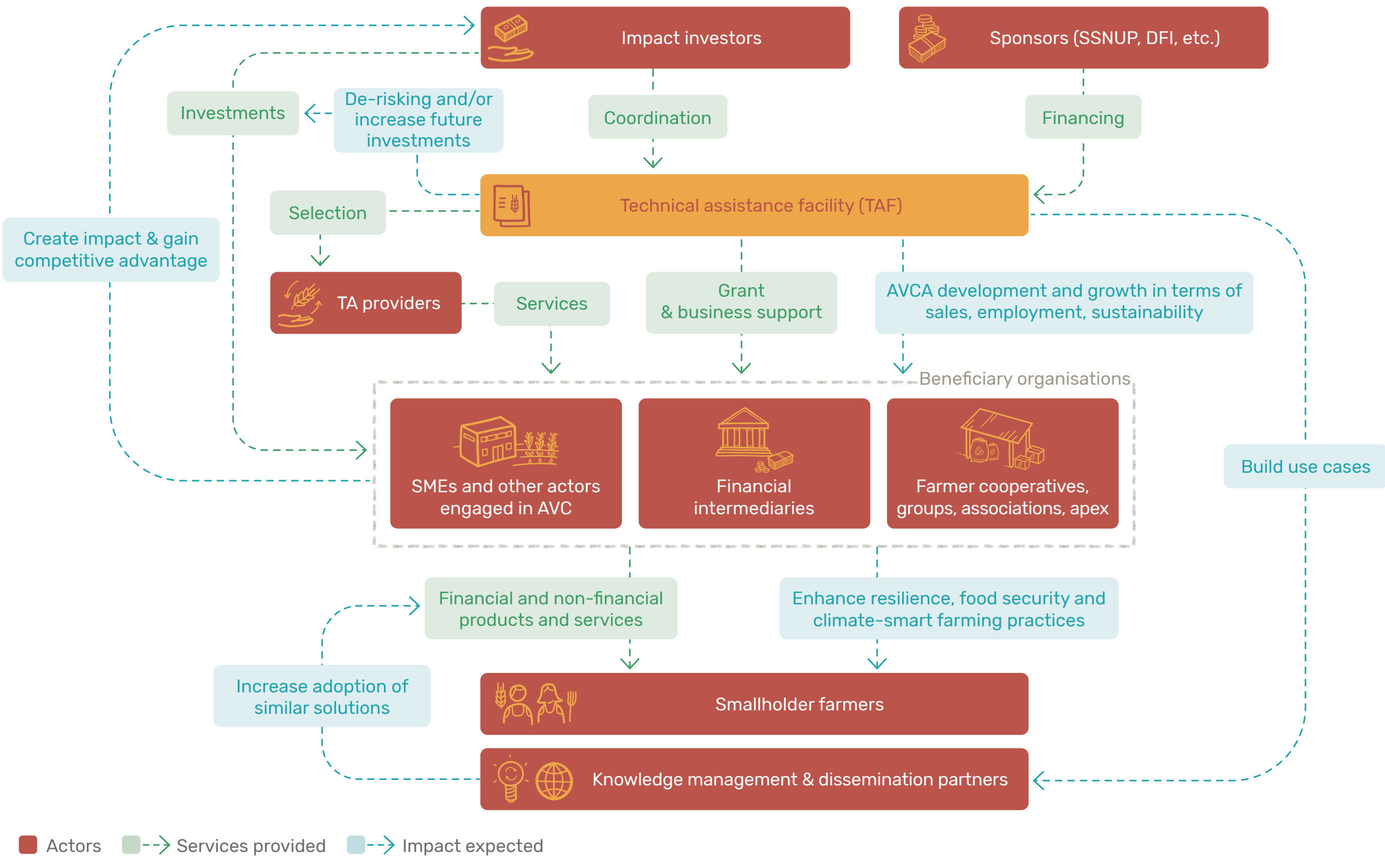
Impact investors in the study reported anywhere between 7% and 90% of organisations in their food and agriculture portfolio benefiting from TA, with the median at 37.5%. For this investor group, it was estimated that their total TA budget over the last 3 years in the agriculture space represented about 1% of their total outstanding portfolio in the same sector. Differences were observed among investors, with variations spanning from less than 1% to 17% from some. These low numbers on average indicate that there is room for TA to be more consistently provided throughout impact investors' portfolios.

**Most TA projects designed to support AVCAs in the study exhibit similar characteristics:**

- **They aim to address specific "technical" challenges that can be clearly defined and resolved.** While some TA projects may encompass two or three additional technical issues, seldom do they extend beyond this scope. A "try and test" approach isn't commonly adopted for TA projects. Instead, there is an underlying assumption that a technical solution can be successfully identified. The technical issues targeted by these projects are usually quite specific and less often include a more comprehensive or "holistic" assessment of the beneficiary organisation.
- **They are usually short-term,** often lasting less than 18 months.
- **They involve three parties:** the investor providing the funding, service provider(s) or consultant(s) serving as the TA provider, and the beneficiary organisation receiving the assistance.

In general, the issue is identified either by the AVCA or during the due diligence by the investment team. In fewer instances, investors are adopting a more thematic approach, rolling out a project across different organisations in their portfolio. A solution is then outlined in the terms of references (TOR), and a consultant selected by the impact investor or co-jointly with the beneficiary organisation. These consultants can be locally based or foreign-based organisations, or even individuals. In a few instances, a consultant may already have been identified by the AVCA when proposing the project (e.g., individual with expertise in implementing similar certification projects) and may be included in the TOR. The project is then implemented by the consultant and the key personnel at the AVCA, as outlined in the TOR. The buy-in at the management level of the organisation and team stability were often referred to as key factors for the successful implementation of the project by impact investors. The impact investors themselves may adopt a coordination and monitoring role or be more deeply involved in the project implementation, with a regular follow-up.

*Figure 2* ***Illustration of typical donor-funded TAFs***




TAFs financed by donors can be structured to cover the entire (agri-) investment portfolio or attached to a specific investment vehicle managed or advised by the impact investor. Some impact investors run multiple TAFs through their different funds, which enables them to better align TA project needs with the specific eligibility criteria of each facility.

Nowadays, securing funds for TA has also emerged as a challenge. Investors find themselves in a competitive landscape battling for available funds. In this context, blended finance fund strategies have proven effective for raising donor money for TA projects. These strategies often attract public investors such as DFIs through first-loss or grant mechanisms, while enabling more capital to be raised from those DFIs for the TAF attached to the blended vehicle. Additionally, in certain instances, investors have obtained grants earmarked for specific TA themes, often sourced from foundations.

However, donor-funded TAFs are more likely to be an exception rather than the norm. Alternative and less standardised mechanisms for providing TA often involve the integration of costs at the level of the impact investor, with staff directly providing business advisory services to AVCAs instead of hiring a consultant. These types of TA projects may be more difficult to capture and standardise in a study as they might not be identified as TA projects by the impact investor internally in the first place. It is also important to note that there are TAFs endowed with more significant financial resources offered directly by public funders. These facilities, although relevant, fall outside the scope of this study.

## Classification of TA projects

There are several approaches to classify TA projects. One can look at topics, purpose, end-beneficiary, the nature of the project (tailor-made or programme-level approaches), and so on. However, there is currently no widely adopted typology for classifying TA projects, which consequently hampers the capacity to compare and evaluate the economic significance of TAFs, a crucial step in advancing the industry.[12]

### A first typology by TechnoServe

In a first attempt to fill this gap, TechnoServe introduced in 2019 four distinct categories for TA projects, namely inclusive business, core business support, value chain development and market systems development. These categories were formulated based on the project's primary purpose and target beneficiaries in the context of agricultural investment funds operating in Africa. These defined project types hold the potential to effectively allocate costs and standardise impact metrics, thereby facilitating a more streamlined assessment process.

*Table 6* ***TA typology by TechnoServe***

| TechnoServe categories | Type of projects |
|---|---|
| Inclusive business | Enhance direct impact around investments, quantifying the impact opportunity and benefit beyond the core business. |
| Core business support | Reduce risk and catalyse growth, quantifying impact for the core business only. |
| Value chain development | Address business specific bottlenecks to improve the functioning and linkages in the value chain. |
| Market systems development | Address market failures or barriers to growth in a particular sector or geography. |

It is noteworthy that one investor in this study sample was using the categories core business support and inclusive businesses in their internal classification. However, the majority of investors tend to rely on their own internal classification, often tailored to their strategic objectives and thematic focus areas. This underscores the importance of developing a comprehensive classification system that can serve as a broad framework for investors to subsequently refine and subsegment according to their specific internal requirements. Such a framework would offer a valuable starting point to ensure consistency and comparability while still accommodating the diversity of individual investor strategies and priorities.


[12] TechnoServe, 2019. A framework to analyse the objectives, approaches, and value of TA facilities supporting agricultural investment funds in Africa.

## The SSNUP classification

The classification developed in the context of the SSNUP facility serves as a solid foundation to position different TA projects and does share similarities with the TechnoServe classification.

*Table 7* ***TA typology by SSNUP***

| SSNUP categories | Type of projects |
|---|---|
| Development of non-financial services for smallholder households | • Technical support for the adoption of sustainable farm practices (e.g.: climate-smart practices, agro-ecological practices, organic farming, renovation and rehabilitation methods, productivity & quality improvements, technology adoption, etc.)<br>• Certification support (e.g.: organic, fair trade, etc.)<br>• Financial literacy trainings |
| Development of agricultural insurance and other financial services | • Agri insurance feasibility study with dry runs in a specific country where there is not yet an agricultural insurance market.<br>• Conception of client-centric of agri. insurance and other financial products (including market study, design, testing/piloting, review, and refinement)<br>• Distribution of client-centric financial products, from launch to up-scaling (including innovative delivery mechanism like mobile & agent banking, product manual, adaptation of management systems (IT/MIS, internal control & audit, HR), conception/provision of trainings for staff and clients, responsible marketing) |
| Market building | • Enhancement of market linkages between AVC actors (e.g.: to reduce food waste, to improve input sourcing, etc.)<br>• Digitalisation of access to information, communication, and business transactions between AVC actors (e.g.: information on weather data, market prices, market linkages, sustainable farm practices; digital payments prefinancing arrangements; tracking of data & geo location; to facilitate transactions such as input purchase, sales, etc.) |
| Internal management | • Business development / planning<br>• Digitalisation of internal processes and client-facing solutions<br>• Improvement of financial management<br>• Improvement of risk management (e.g.: foreign exchange, price, credit, climate, etc.)<br>• Improvement of ESG performance<br>• Improvement of resource management (e.g.: by improving energy efficiency or through access to renewable energy) |
| Other types of TA | • For example, Covid-19 interventions |

In this scheme, the internal management category centres on supporting the beneficiary organisation's core operations, while the development of financial and non-financial services is directed towards smallholder farmers.

The market building category focuses on enhancing market linkages within the AVC, addressing issues like food waste reduction and improved input sourcing, as well as the digitalisation of access to information, communication, and business transactions between AVC actors.

## A proposed TA typology

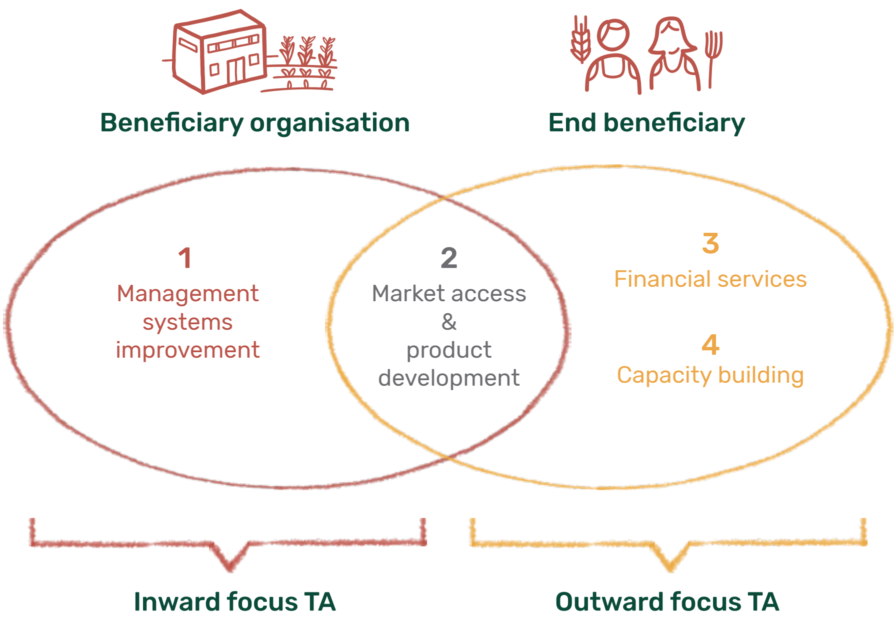
To enhance the practicality and flexibility of these categories within impact investors' internal frameworks, a slight refinement of the SSNUP classification could be considered. The proposed typology considers conjointly the primary type of activities being conducted and their orientation toward either the internal or external facets of the value chain (i.e., inward- or outward-focus).

**It also aims to be applicable beyond the agricultural sector. Throughout the database of 240+ TA projects, there were 4 main types of projects identified, namely:**

1. **Management systems improvement**
2. **Market access and product development** (excluding financial services)
3. **Financial services delivery**
4. **Capacity building of end beneficiaries**

The figure below illustrates the categorisation of these four project types according to their focus in the value chain.

*Figure 3* ***Proposed TA typology***




Like the TechnoServe and SSNUP classification, the distinction between an inward- and outward-focus for the proposed typology acknowledges that the main beneficiary may not always be the organisation receiving the grant. For example, smallholder farmers are the primary beneficiary of projects aiming to provide agricultural training, although these projects are also expected to improve the quality and supply of goods to SMEs in the medium-term.

The table below presents a non-exhaustive list of TA projects across the database and how they can be classified according to the proposed typology.

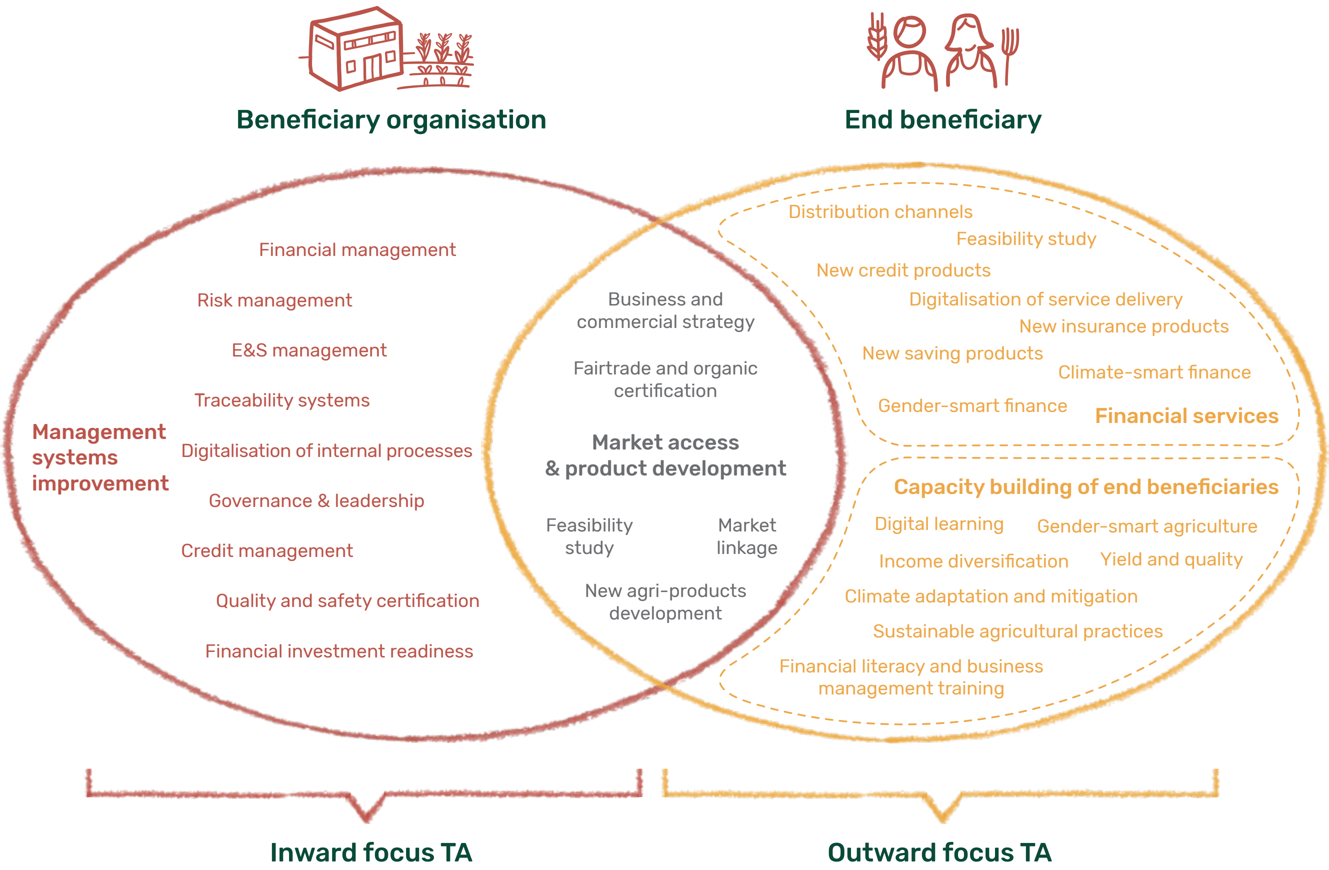
*Table 8* ***Examples of projects under proposed typology***

| Exemples of TA projects | Inward-focus | Outward-focus | Typology | Expected results |
|---|---|---|---|---|
| Development of new loan product | | ✓ | Financial services delivery | Enhance financial inclusion & grow agricultural portfolio |
| Improve credit scoring system | | ✓ | Financial services delivery | Contribute to more responsible financial services |
| Digitise financial services offered to farmers | | ✓ | Financial services delivery | Enhance financial inclusion & grow agricultural portfolio |
| Obtain environmental certification (e.g., Rainforest Alliance) | ✓ | ✓ | Market access & product development | Mitigate market risk and price volatility |
| Conduct market research & feasibility study | ✓ | ✓ | Market access & product development | Improve market positioning |
| Develop end-to-end supply chain platform | ✓ | ✓ | Market access & product development | Enhance market linkages |
| Improving ESG monitoring & performance | ✓ | | Management systems improvement | Attract additional capital |
| Obtain food processing certification (e.g., BRC) | ✓ | | Management systems improvement | Secure existing clients |
| Provide financial literacy training | | ✓ | Capacity building of end beneficiaries | Improve resilience of SF |
| Improve agricultural practices | | ✓ | Capacity building of end beneficiaries | Improve yield, quality, and price |

In the context of the agriculture sector, projects aiming at providing support for certification efforts are of particular interest. For example, a fairtrade certification would enable the beneficiary organisation to cater to different market segments and adopt a new positioning within the industry. For this reason, this type of project would be classified as "market access and product development" in the typology. However, certifications looking at food processing (e.g., BRC certification), are rather targeted to comply with international standards and mitigate risks of losing clients or not being able to access certain markets. Although they might also serve to open new markets, this type of project is classified in the management systems improvement category. While the first type of certification also directly benefits smallholder farmers, helping them to mitigate price volatility and secure demand for their products, the second type of certification is primarily directed at AVCAs.

These broad categories can subsequently be subdivided, allowing a more nuanced and targeted classification approach. After reviewing projects' activities, the study proposes between 5 to 10 sub-categories for each of the four project types, as outlined in the table below. Typically, projects aim to address multiple sub-categories.

*Figure 4* ***Second-level typology***




Several themes, including digitalisation, climate, and gender, appear in multiple categories within the typology. As previously noted, various types of certifications are featured in both the management systems improvement and market access and product development categories. Given their distinct focuses within the value chain, it is important to differentiate them.

It is essential that investors can effectively employ this typology to assess and compare projects within their portfolios. While adopting a high-level framework for benchmarking projects across investors is important, the second level of the typology can also be customised to align with their specific strategies and objectives.

# OUR UNIVERSE OF IMPACT INVESTORS AND THEIR OBJECTIVES

# OUR UNIVERSE OF IMPACT INVESTORS AND THEIR OBJECTIVES

This chapter describes the impact investors assessed for the study and the objectives they pursue while providing TA to AVCAs.

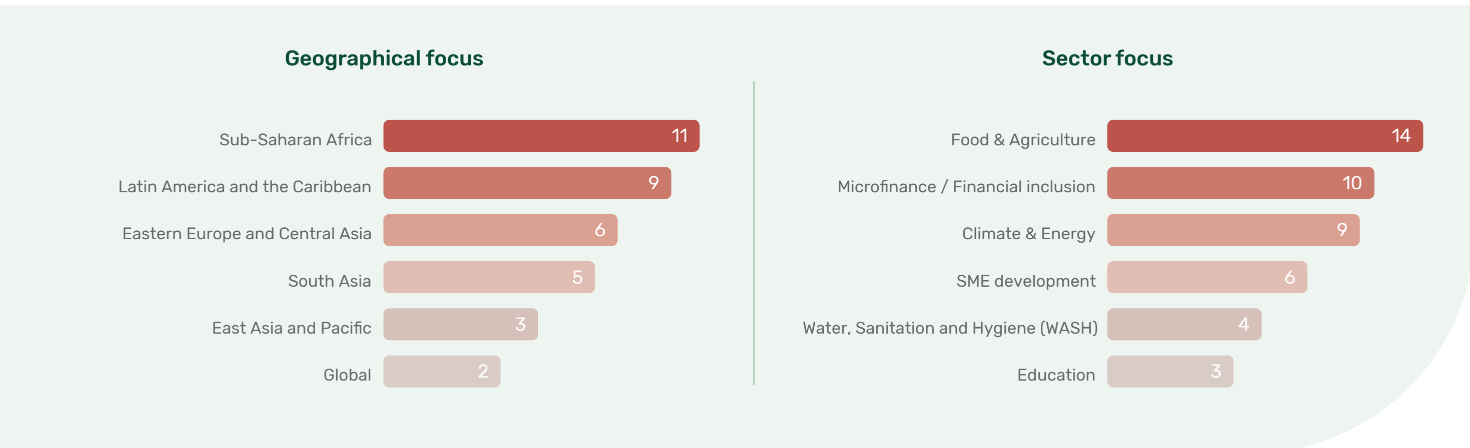
## Universe of impact investors

The group of impact investors surveyed represents a diversified cohort of respondents, spanning from small organisations managing assets under USD 25 million to large investors with a global footprint and assets under management exceeding USD 4 billion. They provide both debt and equity capital to the investees and partners they engage with.

They are predominantly located in developed countries, and more specifically in Switzerland, the United States, Belgium, the United Kingdom, France, Luxembourg, and the Netherlands. Notably, only one investor is based in Sub-Saharan Africa.

The charts presented below provide insights into their distinct geographic and sectoral focuses, the Sustainable Development Goals (SDGs) they aim to address, and the types of donors supporting their TA initiatives.[13]

*Figure 5* ***Universe of surveyed impact investors 1/2***




Their primary focus is directed towards Sub-Saharan Africa, followed sequentially by Latin America and the Caribbean, Eastern Europe and Central Asia, South Asia, and ultimately East Asia and the Pacific.

While certain participants focus exclusively on the food and agriculture sector, others have adopted multi-sector approaches, also investing in microfinance and financial inclusion, climate and energy initiatives, SME development, water and sanitation, as well as education. Consequently, their portfolio allocation to the food and agriculture sector varies considerably, ranging from 100% to merely 5% for some impact investors.

[13] The numbers in the charts represents the number of impact investors active in a geography, sector, targeting a specific SDG or raising TA funds from a certain type of donors. Multiple sections were possible for all data points.

*Figure 5* ***Universe of surveyed impact investors 2/2***


In addition, they target a multitude of SDGs, with particular emphasis placed on three key objectives: Goal 1 – No poverty, Goal 5 – Gender Equality and Goal 8 – Decent Work and Economic Growth.

And finally, the majority of impact investors within the sample indicate raising funds for TA primarily from public donors. Occasionally, these funds are also secured from institutional investors, which may include foundations, non-governmental organisations (NGOs), and associations. It is noteworthy that in the agricultural sector, TA predominantly relies on financial backing from public donors, whose methodologies and policies exert a substantial influence on the provision of TA by impact investors within the agricultural sector. Navigating these diverse expectations, requirements and policies of multiple donors can pose challenges for investors. One such challenge is to effectively manage grants, a resource intensive task that imperatively requires requisite capabilities at the impact investor level, but which is often left unaddressed. However, it is worth noting that certain donors are displaying a willingness to learn, and there is potential to achieve a certain level of harmonisation among different donors.

An important trade-off exists between enforcing strict guidelines to ensure alignment among all stakeholders and the potential drawbacks of overly stringent criteria. The latter approach may lead to the exclusion of interesting projects, dissuade both investors and AVCAs from compiling a convincing proposal, or heighten the risk of failure by overly forcing the alignment of identified needs into a predetermined framework. As advised by several impact investors, obtaining prompt feedback before delving into a comprehensive proposal could prove beneficial, especially considering the inherently administrative nature of the process. Furthermore, it was emphasised that the process would benefit from a TA committee possessing a robust business acumen.

## Objectives

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.

*Figure 6* ***Proportion of impact investors targeting different types of TA objectives***


### De-risking investments and leveraging additional capital

One of the primary objectives of impact investors when offering TA is to reduce the risks associated with their current investments. By improving internal processes, for example, AVCAs may be able to improve reporting systems and performance monitoring, find cost efficiencies and enhance the quality of products and services provided.

TA projects, particularly those focused on launching new products or services, can also help the beneficiary organisation become more competitive in their respective markets. This improved competitiveness can contribute to the success of the investment and increase the ability of the AVCA to raise funds, although this remains difficult to measure adequately.

While less common in the study sample, pre-investment TA projects often aim to create the necessary conditions for a potential investment in the organisation. These projects ensure that the AVCA is well-prepared and aligned with the investor's objectives before the actual investment takes place.

### Gaining a competitive advantage

Moreover, a subset of impact investors views the provision of TA as a means of gaining a competitive edge from the perspective of AVCAs. This service can enhance the attractiveness of investors as potential partners, especially among well-established AVCAs who engage with multiple investors. In some instances, the availability of TA is a decisive criterion for AVCAs when selecting partners. Despite often not being explicitly identified as a primary objective, several investors recognised its potential as a positive side outcome. However, in most instances, this aspect was not employed as a primary selling point by the investors, primarily due to their limited capacity to serve all AVCAs within their portfolio with TA.

### A broad spectrum of objectives overall

**Lastly, during qualitative interviews, impact investors articulated additional objectives beyond those previously discussed, including:**

- **Adopting a market development role and strategy,** guiding beneficiary organisations in critical areas that they might not be well aware of, as for example fortifying the environmental and social (E&S) mission and performance of the AVCAs. Aligning with this, there's also the consideration of addressing the objectives and priorities of both the investor and donors.
- **Directing efforts towards beneficiary organisations** who traditionally lack access to financial means or are in a difficult situation, in accordance with the concept of "additionality".[14]
- **Enhancing resilience to external factors** such as climate change adaptation projects, providing smallholder farmers with sustainable farming practices.

[14] In the context of impact investing, "additionality" refers to the idea that an investment has a positive impact beyond what would have occurred in the absence of that investment. Among others, it may result from the growth of new or undersupplied markets, provision of flexible capital, accepting disproportionate risk-adjusted returns, and active engagement providing a wide range of non-financial services such as TA.

# CHARACTERISTICS OF TA PROJECTS

# CHARACTERISTICS OF TA PROJECTS

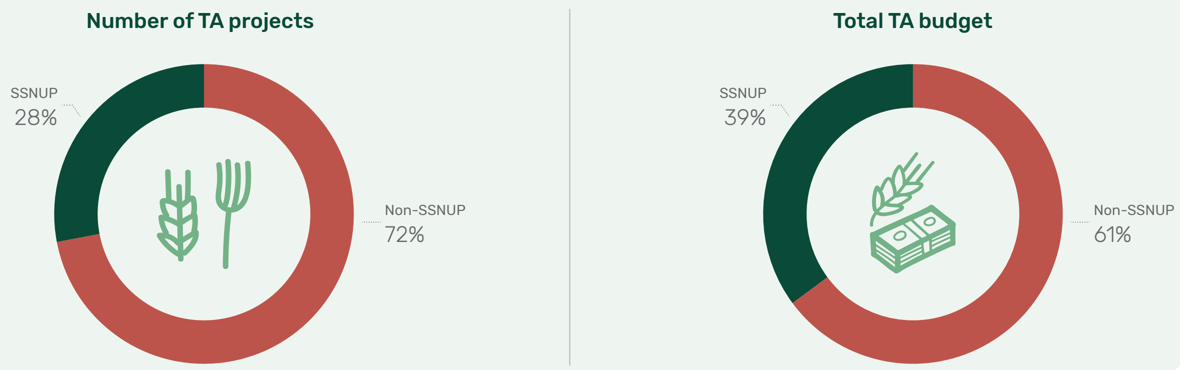
This chapter defines the scope and characteristics of TA for AVCAs when offered by impact investors. As previously mentioned, the projects referred to in this chapter were provided through donor-funded TAFs or via alternate forms of TA.

## Sample description

Over the last three years (i.e., from the start of 2020 to Q1 2023), impact investors reported 243 technical assistance projects within the agricultural sector, pooling together a total budget of EUR 14.8 million across the span of 13 investors, with on average 18 projects by investor (median: 8).

It is worth noting that the three main investors in the study collectively account for a significant majority of the total budget (73.1%) and contribute to nearly two-thirds of the project count (57.0%).

*Figure 7* ***SSNUP projects relative to the total sample***




Out of this sample, about a third of projects (28.3% or 68 projects) are co-financed by the SSNUP, representing 39.5% of the total budget[15]. As mentioned previously, datasets on the provision of TA through impact investors are not very standardised and might be difficult to compare across projects and investors. However, the format and reporting of projects in the SSNUP are more standardised, and thus proves a useful comparison with the total sample, where relevant.

Nonetheless, the median project size for SSNUP projects (EUR 30.3k) is not substantially different from that of non-SSNUP projects (EUR 33.3k). This similarity in project sizes gives us confidence that both datasets can be effectively analysed together.

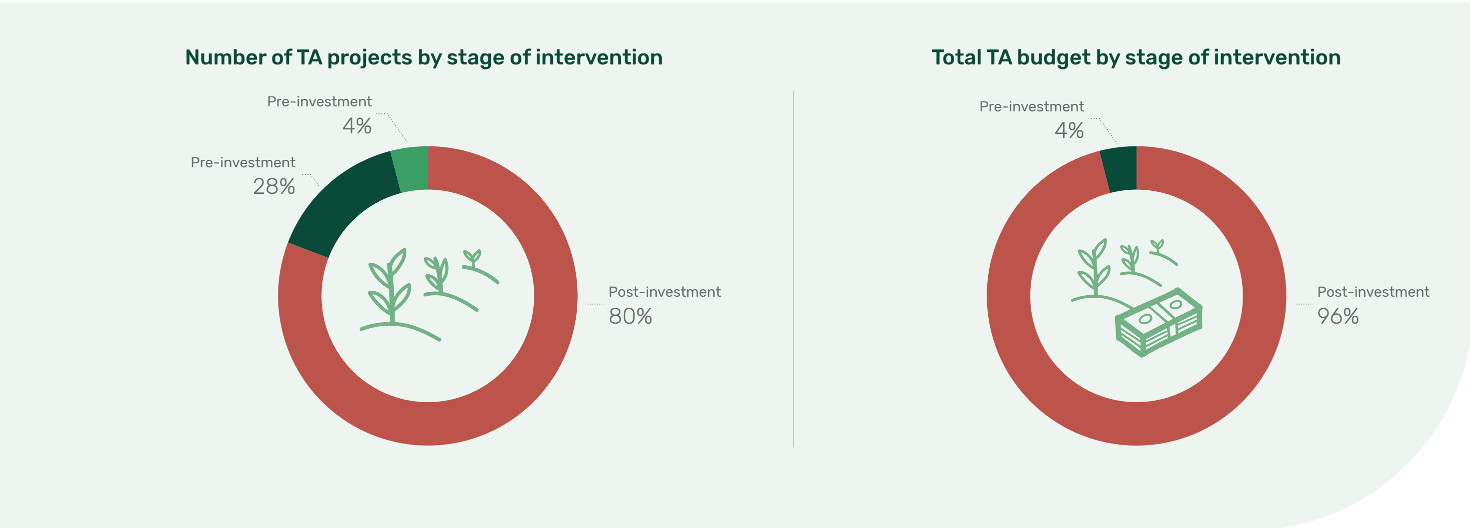
The projects within the sample are focused on various AVCs[16], with a predominant emphasis on crops (144 projects or 86.2% of projects for which this information is available), of which approximately two-thirds target cash crops (90 projects or 62.5%). A smaller number of projects are directed towards livestock and poultry production (22 projects or 13.2%), forestry (5 projects or 3.0%), as well as fishery and aquaculture (3 projects or 1.8%).

[15] The total budget refers here to the amount co-financed by all parties involved and not only the SSNUP contribution.
[16] One project can target several AVCs. This information is available for about two-thirds of projects in the dataset (167 projects).

## Stage of intervention

As mentioned previously, pre-investment projects are mostly focused on investment readiness, from loan applications to reporting, and are in very few cases decorrelated from investment in the context of this analysis. Although approximately two-thirds of investors within the sample also reported engaging in pre-investment TA endeavours, post-investment TA initiatives constitute the predominant portion of the project spectrum.

*Figure 8* ***Breakdown of TA projects by stage of intervention (pre- vs. post-investment)***




These post-investment projects account for 96% of the total TA budget allocation and encompass 80% of the project count. Unsurprisingly, the median project size differs significantly for both types of project, standing at EUR 10.3k for pre-investment projects and EUR 38.1k for post-investment.

Additionally, a mixed category was introduced for TA projects commencing prior to a first investment and continuing post-investment, contingent upon the prerequisites for the investment to materialise. Nonetheless, this type of TA project represents a mere 4% of the overall project count.

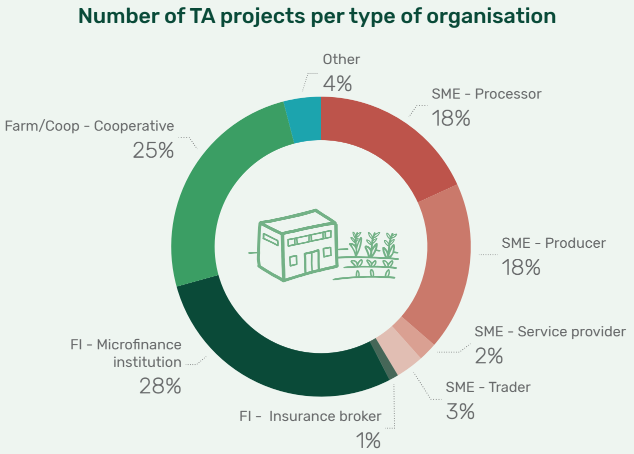
It is important to highlight that pre-investment TA projects are generally perceived as riskier by both donors and investors, and are in some instances, even prohibited in TAFs' policies or limited to highly potential partners. Certainly, the relationship between the investors and beneficiary organisation is not well established during the project's inception. If the project doesn't proceed smoothly, this could potentially have adverse effects on their relationship in the future and even affect the prospects for further investment.

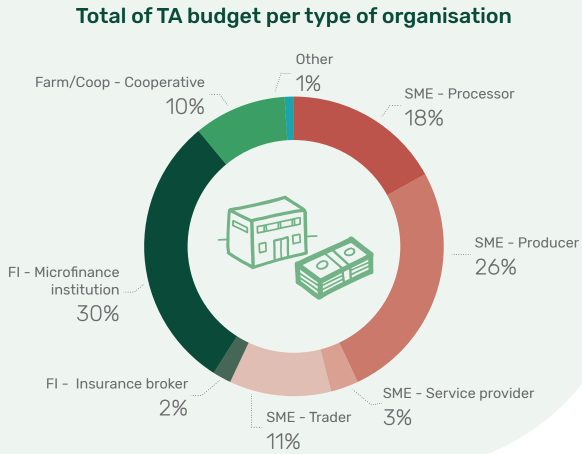
There are ongoing discussions regarding the cost-effectiveness of these project types for impact investors. Some are debating whether the emphasis should be on coordinating subsidies across various stakeholders, including impact investors, development agencies, and microfinance lenders. On the contrary, there are arguments in favour of pre-investment projects, especially when it comes to encouraging fixed income investors to motivate potential investees to enhance their internal processes, with investment contingent on meeting specific objectives.

## Type of beneficiary organisations

Beneficiary organisations in the sample ranged from financial intermediaries to SMEs and farmer cooperatives.

*Figure 9* ***Breakdown of TA projects by type of beneficiary organisation***



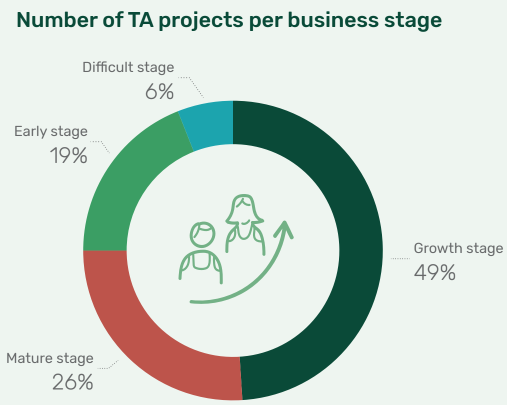

TA projects provided to SMEs represented more than half of the total budget (57%), followed by financial intermediaries (32%) and farmer cooperatives (10%). Within the SMEs category, TA projects were mainly directed to producers (26%), processors (17%) and traders (11%). Service providers and insurance brokers only represented a very small proportion of the total budget (3% and 2%, respectively).

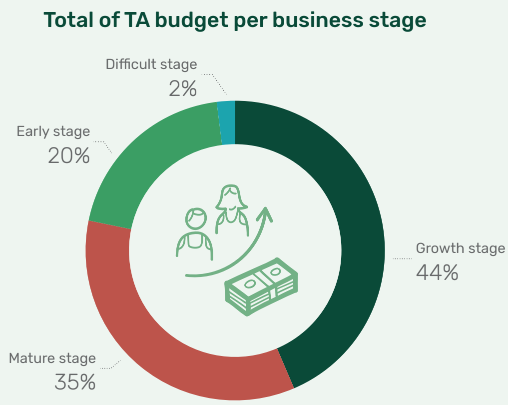
In terms of number of projects, however, the sample is more balanced with SMEs representing 41% of the sample, followed by financial intermediaries at 29% and cooperatives at 25%.

## Business stages of beneficiary organisations

Beneficiary organisations in the sample were at different stages of business, ranging from early-stage to growth and established companies[17]. While the sample of financial intermediaries mainly comprises mature- and growth-stage companies (26 and 27 companies, out of 60 financial intermediaries), the sample of SMEs comprises few mature-stage companies (8 companies), but more growth stage and early-stage companies (43 and 13 SMEs, respectively). The sample of cooperatives is well balanced across all stages.

*Figure 10* ***Breakdown of TA projects by business stage***




In terms of number of projects, a significant portion of TA interventions, constituting 49% of the total, was directed towards growth companies, surpassing mature companies at 26% and early-stage companies at 19%. However, when delving into budget allocation, a divergent pattern surfaces.

[17] Please refer to definitions in the chapter "Methodology and definitions".

Mature companies secured a larger share, accounting for 35% of the total budget, thereby suggesting more substantial projects. The median project size for mature-stage companies is indeed EUR 62.9k, well above the median project size for the total sample at EUR 33.3k. This is unsurprising considering the greater capacity of mature companies to accommodate larger-scale projects. The scope of the TA project is 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.

However, the median project size for TA initiatives directed towards early-stage SMEs is also notably high, at EUR 56.2k across the entire sample. When considering only the SSNUP subset, however, the median project size for early-stage SMEs amounts to EUR 18.1k. It is important to note that a single investor drives this trend for early-stage SMEs across the entire sample. As such, it is believed that the SSNUP subset suggests a fairer representation of TA projects characteristics.

There is a trade-off in the allocation of TA grants between small, early-stage enterprises and more established counterparts. Startups and businesses encountering challenging circumstances often struggle with limited access to capital. Offering them TA can serve the concept of "additionality," filling a gap where traditional financing falls short. Exclusively directing TA towards well-established entities and market leaders bears the risk of fostering concentration, potentially impeding the participation of smaller players in the market.

According to a recent ISF study, providing BDS to firms with less than USD 100k of revenues can prove to be cost-efficient in terms of job creation. However, the study also found that supporting larger enterprises may yield a higher overall impact in absolute terms.[18] Thus, the decision of where to direct TA involves striking a balance between promoting growth in smaller businesses, addressing gaps for early-stage players, and considering the potential broader impact achieved by supporting more established firms.

The focus of the TA on hard or soft skills is also different depending on the growth pathway of a company, as defined by ISF.[19] For example, livelihood sustaining enterprises could highly benefit from TA projects focusing on a shift in mindset—referred to as "soft BDS"—and enhancements in governance practices. Changing existing practices can prove very challenging. At a very early stage of business development, TA projects can encompass transitions from the informal to the formal economy, incorporating elements like implementing formal payroll systems. This endeavour can encounter resistance from beneficiary organisations. While various approaches exist for enhancing hard skills (e.g., accounting, MIS, and digitalisation), the crucial factors of mindset adjustment, bolstering confidence, and fostering trust to apply these methodologies remain areas that may not have received adequate attention thus far. This underscores the necessity for addressing not only technical skills but also the behavioural and managerial aspects that drive successful implementation of TA projects. Nonetheless, selecting a consultant for projects focusing on soft skills may request a more collaborative approach, as it requires ongoing interaction and cooperation over an extended period. Beyond TA, some investors are also providing scholarship grants, sponsoring management teams to participate in selected training.

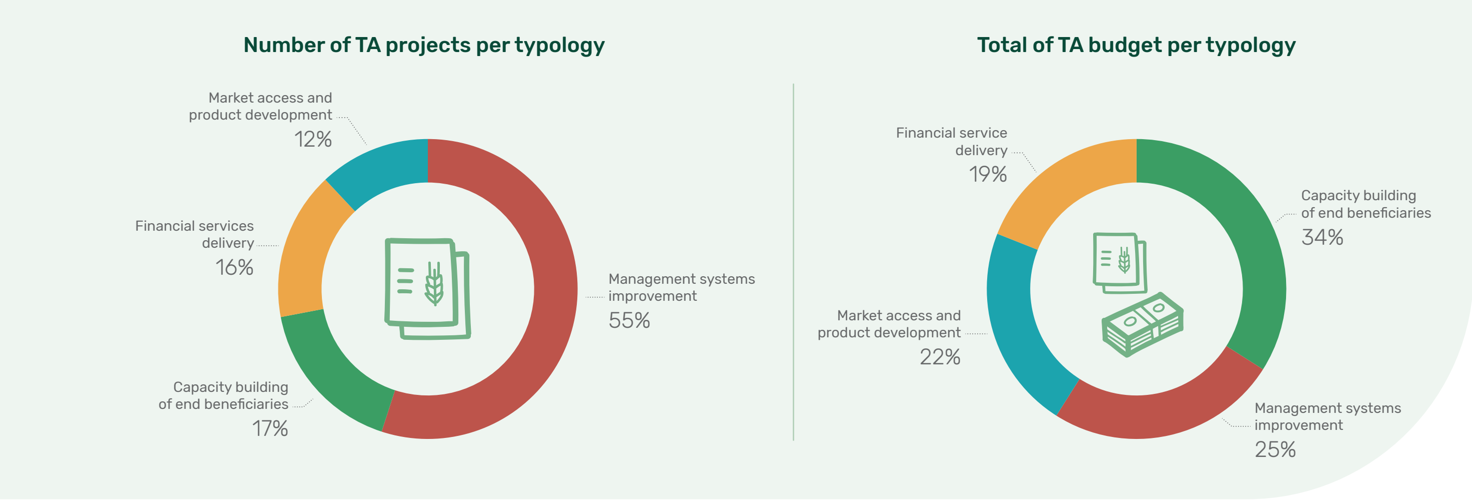
Additionally, TA interventions might involve aiding in the process of applying for loans, a task that can be complex and intimidating for early-stage businesses. There's potential for tax benefits by establishing cooperatives, but these advantages often come with administrative complexities that can be overwhelming. Furthermore, some enterprises might primarily emphasise managing cash inflows and outflows rather than formulating comprehensive business plans. This diversity of focus highlights the multifaceted nature of support required at the early stages of businesses, ranging from technical transformations to navigating administrative hurdles and adopting strategic financial management practices.

[18] ISF Advisors, 2023. Effectiveness & Efficiency of Business Development Services (BDS) for Agri-SMEs.
[19] ISF Advisors, 2022. The state of the agri-SME sector – Bridging the finance gap.

## Type of projects

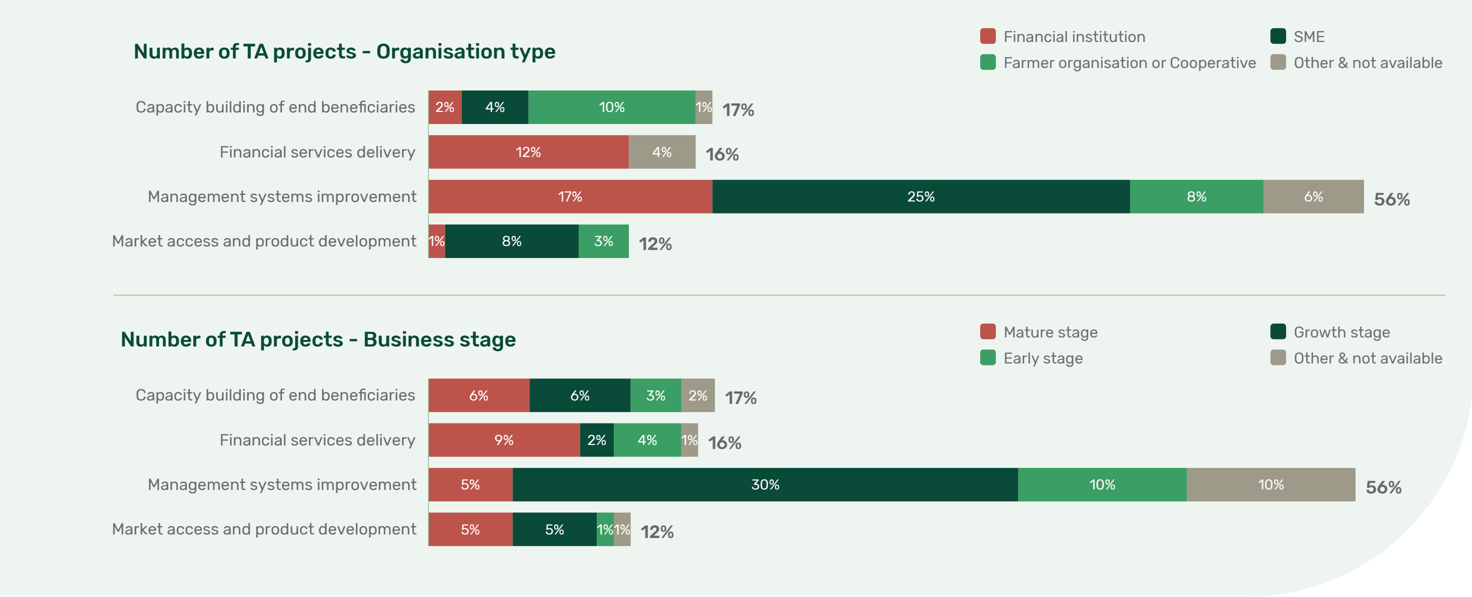
The diversity of actors and their distinct needs within the agricultural sector has led to a wide range of TA interventions. In our effort to help the industry in extracting valuable insights for future TA project design and selection and expanding on the taxonomy already articulated for the SSNUP programme, the study proposes a categorisation framework for TA projects that underscores their orientation toward either the internal or external facets of the value chain.

*Figure 11* ***Breakdown of TA projects under the proposed typology***




Capacity building for end beneficiaries projects form the majority of the sample (34% in terms of budget) followed by projects focused on improving management systems (25%), market access and product development projects (22%), and lastly financial services delivery (19%). However, it is worth noting that the representation below only shows the primary activity of the TA project, but one project may target several areas of intervention.

*Figure 12* ***Breakdown by project type and beneficiary organisations (type and business stage)***

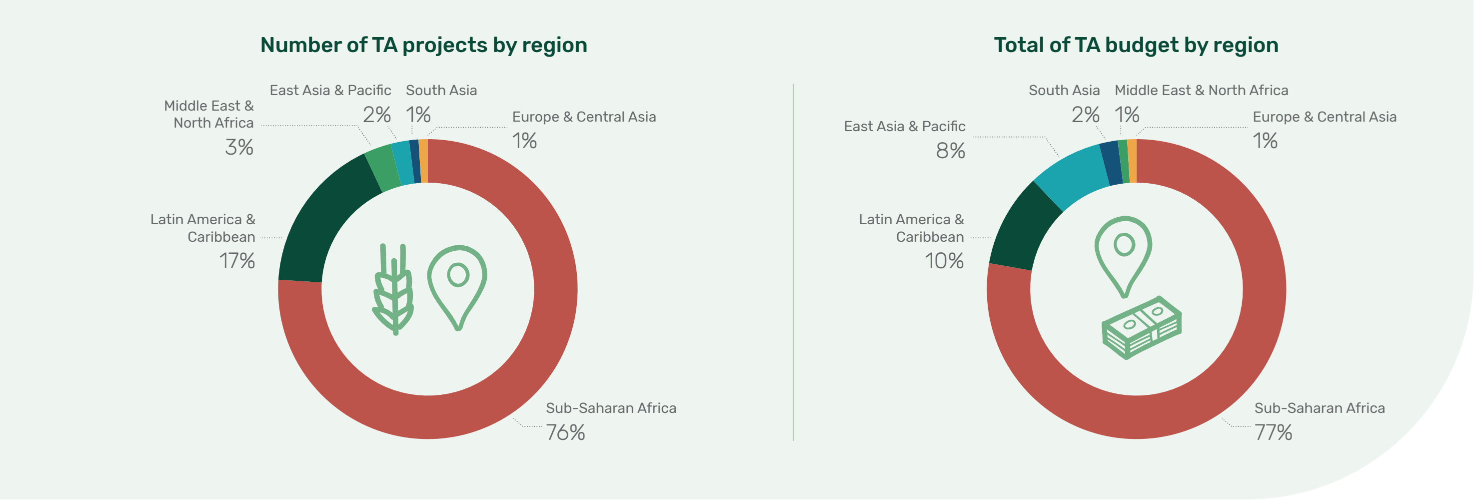



Logically, projects centred on financial services delivery typically extend to well-established financial institutions, although they also target early-stage and growth-stage companies in some instances. Management systems improvement projects are primarily tailored for growth-stage companies, SMEs, and financial institutions. In addition, early-stage organisations often receive this type of project, with other project types being less common for this stage of business. Capacity building projects are predominantly directed at farmer organisations and cooperatives across all business stages. Lastly, market access and product development projects find their primary recipients in mature and growth-stage SMEs.

## Regions

As mentioned previously, investors in the sample invest globally, with the two main regions of focus across their entire portfolios being sub-Saharan Africa and Latin America and the Caribbean.

*Figure 13* ***Breakdown of TA projects by region***




According to Tameo, sub-Saharan Africa is the prime region of focus for Private Asset Impact Funds (PAIFs) (excluding multi-regions funds) with 19% of total assets under management concentrated across 222 funds having a single emphasis on the region. Notably, out of the 84 funds identified with a specific focus on food & agriculture, 28 funds or about a third are targeting the region. Across a sub-sample of funds reporting detailed portfolio allocations, sub-Saharan Africa is the prime region for food & agriculture funds, representing 37% of outstanding impact portfolio in the sector at the end of 2022.[20] In accordance with this finding, most TA projects in the sample are concentrated on sub-Saharan Africa (77% of total budget), with projects in Latin America & the Caribbean and Asia each representing approximately 10% of the total budget.

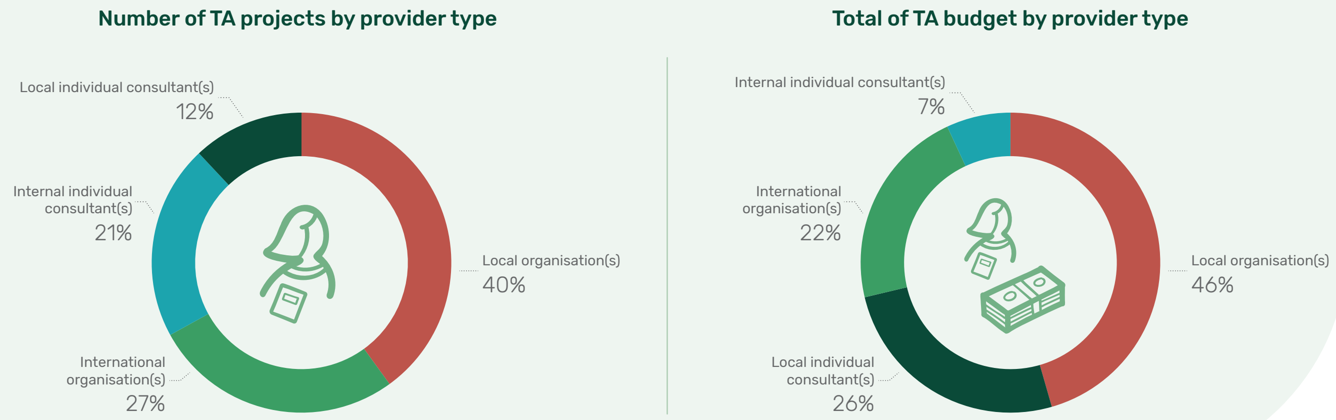
The size of projects in sub-Saharan is relatively smaller, with a median of EUR 22.8k, while Latin America and the Caribbean attracts larger scale projects (median of EUR 45.8k). For other regions in the sample, only a handful of investors are providing TA to companies in these markets, and a larger sample would be required to derive trends and dynamics in the field.

[20] Tameo Impact Fund Solutions, 2023. Private Asset Impact Fund Report 2023.

### Type of providers

Impact investors and beneficiary organisations contract several types of partners, local or international, to implement TA projects.

*Figure 14* ***Breakdown of TA projects by provider type***




Local organisations were the main types of providers in the sample, followed by individual consultants (either local or internal) and international organisations. Local organisations and consultants are often preferred thanks to their local knowledge and geographical proximity towards recipients and beneficiaries. The split within the SSNUP subset is relatively aligned to the total sample. However, the differences in project sizes are more prominent in the subset. For instance, the median project size for projects implemented through international organisations amounts to EUR 47.1k in the total sample compared to EUR 101.0k in the SSNUP sub-sample. The median project size is however smaller for projects implemented through local partners in this subset, at EUR 13.1k, compared to EUR 29.7k for the entire set. Research providers and networks in the field advocate the importance of supporting local BDS markets, and providing large-scale subsidised projects implemented through international organisations only when required, to avoid harming local BDS providers.

In addition, further qualitative interviews frequently highlighted the significance of TA provider selection and communication as pivotal factors for successful project implementation. While beneficiary organisations generally welcomed guidance and assistance in choosing TA providers, there were instances where they expressed surprise at not being included in the ultimate decision-making process. Furthermore, questions arose regarding whether it should be the AVCA, rather than the impact investor, responsible for contracting TA providers.

Indeed, involving beneficiary organisations in the consultant selection process is a positive approach. Their input can help ensure that the consultants chosen have a deep understanding of the AVCA's needs, goals, and the specific challenges they face. This can lead to more tailored and effective solutions.

The question of whether the beneficiary organisation or the impact investor should be responsible for contracting consultants is an important one. It may vary from project to project and depend on the specific dynamics of the partnership. Some AVCAs may prefer to directly contract consultants to have more control and ownership of the project. On the other hand, impact investors may want to ensure that the consultants hired align with the project's goals and objectives. They may also have established networks and processes for engaging consultants efficiently.

Ultimately, the success of the project depends on a collaborative and transparent relationship between impact investors, beneficiary organisations and consultants. Effective communication and well-defined roles and responsibilities in the consultant selection and contracting process are key elements in ensuring that the project achieves its intended impact.

## Project size

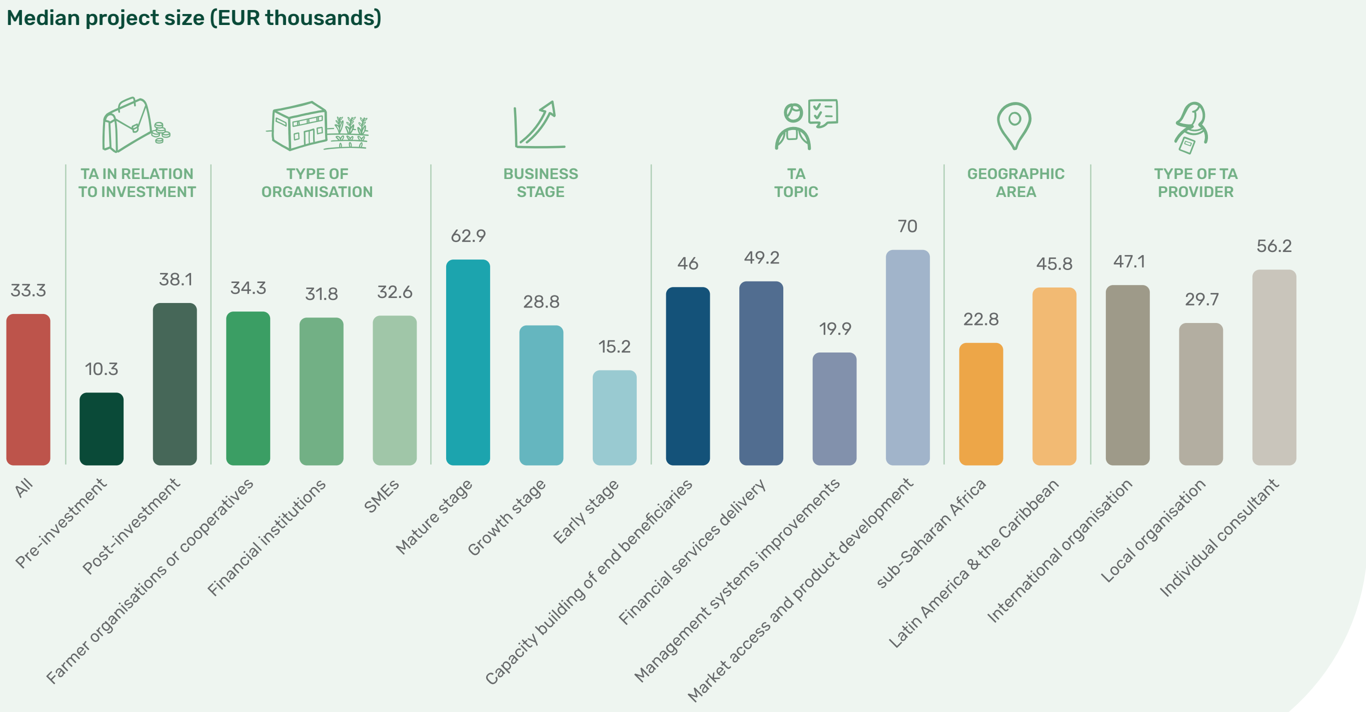
Across the sample, the median project size has consistently increased over the last 3 years, from EUR 8.2k in 2020 to EUR 50.3k in the first quarter of 2023.

Across the entire sample, the average budget per project stands at EUR 80.9k, while the median budget is EUR 33.3k, indicating that there are a few large projects driving the average up.

These figures highlight substantial variations amongst the various projects. Particularly striking is the range in average project sizes across different investors, spanning from EUR 22.3k to EUR 400.2k. The projects' scope can be more or less comprehensive, incorporating diverse and complementary elements.

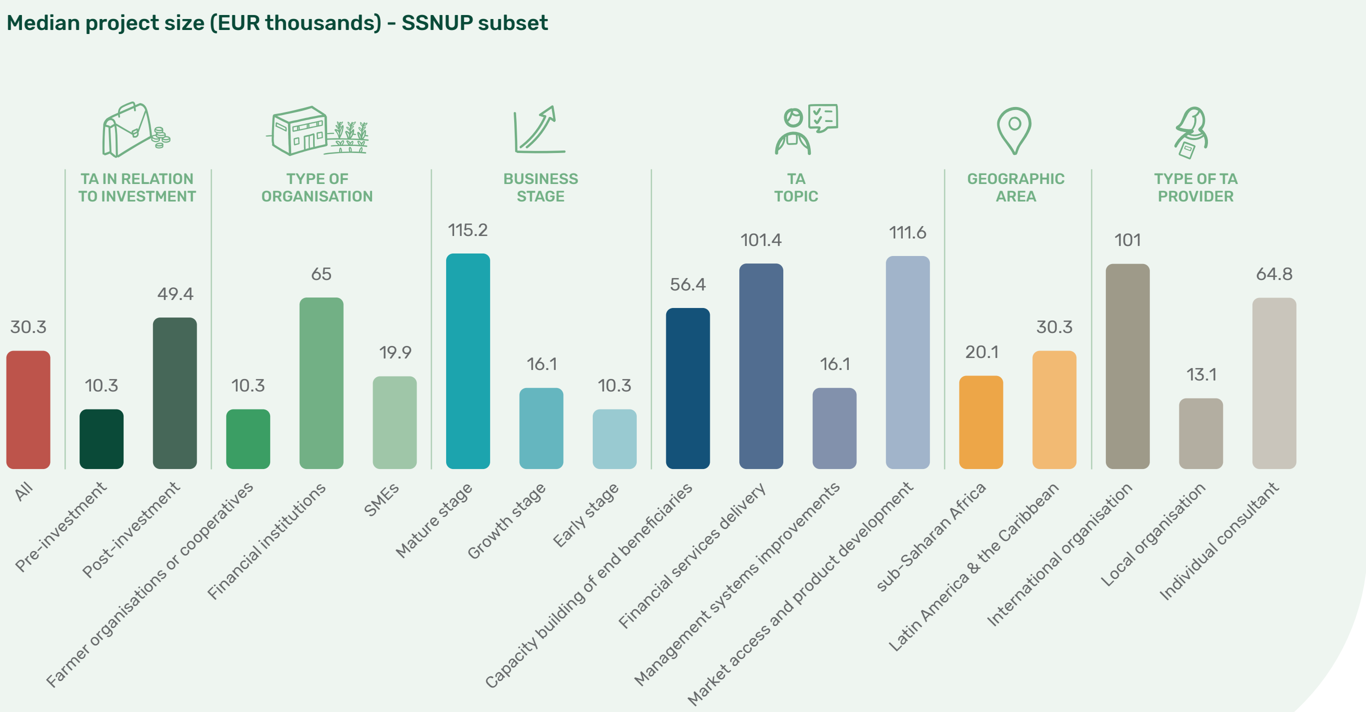
The chart below highlights the different median project sizes across segments in terms of type of TA, type of organisation, business stage, type of project, region, and type of providers.

*Figure 15* ***Median project size across segments***




Contrary to expectations, the median budget did not vary significantly across organisation types at EUR 34.3k for farmer cooperatives, EUR 31.8k for financial intermediaries, and EUR 32.6k for SMEs. Looking at the same graph for the SSNUP subset depicts a different trend.

*Figure 16* ***Median project size across segments for the SSNUP subset***




Significant variations emerge across the dataset, with the median project size for financial intermediaries being higher for financial intermediaries (EUR 65.0k) compared to SMEs (EUR 19.9k) and farmer organisations or cooperatives (EUR 10.3k). In this case as well, it is believed that the SSNUP sub-sample provides a more accurate representation of the prevailing trends in the field. The median project size in the entire sample appears to be skewed by certain investors' involvement in a larger number of TA projects.

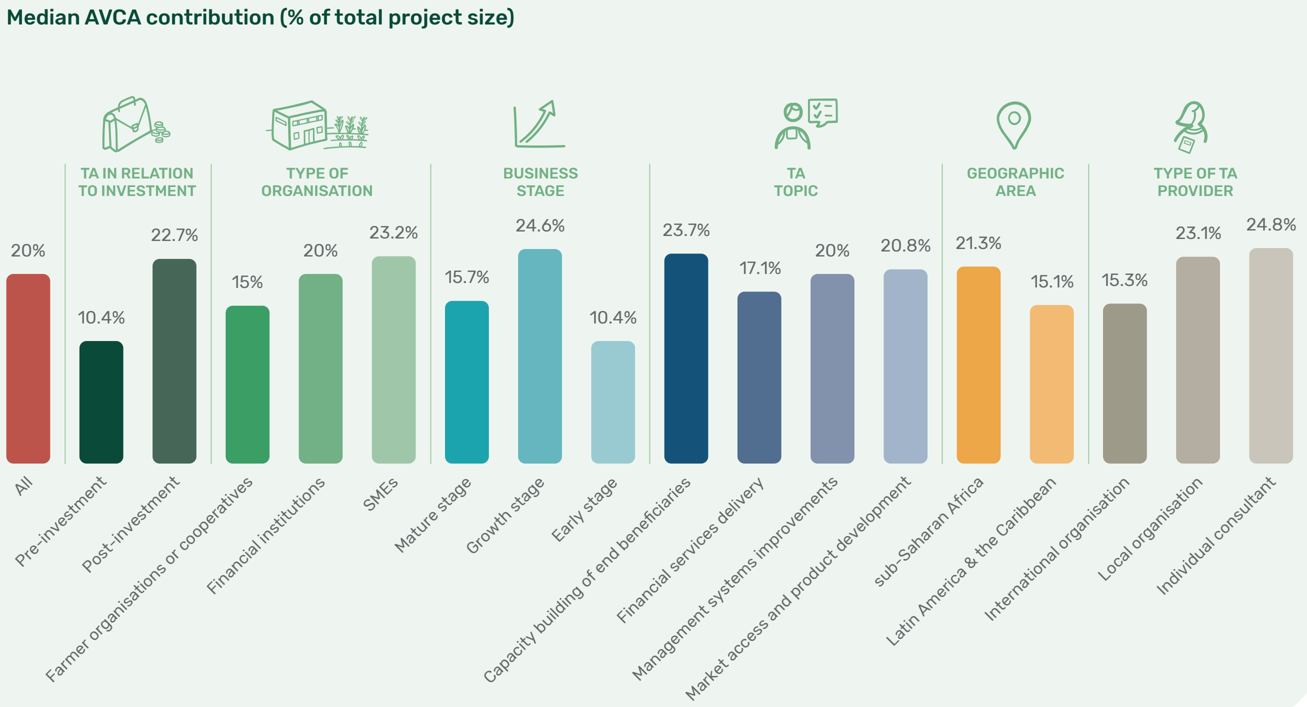
Additionally, median project sizes exhibit notable disparities across various project types. Typically, projects that are more complex and comprehensive, like offering financial and non-financial services to smallholder farmers, enhancing product offering and accessing new markets, tend to have larger project sizes. Initiatives centred on improving management systems display lower project sizes across the entire set and SSNUP sub-sample.

## AVCA contribution

The size of a project also holds significance for the beneficiary organisation's own involvement and cost dynamics. Virtually all participants involved in the study, spanning both investors and beneficiary organisations, acknowledged the key role of AVCA budget allocation in project success. Certain TAFs even outline a minimum AVCA contribution in their policies. For example, the SSNUP requires an AVCA contribution of at least 10% to 20% in kind or cash, depending on the financial situation of the company, type of organisation and the level of innovation. And investors who were not consistently requiring such contributions were contemplating a shift in approach. This finding corroborates ISF's conclusion that some contribution from the agri-SME towards BDS provided plays a critical role in ensuring the project's effective implementation and positive impact on the beneficiary.[21]

In the context of the studied projects, the average and median AVCA contributions were recorded at 25.8% and 20.0% of the total budget, respectively. The chart below highlights the different median AVCA contributions, in terms of percentage of total project size, across segments.

*Figure 17* ***Median AVCA contribution across segments***



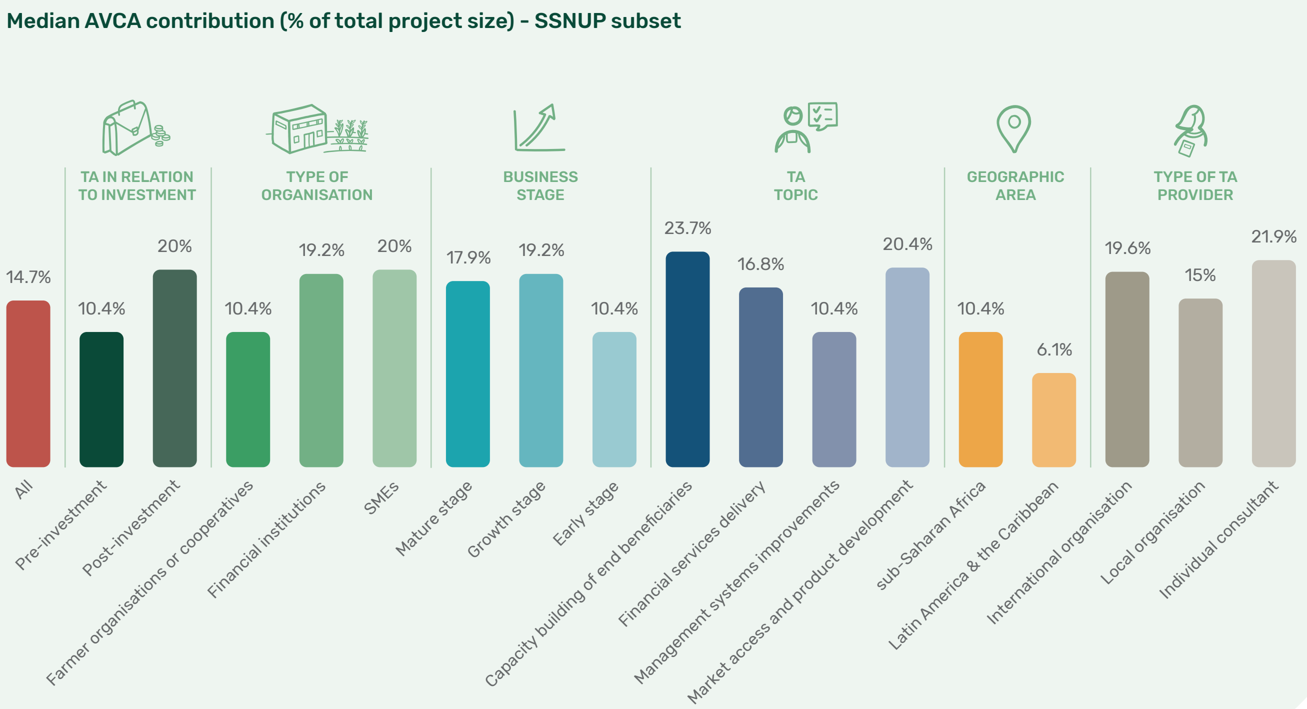

AVCA contributions were typically higher for SMEs (23.2%), in the mid-range for financial intermediaries (20.0%) and lower for farmer organisations (15.0%). Looking closely at the SME category, there are significant disparities for producers (31.6%), traders (29.8%), processors (21.6%) or service providers (17.9%). The median AVCA contribution required for early-stage companies (10.4%) also indicates some degree of adaptability depending on the business stage of the beneficiary and type of organisation. However, it would be interesting to further investigate why growth stage companies were typically required to provide higher contributions, in relative terms, than their more established counterparts.

Despite the relatively constrained resources often associated with early-stage and growing companies, their capacity to allocate resources to the project was not identified as a limiting factor for undertaking a TA project. However, there is room for increased flexibility, such as incorporating staff-time as an in-kind contribution in the budget, and encompassing hours contributed by project members initially not considered in the TOR.

[21] ISF Advisors, 2023. Effectiveness & Efficiency of Business Development Services (BDS) for Agri-SMEs.

For the SSNUP sub-sample, the average and median AVCA contributions are lower than in the total sample, at 21.5% and 14.7%, respectively. These results are aligned with the programme's policy, although in the higher range. Looking at the different types of projects, the SSNUP subset also provides a more contrasted picture.

*Figure 18* ***Median AVCA contribution across segments for the SSNUP subset***

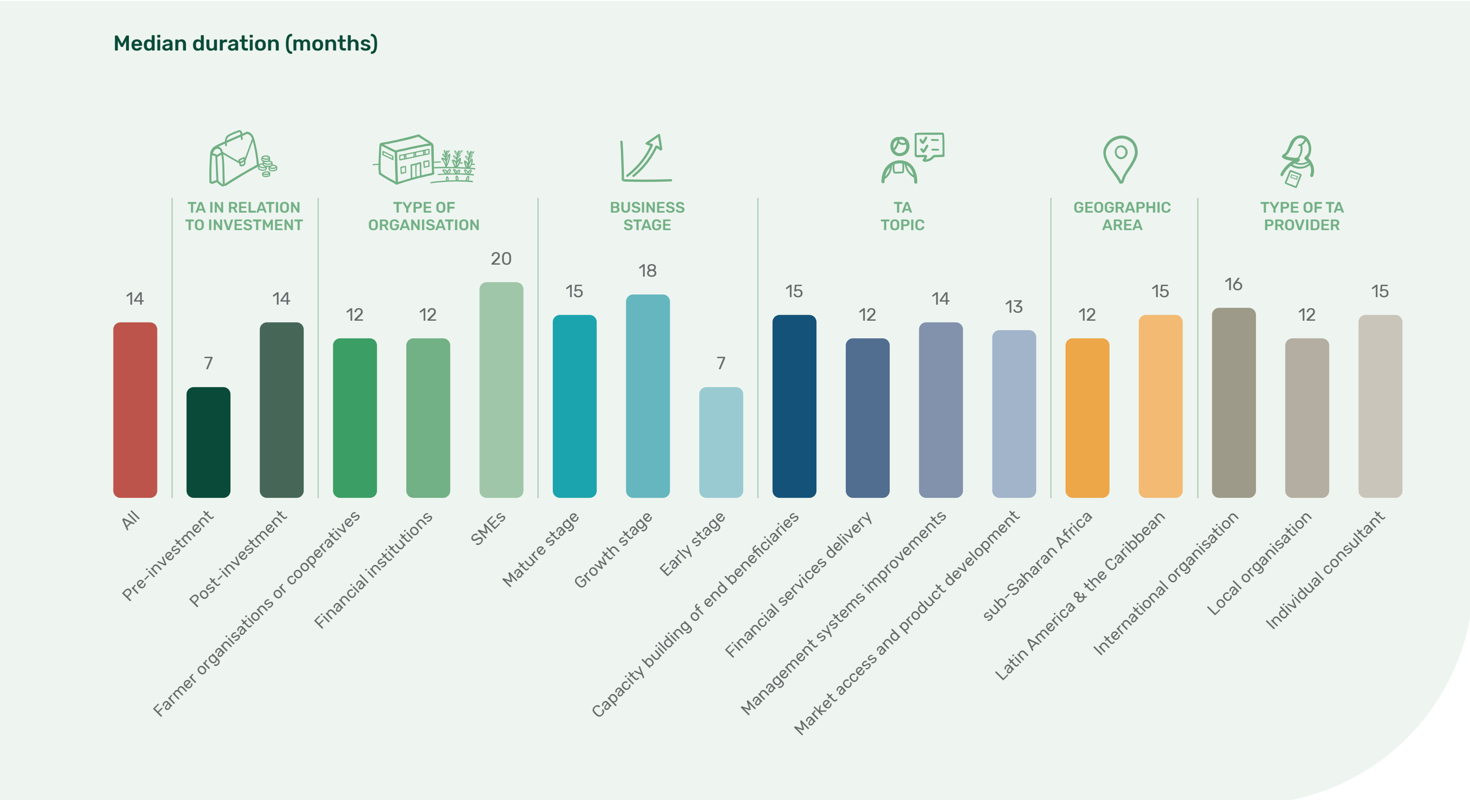



The median AVCA contribution for projects focused on improving management systems stands in the lower range of the facility's policy at 10.4%, while AVCA contributions are more important for projects oriented toward external facets of the value chain (e.g., capacity building of end beneficiaries).

## Project duration

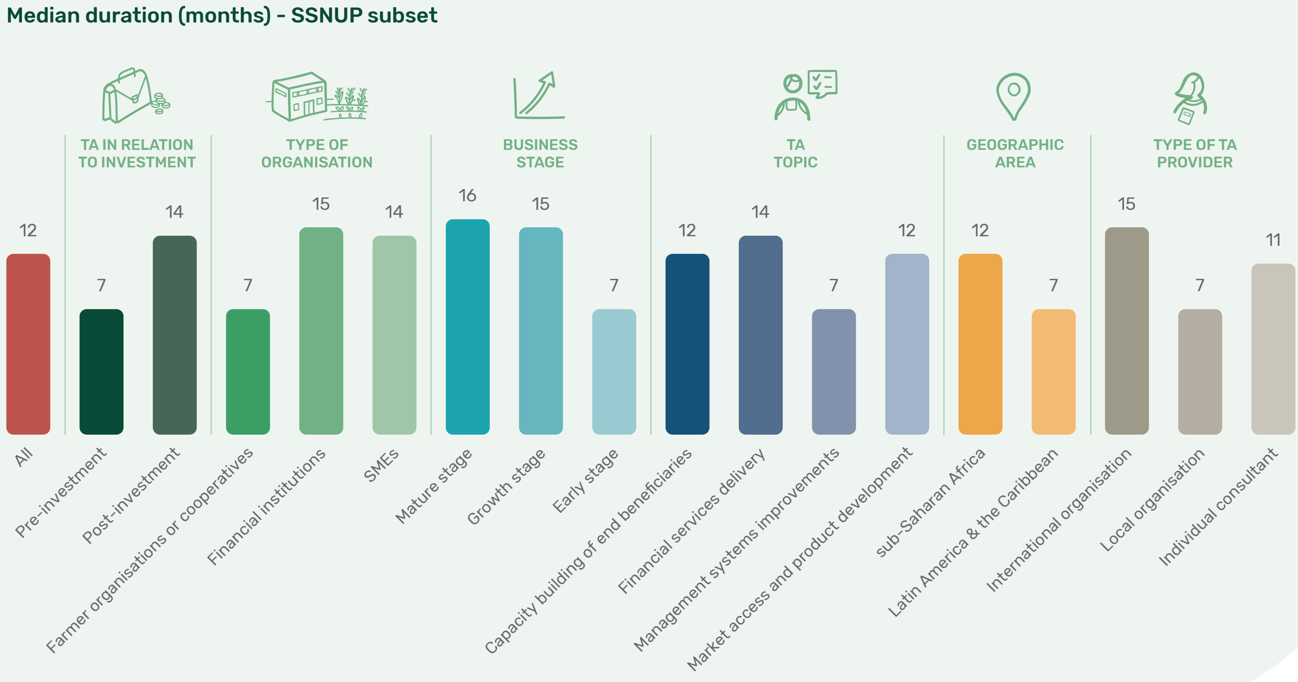
About half of the projects in the sample were already completed, as TA projects are usually short term. The average duration is 17 months and the median 14 months, and it has remained quite stable over the last three years. The chart below presents the median project duration across segments.

*Figure 19* ***Median project duration across segments***




TA projects provided to SMEs typically have longer durations (median of 20 months) than projects towards cooperatives or financial intermediaries (12 months). TA projects provided to mature, and growth companies were also typically longer than those provided to early-stage companies. This might be attributed to the nature of the projects, as more established companies would have the capacity to absorb more comprehensive projects. The split may vary slightly for SSNUP projects, as highlighted in the chart below.

*Figure 20* ***Median project duration across segments for the SSNUP subset***




Looking at this subset, the median duration for projects supporting SMEs is not typically higher than projects provided to financial intermediaries, and there are more nuances amongst the different types of projects. In accordance with the smaller budgets allocated for management systems improvement projects, they also tend to have smaller durations.

And finally, as international organisations are typically hired for projects with higher budgets, the median duration of the projects they help implement is also longer than the ones implemented by local organisations.

In line with the recommendations to adopt more holistic approaches to TA, longer-term projects would be well received by AVCAs and TA providers, to accompany the beneficiary organisation throughout the entire implementation of the project and evaluate impact in the long run, after completion of the project.

# OUTCOMES IN THE TA LANDSCAPE

**Technical Assistance** provided by Impact Investors to Agricultural Value Chain Actors

# OUTCOMES
# IN THE TA LANDSCAPE

Regardless of the progress made ever since impact investing was coined as a do-good strategy more than 15 years ago, the debate around measurement of outcomes and impact, their associated terminologies, measurement methods, attribution, etc. continues to animate workshops, events and conferences around the globe. Standardisation tools and guidelines have been developed over the years to help investors navigate the complex topic, where relevant, but their application continues to be challenged by the heterogeneity of impact investing business models in terms of theory of change, instruments used, geographical focus, type of organisations, etc.

Measuring and reporting on the outcomes within TA interventions is not less challenging and puts forward the difficulty of attribution of the outcome to the TA project, given how exogenous factors drive business performance, and arguably more so in agriculture. Experimental approaches to measure the effectiveness of various interventions, such as randomised control trials (RCTs) could help mitigate this challenge at an end-beneficiary level. However, RCTs are highly labour intensive and costly to implement, and one can argue that these on-field evaluation approaches should not be in the realm of impact investors. Regardless, the push for more accountability from capital allocators and regulators is driving the need for a better understanding of the outcomes of impact investments, and all its related delivery mechanisms, including grants and TA.

As described in the methodology chapter, our approach for assessing outcomes was to first require high-level qualitative inputs from our sample of impact investors on how they approach the topic. A second step was to gather additional inputs and clarification from our interviews to complement the responses, while in parallel crunching quantitative data collected for the SSNUP to derive any time series trends along the TA projects.

This chapter thus aims to present such findings and understand where possible the various outcomes of TA offered through TAFs managed by impact investors. Given the current gaps in the industry in terms of standards and approaches, this chapter also discusses outcomes with the potential to be measured and compared across the industry rather than project-specific outcomes mainly useful for evaluation purposes.

## Reporting and measurement of outcomes

The initial questions to impact investors on outcomes and impact indicated that several key performance indicators (KPIs) can be measured to evaluate the impact of TA projects at the AVCA level. They include KPIs related to the growth in sales or agricultural portfolio, permanent jobs created, and improvement in sustainability scores. Impact measures on other AVCAs, including smallholder farmers, also exist but are less broadly adopted.

*Figure 21* ***Investor practices in measuring and/or evaluation the impact of TA projects***

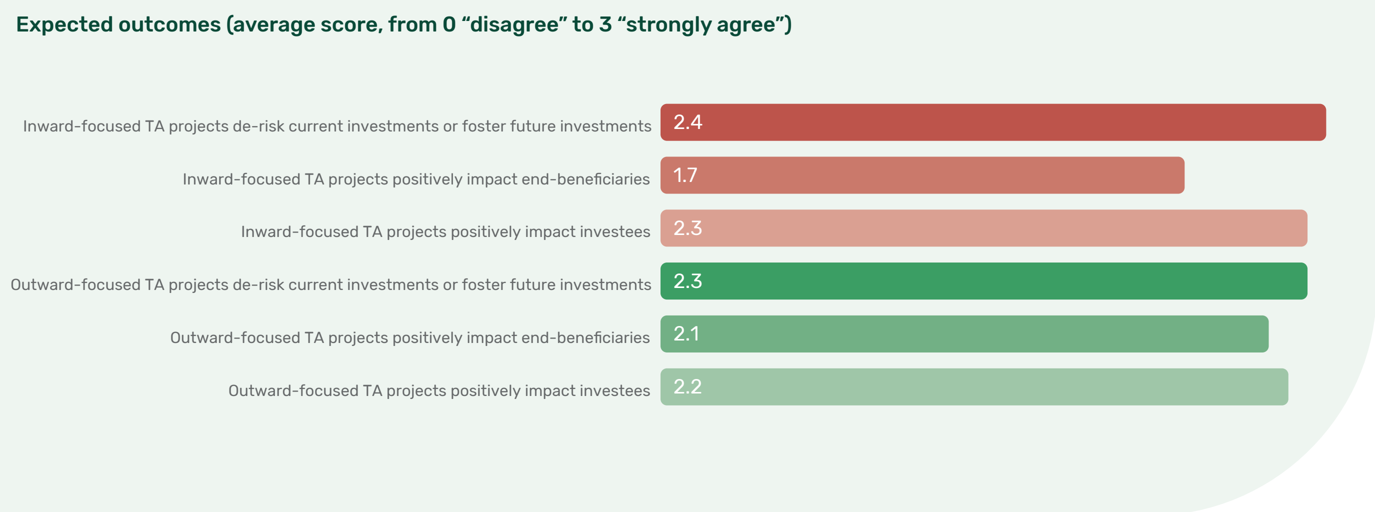
While most investors in the sample reported measuring and evaluating the impact of TA projects on the AVCAs, they mentioned the difficulty of evaluating outcomes by attributing the changes in KPIs to TA specifically. These data points are often blurred with investment impact and external factors, as for example macroeconomic and industry crisis, weather conditions or policy interferences such as bans on exports. The effect of TA on impact investors, in terms of competitive advantage and reputation, is also difficult to measure and monitor, as indicated in the chapter on the objectives of impact investors.

Additionally, there are also challenges in terms of reporting and data availability, with local circumstances often limiting access to this type of data and reporting capabilities of the beneficiary organisations. Many AVCAs interviewed mentioned that the KPIs were well adapted to their business, although often difficult to collect in a timely manner. Some investors also mentioned that it was not easy to communicate on impact with beneficiary organisations, and reporting was even more challenging for pre-investment TA.

There is also a trade-off between reporting on a broad set of KPIs, tailored to each type of project, and selecting a smaller set which can be measured and observed more broadly across the industry. Indeed, the SSNUP is a good example of a diversified programme, with projects of different nature and scope, and involving many stakeholders. It is challenging to harmonise KPIs across the entire set of projects. In this regard, SSNUP has developed a framework of indicators for the various types of projects so that projects can be compared more easily.

Different types of projects, in terms of their internal or external focus, are also expected to have different objectives and expected outcomes. The chart below presents the answers from impact investors as scores[22] for both types of projects across three dimensions: impact on beneficiary organisation, end-beneficiaries and investments.

*Figure 22* ***Expected impact of different types of projects***




Both project types (i.e., inward- and outward-focused) are anticipated to yield positive outcomes for beneficiary organisations, de-risk investments and attract additional capital. However, it appears that in the short to medium term, management systems improvement projects are expected to have a less immediate and direct impact on smallholder farmers. In contrast, projects centred around capacity building and the provision of financial services to smallholder farmers are expected to foster stronger loyalty among farmers rather than merely enabling them to explore alternative avenues and potentially leave the AVCA.

In order to maximise impact, investors in the sample seem to be in favour of a more holistic approach for TA projects, incorporating both inwards and outward components.

In terms of reporting, it would also be important to continue to monitor the impact several years after the completion of the TA projects to understand its outcomes in the medium to long term, and on several actors along the value chain. However, this needs to be outlined in the TOR.

[22] Each response was assigned a score as follows: “strongly agree” received a score of 3, “agree” was assigned a score of 2, and “somewhat agree” was given a score of 1. Notably, none of the investors expressed disagreement with these statements.

## A proposed set of KPIs

Focusing now on the subset of SSNUP projects for which impact KPIs are available, the study also aims to suggest a set of harmonised KPIs, which can be measured industry-wide to improve the comparability across projects and the potential to build knowledge for the industry.

The SSNUP is still in its early phase and as more data points become available in the future, lessons learned may still evolve, especially in terms of outcomes.

**Our recommendation, however, would be to focus on the following set of KPIs at the organisation level, including employment, portfolio and revenue growth, additional investments in the AVCAs and smallholder households' outreach:**

**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**

Ongoing debates touch upon the suitability of utilising financial metrics beyond mere revenues, with a focus on measures like gross margin, net profit, or profit growth. According to ISF, numerous agri-SMEs and cooperatives may not be designed to be profitable.[23] Furthermore, these metrics are also more challenging to report for beneficiary organisations. However, in the context of post-investment TA, beneficiary organisations have already furnished standard financial statements during the due diligence process. In this regard, such metrics could be considered, possibly in the form of ranges, such as whether they have reached a break-even point, to gauge an AVCA's financial performance after benefitting from a TA project.

This set of KPIs may help draw conclusions on the impact of TA projects to de-risk investments, raise additional capital and positively impact stakeholders along the value chain, while acknowledging that any positive (or negative) evolution attributed to the TA project solely would be difficult to objectively defend, given the importance of external factors as mentioned previously. Nonetheless, these measures would be applicable to TA projects beyond the agriculture space and more specific KPIs could be included at the project level for monitoring and evaluation purposes.

[23] ISF Advisors, 2022. The state of the agri-SME sector – Bridging the finance gap.

# LESSONS LEARNT
# AND RECOMMENDATIONS

**Technical Assistance** provided by Impact Investors to Agricultural Value Chain Actors

# LESSONS LEARNED AND RECOMMENDATIONS

The following chapter recaps the most important takeaways from the study, which have been delved upon in various sections of previous chapters. Building on those lessons learned from conducting the study, this study offers some industry-wide recommendations to foster the effectiveness of TA interventions in terms of processes, delivery, and monitoring.

As indicated in the methodology chapter, our thought process stems from collecting and analysing quantitative and qualitative sets of data on TA projects in agriculture, sourced from leading impact investors in the space. The additional 30+ interviews, complementing the figures, enabled a deeper understanding of current bottlenecks facing the sector from the perspective of a variety of stakeholders, including investors, recipients of TA projects, TA providers, and TA donors.

**In this regard, here are the 10 points to consider:**

## 1 Overall satisfaction across all parties involved in TA projects.

AVCAs interviewed were especially satisfied with the TA projects and reported that they are on the verge of or had reached most or all their expected goals. They nonetheless experienced delays or slight changes in the scope of the project. Many were already thinking about future TA projects they would like to implement.

### Recommendation

Impact investors could increase their share of AVCAs in their portfolio receiving TA if sufficient grant money is allocated to support the structural costs of TAFs. For example, the SSNUP programme plans an 11% management fee for impact investors. In addition, simplifying processes could avoid the filtering out of interesting projects, due to internal resource constraints or lack of alignment with the eligibility criteria of a specific TAF. Although not a perfect tool and expensive, satisfaction surveys could be sent systematically at project completion. This would help understand best practices and identify solutions to challenges.

## 2 Limited data availability on implemented TA projects and lack of data standardisation.

The scope of implemented TA project is broad, and thus results are difficult to compare. At the level of impact investors, data about implemented TA projects is often not readily available in a standardised and consolidated manner. Moreover, some actors in the field argue that access is not the main problem for TA, but rather quality. However, without standardised data that can be compared across projects, it is difficult to evaluate the efficiency and effectiveness of TA projects.

### Recommendation

The adoption of a standardised typology to classify TA projects as well as a push for data transparency initiatives that can collectively inform about various approaches of TA in agriculture would incentivise industry practitioners to share more and regular data on the progress of their TA projects. Subsequent benchmarks across sub-segments of TA can be built over time to help donors make allocation decisions and bridge gaps where needed.

### 3 Differences between the full set of TA projects and those part of the SSNUP illustrate the heterogeneity of the sector.

As mentioned above, there are several differences in terms of project sizes, AVCA contribution and duration between the entire set and the SSNUP sub-sample. As the number of TA projects continues to grow, it would be important to continue analysing trends across various investor portfolios to better understand the factors behind these differences.

#### Recommendation

Continuing to conduct yearly reviews and analysis of the SSNUP programme compared to a broader sample of projects, as participants become accustomed to the methodology. Aligned with the previous recommendation (2), this would also help build knowledge for the industry.

### 4 Higher risk perception is a barrier to providing more pre-investment TA projects.

Impact investors and donors generally perceive that pre-investment TA projects convey a higher risk of drop-out. This stage of intervention is even excluded by some TAFs' eligibility criteria.

#### Recommendation

The roles of various stakeholders involved in financing the agricultural sector in developing countries (including local financial intermediaries, NGOs, DFIs, and impact investors) need to be better defined. Further research is needed to evaluate the efficiency and, consequently, the relevance of providing pre-investment TA for impact investors. Other entities, such as TA service providers, might be better suited to establish a pipeline for impact investors, facilitating the graduation of agri-SMEs and cooperatives into investment-ready opportunities through pre-investment TA.

### 5 Less TA budget is allocated to early-stage companies.

Early-stage companies receive a smaller share of the total TA budget, although the impact thesis in terms of additionality is strong. TA projects also often focus on building hard and technical skills. Soft skills are equally important to scale up capabilities and bring forward a change of mindset for entrepreneurs.

#### Recommendation

TA budget should not only be allocated to more established portfolio companies. The potential in terms of impact is strong across all business stages.

### 6 Communication among all parties involved is often a challenge for the successful implementation of TA projects.

TA projects involve several actors with different needs and objectives. Sound communication is key to aligning all stakeholders towards a common goal. AVCAs also experienced some frustration when they were not involved in the process or final decision to select a TA provider.

#### Recommendation

A three or four-way dialogue should be implemented, involving the donors, impact investors, beneficiary organisations and providers when designing the project and developing the TOR. Additionally, the value of TA may not consistently receive the recognition it deserves at both the portfolio company and impact investor level. A question that arises is whether considering TA as a quasi-equity investment can positively influence its perceived importance.

## 7 TA projects often target a very specific need and may not always consider a more holistic assessment of the AVCA's situation.

The focus of TA may by definition be quite narrow and often involves short-term projects. However, very often, the process is not adapted to the scale of the project. For projects involving only the definition of a strategy and not its implementation, the beneficiary organisation may not have the capacity and skills to implement it, requiring further support which can take time to be met. And as the sector is moving fast, recommendations may become obsolete.

### Recommendation

More holistic, longer-term projects could be adopted, and the implication of executive management in the project was often considered a key success factor. Rather than allocating TA budget by project, an AVCA could be allocated a TA budget to be used over a period (e.g., two to three years). This should provide more flexibility for the beneficiary organisation to adequately plan its TA needs and provide confidence that support will be available over a significant time frame. Moreover, TA providers could partner with impact investors upstream, beyond merely responding to calls for proposals, leveraging previous experiences, creating blueprints, and reinforcing support for TA departments. Collaboration among impact investors and different TAFs could also be improved, leading to a coordinated approach to support similar AVCAs on a cost-sharing and resource sharing model. A wider adoption of group-based models (e.g., webinars, peer-to-peer mentorship) could be considered for organisations for which similar needs can be clearly identified, such as cooperative or mature companies.[24]

## 8 Lack of flexibility to adjust the TOR to early findings and external factors.

Once the workplan and deliverables have been validated, there is little room for flexibility to adjust the rollout of the TA project in case of difficulties or in the light of new and unexpected circumstances. It may also be difficult for AVCAs to estimate key elements such as the duration and budget before starting the project.

### Recommendation

There could be more flexibility in the TOR on the team responsible for the TA project at the AVCA level. The TOR could also include an additional pocket of budget for unexpected adjustment needs. This should provide some room for flexibility, which could also be reflected and agreed upon at the start of the project.

## 9 AVCA's financial contribution is key to the success of the project.

There was a rare consensus amongst all interviewees that it is key that the beneficiary organisation contributes financially to the project.

### Recommendation

This requirement should be specified in TAFs' policies, with flexibility on the relative amount compared to the total budget depending on the stage of business of the AVCA and its financial health. Contributions in-kind, such as staff time, could also be included.

[24] ISF Advisors, 2023. Effectiveness & Efficiency of Business Development Services (BDS) for Agri-SMEs.

## 10 Outcomes measurement and change attribution remain bottlenecks.

Data reporting requirements on impact KPIs may be cumbersome and unrealistic to meet for the beneficiary organisation. Quantity-wise, impact investors often want to collect too many KPIs and in different reporting templates. In addition, it is difficult to single-out the effects of TA projects on the measured KPIs, given that investments and exogenous factors play an important role in shifting states of businesses.

### Recommendation

In this context, continuing to monitor outcomes KPIs in the long-term, after the completion of the TA project is important. Measuring impact is costly and grant money should also be allocated for knowledge building around impact measurement. Consultants could be hired if the AVCAs don't have the internal resources and capacity to report on impact. Part of the overall budget could also be earmarked in the TORs for measuring impact on a longer time frame, ensuring the sustainability of this activity. Other incentive mechanisms could be put in place for AVCAs to report quality information back to investors, which can include discounts on lending interest rates, for example. Overall, the question arises whether other actors, such as the SSNUP programme, could support and coordinate the data collection across multiple TAFs. Focusing on a few KPIs that are realistic to collect and comparable across different types of projects would also lighten the reporting burden on beneficiary organisations and help manage donors' expectations. The data collected for organisations having received TA, for example additional investment data, should also be compared to a control group of portfolio companies, which did not receive TA projects during the period under review - a process that could be subsidised by donors given its labour-intensive and costly nature.

It is understood that opinions will differ in terms of what works or not and we are conscious that the feedback collected from market practitioners remains a small set of market sentiments that might not be universally agreed upon. Yet, the above observations and subsequent suggestions hopefully bring a layer of clarity on which short to medium-term actions points could support resilience among smallholder farmers and increase the sustainability of AVCs.

# 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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