EVENT NAME

The Use of Smart Subsidy in Impact-Linked Agricultural Finance

EVENT DATE: THURSDAY, 27 JANUARY, 2022 - 09:30 AM to 11:00 AM

Posted Questions

[09:48 AM]
**Francois Stepman asked : @PETER BEEZ: Which "smart" subsidies support best agroecology? Any relevant report from SDC?**

5 upvotes
Providing subsidies is an art… see an old SDC report, but still of general value: https://www.shareweb.ch/site/EI/Documents/To%20SORT/SDC%20-%20Conceptual%20Foundation%20-%20Development%20Aid%20and%20Subsidies%20an%20Art%20-%202007%20-%20en.pdf
I personally think that the Social Impact Incentives (SIINC) could be used to incentivize agroecology. With SIINC it is the outcome payer (the one who provides the subsidy) who determines what is impact, i.e. stressing agroecology. How this can be done at scale you can read in this excellent report of our partners: https://rootcapital.org/resources/how-impact-linked-financing-incentivizes-high-impact-investment-in-agricultural-smes/
The publication is mainly not about agroecology, but you could design it with more thrust on environmental targets, e.g. extra-bonuses or key performance indicators, etc.

[09:54 AM]
**John Scicchitano asked : How can development partners contribute to quality *business advisory services* to agriSMEs in a way that supports industry growth, and not distort markets?** (USAID's MFA may examples on both sides)

4 upvotes
Business Advisory Services (BAS) play a critical role in preparing, linking, and supporting businesses to raise investment/capital needed for their growth, but the BAS market is underdeveloped in several low income countries. Very few BAS service providers target Agri-SMEs due to low interest by SMEs to pay for services, and the high upfront costs required to support SMEs to become investment ready as compared to the size of the investment, rendering them less attractive as clients. In addition, the services offered by the BAS providers are usually not diversified enough to align with the wide range of needs of these SMEs, nor are they affordable.A number of development partners are supporting programmes that are supporting activities aimed at strengthening the quality and demand of Business Advisory services to agri SMEs, The USAID funded Inclusive Agriculture Markets (IAM) activity being implemented in Uganda is supporting international and local BAS providers to target and provide SMEs in the agricultural sector (Agri-SMEs) with appropriately priced and diversified

products/services that meet their needs, and for which they are willing to pay. The partnerships incentivize BAS providers to seek out new clients and demonstrate the value of services, rather than the Activity identifying SMEs and supporting specific scopes of work.

[09:50 AM]

**Petra Schmitter asked : So in a first loss guarantee set-up aimed to unlock private sector investment, it is often skewed towards large international companies as small SME's often lack the capacity to apply/qualify. How easy is it to role this out for small SME's in Africa?**

3 upvotes

The first loss guarantee or first loss cover can also be used to unlock private investment for small SMEs. Case in point is with the Aceli model. Ace Africa seeks to catalyze a financial market for agricultural SMEs through a number of incentives to lenders that are serving small SMEs.With the exception of tobacco, Aceli Africa supports agricultural loans that finance agricultural inputs, primary production, post-harvest handling, and processing. Loans range between $25K-$1.5M.

[09:56 AM]

**Dick Tinsley asked : Which is more effective in poverty alleviation of smallholder farmers, financial assistance to farmers or to the private small village-based family enterprises that are in direct contact famers and providing most of thier support services?**

3 upvotes

We do not think direct support to individual smallholder farmers is a sustainable approach. For a more transformational intervention, it would be best to support Small and Medium Enterprises, both family or community-owned. This will not only create sustainable markets for the farmers, but could also provide employment opportunities to a larger number of beneficiaries.

[09:56 AM]

**anonymous asked : Working with multinatls models don't always work - trickle down technology/farmer uptake must take into consideration literacy, capacity, and most of all cultural behavior. Can you share any examples of how a bottom-up approach has worked at the local level?**

3 upvotes

There are partnerships with Multinational that have produced impressive results. One such model is the USAID partnership with the Neumann Kaffee Gruppe (NKG) Facility, a global investment into sustainable sourcing of coffee from smallholder Farmers. Participating farmers are smallholders (they farm fewer than 30 hectares of coffee) and farmer organizations largely comprised of producers with fewer than 30 hectares. They commit to work in collaboration with

NKG to run their farms as businesses and to improve upon prioritized social and environmental practices. See more here; https://www.interamericancoffee.com.au/neumann-kaffee-gruppe/

[10:01 AM]

**Marc Steen asked : Private Sector´s key task is to procure and produce at the lowest costs possible. This conflicts with the mission of impact investments to increase small holder farmer income which increases the costs of the produce they procure. How do your impact investment products deal with this contradiction?**

I do not think there is a conflict here. Impact investors are not necessarily the buyers of commodities from the farmers. Impact investors are looking for not only commercial returns, but Social returns. There is a small — but rapidly growing — set of investors that want to go further and ensure that their investment portfolios have positive social and environmental impact, alongside financial returns. This group of investors is not just concerned with ESG risks that may affect the financial performance of the firm (the so-called First Materiality), but also the effects that the firms they invest in may have on wider society and the environment (the so-called Second Materiality). Having healthy farmers means increased productivity which in turn translates into increased incomes for the farmers but also increased efficiency of traders-due to sufficient volumes to run the processing facilities to optimum capacity.
3 upvotes | 1 answer | 0 reply

[10:12 AM]

**Calvince Onyuka asked : Financing the very poor is challenging because they have to deal with very basic needs, so when they receive money for production the money is redirected to the needs and repayment fails. Can the financing be grants or cash transfer until the basic needs are sorted!**

3 upvotes
Financing is not necessarily given to farmers in form of cash. Some of the credit is in form of input loans as well as grants given to partners to extend trainings to farmers.
[10:34 AM]

**Marc Steen asked : Did any of your institutions do a ROI analysis on your impact investment products? ROI in terms of impact generated for small holder farmers compared to the cost of the investment product. If yes, which products offer the best ROI?**

3 upvotes
Measurement of social impact is still a challenge. Although the for-profit world has several universally accepted tools, such as the internal rate of return, for estimating a potential investment's financial yields, no analogue exists for evaluating hoped-for social and environmental rewards in monetary terms. There are no generally agreed metrics and this has rendered ROI on impact investment a challenge.

[09:53 AM]

**anonymous asked : It seems that the target is small holder farmers - how do we get these clients to scale? Do you have examples of how this is being done successfully? (e.g. cooperatives)**

2 upvotes
Yes, this has been done through some activities we at USAID are supporting.Under the [Aceli program](), impact bonuses are paid to loans given to SMEs working with farmers that meet some impact criteria such as Food Security and Nutrition as well as Climate smart agricultural practices.These farmers have significant capacity to ramp up production. To improve productivity, smallholder farmers need high-quality inputs, such as high-yielding hybrid seed; on-farm support, such as training in conservation farming techniques; and markets for high-value products.Aceli also made adjustments to the training and verification related to the impact bonuses available for lenders that register loans meeting gender inclusion, food security & nutrition, and/or climate-smart and resilient agricultural (CSRA) standards. Many lenders were unaware of the requirements to meet CSRA criteria so Aceli initiated trainings with lenders to familiarize them with best practices and qualification for this impact bonus..This has led to increased productivity of the farmers working with these SMEs.

[09:54 AM]
anonymous asked : **This question goes to Ms Anouk and Alexandra please I want to find out whether your agency finance start-up(SMEs) in the private sector, if so what are the modalities?**

2 upvotes
The financing gap for smallholders is extremely large and cannot be closed by smart subsidies only, private investors should also step in. For that we need to design smart (fintech) solutions that prove that smallholders are good debtors/good loan takers with good repayment rates and solutions that lower the costs for financial institutions to issue loans to smallholders. We are not there yet. The Dutch Good Growth Fund (www.dggf.nl) and FMO provide finance to start ups.

[09:56 AM]
**Ganesh Neelam asked : with so much efforts being placed on financial inclusion and smart subsidies, why does there still remains a key challenge for small and marginal farmers not able to receive affordable and timely loan supports to meet their livelihoods and move to prosperity. What are all of us missing overall here**

2 upvotes
Small and marginal farmers are potential clients for microfinance institutions (loan sizes usually below USD 10.000). Albeit MFIs have cracked the nut in terms of providing small loans efficiently, there is still the problem of co-variance: small farmers are not only low-return but have a co-variant risk, i.e. if drought hits, all the clients in the area/region are hit. There are

micro-insurance schemes for this, but some areas (example: Haiti) have even too high risks for insurance.

Would have to research this more in detail, but I think there are already many MFIs providing loans, but still not everything goes and would need some kind of permanent subsidy to cover cost/losses.

[10:02 AM]
**Dick Tinsley asked : The biggest problem smallholder farmers have it limited operational resources, in terms of labor and mechanization, should some of your financial services be focused on enhancing operational capacity so smallholder can get thier crops established in sufficient timely manner to obtain food security?**

2 upvotes
Yes, This is being done under some of the programs being supported by USAID.With the exception of tobacco, Aceli Africa supports agricultural loans that finance agricultural inputs, primary production, post-harvest handling, and processing.With access to lending, agricultural SMEs can drive improvements in the productivity and market access of smallholders, while creating jobs across the value chain.

[10:06 AM]
**Jennifer King asked : I would be interested in hearing more about how investments or grant mechanisms that move through other funds or firms are designed to positively impact women smallholder farmers in particular.**

2 upvotes
This is a complex question, difficult to give a short answer. Here are some elements, key words:
Women's economic empowerment (see e.g. DCED website)
Gender Smart Investment, e.g. the SDC partner: [https://www.gendersmartinvesting.com/](https://www.gendersmartinvesting.com/)

Being a fan of impact linked finance, I would try to design key performance indicators and pay for impact/outcomes but favouring gender equality and not only number of women, female board members, etc.

There is as well some information on this on the websites of Aceli and Root Capital.

[10:17 AM]
keith polo asked **: Is there is any thinking into funding mechanisms to modestly support existing impact investment funds that are being successful but to reach more last mile borrowers need small TA/Advisory support. ex. 500k USD could help faciilitate 10MM in new loans.**

2 upvotes

Sadly, the trend among impact investment funds has been to try to increase financial returns by moving towards larger deal sizes, and companies with a stronger track record and shorter investment holding periods. To some extent, this is inevitable. Funds investing in smaller enterprises will have high management costs, relative to the value of their investment portfolio, and investors who prioritize financial returns from their portfolios are therefore unlikely to find them attractive prospects for investment. However the Aceli Market Facility has a Business Development Support (Technical Assistance Facility) component, to fund formal business trainings, management capacity development and one-to-one mentoring for SME entrepreneurs. Investors too have a responsibility to promote feasible growth plans for SMEs, allow time to build strong governance and financial systems to support expansion. It is also essential for investors to actively support their investees to implement their plans and maintain focus on financial controls and business risk management. These are the foundations of all successful businesses.

[10:56 AM]
**Melissa Schweisguth asked : How do you wean companies off of repeated subsidy (grants, other no-cost/no risk financing support)? Many companies expect it and have staff dedicated to pursuing it.**

Excellent question, very relevant.
Providing subsidies is an art… see an old SDC report, but still of general value:
[https://www.shareweb.ch/site/EI/Documents/To%20SORT/SDC%20-%20Conceptual%20Foundation%20-%20Development%20Aid%20and%20Subsidies%20an%20Art%20-%202007%20-%20en.pdf](https://www.shareweb.ch/site/EI/Documents/To%20SORT/SDC%20-%20Conceptual%20Foundation%20-%20Development%20Aid%20and%20Subsidies%20an%20Art%20-%202007%20-%20en.pdf)

With impact linked finance we integrate exit always right from the beginning, e.g. in the case of social impact incentives we distinguish three exit variations:

1. Investee/company takes on investment to grow and reap economies of scale. SIINC payments make this transition possible. No second SIINC contract.
2. Transformative SIINC: Change of the business model is incentivized. Once the model is changed no more SIINC payments necessary or foreseen (end of contract). In theory, company could go back to the status ante.
3. Public exit: the externality needs always subsidy. SDC subsidy needs to be replaced and continued, eg. by local public sector.

[09:51 AM]
**Sigrid Meijer asked : @Anouk Aarts, how can we prevent market distortion by Food Security projects subsidies financed by MFA that negatively influence PSD promoted by your department, which often is more sustainable?**

1 upvote

Food Security project subsidies should not distort the market either...if the market can solve the problem neither the food security team neither my (PSD) team should provide a grant

[09:58 AM]

**Francois Nsengiyumva asked : To facilitate the private investments in agriculture e.g Working Capital for seeds companies that allows them to run for 20 months without incomes. What can be the contribution of DFIs? It is really needed and urgent**

1 upvote

Building profitable businesses takes time and requires patient investment. It is tough to build businesses on short to medium-term debt finance. Growing businesses usually require several rounds of incoming investment and are typically unable to finance debt repayments. A number of investment funds offer patient capital that is suited for businesses such as seeds comapnies.

[10:24 AM]

**Jack Luft asked : How do you think the development sector should balance tracking progress on things like smallholder farmer inclusion with supporting and tracking the development of competitive agricultural sectors in Sub-Saharan Africa?**

1 upvote

The funds available for ODA are so tiny compared to the economies and even more so to the needs. SDC therefore concentrates as much as possible on inclusion (our mission), trying nevertheless not to distort markets, rather develop market systems, work via so called catalyst companies that drive inclusion while growing and improving competitiveness.

[09:47 AM]

**Roland Steinmann asked : I would like to better understand whether all panellist agree that in the end it doesn't matter if we talk about poverty reduction and, say, financial inclusion. To me it seems quite different and also important how we frame what. Indicators matter and are different for poverty and fin inclusion**

0 upvote

Peter: Not sure I understand the question. SDCs mission is poverty reduction and inclusion. Financial inclusion is usually a means to this end. Inclusion can mean as well inclusion of marginalized groups, women, etc. Ideally we achieve both, i.e. reducing poverty and inequality, i.e. improve inclusion. The question of Songbae Lee was whether it makes a difference if a donor provides support to a financial inclusion initiative from a PSD budget, a poverty reduction budget, a food security budget, etc. For the development impact/impact for the farmer it does not matter which department has paid for it. A donor can support a financial inclusion program from the food security budget, for example, if the financial inclusion program focuses on food crops. The same initiative could also be financed by the PSD department, because access to finance is important for all entrepreneurs, including food producers.

[10:38 AM]
**anonymous asked : Large companies participate is value chains and without them the value chain is not complete. The extent to which value chain benefits are equitably distributed among value chain players. Don't you think impact funds will be more impactful in more equitable VCs irrespective of target group?**

0 upvote
It all depends on what impact we are seeking and in which geography, There is no one size fits all situation.