Transforming Agriculture by Linking Technical Assistance to Blended Finance: Trends and Lessons from Africa[1]

AGRA and IDH joined hands to compile and share trends and lessons on how TA can scale up investment in the agricultural sector. The partners now call for action to work towards more coordinated and specialised TA, to catalyse the availability of blended finance for agricultural transformation, as it can play a crucial role in risk reduction and pipeline development.

There is increased recognition that the agricultural sector needs both finance and capacity building to develop sustainably. Trends and lessons learned are emerging on how to design such technical assistance (TA)[2] interventions effectively and efficiently, and how to link TA and blended finance in a way that maximises additionality. More targeted and co-ordinated TA, together with well-designed finance facilities, needs consolidated support to catalyse sustainable, inclusive growth in smallholder supply chains.

Agricultural transformation will be a key impact driver for development in Africa, and an essential part of achieving the Sustainable Development Goals (SDGs). At the same time, in a context where public resources are increasingly under pressure, channelling more private (non-concessional) investment into agriculture will be critical to achieve this goal. Supporting mechanisms such as TA can attract and support blended finance for agriculture by managing risk, increasing financial and development impact and reducing transaction costs.

How can TA be set up to maximise impact? How can finance and TA be more effectively linked? This briefing explores these questions, based on review of 51 TA facilities operating in the agricultural sector in Africa and interviews with 12 TA or fund managers.

Call for Action

Looking at the different TA and blended finance facilities that exist and talking to key players within the industry, we observe a discrepancy between the capital and capacity on offer for the agricultural sector and that needed to catalyse agricultural transformation. On one side, agri-businesses and farmers struggle to access finance and face several challenges in their enabling environment. On the other side, investors struggle to create a pipeline in line with their ticket size and risk return expectations.

Well-structured TA can catalyse the availability of blended finance for agricultural transformation, as it can play a crucial role in risk reduction and pipeline development. Linked models are of particular interest, as they independently assess financial and developmental additionality and can link TA recipients to different sources of finance, providing more flexibility for the company and a combined pipeline development effort for funds. Facilities need to be careful not to distort the market and hinder instead of promote the agricultural transformation they seek. The best designs include clear objectives, flexibility and strong emphasis on the specific country and market context.

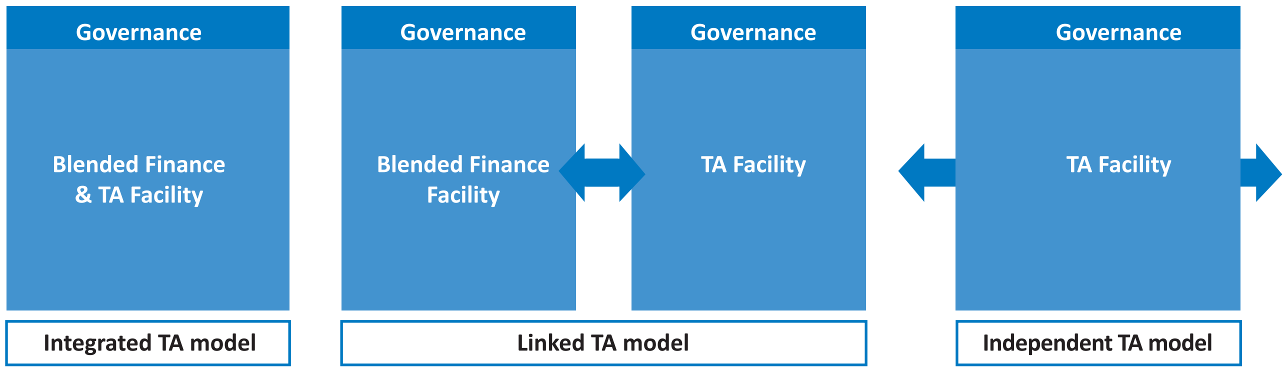
For blended finance to catalyse agricultural transformation in Africa, there is need for:

- More specialised, flexible, demand-driven, cost-shared, on-the-ground TA support for agri-businesses, financial institutions and farmer organisations, as well as to address concrete eco-system challenges;
- More pre-investment TA to build a pipeline of investment-ready companies (as the pool of capital available in developing markets and higher-risk segments such as agriculture grows);
- Mechanisms to share costs between TA recipients and facilities—but also making available more grant funding for TA linked to blended finance, as cost-sharing will be incremental, and in many situations it will not (yet) work (e.g. in cases of pre-investment and enabling-environment TA);
- Improved co-ordination and standard setting for TA linked to blended finance for agriculture in Africa, preferably housed sustainably in a recognised organisation, rather than a project.

1 See www.idhsustainabletrade.com and www.agra.org for full report.

2 Technical assistance: advisory, assistance or training to an investee business or other value chain and eco-system actor provided either pre- or post-investment to reduce transaction costs and operational risks and to increase development impact.

Authors of the report: Enclude



Models for TA Linked to Blended Finance

TA facilities operating in the agricultural sector in Africa can be grouped into three categories: integrated, linked and independent.[3] The three categories are primarily differentiated by governance and main objective (risk reduction vs impact). In an **integrated** facility, the manager of the TA facility is the same entity as the capital provider, and a key objective is risk reduction for the fund, thereby increasing investors' risk-adjusted returns. Generally, impact may be considered in the fund design or investee selection, but is not the main priority for TA. In the **independent** model, there is no link between the TA facility and a provider of funding, and impact is the key objective. In the **linked** model, the provider of TA differs from the capital provider, but close collaboration exists. Linked models find a middle ground between the objectives of the other two models, as they place priority both on risk reduction for investors and on creating impact.

TA for (blended) finance encompasses advisory, assistance or training to the investee business or other value chain and eco-system actors. TA can be provided either pre- or post-investment to individual (smallholder) farmers and distributors, organisations or the enabling environment.

Sustainable Development Goals

Agricultural transformation

Post-Investment TA

Pre-Investment TA

Level	Examples	Examples of TA (training, advice, coaching)
Enabling Environment	• Policy & regulatory framework • National strategies & schemes	• Agricultural/digital finance regulations • National credit risk sharing schemes
Organisation	• Agricultural SMEs • Agri-business sourcing from outgrowers • Agri-business distributing via micro-entrepreneurs • Financial institutions • Farmer organisations	• Core business support to improve operational performance (e.g. financial management, HR, ICT) • Inclusive business support to engage outgrowers • Development of agricultural lending policy, loan products, loan portfolio management
Individual	• Smallholder farmers • Micro-entrepreneurs distributing produce of agri-business	• Agricultural extension services • Financial literacy training • Business coaching

Blended Finance

3 As distinguished by TechnoServe and Enclude in earlier publications (AAF-TAF 2017, Gommans & Korijn 2016).

Additionality

A donor–business partnership brings along the question of additionality, or value[4] for concessional finance. Additionality is defined as the extent to which activities (and associated results) are larger in scale, at a higher quality, take place at a different location, or take place at all as a result of the concessional finance provided.[5]

Because donor funding is intended to leverage additional investment capital that would not have been deployed in its absence and to achieve impact that would not otherwise take place, design for TA and blended finance should consider financial and developmental additionality. Financial additionality, or input additionality, is the extent to which the concessional finance is additional to what might anyway be invested or done by the applicant/partner company and other finance providers. In other words, it does not substitute other available funding. Developmental additionality is the extent to which the investment's or TA's impact goals are achieved, relative to what would have happened without it.

What are the main trends in provision of TA and finance for agricultural transformation?

1. **An increased focus on combining finance and TA.** Asset managers have long provided some management support to investees, but finance providers increasingly link finance with tailored, on-the-ground TA or a dedicated TA facility. A GIIN survey found that respondents seeking below-market rates of returns were more likely to use TA both pre- and post-investment than respondents seeking market rates.[6] Likewise, donor-funded TA projects are now incorporating access to finance for farmers and SMEs into their design, rather than as an after-thought.

2. **A shift from supply-driven to demand-driven TA.** High levels of diversity of farms and financial institutions mean TA should also be diverse and specialised. Designers of TA programmes are shifting away from viewing farmers, SMEs and financial institutions as TA beneficiaries and towards offering more demand-driven services based on three main principles. First, TA should be based on user needs. Second, TA providers should be accountable to users, particular for content and quality. Finally, users should have a choice in who provides the TA.

3. **A shift from supply-side financing to demand-side cost sharing of TA.** TA financing mechanisms increasingly make use of cost-sharing strategies. Enterprises and financial institutions can share costs directly, while TA for smallholder farmers can be paid for indirectly through membership fees, production levies and taxes by farmer organisations. Additionally, some donors channel funds through the TA recipients, who contract and pay the TA provider themselves instead of the donor paying the TA provider directly. Investors also sometimes finance part of the TA costs.

4 In terms of both impact and additional non-concessional capital mobilised

5 DCED 2014

6 Global Impact Investing Network (GIIN), Annual Impact Investor Survey 2017 (7th Edition).

What are the main lessons learned in TA provision linked to blended finance for agriculture?

1. **Linked TA models effectively catalyse investments in agriculture.** Financing facilities and TA facilities that collaborate closely (even exclusively), but with distinct funding and governance, are increasingly common. Because the financing facility does not bear TA costs, there are fewer budgetary constraints to achieving impact (e.g. linked TA facilities can assist funds to develop their pipeline in the pre-investment stage). These linked models give financing facilities access to agricultural sector knowledge, and they tend to focus more on sharing experiences publicly.

2. **TA funds need to have clear objectives and monitor achievement of these objectives.** Will the support be pre-investment or post-investment? Will it work with agri-businesses, financial institutions, cooperatives and/or other actors? What will be its focus in terms of the size and stage of development of the companies? Will it provide core business support or inclusive business TA?[7] Will it be available for investees only or more widely? Is support to the wider enabling environment envisaged? Will the facility identify new leads for the financial fund (pipeline development), develop the agricultural sector to catalyse investments, increase the investee's financial performance, increase the investee's contribution to attain the SDGs, measure impact or promote the finance that is being offered? The quality of the TA subsequently needs to be monitored against the set objectives to assess the TA request as well as the quality of the TA provided.

3. **The TA decision and the investment decision should be taken by different people.** To prevent conflicts of interest and assess the additionality of the concessional finance that is being provided, the TA and investments for TA and investment should be separated. Finance providers vary widely in how they take the decision to provide TA, but the most effective models have governance structures that keep these decisions separate, enabling the TA to have a clear impact focus and avoiding the possibility that TA is used as a subsidy for the fund manager. Companies should also be free to decline TA.

4. **Cost sharing is important.** Grant-funded TA brings a risk of neutral or even negative financial additionality. If fully grant-funded TA is used to reduce the operating costs of the investment fund (through developing pipeline, carrying out due diligence or increasing the return on investment) beyond what is necessary to crowd in non-concessional funds, then financial additionality is reduced. In extreme cases, the donor contribution can actually crowd out commercial funds instead of leveraging funds, as is the key aim of blended finance. If TA is fully paid for by the recipient or out of the profits of the finance fund itself, which can be the case for core business support to larger companies, then this is less of a concern.

7 Core Business TA strengthens the operational capacity of a company. Inclusive Business TA facilitates the uptake of more inclusive business models that contribute to the attainment of the Sustainable Development Goals, including increased climate change resilience and economic and physical access to food for base of the pyramid (BoP) producers and employees.

5. **Pre-investment and enabling-environment TA is important, but needs to be donor-funded.** There is an increasing need for pre-investment TA to build a pipeline of investment-ready companies, as more capital is available in developing markets and higher-risk segments, such as SMEs and agriculture. Most TA facilities currently focus on post-investment support or late stage pre-investment support. Fund managers typically prefer to focus TA on businesses that they know the fund will invest in, to ensure the TA investment leads to a financial return. On the other hand, donors are happy to fund the development of a pipeline of investment-ready businesses, even if the eventual investment is from an unrelated source. Supporting the enabling environment is also important and needs to be donor funded. Linking enabling-environment TA to the provision of capital and capacity to smallholder farmers and agri-businesses also increases the impact of this intervention.

Benefits of TA linked to finance for different actors in the value chain

- Training increases **smallholder farmers**' productivity, partnerships help them sell goods to a market and capital helps them grow their businesses.
- For **local financial institutions**, training smallholder farmers helps to aggregate potential customers and de-risk loans by preselecting and training farmers; weather, performance, and productivity data can also be used for credit scoring, facilitating loan assessment and monitoring.
- Donor support helps **agri-businesses** to start and set up outgrower schemes with smallholders, as such schemes have high initial costs and low initial productivity.
- TA, participation in network events and the strengthening of local knowledge can help **SMEs** considerably to grow their business by securing supply, improving marketing and distribution of products in local markets and improving management capacity and financial systems.
- For **investment funds**, TA reduces risk, increases returns and reduces costs for pipeline development and investee management.
- **TA facilities** can maintain improvements in productivity and business performance through access to finance.
- **Donors** can contribute to sustainable, long-term impact because TA helps link farmers and/or SMEs to the economic system, enabling them to generate their own income on a sustainable basis.

6. **Design the solution with the end in mind.** When designing TA, the interests of all stakeholders, particularly finance providers, should be taken into consideration. To increase chances of success, involve finance providers as early as possible to co-create solutions. As dependency on subsidies makes it difficult to attract investors, any TA that needs to be provided on a continuous basis should be established such that the costs can be financed out of revenues once the concept is proven. Subsidies should be structured so that the subsidy decreases over time and value chain actors finance on-going costs. Set-up costs can be fully subsidised, but on-going costs should be clear and own contribution to this should increase over time.

7. **Flexibility is key.** TA solutions should be tailored to the TA recipient and the context and environment. Social and environmental standards should be considered as they apply to local circumstances. Facilities should be able to seize opportunities, as long as they are in line with their overall objectives and general criteria. Finally, because long-term relationships are necessary and chances of delays are high, open-ended TA facilities provide the most flexibility in terms of time.

8. **Alternative revenue models can reduce the amount of grants required.** TA is generally funded by donor grants, contributions by TA recipients or contributions from finance providers (or a combination of these sources). TA recipient contributions are increasing, both in cash and in kind, and through innovative mechanisms, such as conditional grants for pipeline development TA that become loans or equity if the project or business qualifies for investment as a result. There are also a variety of ways finance providers can invest. Some DFIs, such as FMO and IFC, fund TA from their companies' profits, which are allocated mainly to core business support for larger companies. However, contributions can also be considered when finance providers benefit through pipeline development or increased revenues, such as the payment of a finder's fee to the TA fund that facilitated pre-investment TA or a success fee for post-investment TA that yielded the agreed results and contributed to the financial performance of the investee.

9. **TA fund management requires highly qualified staff.** TA managers' roles are crucial. They must be able to identify businesses, design TA (including subsidy) and select TA providers in close collaboration with the recipient company, oversee TA provision, evaluate TA provision and report findings and share lessons learned. All these activities require in-depth knowledge of investing, business performance, the agricultural sector, consulting and knowledge management.

10. **Combine internal and external consultants and local, regional and international consultants.** All of the facilities we interviewed use external consultants, but most highlighted that they have a team of very experienced in-house staff. Particularly relevant areas of in-house expertise include business management, agricultural knowledge (including the ability to understand the dynamics of agricultural markets) and the ability to identify, contract and manage external TA providers. A combination of local and international consultants is key, as local TA providers can follow up consistently, but required skills are not always available locally, and experience from other areas and new approaches can help to sustainably develop the agricultural sector.

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