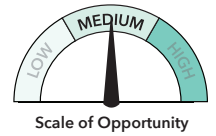


Impact Investment Thesis #4: Transition to Formal Enterprise



In this pathway, the farmer or service entrepreneur consolidates their activities into a formal enterprise that is fully integrated into the value chain and relies primarily on hired labor and mechanization.



Target Outcome Effects						
Production	Resilience	Employment	Nutrition	Climate	Gender	Youth
Increased production/service levels, efficiency, and price realization	Increased contract and asset protection from formalization and income potential from size	New formal jobs created and maintained through farm labor and agri-SME workers	Increased production of affordable, fortified staple crops / processed foods and reduced post-harvest losses	Reduced farmland/habitat degradation and reduction in carbon released through production	Increased participation in formal sector as enterprise owners and/or decision-makers	Increased rural employment opportunities in SMEs and large farms

Client Profile:

Farmer/entrepreneur has a registered, formal enterprise that is perceived and run as a professionalized business. This pathway includes both: 1) Larger commercial farms; and 2) medium and large agri-SMEs. In both cases, the farmer/entrepreneur runs an established business and typically intends to grow the size, sophistication, and scope of operations.

Primary service needs	Secondary service needs
<p>Larger commercial Farms:</p> <ul style="list-style-type: none"> Working capital and trade finance Longer-term asset and growth finance Insurance for production and farm-level storage/processing Marketing and promotional support to access premium export markets <p>Agri-SMEs:</p> <ul style="list-style-type: none"> Working capital Longer-term asset and growth finance Insurance for operational risks and liability Market access support (brokering between SMEs and larger (ag) enterprises) 	<ul style="list-style-type: none"> Agri-specific services, such as agronomic advice, product design, and farm management services Common business development services including: financial advisory, accounting, strategy, business planning, marketing, operational support, digital services, and quality assurance Specialized impact services such as M&E and blended finance advisory

Financial Service Provider Landscape

Prevalence of provider service delivery models

Primary objective for service delivery	Prevalence of provider service delivery models		
	Low	Medium	High
Supply security			
Service profitability	 	 	
Client outcomes	 	 	
	Finance only	Finance and productivity-enhancing services	Finance, productivity, and market access services
	Scope of services		

Observations

- Pathway 4 farmers and SMEs are typically more professional business partners, have choices among multiple providers, and no longer depend on bundled services and integrated offtake. This leads to a higher prevalence of more focused, commercially oriented service providers and a lower need for holistic models.
- However, finance options for many of these farms and agri-SMEs – particularly the relatively smallest in size – remain limited with higher costs to serve and risk profiles than other sectors. As such, an increasing number of funds, incubators and accelerators are seeking to specifically invest in the lower bound of formal SMEs with both a profit and an impact motivation. These funds typically include a significant business development services component and are therefore categorized as having client outcomes as a primary service delivery objective.
- For supply security-focused providers, offtake from farmers in pathway 4 is an attractive proposition. These farmers are larger, more professional, and can typically engage in a more commercial way, although providers tend to focus on offtake and occasionally on finance.

Capital Market Alignment

	A. COMMERCIAL		B. SUB-COMMERCIAL		C. GRANTS		
Capital types ...that align with different capital types							
Provider profitability ...have different profitability profiles...	A1. Market Validated	A2. Not Market Validated	B1. Positive Absolute Returns	B2. Capital Preservation	C1. 0-20% Cost coverage	C2. 20-80%	C3. 80-100%
Prevalence of provider models Different provider models...	Service profitability first				Client outcomes first		
Highlighted needs Highlighted needs represent clusters of providers with specific types of models and capital needs	Grant funding for investment readiness technical assistance in key markets to identify prospective agri-SME pipeline and facilitate follow up investment by larger funds and facilities		Concessionary debt funding, equity, and blended finance facilities to help scale socially oriented lenders that are seeking to lend further toward the impact frontier with lower returns (may or may not be in a cross-subsidy model)		Grant funding for investments in common measurement and evaluation standards to enable learning and benchmarks that can facilitate accurate assessment of impact-return tradeoffs		
Aligned funders	Foundations, DFIs, USAID		OPIC, DFIs		Foundations, USAID		
	Concentration of models Low Medium High						

Enabling Environment Dependencies

- Small business registration system
- Stable political and investment climate
- Enabling tax and concessions for SMEs