



Agri-SME Evidence Fund

Concept Note



You can learn more about
our work at
www.theigc.org

Image credits: ©Getty Images

DIRECTED BY



FUNDED BY



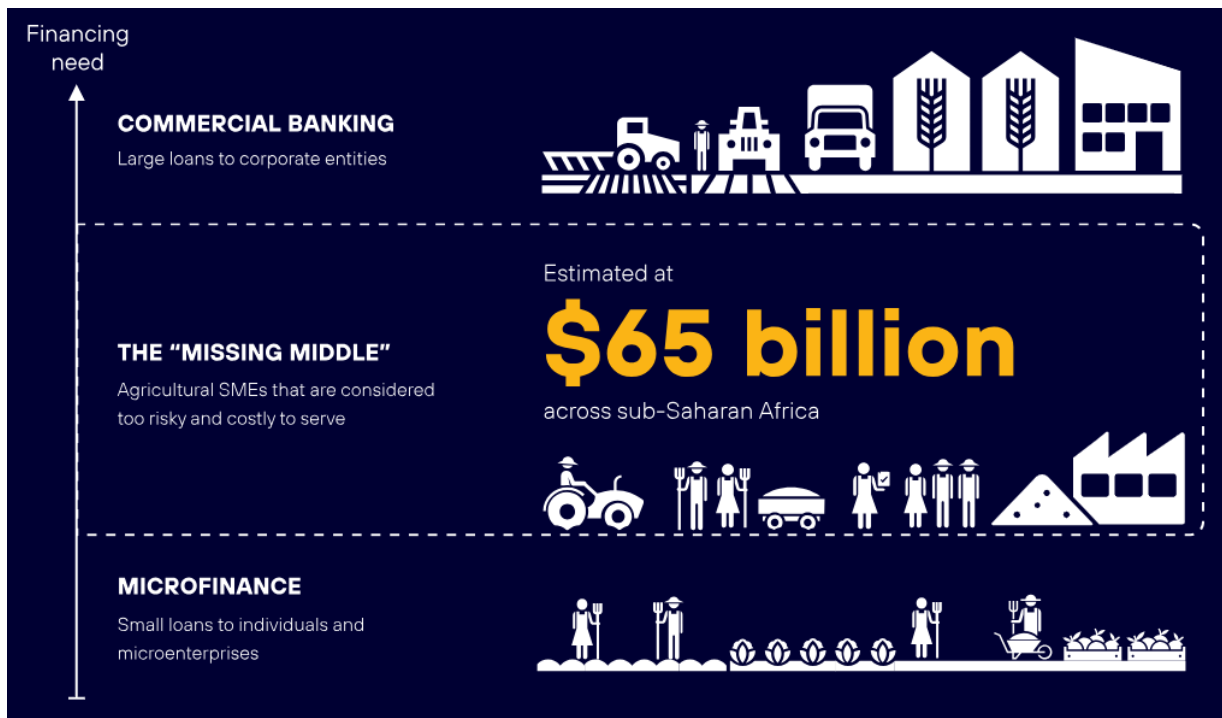
Background

The **Agri-SME Evidence Fund** aims to **generate crucial, policy-relevant evidence to understand how best to foster sustainable and inclusive growth of agricultural businesses in developing countries.**

Despite accounting for 25 percent of gross domestic product (GDP) in low-income¹, 15 percent in lower middle-income countries², and employing a large share of the population³, agriculture receives a disproportionately low level of formal credit⁴. In Kenya, for instance, agriculture accounts for around 21 percent of GDP⁵ and employs over 33 percent of the working population⁶ but receives only 3 percent of total formal credit⁷. Similar imbalances are typical for many low-income (LICs) and lower-middle income countries (LMICs).

Credit that flows to the agriculture sector in LICs and LMICs is primarily provided to large commercial farms and industrial processors. This results in a substantial financing gap for agricultural small and medium-sized enterprises (agri-SMEs). These firms are difficult to serve given small ticket sizes, high transaction costs of reaching remote rural areas, and limited financial management capacity on top of systemic risks related to climate, market volatility, and crop failure that are inherent to the sector more broadly. At the same time, increasing access to finance for smallholder farmers and agri-SMEs has significant potential to improve rural livelihoods, strengthen food security, mitigate the effects of climate change, and create economic opportunities for women, youth, and other marginalized groups.

Figure 1 Large financing gap for agri-SMEs



Source: Aceli Africa

In recent years, donors and development finance institutions have funded a growing number of initiatives to boost lending to agri-SMEs, including credit guarantee schemes, new investment vehicles, credit lines, and capacity building for commercial banks. Increasing resources to develop agricultural finance markets creates both opportunities and risks. Market interventions and policy reforms can be

most effective when based upon evidence: including data, practitioner insights, and third-party evaluations. Such evidence is limited when it comes to the agricultural finance sector, meaning that new initiatives are funded largely on the basis of intuition and influence. Expanding the knowledge base of what does and does not work for mobilizing additional capital into the sector and how to steer that capital for greatest impact will enable more strategic deployment of time and resources for donors, policymakers, and practitioners alike.

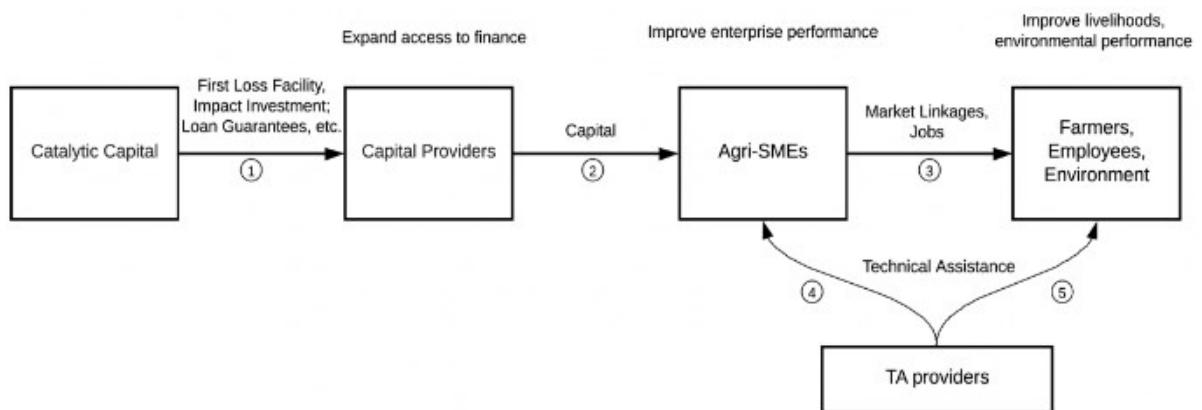
To address this evidence gap, the International Growth Centre and Aceli Africa have set up the **Agri-SME Evidence Fund** to generate actionable knowledge to inform policy decisions and accelerate sustainable and inclusive economic growth via agricultural businesses. This concept note serves as a guiding compass to define the research priorities of the evidence fund, describe the process through which research will be commissioned, detail the personnel involved, and provide a preliminary timeline of forthcoming activities.

Thematic Research Priorities

The Agri-SME Evidence Fund aims to understand what interventions work at the intersection of **agriculture, finance, and small and medium enterprises (SMEs)**. We would like to understand the mechanisms and impact of the flow of catalytic capital through capital providers to agricultural SMEs (agri-SMEs) to improve livelihoods and environmental performance.

Our three research priorities are motivated by the relationships depicted in the impact chain shown in **Error! Reference source not found.** In the agri-SME financing space, catalytic capital (in the form of debt or equity with below-market returns, loan guarantees, or other incentive structures) is provided to financial intermediaries with the assumption that these actors will be encouraged to expand access to finance to agri-SMEs beyond the financing available commercially. This financing for agri-SMEs is intended to improve enterprise performance and growth. Most upstream providers of catalytic capital also intend to increase financing at the SME level to create more and better paying jobs, improve farmer livelihoods, and—when sustainable practices are used—have a positive environmental impact. Several practitioners and donors also provide technical assistance (TA) to agri-SMEs and/or farmers with the expectation that TA will facilitate improved productivity and performance at enterprise and/or farm levels. The impact chain depicted below shows the interaction points that should be evaluated to thoroughly understand the impact of market interventions for agri-SME financing.

Figure 2 Impact chain



Source: Aceli Africa

An ideal project under the Agri-SME Evidence Fund would conduct research on the **intersection of agriculture, finance, and SMEs**. Proposals that touch on one or two of these topics may be funded if the research question and findings are relevant to the research agenda.

Geographically, the priority countries are Kenya, Rwanda, Tanzania, Uganda, and Zambia. Research in other low- or middle-income countries may be funded if the research question and findings are relevant to the research agenda.

We encourage research proposals from researchers based in low- and middle-income countries, PhD students, and young untenured faculty.

A non-exhaustive list of possible research areas is provided below. This list aims to provide examples on the type of work that the Agri-SME Evidence Fund is looking to commission and should only be viewed as a guiding resource.

Increasing the supply of loans to agri-SMEs

Banks and non-bank financial institutions often lack the capacity and nuanced understanding needed to effectively serve the agricultural sector. Examples of research areas could therefore include:

- The importance of economies of scale in loan operations and SME operations;
- The impact of relational lending and dynamic competition;
- The impact of management practices within banks: e.g., interventions to improve understanding of the sector and operational efficiency of loan officers; mechanisms to incentivise bank employee retention;
- The role of technology adoption: the impact of adopting digital credit scoring systems, integrating technology to reduce costs of managing and monitoring loan repayments; integration with other technologies (e.g. facilitating extension services);
- The impact of innovative contractual terms: tailoring of financial products to specific needs of entities in different segments of agricultural value chains; experimenting with lower/different collateral requirements and personal relationship building; responsible lending practices;
- Dispersion in the marginal product of capital and costs of servicing different areas; understanding competition between financial institutions in local markets;
- The role of impact investing: how to appropriately measure the relationship between loan performance and a firm's environmental performance or ownership profile (e.g. gender, age).

Increasing agri-SMEs' demand for loans

While access to finance is an important constraint for many agri-SMEs, it is not the only one. Relaxing constraints to agri-SMEs' growth and productivity, for instance through utilising technical assistance, may enable agricultural value chains to expand and increase the demand for loans, which would be beneficial for the profitability and sustainability of loan markets. Examples of research areas could therefore include:

- Management constraints and opportunities: adequacy of management practices, availability of cost-effective training and consulting programmes, addressing challenges posed by cooperative organizational forms;
- Marketing constraints and opportunities: poor marketing skills, lack of linkages with buyers due to poor information, little market power in downstream chains.

Understanding the impact of access to credit and TA on livelihoods

While access to finance may have a direct impact on agri-SMEs, it is also important to understand its impact on livelihoods. The research agenda under this pillar aims to test methods to increase formal employment and productivity within agri-SMEs. It will also look at how increased market linkages affect farming households. Examples of research areas could therefore include:

- The importance of economies of scale at the enterprise level on both volume and quality of employment in the sector;
- Constraints to technology adoption: to improve quality and traceability, to process payments to workers and farmers, to integrate operations with extension services;
- Impact of increased supply of loans to agri-SMEs on food security at a sub-national or national level;
- Strengthening regional value chains, links to cross-border trade and finance and its impact on agri-SME employment and farming households.

Understanding the role of enabling environments on credit markets

Agricultural value chains operate within broader institutional contexts that often prevent markets from efficiently allocating resources. To maximize the impact of the Agri-SME Evidence Fund, it is important to gauge the constraints present in the enabling environment and identify necessary policy and regulatory reforms to alleviate these limitations. Examples of research areas could include:

- Constraints arising from institutional weaknesses and policies that directly curb the functioning of credit markets: entry regulations, caps on interest rates, establishment of credit bureaus, regulations related to capital flows, different interpretations of international standards;
- Constraints and opportunities arising from concentrated market structures in either downstream or upstream markets;
- Impact of voluntary sustainable standards and certification programmes;

Cross-cutting thematic areas

The Agri-SME Evidence Fund is also interested in commissioning work that cuts across the above areas but also has a focus on:

- **Gender**

Access to finance as well as impact of interventions differ across genders. Research could include analysing the impact of increased access to finance on business outcomes for women-led agri-SMEs, compared to men-led agri-SMEs. It could also evaluate how gender perspectives influence loan evaluations by loan officers.

- **Youth**

Access to finance as well as impact of interventions differ across owner and manager age groups. Research could include analysing the differential impact of increased access to finance on business outcomes for youth-led agri-SMEs, compared to non-youth-led agri-SMEs. It could also evaluate if/how the age of the owner or manager influence loan evaluations by loan officers.

- **Food security and nutrition**

Agricultural production and processing are essential in providing food security and adequate nutrition to populations. Research on this theme could include analysing the relationship between increased financing for agri-SMEs and food security and nutrition outcomes at local, regional and national levels.

- **Climate and environment**

Green finance is becoming increasingly important in the fight against climate change and environmental degradation. Research on this theme could investigate how climate- and environment-conscious production can be promoted through green impact investing.

- **Creating research infrastructure and databases that are public goods**

Research on agri-SMEs in developing countries is made difficult due to paucity of data. We therefore encourage research that develops research infrastructure and databases which can become public goods and be made available to other researchers and practitioners.

Activities

The research commissioning process will employ a mix of research cultivation strategies, including matchmaking, scoping grants, a small projects facility, and calls for proposals. Each of these activities is described below.

Matchmaking

Matchmaking involves facilitating collaboration between practitioners and researchers to jointly develop researchable and actionable questions that are of interest to both stakeholders and that generate knowledge applicable beyond the specific practitioner context. Practitioners often tend to want to answer questions on the impact of their specific programme while researchers will lean towards questions that are more useful for public knowledge and academically interesting. Therefore, generating successful collaborations requires both dialogue and compromise.

It is envisioned that the matchmaking will take place organically throughout each year as well as potentially through rotating annual regional matchmaking events. The IGC will use its experience from running successful matchmaking workshops through our SGB Evidence Fund as well as tailored matchmaking for IFC and We-Fi.

Scoping grants

The aim of scoping grants is to help researcher-practitioner pairs explore potential research ideas on topics that tend to be difficult to research. The IGC will provide scoping grants (up to GBP 5,000) to cover some of the costs incurred in developing the proposals, such as researcher travel costs to visit practitioner field sites. These grants are also often used for researchers to recruit research assistants to review and analyse the administrative data held by the practitioner organisations.

Scoping Grants

Project type

- Small-scale scoping research projects

Scope: Up to GBP 5,000

Frequency: After matchmaking

Geography: Primarily Kenya, Rwanda, Tanzania, Uganda, and Zambia. We will consider research outside these countries if it can be demonstrated how the project is relevant to the research agenda.

Research methods: Applications that explore promising research ideas that have the potential to develop into rigorous research projects.

Research length: Approximately 6 months

Publication types: Not Applicable

Principal investigators: Researchers that participated in matchmaking

Small Projects Facility (SPF)

The Small Projects Facility (grants up to GBP 20,000) will be used to be responsive to research opportunities and can generate proof of concept findings via pilots or smaller scale studies. We will consider proposals for SPFs on a rolling basis.

Small Projects Facility

Scope: Up to GBP 20,000

Project type

- Research project pilots
- Small-scale research projects
- Small project extensions

Frequency: Ongoing, in response to need

Geography: Primarily Kenya, Rwanda, Tanzania, Uganda, and Zambia. We will consider research outside these countries if it can be demonstrated how the project is relevant to the research agenda.

Research methods: Quantitative research with strong counterfactuals and a sound research methodology. We also commission strong qualitative research that is conducted in combination with or as a complement to quantitative approaches (mixed methods). Qualitative research that aims to inform future quantitative research will also be considered. The IGC will not fund projects that are not grounded in sound economics research principles.

Research length: Approximately 1 year

Publication types: Working paper, policy brief, blog posts (where relevant)

Principal investigators: Research affiliates and broader network of researchers

Call for Proposals

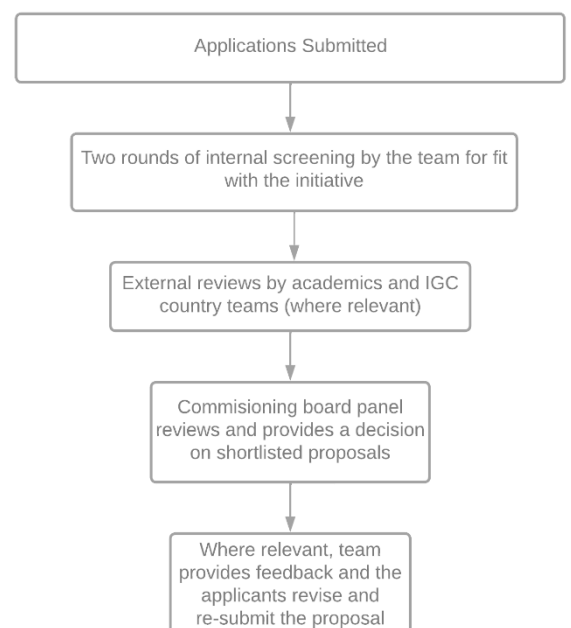
The evidence fund will conduct open, public, competitive calls for proposals. These are widely publicised via the evidence fund web page, the IGC website, blogs, key research networks, newsletters, social media, thematic conferences, and in-country events. They target top universities and think tanks in IGC partner countries.

This direct commissioning will leverage the IGC’s network of world-leading researchers and Aceli Africa’s network of practitioners to generate projects outside of the informal and formal matchmaking. It is designed to accelerate the creation of an actionable knowledge repository by complementing the matchmaking processes in several important ways:

- Commissioning research to fill the knowledge gaps that are not addressed in the matchmaking process;
- Commissioning clusters of research projects around important questions to accelerate the process of generating robust findings that can form the basis for best practice recommendations;
- Enabling the evidence fund to harvest innovative ideas and approaches from researchers and practitioners across – and outside of – the IGC and Aceli Africa networks through open, international calls; and
- Enhancing the scalability of the evidence fund.

Each proposal that is submitted during a call for proposals undergoes a rigorous assessment by multiple parties. First, there are two rounds of internal screening conducted by the IGC Firms team to identify proposals that fit the theme and goals of the evidence fund. Proposals that pass the screening are then reviewed by external academic reviewers, and, where relevant, IGC country teams. As a next step, successful proposals are evaluated by a commissioning board which is made up of relevant researchers and practitioners. To avoid a conflict of interest, practitioners and researchers will not be allowed to evaluate proposals which they have co-developed or have been developed by their PhD students. Where relevant, applicants might be asked to revise and re-submit their proposal based on feedback from the commissioning board. Aceli Africa will receive an ex-post opportunity to ensure that all approved proposals fit their agenda before funding decisions are finalised.

Figure 3 Evaluation process



Source: IGC

The commissioning board will evaluate each proposal based on seven criteria:

- Alignment with research priorities set out in this concept note.
- Alignment with geographical priorities set out in this concept note.
- Quality of research design – only projects that can demonstrate methods likely to produce results that are valid and reliable will be considered. This includes a variety of research methodologies including RCTs, RDD, structural models, etc.
- Policy impact – will include the potential for positive agri-SME and livelihood impacts through policy or practitioner interventions.
- Academic impact – the potential for research to significantly contribute to the existing literature and address evidence gaps.
- Engagement with local institutions – including researchers, practitioners, and/or IGC country teams.
- Value for money – using benchmarks and IGC’s extensive historical cost data.

Call for proposals

Project type

- Research project expected to produce practitioner and policy-relevant frontier research
- Significant practitioner involvement expected
- Responding to needs as set out for the specific call
- Will include research priorities as defined in this concept note

Scope: Average GBP 70,000 per research project

Frequency: Once a year

Geography: Primarily Kenya, Rwanda, Tanzania, Uganda, and Zambia. We will consider research outside these countries if it can be demonstrated how the project is relevant to the research agenda.

Research methods: Quantitative research with strong counterfactuals and a sound research methodology. We also encourage qualitative research that is conducted in combination with quantitative approaches (mixed methods). The IGC will not fund projects that are not grounded in sound economics research principles.

Research length: Between 1 and 3 years, approximately

Publication types: Working paper, peer-reviewed publication, policy brief, blog posts (where relevant)

Principal investigators: Determined through open, competitive process

Personnel

The academic lead for the evidence fund is [Rocco Macchiavello](#). He is a Professor of Management at the London School of Economics (LSE). His research interests lie at the intersection of development, organisational and industrial economics. His current research studies industrial zones and policy in emerging markets, sustainable sourcing and supply chains, markets and firms in weakly institutionalised environments.

Nathalie Raschka, Firms Policy Economist will be the primary contact and Rania Nasir, Head of the Firms initiative, will provide oversight. Rahul Shukla will be the research coordinator and provide administrative support.

Timeline

The proposed dates are tentative.

Year 1 (2023) activities will include:

- Development of concept note.
- Launching of web page.

Year 2 (2024) activities will include:

- On a rolling basis: awarding of SPFs, informal matchmaking, and awarding of scoping grants.
- Tentative: formal matchmaking workshop in Q2.
- Hosting launch event in Q3.
- Holding call for proposals in Q4.

Year 3 (2025) activities will include:

- On a rolling basis: awarding of SPFs, informal matchmaking, and awarding of scoping grants.
- Tentative: formal matchmaking workshop in Q2.
- Holding call for proposals in Q3.

Year 4 (2026) activities will include:

- On a rolling basis: awarding of SPFs, informal matchmaking, and awarding of scoping grants.
- Tentative: formal matchmaking workshop in Q1.
- Holding call for proposals in Q1/Q2.
- On a rolling basis: pursuing policy impact. Efforts to disseminate findings among policymakers will leverage IGC country offices and Aceli Africa's networks.

¹ World Bank, 'Agriculture, Forestry, and Fishing, Value Added (% of GDP) - Low Income (2022)', World Bank Open Data, 2023, <https://data.worldbank.org>.

² World Bank, 'Agriculture, Forestry, and Fishing, Value Added (% of GDP) - Lower Middle Income (2022)', World Bank Open Data, accessed 13 November 2023, <https://data.worldbank.org>.

³ World Bank, 'Employment in Agriculture (% of Total Employment) (Modeled ILO Estimate) - Low Income (2021)', World Bank Open Data, accessed 13 November 2023, <https://data.worldbank.org>; World Bank, 'Employment in Agriculture (% of Total Employment) (Modeled ILO Estimate) - , Lower Middle Income (2021)', World Bank Open Data, accessed 13 November 2023, <https://data.worldbank.org>.

⁴ FAO, 'Credit to Agriculture. Global and Regional Trends 2012-2021', FAOSTAT Analytical Brief (Rome: Food and Agriculture Organization of the United Nations, 2022).

⁵ World Bank, 'Agriculture, Forestry, and Fishing, Value Added (% of GDP) - Kenya (2022)', World Bank Open Data, accessed 13 November 2023, <https://data.worldbank.org>.

⁶ World Bank, 'Employment in Agriculture (% of Total Employment) (Modeled ILO Estimate) - Kenya (2021)', World Bank Open Data, accessed 13 November 2023, <https://data.worldbank.org>.

⁷ FAO, 'Credit to Agriculture, Share of Total Credit US\$ - Kenya (2021)', accessed 13 November 2023, <https://www.fao.org/faostat/en/#data/IC>.