



ROUTES TO PROFITABLE SOURCING FROM SMALLHOLDER FARMERS



FIVE ROUTES TO PROFITABLE SOURCING FROM SMALLHOLDER FARMERS: INVESTOR PERSPECTIVES ON THE 'DEAL'

There are 500 million smallholder farmers worldwide. Small-scale farmers in Africa and Asia represent both a key supplier base and a market for firms. But how do investors perceive the smallholder-sourcing business 'deal'? This webinar built on the [recent publication](#) by the CASA Technical Assistance Facility which mapped the landscape of investment in smallholder sourcing models.



Melanie Machingawuta - CASA Technical Assistance Facility: Perspectives from investors and agribusinesses on sourcing from smallholders

In May 2021 the CASA Technical Assistance Facility produced a new publication. The report shed light on the current sourcing investment landscape and investor perspectives on smallholder-sourcing businesses

Fifteen investors shared insights on the commercial viability and impact of investments in this asset class. Over one-third of the value of their aggregated ag-portfolios were invested in companies that source from smallholder farmers.

Some key takeaways from this publication were:

- The ag-focused investors saw commercial advantages from sourcing from smallholder farmers, such as:
 - Access to greater supply volumes
 - Cost-savings on purchases
 - Potential for premium / higher prices due to ethical sourcing
- There were also some challenges these investors had to address:
 - Securing sufficient quality and quantity of raw materials through efficient aggregation models
 - Key role of crop unit economics
 - Importance of upstream support services and trust-based relationships with farmers

Investors expressed a need to create more flexible investment vehicles that allow for longer-term horizons and appropriate deal structures. In addition, there needs to be greater use of cost-efficient impact measurement for data-driven decision making, so that investors can evidence the value of smallholder sourcing. The farmer, the investor and the business all need to benefit in order for sustainable and successful sourcing to continue. Rigorous upfront analysis can support investors to better understand whether the benefits of inclusive sourcing justify the cost and efforts, and what is really needed to increase chances of success.

Edward Stiles - Maris Ltd: Incentives required to sustainably source from smallholder farmers

Where agriculture is a major part of local economy the opportunity to sustainably improve livelihoods in smallholder communities is often a driving factor, particularly for impact investors.

For agribusiness, quality is a huge component when considering crops mainly grown by smallholders. If quality is good, the market is incentivised to pay a premium to absorb the cost to source from these smallholder farmers. In case of poor quality, there is no incentive for the business to work with these farmers as there will be limited consumer demand.

Shared risk and upfront cost practices must be in place between the businesses involved, the public sector and the investors to incentivize them to work with agribusiness that source from smallholder farmers.

Marcel Neutel - Capital 4 Development Partners (C4D): Opportunities and challenges for investors sourcing from small-scale farmers

When working with smallholder farmers there needs to be a combination of contractual and a trust-based relationships between the parties.

Investors also need to be aware of the structures already put in place by smallholder farmers, including the large role that middle men play in the market. The companies that work with smallholder farmers need to have good cash management so that they are able to source during the harvest periods. Lastly, there is diversity in terms of quality, and strong SMEs need to put standardisation practices in place.

Cara Middleton - IDH Investment Management B.V: Factors that can drive commercial viability and impact

Factors that drive viability and impact:

- Knowing and understanding the client so practices can be tailored to their specific needs. Meeting those needs contributes to the likelihood of adoption, which leads to positive results such as cost reductions and increased impact.
- Creating holistic service packages, including training and inputs (most often finance training), for the long-term needs for the farmer (and their household) often leads to more sustainable success. Farmers are more likely to pay for these complete service packages.
- Setting strategic partnerships, with a joint vision, to create meaningful impact at the farm level.
- Placing a large focus on cost-efficiency, quality and quantity across long-term investment horizons with availability to scale and replicate, leads to greater achievement.

QUESTIONS INVESTORS SHOULD BE ASKING THEMSELVES IN LIGHT OF THESE CONSIDERATIONS:

- *What is the role of public sector and investor players to create incentives to working with smallholder farmers?*
- *What practices need to be put into place in order to be able to practically source from smallholders? What structures are already at play that I need to be aware of?*

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