



## STRONGER, GREENER, FAIRER RECOVERY: THE UNDERSERVED MIDDLE



### THE UNDERSERVED MIDDLE VS. THE ELEPHANT: WHERE TO FOCUS INVESTMENT?

*This debate discussed the impact potential of investing in the “under-served middle” versus investing in larger and better established agribusinesses, often referred to as elephants. The discussion featured the CASA research brief, “The Underserved Middle: Defining excluded enterprises in agricultural value chains”, summarized and linked below. Reflecting on financing gaps and needs, the discussion drew on published data and market analysis to provide clarity to the investor community and their financing partners on opportunities for investing in SME agribusinesses sourcing from smallholder farmers.*

#### Initial Insights

**Mathias Hague - CASA**

The concept of the "Underserved Middle" brings together the "Missing Middle", in terms of lack of access to finance, and the "Hidden Middle", who are the thriving mid-stream of the value chain but lack access to other actors in the ecosystem, including those setting policy, infrastructure investment, trade rules, and taxation. The underserved middle of agri-SMEs, which seeks \$50K-\$2M, is too big for micro-lending, informal financing, and grants but too small for impact investors and other commercial capital. Yet, with 80% of the mid-stream private sector being agri-SMEs, they are critically important to delivering low-cost and high-quality food to urban consumers.

#### Argument #1: There is no missing middle, there is a missing top **Louise Fox - The Brookings Institution**

Much focus is on supporting SMEs, but most collapse. Only about 10% of small and medium enterprises grow to be large enterprises in Africa. It's the large, innovative agri-enterprises that are missing. They can provide more stability and better jobs. However, the few that do exist tend to be protected by regulation resulting in low competition, less need to innovate, and low productivity. Donors, governments, and strategists need to encourage investment and competition in large firms. Yes, there needs to be a lot more work to provide credit to small and medium-sized firms, but more FDI to large firms will provide structured and sustainable change and transformation.

#### Argument #2: Focus on Underserved Middle **Brian Milder - Aceli Africa**

Early-stage, small and medium enterprises in the agriculture sector have the potential to be engines for economic growth and they are worth investing in, but not all small enterprises are created equal in terms of growth and impact potential. We need to drive more and better data to inform solutions. Aceli Africa is creating incentives in the East African market to increase incomes. Brian thinks the sector needs to get smarter in how concessional finance is deployed. Policies should enable the growth of agricultural businesses, as this would be a sound investment in economic development overall.

#### Argument #3: Larger Deals lead to Larger Impact **Daniel Hulls - AgDevCo**

The agriculture sector dominates employment and offers the best potential for industrialization for most of the African economies through the process of downstream processing. Daniel has found that better impact is offered by larger firms who can manage the businesses better, but thinks seed funding is necessary. Later-stage sustainable, formal firms offer the best possibility for productive growth, well-paying jobs, and improved local production and processing. However, investment is necessary in small, medium, and large firms in order to have a healthy ecosystem.

#### CASA Research Highlights: "The Underserved Middle: Defining excluded enterprises in agricultural value chains"

- The underserved middle represents a diverse range of small and medium-sized enterprises (SMEs) at all stages of the value chain – though predominantly downstream of production – characterized as being unable to exploit the potential to scale up that exists in the market due to their effective exclusion from normal market-supporting policies, financing and institutions.
- Whilst formal financing remains difficult to obtain and is expensive, informal sources are likely to be more important than previously thought. Both the demand and supply of formal and informal financing vary considerably by type of enterprise and funding need. However, investors and other stakeholders also need to consider how changes to policy, regulation and infrastructure will unshackle excluded SMEs and release their ability to scale themselves up.

#### QUESTIONS POTENTIAL INVESTORS SHOULD BE ASKING THEMSELVES:

- *How do we value the impact that is being generated? Especially if lenders and investors need to go through a period of sub-par returns in order to support their growth?*
- *What can investors do to make sure that investments in better-established agribusinesses lead to positive impacts at the SME and smallholder levels?*
- *What financial mechanisms are needed today vs. in the future?*
- *What needs to happen to increase the pipeline of large, investable agribusinesses?*

#### RELEVANT LINKS:

[Recording of the debate](#)  
[Research Brief on The Underserved Middle](#)  
[Role of Government in Rural and Agri-Finance](#)