PARTNERING WITH THE PRIVATE SECTOR TO REACH SMALLHOLDER FARMERS

Lessons on private sector engagement from the USAID Feed the Future Partnering for Innovation program

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Executive summary

As governments and development organizations increasingly step in to help identify and support sustainable, market-based solutions that bring agricultural innovations and services to smallholder farmers, more evidence is needed on the types of approaches that are most effective. Smallholder farmers are critical to global food security and economic growth; however, they have largely been overlooked by the private sector, constraining their productivity and income potential. To successfully engage the private sector and improve the livelihoods of smallholder farmers, it is critical to gain a refined understanding of which solutions work — and which do not. There is a need to understand the extent to which donor support to private companies can catalyze entry, expansion, and commercial sustainability within the smallholder market segment. It is also important to examine how the design and implementation of these programs can promote (or inhibit) their impact on partner companies and smallholder farmers.

Partnering for Innovation, a USAID-supported program, provides a rare opportunity to delve deeper into these questions. Over the last six years, the program has supported 50 private sector companies with over USD 42 million to scale and market innovative agricultural technologies and services to more than a million smallholder farmers. Partnering for Innovation provides companies with investments tied to milestone-based outcomes, and tailored support services designed to build managerial and operational capacity. The ultimate goal is to sustainably improve smallholder farmers’ income and food production. Based on data and insights from the program, this report serves as a learning document to expand the evidence base around engaging the private sector to achieve development outcomes.

The report’s key findings indicate that the partnership approach USAID has taken in the Partnering for Innovation program is a promising way to catalyze entry, expansion, and commercial sustainability of private sector companies within the smallholder farmer market segment. All companies interviewed grew revenue by selling to smallholder farmers, with nearly half selling to the smallholders for the first time during the partnership. Although only a subset reported sales data, nine companies had more than doubled sales to smallholder farmers while others experienced over 600 percent growth within the segment. It is even more encouraging to note that since the partnership ended, almost all companies interviewed continue to market to smallholder farmers, most having achieved profitability among the segment or the belief that they would do so in the next few years. Additionally, about half sought commercial investment as a means of pursuing sustainability and continuing to scale within the smallholder market; of those companies, about half (approximately 25 percent overall) had obtained investment.

A majority of companies interviewed directly credit investment from USAID with de-risking their entry and expansion to serve the smallholder farmer segment. For many, USAID investment also accelerated their expansion rate among the smallholder farmer customer base, which allowed them to accomplish in two years what otherwise may have taken five or ten. However, it was not only the capital, but the way investments were structured, that enabled business growth and continued marketing to smallholder farmers. Four design features of the investment were found to be critical:

1. Milestone-based, i.e., disbursements tied to completion of predetermined goals
2. Cost-based, i.e., a tailored amount based on the cost of planned activities
3. One-time investment rather than ongoing or renewable
4. Investment matched by company contribution
In addition to investment, partner companies received capacity-building support, of which the activities tied to specific milestones were perceived as most useful. Activities tied to milestones and those that strengthened core business capabilities (e.g., development of a strategic plan) were perceived as most useful, because they required companies to put in place managerial and operational processes that the company could continue going forward. However, experience with capacity-building activities varied overall. From an investor perspective, activities that improve a company’s ability to manage cash flow, develop basic financial reporting skills, or communicate a value proposition are often most useful for promoting investment readiness. In the case of Partnering for Innovation, companies in the later stages of growth felt that they could have derived greater utility from support that was better tailored to their level of expertise.

Companies report that the partnership approach has strengthened agriculture markets and influenced development outcomes for smallholder farmers. Although the central purpose of this report is to explore the influence of partnerships on the ability of companies to market to smallholders, companies reported promising examples of partnerships that have more broadly helped to strengthen the market. Success of some partner companies seems to have stimulated greater competition, for example, and structures partner companies created during the partnership, like agro-dealer networks and aggregation centers, have allowed others to more easily reach smallholders. In some partnerships, companies were specifically selected to address one or more critical weaknesses in the value chain that, once resolved, increased efficiency of the entire value chain. The partnership also allowed smallholder farmers to access a greater range of technologies and services; this appears to have influenced positive income and livelihood outcomes.

The findings of this report should be of interest to anyone who seeks to better design and implement private sector partnerships to create sustainable development impact. In selecting partner companies for similar types of support, donors should seek out private sector companies with a well-defined business plan that primarily just need capital to catalyze their market entry. The investment should be results-based, cost-based, one-time, and matched with a company contribution to be most effective, and milestones should be carefully tailored to the company through a co-creation process. Sufficiently-tailored capacity building activities can be useful additions to partnership programs; activities that are most effective are those that support companies in strengthening their core business processes. To the degree that crowding more investment into the space is a goal, donor organizations should consider intentionally designing programs to support and incentivize companies to obtain investment.

As USAID and other development actors increase engagement with the private sector, there is an opportunity to further explore learnings in future studies. This report is a starting point for understanding the outcomes of one USAID private sector partnership approach. To continue to refine learnings from the report requires collecting more data at the baseline, during, and after the partnership. Additionally, interesting learning questions have begun to emerge from the report but are not yet fully answered, including exploring the positive and unintended consequences on smallholder market systems, and whether the approach can be replicated in other sectors to solve broader development challenges.

The overall findings of this report indicate that the partnership approach USAID employed through Partnering for Innovation is a promising way to catalyze private sector involvement in the smallholder farmer market segment. It holds many lessons for USAID and other donors seeking to engage the private sector to achieve sustainable development outcomes.
This report should be of interest to anyone who seeks to better understand the extent to which private sector partnerships can create sustainable development impact. In particular, we seek to understand how donors can effectively engage the private sector to bring agricultural innovations and services to smallholder farmers.

Box 1

WHO IS THE AUDIENCE FOR THIS REPORT?

This report should be of interest to anyone who seeks to better understand the extent to which private sector partnerships can create sustainable development impact. In particular, we seek to understand how donors can effectively engage the private sector to bring agricultural innovations and services to smallholder farmers.
About this report

Using data and insights from the USAID Feed the Future Partnering for Innovation program, this report seeks to expand the evidence base on how donors can effectively engage the private sector to bring agricultural innovations and services to smallholder farmers.

Smallholder farmers are critical to global food security and economic growth. However, they have largely been overlooked by the private sector, constraining their productivity and income potential. Globally, 500 million smallholder farmers produce 80 percent of the food consumed in sub-Saharan Africa and Asia. However, limited access to productive inputs, assets, output markets, and enablers across the value chain (e.g., access to finance) constrains their productivity and, ultimately, their incomes. Improving smallholder access to appropriate and affordable technology and services can improve the productivity and livelihoods of smallholder farmers and ultimately stimulate economic growth. Despite their importance, the private sector has largely overlooked smallholder farmers given perceived risks and skepticism about their commercial viability as a market segment.

The USAID Feed the Future Partnering for Innovation program provides a rare and important opportunity to assess the effectiveness of donor support to market-based solutions that bring agricultural innovations and services to smallholder farmers. The program supports businesses in targeting smallholder farmers as customers who can benefit from agricultural technologies and services that boost their income and food production. Partnering for Innovation provides companies with investment tied to milestone-based outcomes, along with tailored support services designed to build managerial and operational capacity. Now in its sixth year, the program has 50 current and past partners across 17 countries. Given the diversity of partners in terms of geography, products, service offerings, and length of time since program completion, this assessment is a learning opportunity for USAID and wider donor community actors looking to engage the private sector to further their impact.

Using data from Partnering for Innovation, this report explores whether and how partnerships with donors can improve the ability of private sector companies to market to smallholder farmers while ultimately pursuing development outcomes. It is based on analysis from 30+ interviews with a diverse set of partner companies and investors. The companies reflect a diversity of geographies, lengths of time since partnership conclusion, sizes of USAID investment, and types of product or service offering. While the methodology used does not allow for an assessment of causal attribution, it does provide a rich set of insights based on company experiences, perceptions, and data.

Section A of the report, Lessons from Partnering with the Private Sector to Reach Smallholder Farmers, examines the experience of private sector partner companies and explores two central questions: To what extent did partnering with USAID help private sector companies sustainably market and sell technologies and services to smallholder farmers? Which critical aspects of the partnership helped achieve these outcomes? It also highlights the role of partnerships in crowding in other investors.

Section B, Observations on Smallholder Farmer Development Outcomes, looks at anecdotal evidence and examples to understand whether, and to what extent, donor partnerships with the private sector can help address weaknesses in value chains and contribute to development outcomes.

Methodology

This report is informed by 30+ interviews with a diverse set of partner companies and investors.

Interviews with 24 Partnering for Innovation companies informed the findings of this report. The USAID Investment Support Program, implemented by Dalberg Advisors, selected 24 companies to interview among 50 current and past Partnering for Innovation partner companies. These companies reflect a diversity of geographies, lengths of time since partnership conclusion, sizes of USAID investment, and types of product or service offering. The four figures below illustrate the distribution of partners interviewed across characteristics.

Interviews were the primary method of data collection, supplemented by sales data and exit interviews. One-hour phone interviews were conducted with each company over a period of four weeks in February and March of 2019. The team used a detailed interview guide and survey questions (see Annex) to lead semi-structured interviews. While all interviews covered the same overarching topics, time constraints did not allow every question to be covered with each partner. As such, the number of respondents varies between questions. Data gathered during interviews was supplemented by company-provided sales data, as well as exit interviews conducted by the Partnering for Innovation implementing partner, Fintrac, at the conclusion of each partnership.

In addition to partner company interviews, eight investors active in the agricultural market were interviewed about donor engagement with the private sector, and their experience with Partnering for Innovation partner companies. These eight impact investors were selected based on their previous engagement with private companies working in the smallholder agriculture market segment. Interviews focused on investor perceptions of donor-funded partnerships with the private sector and characteristics central to their analysis when considering investment in a company in the space. Some investors had also explored investment into a partner company; in that case, perceptions on partner company investment readiness were also explored.

The report qualitatively assesses the influence of the partnership on partner companies’ ability to scale and be sustainable within the smallholder farmer customer segment, and more broadly distill implications for donor community engagement with the private sector. The report is not intended to serve as a technical guide nor a holistic or causal evaluation of Partnering for Innovation and its impact on smallholder farmers. Findings are largely based on the perceptions of various companies; these preliminary insights can inform future design and implementation, and serve as a starting point for future studies.
Fig. 2
NUMBER OF PARTNER COMPANIES INTERVIEWED BY REGION

Source: Dalberg Analysis

3 South Asia
5 Latin america
16 Africa

Fig. 3
NUMBER OF PARTNER COMPANIES INTERVIEWED BY END DATE

Source: Dalberg Analysis

<table>
<thead>
<tr>
<th>Year</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>Ongoing</th>
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<tbody>
<tr>
<td>Total</td>
<td>1</td>
<td>1</td>
<td>3</td>
<td>6</td>
<td>9</td>
<td>4</td>
</tr>
</tbody>
</table>

Fig. 4
NUMBER OF PARTNER COMPANIES INTERVIEWED BY USAID INVESTMENT AMOUNT²

Source: Dalberg Analysis

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
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<tbody>
<tr>
<td>USD 200,000 to USD 500,000</td>
<td>10</td>
<td></td>
<td>7</td>
<td>4</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>USD 1 million to USD 2 million</td>
<td>7</td>
<td>4</td>
<td>2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>USD 2 million to USD 3 million</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td></td>
</tr>
</tbody>
</table>

² Note: The amount of USAID investment was not available for one ongoing partnership.
SECTION A

Lessons from partnering with the private sector to reach smallholder farmers

Private sector technologies and services have the potential to improve the livelihoods and productivity of smallholder farmers. However, the challenges and uncertainties of expanding into these markets can be daunting. This section explores the extent to which partnering with USAID helped private sector companies reach and sustainably market to smallholder farmers. It also examines critical aspects of the partnership that helped achieve this goal.
CATALYZING THE PRIVATE SECTOR TO MARKET TO SMALLHOLDER FARMERS

Companies that partnered with USAID expanded their smallholder farmer customer base and largely continue to market to them.

All companies interviewed for this report expanded to serve the smallholder farmer segment during the partnership. These 24 companies marketed technologies and services ranging from high-quality inputs and productive assets to financial services and guaranteed buyer linkages. Among the 11 that shared self-reported revenue data, nine more than doubled their sales to smallholder farmers during the partnership, with three increasing revenue by over 600 percent. At least nine of the 24 companies interviewed grew internally as their business expanded, with most hiring additional field-based staff.

Prior to the partnership, most companies were already interested in selling to smallholder farmers and more than half were actively exploring market entry strategies. With nearly 500 million smallholder farmers globally, the market’s potential to scale is highly attractive — despite smaller margins due to lower purchasing power and high transportation costs in very rural areas. Prior to the partnership, about two-thirds of companies were actively seeking to enter or expand into the market, though several barriers prevented them from doing so (see p. 18). One-fifth had an unexplored but explicit interest in the segment, and in only three cases did companies explore the market for the first time because of the USAID funding opportunity.

Today all except one of the partner companies interviewed continue to market to smallholder farmers. Twenty-three out of 24 still actively sell to smallholder farmers 6 to 24 months after the partnership ended. One of the 23 did shut down its USAID-funded initiative but expanded into the same segment in another country.

About half of companies interviewed continue to experience substantial growth since the partnership ended. The degree of continued expansion within the smallholder market segment varies. About 40 percent of companies continue to maintain operations and grow slowly, while over half actively continue to invest in scaling their smallholder farmer customer base. Among the four companies that self-reported sales data beyond the partnership, three saw sales revenues increase by 100 to 200 percent since the partnership’s final year. One company reported a fivefold increase in smallholder sales. At least two others built upon their core business by diversifying product offerings for their newly captured customer base. Growth did not markedly vary by geographic region or type of product or service offering, which suggests that the partnership approach was effective across a diverse set of companies.

“IN ZAMBIA, SMALLHOLDERS ACCOUNT FOR 90 PERCENT OF FARMING ACTIVITY. IF A COMPANY DOES NOT HAVE A PRESENCE IN THE SMALLHOLDER MARKET, IT’S NOT A PROFITABLE ACTIVITY.” — Syngenta

*Dalberg analysis.
Nearly all companies have already generated profits or expect to soon—a positive sign that they can sustainably market to smallholder farmers over the long term.

Nearly 80 percent of companies interviewed have achieved profitability or expressed optimism about future profitability in the smallholder farmer market segment. Of those interviewed, 16 reported profitability within the smallholder farmer market segment and three believe they will be profitable in the near future (i.e., within three years). Of all companies interviewed, at least four reported variability in profitability across geographic areas or cross-subsidize sales to smallholders with revenues from other business lines. Only three have received additional grant funding, which indicates that most companies are confident they can continue to fund operations and expansion without additional grant support.

Although companies generally believe performance and profitability within the smallholder market segment is sustainable, many internal and external factors influence sustainability and a longer time frame is required for assessment. In general, companies felt relatively optimistic about future profitability, with at least 86 percent claiming the extent to which they perceive their financial health and performance to be sustainable in the long-term without financial support to be “very high” or “high.” For some companies, slower growth may be inherent to the type of technology or service. Complex technologies that are less well-known among smallholders, e.g., reapers, appear to take longer to scale due to behavior change required for adoption. Others, like digital lending platforms, may face regulatory barriers and still others, e.g., new seed hybrids, are highly vulnerable to climate events and market volatility that can impact demand among farmers following a poor harvest season. Since more than half of companies interviewed had ended the partnership within the past year, a more in-depth follow-up study should be performed to assess longer term sustainability.

5 Profitability was self-reported by companies.
6 Among 14 respondent companies; see Survey Questions in the Annex.
Companies that entered the partnership with a well-defined strategy to sell to smallholder farmers appear best positioned for profitability.

Partnering for Innovation was designed to target companies that needed funding and support to bring a proven technology or service to market. Early-stage companies conducting research and development on new technologies were considered too far from market, and those with an established footprint were not typically targeted as they often have more access to commercially-oriented capital.

Many factors influence performance in a new market, but the level of “market readiness” and a well-defined go-to-market strategy at the outset of a partnership appeared to influence profitability by the end of the program. Interestingly, profitability did not markedly differ across geographic regions or type of technology/service offering. The most influential factor was degree of market readiness. (See box 2 for a definition of “market readiness” as employed in this report.). Nearly all companies already possessed a proven technology or service, but there was greater variation in the clarity of their business plans. Those that had already piloted products or were selling other technologies or services to smallholder farmers had a deeper understanding of the fundamental characteristics of the segment, and a better-defined go-to-market strategy. Those still formulating a business plan for entry often had little or no experience marketing to smallholder farmers and struggled to understand the needs of the segment, including the right distribution model, price point, or product design.

As Figure 5 shows, all companies that began the partnership with a well-defined business plan reported that they were already profitable or expected to be profitable following the partnership. Yet only four of the nine companies that did not have a robust plan at the onset had the same result. Technological readiness seemed to have less of an influence on profitability, though about 80 percent of companies had a well-developed technology or service upon entry (this was part of the selection criteria). This finding suggests the importance of identifying companies with a clearly defined strategy for participation in such partnerships. However, as previously discussed, companies qualitatively reported profitability so its definition may vary (e.g., profitability at each location, profitability net of capital expenditures, etc.). This finding warrants future research using more rigorous methodology.

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**Box 2**

**MARKET READINESS IS DEFINED AS:**

- A proven technology – i.e. through R&D process and requires no more than a few adaptations for the smallholder market.

- A well-developed fundamental business plan for sustainability, including pricing, customer profile, and distribution model.

*Note that some technologies will take longer to adopt, scale, and achieve profitability in new markets than others, even when ‘proven’.*
Nearly all companies directly attribute their expansion to serve the smallholder farmer market segment to “private sector friendly” investment from USAID.

Companies strongly attributed their expansion to the USAID partnership, with three-quarters of those interviewed expressing that they would not have entered the market or would have taken significantly longer to do so without the program. In general, companies experienced the USAID partnership as the single driving force behind their expanded reach among smallholder farmers. Half claimed they would not have entered the market without the partnership, and another quarter expressed that the investment had sped up entry.

“It would have taken us 10 years to do what we did in the duration of the (two-year) partnership.”
— Popoyan

### Fig. 5

**REPORTED PROFITABILITY BY MARKET READINESS AT PARTNERSHIP OUTSET**

<table>
<thead>
<tr>
<th>Technology ready</th>
<th>YES</th>
<th>NO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business plan ready</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Technology ready</td>
<td>50%</td>
<td>33%</td>
</tr>
<tr>
<td>Business plan ready</td>
<td>13 companies</td>
<td>2 companies</td>
</tr>
<tr>
<td>Technology ready</td>
<td>6 companies</td>
<td>3 companies</td>
</tr>
</tbody>
</table>

*Source: Dalberg Analysis*

Portion of companies reporting profitability (or projecting to be profitable soon) by aspect of market readiness.
The USAID investment was the critical factor in de-risking entry into the smallholder farmer market segment. This segment is typically viewed as high risk because of volatility of production due to weather events, poor access to finance (often due to a farmer’s lack of collateral), vulnerability of the market to changes in policy and/or market prices, and other factors. Although most companies had an active interest in the market before the partnership, of the 17 that discussed barriers to market entry, 13 were held back either by a lack of available capital (particularly from commercial banks that would not lend because of the risks noted above) or a cost of capital too high (greater than 30 to 40 percent) to take on for an expansion that was uncertain to be profitable. Three companies faced opposition from management to allocate funds for expansion in such a risky sector. Outside investment reduced the potential financial liability of expanding into a new and uncertain market, with one company stating that the investment “gave us the freedom to fail, which led to our success.”

Key to the investment’s success was its “private sector friendly” design. Four key features made the Partnering for Innovation investment ‘private sector friendly’ (i.e., particularly well suited to incentivizing private companies), de-risk expansion without distorting core business and ultimately allow companies to retain a focus on outcomes, including:

1. Results-based disbursements provided upon completion of pre-agreed milestones. All companies expressed that the performance-based milestones established at the outset of the partnership allowed both USAID and the companies to remain focused on commercial outcomes rather than process, which gave companies the flexibility to design their own means of achieving goals. At least two companies continue to use milestones internally to set and

“WITHOUT MILESTONES, THE PROBABILITY OF IT SUCCEEDING WOULD HAVE BEEN LOWER. IT WOULD HAVE BEEN LIKE ANY OTHER GRANT WHERE YOU GET THE MONEY UP FRONT AND THERE’S NO IMPACT, THE MONEY IS WASTED.”
— Surehatch
The way the program developed milestones and disbursed payments was especially useful:

a. Negotiating and co-creating milestones with the implementing partner at partnership launch prompted companies to refine their business model and define a clear business plan for long-term success. The approach pushed many companies to set more ambitious objectives than they would have on their own.

b. Upon accomplishment of a target, funds were made available for the next milestone. With donor funding often distributed on a cost-reimbursable basis, organizations first incur expenditures and are then reimbursed through the grant. Some companies noted that they would not have entered the smallholder market under this type of mechanism because they would not have been able to cover expenditures themselves.

2. A cost-based total funding amount determined by costs required to achieve desired scale. While some grant funding programs provide participants with a fixed amount, in this program, investment amounts were tailored to each company’s projected expansion costs. The scope of activities and associated costs were “ground truthed” by the implementing partner and local USAID missions to ensure that they were accurate and realistic. Companies valued that the resulting investment amount did not distort their financials or core business by providing too much funding – or too little.

3. One-time investment and directly targeted commercialization activities. The investment was designed to fund activities that directly support the company’s effort to expand a technology or service in a new market, for example, market analysis or consumer demonstrations. Companies reported that the finite nature of the program was a strong incentive to reach commercial viability within the segment by the end of the partnership.

4. Company-matched funding. Companies raised or invested their own funding to match USAID amounts, which strengthened internal commitments to the initiative’s success and pursuing activities in the most cost-effective manner.

These four design features helped most companies easily integrate the partnership into their business. However, at least three perceived a mismatch between milestone metrics important to the USAID development agenda and those central to their own core business. These three companies expressed that some indicators (for example, number of farmers trained), were tangential to their core business model and made them split resources by requiring them to perform activities that, although seemingly easy to accomplish, did not further their commercial model. In addition, at least two companies that pivoted strategy over the course of the partnership found that their milestones did not align well with their new goals.

“HOW THE MILESTONES WERE LAID OUT PUSHED US TO THINK HARDER ABOUT WHAT WE’RE DOING. TO MEET THE MILESTONES, WE HAD TO CREATE A MORE INCLUSIVE PLANNING PROCESS.”
— Twiga

“USAID ACHIEVED THE RIGHT BALANCE – THEY ALLOWED US TO KEEP OUR FOCUS ON THE CUSTOMER WHILE ENSURING THAT THE AMOUNT WAS SUBSTANTIAL ENOUGH TO BE A FOCUS OF THE BUSINESS.”
— EthioChicken
Beyond the investment, companies generally viewed additional support services as high quality; however, the value varied based on existing managerial and operational capacity and depth of experience working with smallholder farmers.

Multiple capacity-building services facilitated use of the investment throughout the partnership. Companies found the most value in support that established internal process requirements core to the partnership. The partnership included two broad categories of capacity-building: internal process requirements (tied to the milestone approach), and supplementary support services (often targeted to specific managerial or growth needs). Companies generally reported deriving greater value from internal process requirements, including capacity-building support to complete core program activities such as strategic planning, business plan development, operational processes for expansion, and creating financial projections. The process helped companies think through the markets, competitors, resources, staffing, and budgets required for growth.

The perceived value of supplementary support services differed based on level of experience in the market and existing managerial and operational capacity. Additional activities included customized acceleration based on identified challenges; interactive ag investor workshops to refine commercialization strategies; tailored investor readiness services, e.g., pitch preparation, networking, etc.; and semiannual meetings among partner companies. Several companies newer to the smallholder farmer market stressed that the semiannual meetings were an opportunity to learn from peers facing similar challenges.

“THE TRAININGS WERE MEANT TO WORK FOR ALL PROJECTS, AND WERE NOT ADAPTED TO OURS… I THINK THESE TRAININGS WERE MORE RELEVANT FOR SMALLER COMPANIES WITH LESS MANAGEMENT SKILLS.”
— Tecnologia e Consultoria Agro Pecuaria

Fig. 7
COMPANY PERCEPTIONS OF PARTNERSHIP SERVICES*

Average score, 1 = strongly disagree, 5 = strongly agree.  N = 15 | Source: Dalberg Analysis

“I would characterize the services provided to my company as...”

Notes: Definitions of descriptors in this graph are based on companies’ own perceptions. Based on 15 respondent companies. See Survey Questions in the Annex.
challenges, even if they were working on different commodities or aspects of the value chain. Companies in the later stages of growth – specifically those with more sophisticated managerial and operational capacity – found capacity-building activities too basic for their teams, although they did acknowledge the quality of the activities. At least three companies explicitly expressed that support could have been more tailored to their needs, but by the end of the partnership they realized it would likely have been provided had they known to request it.

Despite varied experience with capacity-building support, overall program quality and consistency regularly met expectations. More than half of companies noted that the quality and consistency of services was largely driven by the expertise and know-how of the Partnering for Innovation implementing partner.

Partnering companies viewed Partnering for Innovation support as different from other donors both in focus on the smallholder market and approach to the partnership.

USAID engagement with the private sector in the smallholder segment filled a critical funding gap and was perceived as uncommon among donors. Most companies cited cost as the central barrier to entry into the smallholder market, plus a lack of affordable financing. Those that had previously explored funding found a scarcity of donors interested in engaging the private sector, and even fewer within smallholder agriculture. Within this specific focus, USAID filled a critical gap.

While aspects of the partnership were viewed as bureaucratic, nearly all companies felt that the time commitment was well worth it as the milestone process led to better commercial outcomes than they would have experienced otherwise. Private sector companies often face challenges when working with donor organizations due to processes, requirements, and funding models – for example, long lead times in negotiating agreements, reporting and compliance requirements that create added burdens, and grant funding that leads to distortion of private sector business models. In the context of Partnering for Innovation, some companies perceived milestone negotiations as drawn out and arduous. Others found the milestone execution process relatively inflexible, particularly those that had not previously worked with donor organizations or received results-based funding. However, all companies ultimately valued the milestone process, and at least five felt that milestone negotiation and tracking processes clarified their business model and introduced internal operational norms (e.g., sales data tracking, business plan development) that persisted after the partnership.

USAID’s reputation and global network has the potential to generate additional value. At least three companies highlighted the importance of USAID relationships and networks in-country, for example, navigating bureaucratic permit processes and accelerating land acquisition. USAID’s reputation and local convening power helped at least six companies establish partnerships with other private sector companies and nonprofit partners in the space in areas like expansion to new geographies, development of joint ventures, and creation of company/mentor relationships.
CROWDING IN INVESTORS TO SMALLHOLDER AGRICULTURE

Securing investment capital is one means to help companies sustainably operate in the smallholder market segment. While crowding in additional investment into partner companies was not a core focus of the program, this section explores the extent to which supporting businesses to expand and improving managerial and operational capacity can indirectly spur additional investor interest.

Half of companies interviewed sought external investment, and half of those secured investment capital. Although not a central goal of the program, the partnership does not yet appear to have crowded in substantial commercial investment to the smallholder agriculture sector.

Just over half of partner companies interviewed explored external investment and one quarter overall obtained it; the latter tended to have strong managerial and operational capacity prior to the partnership. Thirteen of 24 companies interviewed explored external investment from impact investors or commercial banks after the partnership ended. Of these, seven have successfully secured it. An additional three companies reported that they are close to closing an investment. In general, companies used the investment to finance capital expenditures that would allow them to continue to scale, including purchasing land, expanding into new geographies, and developing new business lines to meet growing smallholder demand. It should be noted that crowding in investment capital was a desired indirect effect of the program rather than its central purpose. Nearly all companies interviewed had exited the partnership less than 24 months prior to this report, so investment status should be reassessed after a longer time frame.

Participation in the program does not appear to have played a substantial role in attracting investors. Impact investors interviewed for this report expressed that they do not look to donor programs to develop their pipeline. Rather, they seek companies that fit within their investment profile (i.e., risk, sector, regional focus) and meet certain criteria for financial management fundamentals. It did not appear that partnering with USAID inherently made companies more (or less) attractive to investors.

There are a variety of reasons companies have not explored external investment, including their ability to internally finance expansion and unwillingness to part with equity. Many companies selling to smallholders are commercially viable without the need for external investment. One reason companies may not explore this option is their focus on using existing revenue to grow business lines formed during the partnership before seeking substantial external investment for a new venture. One company noted that success had made them wary of taking on additional investments and relinquishing control; they prefer to internally finance operations while waiting for the “right” investment partner to find them.
Partnerships with donors like USAID can improve a company’s managerial and operational capacity – a central consideration for investors.

Investors in the smallholder agriculture space primarily value a company’s ability to manage the cash flow cycle, to show sound financial management, and to articulate value propositions. While partnership with USAID or other donors may not be the reason investors are initially attracted to a company, donor relationships are a valuable sign that a company has a desired level of internal capacity (i.e., adheres to compliance requirements, meets impact goals). When evaluating companies for investment, a central consideration is their ability to manage cash flow or, as one investor put it, the ability to “turn cash into inventory and back into cash.” Investors also require a demonstrated level of basic financial hygiene to prove sound financial management. The aspects of the USAID partnership that built core business capacity were most useful in preparing companies for investment; this insight aligns with perceptions of the capacity-building activities that companies found most useful.

Of program components explicitly designed for investor readiness, three activities contributed most to positive engagement with investors:

1. **Network connections:** At least two companies considering investor capital were introduced to potential investors through the USAID partnership, with one reporting that “even if the introductions we received were not the eventual investors, they increased the likelihood we would find the right one.”

2. **Marketing materials:** Materials created during the partnership have proven helpful for communicating company impact and commercial value to investors.

3. **Pitch development:** Partners improved communication of their value proposition via business pitch training. Impact investors that participated in a pitch practice event stated that the “training was impressive. When I saw from where they started and where they finished – it was impressive. The level of improvement was excellent.”

Although some investors are wary of donor funding, the way companies use an investment and how it is structured are critical investor considerations.

More commercially oriented investors may perceive grant funding as a warning sign that a business model is not sustainable. However, the size and structure of a grant, along with the way a company uses funding, improves investor confidence. Investors, particularly those that are more commercially-oriented, tend to be wary of grant funding because it can indicate that a company is unable to generate sufficient revenue to support its business or fund its growth. Investors often perceive grant funding as a proxy for stage of growth and may dismiss companies that access donor funding too early. If companies can demonstrate that they received an investment (grant funding or otherwise) and used it to catalyze sustained growth, investors view this as a positive trajectory. In terms of size and structure, investors tend to be more positive about one-time investments (rather than ongoing streams of grant funding) and milestone-dependent payouts. They are also generally less wary the smaller share of revenue that a grant constitutes.

“**[WITH GRANT FUNDING] THE CONCERN IS THAT IT HELPED COMPANIES ENTER A NEW MARKET THAT IS NOT SUSTAINABLE FOR THEIR CORE BUSINESS...WHERE GRANT FUNDING CATALYZES COMMERCIAL BUSINESS, THEIR [FINANCIAL] FUNDAMENTALS ARE WATER-TIGHT, AND COMPANIES CAN SHOW THE MODEL WILL WORK WITHOUT GRANT FUNDING, THEN GRANTS WILL NOT RAISE THESE TYPES OF ALARM BELLS.”**

— AgDevCo
SECTION B

Observations on smallholder farmer development outcomes

Private sector companies typically regard smallholder farmers as difficult to reach and too risky to target, which deters them from developing and marketing technologies and services to this type of customer. This section highlights early indications of improved outcomes among smallholder farmers based on greater private sector involvement in the space.
There is some evidence that the partnership strengthened markets by stimulating competition. While providing grant funding to private companies may raise concerns about distortions in the market, (e.g., strengthening grantees while crowding out others), at least five companies noted that the USAID partnership drew new companies into the smallholder farmer market segment. As partner companies grew during and after the partnership, they observed new competition which they believe was at least partially driven by their observed success in selling to smallholders. At least one partner company even added a new wholesale line to supply new companies.

In addition to increased competition, at least three partner companies created smallholder farmer networks that enabled other companies to more easily sell to them. One company’s smallholder aggregation centers, for example, now serve as entry points for other companies like off-grid solar providers to market products to smallholder farmers. Other partnerships created or strengthened agro-dealer networks that enabled partner companies and other local retailers to market products to smallholders in hard-to-reach regions. Although not an intended outcome, in this way the partnership strengthened other companies within the value chain in addition to the partner companies.

Although not a central objective of the program, there are some indications that the partnership strengthened value chains beyond partner companies themselves.

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STRENGTHENING AGRICULTURE MARKETS FOR SMALLHOLDER FARMERS

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Section B

Although not a central objective of the program, in the few cases where partnerships took a market systems approach to selecting and working with companies across the value chain the effect seems to have amplified beyond the success of the partner company. The partnership with USAID effectively applied a market systems lens – an approach that, from the onset, created system-wide change for the smallholder farmer market segment rather than an isolated focus on a single company. This manifested in three ways:

1. The program specifically sought out companies working to strengthen weaknesses in their priority value chains, that when addressed, made the entire value chain more efficient. In Mozambique, for example, the USAID mission identified a need to bring improved inputs to very rural smallholders. Through the program, they supported a company that was building a network of satellite retailers to improve last-mile distribution of inputs, which jumpstarted the value chain.

2. Some companies, for example, worked to simultaneously address multiple parts of the value chain, for example, by selling inputs to smallholders while buying their products.

3. Some USAID missions coordinated Partnering for Innovation investments with other mission activities to simultaneously work on multiple points in the value chain. Two companies in Mozambique observed that their ability to sell to smallholder farmers was amplified because other USAID work strengthened the supplier and customer companies they worked with.
Exercising USAID’s convening power to link partner companies with policymakers has the potential to strengthen the market over the longer term. A desired but less central outcome of the USAID partnership was promoting business-friendly policy that would allow partner companies and others to more easily operate in the smallholder market and sustainably sell to smallholders in the long term. At least three companies expressed challenges in navigating the policy and regulatory landscape, and recognized that USAID missions could use their relationships with country stakeholders to navigate barriers. By creating closer relationships between partner companies and USAID country stakeholders, there is potential to influence policy change that enables companies to more easily operate in the smallholder market.

Linking USAID partnerships with national programs allows companies to reach more smallholders. In at least one case a Partnering for Innovation company was deliberately included in a broader national strategy to strengthen the value chain. This was the case of Bangladesh, where the partnership was part of a multi-sectoral national effort that included the government, university researchers, and other private sector companies all working within the shrimp value chain. Integration with national strategies appears to promote sustainability, and relationships formed during the Bangladesh partnership have endured since the program’s conclusion.
Throughout the partnership with USAID, companies successfully expanded their reach within the smallholder segment, including access to inputs, productive assets, buyer linkages, and financial services. As previously noted, the objective of this report is to show how USAID and donor engagement with the private sector influences the ability of companies to grow and be sustainable within the smallholder farmer market segment. Although there are areas where the partnership can improve, companies were overwhelmingly successful in entering and continuing to serve the smallholder farmer market segment. They also succeeded in bringing new products and services to the market, often through new distribution models.

The ultimate goal of private sector engagement is to achieve development outcomes. Companies reported that their products and services resulted in benefits for 1.4 million smallholders. While this report does not quantify the impact of the partnership on smallholders, companies reported that it allowed them to reach a greater number of farmers, close smallholder market gaps (i.e., improve value chain efficiency), improve smallholder productivity, and ultimately provide better incomes and livelihoods for smallholders around the globe.

**Box 3**

**COMPANY SNAPSHOT**

Twiga, a company in Kenya that buys fresh produce directly from smallholder farmers through rural aggregation centers and sells the produce to city vendors, reported helping increase profits for smallholder farmers by developing a less fragmented and more transparent sourcing model for farmers’ produce that increased farmer productivity and improved their livelihoods. Using a transparent weighing, payment, and contracting model with farmers has also empowered farmers to negotiate for better prices with Twiga’s competitors and nudged competitors into more transparency and fairer prices. Twiga serves over 8,000 farmers daily and continues to directly connect farmers to end buyers while significantly improving their livelihoods.
NEARLY 100 TECHNOLOGIES were made commercially available to smallholder farmers

Mozambique and Kenya
Financial services were introduced by a microfinance institution.

Bangladesh
A company introduced combined harvesting technology into the smallholder market.

Malawi
An agro-processing company sold inputs to smallholders, purchased their products, and afforded them access to finance by providing warehouse receipts.

The partnership pushed companies to REACH MORE MARGINALIZED SEGMENTS

One microfinance institution reported serving twice as many women as men.

Companies agreed that their TECHNOLOGIES IMPROVED LIVELIHOODS AND PRODUCTIVITY of smallholder farmers

PRODUCTIVITY
96% of farmers who used a new parasite resistant maize seed variety reported that their yields increased significantly when they started using the new seeds.

LIVELIHOODS
70% of meat and eggs produced by farmers adopting breeder chickens were sold to the market, which had substantial household income effect.

“I’VE SEEN FEMALE FARMERS ACTUALLY DANCING IN THEIR TOMATO FIELDS BECAUSE THEY ARE SO HAPPY WITH HOW THE CROP IS PERFORMING AND GROWING. DANCING FOR JOY.”
— Syngenta

Partnership with USAID INFLUENCED CHANGES in companies that resulted in...

1 2 3 4 5

• • • • ○ ○
reaching more smallholder farmers

• • • • ○ ○
improving the productivity of smallholder farmers

• • • • ○ ○
improving livelihoods of smallholder farmers

• • • • ○ ○
alleviating market barriers for smallholder farmers

Average score: 1 = strongly disagree, 5 = strongly agree,
N = 16 | Source: Dalberg Analysis
Recommendations and Next Steps
Recommendations

USAID and the donor community have a role to play in catalyzing private sector involvement in the smallholder market segment, but partnership programs must be carefully structured to be most effective.

USAID and its counterparts across the donor community are strategically expanding partnerships with private companies to achieve international development outcomes. These partnerships aim to create deeper development impact and eventually move countries beyond the need for assistance. The Partnering for Innovation program offers an opportunity to review the approaches in practice and to use learnings to inform future partnerships – through USAID and the broader development community.

Findings from this report reveal an unmet need for development organizations like USAID to partner with the private sector to improve the livelihoods of smallholder farmers by de-risking entry and expansion of companies to serve the smallholder farmer market. A host of companies in frontier markets today have proven technologies and services but require catalytic funding with a high risk appetite in order to enter the smallholder market. Donors like USAID are well-positioned to partner with these companies and fill the funding gap through grants that de-risk entry.

This report has implications for the companies donors seek out going forward, as well as sectors where partnerships can create the strongest impact. Companies best suited to this type of funding have ready-to-launch technologies or services, some clarity around a go-to-market business plan, and proposed market entry or expansion activities that require one-time funding. In practice, they are not early-stage companies and do not have easy access to commercial funding sources. While this report examines partnerships within smallholder agriculture, applying the approach to other sectors should also be explored. It is likely that donor funding could effectively de-risk entry into markets where financial risk is a significant barrier but profitability and development outcomes could be achieved through sufficient scale (e.g., last-mile health and energy solutions, financial inclusion innovations for high-risk, high-need segments).

For grant funding to be an effective catalyst for companies entering or expanding to serve the smallholder farmer market segment, its structure needs to be “private sector friendly.” Four design principles help to effectively structure investments that drive outcomes and share typically risk. Ideally, grants should be:

1. **Milestone-based** to ensure companies are motivated to achieve agreed-upon outcomes rather than merely complete activities

2. **Cost-based** (i.e., amount represents the cost of planned activities) so requirements to achieve results are not underestimated or overestimated and therefore distort the business model

3. **One time** (rather than ongoing) to motivate companies to achieve commercial viability during the program and plan for the end of the investment at the outset

4. **Matched by company contribution** (ideally 100 percent) to generate internal commitment to the program and ensure that program-funded activities are cost-effective

For the milestone-based approach to be most effective, donors should carefully tailor investments and milestones to a company’s stage of growth, expansion goals, and context through a process of co-creation and negotiation. Donors should ensure that the milestone metrics strike a balance between impact-oriented objectives and commercial goals (e.g., sales revenue within the smallholder customer segment). Otherwise the company’s business model may be distorted and their sustainability threatened (e.g., geographic expansion to a certain number of farmers before the company is ready for that level of growth). The fixed nature of milestones is generally a key motivator for improvement and growth, but some degree of flexibility should be built in to allow for strategic pivots and business model evolution. Companies should review and realign with donors at key points in the partnership – especially companies that may need to substantially adapt core products or strategies due to unforeseen circumstances.
Capacity-building activities that require and support development of standardized internal processes and best practices are most useful for improving long-term capabilities but should be sufficiently tailored and targeted. Core capacity-building activities integrated into a program are usually more effective than one-time supplementary trainings. For example, creating milestones around strategic plan development and implementing processes for tracking core business metrics (e.g., sales revenues, profit margins) incentivizes companies to complete activities and builds long-term operational capacity. Activities must be carefully tailored to a company’s expressed needs, level of sophistication. Every company likely does not need to receive the full suite of capacity building activities, but rather only those that can help them solve pain points or bottlenecks – as was largely the case in Partnering for Innovation.

USAID and other donor organizations should design programs that focus on identifying the best pathways – internal or external – that allow companies to finance the road to sustainability once a partnership ends. Partnerships should support companies in identifying from the outset what their program exit might entail and co-create a plan for sustainability that does not require additional support. It should also plan for independent operation by defining and creating a roadmap to achieve metrics around profitability, reaching a target number of customers, etc. For companies that may need external investment after the partnership, the program should actively engage investors in early stages of design and support.

To the degree that crowding in investors to the space is a goal, donor organizations should intentionally design programs to increase the proportion of companies obtaining investment. External investment is one way to help companies scale involvement in the smallholder farmer market segment and, ultimately, advance development objectives. To increase the number of companies ready for investment by the end of a program, investment potential should be integral to partnership selection criteria. Programs should also place greater emphasis on capacity-building activities that promote investor readiness. Since investors place the greatest value on internal capacity when evaluating a company, a focus on building core functions appears to be the best way to promote investor readiness. Other activities (e.g., pitch practices and competitions, marketing materials development) are somewhat helpful, but only once a company has sufficient core capacity to pass initial investor screening.

Donor organizations should amplify and sustain their impact by identifying the role of private sector engagement in their broader strategy. In Partnering for Innovation, only a limited number of companies interviewed were included in a broader market systems approach. However, their experience suggests different ways that donors can use individual private sector investments to catalyze broader impact on the market beyond the companies themselves. First, donor organizations should seek companies that are working to address one or more critical value chain weaknesses that, if solved, could increase efficiency of the entire value chain. Additionally, opportunities exist for other donors to sustain the impact of private sector engagement by integrating partnerships into USAID mission and broader government strategies and activities, simultaneously engaging companies working on different parts of priority value chains.

Next steps

As USAID and other development actors increase engagement with the private sector, future studies should further explore learnings and evidence of impact. This report is a starting point for understanding the outcomes of one USAID private sector partnership approach. It also highlights lessons for designing such programs for future engagement. It is important to continue to refine learnings from the report; this requires collecting more data at the baseline, during, and after the partnership. Indicators that provide insight into a company’s expansion over the course of the partnership – including sales data, internal growth data, and long-term profitability and sustainability indicators – will provide greater insight into the long-term effects of such programs in the smallholder farmer market segment.

Additionally, interesting learning questions have begun to emerge from the report but are not yet fully answered. Findings imply that there is a role for USAID partnerships in spurring wider market systems changes such as driving in new competitors, helping companies build market linkages with others across the value chain, and linking private sector companies with policymakers. However, these positive and unintended consequences are based on anecdotal evidence. USAID and other donor organizations should explore how to intentionally embed a market systems lens into the design of future programs. Beyond reaching smallholder farmers and driving impact within the agricultural sector, USAID and other development organizations can explore how the partnership approach can be replicated in other sectors to solve broader development challenges.

The overall findings of this report indicate that the partnership approach USAID employed through Partnering for Innovation is a promising way to catalyze private sector involvement in the smallholder farmer market segment. It holds many lessons for USAID and other donors seeking to engage the private sector to achieve sustainable development outcomes.

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8 USAID’s private sector engagement policy defines systemic (including market systems) change in the following way: “A transformation in the structure, dynamics, and/or relationships among actors (public and private) within an economy that results in an increased (or decreased) capacity of actors to anticipate and respond to change and in a manner that leads to impacts on large numbers of people, either in their material conditions or in their behavior; and can bring about more (or less) effective, sustainable and inclusive functioning of the market system.”
Annex
We would like to thank the following companies for contributing their time and insights. This report would not have been possible without their support.
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<th><strong>FTF-P4I Partner Companies (24)</strong></th>
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Survey questions

The following ratings questions were asked as part of the interviews conducted with partner companies. Responses to these questions are reflected throughout the report.
On a scale of Very High, High, Medium, Low, or Very Low, please rate the following statements:

1. To what extent has your company expanded to serve smallholder farmers (in scaling operations, expanding customer base, developing a new product, growing number of employees, improving retention)?

2. To what degree did partnering with USAID help you achieve these goals?

3. To what degree could you have achieved the same result partnering with another donor/service provider?

4. To what extent did the partnership enable you to improve your overall financial health and sustainability, e.g., through increasing profits, reducing grant/donor funding, etc.?

5. To what extent do you perceive this financial health/performance to be sustainable in the longer term without additional financial support?

6. To what degree did partnering with USAID help you to achieve these goals?

7. To what degree do you think you could have achieved the same result partnering with another donor/service provider?

8. To what extent did the partnership help to build your organization’s management/business skills, e.g., in strategic planning, technical expertise, financial planning, fundraising?

9. To what degree did the partnership with USAID contribute to your efforts to improve?

10. To what extent do you think you could have achieved the same result partnering with another donor or service provider?

On a scale of Strongly Agree, Agree, Neutral, Disagree, or Strongly Disagree, please rate the following statements:

11. I would characterize the quality of the services provided to my company as high quality.

12. The services provided were reliable and provided to the extent promised/expected upon joining the partnership.

13. The services were highly valuable in enhancing the overall performance of my company.

14. My company would not have performed as it has without participation in the partnership.

15. The partnership with USAID influenced changes in my company that resulted in improved market access/alleviation of market barriers for smallholder farmers.

16. The partnership with USAID influenced changes in my company that resulted in enhanced productivity for SHFs.

17. The partnership with USAID influenced changes in my company that allowed us to reach a greater number of SHFs.

18. The partnership with USAID influenced changes in my company that resulted in improved SHF livelihoods/incomes.
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Hello Tractor

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