



LEARNING BRIEF

AGRI-SME TAXONOMY

Food systems touch every aspect of human existence, from what we eat to where we work to how we utilize the land. Food systems are also critical to achieving many of the UN Sustainable Development Goals—but only if we commit to transforming them. In our current food system, hundreds of millions of people go hungry as one-third of all food is either lost or wasted. Malnutrition is the number one factor contributing to the global burden of disease and reduced life expectancy. Food systems as a whole contribute up to 29% of all greenhouse gas emissions, while agriculture is responsible for up to 70% of freshwater use and 80% of both deforestation and biodiversity loss.

Agricultural small- and medium-sized enterprises (agri-SMEs) can play a critical role in developing more inclusive and sustainable food systems. These businesses are responsible for the sale of inputs, crop collection and distribution, food production, and processing and retail of food products. However, the absence of a widely shared definition and comprehensive taxonomy of agri-SMEs stymies our consideration of their role in food system transformation. With a shared framework, we could more comprehensively consider the role of different types of agri-SMEs in food systems, as well as the specific types of support that would unlock their growth.

Scope of work

ISF Advisors completed this work for the SAFIN network over six weeks. It involved a literature review of more than 80 publications, as well as consultations with key experts, including SAFIN members. This research highlights the importance of agri-SMEs in the food system, building on current classifications of agri-SMEs to create a more comprehensive taxonomy based on key profiling dimensions. It also shows the applicability of the taxonomy across value chains and various food systems priority areas. Finally, this research presents a growth profile classification to link the agri-SME taxonomy to investability criteria and needs, allowing for a more nuanced understanding of how best to support specific segments of agri-SMEs.

With this goal in mind, SAFIN commissioned ISF Advisors to develop a framework for agri-SME definition, taxonomy, and growth profile. With this framework, we hope to create a common language that:

- 1 Fosters a **shared understanding** among actors concerned with agri-SMEs (including, but not limited to, financial service providers) about the shared features of different types of enterprises that fall under this label;
- 2 Proposes a **new taxonomy and language** to establish agri-SME segments—drawing on existing case studies and literature to illustrate how these might apply in different markets¹; and
- 3 Provides a **solid grounding for the assessment of different financial needs** of agri-SMEs, which can inform SAFIN’s work, as well as that of other relevant actors in the agri-SME finance space.

¹ This taxonomy draws on the different components of the UN Food Security Summit agenda, as articulated in five Action Tracks. For more information, see <https://www.un.org/en/food-systems-summit/action-tracks>.

Defining agri-SMEs

Before segmenting agri-SMEs, we must create a clear definition of what qualifies as an agri-SME and what does not. A broad review of global institutions reveals that there are few, if any, agriculture-specific definitions of small- and medium-sized enterprises. But, in looking at SMEs broadly, we see different types of actors taking three varying approaches to definition:

1. **Definition by global SME development initiatives:** Used to create a clear focus on a subset of SMEs that the organization supports. Thus, this type of definition is based on a particular organization’s priorities, rather than a universally applicable definition.
2. **Definition by global institutions:** Used for reporting purposes across large organizations to create clear investment or impact reporting at a portfolio level. While providing an overall definition, this is often supplemented by distinct definitions at the country level.
3. **Definition at a country level:** Each country has a nationally relevant definition of SMEs that accounts for the size and nature of the economy. These definitions inform national statistics, planning, and—in some cases—setting portfolio investment requirements for banks.

Overall, there is agreement that fundamental differences exist between micro, small, medium, and large enterprises—and that these differences have a direct bearing on the support needs of

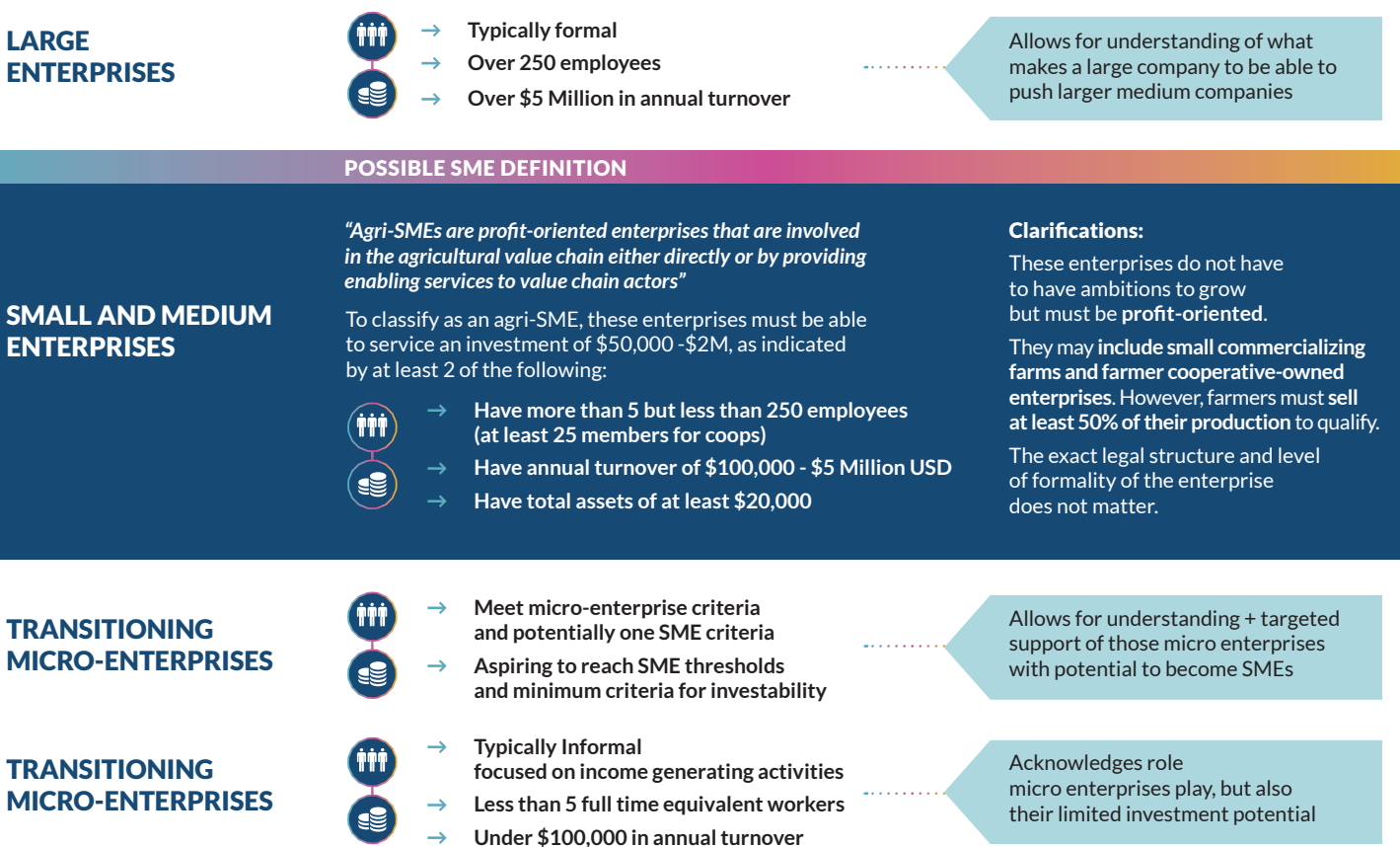
each segment, as well as their role in the food system. However, it is difficult to establish a globally applicable set of thresholds for each segment, given company and national differences. Despite these limitations, however, to consider the needs and roles of different segments of agri-SMEs more consistently, we require a more global definition.

Having analyzed the range of options available, this learning brief recommends a definition that includes both business and investment metric thresholds. The proposed definition would distinguish four key segments: micro, transitioning micro, SME, and large. While we anticipate that SAFIN (and others in the sector) will continue to refine the definition and thresholds, the graphic below illustrates a useful starting point.

A few notes on the proposal below:

- The addition of “transitioning micro” allows for further consideration of the types of targeted support needed by these micro enterprises with the potential and ambition to become SMEs;
- The numbers in the definition below are illustrative of potential metrics and thresholds and will benefit from continued work; and
- An approach to referencing national-level definitions for different use cases should be a key part of continuing to refine the global definition.

Figure 1 Possible global agri-SME definition



This definition includes a broad definition complemented by specific thresholds linked to investability; the number ranges within the definition are illustrative and open for debate by SAFIN members.

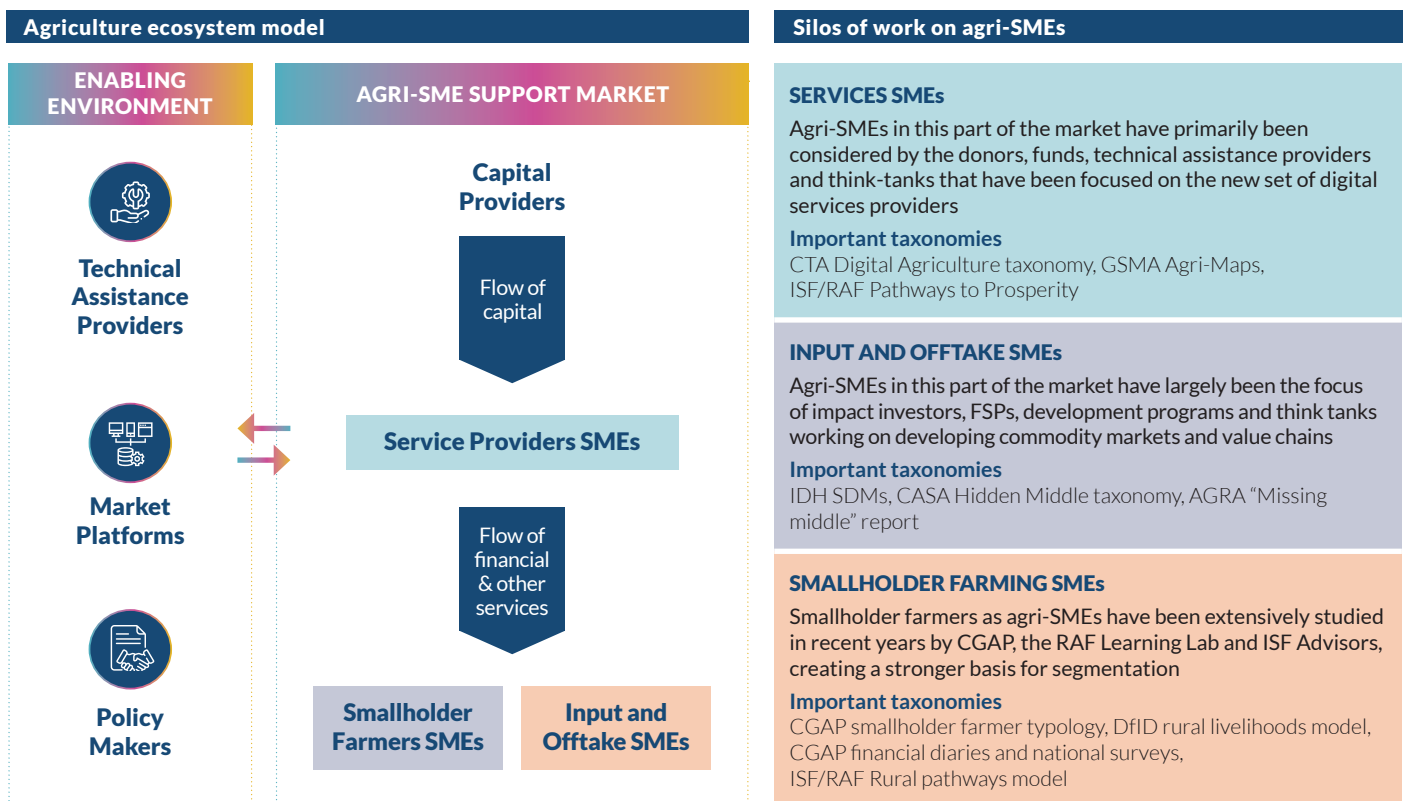
Source: ANDE; ISF; Indian Ministry of MSE; European Commission.

A comprehensive agri-SME taxonomy

Alongside a clear definition, comprehensive segmentation of agri-SMEs can enable a more complete view of these enterprises and their role in food systems. This taxonomy can also form the basis for discussions about different support needs of different agri-SME segments. Over the last several years, significant work has been done to further understand agri-SMEs; yet this work has largely been limited to siloed consideration of smallholder farmers, input and offtake enterprises, or agri-services SMEs. Figure 2 below provides a snapshot of some of this work in different siloed areas.

To create a more thorough taxonomy, this work has combined the existing, extensive segmentation within each of these agri-SME types and mapped them based on their role along the value chain to establish a more comprehensive view of the landscape of agri-SMEs. This taxonomy is presented in figure 3 on the following page.

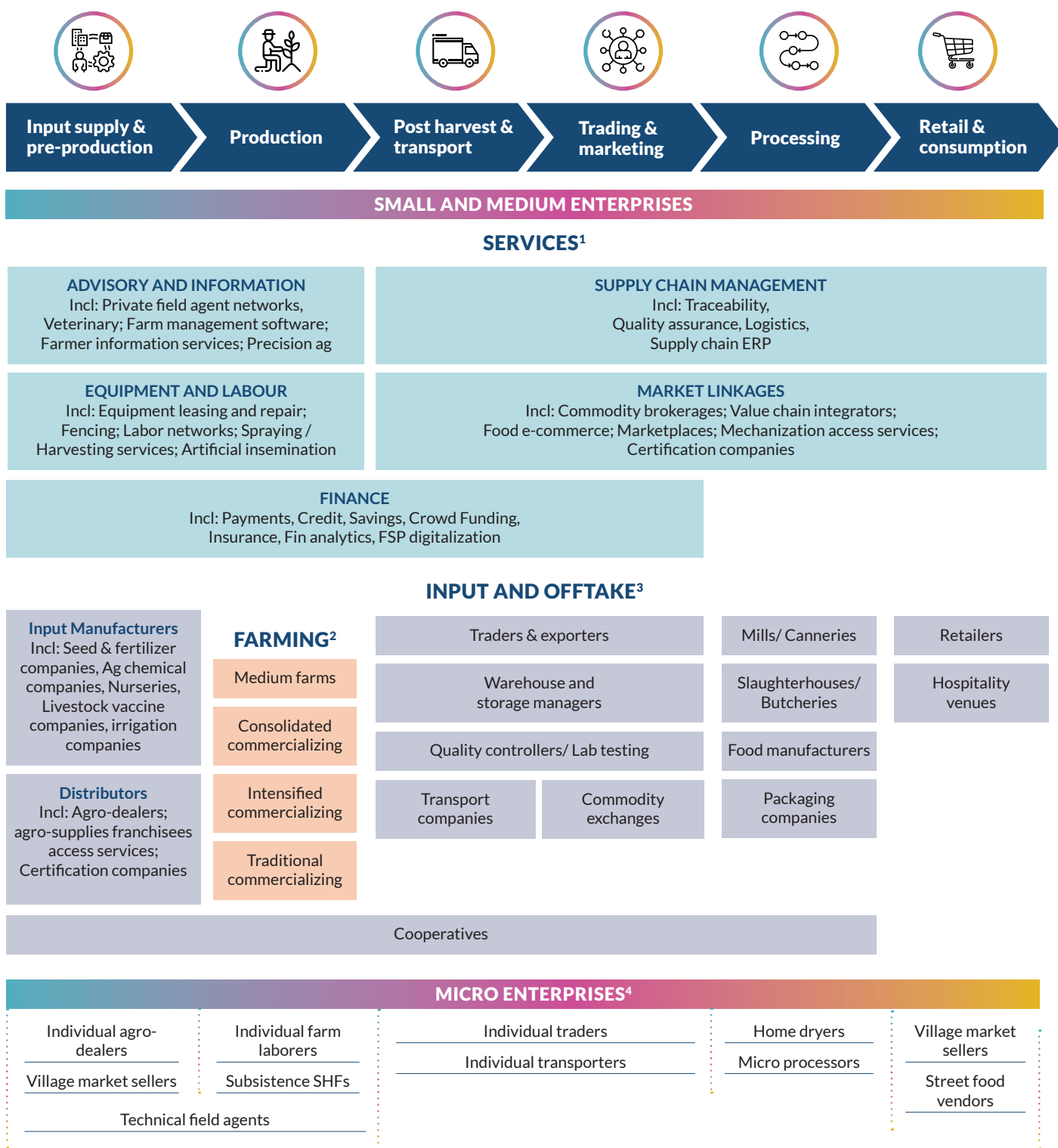
Figure 2. Global landscape of agri-SME landscaping studies and taxonomies



Source: ISF Analysis.



Figure 3. Comprehensive Agri-SME taxonomy



¹ Some enterprises will combine sub-segments into a single business model

² See Pathways to Prosperity report for full overview of sub-segments; Cooperatives and Farmer Organizations included in Farming category but provide services beyond production

³ Some enterprises will combine sub-segments into a single business model

⁴ Micro-enterprises listed are illustrative only and not meant to be collectively exhaustive

While this taxonomy will benefit from continued iteration and refinement as new business models and actors emerge, it is a useful foundation for analyzing the needs of agri-SMEs across previously siloed categories.

Applications

There are a number of benefits to having a comprehensive taxonomy of agri-SMEs, but it is important to account for the ways in which the applicability of this taxonomy may differ across value chains and markets. In applying the taxonomy to different value chains, it becomes clear that diverse configurations of agri-SMEs tend to emerge. For example, in the case of rice in the Philippines—as with most staple cereal crops—there are many farmers and traders, but few processors. Given the large number of consumers, there are also many millers and retailers in the sector, though most are on the smaller end. Despite being a large producer of rice, the

Philippines is also a net importer due to high demand; this is also typical of staple cereals writ large, which makes importers critical to these value chains. Finally, service providers in the Philippines’ rice sector are limited and focused on market linkages, again due to the large number of consumer transactions. The graphic below illustrates this case example.

This type of SME landscape can help actors trying to transform food systems better understand the types of agri-SMEs that exist in different markets, as well as their unique needs.

Figure 4. Agri-SME landscape example – rice in the Philippines

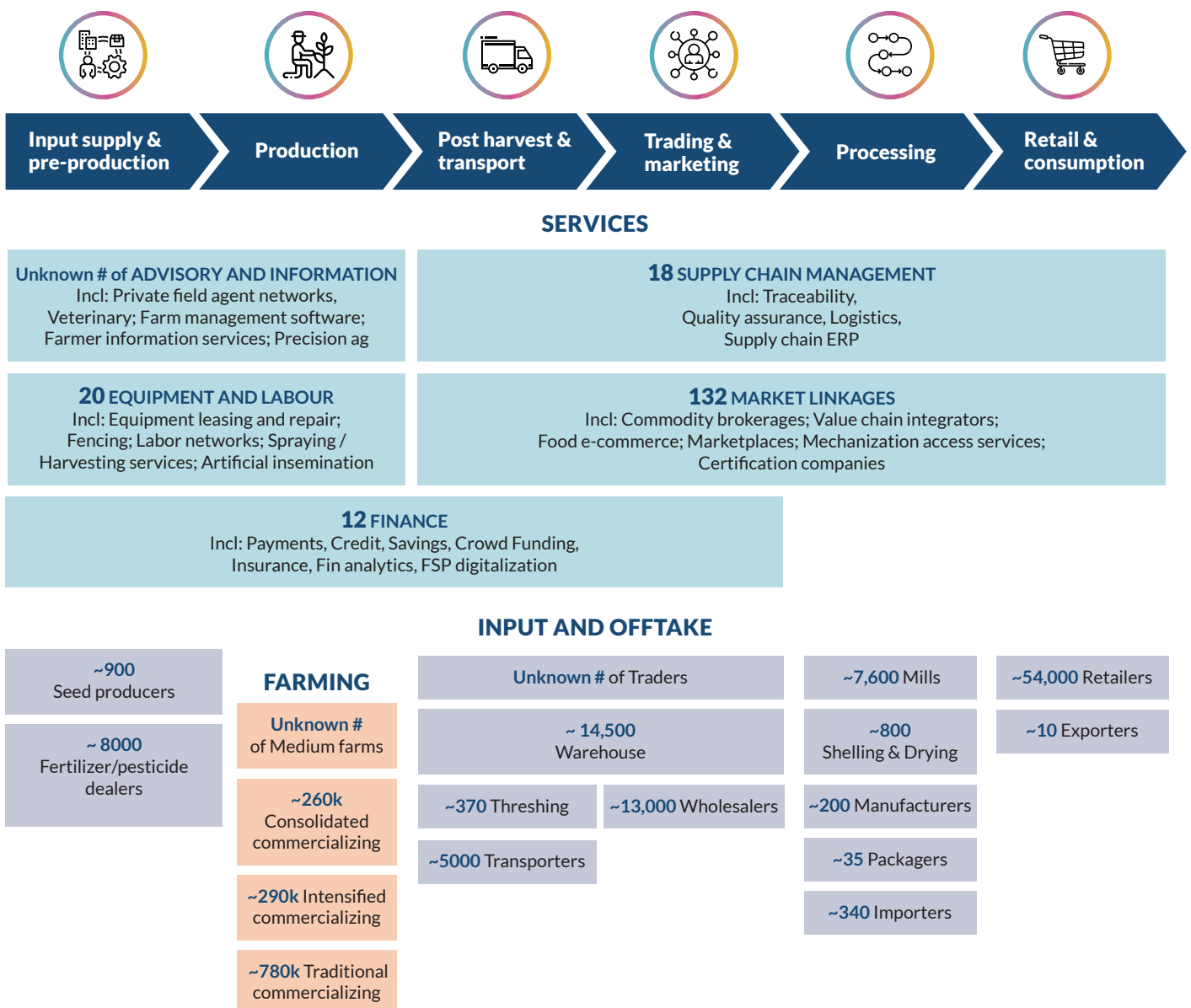
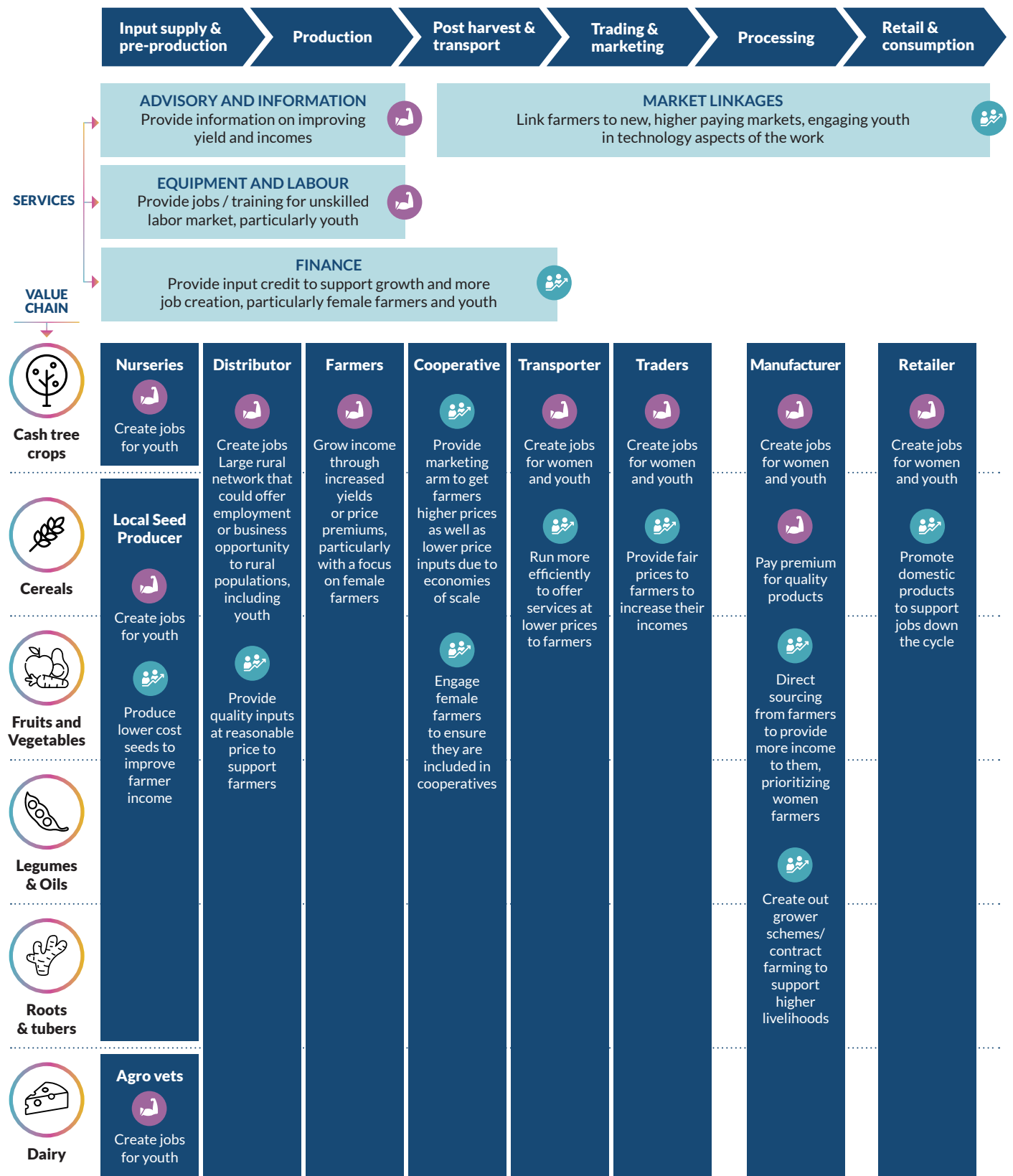


Figure 5. UN Food Systems Summit Action Track 4 agri-SME mapping



Source: ISF Analysis

LEGEND (FSS priority area): Strengthen Agency Multi-dimensional welfare and access

While there are a number of different classification systems used in this graphic, it is illustrative of the ways in which agri-SME contributions can be understood at a more granular level within broader food systems.

Looking beyond specific value chains, the taxonomy can also apply to specific market development objectives to understand the different roles that agri-SMEs can play in advancing those objectives. For example, figure 5 above illustrates how the taxonomy can apply to the UN Food System Summit's Action Track 4: Equitable Livelihoods. In this graphic, different types of agri-SMEs are: 1) mapped against their positioning in the value chain as

well as their alignment with different types of value chains and 2) described in terms of the contribution they could make to the food systems outcome of equitable livelihoods. In the UN Food Systems Summit process, each Action Track has been further broken down into priority areas (e.g., Strengthen Agency), which are listed in the legend and aligned through color coding to each of the agri-SME potential contributions.

Considering the different growth trajectories of agri-SMEs

Many financial services and business development providers have a much more practical ambition when it comes to agri-SMEs: **to support growth**. Considering the role and position of agri-SMEs in the market can help providers make some inferences about the business models and growth prospects of potential investees. However, a framework that describes the growth trajectories of different agri-SMEs can also be helpful for these providers.

Currently, investors use various approaches to prioritizing and assessing their pipelines, including analyzing stage of growth, type of investment, type of company, and thematic area. Collaborative for Frontier Finance has developed a framework² to segment enterprises into four categories, based on an investor perspective centered around growth profiles. Building on this work, we have expanded to six segments that include all agri-SMEs, not just those that are growing. This expanded framework is based on two criteria:

1. **Growth ambition:** Refers to the desire of the enterprise owner to grow the enterprise; and
2. **Growth potential:** Refers to the market potential for growth of the enterprise.

Each of the six growth profiles in this framework has distinct characteristics:

- **High-growth ventures** are highly innovative business models serving large, addressable markets with a rapid growth trajectory, though the pace of growth is impacted by industry, market, and asset intensity. High-growth ventures are expected to scale beyond SME status.
- **Niche ventures** are business models creating innovative products and services that target niche markets/customer segments—such as high-end premium markets—or, conversely, small customer bases at the bottom of the pyramid. Niche ventures typically have steady growth over time.
- **Diversifying enterprises** are small, family-run enterprises that have seen minimal growth but are run by an entrepreneur who wants to grow. These enterprises are unlikely to see desired growth through existing approaches, and thus may diversify into new business lines to expand growth potential.
- **Dynamic ventures** are enterprises in stable 'bread and butter' industries deploying established business models for producing goods and services, with moderate growth paths over sustained periods of time.
- **Livelihood-sustaining enterprises** are small, family-run enterprises that are opportunity driven and on the path to increased formalization. These enterprises operate to

maintain an income for an individual family; they have slow and steady growth as they incrementally prove their product or service through traditional models.

- **Static enterprises** are small, family-run enterprises with no ambition to grow beyond their current status. Families are looking to maintain current income level, but not to grow the business or to innovate. Typically, these enterprises are informal and employ only family members.

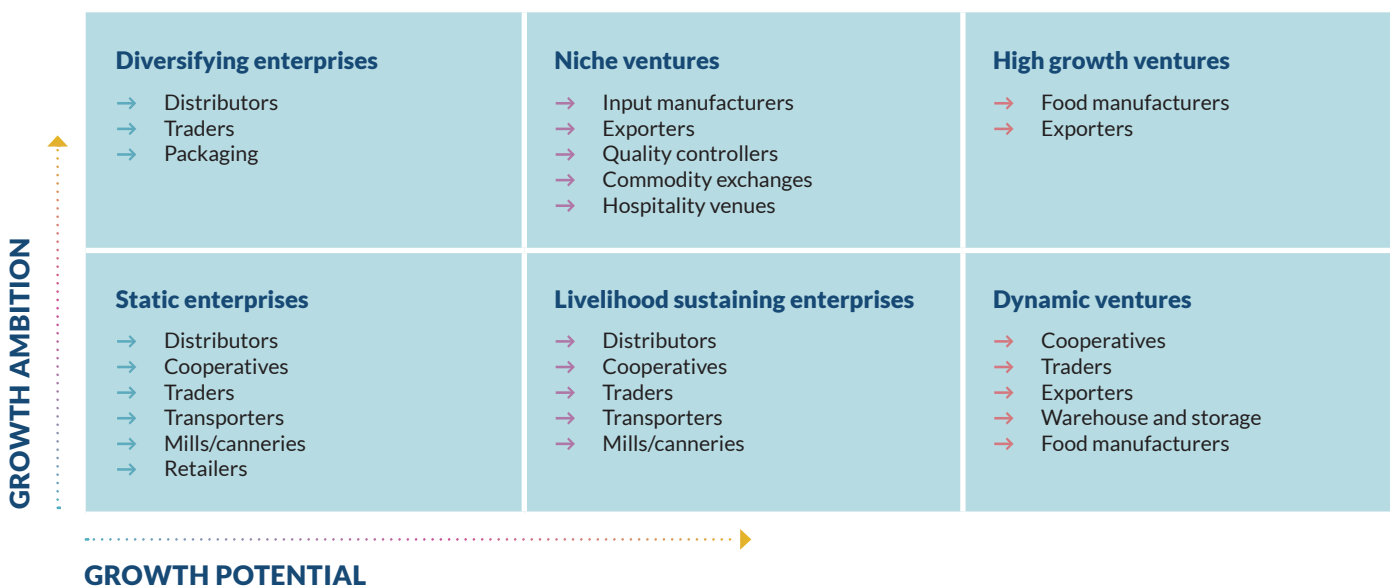
By considering this classification alongside the comprehensive taxonomy, we can start to identify specific segments of agri-SMEs that could represent different asset classes—with unique growth profiles, risks, and returns. This can be useful for investors and business development support providers interested in growing individual enterprises, but also for organizations considering how to transform food systems through agri-SMEs.

For example, by applying this classification to "input and offtake" agri-SMEs in the comprehensive taxonomy in the figure below, we can draw out several insights about the likely growth profiles of different types of agri-SMEs. First, the vast majority of small businesses in agricultural value chains are likely to be "static enterprises" that support a small operation with limited scope and scale. A large number of cooperatives, traders, small transporters, and retailers fall into this category. At the same time, however, some enterprises grow to the "livelihood sustaining" level and a smaller number become "dynamic ventures" with greater revenue and scale (e.g., larger input distributors and traders, as well as larger cooperatives and millers). For traditional input and offtake market agri-SMEs, there is also opportunity to diversify or specialize in a niche. This entrepreneurial ambition distinguishes these enterprises from the static and livelihood-sustaining agri-SMEs. Overall, the different segments presented in figure 6—a combination of organizational type and growth profile—create distinct entry points for investors in emerging markets.

As with the other taxonomies and classifications, this growth profile will not apply to all use cases and purposes. But it can provide a useful basis for a more precise discussion about agri-SME landscapes, the nature of different segments, and growth potential. Importantly, this framework doesn't pass judgment on those enterprises that choose not to grow. These enterprises will still require financing and support to sustain their operations, and will still play an important role in the food system—a role that is distinct from other types of enterprises identified in a given landscape.

² Jurgens et al, *Missing Middles: Segmenting Enterprises to Better Understand their Financial Needs*, 2019

https://static1.squarespace.com/static/59d679428dd0414c16f59855/t/5c5b4b38e5e5f0051af084a0/1549486917983/Missing_Middles_CFF_Report.pdf

Figure 6. Illustrative mapping of input and output agri-SMEs to growth profile segments

Source: ISF Analysis

Conclusion

This learning brief continues the critical work of considering agri-SMEs as a distinct and definable set of enterprises, with implications for global agendas related to both SME growth and food systems transformation. We acknowledge that this is only the beginning of creating a shared definition and useful taxonomies in a sector loaded with complexity. We hope this brief forms a basis for further work and conversation related to:

→ **Defining agri-SMEs**, including the global importance of an aligned language, as well as the complexities of developing thresholds and ways of considering national variation.

→ A comprehensive taxonomy of agri-SMEs, including how to continue refining the segments and sub-segments, and how to think about integrated business models.

→ **The different growth profiles of agri-SMEs**, including whether the six segments adequately cover the range of agri-SMEs in the market, and how such a tool could better align support—both with agri-SMEs and between collaborating organizations.

→ How to **better align with different UN Food Systems Summit outcomes** and use a shared understanding of agri-SMEs to consider the value of big intervention ideas, including around women and youth.

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