

SERVING THE 'MISSING MIDDLE' – GROWING SMALL AGRICULTURAL BUSINESSES TO REDUCE POVERTY AND INCREASE SOCIAL IMPACT



BACKGROUND

Small and Medium Enterprises (SME's) play a critical role in the economies of high-income countries. In Australia, SME's account for 95% of all trading businessesⁱ. That's more than two million actively trading SME's, employing 70% of the Australian workforce and contributing 46% of our national Gross Domestic Product (GDP).

Research shows that within low-income countries, SME's on average employ only 30% of the workforce and contribute approximately 17% to their country's GDPⁱⁱ. Access to suitable finance was identified as the largest challenge for SMEs, with two-thirds of SMEs in developing countries being unable to borrow the money they need to scale their business. Many have graduated beyond the limits of microfinance, yet are unable to access loans from traditional banksⁱⁱⁱ. This credit gap for small formal businesses in poor countries, which fall within this 'missing middle', has been estimated at over US one trillion dollars^{iv}.

PROGRAM OVERVIEW

World Vision's ARISE (Agricultural and Rural Investments in Social Enterprises) project received seed funding from the Australian Government to support early stage agricultural SMEs in rural Sri Lanka with the potential and ambition to grow, otherwise known as Small and Growing Businesses (SGBs). By enabling these businesses to grow they are able to employ increasing numbers of employees, as well as strengthen the overall value chain to benefit over 1,000 smallholder farmers and their families in Sri Lanka's North Western Province by 2018.

Over 2016-18, the ARISE project will provide business support to 100 agricultural SGBs through improved access to finance, as well as ongoing business development and advisory services. Supporting agricultural SGBs (e.g. agricultural input providers,

buyers, processors etc) will strengthen 'last-mile' linkages with poor communities enabling effective distribution, employment opportunities and improved market access to help smallholder farmers increase their incomes. All returns gained from interest accrued on ARISE loans will be reinvested back into the program to assist other SGBs. World Vision is working with its microfinance subsidiary, Vision Fund, to provide the loans.

THE GOAL

Suitable SGBs will be selected to take part in the ARISE project through a due diligence process, as identified by both the social and financial returns that can potentially be achieved by scaling their operations. Benefits to the nearby smallholder farmers include increased employment opportunities and conditions, receiving higher prices for their products, and improved access to quality agricultural inputs. ARISE will target SGBs that are led by, employing or working alongside women, youth, and other marginalised people living in poverty. The impact on these targeted groups will be measured through an ongoing Monitoring and Evaluation Framework, utilising standards including IRIS (Impact Reporting and Investment Standards) metrics.

THE FUTURE

ARISE aims to develop a pipeline of agricultural SGBs that are both sustainable and scalable as they achieve their social and environmental outcomes. The initial success of this pilot project expects to build upon the seed capital provided by the Australian Government and attract future investment to ensure financial sustainability. Furthermore, ARISE provides a replicable model of effective collaboration between World Vision and Vision Fund towards common goals elsewhere in the world. Already, the approach is being scaled up in Ghana and South East Asia.

ENTREPRENEUR CASE-STUDY: JANAKI



Janaki lives with her parents and younger sister. She has attempted to start many businesses previously which failed but now employs 25 people in a successful business which makes brushes from coconut husk purchased from local producers. Of her staff, 22 are women from her local community and the brushes are exported to international markets.

Janaki took a loan of Rs\$600,000 (US\$4,150) in June through the ARISE project. On top of her lack of collateral, as a single woman with a speech impediment, Janaki would have found it extremely difficult to receive such a loan from the banks. Without the ARISE project, she may have obtained multiple loans from different microfinance institutions, adding significant administrative burdens, or sought the services of a moneylender with considerably higher interest rates.

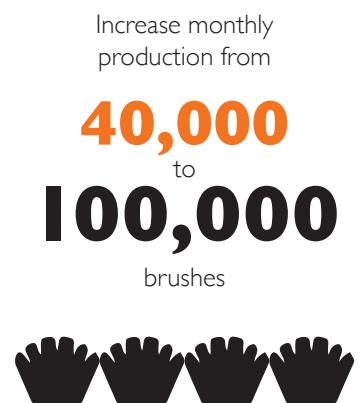
With the ARISE loan, Janaki has purchased a brush polishing machine for Rs\$175,000 and a cutting machine for Rs\$100,000. The remaining money has been used as operating capital, and she has bought a large stock of husk. She was also able to employ an additional 10 staff members.

With the ongoing business coaching provided through the ARISE project, Janaki's future plan is to incorporate value-adding activities into her business activities such as fitting the brush handle which is currently done elsewhere. She also plans to start making carpet using the coconut husk.

Her employees are paid on the number of brushes they make. Since the loan, Janaki has increased the pay of her employees. Prior to the loan her profit was Rs\$25,000 (US\$172) for a monthly output of 40,000 brushes. Now, with new machines and an expanded labour force, Janaki expects to produce a monthly output of 100,000 brushes. Janaki forecasts a Rs\$100,000 (US\$688) profit from this increased output.

The children of the workers come and stay with their mothers after school, so the atmosphere is jovial. Janaki has a clear pride in her achievements. Her vision is to continue to expand her business and employ more and more of her fellow community members.

The ARISE loan enabled Janaki to:



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- i. Australian Bureau of Statistics
- ii. Harvard University's Centre for International Development
- iii. International Finance Corporation, 2011
- iv. International Finance Corporation, 2011