

Financing innovation at the smallholder level

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Voucher grant schemes to promote innovation

Grants are widely used to encourage smallholder farmers to innovate in order to strengthen their position in value chains. Based on a systematic review of the effectiveness of a number of grant modalities, this article focuses on voucher grant schemes.

To become attractive suppliers to agribusiness and urban markets, smallholder farmers often first need to innovate, i.e. to adapt their production practices in order to supply the volumes and comply with the quality standards that these markets require. To do so, they need an effective innovation system, which refers to the network of smallholders, private companies and public sector institutions involved in generating and disseminating new technologies and innovation processes. Many countries have introduced grant schemes to promote innovation in the agricultural sector through subsidies to farmers and/or farmer groups.

Innovation grants are needed when farmers and companies are reluctant to invest because they cannot be sure that the benefits of investments in better seed, farming practices or value-adding processing, for example, will actually pay off. To break this deadlock, an increasing number of governments and donors are introducing grant schemes to co-finance and/or subsidise innovation processes.

Facilitating innovation

Innovation grant schemes for smallholder farmers have different objectives, with different disbursement modalities, and fall into three categories:

- Voucher programmes are a way to distribute subsidies for inputs, new technologies and/or services to trigger innovation in agriculture.
- Business plan competitions co-fund smallholders and/or enterprises that source from them on the basis of a solid business plan for an innovative venture.
- Innovation support funds offer grants to NGOs or community-based organisations to enable farmers to experiment and provide support for farmer-driven innovation.

Within each of these categories there are wide variations, in particular in the degree of involvement and decision making by farmers. In some schemes, the beneficiaries are free to decide how they use the grant, while in others they are relatively passive recipients with little say in how the grants are to be used.

The three types of grant facilitate innovation in different ways. Competitive grant schemes and innovation support funds tend to work through intermediary institutions such as farmers' groups, farmers' unions, multi-stakeholder platforms or decentralised extension systems where the representatives of smallholder farmers have decision-making authority. Because the focus of this issue of *Capacity.org* is on innovative financing for inclusive development, this article focuses on voucher grant schemes that target individual farmers.



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or donors distribute vouchers to farmers as a way to subsidise the costs of inputs, technologies and/or services that could trigger innovation in agriculture. For example, voucher programmes may be used to subsidise the distribution of quality seeds and fertiliser, to distribute tools and seeds to farmers following conflicts or natural disasters, or to allocate heifers as part of a dairy expansion programme.

While in the absolute sense the level of innovation might seem to be rather low, at the local level such vouchers may imply major changes in the socio-institutional and technical aspects of the agricultural system around smallholder farming. Other voucher schemes focus on the provision of services to farmers, such as extension support or business development services.

The Malawian input subsidy programme

In a recent systematic review of the effectiveness of innovation grants, a group at Wageningen University and Research Centre looked at studies of the impacts of voucher distribution programmes. A number of these studies analysed the Malawi Agricultural Input Subsidy Programme, which was introduced by the government of Malawi in 2005–2006 to improve smallholder productivity, increase food and cash crop production, and reduce vulnerability to food insecurity. The studies of the Malawi programme provided evidence that the vouchers have indeed led farmers to adopt new practices that have enhanced innovation and the increased use of farm inputs (Dorward et al., 2008; Ricker-Gilbert and Jayne, 2009; Holden and Lunduka, 2010a, 2010b).

The voucher scheme contributed to the growth of agro-input ‘markets’. The vouchers could only be used for specific goods or services. They provided an effective demand for inputs for agro-dealers to come in with their investments and establish outlets in remote areas. Although the vouchers encouraged the entry of agro-dealers in rural areas, there were also victims of these dynamics when, for political reasons, the voucher scheme bypassed established dealers in favour of newcomers.

Compared with subsidies in the form of cash, there is a risk that vouchers may limit farmers' choice of inputs. Vouchers also tend to promote ‘one-size-fits-all’ seed varieties or technologies. In many developing countries farmers conduct their own experiments, such as cultivating several varieties of seed at the same time on the same plot in order to select the most promising one for the next season. These endogenous innovation practices might be lost due to the inflow of cheap varieties provided through a voucher scheme.

Such negative effects can be avoided by organising the scheme in such a way that the vouchers offer farmers access to a broader menu of goods or services. Vouchers that may be exchanged at seed fairs, for example, may be an effective way to widen the choice of seeds available to farmers (Remington et al., 2002) and provides opportunities for them to obtain both external certified seeds and improved local varieties. The same venues could also be used to provide smallholders access to other technologies, such as oxen for traction, storage facilities, etc., that could help to trigger innovation.

Complementary measures

Various studies have shown that the adoption of innovative practices can indeed lead to increases in yields. However, the evidence that the farmers use the extra income to invest in farm assets is less convincing. An explanation for this is that a rapid increase in the production of a crop in an area can lead to very low prices on the local market. Most studies therefore note that voucher schemes need to be complemented with effective measures to stabilise markets and to provide the necessary infrastructure, including storage facilities, roads and regional trading networks. Such complementary measures can have a moderating effect on prices, preventing them falling too far and too fast when increased yields lead to a surge in supplies on local markets.

Finally, the studies underlined the need for effective targeting mechanisms to ensure that voucher schemes benefit the non-users of inputs and technologies. Without them, the vouchers could be used especially by farmers who already use the inputs, substituting part of their cash expenses with government subsidy support, without actually facilitating agricultural innovation. There is also always a risk that the vouchers may be deliberately allocated in ways that strengthen existing power relations,

favour exclusive clans or influence party politics. It is important that schemes have transparent mechanisms and ‘ritual’ in the distribution of inputs as a way to build more robust local institutions (Richards, 2007; Ricker-Gilbert and Jayne, 2009; Banful, 2011).

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