

September - November in Review

Kenya BDS is a USAID-funded Program to enhance rural competitiveness within the Lake Victoria Fish and Tree-Fruit value chains.

As critical constraints are identified, the program designs commercially viable interventions to overcome these challenges.



Over 110 participants from throughout East Africa participated in the 3rd National Conference of the BDS Donor Coordination Group.



Dr. Kiruthu from ESALIA presents on development of the Nile Perch Leather Industry during the break-out session on "Value Addition."

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As Kenya BDS commences Year 6 of implementation, increasing emphasis will be placed on targeted interventions to strengthen the commercial viability of past activities. For example, Kenya

BDS-assisted brokerage firms have now matured such that investment strategies may be considered. Small-scale aquaculture farmers may look beyond simple fish-rearing to more complex propagation.

As more practical experience is acquired, the need is even greater for information-sharing events such as the recent Donor Conference.

3rd National Conference of the BDS Donor Coordination Group Held in Mombasa

From November 14-16, the 3rd National Conference on Value Chain and BDS Market Facilitation was held at the Serena Beach Hotel in Mombasa.

The Conference brought together over 110 fee-paying participants from the public and private sector throughout East Africa. Members of the larger BDS Donor Coordination Group were also in attendance, including the World Bank, USAID, DFID, DANIDA, SNV, and GTZ, among others.

The objective of the Conference was to share practical experience in the implementation of commercially-viable interventions that target the micro-and small-enterprise sector (MSE), with a particular focus on those grounded within specific value-chains or commodity market systems.

The format included plenary sessions with renowned industry experts such as Marshall Bear who provided a "Systems Approach to Value Chain Development," and Aly Miehlebradt who discussed "Measuring Results from Market Development."

Core plenary sessions were complemented with break-out panel discussions related to value-addition, horizontal and vertical linkages, business development services, value-chain financing, private sector-led development, and competitiveness.

Each panel discussion featured an interesting array of learning opportunities. Kamau Kuria from Coffee Management Services revealed what it takes to achieve quality in the coffee sector. Dr. Wahome Gakuru from the National Economic and Social Council detailed how Kenya may develop a national competitiveness strategy. Pauline Vaughan from Safaricom described the MPESA model, perhaps the classic example of "fortune at the bottom of the pyramid."

Such presentations provided immediate value for participants. During his discussion on smallholder linkages, Santosh Hakim (Milly Fruits) explained how he incorporated an incentive scheme to encourage farmers to supply mangoes in bulk. Following the session, David Masika (Makueni Ginnyery) remarked how he was looking forward to integrate this practice into his own business.

A few common themes arose from the many discussions. It was recognized that a systems approach to value chain development is an effective means to not only understand the various market functions and players, but also the incentives and relationships that influence the behavior and structure of an industry. Through an understanding of market systems, donor facilitators can make better informed decisions on how to demonstrate value or promote wider system change.

The importance of the private sector was also recognized as critical. Rather than viewing the private sector as evil, donors should pursue win-win strategies that enable lead firms to interact with MSEs as discerning consumers or even critical suppliers of their value chain. Roles for donors may include buying-down risk, market research, or other interventions to promote fair governance in the commercial relationship.

For the BDS Donor Group, the success of this event was testament to the growing interest in value-chain market facilitation, as well as the increasing importance of sharing practical experience and lessons learned.

Tree-Fruit Brokerage Firms – Time to Scale Up

Linking smallholders with high value markets has been a pervasive constraint in the horticulture sector. In response, for the past four years Kenya BDS has placed extensive efforts in developing firms that provide such services for smallholder farmers.

Otherwise known as “market linkage” or “brokerage” firms, these service providers offer a number of critical functions, including: 1) horizontal linkages through group formation and cluster development; 2) specific technical assistance on production; 3) direct access to lead buyers through formal supply contracts; 4) grading, collection, and/or transportation services; 5) production forecasting; and 6) maintenance of a QMS, among others.

Currently these firms are providing brokerage services for over 21,000 farmers to 6 major tree-fruit exporters and 3 industrial processors. Service fees are captured through a percentage-based levy that is charged for all fruit accepted by the buyer.

This past November, value chain consultant Marshall Bear conducted a follow-up

review of Kenya BDS market linkage programs to assess the status of each firm on their success towards commercialization, as well as provide critical advice on any remedial actions needed to better enhance their prospects for profitability.

Mr. Bear noted that the service providers were on the pathway towards profitability yet faced critical strategic choices on: 1) growth options; and 2) related financing requirements.

It was recommended by Mr. Bear that some high level business strategy advice would help these service providers make informed decisions on potential growth strategies, which may even include additional investment to grow the business and overcome financing constraints.

Beginning next month, targeted technical assistance in strategic business and investment planning will be provided for Kenya BDS-assisted market linkage firms servicing the tree-fruit subsector.

Phase I activities will comprise of a strategic business review of each firm to evaluate their specific business model, identify their key drivers of revenue, review their cost base

and cash flow, analyze the risks, and understand their projections for growth. Such analyses will allow the market linkage firms to make informed business and investment decisions for the future.

Assistance under Phase 2 will be available for any of the market linkage firms determined to be “investment ready.” Under this Phase, Kenya BDS will assist in identifying potential funding sources such as commercial banks and venture capital funds that present the most viable options (meeting financing needs and eligibility requirements) for the market linkage firm.

The key output of Phase 2 activities will be the development and submission of investment proposals to targeted financiers for select market linkage firms. Such investment is seen by many as a critical requirement in overcoming cash flow constraints and financing gaps associated with seasonal production.

AFRACA Conference Held on Value Chain Finance

This past October, Kenneth Marangu from Kenya BDS presented at the *African Rural and Agricultural Credit Association (AFRACA) Conference on value chain financing*.

AFRACA is a network of banks and microfinance institutions in Africa.

Hosted in collaboration with the Agricultural Finance Corporation (AFC), the main objective of the Forum was “to enhance awareness on successful models for using the resources and linkages of the value chain to increase financial service provision and efficiency to rural producers, traders and agribusinesses”

On behalf of Kenya BDS, Mr. Marangu gave insights on what pre-conditions were necessary before smallholder farmers could access commercial financing. He featured the avocado loan product with Equity Bank as a means of providing credit to a previously un-bankable target group.



Marshall Bear offered a new perspective on traditional value chain development by shifting the focus from transactions to systems, which provides a broader market picture of how relationships and incentives may influence change.



In her presentation on “Measuring Impact,” Aly Miehlsbradt stressed the importance of clear causal chains and indicators from inception of program activities through final impact on the intended target group.

Passion Fruit Enters Peak Production Season in Meru and Embu

As December nears, farmers under the Kenya BDS Passion Fruit scheme will soon enter into peak production season. Currently there are 2,266 farmers with a total vine count of 263,825. For December, projections indicate a total of 37 MTs of grade 1 will be produced, followed by 96 MTs and 109 MTs in January and February respectively.

Such dramatic fluctuations in production require advance planning at two critical levels. First, timely and accurate production forecasting must be conducted and forwarded to lead firms well in advance. Such information is critical for end-market planning as well as transportation logistics. Second, the level of grade 2 harvest also increases in periods of boom production (farmers are typically seeing a produce yield of 60/40 in favor of grade 1), thereby requiring advance planning and negotiations with in-country processors. Both of these areas are key responsibilities which brokerage firms can handle.

Fish Farmers Adopt Group-Based Hatchery Management

Artificial propagation is a sensitive yet critical aspect of hatchery management for small-scale fish farmers, as it ensures the sustainable supply of fish seed (fry) for stocking.

Through Kenya BDS funding, Moi University and the Ministry of Livestock and Fisheries Development have been building the capacity of 4 targeted clusters in Busia and Vihiga to act as seed production and brood stock holding centers.

Through technical training at the Wakhungu Demonstration Center, farmers were trained on the simplest methods of spawning fish and nursing juveniles. Through assistance with enterprise budgeting, farmers were exposed to the importance of tracking expenses and calculating gross margins.

Each cluster centre now has

at least one hatchery where propagation is conducted and fry sold to member farmers at a discounted price. Farmers outside the cluster may purchase the fry as well to be raised for fingerling bait or table-size consumption.

From the sale of fry, cluster farmers purchase their brood stock, supplies, and services required for ongoing production.

Results from the tank-basin hatchery have been mixed as members learn the technology. In a recent propagation the Matayos cluster successfully produced over 5,000 hatchlings, but accidentally spilled them when transferring to the nursery pond. The Funyula cluster achieved over 90% hatchability from a recent propagation, however lost all the juveniles due to incorrect

water temperature. The Vihiga cluster now has however 3 operational hatcheries, with an average output of 3,000 hatchlings per propagation. The fry are sold to members at 1Kshs each, and typically on-sold as fingerling bait between 3Kshs – 5Kshs each.

Gradually, through trial and error cluster members are learning the intricacies of artificial propagation. What matters most is that farmers have the business drive to perfect the technology.

Farmers realize that by assuming more hatchery management responsibilities, they will capture more revenue at the time of sale. This includes constructing their own ponds, maintaining their own source of brood stock, undergoing bulk-purchasing of fish feed, and leveraging their cluster-based membership to propagate their own seed.



The “tank-basin” hatchery method has been introduced among small-scale fish farmers as a low-cost method for artificial propagation. Hatchability rates are often quite high due to the controlled environment of this hatchery system.



Avocado harvesting season is just around the corner. Reports from the field indicate flower abortion at approximately 25% which will have an effect on overall yields. Grade 1 projections for Fuerte appear to average 170 fruits per tree, with Hass yields slightly higher at 200 fruits per tree.

It is expected that grade 2 yields will range between 80 Kgs to 120 Kgs per tree, which translates into 400 fruits per tree. Egg-size fruits are currently prevalent in the lower zones of Central, and are expected to mature by mid-January. Avocados in the upper zones are anticipated to be ready for harvest mid- to late-February.

Implementation of GlobalGAP Standard

Progress continues on the Kenya BDS intervention to develop a GlobalGAP certification scheme for smallholder farmers in passion fruit and avocados.

Over the past Quarter, local facilitator Standards &

Solutions has competitively selected 10 passion fruit and 5 avocado farmer groups for initial pilot certification.

The facilitator has also completed an audit of the GlobalGAP standard documents for participating

exporters in advance of developing a commodity-specific QMS.

Risk assessment field work for passion fruit and avocado farmers is ongoing, as well as testing of water, soil, and manure samples.

AFE Value Chain Workshop Held in Nairobi

This past October Kenneth Marangu participated in the Action for Enterprise regional workshop titled *Value Chain Program Design: Promoting Market-Based Solutions for MSMEs*.

The purpose of the five-day event was to present the latest methodologies and

practice for designing value-chain programs that incorporate strategies for sustainable impact. Specific skills training was given on: 1) selecting value chains; 2) conducting value chain analysis to identify constraints and opportunities for growth; 3) identifying and assessing market-based

solutions; 4) designing program interventions; and 5) monitoring and evaluating program performance.

During the training, Mr. Marangu provided practical examples and cases studies on the experience of Kenya BDS.

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