

Third National Conference of the BDS Donor Coordination Group

14-15 November 2007, Serena Beach Hotel, Mombasa

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Abbreviations

ABD	Agricultural Business Development
AI	Artificial Insemination
ASPF	Agricultural Policy Support Facility
ASPS	Agriculture Sector Programme Support
BDS	Business Development Services
BPO	Business Process Outsourcing
COMESA	Common Market for Eastern and Southern Africa
CSR	Corporate Social Responsibility
DASS	Decentralised Agricultural Support Structures
DfID	Department for International Development
EABL	East African Breweries Limited
EAC	East African Community
EAGC	Eastern African Grain Council
EBL	Equity Bank Limited
ERS	Economic Recovery Strategy for Wealth and Employment Creation
FAO	Food and Agriculture Organization
FRUITSEP	Fruit Service Providers Association
FSA	Financial Services Associations
GDP	Gross Domestic Product
GOK	Government of Kenya
HCDA	Horticultural Crops Development Authority
IBL	Ideal Business Link Ltd.
KARI	Kenya Agricultural Research Institute
KBDS	Kenya Business Development Service
KBL	Kenya Breweries Ltd.
KENFAP	Kenya National Federation of Agricultural Producers
KEPHIS	Kenya Plant Health Inspectorate Services
KHE	Kenya Horticultural Exporters Ltd.
KMDP	Kenya Maize Development Program
MAMBIKA	Matiliku, Mbitini and Kasikeu Service Providers Association
MESP	Micro Enterprises Support Programme
MESPT	Micro Enterprises Support Programme Trust
MFI	Micro Finance Institution
MOA	Ministry of Agriculture
MSE	Medium and Small Enterprises
MSME	Micro, Small and Medium Enterprises
NESC	National Economic and Social Council
NMB	National Microfinance Bank
NCPB	National Cereals and Produce Board
PCPB	Pesticides Control Products Board
PEP	Participatory Extension Planning
PIP	Pesticides Initiative Programme
PPP	Public Private Partnership
PSDA	Promotion of Private Sector Development in Agriculture
PSDS	Private Sector Development Strategy
PSI	Private Sector Initiative
RATES	Regional Agricultural Trade Expansion System
SBP	Small Business Project
SP	Service Provider
TBL	Tanzania Breweries Limited
TCC	Tanzania Cigarette Company
USAID	United States Agency for International Development
VC	Value Chain

PREFACE

The Third National Conference of the BDS Donor Coordination Group was held in Mombasa over 14 -16 November 2007. The meeting drew the largest participation to date with over 100 participants and 21 presenters. The opening address from the Permanent Secretary to the Ministry of Trade and Industry, Mr. David Nalo was read out by Mr. Seth Otieno, the Director of Internal Trade. The Ministry's message underlined the importance of trade and industry and micro, small and medium enterprises (MSMEs) in the Private Sector Development Strategy (PSDS) for Kenya 2006 - 2010, recently launched. The PSDS addresses the enabling environment for private sector development in Kenya and the growth and competitiveness of private players especially the MSMEs.

The 18 breakout session presentations addressed emerging experiences and insights into key aspects of making value chains and markets work for the poor. Several presentations looked at East African examples of MSME development under approaches such as development of markets at the 'Bottom of the Pyramid', corporate social responsibility and private sector led development.

Horizontal and vertical linkages in three sub-sectors of crop agriculture were explored while the session on value addition discussed innovations in leather processing, services for the coffee sub-sector and floriculture. In the breakout session on value chain financing, presentations outlined current experiences of different types of financial services delivery to MSEs, that is, through a formal bank, a microfinance wholesaler, a warehouse receipting project, and money transfer through mobile phones. New forms of collateral are being used and new loan products developed but the challenge to scale up good practice in a cost effective manner remains.

Private sector-led development is a concept gaining increasing importance in the work of development agencies. As sustainability of intervention impact becomes a priority, the role of a robust and broad based private sector in incorporating poverty reduction strategies is also underlined. The entrepreneurial spirit of billions of informal MSEs and barriers to their growth also point to the importance of poverty responsive private sector development, and of making value chains and markets work for the poor. A presentation by Marshall Bear, a BDS trainer, traced key processes in a value chain development project in Zambia while Aly Miehlabradt highlighted the complexity of monitoring and evaluating such projects.

Kenya's ambitious Vision 2030 was presented in the enabling environment and competitiveness breakout session and examples from the manufacturing and fresh produce sub sectors brought out the importance of, among other things, research and development and policy advocacy.

The scope of discussions and presentations at the Third National Conference stretched beyond Business Development Services to encompass the market systems within which these services are facilitated and delivered. This movement in BDS discussion over recent years corresponds to the dynamism and innovation in this region in projects on pro-poor private sector development. The array of topics also demonstrated the understanding among key stakeholders of synergies and challenges in a systems approach to making markets, including the BDS markets, work for the poor.

INTRODUCTION AND CONFERENCE OBJECTIVES

David Knopp

Chair of the BDS Donor Group.

David Knopp welcomed the participants and noted both the mix of participants at this year's event and the large number present. There were 110 participants representing donors, implementing agencies, NGOs, private sector, government, private sector associations and technical thought-leaders.

The conference was the third such event hosted by the Business Development Services (BDS) Donor Coordination Group. The Group represents the principal donors and donor programs that are involved with large, multi-year BDS and value chain-related initiatives targeting medium and small enterprises (MSE). The objective of this group is to 'maximize effectiveness and impact of donor-led activities in BDS and value chain facilitation through active coordination and information sharing'. It meets on a quarterly basis to review upcoming activities, program strategy as well as to share practical experiences from the field for peer learning and coordination. The Donor Group has been hosting the conferences primarily as a means of sharing key lessons in moving towards pro-poor competitiveness strategies.

The key objectives of this third Donor Group Conference were to:

- 1) Re-visit the role of development partners and what is meant by 'responsible market facilitation'.
- 2) Examine specific field interventions for critical learning.
- 3) Network and share experiences.
- 4) Learn about emerging trends and best practices from other countries.

This year's conference also attempted to incorporate feedback from last year's participants. This year, the conference organizers selected a new venue away from Naivasha and on the shores of the Indian Ocean at the Serena Beach Hotel in Mombasa. The conference format and participation was expanded. New breakout session topics such as 'Private Sector-led Development' and 'Competitiveness' were brought on to the agenda and participation was opened up to partners in Tanzania and Uganda.

KEYNOTE ADDRESS

Mr. David Nalo
Permanent Secretary
Ministry of Trade and Industry.

Ladies and Gentlemen,

On behalf of the Ministry of Trade and Industry, I take this opportunity to thank the organizers for inviting me to officially open this Third National BDS conference.

In 2003 the Government of Kenya developed the Economic Recovery Strategy for Wealth and Employment Creation (ERS). A crucial platform for the creation of this strategy was emphasis on the role of the private sector as the engine for growth, employment creation and ultimately an improved standard of living for all Kenyans. The Government is committed to creating a strong public private partnership with its development partners to amplify private sector growth and to applying specific measures to enhance growth and competitiveness within the private sector.

The ERS outlines an economic recovery strategy centered on a re-animated private sector. Reviving private sector activities and specifically the MSE sector also feature prominently in other government policy documents. In 2005, the government launched the Sessional Paper No. 2 (2005) on Development of Micro and Small Enterprises for Wealth and Employment Creation and Poverty Reduction.

As a Ministry, we recognize that Kenya's Private Sector accounts for approximately 80% of the GDP and it provides more than half of the wage employment. It is important to note that trade and industry as a sector accounts for over 20 per cent of GDP and employs about 300,000 people in the formal economy and about 3.7 million in the informal economy. In addition, the sector accounts for over 43 per cent of Kenya's total exports. The trade and industry sector is strategic to economic recovery because it is the sector likely to recover fastest.

As a Ministry, we appreciate the cooperation and support given to this initiative, particularly by the private sector and our development partners and as we move forward, I would like to take this opportunity to invite all of you who are gathered here today to join us and actively support the effective implementation of our Private Sector Development Strategy (PSDS) 2006 - 2010. The ultimate goal of this strategy is to enhance and amplify private sector growth and competitiveness that will, in turn, contribute to the country's medium-term objectives as outlined in the Economic Recovery Strategy for Wealth Creation (2003–2007).

As mentioned earlier, the purpose of PSDS is to catalyze the creation of an enabling environment to enhance private sector growth and competitiveness. The strategy has two objectives:

- To create a conducive business environment for private sector growth by alleviating major constraints, and
- To enhance the growth and competitiveness of the private sector, especially the Micro-Small and Medium Enterprises (MSMEs).

The PSDS provides a clear strategic and institutional framework for the Government that will enable better coordination of private sector development efforts. It also makes the roles of the Government and the private sector complementary rather than competitive, and further allows businesses to respond to a clearly defined set of incentives. So far, the private sector has been shaped by uncertainty, globalization, imperfections in factor markets and uncoordinated policies. The PSDS will help to catalyze private sector development efforts by the Government of Kenya with its partners so that these efforts can have maximum impact on the development of the private sector.

I am happy to note that this two-day event has brought together senior level officials from the private and public sectors as well as the donor community to discuss and share practical experiences related to poverty

alleviation and development through the private sector. All the selected topics of discussion are very relevant to the efforts currently being undertaken by the Ministry of Trade and Industry, which has been mandated to spearhead the implementation of the PSDS.

At present, my Ministry is implementing the Pilot Value Chain Based Matching Grant Fund Project, managed by Deloitte Consulting with funding from the World Bank and a perfect example of public-private-partnership (PPP). The objectives of this project, which are in line with the theme of this conference, are:

- To strengthen competitiveness and raise value-addition in selected supply chains by enhanced access to Business Development Services (BDS).
- To strengthen linkages (of MSMEs to other firms and to markets).

Finally the Government, and particularly the Ministry of Trade and Industry, is happy to be associated with this conference. As some of you may be aware, last year, through the Pilot Value Chain Based Matching Grant Fund Project, the Ministry sponsored 9 participants to the second BDS conference held in Naivasha. This year, we are sponsoring 10 participants and are looking forward to participating in bigger numbers next year.

With those words, I now have the pleasure to declare the 3rd National BDS Conference officially open.

Thank you.

BREAKOUT SESSION 1: HORIZONTAL AND VERTICAL LINKAGES

Moderator:

Christian Sorenson

Senior Adviser, ABD/DANIDA

ABSTRACT

A value chain is typically described as a vertical chain from production to processing and further to wholesaling/export and retail.

This vertical chain has many variations and can be sub-divided, for example, from production to semi-processing and then to processing. Often there are also intermediary links of trade between levels, for example, between the producer and the processor.

Trade itself may be broken down in different categories often resulting in long and complex value chains. For example, a chicken sold at the farm gate in Makueni may be bought by a broker, who sells it to a local trader, who brings it to the outskirts of Nairobi, where a wholesaler buys it and brings it into one of the city markets such as Kariakor. Here, the same chicken may be bought by another trader or agent who supplies restaurants or butcheries in town. There is no processing taking place through all these links, but the price gradually increases.

In practical life, a single producer selling a single chicken at the farm-gate is a model. The full picture contains horizontal linkages at all levels, some more developed than others. Producers may collect a number of chickens and market them together. They may even form an association, which accesses inputs such as vaccines together as a group. They may bulk and negotiate prices jointly, and even make a contract with a buyer.

The processor may also link up with other processors to obtain economies of scale or develop practical business relationships. Again exporters may come together to negotiate better freight prices, something a single exporter will have difficulties in doing alone.

The horizontal linkages are associated with issues such as organization, economies of scale and volume of trade. Producer associations for example cooperatives are typical forms of horizontal linkage organizations. There are also forms of vertical organizations with the various chain stakeholders represented, for example, the apex organizations within the World Bank Matching Grant Project or the Cashewnut Technical Committee.

Some of these vertical organizations however, may be dominated by the sector's big players at the top end of the chain, for example, the Honey Council; rather than being a democratic forum for producers, buyers and processors.

It is the combined vertical and horizontal linkages that constitute the core of the value chain. Some of these linkages are explained in the following presentations from three sub-sectors: namely mango, cotton and horticulture.

THE MANGO SUBSECTOR

Hakim Santosh
Managing Director
Milly Fruits Processors Ltd.

Background

At Milly Fruit Processors Ltd. we handle fruit and my deliberations here will be on mango.

Milly Fruit Processors is 25 years old. At Milly, we presume that we are able to pick up just about 20% to 25% of the mango available for processing. And, it's possible that our other associates in mango processing also pick up similar quantities. We also presume that about 5% of the total mango produced may be getting picked up for direct table use.

Accordingly we assess that about 55% of the available mangoes do not find a market.

Our procurement methodology

We have several direct procurement arrangements. They include the following:

- A farmer can book his mangoes with us in advance or simply walk to our factory with his mangoes. The farmer who books orders in advance knows when he needs to come, and what rate he can expect to get for his mangoes. But the farmer who simply walks to our factory with his mangoes will have to accept the rate which is current on that date. And, he will have to wait for his turn, as there are separate queues for pre-booked orders and direct arrivals.
- There are some agents who book quantities with us in advance. These agents in turn pick up quantities from the farmers who are either unable to make it on their own to the factory, or unable to reach the company for booking orders, or have very small quantities which they cannot consider transporting independently to the factory.
- We have tie-ups with co-operatives who collect mangoes from their farmers and bring them to our factory. Although such outfits are very few we feel that, as a forward-looking organization, we need to make concrete attempts to nourish such co-operatives. Our efforts in this direction will be detailed later.
- We also have arrangements with organizations like Latif H. Ltd., which is a US aided organization that helps farmers.

We use 80% of our produce for our requirements and 20% of our produce finds direct clients mainly the processors of fruit juices or such products. We could sum up our chain as follows:

Direct Farmer/ Agent/Co-operative/Non-governmental Organizations



Factory Processor (for processing)



Self Use



Processor

Our concern is that in the event that we are unable to see the farmers' produce through to the processors, farmers will be discouraged from pursuing these fruits as a business option in the long run. They will take up something else that can get them a better deal.

At Milly, we also find that no new major initiative has taken place to plant mango samplings. What we are reaping now is what was sown a generation or two back. The motivation that farmers have to take care of their trees is extremely minimal. It feels as if they have left the trees to the Almighty and whatever return He chooses to give.

There are several reasons for this neglect:

- **Overexploitation.** We have been squeezing mother earth of all its produce yet we give little in return. This is creating a future uncertainty that is big. Similarly we as processors have to squeeze whatever we can from the farmers and tend to care little whether they survive or not. Most of the initiatives that are being taken are for meeting the needs of the processor or/and marketer. Few have cared if the farmer is able to sustain himself or herself. There is this thinking that ‘if we exploit one group of farmers today, another group will be available for exploitation somewhere else tomorrow’! Similarly with mother earth, if one patch is exploited today somewhere else another patch is always ready.
- **Mentality.** We are yet to fully understand that the economic health of our partner, whether he is our distributor or supplier, is going to have an impact on our health as well. We may camouflage their weaknesses or hardships, but they will affect us too.
- **Infrastructure.** Whereas provision of infrastructure is solely the responsibility of government, industry as a whole also has to push and, where possible, come forward with initiatives. As of today I say that the biggest challenge for the mango farmer is to reach or access the market. Light rains are enough to put their life out of gear, making it difficult for the mango farmer to reach the market and find a better client or price.
- **Technical Inputs.** There is no sign of any organized initiative to help farmers get better yields out of existing plantations, or help them prevent tree diseases, or educate them on the dos and don’ts.

What we are doing at Milly is helping the farmers. This has resulted in:

- **Motivation and organization.** We have taken certain initiatives to encourage a co-operative movement of farmers; although for an entrepreneur it may be more expensive to get mangoes from a co-operative than to get from an individual or an agent. I had a meeting with members of the Malindi Co-operative Society Ltd. and as I was interacting with them, I realized the biggest concern they expressed is they do not have the processing facility closer to them (our processing facility is 105 km away from Malindi). I asked them how that would make a difference? Their answer was ‘If we have a processing facility close to us, we will be able to get fruit to that processing facility in small quantities and get our money straightaway. Otherwise we have to travel all the way to Mombasa where we have to spend on transportation and there are losses and a greater extent of uncertainty about the price we get’.

Having come across similar experiences elsewhere, I said ‘Okay, we will put in a semi-processing facility in Malindi provided you demonstrate that you can bring in 1,000 tons of mango’. After a lot of deliberations, we signed a memorandum of understanding with them whereby we stand committed to providing a semi-processing facility to that co-operative, provided they are able to get together 1,000 tons of mango. In the first run, the co-operative could not make a commitment to provide the minimum quantity for that season, but these are initial hiccups. We still continue our association with them and hope that we will be able to put a processing facility for them.

- **Increased quantities and better prices.** The other issue has been as the quantities increase, that is, the availability of mangoes increases, the prices go down. We encourage people to produce more but the farmer has to understand and benefit from volumes. So we went ahead against the law of diminishing returns and offered a higher price for more quantities meaning that if we agree on ‘X’ shillings for 100 tons and we get 200 tons, we will offer ‘X-plus’ because at the end of the day we are interested

in farmers getting into the habit of producing more. Once they do that they will realize the cost of producing more is negligible and they get better money even if the price is lower. Until we are able to prove this to them, we will have to make such adjustments as noted above in our practices.

- Support to farmers. We are also supporting farmers in terms of farming implements and transport. As a matter of fact, when there were heavy rains we sent motor boats to Hola to give confidence to the farmers that in their hour of need, we are with them.

We have to do all that is required to create a willing farmer who is willing to associate with a manufacturing facility, so that he finds out that through his association with manufacturing he is making a better living.

This is the test of any such association, and we thank the farmers for this opportunity.

THE COTTON SUB-SECTOR

David Masika

Director

Makueni Ginnery, Wote.

Cotton as opposed to the other crops entails a long chain from farm production to the time it is converted into apparel. The core to the success of the entire chain, however, is the cotton farmer.

The cotton farmer

For farmers to reap economies of scale, they have to organize themselves into clusters or cotton farmers' self-help groups. That way it is easier for them (farmers) to be linked to financial institutions to access loans for the purchase of farm inputs such as pesticides, seeds and fertilizers. Over and above this, it makes it easier for the agrochemical companies to train them on the safe use and application of chemicals.

The farmer groups are horizontally linked to extension services. The government extension officers are few in relation to the number of farmers to be served and the area to be covered. The government is also linked to the farmer through input supply, especially in the provision and distribution of seed.

Transport

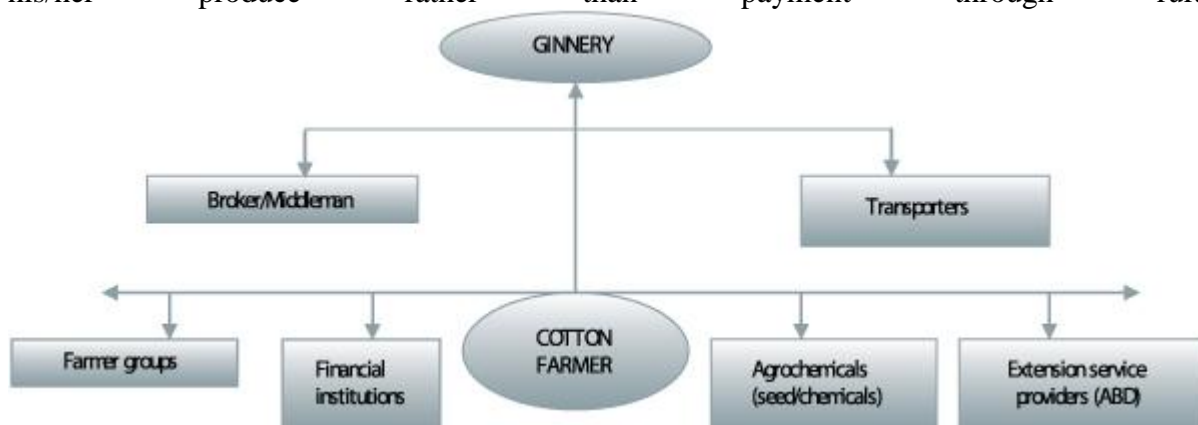
Transportation links the farmer directly with the market. This may either be to the ginnery or to a middleman who later transports or sells to the ginner. Transportation is one of the items that raise the cost of production. This is because the ginnery has to lift very small and scattered quantities over a vast area such that what could have been lifted in a few hours ends up taking days.

A few private transporters assist in the transportation as well. Brokers or middlemen buy cotton at a lower price, collect them into substantial quantities, and then look for private transport to deliver to the ginneries at some negotiated term.

Ginnery

Ginneries buy seed cotton from the individual farmers, organized groups and intermediaries on cash-on-delivery terms. Such mode of payment exposes both the farmer and the buyer to situations of theft and death. The farmer having been paid in cash is subject to robbery because the thief knows exactly what he / she has been paid. The buyer also has the challenge of finding ways to ensure money reaches the cotton farmer safely.

Such a scenario calls for the intervention of rural banks through which farmers' proceeds can be channeled, to avoid the risks involved in direct cash transactions. It is the same village banks through which loans for input procurement can be advanced and recovered. With the liberalized economy and lack of a regulatory system however, a competitor paying in cash may take all the available cotton because the cotton farmer may not foresee the dangers involved in such a transaction considering his/her interest is the liquid cash for his/her produce rather than payment through rural banks.



* Apex body comprises of farmers, ginners, spinners and the World Bank through Deloitte.

2006/2007 Cottonseed pricing formulae:

International price of lint	US\$ 65.45 per lb
Allow transport to market	US\$ 8.00
Balance	US\$ 57.45
Convert to KES per kg	$57.45 \times 2.25 \times 67 = \text{KES } 87.00 \text{ per kg}$
	100
Allow for seeds 2 kg @ KES 5.00	KES 10.00 = KES 97.00
Allow for ginning per kg	KES 12.00
Allow for ginners profit @ 10% of KES 97.00	= KES 10 + 12 = ginning costs = KES 22
Balance due to farmer for 3 kg cotton seed	KES 75.00 @ KES 25.00 per kg

The ginnery is also horizontally linked with manufacturers of spares. The quality of spares directly affects the cost of ginning.

After ginning, the resultant products are lint and seeds. The seeds, forming as they do the bulk of the raw cotton from the farmers, can be crushed to expel oil in the process of value addition. The oil links the ginnery with soap manufacturers, bio diesel manufacturers as well as refineries. Whereas the cotton seedcake links the ginnery vertically with animal feed.

Ginnery and spinners

The spinners are vertically linked to the ginneries for they provide the market for their finished product, lint. Because of the time taken by the spinners to pay the ginner, the latter is left with no alternative but to seek financial assistance from commercial banks to cover the time gap since the farmer sells in cash while the spinner does not pay instantly.

The commercial banks and other financial institutions provide some financing in case the cotton coming is more than can be ginned, sold and paid for by the spinners. However, the price paid by the spinner directly affects the price the farmer gets. If the spinners get into a cartel, this has a negative impact on the farmer.

The World Bank and the cotton chain

The World Bank, through the Value Chain Based Matching Grant, has tried to bring sanity to the entire chain in the cotton sector. The Bank realized that there was lack of transparency from one sector to the other. It greatly emphasized the use of a pricing formula right from the international price to the farm gate price. It has also tried to build the capacity of all the stakeholders on how to maximize production at reduced costs, so that there is a ceiling to what each can get.

THE HORTICULTURE SUB-SECTOR

Apollo Owuor

Production Manager

Kenya Horticultural Exporters.

Kenya Horticultural Exporters Ltd. (KHE) is Kenya's oldest exporter of fresh fruits and vegetables. Set up in 1968, KHE today serves a client base throughout Europe and the Middle East. The UK forms a vital part of its overall vegetable business with more than 60% of its product destined for this market.

With its headquarters in Nairobi and extensive production and packing facilities located throughout Kenya, KHE has the capacity to supply quality produce competitively.

KHE's close integration with its grower base is essential to it developing links with a diverse and solid sourcing base that gives KHE year round continuity and good volumes, under carefully controlled growing conditions. The company's reputation and experience has allowed it to develop strong relationships with an excellent grower base.

KHE sources its produce through a set of partnerships with large, medium and smallholder farmers. It is interesting to note that up to 70% of KHE production requirements is met by smallholders who are organized into registered schemes/groups.

KHE's grower base is supported by its' Technical and Agronomy Team. All aspects of crop production, crop planning, and scheduling are covered by the team in conjunction with key personnel on the farms. In close cooperation with its growers, KHE exercises complete due diligence in all aspects of chemical and pesticide usage and food safety systems.

In addition, KHE has entered into agreements with institutions such as USAID's Kenya Horticulture Development Programme, the Pesticides Initiative Programme (PIP), Kenya BDS and the DrumNet ICT initiative to support smallholder production, and to help small farmers respond to the strong forces of international standards and specifications.

Horizontal and Vertical Linkages : Session Summary

- Government's role within the value chains should be kept to a minimum and be focused on infrastructure development, building an enabling regulatory environment and to some extent support to research.
- Clear visibility of the chain is essential. It facilitates effective provision and access to information, prices, market information, actors and their roles.
- Processors and exporters desire and want to work with organized groups, that is groups that are need / business driven as well as spontaneously formed groups responding to specific market needs.
- Contract farming can help create stable business relationships. Contracts should be specific in terms of price, volumes and be set for a defined period. Government could take on a regulatory role to enhance the enforcement of contract obligations.
- Individual firms reach out, up and down in the chain beyond their level to create lasting business relationships with other chain actors. So in that, these linkages or transactions are an attempt to create vertical and horizontal business partnerships.
- Most of the relationships in these linkages tend to underline profits as the bottom line. While this is good, there is need to also embed in them development approaches that go beyond the profit motive.

BREAKOUT SESSION 2: VALUE ADDITION

Moderator:

Musabi Muteshi

Senior Programme Officer, DFID

ABSTRACT

What is value addition? There are several ways of understanding value addition. As development partners, our focus tends to be on sectors where the majority of the poor are economically active. Looking at agricultural production, the focus is on how small-scale farmers can improve their incomes.

Under traditional farming methods, farmers produce crops that are then harvested, taken to the market and sold to individual buyers. Alternatively, middlemen buy in bulk and sell to wholesalers who then sell onwards to retailers — your neighbourhood kiosk or the local Uchumi store. Nothing is done to the original product except perhaps cleaning it. With value-addition, a farmer growing, for example, flowers can now send them from the farm gate to the supermarket shelf in the UK, pre-packed and priced using the specifications from the end customers.

There is potentially another step in this process: defining the fashion and style, that is, moving beyond the focus on production and into image and marketing. This would mean that when Kenyan flowers are sold on international markets, they command a premium as the style-drivers which other producers round the world then follow. But that may be a long way off.

Value addition can also be around services and not just products. But, the two do not need to be mutually exclusive. For example, a small-scale farmer could provide an eco-farming learning experience for students interested in food production or veterinary services. The core business of farming would be ongoing but with a paid-for attachment which is the value-added service provided by the farmer bringing in additional income.

The essence of adding value is that producers receive a ‘reward’ in terms of higher prices or an additional income for incorporating an additional activity that has not been part of their original production process. The activity may have originally been performed by others in the supply chain or could be an innovation or service that had never been thought of within that supply chain. The other side of the equation is that the consumer must also perceive the added value of the enhanced activity as they ultimately pay for the ‘reward’.

Today, you will hear from the panelists about the areas in which value has been added in three different sub-sectors: leather, horticulture and coffee. These are important sub-sectors for Kenya. They either represent areas in which Kenya already has existing high-value products based on comparative advantage in production, or those which have been introduced as priority sectors under Vision 2030.

The panelists will address certain issues within their sector including:

- Who wins and who loses when upstream activities are undertaken by downstream producers?
- What are the risks in pursuing a new strategy or entering a new market in which you may not have all the skills needed? How do you overcome those risks?
- Can Business Development Services address the skills gap?
- What is the importance of innovation for value-addition and how effectively does the legal system protect an innovator’s intellectual property rights and patents?

- Is there a role for ICTs in enhancing value-addition?
- What are the links between successful value addition and affordable access to finance?
- How do we begin to think in new and innovative ways? Could our fashion designers and artists be perhaps linked to our farmers?
- What links need to be facilitated between traditionally separate sectors?

Value Addition: Session Summary

- In value addition, the actors should be visible in “who wins, who loses”? A win–win situation is most ideal.
- Innovation within the value chain should be encouraged and be supported through legal frameworks. The framework should provide property rights and protection.
- One of the presentations brought out a huge high-value opportunity in fish leather, which is unexploited.
- Across all the three presentations, it was clear that for effective functioning of the value chains, trust between the chain players is vital.
- Diversification in the use of products and by-products is a key element in adding value to products, e.g. use of fish skin.
- The presentations illustrated vividly that quality is not necessarily a factor of cost of production. Hence with the same costs poor-quality products can actually be made of better quality.
- It came out quite clearly that at the lower end of value chains discussed, women play a key role at the production level.
- Good governance in producers’ organizations is crucial if these structures are to be effective and efficient in order to undertake business opportunities and enjoy the benefits of economies of scale.

BREAKOUT SESSION 3: BUSINESS DEVELOPMENT SERVICES

Moderator:

Mehrdad Ehsani

PSD Advisor, SNV

ABSTRACT

A review of donor funded BDS provision interventions over the last decade have highlighted certain weaknesses in the model which include:

- Limited outreach: only a small number of SMEs received business services.
- Poor sustainability: BDS providers developed aid-dependence and could not continue operations without subsidy as the beneficiaries received these services for free.
- Unsatisfactory cost-efficiency: the cost bases of service providers and their ways of working seemed to target donors rather than SMEs.
- Questionable impact: there was little evidence of improved performance of SMEs from the business services received.

Some recent innovations to the model of donor funded BDS provision have included supply-side subsidies where SMEs are now charged partial fees for the services delivered by local government or NGO extension agencies. Or, demand-side financing, where coupons / vouchers are issued to SMEs to choose services from a range of certified service providers who in turn receive capacity building from a range of suppliers including government, NGOs and the private sector. Although these innovations may contribute to more SME-responsive services, regrettably sustainability, outreach, impact and cost-efficiency remain elusive.

Donor funded BDS provision, which has been viewed as a “public good”, is giving way to approaches which examine how market development can help the poor benefit from economic growth. The delivery of business services is increasingly being seen through the framework of BDS market development – looking at business service markets, commercially viable solutions, or support markets. Rather than starting with existing services and attempting to sell them to the poor, this market-based approach starts with the market for products that the poor are attempting to reach and business services to help the poor reach these markets. These more sustainable initiatives then support private-sector providers to sell highly demanded services to SMEs, or to deliver agricultural extension services as part of a comprehensive package with input supply and/or crop purchasing. One critical component of this approach is that the business services must directly impact on increasing productivity, income or lower cost of SMEs — otherwise demand among SMEs will be wanting.

Until recently, it was generally believed that commercial service providers, such as traders, could not be depended upon to take a long-term view of investing in their business relationships, and would invariably be driven by short term gains translating into one-off sales and exploitative arrangements. However, the mounting evidence suggests that some traders can reach the rural poor more cost-effectively than public sector or civil society, and can provide a range of useful services. Private sector provision of BDS can be channeled to SMEs through contract farming, where the capacity of buyers is strengthened to provide “embedded services” as part of their contract to SME suppliers for products grown for higher value markets. Alternatively, input suppliers’ capacity may be built to provide production advice and other services, “bundling” the cost of that advice into the cost of inputs.

The converse to this approach is “stand-alone” services which are offered to SMEs as distinct fee-based services such as advertising, freight forwarding, accountancy, legal advice among others. Then again, alternative, low-cost private sector providers could be identified (for example paravets and individuals formerly playing a volunteer role as lead farmers) and their capacity built to sell services for a fee. Lastly, producer associations could be strengthened to provide/broker demand-driven services to their membership composed of farmer-based organizations and/or individual farmers (BDS clients).

The purpose of this breakout session is to gain insights in to these emerging trends through the practical experience of these three private sector BDS initiatives. The lessons learned should fuel contemplation by development practitioners about how to stimulate competitive support markets rather than distorting markets and creating dependency among SMEs and service providers.

Business Associations as BDS providers for Value Chain Development

(How to measure development impacts – based on some experiences from Promotion of Private Sector Development in Agriculture in Kenya)

Margaret Will
GTZ Consultant.

Business associations as platforms of producer, trader and processor organizations serve for:

- Collective action and service provision (internal cooperation),
- Facilitators for accessing third-party services as well as representation of members' interests (external cooperation), and last but not least
- Platforms for pushing Value Chain Development from production downstream or pulling it from the processing or trade node upstream.

Strong business associations are able to facilitate the operators along value chains to: improve their performance and competitiveness, to access services, to access markets, to lobby for improved framework conditions.

By doing so, these organizations joined by common interest may fulfill the following tasks:

- Facilitation of the representation of members' interests with regard to improving legal, infrastructure, administrative framework conditions (e.g. legislation, licensing, multiple taxation, legal standards and enforcement, telecommunication and market infrastructure).
- Facilitation of joint learning and exchange of experiences through the establishment of information services and establishment of dialogue platforms at the national and local levels.
- Facilitation of joint input provision and joint utilization of infrastructure (e.g. storage facilities) and technologies (e.g. land preparation), opening up opportunities for cost reduction.
- Facilitation of market access through linkage development and increased volumes (economies of scale), improved quality, and maybe also broadened product range.
- Facilitation of training and advice e.g. in marketing, management, production, processing, quality assurance.
- Facilitation of marketing with different scopes of joint business decisions, from combined promotional actions, to joint collection of produce, up to collective commercialization.
- Facilitation of access to external services such as seed supplies, laboratory, certification and financial services.
- Facilitation of access to innovations, technology and knowledge transfer through joint research activities or dissemination of third party research results to members.

Advantages of promoting business associations as BDS providers:

- Effectiveness: broad outreach by promoting members through business associations rather than individually through direct measures (economies of scale).
- Efficiency: professional approach towards the provision of clearly member-oriented services as well as strategic advocacy and lobbying.
- Significance: holistic approach of service provision and representation of interests suitable to improve the overall situation of members.
- Sustainability: institutionalised self-help capacities creating structures for BDS provision and advocacy beyond external support.

Challenges in promoting business associations as BDS providers:

- Effectiveness, depending on: the cohesion among members, the sustainability of democratic structures, the capacities of the executive board and the management.

- Efficiency, depending on: the capacities of the management, voluntary member contributions and professional staff to develop, realise and maintain services.
- Significance, depending on: the capacities of the members to translate the services provided into successful business development.
- Sustainability, depending on: the willingness of the members to sustain the business association through membership fees, charges and voluntary contributions.

Measuring development impacts serves as a tool for steering the implementation of a technical assistance programme. It assesses the progress in changes achieved both at partner and target group levels, on the way to reaching the objective of self-sustaining development. In this sense, impacts are:

- A hypothesis on the expected, intended changes at partner / client levels, which the programme wants to realize through its services, and / or
- The occurrence of unexpected, unintended positive, negative or neutral changes, which the programme needs to observe.

An impact chain describes the sequence of services (resources, activities) provided by the programme and resulting changes (outcomes) at partner/client levels. Applying impact chains serves three purposes:

- Creating awareness about the different steps leading to, as well as the time and resources necessary to, achieving the overall objective.
- Assessing the degree of impact achieved during the course of implementation (qualification and quantification of impacts at different stages of implementation).
- Steering the implementation process by adjusting interventions in case any deviations from the intended degree of impact are identified during the course of implementation.

To be able to use impact chains as an efficient and effective tool for steering a programme and achieving the programme's overall objective, changes (directly or indirectly attributable to the programme) have to be anticipated (hypothesis), observed (monitoring) and evaluated (impact assessment).

According to GTZ, an impact chain consists of services and results such as those listed below that can be attributed directly to a given programme:

- Inputs: e.g. staff, short-term consultants, material, funds.
- Activities: e.g. association development, training, study tour.
- Output: e.g. association strategies, service offer developed.
- Use of the output by clients: e.g. services are offered.
- Direct benefit (for clients): e.g. increased lobbying power, increased membership.

Higher impact levels are not any more only attributable to the programme, since many stakeholders without any link to the programme contribute to the impact (attribution gap):

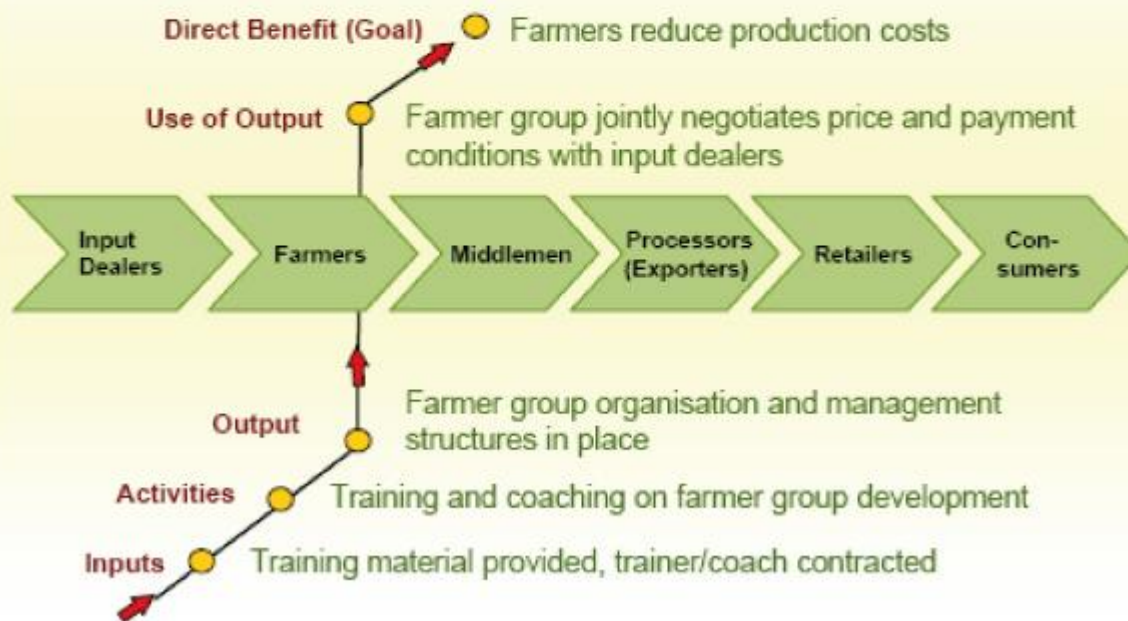
- Indirect benefit: e.g. income of farmers increased, employment created.
- Highly aggregated benefit: e.g. national income increased, poverty reduced.

To illustrate the application of impact chains to the process of association development as BDS providers for Value Chain Development, some case studies from the programme, promotion of Private Sector Development in Agriculture (PSDA), Kenya can be used:



Part 2: Measuring development impacts

Example impact chain for PSDA's Value Chains



PSDA, November 2007 – 11

Strengthening Farmer Groups – shortlist:

- PSDA Activities and Outputs:
 - (i) Organizational development: training manual, training of trainers, training of farmer groups, etc.
 - (ii) Technical and business management capacities: training/advice in Farming as a Business, production, marketing, etc.
- Use of Outputs by PSDA clients:
 - a.) Farmer groups formed,
 - b.) Collective action initiated (joint learning, joint commercial activities),
 - c.) Market-oriented approach of smallholders facilitated,
 - d.) Value-addition introduced (e.g. bulking, collection, first-stage processing),
 - e.) Direct Benefits of PSDA clients,
 - f.) Income opportunities seized,
 - i.) Transaction costs reduced.

Strengthening Business Associations – shortlist:

- PSDA Activities and Outputs:
 - (i) Organizational development: advice (strategy development, registration, and membership promotion).
 - (ii) Technical and business management capacities: studies/advice on collective value-addition, technical trainings
- Use of Outputs by PSDA clients:
 - a.) 10 associations formed (8 producers, 1 trader, 1 slaughterhouse),
 - b.) 30,000 rural households joined associations,
 - c.) Collective value-addition realized,
 - d.) Product quality and safety improved.
- Direct Benefits of PSDA clients:
 - a.) Representation of interests of smallholder rural households improved,
 - b.) Income for smallholder farmers generated,
 - c.) Financial base for sustainability of associations laid.

Strengthening KENFAP – shortlist:

- PSDA Activities and Outputs:
 - (i) Organizational development:
support to establish commercial wing and re-structuring process.
 - (ii) Technical and business management capacities:
development of new services e.g. Participatory Extension Planning. (PEP)
- Use of Outputs by PSDA clients:
 - a.) Member associations supported through the commercial wing,
 - b.) Extension activities planned using PEP,
 - c.) Re-structuring process initiated.
- Direct Benefits of PSDA clients:
 - a.) Income generated to support financial sustainability,
 - b.) Publicity in rural areas improved.

In conclusion

- Business associations at different nodes of the Value Chain can play an important role as BDS providers serving Value Chain Development.
- Impact chains can contribute to better steering of technical assistance programmes, by making the sequence of services (resources, activities) provided by the programme and resulting changes (outcomes) at partner / client levels more transparent.

Commercialization of Grafting and Pruning Services

Jane Murigu

Manager

Ideal Business Link

Introduction

- Mango and avocado are the most important export fruits in Kenya.
- Main avocado varieties grown in Kenya are Fuerte and Hass.
- The main avocado growing areas Maragua, Thika, Kiambu and Murang'a.
- The main export varieties for mango are Apple, Ngowe, Kent, Haden, Tommy Atkins, and Van Dyke.
- The main mango production areas are Coast, Central and Eastern Provinces.

Constraints in avocado and mango farming

- Limited production knowledge.
- Poor orchard management.
- Inadequate extension services.
- Disease and insect pests.
- Lack of preferred cultivars.
- Drought.
- Poor-quality fruits and subsequent low prices.

Intervention to address constraints

In 2005 Kenya Business Development Service (KBDS) program, a USAID-funded initiative sent out an invitation to BDS providers for proposals to design a program to commercialize grafting and pruning services among mango and avocado producers in Maragua, Thika and Makueni Districts. The winning proposal was submitted by Ideal Business Link Ltd (IBL) and IBL were subsequently contracted by Kenya BDS.

Objectives of the pilot project

- Identify and develop commercial providers of grafting and pruning services.
- Formulate and implement a sustainable strategy for service providers to access healthy scion materials.
- Create awareness among farmers on the need for grafting and pruning services.
- Develop and implement a market-driven pilot program to rehabilitate old trees to create a demonstration effect among farmers on the importance of grafting services.
- Continuously monitor program activities.

Approach

- Identification of the specific geographical areas to be covered based on tree census carried out.
- Development of selection criteria for service providers.
- Holding business opportunity seminars for potential service providers (SPs).
- Interviewing and selection of SPs against set criteria.
- Preparation / customization of training materials.
- Capacity building of SPs.

Criteria for selecting service providers

- Have secondary level education (Form 4 graduates).
- Have good leadership skills.
- Must be involved in community activities.
- Have a passion and interest in business.

- Preferably have a tree fruit nursery.
- Experience in grafting and pruning or extension work an added advantage.
- A certificate in agriculture an added advantage.
- Have ability to raise / mobilize initial capital to invest in a new business.

Building capacity of service providers

- Induction training at KARI – covered good orchard management and business skills.
- Collaboration with relevant stakeholders during training i.e. HCDA, KEPHIS, PCPB, and KARI.
- Development of individual business plans.
- Technical support provided.
- Mentoring and one-to-one business counseling.
- Refresher training.
- Identification and introduction of complementary business opportunities.

Farmer mobilization and awareness creation

- Model farmers were identified.
- Field days and barazas were conducted.
- Field demonstrations were carried out.
- Exchange visits for farmers.
- Promotional materials developed.
- Farmers educated on good agricultural practices.
- SPs were formally introduced to farmers through the Ministry of Agriculture.

Coordination of commercialization activities

- Geographical coverage for individual SPs was defined.
- Technical and business buckstopping was given where necessary.
- Business plans were developed and followed.
- Monthly meetings were held with SPs to review the progress.
- Collaboration with Ministry of Agriculture to promote grafting and pruning services among farmers.
- Mentoring and business counseling on individual basis.

Innovation

- Certification of individual farms as sources of clean planting materials by KEPHIS.
- New grafting technique recognized by KARI.
- Grafting of other crops like coffee and citrus fruits was carried out.
- Introduction of other services e.g. mapping holes and market linkage services.
- Formation of SP associations and accreditation of SPs for quality control.

Reasons for the formation of SP association

- To earn recognition from other stakeholders e.g. Ministry of Agriculture.
- To facilitate marketing of SP services to a wider market.
- To facilitate sourcing of grafting materials as a group to reduce unit cost.
- Two associations were formed by SPs: Matiliku, Mbitini and Kasikeu Service Providers Association (MAMBIKA) and Fruit Service Providers Association (FRUITSEP).
- Address competition from untrained persons.
- To set quality standards for service delivery.
- Provide a forum for sharing of experiences and addressing common problems.
- Facilitate debt recovery.

Service providers' achievements

- Increase in household incomes e.g. paying for family labour, opening bank accounts with Equity Bank and FSAs.
- Savings used to start other businesses e.g. agrovet shop, spraying services, tree nurseries etc.
- Employment creation - SPs employed assistants due to high demand for services.

- Formation of SPs associations.
- Development of a code of conduct for SPs for accreditation to the SP Association.
- Acceptance of accreditation standards by Ministry of Agriculture.

Achievements realized by the program

- Total number of MSEs accessing services – 8,314.
- Total number of service providers offering services at a fee – 60.
- Number of commercial tree nurseries and farms certified for supply of scions – 20 each.
- Sales generated by SPs over 1.5 years – KES 5.7 million.
- Number of trees rehabilitated – 65,470 against a target of 40,000 trees (an over achievement of 164%).

Challenges faced

- Social and cultural barriers hindered top-working services in the mango zone.
- NGOs subsidizing services in mango zone.
- High cost of maintenance of tools and equipment (power saw).
- Security for the SPs and the machines.
- Drought effect in mango zone.

Lessons learned

- Commercial orientation should be introduced right from the beginning of the project e.g. no subsidies in service delivery.
- Complementary business opportunities should be identified to regularize cash flow.
- Combination of technical and business skills training is important to build capacity of service providers.
- Public / private partnerships are required for success.
- Awareness creation is needed to stimulate demand.
- The right skills, tools and equipment are critical in achieving good results.

Role of different stakeholders

- KARI provided technical training on orchard management.
- HCDA registered tree nurseries.
- KEPHIS certified farms as sources of clean planting material.
- MOA promoted grafting and pruning services among farmers.
- IBL provided business skills training to the SPs coupled with mentoring / business counseling.
- SPs provided direct pruning and grafting services to farmers on demand

Provision of Dairy Services

Paul Mambo

Private Sector Dairy Service Provider

Challenges farmers face in accessing quality services

- Lack of good artificial insemination (AI) personnel.
- A lot of AI repeats.
- Lack of milk markets which leads to the farmer using bulls.
- Lack of finance to cater for AI costs.
- Poor infrastructure.
- Lack of training on AI animal nutrition and feeding.

Challenges in the field and my business

- Lack of enough capital to set up a business.
- Lack of business skills.
- Poor mobility – using a bicycle is tedious.
- Lack of business ideas.
- Poor linkage with the semen distributors and animal health products.
- Lack of business plan.
- Poor customer care and handling.
- Poor infrastructure.

Risks faced

- Farmers paying poorly for services.
- Some farmers not paying for services (bad debts).
- Working odd hours e.g. going for AI at night.

Successes I can talk about in my business operation

- My business has registered a growth in terms of stocks.
- I am able to cover a large area, which means I reach a lot of farmers.
- Bought a motorcycle, which although it's old helps me in my work.
- I have grown from a service provider to a trainer. I am now also training farmers who can now train others (training of trainers).
- I am able to keep records and do a profit and loss analysis.
- I have registered my business as Mambo Dairy Enterprises and have a certificate from the registrar of business names.
- I have created a lot of friends who allow me to take farmers in their farms for training.
- I have helped some dairy groups to develop with the aim of improving dairy farming.

Failures I can talk about in my business operation

- Lack of continuous availability of liquid nitrogen to preserve semen.
- Poor infrastructure – when it rains most of the feeder roads are not accessible.
- Lack of mobility since I use an old motorbike.
- Lack of a big AI container that can store semen for a longer period of time.
- Lack of loans to equip my business – most banks from which I can source a loan need collateral.

What I have done to succeed as a service provider

- Attending the course sponsored by ABS and TechnoServe.
- Organizing field days for the farmers with the help of feed manufacturing companies and also companies related to dairy farming.
- Organizing exchange visits for the farmers from one area to another.
- Bundling AI services with extension to help farmers in other areas such as calf rearing.

- Helping farmers in other activities like making silage and feed formulation.
- Being honest and trustworthy.
- Working smart.

How bundling different services has helped my business

Most of the dairy farmers also keep poultry and goats, so when going there for A.I. you also have to touch on other areas like animal feeds, de-worming and animal health. Doing this helps bring the farmers to my agroveter so as to buy the items they will need for their farms. Farmers will come to you if they are happy with you.

Farmers are willing to pay for the consultancy when a need is addressed in a farm. For example, the Nyanjomo Farm pays me Ksh.4,000 to help them make silage. However small-scale farmers cannot pay consultancy fees. Different dairy groups however pay a lot of money when they go for exchange visits or tours outside their area.

From service provider to a consultant

Currently, I am operating more as a consultant than a service provider to many farms e.g. Nyanjomo Farm, Grama Farm among others. I am also training farmers' societies in dairy production e.g. Makinya Farmers' Co-operative, Miharati Farmers' Co-operative and Mwhoko Co-operative, which are far from my area of operation.

My future plans are to:

- Study courses related to animal husbandry in all areas i.e. dairy cows and dairy goats farming, poultry and other areas.
- Travel as much as possible to many farmers in Kenya and abroad to get information on how they are doing in the dairy industry, so that I can help to uplift the standard of our dairy farmers .
- Advertise my services to many areas in Kenya to help our dairy farmers.

Knowing that in Kenya our dairy industry is faced by shortage of protein feeds, I am also planning to help farmers establish protein crops such as lucerne, sunflower among others, and also to source cottonseed cake from Tanzania and Uganda.

Business Development Services: Session Summary

- Demand creation for BDS. Demand creation for BDS among SMEs is critical to strengthening the viability of commercially provided BDS. These activities could include exchange visits, demonstration plots and promotional materials that illustrate the profitability of certain services.
- Quality service delivery. The importance of quality service delivery was highlighted. Examples were shown of how service providers in grafting and pruning of fruit trees came together to form professional associations for quality control through self-accreditation, standards and government licensing. There was a concern raised on the high number of unlicensed and unqualified artificial inseminators operating in the dairy sector who impact negatively on the reputation and growth of the sector. Developing the relationship and level of trust, between the client and the service provider, was acknowledged as being important in building demand for repeat services.
- Economies of scale in service provision. To be financially sustainable and secure, regular income service providers need a minimum number of clients to justify rural-based delivery. To achieve this they would need to expand their geographical area of operations and / or take on new services in their skills portfolio. For example, technical service such as grafting could be expanded from mango and avocado to coffee and citrus. Some service providers adopted spraying as an added service. Others also became involved in market linkage services and input supply. Further to this, development practitioners were encouraged to look beyond individual service providers and study how a BDS market can be stimulated on a large scale, otherwise the up scaling of these services will prove difficult and costly.
- Subsidized service provision competing with unsubsidized private sector BDS provision. The service providers drew attention to the difficulties they faced because of unfair competition from subsidized public BDS provision with respect to artificial insemination and agricultural extension.
- Associations as BDS providers. Concern was raised regarding the mandate and functioning of umbrella / apex organizations in leveraging their contribution to effective and efficient working of the provision of BDS within the value chains. Questions raised included the following:
 - To what extent can the producer organizations venture into business and be sustainable without external funding?
 - What is the most important role of apex organisations? Should they focus more on lobbying and advocacy?
 - Should donors and government financially support business associations, or let the private sector evolve through demand-led and driven processes?
 - How can the danger of politicized associations be avoided?

BREAKOUT SESSION 4: VALUE CHAIN FINANCING

Moderator:

Jeff Njagi

CEO, MESPT

ABSTRACT

The FAO glossary of terms defines a value chain as ‘the full range of activities required to bring a product from conception to end use and beyond, including product design, production, marketing, distribution and support to the final consumer’. The activities that comprise a value chain can be contained within a single firm or divided among different firms and actors. The value chain activities can take place within a single geographical location or be spread over wider areas.

When credit or other financial services flow through the actors along the value chain, this is often referred to as value chain financing which is the focus of this breakout session. Value chain finance may or may not include support from the formal financial institutions. Studies have however concluded that identifying relationships along the value chain, mitigating constraints, exploiting opportunities for value chain finance, and exploring how formal financial institutions can enter the equation can improve the overall effectiveness and efficiency of the value chain. If designed well, such interventions can increase the competitiveness of small producers and broaden the range of agricultural and agribusiness enterprises.

A recent study on “Access to Finance” commissioned by Financial Sector Deepening indicates that the non-formal sources of finance are the main financiers of the value chain. When no banks or other financial institutions are able or willing to provide credit, farmers and agro-processors access finance through those they regularly buy from, sell to, or otherwise conduct business with. Such efforts have resulted in provision of appropriate services at a reasonable cost but have fallen short in other important areas such as provision of longer-term investment capital.

By understanding the dynamics and relationships that exist within a value chain, small producers and enterprises can link into healthy market opportunities to reduce their costs, improve their product or expand their market. They can also access financial products, even if financial institutions are unwilling to serve them. Input suppliers, processors and wholesalers who better understand the risks and market realities these smaller players face, recognize win-win opportunities in providing short-term and seasonal credit. The value chain finance products that grow out of these relationships offer promise for both small and leading firms in a value chain, as well as for financial institutions willing and able to learn from them.

This breakout session is meant to present the experiences of three organizations in Value Chain Financing and to suggest how those experiences can be replicated in other parts of the country. Agriculture is the mainstay of the Kenyan economy. As the country strives to achieve the millennium development goals, Value Chain Financing will play a more critical role in this process.

The session is also meant to build on what other organizations have done in the recent past. The recent African workshop on Value Chain Financing organized by FAO and AFRACA in Nairobi will inform the presentations in Mombasa.

Equity Bank's Business Model for:

Rural Outreach Through Value Chain Financing

Esther Muiruri
Business Growth and Development Manager
Equity Bank

Equity Bank Limited (EBL) is a fully-fledged commercial bank contributing to the economic empowerment of Kenyans through provision of customer-focused and quality financial services. EBL started operations in 1984 as a Building Society. To respond to the increased demand for comprehensive products and services, it converted to a commercial bank in 2004. In August 2006, Equity Bank was listed at the Nairobi Stock Exchange, effectively becoming the first company in Kenya to list through introduction which means it went to the exchange through an Initial Public Offer.

In terms of customer base, Equity Bank is the largest bank in Kenya. The bank is home to 40% of all account holders in Kenya with over 1,600,000 customers. This accomplishment has only been possible through tailor-made financial products and services.

For two successive years, the Bank has been voted the Third Overall Best Bank in Kenya and the Best Retail Bank by the reputed Market Intelligence Survey. The Bank is also the current holder of the Global Vision Award (2007), an honour bestowed to the Bank and the people of Kenya by the G8, for its efforts in eradication of poverty and bringing dignity to humanity through financial empowerment. Euromoney Best Bank Award for Excellence 2007 was awarded to Equity Bank and the Bank was also rated the third Best Micro Finance Bank in the World and Best Microfinance Bank in Africa by Micro Capital, an American company.

Vision

To be the preferred microfinance services provider contributing to the economic prosperity of Africa.

Mission

To mobilize resources and offer credit to maximize value and economically empower microfinance clients and other stakeholders by offering customer-focused quality financial services.

Ownership

Equity Bank is a public company whose shares are quoted in the Nairobi Stock Exchange.

Target market

In line with the Bank's mission, the target market of the Bank has been:

- Small-scale commercial farmers.
- Salaried and wage workers.
- Small, micro and medium enterprises.
- Corporate organizations.

Equity Bank has over the years enjoyed a very cordial working relationship with its customers. With a well-planned expansion strategy in place, the Bank has a wide network of 70 branches supported by 44 mobile banking units and over 350 ATMs to ensure outreach to the perceived remote areas where most of our customers, small and micro business activities including farming, are. The Bank also has a robust IT system with capacity to transact 35 million accounts to ensure connectivity towards branchless banking for all the customers, supported by a team of highly motivated and skilled staff to provide desired customer service.

The rural finance case for Equity Bank

- The concept of empowering micro finance clients, under which small scale agricultural farmers fall, is well embedded in Equity Bank's mission which is all about empowerment.

- Equity Bank's humble beginning in the agriculturally dominated parts of Central Kenya, positioned the bank to support agricultural activities. In actual fact EBL's first customers were tea and coffee farmers.
- EBL's business approach is market led and customer focused. A research and development department carries out research on a continuous basis and develops products that are relevant to the market. This has been linked to the innovation centre.
- EBL works closely with the Ministries of Agriculture and Livestock in offering extension services particularly in training on financial management and prudent use of credit facilities.
- EBL's well-planned outreach comprising of 70 branches, 44 mobile units and over 350 ATMs have supported rural financial intermediation. This is to reach farmers both in the rural areas and in areas surrounding the major cities such as Nairobi, Mombasa and Kisumu (peri-urban farming).

The bank operates a farmer friendly remittance account with the following features:

- Initial deposit not required to open account - farmers just fill in remittance forms.
- Low remittance fee compared to market rates.
- Nil account balance.
- No ledger fees or account maintenance fees — guaranteed security to their hard-earned savings.
- Unlimited access to customer's account to support liquidity requirements for small businesses.
- Account accessible from any branch.
- Village mobile banking facilities for customers who are far from branches.
- Access to ATM and other IT-driven services.

Other features to support the farmer

- The bank organizes free financial literacy days to educate customers on sound financial management across its branch network.
- The use of village mobile banking facilities has been a big boost to debunk the fallacy that poor and low-income earners cannot be banked. This concept has assisted the implementation of our planned expansion strategy to support circulation of money and development in the local markets.
- Farmers are rewarded and motivated to do better in crop husbandry through cash and trophy awards given during field days.
- Preferential interest rates are charged on credit advanced to farmers who operate through certain programs and are able to negotiate e.g. farmer groups, farmers selling produce to organized processors etc.
- Equity lending is primarily based on trust since the bank's motto is 'Growing Together in Trust'; the produce becomes the collateral. When customers feel trusted their confidence to manage their businesses is enhanced.
- Through strategic partnerships, the Bank has developed value chain financing models.

Value chain financing in agriculture

The strategy originated in the tea sub-sector where the majority of smallholder farmers' produce is marketed through Kenya Tea Development Authority. This mode of financing has now been scaled up to a wide range of crops and livestock products including rice, cotton, coffee, pyrethrum, horticulture, dairy and poultry. Strategic partnerships have been established with milk processors, horticultural exporters, cotton ginneries, rice processors, and various manufacturers of farm input and animal feeds.

Examples of value chain financing

1. Agrochemical loan product with BDS and contracted avocado farmers.

The loan process is as follows:

- Farmers are recruited and trained in groups.
- Farmers sign contract with exporter.
- Farmers identify their group financial requirements.
- Farmers identify service providers.
- Farmers present loan application to bank.
- Bank pays the service provider.

- Exporters collect fruits from farmers, sells, and pays through group accounts in the bank.
- Bank recovers loan and pays balance to farmers.

2. Value chain financing for agrochemical distribution with Osho Chemical Industries.

Equity Bank and Osho Chemicals identified opportunities in partnering through a memorandum of understanding. The two organizations have strengths such as broad outreach, focus on the bottom of pyramid, and strong IT capability. The objective was to facilitate financial intermediation to the distribution network of Osho Chemicals.

Gaps

- Distributors could not buy enough stock due to financial constraints.
- Farmers could not buy enough chemicals for their crops and livestock from stockists.

Target

- Small-scale horticulture and livestock farmers.
- Major distributors of agro and veterinary chemicals.
- Osho Chemical stockists/entrepreneurs.

Benefits of value chain financing

- The entry to new geographical areas becomes easy since all we require is to identify partners.
- Reduces operation costs for small-scale producers.
- Achieves economies of scale.
- Enhances specialization in areas of strength.
- Allows the parties' to take advantage of technological development.
- Allows growth and expansion.
- Spread risks among the parties.
- Ensures cash flow for the producers and processors / buyers.
- Generates opportunities for other BDS players e.g. chemical sprayers.
- The recovery of loans is done by the marketing agents giving the bank the benefit of higher repayments.

Challenges of value chain partnership

- It is based on willingness of parties, some of whom drop out along the way.
- It takes a long time for players to come together and agree to work in partnership.
- Calculation of benefits against cost-benefit analysis is a lengthy process.
- Introducing and enforcing contracts to farmers.
- Mobilization of groups is an uphill task.
- Changes in prices after contracts are signed.
- Competition and diversion as farmers are multi-banked and difficult to follow up.
- Lack of insurance cover for most produce frustrates the parties.

Micro-Enterprises Support Program Trust's Value Chain Financing Experience

John Masha
Credit Manager
MESP Trust.

Background

The Micro Enterprises Support Program Trust (MESPT) was registered on 12th November 2002. The mandate of the Trust was to take over the activities of the Micro Enterprises Support Program (MESP), implemented by the Government of Kenya and the European Union between 1999 and December 2002.

The overall objective of MESPT is to promote economic growth, employment creation and poverty alleviation through support to enterprises in all sectors of the economy. MESPT works with intermediaries that provide financial or business development services to improve the performance of enterprises.

Agriculture Business Development (ABD) Rural Finance Component

The Government of Kenya (GOK) and the Government of Denmark have entered into a bilateral arrangement to support the agricultural sector in Kenya. The Agricultural Sector Program Support (ASPS) is the first phase of long term (10-15 years) Danish support to the agricultural sector. ASPS is a continuation of the Danish support in agriculture building on experiences and lessons from previous Danida projects in Kwale, Taita Taveta, Kitui and Makueni districts.

The ASPS has three components:

- Agricultural Policy Support Facility (ASPF).
- Decentralised Agricultural Support Structures (DASS).
- Agricultural Business Development (ABD).

MESPT is the institutional host and fund manager for the ABD rural finance component.

How does the ABD rural finance component work?

- Financial assistance is provided through micro finance organisations (MFIs) lending or willing to start lending to smallholder farmers and agri-related businesses.
- Selected MFIs will access wholesale loan funds from MESPT at competitive interest rates for on lending to the target group.
- The participating MFIs will on lend the borrowed funds to viable enterprises using their own credit policies and procedures and lending terms.
- The MFIs will be responsible for the selection, appraisal and monitoring of funded enterprises.
- On a case-by-case basis, MESPT will deal directly with medium and large-scale agricultural enterprises.

MESPT experiences in value chain financing

Since inception of the ABD loan program, MESPT through participating financial intermediaries has successfully supported various value chains by assisting farmers' access farm production credit to finance cost of agriculture production (fertilisers, seeds, chemicals, labour and transport). Similarly MESPT has assisted entrepreneurs acquire agri-business assets such as posho mills. On a case-by-case basis, MESPT has given direct funding to medium and large-scale agricultural enterprises in various value chains such as the cotton, cashew nuts and coconut value chains. Key lessons learnt include:

- Financial institutions do not understand the dynamics and relationships that exist within a value chain and are unwilling to offer products that meet the needs of the various players in the value chain.
- Different farming activities have different requirements and the same may also be different within different geographical areas.
- Proven microfinance methodologies are short term in nature and more appropriate for commercial retail activities rather than financing value chains.
- Lack of organized farmers groups / associations along the various value chains that can receive financial support.
- Lack of operational efficient and sustainable financial intermediaries with demonstrated experiences on agriculture finance.
- Lack of stakeholder coordination in building a viable rural infrastructure to support different value chains.
- Financial intermediaries are reluctant to finance value chains in the absence of appropriate insurance and hedging instruments against natural calamities such as drought and diseases.
- The different value chains are yet to stabilize. For example, the cotton sub-sector is yet to fully recover after many years of neglect.
- A few processors who better understand the risks and market realities provide short-term seasonal credit e.g. cotton ginneries.
- The different players in the value chain (producers, input suppliers, processors, retailers, exporters etc) are not well structured for proper credit delivery system.

Way forward

- Development of financial retail capacity:
- Upgrade semi-formal institutions to formal financial intermediaries.
- Assist existing financial institutions to develop appropriate products for specific value chains.
- Restructure and reform existing institutions willing to undertake value chain financing.
- Build on existing experiences and innovations to strengthen value chain financing.
- The link between the financial institution and other players in the value chain needs to be strengthened such that they create synergy.

Using Linkages to Encourage Value Chain Financing

- *Kenya Maize Development Programme / Eastern African Grain Council*

Steve Collins, Director

Kenya Maize Development Programme and

Bridget Okumu, Market Information and Communications Manager,

Eastern Africa Grain Council

Background

The per capita annual maize consumption in Kenya is just under 100 kg/per annum. Kenya is a net consumer of maize (produces less than it requires most years).

According to the Government's statistics on production, 1.6 tonnes of maize are produced per hectare, or 8 bags (90 kg each) per acre. At this level most of Kenya's smallholder farmers are subsistence farmers sliding in and out of small surpluses.

About 65–70% of Kenya's maize is traded informally through small-scale posho millers, and 30–35% through the National Cereals and Produce Board (NCPB).

The Government (2007) set a price of Ksh.1,300 per 90 kg bag. This works to US\$.232 per ton. The world price is ranging between US\$.120 per ton (2006) to US\$.200 per ton (2007), due in part to the Biofuel driven demand.

The Government pays farmers using treasury funds until these run out. When this happens, farmers sometimes wait six to nine months for their money to be released. If farmers are pressed for inputs so as to for prepare the next season's crop, they may get input from NCPB in seed and / or fertilizer, though not often not of the best quality. NCPB is also charged by Government to hold a Strategic Grain Reserve of ±3million bags, and an Emergency Food Relief reserve.

Currently (November 2007) NCPB has 5 million bags in store (all major producer stores full) and the 2007 harvest has begun but no stores are available in major areas of production. It is estimated that this exercise costs the country a minimum of US\$.5 million annually in lost revenue. As a high purchase and storage country, we usually sell maize at a loss.

What this shows is that we need a structured trading system that provides the Government alternative systems for marketing grain.

In 2003, with USAID funding, the Kenya Maize Development Programme (KMDP) was launched. KMDP was charged with the responsibility of improving rural household incomes. Considering non-irrigated maize produces one crop per annum, KMDP is in its 5th season.

KMDP works with 82 farmer groups and reaches over 300,000 farmers in Western, the North Rift and Rift Valley. Production has moved from a baseline of 8 bags per acre to over 30 bags per acre, with the best standing at 55 bags per acre.

Our core practices are teaching the following:

- Farming as a Family Business.
- Good Agricultural Practice: using maize as an example, but frequently changing to higher value crops, once the staple need is met.

KMDP currently works with 75 private sector companies, markets, the private sector which is key, and linked 20,000 farmers at the last Business Fair. The private sector for example, invests a minimum of US\$. 350,000 per annum. This shows that what is needed is a focus on access to markets, and crop finance / credit.

Some factors that have the potential to distort the value chain include the fact that the Ministry of Agriculture (MOA) has 43 parastatals that control:

- Seed (80% through the Kenya Seed Co.).
- Fertilizer \pm 10% through NCPB / MOA.
- Seed Production Agricultural Development Corporation 40%.
- Marketing NCPB: 30% of formal traded maize.
- Finance: Agricultural Finance Corporation.
- Also machinery services – Kenya Farmers Association is hoping to be rehabilitated to provide the service.

Has the grain industry been liberalized?

At the end of 2006, stakeholders including farmers, traders and millers came together and facilitated the Regional Agricultural Trade Expansion System (RATES) and KMDP to form the Eastern Africa Grain Council (EAGC). EAGC will facilitate linkages between different players in the grain industry in Kenya, and then expand into Uganda and Tanzania and later on to other countries in the COMESA region.

EAGC services

The Council provides a set of rules under which grains are traded. These rules include, but are not to be limited to:

- Providing timely and accurate regional grain market information.
- Linking sellers to buyers.
- Respecting grain trade contracts:
 - Rules of grain trade contracts.
 - Grain standards, arbitration rules and appeals.
 - Warehouse receipt procedures.
 - Role of commodity exchange.
- Liaising with government regulatory authorities on grain trade policies.
- Collaborating with regional trading blocs such as EAC and COMESA.
- Coordinating and facilitating Warehouse Receipt System.
- Promoting the development of Commodity Exchanges.

The Grain Warehouse Receipt System and the linkage with collaborating banks, is a novel way of providing finance to farmers where the crop may be used as collateral.

Value Chain Financing : Session Summary

- The presentations illustrated that a critical mass of clients is essential to financial institutions availing their services within a geographical or defined area of business. Strength is in numbers. Critical mass is crucial for market driven solutions – the Equity experience.
- Financial institutions see their entry at all levels of the value chain -producers, distributors, processors, inputs suppliers, services etc.; all have specific needs for financial services.
- One key service that has not been well profiled and worked out as a financial service in the agriculture sector is insurance. This is a serious in view of the risks that agricultural farmers are exposed to.
- The presentations emphasized the need to provide appropriate financial services that are need driven. Credit should be responsively aligned to the production cycle and, preferably, tied to the crop as collateral.
- It is evident there is a big gap in farmers' appreciation and understanding of the available financial services. This calls for financial institutions to facilitate access of farmers to information which can enlighten them on financial services.
- It was demonstrated that provision of embedded services contributes immensely to trust and relationship building which is a critical element in successful financial services provision.
- It was noted that there is a distinct disconnect between the talking and applying of financial services within value chains.

BREAKOUT SESSION 5: PRIVATE SECTOR-LED DEVELOPMENT

Moderator:

David Knopp

Chief of Party, Kenya BDS

ABSTRACT

Since the mid-1970s, the term Corporate Social Responsibility (CSR) has increasingly been accepted among medium-to-large companies as a means of expressing commitment to the overall socioeconomic development of a community in areas that do not directly affect the core bottom-line.

The European Commission defines CSR as ‘A concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis.’ For many corporations, CSR-led initiatives are a meaningful way of brand differentiation as well as risk mitigation by maintaining a positive image with both governments and the wider public. Critics however maintain that CSR-led initiatives are merely a strategy for distracting the public from ethical concerns stemming from their core operations.

More recently, the concept of Triple Bottom Line has gained prominence as a means for harmonizing both corporate and societal interests. In *The Triple Bottom Line* by Andrew Savitz, this emerging concept enables profits to go side-by-side with environmental and social performance, which is seen in the end as the true measure for sustainability.

C.K. Prahalad builds upon the concept of aligning CSR-led initiatives with core business strategies in *The Fortune at the Bottom of the Pyramid*. According to Prahalad, the bottom of the (economic) pyramid consists of the 4 billion people living on less than USD 2 per day. If private enterprises and development aid agencies stop thinking of the poor as victims or burdens, but rather recognize them as innovative entrepreneurs and value-conscious consumers, viable markets may be developed that create new growth opportunities for the private sector while spurning innovation and growth at the bottom of the pyramid.

Regardless of the theoretical perspective, several trends are evident:

- The private sector is increasingly recognizing the untapped opportunity at the bottom of the pyramid.
- Corporate philanthropy need not be separated from bottom-line incentives, and
- Development may take place through the private sector.

The purpose of this breakout session is to examine these emerging trends through the practical experience of three distinct private sector-led initiatives. Critical questions will be examined, such as:

- Why was the ‘bottom of the pyramid’ targeted?
- How do micro-small enterprises (MSEs) contribute to the firm’s core business operations?
- What efforts or investments were required to realize this strategy?
- What have been the challenges and successes in implementing this approach?

Private Sector Initiative in Tanzania

Frederick Kibodya
External Affairs, Manager
BP Tanzania

Background information

In 2002, BP Tanzania led seven other corporations in Tanzania to launch a Private Sector Initiative (PSI) project to support local small and medium enterprises' growth and development. Other pioneering companies to the PSI cause are National Microfinance Bank (NMB), Kilombero Sugar Company, Kahama Mining Corporation (Barrick Gold), the SUMARIA Group, Tanzania Cigarette Company (TCC), Tanzania Breweries Limited (TBL) and Tanga Cement. Today, PSI's partner membership list has grown to 17.

The missing middle in the economy

In developing economies like Tanzania, there is a distinctive gap between large corporations and small and micro enterprises, which are predominantly informal in nature. The 'missing middle' necessitates large corporations and Multinational Enterprises to source out of the country by importing goods and services required in their operations.

What is PSI?

The PSI is modeled on a business linkage program developed in South Africa. The project facilitates how large companies work among themselves and develop linkage to small suppliers of their goods or services, by offering procurement opportunities.

The PSI can further be exemplified using the words of Hon. Basil Mramba, the former Tanzanian Minister of Finance during the PSI launch. He said,

"I reckon that this initiative is not charity, that it is not philanthropy. This is hard-nosed business.... the PSI companies are not going to lower standards but simply promise to create opportunities. As we all know, merely giving money is not enough to solve problems. Solutions have to be sustainable if they are true to be called solutions; charity does not foster entrepreneurship."

On his part, Sam Mupanemunda, former BP Tanzania Managing Director, said:

"... what we are aiming for is a radical change in business culture, it's about doing quality business in a market-led environment and not philanthropy. A fundamental element of the initiative is the importance of attracting additional local corporations to participate, to ensure greater access to markets and sustained SME growth."

Small Business Project (SBP) is a non-profit consultancy organization based in South Africa that helped rolling out the PSI project in Tanzania during its two years pilot phase. The PSI had leveraged funds through the Business Linkage Challenge Fund, attached to the British Government's Department for International Development (DFID), which was used to pay for SBP's assistance.

SBP's role was primarily as a facilitator providing technical support and staff to the local corporations in developing their local supply chain.

Implementing PSI

The PSI initially identified small enterprises that could provide goods and services to the large corporations. The focus of the initiative is on sustainable enterprise development, poverty reduction and job creation. The

PSI supports concrete and practical projects in specific locations. These projects form a collective effort of the partners to the PSI and they include:

- BP Tanzania Limited and Kilombero Sugar Co. Ltd jointly supporting over 3000 sugarcane outgrowers (Kilombero is a main client of BP fuel).
- Kahama Mining Corporation Limited (Barrick Gold) procuring lime and protective gears from local SMEs.
- The Sumaria Group of Companies established milk (chilling) collection centres for small dairy (milk) producers.
- Tanzanian Breweries Limited supporting Tanzania Printers to buy a USD 100,000 machinery and contracting an expert from South Africa to transfer skills to the local SME.
- While majority of PSI companies, like Coco-Cola and the Tanzanian Cigarette Company Limited, committed to provide printing tasks to the printer so as to provide critical mass of the printer's enhanced capacity.

PSI framework

The PSI incorporates a framework, comprising three operating components:

Steering Group (CEOs of PSI member companies) Roles

Oversight and strategy

Overall overview & project management

Financial Oversight

Overall vision

Working Groups (PSI engine room)

Determine targets and opportunities

Experience exchange

Capture good practice

Project plan and implementation

Facilitator

Technical support

Monitoring and evaluation systems

SME accreditations

PSI key performance indicators

The success of the PSI will be measured against the following indicators and performance areas, which are to be built into each of the partners work plans and within the overall framework of the PSI:

- Job creation,
- Improved capital investment in small enterprises,
- Increased experience exchange leading to more sustainable development solutions,
- Import substitution,
- Expansion of the corporate partner base of the PSI,
- Corporate procurement from local SMEs.

Successes, challenges and way forward

PSI is greatly enjoying support from government, development partners and the community at large. Growth of corporate PSI partner members has grown from eight in 2002 to 17 by 2007. Several joint projects among partner members have been established. However, there is a need to improve coordination facility as PSI currently depends on partner member staff (on rotation).

Finding common standard levels agreeable to all PSI partner companies is yet another challenge, and so is SMEs sustained performance on quality and reliability in supply schedule adherence. Continuous SMEs capacity building is greatly needed. With all the challenges, PSI Tanzania is looking ahead to increasing its corporate member partners as well as the number of joint projects. With the anticipated growth, the PSI performance targets are to be attained.

East African Breweries Ltd. Supply Chain

John Kiarie

MD, Deloitte Consulting and Vincent Mbalu

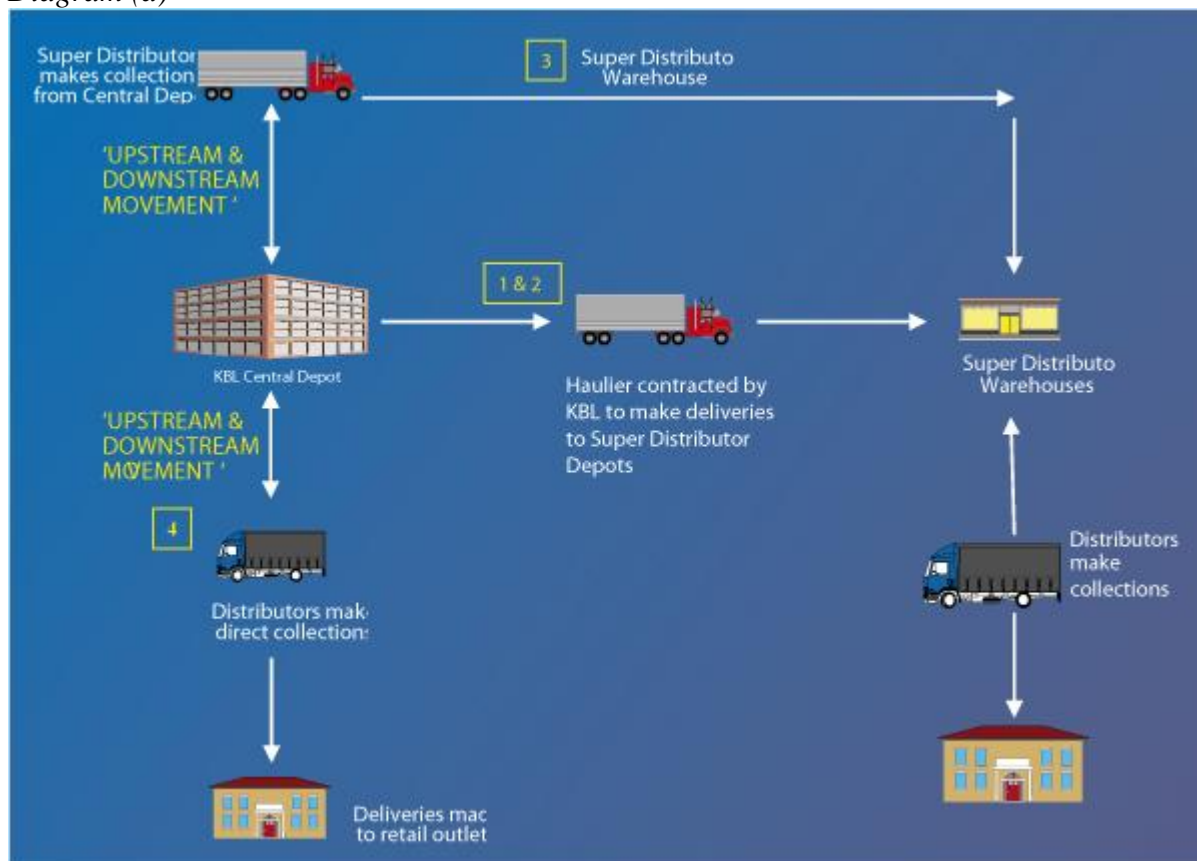
Customer Service Head, East African Breweries Limited

Background

Kenya Breweries Limited (KBL) is a wholly owned subsidiary of East African Breweries Limited (EABL). This is a KES 21 billion (approx. USD 300 million) revenue organization that sells alcoholic brands in Kenya through 70 distributors and between 8,000 and 9,000 outlets. The distributors tend to be small and medium enterprises employing between 20 to a 100 people with annual revenues between Ksh.200 million and Ksh.2 billion.

KBL has been reviewing its current Route To Market (RTM) strategy and is considering the various options available to maximize value. This created an opportunity for KBL to examine its distribution strategy and brought in Deloitte to assist. Distribution was not uniform across the country. It combined a number of business models including transporters (transport only), super-distributors (warehouse and transport), and distributors (collection/transport and distribution).

Diagram (a)



The key feature of that distribution model was that distributors performed both a transport and distribution function (i.e. moved both upstream and downstream). As a result, their focus on secondary distribution (which is their primary role) was not optimal and this affected the growth and development of their businesses. The previous distribution model is depicted in diagram (a) above.

KBL believed that many distributors focused more on transport than on distribution. KBL therefore wanted to change their focus in order to maximize the value for both the distributor and themselves. At the same time distributors did not believe that the distribution business could be profitable enough to warrant their attention.

Based on the research that was conducted by Deloitte, it was decided that a distribution model that unbundled transport / haulage and distribution components would achieve the objective of a focused distribution strategy. During the research of the existing distribution model, four issues came out clearly, which needed to be addressed in the new model. These issues included:

- Primary distribution,
- Route support,
- Technology, and
- Distributor management program.

Primary distribution

The key issue was how to motivate the distributors to concentrate on retail distribution, given that the distributors were not focusing on their core business and were investing heavily in terms of time, effort and finances on the collection business. The new model now looks as depicted in diagram (b) overleaf.

At the same time, the distributors wanted reassurance that the new model would not adversely affect their business, and it motivated them to focus on secondary distribution despite the loss of the collection business.

KBL used to provide credit for beer sales to the distributors and also wanted this taken up by a bank but used their leverage to reduce the cost to the distributors. Standard Chartered was the bank selected to implement the solution and have been adapting to the needs of this sector. They have even recently started a focused program for the SME sector as a result of the knowledge accumulated from the implementation of this program.

Route support / Business development incentive

The issue was how to create incentives for the distributors so that they open new outlets and increase average outlet sales. The system for awarding route support was not uniform, thus causing a great deal of dissatisfaction, yet it was known that distributors only serviced less than 50% of the potential outlets.

The challenge was to design a rational incentive scheme that motivated distributors to own every case they sold. This was possible by re-structuring the incentive program by making it more inclusive and target based, and allowing it to be used to motivate distributors and compensate them for business development.

The outcome was a target based incentive scheme which featured a baseline payment, topped by payments based on volumes, distance, terrain and brand mix.

Technology

To make these businesses more profitable, there was also the challenge of how to motivate the distributor to embrace technology, to streamline their processes, and collect decision support information. Review of the businesses had already demonstrated that the large amount of paperwork by distributor's sales force led to many errors and inefficiency in the selling process, and in the conveyance of business intelligence to KBL. It was agreed that both now and in the future, distributors needed technology that would increase sales by availing market information and injecting efficiency in the distributor's processes. The solution required implementation of hand held sales systems and the hiring and training of appropriate staff to use the technology.

Distributor management program

To ensure that the distributors continued improving their businesses and reducing the risks of failure, KBL needed a sustainable standards program that would endear it to the businesses. Research revealed that all the distributors would be interested in this program and most of them were performing at the baseline level.

A distributor management program was designed and implemented that would see the distributor progress from baseline, developing experienced and mastery levels. This program will be supplemented by a Tusker Academy Program to ensure that the distributors manage more profitable and professional businesses.

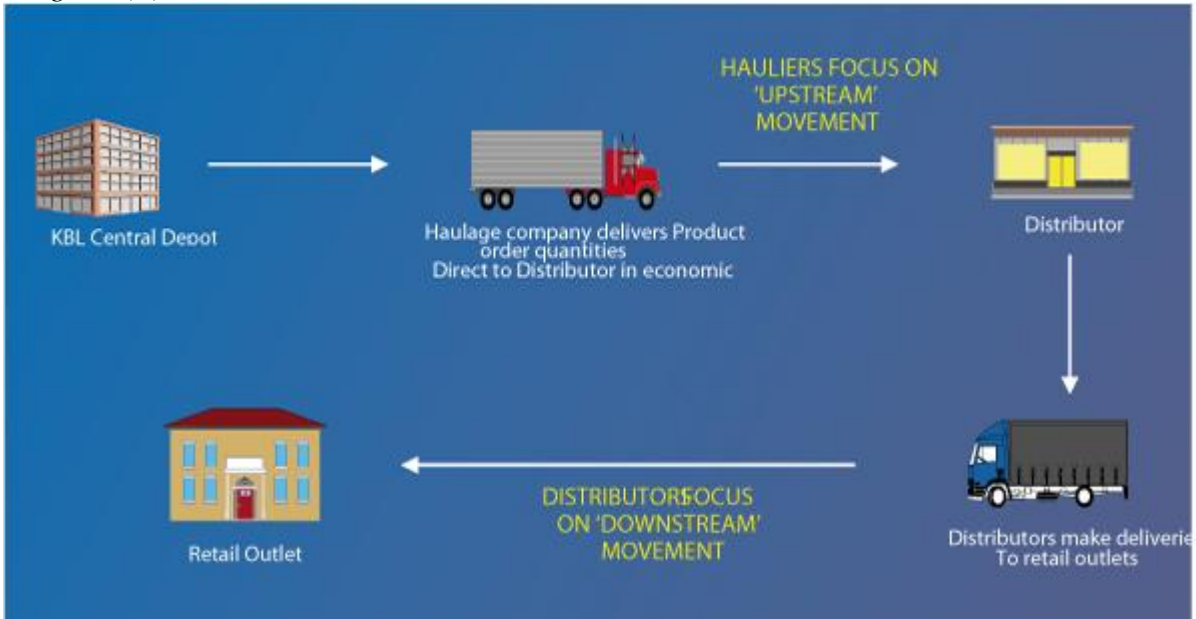
Conclusion

Although the new model took away the lucrative collection business from the distributors, it offered the distributors the opportunity to increase their turnover and profits through the new incentive scheme.

The distributor management program under implementation will also transform these SME businesses into more profitable and professional operations making it easier for the distributors to meet and exceed their sales targets, and therefore, increase the revenue and profits for both parties (KBL and distributors).

KBL will also benefit from the reduction of the logistics overhead and increased revenue from the more focused RTM. Early indicators support the transformation that has indeed taken place and the future looks bright. The next step will focus on the outlets that distributors serve.

Diagram (b)



Safaricom and M-PESA

*Pauline Vaughan
Head of Department
M-PESA, Safaricom*

In March 2007 Safaricom launched M-PESA in conjunction with Vodafone Marketing Sarl (a subsidiary of Vodafone Group Plc). M-PESA is a world first service that uses mobile telephony to offer fast, safe, affordable money transfer across Kenya. M-PESA is mainly targeted at the large un-banked population in Kenya and also offers a convenient alternative means of transferring money to people with a bank account.

Safaricom customers can register for an M-PESA account at authorized agents. All they need is a National Identification document and their Safaricom SIM card. Registered M-PESA customers have a 'virtual money' account attached to their Safaricom mobile phone number, into which they can deposit money at participating Agents. Using a menu on their SIM card, they can withdraw cash from an Agent, send money to another mobile phone number and purchase airtime for themselves or any other Safaricom pre-paid account.

To receive money via M-PESA a customer does not need to be registered for M-PESA, they can even be on another mobile network. Charges are deducted directly from a customers account at the time of transaction and all M-PESA related SMS are free to customers.

The M-PESA agent network has grown to over 1,200 outlets, including Safaricom dealer outlets, Kenya Post Office Savings Bank branches, courier companies, supermarkets, fuel retailers and other shops.

Currently M-PESA offers consumers a convenient way to send money from one person to another and buy airtime. This will in future be expanded to enable other transaction types including:

- Customer to Business payments (to allow purchase of goods or services from authorized retailers and bill payment, whether remotely or with customer present),
- Business to Customer payments (to allow dispersal of salaries and allowances to field staff), and
- Business-to-Business payments. It is expected that in this manner M-PESA will enable businesses to expand through reaching more customers and providing efficiencies along the value chain.

Private Sector Led Development: Session Summary

- The presentations demonstrated the move away from traditional Corporate Social Responsibility to win-win strategies by the private sector from a 'triple-bottom-line' as well as 'fortune at the bottom of the pyramid' perspective. A few key themes emerged:
- It is a common practice among the larger firms to help build SME capacity. For Safaricom, it is important that cash outlet 'agents' are competent and able to manage the scheme. For BP, one challenge within the PSI was the sustained quality performance of suppliers. For EABL, the entire program focused on building the capacity of their SME distributors.
- Each of the programs emphasized the importance of strategic partnerships, whereby if you improve the welfare of your customers, you actually benefit.
- It was recognized that when targeting the 'fortune at the bottom of the pyramid,' models that targeted high volume were critical for success. EABL's program emphasized the need to increase sales and outreach through dynamic distributors. Safaricom's model is based upon a low transaction, high volume approach.
- Some participants asked if the approaches were 'exploitative', or if it was evil for the private sector to make a profit? Such comments were discredited fairly rapidly by the larger audience.
- Finally, the question was raised 'Are donors obsolete?' If the private sector is able to carry out win-win interventions that provide for development of the MSE sector through commercial incentives, is there a future role for donors? The response to this comment recognized that in both the Safaricom and BP examples, the donor had a strategic role in conducting the initial market research as well as program design. In the EABL example, many of the value chain interventions carried out were based on lessons learnt from donor-funded programs.
- A follow up issue for future discussion could be the role that donors can have in piloting and documenting good practice. As innovation requires huge time investments, perhaps donors could demonstrate "value" for replication by the private sector

BREAKOUT SESSION 6: ENABLING ENVIRONMENT AND COMPETITIVENESS

Moderator:

Wanjiku Guchu Kimamo

Assistant Project Manager,

Business Services Market Development Project.

ABSTRACT

For over ten years, corporate strategy has been a key focus for firms as this determines their 'game plan' for competing within a given sector or industry. Sectors too need to examine how they are placed to maximize returns; thus the development of clusters to support the entire industry has been seen as a key driver in competitiveness at the industry level. At a national level, countries must find ways of exploiting their natural resources to create wealth for their citizens.

Professor Michael Porter of the Harvard Business School, a world-renowned authority on business strategy and competitiveness, was in Nairobi earlier this year, and in his keynote address at the Strathmore Business School, he emphasized that a productive economy is created by productive firms i.e. firms with clear strategic direction and with sophisticated work methods.

Macroeconomic conditions in a country determine competitiveness and productivity of the firms. Political stability, legal framework, economic and other policies, social circumstances and physical infrastructure, all contribute to the economic growth of the country.

For a vibrant economy, all parties need to work together:

- A proactive private sector,
- A Government committed to right policies and the provision of infrastructure to support private sector initiatives,
- Academic and research institutions providing the right knowledge, skills and workforce to support the requirements at the firm level.

Only then can firms, industries and indeed nations be competitive. Competitiveness is all about productivity and how efficiently inputs are converted into outputs.

Private sector development initiatives in Kenya are now taking the Value Chain (VC) approach whereby grants are established to address certain constraints within a specific value chain or sub-sector. Thus for example the work of the DFID / DANIDA funded Business Services Market Development Project (BSMDP) is mandated to work in the Dairy and Export Horticulture sub-sectors and USAID supported Kenya Business Development Services Project (Kenya BDS) is focusing on fisheries and tree fruits. How can development partners identify the most promising sub-sectors for VC interventions?

This breakout session will be looking at how firms, industries and indeed Kenya as a country can be competitive. We will seek to answer the following questions:

- Will Kenya achieve its goal of a GDP of 10% over the next 25 years?
- What do we need to do to ensure that some of Kenya's key economic drivers remain competitive? How can we as development partners establish the competitiveness of the various sub-sectors, thereby select 'winning' value chains to invest in?
- How do we ensure that a business enabling environment is developed and maintained?
- How can we ensure meaningful collaboration is established and maintained between the various players in the economic arena?

The Competitiveness of Kenya: Kenya Association of Manufacturers

Betty Maina

Chief Executive Officer

Kenya Association of Manufacturers (KAM) is an association made up of 600 members in the manufacturing industry.

The main focus of the association has been advocacy work with government as well as availing relevant information to the association members.

Competitiveness of countries affects the competitiveness of firms. It is often the case that some firms in Kenya are competitive at firm the level, but operate in an unfriendly business environment which affects their overall performance. It is therefore imperative that the private sector is vigilant over the business environment, and partners with the public sector in creating of a competitive and conducive environment for doing business.

For this reason, KAM is very keen on competitiveness, and has been working with the government to make them aware of some of the hindrances the business community is facing and providing credible alternatives in the following ways:

- Knowledge assembly and dissemination of challenges faced by the business community and proposed solutions.
- Being actively involved in reform initiatives.
- Maintaining vigilance over gains to ensure these are not lost.
- Celebrating successes and positive achievements.
- Keeping the pressure on.
- Having the goal of continuously improving how things are done.

With this, KAM has been able to make some achievements such as the reduction of the number of licenses required to do business in Kenya. Even though this went through a long process, it was an indication that united efforts and persistence can achieve the overall objective, which is: building and maintaining a conducive business environment.

Enabling Environment and Competitiveness

- A Case of Fresh Produce Trade in Kenya

Dr Stephen Mbithi

CEO – Fresh Produce Exporters Association of Kenya (FPEAK)

Horticulture is the fastest growing sector in Agriculture growing at 14% per annum, and the second largest foreign exchange earner for Kenya. The domestic market consumes 90% of horticulture production with only 10% grown for the export market. This shows there is great potential for the expansion of the fresh produce grown for export. Small-scale producers do 80% of the production.

FPEAK is an association for fresh produce growers and exporters, whose main objective is advocacy to create a conducive environment for its members.

The association is convinced that Kenya can improve its competitiveness in the fresh produce industry by focusing on a few key commodities and thereby creating necessary volumes for trade and economies of scale. This can further be achieved by creating sufficient knowledge and skills necessary to attract new entrants.

The demand for fresh produce has continued to grow and the Kenyan horticultural industry should capitalize on this, while also ensuring that it becomes more efficient than its competitors.

Some of the achievements in horticulture can be attributed to the fact that the sector has been market driven with very little political or policy interference. Michael Porter in his address during his visit to Kenya in June 2006, used this sector to emphasise that political interference can really hold back industry growth. The fact that there has been very little government participation in the fresh produce sector has contributed to the success of this industry.

Below are some of the challenges faced by the fresh produce industry in Kenya:

1. High dependency on:
 - a. Skilled technology for inputs.
 - b. Stratified marketing systems especially in the export market chain.
Smallholder producers who contribute the bulk of export production are not able to address these challenges on their own and depend on someone else along the value chain. This makes them vulnerable, and in a sense “price takers”; even though they play a critical role in the fresh produce value chain.
2. There is a multiplicity of taxes in the horticulture sector. Currently there are about 65 different taxes that players in the sector have to deal with.
3. Export horticulture faces significant market access challenges such as compliance to various private standards and recently the ‘carbon miles’ issue.

To move the industry forward, these following issues need to be addressed:

- At macro level, issues that will support the development of a conducive business environment, and also ensure growth of all sectors in Kenya.
- At a micro level, address the various industry-specific issues that will unlock the potential of the horticulture sector at all levels. For example, a local base standard can be developed and used to support fresh produce growing whether for export or import, ensuring that the basic minimum health and hygiene requirements are met.
- Embrace a four pillar / clustering to ensure competitiveness within the horticulture sector. These four pillars are:
 - Research: which provides up-to-date information.
 - Private sector: willing and able to invest profitably within an industry.

- Financial institutions: that will provide affordable and accessible financing necessary to grow the industry.
- Policy: the government must advocate for right policies that will ensure that there is a conducive environment.

The four pillars must work together to ensure that they are on the same page at the same time.

Developing National Competitiveness – Vision 2030

Dr Wahome Gakuru

Act. Director National Economic and Social Council (NESC)

The National Economic and Social Council (NESC) has been developing the Vision 2030, which is Kenya's game plan for economic growth from now to the year 2030. This is building upon three broad pillars:

- The social: a just and cohesive society enjoying equitable social development in a clean and secure environment.
- The economic: to maintain a sustained economic growth of 10% p.a. over the next 25 years.
- The political: an issue-based, people-centred, result-oriented, and accountable democratic political system.

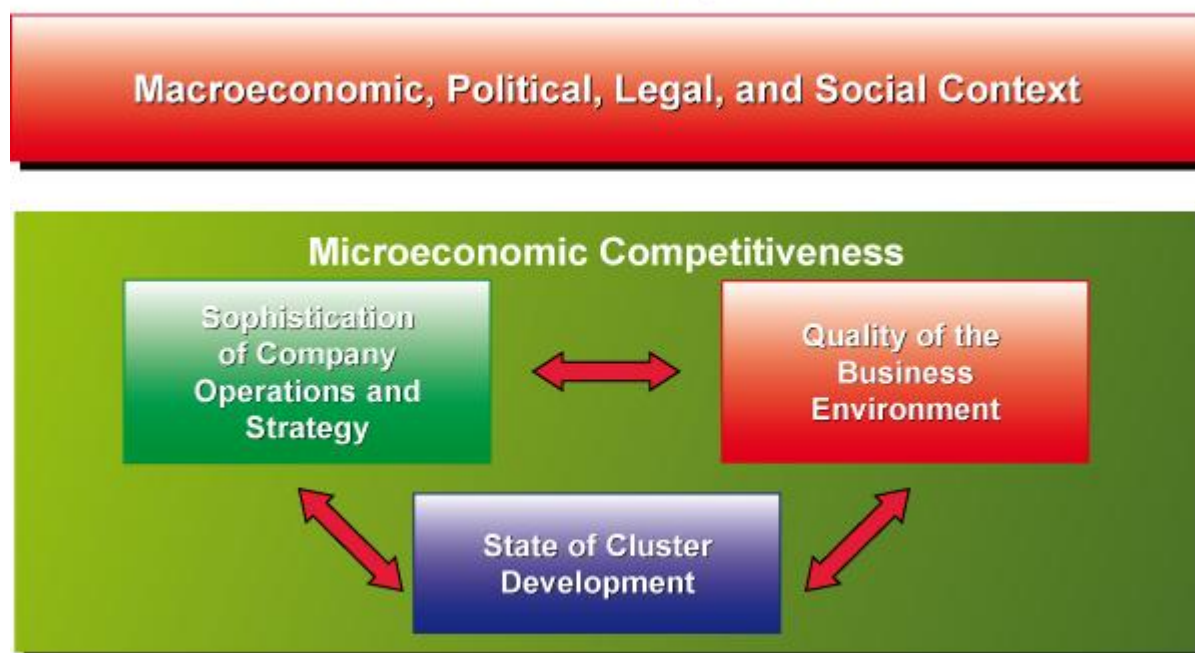
To achieve these objectives, six economic drivers have been identified that will be targeted at either national and/or geographic levels:

1. Tourism
2. Agriculture
3. Retail and wholesale
4. Manufacturing
5. BPO
6. Financial services

For the vision to be successful, and for the planned 10% annual growth to be achieved, an enabling environment has to be maintained. In order for this to be achieved, specific efforts are going towards transversal reforms towards the fundamental enablers in the areas of public sector reform, infrastructure development, human development, land reform, and security reforms.

Diagram (c)

Determinants of Competitiveness



Developing a national strategy takes into account the macro and micro economic issues of competitiveness as illustrated in diagram (c) above.

All aspects of this are important and they play an interrelated role in developing a nation's competitiveness. It is at firm level that wealth is created, while nations compete in offering the most conducive environment for the firms to do business.

Companies may strive to differentiate their offering from their competition and have a unique value proposition, while at the same time ensuring costs are kept at a minimum through operational effectiveness.

The business environment takes into account the all the aspects touching on the functioning of the company. These are input factors such as human capital, financial capital, physical resources and natural resources; sophisticated local demand that helps company's anticipate what their customers want thereby making suitable products; other supporting industries; and a context for firm strategy and rivalry.

Development of functional support / interrelated industries-clusters, is another important element. Cluster examples from the Australian Wine Cluster where there are developed structures and companies to support the various aspects in manufacturing of wine, right from fertilisers required to grow the grapes, to the supply of corks required during packaging of the final product.

Enabling environment and competitiveness: Session Summary

- Competitiveness depends on how efficiently firms are able to turn inputs into profitable outputs – thus getting an edge over the inefficient firms.
- It was demonstrated that a firm's competitiveness does not necessarily translate into a country's competitiveness. Even if individual firms are competitive, macroeconomic factors are pertinent for country competitiveness.
- The need for research and development is fundamental in contributing to a firm's growth and hence competitiveness. However, there is the urgent need of moving research from laboratory to where entrepreneurship is actually take place.
- It was noted that although the legal framework can provide an enabling environment, it can also and in fact does stifle the development and pace of the private sector. The myriad licenses, taxes and levies in Kenya are major hindrances to efficient private sector functioning.
- Policy advocacy has to be scaled up. Creating rapport and partnerships between public and the private sector on identified issues with tangible milestones and with action plans is essential.
- An enabling environment is not about a legal framework but also political will, infrastructure etc. For example, electricity is a fundamental constraint in the growth of local industry in Kenya.
- Even though advocacy and lobbying from the various associations has been successful in ensuring that a competitive environment is achieved, these associations must continue to keep the pressure on the government so as to ensure that policy decisions support industry growth and competitiveness.

Plenary Discussion: Techniques for Measuring Success

Plenary discussion on Aly Miehlebradt's presentation on impact assessment raised the following comments and questions:

- In the case of projects implemented by multiple partners, it becomes difficult to estimate impact attributable to a particular partner.
- The link with the impact targets related to Millennium Development Goals is difficult to establish due to existence of many externalities i.e. how can we assess how much additional income contributed towards reduction in the country poverty level and as a result of our interventions? Also, can we assume that everyone who gets a job gets out of poverty? This is clearly not the case.
- Is there a role for subsidies in market development programs? Where should they be placed? Who takes the initiative (and picks up the cost) to maintain continuity when a subsidy is removed?

Closing Plenary: Observations from Participants

- We need to be clear on what is pro-poor and what is not. For example, not all Corporate Social Responsibility activities can be called pro-poor.
- Private sector and NGOs need to complement each other in their pro-poor agenda because both have valuable resources in terms of skills, information etc.
- How does the private sector ensure fair return to producers? Since much of the private sector is dependent on small producers (as they supply the much needed raw materials), it is important to change the nature of profit relationships in value chains. There should be a shared vision of how the future should / might look like and stakeholders need to work with governments in creating an enabling environment.
- Who takes responsibility for value chain oversight post-donor interventions? Maybe institutional frameworks such as the commodity specific Apex Organizations can play this role.
- How can private-public sector linkages be nurtured?
- SME capacity building is key to ensuring efficiency in procurement processes and in sustaining business linkages.
- There is need to work together as East Africa to strengthen SMEs and to build strong impact and broad outreach from private sector development interventions.

Conference Programme

Day 1 Wednesday, 14 November 2007

4.00 Participants registration

6.30 - 8.30 Reception

Day 2 Thursday, 15 November 2007

8.30 - 9.15 Opening Remarks and Conference Launch

David Knopp, Chair, BDS Donor Coordination Group
David Nalo, PS, Ministry of Trade and Industry

9.15 -10.30 Plenary Session

Making Markets Work and VC Facilitation–Where are we now?
Marshall Bear, International Consultant

10.30-11.00 Tea break

1.00 -1.00 Breakout Session #1: Horizontal and Vertical Linkages
Moderator: Christian Sorenson

Mr. Santosh, Managing Director, Milly Fruits
David Masika, Managing Director, Makueni Ginnery
Apollo Owuor, Production Manager, Kenya Horticultural Exporters

11.00-1.00 Breakout Session #2: Value Addition
Moderator: Musabi Muteshi

S.M. Kiruthu, CEO, African Leather Industries Association
Kamau Kuria, Managing Director, Coffee Management Services
Ben Kiragu, Deputy Director, Kenya Horticulture Development Program

1.00 - 2.15 Lunch break

2.15 - 4.15 Breakout Session #3: Business Development Services
Moderator: Mehrdad Ehsani

Margaret Will, Consultant, GTZ
Jane Murigu, Manager, Ideal Business Link
Paul Mambo, Private Sector Dairy Service Provider

2.15 - 4.15 Breakout Session #4: Value Chain Financing
Moderator: Jeff Njagi

Esther Muiruri, Business Growth and Development Manager, Equity Bank
John Masha, Credit Manager, MESP Trust
Steve Collins, Director, KMDP and
Anne Mbaagu, Director, East Africa Grain Council

4.15 - 4.30 Tea break
4.30 - 5.30 Plenary Session: Reports on Breakout Sessions
7.30 Dinner

Day 3 Friday, 16 November 2007

8.30 - 9.00 Recap and Review
 Marshall Bear

9.00 - 11.00 Breakout Session #5: Private Sector-Led Development
 Moderator: David Knopp

 Frederick Kibodya, External Affairs Manager, BP Tanzania
 John Kiarie, MD, Deloitte Consulting and
 Vincent Mbalu, Customer Service Head, East African Breweries Limited
 Pauline Vaughan, Head of Dept., M-PESA, Safaricom

9.00 -11.00 Breakout Session #6: Enabling Environment / Competitiveness
 Moderator: Wanjiku Guchu

 Dr. Wahone Gakuru, Director, National Economic and Social Council
 Betty Maina, CEO, Kenya Association of Manufacturers
 Dr. Stephen Mbithi, CEO, FPEAK

11.00 -11.30 Tea break

11.30 -12.30 Plenary Session: Reports on Breakout Sessions

12.30 -1.45 Lunch break

1.45 - 2.45 Plenary Session: Measuring Results from Market Development
 Aly Miehlabrad, International Consultant

2.45 - 3.45 Conference Facilitation Discussion and Wrap-up
 Facilitated by Marshall Bear

Vote of Thanks and Close

Wanjiku Guchu, Conference Coordinator