

Learning Brief

Promoting a Fee-for-Service Business Advisory Services (BAS)
Market for Agribusiness SMEs in East Africa



The **Agribusiness Investment for Market Stimulation (AIMS)** program was a seven-year USD 19 million program funded by the United States Department of Agriculture (USDA), which included a USD 50 million Loan Guarantee Facility (LGF) backed by the Overseas Private Investment Corporation (OPIC). AIMS utilized a market systems approach to support agribusiness small and medium enterprises (A-SMEs)¹ in Kenya, Tanzania, and Malawi to increase their volume and value of trade.

One of AIMS' objectives was to improve the capacity of A-SMEs by connecting them to quality business advisory services providers (BASPs) who deliver services—including business planning, financial management and bookkeeping, and branding and marketing—that can help A-SMEs increase sales turnover, reduce costs, generate new market opportunities, access finance, and expand their businesses.

To this effect, AIMS' efforts centered on developing a market-driven system of advisory services, in which BASPs and A-SMEs would directly engage with one another. As such, interventions focused on reducing barriers, strengthening trust, and incentivizing merit-based, demand-driven relationships.

This brief highlights the key lessons learned from AIMS' experience on what has worked well, and not worked so well, in attempting to make BAS a business in itself. This learning is targeted toward practitioners working in agricultural value chains and SME development, as well as policy makers and donor and development agencies, to guide them on how to support market-driven BAS development.

¹ In Kenya and Tanzania, AIMS defined A-SMEs as those with a minimum of 5 and a maximum of 100 employees, and an annual sales turnover ranging between USD 50,000 and USD 2,000,000. In Malawi, the sales turnover criteria ranged from USD 20,000 to USD 1,000,000. A-SMEs included producers, aggregators, exporters, input providers, transporters or other service providers working in the grain, pulses, horticulture and/or livestock (dairy and meats) value chains.

The Challenge: A Thin and Distorted BAS Market

In Kenya, Tanzania, and Malawi, agriculture is the mainstay of the economy, contributing to a significant proportion of each country's GDP, and employing over half their respective labor forces. Within the sector, A-SMEs play a critical role in driving growth by connecting smallholder farmers to commercial markets.² Despite their importance, A-SMEs continue to face constraints, ranging from inadequate financing, limited business management skills, lack of timely market information, and limited commercial linkages.

Country	% Contribution to GDP	% Rural Population	% Employment
Kenya	34.2	73.0	57.0
Tanzania	28.7	66.2	65.7
Malawi	26.1	83.1	71.7

Source: World Bank Open Data, Kenya (2017, 2018, 2019), Tanzania (2018, 2018, 2019), Malawi (2017, 2018, 2019)

Although business advisory services (BAS) can assist A-SMEs in overcoming these constraints, the market for them remains relatively thin. To explore why, AIMS carried out an assessment of 472 A-SMEs across the three target countries in 2016. The findings revealed a complex web of inter-related challenges that underpinned low uptake rates of business advisory services:

- 1. Limited awareness.** AIMS' assessment revealed that only 52% of A-SMEs were aware of BAS as a service and of service providers. Such limited knowledge was underscored by the fact that most BASPs were urban-centered and that little work had been done in extending services to rural areas. BASPs have been poor at pursuing the A-SME market and self-promoting their services. At the same time, 99% of A-SMEs stated they would use BAS if they were made available, suggesting untapped market potential.
- 2. Donor dependency.** The BAS market had been highly distorted by government and donor-funded projects, especially those that provide free or heavily subsidized services. AIMS' survey revealed that among A-SMEs who received BAS, most were accustomed to receiving them for free. With most BAS being donor-financed, the prices of services had gone up, leaving little to no incentive for providers to market directly to A-SMEs.
- 3. Lack of relevant offerings.** An effective BAS market requires that the providers understand the characteristics of their potential clients and their needs. It furthermore requires providers to respond to those needs with appropriate products. However, existing BAS remained highly generalized, limiting A-SMEs' understanding of BASPs' value proposition.

Overall, the study revealed that given the thin and distorted characteristics of the BAS market, interactions between BASPs and A-SMEs were either non-existent or structured to maximize immediate profits, with a reluctance on either side to invest in mutually beneficial partnerships.

² AGRA (2019). *Africa Agriculture Status Report: The Hidden Middle: The Quiet Revolution in the Private Sector Driving Agricultural Transformation* (Issue 7). Nairobi, Kenya: Alliance for a Greener Revolution in Africa (AGRA). Available at: <https://agra.org/wp-content/uploads/2019/09/AASR2019-The-Hidden-Middleweb.pdf>.

Stimulating Market-Driven BAS for Agribusiness through a One-Time Subsidy



To address the mismatch between supply and demand in the BAS market, AIMS understood that BASPs needed to see a business incentive for outreaching to A-SMEs as a potential new market. A-SMEs, on the other hand, needed to recognize the importance of BAS in growing their businesses. Moreover, both parties would need to be convinced that there would be returns to their investments, and that those returns would exceed the costs.

Because persuasion alone is often insufficient in energizing weak markets, AIMS introduced a time-bound risk-sharing model, which entailed a one-time subsidy for the first BASP-SME engagement. This initial subsidy covered up to 50 percent of the total BAS cost, capping at USD 800. The model was designed to encourage trials of BAS, while simultaneously buying down some of the risk that providers would have in offering services to a new market. AIMS' goal was to demonstrate the value of BAS, thereby incentivizing these initial A-SMEs to become repeat clients at full cost, and attracting other firms to crowd in.

On the supply side, AIMS designed a vetting process for “first mover” BASPs that was standardized across all three countries, using common tools and procedures. Once these pre-qualified BASPs were recruited, they undertook various capacity-building initiatives, such as individual guidance on how to design and package their services in line with known or forecasted demand, on how to develop mini-workshops, as well as on how to develop an effective marketing pitch. AIMS also worked with BASPs to ensure their pricing was competitive and congruent with market prices. Finally, the program facilitated quarterly meetings to obtain feedback and provide continual capacity building, as well as post-engagement follow-ups to reflect on lessons learned. Overall, a cadre of 88 (38 active) providers was established across the three target countries, with a portfolio comprising needs-based services.

On the demand side, AIMS organized opportunities for individual A-SMEs to experience and assess the value of BAS through half-day forums. During these events, BASPs set up booths for one-on-one engagements, and provided “short courses” demonstrating their value to potential clients. BASPs also participated in financial institutions' product sensitization forums, organized by AIMS, to identify common business management challenges, discuss solution, and pitch their services to the A-SME audience. This allowed BASPs to be visible from the beginning as independent, commercial entities, while allowing A-SMEs to select those providers whom they felt best suited their business development needs. In addition, AIMS worked to link BASPs with “apex organizations”—including associations, aggregators, lead firms—so as to build the capacity of the latter in providing services to their member A-SMEs.

What did AIMS learn?

1. Transitioning to a market-driven BASP model is predicated on a shift in market actors' mindset and practice. Although a time-bound subsidy model can kickstart this change, it must be complemented by persistent and diligent facilitation, and awareness- and capacity-building.

The goal of AIMS' one-time subsidy BASP model was to demonstrate and showcase the value of business advisory services through its "first movers," so that other A-SMEs would witness the benefits of investing in such services, and therefore begin to crowd in—and thus contribute to the development of a dynamic BAS market. In doing so, AIMS understood that applying market principles to existing BAS dynamics would entail a disruption to the status quo.



While the cost-sharing mechanism provided monetary incentives to market actors, it was unlikely to remove decades of disconnect and broken trust between A-SMEs and service providers. Therefore, for the BAS market to be sustainable, AIMS understood that there needed to be a continual reinforcement of trust, communication and transparency among the parties involved. After all, positive outcomes lead to good referrals, which leads to more positive outcomes. On the other hand, negative outcomes can lead to clients refusing to pay for unsatisfactory services, or worse—especially in thin markets where trust relations are inherently weak—dismissing the service altogether.

To this end, AIMS staff worked diligently and persistently with individual BASPs to see A-SMEs as an untapped market opportunity, build their individual capacities, and to subsequently shift their pricing to be more competitive and reflective of the A-SME sector. AIMS also invested considerable time and resources in educating prospective A-SME clients about the importance and value of BAS, as well as demystifying what such services entailed. In contexts like Tanzania, which was characterized by a history of broken trust between A-SMEs and BASPs, AIMS' efforts had to center around re-building relationships, which was at times more challenging than building new relationships from scratch.

While facilitation is in itself a delicate balancing act, AIMS' challenge was underscored by the fact that it did not start out as a market systems program, but rather shifted course part-way. This meant that AIMS staff had previously communicated one message to partners at the beginning of the project (i.e. promising direct provision or full subsidies) but revised it to something less immediately favorable (i.e. offering one-time partial subsidies). This change presented an uphill battle for AIMS, as it slowed the pace of interaction and a shrinking up-take of the revised offerings.

2. BASPs' value proposition must lie in customized services that are directly applicable to A-SMEs' individual business needs. Therefore, a thorough screening procedure for qualified BASPs was critical for demand creation.



AIMS' diagnostic assessment revealed that most A-SMEs with prior BAS experience had received some form of free generalized knowledge. The nature of such BAS was not appreciated by A-SMEs, as they lacked usefulness and relevance to their individual needs and ambitions. Given that understanding clients' needs is fundamental to any market development strategy, AIMS had to ensure that BAS offerings encompassed diverse yet agribusiness-relevant needs, including:

- Improved bookkeeping and business planning so as to better access finance;
- Improved financial management and operational systems to reduce costs and unnecessary losses;
- Improved recordkeeping to reduce tax burdens;
- Improved governance and management structures for higher efficiency; and
- Improved technologies or technical knowledge, such as on post-harvest handling and losses.

Moreover, AIMS learned for BASPs to be successful within the A-SME market, they had to have both the willingness and skills to design, plan, and package their services to speak convincingly to agribusinesses. In addition, BASPs needed to demonstrate knowledge of agricultural production in addition to expertise in entrepreneurial development, while being well-versed in various assessment and delivery methods, such as facilitation, diagnostics, marketing, communications, etc.

To this end, AIMS designed an application process where "first mover" BASPs were screened for quality and potential. The screening was based on a number of key criteria, including applicants' technical knowledge and specialties, past performance, team composition and qualifications, organizational structure, fee structure, and geographical proximity. This allowed AIMS to select BASPs that had the most potential to be successful with A-SMEs, and to individually guide them through the engagement process.

3. The nature and composition of the A-SME sector can present significant financial risks to BASPs. Targeting larger, growth-oriented A-SMEs can be both a profitable and risk mitigating strategy.

Despite selecting quality, high-potential A-SMEs, AIMS had to remain mindful of cost recovery considerations in orienting or expanding BASPs to the A-SME market—that is, the extent to which the costs of providing a service were covered by adequate revenues from the clients. Indeed, if providers do not see early revenues, they would see no reason to stay and quickly withdraw from the market.



One of the challenges was that most quality BASPs were in major cities and could not serve A-SMEs in rural areas without significantly driving up costs. This was particularly the case in Tanzania where long distances not only increase high transaction costs, but also limit providers from engaging more productively with clients. In addition, financial sustainability considerations were exacerbated by the fact that agribusiness ventures tend to deal with more cash-flow challenges when compared to other sectors. Thus, while phased payments or payment-by-results mechanisms were attractive to A-SMEs, particularly smaller firms, they simultaneously posed financial risks to BASPs in managing their own cash-flows.

Initially, to reach as many A-SMEs as possible, AIMS' strategy focused on targeting cooperatives and smaller, individual firms. While A-SMEs had to apply to participate in AIMS' BASP model, there was no formalized screening process. The criteria for A-SME selection included whether they were formally registered firms, whether they operated in AIMS-targeted value chains, and whether they had been in operation for at least 24 months.

The program realized early on that it was wasting efforts on “too small” A-SMEs that did not have the capacity to privately afford services in the first place, or would be unlikely to afford them without continuous subsidies. At the same time, the program found that certain apex organizations, particularly cooperatives and member associations, were often accustomed to free, donor-funded services, and less likely to have sufficient capital to afford BAS.

Over time, AIMS learned that certain factors determined the ability and willingness to cost-share and subsequently pay for BAS in the long-run, such as larger firm size, profitability, and expansion-orientation. While these factors limited the pool of A-SMEs in engaging with BAS, they also provided more opportunities to affect richer and more sustainable change. AIMS' strategy shift, therefore, included the elevation of A-SMEs' minimum sales turnover requirement from US 25,000 to USD 50,000 in Kenya and Tanzania, and from USD 5,000 to USD 20,000 in Malawi.

Moreover, to better identify qualifying A-SMEs, AIMS employed creative tactics, including collaborating with partner financial institutions to obtain lists of potential clients that were seeking financing, but had not yet qualified due to certain measures, such as inadequate recordkeeping or low-quality business plans. AIMS also profiled A-SMEs based on their interests before introducing them to appropriate BASPs. In Kenya and Malawi, when BASP information sessions were held with screened A-SMEs, the uptake rate increased from less than 10% to over 30% and 43%, respectively. Finally, AIMS targeted select apex organizations who were best positioned to afford BAS, had clear profit motivations, and strong convening power. By building the capacity of these apex organizations, AIMS leveraged existing market structures to indirectly support member A-SMEs.

4. A-SMEs valued the BAS received, and a few continued their engagement following the one-time subsidy model, demonstrating viability and the potential for scale-up with continued facilitation.



Since the roll-out of AIMS' BASP model, a total of 178 A-SME applications for BAS financial assistance were approved. Moreover, many A-SMEs deemed their providers' training contents and support highly satisfactory, citing changes in business practices, including maintenance of financial records, separating business and personal expenditures, and having business plans.

Despite its thorough screening and governance measures, AIMS encountered BASP-SME linkages that did not work out as anticipated. In some cases, A-SMEs backed out from the engagement due to unforeseen circumstances. There were also reports of BASPs not being able to deliver on promised assignments due to multiple reasons, ranging from not being able to get in touch with clients during the contract period, or not being able to deliver promptly due to other engagements. Such scenarios were understood as being par for the course, that can be mitigated through close monitoring, greater flexibility, and strong oversight.

Other cases, however, pointed to the obstinance of traditional business norms. For example, while 88 BASPs qualified for the AIMS program, less than 43% of them remained active by the end of the program, citing prevailing expectations that services should be fully donor-funded. Similar reasons were cited by A-SMEs that backed out of agreements, who continued to feel entitled to free services.

Despite its setbacks, the one-time subsidy model has shown signs of traction. Those BASPs who remained active in the program have been successful in expanding their network in the agribusiness sector. For example, TRACE It AFRICA, an AIMS-prequalified BASP in Tanzania, had been providing its sales and marketing services to clients in the soap and detergent, beverages, honey, and baked goods industries. Participating in AIMS' capacity-building initiatives and engagement forums was game-changer to Pius Mikongoti, the director:

“Being exposed to agribusiness SMEs during the AIMS business linkage forum and giving me a chance to pitch my services resulted in the establishment of 10 business deals to provide services to AIMS agribusiness SMEs in areas of branding, packaging and promotions.”³

In addition, a handful of A-SMEs described how the services they received led to improved systems and processes and increased productivity. For example, the Malovu Milk Bulking Group, a milk aggregator in Malawi, had not maintained business records with buyers, leading to significant financial losses. In 2017, the Group, which had never utilized BAS before, was introduced to Granger & Associates, a local service provider specializing in accounting and financial management, through a forum organized by AIMS.

³ Mr Pius Mikongoti, cited in AIMS (2017). Program Creates Demand-Driven Market for Business Advisory Services: “Trace in Africa” in Tanzania.

Granger & Associates helped build the capacity of the Group’s executive committee on structured trade and contracting, marketing, bookkeeping, financial management, corporate governance, and internal controls. The Chairman noted that the benefits were multifold:

“We applied the knowledge gained from the [AIMS supported] training to develop a contract that clearly spells out the date when the buyer has to make payments for the milk collected in a particular month in order to avoid delays experienced with previous buyers, and we are happy that the buyer is so far honoring the agreement... This is an eye opener, with the benefits we have realized, we are committing to continue using BAS.”⁴

For other A-SMEs, training in financial and business management helped them to successfully apply for business investment loans. For example, Equip Consulting Group, one of the prequalified BASPs in Malawi, supported four A-SMEs in the development of annual financial statements, cash-flow projections, business plans and business profiles—allowing all of them to collectively access USD 204,224 in loans from EcoBank.

While the numbers of A-SMEs and BASPs who remained engaged were limited, their experiences nonetheless highlighted the viability of BAS in the agribusiness sector. By leveraging their successes, there could be multiple opportunities for scale-up with continued facilitation.

What can be done further to create and sustain demand-driven BAS?

Target high-potential A-SMEs, including apex organizations, through a formal vetting process. A rigorous screening procedure for BASPs proved to be highly valuable, allowing AIMS to focus its activities with a cadre of high-potential providers that could provide attractive services to A-SMEs. On the other hand, A-SMEs were not screened as thoroughly. A lot of time was spent engaging either individual A-SMEs or apex organizations who did not have the financial capacity and willingness to cost-share in the first place. By targeting high-potential A-SMEs—those that are larger, more mature, and growth-oriented—the probability of uptake and sustainability can increase significantly. In profiling apex organizations, it will be critical to screen for those that are already commercially oriented and focused on member services.

To directly target smaller, less mature A-SMEs, consider a graduated subsidy model. AIMS’ experience with smaller A-SMEs suggested that either the subsidy amount and/or the one-time subsidy was insufficient in enticing significant behavior change. Depending on the context, it may be worth exploring whether a graduated approach would be more effective—with subsidies phasing out as the market grows and develops. However, the inherent risk to such a strategy is that it sets the stage for a more complicated exit strategy, with the weaning process likely to be less effective. Future programs will have to identify and weigh the risks of distortionary effects in their specific contexts.

Encourage BASPs to organize and collaborate for more visibility. Although BASPs’ earning potentials are a function of their ability to meet the needs of as many clients as possible, BAS demands often exceed what a single provider can do. While providers naturally compete with one another, there are also opportunities to collaborate with one another. AIMS consultative meetings with BASPs revealed that the latter benefited from sharing experiences and cross-learning. As such, there may be opportunities for BASPs to build strategic alliances, and that they could do more business if they are better organized, with more visibility in the A-SME market.

⁴ Mr. Sydney Chadzunda, Chairman of Malovu Milk Bulking Group, Malawi, cited in AIMS (2018). Business Advisory Service Impact on Agribusiness SMEs: The Case of MALOVU Milk Bulking Group in Malawi.