



LEARNING BRIEF

SME ENTERPRISE SUPPORT ORGANIZATIONS IN SUB-SAHARAN AFRICA



At the Independent Food Systems Dialogue held on 11 January 2021, partners in the Smallholder and Agri-SME Finance and Investment Network (SAFIN) housed by the International Fund for Agricultural Development (IFAD) identified six key “game-changing” actions in agri-SME finance that could have a transformative impact on sustainable food systems, if taken forward under the umbrella of the United Nations Food Systems Summit.

One of these proposed game-changers was:

“A multi-actor initiative to bring more transparency into the business development service market for agri-SMEs, including an evidence-based benchmarking of effective models against the impact on access to finance, an effort to standardize BDS curricula based on such benchmarking, and value-for-money metrics for funders of such services”.

As a first step, an urgent need was identified to capture all key roles and stakeholders that influence sub-Saharan Africa’s agriculture and food landscape by supporting small and medium-sized enterprises (SMEs). Nourishing Africa was engaged to conduct a comprehensive mapping of the support ecosystem for SMEs in the agriculture landscape in sub-Saharan Africa. Through this mapping, key stakeholders, including agri-SME-focused institutions participating in the follow up to the UN Food Systems Summit, could uncover existing gaps and identify valuable opportunities for synergies and action with local enterprise support organizations (ESOs). This is a crucial step in creating comprehensive solutions to ecosystem challenges currently faced by these SMEs. This brief summarizes the findings of the mapping exercise as detailed in a separate report and database, which are available upon request at safincoordinationteam@ifad.org.

Background and Objectives

Nourishing Africa conducted comprehensive mapping of the support ecosystem for agri-SMEs in sub-Saharan Africa, focusing on eight countries: Côte d’Ivoire, Ghana, Kenya, Nigeria, Senegal, South Africa, Rwanda and Zambia. These countries were selected based on availability of information and relevance to SAFIN partners.

This ESO ecosystem mapping had two main objectives:

1 To develop a shared source of information on the existing landscape of ESOs in different countries that can be used to anchor efforts to ensure SME participation in implementation of food system transformation “national pathways”.

2 To engage ESOs around questions of business model sustainability, mainly related to improving access to finance for SMEs, given that for SAFIN partners and others working on agri-SME finance, the relationship between ESO business models and impact on SME access to finance remains a critical knowledge gap.

Methodology

A comprehensive literature review was conducted via desk research and expert consultations to provide the preliminary contextual understanding and inform the survey design.

The following driving questions were formulated through extensive desk research:

- What is the current **operating model** of a local ESO? How do they identify clients/beneficiaries, and how much influence does the funding organization have on their activities?
- How **effective** are local ESOs, how do they measure this effectiveness and how can the organization's effectiveness be improved?

- What is the **financial model**, and are there ways to shift the current paradigm to a model in which ESOs are directly accountable to SMEs, for example, SMEs pay for services?
- How can ESOs more effectively support SMEs to **improve** their **competitiveness** and **business performance**?

Primary data were gathered through in-depth discussions (IDIs), focus group discussions (FGDs) and online surveys with over 80 participants, including ESOs, local and global agri-food experts, and agripreneurs/SMEs. ESOs were engaged on questions of business model sustainability, particularly regarding improved access to finance for SMEs and their sustainability in offering much-needed services to SMEs.

Findings

1. Defining enterprise support services

Business development services (BDS) can include different forms of technical, financial and non-financial support provided to micro and small enterprises at various stages in their growth to improve their competitiveness and business performance. Business support services for enterprise development include funding, capacity building, networking, market linkages and ecosystem support through networking.

While BDS take different names in different sectors, in the food systems sector, BDS have been referred to as rural business development services, agricultural business development

services, market-oriented agricultural advisory services and value chain development advisory services.¹ For the purpose of this study, we will refer to all of them simply as enterprise support services.

With the recognition that support services are essential to a sustainable agribusiness ecosystem, enterprise support for agribusinesses has been growing alongside the development and growth of agri-SMEs internationally. Therefore, a range of enterprise support options has been developed and applied to support agri-SME needs.

2. Who provides business support services to agri-SMEs?

A range of providers offer enterprise and business support to agri-SMEs. These include public, private as well as civil society organizations.²

MAIN TYPES OF PROVIDERS	DESCRIPTION
Public sector agencies	Public sector agencies, such as ministries of agriculture and other entities, provide a range of services to smallholder farmers and agri-enterprises, including agricultural extension and research services.
Private sector companies	Private BDS providers range from multinational consulting firms, small companies with a national or regional outreach to informal micro-enterprises serving local SMEs.
Non-government organizations	A wide range of NGOs provide BDS. These range from international to local NGOs. These are financed by donors and governments, as well as internally generated funds.
Banks and other formal financial institutions	With support from loan guarantees or other credit enhancement mechanisms from donors and multilateral development institutions, banks have widened their reach and are beginning to expand lending to smallholder farmers.
Local and informal service providers	There are many informal private sector providers of inputs, information, technical advice, training and finance in rural areas.

¹ Wongtschowski, M., J. Belt, W. Heemskerk, and D. Kahan (eds). 2013. The business of agricultural business services: Working with smallholders in Africa. Royal Tropical Institute, Amsterdam; Food and Agriculture Organization of the United Nations, Rome; and Agri-ProFocus, Arnhem. https://www.kit.nl/wp-content/uploads/2018/08/2080_the_business_of_agricultural_business_services.pdf

² Rupert Best, Shaun Ferris and Chris Wheatley. 2015. A Guide to Strengthening Business Development Services in Rural Areas. USAID, Washington DC; Catholic Relief Services (CRS), Baltimore, MD; International Center for Tropical Agriculture (CIAT), Cali. <https://www.crs.org/sites/default/files/tools-research/guide-to-strengthening-business-development.pdf>

3. Who pays for enterprise support services?

Two main entities pay for ESO services in this sector:

1. **Government and donors** – the services are usually provided through NGOs or public sector agencies.

2. **Small and medium-sized enterprises** – SME clients are expected to pay fully or partially for business support services. However, there is still a significant gap in terms of access to these services as well as ability and willingness to pay.

4. Modes of delivery for enterprise support services

The term “mode of delivery” in this context refers to how funding organizations deliver the enterprise development services to agri-SMEs. Before the mid-1990s, the main mode of delivery was supply-driven, led mainly by funding organizations, usually donors and government organizations. This approach emphasized the donor’s view of what was suitable for the SMEs. As such, SME needs were not always met and in many cases the impact of services could not be demonstrated, discouraging willingness to pay for services among SMEs. A more market-driven approach was then introduced, seeking to facilitate a sustainable increase in demand and supply of services, in which subsidies are replaced by private payment. This approach promotes as many suppliers as possible, with the ultimate goal to enable SMEs to buy services of their own choice from the vast array of products offered. Based on

the principle that the client pays, the funding organization acts as a facilitator, providing support to both the service providers and the target clients. The aim here is to enable private sector actors to build their capacity to provide services demanded by value chain actors and their enterprises.

The profit motive embedded in the approach provides the incentive to offer enterprise support services in a sustainable and high-quality manner. Tools such as vouchers, market information and market awareness campaigns are used to generate market demand for the services by the funders. However, SMEs in developing economies and smaller size firms may find it challenging to pay for services. Thus, enterprise support providers in developing countries require support during their infancy stage to meet the initial financial obligations to set up their enterprises.

5. Categories of enterprise support organizations

Based on research conducted, we have classified ESOs as follows:

CATEGORIES	DESCRIPTION
Leadership and education	Organizations that provide development programmes and training to students, farmers and other practitioners on practical skills required to succeed in agribusiness.
Value chain and focus area associations	Formalized organization of people or groups of people whose primary goal is to promote the various segments of the agricultural sector and advocate for the rights and progression of its interest group.
Special interest groups	Special interest groups aim to bridge the gaps preventing their stakeholders from financial progression, access to the market and other relevant resources necessary to scale their participation in the sector. These include youth groups, women’s groups and people with disabilities groups.
Accelerators and incubators	Agriculture accelerators provide early-stage companies with a minimum viable product (MVP) education, resources and mentorship. Incubators often work with founders at the ideation stage and do not always have a fixed timeframe. Founders engaged in incubation programmes spend time with other entrepreneurs, building on their idea, determining product-market fit and getting investment-ready.
Investors	Investors provide capital flows to unlock the growth and impact potential of SMEs in the agriculture sector.
Public, private and non-profit initiatives	Initiatives developed and implemented by private, public and non-profit entities aimed at supporting SMEs.

6. Effectiveness of Enterprise Support Organizations

ESO services and interventions are primarily concerned with improving SME performance, but conventional ESO interventions are often based on donor-designed outputs and impacts, which may not focus on the market failures underpinning SME

underperformance. Moreover, the effectiveness of an ESO is difficult to quantify. The common practice among ESOs is to conduct impact studies at the end of their interventions, based on a given logical framework.

³ Alison Eskesen, Rashi Agrawal, Noopur Desai. 2014. Small and Medium Enterprises in Agriculture Value Chains: Opportunities and Recommendations. Shujog, Singapore; Oxfam, Nairobi. https://iixfoundation.org/wp-content/uploads/2011/08/OXFAM-SME-Report-November-2014_FINAL.pdf

Key themes from an analysis of the agri-SME support ecosystem in Africa

The following overarching themes were identified from interviews conducted for this study.

1. Agency and control

Most local ESOs still rely heavily on donor funding to conduct their activities within the agricultural value chain. They often align their activities with the donor objectives, which may not be directly in line with the urgent needs of local SMEs. However, the overall process of local ESO engagement with SMEs is through consultation with beneficiaries before designing and implementing initiatives. As a result, many ESOs have a well-defined strategy that defines the work in which they are willing to engage and the type of beneficiaries they want to work with. The majority (86 per cent) of those interviewed agree that the funding organization influences ESO activities to a high degree.

Donor control and influence are also felt in different ways, including scope of projects and targeting as well as duration.

2. Effectiveness of Enterprise Support Organizations

ESOs measure effectiveness based on the objectives of their projects/initiatives. The popular objectives include job creation, income generation and market linkages for SMEs. Additionally, most ESOs offering capital and finance products consider commercial returns and the number of people/SMEs that have been able to access finance as a measure of effectiveness.

This study has revealed that it is increasingly difficult to measure the effectiveness of ESOs. However, ESOs have been somewhat effective in improving SME ability to access finance through training of SMEs on investment-readiness and thereafter providing linkages to financial opportunities and support, whether through loans, grants or other forms of capital finance. Such investment-ready support includes providing information and knowledge to entrepreneurs, such as pitching and structuring their proposals for the investor. It should be noted that few ESOs provide direct grants to SMEs and more often refer them to financial partners for further support or provide loans or patient capital.

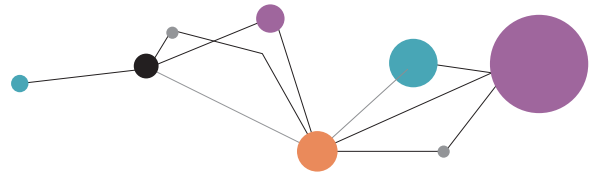
Local ESOs are often better positioned to provide ongoing support to SMEs, given their knowledge of the environment and their rapidly changing needs as they scale.

Most (90 per cent) of the local ESOs interviewed measure their effectiveness through impact studies. These ESOs have put monitoring and evaluation frameworks in place to assess the effectiveness of their interventions. However, SMEs expressed concern about the impact numbers presented by ESOs.

When asked about the effectiveness of the support from ESOs, 49 per cent of SMEs indicated that this was effective but 25 per cent of SMEs indicated that this was ineffective. There was some indication that SMEs receive better follow-up support from local ESOs than international ESOs after the project/initiative has officially ended.

Africa still revolves around the top-down system where multinationals still provide funding and support programmes.

ESO, Côte d'Ivoire



ESOs don't conduct impact studies, but they do come to SMEs to evaluate the aspects that worked and those that didn't work on the different projects they are funding and how to bring improvement.

SME, Côte d'Ivoire

Effectiveness measured by both financial and impact returns.

ESO, with a presence in South Africa, Zambia, Kenya, Nigeria and Ghana

3. Enterprise Support Organization sustainability models

ESOs typically access funding from donors, private and public sectors. Donors may include development banks, multilateral and bilateral organizations, private foundations, philanthropy programmes, NGOs and research institutes, while public sector funding comes from governments raised through taxes. Private sector financing typically comes from commercial banks, corporates and other private firms.

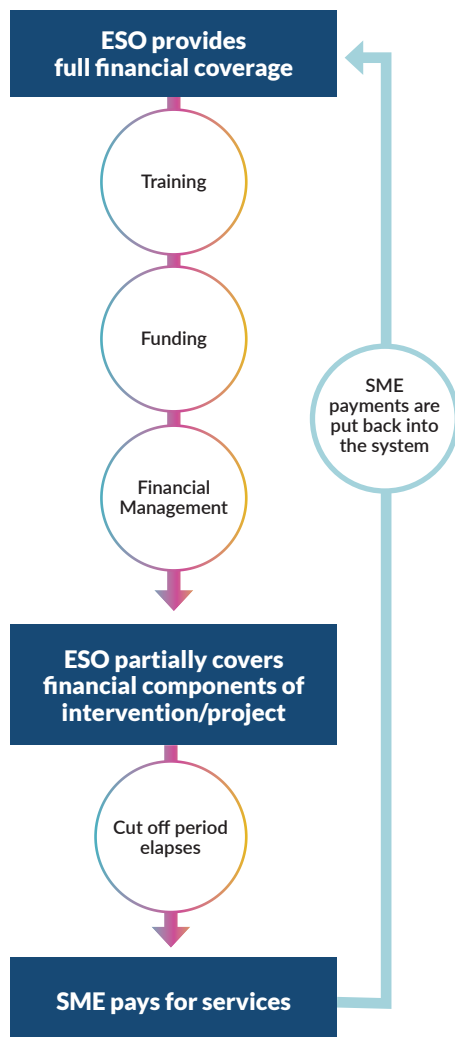
Expecting ESOs in Africa’s emerging markets to be self-sustaining without donor funding may be unrealistic. In this context, sustainability involves diversifying funding/revenue streams and

reducing overreliance of ESOs on one type of revenue stream. The range of donors includes private and corporate philanthropy groups and government contracts that offer suitable opportunities for revenue generation. In this case, donor funding essentially replaces what should be provided by governments.

To understand how local ESOs can sustainably support SMEs, ESOs and experts provided vital insights into various sustainable financial models that have proven successful in executing initiatives to ESOs outside of the dominant donor-funded model. This study identified four financial models.

Model 1: Graduation approach

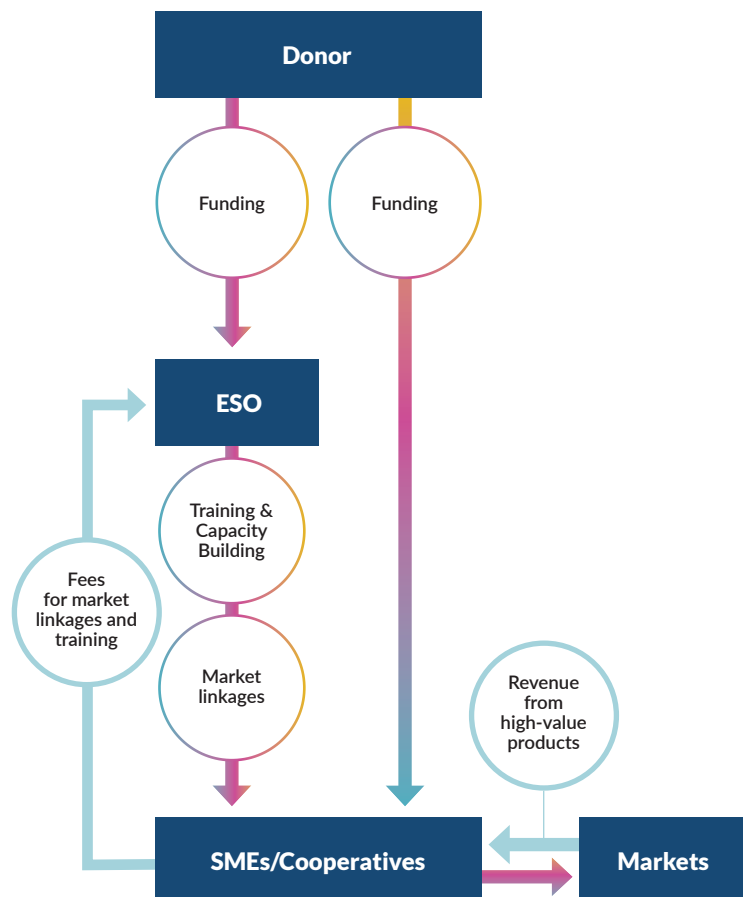
In the Graduation approach, used by ESOs such as the BRAC Ultra-Poor Graduation Initiative (BRAC UPGI), financial support is initially footed by the ESOs and then the SME is gradually weaned off through an incubation period. At the start of the project/intervention, all financial aspects are covered by the ESO. After an agreed period, following training and financial management support of the SME, the SME begins paying subsidized amounts for services offered. Over an agreed timeframe, a cut off period is set for when the SME will graduate from the subsidies stage of the intervention and must pay in full for further ESO services.



Author’s own elaboration
Reference model: BRAC UPGI

Model 2: Utilizing donor funding as a catalyst

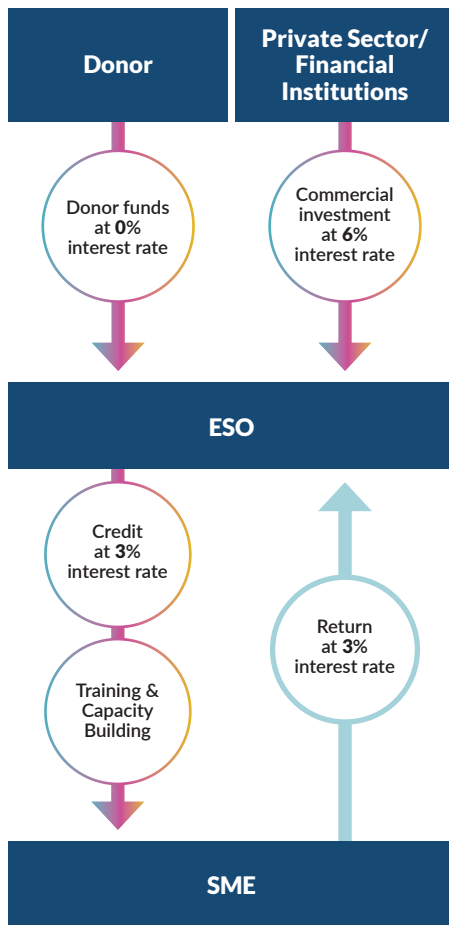
This model prioritizes income generation to wean off donor dependency. Implemented by ESOs such as Better World Cameroon: Permaculture- the Africa Way, funding is directly targeted at SMEs through established cooperatives. The ESO’s role here is to provide capacity building, social innovation training and infrastructure facilitation to change the mindsets of the entrepreneurs towards better, more sustainable agriculture. The model focuses on high-value crops/products with linkages to large markets (export markets). An agreed amount is returned to the ESO based on the financial success of the SMEs/cooperatives’ revenue or overall project success.



Author’s own elaboration
Reference model: Cameroon Permaculture the African Way

Model 3: Blended finance approach

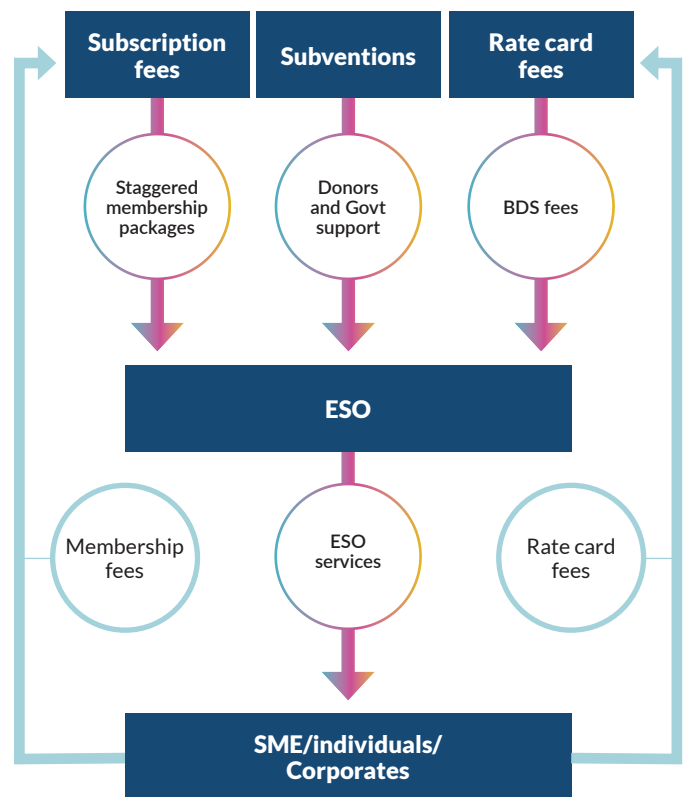
In this model, utilized by ESOs such as the Lagos State Employment Trust (LSETF), the ESO is structured such that all services/products offered are subsidized and not fully paid for by the SME. From the onset of engagement with SMEs, the ESO blends donor funding with a commercial investment that requires a return. Once the ESO has made a return on the investment, they can generate income to sustain their activities given the economies of scale.



Author's own elaboration
Reference model: Lagos State Entrepreneur Trust Fund

Model 4: Membership/subscription funding model

In this model, utilized by ESOs such as KEPSA, the ESO receives funding and revenue from staggered membership subscriptions, subventions and fees from the organization's BDS rate card. Membership subscriptions are staggered to fit individuals, SMEs and corporates. The subscription amount is metered by years of service and yearly turnover. On average, about eight membership packages exist, ranging from the premium that attracts the highest cost and benefits to the start-up package with the least subscription fees and benefits. Members have a variety of benefits depending on the subscription status, such as access to information, overseas delegation meetings in search of export markets, etc. The organization co-creates programmes with donor organizations through subventions while other enterprise support services attract a fee based on the organization's rate card.



Author's own elaboration
Reference model: Kenya private sector Alliance (Kepsa) Kenya

4. Perception of SME needs by Enterprise Support Organizations

A large majority of male SME interviewees perceive bias from the ESOs towards women, youth and children. This perception is fuelled mainly by projects/initiatives having special service windows for these marginalized groups, and has resulted in the belief that ESOs are not designed to help men. Further investigation is required into how to reduce or eradicate this perception.

Over 70 per cent of the SMEs interviewed believe that the ESOs offer support at a specific stage of business development (usually the growth stage); however, there is little follow-up by the ESOs

after that. SMEs further stated that they may not require daily handholding after the project/initiative has concluded but would like an avenue for ad-hoc consultation and mentorship thereafter. Some SMEs noted that the local ESOs they have engaged provide this service.

Of the SMEs interviewed, 49 per cent stated that the ESOs they engaged met their needs (in terms of the particular and tailored support), particularly local ESOs. However, 25 per cent indicated that their needs were poorly met.

5. Affordability and ability of SMEs to pay for ESO services

Most local ESOs interviewed target SMEs unable to afford their services and interventions. Indeed, just under 50 per cent of SMEs interviewed stated that they are willing to pay for ESO services on the condition that the services add value to their specific need and are affordable. In addition, SMEs prefer ESOs with tailored products and services specific to their local requirements, for example, training in local languages.

There are very few instances of multi-donor initiatives for ESOs to reduce the cost of their services to SMEs. A recent example is the Covid-19 Entrepreneur Support Program, funded by the Mastercard Foundation and the United States Africa Development Foundation (USADF). This two-year programme was developed and implemented by Nourishing Africa, and it aims to train and provide technical support and capacity building to 2,000 agripreneurs and catalytic financing to 135 participants. Programmes providing technical support, training and funding to implement new learning can be used as benchmarks for other donors and ESOs to engage in similar work.

“When we started, we conducted a study on the ability and propensity to pay. The pre-survey revealed there was a lack of propensity to pay.”

ESO, Zambia



Recommendations

The findings of this study support the following recommendations.

Government support: Governments should promote supportive legislation to provide an enabling environment in which ESOs can thrive and compete while reducing barriers to entry for both ESOs and SMEs. It is imperative that governments follow through with agreements made with donors and provide public goods such as communication and physical infrastructure to increase connectivity across Africa.

Alignment in “effectiveness”: Local ESOs measure effectiveness through various aspects, including job creation, market linkages and income generation of the SMEs they support. However, there is a need for local ESOs to consolidate what effectiveness is and how it can be sustained when engaging SMEs. This definition must be in line with SMEs and their expectations. Similar to project/initiative kickoff meetings with donors to align expectations, SMEs demand that ESOs align their expectations. With this strategy in place, effectiveness will become much more apparent.

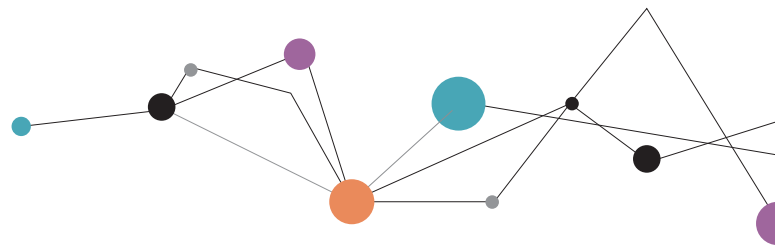
Sustainable financial models: ESOs need to shift to more sustainable financial models gradually. Local ESOs must pivot their current donor-dependent models to an income-generating model for long-term sustainability and to have greater control over their activities, including longer-term support to beneficiaries. In addition, donors should assess how they enhance the capacity of local ESOs to engage beyond the timeframe of the intervention. For instance, additional funding is required to expand and facilitate programmes to become more granular in their approach such that they are closer to entrepreneurs and SMEs.

Sustainable engagement: Local ESOs need to design initiatives incorporating training and capacity building that contain “future” knowledge the SMEs will need beyond their current business stage. Alternatively, ESOs should include systems and structures that enable ongoing ad-hoc support to SMEs that they have previously supported.

Donor-ESO coordination: ESOs and donor communities require better coordination to ensure their approaches and interventions build on previous work and avoid working in silos within the same SME communities. ESOs and funders need to work together to develop effective due diligence mechanisms that ensure all ESOs meet SME needs at a given standard. This sort of coordination increases the impact on SMEs, allows for easier identification of gaps and reduces competition between ESOs.

Ongoing needs assessment: Greater effort is required by donors and ESOs at the needs assessment phase before designing programmes. Local ESOs are best positioned to fully understand their beneficiaries’ specific needs and their local and economic environment. This practice should be an ongoing activity through consultations with SMEs during design and implementation phases of interventions.

Learning and knowledge exchange: There is an urgent need for ESOs to collaborate with one another and engage in co-learning and exchanging information and resources to adopt best practices across various regions. Local NGOs such as Nourishing Africa are interested in learning what has worked in other regions and what has not. Successes and failures should be documented and shared in equal measure.



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