

***OVERVIEW OF BUSINESS MANAGEMENT ASSISTANCE & LINKAGE STRATEGIES:  
EAST AFRICAN EXPERIENCES***

**ProVenEx Fund, Rockefeller Foundation**

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**August 2004**

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## **Acronyms**

AAC	African Agricultural Capital (Fund)
ACDI/VOCA	Agricultural Cooperative Development International/Volunteers in Overseas Cooperative Assistance
ADF	African Development Foundation (US Government)
AMSCO	African Management Services Company
APDF	African Project Development Facility (World Bank Group)
CNFA	Citizens Network for Foreign Affairs
DBL	Double Bottom Line, referring to a firm seeking high social as well as financial rates of return from its investments
DFID	UK Department for International Development
EPRC	Economic Policy Research Centre
ICIC	Inner-City Initiative for Competitiveness
ICT	Information and Communication Technology
IFPRI	International Food Policy Research Institute
KEPHIS	Kenya Plant Health Inspectorate Service
KIPRA	Kenyan Institute for Public Policy Research and Analysis
NARO	National Agricultural Research Organization (Uganda)
USAID	US Agency for International Development
WFP	World Food Program

## Part I. Introduction

Toward implementing its strategy for food security in Sub-Saharan Africa, the Rockefeller Foundation has initiated two ventures featuring capital investment based on a commercially dictated relationship. Each involves the provision of loans or equity, as opposed to grants, the more conventional modality used by the Foundation. One such venture is ProVenEx, a venture capital fund, whose principal activities have hitherto been confined principally to the United States. As a so-called “double bottom line” (DBL) undertaking, ProVenEx seeks to obtain social as well as financial returns from its investments.<sup>i</sup> The second, the African Agricultural Capital Fund (ACC), with an initial capitalization of \$5 million, is being supported also by the Gatsby Charitable Trust of the UK and INCOFIN<sup>ii</sup> and plans to initiate activities by January 2005. As an investment vehicle, it “will target its investments in companies involved in plant breeding and seed production, grain handling and marketing, agricultural production, and peripheral businesses.” In contrast to ProVenEx, it will provide “soft” capital, in terms of the period of repayment and possibly direct and indirect subsidization of various activities associated with vetting and managing specific investments.<sup>iii</sup>

An immediate motivation for the Rockefeller Foundation has been more systematic and effective utilization of past investments in agricultural research. It prompted investments by ProVenEx, approximately two years ago, in two seed companies in Kenya and Uganda toward accelerated diffusion of new maize varieties that, it was anticipated, would raise the productivity and output of small-scale producers, increase their incomes, and enhance food security (rural incomes) both for them and the general populace. The mixed results obtained from ProVenEx’s investments suggested that capital *per se* was not the only requirement. Also necessary were a range of services in vetting and managing the investment in

question. Consequently, Professor Ralph Christy of Cornell University and Mr. Jeffrey C. Fine were asked to conduct an overview of “business development services” in Kenya and Uganda, with particular reference to those most pertinent to investment in enterprises within the agribusiness sector in both countries. As stated in the terms of reference:

We believe that in order to be successful in our investments, capital must be paired with appropriate management assistance and access to value-added business networks. The AAC will be pursuing this strategy and ProVenEx has attempted to combine the two on a customized basis in most of its investments, but has found that efforts to do so in its investments in eastern Africa to be particularly challenging.

The consultants were assigned two principal objectives, namely:

- To inform ProVenEx and the AAC of current and emerging best practices in providing business management assistance to companies in Africa, and potential service providers and partners for future and existing investments; and
- To prepare a document, a summarized version of which would comprise part of background materials that will be distributed to participants attending a September 2004 workshop for investors seeking financial and social returns entitled *Building the Blended Value Capital Market*.

In the first instance, the consultants were directed to focus on business services associated with investments in those commodities, namely maize, other cereals, cassava, and bananas, currently of most immediate interest to the Food Security Program as well ProVenEx because of its earlier investment in two seed companies and

continued interest in investing in other businesses in the staple food chain.

Nonetheless, other considerations have informed this study. One is the broader benefit of being a “player” in agribusiness. Such involvement can unveil factors bearing on the outcomes of more conventional activities undertaken by the Foundation. One such case, highlighted later in this report, is the impact of existing institutional arrangements and procedures for the certification of new seed varieties on their adoption by smallholder farmers, as well as seed producers and distributors. Such information can in turn inform the Foundation’s support for more basic agronomic research in Kenya and Uganda. Also useful are the insights obtained from a commercial perspective. One such example is changes in value chains and how these in turn affect innovations in products and production processes. Although horticultural products are not a current focus of Foundation supported research or proposed investment, developments in their export, discussed later in this report, are relevant insofar as they affect farmers’ incomes, and the opportunity cost of cereal production. Furthermore, the factors prompting these changes highlight other challenges specific to investments aimed more directly at improving food security through higher productivity and increased output of cereal crops.

The next three sections of this report provide greater clarity to the term “business services” In Part II, we identify the principal ones associated with the investment cycle. These are itemized according to two phases of the cycle, namely vetting an opportunity, and managing the investment. Those pertaining to the third phase, namely exit from the investment, have not been covered, because of the more immediate interest of ProVenEx and the AAC in the first two, and the paucity of actual examples within East Africa. Part III looks at business services from a different angle, systematically examining those factors bearing on the contractual relationship between client and

service provider. Except where these services are provided “in house” by the investor, this relationship entails the engagement of one or more “consultants.” What considerations shape the business practices of both client and contracted consultant are, as we demonstrate later in the report, absolutely essential toward understanding the “market” for business services in the region. Furthermore, they explain, to a significant extent, why past efforts to improve it have failed, and why ongoing ones are likely to prove only partially successful. Part IV completes this multi-dimensional overview by categorizing the companies offering various business services associated with the investment cycle. Our terms of reference proposed a classification based on the hosting or supporting agency, *viz.* academic, not for profit, commercial, and donor. To some extent, this distinction has been retained. However, to take proper account of the factors dictating the business practices and prospects of consulting firms, this initial classification has been somewhat modified.

Our findings are presented in two major sections. Part V looks at those factors shaping the market for business services. It begins with an appreciation of the business environment. We then proceed to examine what the latter implies, in terms of cost of those investments most likely to be entertained by ProVenEx and the ACC, and the likely consequences, in turn, for underwriting the cost of associated business services. Subsequently, a more nuanced view is obtained by examining how the demand for different services varies among value chains. Whilst our treatment, because of limitations in time and budget, cannot be exhaustive, the analysis does point to problems specific to those commodities in which ProVenEx and the AAC are planning to focus most of their effort. Based on these results, we then proceed to look at various donor supported interventions aimed at improving business services. We conclude this part of the report with an assessment of longer term trends in service provision.

Part VI sets out, as requested in our terms of reference a “road map” for business management services. It draws on the modified classification presented in Part IV and the findings in Part V. Whilst our survey’s coverage, both in terms of firms providing services and clients demanding them, is necessarily limited, the results, in our view, are sufficiently robust to set out the principal implications. These are presented in Part VII under two headings. The first concerns a strategic approach allowing ProVenEx and the AAC to underwrite the cost of the business services they will likely require in conducting their investment activities. The second is a specific recommendation, in line with our terms of reference, for redressing gaps in the provision of business services revealed by our study.

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<sup>i</sup> The Boston Consulting Group (2002) *Assessing ProVenEx Performance and Determining Directions for the Future*

<sup>ii</sup> Incofin was established in 1992 as a 'co-operative association with a social purpose' (CASP). As an investment company Incofin is dedicated to the promotion of local entrepreneurship in the southern hemisphere. See <http://www.incofin.be/>

<sup>iii</sup> The Rockefeller Foundation and the Gatsby Charitable Trust (March 2004) *African Agricultural Capital: Dossier*

<sup>iv</sup> Fine, J. C. and Rostenne, J. (1995) *Africans in Consulting: Findings, Issues and Responses* Report for the International Development Research Centre of Canada. Perwit International

<sup>v</sup> Discussions with Moses Kibirige, APDF, Kojo, ADF, Davindar Sikand, Aureos Capital

<sup>vi</sup> Discussions with Eric Naivasha, K-Rep, James and Elizabeth Ssemwanga, Sunita Kapila, Mohammed Farid, Ashington Ngigi

<sup>vii</sup> Barbara Steenstrup, Rosemary Ndiritu

<sup>viii</sup> Gladys Makumi

<sup>ix</sup> Stephen New, Joan

<sup>x</sup> Interviews with Farid Mohammed, Karim So-  
mani, Amin Shivji and William Kalema

## Part II. Business Management Services and the Investment Cycle

In anticipation of our analysis of the “market” for business services associated with

the investment cycle, we have set out an initial listing below.

<b>PHASE I: VETTING THE OPPORTUNITY</b>	
Initial scoping	<ul style="list-style-type: none"> <li>• Overview of the market including value chain analysis</li> <li>• Assessment of the policy environment; identification of key political risks, and institutional constraints</li> <li>• Examination of actual and potential competition in terms of firms, products and processes</li> <li>• Study of environmental guidelines and opportunities</li> <li>• Initial assessment of competitive (dis)advantages</li> </ul>
Due diligence	<ul style="list-style-type: none"> <li>• Detailed in-depth examination of the investment including corporate-related documentation</li> <li>• Collection of additional background concerning the firm's reputation and past history</li> <li>• Collection of information concerning other activities of the firm's owners</li> </ul>
Preparing the deal	<ul style="list-style-type: none"> <li>• Preparation of business strategy</li> <li>• Preparation of business plan</li> <li>• Preparation of financing strategy</li> </ul>
Finalizing the offer	<ul style="list-style-type: none"> <li>• Preparation and negotiation of terms and conditions for the investment</li> </ul>
<b>PHASE II: MANAGING THE INVESTMENT</b>	
Board and corporate Governance	
Management	<ul style="list-style-type: none"> <li>• Representation at and systematic follow-up to Board decisions regarding policies, strategies and operations</li> </ul>
Legal	<ul style="list-style-type: none"> <li>• Recruitment, mentoring and monitoring, as necessary of executive personnel responsible for overall firm management, personnel, finance (strategy and control), marketing, ICT, etc.</li> </ul>
Expansion	
Financing	
Product	<ul style="list-style-type: none"> <li>• Operating capital, cash flow, loan financing, reinvestment</li> </ul>
Outcomes	<ul style="list-style-type: none"> <li>• Quality and standards compliance</li> <li>• Sales, gross earnings and costs, net cash flows, returns to investment</li> </ul>
<b>PHASE III: EXIT STRATEGY</b>	
Beyond the scope of this study.	

Table 1. Business services and the investment cycle.

These services draw upon formal qualification in such areas as finance, accounting, marketing management, economics, and law. Aside from an academic grounding in one or more of these disciplines, however, possibly a more essential prerequisite, and one to which we shall refer in our report, is experiential knowledge. As the term suggests, it is knowledge obtained from actual experience. How one obtains such knowledge, e.g., through structured mentoring by and/or informal consultation with more sea-

soned professionals, is especially important since many services do not require prior formal qualification in a “closed” profession such as accounting, engineering, law and architecture. Finally, provision of these services will often draw, but only selectively and for limited periods, on particular domain expertise and knowledge. For example, vetting of a proposed investment in a seed company will require expert knowledge of breeding, processing, packaging and certification of the product in question.

## Part III. The Consultant Relationship: Key Generic Factors

Typically, and certainly for most of services covered in our field study, their provision entails a contract between a client and consultant, which may be a single individual or a firm. Even where the putative client claims to possess most of the services in-house, some outsourcing, also involving the contracting of one or more consultants, is invariably necessary.

What generic factors, generic insofar as they apply across business sectors, and the gamut of services listed earlier, shape the contractual relationship between client and consultant? Here we draw on the results of an earlier investigation of the consulting industry in Africa, further refined by the findings of our own field study<sup>iv</sup>.

### **Risk (to Cost) Ratio**

The first is risk – in relation to the cost incurred in “getting it wrong.” A useful analogy for explaining this concept is the dilemma confronting an individual informed that he has a life-threatening brain tumor. The surgeon with more than twenty years experience in successfully performing the complex operation required to remove the tumor demands a fee of \$100,000. The would-be patient is then approached by a much younger colleague, who offers to perform two operations for the price of one. Another physician, within the same hospital, is also prepared to throw in cosmetic surgery along with two operations. In such circumstances, the patient, provided he has the necessary means, will undoubtedly opt for the experienced surgeon since the cost of a failed operation would literally be fatal.

Although the choice among consultants to perform various services associated with the investment cycle involves less dramatic choices, one can well envisage some where the cost of incompetence can be very high, to the point of imperiling the investment in

question. This cost must be balanced against the price demanded for the service in question. Put somewhat differently, the understandable desire to minimize the cost of business services must be qualified by the need to minimize key risks.

This factor is especially pertinent to the selection of service providers for *ex ante* analysis of a proposed investment. Fund managers typically refuse to delegate this task to others.<sup>v</sup> Where they do, only certain services are outsourced, e.g., due diligence of the firm in question, and then only to firms with a well established track record. Noteworthy in this regard, is that no locally based African firm among those covered by our inquiry has ever been involved in providing services relating to the initial stage of the investment cycle, except in a subordinate role. In contrast, many have been contracted to conduct evaluations *ex post facto*, after the critical decisions have been made, when the results of an unsatisfactory product will do much less damage.

### **Specialization and Business Flow**

Obtaining the necessary experiential knowledge to the point – in terms of our earlier analogy – where one is entrusted with the riskiest operations – is especially difficult for independent African firms. Many do recognize the need to specialize in particular services and sectors. On the other hand, they must cover their operating costs also. Consequently many are forced to undertake a broader range of assignments than they would prefer, or even attempt to supplement income from consulting with that from other ventures.<sup>vi</sup> In one case, a reasonably well-established Kenyan consulting firm has launched a venture to provide community mobile phone services. Also informing their behavior, which runs contrary to their own professional appreciation of the need to specialize, is the fact that most clients are

not prepared to recognize – and suitably compensate – hard-gained expertise and experience. Donors, typically the principal contractors, directly or indirectly, of business consulting services, apply predetermined rates for “local” and “regional” consultants, regardless of what we have termed the “risk ratio” of the assignment in question.

### ***Experiential Knowledge and Domain Expertise***

Formal academic and professional qualifications are often but not always a necessary condition for undertaking a particular service. More important, especially for undertaking critical services within the investment cycle, is experiential knowledge, often confused with domain expertise. The latter refers to expert knowledge, which, as noted earlier, may be needed to provide various services associated with the investment cycle. One such example, revealed by our study, is technical knowledge of processes for producing high quality and tasty banana juice. Clearly, it is needed to evaluate proposed investment in a plant producing this product. What proved equally significant, in terms of appraising the investment, is the supervisor’s and manager’s accumulated experience, through past jobs, in operating and maintaining the equipment in question, as well as other processing related activities.

In general, our inquiry did not reveal any major difficulty in obtaining access to domain expertise, provided the need was clearly recognized and the client was prepared, as well as able, to pay for the service in question. Much more opaque was the situation with respect to experiential knowledge. Often its importance was not properly recognized or downplayed by purchasers of business services. A likely explanation is the fact that experiential knowledge, although critical to ensuring the quality of the service in question, is not systematically documented in ways that can be easily accessed and validated by would be clients. Put somewhat differently, solid professional

performance, especially by African professionals and firms, is not always recognized, systematically documented and suitably rewarded through expanded opportunities to provide progressively more strategic services.

### ***Mentoring versus “Training”***

Experiential knowledge cannot be acquired through the formal courses, workshops and other schemes introduced by various donors wishing to improve the quality of business services. Much more important is professional mentoring. The multinational firms covered by our survey invest considerable effort, not only in the initial recruitment of professionals, but in systematic mentoring, typically by cossetting them with more experienced staff in the execution of specific assignments.<sup>vii</sup> Thus a relatively junior consultant, involved in conducting the due diligence review of an investment identified by ProVenEx, worked with a more senior colleague and had her reports reviewed regularly, in terms of content as well as presentation, by a senior Partner in the company, prior to their release.<sup>viii</sup> The same applies to those not-for-profit organizations seeking to improve the quality of business services being offered to clients. Aside from retreats and in-staff training, more attention is being paid to the systematic, ongoing mentoring of staff.<sup>ix</sup> Unfortunately, none of the African firms covered by our study, faced as they are with a continuing need to cover their fixed operating costs, are able to make similar arrangements. Indeed, many have been forced to operate with only a tiny core of full time staff that simply hasn’t the time or resources to mentor more junior colleague who, in most cases, are not actually bona fide members of the firm.

### ***Open and Closed Professions***

Professionals offering business services may formally be qualified in what are termed “closed professions”, where the right to practice is subject to officially recognized and legally enforceable certification. Such certification, as opposed to domain exper-

tise, is not always necessary to provide high quality business services. Formal qualification in accounting, for example, is a very useful asset in analyzing financial statements concerning a proposed or ongoing investment. It may not be necessary for assessing the overall financial soundness of the investment in question. The consultants interviewed during the course of our study have been formally educated in a variety of disciplines in the natural sciences, social sciences, engineering, the humanities and business. Subsequently, and not surprisingly, many have felt the need for further formal exposure to business finance. On the other hand, few supported any suggestion of transforming business consulting into a closed profession by imposing legally enforceable, formal certification as precondition for offering their services. At first glance, this stance seems to contradict a widely recognized need to provide quality assurance to prospective clients by compelling "consultants" to acquire formal qualifications and adhere to a code of professional practice. However, there is little consensus concerning the specific competencies and practices most likely to ensure quality. Furthermore, one faces the challenge of actually applying and enforcing any procedures involving certification and a code of practice. Past experience in Kenya, reported later in our study, points to the high probability of mismanagement and, more importantly, the unlikelihood that any such system will actually lead to a tangible improvement in the current situation. As we shall suggest in the concluding section of this report, a more effective alternative is available for ensuring quality and reducing the risks currently perceived by clients in purchasing business services.

### ***Bureaucratic and Market Risk***

ProVenEx and AAC operate in the world of market or commercial risk. Failure to acquire the right business services, especially for those involving a high risk ratio, can lead to serious financial loss or even total failure of the investment. However, most of the effective demand for business services in

both Kenya and Uganda originates in the public sector, and is underwritten by the international donor community. Commercial risk is thus tempered and often subordinated to other considerations, political, legal and organizational, prominent in the world of bureaucratic risk, one in which the "risk ratio" associated with specific services is often quite different. For investors operating under conditions of market risk, the cost of "getting it wrong" is financial loss and sometimes ruin. For a donor, it will be a failed effort, with useful "lessons to be learned" the next time round. Clearly this distinction does not necessarily apply across the board. For example, our field study revealed several instances where a company seeking a loan or injection of equity was prepared to cut corners, in terms of contracting strategic business services, i.e., those with a high risk ratio, but the would-be investor, although drawing on public funds, insisted on paying the costs necessary to minimize risk.

The different conditions prevailing in the worlds of market and bureaucratic risk are most revealing at the level of individual business service provider. With some notable exceptions, they purport an ability to operate in both worlds. In practice, only a minority are entrusted with strategic business services by those clients who truly do operate in world of commercial risk. Again, the issue is not one of formal training or accreditation. Underlying client preference are such considerations as a provable track record and experiential knowledge acquired in the same market environment.

### ***Incidence of Risk***

Also important in the selection of business service provider is the question of who will bear the cost of failure to deliver the agreed product. Does the onus lie on the client or the provider? In the case of individual professionals as well as the smaller, invariably African firms covered in our study, it falls on the client. This awareness creates a major advantage for larger, better resourced firms. Independently of the quality of service actu-

ally delivered in practice, they will be expected to redress failure, for example by replacing an unsatisfactory lead consultant or redoing a report. Implicitly this “insurance” is built into their fee structure. For a similar reason, they are the preferred choice in undertaking those services, within the investment cycle that have a high “risk ratio.”

### **Vetted and Non-Vetted Information**

Invariably overlooked is the critical importance of vetted information, namely information that is filtered by a trusted source. Such vetting is undertaken in all activities, be it the purchase of a motor vehicle or household appliance, the selection of a physician or school, or even the choice of an evening’s entertainment. Instinctively, much more weight is assigned to information, which has been filtered through a known and trusted source. In appraising the capability of business service providers, ready access to such vetted information assumes paramount importance in reducing risk as well as time. Aggravating this problem in Kenya and Uganda are various factors: a continuing turnover in projects and personnel; the implicit weight assigned to bureaucratic, as opposed to commercial risk in selecting consultants; and the inability to document systematically experiential knowledge pertinent to a given business service. Compilation of firm registries or lists of consultants does not solve this problem. Nor does more formal “training.” They do not address the need for reliably vetted information, especially with respect to experiential knowledge. The prospective client must still confront the task of vetting information, typically by referring to trustworthy sources. Solving this problem is essential to improve the supply of business

services by rewarding quality and achievement and punishing incompetence.

These generic factors were reflected in questions posed, over the course of the field study, to both clients and suppliers of business services:

- The number of core staff in the firm and their experiential knowledge (in terms of career history, as opposed to formal qualifications);
- Whether the attested range of core competencies was narrow or large – and whether the firm/individual was involved in other businesses;
- The mix of clients from the public and private sector;
- The likely “risk ratio” associated with past assignments, notably whether the firm or individual had been involved in ex ante or ex post assessments of specific investments; and
- The processes used by clients to vet business service providers.

The results obtained from our inquiries are set out in Parts V and VI.

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<sup>iv</sup> Fine, J. C. and Rostenne, J. (1995) *Africans in Consulting: Findings, Issues and Responses* Report for the International Development Research Centre of Canada. Perwit International

<sup>v</sup> Discussions with Moses Kibirige, APDF, Kojo, ADF, Davindar Sikand, Aureos Capital

<sup>vi</sup> Discussions with Eric Naivasha, K-Rep, James and Elizabeth Ssemwanga, Sunita Kapila, Mohammed Farid, Ashington Ngigi

<sup>vii</sup> Barbara Steenstrup, Rosemary Ndiritu

<sup>viii</sup> Gladys Makumi

<sup>ix</sup> Stephen New, Joan

<sup>x</sup> Interviews with Farid Mohammed, Karim Somali, Amin Shivji and William Kalema

## Part IV. Classifying Business Service Providers

The taxonomy set out in our terms of reference asked us to differentiate among business service in terms of whether they were local or foreign; commercial, public (academic) or not for profit; and finally, private or donor financed and managed. This initial classification was somewhat modified to accommodate some of the generic factors discussed in the preceding section. The modified classification of providers is set out in Table 2. The one anomaly is the category “bilateral donor initiatives,” since it contains clients for business services. However, since the initiatives in question are also engaged in strengthening business service providers, they have been included as a separate category. Finally, academic institutions providing business services are represented by the Tegemeo Institute of Egerton University, included within the category of African firms.

Information concerning business service provision was collected from the sample of firms listed in each category as well as the cross section of clients. These are listed in Appendix B.

The weighting of the generic factors for each category, although generally supported by our findings, does not always or necessarily apply to a specific firm. Thus, the agencies listed within the category of “international NGOs” do display important differences, especially with respect to the degree of commercial risk characterizing their services to date. Likewise, the individual consultants listed in our sample do have a well established track record. However, this group also contains what some Ugandan clients euphemistically term “brief case consultants,” so called because their office consists of a briefcase and mobile phone. Some of them, one presumes, may be good professionals. As a group, however, they must be carefully vetted, especially with respect to core competencies and experiential knowledge.

The results of our inquiry are set out, as requested in our TOR’s, in the form of a “road map” in Part VI. Before doing so, however, we first present our findings concerning the broader factors shaping the market in which business service providers must operate.

CATEGORY	RISK		VETTED INFORMATION		BEARING OF RISK	
	Commercial	Bureaucratic	High	Low	Provider	Client
Fund Managers <sup>1</sup>	X		X		X	
Multinational Firms <sup>2</sup>	X		X		X	
Multinational Donors <sup>3</sup>		X		X	X	
International NGOs <sup>4</sup>		X		X	X	
Bilateral Donor Initiatives <sup>5</sup>		X		X	X	
African Firms <sup>6</sup>		X		X		X
Individual Consultants <sup>7</sup>		X		X		X

Table 2. Classification of Business Service Providers (The footnotes below list the firms sampled in this study.)

<sup>1</sup> Aureos Kenya

<sup>2</sup> Deloitte and Touche, IBMGlobal Services

<sup>3</sup> APDF, AMSCO

<sup>4</sup> Technoserve, FINTRAC, CARE Kenya

<sup>5</sup> USAID KBDS, ADF, DFID BSMDP, Swisscontact.

<sup>6</sup> Ssemwanga Group, Integral Advisory, UMACIS, K-Rep Advisory Services, Tegemeo, Pipal Ltd.

<sup>7</sup> H. Mule, N. Mule, S. Kapila

## Part V. Findings: Factors Shaping the Market for Business Services

In this section, we first present our findings concerning the overall environment in which business is conducted. We then consider its implications for the investment process, including the type and cost of services associated with the investment cycle. Next we focus on the role played by supply chains in influencing the demand for business services. This expanded appreciation of the factors affecting demand then allow us to appraise the different strategic approaches being adopted to improve the supply of such services, both in terms of quality and expanded access by clients. Finally, we single out some important trends in the actual provision of business services.

### ***The Business Environment***

Conducting business in Kenya and Uganda is tough. Even locally born business people who have returned from abroad to pursue what they perceive to be promising opportunities have frequently underestimated difficulties arising from the business environment.<sup>x</sup> Given the focus of our own inquiry, we single out those aspects especially germane to business management services.

One important feature is the scarcity of another type of capital -- social capital. Although market economies centre on competition, other relationships and ties, religious, ethnic, cultural, intellectual, philanthropic and recreational, condition its fierceness. Indeed, cultivating such ties is often important in establishing useful business relationships.<sup>xi</sup> Concern has been voiced in North America regarding its perceived erosion during the second half of the twentieth century.<sup>xii</sup> In Kenya and Uganda, the stock of social capital is low because of misgovernment, internal conflict, tribal and ethnic division, and corruption. Many entrepreneurs are confined to networks defined by family, clan or immediate location. Consequently, they are restricted in their business contacts and access to information, and

more importantly, reliable means of vetting it. Collaboration in business ventures or an association sharing mutual interests can be a time-consuming and difficult process.

Another problem is the difficulty encountered in enforcing contracts. Clearly the rule of law and a structured judiciary exist in both countries. In practice, seeking recourse through the courts for redress, e.g., for professional malpractice or a broken contract, takes time and money, without any assurance of satisfactory recompense at the end. One such case involved a Ugandan seed company, which believed it had exclusive rights to the distribution of a new variety of seed. When the company's manager suddenly decamped, along with the seed, to a new firm, the company in question learned that its Memorandum of Understanding with the government research agency may not have ensured legal exclusivity and that recourse to the courts would be protracted, expensive, and possibly unsuccessful in the end. In such circumstances, information will be confined to a very small circle of confidants, defined by kinship or longstanding friendship. Conversely sharing it with "outsiders" will usually require the careful cultivation and testing of a business relationship.

Further complicating the business environment is the continuing divide between the business community and government. Public policy, especially in Uganda, has clearly recognized the strategic role the private sector must play in generating economic growth as a precondition for national development. Operating cultures, however, differ enormously, with considerable suspicion prevailing on both sides of the divide. A public official may interpret what an entrepreneur considers to be a publicly spirited request as an attempt at personal enrichment and all too frequently, as an opportunity for "rent seeking." Often regulations may be introduced without prior dialogue

with those businesses most directly affected by them.<sup>xiii</sup> In other cases, the business interests of politicians or the personal agendas of bureaucrats may have unduly influenced government measures, for example those aimed at liberalizing the seed market in Kenya. Not all the blame can be ascribed to the government side of this divide. Businesses are often not prepared to provide, for taxation or even statistical purposes, a complete and accurate statement of their affairs.<sup>xiv</sup> As well demonstrated by recent, highly publicized cases of corporate non-disclosure, illicit practice, and malfeasance in Europe and North America, such problems are not confined to East Africa, nor are they necessarily forestalled by more stringently enforced regulations. However, the net effect in East Africa is to significantly raise the cost associated with any investment, in terms of the time required to extract, validate and cross check essential information.

An immediate consequence of the lack of social capital, the difficulty in enforcing contracts, and the continuing divide between government and business is the corresponding importance of relationships within family and ethnic groups. As one Ugandan informant stated, "in conducting business here, relationships are everything."<sup>xv</sup> A positive manifestation is the enlistment of diasporas as resources in developing new products and mobilizing capital. One such example is the export of Asian vegetables by Kenyan Asian businesses, initially to the UK and subsequently to Europe and North America.<sup>xvi</sup> Likewise, their Ugandan counterparts are attempting to develop overseas products for various horticultural products.<sup>xvii</sup> Undoubtedly, over time Ugandan and Kenyan African diasporas will begin to play a similar role, although not necessarily within the agricultural sector. As automatic "outsiders," such investors as ProVenEx and the ACC should be aware that for a local company, a relationship is not defined solely in the terms of the investment itself. The cultivation of mutual trust will take time.

Somewhat paradoxical therefore is the seeming predilection on the part of many local companies to enter into hastily into an investment agreement without careful perusal or clear understanding of its terms and conditions.<sup>xviii</sup> A possible explanation is that in a world dominated by donor financing, based on very concessionary terms, the borrower may not fully understand the harder, commercial terms being offered by an agency often linked to a well known donor. Another, perhaps less generous view, is a borrower's belief that the lender may be unable or unwilling to enforce the terms of a contract. A third is that for the borrower, the contract may signify the start of a relationship, with specific terms and conditions being adjusted over time in light of actual developments. Once again, these possibilities underscore the need to "front load" the investment cycle, by taking the time needed to ascertain, not only the objective facts concerning the borrower's company and intended plans, but also what the borrower really understands to be the nature of the business relationship.

Within more developed financial markets, venture capital funds, including "double bottom line" variants such as ProVenEx, occupy a well defined niche. Unfortunately, this is not the case in Kenya and Uganda. Financial liberalization has included the removal of ceilings on interest rates for loans and savings, discontinuation of enforced purchases of government securities by commercial banks and other financial institutions; and termination of government directed lending to specific sectors and state owned companies. However, many of the benefits foreseen by critics of "financial repression" have failed to materialize, partly because of inadequate and tardy regulation of the banking system.<sup>xix</sup> Another reason is the high transactions costs associated with the provision of loans, because of inadequate information concerning would be borrowers. Most commercial banks pursue very conservative lending policies, confining their activities to large, well-resourced clients, trade financing, and short term overdrafts. Terms can be onerous, not only be-

cause of high real interest rates and the short lending period, but requirements for collateral, which can often exceed the overall assets of the borrower. Furthermore, rates can fluctuate unexpectedly and sometimes in the opposite direction of the Bank Rate.<sup>xx</sup> Banks also reserve the right to call loans unilaterally, thereby increasing the risk assumed by the borrower.

Under such circumstances, the seemingly hard terms associated with ProVenEx and other venture capital funds may not appear that onerous, especially if the borrower believes that the investment agreement signifies the start of a business relationship and that its specific terms and conditions are open to renegotiation. Another implication concerns the heightened importance of retained earnings. Even if firms obtain funds for the initial fixed investment, they will need to rely heavily on retained earnings to finance a significant share of their operating costs. Consequently, accurate projections of sales, expenditures and net cash flow become essential in evaluating a proposed investment, since there is only limited recourse to the banking system should it prove necessary to supplement retained earnings with additional borrowing. This situation suggests two responses. The first is to address – at the outset – the possibility of requiring additional working capital, possibly through the participation of other investors. The second is to – once again – “front load” the vetting phase of the investment cycle, especially through a very careful assessment of likely operating costs, and simulating different scenarios with respect to the time required to reach the breakeven point, in terms of cash flow. Contingency planning is advisable since scaling up to full production can often be delayed by factors not foreseen by either the company or the investor.<sup>xxi</sup>

The environment is even tougher for investors in agribusiness, the proposed focus of both ProVenEx and the AAC. Beyond the uncertainties imposed by nature, there are other risks created by the policy environment. Since these will be discussed in greater detail in our discussion of supply

chains, we confine ourselves to singling out its principal features. One is extreme inter seasonal price volatility for maize, because of the lack of support prices for producers in one country (Uganda), and misguided and under-financed interventions in another (Kenya). Compounding the problem are existing obstacles to the movement of grain between the two countries. For seed producers, there is the further complication of different national regulatory policies and enforcement procedures. Although steps have been taken very recently to address these problems within a regional framework, for the foreseeable future, investment in maize production, in contrast to other agricultural products, will remain very risky.

### ***The Real Cost of Investment***

Aside from heightened risk, the principal consequence of the business environment is the increased cost of vetting and managing investments. Because of the lack of reliable and readily verifiable information, considerable time is required to collect and vet it. Also important, in this regard, is the need to tap local knowledge, ranging from the reputation, track record and business practices of a given firm, to conditions likely to affect local production and productivity. Time must also be allowed to create an appropriate business relationship, and to ensure that the client is fully aware of the terms and conditions governing the provision of capital. Further downstream, the investment must be continuously monitored because of high probability of unforeseen “shocks,” arising, for example, from unexpected changes in public policy. Another, also additional to those services normally associated with the business cycle, previously listed in Part II, will be the necessity to monitor cash flow and expenditures closely, and to anticipate the need for additional financing downstream to cover operating costs.

The net result will be a need to spend more time – and money – on business services, than would customarily be the case in more developed economies. Furthermore, much

of this expenditure will be up-front, prior to the conclusion of any deal and disbursement of any funds. One must therefore anticipate that a considerable amount of money will be spent vetting – and rejecting – prospective investments. Hence the overall average cost per completed – but not as yet – successful deal will be quite high. Attempting to cut corners, by short circuiting the vetting process, or reducing costs by hiring unvetted or inexperienced providers, i.e., purchasing “two operations for the price of one,” to undertake services with a high risk ratio, would be extremely unwise.

Consequently, ProVenEx and the AAC have four possible choices. The first is to increase the minimum size of any investment to reduce, in relative terms, the cost of associated business services, whether supplied in house or contracted. The second is to reduce the desired rate of return, thereby creating greater latitude, especially in terms of the period over which the investment is to be serviced. Whilst this possibility is clearly being entertained by the AAC,<sup>xxii</sup> it might not be an option for ProVenEx. The third is to confine investments to safer prospects, viz. well established, larger firms with proven products and processes. Doing so, however, might well raise the legitimate question of the “value added” being provided by both ventures in terms of promoting smaller scale producers. The fourth is to seek partners, especially those willing to underwrite many of the up-front costs of vetting prospective investments. What our findings suggest in terms of these four choices is set out in Part VII.

### ***Supply Chains and the Demand for Business Services***

In examining supply chains, our aim is to determine how they might affect the demand for business services in the following ways: the type and frequency of service; the relative importance of experiential knowledge and domain expertise; the principal clients; and the source of payment. Put more formally, to what extent does the “demand” for service vary according to the na-

ture of the supply chain. For reasons of time and budget, our analysis centered on two broad product groups. The first is cereals, and more specifically maize, because of the immediate interest of the Rockefeller Foundation’s Food Security Program. The second is horticultural products, the fastest growing part of the agribusiness sector in both Kenya and Uganda. Currently they are Kenya’s prime export earner, outranking tea, coffee and tourism. Not unexpectedly, it is a sub-sector that has not only attracted considerable investment, both foreign and local, but is also one characterized by some interesting innovations in handling and marketing. Over the course of the study, we did come across other agribusiness investments, e.g., in silk yarn production in Uganda, which were also examined in terms of their implications for various business services. In these cases, however, we did not delve as deeply into the associated supply chain.

#### *Horticultural Products: Flowers, Vegetables and Fruit*

In both Kenya and Uganda, a significant proportion of marketed produce is exported. That portion destined for local consumers is marketed under very different conditions. Comparing these different chains, admittedly in a stylized fashion, provides illuminating insights in turn into the way value chains can affect the demand for services.

From January 1, 2005 all fruits and vegetables exported to the European Union, their principal market, must obtain EUREPGAP certification indicating that they satisfy industry-determined standards for product quality and safety. Among these are maximum residue levels (for pesticides and herbicides) and an ability to trace the product to the point of origin.<sup>xxiii</sup> To be labeled “organic,” products must be certified at the point of origin by agencies accredited by the industry.

For small and medium scale producers, Euregap certification constitutes a significant barrier for entry into a lucrative and ex-

panding market. At the same time, however, viewed from an industry perspective, it solves difficulties created by the “free rider problem,” which has plagued efforts aimed at ensuring high quality and timely delivery from small holders. In many instances, such activity has been undertaken by NGOs, such as CARE Kenya, working with farmers associations. All too frequently in the past, an association’s efforts have been undermined by “free riders”, namely members who decide to sell to purchasers other with whom their association has arranged a forward contract. An associated problem has been irregular or sub-standard quality. Such behavior undermines the group as a whole. With the advent of EUREPGAP, the free rider problem will become far less difficult to manage, since delinquent farmers will have no attractive alternative purchasers of their produce. To cite one example, a farmer in Central Kenya who decides to sell his avocados to an unofficial “broker,” typically a buyer with a small pickup truck, would receive only 20% of the price obtainable were he to sell to the buyer designated by his association, simply because the latter will be certified as having met EUREPGAP standards. After January 1, 2005, the avocados sold to the unofficial broker can-

not be exported to the European market.<sup>xxiv</sup>

The key player within the chain becomes the buyer/exporter, who can arrange market certification and export the product to Europe. Purchasing from small-scale producers becomes easier because there is a much greater likelihood than beforehand of fulfillment of a forward contract in terms of volume, timing, and quality. In effect, we observe four emerging trends, each giving rise to different possibilities for the supply and payment for business services

The first is growth in exports of the current line of products. This task is undertaken primarily by Kenyan wholesalers who have the necessary contacts and experience. More recently, at least one such firm, East African Growers, has been expanding its activities to Uganda. The exporters typically have the expertise, contacts and credibility – as well as the motivation – to arrange EUREPGAP certification.

The second is “backward integration,” at the moment only being undertaken and on a trial basis by a minority of export firms, notably East African Growers, to secure more produce from small scale producers. At the interface between producer and exporter,

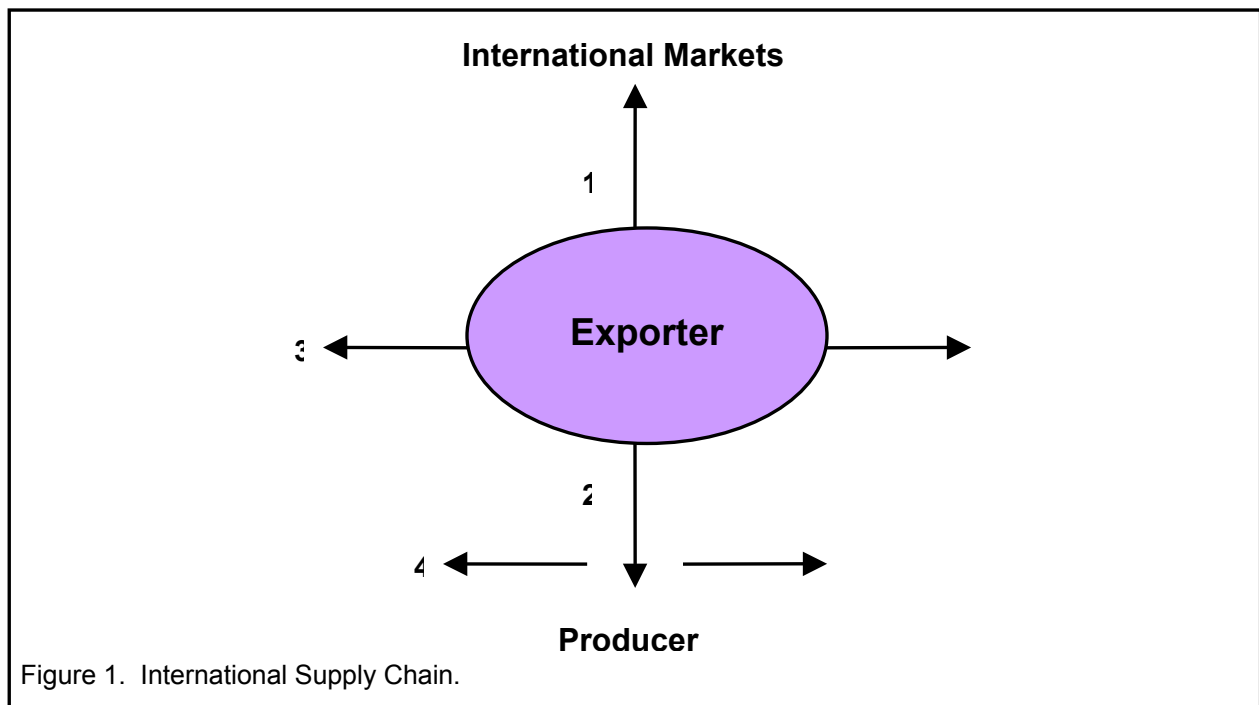


Figure 1. International Supply Chain.

there is a distribution of the associated services between two principal players, typically an international NGO and the exporter. The former often focuses on organizing the producers, a task that is now being greatly simplified by EUREPGAP certification. The exporter, aside from purchasing, certifying, transporting and marketing the produce, is now beginning to supply technical support, e.g., on agronomic practices, inputs, e.g., fertilizers, and technical advice to producer groups and associations earmarked by the NGO. Both parties recover their costs from the margin between the farm gate price paid to farmers and the purchase price, net of shipping and other charges, obtained in Europe. Still in its early stages, this arrangement is not without its problems. The exporters to whom we spoke admitted that it has taken longer than expected to ramp up deliveries from small scale producers and to recoup their up-front investment, e.g. in equipment and extension services, and operating costs. Likewise, those NGOs working with producer groups are still in the early stages of rectifying the free rider problem and organizing other small scale producer along similar lines. However, other exporters are closely monitoring the activities of these “early adopters.” Success will stimulate them to follow. In some cases, the companies in question will require additional capital to finance an initial investment.<sup>xxv</sup>

The third and fourth trends comprise what might be termed lateral expansion (horizontal integration), into other fresh products as well as processed ones. These are being undertaken at the exporter (3) and producer (4) levels by both the exporting firm and international NGOs. At present, only three products, namely fresh green beans, avocados and roses account for 80% of Kenya’s horticulture export earnings, totaling between \$250 and \$300 million annually.<sup>xxvi</sup> Consequently, there are efforts to expand into other products where small scale producers potentially have a competitive advantage. More difficult will be the effort to increase exports of processed products, e.g., dried fruit.<sup>xxvii</sup> Indeed, proc-

essing capacity in Kenya has stagnated for the past decade.<sup>xxviii</sup> Not surprisingly, initiatives observed during our field study focused on organic dried fruit. Aside from the possible advantage of a “niche” market, such decisions may be influenced by the need for organic certification, a procedure which, much like EUREPGAP, greatly facilitates the organization of small holder production by reducing the free rider problem.

For the same reason, a very different system prevails with respect to the production of horticultural products destined for the domestic market. Initially, because of the interest created by recent investigations into the impact of supermarkets in Kenya and Uganda by IFPRI<sup>xxix</sup> and in Latin America by researchers at Michigan State University, we anticipated that they might fulfill a function analogous to that of EUREPGAP and organic certification with respect to European and other external markets. However, supermarkets in Kenya only account for an estimated 3% of horticultural produce marketed locally.<sup>xxx</sup> In the absence of a well-run and appropriately financed wholesale market, they currently rely on a small group of commercial growers. Efforts to impose government domestic health and quality standards appear impractical because of financing and enforcement difficulties. Consequently, the task of integrating small scale producers within the value chain, along lines similar to those for exported products, will remain a major challenge.

In terms of the type, supply and payment for various business services, we offer the following observations.

- Access to domain expertise, on production, export regulations, certification, product standards, overseas clients etc. is not a problem for exported products. Such expertise can be readily obtained by the major players and provided to small scale producers. Over time, with growth in the number of exporters and producers, we can anticipate that some services, e.g., technical support and

even equipment supplied to small scale producers will be increasingly outsourced by companies to independent local providers. In all likelihood, professionals who have previously worked for exporters and/or international NGOs will largely staff such firms.

- Virtually all of the necessary services, including those with a high risk ratio, are embedded or closely integrated within the value chain itself. Where additional services are required, e.g. bookkeeping for producer associations, they are obtainable locally.
- International NGOs involved in this food chain have been adapting their operating culture, moving from what some term “development” to a “commercial” orientation. Likewise, they have begun to specialize in specific types of services. This trend is consistent with our earlier observations in part 2 concerning the generic factors determining upward mobility in service provision. CARE Kenya, for example, is now focusing on “production facilitation,” abandoning earlier attempts provide extension support to farmers and identify markets, as opposed to marketing firms, for their produce. Technoserve is developing world class expertise in the production, processing and export of specific products. Because of the mandate of its current project, in Kenya FINTRAC has been applying expertise in processing as well as the production of horticultural products. Both Technoserve and FINTRAC are also marketing such expertise to various clients in the region and elsewhere.
- Less obvious, but possibly of greatest significance over the longer term is the fact that this group of NGOs is becoming an extremely effective incubator of business service providers to small scale producers. A growing of their professional staff is recruited locally. Coming from a range of backgrounds, notably financial institutions, they acquire experiential knowledge through exposure to different problems posed by producers, exporters and new marketing

opportunities. Their work is mentored and they have access to domain and expert knowledge. Over time, some will undoubtedly seek to operate independently, possibly in competition with their former organization. How well this group performs this important function, of broader benefit downstream to the agribusiness sector, will depend on the continuing shift to a commercially oriented culture.

### *Commodities Improving Food Security – Starchy Staples*

Any products that can raise the incomes of small scale producers invariably improve food security, as do processed products, that generate employment, especially in rural areas. In this section, we look at directly consumed commodities. We first examine maize, the principal staple produced and consumed by Kenyans, and a major export crop, although not a primary staple food, of Ugandans. We then look at some other cereals. The third section comments on several other agricultural products, observed during our field visit, which can enhance food security by raising the incomes of small scale farmers. During our account, we consider the implications for both the demand, as well as supply, of various business services.

**Maize.**<sup>xxx</sup> The Rockefeller Foundation’s involvement in developing new varieties of maize dates back more than a half century. Within East Africa, growing frustration over the slow dissemination of new varieties developed at national research centers and elsewhere prompted investment by ProVenEx in two seed companies. The Foundation has attempted to accelerate the diffusion of new varieties and technologies through some novel means, including credit guarantees for stockists of seeds and fertilizers, both in East Africa and Zimbabwe.

Having completed an admittedly simplified overview of the market for maize, both regionally as well as Kenya and Uganda, our principal conclusion is that commercial in-

vestment in inputs, specifically seed, is highly risky. It will remain sub-optimal until certain “structural” impediments, in public policy, regulatory policy and public agencies, are redressed. Furthermore, given the small size of the national markets and their openness to cross border movements of both maize and various inputs, such measures will need to be taken in concert by all three East African countries. Indeed, the need for a regional approach has been explicitly acknowledged by the recent spate of meetings among agricultural ministers and the expressed aim of liberalizing the grain market under the auspices of a revived East African Community. Whilst there are undoubtedly important lessons to be learned from the ProVenEx investments in the two seed companies – an exercise outside the TOR’s of this study – it is clear that access to various business services over the investment cycle – with one possible exception – was not a significant factor in explaining their outcome. The one exception would be more careful vetting of the institutional environment shaping the performance of the maize market and the various players within it. It would probably have reached two principal conclusions. Firstly, that the likelihood of accelerating the rate of diffusion – even if the investments in question had proven successful, would be low, without major changes in the policy and regulatory framework. Secondly, because of sub-optimal conditions stemming from the current policy framework, the risky nature of the investments would require a high degree of flexibility with respect to their financing arrangements.

Maize production fluctuates considerably, over the calendar year (due to two growing seasons), across the East African region, and within countries. Aside from drought, whose impact could be tempered by more suitable varieties and fertilizer applications,<sup>xxxii</sup> there is the impact of conflict. Recent announcement of a peaceful settlement of the conflict in the southern Sudan and Northern Uganda could divert sale of Ugandan maize previously purchased by the WFP to other purchasers. Shortages in

any given location are aggravated by the high cost of storage, including wastage, and transport.

The structure and regulatory framework of the maize market differs considerably between Kenya and Uganda. In Kenya, only an estimated third of the amount produced is actually marketed, the remainder being consumed on or near the shamba. Furthermore, the number of hectares devoted to purely commercial production has been steadily declining.<sup>xxxiii</sup> In contrast, since the principal staple food in Uganda is *matoke*, a much larger proportion of the maize crop is produced for sale.

Depending on price fluctuations in the local market, considerable non- or under-reported movement of grain between the two countries occurs. During periods of shortage, it has been alleged, Kenyan authorities turn a blind eye to inflows of maize from Uganda. In times of surplus, there are attempts to impede such movements, on grounds of safety, which as recent events have demonstrated, are grounded in reality.<sup>xxxiv</sup>

Whilst price volatility is considerable in both countries, measures for providing a minimum or platform price for producers differ considerably between the two. In Kenya, the National Cereals and Produce Board continues to play the role of residual buyer, both to maintain a strategic surplus and to guarantee a minimum price for farmers. Ill-timed interventions, it has been alleged, have aggravated price fluctuations. Also, the Board is also under financed; most recently it stated that it would make payments due to farmers in seeds and fertilizer. An analogous body does not exist in Uganda. Instead, there is an initiative to introduce a minimum price guarantee scheme for grain producers. It would be operated by the private sector, with initial financial support, it is hoped, from donors.<sup>xxxv</sup>

Given the very different nature of the local markets, the porous frontiers, and the likelihood that some area within one or more of the three countries of the East African

Community will be experiencing a shortage of maize at any given time, the most promising approach is to develop a single market for the region. It would require the removal of both formal and unofficial impediments to the movement of maize, as well as other cereals, and the harmonization of measures with respect to guaranteeing minimum floor prices for producers. Talks have commenced among the ministers of agriculture of all three countries and the aim of establishing a single regional market for cereals is on the agenda of the East African Community Secretariat.

Until then, the volatility of price movements in the maize market will continue to be borne by input suppliers, including seed producers. Their situation is aggravated by other factors. One is the unsettled situation in the Kenyan market where the production of high and medium altitude hybrid varieties, accounting for an estimated 80% of all purchased maize seed, has been dominated by the Kenya Seed Company. Its quasi-monopoly position has been protected, it has been alleged, by the stringent reinforcement of import controls<sup>xxxvi</sup> and dilatory approval of new varieties in both countries. The Kenya Seed Company was recently renationalized on the grounds that its original transfer to private ownership in 1997 was illegal. This recent measure is widely viewed as being politically motivated, since the principal shareholders were the former President along with several close political and business colleagues. There has been growing doubt as to whether the Agricultural Development Corporation, the current owner of the company, will be moving quickly to privatize it again.

With respect to seed production, KEPHIS, the government agency responsible for licensing new varieties, has recently agreed to inspect and license Ugandan produced seed in Uganda, provided the costs are financed by the seed producers in question. Whilst Uganda has its own certification agency, unlike KEPHIS it is not accredited internationally. The seed industry in both countries contends that although a step in

the right direction, this measure is inadequate. KEPHIS, they contend, is unduly bureaucratic and inadequately resourced, both financially and in terms of staff, to discharge its mandate. It is difficult to arrange for new varieties to be inspected and licensed in a timely fashion. Seed companies confront a major risk, since they must invest in breeding new varieties for at least two years before applying for a license. Furthermore, they allege, KEPHIS has been inconsistent in applying its own regulations.<sup>xxxvii</sup> The best solution, it is argued, is for KEPHIS to outsource many of its functions, and to have the seed industry made responsible, in the first instance, for licensing new varieties. However, to be effective, such measures should be taken on a regional basis. Complicating the situation further is the intention of the Kenyan government to review the 1997 Act, which established KEPHIS, with a view to its modification. This process will clearly take a minimum of one year.

Seed producers in both Kenya and Uganda confront a very tough and unpredictable market. Within Uganda, there are currently an estimated 11 companies. Aside from questions of competitiveness, business practice, and market acumen, their future success will hinge on such factors as the fate of the Kenyan Seed Company; the removal of impediments to the movement of grain and seed within the region; the possible recasting of KEPHIS's regulatory mandate and activities; and possibly, most importantly over the longer term, the introduction of a harmonized and effective price guarantee system covering all three countries.

Undoubtedly the performance of the two seed companies in which ProVenEx had invested has suffered from poor managerial practices, although in the case of Harvest Seed, the Ugandan firm, its original plans were also derailed by a major drop in maize prices, which in turn severely reduced the demand for, as well as price of seed. However, it is not immediately evident that this outcome can be traced to the lack of suit-

able business management services, as opposed to an unwillingness to compensate and utilize them effectively. Over the past six months, Harvest Seed has engaged a Kenyan general manager, with over twenty years experience in the seed and maize industry in both the private and public sector. Likewise, it is now employing a new Seed Manager, a Ugandan with over fifteen years experience in seed breeding and other agribusiness activities. It has also contracted two formally qualified specialists in seed breeding. One is a recently retired researcher at the NARO and the other a lecturer in the Faculty of Agriculture at Makerere University.

In the higher reaches of the value chain, there is no evidence of a shortage of the necessary business management services. The structure and problems of the maize market, in its regional and national dimensions are well understood by local and foreign business people as well as academics. Equally there appears to be a reasonably firm grasp, among the relevant players in the private sector, of the skills required to introduce and operate an effective price guarantee scheme.

Where the necessary business management services may be absent is at interfaces at lower levels of the value chain, namely in the supply of inputs and in the marketing of output. However, it is impossible to determine whether these stem principally from fundamental distortions in the market, or from an inadequate supply of the necessary services. In the former case, measures aimed at improving the market's overall efficiency and performance would reshape the current value chain, much as has been the case for horticultural exports, in ways conducive to more effective access by small scale producers. As to the latter, no firm conclusion can be drawn from our own investigation. In Kenya, for example, we were informed by one NGO that it had been a major innovator in supplying seeds and fertilizer to small scale producers, by distributing them in small packets that could be marketed by stockists and bought by farmers with very limited means.<sup>xxxviii</sup> How-

ever, the Managing Director of a Kenyan firm, which is among the largest suppliers of inputs, including irrigation equipment, to commercial farms, stated that his company had been highly successful in distributing seed and fertilizer, also in small packets, to small farmers via stockists. Company sales had rise from 100 metric tons two years ago to 270 last year; the target for the current one was 700 metric tons.<sup>xxxix</sup>

The company's sister firm in Uganda, however, could not point to a similar success.<sup>xi</sup> Distribution via stockists, it was claimed, was highly problematical and unprofitable, because of lack of credit worthiness, difficulties in securing payment, and problems of adulteration, *viz.* reselling poorer quality seed in the company's own bags.<sup>xii</sup> On the other hand, another Ugandan firm believed that it had been able to establish a sound effective distribution system for a wide variety of seeds and fertilizers through stockists. Clearly, the system could be strengthened through a credit guarantee scheme, an initiative which is currently being considered by the Rockefeller Foundation and USAID, among others. However, we can advance no definitive view as to whether this measure should necessarily be accompanied by others aimed at improving the quality of business management services, for stockists and producers.

**Other Cereals:** Limitations of time and budget did not allow us to devote a similar degree of attention to other cereals. More limited glimpses were obtained indirectly during discussions with consulting firms, NGOs, and in one case, a senior Ugandan official. Nonetheless, in providing illuminating comparisons to the situation prevailing in the maize market, they offer further insights into opportunities for, and ways of facilitating business management services.

Upland rice production is expanding very rapidly in Uganda. In the north, it is being promoted among small-scale producers who are being resettled following extended conflict. Elsewhere its expansion is being fuelled by rapid growth in consumption

among higher income groups, especially in rural areas. Discussions suggest that there is considerable scope for providing appropriate services at various stages of the value chain, viz. production, cleaning, storage, transport, and distribution.<sup>xliii</sup> What types of services are required and the various ways they can be supplied effectively will depend on approaches toward facilitating the production and sales of small-scale producers as well as opportunities for private, and possibly joint public private investments in such activities as storage, transport and marketing.

The value chain assumes a very different shape when the cereal in question, rather than being consumed, is used as an input in a manufacturing process. One such example is cassava. Outside of West and Central Africa, cassava is an “inferior” good, insofar as consumption declines as income increases. However, because of its capacity to withstand prolonged drought, it can be a very timely reserve food for poor people. In Uganda, the African Development Foundation, a US government agency, is actively exploring the possibility of using cassava as an input in brewing. The same ADF professional has successfully exploited other opportunities, e.g. use of cassava in manufacturing adhesives, in West Africa. (Ironically, he and the ADF have helped a local entrepreneur in Ghana invest in processes that use maize for the large scale manufacture of beer.) In Uganda, the ADF is also examining possible purchase of millet and sorghum by SAB Miller for the production of beer.

As in the case of horticultural products, the key interface in these emerging value chains is the link between producers and, in this instance, the manufacturer. The latter needs credible assurances that projected deliveries from many small scale producers, in terms of volume, quality and timing, will occur. The not for private agency, in this instance the ADF, has the task of providing this assurance by organizing producers and facilitating production. Addressing the “free rider” problem appears less difficult than in

the case of horticultural products destined for the domestic market, because of the lower – and fluctuating – value of these products when consumed directly. However, the problem is not totally eliminated; during periods of drought and food shortage, the producer may find it more profitable to sell the product in question on the local market.

**Other Products (silk and banana):** During our field investigation, we examined two other agricultural products, whose value chains provide illuminating insights into both the need for, as well as supply of different business services. One of them, silk yarn enhances food security, since the production of cocoons could potentially provide an important, supplementary source of income for thousands of small scale farmers in Uganda. The second, banana juice, is of direct interest to the Rockefeller Foundation’s Food Security Program, which has been strongly supporting the introduction and diffusion of new and more disease-resistant varieties of banana in both Kenya and Uganda.<sup>xliiii</sup> In both cases, the ADF has made the principal fixed capital investment and facilitated, or directly supplied many of the necessary business services.<sup>xliiv</sup>

The silk yarn initiative, Nobwe, is owned by a cooperative near the agricultural research centre, on the outskirts of Kampala, where much of the initial research into the production of silk cocoons in Uganda, had been undertaken. The Chinese equipment for producing yarn from cocoons delivered by small-scale producers across Uganda, has been purchased by the ADF, which has also arranged for localized training of the operators and supervising production engineer. The yarn itself is attracting considerable international interest because of its high quality. The ADF projects that small scale producers may earn as much as \$35 per month or \$350 annually (unlike India, Uganda can produce cocoons for 10 months a year), considerably more than the current average per capita income. Facilitating production of the cocoons does not confront a “free rider” problem, since there is no value to be ob-

tained from an unprocessed one. Furthermore, Ugandan professionals can provide the necessary expertise, including disease control, to producers. The enterprise, however, confronts three other challenges. The first is to secure the necessary market niche, a task being handled by the ADF itself, which is negotiating contracts with foreign buyers. The second is to ramp up production, since the plant, although using virtually all the cocoons currently produced in Uganda, is only operating at an estimated 30 to 40% of capacity. To do so, it will need one or more additional investors willing to finance operating capital. The third, and most challenging, will be the need to restructure management of the plant along more professional lines, and to strengthen its Board of Directors. These tasks will require tact and patience, since the enterprise is owned by a local cooperative.

In contrast, Jakana Juice is owned by a single Ugandan entrepreneur, who is well versed in the processing and production of juice. The ADF has invested in modern equipment. Here again, ramping up production will require additional investment, in the form of operating capital, which cannot be secured from local banks on satisfactory terms, especially with respect to conditions governing collateral and the term of any loan. Initially, the market will be Kampala, where there is rapidly growing demand for banana juice. The ADF has been mentoring the owner/manager and looking for additional investment.

With respect to business management services, we have drawn inferences expanding on earlier observations made with respect to maize and horticultural products.

The first is the importance, as repeatedly emphasized by several informants, of establishing a relationship, which gradually nurtures trust among the various partners in an investment. It is most evident in the case of the Nobwe Silk undertaking, which is owned by a local cooperative. The external investor, the ADF, has resisted the temptation to impose preemptorily a major

restructuring of the management and board. Rather it is gradually, but persistently convincing the cooperative's membership as to why such measures are not only necessary, but will benefit them directly.<sup>xlv</sup> Such trust will in turn make it much easier to introduce further changes in the current set-up, as will likely prove necessary with the involvement of one or more additional investors.

The second is the critical need for local knowledge, to establish the "seriousness" and validate the track record of the local entrepreneur or enterprise. In addition, it is especially needed at the lower levels of the value chain, to provide the processor or distributor credible assurances regarding delivery of the product in question.

Less critical, it would appear, is access to domain and expert knowledge. In the case of silk production, for example, there are Ugandan professionals, including research scientists, well versed in the production of cocoons. Plant staff appear well trained to operate and maintain the processing equipment. Likewise, the knowledge needed to use cassava, sorghum and millet to brew beer – industrially - can be provided by the manufacturer.

The fourth is the importance of mentoring over the course of the investment. It takes many forms: ready support – and criticism where necessary – of the management; guiding a local board of directors, revising business strategies and plans to cope with new developments and unanticipated setbacks; and coaching supervisory and managerial staff in the performance of their duties. Needless to say, this critical function requires time – and therefore money. The need for mentoring, as we have observed, also applies to business service providers. In this regard, we already have noted how some of the international NGOs, involved in agribusiness initiatives, have been providing it to more junior staff.

Finally, we observe the critical role played by experiential knowledge. The ADF director, for example, "has been there and done

that". He is, in his own words, "an honorary graduate of the school of burned fingers." Progressively, his own staff are acquiring the type of knowledge, which cannot be obtained from formal training courses. The latter are useful desirable, e.g., to establish the financial viability of a proposed investment, or to systematically appraise financial, economic, environmental and political risk. However, it is experiential knowledge that determines whether such formally acquired knowledge is actually utilized most effectively.

### ***Donor Support for Strengthening Business Management Services***

Our insights and findings provide a useful vantage point for assessing attempts by the international donor community to strengthen business management services, especially those provided by local professionals. Although not explicitly mentioned in our TOR's, this assessment provides additional information on how they have affected the structure and performance of the current "market" for such services.

Broadly speaking, they fall into three categories: increasing the supply of would-be providers; stimulating the demand for various services; and addressing issues of both supply and demand within the parameters set by specific investments.

An instructive example of an attempt to quickly raise the supply of providers is the World Bank "Voucher Scheme." Initiated in 1996, and operated through a government department, it provided "vouchers" for small and medium sized enterprises seeking training.<sup>xlvi</sup> Training was heavily subsidized, with the trainee being expected to pay on average about 10% of the estimated cost of a given course. Bank staff deem it to have been highly successful, since the \$11.6 million spent on the program was used to train an estimated 30 thousand trainees in a wide range of business, vocational and technical skills required by small- and medium-scale firms.<sup>xlvii</sup> Furthermore, it was expected to stimulate the supply of various business

services by introducing providers to potential clients, i.e. firms and individual trainees, who would then call on them to meet future requirements. To promote this outcome, the program established a National Association for Technology Transfer and Entrepreneurial Training, which maintains a list of registered consultants whom it has "certified" to provide different types of training and business services. Other, more modest donor-financed initiatives have attempted to expand supply by directly subsidizing the purchase of business services, initially by individual firms and professionals and, more recently, because of cost constraints and the desire for greater impact, by business associations.

The World Bank Scheme has been criticized for operational shortcomings.<sup>xlviii</sup> More relevant, for the purposes of our own study, has been the fate of the Association, its registry, and virtually all of the would-be "consultants" listed in it. Few of the businesses, or business providers in Kenya whom we interviewed were aware of the registry. Those who were, expressed considerable skepticism as to its usefulness and the quality of those enrolled in it. The reason, in our view, is quite straightforward. The putative clients still face the time consuming task of vetting the providers in the list, in particular their track record and experiential knowledge. Formal certification does not provide any assurance in this regard. Not surprisingly, most of these consultants have found their certification valueless in terms of obtaining work. For what we might term serious, competent local consultants, seeking to develop their clientele, the scheme has worsened their prospects of penetrating the market, since it is now more difficult for prospective clients to determine competencies among a much larger number of would be business providers.

Two new initiatives, supported by USAID and DFID, adopt a very different approach.<sup>xlix</sup> They seek to promote providers, by increasing the awareness of businesses in selected agribusiness sectors of the

benefits to be obtained from their services, and also by subsidizing their purchase. At the same time, they avoid “embedding” themselves in the process by not investing in specific businesses. A similar approach has been adopted, most recently in Tanzania, by Swisscontact, an NGO.<sup>i</sup> It appears to be achieving positive and tangible results. In the case of the USAID project, would be consultants are screened and pre-qualified. They are then invited to tender for specific contracts. Typically of the ten or twelve proposals submitted in response to a request for proposal, only a quarter are found to be acceptable. The process has succeeded in identifying some hitherto unknown Kenyan firms. Indeed, the value of successfully completing what is often a small contract, in terms of broader recognition by potential clients, is being increasingly recognized by these and other firms who wishing to penetrate the market for business services.

The approach addresses, perhaps inadvertently, two important “generic factors” which help promote success in business consulting. One is vetting, first undertaken by careful pre-qualification procedures. Subsequently, the firm or individual in question is vetted in terms of actual performance, which can then be referred to potential clients. The second is mentoring. Relatively inexperienced professionals receive guidance, not only in submitting a proposal, but also over the course of the assignment itself, including the preparation of a final report.

Long term success of this approach may be compromised by the limited duration of the projects themselves. At present, there has been no systematic attempt to formally record, store and update the vetted information concerning the consultants’ performance and the outcomes of specific assignments. Indeed, there is a certain reluctance to share such information across projects for fear that the individuals in question might be “poached”. Unfortunately, once the projects themselves have ended, this information may be lost or quickly lose its value through

failure to update it systematically. This outcome would be unfortunate, especially since its importance is recognized, albeit intuitively, by a growing number of good local firms. One of our recommendations, in Part VII suggests how this problem could be resolved, in a way that mutually benefits both client and provider.

The third approach, exemplified by the ADF in Uganda, also works on the “demand” side. However, as an investor, the ADF itself is deeply invested in the process. A significant proportion of the business services it requires, at both the vetting and management stages of the investment cycle, are provided by a linked entity, the Uganda Investment Trust.<sup>ii</sup> There appear to be sound arrangements for formal training and mentoring. Requirements for both will continue to grow as the ADF approaches its self-imposed ceiling of 25 investments.<sup>iii</sup> In addition, the ADF is outsourcing certain services, typically those with a low “risk ratio” to local firms vetted on an ongoing basis.

### ***Trends in Providing Business Management Services***

Donors have promoted SMEs in three different areas: financial services, business development services, and government-mediated business environment.<sup>iiii</sup> Herein, we focus on the second area, business development services. We note two different trends among important providers of business services. The first is deliberate shift by some international NGOs, namely Techno-serve, FINTRAC and CARE Kenya, and one government agency, ADF, toward a more commercial culture, by increasingly distancing themselves from an operating milieu characterized by bureaucratic risk and moving to one in which commercial risk becomes far more prominent. A defining feature is a business and commercial rather than “aid” relationship with clients.

An immediate motivation is the desire for a higher degree of self-financing because of cutbacks in support from government and

private givers. However, this objective also coincides with growing realization of the need for commercial acumen and expertise to fulfill their corporate aim of improving the lives of poor and disadvantaged people in the countries in which they are operating. Indeed, some have been severely criticized for past, ill informed interventions which, far from improving the lot of poor farmers, have actually worsened it. One such intervention, among several mentioned during our field study, had “totally messed up the prospects for exporting mangos” in a district in eastern Kenya. The NGO in question had no real knowledge of the product or market, and had failed to deal with questions of quality, delivery and handling. As a result, *bona fide* exporters ceased to operate in the area.<sup>iv</sup> The organization in question has recognized its errors. Its strategic response has been threefold: to focus on one level of the value chain, namely the facilitation of production; to hive off the provision of these business services into a separate, self-financing entity; and to develop a strategic partnership, involving a private company, to handle marketing and to supply technical services and inputs to farmers. Perhaps fortuitously, this new approach coincides with the advent of EUREPGAP, which will greatly simplify the longstanding “free rider” problem and thus facilitate the NGOs attempts to raise the volume of production and improve quality. Overall, there is increased realization that a commercial approach is much more likely to improve the living standards of those people the NGO is seeking to assist.

Another NGO, Technoserve, as its name suggests, focuses on supplying domain expertise, but now increasingly on a commercialized basis. Some of its services to poorer clients are cross subsidized by revenue obtained from consultancies undertaken at market rates. However, virtually all entail a fee for service, to underscore the commercial nature of the relationship with clients. The relationship, by imposing greater accountability to clients for outcomes, heightens professionalism and helps in recruiting promising young staff.

They in turn are acquiring experiential knowledge and are being well mentored in their work by seasoned international professionals. A similar approach has been observed in the case of both FINTRAC and ADF, the latter all the more surprising because it is a government agency. Until about three years ago, the Foundation had been trying to strengthen local organizations, including those more heavily engaged in social, as opposed to economic development. Under new leadership, and a business model, which we examine more closely in Part VII, it has focused on generating income and employment through strategic investments in promising opportunities, and in supplying essential advisory services, including mentoring and counseling in managing the investment. Whilst the ADF devotes considerable effort to vetting specific opportunities, drawing heavily on local knowledge as well as the expertise of professionals recruited from business and finance, it has not been risk averse in its decisions, contrary to the behavior one might have expected from a government agency.

These organizations may be termed “early adopters” insofar as others are monitoring their activities. Should they prove successful, not only by becoming more self-reliant financially but also in significantly improving the living standards of poor people, their strategic approach, centering on commercial relationships with clients and local businesses, will be increasingly emulated by others.

A step in the opposite direction was observed in the case of two other organizations that until comparatively had been operating within a culture of primarily commercial, as opposed to economic risk. Both had been established to complement another effort, the African Enterprise Fund of the IFC, established in the early 90s to finance the start up of small and medium sized businesses. The AEF, it had been determined, was unable to disburse its funds because of the lack of sound projects. This conclusion prompted establishment of the

African Project Development Facility, which identified promising investments and assisted small and medium sized businesses in attracting investment, not only from the AEF, but other sources as well. Because the APDF was financed with “soft” money, from bilateral donors and the World Bank group, these services could be heavily subsidized. A parallel organization, AMSCO was established to help recruit experienced managers for both these and other local businesses, and to provide targeted training for employees.

Very recently, AMSCO has undergone a major restructuring. Its headquarters have been moved from Amsterdam to Johannesburg and many of its branch offices in Sub-Saharan Africa have been closed. (It continues to operate its Nairobi office under the auspices of a UN financed project.) Possibly one reason for this restructuring is a perception that there may be other, less costly ways of addressing shortfalls in management. Another may be a realization that strong professional management, whilst clearly very important, is only one determinant of business success.

The APDF, we were informed, is increasingly confining itself to a “wholesale” as opposed to “retail” role, dealing less with individual firms and increasingly with business associations.<sup>lv</sup> This shift apparently has been prompted by the desire of supporting donors for greater “impact.” At first glance, such reasoning appears justified since the average number of “deals” being finalized annually, in terms of an actual investment, has typically averaged between three and five per investment officer. Instead, staff could be working through groups of firms, i.e., associations, providing guidance based on their professional and experiential knowledge. Moreover, the APDF will be drawn increasingly into “knowledge network” activities of the World Bank Group, e.g., in maintaining an open electronic registry of business service providers. Also, it will become increasingly engaged in formal training of local business providers.

In our view, this new orientation may be a step in the wrong direction. Some of the business investments identified and vetted by APDF staff have helped stimulate the growth of new product lines, notably in horticulture, in both Kenya and Uganda. Likewise, until comparatively recently, APDF staff have been among the earliest to identify promising prospects in processing, including some examined over the course of our own study.<sup>lvi</sup> The functions of working up potential investments in small and medium scale enterprise and linking them to potential sources of financing, a void created by this new orientation of the APDF, will not be easily filled, at least in the short term, by commercially oriented NGOs and investment funds. With respect to strengthening business management services, one of the reasons advanced for this shift in the APDF’s priorities, our own analysis would argue that this aim is unlikely to be achieved through more information and formal training. An open registry of service providers comprises unvetted information. The would-be purchaser must still address such concerns as track record and experiential knowledge, especially for services involving a high risk ratio. More formal training, as we have observed elsewhere, does not address such problems, which are precisely those locally based providers must surmount to operate successfully. Finally, as APDF staff, many of whom are very highly regarded for their acumen and professionalism, become progressively removed from the “rock face,” namely direct involvement in specific projects, their experiential knowledge will begin to erode and they will be less able to mentor local professionals effectively.

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<sup>x</sup> Interviews with Farid Mohammed, Karim Somali, Amin Shivji and William Kalema

<sup>xi</sup> For example, membership in a Rotary Club or similar charitable organisation in the United States.

<sup>xii</sup> Among the underlying factors cited by Putnam (“Bowling Alone: The Decline of Social Capital in the USA”) are urban sprawl, television, and to a lesser extent, greater engagement by women in the work force.

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<sup>xiii</sup> Eric Nesbitt of Kencall Ltd. noted that the Kenya Communications Commission was introducing a detailed set of regulations governing the licensing and operation of call centres in the absence of any in-house expertise or prior consultation with the Kenyan industry.

<sup>xiv</sup> A question, often posed in jest, but also with intent, in conducting due diligence, is *which* set of books or accounts should be reviewed.

<sup>xv</sup> Dr. William Kalema, UMACIS

<sup>xvi</sup> Sunita Kapila

<sup>xvii</sup> One such example, among several revealed by our study, is the export of dried fruit to Europe and Canada.

<sup>xviii</sup> Kojo Osae-Addo

<sup>xix</sup> Both countries have experienced serious bank failures including the aborted privatisation of the Uganda Commercial Bank.

<sup>xx</sup> One recent such episode in the Uganda was attributed to the drop in the property market, necessitating banks, for whom real estate remains the principal form of collateral, to raise their interest rates, roughly at the same time that the Bank of Uganda was lowering its bank rate.

<sup>xxi</sup> Production at the Nobwe Silk Yarn factory was delayed by more than six months because of the outbreak of SARS which prevented the Chinese engineers from travelling to Uganda to install the equipment. Achievement of full scale production at the Jakana Juice factory has been delayed by power outages, caused by individuals attempting to tap power from the mains supply (and electrocuting themselves in the process).

<sup>xxii</sup> Lawrence Cockcroft, Principal Advisor to the Gatsby Charitable Trust, UK

<sup>xxiii</sup> EUREPGAP certification is contingent upon completion and verification of a checklist that consists of 254 questions, 41 of which are considered "Major Musts" and 122 of which are considered "Minor Musts." Another 91 are "Shoulds," which are recommended but not required practices.

Some of EUREPGAP's food safety requirements include:

- The product must be traceable to the registered farm where it was grown.
- Purchased nursery stock must be accompanied by officially recognized plant health certification, and quality guarantees must be documented.
- Plantings of Genetically Modified Organisms must comply with existing regulations in both the country of production and the country of the final consumer.

- A recording system must be established for each field, orchard or greenhouse.
- A crop rotation plan must be in place or, in its absence, a justification must be made.
- Dates, quantities, method of application and operator details of fertilizer applications for each field must be recorded.
- Fertilizer must be stored in a clean, dry, covered area separate from nursery stock, fresh produce and pesticides.
- Protection of crops against pests, diseases and weeds must be achieved with minimum pesticide input and recognized Integrated Pest Management techniques must be used on a preventive basis.
- Chemicals banned in the European Union must not be used on crops destined for sale in the European Union.
- Records of pesticide applications must be kept, including information on the date, crop, location, trade name, operator's name, justification, quantity and machinery used.
- The grower and/or supplier must be able to provide evidence of residue testing.
- The source of post-harvest product washing must be in compliance with microbiological aspects of European Union regulations on water potability.
- Each certified producer must complete one internal audit a year which tests for compliance with EUREPGAP standards, and corrective actions must be taken where necessary.

See: <http://www.eurep.org/about.html>

<sup>xxiv</sup> Nipul Dodhia, East African growers

<sup>xxv</sup> One such case is VegPro, which is currently exploring the possibility of establishing, with donor support, a strategic partnership with CARE Kenya to expand production for export by Kenyan small holders.

<sup>xxvi</sup> Steve New, FINTRAC and Kenyan Horticultural Crops Development Authority

<sup>xxvii</sup> One such case is AMFRI Farms in Uganda.

<sup>xxviii</sup> Steve New, FINTRAC noted the recent closure in Thika of one of Kenya's few remaining fruit processors.

<sup>xxix</sup> IFPRI Forum (Dec 2003) *Will Supermarkets Be Super for Small Farmers?*

<sup>xxx</sup> Steve New FINTRAC

<sup>xxxi</sup> The authors wish to acknowledge the insights provided by Gem Argwings-Kodhek of the Tegemeo Institute, Steve Collins, Chief of Party, USAID supported Kenya Maize Development

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Program, and John Magnay, Chief Executive Officer, Uganda Grain Traders Ltd. Amongst the many reports relating to the regional and Kenyan maize market we note in particular:

Gem Argwings-Kodhek, Tegemeo Institute and Dr. Josephine Songa, Kenya Agricultural Research Institute (July 2003) *Food Security Theme: Kenya Country Study* Report prepared for the Rockefeller Foundation

Kenya Ministry of Agriculture et al. (March 2004) *Strategy for Revitalising Agriculture: 2004-2014*

<sup>xxxii</sup> Paul Seward, FIPS notes that the shortage of phosphorus in many soils hampers root development, making the plant unduly vulnerable to drought.

<sup>xxxiii</sup> Steve Collins

<sup>xxxiv</sup> In June 2004 over 100 people in Western Kenya were poisoned by aflatoxin in contaminated grain allegedly imported from Uganda.

<sup>xxxv</sup> John Magnay, CEO, Uganda Grain Traders Ltd.

<sup>xxxvi</sup> In the case of FIKA, a Ugandan seed company and seed from Malawi, also produced with assistance from Monsanto.

<sup>xxxvii</sup> One example cited the fields of a major seed farm, owned by a prominent Kenyan politician, were too close in proximity to neighbouring ones growing open pollinated maize.

<sup>xxxviii</sup> Paul Seward, FIPS

<sup>xxxix</sup> Shaul Moran, Amiran Kenya Ltd.

<sup>xl</sup> Ze'ev Shiff, Balton Uganda Ltd.

<sup>xli</sup> The problem of adulterated seed and fertiliser is a serious concern confronting all legitimate agricultural input distributors in Uganda. Companies keep close count, for example, of the bags used for packaging. Often they are imprinted in Nairobi to prevent illicit traders from securing them. Many of these activities are conducted in the location in Kampala called "container city".

<sup>xlii</sup> Vincent Musubire

<sup>xliiii</sup> For reasons of time and budget, we were unable to look at some other banana products, including purée, chips, and dried (fruit).

<sup>xliiv</sup> Kojo Osae-Addo of the ADF, and Joan Rutaroh of the Ugandan Development Trust very generously provided the opportunity to look at both projects.

<sup>xli v</sup> For example, by demonstrating that "it is better to obtain 60% of net profits than 100% of nothing".

<sup>xli vi</sup> World Bank (September 1996) *Kenya: Micro and Small Enterprise Training and Technology* [http://www.worldbank.org/education/economicse/d/finance/demand/case/kenya/kenya\\_index.htm](http://www.worldbank.org/education/economicse/d/finance/demand/case/kenya/kenya_index.htm)

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<sup>xli vii</sup> World Bank (May 2002) *Small Business Development Services: Kenya Voucher Program* [http://www.worldbank.org/wbi/B-SPAN/sub\\_kenya\\_voucher.htm](http://www.worldbank.org/wbi/B-SPAN/sub_kenya_voucher.htm)

<sup>xli viii</sup> Some of our informants alleged that there had been considerable corruption, since would be "consultants" had to provide public officials a kickback (from training fees) in order to be certified and have trainees register for the program they were planning to offer.

<sup>xli ix</sup> The information was kindly supplied by David Knopp, Chief of Party, USAID Kenya Development Services Program, Kevin Billing, and Wanjiku Guchu, DFID Business Services Market Development Project.

<sup>i</sup> Ralph Engelmann, Swisscontact

<sup>ii</sup> Because the ADF is a US government agency, it is much easier to engage full time Ugandan staff on a de facto basis through a local not for profit company. Likewise, since US government grants cannot be repaid to a government agency, ADF loans are repaid to the Trust.)

<sup>iii</sup> This ceiling is predicated on five new investments annually with an average duration of five years.

<sup>iiii</sup> Oldsman, E. & Hallberg, K. *Framework for Evaluation the Impact of Small Enterprise Initiatives*.

<sup>lv</sup> H. Mule

<sup>lv</sup> Annabelle Appleton, Lovelace Kwasa-Onyango, and Olivia Randria-Harvel

<sup>lvi</sup> APDF staff played a major role in identifying opportunities for the export of flowers, in particular roses, and various vegetables. They have also identified promising opportunities, e.g. in dried fruit and juice, which are now being taken up by some of the other agencies mentioned in our study.

## Part VI. A Roadmap of the Market for Business Development Services

The market for business development services (BDS) is fragmented, especially in low income countries. We attempt to map BDS by benchmarking selected organizations operating in Kenya and Uganda. (See Appendix C.) In Figure 2, each organization is mapped along two axes. The position of the bubble along the horizontal axis indicates whether the activities of the organization concentrate mainly in matured or missing markets. ("Matured markets" are typically found in developed or OECD countries. These markets are characterized by well-functioning pre-market conditions (legal and regulatory systems, infrastructure). Missing markets are typically found in developing countries (countries with less than \$745 GNI/capita), and are characterized by pre-market conditions that are fragmented and not well established, including poor infrastructure, weak legal and regulatory systems.) The position of the bubble along the vertical axis reflects activities that can range from research, where studies and analysis focus on the discovery of knowledge, to outreach, where dissemination of the findings and information sharing are the main objectives. With the exception of ICIC, none of the BDS organizations are closely connected to major universities or research-based institutions. ICIC has primarily a domestic focus that extends information and services to small businesses in urban areas.

Our principal findings can be summarized in terms of a stylized "road map" (Figure 3), which expands upon on the classification of service providers presented earlier in Part II and in Figure 2 above. The vertical axis denotes client confidence. The most important indicator, in this regard, is the willingness to entrust to the provider tasks that have a high "risk ratio". Put simply, the cost to the client of "getting it wrong" will be substantial. Consequently, the provider, as in the case of our mythical neurosurgeon, can command very high rates for services rendered, and the outlook for the enterprise is quite positive. Among the contributing factors are the following:

- A high degree of experiential knowledge, as signified by a track record that can verified readily by the client from trustworthy sources;
- Likewise, verifiable specialization and client skills in specific services;
- Ready access by the provider to domain knowledge, either in-house or from other sources acceptable to the client;
- Reduced risk to the client, in the event that the provider fails deliver the desired product. In such situations, the provider is able and willing to rectify the situation.

Client confidence contributes to the likelihood of the firm's success in supplying such services, as indicated on the horizontal axis, "Provider's prospects."

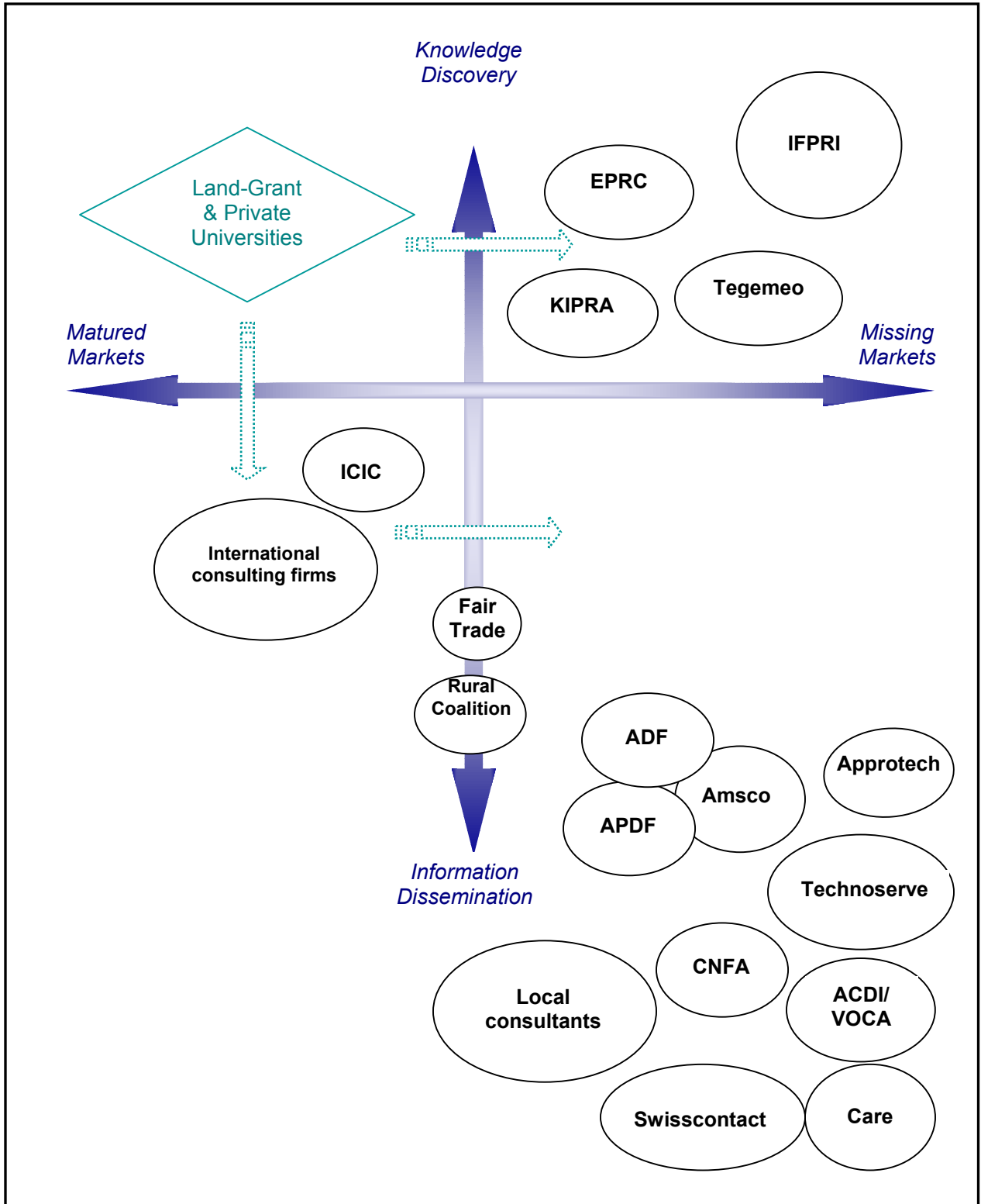


Figure 2. BDS Organizations in Knowledge and Information Provision

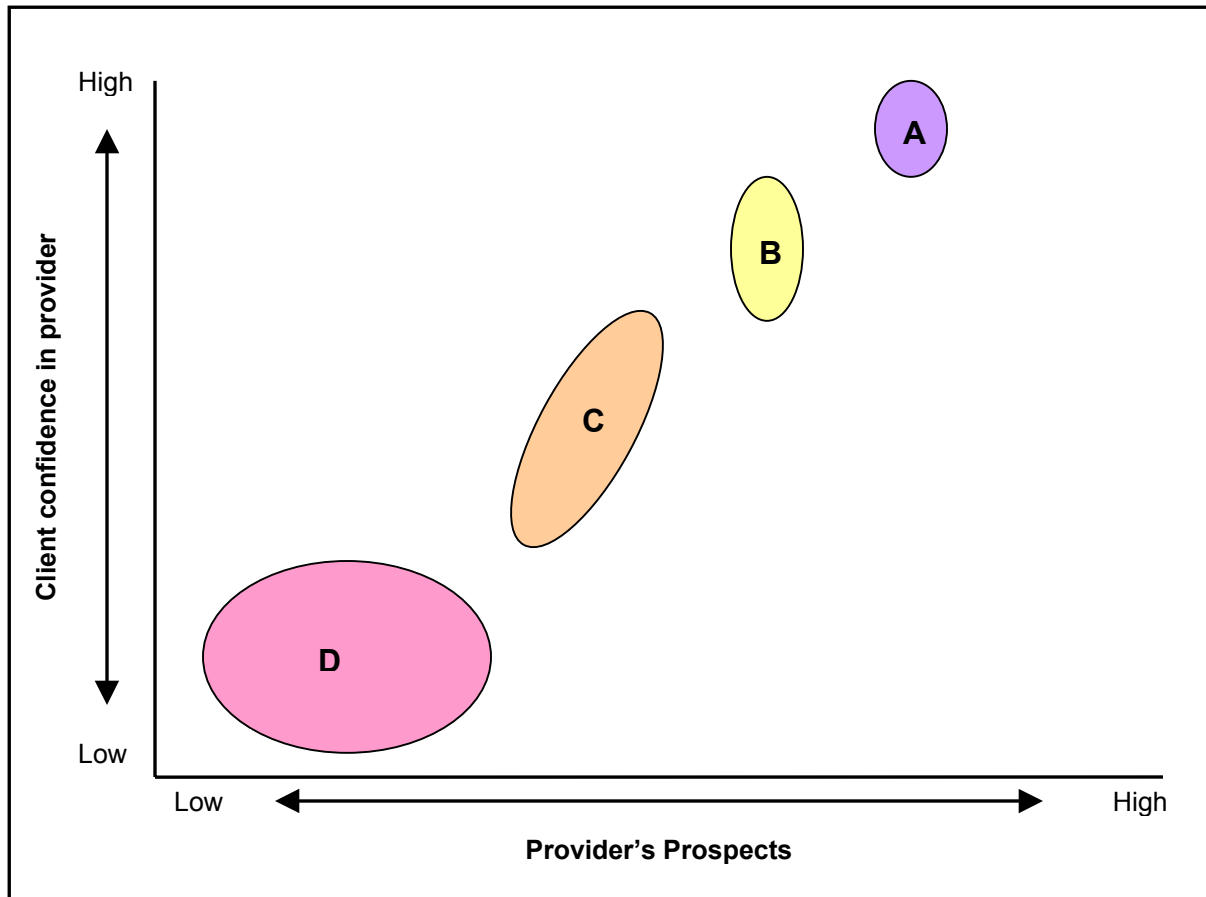


Figure 3. Client confidence and Provider's prospects.

Within Group A fall two types of firm. The first is “fund managers”. Their positioning is achieved by limiting themselves to specific areas of expertise, notably in the restructuring and recapitalization of firms, which they have concluded can be made commercially viable. Most of the associated demands for services, especially those with a high “risk ratio”, are met by in-house professionals. They can be appropriately compensated through the gains obtained from the investment. Understandably fund managers are usually only prepared to consider investments much larger than those involving small and medium size firms.

Also lying within Group A is the APDF. However, its perceived level of competence to prospective clients, for reasons advanced earlier, may well decline.

Group B, comprising international consulting firms, formally detached in recent years from parent consulting firms, is positioned somewhat lower. Client confidence may be somewhat lower because of restructuring. Since restructuring is likely to continue for some time, the outlook for some local franchises is also somewhat less certain. As previously indicated in Part 2, these firms have well developed skills, which can be applied to tasks at the management stage of the investment cycle. Less certain are their capacities for those associated with up-front vetting of an investment.

Group C comprises those multinational NGOs operating on increasingly commercial lines. As we observed earlier, some are restructuring their corporate culture and activities more rapidly than others, and therefore attract a higher degree of confidence in terms of perceived competence. Further

upward movement will continue to depend on increased specialization in specific activities and associated business services, as well as careful recruitment and systematic mentoring of staff.

Within this group, we single out the African Development Foundation, because its mode of operation comprises a model commending itself to other providers, as well as agencies seeking to stimulate investment in small and medium enterprise, and to strengthen the provision of business services to them.

Because it is a US government agency, and therefore unable to receive repayment of its loans (including interest), the ADF establishes “trusts”, viz. not for profit agencies, within each of the countries in which it operates. Aside from being able to accept such payments, these Trusts employ local staff to vet and monitor investments. Thus, ADF’s directly engaged employees, highly seasoned professionals typically contracted from the financial and business worlds, have ready access to local knowledge. In turn, they are able to mentor both staff of the “trust” and the enterprises in which they are planning, or have made investments. Our understanding is that the ADF plans to invest more heavily in promising staff and to upgrade formal qualifications in recruiting future members.<sup>lvii</sup>

The model appears promising, not only as a modality for investing in small and medium enterprises, who are normally eschewed by domestic banks and investment houses, but as a means of nurturing local providers of business management service. The latter acquire experiential knowledge, not through some formal accreditation, but by actual exposure to the various problems entailed in vetting and monitoring investments in different lines of business. Furthermore, they have access to expert knowledge and are mentored in their work. This direct link, between investment and business services, is one that could presumably be replicated in variants of this approach.

Group D consists of local consultants, comprising both individuals and independent local firms, the target group of donor financed efforts for “strengthening capacities” to provide business services. Although a sizeable portion of those whom we contacted are clearly competent, client confidence, as adjudged by willingness to entrust tasks with a high risk ratio, is very low. Our findings confirm the reasons, first advanced in Parts II and III, for this situation.

- Prospective clients face high transactions costs in obtaining reliable vetted information concerning a firm’s track record and capabilities. They invariably resort to better known and proven providers. Consequently, these firms and/or individuals are unable to acquire the experiential knowledge they need to boost client confidence.
- The incompetence of some of these firms tars all of them with the same brush.
- Engaging local firms typically places the client at risk, in the event of failure to obtain the contracted service. Providers in this group are usually unwilling or unable to rectify the problem – at their own expense.
- Because of fluctuating and uncertain revenues, many of these firms are unable to specialize in particular services (unlike some of the multinational NGOs covered by our study). They also don’t have the resources, in terms of time or money, or sometimes the in-house experience, necessary to mentor more junior staff.

As we noted at different points in this report, more formal training, compilations of consultant registries, and various types of “certification” do not address these more fundamental concerns. Other efforts, notably the DFID and USAID financed programs for developing businesses services, do so implicitly and sometimes inadvertently, e.g., by vetting and mentoring local firms and professionals and by expanding opportunities

for them to acquire experiential knowledge through exposure to actual investments. A proposal for building on these and other such efforts, in order to facilitate - in terms of our diagram - upward and horizontal mo-

bility for the competent professionals within this group, is presented in the next part of our report.

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<sup>lvii</sup> Eric Hyman

## VII. Implications for ProVenEx and the AAC

The principal conclusions to be drawn from our analysis of the market for business development services appropriately deal with demand and supply conditions, namely, ProVenEx's and AAC's need for such services and secondly what measures they, along with other like-minded investors, might take to improve their quality and delivery.

Because of the risky business environment, further heightened by the deliberate decision to invest in small- and medium-sized firms engaged in agribusiness, the likely need for, and therefore cost of such services will be high. Trying to cut corners at any stage of the investment cycle could prove very expensive in terms of a failed project. Overall cost is even higher when we factor in those proposals that have been vetted and are subsequently rejected. In relative terms, i.e., in relation to the average size of a successful investment, and a realistic estimate of the likely net rate of the return, the cost of such business services could prove prohibitively expensive. Not surprising, therefore, is the fact that their provision is subsidized heavily by donors, as in the case of the APDF, ADF and, in several instances, by the Rockefeller Foundation itself. As a "double bottom line" venture capital firm, ProVenEx does not, we presume, have this option. As a "soft capital" initiative, the AAC may have somewhat greater latitude and can source many of the necessary services in-house. Nonetheless, it will still confront difficulties in financing their cost and, at the same time, achieving a positive, albeit more modest, return on its capital.

**In our view, the most promising solution is to partner with other initiatives prepared to consider investments in agribusiness, and also in a position to underwrite, or better still heavily subsidize the cost of the business services associated with them.** In this regard, we have looked at three possibilities - local banks, APDF, and ADF - each representing a different category of strategic partnership.

The first is a *local financial institution* specifically targeted toward assisting small and medium scale enterprise.<sup>lviii</sup> However, the degree to which such institutions can subsidize such services is limited by the understandable concern of their shareholders. Furthermore, the type of investments in which they can engage, in terms of sector and lending conditions, is constrained, not only by the relevant banking legislation and Central Bank regulations, but the overall level of risk under which they are operating. Further, we note that some of these institutions have limited capacity to provide the services needed to vet and monitor investments in small and medium scale enterprises in the agribusiness sector. In other words, to partner with ProVenEx or the AAC, they might well need to have such services subsidized.

The second is the *African Project Development Facility*, a World Bank affiliate that has played a leading role in developing new agribusiness products and exports in both countries. It has indicated its willingness to partner with ProVenEx, AAC, and other similar ventures, by providing expertise and various instruments for vetting and managing investments.<sup>lix</sup> It could also facilitate

partnerships with potential financing partners. However, as the APDF shifts, to use its own terms, from a retailing to a wholesaling function, and becomes further removed from the “rock face” of direct involvement in specific projects, its stock of local and experiential knowledge is likely to diminish.

The third is the *African Development Foundation*, which appears to have developed an approach that not only combines both forms of knowledge, but keeps deepening and expanding them through ongoing engagement as an active investor in small and medium sized firms. It is also able to subsidize many of the associated business services. Its own investments invariably require supplementary financing, usually for operating capital. Its aims, needs and mode of operation appear complementary to those of both ProVenEx and the AAC. Our one qualification concerns the fact that the ADF is a US government agency and as such, is subject to “politically inspired shifts” in corporate strategy and executive leadership. Consequently, a broader agreement or understanding, as opposed to partnering in one or more specific projects, may be desirable.

More generally, we can highlight the *principal considerations* that should inform the search for partners able to help underwrite the cost of business services.

- A strong and continued local presence;
- Shared aims of raising the living standards of poor people, including their food security;
- Active involvement in identifying and financing investments;
- A willingness to invest in small- and medium-scale enterprises engaged in agribusiness;
- Evidence of local and experiential knowledge, as well as timely access to appropriate domain expertise;
- The financial capacity to underwrite the cost of business services associated

with vetting and managing such investments; and

- Financing requirements, as an investor, which complement the activities of ProVenEx and the AAC.

Turning to the second major – supply-related – conclusion, we note from our road map (Figure 3) that local firms are least well positioned, in terms of “client confidence” to supply those services associated with a high risk ratio. What can ProVenEx and the AAC do to rectify their situation?

**An intriguing possibility identified by our study is to create a data bank of proven providers of specific services.** This undertaking would require collaboration with other like-minded users of business services to overcome a classic “externality” problem. At present, every user separately underwrites the cost of vetting local providers, by testing their competence through performance in specific assignments. Understandably, individual users are often unwilling to share such information with others seeking good, reliable, locally based consultants. However, this up-front cost could be internalized if a group of users, comprising investors and donors supporting business service development, agreed to collaborate in sharing such information among each other.

The shared task would be the establishment of a data bank of information concerning completed assignments. Analogous to that of a credit bureau, it would gather information on the specific types of work undertaken, types of domain and experiential knowledge they entailed; and actual outcomes in terms of timeliness and compliance, or otherwise, with the scope of work and terms of reference. Access to the information base would be limited to those paying for its maintenance and also willing to provide data according to an agreed format. The methodology for collating, updating and retrieving information could be adapted from that used by some large international consulting firms, who customarily

invest considerable effort in managing such knowledge as part of their overall strategy for competitiveness. As in the case of a credit bureau, the data bank would be managed at arm's length i.e., not by the users themselves, and certainly not by an association of business consultants.

The value of the data bank lies in the fact that the information it contains has been vetted in terms of actual performance and outcomes. Competent local individual professionals and firms will respond, as in the case of the USAID initiative for strengthening business management services, where many are prepared to undertake relatively small assignments, for little or no gain, in order to obtain experience and raise their credibility as well as visibility. The proposed initiative would overcome two unfortunate shortcomings of this and similar donor supported initiatives, namely their limited duration and the lack of a systematic and efficient mechanism for sharing this information with other would be users of business services.

The data bank would assist local firms in two important ways. First, it would weed out incompetent firms and professionals. To use a metaphor from the insurance world – it would penalize severely those who suffer too many road accidents. At some point, the risk of using such firms will simply become too high. They will go out of business or confine themselves to those tasks with a much lower risk ratio. Secondly, local firms will not only be motivated to specialize in specific tasks, for fear of causing a “road accident”, but also because of the likelihood of steadier work in these more specialized areas. The process will become self-reinforcing: more business increasing experiential knowledge and client confidence, generating in turn more work.

Business providers in our group D, consulted over the course of our field study, responded very positively to the proposal. They noted, intuitively in many cases, that it addressed the principal constraints impeding their further upward mobility within the market. Conversely, they expressed well-founded skepticism regarding the likely positive impact of further “training”, even when subsidized by donors, the compilation of “yet another” registry of local consultants, or proposed affirmative actions in hiring local firms, because such efforts in the past have failed, with very few exceptions, to contribute to tangible and lasting success. Indeed, the firms in question indicated that they would be more than willing to pay for formal staff training, provided they could perceive a likely benefit in terms of increased business. What was needed was a mechanism that would recognize, document and record actual performance, allow them to specialize within their respective areas of competence, and instill greater confidence in clients through growing recognition of their ability to undertake assignments with progressively high risk ratios. Likewise some of the donors engaged in strengthening “local capacities” expressed interest in the proposed approach and are prepared to collaborate with users such as ProVenEx, AAC and others.

We believe it warrants serious consideration.

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<sup>lviii</sup> For example, the Centenary Bank in Uganda or K-Rep Bank in Kenya. Information concerning this segment of the financial system was kindly provided by Nick Mbuvi, the incoming Manager for Barclays Bank, Uganda.

<sup>lix</sup> One of these is a “diagnostic tool”, which has proven very effective in vetting potential investments. (Moses Kibirige)

## Appendix A: Terms of Reference

**Background:** The Rockefeller Foundation's Program Venture Investments (ProVenEx) effort makes investments in businesses and public-private ventures that further one of the Foundation's areas of work in Food Security, Health Equity, Working Communities and Creativity & Culture. (For more information on the areas of work covered under each of these four program Themes, please see [www.rockfound.org](http://www.rockfound.org).) ProVenEx makes investments for both financial and social returns.

The Foundation's mission is centered on enhancing the lives and livelihoods of poor and excluded people. As a result, ProVenEx focuses its investments in businesses that address an important unmet need by poor people. Many of these sectors face a dearth of capital and private sector activity, but nonetheless face the same – if not more – management challenges than businesses working in conventional commercial sectors.

Over the past six years, ProVenEx has invested capital in 11 businesses in the US and eastern Africa. It is contemplating expanding its efforts in eastern Africa. Near term opportunities that are being led by the Foundation's Food Security program include the African Agricultural Capital (AAC) Fund, an investment fund to invest agribusinesses serving smallholder farmers that is being sponsored by the Foundation, the Gatsby Charitable Trust and Incofin.

We believe that in order to be successful in our investments, capital must be paired with appropriate management assistance and access to value-added business networks. The AAC will be pursuing this strategy and ProVenEx has attempted to combine the two on a customized basis in most of its investments, but has found that efforts to do so in its investments in eastern Africa to be particularly challenging.

We are interested in commissioning one or two consultants to review current efforts to: a) provide business management assistance and b) build professional business management capacity in emerging economies, with particular attention on efforts underway in sub-Saharan Africa. In this region, the foundation has a particular interest in the agriculture sector.

**Purpose:** The purpose of this review is twofold: 1) To inform ProVenEx and the AAC of current and emerging best practices in providing business management assistance to companies in Africa, and potential service providers and partners for future and existing investments; and 2) A summarized version of the review document will be part of background materials that will be distributed to participants attending a September 2004 workshop for investors seeking financial and social returns entitled *Building the Blended Value Capital Market*. The Rockefeller Foundation, the International Finance Corporation and the World Economic Forum are sponsoring the workshop.

A summarized version of the review document may also be posted on the Rockefeller Foundation web site.

**General categories to be covered.** At the moment, we are breaking the area of business management assistance into the following sections, but we encourage the consultants to suggest alternative approaches:

- **Entrepreneurial capacity building:** The focus here would be on entrepreneurs starting up business ventures or social enterprises, the specific types of skills required therefore, e.g. writing business plans, developing business strategies, executing on those plans & strategies, building a value-added board, hiring a team, fund-raising, etc.
- **Professional management capacity building:** Here the focus would be on

building management capacity to sustainably manage business growth & scale-up. Specific functional areas include: financial controls, management information systems to gauge progress & inform management decision-making, accessing distribution channels, market analysis, organizing the business, human resources management, etc.

- Access to regional & global business networks and supply chains: The idea here is how to connect entrepreneurs and business managers in resource poor settings such as Africa with continuous, on-going access to:
  - Potential customer, distribution, supplier or other value-added business relationships, and
  - Best practices and innovations in management happening locally, regionally & if appropriate, globally...including access to a network of seasoned executives for mentoring, advice, board development, etc.
  - Experienced business managers and entrepreneurs with practical experience who could provide ongoing mentoring or advice along both general management and specific functional areas ...in much the same way that successful entrepreneurs & business managers in the US and Europe surround themselves with various advisory committees of highly experienced people with relevant domain expertise.

**Deliverables:** The review will be in the form of a written document or Power Point presentation. The focus should be on sub-Saharan Africa, but the review should also cover efforts underway in emerging economies globally to the extent they provide relevant models for Africa.

The review should cover the following issues and areas:

- An analysis of a market-driven supply chain, focused on not more than 3 or 4 product areas, including maize and bananas/*matoke*. Other products areas of interest to the foundation include rice, cassava, sorghum, beans, and vegetables. This supply chain analysis would identify the specific functional and management skills required at each step of the chain and any existing sources of technical assistance for these required skills, including how this assistance is delivered and a sense of how effective these strategies have been.
- A general landscape of the institutions working in this areas, the particular functions they perform, and modes of delivering services; in particular, an analysis of key lessons learned and a sense of what has or has not worked. Examples include:
  - Academic institutions of excellence, e.g. business or management schools, executive education institutes; specific functions or skills being developed through their courses.
  - Non-profit consulting firms or NGOs providing business technical assistance, e.g., Technoserve, Swisscontact, FoodNet, CARE, etc.
  - For-profit consulting firms such as McKinsey, Deloitte & Touche.
  - Institutions operated by or affiliated with multi-lateral or bi-lateral donor agencies such as the APDF, AMSCO, African Development Foundation.
- An analysis of where the key missing gaps are and the possible strategies for addressing these gaps given the information in #1 and #2 above.

The most helpful way to organize the information in sections #2 through 4 above would be to categorize them under the categories proposed above in Section C 1. through 3.

## Appendix B: Individuals Consulted

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**APPENDIX C. Companies Surveyed in the Benchmarking Analysis**

NAME		AMSCO (1989)	APPROTEC (1991)
<b>MISSION</b>		To assist private sector companies, particularly small and medium enterprises, to become globally competitive and sustainable.	To promote sustainable economic growth and employment creation in Kenya and other countries by developing and promoting technologies that can be used by dynamic entrepreneurs to establish and run profitable small scale enterprises.
<b>PRODUCTS</b>		Activities include 1) company analyses to identify long term potential and major management needs; 2) recruitment/ secondment of managers for senior positions; 4) customized training of local managers and staff to improve the efficiency and promote good leadership qualities and good corporate governance; 5) subsidizing management development programs and manager's salary for client companies; and 6) assisting in raising funds for client companies.	Programs: 1) Market research – identifying high potential small scale business opportunities for entrepreneurs; 2) Technology design and promotion - developing technologies and business packages, and marketing the new technologies to local small-scale entrepreneurs; 3) Training – training local manufacturers to produce the new technologies, and assisting small scale entrepreneurs in adopting new technologies; 4) Impact assessment - monitoring the cost-effectiveness and impact of its programs.
<b>GOALS</b>		To supply experienced managers and technical personnel to small and medium sized African enterprises in order to: 1) improve management capacity, and 2) assist in improving the competitiveness and sustainability of African companies so as to bring them up to international standards.	To apply Approtec's technologies, expertise and methods throughout Africa to support programs in agriculture, shelter, water, sanitation, health and relief. To create new jobs and to help establish highly profitable new small businesses in Africa.
<b>GEOGRAPHICAL</b>		39 African countries	Kenya, Tanzania, US
<b>CURRENT BUDGET</b>		(1998) \$19.2million for 10 years	(2003) \$2million per annum
<b>FUND SOURCES</b>		International Finance Corporation (IFC) African Development Bank (AfDB) 7 Bilateral Development Banks Industrial Council for Development Services United Nations Development Program (UNDP) Multilateral Donors Service fees	Department for International Development (DFID) USAID Netherlands Government Private Donations Product Sales Quality inspection, marketing, training and consultancy fees
<b>FUND SOURCES %</b>	<b>Contributions</b>	100%	49%
	<b>Gov Grants</b>	0%	0%
	<b>Prog. Services</b>	0%	26%
	<b>Investments</b>	0%	0%
	<b>Special Events</b>	0%	0%
	<b>Sales</b>	0%	25%
	<b>Other</b>	0%	0%
<b># OF STAFF</b>		24FT	80FT, 7 BoD

Overview of Business Management Assistance & Linkage Strategies

NAME		CARE (1945)	CNFA (1985)
<b>MISSION</b>		To serve individuals and families in the poorest communities in the world, to promote innovative solutions and advocate for global responsibility and facilitate lasting change by: 1). Strengthening capacity for self-help and 2) providing economic assistance.	To promote greater understanding and involvement among America's private sector and economic leaders and the world's growing economies.
<b>PRODUCTS</b>		CARE USA classifies its program activities into three major types: (1) emergency relief, (2) rehabilitation, and (3) development. It designs and manages community-based projects in areas such as education, health care and economic development.	1) Agribusiness Partnership Program; 2) Agribusiness Volunteer Program; 3) Development Education; 4) Citizens Network Corporate Sponsor Program; 5) Citizens Network Agribusiness Alliance (CNAA)
<b>GOALS</b>			To stimulate economic growth and policy reform in the world's transitional economies.
<b>GEOGRAPHICAL</b>		Africa, Asia, Europe, Latin America and the Caribbean and the Middle East	Southern Africa and the Newly Independent States (NIS) of the former Soviet Union
<b>CURRENT BUDGET</b>		523,305,000 (2003)	(2000) \$8,470,742
<b>FUND SOURCES</b>		Individuals, U.S. corporations, foundations, governmental agencies, the European Union and the United Nations.	Government grants and public support.
<b>FUND %</b>	<b>Contributions</b>	35.838% (19.115% Direct Public & 16.723% Indirect public support)	0.118%
	<b>Gov Grants</b>	63.45%	97.014%
	<b>Prog. Services</b>	0%	2.568%
	<b>Investments</b>	-0.08%	0.218%
	<b>Special Events</b>	-0.066%	0%
	<b>Sales</b>	-0.147%	0%
	<b>Other</b>	1.005%	0.082%
<b># OF STAFF</b>			N/A

Overview of Business Management Assistance & Linkage Strategies

NAME		FAIR TRADE (1999)	RURAL COALITION (1978)
<b>MISSION</b>		To raise consumer awareness about improving people's lives through Fair Trade (FT) alternatives by 1) gathering and compiling research and data about FT; 2) providing information about FT to the public, the media, and Ft advocates; and 3) galvanizing FT organization and individuals seeking to get involved.	Working for a just & sustainable food system that brings fair returns to small farmers & rural communities, ensures just & fair working conditions for farm workers, protects the environment & ensures a safe and healthy food supply to consumers.
<b>PRODUCTS</b>		Books, videos, speakers, brochures.	Programs: 1) Equal access to agriculture programs & opportunities to broaden collaboration among minority & limited resource farmers, increase their participation in USDA programs; 2) The supermarket - to increase health & economic viability of on-line network & Internet; 3) Community responsive Partnerships for Environmental Justice: partnerships between rural community organizations, scientists, and health professionals to identify, quantify, and develop solutions for environmental hazards in rural communities.
<b>GOALS</b>		To provide Fair Trade education and networking opportunities.	1) To development and implement progressive policies responsive to rural needs; 2) To develop the capacities of rural organizations and people to work effectively for, and to sustain, institutional and systematic change.
<b>GEOGRAPHICAL</b>		Americas, Asia, Europe	US and Mexico
<b>CURRENT BUDGET</b>		(1999) \$15,895	(2000) \$590,712
<b>FUND SOURCES</b>		Ramsay Merriam Fund and supporters/members	1) USDA, 2) National Institutes of Environmental Health Sciences
<b>FUND %</b>	<b>Contributions</b>	N/A	29.323%
	<b>Gov Grants</b>	N/A	67.531%
	<b>Prog. Services</b>	N/A	0%
	<b>Investments</b>	N/A	0.065%
	<b>Special Events</b>	N/A	0%
	<b>Sales</b>	N/A	0%
	<b>Other</b>	N/A	3.082%
<b># OF STAFF</b>		N/A	16 BoD, 6-10 FT, 1-5 PT.

Overview of Business Management Assistance & Linkage Strategies

NAME		SWISSCONTACT (1959)	AUREOS CAPITAL (2001)
<b>MISSION</b>		To promote sustainable development (socially, ecologically and economically) in selected southern and eastern countries. Cooperation with local partners is a priority for Swisscontact, as our leading principle is: "Helping Others to Help Themselves".	To be the market leader in the provision of private equity to small and medium-sized enterprises in emerging markets, to deliver attractive financial returns, and to add value for clients and investors; realizing this strategy with dedicated people and a strong local presence, that continuously develop a culture of professionalism and excellence.
<b>PRODUCTS</b>		Education and Training, Enterprises, Savings and Credit, Environment	Equity fund management for small to medium scale private companies in emerging markets.
<b>GOALS</b>		To fight against world poverty through continuing education and vocational training, to ensure that, even in the poorest countries, people can raise their standard of living.	To make investments in small- and medium-sized enterprises in emerging markets , that wish to expand. To finance local management buy-out teams acquiring businesses. To maintain a strong local presence, and continuously develop a culture of professionalism and excellence.
<b>GEOGRAPHICAL</b>		Africa, Asia, Central America, South America, Eastern Countries (e.g., Albania, Russia).	Central America, Sub-Saharan Africa, South Asia, Pacific Islands
<b>CURRENT BUDGET</b>		32 Mio CHF (2003)	(2003) \$313million per annum
<b>FUND SOURCES</b>		Various private businesses, associations, foundations, public donors as well as private benefactors	Norwegian Investment Fund for Developing Countries (Norfund) CDC – Capital for Development Other European Developmental Institutions Local Financial Institutions International Development Banks International Private Institutions
<b>F U N D S %</b>	<b>Contributions</b>	7.434%	100%
	<b>Gov Grants</b>	78.965%	0%
	<b>Prog. Services</b>	0%	0%
	<b>Investments</b>	0%	0%
	<b>Special Events</b>	0%	0%
	<b>Sales</b>	0%	0%
	<b>Other</b>	13.961%	0%
<b># OF STAFF</b>		86FTca. 70 and ca. 260 local engaged staff	86FT