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Agribusiness Development in Sub-Saharan Africa:

Optimal Strategies and Structures

Final Report



**Nelson Edwards
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Jim Maxwell**
Abt Associates



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***Productive Sector Growth and Environment Division
Office of Sustainable Development
Bureau for Africa
U.S. Agency for International Development***

Agribusiness Development in Sub-Saharan Africa: Optimal Strategies and Structures

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Jim Maxwell
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Foreword

The creation of the Development Funds for Africa (DFA), and, more recently, funding constraints have challenged the U.S. Agency for International Development (USAID) to scrutinize vigorously the effectiveness and impact of its development assistance programs in Africa and to make adjustments needed to improve on the record of the past. Structural Adjustment programs have been adopted by many sub-Saharan African countries, albeit reluctantly, and some significant economic development progress has been made. As donor agencies face severe cutbacks and restructuring of their own and as less assistance becomes available to developing countries, in sub-Saharan Africa and elsewhere, new ways must be found to channel the declining resources to their most effective and productive uses. Donor agencies like USAID, therefore, are increasingly looking at the private sector for new and innovative ways of improving competitiveness, and often to agriculture as the potential catalyst for generating broad-based, sustainable economic growth. In light of the DFA and sub-Saharan African countries' recent development experiences under Structural Adjustment Program, the USAID Africa Bureau's Office of Sustainable Development, Division of Productive Sector Growth and Environment (formerly ARTS/FARA), has been examining the Agency's approach to the agricultural sector.

In January 1991, the Africa Bureau adopted "A Strategic Framework for Promoting Agricultural Marketing and Agribusiness Development in sub-Saharan Africa" to provide analytical guidance to USAID/W, REDSOs, and field missions. The framework suggested that:

- (a) while technical and environmental problems must continue to be addressed, a major cause of poor performance of the agricultural sector has been the inefficiency of the market structures and strategies;
- (b) improvement in marketing efficiency require a good understanding of the structural arrangements, organization and operating strategies available to those entrepreneurs who constitute the majority of the business entities;

- (c) such improvements could have a significant beneficial impact on incomes, foreign exchange earnings, domestic consumption and food security.

To enhance the analytical guidance and technical support that the African Bureau provides to the field, SD/PSGE initiated a series of country case studies to examine and analyze existing structural arrangements, organizations and operating strategies of micro, small and medium size enterprises (MSMEs) in non-traditional agricultural exports in order to determine optimum structures and strategies.

This document, "Agribusiness Development in Sub-Saharan Africa: Optimum Strategies and Structures," is the product of these studies and it presents research findings for six countries, **Tanzania, Zambia, Mozambique, Ghana, Malawi, and Kenya**, as well as conclusions and recommendation to enhance the MSMEs' capacity to start and develop business activities centered on non-traditional agricultural exports (NTAEs). Abt Associates, under the GB's AMIS II project, conducted the field research and report preparation. The USAID field mission in each country collaborated with PSGE/PSD and Abt Associate, the contractor, and was particularly helpful in providing counsel and direction of the field research and reviewing of the field draft report.

SD/PSGE believes that the findings and recommendations of this report will be helpful to the Africa Bureau, field missions, host country governments, and private sector groups make more informed decisions on the promotion of initiatives on alternative types of support structures and operating strategies as well as insights, ideas, and information for MSME development and marketing efficiency.

David Atwood, Chief
Productive Sector Growth and Environment Division
Office of Sustainable Development
Africa Bureau
USAID

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Abt Associates Inc., the Agribusiness and Marketing Improvement Strategies (AMIS II) Project team, and the authors wish to thank the many individuals who contributed their time and experience to this study. Special thanks is due to USAID Mission personnel in the six countries covered by this activity. They agreed to participate in the activity, met with field research team personnel, both at the beginning and the end of in-country research, and in many countries, provided other types of assistance.

Dr. Charles Whyte of AFR/SD/PSGE served as USAID activity manager for this study of Optimal Structures and Strategies to promote private sector agribusiness development in Africa. He made substantial contributions to all phases and aspects of the activity, especially the field research and analysis, and

his meticulous comments on an earlier draft have enhanced this final product a great deal.

Jim Maxwell, who comes to the AMIS II Project through Cargill Technical Services, served as the task manager for this assignment. He was the principal analyst and author of this report. Contributing authors included Matt Tokar of AMIS II/Postharvest Institute for Perishables, University of Idaho, and Nelson Edwards of AMIS II/Cargill Technical Services, who were responsible for the field reports and first draft of the report.

Tim Mooney, AMIS II Program Manager, and Jerry Martin, Managing Vice President of the Agriculture and Natural Resources Area of Abt Associates Inc., which is responsible for AMIS II, performed quality assurance work on the final report.

Executive Summary

A research activity in six SSA countries was funded under AMIS II and conducted by a three-person team during six weeks in March, April and May 1996, in order to add to USAID's knowledge base for designing interventions to improve ISME's potential to participate in NTAE activities. This report contains the research findings for the six countries studied, **Tanzania, Zambia, Mozambique, Ghana, Malawi and Kenya**, as well as general conclusions and recommendations for optimal strategies and structures to enhance indigenous small & medium size enterprise's (ISME) capacity to start and develop business activities centered on NTAEs.

Objectives

The purpose of this research activity is to broaden and deepen both African policy makers' and USAID Africa Bureau's understanding of the existing structural arrangements, organizations and operating strategies available to MSMSE entrepreneurs as well as the major operating constraints they face when engaged in the non-traditional export market, and to offer structural and operating strategies for developing and sustaining MSMSE support entities.¹ The detailed objectives of the study are to: identify NTAE opportunities for ISMEs in Sub-Saharan Africa, identify and prioritize the constraints to the more significant participation of ISMEs in NTAE development; identify strategies and structural options to help ISMEs overcome the priority constraints so as to enhance their involvement in NTAEs; and recommend interventions to promote appropriate strategies and structures for capitalizing on the most significant opportunities for ISME participation in NTAE development.

NTAE Opportunities for SSA ISMES

Non-traditional agricultural export opportunities vary from country to country throughout the sub-Saharan region. Some generalizations can nevertheless be made about typical SSA NTAE opportunities for ISMEs: fresh exotics and other fruit, vegetables and summer or

field flowers, perishable and non perishable produce (or commodities) requiring labor intensive harvesting and packing operations, outgrower production for large nucleus producers for export commodities. Furthermore, there is a range of service needs for agribusinesses that can be supplied by ISME entrepreneurs.

Constraints

This study focuses on those constraints to ISMEs which are relevant to the most promising NTAE opportunities identified for ISMEs.

The major constraints identified are: lack of market information, lack of access to finance, poor infrastructure, poor R & D and extension services, difficulties in procuring appropriate inputs, inappropriate land tenure arrangements, lack of clarity in institutional roles, slowness in exploiting entrepreneurial opportunities and lack of business knowledge, and burdensome government regulations.

Optimal Strategies and Structures

Export-led growth is critical to the development of sub-Saharan African countries. However, from an optimum resource allocation point of view, development of ISMEs capabilities to supply domestic markets before venturing into exports should be kept in mind as an overall strategy consideration for enhancing ISME's participation in NTAEs in the longer term, because it enables them to generate savings and experience needed to be successful in the more demanding export arena. The main areas of a strategy focus are as follows:

Product Focus

- Rain-fed vs. irrigated crops: Focus initially on rain-fed crops if drought is not a significant risk factor;
- Non perishables vs. perishables: Promote non-perishables before perishables in countries where market experience with perishables is limited to large growers/exporters;

- Bulk vs. prepacked: ISMEs are well advised to learn how to program, market and ship produce in bulk packs before attempting the more complicated prepacked items;
- Products vs. ancillary services: Develop and supply ancillary services to core operators, such as crop spraying and seed cleaning, chemicals and other supplies, packaging materials, and training.

Market Focus

- Niches vs. non-segmented: Although the skills required are obviously difficult for ISMEs to acquire, identifying and targeting (generally new) niche markets is a good strategy to adopt because competition in such markets takes time to develop;
- Regional vs. developed: Supply regional export markets before developed markets, unless there is significant experience in supplying the more sophisticated markets;
- Historical vs. new: It is worthwhile for ISME exporters to examine markets where they have not had traditional ties to see if some comparative advantage exists vis-a-vis competitors;
- Local exporters vs. foreign importers: Where feasible, deal directly with importers who know their domestic markets extremely well and might be able to efficiently distribute products nationally, for example, to secondary markets where phytosanitary regulations might be less stringent;
- Wholesalers vs. multiples: Wholesale markets should be targeted by ISMEs because they are less demanding in terms of phytosanitary standards but are very important to the catering trade and for direct distribution to small grocery shops; however, they are growing slower than the multiples, because their smaller shop customers are losing market shares to the multiples.

Critical Mass

- Parastatals: ISMEs have opportunities, primarily as outgrowers, stemming from privatization programs where acquisition of parastatal agribusiness facilities by private sector investors will be more efficiently operated with substantial benefits

to outgrowers for both domestic markets and NTAEs;

- Demand-driven associations: Group producers together in demand-driven associations to achieve the critical mass needed to access finance, technical support and management training;
- Linkages between associations and large private sector operators: Achieve mutually dependent relationships/linkages between associations and larger private sector agribusiness operators and/or exporters; this is an overarching strategy which could solve many of the problems discussed above.

Suggested Interventions

A key aspect of the interventions suggested in this report is that, wherever possible, they should be predominantly private sector driven. The suggested areas for intervention are summarized as follows:

- Infrastructure and policy: The overriding objective for NTAE improvement for ISMEs, of course, is poverty alleviation which is already a main focus for donor intervention. Interventions more narrowly focussed on ISME participation in NTAEs should be aimed at improving infrastructure facilities and government agricultural and trade policy frameworks. Donors must keep in mind, however, that whereas technical extension can provide suitable areas for donor and/or NGO intervention, marketing development is best left to private sector initiatives;
- Basic R&D: Sponsoring practical and high quality investigations by active private sector operators into the viability of reviving previously successful commodities, developing other products with natural comparative advantages or building on traditional skills or habits are areas for donor consideration. A related area for donor support is enhancing information technology as a tool for improving access to and dissemination of information;
- Training: Training ISME personnel in basic management disciplines and training external parties to understand and better serve ISMEs are areas for intervention, as is provision of curricula devel-

opment specialists to add and implement practical course material to appropriate institutions' curricula for agricultural technicians and middle managers;

- **Finance:** Interventions are needed to help ISMEs access financial resources, both debt and equity in local and foreign currencies and from local and offshore sources;
- **Association development:** Strengthening the sustainability and institutional capacities of appropriate intermediary organizations and associations that are aimed at strongly linking producers and exporters is an excellent area for intervention. The relevant exports should be demand-driven, and the association should be member-driven, with capacities for effective management and monitoring and assessment. One form of association that is recommended for several countries is a sustainable provider of integrated services: technical, fi-

nancial and managerial. An even more operational entity for bringing ISMEs into advanced NTAE business is the creation of a risk taking business entity for packing, storing and marketing smallholders horticultural produce through a local auction to supply both exporters and foreign importers.

Individual Country Information

Detailed observations concerning the six countries visited by the survey team are reported in the individual country chapters of this report. Profiles prepared by local consultants of organizations in those countries covered by the study are contained in annexes. These are presented with very minimal editing.

Opportunities, Constraints, Strategies, Structures, and Interventions are summarized.

Table 2.2 summarizes the key findings of this research.

Glossary of Acronyms and Abbreviations

AAK	Agribusiness Association of Kenya
ACDI	Agricultural Cooperative Development International
ACP	Austral Consultoria e Projectos
Agrarius	Associacao dos Produtores Agrarios de Mocambique
Agribank	Agricultural Development Bank
AGRIS	Agro-Industrial Services
AMIS	Agribusiness & Marketing Improvement Strategies
ASMP	Agricultural Sector Management Project
ATI T-Press	Appropriate Technology International - Tanzania oil ram press project
BCM	Banco Comercial de Mocambique
CDC	Commonwealth Development Corporation
CONTIFLORA	Continental Flowers
CPI	Centro de Promocao de Investimentos
DAHACO	Dar es Salaam Handling Company
DEMAT	Development of Malawian Traders
EAZ	Economics Association of Zambia
EDP	Export Development Program
EIM	Equity Investment Management
EMI	Emerging Market Investments
EMPRETEC	Entrepreneurship Development
ENACOMO	Empresa Nacional de Comercio
EPC	Export Promotion Council
FAO	Food & Agriculture Organization
FFPI	Fundo de Fomento a Pequena Industria
FINCOM	Finance Corporation of Malawi
FPEAK	Fresh Produce Exporters Association of Kenya
GEPC	Ghana Export Promotion Council
HAG	Horticultural Association of Ghana

HSEOA	Herbs, Spices & Essential Oils Association
HDCA	Horticultural Crops Development Authority
IDIL	Instituto Nacional de Desenvolvimento da Industria Local
IESC	International Executive Service Corps
INDEBANK	Investment & Development Bank of Malawi
INDEFUND	Investment & Development Fund
IPEX	Instituto para a Promocao de Exportacoes
ISME	indigenous small & medium size enterprise
KEDS	Kenya Export Development Support
KESSFA	Kenya small-scale Farmers Association
K-MAP	Kenya Management Assistance Project
LAKE	Lake Zone Small Business Support Project
LOMACO	Companhia Agro-Industrial Lonrho Mocambique
MASH	Malawi Association of Herbs & Spices
MDC	Malawi Development Corporation
MEPC	Malawi Export Promotion Council
MICT-DNCE	Ministerio da Industria, Comercio e Turismo - Direccao Nacional do Comercio Externo
MIPA	Malawi Investment Promotion Agency
MIRTDC	Malawi Industrial Research & Technology Development Center
NEVEPA	Network Vegetable Production Africa
NGO	non governmental organization
NTAE	non-traditional agricultural exports
PPSRC	Presidential Parastatal Sector Reform Commission
SADC	Southern Africa Development Community
SITCD	SADC - Industry & Trade Coordination Division
SCEM	Standard Chartered Estate Management
SEPSO	Small Enterprises Professional Service Organization
SSA	sub-Saharan Africa
TANEXA	Tanzania Exporters Association
TANHOPE	Tanzania Horticultural Producers & Exporters
TDFL	Tanzania Development Finance Company
TIP-EAC	Trade & Investment Program - Export Assistance Component

TISCO	Tanzania Industrial Studies & Consulting Organization
TVCF	Tanzania Venture Capital Fund
UNDP	United Nations Development Fund
UNIDO	United Nations Industrial Development Organization
USAID	United States Agency for International Development
UTRE	Unidade Technica para a Reestruturacao de Empresas do Estado
VFMC	Venture Fund Management Company
WTO	World Trade Organization
ZCGA	Zambia Coffee Growers Association
ZEGA	Zambia Export Growers Association
ZNFU	Zambia National Farmers Union
ZPA	Zambia Privatization Agency

1. Introduction

1.1 BACKGROUND

In 1992 the Africa Bureau undertook a review of AID programs involved in promoting agricultural marketing in order to determine their success and draw lessons learned. A major conclusion of that review was that while policy reforms and regulatory changes have liberalized marketing systems and created opportunities for private agribusiness activity, many reforms have not yet resulted in significant increases in private agribusiness investment or private marketing activities. This is because of a variety of institutional factors as well as the intangible, and difficult to measure, factor of the private sector confidence in the government's commitment to a strategy of private-sector led growth.

One key lesson learned from this research was that the implementation of the policy reforms to encourage private investment in agricultural marketing and export activities have been less effective than was anticipated. In particular, a maze of confusing and often overwhelming regulations, permits and ordinances still confront private agribusiness owners and export-oriented entrepreneurs in most countries. These regulations are especially onerous and bothersome to micro, small and medium size enterprises (MSMEs) which do not have the critical mass (economies of scale) to meet the export market requirements in the increasingly complex marketing channels serving the end users. A further study in 1992 analyzed the effectiveness of USAID approaches to promoting agricultural development through policy and regulatory reform. It was noted that private entrepreneurs want to invest in agricultural marketing activities, but they lack the sophisticated skills, knowledge and overall ability to access finance and supporting services needed to sustain successful marketing ventures.

African governments' strategies to promote export-led growth have tended to emphasize European markets where the conditions for entry in terms of quality, standards and competitiveness favor large commercial operations and which are very difficult for MSME suppliers to penetrate. African regional markets are largely overlooked.

To date, many of these export-oriented strategies have focused on promoting non-traditional agricultural exports (NTAEs), such as high-value flowers, fruits, vegetables and spices, to European markets. This approach has been followed because many African governments and private entrepreneurs believe that the markets in their own countries are too limited, both in terms of size and purchasing power, to generate the high demand necessary to promote more rapid growth in the agricultural sector. Although, perhaps not emphasized in official circles, another reason for concentrating on NTAEs is the fact that government interference is limited in these sectors as they have mainly developed during recent periods of structural economic reforms, which generally seek to have government withdraw from commercial activities, especially new ones. However, to date there is little vertical or horizontal integration of agricultural marketing activities and very little co-ordination amongst private agribusinesses.

Most of the existing USAID projects in the non-traditional export sector have focused on large and medium size rather than small enterprises, yet smaller businesses in many African countries wish to engage in non-traditional exports. However, the export market for horticulture, and especially floriculture, is both high value and highly competitive, and requires economies of scale which small enterprises do not have. To be successful in the horticultural trade, these enterprises, in the long run, must develop a capacity for effective market penetration, as well as the ability to overcome infrastructural and other constraints. At

present there is no clear evidence that the arrangements under which these enterprises operate will permit them to become and remain viable in the highly competitive global market. Therefore, there is a need to understand the dynamics and constraints of non-traditional export marketing systems so that the conditions for small enterprise participation can be defined and facilitated.

1.2 FOCUS

In order to help African governments, private entrepreneurs, and USAID missions with their export-led growth development programs, it is necessary to gain an understanding of the structure of arrangements and organizations available to entrepreneurs and of the constraints facing them. These analyses will help the Africa Bureau and host country governments make more informed decisions in promoting effective initiatives on alternative types of support structures and operating strategies.

It is likely that strategies and structures appropriate for small and medium size enterprises will be less suitable or effective for micro size enterprises (usually defined as family size entities or those with fewer than five employees) in terms of cost-effective donor interventions for high value NTAE activity enhancement. Therefore, this research activity will focus more on small and medium size enterprises (SMEs) and those started and/or operated by indigenous African owner-sponsors (ISMEs).

Furthermore, the study will focus on opportunities for and constraints to entrepreneurs in post-harvest activities. Obviously, the linkages between production and markets for NTAEs are critical, and strategies and structures recommended for increased ISME penetration into NTAE business must include consideration of these interdependencies. In fact, outgrower schemes will often be a first step in the growth passage from micro to small size business organizations. However, for the purposes of this study, value added processing or services after the farm gates are the target areas to be examined for entry and continued viability for ISMEs.

1.3 OBJECTIVES

The purpose of this research activity, performed under the AMIS II project, is to broaden and deepen both African policy makers' and USAID Africa Bureau's understanding of the existing structural arrangements, organizations and operating strategies available to ISME entrepreneurs, as well as the major operating constraints they face when engaged in the non-traditional agricultural export market, and to propose structural and operating strategies for developing and sustaining ISME support activities.

The **objectives** of the study are to:

- Identify NTAE opportunities for ISMEs in sub-Saharan Africa and determine the conditions under which they can be successful;
- Identify and prioritize the constraints to the more significant participation of ISMEs in NTAE development;
- Identify and suggest strategy and structural options to help ISMEs overcome the priority constraints so as to enhance their involvement in NTAEs;
- Recommend interventions to promote appropriate strategies and structures for capitalizing on the most significant opportunities for ISME participation in NTAE development.

1.4 METHODOLOGY

Six countries in sub-Saharan Africa were chosen for field visits by a three-person team consisting of the USAID Activity Manager, a horticultural exporter and a private sector agribusiness specialist. Secondary research, including compilation of profiles (prepared for previous studies) of organizations relevant to NTAEs in the target countries, was also undertaken by the AMIS II prime contractor (Abt Associates) in Washington DC and was made available to the field team.

Because USAID is especially interested in promoting African consulting expertise and experience,

local African consultants were contracted in each of the six countries targeted for detailed examination. Those consultants were charge with assisting the field team in arranging interviews and in preparing analytical material (mainly profiles of additional relevant companies and other organizations) for reference by the field team.

The fieldwork consisted mainly of interviews with business enterprises, associations, non-govern-

mental organizations (NGOs) and government officials active in and knowledgeable about NTAE activities in the relevant countries. In addition, USAID staff in each of the six countries were briefed by the team at the beginning and debriefed at the end of the one-week in-country missions. The oral debriefings were followed up by summary written debriefing reports submitted to the USAID missions within three weeks of the field visits.

2. General Findings and Conclusions

2.1 NTAЕ OPPORTUNITIES FOR ISMEs IN SUB-SAHARAN AFRICA

Non-traditional agricultural export opportunities vary from country to country throughout the sub-Saharan Africa region. The nations of this huge region have a vast array of agronomic, infrastructural and geographic conditions as well as differing economic policies, political systems and cultural-historical backgrounds. The notion of what is “nontraditional” in terms of agricultural exports also varies depending mainly on the colonial heritage of development of the agriculture sector. Furthermore, areas of opportunity for ISMEs compared to large enterprises, are quite different both qualitatively and quantitatively. For example, large plantation crops such as tea, cocoa and sisal generally are not candidates for direct commodity export opportunities, as opposed to outgrower opportunities, for ISMEs. However, there might be some service activities, in addition to outgrower production, that could be performed by ISMEs for plantation businesses.

Some generalizations can nevertheless be made about typical NTAЕ opportunities for ISMEs in sub-Saharan Africa:

- Fresh exotics, other fruits and vegetables, and field flowers, grown in the off season for northern hemisphere markets, e.g., tropical fruits;
- Produce, both perishable and non perishable, requiring labor intensive harvesting and packing operations for developed markets, e.g., chillies and French beans;
- Fresh produce, not necessarily exotic, for markets (e.g., the Middle East) where agricultural production is extremely high cost, e.g., traditional vegetables;
- Outgrower production for large nucleus planta-

tions for export commodities, such as coconuts.

Furthermore, there is a range of service needs for agribusinesses that can be supplied by ISME entrepreneurs, such as crop spraying, packaging materials, chemical supplies, packing plant clean-up, uniform cleaning, and so on. While not NTAEs in the narrow sense, service activities offer high potential for income and employment generation for ISMEs, and are, therefore, included for attention in this study.

See Table 2.2 column 1 for a more detailed listing of roughly prioritized NTAЕ opportunities for ISMEs in SSA.

More detailed discussions of opportunities specific to the six countries targeted by this study appear in the individual country sections (Chapters 3 - 8) of this report.

2.2 COMMON ISME CONSTRAINTS IN SSA

It is not difficult to produce lengthy lists of constraints facing ISMEs in sub-Saharan Africa, which make entry into the highly competitive NTAЕ arena problematic. In fact many recent reports, e.g., *Innovative Approaches to Agribusiness Development* and others referred to in the bibliography, have dealt at length with such constraints. Our purpose in the present study is to focus on those constraints to ISMEs which have greater relevance to the most promising NTAЕ opportunities identified for ISMEs.

Lack of Market Information

Many interviewees in this study observed that, “as anything grows in this country, there must be some good NTAЕ opportunities for ISMEs here”. This is a typical production driven attitude which can lead to disastrous decisions. Fortunately, after some bitter experiences, the perception that knowledge of the

market is of primary importance before planning any investment is becoming more prevalent. However, the inability to know what kind of information is needed, and then how to access it, is a common constraint to ISMEs desiring to enter NTAE business. This constraint is especially relevant where more and more stringent market requirements, such as the higher standards demanded by horticultural food importers for phytosanitary conditions, are prevalent.

Lack of Access to Finance (Credit and Equity)

In the course of this study, respondents unanimously cited lack of access to finance were put forward as the most critical constraint for ISMEs. On the other hand, the study team found that there were a multitude of credit mechanisms technically in force but to a large extent unused or unavailable to ISMEs in most countries. Those credit mechanisms were largely unused or unavailable because of lack of knowledge about them and inability to manage the administration of applying for them. Therefore, this constraint is doubly unfortunate, since it includes both inappropriate mechanisms, and poor dissemination of information about how to access credit schemes, whether appropriate or not.

Poor Infrastructure

Africa is known for the poor state of repair and insufficient investment and management of its basic transport and communication infrastructure. Given the legacy of inefficient parastatals (who divert resources from productive enterprises while hindering private sector development by not providing adequate infrastructures) many African economic managers find dealing with this problem a major challenge. Fortunately, however, there is now a better understanding of what is required to accomplish needed reforms. Nevertheless, the persistent poor infrastructure in most sub-Saharan Africa countries has a severe impact on the capacity of entrepreneurs in general, and ISMEs in particular, to start up and sustain NTAE businesses which usually require sophisticated logistical facilities and management to succeed. Linkages with production areas are often so poor that produce risks being damaged before it reaches packing facilities. Similarly, the risks of post-packing

damage from bad roads limit packing operations to central locations. Because of this constraint, high potential growing areas are effectively eliminated from consideration even if they are relatively close to international airports. For example, north west Tanzania is fairly near to Entebbe Airport, but has poor road access. This constraint is also pertinent to ISMEs with regard to the lack of specialized local infrastructures (e.g., toilets for harvesters) required to meet with food importers' demands for higher sanitary and working conditions.

Poor R&D and Extension Services

Studies for identification of commodity comparative advantage at national levels (which are often donor-funded) are sometimes highly theoretical. Worse, there are cases where badly flawed early studies for new crops and their processing serve as "expert" road maps for entire subsectors, thereby sending them in the wrong direction.

Another common problem is the imbalance in government funding arrangements for extension services. Budgets have an overwhelming bias towards staffing and related salaries and are totally inadequate on recurring operating expenses such as transportation. The result is that even where competent extension officers exist, they are unable to widely provide their services in the field where they are most needed. Although government extension services are usually designed for traditional food crops, if properly organized, some of the basic extension work could also benefit.

Difficulties in Procuring Appropriate Inputs

Difficulties in identifying and then procuring appropriate agricultural inputs are associated with poor extension services. Aside from suppliers knowing about and stocking the proper inputs, the credit problem noted above also inhibits entrepreneurs from acquiring cost-effective inputs, because these inputs are needed before crop revenues are available.

Inappropriate Land Tenure Arrangements

In countries where there is a shortage of good arable land close to transport and processing infrastructure, traditional inheritance practices sometimes result in smaller and smaller acreage under the control of

individual farmers. This is true, for example, in French bean growing areas of Kenya. The result is that the size of the land unit passed on to heirs is not economically viable.

Lack of Clarity in Institutional Roles

Whereas many nations have insufficient institutions for NTAEs, there can be confusing overlaps in the roles and spheres of action of those that actually exist. Despite good intentions, this confusion can even increase as donors and NGOs enter the scene to set up new entities to deal with perceived problems of institutional capacity building. Sometimes private sector operators find it necessary to organize a third layer of capability for delivering appropriate inputs and services. An example of the latter is a Japanese aided project in Kenya to set up a private sector horticulture business for small outgrowers. That project will probably overlap with existing association arrangements such as KESSFA.

Slowness in Exploiting Entrepreneurial Opportunities and Lack of Business Knowledge

In some countries, colonial and post independence social, political and ideological pressures have created blockages in the motivational attitudes of their populations. In other words, the drive to be innovative in business and to make money privately has been considered politically incorrect for so long, that people in these countries respond slowly, if at all, to policy frameworks designed to encourage private enterprise. This is especially true in Tanzania and Ghana. In Kenya, by contrast, there has been a strong attachment to private property and personal gain through economic activity. Of particular concern is the major constraint in most sub-Saharan Africa nations pertaining to a lack of knowledge and training in business management and procedures, which also inhibits start-up as well as growth of ISME ventures.

Burdensome Government Regulations

As mentioned above, there are encouraging moves towards structural reform in many sub-Saharan Africa countries. They are expected to remove government from economic activities that properly belong to the private sector. In the meantime, many regulatory prac-

tices and outdated laws remain in place. For example, in Malawi, labor regulations seem to have been reformed to some extent, allowing employers more latitude in hiring, firing and rewarding staff. However, at the lower and middle levels of the bureaucracy, where the necessary forms relating to these actions must be “stamped”, the message does not seem to have gotten through. Those officials continue to limit labor utilization flexibility.

A listing of the most common constraints for each NTAE opportunity category is shown in Table 2.2, column 2.

2.3 KENYA VERSUS THE REST OF SUB-SAHARAN AFRICA

Of the six countries included in the field research, Kenya is by far the most advanced and successful at NTAEs. An analysis of why Kenya has been able to achieve a much higher volume of NTAE will or can yield useful lessons for the other countries.

Kenya’s Advantages

Some of the more significant reasons for Kenya’s comparative success are:

Kenya has had a tradition of capitalism since independence. Other countries studied went through a rather extensive period of socialism and/or very heavy central government participation in agribusiness. This was especially the case in Tanzania, Mozambique, and to a lesser extent Zambia. Developing new, export oriented agribusinesses such as NTAEs, requires a type of entrepreneurial expertise rarely found in socialist systems or government run entities.

Kenya is comparatively well served by air capacity. Nearly one million tourists visit the country annually, and significant cargo space is one of the by-products of these tourist arrivals. A comparatively high volume of available cargo space helped keep air freight rates very competitive in the early days of developing the NTAE business. Freight often accounts for 30% of the CIF price of NTAE air shipments. Therefore, competitive freight rates were

an essential ingredient in Kenya's early success. Today, Kenya's export volume is such that whole cargo planes can be chartered which helps keep freight rates competitive. Exporters operating in countries with parastatal controlled airlines (e.g., Zimbabwe), which tend to have high air freight rates, find it difficult to be competitive on products with lower margins, or low value per cubic meter/kilo (e.g., fresh fruits and vegetables versus roses).

There are many Kenya-born international businessmen in Kenya. These European and Asian (Indian) descendants know the land and its possibilities as well as the markets and the buyers for NTAE products. They usually have capital, and are permanent fixtures on the Kenya landscape. Their international management and marketing skills and access to capital have made a major contribution to Kenya's NTAE success. Countries such as Mozambique and Uganda, and to a lesser extent Tanzania, that expelled resident multinational communities, lost the benefit of their international knowledge and connections.

Farmers in Kenya's Central Province are very capable and benefit from good agronomic conditions and close proximity to Nairobi. The capital city's higher quality infrastructure and extensive availability of services, as well as the dynamic private sector is of considerable benefit to NTAE development. In other countries, the good agricultural areas are not always near the capital city. For example, the better agricultural land in Mozambique is in the central and northern regions while Maputo is in the south. In Malawi, the better agricultural land is quite a distance from the international airport.

Kenya has enjoyed decades of stability in Africa terms. European and other international customers and investors are more comfortable sourcing from and doing business in a stable environment. With the exception of Ghana, and possibly Zambia, the other countries included in the research have had serious internal stability problems, some involving major civil conflicts, e.g., Mozambique.

Other considerations are:

- Kenya started to develop NTAEs long before the other countries;

- Kenya has one of the best enabling environments (policies that affect NTAE, availability and cost of finance, quality of infrastructure; roads, telephones, electricity, etc.; government support institutions (e.g., HCDA); and donor support) of the countries studied. However, Ghana's would not be far behind;
- With donor assistance (USAID via KEDS) effective NTAE associations (e.g., FPEAK) have been developed in Kenya and have an effective working relationship with relevant government entities.

NTAE Development Lessons Learned from Kenya

Based on experience in Kenya, the conditions that need to be developed and sustained in SSA to help stimulate the development of NTAEs are:

- The private sector and capitalism should be encouraged and supported. The role of parastatals and government "red tape" should be minimized, especially as related to international business. Entrepreneurial spirit and activities should be encouraged and, where necessary, supported;
- Support for tourism will stimulate passenger traffic and, therefore, air freight availability. Government controls on air freight pricing and availability, and especially government owned aviation should be avoided;
- Encouragement and support of international business people resident in a country, especially those born and raised there should require significant linkages with indigenous firms to obtain and utilize any support provided;
- Search for opportunities to enhance the infrastructure (including public support institutions such as extension) in or near the better agricultural areas, especially access to export transportation;
- Maintain a stable political, social and economic environment and strive for a positive image with the international business community.

Strategy and Structure Implications from Kenya

Countries that have less developed NTAE should consider the following:

- Early NTAE activities should focus on the identification and development of international niches or regional markets for rain fed, bulk, minimally processed, but labor intensive products. Herbs and spices, or ornamental vegetation are useful examples. Donor, government or large company support will likely be required for ISMEs to be fully competitive in these markets;
- Financial, technical and managerial support for vertically integrated specialized associations (e.g., a Spice Producers and Exporters association) which are in turn members of an umbrella association (e.g., an NTAE Association) should represent good use of donor or government resources;
- When ISMEs become familiar with the requirements of the bulk niche or regional markets, they can graduate to higher value-added products and the more developed markets. One of the best ways for ISMEs to learn about these markets is via establishing linkages with either large local exporters or significant international buyers (preferably end users, not middle men).

2.4 STRATEGIC THEMES TO ENHANCE ISME INVOLVEMENT IN NTAE

Without calling into question the benefits of export-led growth to the development of sub-Saharan Africa countries, it is worth considering how scarce resources are best deployed in promoting agriculturally based small enterprises. Very large investments in floriculture, for example, while employing large numbers of individual workers, benefit rather fewer businesses than do modest investments in simple rain fed field crops for domestic, then regional markets. An entrepreneur in Malawi (Mpungulia Trading), where there are few natural advantages and several severe disadvantages, notably in transport costs and infrastructure, has started a bulk produce export business for regional markets more or less from scratch with limited financing. In fact, he started by supplying the

local market and then markets in surrounding countries, mainly South Africa. He is now negotiating with Malawi Railways to lease the stations that are being withdrawn from service as a result of privatization restructuring. He will use these stations as storage depots from which he will expedite his bulk shipments directly to the railways. Based on his experience to date, he now wishes to expand his product line to perishables for developed markets. The implications of this example cut across many lines of possible **strategic action**: product focus, market focus and critical mass. These are discussed below in broad terms. Observations more specific to individual countries are made in the individual country sections of this report.

Product Focus

A more focused approach to NTAE development for ISMEs will improve the impact of these programs. Examples of how to focus specific types of products follow.

Rain-fed vs. Irrigated Crops

Product focus should initially be on rain-fed crops, if drought is not a significant risk. Irrigation is relatively expensive for ISMEs, although it is a requirement for entry into sophisticated horticultural markets. Unfortunately drought is a perennial risk in much of sub-Saharan Africa, so this strategy is only available to farmers in better rainfall areas (e.g., Ghana).

Non-Perishables vs. Perishables

Non-perishables should be promoted before perishables in countries where market experience with perishables is limited to large exporters. For example, herbs and spices and dried fruits are less complicated to produce and ship within shelf-life limitations than are perishable fruits and vegetables. But even for herbs and spices, ISMEs should target the more heavily traded varieties rather than those with small narrow markets; the latter are likely to be more volatile and harder to penetrate unless a buyer is already established. Non-perishables can sometimes be easily processed on a small-scale without complex and costly equipment, e.g., sun drying of ginger.

Bulk vs. Prepacked (Value-Added)

Although the trend in developed consumer markets is towards prepacked convenience items, especially for fresh vegetables, the packing, sanitary and presentation norms of the multiples — who are the main clients for these products — are becoming especially stringent. Therefore, ISMEs are well advised to learn how to program, market and ship bulk produce in bulk packs before attempting the more complicated prepacked items. In any event, ISMEs must take advantage of the basic economic premise that processing should be performed as close to production areas as feasible.

Products vs. Ancillary Services

Develop and supply ancillary services to core operators, such as land preparation, crop spraying and equipment maintenance. Much attention is devoted to identifying crops and commodities for ISMEs to produce and commercialize, and less to services that they can render to operators at various points in the marketing chain from farm to foreign importers. Service activities generally require less start-up capital than production and processing operations. Furthermore, they can cover needs which larger agribusiness entities would often prefer to avoid if quality and reliability can be assured. Agribusinesses, like other businesses, are seeking ways to concentrate their knowledge and efforts on core activities rather than diverting energies internally to satisfying a diverse set of logistical and service requirements.

Market Focus

The following are examples of how to focus on specific types of markets.

Niche vs. Commodity

A common mistake of farmers and other agriculturalists is to emulate what others have been doing successfully for some time. While success obviously breeds more success with certain winners, such as French beans in Kenya, there is great danger in “being behind the curve” by starting late in popular products. This is especially true for ISMEs who do not have the research capabilities that larger operators might employ to identify new areas of demand. Therefore,

although the skills required are obviously difficult for ISMEs to acquire, identifying and targeting (generally new) niche markets is a good strategy to adopt because competitors generally are slow to recognize and penetrate such niches. A type of niche market worth targeting is that of relatively affluent expatriate African communities who want supplies of ethnic food to be more easily obtainable.

Regional vs. Developed

Exports should go to regional markets before developed markets unless there is significant experience in supplying sophisticated markets. With European and other developed markets becoming more demanding and difficult to penetrate, it is sensible to supply less complicated regional markets when possible. The difficulty, of course, is that nearby countries often have the same climatic and agronomic conditions and are therefore growing the same products. Nevertheless there are also differences in population densities, history and development which can be exploited. For example, Nigeria and South Africa are large relatively urbanized markets with deficits in agricultural products such as oilseeds that can be supplied by neighboring countries. Middle Eastern markets and even Asian markets offer possibilities that African agribusinesses have not yet exploited systematically, and as of yet, these areas are not subject to the strict sanitary and other production and processing standards as those now pertaining to Europe.

Historical vs. New

African agribusinesses tend to focus on markets with prior colonial or other historical connections rather than moving further afield. For example, Kenya horticultural exporters have dealt mainly with UK importers and multiples, and West African francophone nations with the French market. There are obvious linguistic and cultural reasons for such behavior, but it is worthwhile for exporters to examine markets where they have not had traditional ties to see if some comparative advantage exists vis a vis competitors. However, this should not be indiscriminate nor overdone, because penetrating markets where customs and language are unfamiliar can require much adaptation, to insure that the potential rewards are commensurate.

Local Exporters vs. Foreign Importers

There might be opportunities for capturing margins by passing exporters and dealing directly with foreign importers. However, this requires a larger scale operation than generally is possible for an ISME. Nevertheless, where feasible, exporters can benefit from importers' knowledge of their domestic markets and capability to distribute products nationally, for example, to provincial markets. For cut flowers, however, the Netherlands auctions remain important but are declining.

Wholesalers vs. Multiples

With the increasing power and size of the multiples, particularly in the UK, the trend is for exporters to sell direct to the multiples, especially for high value fresh flowers, fruit, and vegetables. Wholesale markets are very important to the catering trade and for direct distribution to small grocery shops. They should be targeted by ISMEs, because they are less demanding in terms of "non visible" quality (e.g., standards for producers' and packers' employee working conditions), although they are growing slower than the multiples, because their smaller shop customers are losing market shares to the multiples.

Critical Mass

Achieving economies of scale is essential for the sustainability of ISME marketing program.

Parastatals

At independence in the 1960s, many sub-Saharan Africa nations adopted economic policies favoring the creation of parastatal companies; for agriculture, these typically were marketing boards with monopoly positions for purchasing and marketing farmers' output. Although these organizations rapidly achieved substantial transaction volumes, they were usually grossly mismanaged and inefficient. ISMEs stood little chance of benefitting from such arrangements; in fact they often suffered from low offer prices and late payments. Some interesting opportunities for ISMEs are stemming from privatization programs in which acquisition of parastatal agribusiness facilities by private sector investors will be more efficiently

operated with substantial benefits to outgrowers. For example, in Zambia the coffee processing facilities of the parastatal coffee company have been divested to a US private sector investor who will upgrade them and increase outgrowers' involvement in a premium coffee exporting venture. Another example from Zambia is the purchase of a (non functioning) parastatal's modern vegetable canning and bottling plant which will be used to produce processed products for the local and regional markets based upon Zambian small holders' produce through supply contracts.

Demand-driven Associations

Producers should be grouped into demand-driven associations to achieve critical mass needed to access finance, technical support and management training and to achieve stronger presence vis a vis governments for reform lobbying. This strategy has been understood for some time, but there are not many success stories to provide models for emulation. Those associations that have been successful are often dependent on NGO or donor projects with limited funding lives. In many cases, they have been well set up and well managed with both local and expatriate resources, but the sustainability issue has usually not been addressed in project design. This issue is one of trade-off and balance: subsidizing associations improves their short-term impact capability, whereas forcing them to be self sufficient improves their long-term sustainability. There are examples of effective private sector associations (e.g., ZEGA in Zambia provides valuable services and facilities to its members who are mostly large non-indigenous producers-exporters). There is another project under consideration in Kenya which offers exciting possibilities for smallholders in high value fresh produce exports, and which is expected to be professionally managed. This project, while initially donor supported, is planned to be sustainable as a profit making enterprise. It will provide outgrowers with packing facilities and cold storage depots in growing areas as well as an auction and marketing organization in Nairobi. Some of the larger exporters have expressed the desire to withdraw from production headaches by sourcing through such a produc-

tion and marketing association. Another aspect of this strategy is to set up associations geographically, where there is a concentration of producers, in order to offset the feeder road infrastructure problem prevalent in many countries. Finally, the multitude of skills upgrading requirements of ISMEs usually can be satisfied by means of training programs best sourced, managed and supplied through appropriate associations.

Linkages between Associations and Large Private Sector Operators

Mutually dependent relationships/linkages between associations and larger private sector agribusiness operators and/or exporters should be achieved. This is an overarching strategy which could reduce many of the constraints discussed above. The above examples of such linkages illustrate the advantages to all concerned of closer integration of producers and private sector processors-exporters. This is also an area where strategic alliances can be fostered with other regional associations in order to coordinate marketing from SSA (e.g., coordination with South African groups such as Outspan) to meet NTAE competition from Asia and Latin America. A related financial strategy would be to use such linkages, for example through guarantees, to increase access to funding resources, especially foreign currency borrowing at reasonable interest rates, compared to very high rates for local currencies; as NTAEs are by definition foreign exchange earners, this is appropriate and desirable.

A listing of suggested basic strategies and structures for each type of NTAE opportunity is shown in Table 2.2, column 3.

2.5 SUGGESTED DONOR INTERVENTIONS

The following section suggests the best opportunities for donors to support NTAE development that will benefit ISMEs.

Overview

Based on the findings in the six countries studied, a general set of proposed interventions across coun-

tries is possible. However, each country has unique characteristics and is at its own level of NTAE development that calls for specific kinds of interventions, consistent with viable strategies and appropriate structures. In general those interventions that appear to be applicable across countries are in the areas of:

- Enhancement of enabling environment;
- Providing effective business training;
- Improving access to financial services;
- Support for association development.

NTAE definitions for the countries studied vary according to past export orientation or history. For example, Zambia's traditional export was predominantly mineral (copper) and, therefore, all agricultural products that are now being exported or have export potential could be viewed as NTAEs. On the other hand, Kenya's traditional agricultural exports have been coffee, tea and pyrethrum, but it has been exporting horticultural products for more than three decades and, therefore, these could now well be considered traditional.

A key aspect of the interventions we suggest is that they should be private-sector driven. This is for several reasons:

- Existing structural adjustment programs in the countries visited require a private sector orientation;
- Only in a private sector framework can competition, which is critical as a price regulator, be ensured;
- Government-operated businesses have failed to lead the development of economic growth in these countries.

The main purpose of the interventions we suggest is to offer a means of enhancing economic growth through the improvement of NTAE export opportunities for indigenous small and medium size enterprises.

In almost every case of NTAE enterprise development we examined, the need for experience by ISME entrepreneurs in some form of business be-

came evident as a prerequisite for success. Most successful entrepreneurs in NTAEs had worked in some NTAE capacity and/or in some other business enterprise and thus brought human capital and other experience resources to the NTAE business. Experience in local and regional commodity trade, for example, could serve as a basis for NTAE business development.

Strategies, as used for this research activity, can be applied to a wide range of agribusiness components, including **production** — the choice of sub-sectors (commodities) which small enterprises could find viable, consistent with market opportunities, climatic and production resources availability; **policies**, which result from direct government initiative, imposed structural adjustment requirements, or pressure from private sector constituencies; **distribution channels and market operations**, including time, form and place; and **financial services**, which facilitate various NTAE activities.

Although the thrust of this research activity is on post-harvest agribusiness development, it is difficult to isolate the production strategies from the other strategies because production is the starting point in the supply chain once the market has been identified.

To be reasonably confident that a particular suggested intervention (to achieve optimum strategy and structure) will be effective, it is necessary to thoroughly analyze a range of relevant factors and conditions pertaining in the country concerned.

One of the major constraints is lack of adequate airfreight space. Countries that engage in and have been most successful with NTAEs have been those that can take advantage of back-haul cargo, either by their strategic location and favorable policy with respect to landing rights and pick-up privileges, or attraction of incoming passenger flights (i.e., tourist traffic), or all of the above plus sufficient volume to justify outright charter cargo.

Secondly, the level of infrastructure development and/or government policy in support of the industry can be a critical factor in determining optimum strategies and structures.

Associations have not worked successfully in some sub-Saharan Africa countries and are relatively new in others. However, association development as an intervention is sound provided that first, the product or opportunity is demand-driven, second, that the organization is member-driven, and has a built-in mechanism for regular (yearly) and rigorous evaluation, and third, that the association is financially sustainable.

The suggested interventions in this report are not based upon an exhaustive analysis of the set of factors and conditions necessary to arrive at the optimum strategies and structures for ISME involvement in NTAE development. Rather, given the resources allocated to this particular study, the suggested interventions are preliminary recommendations based on an analysis of the information collected which was limited in both time and geographical coverage.

Suggested Areas for Donor Intervention

All countries visited have opportunities for NTAEs. Whether the optimum strategy for micro, small and medium enterprises is one for perishables (e.g., vegetables as in Kenya and Ghana) or non-perishables (Zambia, Tanzania, Mozambique and Malawi), the need for improving the structural and policy framework, business management training and financial services are common to all and, therefore, interventions to address these are needed.

Policy

The overriding objective of NTAE improvement for ISMEs, of course, is poverty alleviation which is already a main focus for much donor intervention. Interventions more narrowly focussed on ISME participation in NTAEs should, of course, be aimed at improving government agricultural and trade policy frameworks. The prerequisite for this continues to be enhancing analytical capacities to determine exact needs and requirements on a country-specific basis, including the capacity for market information, inventory and dissemination and macro economic capacity for improving private sector performance, e.g., avoiding crowding-out the private sector from credit availability. Donors must keep in mind, how-

ever, that, whereas technical extensions can be suitable areas for donor and/or NGO intervention, marketing development is best left to private sector initiatives. A major area for practical policy intervention is opening up the South African market to imports from regional suppliers; this could include assistance in preparing position papers for government negotiators and improving their negotiating skills and techniques in dealing with South African trade representatives. Another practical measure to consider is helping rationalize the trade representation infrastructure of sub-Saharan nations, by, for example, combining trade, investment and tourism offices in foreign missions.

Infrastructure

Feeder road improvements, privatization of telecommunications and transport parastatals, and restructuring sea and airport authorities and practices are all areas for intervention which will improve the infrastructure for NTAE activities.

Basic R&D

Sponsoring practical and high quality investigations by active private sector operators into the viability of reviving previously successful commodities (e.g., Zambian groundnuts), developing other products with natural comparative advantages or building on traditional skills (e.g., Kenyan tea picking) for innovative applications or habits (e.g., Malawi tobacco growers export knowledge) are areas for serious donor consideration. A related area for donor support is enhancing information technology as a tool for improving access to and dissemination of R&D information being compiled and maintained in relevant data bases, e.g., those concerning agriculture of the FAO and the WTO. Still, another area is technology commercialization.

Training

The owners and employees of small enterprises will increasingly need to know how to operate effective businesses, and, therefore, will need training in basic management disciplines, beginning with business planning, bookkeeping, simple business management practices, understanding export markets and awareness of demand requirements, pricing,

financing and monitoring and assessment. In addition, training should be extended to the service sectors, including formal and informal financial service institutions, to loan officers and others in understanding and better serving ISME clients dealing in NTAEs. Here, an NGO or some private sector arrangement would be best suited for implementation. Another area for consideration is provision of curricula development specialists to add practical course material to appropriate institutions' curricula for technicians and middle management personnel for agricultural enterprises, associations and regulatory bodies, and help in recruiting and financing instructors to start up such courses.

Finance

Previous AMIS II studies indicate that most businesses in the NTAE sector cite poor access to financing as the major constraint to business formation and expansion for all but the largest firms, many of which have access to offshore financing. Small and medium size enterprises find it especially difficult to access finance even if willing to pay extremely high interest rates (which exceeds 50 per cent in some countries) because formal institutions consider them high risk borrowers, lacking in collateral and not conversant with sound business principles. Interventions are needed to help ISMEs access financial resources, both debt and equity in local and foreign currencies. Guarantee programs managed by private sector financial institutions can be especially useful, but they must be coupled with management training and technical assistance to be most effective. Another imaginative intervention would be to tap African-American savings, especially of high net worth individuals, for specialized equity funds targeting SSA investment opportunities for ISMEs.

Association Development

A fourth type of intervention that might have applicability across the six countries studied, and possibly across most sub-Saharan Africa countries, is boosting small entrepreneurs' economies of scale and strengthening their linkages with market channels, either exporters or foreign importers. There were mixed findings as to the applicability of association development

even though, generally, it is a useful mechanism for giving ISMEs the critical mass necessary to deal with powerful and demanding market channels. Whatever their level — producers, marketing organizations or exporters — and whatever strategy or set of strategies they are pursuing, private-sector-led groupings have obvious advantages in achieving optimum structure for small and medium size enterprises in NTAEs — as long as they are properly managed. The most effective way to treat this kind of intervention is on a country-specific basis, as discussed in the individual country chapters in the Appendices of this report. This kind of intervention would generally be best delivered in the form of technical assistance to strengthen the sustainability and institutional capacities of appropriate intermediary organizations and associations that are aimed at strongly linking producers and exporters. The prerequisites for the formation of associations should be that the relevant product strategy is demand-driven, and that the association is member-driven, with capacities for effective management and monitoring and assessment. One form of association that is recommended for several countries included in this survey is a sustainable provider of integrated services: technical, financial and managerial. USAID has valuable experience in designing and setting programs that have many of the components needed for an integrated package, such as The Business Center in Tanzania, the Kenya KEDS project and the AMEX and TIP support projects in Ghana. This experience should be built upon, with private sector partners, with a view to creating sustainable agribusiness service centers on a commercial basis. An even more operational kind of entity for bringing ISMEs into advanced NTAE businesses is the proposed Kenya project to create a risk taking business for acquiring, packing, storing and marketing small-holders horticultural produce through a Nairobi auction to supply both exporters and foreign importers. This project is reportedly being considered for support from donors, for example, the Japanese.

Basic proposed interventions for each type of NTAE opportunity are shown Table 2.2, column 4.

An Integrated Intervention

Given the quality, amount and complexity of the technical, managerial and financial (both equity and debt) support needed for ISMEs to fully participate in the NTAE business, it is essential that this support be well coordinated. One intervention (Results Package) for providing and coordinating this support is via a fully integrated NTAE Development Center (NDC).

Opportunities, Constraints, Strategies, Structures, and Interventions Summary

The tables on the following pages summarize the opportunities, constraints, offsetting strategies and structures, and proposed intervention areas for ISME NTAE opportunities. Table 2.1 describes the general situation for ISME involvement NTAEs. Table 2.2 prioritizes the specific sub-sector opportunities for ISMEs, delineates the major constraints faced by ISMEs in each of the high opportunity sub-sectors, suggests the strategies and structures most appropriate to capitalize on the opportunities and minimize the constraints, and proposes the most relevant intervention to enhance the role of ISMEs in each opportunity. The prioritization is based on the professional judgment of the participants in this activity.

Profiles of Relevant Entities

Appendixes A through F contain profiles of entities that were interviewed as a part of the conduct of this activity. There is a separate Appendix for each country visited. These Appendixes contain more detailed information on the entities, which may be of interest to some readers.

Most of these profiles were developed by local consultants as background for the field team. Therefore, the format and style of the profiles vary.

Table 2.1 Analytical Framework for ISME NTAE Activities in General

General Constraints	Suggested Development Strategies and Structures	Interventions Proposed
Lack of market information; difficulty in meeting stringent market requirements.	Choose regional markets and wholesalers-exporters; introduce associations and private sector linkages.	Association creation and strengthening; encourage open RSA markets.
Lack of finance.	Introduce associations and private sector linkages.	Guarantee programs; association creation and strengthening.
Poor infrastructure.	Choose rain fed, non perishable, bulk products.	Association creation and lobbying for policy enhancement.
Poor R&D and extension services.	Develop service activities; introduce associations and private sector linkages.	Association creation and strengthening.
Difficulties in procuring appropriate inputs.	Introduce associations and private sector linkages.	Association creation and strengthening.
Inappropriate land tenure arrangements.	Concentrate on niche markets; introduce associations and private sector linkages.	Association creation and strengthening.
Lack of clarity in institutional arrangements.	Introduce and rationalize appropriate associations.	Association creation, strengthening and rationalization.
Slowness in exploiting entrepreneurial opportunities and lack of business knowledge.	Exploit less sophisticated markets; introduce associations and private sector linkages especially for new markets; exploit privatization programs.	Association creation and strengthening.
Burdensome government regulations.	Introduce associations and lobbying programs.	Association creation and strengthening, especially lobbying capabilities.

Table 2.2 Analytical Framework for Specific ISME NTAE Opportunities

High Opportunity Sub-sector (roughly prioritized)	Major Constraints	Suggested Development Strategies and Structures	Interventions Proposed
1 Fresh Vegetables to Developing and Regional Markets.	Demand not well understood; market development work required; buyers not well known.	Linkages with large importers focused on labor intensive crops/packs; "grouped" associations to manage small producers/service providers and fund market development work; focus on bulk packs.	Help SME "grouped" associations identify and understand high potential markets and form linkages with priority market, solid importers.
2 African Ethnic Fruits and Vegetables (eggplant, yams, ladyfingers, etc.).	Difficult to reach small markets in foreign urban centers; importers not always reliable; terms often consignment.	Linkages with large importers focused on ethnic markets; "grouped" associations to organize and manage small producers/service providers and fund market development work; focus on bulk packs and multi-ethnic African products.	Help SME "grouped" associations identify and understand high potential markets and products, and form linkages with priority market, reliable importers; assist group financing.
3 Spices and Seasonings (paprika, spice oleoresins, dehydrated onion and garlic, turmeric, coriander, ginger).	Buyers very concentrated; volume products to EU well served; fairly large shipments required; extraction/preservation somewhat complex and volume sensitive; quality requirements increasing.	Seek linkages with well established international buyers who supply technology and buy the output; group participants into vertically integrated associations; seek opportunities for in-country value added and regional markets; focus on labor intensive, lower capital product lines, preferably with limited alternative outlets.	Help SME "grouped" associations identify and understand high potential products, and form strong, ongoing linkages with large buyers who will also supply technology; help determine the appropriate level of value added.
4 Plantation Crops (cashews, coconut, sisal, coffee, cocoa, etc.).	Markets very price sensitive and global; little potential for self marketing; large-scale, capital intensive processing typical.	Seek outgrower opportunities, especially for labor intensive commodities (e.g., coffee, cashews); form associations to balance large buyers "power"; look for improved varieties and inter-planting opportunities; investigate privatization related opportunities.	Help SME "grouped" associations identify and understand high potential products, and form strong, ongoing linkages with large local buyers; help identify appropriate new varieties and cultural practices.

Table 2.2 Analytical Framework for Specific ISME NTAE Opportunities

High Opportunity Sub-sector (roughly prioritized)	Major Constraints	Suggested Development Strategies and Structures	Interventions Proposed
5 NTAE Services (crop spraying, seed cleaning, plant clean-up, day care, uniform cleaning, crate making).	Requires a vibrant local NTAE business; large customers require high reliability; some initial capital often required.	Seek contract services, including services for employees, with large participants from service providers associations for training and mutual support; identify shared capital equipment and/or leasing opportunities with small producers/processors.	Help entrepreneurs identify services opportunities and market same to large companies and producer groups; support group finance where needed.
6 Essential Oils (citrus oils, peppermint, eucalyptus, sassafras, lime oil, annatto).	Buyers very diverse; volumes tend to be small; considerable market development required.	Investigate the potential of health and beauty aid and cleaning aid perfume products, especially for regional use; seek large, reliable buyers.	Help SME “grouped” associations identify and understand high potential products, and form strong, ongoing linkages with large buyers who will also supply technology; support an ongoing seller/buyer relationship.
7 Fresh Vegetables to Developed Markets (French beans, baby corn and carrots, chillies).	Strict specifications; concentrated buyers; trend towards prepacks; falling real prices; very competitive; large minimum order; minimum extension support; high transport costs.	Linkages with large exporters focused on labor intensive crops/packs and premium products; “grouped” associations to organize and manage small producers/service providers; rain fed, semi-perishable products where ever possible.	Encourage and support linkages between SMEs and large, experienced exporters; support “grouped” SME associations; identify high demand, labor intensive crops/packs; help lower freight costs.
8 Fresh Fruits to Developing and Regional Markets (melons, citrus, apples, pears, peaches).	Demand not well understood; market development work required; buyers not well known; large up-front investment thus access to finance.	Linkages with large importers focused on labor intensive crops/packs; “grouped” associations to manage small producers/service providers and fund market development work; focus on bulk packs and newer varieties to E. Europe, SEA, Korea, and extending the season.	Help SME “grouped” associations identify and understand high potential markets and products and form linkages with priority market, solid importers; support group finance for orchard development.

Table 2.2 Analytical Framework for Specific ISME NTAE Opportunities

High Opportunity Sub-sector (roughly prioritized)	Major Constraints	Suggested Development Strategies and Structures	Interventions Proposed
9 NTAE Processing (juices, grain milling, specialty canning).	Often capital intensive; marketing is sometimes fairly complex; packaging availability often a constraint.	Seek large quantities of off specific product or by-product material and opportunities for local value added; keep processing simple, labor intensive, and capital investment low; look for export and local markets; some privatization related opportunities.	Conduct careful feasibility studies on apparently viable proposals; help viable projects find financing and TA.
10 Fresh Fruits to Developed Markets (easy peel citrus, apples, pears, peaches, nectarines).	Strict specs.; concentrated buyers; trend toward prepacks; very competitive; large minimum orders; large competitors; falling real prices; large up-front investment thus access to finance.	Linkages with large exporters focused on labor intensive crops/packs and premium products; "grouped" associations to organize and manage small producers/service providers; rain fed, semi-perishable products where possible; focus on newer varieties.	Encourage and support SME to large, experienced exporter linkages; support "grouped" SME associations; identify high demand, labor intensive crops/packs; help identify best varieties for target markets; support group finance for orchard development; help lower freight costs.
Unranked Specialty Products (natural dyestuffs, medicinal herbs, natural insecticides, ornamental plants/bushes/grasses, etc.).	Demand not well understood; market development work required; buyers not well known; product specifications not well known.	Seek linkages with well established international buyers who supply product requirements/specifications and buy the output; group participants into vertically integrated associations; seek opportunities for in-country value added; focus on labor intensive lines; identify importers specialized in natural products.	Encourage and support linkages between SMEs and large, experienced importers; support "grouped" SME specialty associations; identify high demand, labor intensive products; help associations determine specifications and level of value added.

3. Tanzania

3.1 CURRENT NTAE SITUATION

The main commodities considered as NTAEs in Tanzania include flowers, fruit and vegetables, beans and pulses, spices, nuts, essential oils and coffee. The volume of NTAEs from Tanzania is small but growing rapidly. Most NTAEs from Tanzania originate in the Arusha/Moshi area because of its favorable growing conditions, close proximity to the Kilimanjaro airport, relatively easy access to the Nairobi airport, and its proximity to the technical assistance and business services in Nairobi. There are several outgrower programs in the Arusha/Moshi area; however all are relatively small and involve only a small number of producers. There are at least three exporters of fruits and vegetables in the Moshi area that make use of outgrowers for supplies of French beans, chillies and melons for export to European markets. Another NTA exporter manages the production, cleaning and export of pulses, mainly beans to Europe and for sale to NGOs. Some of the seed is produced on the exporter's own farm but the company also works with several outgrowers and contract farmers for supplies of seed. Contract producers are classified as small growers (those producing from 5-10 acres of seed beans), and larger growers (those producing from up to 50-100 acres).

There is currently a great deal of interest in producing essential oils as an export crop in Tanzania. However, at present, the industry can only be considered to be in an experimental phase; more development will be necessary for the reliable production of essential oils of interest to importers.

Roses are being successfully produced and exported from the Arusha/Moshi area, but due to the high cost of developing a commercial rose operation, producers will be limited to those able to finance the considerable investment required.

3.2 NTAE OPPORTUNITIES FOR ISMEs

The opportunities identified for ISMEs include fruits: mangos, avocados and citrus (southern highlands), pineapples, grapes (near Dodoma) and papayas, and vegetables: okra, chili and Asian exotics. Flowers are exclusively for the large operators, but have potential in the high altitude (Meru) area, around Arusha and Moshi, but would have transportation problems for delivering the product to exporters. There is some potential in herbs and spices (especially vanilla), essential oils, dried fruits, cashews and lentils. The Sukoba area is ripe for development being only three hours by road from Entebbe Airport in Uganda. Production support businesses such as pesticide application, irrigation supply and installation, input and chemical sales could also provide opportunities for ISMEs in Tanzania. Juicing, milling and packing for the domestic market would have a quick impact in preparing ISMEs for eventual export competence.

3.3 NTAE CONSTRAINTS FACING ISMEs

Tanzania has good potential for involvement in NTAEs. However, it has some very serious constraints which could limit participation even of large operators and, therefore, of course, ISMEs. The major constraints are:

- Absence of knowledge of the appropriate products and market leads for them;
- Lack of reliable transport/cargo space due to insufficient forward haul (passengers/tourists) and limited volume for back haul; decreasing number of international flights departing from Arusha Airport;

- Inadequate infrastructure, especially communications and road transportation;
- Lack of refrigerated facilities at the airports due to ineffective government support;
- High actual costs of imported inputs, plus onerous government regulations, taxation and administrative delays that result in additional operating costs;
- Lack of human capital resources (poor management and other skills) which limit ability of ISMEs to access financial resources;
- Limited availability of financing and the high cost of finance;
- High collateral or other security requirements;
- Limited extension service and field technical support available from both exporters and government;
- Thin network of local service industries.

3.4 STRATEGY AND STRUCTURAL OPTIONS FOR ISMEs

There are a number of strategic and structural developments to monitor, specific to Tanzania:

- A TANEXA action plan has been developed with the assistance of the World Bank; this plan is comprehensive and includes strategies for NTAE expansion;
- The Tanzania Bankers Association is identifying innovative ways to extend affordable credit to rural areas possibly centered on defunct National Commercial Bank branches;
- The European Union is funding a new credit study (see T. E. Banda at AGRIS);
- Rural community banks, using the facilities of closed branches of the National Commercial Bank, and a small businessman's bank supported by FMO are being organized (see Godfrey Chamungwana at 1st Adili and Rashidi Mbunguni at TBC).

Aside from the generally applicable strategies for sub-Saharan Africa outlined in section 2 of this report, some specific strategies identified for Tanzania to enhance NTAEs for ISMEs include the following:

- Create product-driven associations in selected areas of Tanzania relatively close to shipment points (where there are concentrations of farmers capable of growing and packing horticultural produce for local markets which will give them experience for eventual export activities);
- Make use of SNDC institutional capacity in standards and packaging (including those for agricultural exports) in Malawi for guidance of agribusiness entrepreneurs;
- Create sustainability for the Business Center in order for it to become a permanent entity; market intelligence services and information on all available government and other official programs could be made available on fee-paying basis in addition to business planning and advisory services;
- Improve availability of wholesale commodity price information by creating an information system at the Ministry of Agriculture based on radio links with production areas with "windows" for traders and smallholders;
- Develop the Bukoba area in the north west which is well watered at altitude and close to the Uganda border and Entebbe airport.

3.5 SUGGESTED DONOR INTERVENTIONS

Association development appears to be a viable intervention for producer enterprises. Support to opportunities identified for domestic and possible regional markets (rather than for export in the short-term) could be an important and useful intervention to get ISMEs started for eventual involvement in NTAEs. It appears that those who are now significantly and mainly involved in NTAEs, including three indigenous entrepreneurs, had prior experience in businesses where the NTAE aspect was, at least initially secondary.

4. Zambia

4.1 CURRENT NTAE SITUATION

Zambia's involvement in NTAEs development has only recently begun. It does not have the history nor the experience in NTAEs as does, for example, Kenya. Although present land utilization for NTAEs is largely in the hands of large-scale operators, Zambia has huge land surfaces available for development.

By definition NTAEs in Zambia cover a wide range of goods and include all exports with the exception of the traditional minerals on which Zambia is so dependent (copper, lead, zinc and cobalt). Among the NTAEs, primary agricultural products are the most significant followed by processed foods, horticultural products, floriculture, and herbs and spices. Coffee, cotton, maize and tobacco make up the largest segment of the primary agricultural product exported. Successful outgrower schemes are in place for these crops and they offer excellent opportunities for ISME participation and growth.

Although the Zambia export growers' association (ZEGA) is a 40-member organization, only 16 are active exporters and of these, the largest five controls more than 80 per cent of the export volume of high value perishable NTAEs.

Floriculture and horticultural production is concentrated in the area around Lusaka because of its proximity to the international airport. This subsector offers potential for very high growth rates, but it will be limited to those who can afford the high capital investment required for project start-up. Participation of ISMEs in outgrower arrangements in these businesses is not feasible, because Zambian exporters pose high supplier qualification standards (minimum of 50 ha of irrigated land) in order to have confidence in suppliers needing only minimum supervision to satisfy increasingly stringent client demands on sanitary and working conditions.

Herbs, spices and essential oils offer a potential for high growth as NTAEs and participation in ISMEs. Some of the herbs and spices presently exported or under consideration for export projects include paprika, marigold, sage and basil.

Floriculture and horticultural products from Zambia are exported mainly to the European market, while herbs and spices and primary agricultural products are exported to European markets as well as regional markets including South Africa.

4.2 NTAE OPPORTUNITIES FOR ISMEs

Opportunities and associated strategies for small and medium size enterprises in NTAEs could potentially cover a range of products — coffee, tobacco, cotton, ground nuts, cashew, spices, and horticulture (flowers, vegetables and fruits). However, the opportunities for ISMEs in NTAEs are limited to those commodities for which there is access to land and other readily available resources, namely non-perishables such as groundnuts, herbs and spices, cotton, coffee and other tree crops. The possibility of agribusiness opportunities also lie in these subsectors and, to a limited extent, in supply services to the horticulture industry for chemicals, packaging and spare parts.

Floriculture and horticulture offer the potential for high growth rates but only for those entrepreneurs who can afford the large outlay necessary for the initial investment. For example, to enter the rose export business, an investment of more than \$1 million would be necessary to establish the 2Ha of structures needed to attain the size necessary for an export operation. Furthermore, participation by small producers as contract farmers or outgrowers is difficult in fresh flowers, fruits and vegetables due to the very strict size, type, freshness, timing, and phytosanitary requirements placed on suppliers by

exporters, and the great difficulty exporters have in monitoring ISME's conformity to these requirements.

Herbs, spices and essential oils offer an excellent opportunity as a high growth area for ISMEs in Zambia. Climatic conditions and soils are suitable for a variety of herbs and spices and the crops are ideal for production and processing by small businesses. During the past year an association was formed to facilitate and promote the production of herbs and spices. The association expects its members to commence commercial operations during the 1996-97 session with initial production to be marketed in local and South African markets.

Primary agricultural products can be grown by ISMEs with acceptable levels of production and quality if large private sector operators assist with extension. These commodities offer the best potential for ISME participation with a high growth potential in both regional and foreign markets. Products in this category include coffee, cotton, maize, tobacco, and soya beans. Recent acquisitions of agribusiness parastatals by strong private sector companies provide good opportunities to outgrowers, for example, the African Plantations project for coffee (purchase of Zambia Coffee), the Lonrho project for cotton (purchase of Lintco), and the Food Corporation of South Africa's project for fresh fruits and vegetables (purchase of Zamhort).

Other products with a high growth potential for export and ISME participation include cashew nuts, castor seed, beans and oil seeds.

4.3 NTAE CONSTRAINTS FACING ISMEs

The main constraints facing ISME ventures in Zambia are:

- Lack of experience in trading and inadequate management capabilities for operating businesses;
- High interest rates;
- High inflation which makes planning difficult and limits the availability of long-term credit;

- High collateral requirements;
- Lack of export finance;
- Limited extension services;
- Poor infrastructure, e.g., road transportation, communication services, and lack of air cargo space;
- High transportation costs: air transportation to Europe is in excess of \$1.75 per kg as compared with \$1.25 from South Africa and \$1.50 from Kenya; sea freight rates are nearly double those charged from South African ports or other East African ports;
- Government policies regarding to duties, taxes and other issues important to NTAE development;
- Stringent standards prevailing in European markets for fresh high-value produce; these standards can only be met by producers and exporters able to afford and manage quality control and monitoring.

4.4 STRATEGY AND STRUCTURAL OPTIONS FOR ISMEs

Aside from the generally applicable strategies for sub-Saharan Africa outlined in section 2 of this report, specific strategies identified for Zambia to enhance NTAEs for ISMEs include the following:

- Promote building of irrigation systems in off seasons with income from wet season crops;
- Promote the reestablishment of the groundnut sub-sector in eastern Zambia and other non perishable products such as herbs and spices;
- The university and vocational institutions should be encouraged to implement specialized curricula, already identified by ZEGA, for formal training of export middle managers;
- The Agricultural Credit Act and Free Trade and Practices Act should be passed; they are currently held up in Parliament.

4.5 SUGGESTED DONOR INTERVENTIONS

The following interventions are suggested:

- Support for formation of the herbs and spices association that can share use of central processing facilities that require outgrowers' supply of raw material and can add value to the export products. Care should be taken, however, that association members are not entirely reliant on the one sub-sector, but are generating income from other crops at the same time;
- Support for a financial facility that would offer debt and equity instruments that can be accessed by members of ISME associations and agribusinesses supplying services to the NTAE sub-sector.

5. Mozambique

5.1 CURRENT NTAE SITUATION

Mozambique's colonial "traditional" crops have effectively become "nontraditional", because the civil war destroyed the nation's capacity to produce and export crops previously commercialized. However, now that peace has been restored, trade with Malawi, Zambia and South Africa is restarting. Access to world markets through the nation's reopened sea-ports offers an added advantage.

The main NTAE commodities exported from Mozambique at present include maize, cotton, copra and cashew nuts. Mozambique's potential for agricultural production is high and irrigated acreage should increase dramatically. Maize, cotton, beans, and oil seeds are crops that could be developed as high volume NTAEs. However, oil exports should presumably not be a specific focus of USAID encouragement due to congressional restrictions. Cotton is being reestablished after the war years. Several joint ventures mostly using outgrowers or contract farmers as suppliers are underway.

Copra exports will continue although there are questions about the long-term economic viability of copra from Africa for oil extraction. The last oil processor in RSA closed and others are closing in Europe.

The operators of all the large copra estates recognize the advantage of outgrower producers and expressed the desire to continue working with smallholders as a major source of supply. Each of the three large copra estates in the Quelimane area relies heavily on smallholders who supply the estates with the bulk copra that is exported to European markets. ISMEs could act as middlemen between producers and the estates, collecting copra from small producers and delivering it to estate warehouses for storage until export.

Schemes for commercializing wood products made from harvested non-productive coconut trees and from coconut hulls are being developed that will create business opportunities in Mozambique. With significant investments being made to improve the infrastructure along the "Maputo Corridor", the southern sector of Mozambique should be the scene of increased NTAE activity, especially citrus and other high value tropical fruits such as papaya, mango and avocado.

5.2 NTAE OPPORTUNITIES FOR ISMEs

Mozambique offers opportunities for ISMEs to become involved in NTAE agribusiness. These include opportunities in production, handling and export of cashew nuts, oil seeds, pulses, maize, cotton, tobacco, and tea. As noted above, the development of crops in the Maputo Corridor should open up opportunities for ISMEs as outgrowers, packers and fruit handlers in that area.

An immediate opportunity for ISMEs now exists in the copra industry and its byproducts such as wood from coconut trees scheduled for replacement in plantation rehabilitation. Coconut wood has been found suitable for use in pallets necessary to support the citrus and deciduous fruit industries in South Africa. South African citrus exporters will use in excess of 2,500,000 pallets during their 1996 export season. There is now a plan underway at one of the large coconut estates in Mozambique to enter into a joint venture with Outspan, the South African citrus cooperative, for the production of pallets made from trees harvested from rehabilitated coconut plantations. The management of Companhia da Zambesia, the estate involved, estimates that they will need to fell 3,000 coconut trees daily for several years to keep up with their estate rehabilitation efforts.

Future opportunities could be developed for more complex processing of coconut materials for the production of briquets, oil for cosmetics and activated carbon. In the meantime, there are opportunities for relatively simple-to-produce coconut product exports with significant involvement of small producers: fresh coconuts, shredded coconut and coconut flour.

5.3 NTAE CONSTRAINTS FACING ISMEs

Most of the constraints facing ISME agribusiness ventures in Mozambique are the result of two decades of civil war. During that time there was a complete breakdown of post harvest systems for all crops. As a result, extension services that will re-educate producers in proper handling methods are badly needed.

Other constraints include:

- Limited access to credit and finance;
- Poor infrastructure especially road networks and communications;
- High overland transportation costs between Maputo and the northern production areas;
- Lack of vehicles for transporting farm goods;
- Silting of ports used for export;
- Poor input supply and local services in northern areas of Mozambique.

5.4 STRATEGY AND STRUCTURAL OPTIONS FOR ISMEs

Aside from the generally applicable strategies for sub-Saharan Africa outlined in section 2 of this report, some specific strategies identified for to enhance NTAEs for Mozambique ISMEs include the following:

- Take advantage of leasing facilities (e.g., ULC's leasing company) to acquire:
 - cultivation equipment on behalf of groups of producers located in areas favorably situated for exports to South Africa (i.e. in the Maputo corridor); this will permit start-up and growth of land preparation services;
 - coconut by-product (e.g., activated carbon) processing equipment for exploitation by new agribusinesses based on eventual coconut smallholder associations.
- Create road maintenance contracting capacity.

Anglo-American's investment in cashew processing should be closely monitored as a potential model for building up ISMEs through linkages with large private sector operators whose interests coincide with those of the indigenous parties.

It would also be useful to monitor various donor programs to try to minimize any overlaps:

- The UN's program components relating to NTAEs (e.g., the UNDP integrated trade development project and UNIDO's coconut project);
- GTZ's credit schemes and the EU's "credit for the poor".

5.5 SUGGESTED DONOR INTERVENTIONS

World Vision should be assisted to encourage the setting up of associations of coconut producers in order to improve trees through hybrids, install simple drying facilities and start-up agribusiness processing enterprises. Information on World Vision's programs in Mozambique can be found at the end of Appendix C.

6. Ghana

6.1 CURRENT NTAE SITUATION

NTAE products in Ghana include: tropical fruits and vegetables, including Asian vegetables for ethnic markets, pineapple, cashew nuts and palm oil. The volume of NTAEs from Ghana is increasing rapidly due to advantageous air freight rates to European markets. Air freight rates from Ghana to European airports range from \$0.60-\$0.75 per kg as compared to \$1.50 from both Kenya and from South Africa to Europe. There is also a large amount of back-haul space available because of the considerable volume of southbound air cargo from Europe to Nigeria. Relatively inexpensive sea freight rates also apply, and, with short transit times (less than nine days to Europe), sea freight will be more extensively used in the future.

Outgrowers and contract farmers are used for production supplies by most exporters. Many of the larger exporters, especially pineapple, produce their own crops for export as well as purchasing from outgrowers. The large oil palm plantations also acquire nuts from both contract farmers and outgrowers as well as from their own plantations.

Several ISMEs are attempting to export perishable vegetables into European markets and are linking up with outgrowers for sourcing supplies. While their small size may enable those new exporters to be market responsive, they lack the finance and technical expertise in production, post harvest handling and export marketing to achieve significant growth.

6.2 NTAE OPPORTUNITIES FOR ISMEs

Because of the advantageous air and sea freight rates from Ghana to Europe, many opportunities exist in Ghana for ISMEs:

- Exotic products, e.g., baby lettuce, baby squash, baby corn for niche markets in Europe;
- Tropical fruit, e.g., papaya and mango;
- Traditional fruits and vegetables, e.g., melons and tomatoes; high value vegetables, e.g., French beans and okra (except those not adapted to humid conditions such as mange-tout);
- Plantation outgrower schemes, e.g., pineapple, oil palm and cashews;
- Dehydrated fruits and vegetables, e.g., pineapple, papaya and mango, made from raw materials of a quality not suitable for export.

In addition, ISMEs could perform contract services (supported by leasing where appropriate) to large operators, e.g., tree felling (oil palm), transport, land preparation, irrigation system design and installation.

6.3 NTAE CONSTRAINTS FACING ISMEs

Small volume of export-suitable quality produce and poor production response to perceived demand.

- Lack of extension services.
- Poor transportation infrastructure between outlying farming areas and points of export.
- Reluctance/slowness in exploiting entrepreneurial opportunities.
- Lack of access to finance, both equity and term credit.

6.4 STRATEGY AND STRUCTURAL OPTIONS FOR ISMEs

Aside from the generally applicable strategies for sub-Saharan Africa outlined in section 2 of this report, some specific strategies identified to enhance NTAEs for Ghana ISMEs include the following:

- Build NTAE production/processing centers of competence around dynamic middle size producers and agribusinesses;
- Take advantage of leasing facilities (e.g., Agribank’s leasing company) to acquire land preparation and other equipment for ISME service businesses;
- Build sustainable integrated “agribusiness service center” with capabilities of research, development, marketing and logistics, i.e. similar to those of the TIP-EAC and TechnoServe projects currently in force;

The proposed Prudential Bank project should be monitored as a possible model for credit extension to worthy ISME entrepreneurs. The reorganization of HAG should also be followed as an example of recovering the value of a poorly performing association.

6.5 SUGGESTED DONOR INTERVENTIONS

Donor interventions could include:

- Facilitate technical assistance to ISME entrepreneurs for setting up nucleus farms with post-harvest handling facilities coupled with satellite outgrowers;
- Elaboration of the concept and potential roles, resources and sustainability of an “agribusiness service center” and promotion of its creation.

7. Malawi

7.1 CURRENT NTAE SITUATION

The main products considered as NTAEs in Malawi include flowers, birds-eye chili peppers, spices (such as cardamon, turmeric and paprika), macadamia nuts, beans, cow peas, chick peas, and pigeon peas. The volume of NTAEs from Malawi is small but growing. Most perishable NTAEs from Malawi originate close to Lilongwe because of its proximity to the international airport. Non perishable NTAEs are produced throughout the country with the bulk of the exports finding their way to Blantyre for preparation and export. Larger estates are producing some NTAEs with contract growers. However, the majority of NTAE production is carried out by smallholders who produce and sell to buyers who either export or resell produce to exporters.

There is currently a great deal of interest in boosting the production and export of spices and increasing the production of birds-eye peppers. Flower production in and around Lilongwe is expanding and larger agribusiness companies are becoming interested in floriculture. High value vegetable exports for European markets are also being examined as some businessmen feel that Malawi has comparative advantages for certain niche market products.

7.2 NTAE OPPORTUNITIES FOR ISMEs

A limited number of opportunities are identified for ISMEs:

- Spices such as birds-eye peppers, cardamon, tumeric and paprika;
- Pulse crops, e.g., beans, cow peas, chick peas and pigeon peas;

- Nut crops, e.g., macadamia;
- Association-small farmer producer schemes, e.g., for the above spices;
- Dehydrated fruits, e.g., pineapple, papaya and mango, made from raw material of a quality not suitable for export;
- Contract services e.g., contract cleaning of seeds for exporters.

7.3 NTAE CONSTRAINTS FACING ISMEs

The important constraints to the development of NTAE activities for ISMEs in Malawi are:

- High cost of transportation, both surface and air, from landlocked Malawi (e.g., by air \$1.25 per kg vs. \$0.75 per kg from Ghana; surface \$200-300 per tonne Malawi to UK vs. \$125 per tonne RSA to UK); overland transportation costs to regional markets are also high;
- Poor transportation facilities between Malawi and importing countries, e.g., no refrigerated storage at airport and infrequent flights;
- Reluctance/slowness in exploiting entrepreneurial opportunities;
- Lack of access to finance, both equity and term credit.

7.4 STRATEGY AND STRUCTURAL OPTIONS FOR ISMEs

Aside from the generally applicable strategies for sub-Saharan Africa outlined in section 2 of this report, some specific strategies identified to enhance NTAEs for Malawi ISMEs include the following:

- Continue the moves towards diversification so as to reduce dependence upon tobacco; tobacco nevertheless should remain a significant money earner for the rural farmers enabling them to finance entry into other crops and/or services;
- Form associations drawing upon tobacco experience; the associations should not substitute for entrepreneurs but rather they should act as facilitators for individual entrepreneurs in business start-ups and growth; at the same time, they should avoid conflicts of interests vis-a-vis their members (e.g., having an objective to help member farmers secure high prices, MASH also has an incentive to purchase farmers' output at low prices in order to increase its margins when marketing the output internationally);
- Aim for Middle East markets where the relative transport cost disadvantage is minimized for Malawi exporters.

The progress made by MIPA's Agribusiness Advisory Unit should be monitored to detect the critical success factors for this type of entity, and their applicability to other kinds of associations and

agribusiness service centers proposed in this report. If MIPA demonstrates success as an agent for recommending action, it should be given more authority to implement its recommendations. In the meantime, more private sector representation in MIPA's management would be helpful in directing its activities in an optimal manner as far as private sector ISMEs are concerned. MIPA should take care to draw upon rather than to supplant other organizations' resources. Another organization which will be useful to monitor is the MIRTDC whose limited technical resources should be carefully focussed on practical problems of current concern.

7.5 SUGGESTED DONOR INTERVENTIONS

Examples of donor interventions for consideration include:

- Fostering closer relations between producers and buyers/exporters;
- Promotion of an "agribusiness service center".

8. Kenya

8.1 CURRENT NTAE SITUATION

The main commodities considered NTAEs in Kenya include flowers, fruits, vegetables and nuts. Kenya's NTAE performance is amongst the best in Africa and ranks second only to South Africa in terms of both volume and income. Arrangements used for production include outgrowers, contract farmers and exporter/producers. As a result of increased demands by marketeers in the UK with regard to accountability for production practices, pesticide use and chemical residues, exporters are decreasing their dependence on small farmer outgrowers and are relying more on large farmers for production or growing crops on their own properties.

Exporters are well aware of market demands and have arranged good access to market information. Vegetable packers are adding more value to their products by packing in "consume packs" that are pre-weighed, bar coded and ready to put directly on the supermarket shelf. Exporters are also dealing directly with supermarkets and retailers more than previously. The NTAE business has advanced rapidly in the past two years and has reached the point where Kenya is considered one of the better high value produce exporting countries worldwide.

8.2 NTAE OPPORTUNITIES FOR ISMEs

There are opportunities in NTAE agribusiness for good entrepreneurs. However, Kenya has advanced to the point where only sophisticated operators will survive. Nevertheless finance and credit is available at reasonable interest rates and the infrastructure needed to export perishable fruits and vegetables is in place.

Amongst the more promising produce opportunities for Kenyan ISMEs are the following:

- Recapture and expand French beans' European market share (if contract farmers can upgrade their operations to meet strict sanitary and working condition requirements of European multiples);
- Expand market shares in other high-value vegetables for European markets, e.g., snow peas, sugar snap peas;
- Cut flowers for the Japanese market;
- "Summer" and "field" flowers;
- Secondary vegetables, e.g., carrots and cabbage, to PTA and Middle-Eastern markets;
- Tree crops, e.g., macadamia, avocados and mangos.

Further opportunities for ISMEs should open up in service industries to provide support to agricultural producers and smallholders. Examples of these services are: agricultural chemicals supply, pesticide application and irrigation system design and installation.

8.3 NTAE CONSTRAINTS FACING ISMEs

Despite the evident success in recent years in Kenya horticultural exports, there are serious constraints facing ISMEs:

- Poor GOK extension services limited by insufficient operating budgets;
- Lack of clear institutional policy and regulatory frameworks for supporting the NTAE sector;
- Overlapping and blurred lines of institutional responsibilities amongst various organizations/associations such as HCDA, FPEAK, KESSFA;

- Insufficient facilities for training and limited technical assistance to producers and exporters;
- “Poaching” and other irregular activities by unscrupulous “middlemen” which disrupt orderly marketing of fresh produce, leading to exports of poor quality vegetables and loss of market share; when a producer sells their output to someone other than a party with whom they had an informal agreement only, this may represent a truly free market; when the producer has a contract with a buyer (or a buyer has advanced the producer funds or inputs with the understanding that the producer will sell their output to the party that did the advancing) and then sells to a third party for a slightly higher price, that action destroys the trust essential for successful arrangements between producers and buyers;
- Relatively high investment and recurring costs for smallholders to meet more stringent EU pesticides, sanitary and working condition standards;
- Increased requirements for and auditing of packing operations;
- Sophisticated demand requirements of the markets for prepacked produce;
- Pressure on size of smallholder land tenure acreage due to population growth and consequent subdivision of plots to heirs;
- High collateral requirements for credit.
- Government entities providing vital services that cannot be better handled by the private sector should be strengthened; HCDA’s second tier management and the pesticide board’s regulatory capacity are examples;
- Rationalization of roles and responsibilities of various institutions (e.g., FPEAK, KESSFA, HCDA) is needed to avoid unnecessary overlaps and dispersal of resources;
- More sophisticated technical expertise is needed in post harvest handling of tropical fruit;
- With the considerable amount of technical horticultural research being conducted in Kenya, better information management and dissemination of non proprietary data is needed;
- Competent dynamic “core farmers” need to be identified and have a satellite packing/processing operations built around them to provide facilities enabling neighboring farmers to participate in NTAE activity at a higher level of sophistication;
- In general, the benefits being realized by Kenya’s success in NTAEs need to be more evenly spread throughout the population without debilitating the private sector’s capacity for innovation and growth;
- Horticultural smallholders should be furnished with the physical and institutional infrastructure necessary to enable them to meet the increasingly stringent requirements of European markets for fresh produce.

8.4 STRATEGY AND STRUCTURAL OPTIONS FOR ISMEs

Although Kenya has progressed further in NTAE development than the other six nations dealt within this report, most of the generally applicable strategies for sub-Saharan Africa outlined in section 2 of this report are still valid for consideration for Kenya. Additional strategies specifically identified to enhance NTAEs for Kenya ISMEs include the following:

- Accountability right back to production and harvesting practices needs to be strengthened;

The \$46m European Investment Bank equity and debt facility for private sector operators, including agribusinesses, to be managed by selected commercial banks should be monitored for degree of success for ISMEs; a venture capital component should be considered for inclusion. Also to be monitored as a mechanism for improvement in NTAE performance is adherence to “codes of conduct” being agreed by exporters.

8.5 SUGGESTED DONOR INTERVENTIONS

The following interventions should be considered:

- Strengthen the institutional capacities of selected organizations to provide effective technical extension services;
- Encourage vertical integration of NTAE associations and farmers' groups with exporters. Associations have been found to be unsustainable when they are serving only the interests of government. When they are formed primarily for serving members' interests and are well managed, they are sustainable. First, they must be demand (customer) driven and second, member-driven. Such associations in Kenya can take many forms. For example, clusters of French bean producers from different locations may be formed to supply one exporter through whom they receive certain specified support and with whom a strong trust and business relationship is developed;
- Strengthen the critical regulatory capacity of the government pesticide board and "safe use" programs;
- Facilitate and arrange credit guarantees for provision of basic hygienic packing, coordinated spraying and depot facilities and protective clothing for groups of vegetable growers;
- Support capacities for financial resource mobilization (debt and equity) coupled with management training and technical assistance (as a package) for improving business capabilities of small and medium size businesses;
- Strengthen private sector capacity to meet training needs for: financial services personnel (loan officers) in understanding the environment and needs of ISMEs; ISME producers and agribusinesses on how to promote, start-up and run businesses and how to meet phytosanitary and "due diligence" requirements;
- In the longer term, assist the establishment and sustainability of a professionally managed private sector horticulture unit for small growers supported by satellite packing and pre-cooling facilities feeding in to a central Nairobi auction supplying fresh produce to exporters.

Appendix A

Secondary Research

Summary

The findings in this report are based on a review of several project studies, sponsored by USAID, the World Bank and other donors. These documents are selected from the literature dealing with the operating strategies and structural arrangements of NTAE support entities and the development of intervention models for assisting firms, especially MSMEs, in non-traditional agricultural export market industries. The analysis focused on six countries: Malawi, Zambia, Mozambique, Tanzania, Kenya and Ghana. The assumption of this study is that there is a need of an understanding of the operational strategies adopted by NTAE firms and MSMEs in response to the market, regulatory, infrastructural and social environment in which they operate.

One of the objectives of the secondary research was to determine the comparative effectiveness of the strategies and structural options available to NTAE firms and MSMEs and support the design of an Action Plan for assistance projects that will provide replicable strategies and structure for sustainable broad participation in non-traditional agriculture export industries. However, the available information regarding the strategy and structural option for each of the six countries does not allow to provide this kind of analysis.

In the six countries analyzed, MSMEs participants and NTAE firms are facing serious constraints to their development. The most common of the priority constraints are: government regulations, tax policies, foreign exchange policies, credit constraints and poor infrastructures.

An enabling environment for a successful development of an agricultural and industrial sector requires the establishment and the growth of institutions that define the role of the public sector in relation to private economic agents. Ideally, this body of law and regulation must serve to reduce transaction costs through streamlining of procedures and increasingly predictability of outcomes. Although the business environment varies considerably, from favorable in a country like Kenya to very poor in a country like Mozambique, none of those six countries has an enabling environment that reduces transaction costs and risks to a minimum for MSMEs and NTAE activities.

The operating arrangement and organizations that NTAE firms and MSMEs have available to them in pursuing non-traditional agricultural exports also vary considerably from one country to another. Again, the countries with the best enabling environment have the most efficient structural options for entities designed to assist NTAE firms.

Ghana

MARKET OPPORTUNITIES FOR NTAE FIRMS

The European countries remain the main markets for agricultural export from Ghana. The European community countries taken as a bloc are the single largest importers of fresh fruit and vegetables in the world. During the off-season the demand for fresh fruits and vegetables is great and appears to be growing. Demand for fresh fruit and vegetables has increased, as opposed to processed items.² European consumers are increasingly interested by “exotics” or tropical fruit such as mangoes, papayas and avocados as consumers seek to diversify their diet with new and healthier food.

Ghana exporters like the other African exporters, will face increasing concentration in the wholesale food marketing sector in Europe. The European market will have a large importer/wholesaler serving the supermarket chains or large specialized importer selling throughout the EU from a base in one country. This translates into a trend towards ever more stringent requirements on exporters to meet quality, packaging, and delivery demands if they wish to sell into the EU market. However, smaller specialized importers will continue to look to African exporters for the more exotic items, since supermarket chains are not geared up to handle small volumes of such commodities.

It is generally stated that African countries are losing their market share in the European market, but a recent study based on Eurostat data has concluded that there is statistically no evidence of a decline in West Africa’s market share in European imports.

Very few reports dealt with the subject of marketing opportunities with enough details to enable Ghana exporters to identify specific trade opportunities. However, the general assumption is that African

exporters will face increasing difficulties in competing for the European market. The best strategy for Ghana exporters is to concentrate on specific niche markets rather than competing on widely supplied products. The neighboring African countries also represent an important export opportunity for Ghana exporters.

OPERATING CONSTRAINTS FACED BY MSME PARTICIPANTS AND NTAE FIRMS

Constraints For MSME Participants

The perception of resources constraints among firms vary considerably across size categories and sectors.

The Legal and Judicial Institutional Framework

The legal and judicial institutional framework of Ghana is inadequate for NTAE development. Recourse to the court is slow, costly, and unpredictable. Two major consequences arise from this inadequate legal system. It reduces the scale of activities by preventing the emergence of complex impersonal forms of exchange. It severely biased the incentives’ structure in favor of the rich and powerful, preventing the emergence of less advantaged, but potentially dynamic, smaller entrepreneurs.³

Lack of Market Information

Ghana’s firms want to export but lack market information; while most firms believe that trade with the EU countries was most profitable, a lot of firms look to the neighboring West African countries as potentially their most profitable export markets. However, the lack of market information on those neighboring markets prevents firms from taking advantage of this opportunity. A survey in 1989 shows that only 12% of firms felt that they have good information about international markets.

Credit Constraints

NTAE firms believe that credit constraints are the most negative factor affecting business. More than half of the firms surveyed few years ago, stated that the lack of credit availability had a negative impact on business. This problem seems to represent an especially severe constraint for small and informal businesses. Most of the small firms supply the majority of their start-up and working capital needs from personal and family savings. For the micro enterprises, the keys factor affecting access to credit is the inability of these entrepreneurs to meet lenders' collateral requirement and credit ceilings imposed on the banks.⁴

Taxes

Taxes have some major negative effects on firms' operations. Although corporate tax rates have been lowered, most of Ghana's firms complain about the negative impact on business due to more aggressive collection.

Secure Access to Premises

Secure access of premises limit investment in productive fixed assets, especially in the informal and small business sector. Many firms claim uncertainty about premises was a major factor affecting their firms' operations.

Lack of Affordable Electricity

Limited access to affordable electricity is a major constraint; Ghana's firms complain about the price of electricity. This relates more to the installation charge than the monthly cost, although more regular payments are a relatively new demand on their budgets.

Transport Cost

The lack of affordable transport is also a major resource constraint. In fact most firms complain about the price of transport but few firms believe that the price has a negative impact on their business.

Constraints For NTAE Firms

Slow and Costly Procedure for Clearing Exports and Imported Inputs

Although the export procedure has been simplified in recent years, the procedure now in place is still un-

necessary or too expensive. For instance, all commercial exporters are required to register with the Ghana Export Promotion Council (GEPC). The cost is C25,000 the first year and C20,000 yearly thereafter. Many exporters do not consider that they receive any useful service in return. There is also a required fee paid to the Ghana Shippers Council (C10,000 and C250, 000 per year, depending on the volume of trade) for which virtually all exporters perceive no return.

The procedures for imported inputs are more cumbersome and the delays are longer than for exports. Given the fact that exporters must compete actively on world markets with producers from other countries, it is imperative that their costs are kept to a minimum. The duty drawback system is inherently complicated because of the paperwork and signature required. The import procedure involved in importing intermediate inputs is as complicated as the procedure required to export products. The time for clearance averages two weeks but it can take up to several months.

Financial Market

Lack of access to term finance for fixed investment is/has been cited by exporters as a major constraint on the expansion of non-traditional exports. The poor state of development of the financial system of Ghana is the major reason for this problem. Credits by commercial banks to non-traditional export trade have decreased substantially in relative terms over the last seven years. In Ghana financial institution are conservative and risk averse, and prefer to lend mainly short-term credits at high rates of interest. Access to working capital is difficult because many banks require 100% collateral, or more specifically, liquid collateral.

Although access to adequate funds at reasonable cost has been stated by firms has an important factor affecting businesses, a recent study based on six African countries including Ghana, found that credit constraints are only one of several constraints limiting horticultural exports. The report concluded that export financing is not the most important factor limiting export growth. Rather, compared to policy

distortions, poor infrastructure and weak support systems for entrepreneurs, requirements for production and post-harvest technology, like packaging, handling and marketing, are greater constraints.

Restriction on Exporters' Retention of Foreign Exchange

Compared to the exchange rate policy stance of other countries, Ghana has a good exchange rate policy. However, Ghana exporters are still required to turn their foreign exchange earnings into the banking system or exchange authority rather than being allowed to retain these earnings or to exchange them for local currency. This situation creates a potential for an export disincentive. The severity of the disincentive depends on the difference between the rate at which exchange conversion takes place through the official, regulated market and the rate that exists on the private, parallel market found within the country and offshore.

Problem of Duty Free Access to Imported Inputs

Officially, there is no control on imported inputs, but Ghana's exporters still have a problem accessing imported inputs. It is the Revenue Secretariat that grants exemptions on a case-by-case basis and the system is fraught with discretionary decisions that are subject to abuse.

Poor Investment Incentives

Ghana has tried to create special incentive schemes for investment — with poor results. The institutions responsible for policing the investment incentive program have tended to take on a regulatory role rather than one that is essentially promotional. Obtaining approval under these schemes can be long and time consuming, and there is often a degree of arbitrariness to the decision that can also lead to abuse.

Lack of Competition for Air and Sea Freight

Unlike many other African countries, Ghana has overseas transportation problems. The results are prohibitively high air freight rates for many exporters, leading to unused capacity and missed market opportunities. The main reasons for this problem are the low volume of export capacity and the legal monopoly of airlines on domestic and international operations.

Inadequate Transportation and Telecommunication Infrastructure

Ghana has a poor transportation and telecommunication infrastructure. The state of the feeder roads limits Ghana's export potential for many agricultural products. The infrastructure constraint is already a problem for exporters of primary resource-based and Afrocentric products. This problem will become more acute as exports of standardized products expand, where timelessness and quality control are especially important competitive elements.

Restrictive Regulation Regarding Lands and Lack of Qualified Labor

Land registration is made complicated by the juxtaposition of traditional and modern systems of land tenure. Although most firms do not cite problems with land registration as being very important, there are enough instances in which they have been important that there is a need to take action.

Both domestic and foreign-owned firms in Ghana must go through the Ministry of Labor for recruitment of personnel, rendering the hiring process lengthy and uncertain. Hiring and firing is difficult and this prevents firms from getting rid of unproductive workers and adapting flexibly to changing economic circumstances. The country also faces a lack of qualified and semi-skilled labor and middle-managers. Government technical schools could not solve the problem because the training provided by those institutions is often not what is needed.

Problems in Contract Enforcement with Overseas Importers

In the horticultural industry, exports are frequently made on consignment due to the perishable nature of the product. It is often difficult for a firm to dispute with an importer concerning the poor condition of the product on arrival and the consequent discount made on the payment to the exporter. Consequently, a number of firms complained about occasional problems in the enforcement of contracts with importers overseas.

THE ENABLING ENVIRONMENT FOR A SUCCESSFUL NTAE DEVELOPMENT PROGRAM AND ITS EXISTENCE IN GHANA

Ghana's government has implemented export promotion policies for horticultural exports. The main ones are the currency devaluation that substantially increased non-traditional exports and the liberalization of foreign exchange that provided producers and distributors with the currency they need for imports. In their study, G. Narajan, R. Meyer and D. Graham stated that the overall environment for investment in Ghana is good. However, in regard to the constraints that MSMEs and NTAE firms still face in Ghana, it is clear that the conditions required for a successful NTAE development program does not exist yet. Costly procedures for exported and imported inputs, the problem of duty free access to imported inputs, the lack of competition for air and sea freight, and many other constraints, are all contributing to substantially increase the transaction costs of NTAE firms and the risk of export activities.

STRATEGY OPTIONS AND OPERATING ARRANGEMENTS AVAILABLE TO MSME PARTICIPANTS AND NTAE FIRMS

Strategy Options

The available reports do not clearly identify the strategy options available to ISME participants and NTAE firms, however, a few aspects of the strategy option can be outlined. In 1986, data from the industrial statistics showed that value added in the food manufacturing was around 10%.

The targeted NTAE market for Ghana firms is the international market, mainly the European market. The country also has important unofficial flows of high value food commodities with other African countries. In 1983 the trade volume with Togo was valued at CFA 5.7 Billion.

The export marketing system in Ghana features a pyramidal structure with numerous buyers or agents

at the primary level and far fewer firms concentrated in export trade. In the export industry, failure rates are high and, only a handful of firms tend to account for two-thirds or more of total trade. For instance, six leading firms export 63% of Ghana pineapple exports. Usually that trade concentration results from economies of scale, differences in management and marketing skills, and differences in access to financing and overseas marketing channels.

The small and medium size firms, which often do not have the capital requirements to expand production in order to meet large exporting orders, use subcontracting as means of exporting despite fixed capital constraints. Ghana firms continue to depend on established informal trading relationships versus relationships created through formal networking or advertising, since the latter often require more proof of legitimacy because the parties are unknown to each other.

Structural Options

Business associations are one of the ways ISMEs and NTAE firms organize themselves to overcome their priority constraints. The reports used for this study do not provide information on the number, types and activities of those commercial association, however business associations are generally considered as effective by their members. Although, the perceptions regarding the effectiveness of associations vary by firm size, over 70% of firms surveyed rated the three main associations, the Association of Ghana Industry (AGI), the Ghana Employer Association (GEA) and the Ghana Chamber of Commerce (GCC) as effective. The AGI received a high rating for the overwhelming majority of all members. More than 75% of women-owned enterprises felt that the associations to which they belong to were effective.

The difficulty of getting financing has contributed to create a variety of informal credit and savings arrangement that service household and business needs in non-traditional agricultural exports.⁵ Self-finance dominates both pre and post shipment financing. Pure producers often participate in informal group activities to save and finance their business. Rotating credit associations known as *sususu* have received lots of attention. However, those mechanisms have a very limited ability

to support small businesses since they cannot provide productive loans. Large producer exporters are conglomerates involved in other businesses that cross-subsidize export operations. In Ghana the largest private firms tend to be subsidiaries of multinational corporations.⁶

DONORS STRATEGIES AND LESSONS LEARNED

A sector analysis and survey of non-traditional exporters revealed that there was a high degree of interaction between the constraints faced by NTAE firms. Due to this close interaction, eliminating only one or two of the constraints would have a limited impact on increasing exports. Any strategy to increase non-traditional exports must address the constraints in a systematic fashion.

In 1992, USAID/Ghana focused its proposed intervention to expand non-traditional exports on several targets:

- Improve infrastructures needed for export expansion: The principal infrastructure constraints are feeder roads, refrigerated warehousing at the airport and seaports, electricity service and telecommunications. The USAID mission is participating with the World Bank and the Government of Denmark in financing a \$100 million feeder road improvement program. The mission is willing to provide strong support to addressing feeder roads as constraints to exports. Under the same program a budgetary process will identify and finance small-scale infrastructure needs like refrigerated warehousing at the airport and seaports, improved port handling facilities and electrical services;
- Help improve the institutional framework created for increased export promotion and investment: Under the Trade and Investment Program, the duty drawback system will be revised and simplified. An analysis of the effect of adding excise taxes to the system will be undertaken;
- Help attract foreign investment: the mission proposed to collaborate with Ghana government in reviewing the investment code and making revi-

sion where required. Primary government organizations that impact exports like the Ghana Investment Center and the Ghana Export Promotion Council will get assistance for a change in orientation if necessary;

- Promote financial programs and incentives for exports by assistance in three areas: refinancing facilities; export guarantees; and training. A refinancing facility needs to be established for export loans and a guarantee facility developed to provide a risk cushion to encourage banks to undertake asset-based lending. The mission is currently assisting in the equity area through support of venture capital funds. Training support is being provided under the food assistance program;
- Improve the capacity of private sector exporters through short-term specific technical assistance in marketing, finance and production problems. To better address policy concerns common to all or most exporters, Mission support is being provided to create a private sector association that will undertake analysis of policy issues of concern to exporters and enter into dialogue with the government on the basis of their analysis. It has also been suggested that an independent Economic and Trade Policy Institute that will support the analysis and discussion of critical trade and economic issues facing Ghana be created.⁷

Other multilateral and bilateral donors including Japan, Germany, EEC and Caisse Central de Cooperation Economique are supporting the rehabilitation and upgrading of the infrastructure which is needed to facilitate the growth of private sector activity (telecommunication and transport systems and the port, harbor and airport facilities.)

World Bank support to Ghana export activities includes: the Rural Finance Project which seeks to financially restructure rural banks to enable them to mobilize more deposits and increase the flow of credit; the National Feeder Roads Rehabilitation and Maintenance Project that addresses the institutional development needs of the Department of Feeder Roads; the National Agricultural Extension and Training Project, a project intended to strengthen the agricultural ex-

tension service; and the Financial Sector Reform Program (FINSAP). FINSAP provides funding for major bank restructuring with the main objective of improving the regulatory framework, strengthening banking supervision conducted by the Bank of Ghana, restructuring financially distressed banks, improving deposit mobilization, increasing efficiency in credit allocation and developing money and securities markets.

The World Bank has recently approved a development credit of \$120 million to Ghana to support the GOG program of actions to promote private investment and sustained development.

The UNDP is supporting the private sector by strengthening the government institutions that service the private sector and the private export sector.

Some donors including CIDA, ODA, and EEC have emphasized assistance to small-scale industries. For example, CIDA is providing a US \$3.1 million grant to support the Ghana Regional Appropriate Technology Industrial Service (GRATIS) of the Ministry of Industries, Science and Technology.

Most of the donors recognize the need for private sector-led growth. The activities of the other donors complement USAID's private sector non-traditional export emphasis in that they deal with broad regulatory and policy concerns, infrastructure development and rehabilitation, as well as with small and medium enterprise development.

There is no recent report available to help assess the impact of this program undertaken three years ago. However, it is important to note that among six countries studied in 1994, for horticultural export financing, Ghana was the one with the best overall environments for investment.

It is important to note that a recent study by Nagarajan, Meyer and Graham suggested that gov-

ernment and donors recognize the limitations of any finance-led strategy to accelerate exports because the most frequent constraints for exporters are not financial. Government and donor funds targeted for on-lending serve only to strengthen those with enough clout to access the funds and to avoid repayment. It is important for government and donors to determine the support services to be provided by the public sector and those to be provided by the private sector. Finally, one of the best productive courses of action for Government and donors is to support programs that improve access to information, market matchmaking, venture capital funds and an environment for joint ventures.

IMPORTANT INFORMATION NEEDED AND THAT CANNOT BE EXTRACTED FROM SECONDARY SOURCES

Secondary sources do not provide enough information on opportunities, strategy options and available structural arrangement for MSMEs and NTAE in Ghana. The available information does not allow one to assess the effectiveness of strategies and the structural options available. Fieldwork must:

- Provide information on the strategies and the structural arrangement for NTAE firms and MSMEs participants when dealing with resources constraints;
- Assess the result of programs that the USAID and other donors have undertaken in Ghana (in other words assess how successful the NTAE development recommended strategies and structures have been);
- Help identify potential market opportunities for NTAE firms in the neighboring countries.

Kenya

MARKET OPPORTUNITIES FOR NTAE FIRMS

Kenya is one of the largest African exporters of Agricultural commodities to Europe. With the exception of South Africa, Kenya has developed the most successful and diversified horticultural trade in Sub-Saharan Africa. The main exports are French beans, Asian vegetables, pineapples, avocados, mangoes and passion fruit. In the European market, mangoes and avocados have the best potential for Kenya, if Kenyan exporters can face the demand for large batches of uniform supply and more continuous delivery. There is also a growing interest for cut flowers in the European market. The strong long-term technical, managerial and marketing linkage between Kenyan exporters and foreign firms should allow Kenya's cut flowers export industry to take advantage of this opportunity. The European market is very competitive and most African exporters will face increasing difficulties in exporting their products. However, successful Kenya firms had a long experience in domestic horticultural trade before entering in the export market. Their long-term trading links, which enable them to more completely understand the requirements of the trade, allows them to compete more efficiently than exporters from the other African countries.

OPERATING CONSTRAINTS FACED BY MSMEs PARTICIPANTS AND NTAE FIRMS

Constraints For MSMEs Participants

The Regulatory Environment

The regulatory environment is the greatest constraint on private sector development. To register and comply with other official operating regulations, a firm

must obtain a wide range of licences and certificates. The firm also has to obtain a manufacturer's licence, a food and drug licence, a health certificate, a Kenya Bureau of Standards Certification, a VAT licence and for marketing, a wholesaler's licence. Obtaining all these certificates is costly and delays can be between one and three years.

Financial Constraints

Smaller firms have almost no access to formal credit. The dominant source of finance for investment and working capital is savings from employment and/or entrepreneurial activities.

Land Tenure

Uncertainty regarding land tenure is a major impediment to the smallest enterprises, particularly women-owned and Kenyan-owned firms.

Problem of Linkage Between Firms

More linkages between small and large firms are needed.

Transportation Problem

Lack of affordable transportation is a constraint to most firms.

Constraints For NTAE Firms

Although Kenya has invested heavily in developing its infrastructural facilities to increase horticultural exports, the country still has a real need for appropriate infrastructures. Poor infrastructures are a major constraint on physical commodity movements and on exporters communication within their countries, and with foreign countries.

Lack of Paved Roads and Appropriate Airfreight

Very few roads are paved in Kenya. Although rural roads exist, they are often in very poor condition and many of those roads are impassible during the rainy season. These periods usually correspond to the peak

raw material availability. Delay in raw material procurement results in waste and reduce efficiency in factory use.

Like many other African countries, Kenya has limited international air carrier traffic — implying barriers or delays in business-related travel and far lower availability of airfreight space for the exportation of high value perishables.

Weak Financial Market

Kenya is a country with a well developed financial system, but for larger enterprises, the major weakness of this system is its inability to provide them with long-term finance, especially in local currency. The country has more than five private banks; however, banks still provide most of their loans to public enterprises. Small enterprises have particular difficulty getting access to formal credit and they usually find the cost too high. The major reason preventing small enterprises from accessing credit loans are their inability to provide a collateral to credit organizations.

Weak Technical Support System

The failure rate for new firms entering business is very high because of the lack of technical support for new firms.

Lack of Market Information

The existing system does not provide technical and quality market information to NTAE firms.

THE ENABLING ENVIRONMENT FOR SUCCESSFUL NTAE DEVELOPMENT PROGRAMS

If the enabling environment for successful NTAE development is defined as the one that reduces risk and transaction costs to a minimum for all market participants, it is clear that Kenya does not yet have an enabling environment. However, the country county has a relatively favorable regulatory environment for the success of horticultural and agro-processing enterprises compared to other neighboring countries. Still, the country has to make a serious

effort to improve this environment mainly regarding, regulations, fiscal policy and credit.

A recent study has found that Kenya's existing policy environment must be completely overhauled before non-traditional exports can be expected to grow substantially.

STRATEGY OPTIONS AND OPERATING ARRANGEMENTS AVAILABLE TO MSMEs AND NTAE FIRMS

Strategy Options

Kenyan firms export their products (fresh fruit and vegetables, processed fruit and vegetables and cut flowers) mainly to European countries and the Middle East. In 1992, the export of fresh products and processed products represented 5% and 30.1% of African export respectively. Kenya trade performance for fresh vegetables has been more favorable than the trade of processed products. The increasingly competitive market has obliged exporters to upgrade their products through customized prepacking for individual retail chains. Most of Kenya's fresh produce exporters are small- to medium-scale trading companies, and the failure to develop common-use packing and cold storage facilities have constrained the development of trade in highly perishable or easily damaged commodities. Most of the leading exporters have concentrated on crops which mature rapidly, require less intensive post-harvest treatment, and are relatively less costly to produce.

Some Kenyan industries have exhibited dualism in their production strategy while others have focused either on the domestic market or the international market. The large majority of firms are operating a multipurpose processing plant, producing products for the domestic market. A small number of firms have developed a specialized operation producing products for sale abroad. These firms are usually operated or owned by multinational corporations and their sale and operations have been incorporated into the wider operation of the latter. It is interesting to note that the competitive advantage of

firms linked to multinational corporations derives from their marketing expertise rather than technology.

Advertising of product and brand name promotion is fairly significant in Kenya. The money spent in advertising for food and drink exceeds KSh 10 million per year. The most heavily advertised products belong to multinational companies. Few of the small and medium enterprises engage in advertising. Some of them promote their product through in-store demonstration and the distribution of samples at public events. All of Kenya's more than one hundred producers have their own brand name, yet few of these are recognized by European distributors and consumers.

Structural Options

To overcome their financing constraints, small exporters organize themselves in associations such as rotating saving and credit associations consisting of members with social, ethnic, employment and other bonds. It is common for ethnic minorities to form associations in order to finance even larger business ventures. However, few of those associations are able to provide term finance. Risk capital for small- and medium-scale enterprises must generally come from the personal savings of entrepreneurs and their families, while funds for expansion or facilities' modernization typically come from the same personal savings and retained earnings.

It is important to say again, that a recent study on financing horticultural exports in sub-Saharan Africa has outlined that financing is not the most important constraint or factor affecting the ongoing success of NTAE firms. Financing will enable firms to get started but will not assure their sustainability.

Kenya's exports of processed fruit and vegetable products are dominated by foreign-owned companies.

Due to the problems of risk, transaction costs and logistics, the coordination of horticultural production between producers and processors, with downstream activities would be governed more by contractual ties and vertical integration than by spot market purchasing arrangements. The institutional arrangements existing in Kenya can be classified in five categories:

- The Spot Market Purchase where the processor or exporter purchases requirements from the market at particular time at market price;
- The Market Reciprocity Agreement which is an agreement based on highly personalized repeat trading ties in which some degree of loyalty is build up between the exporter and a certain subset of growers;
- The Forward Market Contract which features formal commitments to buy and sell specific quantities and qualities of produce at particular times;
- The Interlinked Factor and Market Contract which are referred to as contract farming;
- Vertical Integration which is the opposite of the spot market and it is the integration of the production, the processing and the marketing activities.

Most of the trading relations between Kenyan exporters and overseas buyers are governed by consignment transactions, long-term contracts and vertical integration. For the main products, Kenya's exports of processed fruits and vegetables are governed almost entirely by intra-firm trade or long-term contractual arrangements. Kenya's major processed fruit and vegetable exports are regarded as elements of the international product supply and trading operation of major multinational food corporations.

Several business associations are operating in Kenya, among them:

The Kenya Association of Manufacturers formed in 1958 to encourage private investment and to develop the industrial potential of Kenya. The association advises the Kenyan Government on policy measures considered by the Association to be necessary from time to time for the establishment and support of industries in Kenya.

The Horticultural Crops Development Authority (HCDA) was established in 1967 as a parastatal authority. It provides market information to farmers and exporters and monitors export prices and foreign exchange remittance to Kenya. The HCDA regulates the industry by licencing and marketing horticultural crops. It establishes, acquires and operates processing factories and imposes levies, sets or establishes

prices and fix loans.

The Fresh Produce Exporters Association of Kenya was formed in 1975 to promote horticultural exports from Kenya and do all things that may be incidental and conducive with particular regard to the interest of the member. It establishes standards for the trade in order to enhance the reputation of those engaged in the trade and of Kenyan products in general. It advises on all questions connected with the export of horticultural products. The organization promotes and/or opposes bills to Parliament and negotiates on matters relating to export of horticultural products. It collects and circulates useful information regarding the horticultural export trade and helps members obtain all permits required for the export of horticultural products.

DONOR STRATEGIES AND LESSONS LEARNED⁸

The Kenya Export Development Support (KEDS) Project funded by the USAID, will support the growth of NTAE through assistance to the GOK to improve the trade climate. KEDS will provide support to the private sector on marketing and promotion. It will strengthen trade institutions, provide foreign exchange for investments in the new export processing zone, and finance a series of trade policy studies.

The World Bank will finance the installation of additional cargo handling equipment. It will also provide an investment loan for site development of the export processing zone at Athi River.

The UNDP is funding a major tax modernization program. It also supports long-term advisors to work with the Export Processing Zone Authority. The International Finance Corporation (IFC) and the African Development Facility (APDF) offers long-term finance and business plan preparation to import companies and industrial exporters.

Most donors who offer financial assistance to small and medium enterprises channel their assistance through lines of credit with commercial banks.

All of the above donor strategies were formulated in 1991. However, there are no recent reports available to help assess the impact of those strategies.

INFORMATION NEEDED THAT CANNOT BE EXTRACTED FROM SECONDARY SOURCES

The most important information needed from the fieldwork is the assessment of strategies that were implemented several years ago. In other words, how successful have those strategies been? What has worked and what has not?

Mozambique

MARKET OPPORTUNITIES FOR NTAE

The reports reviewed do not provide information on opportunities for NTAE firms.

OPERATING CONSTRAINTS FACED BY MSMEs PARTICIPANTS AND NTAE FIRMS

Constraints For MSMEs Participants

The reports provide information on the constraints face mainly by producers of agricultural products. However, some of those producer constraints are also constraints for MSMEs participants.

Security Problem⁹

Until 1992 the security problem remained one of the most important constraints to agricultural development. The unpredictable nature of rural violence continues to keep many Mozambicans away from their farms, and limit the range and activities of marketing agents, and to preclude investment in agricultural activities.

Land Ownership

The lack of land tenure security also continues to be a major constraint to increasing private sector agricultural activity.

Low Level of Technology

The low level of technology is an important constraint to increased agricultural production. However, the emergence of productive large agricultural enterprises has had some beneficial effects on access to improved inputs and related extension services.

Input Distribution Systems

Although the government-sanctioned monopolies over the distribution of agricultural inputs no longer exist,

the density of the supply network is still not adequate. General constraints of all kinds on marketing activities are the continuing problem.

Transportation Problem

The transportation constraint remains a critical impediment to agricultural export development. Once rural security can be assured, rehabilitation of roads and bridges is a high priority. The lack of transportation infrastructure limits the degree to which agricultural production can reach markets and urban areas.

Tax and Tariff Structures

Tax and tariff structures are limiting and make entry and participation in market activities more costly.

Problem of Access to Foreign Exchange

Allocation of foreign exchange is no longer administratively determined, however, its availability remains insufficient to meet demand. The important constraints on access to foreign exchange seem to center on availability of local currency to buy foreign exchange at the market rates, and to the complexity and related costs of foreign exchange and import transactions handled through the inefficient banking system.

Credit Constraints

Credit constraints to agricultural production and marketing activities have increased, both for capital investment and for operations. The commercial banks and the development bank have committed themselves to major changes in their credit operations which, by focusing on loan performance, seem to have reduced the share of credit going to agriculture-related activities in favor of non-agricultural sectors.

Pricing Constraints

Pricing constraints to agricultural production and marketing have been greatly reduced. However, price incentives to increase production, are still constrained by the high marketing margin due to transportation, security, and other transaction risks.

Constraints For NTAE Firms

The available reports do not provide information on constraints that NTAE firms face in Mozambique.

THE ENABLING ENVIRONMENT FOR NTAE DEVELOPMENT PROGRAMS

Although very few reports are available to help assess the business environment in Mozambique, the existing information shows clearly that the country does not have the enabling environment necessary for a successful NTAE development program. USAID is providing support to the government of Mozambique in its objective to improve the private sector environment. The main USAID support program is the Private Sector Support Program (PSSP). Although, the PSSP has been able to identify and effectively address a selected set of policy constraints to private sector agricultural production and marketing, the country is far from having the enabling environment for a successful NTAE development program. Security problems in production areas, lack of adequate transportation and difficult access to foreign exchange are only some of the serious constraints that contribute to create high transaction costs and risks for NTAE activities in Mozambique.

STRATEGY OPTIONS AND OPERATING ARRANGEMENTS AVAILABLE TO MSME NTAE FIRMS

The available reports do not provide information on operating strategies and structural options for either MSMEs or NTAE firms in Mozambique.

DONORS STRATEGIES AND LESSONS LEARNED

The government is committed to improve the private sector environment mainly by expanding the foreign

exchange market to include non-traditional exports and a wide range of other commodities. The government began to allow private sector participation in foreign exchange operations and to encourage privately owned and managed banking operations. From the recent studies and lessons learned it has been outlined to USAID that a program to help develop the private sector should promote an enabling environment for private investment and new entrants in agricultural production marketing, and processing (e.g., access to credit and foreign exchange, institutional support of the private sector, regulatory framework). The program should also improve production technology for crops and access to productive inputs and equipment; and enhance marketing, processing infrastructure and institutional capacity in support of the agricultural sector.

It is important to note that the 1997 USAID/Mozambique action plan has the objective of strengthening business and farmers' associations.

IMPORTANT INFORMATION NEEDED THAT CANNOT BE EXTRACTED FROM SECONDARY SOURCES.

The lack of information on NTAE firms and MSMEs activities in Mozambique lead to intensive fieldwork in order to find relevant information.

The fieldwork will need to:

- a) determine and confirm the enabling environment under which an NTAE development program can be successful;
- b) analyze key opportunities and operating constraints that NTAE firms and MSMEs face in non-traditional exports;
- c) analyze the operating arrangements and organizations that NTAE firms and MSMEs participants have available to them in pursuing non-traditional agricultural exports.

Malawi

MARKET OPPORTUNITIES FOR NTAE FIRMS

The available reports do not provide information on market opportunities for NTAE firms.

OPERATING CONSTRAINTS FACED BY MSME PARTICIPANTS AND NTAE FIRMS¹⁰

Constraints For MSME Participants

Availability of Credit

This constraint is due to the limited amount of funds left over in the commercial banks after government and prime private sector clients have been satisfied. Coupled with the conservative lending patterns of most merchant banks which demand substantial collateral to cover their loans, this leaves very little credit available to SMEs.

Foreign Exchange

Despite a stronger overall balance of payments, Malawi continues to have a somewhat overvalued exchange rate with a discretionary system of exchange control. The partially decontrolled foreign exchange regime affects SMEs in that small, unregistered enterprises are unable to receive authorization to import inputs for their operations.

Fiscal Policy

Credit ceilings induce banks to service large, known, prime customers and avoid risky SMEs. Since most SMEs are capitalized with their own savings, and since the banks have limited flexibility on interest rates, inflation tends to erode the ability of SMEs to finance their own creation or expansion.

Licensing

The process of registering a business is very time-

consuming and the end result takes a long time to achieve. The expense of trading licenses also serves as a barrier to entry to informal businesses. Obtaining and industrial license is also reported to be a long and complex procedure.

Zoning

The issue of zoning is a particularly acute issue in Malawi. Although there are certain benefits in preventing overcrowding and limiting certain businesses to areas where the noise or pollution resulting from their activities can be controlled, over-regulation can decrease economic activity and dampen initiative. A policy which recognizes the financial limitations under which informal and small-scale enterprises operate would permit certain activities to take place outside of the normal, formal sector location.

Taxation

Like other countries, Malawi needs a tax system which requires that each person pays his or her full share of taxes. The “small business tax” on enterprises with turnover of less than MK 2,400/yr could be viewed as less than cost effective if one weighs the costs of collection against the monies received. In addition, certain value-added and withholding taxes are collected from registered businesses which can discourage small, unregistered firms from doing business with the formal sector and thereby prevent linkages between small and large businesses.

Control of Transport

The control of transport routes for both people and goods has the effect of dampening the movement of commerce. Studies have revealed that the strict rules as to who may transport goods and persons in Malawi have left many areas poorly served.

Business Hours

Existing restrictions on opening and closing hours limit the potential for increased commerce.

Constraints For NTAE Firms

There is no available information on specific constraints to NTAE firms in Malawi.

THE ENABLING ENVIRONMENT FOR SUCCESSFUL NTAE DEVELOPMENT PROGRAMS

The lack of specific information on NTAE firm constraints, make the assessment of the enabling environment for NTAE development programs in Malawi difficult. However, since MSMEs are facing serious problems carrying out their activities, it is clear that NTAE firms by themselves are facing those constraints. The problem of availability of credit, fiscal policy, and foreign exchange are some of the constraints preventing Malawi from having an enabling environment for successful NTAE development programs. The World Bank is focusing mainly on economic policy reform that aims at improving the economic environment. However, this program is still at its early stage and hence has not yet contributed to create the expected result.

STRATEGY OPTIONS AND OPERATING ARRANGEMENTS AVAILABLE TO MSMEs PARTICIPANTS AND NTAE FIRMS

The available reports do not provide information on strategy and structural options for NTAE firms in Malawi.

DONORS STRATEGIES AND LESSONS LEARNED

The Rural Enterprise and Agribusiness Development Institution Project (READI) which was first authorized by USAID in 1984, envisioned that the best way to develop the SME sector was to provide support to key institutions assisting the sector. Thus the project backed the development of INDEFUND and MUSCO

in the form of commodities, and training and funds for on-lending, with technical assistance to be provided by Africare and WOCCU.

INDEFUND began operations in 1982 with the objective of financing and developing business enterprises owned or controlled by Malawians to increase productivity in the Malawian economy. It was established with the support of INDEBANK and the Netherlands Finance Company for Developing countries.

INDEFUND serves primarily as a lending institution and does not receive deposits or promote savings within the context of its program. Its loans are targeted to commercially viable agriculture, agro-industry, fishing manufacturing, wholesale and retail trade, service industries, construction, transport, and hotels. It finances both existing and new businesses, although according to staff, preference is generally given to new businesses, INDEFUND policy gives preference to enterprises which promote import substitution or exports, generate employment, use local resources and encourage development.

MUSCO was established as an NGO in 1980 with the objective of developing financially sound local savings and cooperative societies (credit unions) throughout Malawi. The specific role of MUSCO is to promote and expand the number of saving and credit societies and develop a financially viable national association of societies. MUSCO aims to increase the saving and borrowing capacities and improve the financial management skills and the credit-worthiness of its member societies, their members, and the national association.

At present, the Local Savings and Credit Cooperative Societies (SACCOs) being developed by MUSCO are the only financial institutions in Malawi offering both credit and saving services to people not served by the commercial banking sector. At the end of 1990, MUSCO represented 115 SACCOs with 18,000 members.

The United Nations Development Program (UNDP) is currently providing support to several organizations including INDEFUND. The UNDP believes that past efforts in the SME sector have taken a piecemeal approach and views its role as assisting the GOM to

develop a structured, systematic approach to the sector.

The World Bank has not funded many SME development activities in Malawi, but has instead concentrated on economic policy reform and support for the larger enterprise sector. The bank is also supporting SME development through its education sector project.

EEC funds and Germany have been major contributors to several Malawian organizations that support SME. All the donors agreed that future donor funding should be based on an overall SME sector development strategy. All donors also expressed concerns regarding heavy government intervention and the need to loosen its control on institutions in the SME sector.

INFORMATION NEEDED THAT CANNOT BE EXTRACTED FROM SECONDARY SOURCES

The fieldwork should gather information on constraints that are specific to NTAE firms. This may be accomplished by analyzing the operating arrangements and organizations that NTAE firms and MSMEs have available to them in pursuing non-traditional agricultural exports. It will also be important to determine the comparative effectiveness of the strategies and structural options available to NTAE firms and MSMEs participants.

Tanzania

MARKET OPPORTUNITIES FOR NTAE FIRMS

There is no available information on market opportunities for NTAE firms.

OPERATING CONSTRAINTS FACED BY MSMEs PARTICIPANTS AND NTAE FIRMS¹¹

Constraints For MSMEs Participants

Legal and Policy Framework

As may be presumed from the country's initial direction, Tanzania has never had a particular body of law on private sector business. The present code, inherited from east African common law, was taken over upon achieving Independence without fundamental revision. The present regulatory environment is the accretion of a series of acts: the 1967 nationalization of banks, 1970 nationalization of properties and the 1984 measure on liberalization of trade. Lack of clarity in rules, regulations and modus operandi leaves ample opportunity for uneven enforcement of responsibility and application of benefits. However, it is important to state that regulatory and legislative changes, especially to establish both Tanzanian and foreign enterprises are underway.

Attitude Towards Private Enterprises

The attitude of Tanzanians is an issue. The majority of literate Tanzanians consider state employment on salary to be their only option, since private work is contemptible. In fact there are very few manufacturers or industrialists in Tanzania. The majority of business is trade and commerce. In Tanzania, admitting to being a businessman is as bad as admitting to being a crook.

Poor Financial Services

Closely related to the absence of basic business information (for business and government) from the office of the Registrar on the structural deficiencies of the financial sector. While the lack of efficient check clearing makes it very difficult for the banks to operate as efficient businesses, the business community has traditionally paid the cost of the banks' inefficiencies.

Lack of Viable Business Associations

It must be assumed that all present business associations are nascent. For twenty-five years there have been no active business associations in Tanzania, as all efforts were directed to the support of the public sector, while private sector activity was tolerated until the inevitable triumph of the parastatal economy. Private sector business associations were ignored and left to wither rather than being legally disbanded or dissolved.

Leadership Ambivalence

Political awareness of the need for reform is not unanimous and thus commitment is not total. This ambivalence stimulates low confidence by foreign and domestic investors that the reforms will be broad based, and over the long-term, encourages the focus on short-term, high-return or risk-free opportunities.

Exchange Rate and Convertibility

The failure to date to allow the exchange rate to find its equilibrium position ensures that money outside the official system will stay outside

The Tax and Customs Systems

The present system of applying sales tax at each point of sale discourages any company that is not vertically integrated. Vertically integrated companies, which can avoid numerous sales points, thus achieve a price advantage over competitors, thus creating an unfair field of competition.

Land Tenure

The current land tenure system places constraints on long-term investment in land which is vital to increased agricultural productivity.

Licensing of Business

The registration and licensing of businesses in Tanzania are a lengthy and complicated process.

Constraints To NTAE Firms

The available reports do not provide specific information on constraints for NTAE firms; however, one report outlines the existence of disincentives to promoting exports whereby exporters must obtain licences for such activities. Export crop marketing still has to be liberalized with the consequent autonomy required for private sector entry, particularly where processing is required.

THE ENABLING ENVIRONMENT FOR SUCCESSFUL NTAE DEVELOPMENT PROGRAMS

Tanzania has a very poor environment for successful NTAE development programs. It must be stated that no complete and accurate picture of Tanzanian business activity is available. It is not possible to disaggregate individual enterprises from sectoral data. This lack of useful or accurate data is the result of past GOT policy which was hostile or indifferent to, the private sector in the expectation that it was not expected to exist for long. The legacy of a quarter of a century of economic experimentation includes these obstacles to business development:

- a deteriorated and informalized economy;
- weak and ineffective private sector business associations and organizations;
- an enormously burdensome parastatal sector;
- an underpaid, under-motivated civil service, and skepticism among potential private investors;
- a deteriorated infrastructure, the restoration of which will challenge even the joint effort of all donors;

- an insolvent state banking system, and a lack of project/investment financing beyond trade financing.

Obviously, civil service reform may be a prerequisite for ensuring an effective regulatory environment for enabling the development of the private sector.

STRATEGY OPTIONS AND OPERATING ARRANGEMENTS AVAILABLE TO MSMEs AND NTAE FIRMS

Strategy Options

The reports did not differentiate strategy options available for NTAE firms and those for MSMEs; however, three basic models describe the strategy option chosen by Tanzanian companies: the import substitution; the import substitution, coupled with commodity exports; and pure exports.

In the example of the import-substitution, the model predicts that low-cost local production of inexpensive consumer disposables will generate a revenue stream sufficient to self-fund expansion into increasingly sophisticated enterprises as the Tanzanian economy expands.

The second model provides for a mix of local production for the local market to generate Tanzanian Shilling along with low-cost local production or processing for the export market to generate the required foreign exchange for capital investment and market development.

Export-oriented groups include branches of worldwide organizations and a few other single-unit entities active in extract, horticultural products, gems and spices. Few indigenous Tanzanian entrepreneurs have penetrated this business segment.

Structural Options

Tanzania's indigenous business community is largely organized in holding companies. These holding companies may be simply central administrative points controlling several (semi-) autonomous operating companies. In other cases, there is direct cross-

participation between the companies. Given Tanzania's past indifference to the private sector (which sprung out of the conviction that the private sector would soon wither away under the competition of the public sector) there is little or no available or accurate statistical data on the performance of these closely held, limited liability companies. There are also narrowly focused religious communities which have very strong principles of common help for fellow believers. They are usually local branches of an established global or world group (a multinational in practice), with all of the advantages for marketing and capital investment linkages that such a situation offers.

DONOR STRATEGIES AND LESSONS LEARNED¹²

In the rural transportation sector, the major thrust of the donors has been to develop a sustainable system for road rehabilitation and maintenance. Approximately fifteen donors including USAID, are involved in these efforts, and donor coordination in this area has been very successful. Donor assistance to the telecommunications sector is provided within the framework of a major

multi-donor program to the GOT Telecommunications Restructuring Program.

With respect to establishing an enabling environment, particularly in the financial sector, both the IMF and World Bank are major players. The Policy Framework Paper (PFP) worked out between them and the GOT provides a comprehensive structure for addressing policy obstacles retarding private sector development.

INFORMATION NEEDED THAT CANNOT BE EXTRACTED FROM SECONDARY SOURCES

Fieldwork should provide information on constraints to MSMEs participants and NTAE firms. It should provide more information on the operating arrangement and organization that NTAE firms and MSMEs have available to them in pursuing non-traditional agricultural exports. The fieldwork should also provide more information on the strategies and structures recommended or being pursued by the USAID and other donors.

Zambia

MARKET OPPORTUNITIES FOR NTAE FIRMS¹³

The available reports do not provide detailed information on market opportunities for NTAE firms in Zambia. However, the relative political peace of Zambia in the middle of a region characterized by political instability could be exploited as a location for export oriented businesses to service some niche markets in the region. Furthermore Zambia has considerable agricultural potential, with about nine million hectares of reasonable to good arable land. The agricultural sector is attracting new investors' interest, particularly entrepreneurs from South Africa and Zimbabwe. The main types of new investment include: food processing, fruit and vegetable production, and horticulture products for exports.

OPERATING CONSTRAINTS FACED BY MSME PARTICIPANTS AND NTAE FIRMS

Constraints For MSME Participants

Financial Constraints

Although the commercial banking system in Zambia is more developed than those of several other neighboring countries, there is a lack of a sufficient number of healthy and competitive specialized financial institutions. One of the most important constraints to private sector development is the limited availability of savings and investment capital.

The combination of the short-term time horizon which permeates current thinking in the economy and the "crowding out" of the private sector by the public sector credit demands has resulted in the complete absence of long-term credit for business' working and investment capital needs.

Hyper-inflation

Business people cite inflation as their number one problem. The inflation rate makes long-range planning impossible and has eliminated long-term capital availability. It encourages firms to increase inventory and debt, it prevents full capital repatriation and it increases tax rates.

Business Establishment and Licensing Procedures

The registration process for enterprises appears to be complicated for some industries although food processing operations seem to have fewer difficulties.

Business Taxation

At present, the high level of corporate income taxes and import tariffs pose the greatest constraint to business development in Zambia. The business community, both formal and informal is remarkably open in discussing the need to evade taxes and tariffs in order to survive.

Exchange Rate Policies

The current government's strategy is to maintain a competitive exchange rate based on market determination of value, with the intention of closing the gap between the official and market rate. Until 1992 there were four different exchange rates in Zambia, which is not only confusing for businesses, but also creates constant opportunities for arbitrage and rent seeking behavior.

Labor Policy

Wage rates are often above the levels that can be afforded by smaller firms within the industry.

Property Rights

While a 99-year lease can provide adequate security to an investor, the absence of privately owned land means that it cannot always be used as collateral for loans, thus further hindering Zambian access to finance.

Legal System

Many critical laws relating to business are due for revision. Zambia has to reform the Land, Labor, Banking, and Investment acts, before Zambia can effectively broaden its appeal to both foreign and local investors.

Constraints For NTAE Firms

Export Finance

One area which highlights the credit crunch and lack of depth in the financial sector is export finance. The Export-Import Bank has little liquidity to offer to exporters. Several exporters indicate it is extremely bureaucratic and is not able to serve their needs.

High Import Duties and Taxes

Although on paper it appears as though most imports are subject to tariffs between 15-50 per cent, the effective duty is typically in the range of 50-100 per cent when taking into consideration the import licence levy, the uplifting factor and sales tax.

Foreign Exchange Control

In addition to the restriction to foreign exchange, no overseas accounts are allowed for Zambians. Foreign investors who do not have an investment licence under the 1991 Investment act are subject to extreme limitations on the remittance of their profits.

Drawback Program

In the drawback program, the manufacturer has to pay the import tariffs on raw materials and components up-front. After the final product is exported, the duties on the raw materials utilized are remitted to the manufacturer. Given the high inflation rate, the extremely slow Customs payment process (delays of up to nine months have been reported) can be disastrous for Zambian firms.

Telephone Charges

Telephone charges are very expensive. A call to the United Kingdom costs US\$ 5.50/minute, and when one includes sales tax the figure jumps to US\$6.60/minute.

Transportation

Air cargo prices to Europe generally range between US\$1.58-2.05/kilo which is high compared to other fresh horticultural exporting countries. Kenya's price is presently at US\$1.32/kilo to Europe and exporters there are claiming that the price is uncompetitive. Shipping a 20-foot container from Zambia through Dar-es-Salaam to Europe costs approximately US\$3,000, nearly double what it costs from Dar-es-Salaam or Mombasa.

THE ENABLING ENVIRONMENT FOR A SUCCESSFUL NTAE DEVELOPMENT PROGRAM

The enabling environment for a successful NATE development program does not exist yet in Zambia. The business environment remains highly constrained and until the policy environment is improved, the potential for NTAE development programs or the potential for other development projects would necessarily be limited to some extent.

STRATEGY OPTIONS AND OPERATING ARRANGEMENTS AVAILABLE TO MSME PARTICIPANTS AND NTAE FIRMS

The available reports do not provide information on strategy options to help ISMEs overcome their priority constraints or on structural options available to NTAE firms and MSME participants.

DONOR STRATEGIES AND LESSONS LEARNED

The reviewed reports did not specify what the USAID has done to improve NTAE firms' activities in Zambia but it provides information on program options for USAID to promote Private Sector Growth. The programs include:

- The Zambia Export Development project which would focus on enhancing export procedures, policies, and incentives to support accelerated growth of non-traditional exports;
- Non-Bank Financial Mechanisms for providing long-term capital in an inflationary environment;
- A Post-Privatized and Export-Oriented Firm Assistance under which, highly targeted technical assistance would be provided to a small number of relatively successful firms in the areas of production methods, quality control, pricing strategy, inventory control, and market brokerage assistance.

Other donors like the World Bank are providing their support for the private sector development, mainly by providing technical support to the Government for legal reform.

The IDA has also committed funding to the Investment Center. The UNDP support will be concentrated in the areas of short-term training courses in project promotion, market assessment and contract

negotiation. The EU is funding a three-year program for promoting non-traditional agriculture exports. About 60% of this budget is for providing credit facilities to producers and the rest is for short-term technical assistance in areas such as storage and packing.

INFORMATION NEEDED THAT CANNOT BE EXTRACTED FROM SECONDARY SOURCES

Fieldwork should identify strategy options to help MSMEs and NTAE firms overcome the priority constraints and identify structural options designed to help ISMEs capitalize on opportunities and pursue their selected strategies. The fieldwork should assess the advantages and disadvantages of structural options and identify the most recent intervention and/or support system to improve MSMEs participation and success in NTAE.

Appendix B

Tanzania

Name: **Dar es Salaam Handling Company (DAHACO)**

Objectives: Dar es Salaam Handling Company is able to handle a variety of non-traditional exports (i.e., floriculture, horticultural and non-horticultural produce).

Constraints/

Solutions: Most exporters' complaints are that government regulations on exports are lengthy and cumbersome. There is a need to simplify and streamline the procedures and paperwork involved in actual dispatch of an export consignment and financial transfers and retentions.

Most exporters lack technical expertise and experience — especially in packaging of perishable crops.

For both horticultural and non-horticultural exports, there is a lack of knowledge on phytosanitary controls.

Packaging material is not adequately developed to pack produce. Most packaging materials are imported and presently carry a sale tax of 25%. Those produced in Tanzania need to be improved to be of export quality in order to stimulate non-traditional exports and development. There is a need for the government to refund tax on material for designated export consignment.

- Name: **Tanzania Horticultural Producers and Exporters (TANHOPE)**
- Objectives: TANHOPE's objectives are to promote and support its exporters and horticultural growers and to provide technical support in growing and marketing post harvest handling, education and training, and in monitoring quality control.
- Constraints: Due to financial constraints, the association and its members do not have proper commercial services such as produce collection pack houses and cold stores.
- The association lacks a proper commercial trading organization to assist bulk imports of production inputs (bulk imports of inputs would enable its members to benefit from discounts available through bulk rather than individual purchases).
- Lack of access to finance by indigenous exporters.
- There is no direct development authority other than the Ministry of Agriculture which is responsible for production support.
- Back up market information trade contacts and other services to exporters is provided by the Tanzania Chamber of Commerce, Agricultural and Industries and the Board of External Trade, while regulation to exporters is provided by the Bank of Tanzania.
- Solutions: Regulations on exporters should be the responsibility of the government, but it needs to simplify the export system by bringing all non-traditional exporters under direct control of one single body. This will lessen the cumbersome and numerous bureaucratic procedures involved in exports.
- Tanzania exporters have not been able to establish a particular brand mark in their product's marketplace as a guarantee of quality. The association and TANEXA need to assist exporters in establishing brands and in encouraging them to cooperate especially regarding freight space.
- TANHOPE should operate commercial services as well as being an association of commercial producers and exporters. As an association, it should play the important role of being the sole representative of its members to the government and with other national and international organizations.

Appendix C

Zambia

Name: **Agriflora Limited**

Sponsor: Mr N Slade (British) and Mr I Alloo (Zambian)

Annual

Turnover: US\$5 Million.

Project Value: Not applicable.

Start Date: 1993.

Principal

Objective: To produce and export high quality flowers and vegetables.

Discussion: AGRIFLORA Limited is a Zambian Private Company, it was established two years ago by Mr. Slade and Mr. Alloo. The company operates three farms of which one is a dairy farm and two are floriculture/horticulture farms. Agriflora has recorded a very high growth rate over the two years of its existence and is presently one of the leading exporters of flowers and vegetables. The company is annually exporting the following:

- 1 **Flowers**
Roses 6 Million
Summer flowers 4 Million
- 2 **Vegetables**
Various types 2,000 tons

Presently all exports are to the European markets, mainly United Kingdom. The company would like to enter the USA market and has identified mange tout peas as a potential product for that market. The company has capacity to supply 50 tons of mange tout peas per week.

Monitoring and

Evaluation: The normal corporate monitoring and evaluation system, mainly through management reports, is in place and appears to be functioning well.

Impact: Agriflora provides employment to more than 1,000 persons and has an annual export turnover of US\$5 Million. Therefore, Agriflora limited has a positive impact on the Zambian economy.

Conclusion: Agriflora Limited is a good example of a successful private sector NTAE company. The success may or can be attributed to good management, access to development funds and international connections.

Name: **Export Board of Zambia**

Sponsor: The Government of the Republic of Zambia (GRZ).

Project Value: Current Annual Budget K520 Million.*

Start Date: 1987.

Principal

Objective: To promote, develop and encourage the export of non-traditional goods from Zambia.

Association

Development: The Board has encouraged and facilitated the formation of Trade Associations including:

- Zambia Coffee Growers Association;
- Herbs, Spices and Essential Oils Association;
- Burley Tobacco Growers Association;
- Tobacco Association Zambia;
- Textile Producers of Zambia;
- Zambia Export Growers Association. (ZEGA).

Financial

Services: In 1989 EBZ with the assistance of LEBSUKAB established an Export Finance facility, which was known as LEBSUKAB/EBZ Financing facility. This facility is no longer in existence.

NTAE

Development: EBZ has taken a leading role in the promotion and development of NTAEs by providing market information and technical advice on export documentation and regulations.

SME

Development: Considerable interest.

Discussion: The Export Board of Zambia (EBZ) is a statutory Government agency which was established under the Export Development Act of 1985 with the objective of promoting, developing and encouraging non-traditional exports including:

- | | |
|---------------------|---------------------|
| • Roses; | • Amethyst; |
| • Summer Flowers; | • Cotton Lint; |
| • Loomstate Fabric; | • Portland Cement; |
| • Cotton Yam; | • Fresh Vegetables; |
| • Emeralds; | • Coffee. |

EBZ undertakes a variety of promotional activities which include market research missions, trade missions and trade fairs.

The functions of the EBZ include:

- 1 Recommend for approval by the Minister of Commerce, Trade and Industry:
 - Matters relating to both existing and potential markets;
 - Policies relating to the development, promotion and encouragement of export of goods and services from Zambia;

* Exchange Rate US\$1 = K1,100

- Policies relating to the adoption, entering into or ratification of multi-lateral and bi-lateral agreements which enhance the growth of Exports from Zambia, and with the objective of developing markets for those products and services;
- Liaising with Zambian missions and other organizations abroad to coordinate and activate the development of Exports from Zambia;
- Coordinating trade delegations to and from Zambia; and
- Organizing training programs, seminars and workshops on activities connected with developing exports from Zambia.

Technical Assistance

Projects: The EBZ has received donor funds from several donor agencies including:

1 **European Union (EU)**

The EU financed an Export Development Fund. This is a medium-term development program which became operational in September 1993 and is ongoing. It is intended to address production and export market constraints in the horticultural and floricultural, textile and cotton, coffee and tobacco sectors. The program is managed by a technical assistance team. The EBZ sits on a steering committee which provides coordination and policy direction. In addition, the EBZ's sector officers work closely with the program coordinator and participate in product and market development activities of their respective sectors.

2 **World Bank-Funded Projects**

The EBZ has executed several World Bank-funded projects which include:

- Pre-Export preparations and handling of gemstones;
- Human resources development in timber grading and sustained exploitation of wood resources; and
- Publication of a Zambian Export Directory.

Performance of NTAE

Sub-Sector: Since the establishment of EBZ, non-traditional export performance has varied among the nineteen sub-sectors with most of them recording declines in export earnings. Appendix A shows export earnings by sub-sector between 1987 and 1994. The declines are attributable to several factors which include drought, unfavorable freight rates, lack of cargo space, etc.

Monitoring and

Evaluation: There is no formal monitoring and evaluation of EBZ performance apart from the normal corporate reports to the Board of directors.

Impact: The functions of EBZ cover all the basic requirements for the development of a viable export business. Therefore, the potential impact of its efforts on Zambian exports would have been substantial, had it not been constrained by the inadequate funding of the EBZ budget.

Conclusions: Capacity building, which would include provision of technical assistance, support equipment and general budget support, should be investigated and if found feasible, fully supported. The strengthening of EBZ should have a significant impact on the development of Zambia's NTAEs because EBZ appears to be well-placed to under take this catalytic role.

Name: **Herbs, Spices and Essential Oils Association (HSEOA)**

Sponsor: Members.

Project Value: Not Applicable.

Start Date: December 2, 1994.

Principal Objective: To develop herbs, spices and essential oils for both domestic and export market.

SME Development: The main thrust of the association is to develop viable operations in the herbs, spices and essential oils industry. Therefore, SME development is a core function of the association.

Discussion: Presently there is no commercial production of herbs, spices and essential oils. But climatic conditions and soils are suitable for a variety of herbs and spices. It was because of this potential that an association was formed to facilitate and promote the production of herbs and spices. The association spent its first year of existence collecting data on technical and marketing aspects of the production of herbs, spices and essential oils.

Membership: The association has twenty-one (21) members, members are required to pay annually a subscription fee of K50,000.

The association plans to provide the following services to the members:

- Help members to source funds;
- Assist members to identify markets, and provide marketing advisory service;
- Undertake promotional activities locally and abroad;
- Procure seeds/seedlings and other inputs on behalf of members;
- Coordinate the activities of the industry and facilitate economies of scale;
- Provide export documentation and customs clearance services;
- Provide extension services.

Production: The Association expects production to start during the 1996/97 season. Plans have been finalized for the appointment of pioneer farmers which the association will assist in acquiring funds to set up processing facilities and seeds. Each pioneer farmer is expected to recruit ten (10) outgrowers. The outgrower will sell their crop to the pioneer farmer who will process and package for export and local markets.

The Association has decided that initial production will be for local and South African markets. Contacts have been made with potential South African buyers. The Association has identified an urgent need for the services of a full time extension officer to assist the members. Contacts have also been made with the National Council for Scientific Research for possible cooperation in research and development.

Monitoring and Evaluation: The Association is still in its formative stage and has yet to design a monitoring and evaluation system.

Impact: The Association has potential positive impact.

Conclusion: Herbs, spices and essential oils have high growth potential. However, the key to the growth of this industry appears to be the strengthening of the Association. Therefore, capacity building assistance would be necessary.

Name: **Zambia Coffee Growers Association (ZCGA)**

Sponsor: Coffee Farmers.

Start Date: 1987.

Principal

Objective: Promote production of good quality coffee and market it at a premium.

NTAE

Development: Through its services ZCGA has had a significant impact on the development of coffee exports from zero in 1987 to 1,500 tons in 1995.

SME

Development: ZCGA can develop SMEs as long as they are members of ZCGA. However, the major constraint at present appears to be inadequate resources.

Discussion: ZCGA has a total membership of 30 of which only 15 are active exporters. Members are required to pay annually a commission per tonne of exports. The commission is annually fixed depending on the needs of the association. Presently, the commission is US\$75 per tonne. The volume of Coffee Exports is relatively low for instance, 1995 total exports were 1,500 tons, most of which was exported to Europe and South Africa.

ZCGA provides the following services to its members:

- Secretarial services;
- Marketing services;
- Exports documentation and customs clearance services;
- Coordinates the activities of the industry and facilitates economies of scale;
- Provides quality assessment.

Monitoring and

Evaluation: There is no formal monitoring and evaluation of ZCGA performance except a regular management report to the Executive Committee — which performs the functions of a board of directors.

Impact: ZCGA has had limited positive impact on the development of coffee exports as is evidenced by the low export tonnage of 1500 tons.

Conclusion: Shortage and cost of development capital has been cited as a major reason for the poor participation rate.

Donor funding has been made available to the coffee growers, for example, presently Coffee II Project a World Bank-funded project under implementation. It has been observed that so far donor funding appears to have been biased in favor of medium- and large-scale farmers. As a result of the foregoing, ZCGA is soliciting for funds for small-scale farmers.

Coffee as an NTAE has potential for growth, subject to availability of development capital for irrigation equipment and other farm developments. Increased participation of small-scale farmers would require strengthening of the extension services of the ZCGA.

Name: **Zambia Export Growers Association (ZEGA)**

Sponsor: NTAE Farmers.

Start Date: 1985.

Principal Objective: Export Development of fresh Horticultural crops.

NTAE Development: Through its services, ZEGA has had a significant impact on the development of NTAEs.

SME Development: ZEGA's effort to develop SMEs other than its members is constrained by the fact that ZEGA is a "producer association, formed, funded and controlled by NTAE producers primarily to service their common interests". However, ZEGA has potential to develop SMEs given separate resources for the purpose.

Discussion: ZEGA is a 'Producer' Association with a membership of 45, of which only 16 are active exporters. Members are required to annually pay a subscription fee of US\$200.

ZEGA provides the following services to its members:

- Assist members to source development finance;
- Provides technical assistance internally and externally through use of consultants;
- Assist members to identify markets and provide marketing advisory service;
- Charters aircraft on behalf of members (currently three flights per week);
- Undertakes promotional activities locally and abroad through a variety of ways including trade fair participation, meetings/conferences etc.;
- Lobbying services;
- Coordinate the activities of the industry and facilitates economics of scale;
- Provides export documentation and customs clearance services;
- Procures chemicals and other inputs on behalf of members.

Funding of the Association: ZEGA is funded mainly by members through annual subscriptions, a pallet charge of US\$50 per pallet, and a 3% commission on consignment of chemicals. There is a need for increased funding if the association is to undertake increased extension and development work.

Products: Appendix B shows the products which the association is presently exporting.

Monitoring and Evaluation: There is no formal monitoring and evaluation of ZEGA performance except regular management reports to the Executive Committee which performs the functions of a Board of Directors.

Impact: Although the development of NTAEs could have taken place without the existence of ZEGA, it is widely believed by the NTAE producers that such a development would have been slow. The existence of ZEGA has hastened the pace of development. Therefore, ZEGA's activities have had a positive impact on the performance of NTAE in Zambia. ZEGA has potential to develop Indigenous Micro, Small and Medium Size Enterprises (ISMEs) but presently such efforts are constrained by lack of resources.

Conclusion: ZEGA has been able to source development capital for members but lack of development capital has remained a major constraint for most of NTAE producers. There is a shortage of development capital on the Zambian market and, when available, the cost is usually prohibitive. Interest rates are in excess 50%.

Although ZEGA is performing well, there is a need for capacity building, particularly in Research and Development and Extension. The R&D could be done jointly with the Golden Valley Agricultural Research Trust.

Appendix D

Mozambique

Name:	Associação dos Produtores Agrários de Moçambique (AGRARIUS)
Sponsor:	Members.
Start Date:	1990.
Principal Objectives:	Enhance the livelihood of its (producer) members.
Association Development:	Further develop and sustain itself as a full service association to its members.
Financial Services:	Very interested, but none available.
NTAE Development:	Interested in fruit exports to the RSA.
SME Development:	Interested, but have not thought beyond organizing the association and production-related issues.
Discussion:	<p>AGRARIUS have 180 farmer members nationally, 150 located south of Mozambique (Maputo, Gaza and Inhambane). They produce beans, maize, cotton, vegetables, and fruit (mostly tangerines and oranges). Member farm size averages around 20 hectares.</p> <p>Major interests are small farm development, finding sources of credit for inputs, and developing additional sources of revenue. One of their major concerns is “assisted credit” at the district level. They need financing, but they also need local managerial and technical assistance to determine how to most effectively use the credit and be able to pay it back.</p> <p>They are very interested in an extension service and believe there should be at least one agent per district.</p> <p>Title to land is a major issue/problem as relates to securing credit and loans. Without a clear title, which is very difficult to obtain, banks are hesitant to extend any significant amount of credit, or consider even intermediate-term (more than one year) loans. In tree crop production, this lack of intermediate-term credit is an especially serious problem.</p> <p>There is a Fruit Producers Association under AGRARIUS that plans to offer members a training course in fruit production, a nursery for seedling development, and credit for inputs. This is supported by the larger citrus farmers, but currently fruit is in excess supply and prices are low. Fruit Producers Association members sell fruit on the local market and then to the RSA, but RSA farmers produce the same crops and are protected. However, the RSA government wants to offset some of the very large positive balance of payments the RSA has with Mozambique, and therefore opportunities for fruit sales may develop.</p>

The association would like to develop an outgrower relationship with a fruit packer and marketer similar to the relationship between JFS Cotton Company and its cotton growers. However, there are currently no fruit packers in this business.

Impact: AGRARIUS have expended most of its effort to date developing a set of bylaws and a constitution. It is now ready to move ahead, but with just membership support, especially given the current state of the fruit business, its progress will be slow. Its impact on members to date has likely been minimal because most of the time and money have been focused on getting itself organized.

Conclusions: AGRARIUS appears to have formed by its members with little outside support or assistance, a very significant accomplishment given the history of cooperatives. This indicates a strong grassroots-level interest in mutual assistance on the part of members.

The south of Mozambique has a serious food deficit, and production and marketing enterprises in this area need to be encouraged.

Producer associations can develop in difficult economic and political environments. However, their ability to provide members with the needed production, and especially post-harvest services will likely be dependent on outside support.

Access to RSA fruit markets will require some government-to-government involvement, because the motivation for the RSA to import Mozambican fruit is not a commercial motivation.

AGRARIUS has apparently not stimulated any negative reaction on the part of the GOM. Given the GOM's many other problems, significant help for AGRARIUS from the GOM seems unlikely.

AGRARIUS must achieve a detailed understanding of members' priority needs and develop highly efficient programs to serve the highest priority needs. Because of its limited resources, it will have to focus on a few, high positive impact member services.

AGRARIUS represents an excellent opportunity for donor support. It is grassroots-based, is located in an area that needs considerable agricultural/agribusiness development, and needs help to break into the RSA market. It also needs considerable support in post-harvest areas, especially for fruit, since there is no commercial entity currently available to collect, grade/sort, package, and market their output.

Caution should be exercised as relates to the interests of the fruit growers over the interests of other members. The fruit growers are larger and have more specialized interests, so fully integrating them into the larger association and keeping them there will require careful management.

Name: **Companhia Da Zambézia (CdZ)**

Principal

Objectives: Rehabilitate Mozambique's tea and coconut plantations, bring them back into production, and market the output in value-added forms. Involve neighboring smallholders to a practical extent.

Discussion: CdZ was founded in 1982 and has been a private company ever since, including during the socialist period. It owns 77,000 ha of concessions, mostly in Zambezi Province. The company is 77.5 per cent owned by Portuguese shareholders and 22.5¹⁴ per cent by the Government. For the last fifteen years CdZ has been able to access only about 4,000-5,000 ha of its property due to the civil war and the related loss of infrastructure.

It is important to note that COMPANHIA DA ZAMBEZI managed to survive during the war period thanks to the concessionary loans they received from the Bank (which were more at political than commercial rates), and good management throughout the time.

CdZ is the only tea company still running in Mozambique. Prior to the war and political conflicts it exported more than \$3 million worth of tea from the Gurue area, focusing on premium quality not volume. Today the infrastructure in the area is so poor that exports are becoming difficult. If usable roads were available into/out of the area, the tea plantation could be redeveloped.

The coconut plantations need major culling and replanting. Under normal circumstances, the province of Zambesia would cut 850 older and damaged trees per day, but due to years of neglect, it must cut 1,350 trees per day in order to bring the plantation up to standard in several years. The culled trees can be used to make pallet wood and the company has found a machine that will cut the trees into pallet kits for assembly at the destination. There is a good market in the RSA for these kits, so CdZ is very interested in developing the business, both for a source of exports/revenue and as a means to begin the process of coconut plantation rehabilitation.

Coconut-based products CdZ wants to produce include:

- Fresh and processed coconut water, milk and cream for the RSA market;
- Virgin coconut oil, which is worth 2-3 times as much as normal coconut oil and is very low in free fatty acids; however, the market for this specialty product needs to be investigated;
- Activated charcoal made from the shell; which would require only modest technology and capital; and
- CdZ management's objective is finding products and markets that offer a better return than commodity copra.

The seasonality of Mozambican production is different from that of the Philippines and other Asian suppliers and, therefore, the company believes it can effectively compete, especially on fresh items. Also, they are primarily interested in specialty, not commodity, markets and products.

CdZ is seeking financing for the rehabilitation work that is needed on its tea and coconut plantations. Also, new variety development/adaptation and application work is needed.

There are numerous opportunities for SME participation in CdZ's rehabilitation and ongoing operations: (1) SMEs could be formed to cut and sell culled trees to the pallet kit making company; (2) smallholder areas surrounding CdZ plantations own more trees than CdZ; traditionally smallholder production per tree and per hectare was greater than on the plantations; CdZ would be glad to buy coconuts from smallholders once it is back in operation; (3) if an acceptable plan could be developed, CdZ would be willing to turn its coconut plantations over to smallholders to develop and put into production; CdZ would supply the inputs and the TA and the smallholders would supply labor and sell the output to CdZ.

Impact: While CdZ is just preparing to rehabilitate its tea and coconut plantations, the potential impact of its efforts on Mozambican exports and employment would be substantial if they are successful. Earning millions in exports and creating hundreds of jobs is entirely possible.

Conclusions: CdZ's potential pallet kit business appears to be a win-win opportunity. SMEs can be formed to cut and deliver trees/logs to the pallet kit making company. The plantation will get rehabilitated, cash flow will be generated for replanting, and Mozambique will have a significant new source of foreign exchange. This project seems to deserve special analysis by donors to determine how SMEs could be formed, financed, and supported to form a coconut tree culling business. This is both a short-term and long-term opportunity.

The alternatives for rehabilitating CdZ's coconut plantations, with significant smallholder participation, should be investigated and if found feasibly, fully supported. It needs to be determined how small portions of the plantations would be "turned over" to smallholders, how the TA necessary for replanting and managing new varieties and production methods would be transferred, how CdZ should be financed to provide the smallholders with needed inputs such as seedlings, fertilizer, crop protection chemicals, and so forth.

In situations of emerging democracies and free market systems, unique opportunities for cooperation between the private sector and donors may emerge, often with considerable mutually beneficial characteristics.

Private agribusinesses can be used to identify high-yield business and geographic opportunities, and can often be effective partners in developing these opportunities.

Name: **Grupo Madal, Sarl** — Moçambique

Background: GRUPO MADAL, SARL has its origins in Sociedade Agrícola do Madal, which was set up in 1903, with its head office in Quelimane, Zambezia Province. Societé du Madal SA is registered in Luxembourg. It is the major shareholder of GRUPO MADAL, holding 94% of the share capital.

Established
Activities: GRUPO MADAL is involved in a large number of activities, namely in the agriculture and industrial sectors as well in the area of services.

For 1995 the company expected a turnover of approximately US\$9 million, divided as follows: 51% from copra; 32% from the production of margarine and stock feeds; and the remaining 17% from timber, beef and various activities.

1 **Copra Production and Trading**

This is the main activity of MADAL, and it takes place in the Zambezia Province, where the company owns 14,380 hectares of coconut plantations with a total of 1,220,000 palm trees of both indigenous and improved (hybrid) varieties. The trading operations involve the purchase of copra from a number of private producers, mainly smallholders or outgrowers.

Total sales in 1995 were estimated to be around 17,000 tons of copra from its own production and trading operations. Most of the copra produced by MADAL is exported to Europe, whereas a small portion is consumed by the local processing industry.

Efforts are being made to enhance the productivity of the coconut plantations. This will involve improvement in the agronomic practices such as tilling, fertilizer application, and introduction of hybrids in most of the areas currently covered by indigenous varieties. In addition, there are plans to make wider use of the by-products, such as fibre and the shell itself and special attention is being given to the coconut oil. Feasibility studies are being considered for possible investment in the process of oil extraction.

2 **Cattle Ranching**

This activity takes place within the coconut plantations and also in the ranch area of Micaune. The total number of cattle is presently estimated at 10,000 head, including a herd of 900 water buffaloes. Beef is marketed locally, and a growing demand for live cattle is also expected.

3 **Farming**

Farming is now being developed in the 15,000 hectare Licauri Farm in Zambezia Province. The area is well endowed with soils and water. The main crops being grown are maize, rice, paprika, potatoes, and sugar beans. The possibility of growing other crops including export crops is being considered.

4 **Timber**

Indigenous hardwoods are logged in the interior and trucked to the Quelimane port for export in log form. The main species at present is Umbila, although markets are being sought for other varieties in order to improve the viability of timber operations.

5 **Margarine and Fats**

These are produced in two factories: in Maputo and Beira, respectively. The products are consumed locally by both retail consumers and the food industry. Although these are the only factories in Mozambique, there is an increasing competition from imported products. Sales are about 700 tons per year.

In 1996, both factories will be refurbished and modernized. While in Beira new equipment is to be installed, in Maputo both buildings and equipment will be rehabilitated and upgraded. The objective of this investment is to improve competitiveness through better quality, taste and appearance.

6 **Stock Feeds**

Production takes place in Maputo, and involves a range of feeds to poultry and pig production. Sales are estimated at 3,250 tons per year. The factory is now being upgraded with new equipment, to improve the quality and range of products. In 1996 MADAL will be offering both granular and conventional feeds of consistently high quality.

7 **Shipping Agency**

In a joint-venture with a partner, MADAL provides services in the ports of Quelimane, Beira, Nacala, Pebane and Pemba. In addition, the company carries out the off loading and warehousing of food aid cargoes at the port of Quelimane.

8 **Wildlife Conservation**

The company has been involved in this kind of activity because of the personal interest shown by the majority of its shareholders. MADAL is therefore contributing to the preservation of this important resource in the country. This is the reason why it is not considered a profitable activity, but a self sustained activity; that is, earnings accruing from it is used in further expansion of this area.

The company is developing a fully fenced game farm of 20,000 hectares on the Zambezi River flood plain, where there are large herds of buffaloes. MADAL plans include the re-introduction of species which have disappeared from the region. Income from Safari activities is used to finance its expansion.

MADAL has been involved in a series of negotiations with the National Directorate of Forestry and Wildlife, to assist the development of the Niassa game reserve and buffer zones.

Future

Developments: The overall strategy of MADAL is to diversify its activities by creating opportunities based on the development of the rich and varied natural resources and their further processing locally into value added products.

Priority will be given to activities generating revenue through exports and to those that create job opportunities.

GROUP MADAL's approach aims to:

- restore, modernize and increase the efficiency of activities in which it is presently, or was historically engaged;
- develop new opportunities that meet the above criteria.

Management is currently evaluating the following projects:

- 1 Recovery of the 700-hectare tea plantations as well as the factory destroyed in 1982. Tea bushes can be brought back into production within one year through pruning. However, a large investment will be needed to reinstate the factory.
- 2 Resumption of the prawn catching activity. The company has purchased two new meter prawn trawlers fully equipped with on-board freezing and processing facilities. These are expected to start fishing in April 1996, and will be operated in a joint-venture with a well-established company that has the appropriate technical and marketing experience.
- 3 Expansion of the timber operation in Zambezia. A sawmill will be installed in Quelimane capable of handling up to 8,000 m³ of logs per year, in the initial phase.
- 4 Expansion of the agricultural activity at Lacer in Zambezia and possibly other properties.

In addition, the company is currently focusing on mining prospect opportunities. Some of the initiatives are:

- 1 Develop a tantalum mine in Zambezia Province. The mine will be developed in a joint-venture with a group of partners who together have the required technical, marketing and financial resources. The mine is expected to start producing in 1997.
- 2 Prospecting of aquamarines in Tete Province. Prospecting has been completed and production should begin in 1996.
- 3 Geochemical reconnaissance of an area of 1,700Km² in Cabo Delgado Province was completed in June 1995. Final analyses, color spectrographs and interpretation are currently being worked out in Portugal and South Africa.
- 4 MADAL is also in the process of negotiating a number of other mining concessions and prospecting rights in various parts of the country, and has secured a gold prospecting licence over an area of 8,000 hectares in Niassa Province.

Human

Resources:

GRUPO MADAL employs a total of 3,700 people. The majority is based in Zambezia, and a large portion of this workforce is being employed in the coconut plantations.

Twenty-five (25) out of this total are expatriate managers; 500 permanent staff; and the remaining are considered casual labor.

The company is committed to develop its own human resources in parallel to the expansion of its activities.

The company has been awarding 15 scholarships to an equal number of students each year to study at the Eduardo Mondlane University. All students are originally from the Zambezia province.

Rural

Development: To participate in the development of rural areas and their communities is an integral part of MADAL's development strategy.

Planned initiatives will focus on job creation and the improvement of the living standards through the construction of education and health facilities. For MADAL employees, the program will also include the provision of job training, sport facilities and safety clothes. This program has already begun in some coconut plantations and is being run in close cooperation with the local authorities.

Administrative

Organization: The Board has ten members, five of whom perform executive functions and are based in Mozambique, while the other five are non-executive directors. Both the Executive Chairman and the Managing Director live in Maputo.

Company

Outlook: GRUPO MADAL has a long history as respected participant in the economic life of Mozambique. It has managed to survive, at great cost, the turbulent period that has ravaged the country. MADAL has undergone a major reorganization exercise over the past three years, which has enabled it to create a stronger basis from which it is now prepared to expand its activities.

In this context, MADAL's priority efforts are directed towards strengthening and improving the following areas:

- managerial capability;
- finances;
- equipment.

In addition, diversification into new areas of operation will be progressively developed in a controlled manner.

GRUPO MADAL is developing a well balanced and experienced management team and is recruiting more highly experienced staff in the accounting and financing control fields.

The financial restructuring and consolidation of MADAL has progressed well, allowing the company to look forward with confidence, in order to meet the needs of current and projected activities.

Therefore the company has:

- negotiated and rescheduled its accumulated debt (largely arising from operations during the war period) and re-established active relationships with several commercial banks;
- secured an important financing facility from the World Bank for the rehabilitation of the productive infrastructure and new activities;
- started discussions with some international financial institutions which could be interested in funding development projects now under way.

Name: **World Vision Mozambique (WVM)**

Sponsor: Private and government donors.

Project Value: US\$35 million in total, US\$16 million in kind; Agricultural Recovery Program (ARP), US\$5.5 million.

Start Date: N/A.

Completion Date: Ongoing.

Principal Objectives: Stimulate and support the transition from emergency relief to sustainable development by increasing production, reducing post-harvest losses, and enhancing producer collective marketing and bargaining. Help the five million people who have recently returned to their homelands and the one million who have yet to be resettled to establish themselves. The major focus is on production, technology enhancement and transfer.

Association Development: Some, as relates to growers' associations for collective marketing and bargaining. Particular interest in community development.

Financial Services: Minimal; they are developing a revolving credit fund for SME agribusinesses.

NTAE Development: Some recent interest in coconuts.

SME Development: Some very recent interest.

Discussion: Most of WVM's programs are focused on Tete, Nampula, Zambezia, Manica, and Sofala Provinces, with some of the ARP activity in Cabo Delgado Province. There are 12 expatriates and 85 nationals working on the ARP.

Findings from WVM Agricultural and Agribusiness Programs (ARP) are:

- The ARP has a small-scale farm family enhancement focus and features its own applied research and extension service and has six different components:
 - 1 Its resettlement component will distribute some 315,000 Ag-Paks of hand tools and grain seeds and 200,000 Veg-Paks of vegetable seeds to some 315,000 recently resettled farm families. These Paks will be exchanged for locally produced grain to reduce farm families' dependence on free distribution.
 - 2 The rehabilitation and sustainable development component will (with a high degree of farm family and GOM institution participation) select, improve, multiply, and distribute crop varieties with the potential for raising yields under low-input systems.

- 3 The Farm Family First component will use local Contract Farmers to informally demonstrate and disseminate sustainable farming systems based on modern, effective practices and improved inputs. It will also use these community leaders to promote diversification into proven cash crops and to increase participation by women and the local community in investigation, training, and extension activities.
- 4 The Animal Restocking component will use Provincial Departments of Agriculture (DPAs) to promote postwar restocking of livestock by distributing (in exchange for cash or an equivalent number of weaned calves) breeding stock for use in food production and animal traction.
- 5 Linkages between producers and markets will be developed by the Agricultural Marketing and Farmer Associations component. Grower associations will be formed (and differentiated from the previous government-controlled cooperatives), training will be provided in agricultural marketing, a revolving credit fund will be established for SME agribusinesses, information will be disseminated on marketing opportunities, information will be provided on transport availabilities between producers and markets, support will be given to increase the bargaining power of small-scale producers, and the improved availability of basic inputs at real costs will be promoted.
- 6 In the Institutional Support and Infrastructure Rehabilitation component, facilities of the DPAs and the National Institute for Agronomic Investigation (INSA) Field Station at Sussundenga will be rehabilitated and returned to operation to support applied research and extension in their respective areas;
 - WVM would like to turn their established applied research and extension services over to the GOM or the private sector;
 - WVM has some interest in coconut development, but more in varietal improvement.

WVM's M&E systems are based on a review of annual accomplishments versus established objectives.

Impact: WVM's ARP efforts appear to be well integrated and coordinated, and have made a substantial contribution to agricultural development, especially in Tete, Nampula, and Zambezia Provinces. Farmers are using improved varieties and there is a developing infrastructure of applied agricultural research and extension in place. Hundreds have been trained and gained experience in applied research and extension techniques and understand that extension involves two-way communication between research scientists and growers.

Conclusions: WVM's ARP program has succeeded in stimulating improved production and is beginning to develop community-level self-direction.

WVM's programs in rural SME development, agricultural marketing, and credit are in their early stages and may need considerably outside assistance to establish, given WVM's traditional focus on technical and production agriculture.

The apparent success of a donor agency focused on production agriculture does not mean that it will be able to successfully evolve into post-harvest development, especially without considerable outside assistance. WVM needs to understand better the demand side of the

Mozambican agribusiness economy if it is to develop highly relevant programs in post-harvest agriculture.

WVM represents a high-potential partner for USAID to cooperate within post-harvest development. WVM has a good network in agriculture-based provinces, a detailed understanding of production agriculture, credible beneficiaries and the GOM. USAID has significant experience in agribusiness development and WVM is interested in moving forward in food chain enhancement.

Donor programs based on a well-established capability have good prospects for success. Conversely, new development areas should be approached with considerable care and in cooperation with donors who have experience and competence in that area.

Appendix E

Ghana

Name:	Empretec Ghana Foundation
Sponsors:	UNDP, ODA of UK, World Bank, European Union, Barclays Bank of Ghana Limited, National Board for Small-scale Industries (NBSSI).
Start Date:	1990.
Completion Date:	Ongoing.
Objectives:	The primary objective of the project is to act as a catalyst for private sector participation in national development by helping and supporting small and medium-scale entrepreneurs operating in that sector and thereby encouraging private enterprise and job creation.
Discussion:	<p>EMPRETEC started operations in 1990 as a project. At the end of the project's life in December 1994, Empretec became a foundation sponsored by UNDP, ODA of UK, World Bank, European Union, Barclays Bank — Ghana, and the Government of Ghana through NBSSI. Its mission is to develop growth oriented, internationally competitive and successful Ghanaian entrepreneurs through training and business consultancy, and facilitating business linkages and access to technology and finance.</p> <p>EMPRETEC Ghana Foundation has a multi-disciplinary management team made of professionals who have knowledge, experience and interest in the development of the private sector in Ghana, particularly the small and medium enterprises (SME) sector. Empretec also maintains and regularly updates a register of over seventy (70) consultants and consulting firms to provide it with the timely and efficient back stopping needed to serve its large client base. The Foundation's experienced professional staff work with these consultants to provide the entrepreneur with quality service.</p> <p>The core activities of EMPRETEC are training, consultancy, extension, networking, development of business linkages and financial services such as credit sourcing, facilitation and syndication.</p>
Performance and Impact:	<p>Since its inception in 1990 EMPRETEC has trained more than two thousand (2000) individuals representing more than Two Hundred (200) Companies under the following programs:</p> <ul style="list-style-type: none">• Twelve (12) Entrepreneurship Training Programs;• Two (2) Entrepreneurship Awareness Workshops;• Three (3) Workshops on Foreign Linkages;• One (1) Workshop on Exporting to USA;• Thirty-eight (38) Management Seminars;• Six (6) Business Planing Seminars. <p>Most of these training courses are subsidized by the funding agencies. The European Union has provided Empretec with support to operate a Business Plan Development Fund (BPDF). Under this fund a number of small and medium enterprises have been helped prepare business</p>

plans to source funding after paying for ten (10) per cent of the cost of preparation of the plan.

It has also provided a number of small and medium Ghanaian Enterprise with Technical Assistance Experts from the British Executive Services Overseas.

The Foundation has made management accounting services available to a number of small and medium enterprises who otherwise could not afford to engage accountants. This was made possible by grouping about ten (10) SMEs as one entity for a registered accounting firm to work on.

Name: **Twifo Oil Palm Plantation (TOPP)**

Sponsor: Share holding of the following institutions:
 Government of Ghana (with 80% shares), Mobil Oil Ghana Limited, National Investment Bank, Paterson Zochonis, State Insurance Corporation, Paterson Simons

Start Date: TOPP was incorporated in 1977; planting of trees started in 1979.

Completion: On going. The plantation, which was started by the Central Regional Development Corporation (CEDREDC), is now slated for divestiture.

Management: The Company was initially managed by Commonwealth Development Corporation (CDC) and later by Paterson Flaming of the UK. For the last three years, TOPP has been under a Ghanaian Management team.

Plantation
 Details: The plantations are in three parts, Namely:

- 1 **The Nucleus Plantation**
 This covers an area of 4,300 hectares planted and managed by Twifo Oil Palm Plantation.
- 2 **Smallholder Plantations**
 This covers an area of 1,200 hectares of land originally part of the land acquired by TOPP. Under the Smallholder Project (financed by a loan from the EEC and a counterpart fund from the Government of Ghana), three hundred (300) local farmers were allocated a plot of 4 hectares each out of the land which was unutilized by TOPP at the time. TOPP helped to clear the land, provided inputs and extension and farm management services to the farmers, and buys the fruits at harvest time. Part of the proceeds from the sale is used to defray the debts incurred by the small grower. By this arrangement the farmers got access to land, credit in kind, and modern technology while TOPP was supplied with ample fruit to feed its mill.
- 3 **Outgrowers**
 Under this system the arrangement is just like the smallholder system except that the land belongs to the farmer. The total area under outgrower cultivation is approximately 7,500 hectares.

Discussion: TOPP has a modern mill financed with loans from CDC and the Netherlands Development Agency. The mill has a capacity of 20 tons per hour. The management plans to increase the mill capacity to 30 tons per hour.

The company sells the bulk of the oil produced to Lever Brothers Ghana Limited and its sister company Lever Brothers Nigeria Limited for the manufacture of soap and edible oil. A limited quantity of oil is sold to local agents.

Name: **Ukays Farms Limited**

Start Date: 1987

Sponsor: The UKAYS FARMS LIMITED is a family owned fruit producing and export company started in 1987. The Company owns farming land at two sites with a total area of 188 hectares out of which about seventy (70) hectares have been cultivated. This is made up of 50 hectares of mangoes and 20 hectares of pineapples.

Issues: The main problems for the Ukay Farms are:

1 **Low Yields**

To solve this problem it has asked for, and received, an International Executive Service Corps (IESC) expert for 6 weeks in 1995. The expert is expected to come back in August 1997.

2 **Marketing**

Initial attempts to export by sea freight led to some spoilage. During that period air transport was dominated by the lager exporters. Now with the establishment of the air cargo terminal at Kotoka International Airport, airfreight is much better organized.

Ukays is a member of both The Horticultural Association of Ghana (HAG) and Sea Freight Pineapple Exporters of Ghana (SPEG).

Name: **Venture Fund Management Company (VFMC)**

Sponsors and Shareholders of Venture

Capital Management

Company: Commonwealth Development Corporation (CDC), Barclays Bank, CAL Merchant Bank, Ecobank, Social Security and National Insurance Trust (SSNIT), DEG of Germany, PROPACO of France

Financed: Apart from the \$5M Ghana Venture Capital Fund (GVCF) a new fund, The Enterprise Fund (with a capital of 3.5 million ECU = US\$4 million) was set up with the support of the European Union in 1995. Like the GVCF, this Fund is managed by VCMCo to provide commercial long-term finance to growth oriented, small and medium enterprises in Ghana.

The Enterprise Fund provides medium-term financial support (3-5 years) by either making loans directly to businesses or by making funds available to participating financial institutions for on-lending at their usual terms to small enterprises. The following factors are taken into account for an enterprise to qualify for lending:

Net assets before financing of between ECU 15.00 and EU 120,000 (i.e., C26 million and C200 million) Gross annual sales of between C100 million and C750 million.

Number of employees between 10 and 100.

Limited Liability Companies with audited accounts.

Have a constituted board of directors and management team with an established track record.

Have a good reputation with customers and suppliers.

Have sound financial and business prospects.

Are not in default with other lenders.

Add value through manufacturing, processing service or exporting activities.

The first disbursement from Enterprise Fund was made a few months ago and five (5) more enterprises are expected to benefit from the fund before the end of the year. Some of the enterprises under consideration are:

- Elsa Foods
- Nkulenu Industries — A food processing firm
- Taks Farms

Appendix F

Malawi

- Name: **Investment and Development Bank of Malawi Limited (INDEBANK)**
- Sponsor: Internationally backed development finance institution with share holding of the following institutions:
- Admarc Investment Holding Company, Blantyre, Malawi, Commonwealth Development Corporation (CDC), London, UK, Netherlands Development Finance Company (FOM), The Hague, Holland, DEG — Germany Investment and Development Company, KOLN, Germany, International Finance Corporation (IFC), Washington DC, USA, European Investment Bank (EIB), Luxemburg — Kirchberg, Luxemburg.
- Start Date: 1972.
- Principal Objectives: To further the economic and social development in Malawi by providing loan and equity finance for viable projects for both expanding and existing enterprises and newly constituted organizations.
- Financial Services: Main focus of activities.
- NTAE Development: Area of focus although not limited.
- SME Development: Finances big projects of minimum K500,000 to K11.5 million.
- Discussion: INDEBANK promotes and supports joint ventures which combine domestic sponsorship with the technology and managerial experience from outside Malawi. The bank reviews its equity investments from time to time and where possible, makes sales available to the Malawi public and thereby releases funds from mature investments, in order to continue financing new projects or expansion of existing projects.
- The bank considers investment, preferably in limited companies only and not associations, because the bank feels that in an association there is no particular person who may be held responsible. Emphasis is placed on the establishment, diversification and expansion of projects in the following sectors: agriculture; agribusiness; industry extraction and commerce; housing; hotels and tourism; industrial estates and mining. Valuable projects are seen by the Bank as those which increase employment, improve labor and management skills, earn foreign exchange or save foreign exchange outlays, increase production of needed agricultural, industrial or other essential goods and services. INDEBANK refurbishes existing projects on a selective basis and seeks local participation of the ventures it supports.
- It also seeks a reasonable sectoral diversification of its investment portfolio. The growth of productive enterprises and their profitability is an essential parameter for selecting the projects to be supported, apart from being in conformity with the Malawi Government policies.

INDEBANK normally participates only up to 50% of long and medium-term capital required by a new expansion project. Expansion projects may get up to 60% of required additional finances. The sponsor's own contribution must be at least 25% irrespective of any other additional funding from other sources and institutions. For projects requiring larger amounts of finance, the bank provides expertise as a project and financial advisor and syndicates the total financial requirements of the project. The bank participates through equity or loan not exceeding 35% of the total equity, and will insist on having Board representation on all companies in which it has equity investments. This may also apply to loan participation in cases where the loan participation is considered substantial. The bank does not take responsibility for management of projects.

Principal

Objectives: To develop and promote exports of products originated by or made in Malawi. The council targets developing markets for such products among other responsibilities.

The loan repayment is offered on a flexible basis depending on the nature of the project. Charges for its appraisal or investigation are normally 1.0% of the proposed investment by INDEBANK. Undrawn committed funds are charged a fee on the undrawn balances.

Impact: The bank impact has not met expectations, there are now more funds than projects.

Constraints: Major constraints from the bank's view include lack of project ideas by the indigenous businessmen and lack of technically experienced and qualified partners.

Conclusion: The bank (INDEBANK), as an institution, provides the possibility and structure for elevating the social economic and financial status of Malawi entities. For the INDEBANK to be successful, it requires supporting institutions to disseminate information to Malawi firms, and would be a partner of INDEBANK on business creativity as well as technology development and transfer.

Issues: There is a need to focus on development of multi-disciplinary consultancy firms and how they can best sustainably support the would-be partners of INDEBANK and any other institutions. Focus also on how associations can benefit from a development bank.

Name: **Investment and Development Fund (INDEFUND)**

Sponsor: INDEBANK, FMO (The Netherlands Finance Company for Developing Countries) and recently joined by MDC (Malawi Development Corporation).

Start Date: 1981, NTAE program 1995 (June).

Completion

Date: Overall multi-sectoral finance of INDEFUND facilities is going, while specific NTAE export support financing was phased out abruptly in April 1996.

Project Value: K5 Million.

Principal

Objective: To help increase the productive potential of the country by providing finance and advisory service for the set up, expansion and modernization of enterprises owned and controlled by indigenous Malawians.

Discussion: INDEFUND is a development finance institution which provides financial assistance to commercially viable enterprises by way of medium- and long-term loans for capital investment including working capital. The Fund also provides equity capital, leasing or hire purchase facilities and financial guarantees. The amount of facility for any enterprise is between K30,000 and K2.5 million projects from many sectors and specific attention on aspects of backward and forward linkages to the financed project. The sectors include: Agriculture; Agribusiness and Fisheries; Manufacturing; Textile Services; Construction and Mining; Trading; Hotels and Tourism; and Transport. Preference is given to projects that promote skills, export earning, employment, import substitution and utilization of locally available raw materials.

The interest rate charged is in line with ruling market interest rates, currently between 46% and 52%. The repayment period is between 2 and 12 years with a grace period depending on the specifics of the project. INDEFUND looks for the best reasonable available security such as bills of sale over plant and equipment, charge-over business assets in the case of Limited Liability Companies and sureties or guarantees from third parties. The applicant's contribution is not less than 20% and a 2.5% of the loan approved is paid as an investigation fee before disbursements begin.

INDEFUND's finance facility appears very relevant to NTAE. The occasional EDF's program that Reserve Bank introduced in 1995 seems to be a good model worth maintaining. The details of the Export Development Finance Scheme (EDFS) for institutions specializing in small-scale industries, were as follows:

The Reserve Bank of Malawi provided the finance as well as an export credit guarantee. The object of the scheme was to promote the growth and diversification of the export sector through provision of an export financing (pre and post shipment) scheme in order to develop the export potential, particularly of small- and medium-scale enterprises. The scheme was intended to supplement resources of financial institutions available for lending to qualifying exporters. The export guarantee scheme was intended to reduce risk for financial institutions and thereby facilitate the access of SMEs to export financing. The facility was assisting new as well as established export oriented enterprises.

The Export Development Finance Scheme (EDF) covered exporters' requirements such as purchase of produce from the farmers, or in some cases, from the Agricultural Development and Marketing Corporation (ADMARC), including visits to the areas where produce may be found; transportation of the produce to a warehouse or point of despatch; warehousing services at various points; and grading, cleaning, fumigation or further processing of the produce to meet importers' standards. The scheme was operated by institutions such as INDEFUND and the Small Enterprise Development Organization of Malawi (SEDOM). The allocation of funds was lent to the sub-sector for on-lending to exporters. The Participating Financial Institutions (PFIs) considered the proposals on the basis of integrity and capability of exporters as well as the viability and feasibility of the proposals in the absence of any firm export contract.

The PFIs could request guarantee coverage under the Export Credit Guarantee for any or all eligible export credits. Under the scheme, 80% of the genuine risks (risk not caused by the exporters' actions) including risk arising from cancellation of the letter of credit or contract by buyer/importer, were indemnified. Payment of LC was to be done through INDEFUND, who in turn paid the applicant less than the applicant owed INDEFUND. The repayment rate was 100% and to date INDEFUND repaid all the money lent to qualified applicants to the Reserve Bank of Malawi. Unfortunately, the scheme was abruptly phased out.

Impact: The scheme had a good effect while the INDEFUND general facility scheme does not seem to have had a very good impact. INDEFUND feels there are very few successful SMEs with good business ideas, and that possibly the fund is still not very well known.

Constraints:

- A The Export Development Finance Scheme (EDFS): Less than 10 successful applicants were financed. This is far lower than INDEFUND would have liked to accommodate under the scheme. The major constraint is that the scheme was abruptly phased out, it has not been operational since April 1996.
- B General financing facilities for INDEFUND: Improper transmission of business ideas from the applicant to INDEFUND officers, lack of public awareness of INDEFUND's activities, not enough business throughout the country (currently there is not enough business in the Central and Northern regions of Malawi to justify an office in the North), and the support of collaborating institutions is not very good.

Conclusions: INDEFUND, despite the above constraints, stands as a model organization of the existing institutions in Malawi that may be developed to successfully promote ISMEs, including those which are relevant to NTAE. The causes of lack of business ideas on the part of indigenous enterprises and the prevailing dissemination practices of all relevant institutions, e.g., MEPC, MIPA etc. needs to be analyzed.

There is a lack of good business ideas from enterprises with good collateral. Many good business ideas come from people without collateral who may not be able to afford to pay contributions.

Issues: Focus on developing awareness strategies that target sections of beneficiaries, e.g., the building industry, floriculture, agribusiness etc., separately, rather than sending general messages. Design strategies that will develop better collaboration between relevant financing and SME development institutions. Strategies to bring back a facility such as that of EDFs need to be focused. Development strategies for local multi-disciplinary consultants to link SMEs and financing institutions would increase the level of participation which will, in turn, create more serious minded projects and extend the NTAE base as well as employment of Malawians.

Name: **Malawi Association of Spices and Herbs (MASH)**

Sponsor: SHARED (WLI).

Date Started: 1992.

Project Value: Initial institutional support grant of US\$100,000.

NTAE

Development: Main Focus.

ISME

Development: Very relevant.

Principal

Objectives: To promote the production and marketing of quality spices and thereby promote the standard of living of smallholder spice farmers.

Discussion: The Malawi Association of Spices and Herbs (MASH) has 4,000 members, mostly emanating from Southern Region of Malawi with the intention of expanding to the Central and Northern Regions of Malawi. The Association produces chillies, and solicits markets abroad such as Australia, Europe and Japan. MASH has a Board of Trustees consisting of the Executive Chairmen of the district committees, who actually own the Association.

MASH transports spices through Manica and Frachet (FWO) freight companies at a cost of US\$3,600 per 7 ton 20 foot containers for all European markets. MASH needs to expand its markets abroad, e.g., the USA.

Impact: To date the impact has been limited due to the Association lacking national character (currently only includes the Southern Region).

Constraints: Lack of sufficient funds to develop the Association to all regions of Malawi. World market prices are continually going down. The organization lacks transportation sufficient to enable it to effectively carry out its duties. Under-staffing is also another major constraint for MASH. There are very high costs for transport to foreign markets the world markets appear to be over-supplied.

Issues: There is a need to develop strategies for introducing special diversification programs for organizations such as MASH to benefit. MASH could improve its financial position by growing sesame seed, coriander and paprika in addition to chillies.

Name: **Malawi Development Corporation (MDC)**

Sponsor: Malawi Government with 100% share holding.

Start Date: 1964 (since January 1996) started small-scale revolving financing of manufacturing industries with at least 25% of value added).

Project Value: 5 million Malawi Kwacha.

Principal Objectives: To develop all sectors of the national economy.

Discussion: MDC was established by an act of Parliament in 1964 with the purpose of developing the agricultural, commercial, and industrial sectors and the mineral resources of Malawi, while employing sound business principles. Promotion of industrial and commercial development is to be achieved through investment in or partnership with domestic or foreign private investors.

MDC's corporate objectives include:

- To survey, identify, appraise and promote economically and financially viable projects for the development of agriculture, commerce and industry.
- To participate directly and to attract local and foreign investment partners to participate in viable projects.
- To develop and employ appropriate managerial and technical expertise for conducting these projects.
- MDC prefers projects where technical partners invest or provide loan, financed with security provided the the local partners, to be paid back after a period of 5 years through share premiums.
- There are no rigid rules for selection of these projects, but MDC look for reasonable returns, at least a financial internal rate of return of not less than 20%. The main focus in the past was more on equity holding, while MDC now focuses more on development financing, and searching for business requiring financing. Such projects have mainly been in the floriculture, horticulture and dairy farming sectors that processing and manufacturing component. Since January, the corporation has operated a 5 million Kwacha revolving fund on flexible security bases that may include cars. The bill of sale is at a subsidized interest rate of 20%.

Impact: The project seems to have a positive impact on the new program for SMEs revolving fund. It remains to be seen what the loan repayment rate will be, since the program is less than a year old. The large-scale investment development, however, has less impact on the indigenous partners because as it has been accommodating only about five successful indigenous applications per year.

Constraints: The organization feels that normal domestic investment partners lack sufficient funding. To ease the strain, the organization finances projects up to 50% of the total estimated costs. There is a lack of understanding of the investment philosophy. The Government machinery, which is not commercially oriented, usually retards quick progress of organization's activities. Information from project proposals is not usually adequate to develop a good bankable proposal.

Low participation of local investment partners which have not exceeded five successful applications per annum. The shortage of staff for project appraisal, evaluation and monitoring poses another constraint for MDC.

Issues: In order to increase level of participants of indigenous large-scale investment partners, OSS activity should consider strategies that will ensure linkages between the small-scale financing (that has been newly established with MDC) and organizations with large-scale investment development. Government response needs to be seen as the hub of development organizations: quick response to issues is very vital. The Government needs to see parastatals as the long arm for fulfilling the Government's activities and development strategies. This may possibly be achieved through targeted Government versus parastatal training seminars aimed at ironing out problems.

Name: **Malawi Export Promotion Council (MEPC)**

Sponsor: Malawi Government supported by programs of European Union (EU), the German Government through GTZ and the International Trade Center UNCTAD/GATT.

Start Date: 1971.

Project Value: Currently promoting the two hundred million Kwacha Poverty Alleviation Program (PAP) administered by lending institutions and the Reserve Bank.

Issues: Focuses on strategies that will support MEPC's awareness campaign and, library improvement will be a focus. Board Members of related institutions will include each other for easy interaction and appreciation of programs, round table discussions, and any companies who have benefited from MEPC may be focused as a tool for increasing public awareness and impact of MEPC's activities.

Discussion: Malawi Export Promotion Council (MEPC) was established by an Act of Parliament, Export Promotion Council Act Number 32 (Chapter 39.03), as an export promotion organization. The Malawi Export Promotion Council operates under the following sections: export finance; procedures and training; projects; information and publicity services; promotion and extension projects; trade information and publicity services; computer and extension services; and export finance and procedures. MEPC provides information on export, including export procedures, educates on sources of finance, and trains exporters on both local and international markets through seminars and workshops.

The Council organizes three to four workshops per annum and participates in trade fairs by organizing buyer/seller meetings during the fair in order to promote business interaction. In 1994/95, the Council embarked on promotion activities designed to broaden the Malawi export base.

Participation included the Zimbabwe International Trade Fair; the Import Fair, Berlin; the 5th PTA Fair, Maputo; the 16th Salon International de L'alimentation (SIAL), Paris; South African International Trade Exhibition (SAITX); fact finding mission to the Malawi International Flower Exhibition. Through these activities, the Council promotes Malawi businesses by exposing them to foreign markets and financing sources.

Impact: Not at the level of expectation.

Constraints: Public awareness of MEPC's activities, limited budgetary constraints to fulfil important programs. Lack of information awareness of each other's activities amongst export promotion and finance development agencies.

Conclusion: MEPC activities are targeted at promoting Malawian export business. There is less impact of MEPC's activities on the public due to lack of proper knowledge of MEPC's work. The institution is, however, necessary for the expansion of Malawi's export base as it compliments all the other related institutions that exist in the form of secured debentures, and because interest rates vary with both the type and duration of the loan and level of interest rates on the Money Financial Market. The current rates vary between 46% and 52% per annum. The loan duration will normally not be shorter than 3 years but must not be longer than the economic life of the main assets.

Name: **Malawi Investment Promotion Agency (MIPA)** with specific emphasis on Agricultural Services Project (ASP).

Sponsor: World Bank through the Malawi Government.

Start Date: 1994.

Principal

Objectives: To promote local and external investments through linking entrepreneurs with sources of finance and business information.

Financial

Services: Serves as a link to different financiers.

NTAE

Development: Very relevant.

SME

Development: Focused area through not only limited to.

Discussion: The Malawi Investment Promotion Agency (MIPA) is a statutory body whose affairs are guided by the office of the President and Cabinet (OPC), in conjunction with the Treasury and the Ministry of Agricultural and Livestock Development. The Agency focuses on linking entrepreneurs with funding sources, business contacts (technology, database and business profiles), entrepreneur assistance in business plans and bankable business proposals. MIPA acts as a contact point for markets and financiers for SME's. MIPA advises the Government on the investment process of its activities. The project has original financial support from the World Bank but intends to later sustain itself indefinitely through cost recovery measures, such as the establishment of a business center with dial-on service and a business newsletter. The center will disseminate trade, marketing and technical information through workshops and seminars as well as over the Internet. Priority areas are identical to those of the National Agricultural Diversification Program which aims at diversifying the export base. The Agency does this through promotion of prioritized areas of floriculture, horticulture, agribusiness and aquaculture which are earmarked for immediate investment promotion. MIPA disseminates relevant export information to exporters and to the public through the MIPA Newsletter where, for example, the details of EPZs in Malawi are highlighted. Export Processing Zones have been established in Malawi. These are geographical areas zoned for industries which manufacture goods exclusively for the export market. In order to qualify for EPZ status, an industry has to produce a minimum of 80% for the export market. Applications will be approved depending on the labor intensiveness of the project and its potential to contribute to employment; the proposed level of technology; the level of local content in the products under manufacture; the export relevance of the project to NTAES; storage facilities for both the raw materials and export products; and documentary evidence of export markets for the export products.

Considering Malawi's disadvantaged position as a landlocked nation, EPZs are one instrument which will support the expanding export base and attract local and foreign investors to participate in export oriented projects, particularly NTAES. Advantages of EPZ in Malawi include not withholding tax on dividends, a corporate tax rate of 15%, no excise taxes on purchases of raw materials and packaging in Malawi, no duty on capital equipment and raw

materials, no value added taxes, no surtaxes, and allowance for an additional transport tax of 25% of international transport costs.

Constraints: On the part of the agency, constraints include delays to implement helpful plans due to financial difficulties and sometimes caused by communication difficulties between the donor and the Government's Treasury Department.

Achievements to date include the Agribusiness Entrepreneur FORU, conducted in all the three regions of Malawi, which was a useful unit for advising agribusiness entrepreneurs. In 1994, forty agribusiness executives were taken to Zimbabwe to share experiences and exchange business information with their international counterparts. The Agricultural Service Project (ASP) is also an achievement worth noting. The management team of ASP, generally feels that OSS activity is a duplication of what has been already investigated in Malawi, but despite this, recognizes its importance as a regional study.

Impact: Being a new organization the impact is still very less.

Conclusion: MIPA's activities appear to coincide partly with promotion activities of Malawi Export Promotion Council. MIPA's activities need more publicity to have a greater impact on NTAE oriented business entrepreneurs. Government delays of the important administrative process that relates to funding of MIPA's activities would consequently affect MIPA's performances. There is a need to study principal sources of attraction to both local and foreign investors in order to take advantage of the EPZ's establishment.

Issues: How to best coordinate the activities at Development Financing and Promoting Organizations in order to avoid duplication should be a focus. How Government links with these organizations could be effectively improved is another. Better strategies for increasing the economic impact of these organizations are needed. Strategies for the optimum utility of EPZs in terms of policy, incentives, information, dissemination and infra structural frame work should also be provided.

Appendix G

Kenya

East African Growers Limited

Mr Peeush Mahajan, General Manager

East African Growers Limited

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Telefax:(254-2) 334999

East African Growers Limited is among the leading horticultural exporting firms in Kenya. The main products exported are French Beans and Snow Peas. East African Growers have been in business since 1967.

- Works with 2 categories of supplies; outgrowers (0.25 acres on average) who account for 95% of the exports and contracted medium-scale farmers (15-30 acres on average) accounting for the remaining 5% of the exports.
- Collects from suppliers using their own trucks or use middlemen who collect from designated areas.
- Provides fertilizer, seeds and chemicals to outgrowers on a not-for-profit cash basis.
- Grades and packages for export.
- Exports mainly to France, Germany and UK
- Due to high customer demand, which the outgrowers cannot meet, East African Growers is considering the possibility of slowly moving away from sourcing from outgrowers to also sourcing from medium-size contract farmers.
- Pays market rates to outgrowers for their produce. East African Growers experience in paying seasonally agreed prices to contract farmers is that it encourages poaching by other exporters when prices are high. Contract farmers are paid on the basis of market prices subject to an agreed minimum price.
- Has received only minimal assistance from FPEAK mostly customer contacts. No longer deals with KESSFA because of KESSFA's seasonally agreed prices with its members.
- Experience is that any organization set-up to enhance the role of small-scale enterprises in NTAE should concentrate on (i) training entrepreneurs on how to meet market demand specifications, and (ii) marketing outgrowers' products.
- On average has 80 technical employees whose main job is to source and process for export.

Horticultural Crops Development Authority

Mr Martin Mulandi

Horticultural Crops Development Authority

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The Horticultural Crops Development Authority (HCDA) is a parastatal established under the Agriculture Act Cap. 318 by promulgation of Legal Notice No. 229 of 1967. The Legal Notice was amended after reorganization in 1986 (LN 237) with the aim of revitalizing the horticultural industry. This extensive order provides the Authority with tools to facilitate faster development and promotion of horticulture. HCDA is run by a Board of Directors drawn from both private and public sectors and derives revenue from excess charged on produce.

Horticultural Crops Development Authority

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|----------------------|---|
| 1 Basic Objectives | <ul style="list-style-type: none">• Dissemination of information and export statistics to investors and exporters for planting/planning purposes.• Organizing groups of small-scale growers to produce and market export crops.• Advising growers, exporters and processors to plan production according to market demand.• Counseling growers on the use of certified planting materials and helping them to identify both local and export market outlets for their produce.• Training farmers on the proper use of inputs (particularly pesticides) to adhere to the Maximum Residue Levels (MRLs).• Advising producers and exporters on appropriate post-harvest handling techniques.• Penetration into new markets and marketing of new crops. |
| 2 Years in Existence | <ul style="list-style-type: none">• Started in 1968. |
| 3 Financing | <ul style="list-style-type: none">• HCDA has three basic sources of finance:<ul style="list-style-type: none">i Excess charged on produce (KSh 0.20 per Kilo).ii Revenue generated through sale of farm inputs and sale of produce to exporters.iii Registration fee -KSh 5,000 (US\$ 91) per 3 years per exporter. |
| 4 Lessons Learned | <ul style="list-style-type: none">• Seed quality, timely transport and packaging are very important in securing good prices for horticultural products.• Joint-ventures between local producer and major international buyers are very important to progress on quality and packaging to suit market demands.• Training small-scale producers in the horticultural industry is an important aspect to ensure quality and timely products. |
| 5 Challenges faced | <ul style="list-style-type: none">• High flight charges and limited space in aircraft hinders timely delivery of products to destination countries.• Poor and high cost of packaging and high production costs arising from high costs of seeds and chemicals, makes Kenyan products very expensive.• Lack of cold storage facilities in some high production zones.• Poor state of infrastructure: roads; electricity; and telephone.• Lack of credit for small-scale producers.• HCDA salary scale is too low and cannot retain highly qualified personnel. |

Horticultural Crops Development Authority

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|---|---|
| 6 New Mechanism to Increase Project Effectiveness | <ul style="list-style-type: none">• Provision of high quality seeds.• Trying to put up cold facilities in some high production zones in association with Japan External Trade Organization (JETRO).• HCDA is in negotiations with the government for the provision and repairs of infrastructures in NTAE production areas.• Production crop catalogue to be used for market promotions. |
| 7 Major Strengths | <ul style="list-style-type: none">• In charge of licensing of horticultural exports, HCDA is strategically placed to bring together the major players in the horticultural industry for trade fairs, seminars, collaboration and policy formulation within the industry.• Being a parastatal, HCDA has the advantage of having the government mandate and support from the horticultural industry. |
| 8 Major Weaknesses | <ul style="list-style-type: none">• HCDA is heavily undercapitalized: it does not have enough extension workers and means of transport. |

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KESSFA was born as a result of a series of seminars on horticultural production and marketing in 1991/92. The seminars were attended by small-scale farmers who also deliberated on the problems they faced with regard to the horticultural and food sub-sectors and recommended various solutions. It was observed during these seminars that the small-scale farmers have unique crop production and marketing problems that result in impoverishment of the rural communities. The committee established to look into the problems of the small-scale farmer resolved that a farmers' association be set-up that would specifically be directed towards promotion of the small-scale farmer to better his production and marketing of horticultural food crops. This led to the birth of KESSFA which was mandated to start operations in certain pilot districts in Eastern and Central provinces.

Country:	Kenya	Start Date:	May 1993
Title:	Kenya Small-scale Farmers Association (KESSFA)	Completion Date:	Ongoing
Sponsor:	Hanns Seidel Foundation (Germany)	Annual Budget:	KSh11 million (US\$200,000)

Output	KESSFA
1 Relevant Objectives	<ul style="list-style-type: none"> • Encourage and organize farmers into economically viable Self-Help Groups (SHGs) and companies of not more than 40 members catering to the needs of the youth, women and small-scale farmers. • Organize farming services for members by pooling resources, in the most efficient methods possible. • Train farmers' groups in modern and sustainable farming methods. • Identification and facilitation of produce marketing at prices better than those offered by agents.
2 How Innovative	<ul style="list-style-type: none"> • Getting horticultural farmers together into viable SHGs and; also addressing small farmer NTAE marketing issues. • KESSFA is attempting to give small-scale farmers more leverage in dealing with exporters by acting as the principal and negotiating for the SHGs with exporters. • Exporters advance seeds to KESSFA, which advances them to farmers (cost is deducted after farmers' produce is sold). • Letting the farmers organize and register themselves with the Ministry of Culture and Social Services thereby giving the farmers some autonomy as to whom to associate with and allowing them to own the group.
3 Performance Indicators	<ul style="list-style-type: none"> • Yields for farmers who have received training. • Adoption of new varieties of seeds. • Creation of awareness on marketing trends especially on the planting seasons. • Prices received by members (compared to prices received from brokers). • KESSFA membership. • Move towards self-sufficiency.

Output	KESSFA
4 Success of Relevant Interventions	<ul style="list-style-type: none"> • KESSFA has on average been able to negotiate up to 25% higher prices for their members than prices offered by agents. • Members' proceeds have on average been paid eight days after the collection of products from farmers. • KESSFA has attracted membership of 3,000 farmers distributed in the Central and Eastern provinces. About 1,000 members are normally active at any one time and are grouped into 53 SHGs. In addition, there are 2,000 applications from new members. • The organization is 40% self-sufficient with a plan to 100% self-sufficient by 1998.
5 New Opportunities	<ul style="list-style-type: none"> • Currently involved in avocados, fresh beans, passion fruit, mangoes and snow peas. Would like to diversify more into fruits; also considering cold stores to enable farmers to contract with pre-pack exporters.
6 Lessons Learned	<ul style="list-style-type: none"> • The sizes of SHGs should be small (20 to 40 members) and should share something in common e.g., the same locality. This will ensure fairly common problems and uniform productivity. • It is important to have legally binding contracts with farmers to avoid cases of produce poaching by other agents. • Advancement of credit to farmers should be done very carefully preferably in terms of farm inputs.
7 Major challenges faced	<ul style="list-style-type: none"> • Produce poaching from farmers by exporters that are willing to pay cash on the spot. • Lack of sufficient transport. • KESSFA is faced with the problem of farmers producing more than the amount KESSFA negotiated with exporters. • Since KESSFA's funds are directed towards certain agreed training activities, additional funds for training of farmers, technical staff and Training of Trainers (ToTs) would be needed. • Would like to pay directly into farmers' bank accounts which would be more reliable than the current arrangement where payment is made through the leaders of the various groups. • Would like to rely fully on their own vehicles for transport; currently, some transportation is done through agents.
8 Relevant Implications for USAID Project (Design and Implementation)	<ul style="list-style-type: none"> • Unless there is somebody to negotiate with major exporters for a fair price, small-scale producers of NTAE stand to be exploited by major exporters.
9 New Mechanism to Increase Project Effectiveness	<ul style="list-style-type: none"> • Negotiate longer contracts with exporters instead of the current ones which are based on crop seasons. • Initiate a revolving fund to benefit members. • Mobilize the field staff to be able to cope with the added responsibilities especially training and supervision. It would therefore be necessary to facilitate the movement of field coordinators through inexpensive transport such as motor bikes.

Kenya Management Assistance Program (K-MAP)

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K-MAP is the creation of Kenya’s own business community aimed at improving the managerial capacity of small businesses through counseling and workshop training. The program was established in 1986 as a non-profit making body of large and medium-sized well-managed companies including multi-nationals such as Phillips Electronics, Shell/BP, American Life Insurance Company, Colgate Palmolive, General Motors Kenya, Coopers and Lybrand, Sterling Health, Deloitte and Touche, Price Waterhouse, Barclays Bank, Ciba Geigy, Citibank, Standard Chartered Bank, Unilever and Toyota which had resolved to:

- i Contribute cash to start a skeleton secretariat to organize hands-on management and technical assistance for small-scale businesses, as well as provide export guidance to those planning to go into business;
- ii Release some of their top and middle management executives at the rate of one executive for one day per month, to advise and counsel K-MAP registered clients on specifically identified management problems on a one-on-one basis; and
- iii Appoint one of the company executives to be the liaison manager to co-ordinate counselors from the company and to minimize any conflict between K-MAP and member interests.

Country: Kenya	Start Date: 1986
Title: Kenya Management Assistance Program (K-MAP)	Completion Date: Ongoing
Sponsor: USAID, ODA, Netherlands	Project Value: Annual budget of KSh20 million (US\$363,636) inclusive of the counseling hours provided by top management executives of the founder companies.

Output	K-MAP
1 Relevant Objectives	<ul style="list-style-type: none"> • Increase private, formal sector growth by providing one-to-one assistance to SMEs by executives of the larger Kenyan companies that founded K-MAP. • Provide workshops and training to SMEs to enhance their rate of development. • Provide easy to read management booklets and magazines to develop SME managers. • Reduce the SME mortality rate through the provision of management and technical assistance; establish linkages between small and large businesses. • Increase the participation of women in Kenyan business. • Carry out research on various issues affecting SME as well as on how various sectors can be organized to boost production.

Output	K-MAP
2 How Innovative	<ul style="list-style-type: none"> • Providing demand-driven training courses after training needs assessment surveys for specific sector/ location. • Funding of K-MAP is by local or multinational private enterprises. • Program for reduced (150% to 50%) loan collateral requirement by 1+ year clients; project gets small commission. • Organizes forum with the government and large companies to discuss legal, administrative and technical constraints faced by SMEs with an objective to creating an enabling environment for SMEs. • Training programs are conducted in the language that suits the target group.
3 Performance Indicators	<ul style="list-style-type: none"> • Loan repayment rate under the scheme. • Sales. • Employment generation. • Business survival rates. • Build-up of asset base. • Progress towards self-sufficiency. • Attitude of clients, sponsors, counselors and government towards K-MAP. • Growth rate of registered client firms.
4 Success of Relevant Interventions	<ul style="list-style-type: none"> • Signed a memorandum of understanding with Barclays Bank of Kenya, by which the Bank agreed to extend working capital credit ranging from US\$2,200 to US\$80,000 to K-MAP requiring only 50% demonstrated collateral. • The loan repayment rate under the scheme is 100%. • Clientele of registered firms has reached 1000 firms, the annual target is to register at least 200 firms every year. • Assisted business have registered 292% growth in sales turnover, 106% in employment and 189% growth in asset base. • The program has conducted training workshops which have benefited some 4,000 small business operators as well as provided pre-business counseling to over 5000 potential entrepreneurs. • Approximately 50% of registered clients are women. • Survival rate of assisted firms within the first two years of operation is 94%, compared to the national average of less than 10%. • Has published 13 easy to read booklets for SMEs managers. • 80% self-sufficient and targeted to be 100% self-sufficient by 1999. • There are 200 large and medium companies that contribute over 350 counselors who have so far put in over 16,000 hours in counseling time. • Instrumental in the establishment of the Kenya Sub-contracting and Partnership Exchange (KSPX) of which K-MAP was local counterpart to UNIDO and UNDP. To date the Exchange has identified 35 sub-contracting opportunities worth some US\$932,430. Seven of these, worth US\$303,300 have been exploited. The exchange has developed profiles of 291 companies in its data bank mainly in the metals, electronics, leather and plastics sub-sectors. • K-MAP played the lead role in mobilizing Banks, Financial Institutions and NGO's towards establishment of the Small Enterprise Credit Association (SECA) in 1992. The association is developing new approaches for extending credit to SMEs.

Output	K-MAP
5 New Opportunities	<ul style="list-style-type: none"> • More emphasis on start-up programs, particularly those aimed at female participants. • Improve research on sectors'/groups' specific training needs • Provide counseling on exporting procedures — provide leads to export destination countries; and consumer demand specifications. • Continue to play a leading role on policy reform of Kenyan Government.
6 Lessons Learned	<ul style="list-style-type: none"> • The large/medium-scale companies are willing to support SMEs with complete disregard for eventual competition. The K-MAP concept has been viewed by both as an opportunity to foster complementary support, co-participation in economic development and most importantly, to increase trade for both. • The concept of subcontracting being new in African industry will require extra time coupled with an extensive field program to educate and sensitize potential partners on the objectives, advantages and techniques of subcontracting. Most opportunities for subcontracting have failed due to scepticism, improper pricing, poor quality etc. Until these concerns are addressed, successful subcontracting will continue to be elusive. • One-to-one counseling in combination with interactive workshops have proved most effective in building counselor-client confidence which ultimately leads to better business performance. • As a result of K-MAP counseling, mutually beneficial business relationships have developed between large companies providing counselors and the small firm receiving counseling, particularly, in service and distribution fields. • Sectoral workshops are difficult to organize and staff but are of great benefit when well done. • Client involvement in pre-screening activity and any feasibility studies is essential for client "ownership". • There is a general need for training but businessmen and women need to be shown the kind of training relevant to their business.
7 New Mechanism to Increase Project Effectiveness	<ul style="list-style-type: none"> • Intensive business training program, for example, in 1996 K-MAP planned 42 training sessions throughout the country. • Internal research capability for answering members' questions and doing research on topics of common interest, (e.g., policy change impact). Current efforts in research field include: "Legal Impediments to Small Business Development", "Analysis of the Fruit Processing Sub-sector in Kenya" and "Information Needs of the Small Enterprise Sector". • Intensively market the training programs so as to ensure self-sufficiency by 1999. • K-MAP is currently considering translation of its booklets into Kiswahili to ensure wide readability.
8 Suggested Indicators	<ul style="list-style-type: none"> • Time investment of counselors and timely filing of reports. • Average level of executive participation as counselors.
9 Other Information	<ul style="list-style-type: none"> • There are 13 full-time staff in the secretariat and about 350 counselors. • Client firms have between 0 and 10 employees, 5 on average. • K-MAP initiative has been so successful that other developing countries are increasingly showing interest in replicating the concept. Already, Botswana replicated it under the name B-MAP. • K-MAP was founded by managers of the most successful organizations in Kenya who understand the business environment in Kenya.

Standard Chartered Estate Management (SCEM)

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The history of Standard Chartered Estate Management goes back to 1972 when under the name East African Acceptances, and with other shareholders, a division was established partly to oversee the company's lending to agriculture. More importantly, it acted as a vehicle to facilitate an orderly transfer of the Kenyan ownership. Many prospective coffee estate owners at that time had little or no knowledge of coffee and so the banks were reluctant to advance funds for acquisition. SCEM proposed tripartite arrangements between banks, borrowers and themselves which bound all parties to accept SCEM's management and financial assistance until such a time as all capital loans were repaid. This scheme was highly successful in that it allowed commercial banks to finance acquisition without undue worry or concern about the provision of competent management and financial requirements. Advances by SCEM were secured by crop debentures, thus leaving the title deeds free to be charged to the banks. The Agro-division, became a company in 1974 under the name of "East African Acceptances" (estate management division) with funds provided by East African Acceptances. By 1982 Estate Management Division managed and financed more than 25% of all the plantation coffee in Kenya and began expansion into development of other crops such as tea, sugar, ranching and dairy products. In 1984 Standard Chartered Bank acquired sole ownership of Estate Management Division for the purpose of channeling its considerable agricultural lending through the company and to further develop of the agricultural sector, which is Kenya's most vital foreign exchange earner.

Country: Kenya	Start Date: 1973
Title: Standard Chartered Estate Management (SCEM)	

Output	SCEM Area of Focus
	Enhance the production of coffee, tea, sisal, sugar, wheat, mixed farming, horticulture, and ranching through the provision of managerial, technical and financial assistance
1 Relevant Objectives	<ul style="list-style-type: none">• Help to facilitate an orderly transfer of the Kenyan coffee industry from expatriate to Kenyan ownership.• Expand and protect Standard Chartered Bank's commitment to Kenyan agriculture and effectively manage owners' operations. SCEM provides a tripartite arrangement between the bank, the borrower and SCEM's management and financial assistance until such a time as all capital loans are repaid.• In addition to coffee estates, SCEM manages four French beans and two rose estates for Kenya Horticultural Exporters Limited; average acreage of these estates is 50 acres.

Output	<p style="text-align: center;">SCEM Area of Focus</p> <p style="text-align: center;">Enhance the production of coffee, tea, sisal, sugar, wheat, mixed farming, horticulture, and ranching through the provision of managerial, technical and financial assistance</p>
2 How Innovative	<ul style="list-style-type: none"> • Full-range of managerial expertise provided on all SCEM estates. • Clients get progress report (including the trial balance) of all estates managed by SCEM. • SCEM sells products to the auction, the proceeds of the sales are charged to the client account after which any surplus is passed on to the client. • SCEM buys farm inputs in bulk and is, therefore, capable of charging 5-10% lower prices than the market prices. The stock of inputs is maintained at 8-12 months of clients needs, this ensures a constant supply of farm inputs throughout the seasons.
3 Performance Indicators	<ul style="list-style-type: none"> • Continuity of original clients to rely on SCEM services. Originally, contracts had been signed for 5 years but these clients continued to renew their contracts thus proofing the benefits of SCEM management skills. • Yield is the main performance indicator for SCEM. For example, coffee production per hectare in SCEM managed estates has maintained a lead even in the worst years; whereas SCEM managed coffee estates recorded 1354 Kg/Ha in 1989/90, cooperative managed estates recorded only 592 Kg/Ha (only 43.7% of SCEM managed estates' productivity). In the same crop year, the national average was 688 Kg/Ha.
4 Success of Relevant Interventions	<ul style="list-style-type: none"> • Productivity per acre has improved in all SCEM managed estates as a result of the use of farm inputs in the required quantities. • Intimate involvement of SCEM managers in the daily operations of all SCEM managed estates, has made it possible to finance farm inputs through the seasonal ups and downs. • By purchasing farm inputs in bulk and by eliminating the middleman, SCEM charges 5-10% lower prices to their clients than the market rates.
5 Lessons Learned	<ul style="list-style-type: none"> • Subdivision of farms among family members has adversely affected productivity since this has resulted in inter-cropping and sometimes substitution of cash crops with food crops. A way should be implemented to regroup small farms in order to improve productivity. • An organization having the same arrangement as SCEM can best work with large estates as opposed to small farm owners whose production is, in most cases, uneconomical.
6 Relevant Implications for USAID Project (Design and Implementation)	<ul style="list-style-type: none"> • A program aimed at enhancing NTAE should be made up of a team with relevant expertise and in addition, should offer credit to its client. • To decrease loan defaults and increased productivity, such a program should help manage the ventures requiring assistance.
7 New Mechanism to Increase Project Effectiveness	<ul style="list-style-type: none"> • Computerization of all SCEM managed estates to ensure timely reporting and saving on the cost of travel by managers to the various estates to correct data. • Ensure focused training of all SCEM staff.

Output	SCEM Area of Focus
	Enhance the production of coffee, tea, sisal, sugar, wheat, mixed farming, horticulture, and ranching through the provision of managerial, technical and financial assistance
8 Challenges faced	<ul style="list-style-type: none"> • The major challenges faced by SCEM include fluctuating crop prices, dishonest employees and inadequate infrastructure (roads, telephones, electricity etc.).
9 Other Information	<ul style="list-style-type: none"> • Where the client is a cooperative, a major challenge that SCEM has faced is change in cooperative management (each management has different goals and aspirations making continuity difficult). • The attempted consolidation of smallholders in an EU-sponsored project aimed at providing SCEM's full services proved impossible due to political considerations, differences of opinion among members, and differing accounting system preferences.

Small Enterprises Professional Service Organization (SEPSO) Limited

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SEPSO Limited, is a specialized management assistance organization helping small and medium enterprises achieve the triple goals of profitability, sustainability and growth; providing managerial and technical assistance; lobbying on behalf of clients, promoting the growth of an enterprise culture, and assisting in developing the skills of the small business sector manager to improve efficiency and international competitiveness. SEPSO's team is made up of professionals in the field of Accounting, Food Technology, Marketing, Engineering, Business Administration and Economics.

Country: Kenya	Start Date: 1991
Title: SEPSO	Completion Date: Ongoing
Sponsor: Friedrich Naumann Foundation	Annual Budget: KSh7 million (US\$127,273)

Output	SEPSO
1 Relevant Objectives	<ul style="list-style-type: none"> • Help small and medium-scale enterprises achieve growth, profitability and sustainability through: <ul style="list-style-type: none"> i Counseling services which involves analyzing the business environment and identifying strategies that work for a particular enterprise. This is a free service that is offered throughout an enterprise's membership period. ii Training seminars which are held monthly with special emphasis on the clients' needs. iii Consultancy services which cover: Business Planing, Accounting and Control Systems Design, Market Research, Personnel Recruitment, Feasibility Studies, Technology Services, and Accounting Bureau Services.
2 How Innovative	SEPSO establishes an ongoing partnership with the firms it assists; and follow-up with clients every month. The primary activity, financial consulting, is a means to generate broader-based consultancy work (i.e., is a marketing/customer relations tool). This increases the ability to cover more activities/expenses through charging fees. Business counseling enables SEPSO to dissect and diagnose all problems that might be related to a particular business. The quarterly members' luncheon offers a forum for interaction between entrepreneurs and representatives of various organizations and sometimes the government.
3 Performance Indicators	<ul style="list-style-type: none"> • Number of clients. • Survival rate and profitability of the client firms. • Growth in capital base, employment and the size of the market that client firms captures. • Progress towards self-sufficiency of SEPSO.

Output	SEPSO
4 Success of Relevant Interventions	<ul style="list-style-type: none"> • Started with about 27 firms and now has a clientele of 524 firms some of which includes semi-multinational, e.g., Esso Kenya Limited. Thirty-four per cent of the clients are in agriculture and agribusiness. • Profitability of start-up firms grew on average by 29% while that of the ongoing firms grew by 13% on average. • Capital base, employment and the size of the market of the client firms showed remarkable improvement. • In 1995 SEPSO made KSh1.2 million (US\$21,818) profit, to date the organization is self-sufficient and the only donor fund relied on is the telephone bills which on average amounts to KSh150,000 (US\$2,727) per month.
5 Lessons Learned	<ul style="list-style-type: none"> • Needs of the small-scale enterprises are diverse and counseling is very important to identify and analyze specific needs of specific enterprises. • Small-scale entrepreneurs don't necessarily go to experts. Experts must take the initiative to make the entrepreneurs realize this need for consulting. • Any services rendered to the small-scale enterprises must be charged and preferably the market rates in order to reduce the over dependence of the small-scale enterprises on free services. Their experience has shown that once the services are charged, the entrepreneurs of such enterprises are likely to be more committed to their enterprises. • With widespread unemployment especially for university graduates, more enlightened people are increasingly becoming involved in Kenyan business start-up thus making training much easier.
6 New Mechanism to Increase Project Effectiveness	<p>Though at the formative stages, SEPSO is considering the possibility of narrowing down its range of services. Currently, SEPSO provides services on all aspects of business enterprises ranging from feasibility studies to adoption of particular technologies.</p>
7 Challenges faced	<ul style="list-style-type: none"> • Due to SEPSO's relationship to donor funds, some of the clients declined to pay for services rendered by SEPSO on the basis that SEPSO is using a donor fund and therefore services rendered should not be charged. • Lack of infrastructures, e.g., telephones, this situation is aggravated by the fact that most of the counseling is done over the phone.
8 Relevant Implication for USAID Project (Design and Implementation)	<p>Projects assisting entrepreneurs/small businesses should themselves be set up like a business — able to generate enough revenues (by satisfying clients) to become financially self-sustaining after a certain period.</p>
9 Other Information	<ul style="list-style-type: none"> • Currently, SEPSO has 9 professional staff and 6 support staff.

Appendix H

Persons Contacted

No	Name	Country	Organization	Telephone
1	Okyere-Boateng, M.	Ghana	Agribank	662758
2	Watson, David	Ghana	Astek Fruit Processing	832-22227
3	Bristow, Michael	Ghana	Barclays Bank	664901
4	Witkowski, Paul	Ghana	Barclays Bank	664901
5	Yaw Nimo, Patrick	Ghana	EMPRETEC	226090
6	Boateng, Kwabena	Ghana	GEPC	228813
7	Janus, A.	Ghana	GEPC	228813
8	Tarpinian, Edward	Ghana	IESC	664921
9	Aryee, Ebenezer	Ghana	IESC	664921
10	Addo, J. S.	Ghana	J. S. Addo Consultants	229723
11	Ebow Bannerman, J.	Ghana	Plan Consult	669165
12	Adu Baffour, A.	Ghana	Plan Consult	669165
13	Flagg, Leslie	Ghana	TechnoServe	773873
14	Bowman-Hicks, Margaret	Ghana	TechnoServe	773873
15	Glovertay, J.	Ghana	TIP - EAC	773290
16	Mensah, Chris	Ghana	TIP - EAC	773290
17	Nene-Osom Azu, John	Ghana	TIP - EAC	773290
18	Larbi, S. A.	Ghana	Twifo Oil Palm Plantations	42-2177
19	Essilfie, W. T. D.	Ghana	Twifo Oil Palm Plantations	42-2177
20	Hackman, Ekow	Ghana	UKAYS Tropical Products	779161
21	Thomas, Cleveland	Ghana	USAID	228440
22	Weisel, Peter	Ghana	USAID	228440
23	Amarteifio, Neustadt	Ghana	VFMC	666165
24	Kariithi, Kibuga	Kenya	Barclays Merchant Finance	713800
25	Mahajan, Peeush	Kenya	East African Growers	221145
26	Muthoka, Peter	Kenya	EPC	228534
27	Gichohi, Zakary	Kenya	EPC	228534
28	Laboso, Lorna	Kenya	FPEAK	445795

No	Name	Country	Organization	Telephone
29	Grey, David	Kenya	FPEAK	445795
30	Retich, Florence	Kenya	HDCA	333150
31	Mulandi, Martin	Kenya	HDCA	333150
32	Osoro, Karen	Kenya	HDCA	333150
33	Geurts, W. H. H.	Kenya	Highlands Cannery	
34	Evans, R. G. R.	Kenya	Homegrown	729659
35	Evans, R. K.	Kenya	Homegrown	729659
36	Guenette, Paul	Kenya	KEDS	221106
37	Durgan, Timothy	Kenya	KEDS	221106
38	Dhanani, Manu	Kenya	Kenya Horticultural Exporters	540934
39	Muthia, Herbert	Kenya	KESSFA	724904
40	Waithima, Abraham	Kenya	Mwaniki Associates	227834
41	Patel, Vipul	Kenya	Njoro Canning	211736
42	Thomas, Jolly	Kenya	Njoro Canning	211736
43	Kumar De, N.	Kenya	Njoro Canning	211736
44	Owen, Mike	Kenya	SCEM	21637
45	Mortensen, Peder	Kenya	SCEM	21637
46	Shah, Hasit	Kenya	Sunripe	553042
47	Weller, Dennis	Kenya	USAID	751613
48	Kimania, Migwe	Kenya	USAID	751613
49	Gomani, J. F.	Malawi	Abale Investment Company	670890
50	Kambawankako, Y.	Malawi	ABS Consulting	634626
51	Henry, Carla	Malawi	ACDI	782866
52	Chibonga, Dyborn	Malawi	Agricultural Trading Company	765155
53	MacClement, Gerry	Malawi	Cargill	672466
54	Donker, Sander	Malawi	Cheetah	720700
55	Mbekeani, Zamatchecha	Malawi	DEMAT	621466
56	Katopola-Phiri, Douglas	Malawi	DEMAT	621466
57	Makako, Dauphin	Malawi	DEMAT	621466
58	Varela, Agnes	Malawi	INDEBANK	620055
59	Mlaliki, H. B.	Malawi	Industrial Crop Cover	652981

No	Name	Country	Organization	Telephone
60	Perepeczko, Jennie	Malawi	Lingadzi Flowers	
61	Kaupa, Feston	Malawi	MASH	631002
62	Chilombo, Richard	Malawi	MASH	631002
63	Mandala, Lucius	Malawi	MDC	620100
64	Minofu, Madalo	Malawi	MDC	620100
65	Mndalasini, Andrew	Malawi	MEPC	620499
66	Mhone, Chatonda	Malawi	MEPC	620499
67	Mangochi, George	Malawi	MEPC	620499
68	Banda, Grandford	Malawi	MEPC	620499
69	Kaferapanjira, Chancellor	Malawi	MIPA	780800
70	Kampezeni, Thokoza	Malawi	MIPA	780800
71	Mandeule, Lloyd	Malawi	MIPA	780800
72	Guta, C. W.	Malawi	MIRTDC	265263
73	Kachale, Sandy	Malawi	MIRTDC	265263
74	Mdoka, R.	Malawi	Mpungulila Trading Company	644930
75	Sprowson, John	Malawi	Press Agriculture	253716
76	Itaye, Bilison	Malawi	Son Chong International	784829
77	Kamchacha, David	Malawi	Son Chong International	784829
78	Rozell, Gene	Malawi	USAID	
79	Schlottauer, Julio	Malawi	USAID	
80	Hiwa, Stanley	Malawi	World Bank	780611
81	Chakravarli, Ashok	Malawi	Zicomo Flowers	734373
82	Manjate, Arlindo	Mozambique	ACP	430145
83	Fumane, Paulo	Mozambique	ACP	430143
84	Stephens, Jeanne	Mozambique	ACP	33456
85	Amade, Haidar	Mozambique	BCM	422798
86	Rohr, Beat	Mozambique	CARE	
87	Forte, Jan	Mozambique	Companhia da Zambezia	
88	Nunes, Rogeria	Mozambique	Companhia de Mocambique	400017

No	Name	Country	Organization	Telephone
89	Usman, Mussa	Mozambique	CPI	422456
90	Patel, Kekobad	Mozambique	ENACOMO	427471
91	Wagner, Christoph	Mozambique	European Delegation	490266
92	Salimo, Omaia	Mozambique	FFPI	424090
93	Magaia, Fulgencio	Mozambique	IDIL	422179
94	Ferrao, Felisberto	Mozambique	IPEX	424352
95	Hughes, Michael	Mozambique	KPMG	421892
96	Pollard, Nigel	Mozambique	Madal	421495
97	Namburete, Salvador	Mozambique	MICT - DNCE	426091
98	Daude, Sara	Mozambique	Procaju	430119
99	Viseu, Victor	Mozambique	ULC	431130
100	Allen, Scott	Mozambique	USAID	744484
101	Bliss, Sidney	Mozambique	USAID	744484
102	Newberg, Richard	Mozambique	USAID	744484
103	Juma	Mozambique	UTRE	
104	White, Jonathan	Mozambique	World Vision	420312
105	Hilton, Brian	Mozambique	World Vision	
106	Banda, Timothy	Tanzania	AGRIS	31056
107	Nnyari, N.	Tanzania	Agro Services	23479
108	Protzen, Erwin	Tanzania	ATI T-Press	6783
109	Mbuguni, Rashid	Tanzania	Business Care Services	46074
110	Mandara, Gideon	Tanzania	Business Center	35477
111	Bundick, Paul	Tanzania	Business Center	34317
112	Mbonde, Ngweshani	Tanzania	Business Center	35131
113	Rashid, Murtaza	Tanzania	Cargill - Ralucot	23849
114	Darkin, Roy	Tanzania	CDC	20283
115	Patel, Ramesh	Tanzania	Comafric	44942
116	Mollel, Andrew	Tanzania	CONTIFLORA	6284
117	Kisambu, Mathias	Tanzania	CONTIFLORA	8478
118	Chamungwana, Godfrey	Tanzania	First Adili Bank	
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123	Kassaja, M.	Tanzania	SNDC - SITCD	30541
124	Pallangyo, A.	Tanzania	SNDC - SITCD	31455
125	Caink, Simon	Tanzania	Standard Chartered Bank	44590
126	Ali, Murtza	Tanzania	Sunripe Kilimanjaro	50256
127	Mutabuzi, Simone	Tanzania	TANEXA	30677
128	Kimario, F.	Tanzania	TDFL	46144
129	Senkoro, Hatibu	Tanzania	TDFL	25091
130	Shipella, Barton	Tanzania	TISCO	31421
131	Satchwell, Robert	Tanzania	TVCF	44451
132	Tengg, Thomas	Tanzania	USAID	32922
133	Thompson, Tony	Tanzania	World Bank	46447
134	Clarke, Peter	UK	Consultant	1895-832865
135	Dixie, Graham	UK	High Value Horticulture	1895-251770
136	Fischer, Dieter	Zambia	Africare	227279
137	Slade, Neil	Zambia	Agriflora	281712
138	Banda, Dolika	Zambia	Barclays Bank	228858
139	Gordon, Derek	Zambia	Barclays Bank	224713
140	Mulala, Brian	Zambia	Cavmont	224286
141	Ryan, Jim	Zambia	Cavmont	224286
142	Terken, Mark	Zambia	Cheetah	287660
143	Magande, Ng'andu	Zambia	EAZ	225305
144	Paton, John	Zambia	EDP	222260
145	Bouchard, Bruce	Zambia	EMI	236182
146	Mwenya, Johnson	Zambia	Export Board	228106
147	Jones, Cheryl	Zambia	Interafrica	225002
148	Musona, David	Zambia	M and N Associates	288940
149	Scott, Guy	Zambia	Mano Consultancy	254619

No	Name	Country	Organization	Telephone
150	Mackenzie, Jim	Zambia	Mano Consultancy	254619
151	Soroko, David	Zambia	USAID	254303
152	Stepanek, Joseph	Zambia	USAID	254303
153	Maine, Katongo	Zambia	White Rose Farm	286290
154	Mundia, Alex	Zambia	World Bank	252811
155	Youngson, Charles	Zambia	York Farm	274020
156	Barker, P.	Zambia	York Farm	274020
157	Taguma, Joseph	Zambia	ZCGA	223259
158	Humphreys, Steven	Zambia	ZEGA	271166
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Appendix J

Scope of Work

Optimal Strategies and Structures for Developing Successful NTAE Programs in Sub-Saharan Africa, and the Role of ISME Therein

Introduction

The analytical guidelines established in the AFR/SD/PSGE *Strategic Framework* focus on assessing opportunities beyond policy reform for stimulating private agribusiness investment and private marketing. Studies completed as a part of the *Framework* indicate a strong interest on the part of entrepreneurs to invest and participate in agribusiness, but they often lack the skills, market knowledge and supporting services, including financial, needed to sustain successful businesses. This is especially true of smaller firms.

One of the high potential agribusiness opportunity areas identified by recent PSGE/PSD research is Non-Traditional Agricultural Export (NTAE) development. NTAEs can generate a high return on local land and labor resources, require minimal imported inputs as a percentage of sale value and have the potential to make a significant contribution to foreign exchange generation.

NTAE development program (donor and local government) success has varied, especially when assessed from an input/output perspective. SSA firms that have developed successful NTAE programs are usually larger entities, often with foreign partnerships or alliances. Therefore, in general, indigenous micro, small and medium size firms (IMSMEs) have not benefited significantly from the success and potential of NTAE development programs. This is primarily due to ISME's lack of knowledge of how to compete in these sophisticated markets, lack of contacts in importing countries, shortage of information and skills on how to meet customers' demanding specifications and dis-economies of scale which keep them from being price competitive.

The variable success of NTAE programs and the lack of participation by IMSMEs results in the need to better understand the dynamics, constraints and opportunities associated with NTAE marketing systems so that optimal NTAE development programs can be designed and implemented and the most appropriate role for IMSMEs in NTAE can be defined. Therefore, the key to successful NTAE programs which include a significant role for IMSMEs is the identification of the *Optimal Strategies and Structures for Developing Successful NTAE Programs in Sub-Saharan Africa*; the title of this project.

Developing the Optimal Strategies includes, but is not limited to, determining: the highest potential and therefore target markets (eg developed vs regional); comparative advantage; which types of products offer the greatest potential (high volume vs niche/specialty); the optimal level of value added; channel and customer objectives; marketing (price, promotion and positioning) objectives; the role of government; the role of NTAE focused associations; the needed level of and financing for technical, marketing and management assistance; and financing needs (both debt and equity).

Once the Optimal Strategies have been developed for a given country, the Optimal Structures can be designed to support the selected strategies. *Examples* of possible structures include: 1) a strong industry led NTAE export development association(s), 2) a government export promotion agency with a clearly defined role, 3) joint industry-government funded NTAE-focused R&D and extension, 4) commercial (trading) association(s), 5) ISME-large exporting firm jointly owned commercial entities, 6) model contractual and sub-contracting arrangements, and 7) an NTAE-focused Food and Agribusiness Development Center which offers highly integrated technical, marketing and managerial assistance as well as equity and debt.

The Project

Given the above, PSGE/AMA has asked the AMIS II (Agribusiness Marketing Improvement Strategies) project to implement an assignment in SSA with dual but interrelated purposes: 1) identify and define the optimal operating strategies and support structures for successfully and sustainably developing NTAE in SSA countries based on - a) the successes and shortcomings of current programs, b) NTAE market needs, requirements and trends, and c) a country's capacity and comparative advantage, 2) determine the optimal role of IMSMEs, and the strategies and structures that will enable the significant participation of IMSMEs within the defined overall NTAE development strategies and structures.

This project will therefore have the following objectives:

- 1 Determine and confirm:
 - a the **conditions under which NTAE development programs can be successful**;
 - b if these conditions exist in apparent high opportunity areas/subsectors;
 - c the **conditions under which IMSMEs can play a significant role in successful NTAE development programs** and d) define if and how these conditions can be achieved.
- 2 Identify, analyze and prioritize the **key operating constraints** that all firms, and ISME firms specifically, face in developing sustainable NTAE businesses.
- 3 Analyze the **operating strategies and support structures** that NTAE participant and NTAE interested firms, and specifically IMSMEs, have available to them to pursue NTAEs. Special attention will be focused on supported (donor or local government) activities.
- 4 Determine the **comparative effectiveness of the operating strategy and support structure options** available to a) all participants, and b) IMSMEs specifically, as related to NTAE business development.

- 5 Determine which strategies and structures are most appropriate for the most prevalent conditions (climate, level of development, comparative advantage, enabling environment, etc.) in SSA.
- 6 Design and develop:
 - a **Action Plans for assistance projects that will provide replicable operating strategy and support structure models** for the sustainable, broad based development of NTAEs; and
 - b specific operating strategy and support structure program models for the significant involvement of IMSMEs.

While the focus of this project will be on post-harvest (non-production) related strategies and structures for NTAE development, the need for highly integrated (ie, involving both producers and post-harvest entities) approaches dictates that some consideration be given to strategies and structures involving producers. However, the main thrust of this project is *not* on ISME producers.

In-country work will attempt to blend the NTAE-related objectives and interests of the local Mission, as developed in an early meeting with Mission personnel, with those of the project. It will be the responsibility of the consultants to convene a meeting with Mission personnel the morning of arrival in each country and a de-briefing meeting on the day of departure from each country. Within two weeks after departure from each country, the consultants will complete submit to the AMIS II activity manager a brief report responding to the main *activity related* areas of Mission interest.

Implementation Methodology

A team of two NTAE development specialists will visit six Sub-Saharan Africa countries representing a range of NTAE development programs and experience. Extensive use (10 days/country) will be made of local African consultants. Countries where the work will take place are Malawi, Zambia, and Tanzania in March and Kenya, Mozambique, and Ghana in May. One of the specialists will focus on

NTAE development operating strategies and support structures in general and the other specifically on opportunities, operating strategies and support structures for the significant and successful participation of IMSMEs. The field work will be implemented in two stages involving one week's work in each of three countries in each stage. There will be six weeks between the first and second rounds of field work to develop preliminary findings and make any adjustments necessary for the second round.

A case study methodology will be employed which assesses existing NTAE support strategies, structures, and support programs.

Since NTAE development was an area of focus for the Innovative Approaches to Agribusiness De-

velopment project implemented by AMIS II in 1995, the team will be starting with a significant NTAE development knowledge base. Therefore, the team will discuss the NTAE relevant findings of this recently completed project with Mission management when they are in-country. A meeting will take place in Bethesda to discuss these findings with at least one of the consultants as well as plan project details.

It is anticipated that this project will be the first phase of a multi-phase project that will in later phases develop detailed NTAE support models for the differing market opportunities, local conditions and types/sizes of firms.

Notes

- ¹ Activity Contract.
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- ¹⁰ Much of the material in this section is taken from U.S. Agency for International Development: *Rural Enterprises and Agribusiness Development Institutions (READI)*, June 1992.
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- ¹² Much of the material in this section is taken from USAID/Tanzania "FY 1997 Action Plan."
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- ¹⁴ Under the Portuguese Law, from a certain period of life of the company, the Government was allowed to become its shareholder. Therefore, after independence in 1975 the shares were passed on to the new Government, who is now a big shareholder in CdZ and is represented its Board of Directors.

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- *35/ *Policy Reforms and Structural Adjustment in Zambia: The Case of Agriculture and Trade*
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- 37/ *The Control of Dysentery in Africa: Overview, Recommendations, and Checklists*
- 38/ *Collaborative Programs in Primary Education, Health, and Nutrition: Report on the Proceedings of a Collaborative Meeting, Washington, D.C., May 7-8, 1996*
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