USAID Kenya Business Development Services Program (Kenya BDS): Lessons Learned

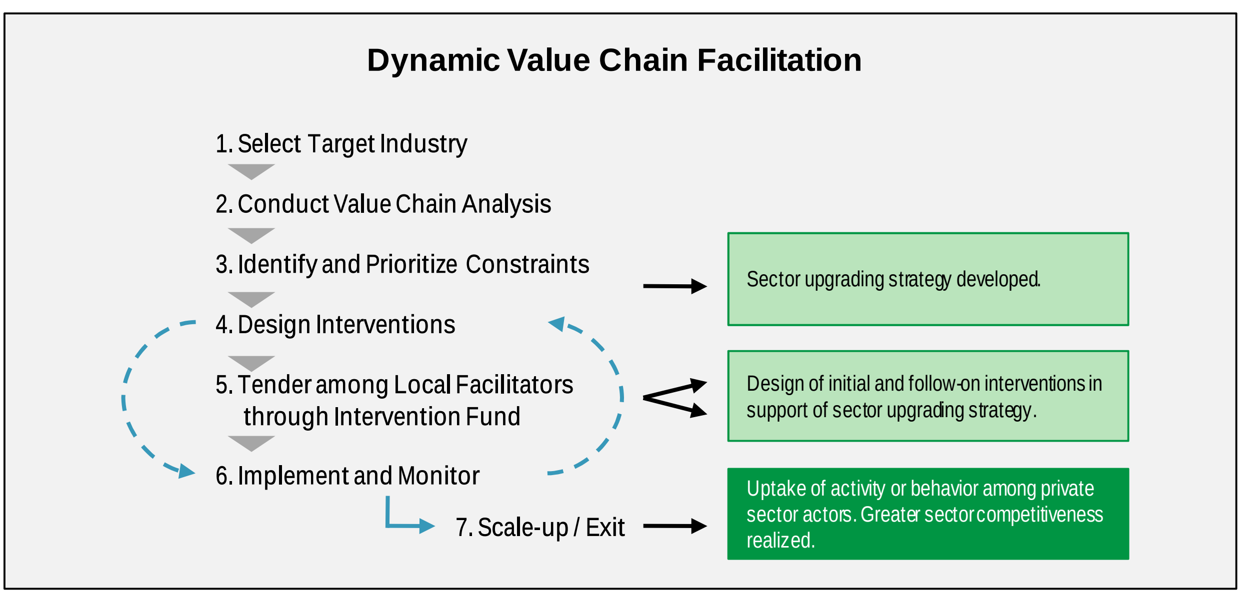
PROJECT OVERVIEW

The Kenya Business Development Services Program (Kenya BDS) was a six year, $6M program funded by the United States Agency for International Development (USAID). It was one of the first USAID-funded programs to apply a value chain-based approach to market development. EMG was the lead implementer, in partnership with Deloitte, ACDI/VOCA, and Fit Resources. The approach was based upon the causal model that by addressing specific constraints in the value chain, program facilitation activities would lead to increased competitiveness in target sectors, resulting in sustained access to business services, increased micro- and small enterprise (MSE) incomes, and overall value chain growth.

APPROACH AND METHODOLOGY

Kenya BDS first selected a value chain of high growth potential for rural MSEs. The Program then conducted value chain analyses to provide a description of the sector, map out commercial relationships among market actors and channels, and break down costs of production to identify inefficiencies and opportunities for intervention. Through participatory mechanisms such as focus group discussions, field questionnaires, and stakeholder vetting forums, Kenya BDS worked with industry actors to identify and validate critical bottlenecks and constraints within the value chain, and developed an upgrading strategy for increased industry competitiveness.

Once key constraints and opportunities were prioritized, Kenya BDS designed interventions which were tendered through the Market Intervention Fund – a centralized funding pool designed to respond to market constraints. Rather than publish each intervention tender in a newspaper, Kenya BDS maintained a rolling "pre-registration" process with local facilitators, who automatically received each tender via e-mail. To maintain transparency, tenders were also posted on the website.



Following the roll-out of initial interventions, Kenya BDS monitored the response among industry actors, and designed follow-on interventions to ensure commercial uptake of the activity. Through this flexible, market-responsive approach Kenya BDS assisted local stakeholders to remain on course towards realization of their industry upgrading strategy.

GUIDING PRINCIPLES WHEN DESIGNING MARKET-BASED INTERVENTIONS

1. **Interventions should kick-start a market response:** The role of Kenya BDS was to stimulate behavior change within the market whereby market actors learn to read, respond, and react in a more competitive manner. Through program interventions it was hoped that viable commercial opportunities would emerge to address market constraints, thus leading to new entrants and a more vibrant private sector.
2. **Interventions should address specific value chain constraints:** Critical to Kenya BDS was the ability to monitor market developments, and identify follow-on interventions in response to opportunities and constraints as they arose within the value chain. Such program flexibility was critical to support the market-responsive nature of the program.
3. **Interventions should be time bound:** To avoid donor dependency and the institutionalization of non-market actors, Kenya BDS typically hired local facilitators on a 12-month performance contract to pilot a particular intervention. Each activity was bound by a clear exit strategy.

PROGRAM RESULTS

Over the six years of the project, many successes were achieved, leading to increased competitiveness of selected industries.

- In the **avocado sector**, 6 leading exporters had formalized and undertaken sourcing arrangements from smallholder farmers via supply contracts, with a total outreach of 129,998 trees. To link farmers with high-end markets, 3 rural-based brokerage firms were developed with an active client base exceeding 21,000 farmers. A total of 4 industrial-scale avocado oil processors emerged in response to increased supply, with a combined intake of 80 MTs per day. Previously the sector had no available market for grade 2 fruit. An innovative smallholder loan product was developed with Equity Bank, providing farmers for the first time access to agrochemicals on credit backed upon the strength of their supply contract.
- In the **passion fruit sector**, Kenya BDS spearheaded the introduction of passion fruit production in Central and Eastern Kenya. Stemming from an initial public-private partnership with the Kenya Agricultural Research Institute (KARI) to promote the high-value crop, the program has successfully introduced passion fruit production to over 2,215 farmers with a total outreach of 272,712 vines who are now linked with 4 exporters on full commercial terms. Combined monthly grade 1 production now averages 70 MTs sold between Kshs 60 – 70 per Kg. Future production is supported by over 297 smallholder passion fruit nurseries which are developed and operational.
- In the **mango sector**, Kenya BDS organized 3,037 smallholder farmers in Central, Eastern and Coast Province into 5 production clusters with a total outreach of 107,443 trees. Year 5 sales of grade 1 alone reached Kshs 6,961,256 and Kshs 9,219,168 of grade 2 through a rural based market linkage firm.
- In the **Lake Victoria fish sector**, 642 Omena women processors were organized into 21 groups spread throughout 17 beaches, and linked with a lead exporter through supply contracts. 300 MTs have been sold valued at Kshs 13.5 million. Five women groups were organized to process Nile Perch skin as a high value leather product. A total of 28,824 hides have been processed to date realizing sales of Kshs 206,569. At present, standing orders are in place for 3,000

Sustainable Results and Development Impact:

In the first year of the program alone:

- 3,795 farmers received financing; 23,916 trees were sprayed; over 95% of these loans were repaid.
- 42 accredited agrochemical sprayers and 60 grafting and pruning service providers were developed; 34,000 avocado and 23,000 mango trees were rehabilitated

Over the life of the project:

- Enhanced market linkages and increased quality led to an average price increase from Kshs .50 to Kshs 3.50 for the Fuerte variety and from Kshs 1.00 to Kshs 4.50 for the Hass variety.

hides per week. Increased production of the by product has led to establishment of a fish-skin processing plant in Kisumu. In the Tilapia sector, 40 aquaculture farmers were developed and organized into 4 production clusters with 136 ponds and 7 hatcheries. To expand production into Central Kenya, a total of 3 Tilapia cage farming groups with 28 cages have been developed with an anticipated production of 2,900 table-sized Tilapia.

- To protect the earning accrued among fisher-folk, a total of 6 beach banks are now in operation, having reached over 14,500 clients with cumulative savings exceeding Kshs 102,986,308. As a result of Kenya BDS sensitization efforts, two leading commercial banks have commenced construction of banking facilities at the central rural fishing communities. To increase access to fishing gear in these areas, a total of 42 fishing gear retailers and 6 wholesalers actively linked through horizontal bulking & vertically integrated supply deliveries, servicing over 2,500 fisher folk in the sector.
- In an effort to prevent declining stocks of Nile Perch and protect future viability of the industry, Kenya BDS has launched a self-regulation system with the leading industrial fish processors and exporters within Kenya. A total of 5 independent slot-size inspectors have been developed for monitoring of undersized catch.

Women processors packing dried Omena into sacks for collection in Suba District. By organizing processors and linking them directly with exporters through formal supply contracts, Kenya BDS ensured that a guaranteed market and minimum price was maintained.

LESSONS LEARNED AND RECOMMENDATIONS

Following implementation of Kenya BDS, a few key themes have arisen from implementing a dynamic value-chain program:

MAINTAIN AN OVERALL VALUE CHAIN FOCUS

Traditional MSE projects would direct all support to the targeted beneficiary – the MSE or smallholder farmer. It is important to realize that interventions may be required at all levels of the chain in order to remove bottlenecks or inefficiencies. Unless there is an end market demand or the lead firms are competitive, there will be no "market pull."

FLEXIBILITY IN PROGRAM DESIGN AND DYNAMIC MANAGEMENT OF VALUE CHAIN IS CRITICAL

Small-scale farmer Peter Kariuki displays a grade 1 Fuerte variety avocado. During a project year, approximately 1 million pieces of grade 1 avocadoes were sold — a 653% increase from the previous year.

Markets are dynamic and therefore require structures and processes within a project to be market responsive. No longer are donors developing 5 year programs with 5 year pre-determined activity work-plans. The ability to read and respond to opportunities and constraints in the market is critical. A centralized pool of funding as well as dynamic management is important.

IDENTIFYING INCENTIVES (RELATIONSHIPS, LEARNING, BENEFITS) IS NECESSARY FOR UNDERSTANDING MARKET BEHAVIOR

When designing for sustainability, it is critical that you identify the incentives among market actors. Then you can understand how and why decisions are made, which directly shapes the nature of your intervention. A good question to ask is "through my activities, am I creating incentives for innovation? Am I stimulating competition or collaboration within the chain? Or, do my interventions create disincentives for change by introducing market distortions or artificial subsidies?"

Stakeholder Buy-in and Industry Ownership is Critical

It is critical to have buy-in and ownership among all value chain actors in order to succeed. This can be accomplished by events such as stakeholder vetting workshops, focus group discussions, and field questionnaires. Ownership may also be measured through the level of investment or resources committed by key actors in support of your activities. Unless key members of the value chain share the same vision for competitiveness or are willing to invest, the program is a nonstarter.

A woman reads a "Save Five Eat Five" poster in Suba District. With co-funding from local financial institutions, Kenya BDS promoted savings mobilization among fisher-folk through a sensitization campaign.

Leverage Lead Firms and Buy-Down Risk to Stimulate Market Innovation

Donors increasingly realize the critical role lead firms in a targeted industry play, and how they must be leveraged to incorporate more MSEs or smallholders into the value chain in a win-win manner. A project can play an important role in "buying down risk," or cost-sharing pilot initiatives with a lead firm.

Exploit a Pilot Opportunity to Stimulate a Market Response and Crowd-In New Entrants

The approach of starting small to achieve success then ramp up and replicate has merit. This not only encourages experimentation and innovation, but it allows the implementer to manage risk.

Strive for Minimalism and "Light Touch" Interventions

Wherever possible try to intervene with the smallest amount of assistance necessary to stimulate a market response. This minimizes market distortions and allows a project to expend resources in multiple areas of support.

Sustainability is Everything

Interventions should always be grounded within a clear exit strategy. Numbers are easy to achieve. It's always important to ask "so what." So "what" is left behind? What is sustainable? What remains in place, and can replicate and grow on its own based purely upon market incentives of making money. It's important from the outset that an implementer has a keen eye on the exit strategy.

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