



Growing Agribusiness SMEs in Tanzania:

Lessons from an Action Learning Pilot



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Growing Agribusiness SMEs in Tanzania



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INTRODUCTION

The World Bank's Agribusiness Entrepreneurship Program supports the growth of small and medium enterprises (SMEs) in the agribusiness sector. In Tanzania, the program is establishing a new Agribusiness Entrepreneurship Center (AEC) that will provide local companies with access to finance market connections, as well as technical assistance in areas such as production, financial management, and marketing.

The design process for an AEC usually extends over a 3-4 month period. The establishment period that follows includes finding an institutional home, developing governance structures, recruiting key staff, and developing key processes for the institution to run properly. There tends to be a lag between the design phase and the launch of the AEC.

In Tanzania, we decided to use this period to pilot an action-learning program (ALP). The purpose of the pilot was to: i) maintain interest and momentum in

the program through the establishment period; ii) gather insights from beneficiaries to help fine-tune the target client profile, the AEC service offering, business model, and staffing requirements.

Over a nine-month period, food entrepreneurs in Tanzania had the opportunity to work with a South African entrepreneur, angel investor, and former incubator manager, and with a senior executive of a major U.S. importer of niche food products. Between their coaching sessions, entrepreneurs were also provided with virtual assistance. A partnership with the Small Industry Development Organization allowed us to gain access to 150 entrepreneurs across three locations identified as potential homes for the AEC.

The 150 entrepreneurs went through a workshop and an assessment process. A diverse portfolio of companies was selected. This included women-led businesses, established firms, start-ups, and co-operatives. Their products included sunflower oil and honey, tomato sauce, moringa powder, filtered ice, nutritional flour, wine, spices, and fresh mushrooms. Annual turnovers of the companies ranged from \$5,000 to \$300,000 per annum. The process map (Figure 1) describes the program.



INTRODUCTORY SESSION

- Includes a 2 hour introductory session that includes large number of entrepreneurs
- Identifies potential entrepreneurs through local associations, BDS organizations, donor/NGO programs, retailers / wholesalers, and financial institutions
- Requests all attendees to complete multiple choice questionnaire to assess entrepreneurial traits

SELECTION

- Higher scorers based on McKnights “Will it Fly” exercise selected
- Rigid methodology used to assesses entrepreneurial and business potential
- Involves weighted scoring system and assesses the market, operations, finance, entrepreneur, and product factors using 30 questions – assessment uses a minimum 60% score threshold for ALP acceptance
- Based on minimum score, entrepreneurs are accepted into next stage and matched with staff skill mix
- Used to identify growth bottlenecks that can be delved into during the deep dive

DEEP DIVE

- Aimed at understanding business operations
- Captures baseline data on each of the companies
- Provides logical deconstruction of business and financials (e.g., costs, monthly sales by product, cash flows, average product profitability, manufacturing procedures)
- Allows for scenario analyses to be built using the deconstructed data gathered and to understand action needed to grow the business

SUPPORT ACTIONS

- Provides tailored training and support to entrepreneurs
- Monitors and evaluates progress through biweekly follow-ups by local consultant
- Evaluates which of the participating entrepreneurs will continue into the mainstream program

FIGURE 1 | Process Map

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1. WHAT TANZANIA TAUGHT US

1.1 Select the right mix of growth potential entrepreneurs

Our experience during the ALP demonstrates the need to select full-time entrepreneurs who are already at market with existing turnover and have sold some products, thus illustrating product-market fit. Entrepreneurs with a loan history and an acceptable repayment track record were also preferred—as again, their commitment to their businesses was tied to the security underwriting their loans. Additionally, support is best provided to entrepreneurs located within a 20-km radius of the support organization. Other important characteristics include literacy, email connectivity, language skills, and proximity to local markets. All of these ensure a more rapid assessment and a better understanding of the business, including customer needs and competitor offerings.

1.2 Overcoming inefficiencies

A key learning, observed across all companies, was that inefficiency is due to weak business knowledge and a focus on the product as the source of growth, rather than understanding the market first. Companies had very few systems in place, with close to double staff in many cases. In many cases, leadership was lacking; the entrepreneurs were absent and relied on staff to run the business on their own. Staff training on business operations was almost non-existent, and their ability to manage day-to-day operations, and particularly new situations such as vehicle breakdowns,

was poorly developed. For example, implementing better climate cooling measures by simply painting the water tank with reflecting paint allowed a local ice producer to increase production by more than 20%. Such small changes resulted in large turnover increases and increased profitability.

1.3 The art of selling

The focus on producing a product was tied to gaps that appeared later in management and sales. In some cases, the initial success of a sales drive was used to justify the belief that the business had large, viable, and accessible markets. This rarely proved so, not because they did not exist, but because a lack of market knowledge and sales skills kept businesses from taking advantage of them. This lack of market knowledge and sales skills was a major factor in diminishing profitability. Sales staff were employed on high basic salaries which did not justify their earnings compared to the company's gross profit. Furthermore, very few companies had an incentive system to drive sales. Upon further examination, we found that the sales staff lacked basic sales skills and that these appointments were made based on education rather than sales ability. Income improved rapidly once sales training was provided. In one case, 4 new contracts were secured in a single afternoon. In another case, a dried spices company was able to increase retail customers by 43% with sales training and mentoring to owners and staff.



1.4 Identifying finance to fuel growth

At the start of ALP, access to finance appeared to be the critical constraint to growth. However, as illustrated above, lack of access to finance was not the issue in most cases. Rather, it had to do with business inefficiencies. Further, nearly all cases had poor or limited financial records, and in most cases, the financials were retrospectively reconstructed from sales and cost/price data along with salaries, general expenditures, etc. In one case, access to finance was indeed a major issue. By addressing the company's key constraints as discussed above, our support facilitated its access to a loan from a commercial bank which leveraged a credit guarantee program that was already in place. Business support from the ALP was thus most effectively focused on sales, production operations, and business operations, with only an occasional focus on financing for raw materials.

1.5 Difficulty of working with perishable products

Limited cold chains, unreliable electricity, inefficient distribution networks, and insufficient hygiene standards presented significant difficulties for SMEs working with perishable products. Indeed, one company went out of business during the ALP period due to a bacterial problem in the production line that led to major losses. This represents a valuable learning to the AEC going forward; it does not mean it cannot take on companies that deal

with perishables, but rather that it has to watch that these critical risks can be mitigated. Businesses focused on shelf-stable products could make use of longer selling periods without these difficulties. Based on our experience, the AIC should focus on one market segment (shelf-stable, fresh, frozen, etc.) to grow a more focused expertise and networks. Developing such networks, especially with overlapping buyers across businesses, the program will be able to provide better support for beneficiaries.

1.6 Establishing trust

When we started developing the AEC concept in Tanzania, we were told that entrepreneurs would be hesitant to share their financial data, and that they value advice from other successful entrepreneurs rather than consultants with no entrepreneurial background. Our target SMEs gained confidence in our program because our consultants were entrepreneurs themselves. As our team developed a relationship with the entrepreneurs, they did "open their books." That said, one of the entrepreneurs we worked with provided different information at each interaction, and after several visits we discovered that the company was heavily indebted and could not reasonably recover. The key learning here is to illustrate value and establish trust before "demanding" full access to the business data needed for the highest value added guidance.

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1.7 A suitable monitoring and evaluation framework

Developing an appropriate M&E framework for the ALP showed that some traditional metrics are not well suited for these types of programs. For example, an increase in the number of employees, traditionally used as a growth metric, is not a good metric in the initial stages of business growth. We discovered that bloated staff was resulting in high overheads and poor cash flow for a number of companies. In nearly all cases, we advised staff reductions or re-allocations e.g., less production staff and more sales staff, which resulted in improved profitability for the companies in the ALP. Metrics focused on productivity and profitability are thus more suitable than “jobs” in the initial stages of enterprise growth.

These insights illustrate the value of an action-learning approach built into the design process. In Tanzania, we were able to identify entrepreneurs with higher potential; understand the types of offerings that they really needed, as opposed to what they perceived they needed; and understand the level of technical and business support that AEC staff would need to have. Finally, the process of finding entrepreneurs, introducing the concept, and establishing adequate trust to get to the root causes of business issues, were key lessons of the ALP.



2. KEY LESSONS FOR REPLICATING THE ALP

2.1 The action learning approach proved worthwhile

The purpose of an action learning approach is to gain knowledge about support methodologies that are best suited to scale up an SME development program while allowing practical insight and learning for staff associated with the initiative. It is designed to run for six to eight months for rapid learning in a “pressured” environment to see how much growth is possible and what realistic growth expectations are. It is best suited for the latter part of the feasibility phase prior to the AEC establishment phase. This is because it serves as a means to verify hypotheses and assumptions around the key parameters of the AEC. An action learning approach should only proceed when there is a high likelihood that the initiative will lead to a full-scale implementation to avoid raising expectations and limit the resulting reputational risks.

In this case in Tanzania, the establishment phase was particularly protracted due to, first, a change in leadership of the host organization, and second, difficulties with recruiting the AEC Director.

2.2 The right blend of global and local expertise

A blend of international and local expertise is useful when carrying out an action learning approach. The best approach would be to use international expertise to work alongside local staff to facilitate an exchange of insights, and to ensure that the local staff has sufficient knowledge to transfer into the AEC execution phase. In this case in Tanzania, we had difficulty identifying local expertise with hands-on profit and loss, food manufacturing, marketing, and start-up experience. The international consultants therefore provided support on their own for a while, leading to gaps in follow-up with the entrepreneurs. In future implementations of an action learning approach, the AEP will make sure to bring onboard local consultants or staff earlier in the process, and if necessary, train them in the process of executing the action learning process. It is however critical that the consultants have extensive experience in business, preferably in the food industry.

2.3 Focus on value chains with similar characteristics

The rapid nature of the ALP, and its limited resourcing, necessitates a focus. Working across value chains that have similar processing characteristics facilitates this. Similar characteristics can be: i) similar market channels with sales and marketing complementarities; ii) similar purchasing criteria; iii) similar processing practices; and iv) similar financial needs and where financial assistance is possible through similar channels. This approach introduces economies of scale into the ALP, allowing broader value chain evaluation and learning while ensuring the limited resources are not overstretched.

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CONCLUSIONS

Based on the results of the ALP in Tanzania, a similar initiative was launched in Nepal. The action learning approach has now been integrated within the Global Agribusiness Entrepreneurship Program as a pre-launch activity. This approach helps to educate client countries

with firsthand mini-simulation and early results and also helps in understanding the local context and practicalities of setting up entrepreneurship centers so that the implementation challenges can be addressed early on.

Spice business aims for national distribution

Business was slow for Rocky's Products, a small spice blend company founded by Tanzanian entrepreneur Zahrock Ahmed in 1999. Like many entrepreneurs in Tanzania, Ahmed had no formal training in business management: Her company had neither a dedicated sales team nor an accounting system, and its production process often resulted in significant losses. Before Rocky's Products could take on a loan to boost growth, Ahmed needed to improve her management skills. Rocky's Products was a volume business, which meant that Ahmed's ability to buy raw materials at competitive prices and to sell large volumes of the product could transform her modest business into a highly profitable venture.

After interviews with Ahmed, she was selected as one of clients for the Action Learning Pilot. The ALP team conducted a financial review of Rocky's Products, identified strategies to streamline its production process, and provided one-on-one coaching and group sales training. As a result, Rocky's Products increased its customer base by 25 percent and purchased more efficient new production equipment. With support from the ALP, Rocky's Products was also able to recoup all delinquent invoices from large buyers.

Ahmed is now applying for a loan that will allow her to buy one of her key inputs - black pepper - during the high season, which is likely to result in a return on investment of over 40 percent. Rocky's Products now sells 14 spice blends in markets around Dar es Salaam, and Ahmed is working with the Agribusiness Entrepreneurship Center to reach a national network of distributors. Rocky's was being supported by other Business Development Service providers for almost a decade, but the support did not generate growth. ALP was able to help Rocky's demonstrate these results within two weeks of intervention.



ANNEX: METHODOLOGIES USED IN MORE DETAIL

1. An Introductory Session involves inviting a group of up to 30 entrepreneurs to a meeting where the AEC and its approach are introduced and the conditions for acceptance into the program are outlined. The entrepreneurs who are interested in applying for AEC support are asked to complete an entrepreneur assessment that is based on comparison of their answers to a number of multiple choice questions, to characteristics identified in successful entrepreneurs. Higher scores indicate closer fit with traits of successful entrepreneurs. The assessment is a preliminary screen to reduce the number of entrepreneurs moving into the next assessment phase.

2. The highest-scoring entrepreneurs are then invited back for an interview that lasts 1 to 2 hours. This interview, conducted by at least two assessors, uses a modified version of Thomas McKnight's "Will it Fly" methodology, designed to assess the potential of start-up enterprises based on aspects such as the entrepreneur's character, financial needs, and status; operational requirements; and market characteristics such as demand drivers, size, competition, and uniqueness of the entrepreneur's offerings. Scoring on a scale of -10 to +10 against a number of weighted questions, the assessment provides a further indication of how likely the business is to succeed. The outcome is a percentage score which needs to be above 60% to allow further assessment to take place.

3. The final assessment is the Deep Dive. This stage requires at least half to one day of in-depth questioning to understand how the business operates and to model its operations and financials in an Excel spreadsheet. It begins with breaking down the business into its product/service

components and gains an understanding of their costs and development processes. This will require the determination of raw material inputs and costs; the analysis of production/service processes used to create and distribute each offering; the calculation of cost of sales data per offering; and the evaluation of overhead costs. While the model sets out the production/service delivery aspects in numbers, these are linked to a profit and loss statement and cash flow statement. The aim is to set out a model that can be used for scenario planning by changing key variables to see what impact this would have on the business and its financial health. For example, what would the impact be on unit production cost, operating profit or even cash flow, if a key raw material could be procured at a 10% discount to current cost? Would that saving be sufficient to offset the finance costs if the raw material had to be procured in bulk and held for six months before it was used in production? These are some of many questions that can be asked, and modeled, using the output of the deep dive analysis

Only once the deep dive has been concluded, and the data from both the entrepreneur assessment and the "Will it Fly" exercise incorporated, can a clear picture of business potential and possible growth enhancing actions be determined. At this stage the final decision on acceptance into the AEC incorporates an evaluation on whether the AEC has the ability to provide or facilitate access to the skills, facilities, finances, and networks needed to make a success of any intervention.

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