BEST PRACTICES AND LESSONS LEARNED IN DELIVERY OF BUSINESS DEVELOPMENT SERVICES (BDS) IN MEDA’S M-SAWA PROJECT

THE M-SAWA PROJECT

In partnership with Canada
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# ACRONYMS

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<th>Acronym</th>
<th>Description</th>
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<tr>
<td>AFMA</td>
<td>African Farms and Markets Limited</td>
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<td>ANDE</td>
<td>Aspen Network of Development Entrepreneurs</td>
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<td>BAs</td>
<td>Business Associations</td>
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<td>BDS</td>
<td>Business Development Services</td>
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<td>BDSPs</td>
<td>Business Development Services Providers</td>
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<td>BPI</td>
<td>Business Partners International</td>
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<td>CAD</td>
<td>Canadian Dollars</td>
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<td>CERDS</td>
<td>Consortium for Economic Research and Development Studies</td>
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<td>DFID</td>
<td>Department for International Development</td>
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<td>FGDs</td>
<td>Focus Group Discussions</td>
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<td>GAC</td>
<td>Global Affairs Canada</td>
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<td>GALS</td>
<td>Gender Actions and Learning Systems</td>
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<td>GBO</td>
<td>Gender Business Officer</td>
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<td>GEM</td>
<td>Gender Equality Mainstreaming</td>
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<td>EBO</td>
<td>Environment Business Officer</td>
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<td>ECC</td>
<td>Environment and Climate Change</td>
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<td>ES</td>
<td>Environmental Sustainability</td>
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<td>M-SAWA</td>
<td>Equitable Prosperity through Private Sector Development Project</td>
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<td>KII</td>
<td>Key Informant Interviews</td>
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<tr>
<td>LAPSETT</td>
<td>Lamu Port-South Sudan-Ethiopia Transport</td>
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<td>LFs</td>
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<td>Life of Project</td>
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<td>Maendeleo Sawa</td>
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<td>NBI</td>
<td>NetBiz Impact</td>
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<td>NGO</td>
<td>Non-Governmental Organization</td>
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<td>NKGC</td>
<td>Northern Kenya Growth Capital</td>
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<td>NKGI</td>
<td>Northern Kenya Growth Initiative</td>
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<td>PEI</td>
<td>Private Equity Investment</td>
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<td>Technology Adoption Grants</td>
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<tr>
<td>TOR</td>
<td>Terms of Reference</td>
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<td>WEF</td>
<td>World Economic Forum</td>
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ABSTRACT

The M-SAWA project is a 7-year economic development program funded by Global Affairs Canada (GAC) and implemented by Mennonite Economic Development Associates (MEDA) which completed activities in July 2022. The ultimate goal of the project was to ensure equitable economic and employment growth through profitable, competitive, and sustainable beneficiary small entrepreneurs (SEs) and small and medium enterprises (SMEs) in the project’s three priority sectors of agriculture, extractives and construction in targeted regions of Kenya. One of the critical interventions to achieve this goal is through the delivery of business development services (BDS) and technical advisory services.

The BDS provided through the project included, but was not limited to, training, coaching, and/or mentoring in financial management and/or access to financial services; business planning and management; market research and development; gender equality; and environmental safety and sustainability for investor readiness. These BDS interventions were not provided directly by MEDA to the SMEs, but through qualified local business development service providers (BDSPs).

The five central questions this paper seeks to address on the best practices and lessons learned from the BDS approach as supported by the project are:

1) To what extent did initial assumptions around BDS design hold true and what changes were made to the implementation process of the life of the project?

2) What were some of the best practices in implementing BDS support to the SMEs that the BDSPs practiced?

3) Who are the main players and consumers in the BDS market in Kenya, and are they willing to pay for the services?

4) To what extent is BDS commercialized and what are the key challenges or opportunities in the BDS market in Kenya? What can be done to get to commercialization?

5) Were the needs of the SMEs supported in BDS aligned to the 7 MEDA priority areas of implementation?

It is important to address these questions to understand how MEDA and other implementers can improve the delivery of BDS in the SME sector, drawing on both MEDA’s experience and learnings from other organizations.
A combination of primary and secondary research was conducted to support the development of this learning document. Throughout the implementation of the BDS program, key informant interviews with the BDSPs and SMEs were undertaken to inform reliability of the interventions. Relevant information from project reports and monitoring and evaluation documents has been included where appropriate, supplemented by secondary research.

MEDA’s overall approach to BDS was adjusted early on in the project. Based on low initial uptake, MEDA shifted from referring SMEs to BDSPs to partnering with BDSPs who sourced SMEs from their networks. Based on the data reviewed during the development of this paper, the priority areas recommended by MEDA to guide the BDS intervention met the expectations of the SMEs that received BDS services, enabling them to put in place strategies which helped them to streamline their operations to increase profitability and sustainability. The cumulative number of SMEs supported throughout the project was 314 (of which 177 were women-led [56%]), exceeding the life of project (LOP) target of 225 SMEs that were supposed to be supported with BDS by 40%. Key learnings from M-SAWA include: the need to tailor BDS content to the SME (size and sophistication), the important of mainstreaming gender equality (GE) and environmental sustainability (ES) in service provision and the need for increased follow-up and a focus on sustainability following BDS interventions.

ACKNOWLEDGEMENTS

<table>
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<tr>
<th>Authors</th>
<th>Geoffrey Juma and Daniel Matoke</th>
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<td>Graphic Design</td>
<td>Wendy Helgerman</td>
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The Equitable Prosperity through Private Sector Development (EPTPSD) Project, also referred to as the Equitable Prosperity or Maendeleo Sawa (M-SAWA) project was implemented by Mennonite Economic Development Associates (MEDA) in Kenya from 2015 to 2022. The M-SAWA project was made possible with the generous support of the Government of Canada, through Global Affairs Canada (GAC).

We would like to thank M-SAWA’s many partners, staff and MEDA’s generous private supporters.
1. INTRODUCTION

About the M-SAWA Project

The Equitable Prosperity through Private Sector Development (EPTSDP) Project also referred to as the Equitable Prosperity or Maendeleo Sawa (M-SAWA) Project is a seven-year, $28.7 million CAD initiative funded/implemented by Mennonite Economic Development Associates (MEDA) (supporters, partners, and investors) with funding from Global Affairs Canada (GAC) implemented from 2015 to 2022.

M-SAWA aimed to contribute to Kenya’s economic growth and increase job creation by improving the business, environmental and gender performance of small and medium enterprises (SMEs) and small entrepreneurs (SEs) in 20 select counties along the Lamu Port-South Sudan-Ethiopia Transport (LAPSSET) and Northern Corridors in the following 3 project focus sectors: Agriculture/Agribusiness, Construction/Allied Industries, and Extractives. In support of this goal, MEDA offered Matching Grants to Lead Firms (LFs), Business Associations (BAs) and SMEs. The project worked with 2 categories of SMEs – LFs and other SMEs benefiting from business development services (BDS), access to investment/financing, and participation in BAs/SME alliances. LFs are defined as SMEs with strong supply and/or distribution chain linkages with SEs which were engaged to implement initiatives supporting the growth of the LF along with its suppliers/distributors. In this context, LFs are ‘inclusive businesses’ that play pivotal roles in moving their industry and other value chain actors forward.
The MEDA M-SAWA Learning Series

This paper is part of a series of learning documents developed by MEDA focused on identifying and sharing key lessons learned over the life of the M-SAWA project. There are a total of 9 documents in this series, each focusing on a key project element, namely:

1) Best practices and lessons learned in delivery of Business Development Services (BDS)
2) Collaboration between Business Associations and Lead Firms
3) The impact of COVID-19 on SMEs and Lead Firms
4) The impact of Technology adoption grants (TAG) Grants
5) Access to Finance for Women-led SMEs
6) Business Case for Gender Equality Mainstreaming (GEM)
7) Use of Environmental Action Plans (EAPs) with SME Partners
8) Impact of Environmental Sustainability Grants (ESG)
9) Promoting Investment in the SME sector in Kenya

This learning paper focuses on the best practices and lessons learned from the BDS approach supported by MEDA’S M-SAWA project.

2. METHODOLOGY

This learning document focuses on answering the following key research questions:

1) To what extent did initial assumptions around BDS design hold true and what changes were made to the implementation process during the life of the project?
2) What were some of the best practices in implementing BDS support to SMEs utilized by Business Development Service Providers (BDSPs)?
3) Who are the main players and consumers in the BDS market in Kenya, and to what extent are they willing to pay for BDS?
4) To what extent is BDS commercialized and what are the key challenges or opportunities in the BDS market in Kenya? What can be done to increase commercialization and thus the financial sustainability of BDS provision?
5) Were the needs of the SMEs supported through BDS aligned with the priority areas of project implementation?

A combination of primary and secondary research was conducted for this learning document. In the course of implementation of BDS activities, key informant interviews (KII) with the BDSPs1 and SMEs engaged through the project were undertaken to inform reliability of the interventions. Relevant information from project reports and monitoring and evaluation (M&E) documents have been included where appropriate and supplemented by secondary research.

3. BACKGROUND

The original rationale for the M-SAWA project was to support inclusive economic growth within Kenya. While Kenya has experienced years of robust wealth creation overall, there continue to be high levels of inequality, particularly among historically marginalized populations such as women, youth and rural communities. Data from the World Economic Forum (WEF) released following the January 2017 global meeting in Davos indicated that Kenya’s wealth creation over the past decade benefitted only a small proportion of the country’s citizens. Further, the majority of Kenyan businesses remained in the informal sector with limited engagement with the country’s relatively developed formal financial system. Significant growth had already begun in the Northern Corridor and the planned development of the LAPSSET Corridor was anticipated to spur growth in all three project focus sectors (agriculture, extractives, and construction), thus it was essential for the project to target these sectors and regions to help ensure that economic growth within Kenya is equitably distributed.

Attention was placed on working with target businesses to improve their gender practices as well as ensure that women benefit from the project by engaging at least 40% women-SEs and 20% women-led2 SMEs. In addition, the project aimed to assist these actors in realizing the benefits of harnessing environmentally sustainable technologies and business practices. Finally, as access to finance remains major challenge for Kenyan SMEs, the project sought to increase access to capital through partnering with private equity investment (PEI) funds and creating linages to investors and financial service providers. Using MEDA’s LF model as the primary entry point for project activities, the project worked with collaborating partners and BDSPs to target SMEs.

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1 BDS providers are firms or institutions that provide business services to enterprises. They may be private for-profit firms, NGOs, parastatals, national or local government agencies, industry associations, etc.

2 Women-led SMEs are defined as a business where: (1) primary owner of the company is a woman; and/or (2) majority of the Senior Management are women.
In the context of this project, rather than delivering BDS services directly through project staff, M-SAWA engaged local BDSPs to deliver support services primarily to SMEs. The overall objective of the BDS component of the project was to improve targeted SME profitability, sustainability, and competitiveness through BDS and technical advisory services. The BDS provided included, but was not limited to, training, coaching, or mentoring in financial management and/or access to financial services; business planning and management; market research and development; gender equality; and environmental safety and sustainability for "investor readiness". This approach enabled the project both to capitalize on the context-specific knowledge of local providers as well as to support the continued development of their capacities and networks. BDSPs provided tailored support incorporating gender equitable and environmentally sustainable practices into SME business plans and strategies to LFs and SMEs in 7 priority areas of:

1) Business and Supply Chain Analysis, Assessment, Strategies and Solutions,
2) Business (Development) Planning
3) Financial Planning
4) Environmental, Social and Governance (ESG)
5) Sales and Marketing
6) Human Resources
7) Information Technology Systems

The SMEs that were engaged in BDS activities must have been legally registered and licensed business entities meeting all of the following criteria:

a) employ 10 or more full-time, part-time, seasonal or casual employees; and
b) been in business for more than 2 years; and
c) recorded a total/gross sales revenue/turnover of over US$15,000 during the last financial year; and
d) maintained financial statements for at least 2 previous financial years; and
e) been working with Small Enterprises and are operating in any of:
4. RESULTS AND DISCUSSION

This section outlines the key results of MEDA’s work on the M-SAWA project related to BDS implementation, aligned with the learning questions outlined in the methodology section.

**BDS grant mechanism implementation process**

**Learning Question 1** – To what extent did initial assumptions around BDS design hold true and what changes were made to the implementation process during the life of the project?

Initially, the BDS component of M-SAWA was structured as a grants program, with MEDA providing funds of up to CAD $10,000 per SME, with a 1:1 matching requirement – 50% of the funds for service provision were provided by MEDA and 50% was to be matched by the SME receiving services. The initial proposed process for implementing the BDS grant mechanism was as follows:

a) M-SAWA provided a pre-determined range of BDS services which would be eligible for the BDS grants (aligned with the 7 priority areas outlined above) and identified and screened accredited BDSPs who would act as approved providers of BDS services. Each SME would have the opportunity to choose the BDSP that best suited their needs from the accredited list, or they could recommend an outside provider that MEDA would screen and add to the database.

b) BDS service provision contracts were to be signed between M-SAWA and each BDSP specifying:

- The price discount rate (50%)
- The maximum price discount value that was to be funded by M-SAWA (CAD $10,000)
- The SME client referral process (letter issued to SME client; SME client details referred by M-SAWA to the BDSP)
The contracting relationship (M-SAWA was to be at arm’s length; contract to be between BDSP and the SME client)

Contractual obligations to M-SAWA (including reporting requirements)

Payment method (MEDA to make payment directly to the provider of its 50% conditional on: (i) SME client signature indicating completion of BDS deliverables and matching contribution payment by SME client - 1/2 of invoice value for services rendered; (ii) copy of deliverables).

c) M-SAWA was to issue a BDS services referral letter to each eligible SME to present to a BDSP accredited by M-SAWA. These SMEs were identified through MEDA’s matching grant pipeline (see further details below).

d) BDSPs were to negotiate BDS terms of reference (TORs) with each SME client and sign bilateral consulting agreements with these clients. M-SAWA was NOT to be involved in this, nor was to be a signatory to these agreements.

e) BDSP was to ‘report back’ regularly to M-SAWA on status of SME client referrals including:

- Which SME clients have signed BDS consulting contracts; which decided not to purchase services
- Status of contract implementation

f) Following BDS service completion, the BDSPs and M-SAWA were to periodically contact the SME to complete a satisfaction survey immediately following service provision, obtain updated performance data and seek other referral/collaboration opportunities.

The SME status report (e) and the post BDS surveys (f) completed by M-SAWA and the BDSPs were meant to gauge the effectiveness of BDS provision. Most SMEs which qualified for BDS grants were SMEs who applied for larger LF grants and were unsuccessful in obtaining these grants as they generally did not have the experience or capacity to meet the more stringent requirements of those grants. They would be referred to BDS so that they could strengthen their systems and then reapply for the grants (an approach used throughout the project as a pipeline approach).

This initial strategy was largely unsuccessful, as the project received extremely low uptake among SMEs. Based on this low uptake, starting in Year 2, the project began to shift its approach to BDS to work with a smaller number of BDSPs as bulk service providers, drawing from their own networks of SMEs as well as SMEs referred by M-SAWA. This shift in strategy was informed by a series of interviews and focus group discussions (FGDs) with BDSPs and SMEs.
in October 2016 to identify the factors preventing uptake as well as potential strategies to rework the project BDS approach to better serve the needs of targeted SMEs. The two main barriers identified through these investigations were a lack of working capital by SMEs to meet the 50% match and the related challenge of a lack of willingness/ability to invest funds in BDS given limited financial resources. In addition, BDSPs noted that they would be more successful in securing contracts if they could leverage their own networks as well as matching funds available from other initiatives.

Taking into account this feedback, in Year 3, MEDA increased the options for access to BDS and focused on implementing two new BDS strategies, in addition to continuing to support the referral option for interested SMEs:

1) Bulk BDS Provision – This strategy involved entering revised contracts with selected BDSPs to offer service provision to a specific number of SME clients within their own networks or referred by the M-SAWA project team, using the selection criteria provided previously. In this approach, M-SAWA used the BDSPs to market the BDS support grant using their own networks to eligible SMEs. BDSPs focused on SMEs with the financial ability/willingness to fund BDS to avoid issues with the matching contribution. M-SAWA also targeted BDSPs with access to their own Technical Assistance (TA) funds and links to investors who may be able to contribute some of the matching funds themselves as either pre or post-investment support. This approach was intended to help offset the financial barriers for SMEs related to match while ensuring collective buy-in from multiple stakeholders. In addition, MEDA provided more flexibility on matching requirements, allowing for in-kind contributions (staff time, training materials, etc.) and worked with BDSPs to provide more intensive support related to creating linkages to financing opportunities for SMEs. M-SAWA entered one-year contracts initially to cover activities in Year 3 onwards and intended to extend these contracts if the approach worked well – which was the case.

2) Technical Assistance (TA) Facilities – In addition to working directly with BDSPs, M-SAWA expanded its work in supporting TA Facilities by other eco-system actors. MEDA worked with the Aspen Network of Development Entrepreneurs (ANDE) to manage a portion of M-SAWA’s funds for BDS provision, specifically targeting investment funds within ANDE’s network, to provide pre- and post-investment technical support to SMEs. This type of TA was scarce in the Kenyan market, despite the active investment environment. The facility was focused on working with private equity investment (PEI) funds to co-fund pre- or post-investment support for prospective or current portfolio companies. Pre-investment TA was to assist SMEs to develop their internal management systems, internal policies and practices or better develop their growth strategy to make them more suitable and appealing to interested
investors. Post-investment TA was to help the SMEs to better utilize newly acquired invested capital to scale and perform more effectively, faster.

Other TA support was offered to SMEs through partners like Lundin Foundation which implemented a TA facility co-funded with DFID specifically targeting SMEs operating in Turkana in the extractives sector. This initiative targeted 30 SMEs over a 2-year period. Based on the success of this initiative, MEDA entered into a follow-on agreement with Lundin to provide TA to additional SMEs in other counties in LAPSSET, targeting an additional 30-40 SMEs. M-SAWA also worked with Business Partners International (BPI) through their TA facility to provide BDS to a targeted 40 SMEs falling in project target sectors, accompanied by access to PEI capital (see Investment Learning Paper for further details on MEDA’s work with Lundin and BPI).

All BDS SME grantees in this second phase of work were connected in some way to appropriate third-party financing opportunities to fund their working capital and/or capital assets needs (documentation, submission, presentation, pitching and negotiation). Sustainability was built into the M-SAWA project by working through profitable, competitive, and sustainable BDSPs and investment funds who can continue to provide services and maintain supply chain relationships with SEs and SMEs long after the project is over.

Table 1 shows the 9 bulk BDSPs/TA providers who were contracted and the total number of SMEs that were supported with BDS over the course of the project was 314 (of which 177 were women-led [56%]), surpassing the life of project (LOP) target of 225 SMEs by 40%. It is worth noting that the project
also exceeded its overall target for women-led SMEs and specifically supported youth-led SMEs through its work with partner Ongoza. Some providers were significantly more successful at supporting women-led SMEs than others offering learnings for future MEDA programs.

Table 1: BDSPs/TA Providers and SMEs supported

<table>
<thead>
<tr>
<th>BDSP/TA Provider Name</th>
<th>No. of SMEs supported</th>
<th>Men-led</th>
<th>Women-led</th>
<th>Approx. BDS cost per SME (CAD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>African Management Services Company (AMSCO)</td>
<td>61</td>
<td>27</td>
<td>34</td>
<td>20,000</td>
</tr>
<tr>
<td>Aspen Network of Development Entrepreneurs (ANDE)</td>
<td>10</td>
<td>0</td>
<td>10</td>
<td>26,000</td>
</tr>
<tr>
<td>Anne Kimari (Independent consultant)</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>20,000</td>
</tr>
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<td>Business Partners International (BPI)</td>
<td>34</td>
<td>23</td>
<td>11</td>
<td>20,000</td>
</tr>
<tr>
<td>Consortium for Economic Research and Development Studies (CERDS)</td>
<td>75</td>
<td>7</td>
<td>68</td>
<td>8,000</td>
</tr>
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<td>Growth Africa</td>
<td>20</td>
<td>6</td>
<td>14</td>
<td>20,000</td>
</tr>
<tr>
<td>Lundin Foundation</td>
<td>69</td>
<td>54</td>
<td>15</td>
<td>20,000</td>
</tr>
<tr>
<td>NetBiz Impact (NBI)</td>
<td>9</td>
<td>3</td>
<td>6</td>
<td>20,000</td>
</tr>
<tr>
<td>Ongoza</td>
<td>35</td>
<td>17</td>
<td>18</td>
<td>1,800</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>314</strong></td>
<td><strong>137</strong></td>
<td><strong>177</strong></td>
<td><strong>Average = 17,311</strong></td>
</tr>
</tbody>
</table>

M-SAWA regularly conducted post BDS service satisfaction and effectiveness surveys based on the outputs/deliverables for each of the SMEs receiving BDS grants as part of the quantitative and qualitative reporting from the SMEs to confirm that the BDS deliverables were met and accepted. On an annual basis, M-SAWA conducted phone or in-person meetings/spot checks with 1-2 recipients from each contracted BDSP to collect client stories and receive more in-depth feedback on the program and how it could have been improved. From the BDS satisfaction survey responses that M-SAWA has collected from SMEs from 2018 to 2022 (based on a statistically significant sample size of 190 SMEs representative of all SMEs), the charts below represent some of their responses with respect to the BDS they received.
At the start of the BDS program, M-SAWA was fairly hands off with the BDSPs with regards to support offered around improving performance related to gender equality, which was initially included as one of the support options for SMEs to choose from under the ESG stream of BDS provision. There was extremely limited uptake of this area of BDS support, with no SMEs specifically...
selecting gender as an area of support in the first half of the project. MEDA learned that it needed to be more hands on and intentional in integrating gender, thus M-SAWhatsApped to a mainstreaming approach. To ensure a gender focused contribution to the negotiations and implementation process with BDSPs, the M-SAWhatsApp Gender Business Officer (GBO) was actively engaged throughout the SME application process, with a focus on ensuring that gender-related information was collected for each SME at due diligence stage and incorporated into BDS implementation. The GBO held consultative meetings with bulk BDSPs to determine gender specific BDS needs and to help ensure that gender was mainstreamed in their programming by building it directly into the BDS contracts. The BDSPs were encouraged to select supply chains that benefit women as programme participants. This gave the BDSPs an opportunity to design gender responsive strategies that could be integrated into their training and mentoring programmes. The GBO worked with one BDSP (CERDS) in applying MEDA’s Gender Equality Mainstreaming (GEM) framework, a practical manual and toolkit for assessing gender equality, and identifying, implementing and measuring gender equality mainstreaming strategies within companies. MEDA then provided a GEM grant to design gender responsive strategies that they integrated into their training and mentoring programmes.

Similarly for environment and climate change (ECC), MEDA initially took a more hands off approach, providing environment as just one option for SMEs receiving BDS grants. While there was more interest among SMEs in environment-focused initiative compared to gender, there was still low uptake with SMEs selecting environment from the set of options. MEDA decided to take a similar approach to gender, also mainstreaming ECC into the BDS approach. In order to ensure BDS grant beneficiaries were aware of the current national environmental laws that speaks to their core businesses, the Environment Business Officer (EBO) held consultative meetings with the bulk BDSPs, sharing resources for the BDSPs to disseminate to SMEs as well as encourage the SME grantees to contact the EBO for TA. The EBO reviewed the BDSPs’ onboarding materials used with the SME grantees to ensure that ECC was addressed and considered at the time of application. The EBO also supported the BDSPs to have curriculum available on environmental laws in Kenya and importance of compliance and to develop environmental assessment templates to support the development and promotion of environmentally sustainable activities by BDS recipients.

With donor approval, bulk BDSPs like Ongoza, ANDE and CERDS, in an effort to create economic opportunities for youth, were granted leave to adjust the criteria for SMEs targeted to remove or expand geographic coverage requirements and provide increased flexibility on SME definitions. Typical
adjustments made were to target SMEs not necessarily located in the M-SAWA focus counties, but serving clients in those counties, and targeting youth-led SMEs in larger cities.

**Best practices in BDS implementation**

Table 2 summarizes BDS model used by each BDSP and the unique approaches that they each used to facilitate the goal of improving targeted SME profitability, sustainability, and competitiveness through BDS and technical advisory services.

**Learning Question 2 –** What were some of the best practices in implementing BDS support to the SMEs that the BDSPs practiced?

Table 2 summarizes BDS model used by each BDSP and the unique approaches that each used to support the goal of improving targeted SME profitability, sustainability, and competitiveness through BDS and technical advisory services.

**Table 2: BDSPs and TA providers and their best practices in BDS implementation**

<table>
<thead>
<tr>
<th>BDSP/TA Provider name</th>
<th>Best practice</th>
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| Growth Africa         | • Post BDS, they identified, referred and linked SMEs to prospective investors and financing negotiations continued.  
                        | • Identified women SMEs as an important target group  
<pre><code>                    | • Identified by the M-SAWA Environmental Specialist as attuned to environmental issues. Scored all their SME clients on environmental, social and governance (ESG) strategies. Some of the environmental projects supported included organic fertilizer production, conversion of post-consumer plastics to alternative clean building materials, training in soil conservation, among other projects. |
</code></pre>
<table>
<thead>
<tr>
<th>BDSP/TA Provider name</th>
<th>Best practice</th>
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</thead>
</table>
| AMSCO                 | • Employed a practical methodology and approach in identifying and selecting SMEs for BDS through existing partnerships and leveraging their own database. Used an entrepreneurial assessment tool to determine specific SME needs that informed emphasis of BDS support given to the SME.  
• Purposed to continue supporting the individual SMEs post BDS up to a projected period of 10 months to guide them in implementing the strategies and ensuring policies were put in place. |
| Anne Kimari           | • An individual business consultant hired by African Farms and Markets Limited (AFMA) and endorsed by M-SAWA.  
• Developed operational policies, tools and procedures, and handheld/ supported the finance function in AFMA, and developed an investor documentation. |
| ANDE                  | • Provided an opportunity to leverage ANDE membership/networks.  
• ANDE provided the opportunity to link BDS with funding by actively promoting the TA Facility and signing MOUs with relevant PEI funds. They opened the application periods for rounds of funding, with submissions from interested SMEs. |
| Lundin Foundation     | • Integration of COVID-19 resiliency and shifting to blended instruction approaches in light of the pandemic.  
• Opportunity to link BDS with funding for SMEs in Kenya through the Northern Kenya Growth Capital (NKGC) Fund, and shifted to just using TA facility in year 5. |
<table>
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<tr>
<th>BDSP/TA Provider name</th>
<th>Best practice</th>
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</table>
| CERDS                 | • Based on CERDS’ strong interest in gender and targeting of women-led SMEs, they were selected to conduct a gender assessment using its GEM framework. Mainstreamed gender into much of its programming and were provided with a GEM grant with the following activities/strategies: mainstreaming gender equality in client services; designing and implementing gender inclusive talent sustainability program; and enhancing integration of gender equality into CERDS’ strategic plan and organizational growth.  
• Identified by the M-SAWA Environmental Specialist as attuned to environmental issues. |
| NetBiz Impact (NBI)   | • Specialized in linking innovative small and growing agribusinesses in East Africa to markets, technology and finance. NetBiz Impact promoted an agribusiness leadership platform that aimed to stimulate a vibrant, growth-oriented and inclusive agribusiness ecosystem in East Africa.  
• Identified women as an important target group  
• Identified by the M-SAWA Environmental Specialist as attuned to environmental issues |
| Ongoza                | • Partnered with Equity Bank and Kenya Commercial Bank (KCB) on a women’s loan product and incorporated gender into its programming and outreach strategy.  
• Identified women as an important target group and indicated gender neutrality in their programming. |
| BPI                   | • Provided opportunity to link BDS with funding. BPI’s TA facility was used for continual provision of TA in East Africa including in MEDA’s Second Chance Success project which supported woman-owned businesses in Kenya. |
Kenyan BDS market and demand for paid services

Learning Question 3 – Who are the main players and consumers in the BDS market in Kenya, and are they willing to pay for the services?

According to a recent report by Stuart Freedman & Argidius Foundation on understanding the BDS market and landscape in East Africa, the BDS environment in Kenya is increasingly active compared to markets in Uganda and Tanzania. SMEs are becoming increasingly aware of training and coaching services and valuing their benefits. There are a number of organizations that support entrepreneurship and enterprise development in Kenya, including many that provide incubation and acceleration services. There are also a number of universities and technical institutes offering a variety of curricula, services and events related to improving business performance. The agricultural and technology sectors (in particular software and mobile applications) are served by a number of organizations, many programs with a focus on engaging women, youth and young entrepreneurs, and a number of financing products and financiers that SMEs can access.

The report goes on to describe that despite the abundance of BDS providers, there are still gaps including the focus on the ecosystem in Nairobi, where most of these organizations are based, thus leaving a gap in services in Mombasa, Kisumu, Nakuru and more rural areas. There is a lack of support for basic product and service companies for the consumer market, challenges in early-stage financing, and a need for angel investment.

The survey found that with so many activities and organizations operating in Kenya and East Africa more widely, there needs to be more clarity and transparency regarding how these organizations can complement and coordinate with each other. Given the variety of actors and programs, it can be confusing and overwhelming for an entrepreneur or SME to navigate the system in order to find the right fit. The same is true of the financial products and services available. Greater coordination and segmentation are needed with a keen eye towards easy and accessible information for entrepreneurs and SMEs.

The lack of a co-ordinated governmental policy for SMEs in Kenya leads to confusion regarding how to navigate government departments which also offer support services for the SME sector as part of their mandate. This leads to uncertainty on the part of SMEs on where they can get information on business support from the government which may lead to increased dependency on shorter-term donor projects.

There is also a gap in financing and availability of human capital to support funding SME growth and training the right people. Despite the many financing options available, there is a gap between supply and demand that needs to be resolved, particularly for early-stage non-collateral-based equity and debt. In addition, a significant proportion of the funding available in Kenya is from foreign investors who prefer to invest in foreign SMEs because of lack of information and trust in the Kenyan operating environment. There are also talent gaps, both in the organizations providing services to SMEs and in senior roles in start-ups. These are systemic issues that need to be considered within the BDS eco-system (Argidius, 2015).

Social media is making information for SMEs around market opportunities, business growth strategies and to learn about where they can access appropriate support. Social media also enables SMEs to learn from each other and access free content and accessible videos to learn from their peers.

Donath R. Olami (Ed) in his book, *African Entrepreneurship and Small Business Development*, identifies three types of BDS providers (public, private and civil society organizations). He argues that BDS offered by private companies is more sustainable and more likely to have impact because they must be responsive to the needs of business operators. The main issue is that the market is still not sufficiently developed for private providers to offer BDS as many are quite small and SMEs are unable to pay the full cost of the services (as was the experience of M-SAWA). On the other hand, most civil society organizations and NGOs are providing 100% subsidized BDS programs making it challenging to motivate SMEs to pay and develop a sustainable market. While these findings were published in 1999, based on the experience of M-SAWA and other implementers there is still a need for coordination not just with government, but also among the NGOs and funders in ensuring a sustainable approach to BDS which balances the need to incentivize SME participation through financial incentives and cost-sharing but does not distort the market with free services.

**BDS commercialization – challenges and opportunities**

**Learning Question 4** – To what extent is BDS commercialized and what are the key challenges or opportunities in the BDS market in Kenya? What can be done to get to commercialization?

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One of the major objectives of the M-SAWA project was to facilitate the commercialization of the BDS support to SMEs in the Kenyan market by showcasing its benefits to catalyze the growth of the sector. By working through existing providers and collecting/disseminating information on the benefits of BDS, the project aimed to support the long-term development of the BDS sector to ensure SMEs continue to receive the support needed to grow after the project is complete. In order to fully commercialize BDS support to the SME sector in Kenya, the challenges facing SMEs outlined above, need to be addressed while seeking the buy-in of SMEs in need of mentorship to improve business operational practices through accessing the full spectrum of support available.

Table 3 summarizes the challenges that have been observed during implementation of M-SAWA that are affecting the commercialization of BDS in Kenya as well as the opportunities for increasing commercialization going forward.

**Table 3: Challenges and opportunities in commercializing BDS in Kenya**

<table>
<thead>
<tr>
<th>Challenges</th>
<th>Opportunities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low uptake of BDS services by the SME beneficiaries due to lack of working capital by the SMEs and the related challenge of a lack of willingness/ability to invest funds in BDS given limited financial resources.</td>
<td>Streamlined operational processes through implementation of business strategies as part of BDS training and mentorship, equipping SMEs with requisite skills to better manage their businesses. By SMEs coming together and working in groups to access BDS support by sharing the costs.</td>
</tr>
<tr>
<td>Time allocation for the BDS support is short with SMEs noting that more time is needed to support them to implement the strategies and plans developed from the BDS support.</td>
<td>Onsite and ongoing mentorship and coaching sessions with the SMEs in addition to leveraging technology – inculcating blended learning.</td>
</tr>
<tr>
<td>Additional barriers faced by women-led SMEs, including increased unpaid domestic work, which can severely limit the time they can spend on enterprise operation and management.</td>
<td>Delegation and managerial training to the SMEs will enable management to concentrate on the strategic implementation of action plans. Application of the GEM framework which helps SMEs to identify gender issues and strategies to address with their employees.</td>
</tr>
</tbody>
</table>
Challenges | Opportunities
--- | ---
Perception from the SMEs that BDS support leads to financial grants from the BDSPs to address the business needs as is offered to them by development partners such as NGOs. | Leveraging the support of the NGOs in an effort not to distort the BDS market commercialization and requiring the SMEs to contribute/invest in the BDS support to ensure ownership and accountability.

Limited SME management capacity | Improved management capacity and business planning especially among smaller businesses and farmer groups enables SMEs to enhance their operations and/or introduce products which are more innovative, gender appropriate and environmentally sustainable.

Over-dependence on BDS grant mechanisms from the public and civil society actors by the SMEs | Supporting commercial BDSPs to develop sustainable business models that are not reliant on grants and promoting these to the SMEs.

Learning Question 5 – Were the needs of the SMEs supported in BDS aligned to the 7 MEDA priority areas of implementation?

SME needs alignment with MEDA BDS priority areas

At the onset of the BDS support, BDSPs took SME grantees through a needs analysis to understand the priority areas of support for each SME. Support offered was to be aligned to the 7 priority areas based on MEDA's wider needs assessment of SME capacity building needs in target counties and sectors. Based on the needs analysis, MEDA was pleased to see that the majority of the needs identified by targeted SMEs aligned in some way with the 7 priority areas identified during project design. Table 4 elaborates on the ways in which the SME needs were aligned with project priority areas, highlighting specific intervention/mitigation measures which were addressed by the BDSPs during the provision of services.
### Table 4: SME needs alignment with MEDA priority areas and intervention/mitigation measures

<table>
<thead>
<tr>
<th>SME Needs</th>
<th>Intervention / Mitigation Measures</th>
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<tr>
<td>Concerns about government policy compliance in gender and environment;</td>
<td>M-SAWA provided more concerted support in the design of the BDS programming to ensure environmental as well as gender were mainstreamed across all service provision, not just standalone options.</td>
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<tr>
<td>however, limited interest in investing in separate ESG activities.</td>
<td></td>
</tr>
<tr>
<td>Financial access challenges and bottlenecks in the access to finance</td>
<td>Linkages to financial institutions and improving access to PEI was essential in the context of this project to help SMEs expand operations and create more jobs, contributing to higher level outcome achievement.</td>
</tr>
<tr>
<td>market.</td>
<td></td>
</tr>
<tr>
<td>On-site ICT consulting requested; Business plan training; financial</td>
<td>Strategies and plans jointly developed with the SMEs for business growth and sustainability.</td>
</tr>
<tr>
<td>management training; and marketing plan training; and people management.</td>
<td></td>
</tr>
<tr>
<td>Specific technical expert support in business operations such as</td>
<td>Justification approved for the technical expert which in turn made it possible for the business case to be further supported.</td>
</tr>
<tr>
<td>geologists, agronomists, etc.</td>
<td></td>
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</tbody>
</table>

5. LESSONS LEARNED AND RECOMMENDATIONS FOR FUTURE PROGRAMS

Based on the findings of this study and wider learnings from M-SAWA MEDA would like to highlight the following learnings and recommendations to be considered for future programs by MEDA and other practitioners:

**Lessons learned**

- Many SMEs do not have the requisite documentation available, such as audited financial statements, to qualify for BDS programs. They are also
too early-stage for investment and may lack adequate detail on business projections. BDS programs should be designed with flexibility to support creating this documentation where appropriate. Specifically, criteria on audited financial statements should be flexible depending on SME size – practitioners can build in contract conditions that require these documents be produced within a certain period to balance compliance and financial management.

- Entrepreneurs who initially expressed interest in BDS to facilitate access to investment at times found that their circumstances changed. For instance, an entrepreneur’s business priorities may change, or they may gain access to different capital (e.g. equity) from another provider before BDS.

- Most SMEs did not place a priority on gender responsiveness or understand the impact of gender on their operations, productivity or sustainability. In response, M-SAWA mainstreamed gender equality into BDS programming and implemented the GEM framework to enable businesses to identify gender strategies.

- The adjusted approach from recruiting or referring SMEs from MEDA for BDSPs to working directly with BDSPs to source and train interested SMEs from their own networks worked well as it allowed them to leverage their own networks of SMEs with an established relationship.

- It is important to encourage BDSPs to include linkages to financing for SMEs supported given the feedback from SMEs that access to finance was a critical barrier to their willingness/ability to pay for BDS. Many noted that they would be most interested in support by BDS providers specifically focused on accessing financing.

- High quality BDSPs were identified through SME networks and MEDA’s experience in providing quality BDS support; however, there is a need to standardize BDS processes among BDSPs to ensure consistent quality. Future programs should consider whether global standards in BDS can be applied [similar to generally accepted accounting principles (GAAP) for the accounting profession].

- It was a challenge motivating SMEs to pay for BDS when the same is available for free in the market from many NGOs. This led M-SAWA to allow for more in-kind contributions which was more practical for SMEs to provide while still ensuring buy-in. “Success fees” could also be charged based on the successful finance linkage of SMEs to funders to facilitate the BDS costs.
• Environment/Gender was originally offered as part of a menu of options, rather than mainstreamed in the BDS offering – few SMEs selected for those themes so this was adjusted mid-project for all SMEs.

• The ANDE TA facility model specifically did not work as well as anticipated because of low interest/uptake by PEIs. Few PEIs took advantage of the BDS opportunity largely due to competing priorities within the PEIs as well as the more limited focus on the available funds on companies working in agriculture, construction and extractives (which were project target sectors). Moreover, due to confidentiality reasons, the PEI funds could not share BDS technical support deliverables which posed a challenge in assessing impact and establishing trust. A more effective model in M-SAWA was its direct partnership with Lundin and BPI who were directly involved in the market as PEI funds. In future MEDA would recommend direct partnerships with funds while leveraging the networks of membership organizations like ANDE to promote the project.

• There is a need for an increased focus on sustainability – what happens after BDS provision? The project did not have strong follow-up mechanisms in place to support the SMEs post-BDS to facilitate implementation of the plans developed.

• Initial hands-off approach to managing contracts (no dedicated staff member within MEDA) contributed to slow project spend rate, with budgets too large for some BDSPs.

• Need for more simplified reporting requirements to increase responsiveness of SMEs receiving BDS.

Recommendations

• Have a dedicated staff member for BDS programming given the complexity of the operating environment and need for more dedicated support to achieve impact (this learning has been incorporated into MEDA’s upcoming Leveraging Equality for Gender-Inclusive Economic Development or LEGEND program).

• There is need for advocacy around the distorted market for BDS in Kenya, to help other players shift away from a 100% subsidy and build SME ownership of the process.

• Focus BDS on investment readiness and BDSPs that can support applying for financing and consider incubators/accelerators rather than traditional BDS providers based on an understanding of incentives of SMEs.
• Gender and ECC need to be mainstreamed from the beginning of BDS interventions and SMEs need to receive increased guidance and sensitization on the importance of gender and ECC in doing business.

• The budget for BDS needs to be tailored to the size and level of sophistication of each SME. Some SMEs will need a higher level of individualized support, while smaller SMEs may benefit increasingly from group trainings.

• Level of client contribution could be client specific to consider those who can afford and those who cannot

• MEDA provided a number of grants through M-SAWA to LFs/BAs which could also be very appropriate for BDSPs, including gender and environment-specific grants offering additional funds to increase gender and ECC capacity and support gender and ECC specific initiatives, as well as grants to implement the Gender Action Learning System (GALS) - a community-led and household methodology that aims to give women and men more control over their personal, household, and community development. These grants were quite successful in M-SAWA with LFs and should be considered for BDSPs as well given the identified gaps in uptake for services focused on these themes.

• As much as is possible, provide financing as an incentive to participate in BDS (include a requirement to apply for financing and support linkages to FSPs and investment funds).

6. CONCLUSION

Overall, the BDS approach as implemented by the M-SAWA project was impactful for the SMEs and BDSPs targeted by the project. MEDA significantly adapted and adjusted its implementation model along the way based on early challenges in uptake among SMEs. Ultimately, the majority of SMEs surveyed throughout the project appreciated the support they received in streamlining their operations and were interested in continuing to receive follow up services to enable them to implement the strategies introduced. The priority areas recommended by MEDA to guide the BDS intervention met the expectations of the majority of SMEs and contributed to improved profitability and sustainability for many SMEs.

For more sustainable BDS programs, the criteria for SME participation and areas of support should be flexible, with project design taking into consideration the size and sophistication of each SME. This flexibility can enable a wider range of
businesses to be supported and enable BDSPs to customize their offerings to address their specific concerns for growth. There is also a need for increased follow-up support to ensure that SMEs implement the strategies developed during the BDS support period. At a market systems level, the BDS market in Kenya can be strengthened through increased coordination between market systems actors on implementation approaches and to agree on, document and share best practices that will enhance SME satisfaction and profitability/sustainability. MEDA looks forward to continuing to learn from and adapt its work in BDS in future programming both within Kenya and globally to support a sustainable market for BDS.