COLLABORATION BETWEEN BUSINESS ASSOCIATIONS AND LEAD FIRMS IN SUPPORT OF THE SME SECTOR IN KENYA

THE M-SAWA PROJECT
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<th>Acronym</th>
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<tr>
<td>AAA</td>
<td>Africa Agribusiness Academy</td>
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<td>AGRIFI</td>
<td>Agriculture Finance</td>
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<td>ASDSP</td>
<td>Agricultural Sector Development Support Programme</td>
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<td>AWEIK</td>
<td>Association for Women in Extractives and Energy in Kenya</td>
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<td>BA</td>
<td>Business Association</td>
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<td>Business Development Services</td>
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<td>CAD</td>
<td>Canadian Dollars</td>
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<td>EAGC</td>
<td>East Africa Grain Council</td>
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<td>EAP</td>
<td>Environmental Action Plan</td>
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<td>ENA</td>
<td>ECHO Network Africa</td>
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<td>EPTPSD</td>
<td>Equitable Prosperity through Private Sector Development</td>
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<td>ESG</td>
<td>Environmental Sustainability Grant</td>
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<td>Federation of Kenya Employers</td>
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<td>-FSP</td>
<td>Financial Service Providers</td>
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<td>IFC</td>
<td>International Finance Corporation</td>
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<td>LAPSSET</td>
<td>Lamu Port-South Sudan-Ethiopia Transport</td>
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<td>LF</td>
<td>Lead Firm</td>
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<td>LF-VCD</td>
<td>Lead Firm-centric Value Chain Development</td>
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<td>MEDA</td>
<td>Mennonite Economic Development Associates</td>
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<td>Private Sector Development</td>
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<td>Siongiroi Dairy Plant Limited</td>
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<td>SE</td>
<td>Small Entrepreneur</td>
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<td>SME</td>
<td>Small and Medium Enterprises</td>
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<td>TAG</td>
<td>Technology Adoption Grant</td>
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ABSTRACT

To contribute to job creation and economic growth in Kenya, in 2015, MEDA initiated the Equitable Prosperity Through Private Sector Development project, also known as Maendeleo Sawa (M-SAWA). M-SAWA is a seven-year project aimed at improving the business, environmental, and gender performance of small entrepreneurs (SEs) and small and medium enterprises (SMEs). This was in recognition that SMEs play a significant role in job creation in the country, yet they face several challenges which limit their contribution to growth and equitable prosperity. The outcomes of the project were partly predicated on collaboration between actors in the lead firm-centric value chain development approach employed by MEDA. This paper analyses the collaboration between Business Associations (BAs) and Lead Firms (LFs) who were key implementing partners for delivering benefits to SEs and SMEs in Kenya. Through the review of documents, the results suggest that collaboration led to enhanced market access opportunities, greater efficiency along supply chains, formulation of policies for a conducive business environment and access to finance. All of these results are important for sustainable private sector development and continuation of activities after completion of the project.

ACKNOWLEDGEMENTS

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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 Canadian Dollars (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 opportunities 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 (TAGs)
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 (ESGs)
9) Promoting Investment in the SME sector in Kenya

This learning paper focuses on the collaboration between BAs and LFs in support of the SME sector in Kenya, through MEDA’S M-SAWA project.

2. METHODOLOGY

The specific questions which will be addressed through this paper are as follows:

1) In which areas did the BAs and LFs collaborate?
2) What are the outcomes of the collaborations between BAs and LFs?

This paper is based on a review and synthesis of M-SAWA project documents including implementation plans, internal project documents, semi-annual and annual reports, and Kenya Livestock Marketing Council Policy Brief which have extensively documented the project activities and outcomes.

3. BACKGROUND

MEDA’s focus on equitable prosperity is in line with the country’s key national and county governments development policies. In Kenya, despite several interventions, little progress has been made to attain equitable prosperity. The
modest economic growth recorded in the past decade or so has not translated into beneficial outcomes for most citizens. In addition, growth has been largely jobless. As job creation in the formal sector has remained low, most of the entrants into the labour market join the informal sector. A recent Federation of Kenya Employers (FKE) study revealed that 9 in every 10 informal economy workers are employed by informal micro enterprises (FKE, 2021). The Kenya Economic Survey 2022 shows that 81.4% (753.8 thousand) of all the jobs created in the economy were in the informal sector. The SME sector offers strong potential to engage farmers and SEs in stable supply chain linkages and to generate employment opportunities in both the formal and informal sector. SEs refer to individual businesses such as producers of farm products for local or export market with fewer than ten employees, while SMEs refer to formal enterprises with between 10 and 250 employees.

Although SMEs in Kenya play an important economic role and have strong potential to drive job creation, they face a myriad of challenges which limit their contribution to development and improvement of livelihoods. Key challenges include difficulties in accessing formal credit, limited access to markets, and a conducive environment to do business. 50% of informal firms are financially constrained and 80% do not advertise or market their products (compared to 46% for formal firms) (FKE, 2021). Moreover, SEs and SMEs tend to have weak contractual agreements with input providers and output buyers and 66% of the owners do not belong to sort of BA, such as industry associations, chambers of commerce, merry go rounds, and farmer’s associations. Furthermore, some SMEs may not find it viable to collaborate with BAs due to inherent risks and costs of linkages despite the potential benefits in improving performance, accessing new markets, financing, and effecting policy change.

To contribute to alleviating the challenges that SMEs face, MEDA initiated the M-SAWA project in 2015. The ultimate outcome of the project is equitable economic and employment growth through supporting profitable, competitive, and sustainable business growth, targeting 20,000 SEs and 250 SMEs. The M-SAWA project is based on the lead firm-centric value chain development (LF-VCD) approach. LFs include out grower firms, processors, exporters, traders, input companies, and service providers. They have solid business practices, often apply value addition to their products or services, and play a critical role in moving their industry forward. The LF-VCD approach is based on the idea that LF and SEs need each other for mutual benefit. Through this approach, the targets are businesses higher up in the value chain who are market-makers themselves and work through them to benefit the actors within their supply and value chains. The approach leverages on existing linkages between LF, SMEs, SEs, and other actors.
The M-SAWA strategy centred on supporting the growth of LFs by enhancing reliable and consistent supply from SEs and SMEs; strengthening management, adaptation, and organization of SMEs; and supporting policy and regulatory reforms for a conducive business environment. The LFs were expected to build the capacity of SEs which would eventually lead to enterprise profitability, competitiveness, and community growth.

One of the project’s intervention areas was supporting BAs. BAs are associations of SMEs and include local non-governmental organizations (NGOs) or apex associations. MEDA recognised that collaboration among SMEs is essential in ensuring sustainable growth. In support of this goal, MEDA contracted 12 BAs and offered them matching grants to support initiatives that would result in mutual benefits and increased collaboration among SMEs. BAs were expected to support SMEs to address shared supply chain constraints through capacity building; improve access to financial services; increase access to profitable markets; and build their knowledge base by conducting supply chains for infrastructure and standards constraints studies.

While MEDA contracted LFs and BAs in a variety of sectors, MEDA intentionally sought to contract a number of LFs and BAs working in the same sector to help facilitate increased collaboration to move their sectors forward. Collaboration occurs when two or more organisations work together in coordinating activities which span the boundaries of their organizations for mutual benefit (Formentini & Romano, 2016; Matopoulos et al., 2007). From a private sector perspective,
collaboration is advocated for when enterprises working and operating alone is not sufficient to resolve common supply chain constraints (Matopoulos et al., 2007).

Collaboration between BAs and LFs enabled the project to expand its reach and promote wider uptake of project activities. This paper will examine to what extent LFs and BAs were able to collaborate in support of achieving project goals, identifying key learnings and best practices. The results are important for development practitioners, partners (BAs and LFs), government agencies, donors, the academia, and other actors who seek the development of SMEs for enterprise profitability and employment creation.

4. RESULTS AND DISCUSSION

This section outlines the key results from M-SAWA project collaboration between BAs and LFs/SMEs.

Areas in which collaboration occurred

The establishment of a collaborative relationship between BAs and LFs in the M-SAWA project was critical in expanding business opportunities for established and emerging SMEs. The goal of the collaboration was to expand business operations internally by gaining access to affordable finance, foreign markets through shared information and knowledge through market studies carried out by BAs and funded through matching grants. During the desk review, it was established that SMEs linked to a BA were also linked to technology providers and a number of them introduced improved supply chain management systems. BAs also promoted the development of policies and regulations to influence and create a favorable environment for SMEs to thrive to create job opportunities for a stable economy.

Furthermore, through the BAs, SMEs working in the same sector (including LFs in a number of cases) established collaboration in areas that would promote mutual or collective benefits for growth. This was evident in the case of Siongiroi Dairy Plant Limited (SDPL) which is a LF and the Kenya Dairy Farmers Federation (KDF) which is a BA. KDF is a farmer’s organization whose objective is to drive, expand and organize the dairy industry in Kenya to become efficient, competitive, and sustainable. SDPL is a milk aggregator which is also a member of KDF.

Collaboration between KDF and SDPL was activity-based and aimed at improving the overall operating environment for SMEs through advocating for
conducive policies and regulations. KDFF advocated and lobbied for better prices for the farmers to avoid exploitation as well as cover the production cost while leaving farmers with disposable income for their family household expenses. A bill, drafted by the Kenya Dairy Board (KDB) to set the minimum price across all milk producing regions to supply to the processors, is under review by experts to capture the details of quality assurance and the minimum price of milk per litre. All members of KDFF, including SPPL, actively participated in the drafting of the bill, and since they are confident of the training the farmers have undergone, in part through M-SAWA support, they are able to supply milk that meets the standards as set by KDB for better prices.

**Outcomes of the collaborations**

From the documents reviewed, collaboration between BAs and LFs led to four key outcomes: enhanced and better markets for LFs, increased efficiency along supply chain, enhanced financial access for LFs, and formulation of appropriate policies and regulations.

**Enhanced market access opportunities**

The results show that collaboration in the M-SAWA project led to enhanced market access for LFs and the SMEs affiliated to the BAs. This was evident once again in the KDFF collaboration with SDPL. Through collaboration with KDFF, SDPL was able to secure contracts to supply milk to Brookside Dairy Limited and Highland Creamers and Foods Limited. Related to this is the establishment of marketing platforms where Association of Women in Energy and Extractives in Kenya (AWEIK), a BA in the M-SAWA project, enhanced interaction between actors in the extractives sector to access up to date information as well as local/international markets for their products and services. This was achieved by creating a database of enterprises which act as a platform to link potential buyers and sellers. AWEIK also designed, developed, and publishes a monthly newsletter for information sharing.¹

Market research completed by BAs funded through the project has also helped informed LFs and other SMEs around potential new value-added products for both local and export markets. This was evident from the market research study carried out by the Africa Agribusiness Academy (AAA) “Market opportunities and gaps in mango, avocado and African Leafy vegetables.” One of the study findings for the African leafy vegetables as quoted from the report: “There are possibilities to consider exporting the vegetables. Kenyans in diaspora would relish identifying themselves with the vegetables. The Asian vegetables are a major component of the Kenya’s horticultural industry, because of the people

¹ [https://aweik.or.k.e/project/m-sawa-proect-med-a-project/](https://aweik.or.k.e/project/m-sawa-proect-med-a-project/)
of Asian origin who reside in United Kingdom and other parts of Europe. The possibility of exporting ALVs to Africans, East Africans or Kenyans living abroad, is worth investigating for possible action." The market study encouraged Mace Foods to begin exploring the potential for producing dehydrated African leafy vegetables for the export market in Europe and USA. Goshen Farm Exporters Limited, operating in the mango value chain, was also influenced by this study to start drying mangoes for the export market.

Another collaboration related to enhanced market opportunities was seen between the East Africa Grain Council (EAGC) (a BA) and its affiliated SMEs. EAGC conducted a market survey on the utilization of staple foods standards by grain sector SMEs. This study was conducted in collaboration between EAGC and its member SMEs to seek answers to the challenge of aflatoxins in cereals in Kenya to come up with findings and recommendations to address the issue of post harvest losses. The market survey advised the grain and cereals industry to check grain standards for aflatoxin levels and have grain tested and graded accordingly before trading on trade platforms or commodity exchanges. This prompted the EAGC to create training modules to help build capacity and support farmer groups in adopting good post-harvest handling practices and storing goods in aggregation centers and certified warehouses. To implement the market survey’s findings and recommendations, EAGC used the survey to obtain donor funding to increase farmers’ capacity in grain standards and warehouse receipt systems.

Similarly, the contracted BAs in the M-SAWA project conducted a total of 10 market research studies in various value chains, which are a source of valuable information not only for the project’s LFs and SMEs, but also other stakeholders seeking to enter the local and export markets. The research study component of the project improved collaboration between BAs, LFs and SMEs by providing a platform for information sharing and dissemination to grow businesses in the three sectors targeted by the M-SAWA project. MEDA has been working with the BAs to further promote the findings of these studies, hosting an exchange forum at the end of the project to share findings and learnings among partner BAs.

Efficiency along supply chains
The collaborations and networks which were created through the project between BAs and LFs have led to reduced duplication of efforts and improved coordination. This was achieved through enhanced coordination between organizations working in similar sectors and/or overlapping geographical areas. For example, Lake View Fisheries and ECHO Network Africa (ENA), an LF and a BA respectively, collaborated through M-SAWA to support activities
in Lake Victoria by providing access to quality fingerlings, markets, and extension services to increase production among fish producers. ENA has had tremendous success in caged fish farming in Homa Bay County while observing environmental practices to sustain fish production. The caged fish production techniques are supported by Lake View Fisheries through provision of extension services, fingerlings, and technologies for post harvest management. ENA has also worked to foster collaboration among relevant stakeholders such as Kenya Marine and Fisheries Research Institute (KEMFRI), county government, and national government field extension officers to leverage their resources in support of sustainable fish production.

To further increase efficiency in the supply chain and in the established collaborations, KDFF recommended the depower system (a dairy supply chain management system) to Siongiroi Dairy and other affiliated dairy companies. Through this collaboration, KDFF researched and provided the best digitalized solution to the farmer organization to store data for quick transactions. This centralized data system provides around the clock access to information which not only saves time and money, but also mitigates risk by reducing reliance on staff availability to keep dairy operations running.

The used of this application has supported Siongiroi Dairy to access crucial information and knowledge that resides permanently within the company and is available to the wider team. The information is used to train new employees, reaching productivity faster, and allowing staff to work remotely if the situation requires it. For example, local knowledge on the best way to access a milk producer’s farm is sometimes only known by their regular extension officer. If there is a change in the extension officer, making this information available to others through a system like depower maintains high levels of daily efficiency and customer service regardless of who the extension officer is.

Another benefit of the collaboration between KDFF and Siongiroi Dairy is that the depower system has enabled the dairy industry to maintain high levels of operational efficiency through ‘flush’ milk production during peak consumer demand. Running scenarios and cost models in advance of these known events helps dairy teams to make informed decisions about factory requirements, fleet size, and driver resources. This helps to ease the effects of the seasonal fluctuations and assist managers to better manage cashflow and expenditure and match resources to demand.

**Access to finance**

SMEs are less likely to obtain bank loans than large firms because of the risk of failure and lack of sufficient collateral. Instead, they rely upon internal funds, or cash from friends and family, to launch and initially run their enterprises. The
International Finance Corporation (IFC) estimates that 65 million firms, or 40% of formal micro and small enterprises in developing countries, have an unmet financing need of $5.2 trillion United States Dollars (USD) every year.

This was evident in the case of AAA, a BA and business platform that supports SMEs in the agri-food sector. Its membership base of over 150 SMEs confirmed that it is indeed difficult to access finance. To support its members, AAA provided and linked SMEs to business growth finance through the ‘AAA stitching Small Credit Fund’ and other external sources. The stitching small credit fund is a robust inclusive finance program created to support youths and women to access credit to finance their businesses. The BA supported and collaborated with the SME membership in accessing working capital to expand their business operations. AAA as a BA connected SMEs like M-SAWA LF Mace Foods to the Agriculture Finance Challenge Fund (AGRIFI) and other Financial Service Providers (FSP), which benefit women-led businesses. Mace Foods benefited from the linkages to financial access as a LF in the M-SAWA project, and as a member of AAA, by expanding its manufacturing plant in the town of Eldoret to process and package chillies and African leafy vegetables for the export market.

Additionally, MEDA referred AWEIK to the Australian High Commission, which contributed to AWEIK’s grant to support a women’s economic empowerment (WEE) initiative focused on enhancing market opportunities for women entrepreneurs in the extractives sector.
Conducive policies and regulations

SMEs are directly affected by government policies and regulations. When policies and regulations enacted by the national and county governments in Kenya are conducive for business activities, enterprises thrive. Conversely, inappropriate policies and regulations can constrain the activities of enterprises and make it difficult for them to raise productivity levels, expand, generate higher revenues, and contribute to employment creation and economic growth. A review of project documents shows that the Kenya Livestock Marketing Council (KLMC), a BA supported through M-SAWA, advocated for legislation that would address some of the challenges that livestock farmers face in order to boost growth in the sector. The focus was to facilitate joint management of livestock markets and sharing revenues by pastoral communities, livestock marketing associations, and county governments. KLMC and county governments facilitated the formulation of livestock saleyards management bills, livestock development, and rangeland management policies. So far, the Livestock Saleyards Management Bill has been passed into law by Isiolo County and is at various stages of the policy formulation process in the counties of Samburu, Turkana and Marsabit. The laws are expected to improve market revenues and farmers income.

In another case, KDFF advocated for legislation to set minimum farm gate prices for milk so that farmers can earn higher revenues from sales. KDFF’s effort seeks to ensure that LFs and SMEs such as SDPL earn a greater share of value in the milk value chain. KDFF discussed with its membership of dairy processing plants in the country, the need for fair farm gate prices for milk from farmers among its members. With MEDA’s support, SDPL provided information about the farmers’ production costs for dairy milk and supported the promotion of standards and fair prices. In this regard, KDFF hosted several forums and created a platform for policy development to lobby and promote fair prices through the KDB. The deliberation will be introduced in parliament as a Bill.

5. LESSONS LEARNED AND RECOMMENDATIONS FOR FUTURE PROGRAMS

The M-SAWA project outcomes were successful due to the collaboration between its partners, as evidenced by information available from project documents whereby the LFs/SMEs and BAs collaborated effectively for mutual benefit. In future projects, MEDA should consider intensifying and improving these types of collaborations to maximize the benefits of such collaborations and grow the SMEs affiliated with BAs.
Policy and regulatory development improved the business environment by providing a context in which SMEs and LFs can operate, and it may have had an impact on the extent to which project objectives were met. As demonstrated by the collaboration between KDFF and Siongiroi Dairy, MEDA’s future projects in other sectors could replicate this success by influencing policy formulation and development to promote favourable business environments, as well as provide incentives for farmers to produce more, higher-quality materials that meet market standards, and fetch premium prices to improve the farmers’ incomes.

The same case applies to the digitalisation of SMEs. BAs can be a critical partner for encouraging SMEs to embrace technology to increase efficiency in their operations, as seen in the case of KDFF recommending the depower system to Siongiroi Dairy, which significantly increased the efficiency of its milk supply chain management system. Measures to assist SMEs in making the most of digitalisation should be intensified and inclusive as part of growth support, considering the capacities and requirements of different types of SMEs.

The M-SAWA project collaborated and worked closely with other agencies, including the government, to mitigate project challenges caused by changing circumstances. Extreme weather events due to climate change are expected to worsen, particularly influencing SMEs and SEs operating in the agricultural and agribusiness subsectors. LFs collaborated with county government agricultural officials to support desert locust control measures and during COVID-19, government stimulus programs alleviated some of the financial difficulties faced by SMEs. As it is difficult to accurately predict evolving environmental changes, the key is to design adaptive programs that consider the context.

Collaboration with government was also a key part of BA activities. For example, many BAs collaborate with national and county governments in round table discussions to develop strategies for increasing agricultural productivity and enhancing the growth of SMEs in those specific counties. For example, the Agricultural Sector Development Support Programme (ASDSP) in Kitui County, in collaboration with EAGC, developed training modules to raise awareness of high aflatoxin levels in cereals in the county and how the issue would be addressed.

The M-SAWA project’s targeted BAs are diverse, and collaboration is unlikely to work equally in differing sectors and geographical locations. Future programs must recognize the diversity of BAs and SMEs in various sectors and develop differentiated collaboration strategies. Many BAs’ operations have been curtailed due to their reliance on donor funding. There is potential to enhance collaborative efforts through strategic alliances, joint ventures, and consortia among BAs targeting SMEs in the same sectors of the economy. To effectively deliver their objectives, BAs should also consider new and innovative sources
of income generation to decrease reliance on donor funds, such as offering Business Development Services (BDS) to their pool of SMEs and charging a fee by delivering certain modules tailored to that specific SMEs.

MEDA should assist BAs in future projects to leverage their membership and wider networks to assist them in strengthening their revenue base, which could be achieved while supporting the development of operational capacities of SMEs to have a competitive niche in their sectors. MEDA’s future projects will consider BAs as BDS service providers, which could work effectively because the SMEs affiliated with BAs are long-term members and it will be easy to track the progress in impact to grow the sector as well as strengthen the BA’s income base to reach more SMEs.

6. CONCLUSION

Through M-SAWA, MEDA sought to contribute to equitable prosperity by collaborating with both LFs and BAs to support SEs and SMEs in the agricultural, construction, and extractive sectors. One of the key successes of the M-SAWA project was the effective collaboration between BAs and LFs which supported mutual beneficial outcomes in targeted sectors. Building and enhancing collaboration, especially in volatile sectors and involving SMEs, is difficult, but as M-SAWA helped strengthen the relationship between LFs/SMEs and BAs, collaboration opportunities emerged. Based on a review of project documents, it is evident that collaboration between BAs and LFs led to enhanced market access and increased efficiency along supply chains, which led to cost savings and strengthened governance; formulation of policies and regulations that can boost the growth and performance of SMEs; and access to finance. These collaborations increased the sustainability of the project by building a stronger eco-system in targeted sectors.
REFERENCES


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