Agri-SME
Learning
Collective

Improving Targeting of Agri-SMEs with appropriate Business Development Services and Technical Assistance

INTRODUCTION AND RATIONALE FOR THIS GUIDANCE DOCUMENT

Purpose of this guidance note

The Agri-SME Learning Collective (ASLC) created this Guidance Note to provide a segmentation of agri-SMEs and identify which type of BDS/TA services is best suited to support each segment. A recent study by ISF of agri-BDS in East Africa highlighted the need for an improved segmentation approach to providing better BDS/TA services.[1] The purpose of this document is therefore to inform the following stakeholder groups:

BDS/TA Providers — to enable them to better identify their target

BDS/TA Sponsors/ Donors — to enable them to identify the most relevant BDS/TA initiatives to support the ones matching the right BDS/TA providers to the right segments

Agri-SMEs — to enable them to identify the most appropriate BDS/TA

It should however be noted that improved segmentation also has the potential to:

- Strengthen accountability and incentivize improvements in BDS/TA quality.
- Enable deeper learning on what works and can be scaled.
- To determine the BDS/TA services for which potential clients are eligible.

[1] https://isfadvisors.org/assessing-the-cost-efficiency-and-effectiveness-of-business-development-services-for-agri-smes/

Background

A review of existing literature (see Bibliography) revealed that recent segmentation approaches are either largely untested or do not align with current practices. This guidance document aims to change current practices into a more uniform approach by offering more pragmatic proposals that can be adapted to different contexts, such as specific countries or value chains.

Agri-SME Learning Collective

The Agri-SME Learning Collective (ASLC) accelerates learning in the agricultural SME finance sector by sharing insights and best practices. Its mission is to equip practitioners, donors, and policymakers with the knowledge needed to strengthen the sector and drive positive social and environmental impact.

This Guideline was developed by the Business Development Services /Technical Assistance (BDS/TA) Working Group led by ADA/SSNUP, AMEA and Argidius.

Scope of agri-SMEs considered in this document

The scope of agri-SMEs considered in this document is based on the description of the universe proposed in the Agri-SME taxonomy published by SAFIN and ISF 2021 for SAFIN and illustrated here:
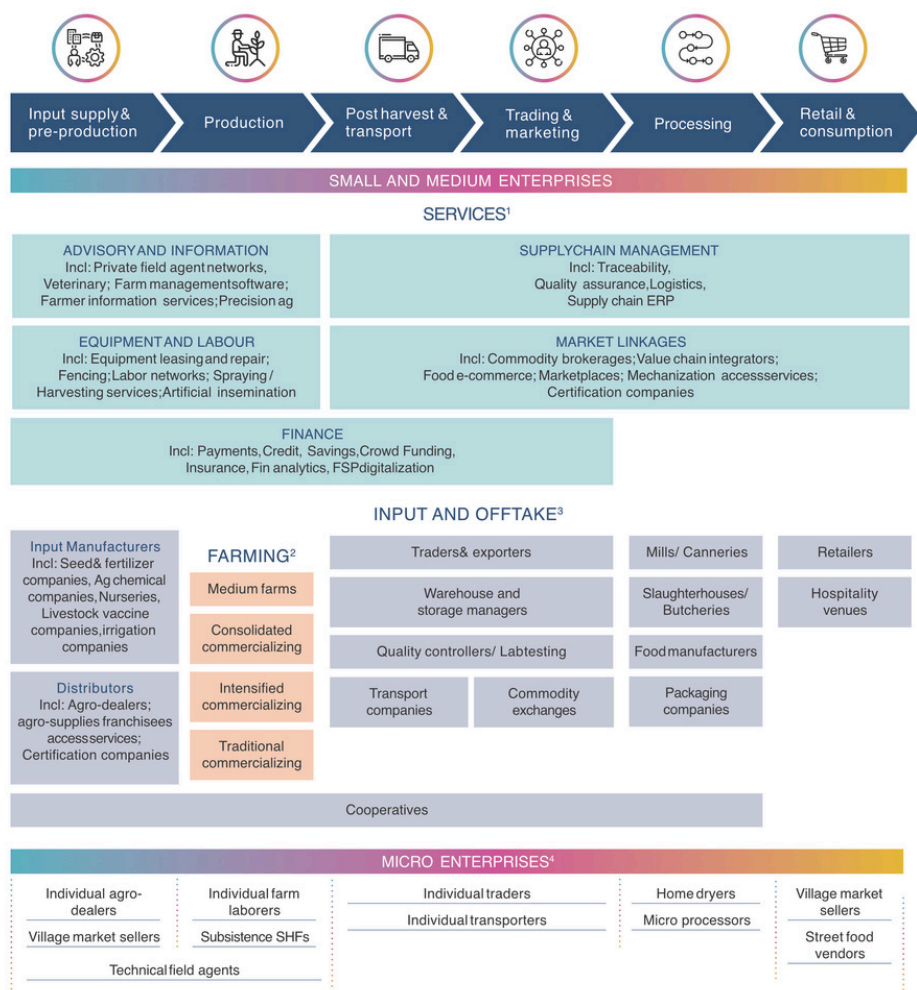
¹ Some enterprises will combine sub-segments into a single business model
² See Pathways to Prosperity report for full overview of sub-segments;
  Cooperatives and Farmer Organizations included in Farming category but provide services beyond production
³ Some enterprises will combine sub-segments into a single business model
⁴ Micro-enterprises listed are illustrative only and not meant to be collectively exhaustive

While this taxonomy will benefit from continued iteration and refinement as new business models and actors emerge, it is a useful foundation for analyzing the needs of agri-SMEs across previously siloed categories.

This guidance documents considers almost all actors represented in this taxonomy, in particular:

- SMEs, which could be sometimes extended to microenterprises, as justified in the next section.
- Not only enterprises involved in value chain ("farming" and "input and offtake" categories in the figure below) but also the ones providing non-financial products and services to those in value chain ("services" category in the figure below).

However, this document does NOT consider financial institutions (i.e. regulated as financial institutions), which may be part of financial service providers, a subsegment from the "services" category above. Indeed, their support needs are considered as significantly different from the rest of actors given the specific and different regulations they are submitted to. Nonetheless, future developments of this guidance document could lead to include them.

Furthermore, this guidance document includes small and medium enterprises that are not "profit-oriented," such as social enterprises, cooperatives, and associations. In certain regulatory frameworks, these enterprises are legally required to operate without a profit motive.

A SEGMENTATION APPROACH THAT CAN BE FIELD TESTED BY LEGAL FORM

Building on previous efforts, the SAFIN taxonomy is the latest paper on agri-SME segmentation, serving as the starting point for this guidance. The first part of SAFIN's taxonomy attempts to define an agri-SME as being able to service an investment of $50,000 -$2M, using employees, turnover and assets as proxy criteria. There was also a clarification that the enterprise must be profit oriented and, for cooperatives, farmers must sell over 50% of their produce.

However, attempting to define agri-SMEs based on size only (turnover, staff, capital, etc) is not always productive as each country, sector, industry and many development programs use various definitions and harmonization is not essential for learning about which TA/BDS programs is better for the agri-SME and delivers the best return on investment.

Additionally, some enterprises could fall under the "micro" category since they meet only one criterion to be considered as "small" but could face the same challenges and share the same support needs as the bottom end of the small enterprises segment.

Therefore, even though the guidance note mainly focuses on SMEs and does not apply to individual microentrepreneurs, it does not strictly consider the size criteria to define its application scope and remains inclusive of the upper segment of microenterprises when relevant.

As a consequence, instead of segmenting by size, we propose to prioritize segmenting by three aspects: legal form, value chain position and performance/potential. This will allow comparison between programs targeting private enterprises, cooperatives, farmer organizations and other forms.

A) Segmenting Agri-SME's

The proposed segmentation by legal form has three main categories: private enterprises, social enterprises, cooperatives and other hybrids, and other forms.

Agri-SME Category	Category Description
Private Enterprises	These are owned by individuals or groups of individuals or other companies for profit purposes.
Social enterprises, co-operatives and other hybrids	These are jointly owned by individuals or groups of individuals to help take up value-chain roles the owners cannot efficiently play. They are basically used to strengthen the position of "weak" owners in the market system. To qualify as a true cooperative, the agri-SME must fulfil all the four requirements of owned, controlled, managed and benefiting all owners in an equitable manner
Unregistered organisations	These include unregistered enterprises or similar organisations to co-operatives. These organisations are included in the scope as BDS/TA support may especially focus on formalisation.

B) Segmenting Agri-SME's by Value Chain Position

SAFIN proposed to segment agri-SMEs by: 1) Agri-SME position in relation to the value chain e.g. producer, processor, trader or service provider, as illustrated in the previous figure; and 2) growth ambition / potential as shown below:
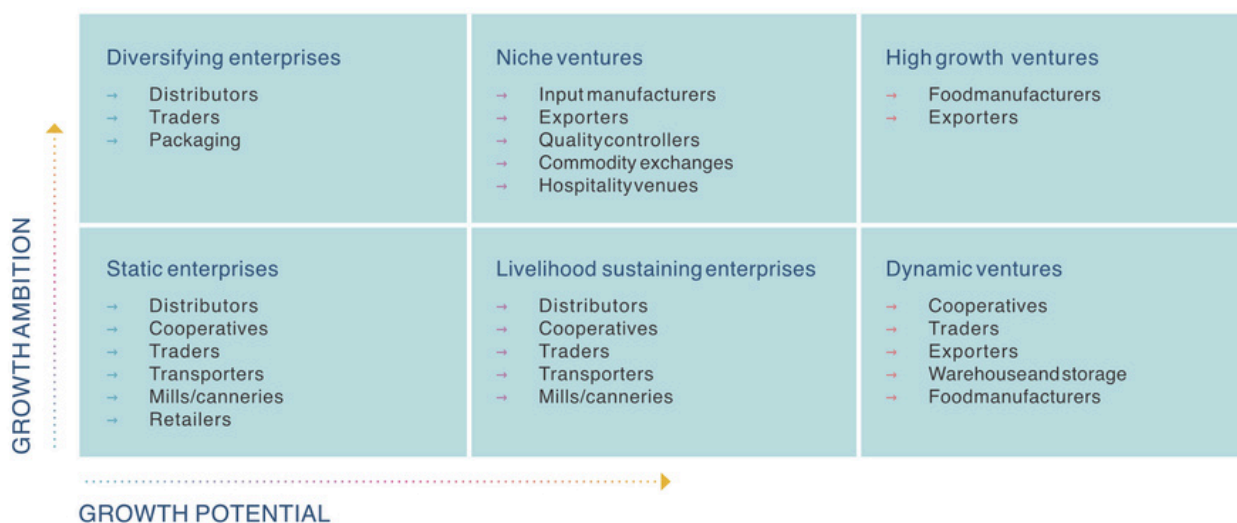
Three observations we can make here that influence the segmentation proposed below:

1 Investors categorise enterprises by their position in relation to the value chain although mostly with a simpler set of categories than the 26 sub-categories presented above.

2 It seems unusual to place these categories within the 6 profiles e.g. can a cooperative not have high growth.

3 The profiles are defined in the Taxonomy but the potential for misclassification by the user is high as there appears to be overlapping profiles e.g. an enterprise could be diversifying into a niche service which has potential high growth. This problem was also evident in the ISF study where BDS providers often misclassified the SMEs.

This guidance document therefore proposes a simplification, to bring perceived best practice closer to actual practice, and therefore incentivize improvements that can then be tested.

We propose that Agri-MSMEs' position in relation to the value chain can be classified as follows:

Agri-MSMEs involved in the value chain	Agri-MSMEs serving the value chain
1. Production	4. Equipment and equipment services
2. Aggregation	5. Other non-financial services (advisory, information, market access, etc.)
3. Processing	
4. Distribution and sales	

If an agri-SME operates in multiple roles within the value chain, it is useful to track and identify each role it plays. Additionally, a primary role can be determined, typically based on the activity that generates the majority of its revenue or profit.

This simpler segmentation allows for SMEs and BDSPs to consider the range of services required to serve these segments. Additional segmentation may complicate the reporting and is unlikely to yield any additional insights.

C) Segmenting Agri-SMEs by Performance / Potential

Building on the above, we propose simplifying the Agri-SME profile based on growth potential, guided by the following assumptions:

- SME growth is not linear, and the age of an enterprise is irrelevant to growth potential.
- Most SMEs targeted by agri-BDS programs will state that they want to grow.
- Growth might not be the ultimate goal particularly in social enterprises or cooperative/associative schemes.

Therefore, the proposed segmentation by performance/potential is based on the **level of management capacities of SMEs**, which may be basic, proficient or advanced independently from their business age.

The proposed indicators to measure each level of management capacity are meant to be indicative and used as guidelines. Given the volatility of the markets and the various external indicators that may affect the agri-SME, it is important to analyse trend information rather than point in time information. In addition to that, it is essential to consider the context that may have influenced any changes.

Agri-SME's Profile by Level of Management Capacities

Level of management Capacities	Characteristics
BASIC	These enterprises have weak governance and internal management, few if any contracted staff, low capital levels, and unclear documented business strategy and low business management capacity. In the case of Cooperatives and Farmer Organizations member business ratio (active members) and farm productivity are both low.
	The enterprise is not attractive to financial institutions. The potential for growth is often uncertain.

SUGGESTED INDICATORS/CRITERIA:

Weak Governance	Elections and/or management meetings not held regularly; separation of Board and Management unclear.
No track record nor projections	No financial statements available, no business plan.
Low profitability	EBITDA < 0 (earnings before interest, tax, depreciation and amortization)
Low Capital Level	Low total assets (or ratio debt / equity > 5 if the SME has debt)

Level of management Capacities	Characteristics
PROFICIENT	These have overcome governance deficiencies and have reasonable management capacities, which is supported by key staff being in place. They have a business track record which shows good, but often uneven, performance over the past 3 years. In the case of Cooperatives and Farmer Organizations, member business ratio (active members) and farm productivity are both improving. The enterprise is able to attract some financing, but they are unable to grow rapidly due to working capital challenges. The enterprise has significant potential for growth. **SUGGESTED INDICATORS/CRITERIA:**

Maturing Governance	Clear management roles and decision making processes, the existence of specific governance policies, protocols and financial management strategies.
Track Record but no projections	Clear management roles and decision making processes, the existence of specific governance policies, protocols and financial management strategies.
Uneven profitability	EBITDA >0 or growing but not for 3 consecutive years
Medium Capital Level	Ratio debt / equity > 2

Level of management Capacities	Characteristics
ADVANCED	These have been active in the market for at least five years and have established repeat clients/customers and suppliers. Their systems are professional and can easily address governance and management flaws and appreciate the need for agri-BDS if it arises. They have a good reputation and have acquired financing. They are now ready for the next phase of expansion which probably involves developing new partnerships or stronger supply chain partners. The enterprise has raised capital, either internally or through external financing, but it is still insufficient for their growth plans. The enterprise has significant potential for growth. **SUGGESTED INDICATORS/CRITERIA:**

Solid Governance	Competitive elections held regularly; Board demonstrates effective support to Management
Track Record	Financial statements available for at least 3 years.
Projections	Business plan available
Profitability	EBITDA >0 for 3 consecutive years
Sufficient Capital Level	Ratio debt / equity < 2

Segmenting Agri-BDS and Matching to Agri-MSMEs

Defining TA/BDS is a challenging task as it covers such a wide variety of services.A few existing resources propose TA/BDS classification.

Technoserve considered TA to include 4 groups of services, which have different clients:

1. **Market Systems Development** is a service provided to those influential in creating the enabling environment e.g. Government, Lobby Groups, etc
2. **Value Chain Development** is a service for a whole value chain and agri-SMEs (potential inclusive businesses) are only one part of that value chain
3. **Inclusive Business** is a service provided to enterprises that have potential to expand supply chains to include marginalized groups, depending on their target for inclusivity.
4. **Core Business Services** are those that enable the enterprise to create additional value and jobs. These traditional services are often those that are grouped under Business Development Services.

In terms of ASLC interest, we focus on services provided directly to Agri-SMEs, so predominantly: Inclusive Business and Core Business Services. However, these two categories remain relatively broad, and a more specific classification may be more useful.

SSNUP, a programme offering technical assistance to agricultural value chain actors through impact investors, also consider 4 groups of services:

MANAGEMENT SYSTEMS IMPROVEMENT

Management system improvement, which may include financial management, risk management, environmental, social & governance (ESG) management, digitalisation of internal processes, governance & leadership, quality and safety certification, financial investment readiness, etc. This type of support mainly benefits the agri-SME but might indirectly benefit the farmers it interacts with in the long term.

CAPACITY DEVELOPMENT

Capacity building for members / supplier / client farmers, which may include training on best production practices, awareness raising or training on various issues such as gender, inclusivity, climate change, financial education, etc. This type of support mainly benefits the farmers interacting with the agri-SME but may strengthen the relationship between the agri-SME and farmers and indirectly benefit the agri-SME business in the long term.

FINANCIAL SERVICES

Financial services for member/supplier/client farmers, which may include credit, savings, advanced payments, insurance, etc. This type of support mainly benefits the farmers interacting with the agri-SME but may strengthen the relationship between the agri-SME and farmers and indirectly benefit the agri-SME business in the long term.

MARKET ACCESS & PRODUCT DEVELOPMENT

Market access and product development, which may include product certification, digitalisation of transactions between different value chain actors, development of news products to reach new markets, etc. This type of support benefits both the agri-SME and the farmers it interacts with, as it is expected to generate more income for both at the same time.

Combining both perspectives leads to the following segmentation of support types:

	MANAGEMENT SYSTEM IMPROVEMENT	MARKET ACCESS & PRODUCT DEVELOPMENT	CAPACITY BUILDING	FINANCIAL SERVICES
Main benefidiary	Agri-MSME	Agri-MSME & farmers / marginalised groups	Farmers / marginalised groups	Farmers / marginalised groups
Examples of support topic	• Governance • Risk • Finance management • Business management • Human resources • Digitalisation of processes • Strategic planning	• Product certification • Digitalisation of transactions between AVCAs • Marketing strategy • New product development	• Best production practices • Awareness raising on climate, gender, etc. • Financial education	• Credit offering • Insurance offering • Savings offering
Expected Outcomes	• Financial viability • Growth / increased sales revenue • Increased access to finance - Additionality • Job creation	• Agri-MSME growth / increased turnover • Improved farmers' livelihoods • Access to finance	• Increased farmers' productivity and livelihoods • Improved farmers' living conditions • Strengthened relationships between agri-MSMEs & farmers	• Increased farmers' productivity and livelihoods • Strengthened relationships between agri-MSMEs & farmers

Association between agri-SME segments and BDS services proposal

Agri-SME Capacity Level	MANAGEMENT SYSTEM IMPROVEMENT	MARKET ACCESS & PRODUCT DEVELOPMENT	CAPACITY BUILDING
BASIC	**Type of support:** • Governance • Basic financial management • Basic business management • Risk management **Expected outcome:** • Financial viability • Limited turnover growth • Limited access to finance	**Type of support:** • Marketing strategy **Expected outcome:** • Limited turnover growth	Not Appropriate
PROFICIENT	**Type of support:** • HR • Advanced financial management • Advanced business management • Risk management • Digitalisation of processes **Expected outcome:** • Financial viability • Increased turnover • Access to finance (microfinance, venture capital)	**Type of support:** • Product certification • Marketing strategy • New product development **Expected outcome:** • Financial viability • Increased turnover • Access to finance (microfinance, venture capital)	**Type of support:** • Basic capacity building **Expected outcome:** • Strengthened relationships between agri-MSMEs & farmers
ADVANCED	**Type of support:** • Advanced financial management • Advanced business management • Risk management • Digitalisation of processes **Expected outcome:** • Increased turnover • Access to commercial finance • Job creation	**Type of support:** • Marketing strategy • New product development • Digitalisation of transactions between AVCAs **Expected outcome:** • Increased turnover • Access to commercial finance	**Type of support:** • Specialised capacity building **Expected outcome:** • Increased farmers' productivity and livelihoods • Improved farmers' living conditions • Strengthened relationships between agri-MSMEs & farmers • Access to impact finance

So, how would this new form of segmenting help?

If we imagine a critical mass adopting this approach, then the potential benefits are:

1 Agri-SMEs can commission assessments to understand where they are in their development and the key issues to be addressed to unlock future growth. This is how agri-SME demand for agri-BDS can be developed.

2 TA/BDS providers can use this assessment to adjust/adapt their programs to fit agri-SME needs.
Donors can group TA/BDS programs, benchmark and develop standardized data and learning processes for that segment i.e. stop comparing apples with pears.

3 The learning from these donor- led processes can be disseminated to enable agri-BDS providers to improve their services and enhance agri-SME understanding on the effectiveness of these services.

4 Eventually TA/BDS quality improves to the point where less subsidy is required as agri-SMEs become more ready to pay for quality services.

1. SAFIN – *Agri-SME taxonomy*
2. ISF - *Assessing the Cost Efficiency and Effectiveness of Business Development Services for Agri-SMEs*
3. Technoserve and CASA: *A Review of Inclusive Technical Assistance in Agriculture Deployed by Development Finance Institutions*
4. USAID - *More than money: Mapping the landscape of advisory support for inclusive business*
5. Oxfam – *Small and medium enterprises in agriculture value chain*
6. SSNUP: *Technical assistance provided to agricultural value chain actors by impact investors*, Tameo for SSNUP, 2024
7. AGRA – *Mobilizing agricultural finance*
8. *Professional Farmer Organisation: Guidance*
9. *East Africa BDS Standards*
10. EVPA - *A practical guide to adding value through non-financial support*
11. AMEA – *Designing sustainable and scalable business development services*
12. ISF – *The state of the sector: Agri-SME finance*
13. Argidius: *Learning to SCALE effective enterprise development. A summary of what works*
14. Omidyar, MOFA, CFC - *The missing middles: segmenting enterprises to better understand their financial needs*, by Dalberg
15. EU – *SME Definition*
16. 2SCALE - *Access to finance for inclusive agri-business development*
17. AMEA – *Annual learning report 2021/2022*
18. IDH & AGRA - *Transforming Agriculture by Linking Technical Assistance to Blended Finance: Trends and Lessons from Africa*
19. FAO - *The design and implementation of Technical Assistance Facilities to unlock agribusiness investment*
20. CASA - *Effectiveness of agri-business incubation in emerging markets*