Partnership for Growth: Linking Large Firms and Agro-Processing SMEs A Guidance Note for Policymakers
Acknowledgements

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Introduction

The purpose of this note is to provide guidance to policymakers hoping to promote the growth of agro-processing small and medium enterprises (SMEs) by positioning them as suppliers to larger firms.

Part One addresses four key questions:
• Why agro processing and what are the key challenges facing the sector?
• What are the different policy approaches to advance the agro processing sector?
• What are the different models of SME – Lead Firm linkages and
• Why linkages do not always happen on their own?

Part Two provides guidance on the following four areas in facilitating partnership between local agro processing SMEs and the large firms:
• Feasibility criteria for lead Firm–SME linkage initiatives
• Considerations for project design
• Implementation instruments and modalities
• Considerations for result framework

1.2 Challenges Facing Agro-Processing SMEs
Starting and expanding a light manufacturing business is not easy, and entrepreneurs face a number of challenges in expanding their business, most often challenges associated with access to finance and financial management, technology acquisition and maintenance, marketing channels and information, sourcing of raw materials, packaging and other inputs, and manufacturing practices and standards. SMEs therefore require a diverse array of financial and nonfinancial services to increase productivity and accelerate growth.

1.3 Policy Approaches to Support SME Growth
There are various policy options to promote growth of agro-processing SMEs. Most pertain to improvements in the enabling environment that indirectly help SMEs. Another category of policy options are those that directly target SMEs, such as special agricultural economic zones, agribusiness parks, food networks, shared facility incubators and co-packers, clusters, accelerators, group training, and SME finance. This note discusses a particular approach to a targeted SME solution, one that leverages large firms to expand the capacity of the SMEs in their value chain.

1.1 Why Agro-Processing?
Expanding agro-processing can create on- and off-farm employment, creating jobs in the light manufacturing of agricultural materials and associated industries such as trucking and packaging. It can also generate demand pull for agricultural production, associated inputs, and support services, creating jobs up the chain and potentially reducing the tremendous postharvest losses that many farmers incur (FAO and UNIDO 2010; Da Silva et al. 2009). Investments in agro-processing may also contribute to inclusive growth targets, given that women often constitute 50 to 90 percent of employees in agro-processing firms (IFC 2013).

BOX 1: UGANDA: INNOVATIONS IN BEER CREATES OPPORTUNITIES FOR LOCAL AGRO-PROCESSING SMALL AND MEDIUM ENTERPRISES

When Nile Breweries wanted to develop a competitively priced beer for the Ugandan market, it came upon a new variety of sorghum that resulted in a suitable flavor profile and price level. The development process for the new beer created a market for small and medium agro-processors collecting and preparing the grain for brewing and for an estimated 20,000 smallholder farmers selling 12,000 tons of specialty sorghum at US$4 million annually. Nile Breweries’ parent company is replicating the model in other countries of operation.
1.4 Lead Firm–SME Linkages

The most-significant growth opportunity for agro-processing SMEs is selling to large buyers, including wholesalers that aggregate products from a wide range of suppliers; manufacturers that need semiprocessed products (e.g., mango pulp) to produce finished products (mango juice), retailers such as supermarkets that sell to large urban populations, and large corporate or government institutions that require a stable supply of product over an extended period of time. The term “lead firm–SME linkage” refers to an arrangement in which a large buyer (lead firm) has a buying relationship with SMEs.

There are many reasons why working with large firms to promote the growth of smaller ones could be beneficial (AFE 2008).

- Lead firms have proximity to market and market information and are often innovators and respected thought leaders in their industries, so knowledge can be transferred to SMEs that develop long-term relationships with lead firms.
- A primary goal of growth-oriented SMEs is to expand their customer bases, so leveraging a large buyer to influence SME behavioral change is more likely to yield change than providing generic training programs.
- Lead firms are able to influence supply chain dynamics because of their connection to market demand and their upstream linkages to value-chain participants, so initiatives that involve them are likely to lead to systemic change in a value chain.

1.5 Lead Firm–SME Linkages Do Not Always Happen on Their Own

There are many examples of large firms buying from smaller firms as part of their normal business of sourcing or distributing products, but there are also many examples of large firms integrating vertically, investing in each stage of the value chain themselves, or importing products to use as inputs. For example, in Senegal, a large juice manufacturer imports mango pulp from Egypt despite the abundance of quality mango supply locally. The most-common reason that these lead firm–SME linkages do not happen on their own is the lead firm’s fear of losing control of the quality, consistency, and timeliness of supply or distribution, which can have a vital effect on their business. In the Senegal example, the large juice manufacturer could not rely on sufficient and consistent quality of mango pulp. In an example in Zambia, a dairy manufacturer could not rely on the freshness of milk delivered because of poor access roads and limited availability of refrigerated trucks, resulting in the milk spoiling before it reached the factory.

Although the lead firm can overcome some of the constraints that SMEs face by investing in SMEs so that they can fulfill requirements, this requires time and resources that are an opportunity cost for their core business activities. An external intervention—in the form of public support—may therefore be warranted to catalyze a sustainable business relationship between local SMEs and large buyers. The purpose of such interventions is to reduce the risks and constraints that prevent linkages from occurring on their own and to establish a sustainable business relationship that will last over the medium to long term.

BOX 2: KYRGYZSTAN: UPGRADING SMES IN FRUIT, VEGETABLE, AND DAIRY PROCESSING

In Kyrgyzstan, 40 SMEs received assistance to improve their management, marketing, and technological capabilities, enabling them to reduce inefficiencies and increase their competitiveness in domestic and export markets and secure 142 new sales contracts, valued at $17.5 million.
Linkage initiatives can broadly be categorized as top-down, bottom-up, or industry-wide initiatives.

**Top-down (or lead firm–focused) initiatives** meet the needs of identified lead firms and have strong leadership from these firms. They work backward in the chain to build capacity of SMEs to fulfill these needs. There are two common subcategories of top-down initiatives: privately led and a combination of public and private cooperation (public–private partnerships (PPPs)). The lead firm’s business objectives are often the motivation for privately led initiatives, which may emerge organically as part of a firm’s normal supplier development business operations. Private companies often lead PPPs, which may exhibit characteristics of top-down and bottom-up initiatives. The lead firm and third parties (consulting firms, nongovernmental organizations, governmental agencies) each undertake part of implementation. Discussion regarding PPPs has increased in recent years because of their unique ability to secure commitment from private enterprise for development benefits with government oversight and commitment. Development practitioners and policymakers may use this approach when there is a clear lead firm in an industry that could have a wide supplier or distribution base.

**In bottom-up (or SME-focused) initiatives,** instruments are customized to the needs of SMEs, with the goal of positioning them as suppliers to larger firms (AFE 2015; Reji 2013; SEEP 2001). These programs often focus on nascent industries and may be implemented as preparation for top-down initiatives.

**Industry-wide initiatives** are a combination of top-down and bottom-up initiatives but focus on improving the underlying policy framework and business environment. Business environment reforms often include facilitation of business linkages between lead firms and SMEs but may not engage directly with either type of firm or customize products directly to either group, instead focusing on improving coordination among value chain actors to facilitate shared goals. They can include a wide range of instruments: shared infrastructure in corridors, zones, and parks; investment in infrastructure; trade, tax, and investment reforms; increasing access to financial services; addressing information gaps; and establishing or enforcing norms and standards.

**1.7 Results of Lead-Firm–SME Linkage Initiatives**

Although lead firm–farming linkage initiatives have existed for years, there is less experience with lead firm–SME linkages in which large firms source finished or semifinished products (e.g., mango pulp for further processing into juice). Although an analysis of 51 publicly supported lead firm–SME linkage initiatives found that 25% are not complete, our study analyzed 66 linkage initiatives across Africa, Asia, Europe, and Latin America and found that such programs have achieved significant results. Some of these positive results include increases in sales revenues of agro-processor SMEs, job creation, and lasting commercial relationships. Publicly supported linkage initiatives appear to have a significant on facilitating access to finance, with a cost–benefit ratio of 1.72 to 22 for the amount of finance facilitated per public project dollar.

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**Part Two**

**2.1 Feasibility Criteria for Lead-Firm–SME Linkage Initiatives**

The linkages that a lead firm led had the most-sustainable results, which illustrates the challenge of maintaining focus on realizing business benefits even in lead firm–SME linkage initiatives that the public sector leads.

Successful lead firm–SME linkage initiatives respond to clear market opportunities, result in business benefits for the lead firm and the SME, and are premised upon the commitment of the lead firm and the SMEs.
2.1.1 Responding to clear market opportunities

Firms must meet competitive requirements related to product cost, quality, quantity, and timeliness of delivery and have capacity to adapt to market demands. This sounds self-evident, but many linkage initiatives have been launched and failed because of lack of attention to the fundamental premise of whether a market opportunity truly exists.

It is also important to keep in mind that market requirements are often higher in high-income countries, so it may be more difficult to establish a linkage program if the export market is the target. Therefore, the majority of business linkages between lead firms and agro-processing SMEs are within the domestic economy.

BOX 3: IS THE MARKET OPPORTUNITY INTERNATIONAL OR NATIONAL?

A large European snack food company was anxious to work with a small to medium nut processing enterprise in Kenya with a joint interest in processing and exporting groundnuts produced in Kenya. There was an export market, but the technical and cost factors made it difficult to produce peanuts that could compete in Europe. The net result was that the European lead firm did not continue with the project, but the Kenyan firm expanded commercial peanut production for the domestic market, where its products could compete.

It is critical to ask, therefore, whether SMEs would be able to provide a competitive product nationally, regionally, or internationally even if barriers related to firm capability, technology, standards, and access to finance were overcome. For example, cost of shipping or length of time it takes to ship are not easily addressable through linkage initiatives.

When assessing the market for a linkage initiative, it is critical to assess the full range of factors that may affect whether it truly is an opportunity. This assessment process may lead to identification of bottlenecks that government can address, having an enabling effect not only for the linkage initiative in question, but also for a much broader set of private sector actors.

BOX 4: COLOMBIA’S CHANGED POLITICAL AND ECONOMIC SITUATION EXPANDS ALQUERIA’S MARKET

Greater security and macroeconomic stability in Colombia in the mid-2000s played a pivotal role in expanding market demand for Alquería’s shelf-stable liquid milk and making expansion of its supply chain into new regions possible. For years, Colombia’s profound crises emanating from guerrilla wars and the drug trade hindered Alquería’s growth. When security and the business environment improved in the early 2000s, Alquería began acquiring processing plants, which allowed it to expand its milk collection in remote areas of the country previously under guerilla influence. Read the full case study at <<Hyperlink to case study>>.

2.1.2 Realizing real business benefits

The ability to achieve real business benefits from the relationship motivate, and ultimately sustain, lead firm–SME relationships (UNCTAD 2004). These business benefits can take many forms (Jenkins et al. 2007; UNGC 2011) but ultimately come down to whether the initiative increases profits or sales or reduces risk in the short, medium, or long term (table 1).

Privately led, top-down initiatives have the best sustainability, with 46% of these initiatives ongoing after formal programmatic support had ended, compared with 20% of bottom-up and industry-coordination efforts. The fact that top-down, privately led initiatives are likely to consider business interests from all sides of the relationship may explain this.
The Colombian private dairy processor Alquería has grown rapidly since 2005. As the company has sought to expand its supply of raw milk, it has also facilitated the growth of SMEs in its supply chain. Alquería uses capacity-building and financial incentives to improve its productivity and product quality by developing sustainable relationships with suppliers that will ensure sufficient quantity and quality of raw material. The company also used public sector training and support programs to accelerate milk collection into new milk-producing regions. The agro-processing SMEs were motivated and sought help to improve quality standards and productivity to secure a reliable relationship with a buyer. These win-win relationships have fostered productive collaboration and positive growth trajectories and reduced the risk of all parties involved. Read the full case study at <<Hyperlink to case study>>

TABLE 1: SME - LEAD FIRMS MOTIVATION FOR LINKAGES

<table>
<thead>
<tr>
<th>SMEs</th>
<th>Lead Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Enhanced skills, standards, productivity, and innovation</td>
<td>• Reduced procurement, production, and distribution costs</td>
</tr>
<tr>
<td>• Access to new domestic and foreign markets</td>
<td>• Improved or maintained competitive edge by improving timeliness of delivery or increasing quality</td>
</tr>
<tr>
<td>• More-stable relationships with buyer or producer organizations</td>
<td>• Enhanced reputation and local license to operate</td>
</tr>
<tr>
<td>• Risk sharing through joint funding or operations</td>
<td>• Reduction of foreign exchange needs through import substitution</td>
</tr>
<tr>
<td>• Facilitation of access to finance</td>
<td></td>
</tr>
</tbody>
</table>

2.1.3 Sufficient commitment and capacity of supply chain stakeholders

Lack of commitment, lack of trust between parties, and poor alignment of organizational cultures are common reasons for discontinuation of lead firm–SME linkages (Ahmed and Hendry 2012). The level of commitment and suitability can be assessed at the beginning of the relationship, and trust and alignment need to be built as part of the project design and execution. When selecting lead firms and SMEs to participate in the initiative, look for demonstrated creative thinking and willingness to think strategically and have a long-term perspective and commitment, illustrated by willingness to contribute to project costs.
market opportunities and that real business benefits to lead firms and SMEs are achieved.

While clarifying the objectives, trade-offs are often required, such as between sustainability and scale (box 7).

**BOX 6: PROJECT RED FLAGS**

The following are danger signals if there are not specific, positive answers or solutions to these questions at the end of the feasibility phase.

- Has a clear market opportunity been defined?
- Is sufficient raw material and SME capacity available to provide the desired product?
- Is the lead firm providing the management time, training, technical resources, and investment to create successful SMEs?
- Is the infrastructure sufficient to complete the project?
- Is the financial capacity of the lead firm and SMEs sufficient?
- Are there sufficient volume, growth, and profitability incentives to create sustainability for all parties?
- Has trust been established between all parties?

**BOX 7: WEST BANK OLIVE OIL SUSTAINABILITY AND SCALE TRADE-OFF DISCUSSION**

Led by the International Finance Corporation (IFC) Sustainable Business Advisory, olive oil bottlers in the West Bank of Palestine undertook a series of steps to foster linkages between agro-processors (olive oil bottlers) and olive oil importers and address capacity limitations that inhibit market access within the value chain, particularly for small and medium enterprises (SMEs). The two phases of IFC support evolved from a bottom-up, SME-focused, capacity-building and market linkage project, which focused on improving the quality of and expanding the overall export market for Palestinian olive oil. The combination of small producers and small processors, when the oil was treated as a commodity, was not competitive in international markets. It was necessary to change the project focus in the second phase and position the olive oil as a specialty product. To do so, the project was converted to a lead firm–focused top-down program that targeted marketing efforts specific to an importer’s demand. The evolution of project focus from Phase 1 to Phase 2 reflects trade-offs between sustainability and scale. Phase 1 emphasized scale in terms of number of beneficiaries and processing SMEs (bottlers) that received training and participated in European trade fairs; Phase 2 focused on lower volume and a higher-priced, packaged consumer product. Learning from the discontinued business linkages with importers in Phase 1, the emphasis of Phase 2 became sustainability of market linkages through targeted facilitation between qualified Palestinian bottlers and specialty product importers. Read the full case study at <<Hyperlink to case study>>.

**2.2 Project Design Considerations**

Linkage project design features contributing to project success include:

- Clear definition of project objectives
- Country-level diagnostic to understand agribusiness entrepreneurship ecosystem
- Project phasing and timeframe that reflect feasibility factors and agricultural cycles
- Strategies to induce commitment to participate
- Clear and appropriate roles and responsibilities of key partners

**2.2.1 Clear definition of project objectives**

The lead firm’s business objectives drive lead firm–led linkage initiatives. Publicly supported linkage initiatives are more complex because they reflect the objectives of three parties: the government, SMEs, and lead firm. Although these objectives can coexist, it is imperative that there is a commitment to focus on
2.2.2 Country-level diagnostic to understand agribusiness entrepreneurship ecosystem

Lead firm–SME linkages should be based on a strong analysis and customized to meet market opportunities at the country level. Thus, before deciding on an instrument for a linkage program, opportunities and challenges that growth-oriented agribusinesses face, stakeholders affecting the ability of an agribusiness entrepreneur to build sustainable linkages with large firms, and the gap between what is available and what is required for agribusiness SMEs and large firms to take advantage of market opportunities should be identified. The identification process uses a model of eight thematic areas that define the enabling ecosystem for agribusiness SMEs. Each of these eight areas affects the ability of entrepreneurs to expand their businesses and the feasibility of implementing an agribusiness SME-focused project.

2.2.3 Project phasing and timeframe reflect feasibility factors and agricultural cycles

Lead firm–SME linkage initiatives are not short-term fixes. It takes time to clarify objectives and roles, establish trust, and arrive at incentives that work. A common pitfall in agro-processing linkage projects is failure to align project timelines with agricultural cycles. Agro-processing enterprises often operate on the production cycles that determine the supply of their raw agricultural materials. At least three production cycles, sometimes more, depending on the product, are required for effective implementation and institutionalization of change.

Linkage projects may also require a phased approach to achieve success, depending on how well feasibility factors are met. As discussed above, weak firm-level capacity of agro-processing SMEs is the most-cited reason for lead firms’ reluctance to engage. Insufficient or undermining enabling environments are a close second. There may be a need to address fundamentals before a hands-on linkage initiative is started. Box 8 illustrates a phased approach.
In 2008, the International Finance Corporation–sponsored Cambodia AgriSector Support Project was established to support the Cambodian rice sector as Cambodia emerged from decades of civil unrest, political upheaval, and bad economic policy. By first supporting small and medium rice millers in the supply chain and gradually improving other elements of the supply chain, millers and lead firms could capitalize on changed market dynamics to expand export marketing programs and increase investment in the sector. The project initially focused on a bottom-up approach of modernizing and improving the capacity of small and medium mills to produce export-quality rice and then focused on market development. The case describes how identification of markets and lead importing firms became the focus of the project’s second stage and developed close relationships between lead importers and small and medium millers and exporters as the initial orders led to longer-term relationships. Exports of Cambodian rice increased dramatically from an estimated 20,000 metric tons in 2009 to more than 500,000 metric tons by 2015. Read the full case study at <<Hyperlink to case study>>.

**BOX 8: PHASED APPROACH TO CAMBODIA RICE SECTOR MODERNIZATION**

In 2008, the International Finance Corporation–sponsored Cambodia AgriSector Support Project was established to support the Cambodian rice sector as Cambodia emerged from decades of civil unrest, political upheaval, and bad economic policy. By first supporting small and medium rice millers in the supply chain and gradually improving other elements of the supply chain, millers and lead firms could capitalize on changed market dynamics to expand export marketing programs and increase investment in the sector. The project initially focused on a bottom-up approach of modernizing and improving the capacity of small and medium mills to produce export-quality rice and then focused on market development. The case describes how identification of markets and lead importing firms became the focus of the project’s second stage and developed close relationships between lead importers and small and medium millers and exporters as the initial orders led to longer-term relationships. Exports of Cambodian rice increased dramatically from an estimated 20,000 metric tons in 2009 to more than 500,000 metric tons by 2015. Read the full case study at <<Hyperlink to case study>>.

### 2.2.4 Strategies to induce commitment to participate

In publicly supported linkage initiatives, it is advised to develop a close relationship with lead firm(s) early during the feasibility and project design phases. Full support of the lead firm’s top management is also pivotal during implementation. Such direct involvement of lead firms contributes to building trust and increases the likelihood that the project design will yield results that correspond to market needs.

While building the relationship with the lead firm, the public sponsor should be mindful that there are several steps in making decisions in the public sector often that can take significant time to complete, whereas the private sector decision-making structure is flatter and quicker.

Cost sharing by SMEs and lead firms has been effective in ensuring private sector commitment in publicly supported initiatives, ensuring that firms have a stake in the long-term sustainability and outcome and thus increasing the likelihood of commitment. Table 2 provides an overview of commonly used cost-sharing contributions.

### 2.2.5 Clear and appropriate roles and responsibilities of key partners

Lead firms and SMEs, driven by their bottom lines, are at the heart of linkage programs, although the public sector can play a valuable role.

Government plays a crucial role in addressing constraints in the enabling environment related to hard infrastructure, such as roads and electricity, quality and standards infrastructure, such as laboratories for testing products and standards agencies that can certify manufacturing companies, and regulations and policies that affect the industry, such as import or export barriers and procedures for obtaining licenses and permits. The public sector can help form lead firm–SME linkages by providing budgetary support to co-fund programs needed to upgrade the SMEs to a level where they can be reliable suppliers, although the public sector should not perform go-between functions such as negotiating contracts or relationships with lead firms on behalf of suppliers (Lusby 2008), which will interfere with
the firms themselves establishing sustainable relationships and can be distortive. Instead, the public sector should adopt a facilitating approach to encourage communication, commitment, and ultimately business linkages between lead firms and agro-processing SMEs. In a linkage program, lead firms ideally serve in a leadership capacity, helping shape project scope and engaging constructively with agro-processing SMEs to achieve mutually beneficial results. In most cases, lead firms are better placed to strengthen supply chains than third-party intermediaries. This direct approach guarantees that SME strengthening is customized to meet market requirements and that market actors retain the necessary skills to continue strengthening SMEs after the end of public funding. When SME strengthening by lead firms is not feasible, a local private sector partner can perform this function. In such cases, the public sector may act as a catalyst by partially subsidizing capacity-building services; clear reporting that incorporates lead firm feedback must be required to ensure that the technical assistance provided meets market requirements. In such arrangements, it is advisable to formalize the agreed-upon objectives, roles and responsibilities, financial and staff commitments, timelines, and management arrangements of each public and private partner, allowing each party to designate the respective staff time and resources to accomplish their responsibilities and minimizing the risk of confusion and frustration over unclear division of labor. Given that agribusiness entails diverse supply chain actors, stakeholder consultation and collaboration should also be assigned as a distinct task that one party is responsible for.

### TABLE 2: COST-SHARING CONTRIBUTIONS

<table>
<thead>
<tr>
<th>Partner</th>
<th>Cost-sharing contributions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Lead firm</strong></td>
<td>• Provide guidance on performance improvements required by the market</td>
</tr>
<tr>
<td></td>
<td>• Establish performance-based incentives such as higher price for higher-quality product</td>
</tr>
<tr>
<td></td>
<td>• Provide on-site advisory, educational, training, and personnel transfer programs</td>
</tr>
<tr>
<td></td>
<td>• Offer purchase guarantees or advance payments to help SMEs access working capital</td>
</tr>
<tr>
<td></td>
<td>• Cost sharing of capital investments for improved technologies for SMEs, buying equipment on behalf of SMEs, or lending equipment to SMEs on favorable terms (e.g., cooling tanks, collection trucks)</td>
</tr>
<tr>
<td></td>
<td>• Provide input financing for bulk procurement</td>
</tr>
<tr>
<td><strong>SME</strong></td>
<td>• Partially fund food safety certification and on-site technical assistance to meet standards</td>
</tr>
<tr>
<td></td>
<td>• Finance or partially finance capital investments for improved production technologies</td>
</tr>
<tr>
<td></td>
<td>• Pay for or partially pay for technical assistance to upgrade manufacturing and management practices</td>
</tr>
<tr>
<td><strong>Public sector (if applicable)</strong></td>
<td>• Partially fund food safety certification trainings and on-site technical assistance for implementation of food safety improvements for SMEs</td>
</tr>
<tr>
<td></td>
<td>• Partially fund lead firms’ technical assistance programs for supplier development capacity building</td>
</tr>
<tr>
<td></td>
<td>• For SME capital investments, offer guarantee to cover banks’ financial losses incurred by lending to targeted SMEs participating in program</td>
</tr>
<tr>
<td></td>
<td>• Finance public infrastructure improvements and &quot;last-mile&quot; connectivity</td>
</tr>
<tr>
<td></td>
<td>• Fund capacity building of local business development service providers</td>
</tr>
<tr>
<td></td>
<td>• Fund facilitation of stakeholder coordination</td>
</tr>
</tbody>
</table>
The climate in Rwanda is ideal for high-quality coffee production but commodity coffee was being produced because of a lack of market information, profit incentives, quality control, infrastructure, and organization needed to produce high-quality, high-priced product. In the early 2000s, the government of Rwanda and U.S. Agency for International Development projects PEARL I and II, foundations, and private sector investors identified the need and initiated a bottom-up linkage project, providing programs to help coffee farmers and cooperatives improve plantings, build washing stations, and improve product uniformity and quality, as well as US$10 million of funding over 11 years. Donors provided the money, and the Rwandan government allowed direct sale of coffee to importers instead of using the old system in which sales were made through a government-controlled coffee board. Experts were hired to provide advisory services and training and worked to establish business linkages with lead specialty coffee companies from the United States and European Union. Today Rwanda is an established source of quality coffee receiving premium prices in the marketplace based on linkage of lead firms with small and medium enterprises.

2.3 Implementation Instruments and Modalities

A variety of implementation instruments are available to encourage and strengthen linkages between lead firms and agro-processing SMEs. Instruments generally fall into four categories: capacity building of SMEs, access to finance, access to market, and enabling environment.

SME capacity building is by far the most-often-used instrument to promote lead firm–SME linkages. Capacity includes knowledge of production processes, quality oversight, fair and competitive business practices, and financial and personnel management (Lapres and Hristova 2015). Technological capacity and workforce skills are also important components of internal SME capacity and directly affect product quality.

There is insufficient evidence to suggest the relative effectiveness of these instruments, but regardless of the instruments used, successful delivery models share common characteristics, including that:

- Instruments are customized to the needs of lead firms and SMEs and work toward achieving mutually beneficial outcomes (business benefits)
- Assistance to SMEs is comprehensive to the greatest extent possible
- Implementation structures are flexible to allow for adjustments in response to changing market dynamics

Cost and Timeframes

Data from 66 linkages projects examined in a meta-analysis suggests that public support for most programs ranges from two to ten years, and estimated linkage initiative costs from public funds range from $230,000 to $18 million, with an average cost of approximately $7 million.
TABLE 3: INSTRUMENTS TO ENCOURAGE LINKAGES BETWEEN SMALL AND MEDIUM ENTERPRISES (SMEs) AND LEAD FIRMS

<table>
<thead>
<tr>
<th>SME capacity building</th>
<th>Access to finance</th>
<th>Access to markets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Training, advisory services, business linkage programs, industry trade fair participation, mentoring, matchmaking between SMEs and lead firms</td>
<td>Improved credit terms, credit facilities, input financing, matching grants, credit guarantee schemes, equity investments</td>
<td>Contract and pricing schemes (e.g., dynamic contract extension), advance purchase agreements, trade fairs, study tours, export promotion agencies focusing on a particular SME-heavy sector, public announcements on cost and quality requirements</td>
</tr>
</tbody>
</table>

Enabling environment

Policy and regulation reform (market liberalization, reduction in regulation), tax incentives, infrastructure, support to supplier development associations, cluster development

BOX 11: KYRGYZ REPUBLIC AGRIBUSINESS COMPETITIVENESS CENTER (ABCC) FLEXIBLE IMPLEMENTATION STRUCTURE

The design of Kyrgyz ABCC’s organizational structure was flexible and responsive to external events and market changes. The public–private composition of the Supervisory Board encouraged coordination, alignment with market dynamics, and accountability for ABCC results. ABCC assigned qualified consultants to clients based on customized scopes of work aligned with detailed action plans. In addition, the Agribusiness and Marketing Project was divided into implementation periods, which built in milestones for assessing project effectiveness and making decisions to adjust components in response to market changes. The economy and the needs of agro-processing SMEs changed every two to three years over the life of the seven-year project. Thanks to the short implementation periods and milestones, the project could make changes to stay ahead of changing SME needs (Broka 2016). Read the full case study at <<Hyperlink to case study>>.

2.4 Results Framework Considerations

Figure 4 illustrates a results framework that can be adapted for individual linkage initiatives. In line with good monitoring and evaluation practice, it depicts a logical progression from inputs to activities to changes to impact indicators.

Because lead firms and SMEs are the primary actors in achieving sustainable results, project outcomes should incorporate indicators reflecting their primary motivations for participation, such as sales growth for the SME suppliers, greater market certainty for the SME suppliers, and greater profits for the lead firm and SME. The lead firm’s objectives are generally focused on achieving greater, more-reliable supply and better product quality.

The public sector may use some of these same indicators but may also want to include indicators aligned with public objectives, such as number of beneficiaries reached, job creation, investment, and tax revenues.

Cost benefit and economic rate of return analyses can be used to measure inputs and output over time.
### FIGURE 4: LINKAGE PROGRAM RESULTS FRAMEWORK

<table>
<thead>
<tr>
<th>INPUTS</th>
<th>OUTPUTS</th>
<th>OUTCOMES</th>
<th>IMPACT</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Support capacity building of SMEs</strong></td>
<td><strong>SMEs trained in:</strong></td>
<td><strong>Improved product quality and quantity</strong></td>
<td><strong>Growth of value-added exports and domestic</strong></td>
</tr>
<tr>
<td></td>
<td>- Quality control certifications</td>
<td>(greater throughput of local raw materials)</td>
<td>sales</td>
</tr>
<tr>
<td></td>
<td>- Workforce development</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Procurement of raw material</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Post-harvest handing technologies</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>TA provided to lead firms / BDS providers</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Facilitate access to finance</strong></td>
<td><strong>First-loss bank guarantee established</strong></td>
<td><strong>SMEs make capital investments for</strong></td>
<td><strong>Expanded agro-processing sub-sector</strong></td>
</tr>
<tr>
<td></td>
<td>Credit on-lending facility established</td>
<td>technology upgrades</td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Matching grants to SMEs provided</strong></td>
<td><strong>SMEs have improved cash flow to expand</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Facilitate access to markets</strong></td>
<td><strong>Matchmaking events held</strong></td>
<td><strong>raw material purchases</strong></td>
<td><strong>Greater economic diversification</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Promotional events conducted</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Fund enabling environment advisory services</strong></td>
<td><strong>Laws / regulations reformed</strong></td>
<td><strong>Reduce barriers to entry</strong></td>
<td><strong>Jobs created</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Regulatory bodies trained in improved</strong></td>
<td>for new agro-processing SMEs</td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>service provision</strong></td>
<td><strong>Reduced cost of doing</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Key infrastructure improved</strong></td>
<td><strong>business</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Greater productivity</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Higher profits</strong></td>
<td></td>
</tr>
</tbody>
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Bibliography


