Roadmap to accelerate the transformation of the Kenyan dairy sector though SMEs

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Ministry of Economic Affairs and Climate Policy of the Netherlands

Roadmap to accelerate the Kenyan dairy sector though SMEs: Flagship 1 SME dairy accelerator- executive summary

Background

The Agricultural Sector Transformation and Growth Strategy (ASTGS 2019-2029) is the Kenyan government blueprint for transforming its Agri-food system. The strategy recognizes transformation is a long-term process of shifting toward a vibrant, commercial, and modern agricultural sector that delivers 100% food and nutrition security, sustainably supports Kenya's economic development and alleviates poverty.

The ASTGS is anchored on Kenya's vision 2030, and the Big Four agenda that identify agriculture as a key sector that will catalyze the country's sustainable development. The ASTGS will also deliver on Kenya's regional and global commitments such as the Comprehensive Africa Agriculture Development Programme (CAADP), and the United Nations Sustainable Development Goals (SDGs).

The ASTGS is anchored along three key objectives (1) increased small-scale farmer, pastoralist, and fisher folk incomes; (2) increased agricultural output and value-add; and (3) increased household food resilience. These anchor areas will be delivered through nine flagship projects.

The Agriculture Transformation Office (ATO) under the Ministry of Agriculture, Livestock and Fisheries (MoALF) serves as the national secretariat for coordinating the implementation of the 10-year ASTGS. ATO is also responsible for the successful implementation of its nine Flagship projects.

Flagship one (1) of the ASTGS sits under the first anchor and aims to target 1 million farmers, pastoralists and fisherfolk in an initial 40 zones served by 1,000 farmer-facing small and medium-scale enterprises (SMEs) that provide inputs, equipment, processing, and post-harvest aggregation and distribution. To operationalize Flagship 1 an accelerator approach is proposed that supports SMEs and taps into their potential to become effective change agents in the selected priority value chains, including the dairy sector.

The accelerator needs to be designed in a way that addresses the challenges faced by SMEs, so they can be effective partners in unlocking the bottlenecks that hinder development of smallholders who are at the core of the envisaged dairy sector transformation.

About this document

This document reflects the outcomes of a process developed in close collaboration with ATO and key stakeholders in the Kenyan dairy sector. The main objective of this process was to design a roadmap for operationalizing an SME dairy accelerator that can deliver the defined objectives of Flagship 1. Prior to designing the roadmap, a thorough understanding of the key issues of the sector and the major challenges faced by SMEs in the sector needed to be clarified and articulated.

This report is organized in six chapters. The first four chapters expound the basis for designing the SME accelerator and covers: an introduction to the assignment, summarized sector diagnostic, Rapid SMEs scan and characterization, and highlight of lessons learned from past and existing programs. Chapter five describes the proposed

intervention logic and functions of the SME accelerator and chapter six concludes with detailing the roadmap to establish and operationalize the SME accelerator.

Defining accelerator in line with the ASTGS
Through the roadmap, the word accelerator has been used in three different ways:

- ***Accelerator* organizations**, that are contracted for-profit or not-for-profit entities that select, train and mentor high-potential SMEs.

- **High-potential SMEs that can become change agents or sector *accelerators***, these are SMEs that have a business model that address a sector issue and show ambition and potential for growth.

- **SME dairy *accelerator* interventions** are the set of activities intended to coordinate the work of accelerator organizations and other service providers to support high-potential SMEs.

Brief overview of the Kenyan dairy sector

Kenya's dairy sector employs many people (roughly 1.2 million people in the value chain and 1.8 million smallholders), is an important source of nutritious food products and contributes to the GDP (12% of agricultural GDP and 4% national GDP).

Currently ~70% of the milk in Kenya is produced by smallholders and is largely sold through informal markets. It is envisioned that domestic demand for milk and dairy products is expected to double by 2030, and the industry continues to seek more opportunities for export. However, at current levels, domestic production is unable to meet projected demand, falling short by 1.28 billion liters in 2022[1]. Furthermore, the sector continues to face challenges such as high production costs, low prices for smallholders, low quality of milk, and growing sustainability concerns, all of which affect competitiveness and resilience.

In an ideal scenario, the sector must be inclusive, nourishing, and sustainable to achieve its full potential. There are four key levers for the sector to improve towards reaching this ideal state: (1) a competitive production base; (2) thriving business ecosystem; (3) efficient & organized chain; and (4) effective enabling environment.

A diagnosis of the sector based on a review of selected reports indicated the following area of improvements across each of the key levers:

1. **Competitiveness at the production base.** Limited Professionalization and business-orientation of smallholder farmers is a major issue. Bridging this gap can render smallholders more capable of better access and use of inputs, information, finance, and other services necessary to improve performance of their farm enterprises.

2. **Thriving business ecosystem**. Limitations and gaps in targeted finance and technical services are the most prominent issues facing smallholders. This, coupled with limited access to markets, slows down the growth of the dairy sector.

3. **Efficient and well-organized value chain.** The dairy value chain is not well equipped due to the lack of integration and further concentration of power by

[1] Kenya Dairy Board, Status of the Dairy Industry in Kenya – internal report, May 2021

a few large processors which inhibits equitable value capture across the value chain.

4. **Effective enabling environment.** There is a lack of a supportive enabling environment due to inadequate funding, infrastructure, & limited implementation and enforcement of policies; further lack of R&D and inefficient use of resources worsens the issue.

These inter-related issues are the bottlenecks of the sector. They result in lack of economies of scale in the milk production and processing, various gaps in value chain actors' capacities, high cost of inputs and lack of availability and optimized use of finance at the sector level, which further reflected in unsustainable sector outcomes such as low productivity, low quality, and high spoilage of products, high unit costs and that translates to high product prices and low competitiveness of the sector.

SMEs in the Kenyan dairy sector

Most SMEs in dairy engage in provision of inputs and services, logistics, aggregation and processing and retail. This informs the five types of farmer-facing and market-connecting SMEs that Flagship 1 should target: **(1) Agro-inputs providers; (2) Aggregation and mini processors (cold chain 1); (3) Transportation (cold chain 2); (4) Small retailers (farmer facing); and (5) Knowledge providers**. The selection of these five archetypes is based on three criteria: issues that are addressed by its business model, engagement with farmers and strong linkages and influence on the market.

Challenges and opportunities vary across each SME archetype. However, there are some common challenges faced by all SMEs, which are: low competitiveness and high operational costs, poor infrastructure, and lack of sector intelligence,

To engage SMEs in accelerating the sector transformation, there is need to support them address the challenges they face and offer them clear incentives. Business growth, access to adequate finance, and improved engagements with stakeholders are among a few incentives that will be positively influence SMEs engage with the accelerator. Their drive and commitment to grow their business needs to links with the envisage mission of becoming change agent for smallholders.

Reflections on experiences of supporting SMEs in the dairy sector

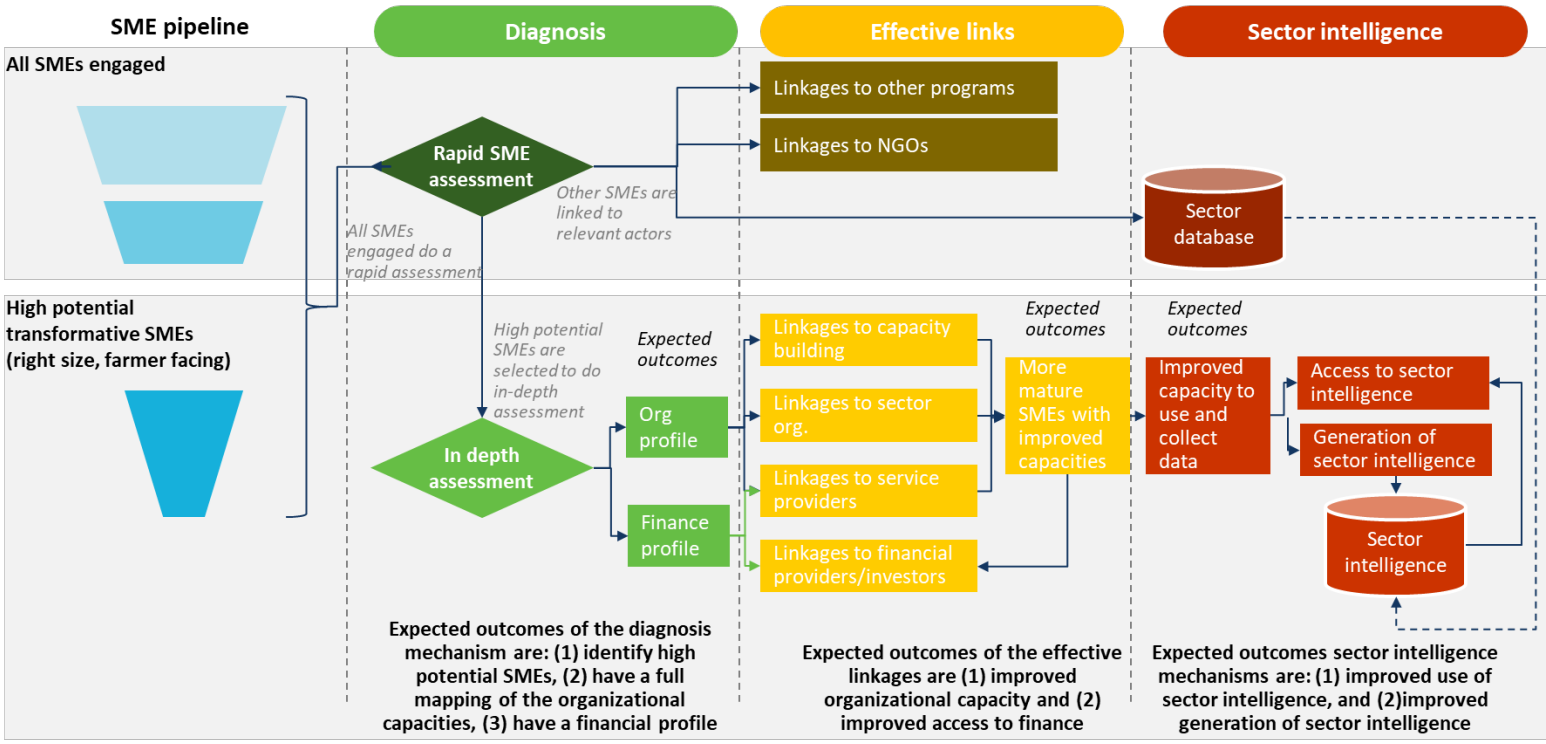
Various programs and initiatives have been implemented to support SMEs in the dairy sector in the past and in the present. Most of these programs have had a focus on professionalization of farmers, access to markets and technical services, on R&D and knowledge creation and access to finance. While these programs have played a key role in strengthening the organizational capacity of SMEs; this has not been viewed from their potential as change agents.

Learnings from these programs indicate an improved engagement with smallholder farmers, innovative systemic approaches, and access to long term support to SMEs can be key for their growth. Programs can also leverage their position to drive sector level change (beyond the SME performance) by strengthening synergies, creating incentives, and building sector intelligence.

The SME dairy accelerator intervention logic

Understanding the context of the Kenyan dairy sector and the position of SMEs, the proposed accelerator is designed to foster growth,

Figure 1. Blueprint for the SME dairy accelerator



empower, and enable SMEs as agents of change. It allows for a bottom-up approach, and creates synergies between smallholder farmers, SMEs, and other value chain actors. The SME accelerator under Flagship 1 must coordinate existing actors and organizations and enable them to function as ***accelerator organizations***. Furthermore, the accelerator focuses on actions to fill-in the gaps of necessary functions to be implemented in the sector, and therefore enable a systemic approach that proposes a permanent anchor for long-term sector transformation.

The main shift with the SME dairy accelerator intervention is to leverage on current efforts by enhancing coordination and efficient collaboration, in a needs-based targeted approach. This is enabled by 3 acceleration mechanisms.

The 3 key mechanisms are: **(1) Diagnosis to understand specific needs of high potential SMEs; (2) Effective links to support service provision (inc. capacity building); and (3) Access to, and generation of sector intelligence.** When the key mechanisms are implemented, the sector can function in a continuous improvement and acceleration trajectory:

(1) **Diagnosis**: while many SMEs can be engaged and pre-screened, high-potential SMEs can be identified and then assessed in-depth to understand their weaknesses and strengths in organizational terms and identifying its needs. Furthermore, in-depth diagnosis can help build the SME financial and business profile, including bankability, innovativeness, and inclusivity.

(2) **Effective links:** As a result of a standardized in-depth diagnosis, high-potential SMEs can access support that is tailored to its needs and areas of improvement, as well as services that are designed to fit their conditions. Other links that can be enabled include linkages to markets and potential clients, as well as potential business partners.

(3) **Sector intelligence:** With improved access to sector intelligence and the capacity to use it, these high-potential SMEs can improve their service offering to serve better its client smallholders, who because of accessing better services can improve their livelihoods. Thus, these high-potential SMEs become *sector* accelerators.

The way in which actions within these mechanisms address the barriers that SMEs face are included in the table below.

Barriers (SMEs)	**SME accelerator functions**
Ineffective support and services	Standardized diagnosis mechanisms that allow identifying high-potential SMEs, and in-depth assessment of organizational capacities to target support.
Weak organizational capacity	Based on in-depth diagnosis, SME can be linked to the right capacity building programs or service providers, at a subsidized or a competitive cost.
Poor infrastructure and access to service	Based on in depth diagnosis, SME is linked to service providers and the right support programs.
Lack of access to adequate finance	Based on financial profile, SME is linked to the right financial institutions.
Lack of networks	Once SME can prove its capacity, it can be linked to potential clients and business partners.
Low competitiveness	By building capacity and providing platforms to access information, SME can access and use relevant sector intelligence to improve its service offering.
Lack of sector intelligence	SME can gather relevant information from farmers for its business and shares pre-competitive information with sector actors.
Ineffective approach to supporting farmers	With improved capacity, SME can support farmers to better communicate their needs and deliver accordingly.

Preliminary criteria for eligibility

As the SME dairy accelerator interventions are rolled over, SMEs will be engaged. Some of the potential eligibility criteria include:

- Proof of operation in the priority area of action
- Valid business licenses according to the type of business (e.g. registration in the KDB)
- Characteristics according to Flagship 1 (servicing at least 1,000 farmers per annum, size of >400,000 KES per annum)
- Mission-orientation: demonstrated business model linked to sector challenges
- Willingness to engage into in-depth organizational assessment*
- Feasible business model with potential to growth*
- Financial viability according to basic bankability metrics*

Note that the criteria marked with (*) will be assessed in the in-depth diagnosis phase, whereas the other criteria must be assessed during the rapid mapping to identify the high potential SMEs to work with. These criteria are preliminary and must be refined as the SME dairy accelerator action areas are defined.

Roadmap for implementation of accelerator

To enable true systemic impact, the SME dairy accelerator requires collective action from key stakeholders in the sector. Only by working collectively and changing the way of working, can this initiative be truly systemic and enable impact beyond any programmatic approach.

There are 3 success factors for the implementation of this approach:

- It needs to build a ***common language*** to facilitate collaboration and enable identification of common metrics.

- The governance and enforcement mechanisms must be ***fit-for-purpose***, to allow joint ownership, transparency, and accountability.

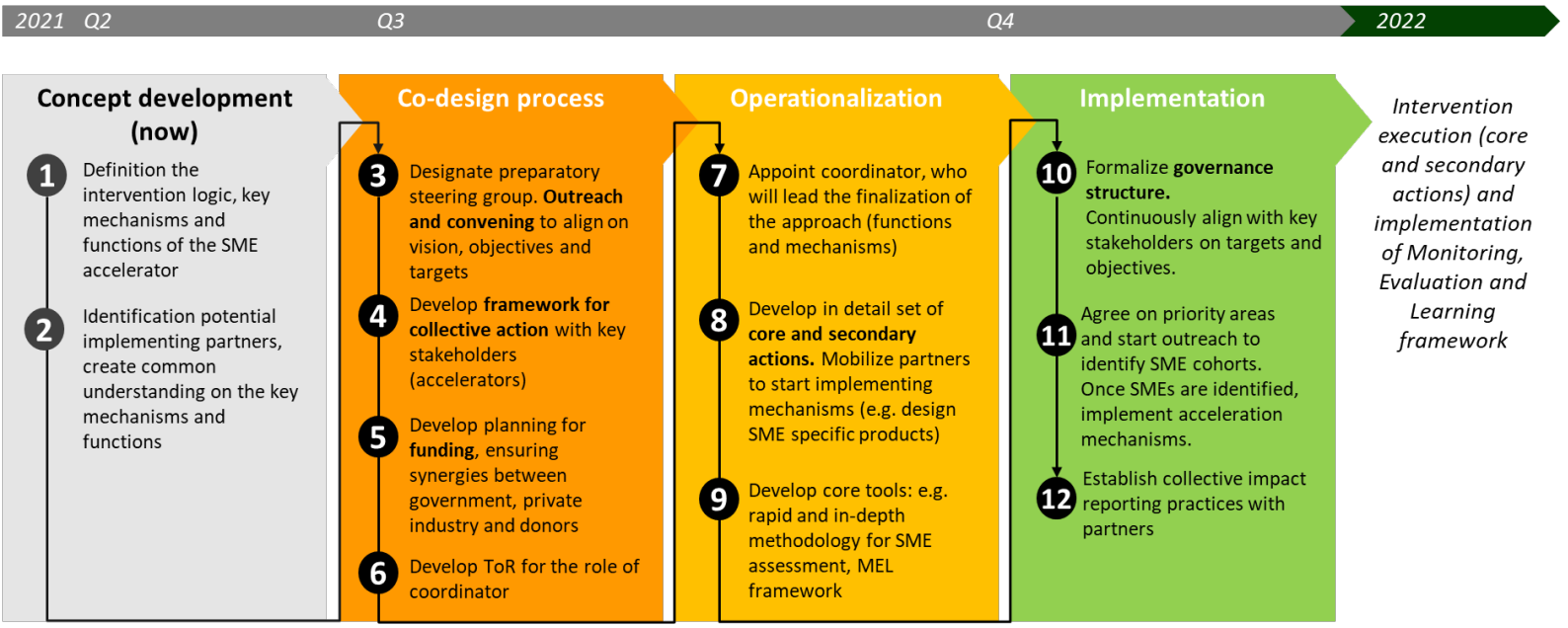
- It needs to build upon a ***market-led approach*** by continuously translating the needs and trends from the market into specific demands and services for SMEs.

The roadmap for the implementation of the SME accelerator follows 4 phases:

(1) **Concept development**, which focuses on designing the blueprint of the SME accelerator, including the intervention logic and the key acceleration mechanisms to support SMEs in the dairy sector. This is the current phase.

(2) **Co-design**, which focuses on refining

Figure 2. Roadmap with key processes towards implementation



To facilitate implementation, the three acceleration mechanisms are translated into *core* and *secondary* actions that different stakeholders must undertake. The *core* actions are the minimum actions that need to be implemented, mostly to be executed by the accelerator coordinator or implementer. The actions will also enable the implementation of secondary actions. The *secondary* actions are actions that need to be implemented to enable full operationalization of the accelerator, mostly to be executed by accelerator organizations and implementing partners. These can be provided at a competitive price to be paid by the SME, or even partially or totally subsidized if possible if these are complementary to the diverse programs of the accelerators.

the implementation plans, developing a framework for collective action, reaching agreement on key commitments from the diverse accelerator organizations, and defining funding needs and key sources.

(3) **Operationalization,** which focuses on further defining elements to enable the implementation of the *core* actions such as the diagnosis methodology or the Monitoring, Evaluation and Learning (MEL) framework, defining the processes to coordinate *secondary* actions, mobilizing partners to contribute (e.g., designing the right service/product offer) and

establishing the key structures for implementation.

(4) **Implementation**, which starts by collectively agreeing on priority areas for intervention and implementing the three acceleration mechanisms: *diagnosis*, *effective links*, and *sector intelligence*. During the implementation, there needs to be a continuous revision of the targets and priorities to coordinate collective action, as well as implementing of the MEL framework to assess progress and enable continuous improvement.

Some key actions are provided to finalize co-design and operationalization of the SME dairy accelerator for Flagship 1, and some highlights with tentative time indications include:

- 2021 Aug-Sept: A co-design process with key agents/implementing partners to define principles for collaboration and commitments.
- 2021 Sept-Oct: An operationalization phase will focus on appointing a neutral coordinator through a competitive and transparent bidding process, and work with this coordination to detail core and secondary actions.
- 2021 Nov: Start implementation by agreeing on priority regions to start piloting the acceleration mechanisms.

There are four key roles for the implementation of the SME dairy accelerator:

- **(Member of) steering committee,** which are representatives from key institutions and private sector, and are coordinated by ATO.

- **Program manager**, who is a neutral or independent organization that coordinates implementation and acts like a convener for all the parties in the sector.

- **Implementers**, independent organizations such as companies or consultants that are hired for specific tasks.

- **Agents/Implementing partners**, who can be national government organizations, county government representatives, CSO and organization implementing programs in the dairy sector, and private sector.

Each one of these roles have specific responsibilities. It is important to mention that agents/implementing partners can also be part of the Steering Committee, and therefore must avoid potential conflict of interest moving forward by implementing good governance structure and policies. These roles and responsibilities focus on enabling a collaborative way of working, where all the stakeholders can fulfill their mission while contributing to the wider vision encompassed by the SME dairy accelerator.

Implications for key sector organizations include:

- **Institutional commitment:** align strategy and targets to contribute to the SME dairy accelerator, commit to harmonize the processes and tools that are key for the implementation of the acceleration mechanisms (e.g., use the same tools and methodology to assess SMEs, build and use a sector database, use platforms to exchange sector intelligence).

- **Budget**: part of the public investment channeled through these organizations must be allocated into the *secondary* actions (or the ones implemented individually) to accelerate SMEs (to improve post-harvest logistics and reduce losses). Other budget

implications include the human and material resources needed to ensure proper execution of both core and secondary actions.

- **Capacity**: as members of the steering group, these organizations must ensure proper representation (senior team members permanently involved in coordination activities). As accelerators, these organizations need a technical team that can develop and deliver SME specific solutions individually or with others (e.g., trainings, financial services). Apart from this, these organizations must also assign capacity to measure, assess and report on their own actions at diverse moments in time -baseline, progress, and impact.

Concrete next steps

To operationalize this approach, over the course of coming months key stakeholders in the dairy sector (members of the steering committee and sector accelerators) must engage in a co design process that entails:

- Defining who are the organizations that need to be part of the preparatory steering group and engaging them.
- Working together to develop a framework for collective action, including commitments, common and individual actions, reporting mechanisms.
- Planning the founding sourcing and allocation strategy in depth, as the core and secondary actions are defined.

Acknowledgments

This roadmap was made possible with the collaboration of all the experts, organizations, institutions, and SMEs that contributed with their experiences and ideas to improve their sector, as well as those that were part of the consultation sessions.

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NewForesight is a strategy consultancy, based in Utrecht, Netherlands, known for its thought leadership in sustainability over the past decade. Established in 2008, NewForesight has extensive experience working on addressing sustainability issues not just on the ground, but also on how it impacts supply chains and markets. NewForesight aims to equip organizations with the practical and understandable tools that they need to achieve their objectives.

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For more information about this report and assignment contact:

Silvana Paniagua
silvana.paniagua@newforesight.com

Contents

List of acronyms

ATO	Agricultural Transformation Office
ASTGS	Agricultural Sector Transformation and Growth Strategy
CAADP	Comprehensive Africa Agriculture Development Programme
CoG	Council of Governors
KCC	Kenya Co-operative Creameries
KDB	Kenyan Dairy Board
MEL	Monitoring, Evaluation, and Learning
MoALFC	Kenyan Ministry of Agriculture, Livestock, Fisheries and Cooperatives
SDGs	United Nations Sustainable Development Goals
SME	Small to Medium Enterprise

Glossary

Accelerators - organizations and service providers	Contracted for-profit or not-for profit companies that select, train, mentor, scale and conduct performance management of high-potential SMEs under Flagship 1. They must provide services at a competitive (or subsidized) price. Example: KDB, Agribusiness Academy
(SME) Accelerator – *accelerated* high-potential SMEs or agents of change	An SME that has a service model focused on solving a sector issue (e.g. feed, spillage/spoilage, low quality). This SMEs must have the right conditions (farmer-facing service capacity, size, ambition). Example: Savana Circuit.
Accelerator- SME dairy accelerator *intervention*	Set of activities to coordinate accelerator organizations to support high potential SMEs. These activities must be primarily headed by an impartial party.
Aggregator	A service provider that provides a collection point for milk from many smaller actors to bulk and cool the milk before transporting to processors.
Agro-input provider	A service provider that offers agricultural inputs to farmers including inputs such as fertilizers, pesticides, and feed.
Archetype	A typical example of a certain type of SME that provides services to farmers in the Kenyan Dairy sector.
Assessment	The process of assessing something.
Cold chain	A temperature-controlled supply chain for heat-sensitive items, such as dairy.
Development organization	Typically, a not for profit, non-government owned organization aimed at addressing development needs such as food and agriculture, or health and sanitation, for example.
Knowledge provider	A service provider that supports farmers through capacity building in finance, business management, animal husbandry practices, milk handling etc.
Processor	A service provider that processes milk or manufacture the milk into quality, safe, desirable, convenient, and usable consumer products or as an ingredient for other products. Processors include large plants, but also smaller facilities such as cottages, and other smaller processors.
Milk bar	A service provider that retails dairy products directly to consumers through automated milk dispensing machines
Professionalism	The action or process of giving an occupation, activity, or group professional qualities, typically by increasing training or raising required qualifications. When SMEs professionalize, they are more profitable, more sustainable, and better linked to markets. Professionalized SMEs

	also have better access to markets and risk transparency makes it easier to mitigate and act.
Service provider	A service provider is an individual or entity that provides services to another party.
Small retailer	A service provider that retails dairy products directly to consumers
Transporter	A service provider that offers transportation services either between farm and aggregator/ processor or directly to informal markets.

1. Introduction

The Agricultural Sector Transformation and Growth Strategy (ASTGS 2019-2029) is the Kenyan government blueprint for transforming its Agri-food system implemented by the Ministry of Agriculture, Livestock, Fisheries and Cooperatives (MoALFC). The strategy recognizes transformation is a long-term process which involves modernization of on-farm production, shifting production towards more value addition, Agricultural transformation is critical to growing the Kenyan economy, reduce the cost of nutritious food to make it affordable to all, alleviate poverty, and therefore delivering 100% food and nutrition security.

The ASTGS is anchored on the belief that food security requires a vibrant, commercial, and modern agricultural sector that sustainably supports Kenya's economic development and commitments to the Big Four presidential agenda, the Malabo Commitments to the Comprehensive Africa Agriculture Development Programme (CAADP), and the United Nations Sustainable Development Goals (SDGs).

The Agriculture Transformation Office (ATO) of MoALFC serves as the national secretariat for coordinating the implementation of the 10-year ASTGS. The main objectives are to (1) increase small-scale farmer, pastoralist, and fisher folk incomes; (2) increase agricultural output and value-add; and (3) increase household food resilience. These objectives will be delivered through the successful implementation of nine Flagship projects that focus on selected key value chains.

The Flagship one (1) of ASTGS aims to establish and operationalize an accelerator for SMEs in various sectors, including the Kenyan dairy sector. The accelerator aims to target 1 million farmers, pastoralists and fisherfolk in an initial 40 zones served by 1,000 farmer-facing SMEs that provide inputs, equipment, processing, and post-harvest aggregation. The accelerator needs to be designed in a way that could address challenges faced by SMEs and at the same time address the bottlenecks that hinder development of the dairy sector.

This document intends to provide the basis to implement the Flagship 1 in the dairy sector. The Kenyan dairy sector is one of the largest agricultural sub-sectors in Kenya and it significantly contributes to food security and rural livelihoods. The sector contributes up to 4% of the national GDP, provides livelihood for 1.8 million smallholder farmers and offers employment to over 1.2 million people. Over the years, several donor-driven programmes and initiatives have been implemented to build a resilient and robust dairy sector. Nonetheless, barriers remain that hinder the transformation towards a modern, sustainable and vibrant industry.

1.1 About this report

This document reflects the outcomes of a process developed in close collaboration with ATO and key stakeholders in the Kenyan dairy sector. This process has been made possible with the support of the Dutch Embassy in Nairobi (Ministry of Economic Affairs and Climate Policy of the Netherlands). The main objective was to design a roadmap for operationalizing an SME dairy accelerator that can deliver the defined objectives of Flagship 1. Prior to designing the roadmap, a thorough understanding of the key issues of the sector and the major challenges faced by SMEs in the sector needed to be clarified and articulated.

This report consists of six chapters, with chapter five describing the intervention logic and the functions that the SME accelerator needs to provide and chapter six describes the roadmap to establish and operationalize the SME accelerator. The first four chapters discuss issues that form the basis of

designing the SME accelerator that include: introduction to the assignment, summary sector diagnostic, rapid SMEs scan and characterization, and highlights of lessons learned from the past and existing dairy sector development programs.

1.2 Defining *accelerator* according to ASTGS

Through this document, the word *accelerator* has been used in 3 different ways and consistent with the definition provided in the ASTGS:

- ***Accelerator* organizations** are contracted for-profit or not-for-profit entities that select, train and mentor high-potential SMEs. An example of this accelerator could be KDB, to the Africa Agribusiness Academy.
- **High-potential SMEs that can become change agents or sector *accelerators***, are SMEs that have a business model that addresses a sector bottleneck. An example is Savanna Circuit, an SME that focuses on producing solar powered coolers for farmers to keep and transport milk reducing spillage, spoilage and preserving quality.
- **SME dairy *accelerator*** is the set of activities intended to coordinate the work of accelerator organizations, implementers, and other service providers to support high-potential SMEs.

During this process we focused on defining what the **SME dairy *accelerator*** could look like in close collaboration with some ***accelerator organizations*** in the dairy sector, and with the input of a few high-potential SMEs.

2. Background: the Kenyan dairy sector

In this first chapter, we include key sector information and summarize the main challenges to set the scene for a systemic understanding of its outlook, and identify which are the key bottlenecks to address to enable a healthy, thriving and transformed dairy industry.

Kenya's dairy sector is a vibrant and growing. It employs many people, ensures food security and contributes to the GDP. Furthermore, it is also envisioned that going forward Kenya will increase its export of dairy products, which will drive the demand for high quality milk even higher to comply to both domestic and export demands.

Some of the key data that illustrate the importance of the sector include:

- The Dairy market contributes 4-8% of GDP and 14% of agricultural GDP[2]
- It employs over 1.2 million people and involves 1.8 million smallholders – every smallholder keeps an average of 3-5 cows[3]
- There are 639 dairy cooperatives[4]
- Other important value chain infrastructure includes 341 cooling centers with a capacity to store 3.2 million liters per day, 59 processors, 186 mini dairies, 122 cottages or small processors, 203 dispensers and 964 milk bars[5]
- The National Dairy Development policy envisions the country to be a net exporter of milk by 2030

Furthermore, some consumption and production data indicate the sustained growth[6]:

- National per capita milk consumption is among the highest in Sub-Saharan Africa is at least 110 liters/per capita and is expected to grow on average 6% per year reaching 220 liters/per capita by 2030.
- At current levels, domestic production will be unable to meet projected demand, falling short by 1.28 billion liters in 2022
- National processing volume has grown rapidly with approximately 244% growth between 2001 and 2013. However, processing companies operate at as low as 40% of installed capacity

It is also important to mention that the average prices for raw milk in 2020 were promising, as they remained stable with an annual average of 34.82 KES/liter. This is projected to continue through 2021 as the government is paying special attention to the sector through different intervention measures.

2.1 Sector overview

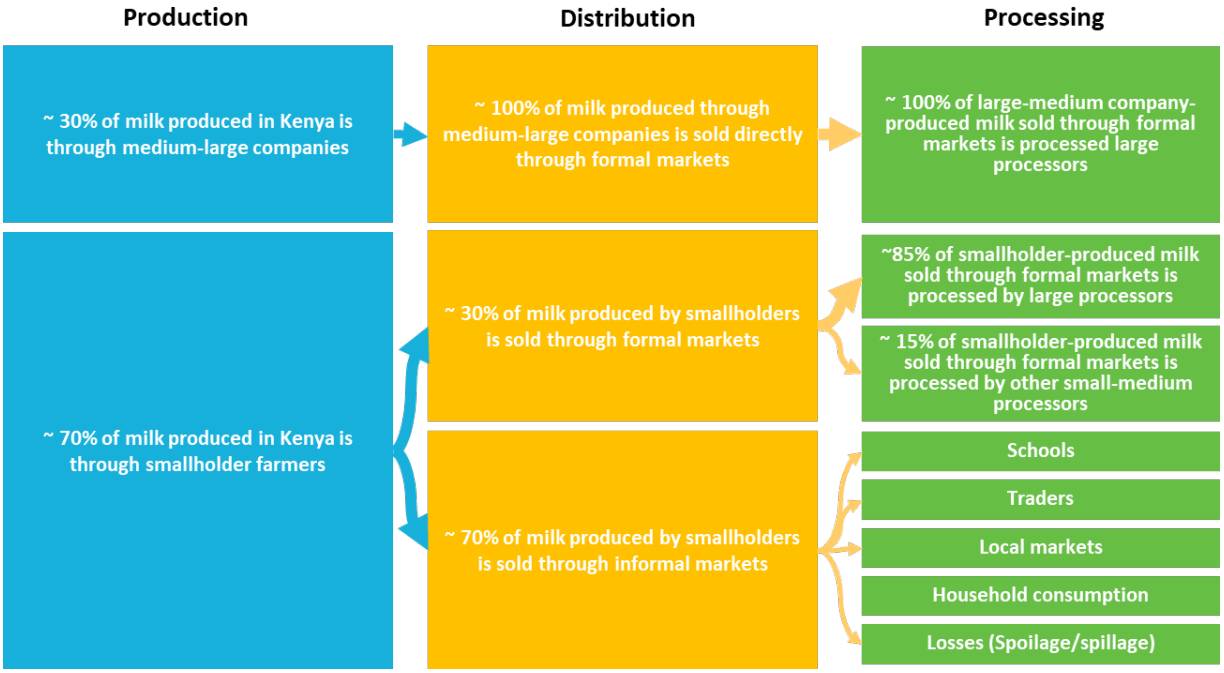
The Kenyan dairy sector is overwhelmingly dominated by smallholder production. Over 70% of milk produced in Kenya is produced by smallholder farmers operating with just a few head of cattle across 1-2 ha of land. Milk produced by smallholders is largely sold through informal markets and eventually to local markets, traders, schools etc.

[2] FAO. 2011. Dairy development in Kenya, by H.G. Muriuki. Rome
[3] KDB. 2021. Projects to transform the dairy sector, presentation
[4]KDB, 2021. Status of the Dairy Industry in Kenya, presentation. Note that there are 477 actives dairies cooperatives as per the Nationwide-Co-operative Sector Baseline Survey Report 2018
[5] KDB, 2021. Status of the Dairy Industry in Kenya, presentation
[6] KDB, 2021. Status of the Dairy Industry in Kenya, presentation

However, 30% of milk produced by smallholders is sold to formal markets through cooperatives. The systems and processes that enable smallholders to sell their milk to formal markets provide an opportunity to scale up, professionalize, and enable smallholders to increase their efficiency, productivity, and profitability.

A proportion of Kenyan milk is produced by medium-large scale farms (30%) who distribute their milk directly to large processors. This significantly reduces the challenges in quality assurance and spillage/ spoilage that are common in smallholder production.

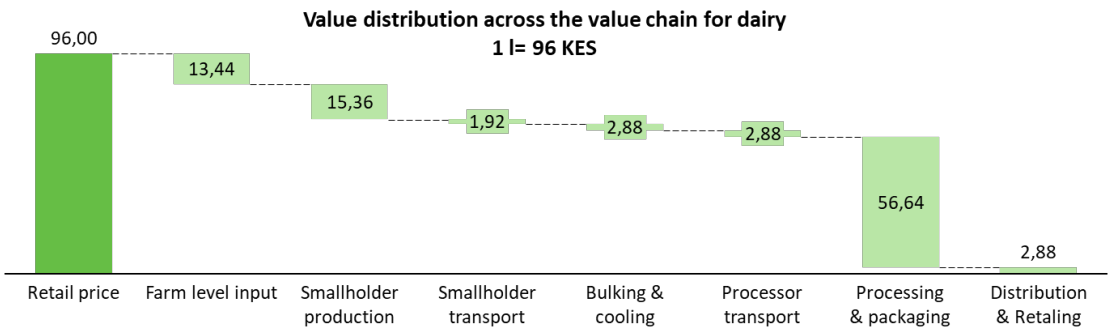
Figure 3. Production, distribution, and processing flows in the dairy sector (schematic)



2.2 Value chain overview

The dairy value chain in Kenya consists of the following: farm level input, smallholder production, smallholder transportation, bulking & cooling, processor transport, processing & packaging, and distribution & retailing. Currently, processing & packaging alone capture 59% of the value.

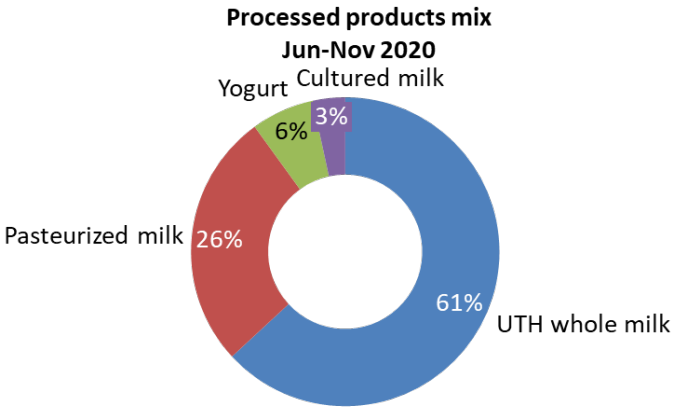
Figure 4. Value distribution[7]



[7] Schematic representation, based on Dairy development in Kenya, FAO, 2011 and the KAPAP Dairy Value Chain Study Report

It is also important to understand the patterns in processed milk products, as they are the demand that drives this growth. Data from June until November of 2020 shows that two thirds of the processed milk was commercialized as UHT whole milk, still showing great potential to grow the market of processed products[8].

Figure 5. Processed products mix



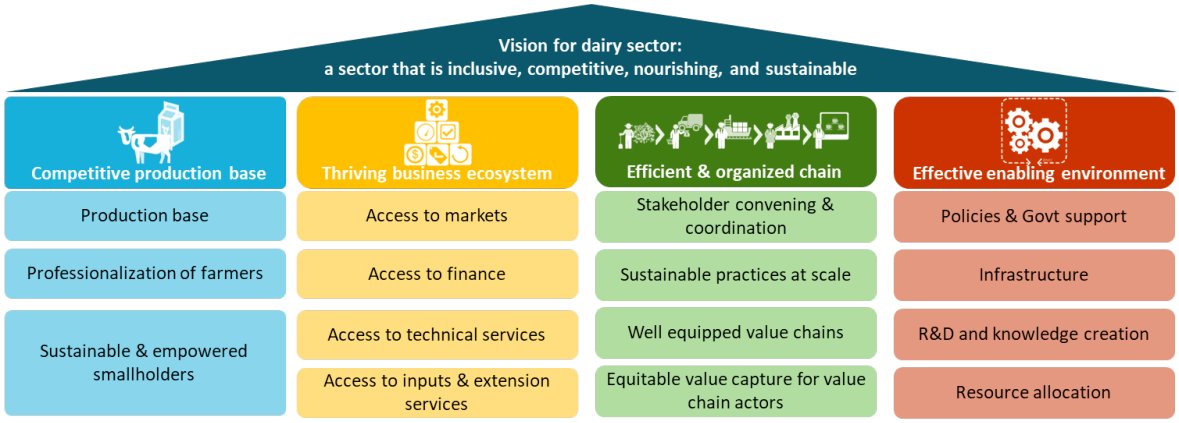
However, for the Kenyan dairy sector to realize its full potential it is key that the entire sector is inclusive, competitive, nourishing, and sustainable. These four characteristics provide an ideal environment to optimize productivity, profitability, and to ensure the value distribution equally throughout the value chain.

This ideal vision for the Dairy sector and the components that make up each category will be used in the following sections to outline and identify the current state of the Kenyan dairy sector and the challenges faced by a range of actors.

2.3 Snapshot view of a healthy and thriving sector

As mentioned in the last section, a healthy and thriving sector is inclusive, competitive, nourishing, and sustainable. This section describes each of the factors in greater detail.

Figure 6. Components of a healthy sector, model by NewForesight



- **Inclusive** means that the sector allows all types of actors (small-medium-large) to thrive, and there is no monopoly of actors in all parts of the value chain
- **Nourishing** means that the sector enables the actors to grow and be in a good condition regarding economic, social (incl. health), and environmental
- **Sustainable** means that the sector can exists and continue to grow for a long period, while bringing positive impact to the society and environment

[8] KDB, 2021. Status of the Dairy Industry in Kenya, presentation

- **Competitive** means that the sector can operate in an efficient and effective manner that allows for it to be competitive with other national Dairy sectors, and with other domestic markets regarding employment attractiveness.

These four characteristics provide an ideal environment to optimize productivity, profitability, and equality throughout the value chain. This ideal vision for the Dairy sector and the components that make up each category will be used in this section to outline and identify the current state of the Kenyan Dairy sector and the challenges faced by a range of actors.

2.3.1 Competitive production base

In an ideal sector, a competitive production base is essential. It is a signal that the sector as a whole is working effectively to produce that commodity in a cost-effective, efficient, and profitable way.

The Kenyan Dairy sector is made up of a majority of smallholder producers that distribute their milk largely through informal markets. While this poses a number of challenges including inefficiencies in production (often resulting in high production cost), lack of specific knowledge to improve milk quality and reduce spoilage, and lack of access to infrastructure to transport milk, the sector also has opportunities that can be leveraged. There is strong grass-roots coordination to collectively organize production and market milk through producer groups and farmer cooperatives, as well as an eagerness to learn, invest, and implement modern farm management practices.

For a detailed overview of challenges and opportunities in the competitive production base, refer to annex 1.

2.3.2a Thriving business ecosystem (smallholders)

In an ideal sector, smallholders must work within a business ecosystem that allows them to strive. The Kenyan Dairy sector has several characteristics that facilitate and enable smallholders. The increasing demand for diverse dairy products, credit systems, and technical, input, and extension services provide opportunities for smallholders to continue to function even with limited land resources and fluctuations in feed/ fodder due to seasonality.

However, there are many challenges faced by smallholders including: limited access to finance as a result of high cost of loans, limited collateral options; limited access to output markets as a result of high cost of transport, cold chain and assurance; and limited access to technical services as a result of availability, quality and cost.

For a detailed overview of challenges and opportunities in a thriving business ecosystem for smallholders, refer to annex 1.

2.3.2b Thriving business ecosystem (SMEs)

The Kenyan Dairy sector boasts an increasing demand for products and services complemented by a growth in providers of technical and business development services. However, most SMEs in the Kenyan Dairy sector are hindered by their access to markets and finance. The farmers they serve are often very remote and difficult to access. As a result, SMEs struggle to understand their consumers' demand and struggle to supply for it due to the difficulty accessing them.

SMEs struggle to scale their interventions as access to finance is complex. High interest rates and stringent financial performance and collateral requirements mean a lot of available finance mechanisms are inaccessible to SMEs.

For a detailed overview of challenges and opportunities in a thriving business ecosystem for SMEs, refer to annex 1.

2.3.3 Efficient & organized supply chain

The Kenyan Dairy sector and the different supply chain segments and actors are fragmented. Actors are not organized in pursuit of common goals, and lack the incentives to pursue sustainable practices, lack the knowledge of finance and business. In addition, the processing of dairy is controlled by just a handful of very large processors which allows them the ability to set prices for raw milk and processed milk. It is important to mention that there is also a thriving and growing (small and medium) processing industry, and a consistent growth in the variety of products beyond milk that are offered in the Kenyan domestic market.

For a detailed overview of challenges and opportunities in an efficient and organized supply chain, refer to annex 1.

2.3.4 Effective enabling environment

The enabling environment around the Kenyan Dairy sector is beginning to take shape and starting to push resources to the sector. However, devolved agricultural policies have meant that implementation is limited. This is further compounded by limited availability of funding and technical resources. Poor infrastructure for transport, communications, and electricity generation limit both smallholders' production and access to market and SMEs ability to serve smallholder farmers. Furthermore, local dairy industry has competition from external markets, as high taxation in multiple products and activities results in high cost of capital goods, impeding competitiveness of local supply chain/processing.

For a detailed overview of challenges and opportunities in an effective enabling environment, refer to annex 1.

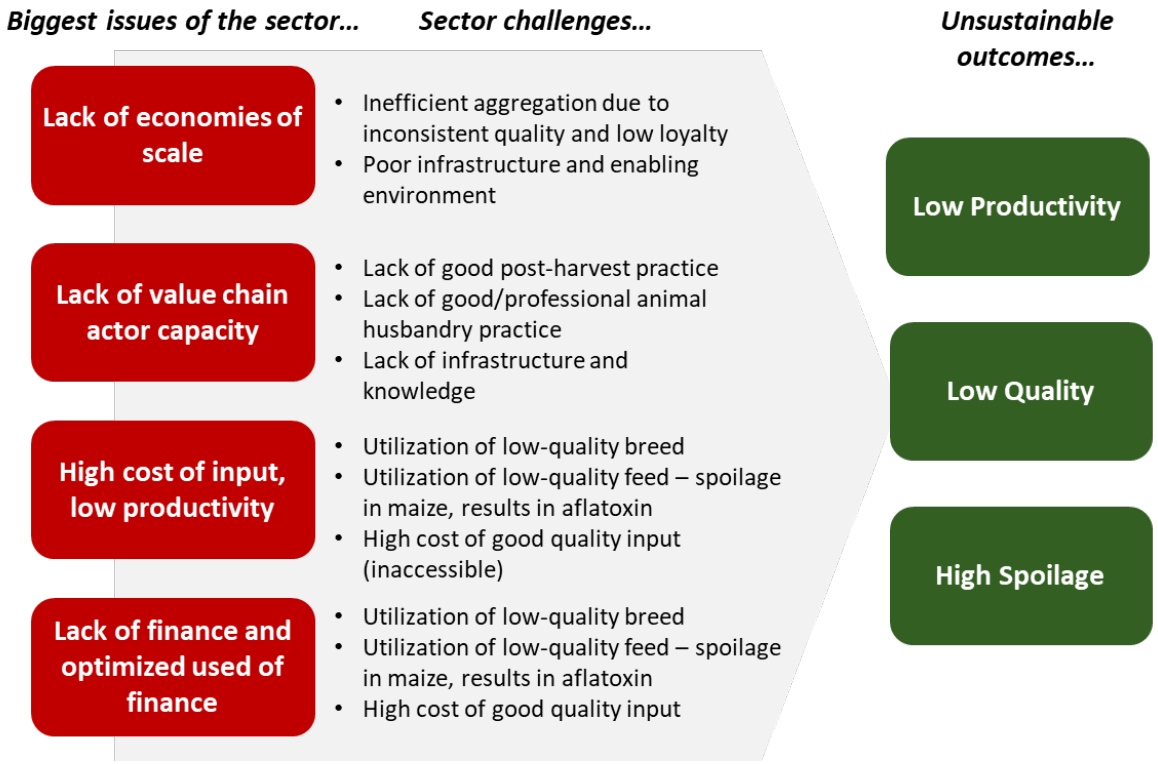
2.4 Conclusions from sector diagnostic

A detailed assessment of the various components of a healthy sector in the context of the Kenyan dairy sector indicated the following as key issues:

- **Competitive production base**: Professionalization of the smallholder farmers is the biggest issue; as bridging this gap can render them more capable to access and use inputs, information, & finance
- **Thriving business ecosystem**: Lack of finance and technical services are the most prominent issues faced by the smallholders. Limited access to markets and lack of access to finance slow down the growth of the dairy sector SMEs
- **Efficient & organized chain:** The dairy value chain is not well equipped due to lack of integration; further concentration of power with a few large processors inhibits equitable value capture across the value chain
- **Effective enabling environment:** There is a lack of enabling environment due to inadequate funding, infrastructure, & limited deployment policies; further lack of R&D and inefficient use of resources worsen the issue

These inter-related issues result in lack of economies of scale, lack of value chain actor capacity, high cost of input and lack of availability and optimized use of finance at the sector level. And outcomes of this include low productivity, low quality, and high spoilage.

Figure 7. Overview of challenges and unsustainable outcomes



These issues stem largely from a lack of farmer professionalization and capacity. However, the enabling environment of infrastructure, extreme weather fluctuations, and unstable prices also play a large part in smallholder farmer's inability to improve quality, reduce spoilage and thus improve productivity.

3. SMEs in the dairy sector

In this chapter we introduce the SMEs from a broader perspective as the main vehicle for delivering Flagship 1, and then focus into further expanding the characterization of the SMEs in the dairy sector based the findings from the rapid mapping executed. Also, and to make these archetypes more concrete, we include one example of an SME that has the potential to have positive impact in the sector. Finally, we also present the drivers of change for SMEs to become accelerators or change agents themselves.

To have a better sense of the actual challenges that SMEs face in their daily activities, part of this assignment focused on conducting a rapid mapping exercise for 15 SMEs that are active in the dairy sector. Some of these SMEs could be what are considered "high-potential" by Flagship 1, looking at how they work to focus key problems of the sector.

3.1 Relevance of SMEs in strengthening the Kenyan dairy sector

Flagship 1 seeks to work through farmer-facing SMEs[9] that can raise incomes for small-scale farmers by supporting better productivity and market access. Flagship 1 aims to ensure:

- These SMEs provide production & post-harvest services to farmers. These farmers would have more opportunities to improve productivity, quality and sell their products at a competitive price
- Farmer associations shift their focus to higher value produce, improve their productivity, quality of produce and reliability of delivery to off-takers
- Farmer-facing SMEs provide inputs & equipment to supply more farmers more efficiently with higher quality, more affordable products
- Household incomes of small-scale farmers increase due to better quality, more affordable inputs, and more opportunities with off-takers. Achieve higher yields and focus on producing higher value commodities

Definition of SMEs:
Comprise both formal and informal businesses concentrated in urban and peri-urban areas. As defined by the Kenya Institute for Public Policy Research and Analysis (2014), Kenyan SMEs have 10-100 employees, and an annual turnover of <KES 500,000 to KES 5 million per year.

Box 1. Flagship in depth

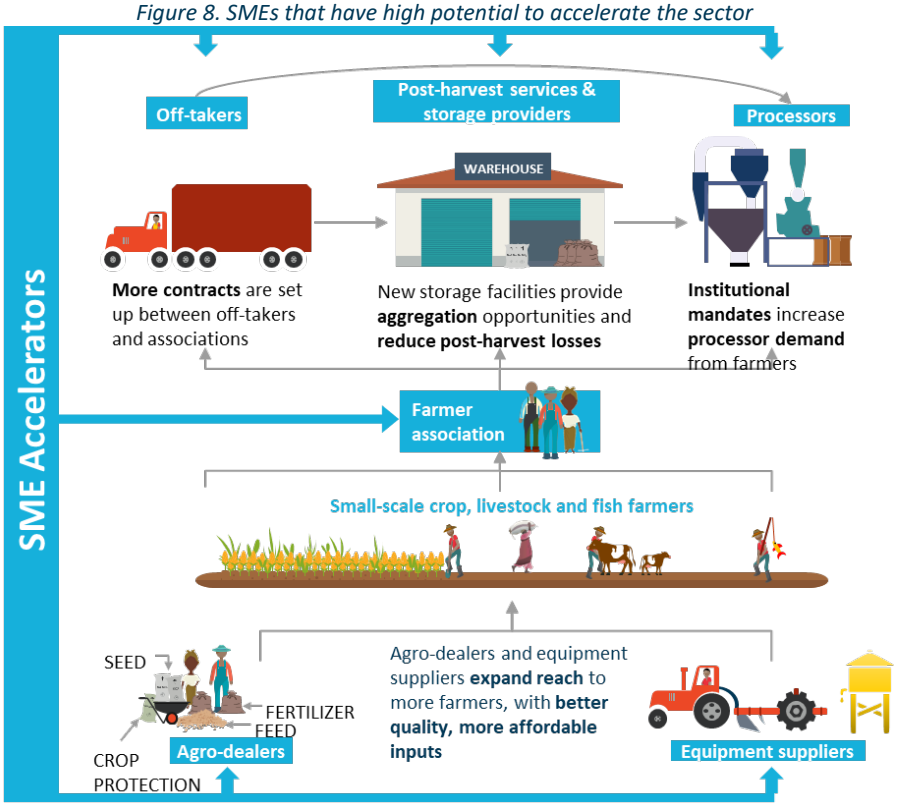
Flagship 1 focus

The key objectives for Flagship 1 are:

- Support 1,000 farmer-facing SMEs with the potential to provide new market opportunities and services to ~1 million farmers in high productivity zones
- SMEs will include ~600-750 agro-dealers, ~20-25 agro-processors, and ~120-150 cold storage chains / providers
- Farmer associations, driven by demand through private sector linkages, such as contract farming
- Criteria: Number of SMEs present, Engagement with farmers

[9] Agricultural Sector Transformation and Growth Strategy. Towards sustainable agricultrual transformation and food security in Kenya 2019-2029. Abridged version.

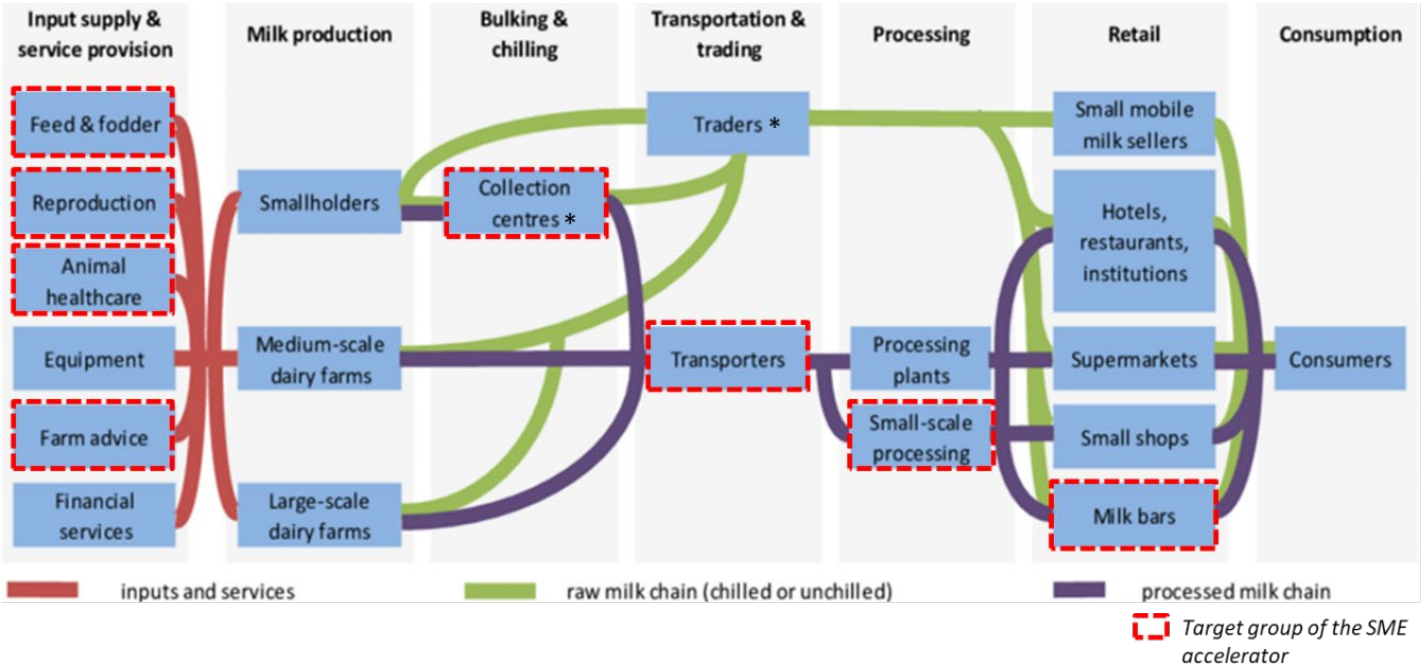
Figure 8. SMEs that have high potential to accelerate the sector



3.2 SMEs in the dairy sector

SMEs in dairy sector are found throughout the value chain as shown in Figure 9. As Flagship 1 is aimed at supporting farmer-facing SMEs, those of interest are the ones that can enable smallholder farmers to address their main challenges: low productivity, low quality, and high spoilage and limitations related to market access.

Figure 9. Overview of the SMEs in the dairy value chain Source: (https://www.researchgate.net/figure/1-Overview-of-the-dairy-value-chain-in-Kenya-NB-Some-actors-combine-several-steps_fig3_309413344)



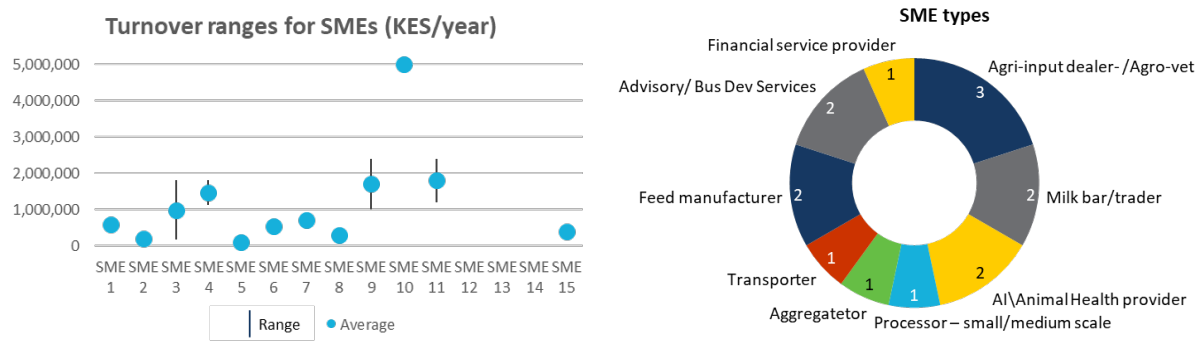
Most SMEs of interest are those that support increased production of milk through input supply and service provision directly to smallholder farmers. These SMEs typically include feed & fodder providers and other animal production inputs, technical services in reproduction and animal healthcare, and advisory services related to production and post-production issues. In addition, SMEs that reduce spoilage and increase access to market through offering aggregation and cold chain services are also highly relevant.

3.3 SME Rapid mapping

We conducted a rapid mapping study of farmer-facing SMEs to understand their basic characteristics, challenges, incentives, and growth. From this rapid mapping of 16 SMEs we derived learnings that allow us to understand the current state of SMEs and the main bottlenecks that need to be addressed.

SMEs in the dairy sector can be heterogeneous if defined from the perspective of service offering or turnover (see figure 8). However, they have similarities in other areas. More than 90% of the SMEs mapped work across multiple counties. The SMEs typically employ 1-25 employees, and many serve at least 100 farmers per month. About 80% of the SMEs regularly provided services directly to smallholder farmers.

Figure 10: Average turnover and types of SMEs mapped during the study



The results of the mapping showed that 80% of the SMEs faced challenges of low competitiveness, 13% faced challenges from high overhead and operational issues, 53% were constrained by poor infrastructure, 27% faced a lack of affordable and appropriate finance (either directly or indirectly due to farmers' lack of access to finance), 40% faced challenges from a lack of sector intelligence. Despite all challenges, ~73% of the SMEs noted growth.

Key learnings from the assessment indicate that **most of the SMEs assessed are growing** -even despite COVID. However, these SMEs face challenges arising from low competitiveness of smallholder farmers, poor in poor infrastructure, lack of sector intelligence, overhead and operational issues. However, two thirds of them have been part of other programs, with overall positive experiences, and willing to engage proactively.

3.3 SME Archetypes in the Kenyan Dairy Sector

We identified five archetypes of farmer-facing SMEs that Flagship 1 should target due to their high transformative potential for the sector -working in key bottlenecks. Their **high transformative potential** is based on the estimated number of SMEs under the archetypes, and their high smallholder engagement potential, and their linkages to market, consistent with Flagship 1 focus.

From these three key factors, we have identified Agro-input providers, Cold chain providers (aggregation & mini processors), Cold chain providers (Transportation), Retailers, and Knowledge and business support providers as the five archetypes with the highest transformative potential. See the detailed archetype analysis in annex 2.

An assessment of the archetypes highlights differences based on their concentration, linkages to smallholders and markets and their challenges & opportunities.

3.3.1 Agro-inputs and service providers: Including feed & fodder, Semen, animal healthcare and veterinary supplies, farm inputs

- Estimated number of SMEs: +/- 1000
- Serve small scale producers: Yes, high engagement
- Linkages to market: Low
- Annual turnover / capacity: 5 – 10 million KES
- Location: Spread across the country
- Challenges: Access to finance, Access to knowledge, Ensure quality of goods and services
- Opportunities: Can directly influence farmers productivity, Know the issues on-the-ground – needs, trends, etc.

3.3.2 Cold chains 1: Aggregation and mini processors

- Estimated number of SMEs: +/- 500*
- Serve small scale producers: Yes, high engagement
- Linkages to market: High
- Annual turnover / capacity: 5 – 10 million KES / Estimate 50-200 lit\day
- Location: Spread across the country
- Challenges: Consistency in quantity (seasonality) and quality of milk, Competition by bigger players
- Opportunities: Can directly influence the quality of milk in the market, Sources of knowledge to farmers

3.3.3 Cold chains 2: Transportation

- Estimated number of SMEs: +/- 1,000
- Serve small scale producers: Yes, high engagement
- Linkages to market: High
- Annual turnover / capacity: 5 – 10 million KES, Small: 100-200 lit/day, Large: 3,000-10,000 lit/day
- Location: Spread across the country
- Challenges: Consistency in quantity (seasonality) and quality of milk, Competition by bigger players)
- Opportunities: Can directly influence the quality of milk in the market, Sources of knowledge to farmers

3.3.4 Retailers: Small retailers: milk bars (farmer-facing)

- Estimated number of SMEs: +/- 100
- Serve small scale producers: Yes, medium engagement
- Linkages to market: High
- Annual turnover / capacity: Varied

- Location: Spread across the country
- Challenges: Quality of milk, Competition by bigger processors and retailers,
- Difficult to obtain licenses, limited opportunity to grow
- Opportunities: Growing market demand /opportunities

3.3.5 Knowledge providers: Training, Capacity building

- Estimated number of SMEs: 100
- Serve small scale producers: Yes, high engagement with all value chain actors
- Linkages to market: Low
- Annual turnover / capacity: Varied
- Location: Spread across the country
- Challenges: Consistency in the quality of the service/knowledge, Low demand of services due to willingness to pay, but high need
- Opportunities: Growing market demand /opportunities

3.4 Key SME challenges

The challenges faced by SMEs also vary by the archetype. A mapping of challenges by the archetype is included in Figure 11 below.

Figure 11. Challenges by archetype

Challenges	Knowledge providers	Agro-input providers	Cold chain aggregators	Cold chain transport	Retailers
Stock management		●			
Low competitive advantage	●		●	●	●
Low milk quality			●		●
Unstable milk prices				●	
Seasonal weather			●	●	
Limited availability of technical assistance		●	●		
High number of manpower			●		●
Unreliable power supply			●		
Unreliable water supply			●		
Poor rural infrastructure			●	●	●
Limited access to finance		●	●	●	●
Limited network	●				
Lack of information	●				
Limited access to market		●			

Most SMEs struggle with access to finance. This and other issues such as the high overheads and transaction costs and low competitiveness can be addressed by supporting them to become stronger businesses (in their internal capacity) by linking them with the right services to address their constraints.

Based on the challenges expressed by SMEs interviewed, these can be summarized in the following categories:

- **Low competitiveness:** SMEs need to provide the most effective and efficient services/goods to the customers. This can be achieved if the SMEs have better understanding on customer needs and better managerial capacity. Furthermore, the sector utilizes high number of manpower, however, the service offered is not fit to purpose.
- **Limited possibilities to improve infrastructure:** Many producers (smallholders) are located in the rural area with lack of reliable infrastructure.
- **Access to finance:** SMEs struggle to have access to affordable finance, or the right conditions for them to benefit from it.
- **Lack of sector intelligence and networks:** SMEs have limited access to get information and insights about producers and sector trends and development (e.g., policy updates).

3.5 Key incentives for SMEs

SMEs aim to grow their business, and for that they need financial and non-financial support to become stronger organizations that can engage better with their clients. SMEs have the potential to grow, building upon sector trends, but they need to be prepared for this growth and to compete against bigger companies.

- **Business growth**. Most SMEs expect that proactive engagement with accelerators could help them growing their business, which will be reflected in increasing profit.
- **Find finance/investments.** One of the bottlenecks for SMEs to grow is to access capital and use it effectively to grow the business. Working with accelerators could play a crucial role in enabling the SMEs to access and utilize finance/investments, finding affordable financial products that are adequate for their needs.
- **Improve engagement with smallholders**. SMEs see smallholders as their partners. SMEs also benefit from the growth of smallholders, and therefore are very much interested in engaging effectively with them.
- **Improve service delivery to consumers.** The services provided by the SMEs to the customers can still be optimized in terms of their efficiency and effectiveness. This will improve the sector as a whole.

Figure 12. Incentives for SMEs per archetype

Incentives	Knowledge providers	Agro-input providers	Cold chain aggregators	Cold chain transport	Retailers
Grow business	●	●	●	●	●
Find finance/ investment		●	●	●	●
Improve engagement with smallholders	●	●		●	●
Improve service delivery to consumers				●	●
Exposure to modern technology			●		
Find the right partners	●				
Participation in relevant forums and networking	●				

Box 2. SME example

SME case study: Savanna Circuit –
Manufacturing company offering last mile solar cold-chain solutions

Savanna Circuit Technologies LTD is a manufacturing and last mile distribution company that provides dairy farmers and cooperatives with portable solar milk chillers, quality control equipment and farmer management system- offering real-time data from collection points -while cutting milk spillage and spoilage for maximized profits through a lease model.

Basic Characteristics

- The SME bridges the gaps in the dairy sector with a focus on addressing\offering- cold-chain solutions- to the value chain.
- Provides solar power, renewable energy solutions to reduce post-harvest handling and managing, as well as provision of training.
- Solution integrates information systems for data collection functionalities to support farmers and logistics and enhance transparency/efficiency.
- Target consumers are small scale, Bottom of the Pyramid (BoP) producers producing less than 100L/ day.

Challenges

- Segregated/ fragmented value chain – smallholders at one end with large scale commercial productions at the other end.
- Low adoption of new technology – it takes a lot of work in training, product trials and dissemination before adoption rates increase.
- Cooperative management weaknesses - Work through cooperatives as a point of integration.
- Product variety – difficult to provide solutions at the right scale for different sized operations in the value chain.

Needs

- Access to affordable finance.
- Support for capacity building – leadership, financial management, entrepreneurship, business management & planning.
- Support from policy makers – need policy/ market support to identify and link with different market actors.
- De-risk working with smallholders – development of smallholder market needs to be supported to build resilient SMEs.

Figure 13. Savanna circuit cooler

3.6 Preliminary eligibility criteria for identifying high-potential SMEs

As the SME dairy accelerator interventions are rolled over, SMEs will be engaged within the selected impact areas. Some of the potential eligibility criteria to include:

- Proof of operation in the priority area of action
- Valid business licenses according to the type of business (e.g., registration in the KDB)
- Characteristics according to Flagship 1 (servicing at least 1,000 farmers per annum, size of >400,000 KES per annum)
- Mission orientation, or demonstrated business model linked to sector challenge
- Willingness to engage into in-depth organizational assessment*
- Feasible business model with potential to growth*
- Financial viability according to basic bankability metrics*

Note that the criteria marked with (*) might be assessed in the in-depth diagnosis phase, whereas the other criteria must be assessed during the rapid mapping to identify the most interesting SMEs to work with.

3.7 Conclusion on SME support

Flagship 1 can accelerate the growth of high potential SMEs by supporting on key leverage points. These leverage points can be categorized across internal and external drivers of change. Internal drivers of change that would accelerate the growth of SMEs include improved organizational capacity and access to the right sector intelligence. External drivers of change include increased sustainable demand from smallholders and an availability of tailored financial services to enable scaled-up operations.

High potential SMEs are in a unique position to become catalyzers and advance the sector. Each driver of change is interlinked, as shown in the diagram to the left, with every improvement leading to natural improvements in other areas of the SMEs operations and enabling environment.

Internal

- Improved organizational capacity will enable SMEs to become better at managing their operations and business strategy.
- Access to the right sector intelligence can help them make informed decisions and support their clients better.

External

- Increased sustainable demand by (professional) smallholder farmers that recognize the value of their products.
- Availability of customized financial service offering can accelerate scaling up their operations, with the mechanisms available in the market.

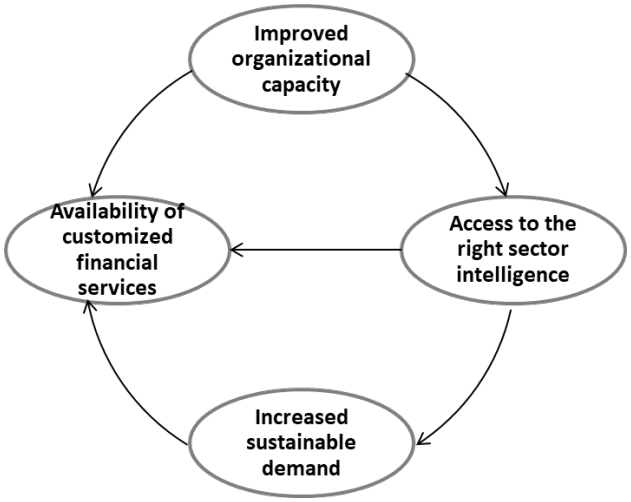


Figure 14. Drivers of change for SMEs to become change agents

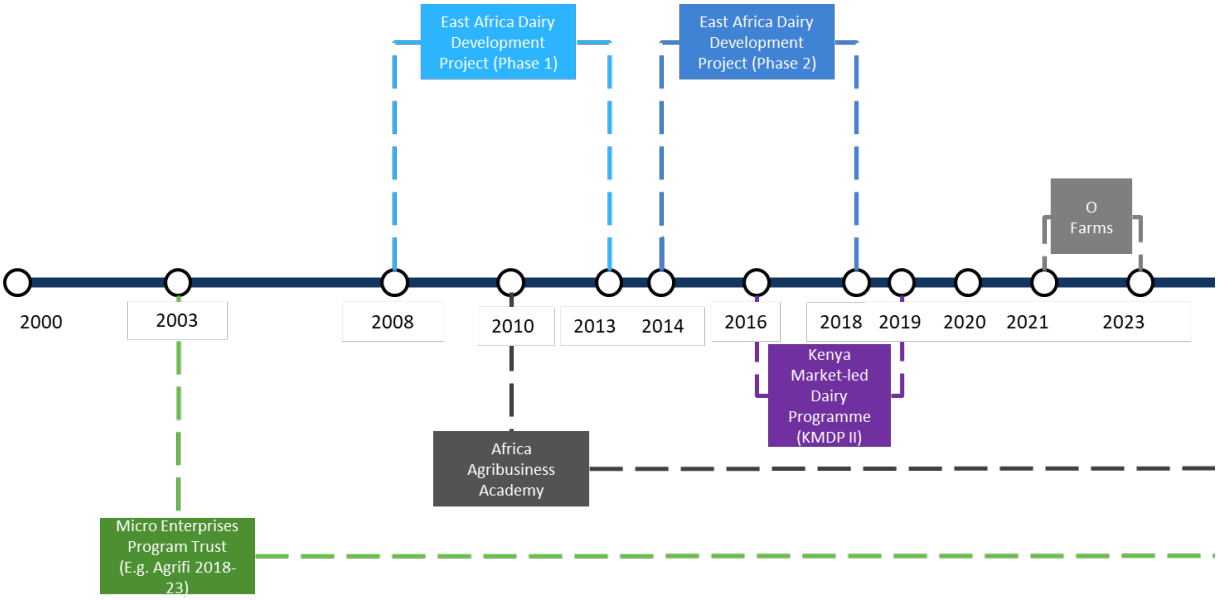
4. Programs in the dairy sector

In this chapter we present an overview of programs and interventions that have or are currently contributing to the dairy sector. The objective of this was twofold: first, to have an overview of the lessons learned and opportunity areas, but also to have an inventory of potential programs that are still active and that can be part of the network of accelerators.

Various programs have been implemented to support SMEs in the dairy sector in the past; some of these programs are expected to run until 2030. Most of the programs focus on professionalization of farmers, access to markets and technical services.

While some of the programs also focus on R&D and knowledge creation and access to finance. The programs play a key role in strengthening the organizational capacity of SMEs; but focus on improving infrastructure and enhancing sector intelligence are critical going forward. Learnings from past programs indicate an improved engagement with smallholder farmers and access to long term support to SMEs can be key for their growth. Programs can also leverage their position to drive sector level change (beyond the SME performance) by strengthening synergies, crating incentives and building sector data.

Figure 15. Timeline of programs that contribute to the dairy sector



4.1 List of past and current programs in the sector

The table below provides details on the examples of past and present programs relevant for SMEs in the Kenyan Dairy sector. Furthermore, in order to have better visibility of the efforts that contribute to the sector, we have also included initiatives and other efforts that might not be considered programs per-se.

Program	Stakeholders	Duration	Actors Served	Objectives / Intervention logic	Sectoral issues addressed
The Kenya Market-led Dairy Programme: From Aid to Trade (KMDP-II)	SNV/ Dutch Embassy in Kenya	2016-2019	• SMEs • Smallholder Farmers	• Invest in enhancing the professionalism and competitiveness of the Kenyan dairy sector. • Invest in the capacity of the Dutch private sector and knowledge providers to be inclusive and relevant for the Kenyan market	• Professionalization of farmers • Access to technical services
East Africa Dairy Development Project	Heifer International	2008-2013	• SMEs • Smallholder Farmers	• Work with farmers to implement a sustainable system that would improve the quality and quantity of their milk production and connect them to reliable markets. • Farmers in Kenya, Rwanda, Tanzania, and Uganda received training to improve the health and yields of their cows, as well as guidance to improve their feed.	• Professionalization of farmers • Access to markets • Access to technical services
Kenya Crops and Dairy Market Systems Development	USAID	2017-2022	• SMEs • Smallholder Farmers	• Increase agricultural production and reduce poverty and malnutrition in Kenya by spurring competitive, inclusive, and resilient market systems in the horticulture and dairy sectors.	• Professionalization of farmers • Access to technical services
O-farms	IKEA Foundation/ Village Capital	2021-2023	• SMEs	• Provide support to SMEs to make circularity a mainstream approach for improved rural livelihoods and sustainability	• Professionalization of farmers • Access to technical services – strong focus on circular business models
2SCALE	IFDC/ BOP Inc/ SNV/ NL Ministry of Foreign Affairs	Ongoing	• SMEs • Smallholder Farmers • Farmer groups	• Manage a portfolio of public-private partnerships (PPPs) for inclusive business in agri-food sectors and industries. • 2SCALE offers a range of support services to its business champions (SMEs and farmer groups) and partners, enabling them to produce, transform and supply quality food products.	• Professionalization of farmers • Access to technical services • Access to markets

Program	Stakeholders	Duration	Actors Served	Objectives / Intervention logic	Sectoral issues addressed
Strathmore university Dairy Investors Program	Strathmore University	Ongoing	• SMEs	• Connecting investors that are keen on investing in the dairy sector, commercial dairy farmers looking to optimize productivity and to increase profitability and investment groups keen on investing in the dairy sector.	• Professionalization of farmers • Access to markets • Access to technical services • Access to finance
Egerton University SME Incubation	Growth Africa/ Egerton University	Ongoing	• SMEs	• Support start-ups and scaling of SMEs into impactful ventures.	• Professionalization of farmers • R&D and knowledge creation
Africa Agribusiness Incubators Network	AAIN	Ongoing	• SMEs	• Creating hub of innovation for African agri-business incubation.	• Professionalization of farmers • Access to technical services • Access to finance • R&D and knowledge creation
Micro enterprises program trust / AgriFI Kenya challenge fund	Kenyan Govt./ EU/ DANIDA	Ongoing	• SMEs • Smallholder Farmers	• Supporting sustainable economic growth and development of Smallholder Farmers, Micro, Small and Medium Enterprises (MSME), through a value chain approach and offers sustainable credit to financial institutions for improved business competitiveness and job creation.	• Professionalization of farmers • Access to markets • Access to technical services • Access to finance
Africa Agribusiness Academy	Africa Agribusiness Academy and SME members	Ongoing	• SMEs • Smallholder Farmers	• Supporting agri-preneurs by offering capacity development and training opportunities, providing marketing, communication and networking support and facilitating the collaboration and mutual learning of all partners.	• Professionalization of farmers • Access to markets • Access to technical services • Access to finance

4.2 Focus of past and existing programs

We have identified a list of the most appropriate programs in the Kenyan Dairy sector aimed at supporting the needs and challenges of SMEs.

As is shown in the table, all programs identified focus on SMEs from the perspective of improving organizational capacity to improve their service offering, business management, and long-term financial sustainability.

Beyond improving organizational capacity, most programs offer other services depending on the programs' goals. These include improving access to finance, either directly or via networking services, improving infrastructure, and improving sector intelligence.

Figure 16. Focus areas

Title	Work with SMEs (Y/N)	Improving organizational capacity	Improving access to finance	Improving infrastructure	Improving sector intelligence
The Kenya Market-led Dairy Programme: From Aid to Trade (KMDP-II)	✓	✓			
East Africa Dairy Development Project	✓	✓		✓	
Kenya Crops and Dairy Market Systems Development	✓	✓			
O-farms	✓	✓			✓
2 Scale	✓	✓		✓	✓
Strathmore university	✓	✓	✓		✓
Egerton University SME Incubation	✓	✓			✓
Africa Agribusiness Network	✓	✓	✓		
Micro enterprises program trust / AgriFI Kenya challenge fund	✓	✓	✓		
Africa Agribusiness Academy	✓	✓	✓		✓

Note: The list is not exhaustive

4.3 Key learnings from programs

Learnings from past and ongoing programs indicate an increased effort to apply market-led approaches to support smallholder-focused dairy development. These approaches put a spotlight on different types of agri-businesses, especially those characterized as small and medium enterprises (SMEs) along the dairy value chain and their role in contributing to competitive and sustainable sector's development.

These programs have design various interventions that engage and support SMEs to deliver various service and inputs to smallholder farmers. The support is typically focused on building capacity and targeting of specific business model gaps in different SMEs segments. Programs aiming to support SMEs and smallholder farmers in the Kenyan Dairy sector have typically focused on building capacity and targeting specific issues for individual market segments. For example, targeting farmer milk handling.

Key success factors for programs include identifying bottlenecks in the interactions between SMEs and smallholders, designing holistic programs that address multiple market segments, increased exposure to other market segments, specific focuses on farmer professionalization with the aim of engaging

more effectively with SMEs, and lastly, supporting SME's business models in the long run beyond program timelines and goals.

- Support improved understanding of customers:
    - Include exposure and understanding of smallholder farming systems, challenges, incentives in SME programs
- Strengthen customers capabilities to absorb SME's offerings:
    - Target farmer professionalization and growth
    - Target farmers ability to engage with SMEs effectively and enable growth as their value proposition
- Build interaction across value chain points
    - Identify key bottlenecks in SME and smallholder farmer's interactions
    - Design programs to work with SMEs and smallholders holistically rather than in silos
    - Target SMEs & smallholder farmer's capacity to enable each other
- Provide long term support
    - Support SME's business models in the long run to be financially sustainable beyond program goals and timelines
    - Target SME's exposure to smallholders to increase understanding of their clients/ customers

Examples of how past and existing programs are accelerating the sector and more detailed key learnings are as follows:

4.3.1 2SCALE

2SCALE is an incubator and accelerator program that is supporting small and medium scale agri-businesses with high potential. The program works mainly with entrepreneurial producer organizations and local SMEs that connect agricultural products to the market. 2SCALE presents in ten countries in Africa, including Kenya. It serves companies in four industries: Animal production, which includes dairy, Staple crops, Soy and oilseeds, and Fresh produce.

2SCALE aims to improve the agricultural products and markets for local markets, preferably to serve the bottom of the pyramid. 2SCALE conducts various interventions such as training and capacity building, connecting to and implementation of innovative technologies, and building a conducive enabling environment. The program leverages public-private partnerships to provide support to producer organizations and local SMEs. By supporting the development or improvement of products and markets in the under-developed market, 2SCALE aims to create better business opportunities for small agri-businesses.

In Kenya, 2Scale intervention in the dairy sector was to catalyze growth of SMEs through forging partnership with smallholders. The SMEs were dairy processors and Agri-input dealers.

The evaluation of the 2SCALE program concluded that the 'bottom-up' PPP strategy appears to be a successful business incubator model targeting value chains in an early stage of development. 2SCALE strength lies in building inclusive partnerships among private and public stakeholders. Furthermore, 2SCALE provides significant support for the SMEs to accelerate their growth.

4.3.2 Africa Agribusiness Academy (AAA)

The Africa Agribusiness Academy that was founded in 2010 aims to increase food security in Africa by stimulating and support entrepreneurship especially of small and medium-sized agri-food enterprises

(SMEs). The AAA works as a platform for agribusinesses (SMEs) and other organizations to collaborate, share and pool their knowledge, and support each other. The AAA also provides linkages to partners outside the network.

The AAA conducts various interventions such as capacity development and training, marketing, communication, and networking support, facilitating collaboration, and mutual learning of all members. The Africa Agribusiness Academy gathers contributions from members, both financial and in-kind contributions. Additionally, the AAA also receives funding from national and international public and private organizations.

The supports provided by the Africa Agribusiness Academy are categorized into four programs: AAA Buddy Program, Small Credit Fund, Access to Finance, and Training. The AAA Buddy program is a mentorship and coaching program to provide close guidance to SMEs. The Small Credit Fund aims to provide small loans to SMEs that have no access to the financial market. Access to Finance consists of initiatives that aim to open or improve SMEs' access to the financial market.

The portfolio of programs from the AAA is well set to help SMEs to thrive. It allows for collaboration and the creation of opportunities among the private sectors. However, it misses a connection with other sectoral actors, such as national and local government institutions.

4.3.3 The Kenya Market-led Dairy Program II (KMDP)

The Kenya Market-led Dairy Programme (KMDP) was implemented between 2012 and 2019 by SNV. KMDP aimed to support the development of a competitive, market-based, and private sector-led dairy sector. One of the pillars of KMDP was international partnerships and collaboration, creating linkages (B2B) to enable innovation, transfer knowledge, and improve skills in the Kenyan dairy sector. Interventions implemented as part of the program were structured into five intended outcomes (1) training, extension, and farm advisory services, (2) quality feed and fodder, (3) supply of milk quality, (4) functional value chains and (5) international linkages.

The KMDP has been very successful in connecting the local and international private sectors and enabling collaborations among the private sectors. KMDP supported the start-up and incubation of emerging service and input focused SME. However, the program missed a systematic approach to support growth and performance of individual value chain actors, especially the local SMEs beyond those they had incubated.

4.4 Program gaps and opportunity areas

Programs can also leverage their position to drive sector level change (beyond the SME performance) by strengthening synergies, crating incentives and building sector data.

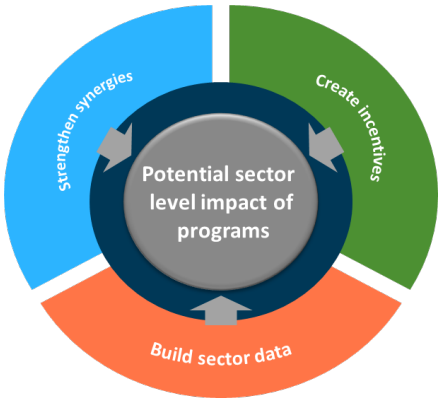
Programs aiming to support SMEs and smallholder farmers in the Kenyan Dairy sector have typically focused on building capacity and targeting specific issues for individual market segments. For example, targeting farmer milk handling.

From the 15 SMEs we have interviewed, it is clear that the majority would like further program involvement but have been frustrated by the limited scope of program goals.

Programs can go further to support smallholder farmers, SMEs, and the sector as a whole by addressing sectoral challenges holistically, linking SMEs to farmers, exposing both to challenges of the other and

looking to support SME business beyond program goals and timelines to ensure long-term sustainability and effectiveness.

Figure 17: Key sector gaps that can be bridged by programs



Create the right incentives and strengthen focus on them

- Incentivize farmers to sell through formal markets by price
- Incentivize SMEs through opportunities to expand business & improve service provision to smallholders
- Incentivize farmers through capacity development and improved production
- Incentivize farmers & SMEs through infrastructure improvements

Build sector data and enable intelligence for continuous improvement

- Increase data collection services of smallholder farmer's production
- Increase socialization of SME service offerings for smallholder farmers
- Increase monitoring of smallholder farmer's uptake of SME services, technologies, interventions etc.

Strengthen synergies and collaborations to maximize impact

- Work in approaches that contribute to develop the ecosystem. E.g., 2scale works with clusters of SMEs and farmers, to ensure successful interventions
- Need for a coordinated approach – e.g. Livestock department has a very initiative providing coolers to farmer organizations, opportunity for other actors to further improve the enabling environment of these to maximize impact
- Investment in partnerships and business ventures that enable a market-driven growth
- Develop common industry standards and language to reduce duplication of effort

These learnings can provide guidelines to scale up support for SMEs in the Kenyan dairy sector. This can support in creation of the required incentives, synergies and knowledge needed to scale up impact.

4.5 Conclusions

Having an overview of programs active in the dairy sector has helped to identify the learnings and also some of the foundations for the accelerator program to build upon. This is key, as Flagship 1 first and foremost aims to recognize current efforts, and leverage on them to enable strategic interventions.

A brief reflection about the outcomes and results of these programs help to observe the areas where diverse organizations have successfully contributed to accelerate the SMEs they are working with. This

evidence has helped developed the intervention logic and acceleration mechanisms further explored in the next chapter.

Furthermore, the opportunities identified in the previous section, also provide ideas of where programmatic interventions must focus in the sector, in order to truly enable complementarity and a holistic approach.

5. SME dairy accelerator functions and intervention logic

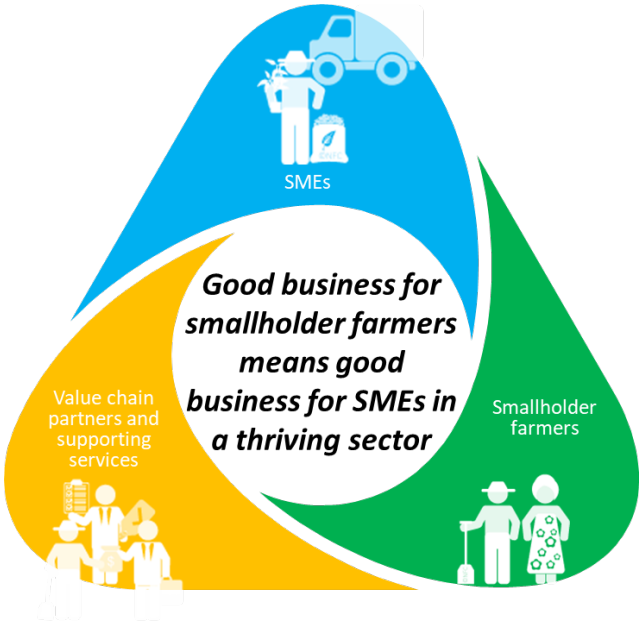
This chapter aims to explain in depth the intervention logic and the rationale behind the blueprint proposed for the SME Dairy accelerator, elaborating on some of the concepts used in the approach. First, the vision for a thriving sector accelerated through SMEs is introduced, and based on that logic, the different intervention logic mechanisms are articulated. Towards the end of the chapter, the full overview of the system resulting of this intervention is presented (or blueprint) together with concrete examples for an SME, as well as how this logic contributes to the impact ATO aims to create.

The Flagship 1 Dairy Accelerator aims to empower and enable SMEs as agents of change in the sector. It allows for bottom-up approach, and it creates synergies between smallholder farmers, SMEs, and other value chain actors. The SME accelerator under Flagship 1 must coordinate existing actors and organizations and enable them to function as accelerators, identify the existing gaps in services needed, and mobilize stakeholders to provide a solution. Thus, the desired intervention mechanisms can be implemented.

Based on this vision, we have identified key mechanisms that will become the fundamental interventions for this accelerator to enable change in the dairy sector.

5.1 Vision for a thriving sector

SMEs have the potential to drive the sector as agents of change, and accelerator organizations are key to support them. The Flagship 1 dairy accelerator aims to empower and enable SMEs as agents of change. With this, it allows for bottom-up approach, and it creates synergies between smallholder farmers, SMEs, and other value chain actors.



The vision for the sector builds upon the following logic:

(1) If accelerators and supporting services coordinate to improve conditions for SMEs, high potential SMEs will become stronger and better equipped to serve their clients.
(2) If SMEs are strengthened and well equipped to serve smallholder farmers, they can support farmers effectively in improving their business and reaching their full potential that results in improved incomes.
(3) If farmers reach their full potential, they contribute to competitive and sustainable development of the whole sector.

The win- win connections between smallholder farmers, SMEs, and other value chain actors will enable collaborative actions towards collective impact such as:

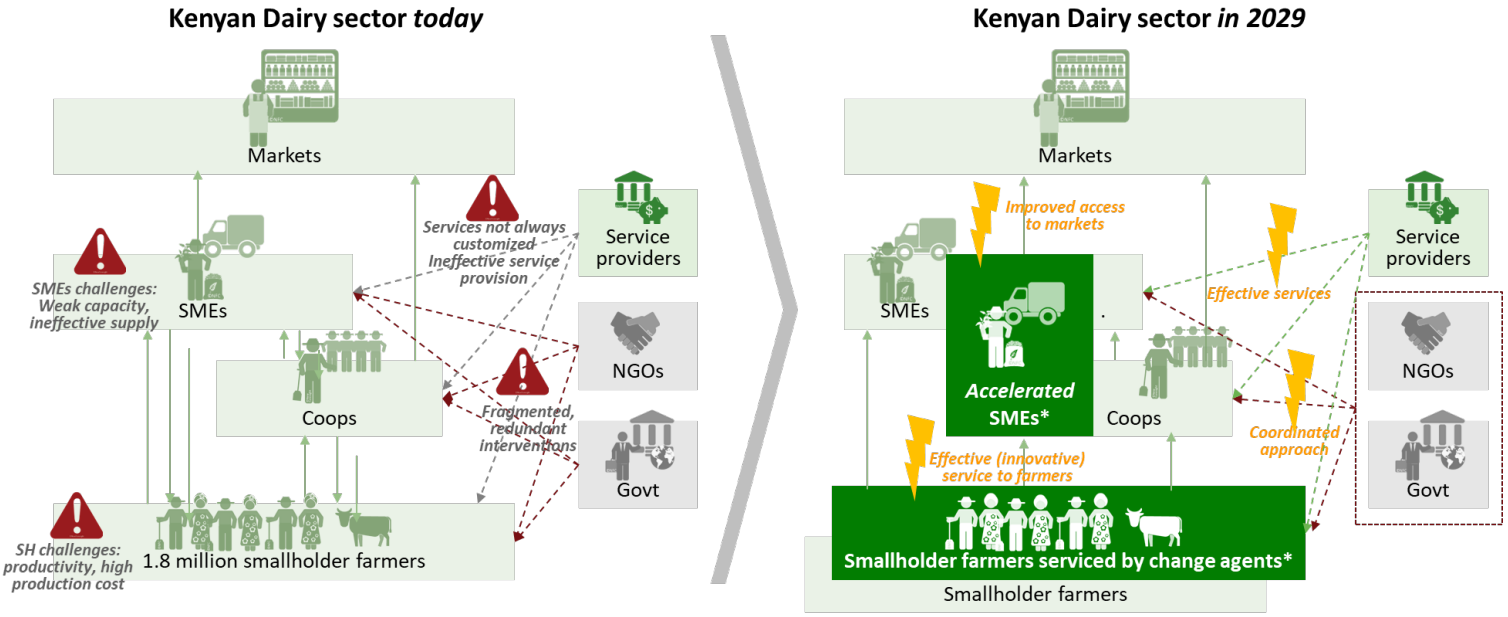
- Address challenges faced by smallholder farmers and SMEs.
- Address sector challenges on major bottlenecks in an effective driven way.
- Enable continuous improvement and a thriving sector.

These synergies are only possible by having coordinated action by accelerators or key players supporting SMEs.

5.1.1 The shift to accelerate sector transformation

Flagship 1 puts SMEs at the heart of sector transformation, making them the vehicle for sector change. To make this possible, it aims to invest in strengthening their capacities and business operations to orient them to become the change agents in the sector. This means that the sector must shift from project-based interventions that lack continuity or consistency, to a systemic approach.

Figure 18. As is situation versus desired end state



To achieve the end state, it is important to emphasize the need for coordination and a new way of working for the key stakeholders in the dairy sector that enables effective service provision, and in consequence, effective service provision and outreach to smallholders.

5.2 Definition of accelerator (organization)

The dairy sector in Kenya is dynamic and market-driven, constituted by high-potential actors and organizations that can deliver transformative change. The SME dairy accelerator under Flagship 1 must focus on the coordination of existing actors and organizations and enable them to function as accelerators, to deliver integrated solutions to high potential SMEs.

According to the ASTGS, accelerator organizations are[10]:

- Contracted for-profit or not-for profit companies that select, train, mentor, scale, and conduct performance management of **high-potential SMEs** under Flagship 1.
- Organizations with a **proven track record** in training and scaling SMEs in Kenya, or in a similar context.

[10] Source: TOWARDS SUSTAINABLE AGRICULTURAL TRANSFORMATION and FOOD SECURITY IN KENYA https://www.agck.or.ke/Downloads/NATIONAL-AGRICULTURE-INVESTMENT-PLAN-NAIP.pdf

- Organizations that provide key services that help addressing sector bottlenecks in a market-driven way.
- Accelerators:
    - may be a group of companies or organizations;
    - must be primarily headed by an impartial party, and;
    - operate at a competitive price;
    - should be able to support SMEs with varying business models.

Based on these characteristics, the implications for the SME dairy accelerator include:

- Selecting the right SMEs to work with and in the right approach is key to work with **high potential** SMEs.
- Onboarding the **right partners** (accelerators) to work with is fundamental to ensure the right experience.
- Providing the **right conditions and necessary support** to successfully collaborate (for both accelerators and SMEs), develop the right mechanisms to allow SMEs to become sector accelerators as they work with farmers and can grow their business as they become more effective and provide better services.

Box 3. SMEs as agents of change

SMEs as agents of change and sector accelerators

All SMEs defined in the archetypes can engage with the proposed interventions. The dairy accelerator will select high-potential SMEs to join and receive targeted support customized to their specific needs.

The basic pathway can be summarized in the following steps:

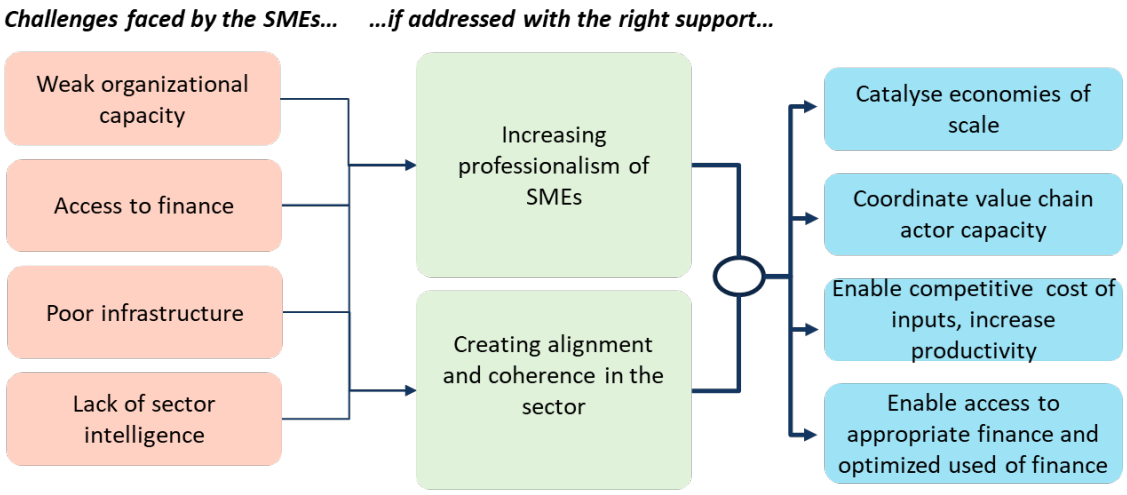
1. SME with high potential is engaged and go through an in-depth diagnosis for gaps and strengths.
2. SME has targeted access the adequate finance and the right capacity building (e.g. tailor-made mentorship, digital learning platforms).
3. SME improves its service offering to serve better its clients. Consequently, farmers improve their business and become sustainable demand for SME services.
4. SME grows its business and scales its operations, using sector intelligence to improve their service offering, accelerating positive impact.

Eventually, SMEs become sector accelerators, as they will support farmers to improve and with that, they benefit in their own business operations.

5.3 Key areas to unlock the sector

Addressing challenges faced by the SMEs can contribute to bringing solutions to the challenges faced by the sector. Thus, the desired impact of an intervention with SMEs should help addressing key bottlenecks in the sector in order to create the acceleration effect.

Figure 19. Connecting SME challenges to key areas to address sector challenges



The interventions should therefore focus, on:

1. Increasing professionalism of SMEs. This is done by:
    - Improving the technical capacity of SMEs
    - Improving the service and goods offered by SMEs
    - Improving managerial capability of SMEs
    - Improving SMEs' financial and business acumen

2. Creating alignment and coherence in the sector. This is done by:
    - Linking actors in the sector
    - Enabling effective information exchange among actors in the sector
    - Enabling dialogue among stakeholders
    - Allowing structural interventions to happen and avoiding redundancy of efforts

5.4 Functions of the SMEs accelerator

There are five main functions that the accelerator shall deliver to address SMEs challenges and realize the desired impacts. For a detailed explanation on how these functions address the SME challenges please refer to Annex 3. The past and existing programs mostly focus on building (technical) capacity to improve organizational performance. These programs are lacking a holistic approach to address challenges such as access to appropriate finance, facilitated access to infrastructure, and access and use of sector intelligence.

The five functions identified that are outlined below do not only address the challenges faced by SMEs, but also ensure that there are clear and desirable incentives, such as improving their business performance and grow their business, enabling a better access to finance and improving service delivery to smallholders, customers, and consumers.

(1) SME diagnosis – identify areas of improvement

- Develop database of SMEs in the dairy sector.
- Select SMEs with high potential to enter the accelerator program.
- Assess the strength, weaknesses, and opportunities of each SME.
- Understand the main challenges that the SME faces and understand the right incentives for the SME.

(2) Customized capacity building for different cohorts

Provide capacity building programs for the SMEs in the form of training and/or knowledge sharing. The accelerator can implement or coordinate with implementing partners. The programs can cover the following topics:

- Technical
- Business acumen (financial, managerial)
- Engaging with customers

(3) Linkages and partnerships

- Provide linkages among actors in the sector.
- Enable and support development of partnerships.

(4) Access to information

Enable efficient access to information and enable information exchange among actors in the sector.

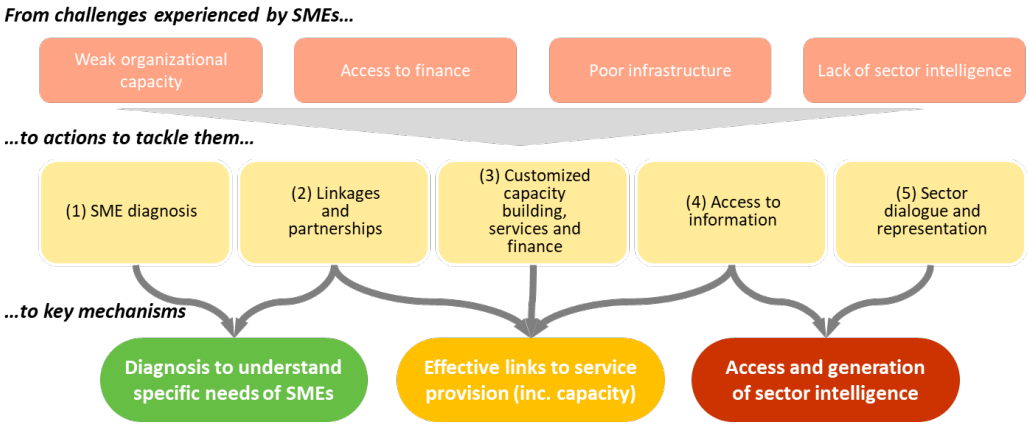
(5) Sector convening and dialogues

Enable dialogues and information sharing between relevant actors in the sector. These dialogues and information sharing will enable actors to tackle sectoral issues (Such as poor infrastructure) structurally.

5.5 Integration of the functions into acceleration mechanisms

The challenges for SMEs (explored in chapter 3) can be summarized in four main categories: weak organizational capacity, access to adequate finance, poor infrastructure, and lack of sector intelligence. As explored in the previous sections, the five functions mentioned can directly have a positive influence over these challenges. In chapter 3, multiple programs have and are addressing some of these functions to support SMEs they engage with. However, to accelerate the sector with a new approach, the shift needs to be done from a **programmatic approach** to these functions, towards working on lean **interventions or mechanisms that allow the natural market mechanisms to enable a healthy business ecosystem** for a vibrant sector, in a systemic approach. According to the challenges in the sector and for SMEs, these mechanisms are 3: (1) diagnosis, (2) effective links and (3) access and generation of sector intelligence.

Figure 20. From challenges, to functions, to mechanisms



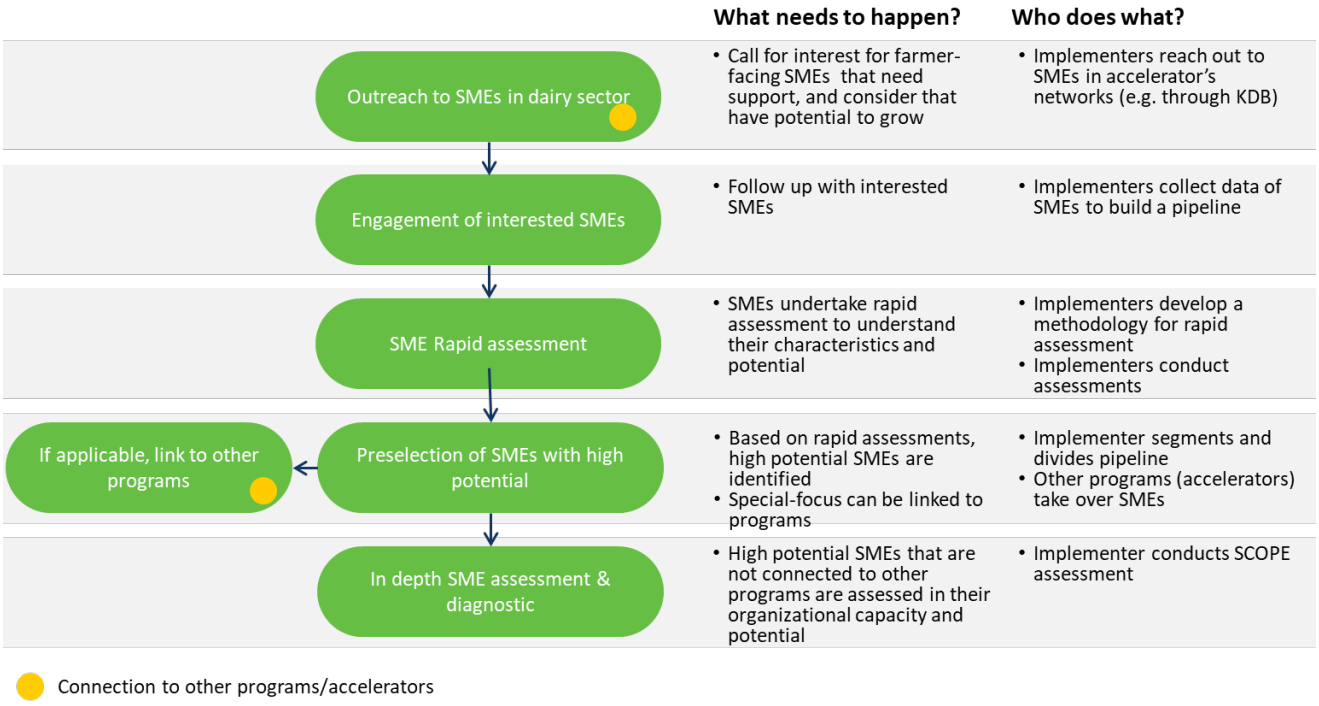
Focus on these 3 mechanisms allow for a lean approach, targeting the high potential SMEs to accelerate and connecting them with the right accelerators and service providers.

This shift aims to leverage market mechanisms and supporting SMEs in a vibrant, private sector driven industry to accelerate transformation and sustainable economic growth, especially for smallholder farmers

5.5.1 Mechanisms 1: Diagnosis to understand specific needs of SMEs

SMEs go through a 2-step diagnosis that allows finding the right candidates, leverages on existing initiatives and generation of information to implement a customized needs-based approach.

Figure 21. Diagnosis approach



For this to happen, there needs to be an agreement among the different accelerator organizations and the coordinator about a standardized diagnosis approach and tools to assess all SMEs. With this approach. implementors can reach out to SMEs engaged to execute diagnosis. The full actions in mechanism 1 are outlined in the figure above.

The outcome of this mechanism include (1) identifying and targeting the high potential transformative SMEs, having in-depth understanding of their needs, and building a financial profile based on bankability metrics.

Box 4. Diagnosis methodology

What is the recommended approach for the diagnosis phase?

To have an effective and efficient diagnostic, a 2-step approach is needed to focus the efforts on high potential SMEs.

Step 1.SME Rapid assessment

A first rapid assessment allows to have a high-level understanding of the potential for the SME to be truly transformative. This rapid mapping is an intake data collected that will support have a good mapping of the SMEs in the regions of interest and will be designed by the implementor according to the engagement strategy.

Key question to explore in this step is:

Is this a high potential SME with the right size and characteristic to be a transformative SME?

Focus topics and KPIs include:

(1) SME characteristics
- Counties where is it active
- Jobs: FTE/PTE
- Age / year of creation
- Turnover per month/year
- Other revenue sources/outstanding obligations (debt, donations)

(2) Activities in VC
- Type of SME
- Mission/vision
- Services
- Service capacity
  - Number of farmers
  - Other clients
- Processing capacity
- Partnerships

Between Step 1 and 2: Go/no go evaluation

The SME would continue the trajectory if it is characterized as high potential based on the metrics described, and if it does not fit other programs.

Step 2. In-depth SME assessment

The in-depth assessment should be data-driven, standardized approach that allows capacity builders, financial institutions, and other partners to speak in a common language and have a common understanding of the real needs and opportunities for each SME, in order to tailor service offering.

Key questions to address in this step are:

How mature is this SME?
What support does this SME need?
How bankable is this SME?

Focus topics and KPIs:

(3) Organizational maturity
- Maturity score
- Score per specific area:
  - Internal management
  - Financial management
  - Operations
  - Markets
  - Suppliers
  - Risk management
- Qualitative information on strengths and weaknesses

(4) Business strategy
- Business acumen
- Growth targets
  - Service capacity
  - Jobs

(5) Financial profile
Bankability metrics[11]:
- Assets and liabilities
- Working capital needs
- Return on assets
- Leverage ratio
- Cash flow coverage ratio

Box 5 Examples of standardized tools and resources

Standardized tools and resources that can be used and adapted for the SME dairy accelerator can already enable the use of standardized language and approach

AMEA toolbox

[11] For further information on other bankability metrics and approach, please refer to https://agra.org/wp-content/uploads/2021/02/Mobilizing-agricultural-finance-2021-02.pdf

There is currently a trend to standardize and harmonize approaches in the sector. Leading these efforts, the Agribusiness Market Ecosystem Alliance (AMEA) convenes global institutions to develop an approach to enable professional producer organizations, as well as SMEs.
As part of these efforts, AMEA has developed a toolbox with multiple curricula and other tools that can be applicable to support high potential SMEs. For example:

- Capacity building curricula: ALP (Agribusiness Leadership Program) Foundations of Cooperative Management or LMR (Last Mile Retailer)
- Assessment tools: SCOPE basic or SCOPE pro

Capacity building tools are 70-80% developed by experts and can be easily customized.

More information: https://www.ameaglobal.org/assessments

Bankability metrics

To bridge the lending gaps between agricultural entrepreneurs and financiers, AGRA in partnership with the Center for Financial Inclusion (CFI) and SCOPEinsight have identified a standardized set of bankability metrics to help unlock over US$65 billion for Agricultural Small and Medium Enterprises (Agri-SMEs) in Africa.

These metrics include a tool to collect basic data points in line with the criteria and KPI that have been discussed with global institutions, and that ultimately are intended to accelerate alignment and access to finance for these SMEs.

More information: https://agra.org/wp-content/uploads/2021/02/Mobilizing-agricultural-finance-2021-02.pdf

SCOPEinsight assessments

The SCOPE Pro and SCOPE Pro SME enable potential business partners to assess the creditworthiness, professionalism, and reliability of farmer organizations and SMEs in with tools that are standardized.

Data collection consists of a questionnaire of around 130 questions, extensive background information and documentation collection and verification. The SCOPEinsight methodology has been extensively tested and applied on several agri subsectors globally, and focuses on 9 dimensions: internal management, operations, sustainability, financial management, production base, markets, external risks, enabling environment and financial performance. The outcome is an in-depth diagnosis of strengths, weaknesses, and financial profile.

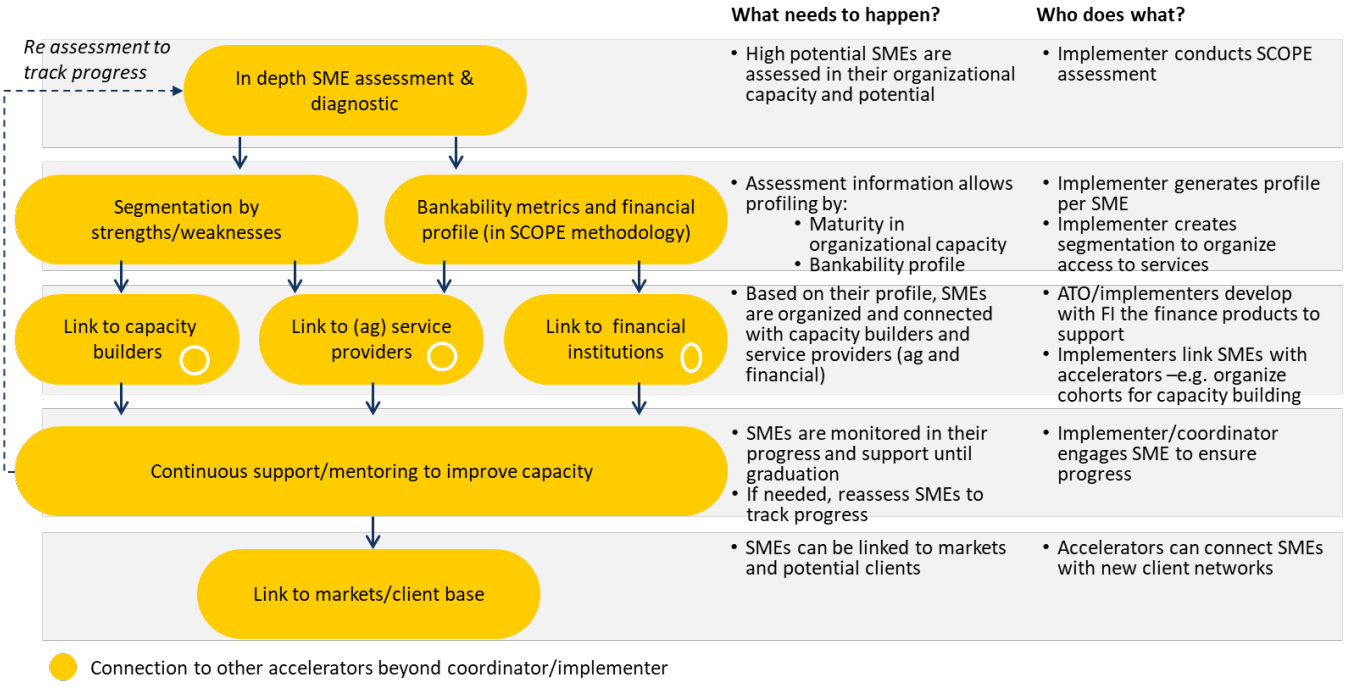
More information: https://scopeinsight.com/how-we-do-it/assessments/

5.5.2 Mechanism 2: Effective links to service provision (inc. capacity building)

The link to services mechanisms proposes a more effective collaboration based on SME profiling and leveraging on partner networks. High potential SMEs are therefore linked to accelerators to have efficient collaboration and/or access services at a competitive cost.

For this to happen, the coordinator can segment SMEs and organize access to the right services based on the diagnosis information from mechanisms 1. When possible, service providers (e.g. banks, MFI, input providers, machinery manufacturers, veterinary services) work with the coordinator and implementers to design services.

Figure 22. Effective linkages



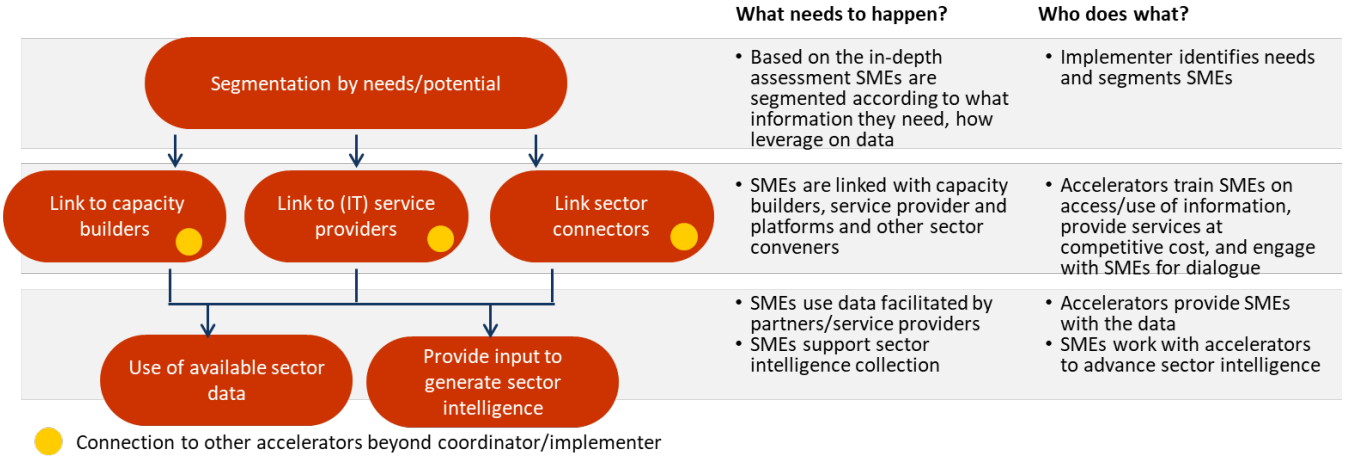
The outcomes of this include: (1) SMEs have access to the right capacity building (based on diagnosis) and (2) SMEs have timely access to right services leveraging their financial profile, with customized financial products.

5.5.3 Mechanism 3: Access and generation of sector intelligence

The sector intelligence mechanism seeks to strengthen SMEs ability to access and use information effectively to improve their business, and in consequence, the sector. In this mechanisms, high potential SMEs become agents of change and contribute to build sector intelligence through their operations.

For this to happen, coordinator and implementors ensure that SMEs have the capacity to use and generate sector intelligence to improve their service offering. Once this is ensured, SMEs are also able to collect data to improve their business and share precompetitive information with accelerators and key sector actors.

Figure 23: Access to/generation of sector intelligence

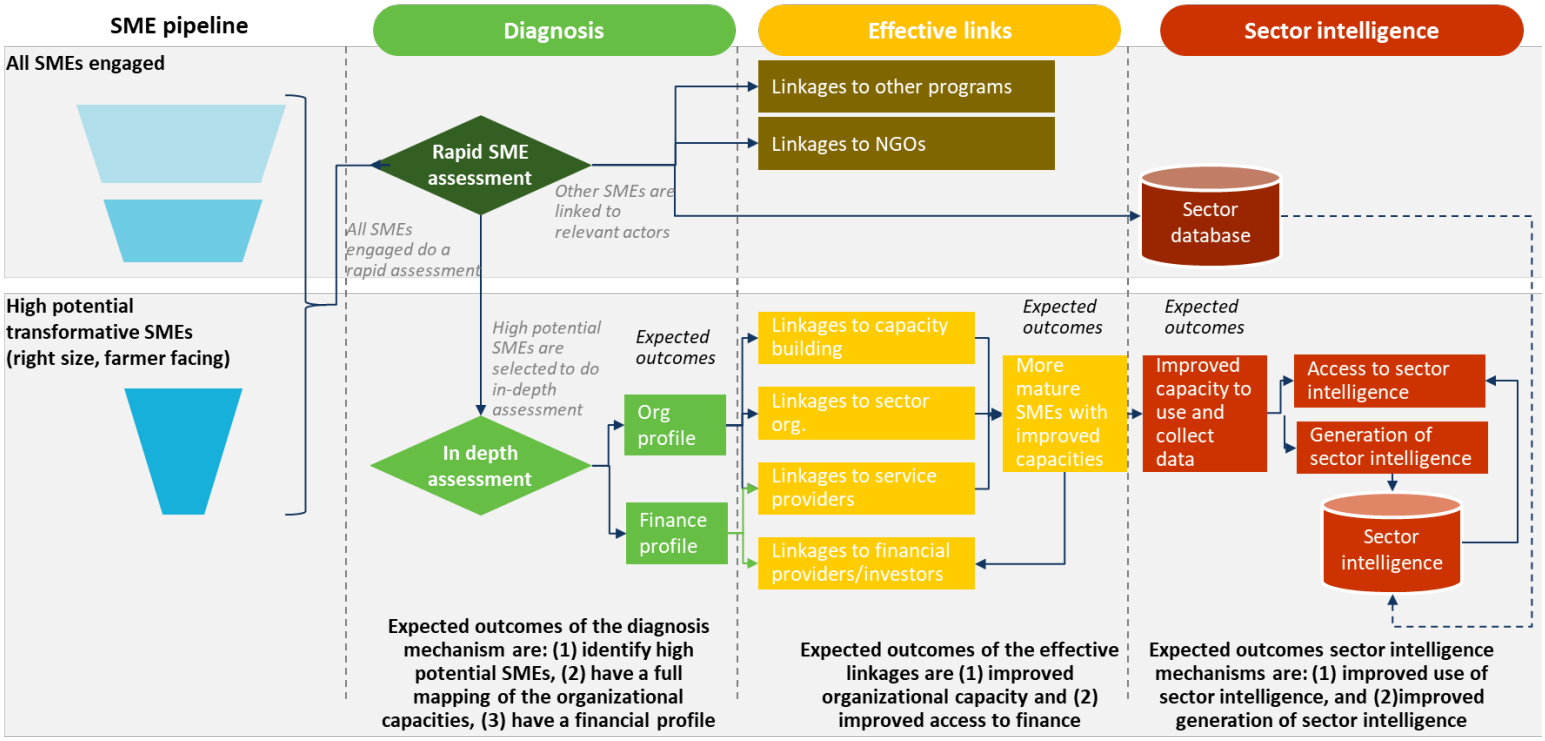


Outcome of this include: (1) SMEs use the right tools to access information and benefit from it and (2) SMEs become a generator of sector intelligence, helping the sector to improve.

5.6 SME Dairy accelerator blueprint

The mechanisms working together will enable an agile way of working to optimize the resources in the sector. The connections across the mechanisms and the interactions are further illustrated in the figure below, representing the whole SME dairy acceleration blueprint.

Figure 24. SME dairy acceleration blueprint



This system intends to directly address the barriers that SMEs commonly phase, and as consequence, that hinder their growth.

Table 1. Actions in the mechanisms that address major barriers for SMEs

Barriers (SMEs)	SME accelerator actions	Mechanism
Ineffective support and services	Standardized diagnosis mechanisms that allow identifying high-potential SMEs, and in-depth assessment of organizational capacities.	Diagnosis
Weak organizational capacity	Based on in-depth diagnosis, SME can be linked to the right capacity building program or service provider, subsidized or a competitive cost.	Effective linkages
Poor infrastructure and access to service	Based on in depth diagnosis, SME is linked to service providers and the right support programs.	Effective linkages
Lack of access to adequate finance	Based on financial profile, SME is linked to the right financial institutions.	Effective linkages
Lack of networks	Once SME is able to prove its capacity, it can be linked to potential clients and business partners.	Effective linkages

Low competitiveness	By building capacity and providing platforms to access information, SME is able to access and use relevant sector intelligence to improve its service offering.	Sector intelligence
Lack of sector intelligence	SME is able to gather relevant information from farmers for its business and shares pre-competitive information with sector actors.	Sector intelligence
Ineffective approach to farmers	With improved capacity, SME is able to train farmers to better communicate their needs.	Sector intelligence

Box 6 SME example.

SME journey example

Referring to the Savana Circuit example explained in section 3.6, the SMEs would follow a trajectory that is customized to its needs and supports in reaching its full potential to become an accelerator agent itself. The full trajectory is explained below.

Figure 25. Steps in the SME journey example

Mechanisms	Step
Diagnosis	1. SME engages with the accelerator proactively, with a clear vision for growth and a business plan.
	2. SME is evaluated with a rapid assessment to understand their potential to be transformative, and to match to existing programs.
	3. If there is no other program, SME is evaluated with in-depth assessment in professionalism and bankability metrics.
Effective linkages	4. SME is linked to capacity builders to receive training in leadership, financial management, entrepreneurship, business management & planning.
	5. SME has access to financial mechanisms and services that are specially designed for its type, to (1) enable access to working capital and (2) prefinance products to clients.
	6. SME is linked to potential clients such as cooperatives or farmer hubs through the network of accelerators to offer services (e.g. to high performing cooperatives).
	7. SME connects with other service providers to design service packages and de-risk operations. E.g., with aggregators, to offer pre-financed products to farmers.
Sector intelligence	8. SME receives information to customize tits product variety according to sector demands, to better segments its clients and offer the right products.
	9. SME trains farmers to use equipment to correctly collect data -e.g., milk production data. Data allows integration to solve issues effectively on real time.
	10. SME aggregates information from farmers (e.g. regarding the use of their services) to improve their services, and shares with key sector accelerators –e.g., KDB.
	11. SME receives information and trends from other accelerators to improve business offering.

5.7 Drivers for change for accelerators

Flagship 1 has the potential to help accelerators to reach their goals as organizations (both public and private organizations). Drivers of change (internal and external) enable a positive impact loop that enables sustainable change. The mechanisms explained in this chapter (diagnosis, effective linkages, and access/generation of sector intelligence) enable these drivers of change, and therefore ensure that both accelerators and SMEs drive improvements in the sector, incentivized in an effective and sustainable way.

Internal drivers for change for accelerators:

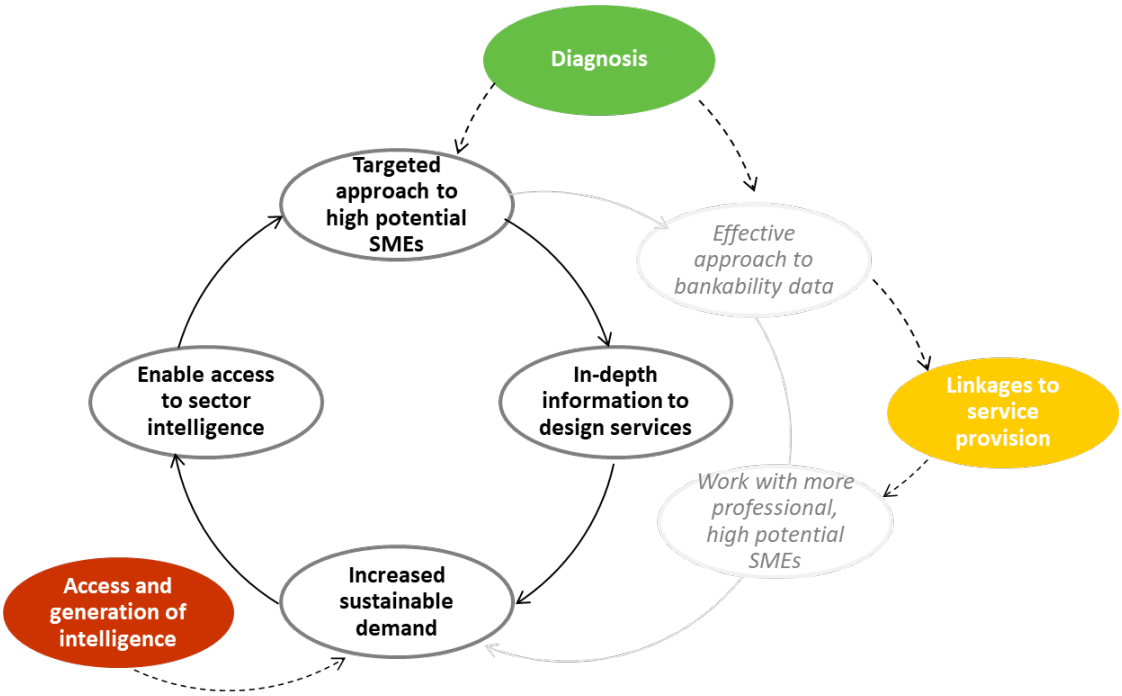
- Targeted approach to high potential SMEs, ensuring effective and sustainable client demand.
- In-depth information to design customized services for SMEs archetypes in the dairy sector, ensuring scale up and good uptake from customized services.
- Effective approach to bankability data – de-risk service provision by having better knowledge of potential clients.

External drivers for change for accelerators:

- Increased sustainable demand by (professional) SMEs, sharing risk with other value chain players to scale up service update.
- Enable access to sector intelligence to improve service provision and collective action.

The mechanisms to coordinate action across the accelerators enable them to operate sustainably without depending on external incentives in the long term.

Figure 26. Drivers for change for accelerators

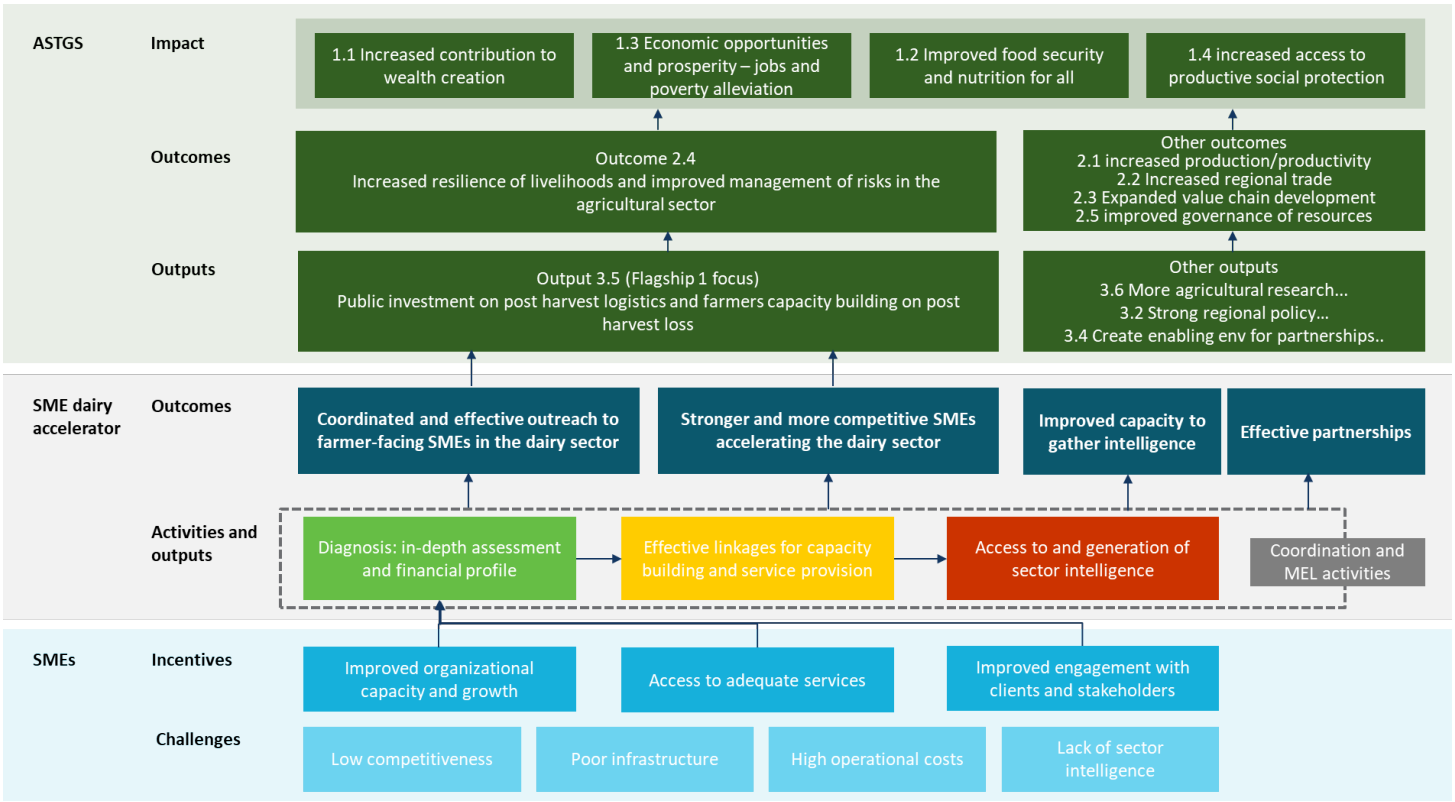


5.8 Connection to the broader ASTGS

The broader ATO strategy articulates 8 more Flagship programs. Altogether, these Flagship projects aim to 4 key impact areas: (1) increased contribution to wealth creation, (2) economic opportunities and prosperity through jobs and poverty alleviation, (3) improved food security and nutrition for all and (4) increased access to productive social protection. Within the ASTGS results framework, these impacts are connected to Flagship 1 intervention as these intend to Increase public investment on post-harvest logistics and farmers capacity building on post-harvest loss, and in consequence increase the resilience of livelihoods and improved management of risks in the agricultural sector.

The SME dairy acceleration mechanisms proposed in the intervention logic will enable coordinated and effective outreach to SMEs in the dairy sector, resulting into stronger and more competitive SMEs that will in turn accelerate the dairy sector by providing better services to farmers. These two outcomes can effectively lead to the desired outputs in enabling effective public investments, as the SMEs will be the vehicle to deliver these services and to further understand farmer needs and the opportunities for innovation. Furthermore, the outcomes of the SME dairy accelerator will also impact in other outputs described for the ASTGS, such as creating sector intelligence to inform policy and establishing relations to enable partnerships.

Figure 27. Connection to current version of ASTGS Results Framework[12]



5.9 Conclusions

A new vision for the dairy sector that leverages on farmer facing SMEs can accelerate sector transformation and enable systemic change. Flagship 1 program presents the opportunity to work with/enable accelerators:

[12] ATO internal presentation. Transformation in Agriculture – Status Update. FSWR, M&E Results Framework and ATO Operationalization. October 2020

- There is a huge potential to leverage on existing programs, organizations, and structures (including private sector service providers).
- To allow for alignment with existing programs, organizations, and structures, the accelerator needs a neutral coordinator to convey all accelerators and provide frameworks for collaboration.
- In engaging with the SMEs, the accelerator shall build upon an effective diagnosis (2-step assessment) to understand the SME needs and areas for improvement, and to create a record that facilitates bankability.
- Every SME will be able to access support that is tailored to its needs and areas of improvement. The SMEs will be able to improve their service offering to serve better its clients. In turn, SMEs will become accelerators.

Box 7. Why is this different

Why is this different?

- Not a regular program approach with full interventions to be externally founded - it allows for understanding and addressing the specific needs of SMEs and enabling the access to required services without depending on external incentives to access services. This is a systemic approach.
- It is a graduation-focused trajectory (time-bonded), so when the capacity building cycle is finished (graduation) SMEs have the potential to become sector accelerators themselves, and to be agents of change.
- Dynamic structure, as it would depend on the priorities for the current cohort´s weaknesses and strengths.
- Provides the foundations for market mechanisms to facilitate scalability, as it focusses on facilitating the right access to services and ensuring a competitive cost for SMEs.
- Enables creating a permanent way of working that focuses on the relevant areas to intervene, as the scope is constantly evolving -this represents a systemic approach.

6. Roadmap to operationalize collaboration

In this chapter, we have included the key elements and suggested next steps to continue the design and implementation of the SME dairy accelerator. Firstly, the acceleration mechanisms are articulated into core actions and secondary actions. After this, the key processes to develop and implement these actions, roles and responsibilities and the suggested governance structure for the accelerator moving forward are further described.

Please take note that the activities and processes described must be considered the starting point to have discussions with the different accelerators or partners that need to be part of the SME dairy accelerator. The challenge of a truly sustainable system is creating a framework for a fluid collaboration and collective impact that remains in place, beyond the scope of any program or project.

6.1 Key success factors for an actionable strategy

To operate optimally and achieve the desired impact, there are three key success factors that need to be considered when designing the roadmap for the SME dairy accelerator. These have been selected based on the sector characteristics and similar collective impact initiatives.

- **It needs to build a common language to facilitate collaboration** and enable common metrics.
- **The governance and enforcement processes must be fit-for-purpose,** to allow joint ownership and a true participatory approach. This is further enforced by transparency and accountability.
- **It needs to build upon a market-led approach** by continuously translating the needs and trends from the market into specific demands and services for SMEs.

6.2 Implementing the acceleration mechanisms

To further define the steps to implement the mechanism described in the previous chapter, the key actions have been divided into two types:

- **Core actions,** which are the minimum actions that need to be implemented. Mostly to be executed by the coordinator/implementer or by accelerator organizations jointly. The actions will enable the implementation of secondary actions. Furthermore, as these are the actions implemented by the coordinator, these might need to be funded (totally or partially) to catalyze action.
- **Secondary actions,** which are the actions that need to be implemented to enable full operationalization of the accelerator. Mostly to be executed by accelerators and partners and would depend on specific needs of the SME and choices.

In the following subsections, the actions, responsibilities, and associated costs are provided in differentiated by these categories.

6.2.1 Actions and responsibilities for mechanism 1, diagnostic

	Core actions	Secondary actions
Actions – what needs to happen	• Develop and update database of SMEs in the dairy sector • Identify high-potential SMEs that are not in the database by mobilizing local networks (in the counties of interest) • Conduct outreach to potential SMEs and maintain engagement	• Assess SMEs / if done individually • Use assessments to understand needs according to service offering • Provide information on desired areas for collaboration with SMEs • Support outreach to potential SMEs and maintain engagement with SMEs

	• Rapid assessment (for all SMEs) – design/adapt methodology and assess SMEs • In depth assessment (for high-potential SMEs)– design/adapt methodology and assess SMEs • Connect SMEs to other programs and institutions when possible, if the SME does not have the right characteristics for the acceleration trajectory	• Support in the selection and segmentation of SMEs
Responsibilities – who needs to do what	• Coordinator (of the accelerator) to develop and maintain database of SMEs in the dairy sector • Implementer to conduct rapid and in-depth assessment and recommend the right interventions for every SMEs, and create cohorts based on similar needs • Coordinator (of the accelerator) to identify pool of high-potential SMEs, conduct outreach and ensure active engagements with SMEs	• Accelerators (gov. institutions, private sector partners and NGOs) to mobilize and provide data to coordinator/implementors of active SME with potential to be high potential • Accelerators (gov. institutions, private sector partners and NGOs) to support engagement and outreach to SMEs
Associated costs- what are associated cost centers for this set of actions*	• Salaries and operational costs for coordinator and implementer • Promotion & stakeholder mobilization • Tool development and use (diagnostic tool) • IT infrastructure – database development and maintenance • Communications and promotion (towards SMEs)	• N/A as organizations (accelerators and partners) undertake activities as part of their operations

6.2.2 Actions and responsibilities for mechanism 2, effective linkages

	Core actions	**Secondary actions**
Actions – what needs to happen	• Develop Terms of Reference for accelerators (private sector partners and NGOs) that aim to collaborate in the acceleration trajectory, as well as a vetting procedure • Aggregate needs of SMEs, convene and design products for SMEs • Coordinate linkages between SMEs and service providers, accelerators and others • Develop Terms of Reference for specific preferred service providers, as well as the vetting procedure to ensure they provide the right quality of services • Develop and update database of local and international organizations, including capacity builders and service providers, working in the dairy sector • Assign roles and functions for partners, and coordinate outreach to SMEs • Enable and support development of partnerships	• Provide and update information regarding own services and value propositions • Support and activate partnership • Collaborate a develop customized services for high potential SMEs • Connect with SMEs that indicate the needs for assistance and offer products and services • Provide information about challenges and opportunities to expand services

	• Support in the design of customized services for SMEs together with service providers and financial institutions • Assess and ensure the quality of service provided • Develop reporting framework for accelerators, and collect and report progress • Identify potential enabling interventions for NGOs and other development organizations to contribute to	
Responsibilities – who needs to do what	• Coordinator (of the accelerator) to develop and maintain database of local and international partners (programs, capacity builders, service providers, sector connectors) • Coordinator (of the accelerator) to enable funding support to be allocated to relevant activities	• Accelerators (service providers, capacity builders, sector connectors) to initiate partnerships with SMEs • Capacity builders and Service providers to provide services to SMEs at a competitive cost • NGOs and other development partners contribute with enabling interventions
Associated costs- what are associated cost centers for this set of actions*	• Salaries and operational costs for coordinator • Promotion & stakeholder mobilization • IT infrastructure – database development and maintenance • M&E Coordinated impact reporting	• N/A as organizations (accelerators and partners) undertake activities as part of their operations • Enabling interventions might be required to ensure success (e.g. grants to reduce cost of capacity building, matching funds to facilitate access to infrastructure)

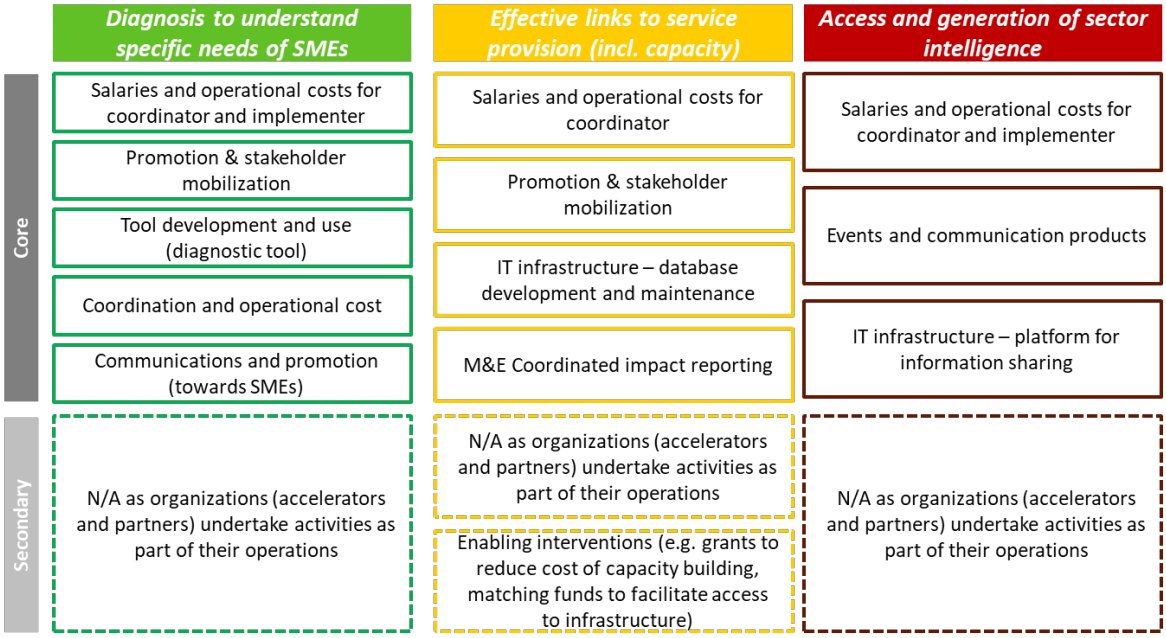
6.2.3 Actions and responsibilities for mechanism 3, access to and generation of sector intelligence

	Core actions	**Secondary actions**
Actions – what needs to happen	• Develop a framework to determine priority information to be shared with the different groups of stakeholders, and develop a system to share • Agree on precompetitive data to be shared • Establish processes to gather and disseminate data regularly • Provide updates on relevant information regarding regulations or trends in the sector • Coordinate/maintain channels to disperse relevant information such as updates in regulations or trends • Enable dialogues and information sharing between relevant actors in the sector. These dialogues and information sharing will enable actors to tackle sectoral issues (Such as poor infrastructure) structurally	• Provide input to determine what is priority information, and what is precompetitive sector information to share across service provides • Collect, share and receive sector intelligence to update strategy and service offering • Provide in input and collaborate to enable an information sharing system • Provide and update information about the trends and updates on regulations in the sector • Conduct events to convene actors in the sectors and share relevant information
Responsibilities – who needs to do what	• Coordinator (of the accelerator) to connect on a regular basis with relevant government institutions that can provide updates on relevant regulations	• Accelerators (Government institutions, private sector, and NGOs) to disperse relevant information (e.g. brochures, training)

	• Coordinator (of the accelerator) to plan events or enable platforms for various stakeholders to discuss challenges and opportunities in the sector • Implementer (of the accelerator) ensure access, use and generation of information is part of the SME capacity building/service provision trajectory	• Accelerators (Government institutions, private sector, and NGOs) to conduct or operationalize the events or platforms
Associated costs- what are associated cost centers for this set of actions*	• Salaries and operational costs for coordinator and implementer • Events and communication products • IT infrastructure – platform for information sharing	• N/A as organizations (accelerators and partners) undertake activities as part of their operations

6.3 Potential funding

The SME dairy accelerator aims to leverage as much on current resources committed to the sector, as it recognizes that there are multiple efforts in the landscape from different organizations. It aims to maximize collaboration, while focusing on core or key interventions. These *core* interventions are the minimum interventions to enable a coordinated approach. There are a few options of funding mechanisms to cover the cost associated with the operationalization of the accelerator.



Potential funding mechanisms for core actions across the 3 mechanisms include:

- **Existing capacity (HR) shared by a few relevant organizations.** This entails that current employees working in the key partner organizations can dedicate partially part of their staff for a defined amount of time to ensure that the 3 mechanisms are being executed successfully.
- **Grants and donor contributions** will be especially key for pieces that need to be developed or that will be implemented as "programmatic intervention" -e.g. executing the assessments for the SMEs, mobilization events, etc.
- **Cooperation with existing programs** should also enable maximizing the use of resources. For example, some of the databases can be housed with one of the key partners, reducing additional IT and infrastructure costs.

Potential funding mechanisms for secondary actions include:

- **Synergies with other organizations**, as the core actions primarily build upon the activities/business models of the different "accelerators". This means, for example, if a company as Savana circuit aims to sell coolers to farmers, they can also ensure that these farmers and dairy groups have the right knowledge on postharvest processes, as it is in their best interest that farmers and dairy groups are able to use their products effectively.
- **Focused grants for enabling interventions.** Secondary actions might also require concrete interventions that are not part of the key mechanisms, but that they are equally essential to ensure operations -e.g. making sure that aggregators have proper access to electricity or solar power to operate coolers or processing equipment. In order to ensure these complementary actions take place, accelerators can leverage on matching funds, grants or other programs if the intervention is identified.

6.4 Key processes to build up successful collaboration

To further understand step by step the processes that need to take part as the SME dairy accelerator moves forward, the key process are outlined below.

Timeline	Phase	Steps
Mar-Jun 2021	**Concept development (now)**	1. Definition the intervention logic, key mechanisms and functions of the SME accelerator
		2. Identification potential implementing partners, create common understanding on the key mechanisms and functions
Jul- Sep 2021	**Co-design process**	3. Designate preparatory steering group. Outreach and convening to align on vision, objectives and targets
		4. Develop framework for collective action with key stakeholders (accelerators)
		5. Develop planning for funding generation and allocation, ensuring synergies between government, private industry and donors
		6. Develop ToR for the role of coordinator
	Operationalization	7. Appoint coordinator, who will lead the finalization of the approach (functions and mechanisms)
		8. Develop in detail set of **core and secondary actions.** Mobilize partners to start implementing mechanisms (e.g. design SME specific products)
		9. Develop core tools and processes (e.g. rapid and in-depth methodology for SME assessment, MEL framework)
Oct-Dec 2021	**Implementation**	10. Formalize governance structure. Continuously align with key stakeholders on targets and objectives
		11. Agree on priority areas/regions and start outreach to identify SME cohorts. Once SMEs are engaged, implement acceleration mechanisms
		12. Establish collective impact reporting practices with partners

Jan 2022		13. Execute interventions and implementation of MEL framework

For further insight into specific actions per mechanisms, please refer to annex 6 with detailed actions for implementation.

6.4.1 Instruments deep-dive: Framework for collective action

During the co-design process, the different partners working together will work on developing a new way of working together that ultimately will enable systemic impact. To successfully do that, they need to align and agree on specific things through dialogue, and ultimately all parties agree, this can be reflected in a framework for collective actions, that can be endorsed by the organizations working together.

A framework for collective action is mostly a brief explanation of the commitments and actions that will be undertaken together and individually, to align efforts, while all parties still implement (with some degree of flexibility) within their own programs or actions. Therefore, this document becomes the terms of reference for this collaboration.

The framework for collective action usually contains:

(1) Core commitments and targets to deliver together. These must be the result of the aggregation of the individual targets, to ensure consistency.
(2) Key processes to deliver these targets, which in this case will be the different actions that are grouped in the acceleration mechanisms (diagnose, effective linkages and sector intelligence).
(3) Core actions that need to be done jointly or consistently by all organizations (e.g. promote standardized diagnosis and tools, develop customized products for SMEs, focus on innovations).
(4) Secondary actions that can be done individually within each organization action plan or strategy (e.g. service provision).
(5) Measurement and monitoring obligations.
(6) Implementation and governance obligations.

This framework is a document whereby the different organizations can become signatories that adhere to these agreements.

6.4.2 Process deep-dive: Developing MEL system

In this subsection, a high-level approach to the development of the MEL system is included to draft a key component of the SME dairy accelerator. This is not prescriptive and shall be later defined together with the appointed coordinator and according to the latest M&E framework proposed by the ASTGS.

A Monitoring, Evaluation and Learning (MEL) system are performance management, reporting tools and learning processes that allow organizations monitoring, evaluating, and communicating how these organizations are achieving the expected results, and therefore impact. A good MEL system serves as early warning system, raising red flags early on when an organization is off track in achieving its targets. This allows to adjust the direction and improve overall outcomes early on, while enabling transparent communication on results. This creates trust and credibility, internally within the collaboration and externally.

Objectives of the SME dairy accelerator MEL system:

- Track progress and provide data-driven evidence towards the long-term vision of Flagship 1.

- Evaluate if the services offered through the accelerators result in the improvements of SMEs business, sustainability outcomes, and farmers as envisioned.
- Review the implementation and effectiveness of the SME dairy accelerator strategy per partner.
- Provide transparency for the different stakeholders through setting up sound data collection and reporting structures.
- Enable continuous alignment to the ASTGS and learning from the approach implemented to transfer best practices across other accelerators.

What to measure

The SME dairy accelerator will measure data across different stakeholders that interact in the SME dairy accelerator, including smallholder farmers (beneficiaries), SMEs, accelerators and implementors and other aspects of the enabling environment. The information will be collected at different points in the process for a specific purpose, for example (1) baseline assessment before implementation, (2) regular performance assessment to track progress or (3) impact evaluation. Examples of KPIs are provided in the table below.

Table 2. Examples of KPIs to report per level/milestone[13]

Levels/ milestones	*Baseline assessment*	*Performance assessment*	*Impact evaluation*
Farmers	Farmer income Average productivity Service access/use Food insecurity risk		Farmer income (changes) Average productivity (changes) Service access/use Food insecurity risk
SMEs	Professionalism Financial performance Turnover Service capacity (no. farmers, volumes) Farmers reached	Professionalism Financial performance Turnover Service capacity Farmers reached	Professionalism (changes) Financial performance Turnover (changes) Growth
Accelerators/ implementers		Number of SMEs engaged Service capacity Investment mobilized	
SME dairy accelerator	Number of SMEs engaged Agricultural sector contribution to GDP	Number of SMEs engaged	Number of farmers impacted Number of SMEs accelerated Volumes of subsidies provided

How to measure

Specific methodologies to collect KPIs must be developed in detail. Furthermore, data collection flows and "data chain of custody" needs to be further defined prior to implementation, in order to ensure high quality data.

Reporting

As part of the collective commitments, partners collaborating in the SME must agree on specific reporting practices (regularity, scope, disclosure, etc.). An example of reports needed for the implementation include:

- Baseline report – to assess the as-is status of the farmers and SMEs in the regions before acceleration
- Quarterly reports to monitor progress in the activities

[13] KPIs examples reflect some of the preselected priority indicators for the ASTGS. Source: Internal presentation. Transformation in Agriculture – Status Update. FSWR, M&E Results Framework and ATO Operationalisation. October 2020

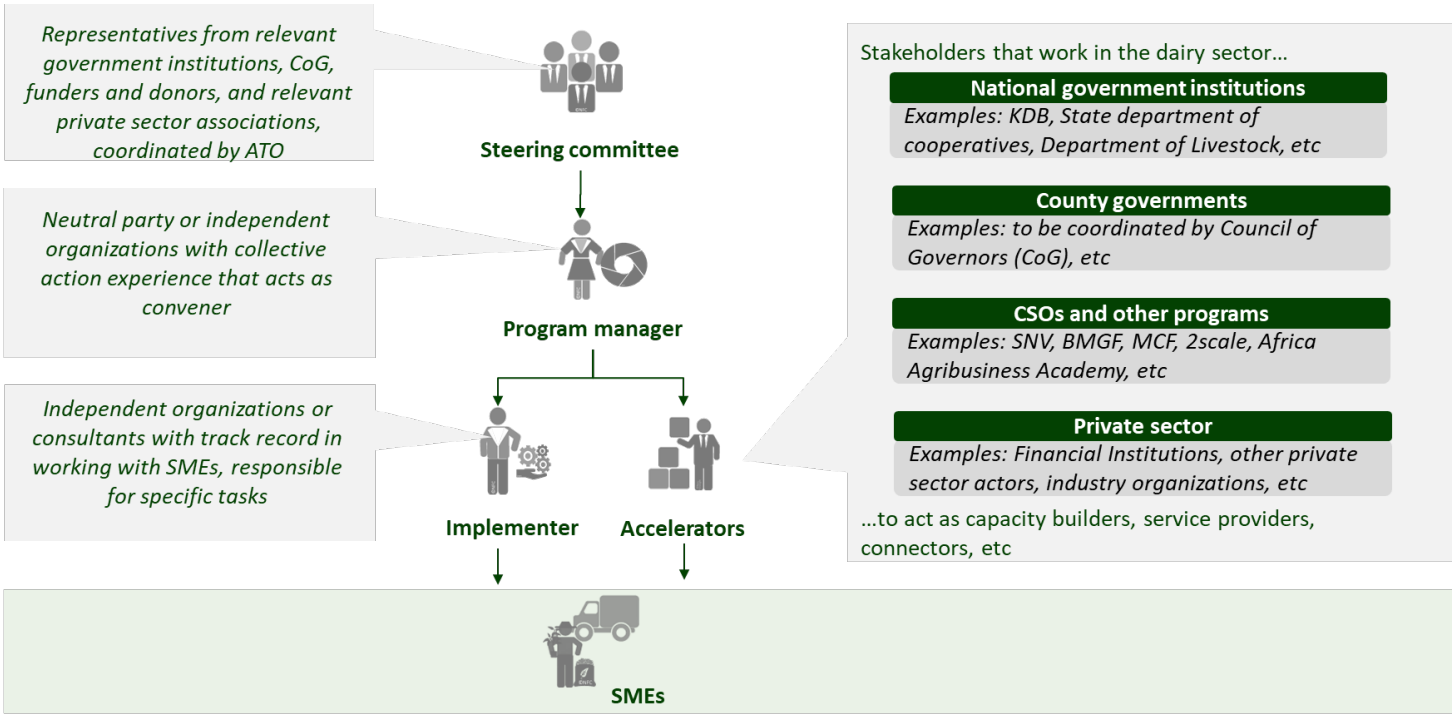
- Yearly report to monitor outcomes and progress of implementation
- Impact report (periodically, every 3-5 years) to monitor impact

6.5 Organizational structure

In previous sections of this document, the vision for the sector has been outlined, and from that the interventions and therefore the concrete actions have been outlined. Based on this, an organizational structure is suggested with the following 4 key roles:

- **SME Dairy Accelerator Steering Committee,** which is composed by representatives from relevant government institutions, funders and donors, and private sector. This is coordinated by ATO, but mandates will come from the whole group of representatives through consensus.
- **SME Dairy Accelerator Program Manager**, who is a neutral party such as independent organizations or consultants with multi-stakeholder collaboration process experience.
- **Implementers**: Independent organizations such as assessors, field implementers or consultants with experience in working with SMEs, responsible for specific tasks and specifically contracted to deliver on core actions.
- **Accelerators**, who are organizations whose mission and business model contribute directly to the outcomes of the Flagship 1 program within the dairy context. These organizations can be of different type: at national government level (KDB, State Department of Cooperatives, State Department of Livestock), regional level (County governments), civil society and development organizations, and private sector entities.

Figure 28. Proposed organizational structure of the SME Dairy Accelerator



To enable successful collaboration, it is important to ensure that the principles of good governance are actively implemented throughout the process. These principles, explained in the box 8 below, have been imbedded in the processes, activities and roles descriptions further specified in this chapter.

Box 8. Principles of good governance for multistakeholder entities

Principles of good governance[14]

The right structure:

- Principle 1: Clear division of roles & responsibilities for the Steering Committee
- Principle 2: Steering Committee should have the right level of engagement
- Principle 3: Steering Committee members must be qualified
- Principle 4: Majority of Steering Committee members should be truly independent
- Principle 5: All stakeholders should be able to participate
- Principle 6: Separate the role of Director and Chairman of the Steering Committee
- Principle 7: Avoid conflicts of interest
- Principle 8: Steering Committee governs and does not advise

The right process

- Principle 9: Consensus oriented & executive focused - Govern as stewards, rather than as stakeholders
- Principle 10: Systemic delegation - board should control all it must, rather than all it can
- Principle 11: Ensure performance
- Principle 12: Monitor and evaluate performance
- Principle 13: Maintain effective complaint procedures

The right culture

- Principle 14: Be transparent and foster a culture of trust
- Principle 15: Board has full accountability
- Principle 16: Enforcement of rules

6.6 Roles and responsibilities

There are four crucial roles to initiate the implementation of the roadmap. In this section, the roles and responsibilities for it and the ideal criterion for selection is further specified.

6.6.1 Member of the Steering Committee for the SME dairy accelerator

The Steering Committee is a group of stakeholders that collaborate to make the strategic decisions and mandate the implementor. This governing body is formed by ATO (as coordinator), the department of cooperatives, the department of Livestock, KDB, CoG and other relevant stakeholders such as donors.

Roles and responsibilities:

- Together, as a committee, provide directions to the strategy of the accelerator
- Oversee the operationalization of the accelerator
- Oversee the implementation of actions
- Evaluate the strategy of the accelerator and redefine the strategy annually

Ideal criteria:

- Consists of representatives of relevant stakeholder groups in the dairy sector, including the two levels of government (national and councils), governmental organizations, and key actors from the private sector involved

[14] Model developed by NewForesight

- Balanced representation is ensured and secured through number of representatives and terms of reference

6.6.2 Program manager

The program manager of the SME Dairy is a neutral party that ensures that the actions are implemented. It also acts as secretariat, taking over administrative duties and managing day to day actions. It is very important that the program manager has a strong track record on similar initiatives.

Roles and responsibilities

- Initiate and implement the core actions
- Act as sector convener within the scope of action of the SME dairy accelerator
- Mobilize relevant actors to take necessary actions in implementing the core and secondary actions
- Ensure and monitor the implementation of core and secondary actions
- Perform “back-office” functions such as data collection, reporting, administrative, legal, and other program management tasks

Ideal criteria

- Independent organizations or consultants
- Neutral - not representing one of the stakeholder groups and without conflict of interests
- Experience in coordinating and implementing multi-stakeholder platforms

6.6.3 Implementers

There are different types of implementers, depending on the type of core actions that are set out to execute.

Roles and responsibilities

- Conduct assessment and diagnosis for SMEs
- Prescribe the right interventions to be implemented by SMEs and accelerators
- Act as coach to the SMEs
- Monitor and evaluate the outcome of implemented interventions

Ideal criteria

- Independent organizations or consultants
- Neutral - no connections with one of the SMEs and/or accelerators, without conflict of interests
- Experience in working with SMEs, in-depth understanding on SMEs, their challenges, and opportunities

6.6.4 Accelerators

Accelerators are organizations whose mission and business model contribute directly to the outcomes of the Flagship 1 program within the dairy sector.

Roles and responsibilities

- Design and provide high-quality services to SMEs based on agreements with the implementer
- Contribute to initiatives and dialogues implemented by the accelerator
- Act as: capacity builders, service providers, sector connectors, financial service providers

Ideal criteria

- Independent organizations providing high-quality goods/services, both for profit and non-profit

- Willing to contribute to the sector by providing competitive rates and or aligning programs that can provide services at a subsidized price or for free

6.6.5 Preliminary roles and responsibilities per organization

The accelerator requires active involvement and participations from various stakeholders. During the process of this roadmap, most of these actors have expressed the intention to improve collaboration and coordination across the sector to contribute to the Flagship 1 objectives.

In this section we give a *preliminary* overview of the main responsibilities proposed per key partner, in the two capacities, both as members of the steering committee and as *accelerators*. *This section should be taken as an input for further design of the collaboration.* These roles need to be further defined and agreed upon during the co-design process, and as the diverse organizations align strategies and stablish commitments.

Kenyan Dairy Board

Potential roles as Steering Committee member

- Lead in the development of a mission and strategic plan for the organization
- Participate in the codesign and coordination activities
- Oversee the implementation of the accelerator and ensure alignment with the dynamic of the dairy sector
- Allocate resources to ensure implementation of the accelerator

Potential roles as accelerator

- Commit to contribute to the SME Dairy accelerator targets within their own activities
- Provide updates on trends, dynamics, and new regulations in the dairy sector
- Act as a capacity builder for SMEs or smallholders through training on technical service
- Act as networker for SMEs, to further expand client-base and explore further business ventures

Department of Livestock

Potential roles as Steering Committee member

- Contribute to the development of a mission and strategic plan for the organization
- Participate in the codesign and coordination activities
- Bring knowledge and expertise on livestock industry to the board and ensure alignment with the livestock industry
- Allocate resources to support the implementation of the accelerator

Potential roles as accelerators

- Provide updates on trends, dynamics, and new regulations in the livestock industry
- Commit to contribute to the SME Dairy accelerator targets within their own activities
- Act as a capacity builder for SMEs or smallholders through training on technical service

State Department of Cooperatives

Potential roles as Steering Committee member

- Contribute to the development of a mission and strategic plan for the organization
- Participate in the codesign and coordination activities
- Bring knowledge and expertise on cooperatives to the board and ensure alignment with the dynamic of cooperatives
- Allocate resources to support the implementation of the accelerator

Potential roles as accelerators

- Provide updates on trends, dynamics, and new regulations in the livestock industry

- Commit to contribute to the SME Dairy accelerator targets within their own activities
- Act as a capacity builder for SMEs or smallholders through training on finance and management and other aspects
- Enable access to information to SMEs

Council of Governments

Potential roles as Steering Committee member

- Provide recommendations to the development of a mission and strategic plan for the organization and ensure the alignment with regulations at counties level
- Participate in the codesign and coordination activities
- Provide input to define strategic goals and priorities

Potential roles as accelerators

- Act as two-ways information channel to actors in the dairy sector and governments at county-level
- Commit to contribute to the SME Dairy accelerator targets within their own activities
- Enable access to information to SMEs
- Provide regional support for implementation

Agriculture Transformation Office

Potential roles as Steering Committee member

- Coordinate the development and implementation of mission and strategic plan of the accelerator

Private sector (business associations)

Potential roles as Steering Committee member

- Contribute to the development of a mission and strategic plan for the organization
- Participate in the codesign and coordination activities
- Define strategic activities to scale up service provision for and through SMEs

Potential roles as accelerators

- Design services customized to SMEs
- Provide services according to their business

6.7 Implications for partner organizations acting as accelerators/members of steering committee

Some types of commitments are needed from the key stakeholders to ensure realization and continuation of the SME dairy accelerator. The expected commitments are as follows:

- Institutional commitments:
    - Ensure alignment of their organizational strategy and targets with the SME dairy accelerator strategy.
    - Commitment to harmonize processes, tools, and mechanisms (e.g. use of the same tools, regulations, and policy) within their scope of influence to create enabling environment for the SME dairy accelerator.
- Budget:
    - Contribute (to the fundraising effort) to cover the cost of the SME dairy accelerator's core actions.

    - Contribute to the costs of activities of the steering committee.
    - Part of the public investment channeled through these organizations must be allocated into the secondary actions (or the ones implemented individually) to accelerate SMEs (to improve post-harvest logistics and reduce losses).
- Capacity:
    - Allocate manhours of one or two senior positions to be actively involved in coordination meetings of the steering committee and therefore ensure proper representation.
    - Allocate manhours to provide guidance/feedback/input to development and implementation of the SME dairy accelerator's strategy in alignment to the own organization strategy.
    - Allocate manhours of a team for the specific technical activities (e.g. trainings, development of new products) or relevant services provided as accelerator.
    - Allocate manhours of a team to measure, assess and report progress from actions (e.g. M&E officer)

It is important to note that given this in particular case, where these organizations can be both members of the steering committee and accelerators, special attention must be raised to potential conflicts of interest.

Box 9. Avoiding conflicts of interest

Avoiding conflicts of interest[15]

Steering committee should commit in writing that they do not have any conflict of interest arising from their membership of the Board. A good conflict of interest policy will embody two key elements:

(a) **Full disclosure:** Board members and staff members in decision making roles should make known their connections with groups doing business with the organization.

(b) **Board member abstention from discussion and voting:** Board members who have an actual conflict of interest, should not participate in discussions nor vote on matters affecting transactions between organizations.

6.8 Conclusions

Not only the Kenyan dairy sector is thriving, but it is also an area where there are multiple organizations and initiatives proactively working with farmers and SMEs to improve it and grow it. During the execution of this assignment, we have heard from multiple stakeholders willing to work together. Based on these perspectives, this roadmap aims to provide the building blocks and the key processes to enable this collaboration. Furthermore, this roadmap also provides initial perspectives on the nature of the support that SMEs need and outlines a systemic approach to working with SMEs to realize their full potential and leverage on them as change agents in the dairy sector.

In order to enable a true lean and effective approach that is sustainable over time, the mechanisms proposed as the base for the accelerator (see chapter 5) are strongly founded upon the current efforts in the sector and focus on improving coordination and collaboration across key stakeholders. This final chapter has outlined the actions to implement these acceleration mechanisms and in consequence the

[15] Principles of good governance model, by NewForesight

key processes, roles, and responsibilities to organize the different stakeholders around these activities to achieve a vision of a thriving dairy sector accelerated through SMEs.

Moving forward into co-design and operationalization phase, the SME dairy accelerator program should focus on developing a collaborative way of working, building the right structures and frameworks for the different stakeholders to make commitments, and the right process for coordination, accountability, and transparency.

Authors' note: This report was prepared through the process of desk review and stakeholder consultations. Stakeholder consultations were done through bilateral conversations and two working sessions/webinars with the stakeholders. The first session was held on Thursday 10th June 2021 and the second session was held on Wednesday 14th July 2021.

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Annex 1: Detailed sector diagnostic challenges

Competitive production base

	Situation	Challenges for Smallholders
Production base	• **Large number of smallholder** farmers with potential to scale • **Strong community coordination** and support	• Limited land resources • Majority of dairy farmers have not been in the sector for more than 5 years – **relative inexperience** • Majority of smallholders **productivity** and **profitability is low** • **Seasonality** of water supply/ feed & forage supply
Professionalization of farmers	• High interests in integrating dairy farming to their farming systems (60%) • Farmers are **eager to learn, invest, and implement modern farm management practices**	• Farmers **struggle with simple expertise** such as fodder preservation • **Ineffective and inefficient** knowledge, communications and information systems
Sustainable, productive, and profitable smallholders	• Many programs intended to empower smallholders to improve profitability, productivity, improve capacity • **High interests from local and international stakeholders** (e.g., development partners) to support the empowerment of smallholders • **Highly efficient community organization** and collection of milk to sell directly to informal markets	• Development organizations and the variety of programs they bring to train smallholder farmers can conflict with each other, there is no standardized curriculum for training smallholders

Thriving business ecosystem (smallholders)

	Situation	Challenges for *Smallholders*
Access to output markets	• High and increasing demand in the local market for more and diverse products • Clear quality and safety requirements available for entry into the formal market	• Informal market provides an adequate alternative without stringent barriers to entry, but no assurance to safety and quality • High cost of transport, cold chain logistics and quality assurance systems • Quality-driven incentives limited
Access to finance	• Credit systems available for smallholders through cooperatives & processors, microfinance institutions (SACCOs) and commercial banks	• Access is limited by smallholder due to high risk of agricultural enterprises (due to drought, floods), and inability to provide collateral • High cost of loan interest (borrowing/ or financial access)
Access to technical services	• Technical services are available in the country through cooperatives, processors, development aid projects, training institutions and private sector service providers	• Limited by availability and quality and ability to pay • Low adoption of technical services due to limited availability and distance • Shortage of animal health and breeding technicians
Access to inputs & extension services	• Inputs and extension services are available in the country through cooperatives, processors, development aid projects	• Low adoption of good quality inputs due to limited availability and access (distance • Challenges with quality assurance of inputs in market

Thriving business ecosystem (SMEs)

	Situation	Challenges for SMEs
Access to output markets	• Increasing demand for good quality of products and services in the local market	• Limited by distance to smallholders • Low clarity on which products and services are needed by customers • Limited access to technological infrastructure (e.g., containers) • Slow market growth- low market maturity
Access to finance	• *Expanding market options for accessing credit/finance – microfinance (SACCO), commercial banks, Govt funds etc there any credit system for SMEs*	• Low access to finance • High cost of loan interest • Strict financial performance requirements • Strict collateral requirements
Access to technical services	• Growth in Providers of technical and business development services targeting SMEs are available in the country	• Limited by availability and quality, especially regarding finance, business, and management • Limited by access to data (e.g., Knowledge of fertility management by farmers)
Access to inputs & extension services	• Few SMEs rely on input and extension services to provide their own services to smallholders	• Difficulty accessing specific technologies (e.g., SME dairy processors)

Efficient and organized supply chain

	Situation	Challenges
Stakeholder convening & coordination	• Actors are aware of issues and opportunities • Actors are connected with each other	• Actors are not organized and orchestrated towards the same direction • Fragmented coordination
Sustainable practices at scale	• The knowledge is there, but the practice is limited	• Lack of incentive to adopt sustainable practices • Inefficient farming practices, high cost-production/yield ratio
Well-equipped value chains	• Growth in Providers of technical and business development services targeting SMEs are available in the country	• Lack of knowledge regarding finance, business, and management • Lack of ability to effectively serve the customers
Equitable value capture for value chain actors	• Knowledge and services needed by the value chain actors are available in the country	• Few large processors control 90% of market and with it the ability to set prices of raw milk and consumer price of processed milk

Effective enabling environment

	Situation	Challenges
Policies & government support	• Government has defined the strategy for the dairy sector	• Policy implementation limited by availability of funding and technical resources • Currently no government policy for feed

Infrastructure	• High interest in providing capital for investments in infrastructure	• Poor infrastructure (e.g., rural access roads) limits the ability of smallholder farmers to negotiate better market prices • Ineffective and inefficient communications and information systems • Lack of electricity generation limits storage and preservation potential
R&D and knowledge creation	• High interest in R&D, knowledge transfer, and knowledge creation	• Lack of ability to effectively apply all knowledge • Sector is not conducive to innovation (e.g., processors lobbying for increased regulation of milk ATMs) • Knowledge transfer primarily dependent on public sector
Resource allocation	• Resources are flowing into the sector • Resources are allocated to various initiatives, programs, and projects	• Lack of coherence in allocating the resources • There is potential inefficiency in the resource allocation

Annex 2: SMEs characterization

a) SME archetypes analysis: Agri input/agro-vet

Definition

- Characteristics
  - Size: 12 FTEs in HQ and 2-4FTEs per shop, 4 FTE agronomist
  - Covers 5-6 counties
  - Franchise shops (approx. 50)
  - Monthly: 100-200,000 KES in average, per shop, 250K is ideal
  - Paid by NGOs and government
- Services
  - Providing feeds, seeds, and fertilizer
  - Aggregating and marketing produce
  - Track farm, state of crops, train farmers, pre-planning sale and purchase crops

Work with smallholders

- What type of smallholders
  - Smallholders organized in groups or cooperatives
  - Working with 1,500 farmers (activated for aggregation) directly, 15,000 farmers is the target
- How
  - Working directly with farmers
  - Challenges: scaling services for smallholders. They do not have access and lean form family and fiends

Pains & gains

- Challenges
  - Lack of professional expertise in small-scale farmers
  - Lack of farmer awareness of value of Agri-inputs
  - Distance to clients

    - Expensive overhead costs
    - Limited access to finance
    - Poor rural infrastructure
    - Stock management in shops
    - Lack of market for the outputs
- Needs
    - Financial capability to scale services
    - Improved logistics / stock management
    - Performance history
    - Working capital to buy produce
- Incentives
    - Grow business find venture capital
    - Improve engagement and service delivery
    - Put SMEs into perspective, and the value they deliver

b) SME archetypes analysis: Cold Chain Aggregation & Mini processing

Definition

- Characteristics
    - Size: 3 FTEs
    - Covers 1 county
    - Franchise shops (approx. 50)
    - Monthly: 95,000-150,000 KES on average
    - Retailers and other customers directly
- Services
    - Processes milk
    - Distributes processed milk to retailers and high-volume customers
    - Processed dairy products on demand (Yoghurt, cheese etc.)

Work with smallholders

- What type of smallholders
    - Smallholders organized in groups or cooperatives
    - Working with 1,500 farmers (activated for aggregation) directly, 15,000 farmers is the target
- How
    - Working directly with farmers

Pains & gains

- Challenges
    - Poor milk quality
    - Poor rural infrastructure
    - Poor quality containers and equipment
    - Unclean water during droughts to clean containers
    - Disruptions due to electricity rationing
    - Competition with long-shelf-life milk
    - Limited availability of technical assistance for maintaining and repairing equipment
    - Expensive packaging materials
- Needs
    - Reliable power supply
    - Reliable source of portable water

    - Better rural infrastructure
    - Better milk cleaning and handling from producers
    - Affordable milk handling equipment
- Incentives
    - Grow business find venture capital
    - Exposure to modern technologies for production of different milk products

c) SME archetypes analysis: Cold Chain Transport

Definition

- Characteristics
    - Size: 4 FTEs in transport and coordination
    - Covers supply from one county to Nairobi
    - Monthly: 40,000-50,000 KES/ month
    - Paid by NGOs and government
- Services
    - Purchase and distribution of fresh pasteurized milk
    - Linking AI, animal health services, and dairy meal feed to smallholders as credit systems & incentives to supply milk

Work with smallholders

- What type of smallholders
    - Small scale producers
    - Source from 450 farmers/ day
- How
    - Working directly with farmers
    - Source milk from farmers and their communities/ cooperatives
    - Provide AI, animal health services, and dairy meal feed to smallholders as credit systems & incentives to supply milk

Pains & gains

- Challenges
    - Producers lack extension services (esp. quality fodder production)
    - Low incomes for school fees
    - Unstable milk prices
    - Seasonal weather
    - Limited capital and high interest rates for credit services
    - Competition from other milk traders (esp. larger, more established traders)
    - Poor rural infrastructure
- Needs
    - Financial capability to scale services
    - Training on milk handling
- Incentives
    - Find finance/ investment
    - Grow business
    - Improve engagement with smallholders
    - Improve service delivery to consumers

d) SME archetypes analysis: Retailers

Definition

- Characteristics
  - Size: 1 FTE in shop
  - Covers 1 county
  - Monthly15,000-18,000 KES in average, per shop
  - Paid by consumers directly
  - Serves between 50-60 liters/ day. Started with only 20 liters/ day
- Services
  - Retail of fresh pasteurized milk

Work with smallholders

- What type of smallholders
  - N/A
- How
  - The average retailer, milk bar, or trader does not engage directly with smallholders
  - As the retail operators are not usually located near smallholder farmers, they instead engage with cooperatives and aggregators

Pains & gains

- Challenges
  - Customers not convinced of milk quality
  - Expensive overhead costs
  - Limited access to finance
  - Startup capital too high due to KDB, Public health, and local government business permits
  - High level of competition with other retailers, milk bars, dispensers
- Needs
  - Access to finance/ credit to scale services
  - Improved logistics / stock management
  - Training to assess milk quality
  - Training on milk handling
  - Training on business skills
  - Understanding of other value chain actors & dairy markets
  - Improved rural infrastructure
- Incentives
  - Find finance/ investment
  - Grow business
  - Improve engagement with smallholders
  - Improve service delivery to consumers

e) SME archetypes analysis: Knowledge providers

Definition

- Characteristics
  - Size: 7 FTEs and 4 PTEs
  - Covers all counties
  - Accredited by KDB
  - Monthly: 500,000 KES in average, but fluctuating with periods of no income

    - Paid by NGOs and government
- Services
    - Institutional capacity building to farmers/groups
    - Technical capacity building: Animal husbandry practices
    - Financial capacity building, linking to finance providers & other – e.g., proposal development for grants

Work with smallholders

- What type of smallholders
    - Smallholders organized in groups or cooperatives
    - Challenges for clients: not able to pay due to low incomes
    - Work with 1-3 cooperatives at the time, training 800 (average) farmers per month, target is 2,800
- How
    - Working directly with cooperatives/groups
    - Working in projects with governments/ NGOs

Pains & gains

- Challenges
    - Limited network
    - Lack of information
    - Corruption
    - Competition with bigger institutions
    - Distance to clients
    - Poor rural infrastructure
    - Lack of farmer awareness of value of Agri-inputs
- Needs
    - From government: open opportunities for PPP in projects
    - Promote a structure in which is feasible for farmers to pay for services
- Incentives
    - Grow business and improve quality of business
    - Participation in relevant forums and networking
    - Improve farmer engagement
    - Find the right partners (programs)

Annex 3: Intervention logic to address SME challenges

To design the right mechanisms for the accelerator, we have mapped how the different functions that any intervention or program perform address the actual problems faced by SMEs. This is done by exploring the desired impacts that focus the SME challenges explored in the section 3.4 and mentioned in the previous section -weak organizational capacity, access to finance, poor infrastructure, lack of sector intelligence. This is expanded in the following subsections.

Desired impact 1: SMEs can manage their business professionally and create competitive advantages

This impact area focuses on improving the weak organizational capacity, that often results in low competitiveness and high overhead cost. Functions of the accelerator to address the challenge:

(1) SME diagnosis – identify areas of improvement. This means each SME should be assessed to identify capacity gaps and SMEs are segmented based on the archetype and maturity.

- Assumption: In depth diagnosis methodology can be used to assess professionalism and maturity.
- Outcome: Effective interventions/supports are provided. Interventions are answering specific SMEs' issues. Customized capacity building for different segments. Capacity building on technical issues, management, financial, and business acumen.
- Assumption: Implementors to do capacity building on organizational topics (e.g. Livestock department to develop technical training, KDB to do technical trainings on quality, post-harvest, etc.). Link to other implementers: O-farm accelerator can support models aligned with circularity, 2scale can support models linked to innovation.
- Outcome: SMEs can grow their business by providing better services to their customers.

(2) Linkages and partnerships. These linkages include creating networks of SMEs that actively support farmers, linking SMEs to service providers, linking SMEs to markets.

- Assumption: Accelerator coordinator convenes and creates a network (e.g. KDB can support with the convening capacity to mobilize partners both nationally and regionally).
- Outcome: SMEs can improve their engagement with each other and with farmers, SMEs can improve their outreach to service providers.

Impact of the above functions:

- SMEs can manage their business professionally and create competitive advantages.

Desired impact 2: SMEs can access data and make informed decisions and take actions that will enable their business to grow

This impact are focuses on addressing the lack of sector intelligence, resulting on SMEs not being informed about the trends and updates on the sector, while other actors in the sector are not informed about challenges that SMEs are facing.

Functions of the accelerator to address the challenge:

(2) Customized capacity building for different segments. These entails training about regulations and policy, and capacity building for SMEs to become better at (1) gathering intelligence, and (2) communicating to smallholders

- Assumption: Training/training modules can be provided by KDB on policy, while other implementors train SMEs on impact, data collection, etc.

(3) Linkages and partnerships. This means **c**reating collaborations to generate and share sector intelligence.

- Assumption: Accelerator provides the space to share information, though events, partnerships, virtual forums, and communication channels.

(4) Access to information. SMEs can gain information on prices, trends, and policies. In turn, SMEs can promote their services and make them accessible to potential customers.

- Assumption: Accelerator provides the platforms to share information (e.g. updates on policies are facilitated by KDB)

Outcome: SMEs can grow their business by:

- Implementing good practices aligned with the regulations.
- Being informed about the trends in the sector.
- Promoting their business to other actors.

Impact of the above functions:

- SMEs can access data and make informed decisions and take actions that will enable their business to grow.

Desired impact 3: SMEs can access financial mechanisms and the sector could grow following the growth of the SMEs

This impact area focuses on enabling access to finance, given the current lack of information on financial instruments and mechanisms and the lack of availability of financial instruments and mechanisms customized to SMEs.

Functions of the accelerator to address the challenge:

(1) SME diagnosis – identify areas of improvement. Segmenting SMEs based on their types and maturity.

- Assumption: Diagnostic tools are aligned with bankability metrics, and can provide the DD for financial institutions

(2) Customized capacity building for different segments. Customized capacity building on financial management, financing mechanisms, and accessing financial instruments.

- Assumption: Accelerators that contribute to increase bankability work together. E.g. training by State Department of Cooperatives to develop SACCOs for aggregators, training by capacity builders in business/management is geared to increase bankability.

(3) Linkages and partnerships. Creating networks of SMEs and other actors that can provide them with access to finance.

- Assumption: The accelerator coordinator will convene Financial Institutions, and support the development of products for SMEs

(5) Sector convening and dialogues. Enabling dialogues among actors to increase accessibility to financial instruments.

- Assumption: Financial institutions are included in the sector dialogues

Outcome of these functions are:

- SMEs can grow their business by:
- Having better access to financing and investments

Impact of these functions include:

- SMEs can access financial mechanisms and the sector could grow following the growth of the SMEs

Desired impact 4: Dairy sector operates more efficiently, actors in the sector can get access to high-quality services

This impact areas focusses on improving poor infrastructures and includes lack of production infrastructure (e.g. cooling machine) and lack of supporting public infrastructure (e.g. road).

Functions of the accelerator to address the challenge:

(1) SME diagnosis – identify areas of improvement. Segmenting SMEs based on their types and maturity.

- Assumption: Diagnostic assessment methodology also flags and aggregates problems with operations/infrastructure

(3) Linkages and partnerships. Creating networks to support the provisions of required infrastructures.

- Assumption: Work with partners to enable interventions: facilitating provision of cooling equipment for transporter.

(5) Sector convening and dialogues. Enabling dialogues among actors to support the provisions of the right infrastructures.

- Assumption: SMEs are in dialogue with government (regional and national).

Outcome of these functions include:

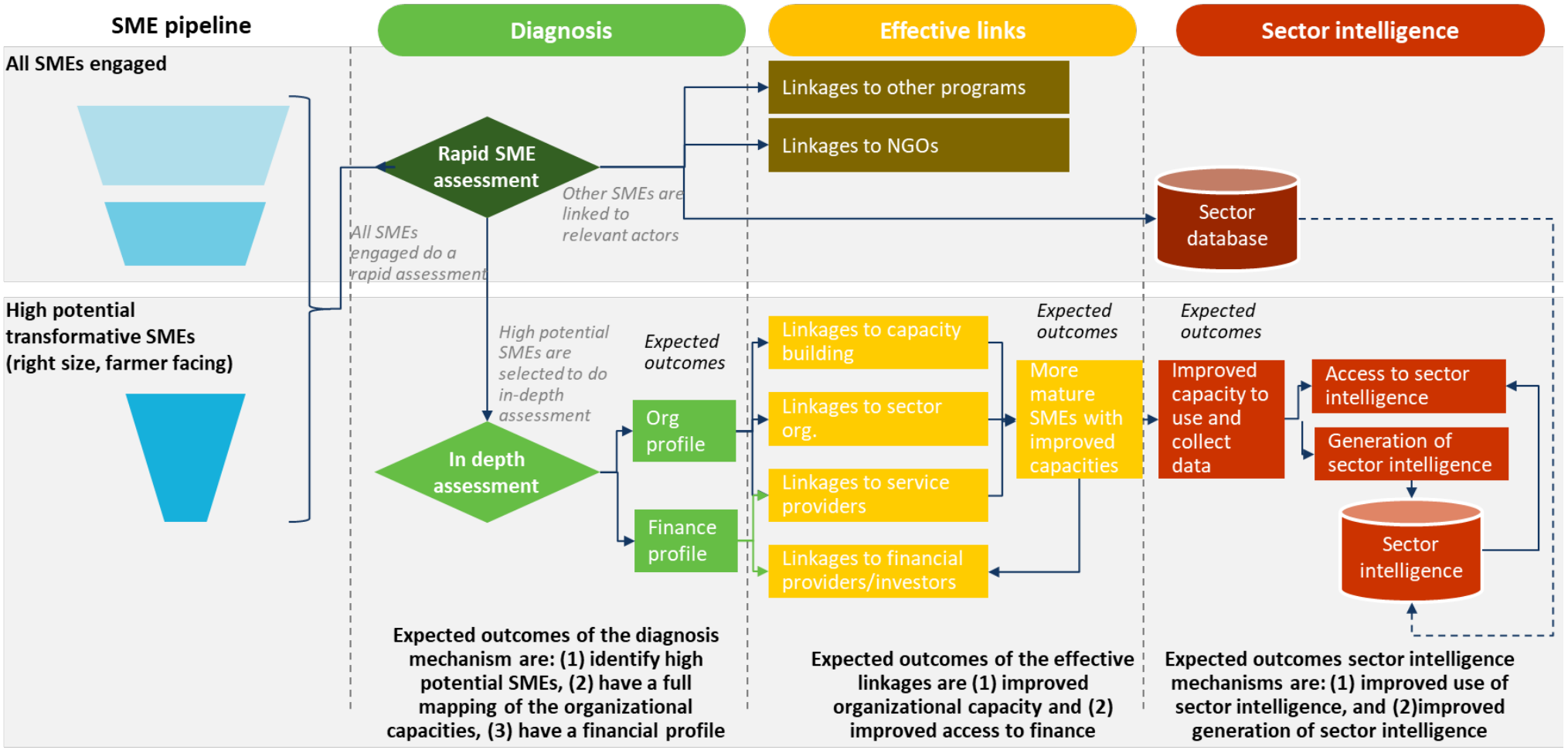
- Supported by the right infrastructures, SMEs can grow their business, improve their services, and improve their engagements with smallholders

Impact of these functions include:

- Better service delivery for all actors in the sector
- Increased efficiency in all activities of the sector

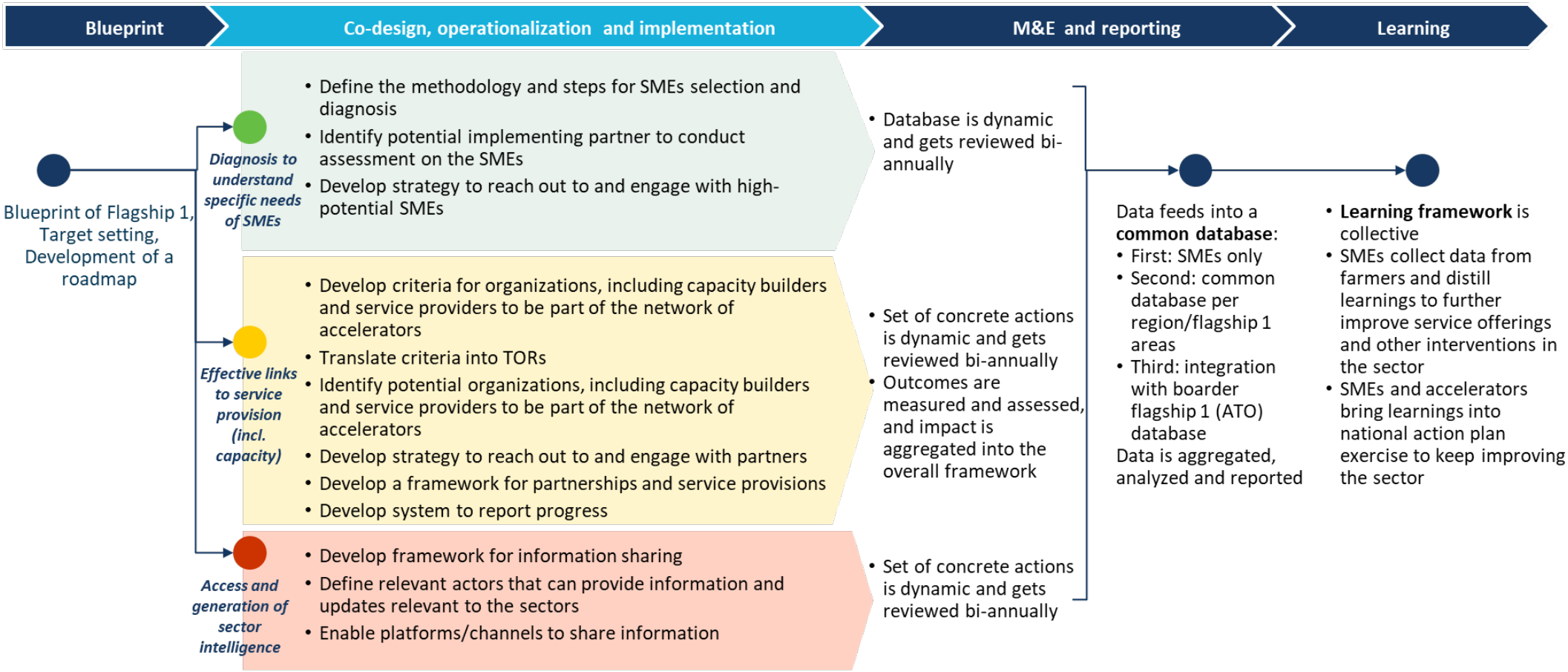
Annex 4: SME Dairy accelerator blueprint: the system to accelerate sector

The mechanisms working together will enable an agile way of working to optimize the resources in the sector.



Annex 5: Activity-based high-level roadmap

The roadmap of implementing the SMEs accelerator follows four phases that include monitoring, evaluation, and learning,



Annex 6. Collaborators and contributors to the SME dairy acceleration program

The collaborators for this program are considered accelerators under the definition of Flagship 1. These accelerators are active in the sector, the key to catalyze the sector are interventions that coordinate efforts towards a common vision. Synergies, increasing demand from farmers and access to adequate finance mechanisms will incentivize their growth and business acumen.

In the subsections below, the different types of collaborators/accelerators are provided with the actions it undertakes, and concrete example of these collaborators in the dairy sector.

Implementer

- Conduct engagement
- Develop/adapt rapid assessment methodology
- Adapt in-depth assessment
- Conduct in-depth assessment for full diagnosis
- Segment SMEs
- Link SMEs with accelerators
- Monitor progress

Other programs (accelerators)

- Work with SMEs that align to other strategic priorities (e.g. innovation, technology, entrepreneurship)
- Contribute with complementary interventions for the enabling environment and/or farmers
- Example: O-farm accelerator, 2scale, Agribusiness Academy, Microenterprises Program Trust

Capacity builders (accelerators)

- Support SMEs to become stronger in specific areas (e.g. financial management, leadership)
- Support SMEs in specific knowledge (e.g., policy, quality)
- Example: KDB, livestock department, cooperatives, CoG NGOs, private service providers specialized in capacity building and high potential SMEs

Service providers

- Provide customized services to SMEs at a competitive price
- Support SMEs in providing a good service offer to the farmers
- Example: Perfometer (tools), input providers, service providers and facilitators (CoG, livestock department) and high potential SMEs

Sector connectors (accelerators)

- Provide SMEs access to information
- Advocate for SMEs in the broader sector dialogue
- Example: KDB, CoG, livestock department, cooperatives department, new KCC, business associations

Financial services providers (accelerators)

- Provide customized financial products for SMEs and their clients
- Example: investors (Village Capital, Oikocredit), microfinance institutions (SMEP MFI, Oikocredit, Rafiki Microfinance) and high potential SMEs

Pool of accelerators

To further link and explain the different examples of accelerators with the type of actions (core and secondary), a table is included below with a group of entities are accelerators of the Kenyan dairy sector.

	Coordinate and monitor actions	Implement (select and assess SMEs)	Connect with other programs	Provide capacity building	Provide services to SMEs	Provide connection with other actors	Provide/ enable access to financial services
	Core actions			Secondary actions			
O-Farm accelerator (BOPInc)		●	●	●	●	●	●
2scale		●	●	●	●	●	
Policy and Markets		●	●	●	●	●	
Strathmore University		●	●	●	●	●	
Africa Agribusiness Academy		●	●	●	●	●	
Egerton University		●	●	●	●	●	
Kenya Crops and Dairy Market Systems Activity (KCDMS)		●	●	●	●	●	
Micro Enterprises program trust / AgriFI		●	●	●	●	●	●
Kabianga Farmers Ltd				●	●	●	
Kenya Dairy Farmers Federation				●	●	●	
Fodder Growers Association of Kenya				●	●	●	
Kenya Livestock Breeders Association				●	●	●	
Kenya Dairy Processors Association			●	●	●	●	
Kenya Dairy Traders Association			●	●	●	●	
AKEFEMA (Kenya Association of feeds manufactures			●	●	●	●	
East and South African Dairy Association			●	●	●	●	
Forum for Agricultural Advisory Services (KeFAAS)			●	●	●	●	
New Kenya Cooperatives Creameries	●		●	●	●	●	
Kenya Dairy Board	●		●	●	●	●	
State Department of Cooperatives	●		●	●	●	●	
Livestock Department	●		●	●	●	●	
Council of Governors	●		●	●	●	●	
SMEs				●	●		●
Neutral Coordinator (to be decided)	●	●	●			●	

Detailed timeline for suggested key actions

Actions for every key mechanism can be executed simultaneously, with strong coordination to ensure alignment. In this section we provide recommended actions to further refine with partners and contributors.

Codesign and operationalization: Jul- Sep 2021	
Coordination	• Work on co-design process with key accelerator partners (government, private sector, NGOs) • Select neutral coordinator
M1: Diagnosis	• Define the methodology and steps for SMEs selection and diagnosis • Identify potential implementing partner to conduct assessment on the SMEs

M2: Effective linkages	• Develop criteria for organizations, including capacity builders and service providers to be part of the network of accelerators • Translate criteria into TORs • Identify potential organizations, including capacity builders and service providers to be part of the network of accelerators
M3: Access and generation of sector intelligence	• Develop framework for information sharing • Define relevant actors that can provide information and updates relevant to the sectors
Monitoring, Evaluation and Learning	• Develop preliminary MEL framework

Operationalization: Sept-Oct 2021

Coordination	• Coordinate operationalization of the mechanisms • Coordinate development of MEL • Agree on priority area to start outreach and coordinate PILOT outreach and diagnosis
M1: Diagnosis	• Develop strategy to reach out to and engage with high-potential SMEs • Engage with and determine implementers to conduct assessment on the SMEs • Pilot assessments with first cohort
M2: Effective linkages	• Develop strategy to reach out to and engage with accelerators and other service providers • Engage with service providers to develop customized services for SMEs (based on diagnostic) • Build service providers database • Develop a framework for partnerships and service provisions
M3: Access and generation of sector intelligence	• Conduct outreach and initiate engagement with accelerators • Translate framework for partnerships and service provisions into agreement templates
Monitoring, Evaluation and Learning	• Translate MEL framework into tools and guidelines

Implementation (pilot): Nov-Dec 2021 onwards

Coordination	• (Continuous) Coordinate implementation of mechanisms • Collect data to report on progress
M1: Diagnosis	• Conduct outreach and initiate engagement with high-potential SMEs • Together with implementers, translate methodology into assessment tools for SMEs selection and diagnosis
M2: Effective linkages	• Conduct outreach and initiate engagement with accelerators • (Continuous) Engage with service providers to develop customized services for SMEs (based on diagnostic) • Translate framework for partnerships and service provisions into agreement templates • Agree with accelerators on their responsibilities
M3: Access and generation of sector intelligence	• Agree with accelerators on their responsibilities • Start implementing knowledge sharing activities
Monitoring, Evaluation and Learning	• Communicate MEL tools and guidelines to SMEs and accelerators

Implementation (pilot): July-Dec 2022

Coordination	• (Continuous) Coordinate implementation of mechanisms • Collect data to report on progress • Improve strategy based on pilot outcomes
M1: Diagnosis	• Select the first cohort of SMEs to be assessed using the tools • Assess SMEs using the tools and provide diagnosis of SMEs
M2: Effective linkages	• Initiate engagement between SMEs and accelerators • Monitor engagement between SMEs and accelerators
M3: Access and generation of sector intelligence	• Implement knowledge sharing activities • Evaluate outcomes of engagement between SMEs and accelerators
Monitoring, Evaluation and Learning	• Implement MEL tools and guidelines to SMEs and accelerators

Implementation: 2023	
Coordination	• (Continuous) Coordinate implementation of mechanisms • Collect data to report on progress
M1: Diagnosis	• (Continuous) Conduct outreach to and engage with high-potential SMEs • Evaluate application of assessment tools
M2: Effective linkages	• Evaluate outcomes of engagement between SMEs and accelerators
M3: Access and generation of sector intelligence	• (Continuous) Conduct outreach and initiate engagement with accelerators • (Continuous) Engage with service providers to develop customized services for SMEs (based on diagnostic) • (Continuous) Agree with accelerators on their responsibilities
Monitoring, Evaluation and Learning	• Define sector intelligence gaps and define actions to fill-in the gaps • (Continuous) Implement knowledge sharing activities