Driving Growth at SMEs with Technical Assistance

Thematic insights from delivering technical assistance to agribusinesses through the African Agriculture Funds' Technical Assistance Facility

May 2019

This project is funded by the European Union

AAF African Agriculture Fund Phatisa Fund Managers

TAF Technical Assistance Facility

IFAD Investing in rural people

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INTRODUCTION

The rationale for Technical Assistance (TA) alongside investment funds has predominantly been tied to ***reducing the risk*** associated with investing in small and medium enterprises (SMEs) operating in developing markets given their capacity constraints, particularly in the agriculture and agro-processing sectors. For example, a widely-acknowledged 2014 World Bank report on 'the role for technical assistance' emphasised that TA can "mitigate some level of risk and increase the probability of *successful investments by funding targeted, operational improvements of investees…*"[1] The report describes a range of projects that can be considered under the rubric of TA, all of which were related to core business improvements – finance, marketing, IT, legal, accounting, etc.[2] The result is that the majority of TA facilities have been established to deliver these kinds of risk-reducing Business Development Services (BDS) to SME clients.

The African Agriculture Fund's (AAF) Technical Assistance Facility (TAF) similarly had an allocation for SME capacity building through BDS from its inception in 2011. It also included an Agriculture Value Chain (AVC) component to ***enhance the development impact*** in the respective value chains around the AAF investments which worked to strengthen linkages between micro-entrepreneurs, small-scale farmers and the portfolio companies. During the implementation of the AAF TAF, TechnoServe ("TNS") further differentiated between two types of impact objectives – one that related to enhancing the impact of the business and the other related to strengthening the market enabling environment around that business. TNS's TA 'triangle' (See Figure i) was developed to frame these objectives and to ensure alignment on the structure and provision of TA by TA facilities based on clear and aligned objectives of funders, recipients and implementers.

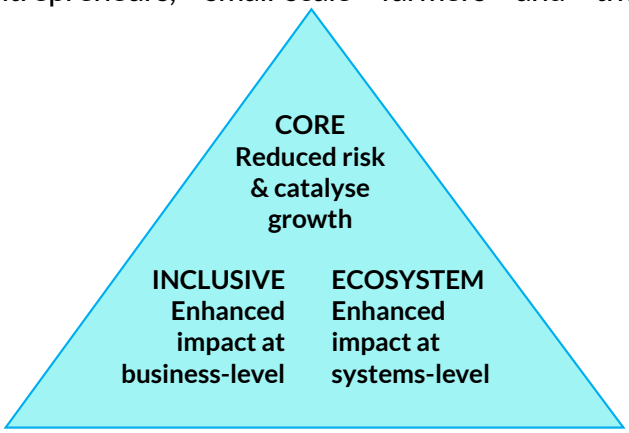

Figure i : TAF Focus Areas

For the purposes of this paper, we will focus on the core business development TA – which AAF TAF deployed to both reduce risk and catalyse growth; supporting value creation initiatives at investee companies of the AAF SME Fund administered by Zebu Investment Partners (formerly known as Databank Agrifund Managers (DAFML)). Various cases used throughout this document serve to illustrate practical examples of how TA was designed, implemented and measured. The paper also provides insights from implementing TA alongside an investment fund that invested in agriculture in Africa. The paper will hopefully assist development practitioners and fund managers (in similar contexts) with practical learnings that can be applied when implementing their own respective TA schemes in similar contexts. Based on the TAF experience, an evolved approach to BDS TA is considered using innovation as the central theme. This attempts to clearly define and separate the role of the fund manager and the TAF ensuring that there is clear additionality – a fundamental concern for most donors and Limited Partners (LPs). In our experience, the ability of funds to drive value creation is inextricably linked to fund size where smaller funds typically lack the resources to drive hands-on value creation. This must be taken into consideration when defining what TA can and should be funding as opposed to what fund managers should fund themselves.

1. Shanthi Divakaran, McGinnis, Shariff. Private Equity and Venture Capital in SMEs in Developing Countries: The Role for Technical Assistance. The World Bank, Capital Markets Practice. April 2014.
2. Ibid. Page 13, Box1.

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What was the AAF TAF theory of change?

Global food prices spiked between 2006 and 2008 growing by 105-220% over the period. The developing world was hardest hit given the reliance on staple cereal crops as the primary source of food for most households. A group of financial institutions collaborated in 2008 to form the AAF in response to this food crisis as well as the identification of opportunities for agricultural growth and impact in Africa. The fund was structured as a 'blended finance' fund, mobilising private capital through an anchor group of development finance partners with the vision of creating a stronger, more competitive agricultural sector better able to meet the needs of Africa's growing population and food needs.

The AAF was set up as a US Dollar-based private equity fund with a 10-year life investing in high potential agri and food related businesses across Africa. The AAF, managed by Phatisa, achieved final close in 2013 at $246M. Key investors included AFD (L'Agence Française de Développement), Proparco (French Development Finance Institution), Government of Spain, AfDB (African Development Bank), BOAD (Banque Ouest Africaine de Développement), EBID (ECOWAS Bank for Investment and Development), and DBSA (Development Bank of Southern Africa). The AAF created a sub-fund called the AAF SME Fund (managed independently by Databank)[3] to focus on food production and processing at the SME level throughout the African continent. The AAF SME Fund achieved final close in 2014 at $36M.

Alongside the AAF, the TAF was promoted by IFAD (implemented by TechnoServe) and had a mandate to increase economic and physical access to food for low-income Africans by providing TA to the portfolio companies of the AAF. The objective of TAF's projects was either to strengthen companies' core operations by delivering expertise to enable them to grow, and hence contribute to food security through increased food production and availability, and/or to facilitate the implementation of new business models that extend their reach to poor consumers, producers or employees through 'inclusive business' initiatives – that would increase the productivity and incomes of these beneficiaries.

From a BDS perspective, businesses growing their revenues would ultimately produce more food for the local economy; employ more people and pay them more. Thus job, wage and revenue growth were the headline indicators for BDS projects in the AAF TAF, with specific outputs defined for each TA project.

What was the value addition of BDS TA alongside Private Equity (PE) fund management teams? (Aren't they doing this already?)

When LPs decide to invest in PE firms, they are essentially "buying" the following:

- The firm's ability to find high-growth businesses with decent management and depressed or attractive valuations.
- The firm's ability to "build" these businesses to a point where an attractive exit (sale) can be achieved.

Arguably, the first point is the most important and this is reflected in the proportion of PE management fees that are spent on resourcing deal teams to acquire businesses. These expenses include due diligence and legal fees which can balloon especially where mandates are specific and geographies diverse (e.g. agriculture in Africa). This makes a lot of sense given the need to build a pipeline of investable businesses in order to realise investment returns. The second skill-set is harder to discern. A typical investment criterion for most PE firms when analysing a business is a strong and capable management team that is able to diagnose,

[3] Databank changed its trading name to Zebu Investment Partners in 2018.

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draft and implement a viable growth strategy for the business in the short-term (2-3 years). The fund manager has a preference for all investments to have strong management teams to make the bridge to exit as easy as possible – why go through the trouble of ploughing resources into driving greater value addition when there might be no need given the presence of a competent management team?

This is typically true in developed markets that have robust access to skills and are able to leverage strong business enabling environments to drive growth. In contrast, developing markets tend to have deficient access to skills, weak business enabling environments and are prone to exogenous shocks that can materially affect business sector growth prospects. Furthermore, considering that specific funds are mandated to focus on specific sectors and size of business, the scope to achieve a return from financial arbitrage is limited. This is especially the case for mid-cap agri-businesses in Africa that typically rely on institutional sales and are family run. These are not necessarily bad characteristics, but they do expose a fund manager to higher risks should institutions change (e.g. governments) and/or complicated family structures limit the introduction of formal governance structures.

Geography, and investment limitations aside, fund size in terms of assets under management (AUM) plays a critical role in the length and breadth of value addition that funds can carry out. Management fees are derived from the amount of AUM and thus the larger the fund the more fees that can be generated which can fund value addition activities. Smaller funds have an inherent limitation in that they cannot access enough fees to invest in resources that would drive value creation. Moreover, this assumes fund managers know where to find and utilise these resources when they have them at their disposal – just having more money to spend on value creation does not guarantee strong value creation at portfolio companies. According to the Harvard Business Review *"…whereas some private equity firms have operating partners who focus on business performance improvement, most do not have strength and depth in operating management."*[4] Most PE fund managers will charge a 2% management fee from AUM on an annual basis, which is $2m per year on a $100m fund. This money is meant to cover all salaries, due diligence and legal costs and typical overheads associated with asset management firms. Some would argue that given the difficult mandate of investing in SMEs in agriculture in Africa, this might not be enough to hire the appropriate resources to conduct meaningful value creation. Despite this, funds with AUM greater than $100m will still have a hard time justifying the need to subsidise BDS activities.

There is a standard hierarchy of activities that characterise most PE funds (see figure 1 below) with the levels (amount) of each activity typically dependent on the AUM.

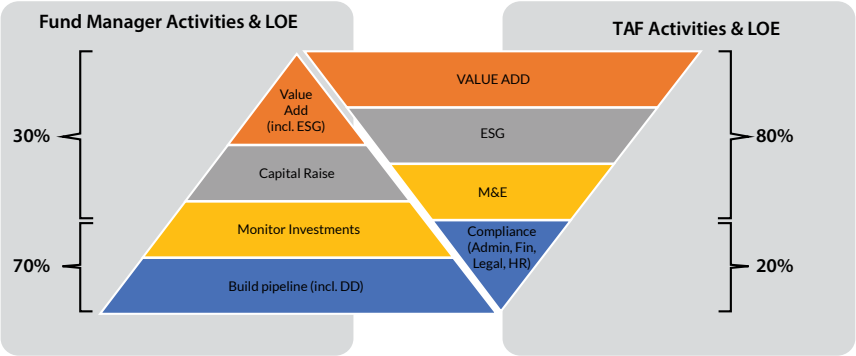

Figure ii: Fund vs TAF Activities

[4] Felix Barber, Michael Goold. The Strategic Secret of Private Equity. The Harvard Business Review. September 2007.

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Smaller funds with challenging mandates are thus constrained when it comes to driving meaningful value creation at portfolio companies. This is especially true for agri-specific funds where technical expertise and knowledge of local markets are crucial to the long-term success of the businesses in which they are investing. Traditionally, TA is typically focused on Environmental, Social & Governance considerations and this is especially the case where TA is administered by the PE firms directly. This is true for small and emerging fund managers who lack the necessary experience and resources with regards to TA design, roll-out and management.

TA facilities bridge these capacity gaps by focusing the majority of resources on driving value addition. More specifically, BDS TA is focused on the diagnostic and design of projects which respond directly to key drivers of business value and growth. Implementation is of equal importance and requires a good understanding of the business's requirements to ensure the correct service providers are contracted, the right measurement systems are put in place and the right steering is provided when projects are reviewed. Thus, we found that, under AAF TAF, financial assistance was only part of the TA puzzle – broader technical advisory, management and monitoring of the project was required to ensure value was driven at the portfolio companies, which was not often core to the skills of staff at our partner PE firms. Coupled with 'impact' mandates, the additionality of providing TA alongside investment funds is further strengthened where TA is uniquely positioned to address many shortcomings through a holistic approach that seeks to drive impact at the firm, farmer, community and policy levels.

Under AAF TAF, close proximity to portfolio companies allowed for rapid and iterative approaches to pilots, allowing development initiatives to fail or scale quickly and cost-effectively. SMEs typically struggle with navigating the plethora of value creating activities and, quite frankly, they often just don't have the time and capacity to prioritise and drive these initiatives, thus they require assistance with operationalising the strategies developed. TA not only provides the extra bandwidth, but also provides expertise which can assist with providing experienced context; and the extra push for innovation/change that can drive growth from a fresh perspective. Finally, oftentimes fund managers and sponsors underplay the amount of project management that goes into managing BDS initiatives, especially those which require an iterative approach. Companies leaning on TA for support are able to institutionalise learnings quickly and make changes with the added management support.

As a standard measure, we believe BDS TA facilities alongside PE funds are warranted where:

1. PE firms are small (<$100m AUM)
2. Firms have focused/niche sectoral mandates and;
3. Investment ticket sizes are small-mid-cap (<$10m)

CASE STUDY: DATABANK AGRIFUND MANAGERS (DAFML) – VALUE CREATION & TA

DAFML manages the SME Fund on behalf of the AAF. This is a $36m, 7-year fund that seeks to invest in high growth businesses involved in the food value chain in Sub-Saharan Africa. The firm was formed alongside an established financial services firm in Ghana and whilst the management team has vast private equity experience, this was Databank's first PE fund. The fund has a challenging mandate of investing in agri-businesses in the SME sector in Africa. With $36m under management, the fund is only able to claim, at most, 2% management fees on an annual basis to deliver this mandate.

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Furthermore, SMEs typically require, not only, greater value addition, but also basic management assistance which requires greater resources beyond strategic advisory. What this means is that the fund requires more "man-power" to implement the individual value creation strategies across their 8 portfolio companies. For Databank, whilst the entire team assists in portfolio management, there are 2-3 individuals that are dedicated to this across the fund, which is extremely lean. This is quite similar amongst smaller funds based on TechnoServe's recent analysis. Smaller funds operating in strategically important sectors which are central to development require a greater subsidy which can come in many forms, one of which is through TA.

What kind of BDS TA was provided alongside the AAF TAF?

The results from implementing 30 BDS projects across 7 companies in the AAF SME Fund portfolio clearly illustrate the benefit and, importantly, need for BDS TA at portfolio companies. At the business level driving improved performance through BDS projects requires a thorough understanding of the key growth drivers and challenges and designing appropriate projects that address these issues directly. Various guidelines are provided to assist with understanding 'the how' of scoping, designing and implementing TA using the backdrop of the TAF BDS results achieved.

TA support took on a variety of forms during the life of AAF TAF. Broadly speaking, TA initiatives can be understood through supply and demand dynamics. Supply-side initiatives were firm-specific, focusing on enhancing internal operational improvements, driving greater skills development and increasing internal efficiencies. Demand-side initiatives focused on the market and specifically looked at driving greater market intelligence, creating more efficient routes to market, increasing sales and building the capacity of the business to drive new product development and market expansion. In addition to the normal scoping parameters, additionality was a key assessment factor which provided greater accountability from a TA investment, impact and value perspective. TA plans would only be initiated if it was determined that the business was unable to provide the financial resources and managerial competencies required to action the project. As mentioned, the financial aspect of TA provision is only one part of the puzzle – adequate project management including contracting, steering and tracking ultimately drives project performance. The table below illustrates the types of BDS TA provided over the life of TAF.

Project Type	Description	Type of TA Provided	Indicative Cost	Project Spend	% of BDS Portfolio
Skills Transfer	• Visits to world class facilities • Developing skills through on-site training and mentorship • Attending a training course in person or online	• Learning journeys, training courses, on-site skills development • Technical expert(s) train staff on-site • Offer course for personnel to attend trainings	€3k to €10k	€31 000	3%

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Internal Process Optimisation	• Improving the financial and operational data collection, distribution, and utilisation. • Ensure compliance with needed regulations or certifications. • Optimization of internal processes through the improvement of products and reduction in costs of production	• Assess programme selection, installation, training, and on-going support of MIS • Technical expert to advise and/or implement certification process. • Technical expert to advise on best practices to improve the internal operations.	€20k to 50k	€432 624	39%
Feasibility and Market Research	Exploring new ventures or products to expand the sales of the business.	• External consultant to conduct market research on consumer preferences, new market and product opportunities. • Technical consultant to assist with onsite product development. • Agency to assist with consumer testing of new products and recommend feedback for product changes.	€30k to €50k	€277 133	25%
Technical Expert Secondment	Placing an individual analyst or specialist in the company for 3-12 months.	• Fund individual to work directly with the firm towards a specific goal. • Subsidise the company to hire key personnel	€50k to €100k	€87 000	8%
Route to Market (RtM) Optimisation	Develop RtM Strategies and pilot new approaches	• Fund assessment, strategy development and deployment of new RtM	€80k to €150k	€280 983	25%

Table i: TAF BDS Project Breakdown

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How and why did the AAF TAF BDS evolve?

There has been a steady evolution of implementing BDS projects over the last seven years. Lessons learned over the period, coupled with greater experience implementing TA projects, led to a greater degree of flexibility and creativity in the scoping and implementation of TA plans.

Initially, the potential ecosystem of TA projects was quite restrictive given the governance provided by the AAF TAF Technical Assistance Committee (TAC). Projects were sometimes excluded based on reasons outside of driving impact and value at portfolio companies. As a result, project approval times were sometimes long, delaying project start times and frustrating potential beneficiaries. As TAF matured, the governance structures relaxed allowing for more autonomy by the TAF manager, creative projects to be scoped and implemented, ultimately driving greater relevance and value addition. An example of this was the restriction placed by the TAC in earlier days of scoping TA projects at Matonjeni, a beverages manufacturer in Zambia, given the sugar content of its products. Initially, the TAC deemed the products to be too sugary, but once it was understood that Matonjeni's product were more nutritious compared to its competitors, and that the intention of the BDS TA was to enhance business growth, TAC relaxed this restriction.

BDS projects were initially limited to projects related to market assessment, quality assurance and training, which are important but limited in terms of their potential value addition potential. Over time, the diversity of the business requirements led to more complex projects being proposed that spanned a variety of categories including route to market optimisation, product development, learning journeys, innovative productivity improvements and personnel secondments. It also allowed plans to be part of a broader TA package that would address various requirements in a business. For instance, the Top Crust Bakery (TCB) case study below illustrates the importance of demonstrating value as a way to illustrate the importance of a TA initiative. That process was part of a holistic TA package designed to address the need for the business to rethink its sales and marketing strategy. It combined product development, route to market and sales optimisation in a bid to capture more margin along the value chain.

A fundamental part of creating holistic TA plans is the need to have dedicated BDS TA management. Initially, TAF portfolio managers scoped both AVC and BDS projects to ensure resource efficiency. Over time, the growing needs of portfolio companies required a dedicated resource that could properly scope and manage TA projects. This not only led to a greater number of TA projects being implemented, but also drove greater impact at portfolio companies. Dedicated BDS portfolio managers are able to manage project implementation closely ensuring project pivots are actioned quickly in response to changing project dynamics.

KEY INSIGHTS FROM IMPLEMENTING BDS ALONGSIDE THE AAF TAF

Business Priority Diagnostic

There is a plethora of approaches, resources and tools available that can assist with understanding the fundamental growth drivers for a business and/or the root cause of some of the challenges the business is facing. Throughout the 7 years of implementing BDS TAF, a variety of approaches have been tried and tested. These have typically fallen into three broad buckets : 1) outsourcing the diagnostic to external consultants; 2) taking the fund manager's view of the greatest requirements in the business and 3) allowing the business to request specific assistance based on their own needs assessments. A combination of all three combined with TAF's own assessment

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provides a robust needs analysis for the business. TAF's own assessment typically included a deep-dive of the business' supply and demand-side dynamics through both primary and secondary research involving the analysis of data and interviews with key players along the value chain. Where possible, subject matter experts were consulted to provide a deeper view on the industry and/or approach. From there, by distilling the fundamental nexus between the TA intervention and growth driver and/or challenge, the business is better able to understand priorities and the reasons for proposed interventions. A root-cause analysis is usually a good starting point as it tends to illuminate potential areas for improvement, breaking the problem down into manageable pieces. Once the areas are highlighted, they need to be prioritised from an impact, cost and managerial perspective – can this intervention be realistically done? Presenting this analysis in a logical framework summarises the key takeaways from the analysis and presents the interventions in a compelling fashion. It is also useful in involving the business in the diagnostic process to ensure ownership. For instance, using the root-cause analysis with Matonjeni revealed a number of demand-side interventions that were presented using the Marketing Mix 6Ps framework[5]. The management team was able to understand the problem and proposed interventions using this framework because of its simplicity – reducing the project vetting and review time.

Getting to know the business and management team seems like an obvious point, but it is crucial to understand the gate-keepers within the business and ensuring that their views are weaved into proposed interventions intervention. Moreover, building rapport ensures that pilots can be executed quickly, allowing projects to be demonstrated, scale or fail more efficiently; particularly where interventions are further removed from the current business model. Understanding and demonstrating appreciation for local nuances is also a crucial aspect of building a relevant and sustainable TA approach. A simple, yet illustrative example of this was the attempt at introducing a much needed management information system (MIS) at West End Farms, a mixed farming enterprise specialising in rearing pigs and growing cereal crops in Cameroon. This was a key management gap that the fund manager recognised during the due diligence process and the AAF TAF was asked to provide assistance in this regard. A regional consultant was brought in to assess the current processes at the business; find a suitable MIS solution and implement the system. Whilst the business clearly needed the system, the lack of local internet infrastructure made the functionality and maintenance of the system proposed prohibitively costly. The service provider essentially recommended a system that relied on widespread and affordable internet access. An appreciation of the localised conditions would have highlighted this issue early and allowed the team to potentially pivot the approach to find affordable solutions that are practical for the business instead.

In summary, SMEs operate in a fleeting environment. Creating a framework that encapsulates the diagnostic approach is challenging but it is helpful to apply the below broader principles when conducting diagnostics and designing TA:

- Find and build rapport with the gate-keepers; align incentives
- Appreciate and integrate localised conditions
- Co-create TA solutions with investee companies
- Use analytical frameworks to illustrate the logic of the TA intervention

Following the diagnostic process, successful implementation of TA initiatives at the business

[5] Shapiro, B.P. Rejuvenating the Marketing Mix. The Harvard Business Review. September 1985

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can be quite challenging. In addition to the changing market dynamics, businesses will often prioritise short-term outputs at the expense of longer term strategic gains. This is especially true when businesses hit a tough liquidity patch and are required to reprioritise spending. TA projects need to ensure that they hit the ground running, achieving results as soon as possible to demonstrate value and align with management on key expectations from the project. In this regard a number of key themes have emerged Through the implementation of TAF, a number of key themes have emerged in this regard described further below.

CASE STUDY: TOP CRUST BAKERY – DEMONSTRATION EFFECTS

Top Crust Bakery is primarily an industrial plant bakery specialising in the production of bread and confectionary products in Lagos, Nigeria. Initially, the business grew rapidly positioning itself as a high-quality affordable producer of baked-goods for the vast market in Lagos. A tough macroeconomic environment coupled with a highly fragmented baked goods value chain, has resulted in the business having to re-design its route to market (RtM) and approach to developing new markets. TAF, through its experience implementing alternative RtM projects in other geographies, recommended that the business pilot a more direct, proprietary RtM, using an internal sales force to shorten the link between the end consumer and business (see BoP lessons learned paper for further details). Despite TAF's experience in other markets and the positive economic assessment of the intervention, management was not convinced. It took direct exposure to other RtM projects through a learning exchange visit and a thorough blueprinting phase to convince the team that this was the right approach. In hindsight, direct exposure to other projects earlier in the diagnostic process would have convinced the gate-keepers of the relevance of the intervention a lot sooner, allowing for a longer piloting period.

Picking the right service provider

This seems obvious but is much harder to do in practice, especially for projects in challenging environments with specialised requirements. Exploring both local and international service providers allows for a broad set of solutions to be proposed, with local providers providing local insights whereas international providers providing access to innovation and transferable skills. Regardless of the recipient, all TA interventions must have an exit strategy in mind where the project leads to full ownership of the model by the business. Open tendering is preferable, but should be restricted when requirements are specialised. For example, finding poultry experts in Burkina Faso is difficult given the underdeveloped nature of the sector in that country. Shortlisting suppliers within the database with specific sectoral and geographical experience and expertise experience reduces the procurement burden. Evaluation committees should comprise stakeholders from the fund manager, business, TAF and subject matter experts where applicable. Evaluations should comprise standardised scoring criteria with discussions recorded to ensure transparency. Multiple evaluation rounds may be required given the nature of the project and quality of the service providers, but each successive rounds must provide targeted feedback and requests for further clarification from the shortlisted providers. Experience implementing similar projects in the business' geography is a crucial evaluation criterion and, where this is absent, suppliers must at least demonstrate practically that they have implemented similar interventions in the past. Ultimately, it is important to take a flexible approach to procuring a service provider based on need and context.

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Aligning incentives

Aligning with portfolio companies through the entire TA cycle, from design through to exit, is crucial to ensure businesses are bought in and realise the benefit from TA initiatives. TAF used a tripartite contracting process whereby the supplier was contracted to TechnoServe through a technical assistance agreement and the business through a client assistance agreement. This was meant to ensure that adequate accountability was provided on all fronts. Additionally, businesses were required to contribute a percentage of the projects costs as part of the cost share to ensure alignment and 'skin in the game'. Letters of commitment were required upfront from the businesses committing themselves, in terms of time and money, to the project. A key learning from TAF during this particular negotiation is whether the business has honoured prior cost share commitments – a cost share audit should be conducted prior to any new TA projects being designed and implemented. Contractually, fixed-fee linked to project milestones is usually the most effective way to contract when implementing BDS projects. Importantly, review and acceptance of milestones/deliverables from project steering committees ("steerco") should be incorporated as part of the payment milestone to ensure that all stakeholders are satisfied with the deliverables received.

Project tracking & data-driven decision making

During the project scoping and design phase, thought must be given to understanding the key performance indicators (KPIs) of the project; determine the measurement timeframe (daily, weekly, monthly, quarterly etc.) and determine the data collection and validation method. This is an iterative process, but it is important to frontload this work as it might influence the project design. During project implementation, dashboards should be created capturing identified KPIs and where possible, graphics should be used to illustrate trends over time. Data tracking and packaging is an iterative process requiring a steerco that is committed to using data to drive decision making. This approach drives superior results and provides transparency for management teams in terms of whether to continue with the project post project completion. Lastly, the close monitoring of projects allows for quick pivots where project performance is waning, but importantly provides clues as to the reasons for poor performance.

Adopting a start-up mentality

SMEs operate in constantly changing environments, having to continually respond to changing market dynamics which often challenge the underlying business' assumptions. Similarly, recommended interventions and approaches must be adapted to reflect this dynamism and a business' response to these changes. Accordingly, adopting a start-up mentality during project implementation and, especially through the "steerco", will ensure interventions respond adequately to the evolving needs of the business. This approach lends itself to mind-sets that are iterative in nature who have a pragmatic approach to risk-taking, looking to maximise results whilst at the same time ring-fencing risk. In many ways, having an entrepreneurial approach to problem solving ensures that interventions match expected outcomes and that progress is tracked closely. Moreover, most of the management teams at SMEs have a start-up mentality themselves, despite operating established businesses. In this regard, the approach matches the attitude to performance in the business.

Co-creating approaches and solutions

Oftentimes management teams expect service providers to have all the solutions. Whilst, they are contracted to solve problems and implement approaches, the best results are

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usually achieved through co-creation with the portfolio company. Portfolio companies must be involved in the process as closely as possible to ensure that their input is incorporated into the project approach and to ensure that important perspectives are not left out of the project implementation. Where project activities need to be handed over to the business at the end of the project, this approach ensures a smoother transition as the business has been part of the process from the get-go and will understand the key activities and budget.

What are the results from implementing BDS projects in the AAF TAF?

Observing over the life of TAF, revenues across the SME portfolio companies grew by ~$5.2m representing a 38% growth since the start of TAF. Jobs across the portfolio grew by 313 with wages growing by ~$920k. Headline indicators serve as suitable proxies, but don't go far enough in terms of unpacking the actual value addition provided to portfolio companies by TAF.

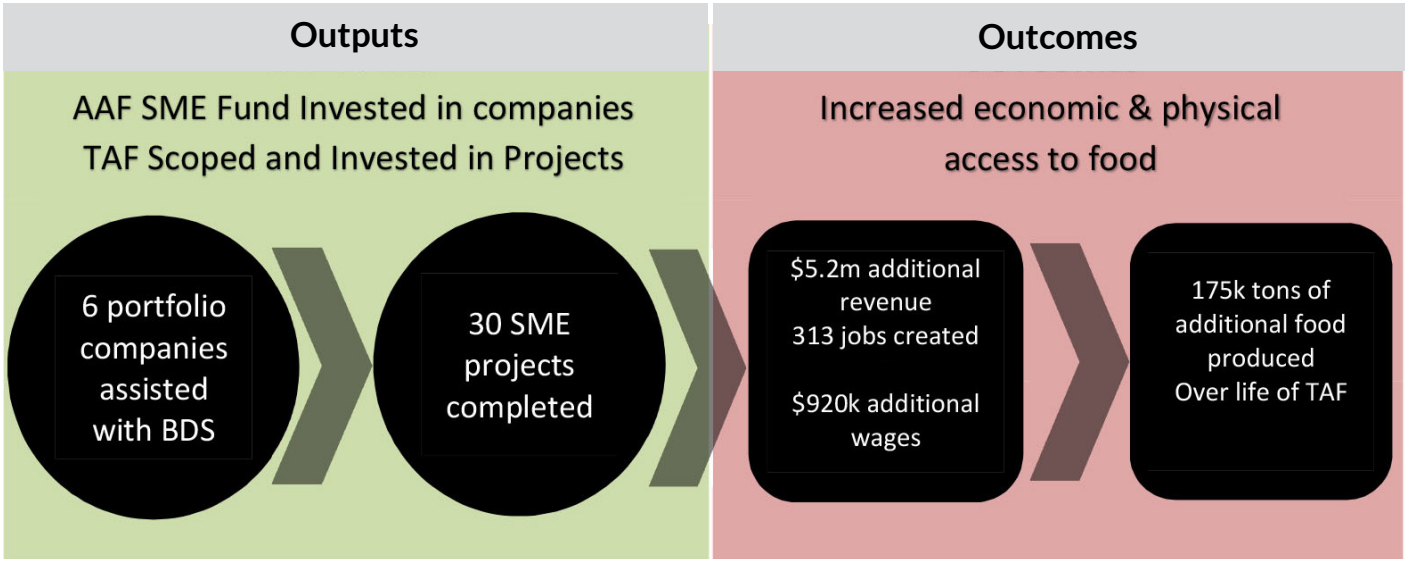

Figure iii: AAF TAF BDS Results Chain

Measuring attribution

Measuring attribution was one of the most challenging aspects of measuring the success of BDS projects in TAF. Taking a data-driven approach to project implementation can make it easier to measure the impact of a project on a business. This is especially the case where typical business metrics are tracked such as revenues and gross margins. This becomes challenging when the metric being tracked is not your typical business indicator. For instance, measuring the attributable effect of implementing an MIS at a business requires a good understanding of the causal logic and link between a project output and outcome. Even more challenging is measuring the level of contribution that the output has on the outcome. Here, proxies are helpful. In the case of an MIS project, for example, this could be the reduction of time taken for data capture and analysis on a monthly basis. Rolling-up this example into an outcome would involve quantifying the output from a financial benefit perspective and assigning a value to the time saving of top management.

Finding suitable proxy indicators requires a good understanding of the intended outcome of the project and quantifying the benefit to the business through close consultation with the management team. This is both a science and an art. Sense-checking the approach with them will

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ensure that there is buy-in when quantifying the attributable benefit from the project. The Donor Committee for Enterprise Development (DCED) has developed a comprehensive set of criteria in a seven-part framework that assists with results management at donor-led projects. Measuring attributable change is one of the seven pillars of the framework and seeks to answer the question of whether the observed improvements at the business were actually caused by the project? Importantly, the standard developed requires programmes to address the issue of attribution to a level that would convince a reasonable observer of the project's attributable benefits. Further to this, a selection tool has been developed which seeks to assist programme managers with selecting the right attribution approach based on pre-defined criteria. This tool can be found in figure 3 below:

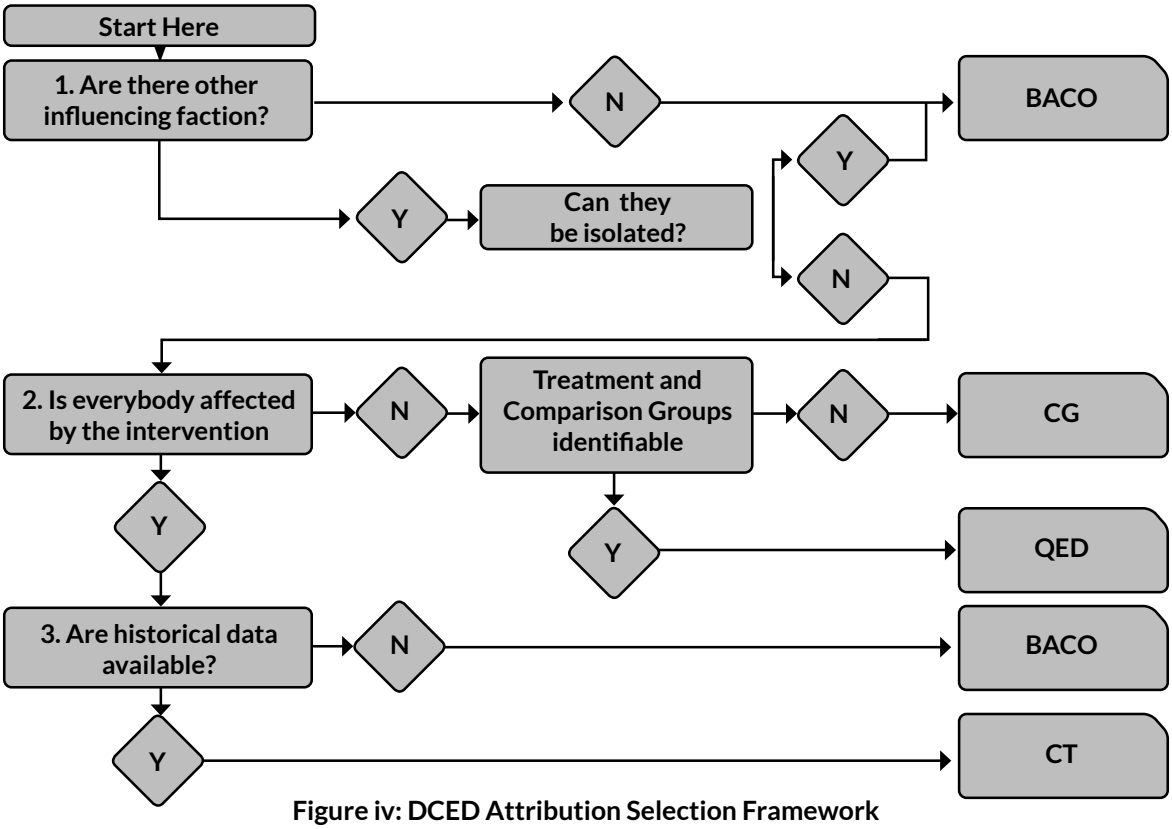

Figure iv: DCED Attribution Selection Framework

Five attribution methods are described namely: Before and After Comparison with Opinion (BACO), Quasi Experimental Design (QED); Compare Trends (CT), Comparison groups (CG). For the purposes of analysing the effectiveness of BDS projects within the AAF TAF, the BACO approach was used to measure attribution. This entailed doing before and after comparisons measuring financial benefits which included revenue growth, margin increases and reduced costs as proxies where applicable. Data was collected from a variety of sources including company financials, project dashboards and qualitative interviews with key staff. The effectiveness of this approach allowed for behaviour changes to be observed over the life of the project and assigned an economic value. The last part of the BACO approach looks to assign an opinion to the findings which in the case of TAF typically meant assigning an

[6] The Donor Committee for Enterprise Development, Guideline to the DCED Standard for Results Measurement: 3b Estimating Attributable Changes, June 2018.

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attribution percentage to financial benefits gained during the project. This opinion is formed based on interviews with company management and the fund manager to isolate the financial contribution from TAF. In some cases, revenue growth from momentum in the business was stripped out to get a true sense of attributable benefits. Historical growth rates were compared with growth rates during the project period and where the delta significantly changed from the trend this additional growth was attributed to TAF. This approach was applied for each and every TAF project to determine a financial benefit. There were cases where TAF projects yielded no financial benefits despite robust revenue growth in the business highlighting the unbiased nature of this approach. Table 1 below summarises the results from BDS projects in TAF:

Sector	Country	Rev Change (000's)	Additional Food Produced (tons)	Attribution	
				Current (000's)	ROTF*
Piggery	Cameroon	$ 484	155	$ 470	2,06
Organic Fertilizer	Madagascar	$ (261)	8373	$ 240	0,87
Beverages	Zambia	$ 698	265	$ 60	0,5
Bakery	Nigeria	$ (2575)	2025	$ 445	1,69
Fertilizer	South Africa	$ 1458	76323	$ 339	2,48
Poultry	Burkina Faso	$ 1416	589	$ 950	4,98
Fortified food producer	Ethiopia	$ 4016	2535	$ 0	0
Total		**$ 5236**	**90 266**	**$ 2504**	**1,79**

Table iii: Headline & attribution results – BDS TAF[7]

**Measures the return on TAF Funding (ROTF) which divides the total attribution per company and divides that by the total project funding. The figure at the end of the table (1.79) is the average ROTF across the portfolio*

CASE STUDY: WEST END FARMS (WEF) – EMBRACING CHANGE

We revisit WEF, the mixed-farming enterprise in Cameroon, to highlight the importance of capturing behaviour changes and the benefits of using the BACO system for measuring attribution. WEF required significant TA support over the last 6 years and was in fact the first portfolio company in the AAF SME Fund to receive BDS support. This initial support focused on upgrading the fertility of the arable farming enterprise through the diffusion of agronomic skills. Despite the efforts of the TAF team and WEF management, the results from the project were extremely poor – yields in fact regressed! It was the recommendation to scale the piggery part of the enterprise where TAF interventions started to bear fruit. Whilst one would expect regular visits by a foremost vet from South Africa to yield significant growth in piggery KPIs, it was in fact the experiential learning journeys to

[7] Ibid pg 11, Attribution Selection Aid

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South African farms that really drove behaviour changes. TAF scoped, designed and implemented a project in which 6 staff members of the piggery unit were flown out to South Africa to work on large commercial farms over a number of weeks. Whilst the visiting vet recommended approaches to improve productivity, it was not until the staff visited South Africa that a major change in the business ensued. During the attribution analysis, behaviour changes were tagged and tracked accounting for the before and after effects of the various TAF interventions. As a result, the analysis revealed that 19 changes in behaviour were recorded across the TAF BDS projects implemented at WEF resulting in ~$470k in additional revenues representing x2 return on TAF spend i.e. for every $1 of TAF spending resulted in $2 of financial benefit for WEF.

Reflections on the future of BDS TA alongside investment funds

Implementing 7 years of TAF has provided a unique perspective of how TA facilities can function alongside PE funds. As the paper has argued, PE funds with challenging mandates in difficult geographies require some form of subsidy in order to achieve both development and economic returns. The argument is made that funds with AUM of less than $100m require traditional BDS TA assistance. LPs with developmental objectives and Development Finance Institutions (DFIs) are well-placed to fund these TA initiatives given the close alignment of objectives. However, performance-based payments from the fund managers and portfolio companies, where TA initiatives directly lead to financial benefits, should be explored once value is demonstrated and as a way to sustain TA activities over the life of the PE fund. Some would argue that PE funds and their sponsors should use their resources to conduct BDS initiatives themselves, but experience in TAF suggests otherwise – there is simply too much to do that requires hands-on, consistent assistance for smaller PE firms to do themselves. Moreover, sponsors tend to straddle many different functions in a business, oftentimes not devoting enough time for initiatives that are longer-term in nature. As a result, BDS initiatives proposed within the 100-day/value creation plan are typically partially completed or not completed at all. Ultimately, a subsidy is required for funds looking for a blended return (economic and development) from challenging mandates such as investing in agriculture in Africa.

As a fund's AUM grow, the need to subsidise BDS initiatives decreases. This inverse relationship is explained through the lens of fund economics given that funds will be able to bank greater management fees from AUM and, in turn, use those fees to drive value creation from a resource allocation perspective. The appetite for this type of funding will depend largely on the preference of the LP and their particular mandate. Where development returns are sought, subsidies will be needed with TA being a proven vehicle with which to utilise this subsidy to drive enhanced impact.

Looking forward, TNS has sought to position itself beyond the typical understanding of BDS TA by emphasising the role of driving innovation at businesses. Broadly speaking, this would cut across the business and may include innovative ways of driving greater throughput in a factory; leveraging technology and data to optimise distribution and thinking about new ways to reach customers. Having a dedicated resource looking at innovation solutions and opportunities for businesses to tap into, increases the chances of driving superior returns for the business and fund manager. This positions BDS TAF initiatives outside of the typical realm of fund management and seeks to separate the role of fund manager and TAF. Additionally, there will be greater emphasis on aligning inclusive business and BDS initiatives to ensure that they are complementary and that inclusive business initiatives are rooted in commercial logic.

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