

# A Needs Assessment of Rural Agribusinesses: The Commercial Viability of SMEs

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For Musika  
and  
WFP Zambia



BUSINESS  
DEVELOPMENT  
SERVICES AFRICA

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## Foreword

This report was generated to serve as a reference document for Musika Development Initiatives (Musika) and World Food Programme (WFP). Musika is a non-profit company that works to stimulate private sector investments in rural agricultural markets. It achieves this by helping businesses to develop mutually beneficial and transparent commercial relationships with smallholders that integrate the provision of information and technology adoption, and provide confidence and long term incentives for smallholders to invest in their farming business. It provides its corporate clients with high quality, commercially focused technical advice, business model support and where relevant, smart subsidies to bring down some of the initial risks in doing business with the smallholder market. Musika also supports innovative market-based solutions to environmental issues and strives to ensure women are key participants in improved agricultural markets. Musika acknowledges and appreciates the financial support from the Swedish Embassy in Lusaka.

The World Food Program (WFP) has been in Zambia since 1967. Its programme activities in Zambia operate within the framework of a Country Programme, encompassing three components which include: home-grown school feeding, nutrition and resilience-building. WFP provides technical assistance for each of these components which focus on the implementation of long-term programmes such as social protection, nutrition governance for nutrition-sensitive programming and building disaster resilience - in line with the Government's agenda to reduce poverty and malnutrition.

### Statement of Confidentiality

This report has been modified to make it suitable for public circulation. As part of the information generation process, small and medium scale agribusinesses were interviewed. **However, the names of these agribusinesses and other details that may identify them have been withheld in order to protect their identity and information.** For queries and comments, contact the Research Manager, 6, Tukuluho Road, Long acres, Lusaka: +260 211 253 989; fax +260 211 255 502.

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## **Acknowledgements**

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## Executive Summary

Musika and the WFP in Zambia are collaborating on an initiative aimed at enhancing rural farmers' access to agricultural markets. As part of the initiative, agribusinesses and intermediaries were strategically supported as they play a key role in creating commercial linkages in the rural areas through which market services are provided to the smallholder farmers. However, conducting business within the rural market environment has not been without challenges for these businesses. Therefore, the need to understand the prevailing risks and challenges to their commercial viability is essential for the development of sustainable market initiatives. In view of this, a descriptive study of rural agricultural SMEs was conducted in order to understand the factors that characterize successful SMEs, the business challenges they face and opportunities for the provision of business development services. Below is a discussion of the key findings from the study.

The SMEs that had the following characteristics were found to be relatively more successful than those that did not:

- Employed business models that have an extra revenue stream from non-agricultural products, out-grower schemes or provide extension services and/or training to farmers.
- Received financing from off-takers to supply inputs on credit to the farmers.
- Used specific criteria to hire management staff versus hiring based on family and friend ties.
- Had a management board in place.
- Used information gathering practices that led to detailed business records, that is, at least more than three basic records.
- Had business owners (or managers) with experience of more than five years in the business or sector in general.

Interestingly, it was also found that a slightly larger component of relatively less successful SMEs accessed more than one source of finance compared to the more successful SMEs. And regards the challenges faced, some of the constraints that rural SMEs experienced were found to be as follows:

- Difficulties in developing effective approaches for engaging and working with the smallholder farmers
- Insufficient capacity or operational systems to effectively coordinate sales outlets (for those SMEs with multiple outlets)
- Little record keeping or information gathering practices
- Limited access to finance
- Lacked effective strategies to overcome competition and maximize customer lifetime value
- Limited staff capacity

The following opportunities for providing business development services were identified and more than 90 percent of SMEs in the sample were willing to pay for these services. These are listed below in order of priority:

- Business information systems and record keeping
- Business model and strategy development
- Product knowledge

Following these results, the recommendations were as follows:

1. Promote business models that create linkages with farmers and possess safety nets, such as additional revenue streams which can help weather external shocks, while also proving the know-how to successfully work with the smallholder farmers.
2. The use of a categorization matrix to identify viable SMEs for partnerships will help develop sustainable market initiatives. Program planning should target businesses that have demonstrated the use of successful business models, commercial linkages, management performance and business acumen which are crucial for commercial viability and sustainability.
3. Provide business development services that focus on enhancing the SMEs capacity in record keeping, business model development and strategy and product knowledge.

## Abbreviations and Acronyms

<b>Full Term</b>	<b>Abbreviation/Acronym</b>
Business Development Services	BDS
Citizens Economic Empowerment Commission	CEEC
Conservation Farming Unit	CFU
Cooperative	COOP
District Agriculture Coordinating Office	DACO
Export Trading Group	ETG
International Labour Organization	ILO
Musika Development Initiatives	Musika
Patient Procurement Platform	PPP
Small and Medium Enterprise	SME
World Food Programme	WFP
Zambian Kwacha	ZMW
Zambia Environmental Management Agency	ZEMA
Zambian National Farmers Union	ZNFU

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## 1.0 Introduction

Musika and the World Food Programme (WFP) in Zambia are collaborating on the development of market initiatives aimed at enhancing rural farmers' access to agricultural markets. Agribusinesses and intermediaries were strategically supported as they played a key role in creating commercial linkages in the rural areas through which market services are provided to the smallholder farmers. However, conducting business within the rural market environment is challenging for these businesses, and the need to understand the prevailing risks and constraints to their commercial viability is essential for the development of sustainable market initiatives. Particularly, it is imperative that the factors that characterize successful SMEs, the business challenges they face and opportunities for the provision of business development services are derived so as to guide program targeting and implementation. It is against this background that Musika and WFP, through a collaborative partnership, sought to undertake an assessment of rural agribusinesses<sup>1</sup> that engage with the smallholder sector in, at least, the procurement and aggregation of agricultural commodities.

Previous studies and anecdotal data suggested that some of the challenges generally faced by the agribusinesses, especially those at the lower end of the scale, included inadequate business processes, poor management structures, lack of internal data systems to monitor activity and collect market information, and limited access to finance and a wider market, among many others. However, there had been insufficient research focus on specific capacity gaps and success factors particularly for the agribusinesses operating within rural markets, which would help to identify opportunities for providing sustainable support and scaling successful business models.

In addition, the concept of 'shared value' was also explored in this paper, with regards to the extent of shared-value found in the relationships between larger firms, SMEs and smallholder farmers and the challenges associated with these relationships. Shared value can be defined as "a business strategy that acknowledges the value of long-term thinking and aligning the interests of multiple parties for mutual benefit". A business must do two things simultaneously to be successful in the long-term: create economic value for both the company and the society (Porter and Kramer, 2011).

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<sup>1</sup> Rural agribusiness – business entities that have invested in rural agricultural markets, and are engaging the smallholder farmers as suppliers, buyers or consumers.

### 1.1 Objectives

The SME descriptive study had the overall objective of assessing the operational performance of various forms of rural agribusinesses. The specific objectives of the study were to assess the following:

<p><b>Financial Viability of SMEs</b></p> <ul style="list-style-type: none"> <li>• To assess the level of financial viability of SMEs in terms of revenue, costs and growth rate (where possible).</li> </ul>	<p><b>Extent of Shared Value</b></p> <ul style="list-style-type: none"> <li>• To identify viable SME business models and the commercial linkages that exist between the SME, smallholder and larger firm. Then assess the extent and success of shared value practices across these models, including the range and quality of value-added market services in the SME that benefits both the smallholder and the business.</li> </ul>	<p><b>Management Performance</b></p> <ul style="list-style-type: none"> <li>• To assess the extent to which management is able to provide quality leadership in terms of managing its staff.</li> </ul>
<p><b>Scalability and Sustainability</b></p> <ul style="list-style-type: none"> <li>• To assess the ability of the SME to scale in terms of financial sustainability, business mind set, having appropriate processes in place, access to knowledge and access to capital.</li> </ul>	<p><b>Risks and Challenges</b></p> <ul style="list-style-type: none"> <li>• To determine the challenges that SMEs face to scale and grow their business models and operation.</li> </ul>	<p><b>Business Development Service Provision Opportunities</b></p> <ul style="list-style-type: none"> <li>• To determine how rural agribusinesses can be more effectively served by various stakeholders (private sector actors, NGOs, BDS).</li> </ul>

### 1.2 Methodology

The SME descriptive study comprised of a desk study and qualitative interviews with the business owners (or primary people involved) of agricultural SMEs. The interviews were distributed to 30 different agricultural SMEs across four different provinces with a focus on rural agro-dealers and aggregators running various business models.

Interviews were conducted over the course of five days and took an average of three hours in length to administer the 40-page questionnaire.

### 1.2.1 Study Area

Data was collected from four provinces and nine districts. The list of areas that were visited can be found in Table 1.1 below.

Table 1. 1: Firm’s Location (Province and District)

Variable	Number	Percentage
Central	9	30%
Northern	6	20%
Southern	6	20%
Western	9	30%
Total	30	100%
<b>Central Province</b>		
Kapiri Mposhi	3	10%
Mkushi	3	10%
Chibombo	3	10%
<b>Northern</b>		
Kasama	4	13%
Mungwi	2	7%
<b>Southern</b>		
Choma	3	10%
Kalomo	1	3%
Chikankata	2	7%
<b>Western<sup>2</sup></b>		
Mumbwa	9	30%
Total	30	100%

Source: SME survey, 2016

### 1.2.2 Research Tools and Data Collection

The research tool used was a hard copy paper questionnaire that covered demographic data of the SME owner, general business characteristics and had covered a number of areas of operational performance in order to get a comprehensive view of the business. The operational areas included Growth Performance, Financial Performance, Business Activities and Marketing, Business Strategy, Sources of Finance, Management and Corporate Governance, Data and Knowledge Management, Shared Value, Viable Service Provision and Product Knowledge. It collected data from the past three years for sections relating to Growth Performance, Financial Performance, Management and Corporate Governance. All other sections were addressed using data from the most recent year (November 2015 to October 2016). Within most sections, the respondent was asked what challenges the SME faced within that area of operation. At the end of

<sup>2</sup> Mumbwa is a district located in Central province, it is categorized under Western Province only for Musika’s operational convenience.

the survey the enumerator asked questions surrounding the demand for business development services.

### 1.2.3 SME Selection

30 SMEs were selected using purposive sampling based on the characteristics of the SMEs. The SMEs were picked if they satisfied any of the following criteria: 1) If they were based in rural areas, 2) If they were already established and had been engaged in agro dealing and aggregating beforehand (rather than just planning or starting aggregating) and 3) offered agricultural services as their core offering and had engaged with farmers. The research design

endeavoured to include a wide range of agricultural SMEs across geographies, business models and a range of products and service offerings to create a varied sample. While some solely sold agricultural inputs and commodities, several other agricultural SMEs with additional revenue streams besides agro-dealing and aggregating were also chosen. Additional revenue streams could be either agricultural or non-agricultural and included such activities as groceries, transportation, photographing

services, hardware, bicycle hiring, construction, livestock rearing and crop farming. The selection was based on data collected on agricultural SMEs who went through trainings with Musika since 2012. While the population of rural agricultural SMEs in Zambia is already a small group compared to SMEs of all sectors in urban and peri-urban areas, this selection was considered very close to a representative sample of rural, agricultural SMEs in Zambia.

#### *Our Definition of an SME*

The Zambian Ministry of Trade, Commerce and Industry has defined “small” enterprises as having 11-50 workers and “medium” enterprises usually employing around 51-100 people. As assessments have noted before, there is a significantly larger amount of small enterprise versus medium, so this study aimed to interview a majority of small enterprises. In fact, in this study 50 percent of the agricultural SMEs selected typically hired up to three full time employees not including paid part time or seasonal employees. Therefore, the majority of SMEs will fall in the smaller enterprise category whereas the remainder of SMEs interviewed fell in between a range of 4-25 full time employees.

### 1.3 Analysis

The survey analysis was mainly done through a qualitative method using NVivo, a computer based data analysis tool, and through a basic quantitative analysis in Excel to generate additional insights as well as draw associations between variables. For qualitative analysis, the researchers followed grounded theory, an iterative process that

is rooted in the observations that are being collected. Since qualitative data analysis is inherently subjective, efforts were taken to ensure that the qualitative data collected during the SME survey was analyzed using pre-determined, academically supported methods. The qualitative data collected was coded inductively using thematic nodes. In order to accurately capture the data collected from the 30 SME interviews, all data was digitally transcribed and imported into NVivo. In order to accurately capture the quantitative data, it was digitally transcribed into Microsoft excel. The data collected was coded with numbers to represent the distinct answers provided by respondents to close-ended questions.

## 2.0 RESULTS AND DISCUSSION

### 2.1 Financial Viability of SMEs

#### 2.1.1 Definition of Success

By drawing similarities between groups that were successful and certain behaviors that they exhibited, it was hoped that a picture could be drawn with regards to how a successful SME can scale and grow. This section described the analytical approach that was under taken in order to identify trends among the successful SMEs in the study sample. Whilst there are numerous measurable factors that can help to define a successful company (inventory management, quality of leadership, market knowledge, etc.) it was determined that many of these factors can also arguably be factors that lead to success. To that effect success was determined by financial viability in terms of revenue, gross margin and whether an SME's growth rate was sustainable or not. A more in-depth description of how success factors were determined can be found in Appendix A. Because one of the three indicators alone could not adequately capture all successful SMEs, each of the indicators were individually used in the analysis as separate indicators of success. The brackets that determine success are highlighted in **bold** in table 2.1, which illustrates how all the agricultural SMEs were distributed across success indicators:

Table 2. 1: Success Indicators

Annual Revenue (ZMW), all SMEs		
Variable	Number	Percentage
25,000-100,000	9	30%
100,000-500,000	12	40%
<b>500,000-1,000,000</b>	5	17%
<b>1,000,000-5,000,000</b>	4	13%
Total	30	100
Gross Margin, all SMEs		
5-20%	10	33%
<b>21-40%</b>	11	37%
<b>41-60%</b>	7	23%
<b>61-90%</b>	2	7%
Total	30	100%
Sustainable Growth, all SMEs		
<b>Sustainable Growth rate</b> <i>(0-200% growth and Stable growth)</i>	14	56%
Unsustainable growth rate <i>(Negative overall growth, 200-900% growth, or Unstable rate)</i>	11	44%
Total	25*	100%



Table 2.1: Success Indicators (Continued)

Growth Rate, all SMEs		
Negative growth rate	3	11%
<b>0-200%</b>	17	61%
200-900%	8	28%
Total	28*	100%
Stability in Growth, all SMEs		
<b>Stable growth</b> <i>(Positive across all years)</i>	21	81%
Unstable growth <i>(Negative growth in first year, then positive in following year)</i>	2	8%
Negative overall growth rate	3	11%
Total	26*	100%

Source: SME survey, 2016

\*Sample size is smaller than 30 due to a lack of sufficient data for some SMEs

## 2.2 Extent of Shared Value

### 2.2.1 Viable Business Models of SMEs

Table 2.2 shows four distinct business models and the proportion of successful SMEs

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*Successful companies tend to have business models with other revenue streams or out grower schemes<sup>4</sup>.*

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using the models, as measured by three separate indicators of success. The group of SMEs interviewed with a high annual revenue and a high gross margin showed that a majority of those companies had an additional revenue stream such as selling hardware supplies, groceries or engaging in additional agricultural activities such as crop farming or livestock rearing (a full list is found in footnote further below).

Table 2. 2: Business Models within each Success Group (SME Descriptive Study)

	High Revenue	High Gross Margin	Sustainable Growth
Agro-dealer only	11%	0%	0%
Agro-dealer / aggregator	11%	50%	36%
Out-grower scheme Agro-dealer / Aggregator	0%	10%	21%
Agro-dealer or Agro-dealer / Aggregator with Other Revenue Stream <sup>3</sup>	78%	40%	43%
Total	100%	100%	100%

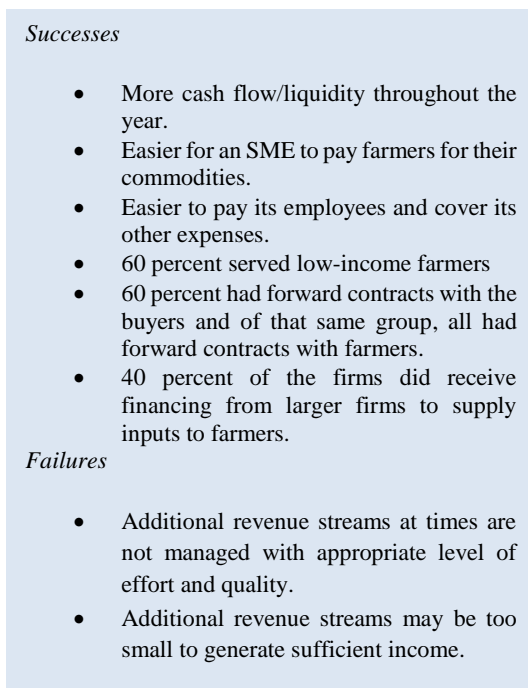
Source: SME survey, 2016

<sup>3</sup> Other revenue included both agricultural and non-agricultural products and services such as groceries, transportation, photographing services, hardware, bicycles, solar systems, construction, chicken rearing, pig rearing, animal feed and crop farming

It was also interesting to note that companies with the out-grower scheme model showed a good margin, despite lacking in high revenue. This was significant to point out given the small sample of companies with an out-grower scheme (only three were in the sample), compared to the larger sample of agro-dealer and aggregators with additional revenue streams. It was also interesting to note that the out-grower schemes showed that they were successful in terms of sustainability.

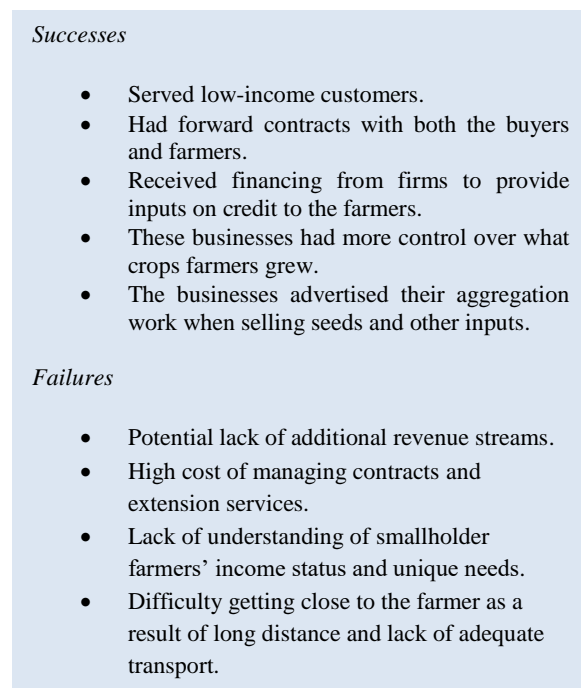
There was a number of possible success factors and failures that were characteristic of the SMEs who were interviewed. Note that these were simply observations (rather than statistical proof) that were revealed as insights during the course of the SME descriptive study, see figure 1.1 and 1.2 below:

Figure 1. 1: Additional Revenue Stream



Source: SME survey, 2016

Figure 1. 2: Out Grower Scheme



Source: SME survey, 2016

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*Successful SMEs with a high gross margin and a sustainable growth rate provided extension services and/or training to farmers.*

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The most common method used by the SMEs to attract farmers to their businesses was through extension services, 70 percent of the SMEs provided such services. Those that used extension services conducted sensitization meetings, farmer trainings on field

demo plots and product knowledge training. It was also noted that 73 percent of all SMEs had used promotional materials or offered deals to customers that were often communicated through extension services and training, such as giving out discounts to farmers who had bought products in large quantities or gave out t-shirts, caps and other items. As can be seen in table 2.3, a considerably high percentage of successful SMEs offered extension and training services.

Table 2. 3: Provision of Extension Services or Training within each Success Group (SME Descriptive Study)

	High Revenue	High Gross Margin	Sustainable Growth
Offer extension/training	56%	80%	64%
Don't offer extension/training	70%	50%	63%
Total	100%	100%	100%

Source: SME survey, 2016

### 2.2.2 Commercial Linkages

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*SME aggregators that were successful were more likely to work with more than one buyer compared to aggregators that were considered unsuccessful.*

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Most SMEs were less dependent on one firm and had more diversified access to the market. For instance, table 2.4 shows that 74 percent of the SMEs with a high gross margin had worked with more than one firm while 50 percent of the group with a low gross margin had worked with more than one firm. Similarly, 73 percent with a sustainable growth rate had worked with more than one firm and only 60 percent with unsustainable growth rate had worked with more than one firm. Of those who worked with more than one firm, only 47 percent had forward contracts with the buyer. And of that proportion, 38 percent had forward contracts with the farmer.

Table 2.4 further shows that, of all SMEs, 36 percent of the group with a sustainable growth rate received financing and only 9 percent of the group with unsustainable growth rate received financing from off takers to supply inputs on credit. In addition, 33 percent of the group with a high revenue received financing from off takers to supply inputs on credit to the farmer while only 15 percent of the low revenue group did. However, both successful and unsuccessful groups in terms of gross margin were the

same: 20 percent of the group with a high gross margin had received financing.

Table 2. 4: Commercial Linkages within each Success Group

	High Revenue	High Gross Margin	Sustainable Growth
SME aggregators that have forward contracts with buyers	33%	58%	45%
SME aggregators that have a forward contract with both the buyer and farmer	17%	42%	36%
SMEs (all) that receive financing from off-takers to provide inputs to smallholders	33%	20%	36%
SME aggregators that work with more than one firm	67%	74%	73%

Source: SME survey, 2016

### 2.3 Management Performance

The study had also looked at specific criteria used in hiring potential employees. It was

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*Successful SMEs used specific criteria to hire management staff while SMEs that were considered unsuccessful did not have specific criteria or hired based on family and friend ties.*

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found that this involved factors such as relevance in work experience and/or relevance in educational qualifications especially in agriculture. Of all SMEs, table 2.5 shows that 100 percent of the group that had a high revenue used specific criteria to hire its staff, while 33 percent of the SMEs in the low-income group had used specific criteria for hiring. While 75 percent in the group with a high gross margin used specific criteria, 60 percent of the SMEs that had a low gross margin had used a specific criterion. And while 57 percent of the group with a sustainable growth rate had used specific criteria 36 percent of the SMEs with unsustainable growth rate did.

SMEs were also asked to draw their organizational structures and a list of

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*Of the SMEs that were considered unsuccessful, none of them had a management board in place while some of the successful ones did.*

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responsibilities for each role. Table 2.5 shows that 44 percent of the group of SMEs with high revenue had a management board. However, none of the SMEs with a low revenue had a management board in place. Additionally, while 65 percent of the groups with a high gross margin had a management board in place, only 30 percent of the SMEs with a low gross margin did.

The study had also explored characteristics of successful SMEs in terms of staff capacity. It was found that this was a common overarching issue for all SMEs. However, successful SMEs did relatively well.

Table 2.5 shows that more than half of all successful SMEs said that they experienced

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*All SMEs whether successful or unsuccessful are generally experiencing challenges in staff capacity.*

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challenges with staff capacity. Additionally, of the groups of SMEs that were unsuccessful, significant findings came out: 67 percent of those with low revenue, 70 percent of those with a low gross margin and 82 percent of those with an unsustainable growth rate expressed challenges of staff capacity, respectively. While successful SMEs performed slightly better than unsuccessful SMEs in terms of having staff with capacity, it was clear that all SMEs could benefit from support to improve staff skills and competency. Table 2.5 also shows that product knowledge is likely one of the issues for SMEs that relates to staff capacity. Although a majority of the groups with high revenue generally felt that their staff were sufficiently trained, less than half of the high gross margin and sustainable growth groups felt the same. Although the findings with relation to staff capacity did not reveal very significant findings with relation to the success factors of agricultural SMEs, it did shed light on the overarching challenge of staff capacity for both successful and unsuccessful SMEs. This warrants further investigation and attention by stakeholders in business development support that can be provided to all SMEs.

Table 2. 5: Quality of Leadership Systems and Structures within each Success Group

	High Revenue	High Gross Margin	Sustainable Growth
SME owner who use specific criteria to hire management team	100%	75%	57%
SME with management board in place	44%	65%	57%
SMEs that express challenges with staff capacity	56%	63%	57%
SMEs that say their staff has been trained and they believe their staff has sufficient agricultural knowledge	67%	43%	42%

Source: SME survey, 2016

## 2.4 Scalability and Sustainability

### 2.4.1 Business Mind Set

An interesting trend that was noted was the tendency by the SMEs to keep either two

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*SMEs that were considered successful in terms of revenue and gross margin were more likely to keep more than just three basic records, compared to the unsuccessful SMEs.*

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to three basic records (typically a sales book, stock book and receipt book) or for it to keep additional records beyond the very basics. SMEs that kept more than three records tended to also keep creditor and debtor information, non-inventory expenditures, records with information and payments to suppliers, customer information records, staff information, accounting records, cash handling books and delivery/dispatch records.

Table 2.6 shows that of the group of SMEs that were earning a high gross margin, 80 percent of them kept at least 4 records while only 10 percent of the group of SMEs with a low gross margin had kept at least 4 records. Additionally, out of those with a high revenue, 67 percent kept at least 4 records while 57 percent of the group with a low revenue did. The study had also revealed that the majority of the SMEs (67 percent) who kept only two to three records had a relatively low gross margin (between 5 and 20 percent). Most of them (75 percent) had earned an annual revenue that fell within the low revenue bracket of between ZMW25,000 and ZMW500,000 per year.

Table 2.6 shows that while 78 percent of the group of SMEs with high revenue had

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*Companies that were more successful in terms of high revenue and sustainable growth were more likely to have written a business plan compared to unsuccessful companies.*

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written a business plan before starting the business, 52 percent of the group with low revenue did. Additionally, 64 percent of the SMEs with a sustainable growth rate had written a business plan while 55 percent with unsustainable growth did. It is also worth

noting that a few of the SMEs who indicated that they had business plans mentioned that they were outdated, but most did not mention this.

It was also noted that there were six (6) companies that had a business owner with less

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*Successful SMEs were more likely to have business owners (or managers) with experience of more than five years in the business sector in general.*

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than five years of experience. However, within the six companies, it was found that the majority fell within the unsuccessful groups. Table 2.6 shows that 95 percent of the high gross margin group had business owners with more than five years of experience, 50 percent of the low gross margin group did. Additionally, while 89 percent of the high revenue group had business owners with more than five years of experience, only 76 percent of the low revenue group did. SMEs with unsustainable growth actually had 91 percent of their managers with more than five years of experience. While this did not follow the trend towards success, it might be worth noting that revenue and gross margin indicators were more closely tied to experience whereas sustainable growth was at times not within the control of the manager, but that it was a long-term objective.

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*Large numbers of both successful and unsuccessful SMEs were accessing business training from other organizations. Some SMEs said that the advice offered was generic and not always tailored to their respective business models.*

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A deeper analysis was then conducted to look at how many successful SMEs were receiving business (technical) advice from different organizations. The high success groups had also generally worked with more than one organization. The organizations that had supported the SMEs were Musika, Omnia, ETG, Osho, Zambia Environmental Management Agency (ZEMA), Seedco, Pioneer, Conservation Farming Unit (CFU), Crop Serve, Nutri Aid trust, District Agriculture Coordinating Office (DACO), the government, SNV and Profit+.

Table 2.6 also shows a consistent trend in the proportion of SMEs who received technical advice against the success factors. For instance, 78 percent, 70 percent, 79 percent of companies with a successful revenue, gross margin and a sustainable growth rate had worked with organizations which had provided business advice, respectively. However, unsuccessful SMEs were also accessing business advice as well. It was found that 75 percent, 80 percent and 90 percent of companies with low revenue, gross margin and an unsustainable growth path had worked with an organization to receive business advice, respectively. It was not directly stated by these specific companies what some of the problems might have been but it could be an issue of understanding the information received or issues of not implementing data management systems.

The study had also garnered SMEs’ recollection of key challenges around the technical advice they received; it was learnt that 30 percent of the SMEs had identified specific weaknesses in the business advice they had received from partner organizations. The major complaint was with regard to the implementation of the services that the partner organizations provided, in that the trainings were brief and lacked follow up visits or support. A few SMEs felt that the advice offered was generic and was not always tailored to their respective business models. Furthermore, about 6 percent of the SMEs had noted favoritism amongst the partner organizations in their selection of SMEs to work with or give advice to.

Table 2. 6: Business Mind Set within each Success Group

	High Revenue	High Gross Margin	Sustainable Growth
SMEs that kept more than basic records (at least 4+ records)	67%	80%	57%
SMEs that had a business plan	78%	60%	64%
Worked in the business sector in general for more than 5 years	89%	95%	71%
SMEs that worked with organizations and had received business technical advice.	33%	40%	43%
SMEs that had received business technical advice from any organization	78%	70%	79%

Source: SME survey, 2016



## 2.4.2 Financial Inclusion

Table 2.7 shows that successful SMEs were generally accessing at least one source of

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*A slightly larger component of less successful SMEs accessed more than one source of finance compared to successful SMEs.*

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finance, but that there was not much distinction between the number of sources they accessed. There was also not much difference between successful and unsuccessful SMEs. However, it did appear that on average unsuccessful SMEs were accessing more than one source of finance: 57 percent of SMEs with low revenue, 40 percent with low gross margin and 60 percent with an unsustainable growth rate were accessing more than one source of finance versus only one source. This could simply indicate a lack of finance in general for these SMEs to scale their enterprise compared to the other SMEs that had the money. This could also possibly indicate a slight trend towards the over reliance on multiple sources of finance and the larger amount of financial management that is needed.

Table 2. 7: Financial Inclusion within each Success Group

	High Revenue	High Gross Margin	Sustainable Growth Rate
SMEs that have accessed one source of finance	56%	40%	43%
SMEs that have accessed two or more sources of finance	33%	55%	57%

Source: SME survey, 2016

## 3.0 Risks and Challenges

### 3.1 Challenges working with the smallholder farmer

Although two-thirds of SMEs identified challenges in working with low-income people in the community, over one-third noted their loyalty as customers. The major challenges identified by SMEs were: requests for discounts (46.7 percent), low levels of knowledge regarding products amongst low-income farmers (33.3 percent), low liquidity amongst farmers resulting in purchases being made on credit (26.7 percent), low sales (26.7 percent), and the desire to purchase products in smaller quantities than what was often available (23.3 percent). By working with this segment of the market, SMEs were faced with pressures to sell inputs on credit and provide discounts, resulting in lower sales margins. In addition, a lack of understanding of inputs and their benefits

resulted in a lack of farmer buy-in for SMEs' products. Although SMEs generally felt that customers in the low-income community were receptive to learning about new inputs and agricultural products, they also noted the additional stresses to engaging them as customers.

A number of SMEs<sup>4</sup> saw a need for a market research to better understand the low-income customers' needs, and to gauge local demand for products and services. Other respondents indicated a desire for an organization to assist them in engaging low-income smallholder farmers, and would like to understand the business models that would best assist them in doing so.

### 3.2 Challenges in Operations and Coordinating Outlets

Approximately two-thirds of SMEs identified transportation costs as a challenge to both conducting operations and coordinating outlets. A number of the SMEs did not have business-specific vehicles and relied on public transportation or personal vehicles (owned by themselves or family and friends) to reach farmers, visit outlets, distribute inputs, and perform other key business services. However, truck ownership was linked to successful SMEs. For instance, while 50-67 percent of the successful SME groups across all indicators for success owned a business truck, only 25-30 percent of the unsuccessful groups were owning a business truck.

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*SMEs that were considered to be successful across all groups were likely to own business trucks than the unsuccessful groups.*

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This was a significant finding given that several SMEs noted the importance of mobility in order to better engage with farmers (who were often located in far flung places) to build relationships with them as customers, provide extension services, prevent losing customers who may prefer to buy from enterprises who could deliver purchased inputs, enable efficient distribution of stock to their various sales outlets and to properly oversee unknowledgeable or unskilled personnel at various outlets.

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<sup>4</sup> SMEs were asked what would encourage additional investment in working with the low-income community. It's important to note that about half to two-thirds indicated misunderstanding of the question or provided a null response.

Nevertheless, SMEs had also identified a lack of staff and management capacity as a challenge to effectively run each outlet; SME owners felt that they needed to be present in overseeing unknowledgeable or unskilled personnel at various outlets. Many SMEs also felt that one of the key challenges was in making visits to the outlets, and this had affected the building and strengthening of customer relationships as it needed owners' regular presence, but were struggling with the cost of frequent travel. Overwhelmingly, SMEs felt that it was a challenge in coordinating outlets, particularly with regards to transport; the cost of transporting goods, renting vehicles, and monitoring outlets.

### 3.3 Challenges with Record Management

Record management, an important skill necessary for growing enterprises to flourish, appeared to be under prioritized by SME respondents in this study. Of those who responded with record management specific challenges, the most cited barrier to overcome was forgetfulness. SMEs reported staff neglect and busyness as contributing to the absence of well-maintained records. The SMEs had also noted the lack of formalized knowledge on record keeping, prompting SMEs to request skills trainings for further support. Another barrier observed by SMEs was the antiquated methods that they used in record keeping; paper receipts and record books were often lost, misplaced or damaged, and the process of searching for physical records was time consuming due to the lack of a formalized organizational system. These enterprises recognized the utility in keeping records on a digital medium, and many identified the absence of a computer as a challenge.

### 3.4 Challenges Scaling and Sourcing Funds

An overwhelming number of respondents cited lack of capital as their biggest barrier to scaling their businesses. Along the same vein, sourcing funds or obtaining loans was challenging due to lack of collateral and information on the process. Similarly, high interest rates, accompanied by short periods of repayment, as well as the lengthy process for processing loans was seen as a challenge by most SMEs in sourcing funds.

Since the business models were dependant on financing in order to purchase commodities, inputs and expand their business, many felt that existing transportation costs and deficiency in operational and management support would make it difficult to grow their businesses. When an SME did not have a source of capital, the negative impact could be substantial. Of interesting note, a handful of SMEs noted competition

amongst other suppliers or buyers in the region as a disincentive to expansion.

To cope with these challenges, SMEs employed a range of strategies, such as borrowing money from friends and family, diverting funds from other business ventures (therefore justifying the rationale for creating additional revenue streams in a business model), or seeking out organizations offering flexible loan repayment options. During seasonal business lulls, some SMEs diversified by encouraging farmers to plant winter maize or garden, and expand into other ventures to catalyse revenue generation. A handful of SMEs also reported purchasing inputs on credit from firms to maintain liquidity.

### 3.5 Challenges Retaining Customer Base

SMEs had also identified the pressure to provide discounts to their farmers, thereby keeping up with competition, as the greatest challenge in retaining customers. Strategic pricing seems to be at the core of this barrier, as there were constant fluctuations within the agriculture sector with some agro-dealers being better poised to competitively price their goods than others. Distance from the customer, mostly rural farmers, complicated retention and the provision of extension services especially due to the high cost of transportation. In addition, distance from the customer made it difficult to provide transportation services, which rurally placed farmers may have preferred when purchasing goods or inputs.

### 3.6 Challenges with Staff Capacity and Recruitment

Of the SMEs who identified challenges with their staff, the general concerns were related to under performance and lackadaisical behaviour, such as consistent tardiness. With regards to capacity, SMEs identified the dearth in working knowledge within the agricultural sector as one of the biggest challenge. Most try to combat this with informal trainings, teaching staff basic knowledge of the respective business' products and services. SMEs also noted specific recruitment challenges in finding qualified staff with relevant experience in agriculture. These enterprises struggled to afford the salaries often requested by skilled hires, and at times compromised with inexperienced staff by offering lower salaries.

## 4.0 Business Development Service Provision Opportunities

### 4.1 The Current State of Service Provision

Table 4.1 indicates the proportion of SMEs who accessed business (technical) advice. It was noted that 73 percent indicated that they accessed business (technical) advice from various organizations, while 27 percent stated they did not access any form of business (technical) advice from any organization.

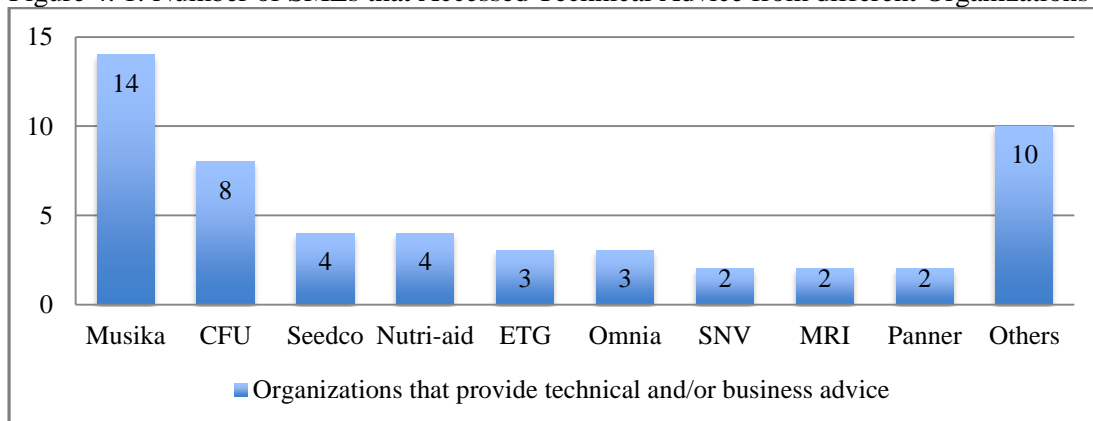
Table 4. 1: Access Business (Technical) Advice

	Number	Percent
Yes	22	73%
No	8	27%
Total	30	100%

Source: SME survey, 2016

On the other hand, figure 4.1 shows the number of SMEs that indicated accessing technical and/or business advice from various organizations. It should be noted, however, that most of the SMEs stated that they had received advice from more than one organization. Some of the organizations listed included: ZEMA, Zamseed, Cropserve, Farmserve, Hybrid, Zambian National Farmers Union (ZNFU), Business Development Services Africa (BDSA), International Labour Organization (ILO), Monsanto, DACO, Government Ministries, Osho, Olmac, World Vision, Agri-focus, M and L Consulting.

Figure 4. 1: Number of SMEs that Accessed Technical Advice from different Organizations



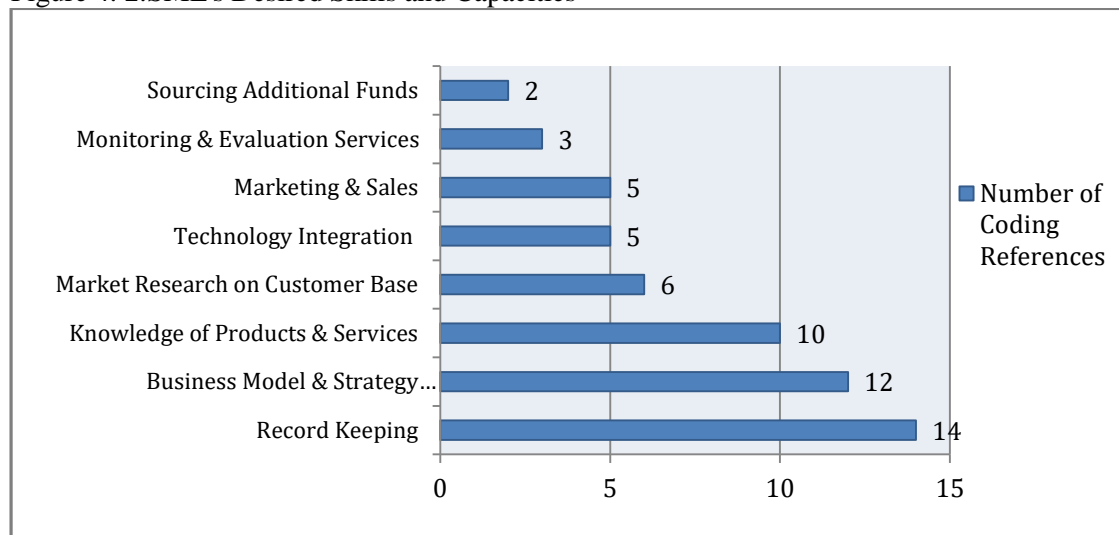
Source: SME survey, 2016

### 4.2 Demand for Capacity Building

SME participants also identified a range of skills and capacities that they felt that they needed in order to help their businesses. Most respondents requested record keeping

workshops, business model and strategy development, and new and existing product and services trainings to improve their operations. Figure 4.2 depicts the full range of skill or capacity gaps that the SMEs identified within their businesses. It was noted that 47% of the SMEs felt a need to be trained in record management, and it underscores this challenge as key in enhancing SMEs’ operations.

Figure 4. 2:SME's Desired Skills and Capacities



Source: SME survey, 2016

Interestingly, 93 percent of the SMEs were willing to pay to acquire an extra skill or capacity that may help them in the running their businesses.

## 5.0 Study Limitations

### 5.1 Survey Length

Given that the survey was long and took three hours to administer to one SME, some respondents complained about the length of the questionnaire and that it took up much of their time.

### 5.2 Survey Complexity

The survey was also very technical in nature and at times asked very specific questions about an owner’s business. As such, some respondents indicated misunderstanding when answering the questions. During analysis, it was also discovered that SMEs contradicted themselves in some areas which indicated a misunderstanding and required follow up.

### 5.3 Sample Size

The study took measures to choose a random, representative sample of rural SME agribusinesses by selecting ones across variations such as geography, business model and product and service offerings. However, the number of SMEs interviewed (30 total) was still a relatively small number with regards to the perceived total number of rural agricultural SMEs in Zambia<sup>5</sup>.

### 5.4 Financial Records

Some of the SMEs did not keep consistent financial records every year. Therefore, it was difficult for those that were not keeping records to provide us with data around revenue, costs and cash flow from 2014 onwards.

### 5.5 Logistical Challenges

It was time consuming to reach some SMEs in rural areas due to poor road network and bad weather. The SMEs were also located far apart, which increased operational costs. This caused delays in the team's arrival and the start of interviews, which potentially took up much of the interviewee's time and resulting in impatience and brevity in answering the long questionnaire.

### 5.6 The Meaning of "Qualified"

When assessing the criteria that SMEs used to hire their management staff, although it was not specified, qualified was assumed to mean agricultural qualifications and being knowledgeable.

### 5.7 The Survey Was Not Pre-tested in the Field Due to Time Limitations

Due to the delay in signing the terms of reference, the data collection period was shortened to only one week, leaving no time for testing of the survey.

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<sup>5</sup> The actual number of rural SME agribusinesses is unknown due to a lack of data

## 9.0 Conclusion

From the study, numerous lessons were learned with regards to the success factors of privately run rural SME agribusiness, the challenges they faced, and the opportunities that would assist them to scale and grow. A number of factors that might determine success for an SME stood out: having a business model with other revenue streams or out grower schemes, provision of extension services and/or training to farmers, working with more than one buyer, receiving financing from off-takers to supply inputs on credit to the farmer, using specific criteria to hire management staff versus hiring based on family and friend ties, having a management board in place, keeping a sophisticated record keeping system (more than just three basic records), developing a business plan before starting the business, having at least five years of experience in the business sector, restricting the number of sources of finance for the business, and owning a business truck. On the other hand, the main challenges SMEs faced included: coordinating sales outlets, keeping records, accessing finance, retaining customer base due to competition and challenges with staff capacity. The study had also highlighted opportunities which could be exploited, and these included the provision of business development solutions centered around technical support for record keeping, business model and strategy development; farmers showed willingness to pay for such services.

The study had also shed light on the need to focus on working with and supporting SMEs that fell under the recommended criteria of success factors. However, no single factor of success served as a ‘silver bullet’ for identifying a successful SME. Instead it was through the demonstration of a combination of the success factors. Stakeholders such as Musika, WFP, BDSA and other relevant stakeholders should leverage the findings in this report to carry out business development activities in a financially sustainable way that treated the SMEs as partners rather than recipients.



## References

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Porter, M., and M. Kramer, Mark (2011). *Creating Shared Value*. Harvard Business Review. January-February sue.

## Appendix A: Defining Success with Revenue, Gross Margin and Growth Rate

Since the purpose of this study was to examine the commercial viability of these businesses, a focus was taken on financial viability when considering the type of indicators that could help define a successful company. A financially viable business was one that was able to recover its costs of operations while also returning a profit. The profit was also supposed to be a sufficient return for the business owner to meet the company's debt obligations. It was worthwhile to note that due to various reasons, it was decided not to include whether the business was able to meet its debt obligations with the profit it earned. The main reasons for this was due to the fact that the data would not have yielded the necessary insights. The particular data collected on debt obligations was intended to provide general information for the study, and did not identify exactly when the credit was taken out and what the outstanding balance was at the time of the interview. Therefore, the following indicators were used as a definition for a successful agricultural SME:

Table A 1: Indicators for Success

Indicator	Brackets	How it was Calculated
Annual Revenue	<b>1,000,000-5,000,000 ZMW</b> <b>500,000-1,000,000 ZMW</b> 100,000-500,000 ZMW 25,000-100,000 ZMW	Average Annual Revenue over past 3 years (2013-2016) *
Gross Margin	<b>61-80%</b> <b>41-60%</b> <b>21-40%</b> 5-20%	Average Gross Margin over past 3 years (2013-2016) *  Gross Margin = Revenue – Cost of stock/Revenue
Sustainable Growth	<b>Sustainable</b> Unsustainable	Combination of Positive intermediate revenue growth rate (2013-2014) <u>and</u> Positive overall revenue growth rate (2013-2016) *  Overall revenue growth rate of between 0-200% (vs. negative rate or 200-900%) (2013-2016) *

\*2 years if just started in 2013/14

**The bold brackets indicate the variables used to define a successful company.**

The rationale behind using three (3) different indicators was the desire to capture all aspects of success. While annual revenue is a standard measure for income, gross margin was also used so as to include evidence of cost management by a company, accounting for the fact that some agricultural SMEs were not able to raise revenue due to external factors outside their control. And while annual revenue and gross margin captured the income and cost management of a business, a measurement for sustainable growth was also used so as to filter for the SMEs that were not just successful in one

year but had demonstrated ongoing success. Sustainable growth was calculated by requiring the existence of two sub-indicators. The first one was to identify stable (versus. turbulent) growth over the course of the three years. It was calculated by getting the intermediate revenue growth rate for the first year. If the growth rate at the beginning was negative while the overall growth rate was positive, this was deemed turbulent growth. The second sub-indicator was to identify a growth rate that fell within a reasonable parameter for healthy growth, as several of the companies reported growth rates of as much as 600-900 percent. The World Bank Enterprise survey data demonstrated that a typical SME growth rate across sectors is 0-15 percent (Kushnir, *et al.*, 2010). However, the growth rates for SMEs in this study were quite high, likely due to the dynamic nature of the agriculture sector. Therefore, a growth rate deemed as acceptable or ‘healthy’ was anywhere from 0-200 percent.

### **Appendix B: Definitions of Business Models**

It is important to note that every enumerator carried around an instruction manual to each interview with a full glossary of definitions in case the interviewee did not understand the meaning of some business models.

- **Aggregator (Commodity):** Any marketer, broker that combines the agricultural loads of multiple farmers in negotiating the selling of their agricultural commodities and other related products to buyers. The aggregation activity brings together farmers and buyers to achieve economies of scale.
- **Agro-dealer:** This is a business entity or person who deals in the buying or selling of agricultural inputs, products or services.
- **Out-grower scheme:** Also known as contract farming, can broadly be defined as binding arrangements through which a firm ensures its supply of agricultural products by individual or group of farmers (in most cases input supply by the buyer is the most binding arrangement).

### **Appendix C: An Overall Assessment of Rural SMEs**

#### **A1.0 Demographic and Firm Characteristics**

This section shows the main demographic and characteristic data for both the SME owners or managers and the firm itself. It is important to point out that 90 percent of the interviewees were the actual owners while 10 percent were a primary person in

charge such as a manager, due to the owner not being present or not being the primary person involved in the operations of the business. Table A1.1 further indicates that the majority (63 percent) of the respondents felt that the business was the major source of income. This implies that the private businesses do not only play a significant role in the livelihoods of low-income communities where they operate but also in the livelihoods of the business owners.

Table A1. 1: Demographic Data, all SMEs

Variable	Number	Percentage
<b>Job title of the Interviewee</b>		
Owner	27	90%
Primary Person in Charge	3	10%
Total	30	100%
<b>Interviewee Age</b>		
Average age of respondents	42	
20-30	2	7%
31-40	11	36%
41-50	14	47%
51-60	3	10%
Total	30	100%
<b>Sex of respondents</b>		
Male	24	80%
Female	6	20%
Total	30	100%
<b>Highest education attained by the business owner</b>		
Secondary (8-12)	14	47%
Tertiary	16	53%
Total	30	100%
<b>Length of time worked in the business sector in years</b>		
1-5	6	20
6-10	10	33
11-15	5	17
16-20	6	20
21-26	3	10
Totals	30	100
<b>Is the business the major source of income for the owner</b>		
Yes	19	63
No	11	37
Totals	30	100

As table A1.2 shows, almost half of the businesses (47 percent) had been running for 10 years or more while a third had been running for 5-10 years. The majority of the SMEs sold inputs and commodities (63 percent) and of that group most SMEs (69 percent) sold mainly inputs. Most businesses had 0-9 paid, full time employees, not including part time and seasonal workers.

Table A1. 2: Firm Characteristics, all SMEs

Variable	Number	Percentage
<b>Length of time Business Running</b>		
0-5 years	6	20%
5-10	10	30%
10+	14	47%
Total	30	100%
<b>Product and Service provision</b>		
Inputs only	2	7%
Inputs and Commodities only	19	63%
Inputs and Commodities and Non-agricultural commodities	7	23%
Inputs and Non-agricultural commodities	2	7%
Total	30	100%
<b>Business form</b>		
Sole proprietorship	24	80%
Partnership	4	13%
Corporation	1	3.5%
Other	1	3.5%
Total	30	100%
<b>Number of full-time employees</b>		
0-3	15	50%
4-9	10	33.3%
10-25	5	16.6%
Total	30	100%
<b>Number of paid part time and/or seasonal employees</b>		
0-3	13	43%
4-9	9	30%
10-13	6	20%
14-27	2	7%
Total	30	100%

### A1.2. Viable Business Models of SMEs

There were four distinct business models that came out of the SME responses to define the business. It's important to note that every business interviewed called itself at least an agro-dealer. However, the majority of the businesses were also engaged in other activities other than agro-dealership, see table A1.3.

Table A1. 3: Distribution of Business Models

Model	Number	percentage
Agro-dealer only	2	7%
Agro-dealer / Aggregator	12	40%
Out-grower scheme Agro-dealer / Aggregator	3	10%
Agro-dealer or Agro-dealer / Aggregator with Other Revenue Stream <sup>6</sup>	13	43%
Total	30	100%

### A1.3 Commercial Linkages

Respondents were also asked about their perceived economic, environmental, and

<sup>6</sup> Other revenue includes both agricultural and non-agricultural products and services such as groceries, transportation, photographing services, hardware, bicycles, solar systems, construction, chicken rearing, pig rearing, animal feed and crop farming

social impact on the community at large, the responses of which are detailed in table A1.4. Overall, 57 percent of agricultural SMEs interviewed specified that they served customers that included low-income market segments.

Table A1. 4: Impact on Community as Identified by SMEs

Economic Impact	Social Impact	Environmental Impact
Proximity to community, allowing for transport savings; Offering affordable inputs; Encouraging clients to invest in farm as a business;	Education for community on agriculture; Financial support for community events (funerals)	Training farmers on proper use of chemicals; Support of conservation farming methods

As conveyed through survey responses, most respondents felt that their economic impact was the most noteworthy, indicating that their proximity to the community as a means of helping smallholder farmers save on transport when accessing inputs. When SMEs were asked about their greatest perceived impact on smallholder farmers specifically, two-thirds cited easier market access by farmers and enhanced agricultural knowledge.

Table A1. 5: Distribution of Aggregators Working with Firm

	Count	Percentage
SMEs working with only one firm	6	24%
SMEs working with <i>more than one</i> firm	19	76%
Total	25	100%

Table A1. 6: Support from SMEs to Create Linkages with Farmers

Guaranteed Funds from Firm to Purchase on Credit from Farmer, Only Aggregators		
	Count	Percentage
Received funds from off-takers to purchase on credit from farmers	1	4%
Did not receive funds from off-takers to purchase on credit from farmers	24	96%
Total	25	100%
Inputs supplied by firms on credit to SMEs		
Received finance from off-takers to supply inputs on credit to farmers	6	20%
Did not receive finance from off-takers to supply inputs on credit to farmers	24	80%
Total	30	100%

## A1.4 Management Performance

Table A1. 7: Criteria to Hire Management Team

	Number	Percentage
Specific criteria for hiring	16	53%
Unspecific criteria for hiring	14	47%
Total	30	100%

Table A1. 8: Performance Management for Managers

	Number	Percentage
Use of formal methods <sup>7</sup>	19	73%
Use of informal methods <sup>8</sup>	7	27%
Total	26	100%

Table A1. 9: Performance Management Methods for Sales Representatives

	Number	Percentage
Use of Sales records	10	38%
Use of Stock records	5	17%
Use of Sales and stock records	5	17%
Use of Other records	8	28%
	28	100%

Table A1. 10: Challenges with Staff Capacity

	Number	Percentage
Challenges with capacity	19	63%
No challenges with capacity	11	37%
Totals	30	100%

Table A1. 11: Do staff have Sufficient Agricultural Knowledge

	Number	Percentage
Yes	12	40%
No	18	60%
Total	30	100%

## A1.5 Scalability and Sustainability

### A1.5.1 Business Mind Set

It was learnt that 73 percent of SMEs had accessed business (technical) advice from various organizations, whilst 27 percent did not. However, even of those that had accessed business advice from various organizations, 55 percent still wished they could keep more records but needed the capacity to do so.

With regards to business plans, over 60 percent of SMEs reported having implemented one. It was also noted that 83 percent of SMEs who did not have a business plans were in the process of developing one. Interestingly, SMEs from Northern Province had the

<sup>7</sup> Formal assessment involved checking of reports and reconciliations, looking through cash flows and assessing the profitability or overall performance of the business.

<sup>8</sup> Informal assessment was deemed to involve simple observations by managers, verbal instructions, and close supervision and how well a manager judges that staff is following instructions.

fewest reported business plans, with only 33 percent of SMEs with an implemented plan.

Table A1. 12: Status of Business Plans

Response	Count	Percentage
Yes	15	50%
Yes, but it's outdated	3	10%
No	2	7%
It's being developed, but is not implemented	10	33%
Total	30	100%

Table A1. 13: Marketing Methods

Method	Explanation	Percentage
Extension	Sensitization meetings; farmer trainings on field demo plots; and product knowledge trainings.	70%
Leaflets	Distribute flyers and posters on agricultural products sold by the business	27%
Promotions	Discounts to bulk orders; give out t-shirts, caps and other merchandise	73%
Radio	Advertise products sold by SMEs	43%
Other	Includes delivery services; verbal advertising; selling on credit to loyal customers; keeping good customer relations.	37%

#### A1.5.2 Financial Inclusion

The table A1.14 below shows the distribution of the number of sources of finance that SMEs used.

Table A1. 14: Number of Sources of Finance

	Number	Percentage
No source of finance	2	6%
One source of finance	14	47%
More than one source of finance	14	47%
Total	30	100%

Of the SMEs that accessed only one source of finance, 57 percent used their own funds. Another 14 percent used community savings groups and only 7 percent was attributed to family, buying on credit, government or an investor. SMEs were also specifically asked what sources of finance they started their business with. The majority (77 percent) of the businesses started their business with only one source, and of that group 87 percent started their business with personal finances. Those that started their business with funds from family, investors and grants from NGOs, represented a much smaller percentage of the sample.

For SMEs who accessed more than one source of finance, the other sources mentioned were from family and friends, Citizens Economic Empowerment Commission (CEEC), NGOs (Agri Focus) and Seed Companies such as MRI, Seedco, Pioneer and Zamseed. Of all SMEs, about 13 percent accessed loans from community savings groups.



Table A1. 15: Owns a Business Truck

	Number	Percentage
Owns a business truck	13	43%
Doesn't own a business truck	17	57%
Total	30	100%

### A1.5.3 Electronic Payment

When asked about the business' use of electronic payment, specifically mobile money, Zoono, electronic banking, or some other form, 77 percent of SMEs reported using at least one. SMEs tended to use Zoono (57 percent) or Mobile Money (53 percent) over Internet banking (46 percent), see table A1.16.

Table A1. 16: Number of SMEs using Electronic Payment

	Number	Percent
<b>Zoono</b>	17	57%
<b>Mobile Money</b>	16	53%
<b>Electronic Banking</b>	13	46%

Of the SMEs utilizing e-payment, 74 percent of respondents were using 2 or more forms. Of note, the SMEs in Southern Province stood out as having the lowest proportion of SMEs using Zoono (17 percent of total) and Mobile Money (33 percent) as compared to SMEs in the other three Provinces covered in the study: Northern, Central, and Western.

Table A1. 17: Breakdown of E-payment Usage by SMEs

	Number	Percent
<b>Paying Suppliers</b>	13	57%
<i>Out of Total</i>	23	100%
<b>Paying Staff</b>	8	35%
<i>Out of Total</i>	23	100%
<b>Savings</b>	8	35%
<i>Out of Total</i>	23	100%
<b>Receiving Payment from Customers</b>	18	78%
<i>Out of Total</i>	23	100%

Overwhelmingly, SMEs were using e-payment to receive payment from their customers, see table A1.17. For instance, 89 percent SMEs in Western Province were using e-payment to receive funds from customers, as compared to 75 percent in Central, and 33 percent in both Northern and Southern Provinces.