Stop Giving It Away

Make Markets Work for Agri-SMEs

THE CORE PROBLEM

For decades, BDS in agribusiness has meant free training, one-size-fits-all workshops, and donor-funded outputs measured in headcount. The result? A market that never formed. **When services cost nothing, they are valued as nothing** and providers have little incentive to deliver high quality services.

AMEA COST SHARE PILOT

AMEA's Cost Share Pilot (funded by AGRA) offers a different proposition: enable service providers to source the enterprises and enterprises to co-invest in their own growth, which means the providers are accountable to outcomes that actually matter. In Phase 1 AMEA asked six of the leading BDS Providers in Uganda to deliver services to 24 SMEs up to a value of $2,500 where at least 20% was paid by the SME. This was proposed based on ISF Advisors research which showed that an average cost share of 17% was sufficient to ensure SMEs had skin in the game, and this significantly improved outcomes. Phase 1 also indicated that this approach does deliver with the following results:

81% Had never accessed BDS before

100% Satisfaction rate with cost-share model

88% Willing to pay for practical coaching

56% Reported greatly improved performance

The pilot found that **75%** of Agri-SMEs cited a lack of trusted providers as their primary barrier - not price

THE INCENTIVE ARCHITECTURE

Aligning What Providers Earn With What Enterprises Gain

The BDS Market is broken and fails to deliver for Agri-SMEs. A cost-share model addresses this market failure by setting incentives that run in both directions. Providers must earn more by delivering better - and enterprises must value the service enough to protect their co-investment. Here is what we learnt from Phase 1 on how to structure the BDS Market:

For BDS Providers

1. **Outcome-linked fees**
   Release the subsidy in two tranches — 50% at delivery, 50% upon verified enterprise improvement.
2. **Client selection rights**
   Allow providers to choose the enterprises they work with. Forced pairings destroy accountability on both sides.
3. **Relationship building**
   This approach encourages BDS Providers to engage enterprises as clients which has greater potential to deliver recurring business.

For Agri-SMEs

1. **Skin-in-the-game co-payment**
   Even a 10% cash or in-kind contribution changes the dynamic - enterprises attend, engage, and apply learning when they have invested.
2. **Needs-led service selection**
   Let enterprises choose services from a menu based on a comprehensive diagnostic. Top needs in the pilot were business planning (94%), record-keeping (81%), finance access (75%).
3. **Progressive Unlocking**
   Enterprises that demonstrate improvement unlock additional and higher-value services. However as enterprises grow the subsidy rate should reduce.

A SEGMENTATION FRAMEWORK

We asked participating enterprises and BDS Providers to think about how a scaled up Cost Share Facility could work in practice. Segmenting the market and tailoring the approach was considered a key element to a scale up.

Not all Agri-SMEs are the same. A cooperative of 30 smallholder farmers and a privately registered agri-processor with a decade of operations face fundamentally different constraints. A single co-payment rate applied across the board is both inequitable and ineffective.

The following segmentation framework is presented for debate:

TIER 1 · EMERGING	TIER 2 · GROWING	TIER 3 · ESTABLISHED
→ Operating under 3 years	→ 3-5 years in operation	→ 5+ years operational track record
→ Production or early trade focus	→ Agri-processing & value addition	→ Multiple value-chain activities
→ Informal records, no bank access	→ 6-10 employees, some formality	→ Formal accounts, export-ready
→ Monthly sales below UGX 5M	→ Monthly sales UGX 5M-50M	→ Monthly sales above UGX 50M
→ Cooperatives / farmer groups	→ Ltd. companies, partnerships	→ Commercial agribusiness
Co-payment rate: 10-20%	**Co-payment rate: 30-40%**	**Co-payment rate: 50-60%**

Co-payment rates are indicative and should be calibrated to local market conditions. In-kind contributions (space, equipment) should count toward the enterprise co-payment where cash-flow is genuinely constrained — 44% of pilot] participants preferred in-kind arrangements.

If we accept segmentation as good practice, and we should, then the following **DESIGN PRINCIPLES** that BDS Providers and Enterprises recommended should also apply.

1. **Assessment Before Allocation** Use a structured diagnostic to classify enterprises before assigning providers. Generic cohorts produce generic outcomes. Segmentation is not bureaucracy — it is quality control.

2. **Relationship Over Transaction** Shift from one-off training events to sustained mentorship relationships. The most durable gains in the pilot came from providers who maintained regular follow-up contact, not those who delivered the most sessions.

3. **Finance as the North Star** Align BDS curricula with commercial bank requirements from day one. Bankability - clean records, separated accounts, documented cash-flows — should be the primary measurable outcome for Tiers 1 and 2.

4. **Hybrid Delivery, Rural-Aware** Combine in-person coaching with digital follow-up, but design for low connectivity. Cloud accounting tools like QuickBooks are viable only where internet access can be guaranteed or offline modes fully leveraged.

The Market Can Work - If We Design It To.

The AMEA pilot demonstrates feasibility. The next step is phase 2 and we encourage other projects to share their approaches so we build the evidence together. This can lead to large-scale BDS Cost Share Facilities being designed to support hundreds of enterprises. Programme designers, donors, and governments have the evidence they need to move.