

**Department for  
International Development**

**AMKA, Tanzania: Export Market  
Development Services for SMEs**

*A Case Study on  
Business Development Services for SMEs*

by

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## 1. INTRODUCTION

AMKA (the Swahili word for ‘awareness’ or ‘awaken’) is a Tanzanian NGO specialising in export- and marketing-oriented business development services (BDS) to small and medium sized enterprises (SMEs) in Tanzania. Its origins lie in an export development programme developed by Traidcraft Exchange (TX), a UK based “fair trade” promotion NGO, which has worked with Tanzanian enterprises since 1987. On the basis of this work, AMKA was formed in 1994. Its goal<sup>1</sup> is to:

*Increase the incomes and numbers of Tanzanians (employees and/or producers) involved in exports...[and] increase the value of agricultural output in Tanzania via exports...*

In pursuit of this goal, AMKA undertakes a range of activities targeting the SME sector. These form a complementary market/export-focused portfolio of services and can essentially be divided into two categories: training and advisory services; and trade promotion and intermediary services.

The rationale for and significance of AMKA stems from three related arguments:

- in an era of increasing global market liberalisation, developing economies need to encourage more outward-looking, market-oriented behaviour among SMEs;
- while the overall macro framework for export development is of paramount importance, this is a necessary but not in itself sufficient step to stimulate enhanced SME performance in export markets. Overcoming constraints - such as inadequate networks and asymmetrical information - requires *active* intervention; and
- active support based around principles of *fair trade*<sup>2</sup> is more likely to have a positive impact on poorer and more disadvantaged groups

This case study examines AMKA against the preliminary framework of good practice principles agreed by the Committee of Donor Agencies for Small Enterprise Development (1). It provides some detail on AMKA operations but focuses on the issues emerging from AMKA’s experience which are of wider interest. Its main objective is to identify key lessons and principles of good practice in BDS and, where possible, benchmark performance indicators. The case is structured in five parts. Sections 2, 3 and 4 analyse AMKA’s development in relation, respectively, to the organisation, its services and its clients. Within each section, the case addresses:

⇒ The current situation - a brief description of AMKA now;

⇒ Positive factors - reasons for the current situation and lessons stemming from them;

⇒ Challenges - key issues and problems which need to be addressed.

Section 5 summarises the main conclusions to come from the case and the implications for BDS more widely. Appendix I contains some relevant information on the Tanzanian economic context; Appendix II specifies AMKA’s key clients; and Appendix III assesses AMKA’s impact in detail.

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<sup>1</sup> Quoted from Department for International Development Project Memorandum, July 1995.

<sup>2</sup> Fair trade generally means trading relations which aim to treat key stakeholders - employees, owner-managers, buyers etc. - in a way which is fairer than in “normal” commercial arrangements

## 2. THE ORGANISATION

### 2.1 Current Situation

The development of indigenous institutional capacity has been a key priority for AMKA and a crucial element of donor support. Three dimensions of institutional capacity are examined here:

- Organisational capacity: the structure of the organisation, its people, culture and strategies;
- Managerial capacity: AMKA's capability to manage its operations, based on management systems; and
- Financial capacity: key sources and amounts of finance

#### 2.1 a) Organisational Capacity

Structure: AMKA operates from a modest, but well equipped, office in the capital, Dar es Salaam. Its operations are guided by a Board of Trustees, comprising of eight members, including two representatives of TX<sup>3</sup> and one of the donor (the Department for International Development [DFID]) with an observer status. The organisation is very flat, without separate divisions or departments for different services. The tasks and responsibilities of the general management have been laid down in the Project Memorandum. The division of responsibilities and tasks between the two senior staff members of the organisation is not strictly specified, but based on mutual agreement.

People: AMKA has three staff in total. Two are senior staff, one Managing Director (MD) and one Business Advisor (BA). The secretary has multiple roles (secretarial work, office management, computing, book-keeping, etc.). From the outset, staff development has been encouraged, predominantly through technical assistance by TX. The MD has considerable authority and experience. The qualifications and joint experience of the Board members appear to be well-suited to AMKA's objectives.

Culture: The most striking aspects of the culture of AMKA are: (i) a shared commitment to the values and mission of AMKA; (ii) a high degree of mutual respect and co-operation between the AMKA management, the trustees and the donor; and (iii) staff diligence. The dual aim of being both developmental and business-like is reflected in a culture that is more 'informal' than 'corporate' and more 'people-friendly' than 'business-like'.

Strategy: AMKA is currently at a strategic crossroads as it considers how best to pursue its main goal of improving marketing and export performance among SMEs. On the one hand, it may continue its current role of market facilitator, providing a mix of training and advisory and trade/intermediary services. On the other, it may split into a market *facilitator*, a not-for-profit organisation concentrating on developmental marketing services and technical assistance (AMKA Trust), and a market *player*, a commercial company that will buy and sell products originating from SMEs in local, regional and export markets (AMKA Trading). The debate on AMKA's future direction has not been concluded yet, but all stakeholders are participating in the process.

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<sup>3</sup> Recently the representation of TX has been changed to observer status; they will attend Board meetings as and when desired.

External relations: in its first four years AMKA has established with a credible reputation with government and with NGOs in Tanzania, with ATOs and other overseas buyers, and with its partner group of producers and intermediaries.

### **2.1 b) Managerial Capacity**

In addition to its critical human resource base - its people - AMKA's capacity and capability to manage its operations is based on its management systems. Elements of this system are the following:

Work plans: AMKA prepares detailed annual operational plans of activities. These plans include planned institutional development, purchases, client numbers, technical assistance by TX, product development, reporting, etc. On the basis of annual plans, the trustees approve annual budgets. Work plans are used as a framework for forward planning but do not restrict flexibility and innovation. Trustees and AMKA management share a prudent approach to growth and risk.

Time sheets: The Project Memorandum includes a detailed list of targets and time inputs of AMKA staff and TX support needed to achieve these targets. However, attempts to introduce time sheets have not yet been successful suggesting that AMKA is not fully aware of how its human resources are being used.

Client tracking/database: The system of recording the clients' profile, services assessed and impact on clients is still rather rudimentary.

Financial management: AMKA has basic financial systems in place in relation to overall funds. However, these do not allow any analysis of costs and revenues for specific services to be undertaken.

### **2.1 c) Financial capacity**

AMKA's main source of income is from one donor, DFID, who approved 4-year grant of \$557,053 in 1994 to help form the organisation<sup>4</sup> However, the conscious strategy of reducing dependency on one donor has been successful. Dependence on DFID grant funding has reduced from 94% in 1994/5 to 40% in 1997/8. Significant funds from other donors started to come into the organisation. The proportion of internally generated funds has increased from 5% in 1994/95 to 41% in 1997/98. Figure 1 provide evidence of consistent progress by AMKA towards reduced dependency on external funding mainly from funds generated through consultancy work for ATOs and charges to ATOs.

## **2.2 Positive Factors**

In a period of economic change in Tanzania, and in the face of considerable difficulties in its working environment, AMKA has succeeded not only in progressing from its initial start-up and development phases to (its current period) of consolidation, but also achieved most of its operational targets. Among its key institutional strengths are its good quality of staff, shared ownership of mission, good co-operation among stakeholders and growing financial and managerial autonomy. Three factors appear to have been important in helping AMKA to achieve its present position.

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<sup>4</sup> The Ashden Trust provided initial funds for a feasibility study and registration

### **2.2 a) Strong initial focus on institutional development**

From the outset, the institutional development of AMKA has been given considerable importance. AMKA has been viewed as more than a delivery mechanism for services, not least by itself, but also by its key donor (DFID) and its main partner and capacity-building resource, TX. DFID funding has been used as core funding to establish and run the organisation, including capital investment and funds for human development. Thus the development of a strong Board, good institutional relationships and an environment conducive to the development of people, products and systems has been encouraged.

### **2.2 b) Building on leadership and developing ownership**

AMKA staff are well qualified and have clear strengths. However, much of the success and drive for AMKA comes from the personality and experience of the MD<sup>5</sup>, with whom real ownership lies. He has created a working environment and management style that is appropriate for both AMKA's present mandate and the socio-cultural environment in Tanzania. AMKA's mission is shared among all key stakeholders; trustees play an active and effective role in the strategic guidance of AMKA and its staff; and the donor and external advisors are actively involved in strategic planning.

### **2.2 c) The role of external investment in the organisation**

AMKA was borne out of an existing base of activity developed by TX and TX has continued to play a major role AMKA's development. This intensive involvement from TX is sensible in a number of respects: it builds on the knowledge and networks TX had built up over several years; it allows AMKA to gain access to the alternative trade network and - possibly - to commercial buyers; and it provides continuity in developing skills and general capacity.

TX's role since AMKA's inception has changed. In the first two years capacity building (staff development, introduction to networks, service design, and administrative development) were to the fore. In the latter period the use of TX support has swung much more to market information, market research and trade facilitation; i.e. support from TX has moved to the provision of specific services and allowed AMKA to develop greater ownership over its direction. In general, the relationship between AMKA and TX has moved from dependence to a partnership among equals. Clearly, the relationship has been generally productive and the two parties have agreed to work with each other in the future (whatever the detailed funding arrangements).

While the institutional development relationship between AMKA and TX has been useful, the scale of this support is certainly worthy of mention. From a total budget of US\$ 551,053, as much as US\$ 316,250 (more than 50%) was allocated to TX to provide intensive inputs to establish AMKA as an organisation, recruit trustees and staff, institute operational plans, office systems and management and financial controls, and provide training and consultancy support and market information. Not all of this is institutional development investment *per se*; some is related to ongoing service delivery. Moreover, the scale of support should decline as AMKA's capacity is raised. Also, obviously TX - located in a high-income country - has a relatively more expensive cost base than AMKA and this distorts relative contributions. However, for an organisation of three people with eighteen regular clients the *worth* of such a relatively high investment in technical assistance can certainly be questioned.

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<sup>5</sup> Stephen Matee whose background is in marketing and exporting

**Figure 1: AMKA funding\*; 1994/95-97/98**

	1994-95		1995-96		1996-97		1997-98	
	\$	%	\$	%	\$	%	\$	%
<b>EXTERNAL FUNDING</b>								
Grants from DFID	75,000	94	57,500	81	48,000	57	27,750	40
Donations (other donors)	870	1	3,040	4	2,070	24	13,450	19
Sub-total grants	75,870	95	60,540	86	50,070	81	41,200	59
<b>INTERNALLY-GENERATED FUNDS</b>								
Producer charges/fees	1,140	1	4,570	6	7,440	9	4,480	6
Other income (office support)	110	0	630	1	4,460	5	630	1
ATO charges	2,760	3	3,110	4	1,440	2	8,640	12
Consultancy	0	0	1,810	3	2,130	3	14,650	21
Bank interest	60	0	55	0	270	0	220	0
Sub-total internal funds	4,070	5	10,175	14	15,740	19	28,620	41
<b>TOTAL</b>	<b>79,940</b>	<b>100</b>	<b>70,715</b>	<b>100</b>	<b>65,810</b>	<b>100</b>	<b>69,820</b>	<b>100</b>

\* Average exchange rates used to calculate dollar equivalent figures

## 2.3 Challenges

In order to further develop as an organisation, AMKA need to address a number of challenges.

### 2.3 a) Key tensions: development versus commerce; active versus facilitator

AMKA's current approach is characterised by two underpinning tensions.

1. On the one hand, an approach built on fair trade principles, poverty alleviation objectives and other developmental and ideological considerations which - it is argued - leads to clients who are generally from producer groups, co-operatives and parastatals (with many poor employees/members) and to partnerships with ATOs; on the other, an approach which seeks to work with those with most business potential - perhaps individually-owned SMEs and commercial buyers who may be seen as less close to the poor.
2. On the one hand, acting as a facilitating organisation working with market-based organisations where the chances of financial sustainability are limited and on the other being a direct active player in the market, buying, selling and competing with other organisations where there may exist a greater opportunity for at higher levels of financial sustainability.

These dilemmas pose considerable challenges. First, how to achieve a strategic balance between developmental and promotional work in those areas where market mechanisms are inadequate or have failed and maximising aggregate outreach through working with existing SMEs with greatest business potential, and to do so within a context of achieving higher levels of financial sustainability. Second, to what extent can AMKA play the role of market player (a role it does not play currently)? The experiences of most NGOs who have gone down this route has not been positive. Furthermore, even if it can develop as a market player, to what extent does this compromise its wider development role? Against this, many of the existing,

supposedly market structures (especially intermediaries) are clearly dysfunctional and it is highly questionable if they can ever be “facilitated” to improve performance.

The proposed split of AMKA into a developmental/promotional arm and a direct trading arm is one approach to resolving these tensions.

### **2.3 b) Strengthening internal systems**

The present management and control systems include a staff manual, concentrating on policy development and human resource management. However, the manual does not cover the conduct of day-to-day operations and it has not been regularly reviewed, suggesting that it is not a key prompt for the way operations are conducted. If AMKA grows further, it needs an updated operations manual setting out approved processes, layouts, checks etc., including dealing with buyers and suppliers, formalising the process of recording the ‘institutional memory’ of AMKA that is presently in the heads of the staff, especially the MD. Of course, there are dangers in seeking to overly-formalise an essentially small, entrepreneurial organisation. Nonetheless, without this, institutional learning is diminished.

Some limitations in the current systems are related to clients and the market (see page 12) but of equal concern is the relative paucity of information on costs and revenues. AMKA primarily sells services to SMEs for a fee. This is absolutely critical and defines the development of a close and transactional relationship with its clients. Present systems, however, do not allow for rigorous monitoring of the costs of the different services being delivered. There is no record keeping of time spent on direct revenue generating activities and non-fee earning activities. Also, the time spent by AMKA and TX staff in the preparation and conduct of workshops, seminars, trade fair participation and field visits is not priced. The challenge clearly is to think more about what services can be delivered at what costs and for what clients. Improved internal systems could provide AMKA with a bottom-line measure of its performance, reinforcing the drive towards greater sustainability and business-like behaviour.

Many of the present shortcomings are probably inevitable in a small (and geographically-stretched) organisation. Lack of available time - to run the system and to introduce improvements - is a key factor. However, AMKA is aware of the dangers of simply accepting that *doing the job* should take precedence over developing and maintaining adequate systems for record keeping.

### **2.3 c) Widening the management base**

As with any small business or BDS organisation, a key strength of AMKA is also its weakness; namely that so much of the organisation is manifested in one person, the MD. AMKA is vulnerable because of the unique position of its MD. And like any small business, this raises a key concern over *succession*, especially given his possible retirement in the next few years. The possible establishment of AMKA Trading next to AMKA Trust emphasises further the importance of addressing this management issue.

### 3. THE SERVICES

#### 3.1 Current Situation

##### 3.1 a) The AMKA product offer

The objective of AMKA's export- and market-oriented approach is to improve business performance by increasing efficiency and turnover through improved access to new markets (domestic and foreign). The AMKA portfolio of services (see Figure 1) is focused on a specific niche of pre-export and on-going support to small-scale producers and intermediaries. The service range is effectively a complementary bundle of services aimed at facilitating the entire business process; production, marketing and the logistics of getting export produce to markets. This bundle comprises:

- Training and Advisory Services: Provision of training in small business development skills (e.g. marketing, quality control) and business planning for export. Training is delivered around specific products in a seminar/workshop environment. AMKA undertakes quarterly follow-up visits to all producers for, among other purposes, product development. Other technical assistance and consultancy services are provided according to specific requests.
- Trade Promotion and Intermediary Services: AMKA acts as a facilitator/broker between producers and buyers. It provides export market information, assistance to producers needing export facilities (communication; documentation; banking and shipping) and facilitates linkages between producers and alternative trade organisations (buyers). AMKA assist producers and intermediary organisations to participate in trade fairs and also provides ethical and quality standard audits of producers for external buyers and undertakes market research.

In reality also, AMKA regards buyers as its clients and provides services to them, including fees for products and market/product consultancy.

##### 3.1 b) Revenues and costs

Comparison of revenues against costs for different products is limited by the absence of in-house systems for measuring direct costs on products. However, from the range of products which AMKA offers to its clients, it is clear that there are few activities in which revenues from clients are greater than direct costs.

Training workshops and seminars: the costs for training workshops varies from \$3,200 for 15 participants to \$10,000 for 40 participants, excluding the preparatory inputs and time by AMKA staff and facilitators from TX. Considering that presently a fee of \$30 (Tsh 20,000) is charged per participant, this activity only recovers around 15% of direct costs. Internally generated funds from producer charges and fees have constituted, on average, 7% of the total budget during the last three years.

Trade fair participation: with respect to trade fair participation, AMKA relies heavily on grants from other donors, such as USAID and the Tanzania Gatsby Trust. Producers pay a token fee of \$75 (Tsh. 50,000), while the real cost is, on average, close to \$25,000 for an average of 14 participants. This implies a cost recovery rate of less than 5%.

Counselling and diagnostic health checks: “One-to-one” BDS (i.e. services delivered to SMEs individually during quarterly field visits) are provided free of charge. The present MIS does not allow reliable cost calculation for such services.

Consultancy: AMKA has realised a steady increase of internally generated funds from consultancies, mainly from ATOs, amounting to 21% of its overall income in 1997/98. Again, the existing MIS does not allow reliable real cost calculation for consultancy, although it clearly is generating a considerable surplus.

ATO charges: ATO charges are fees billed to alternative trading organisations for intermediary services carried out on their behalf (e.g. verifying adherence of producers to fair trade principles and follow-up on trade agreements). These charges have contributed increasingly to the internally generated funds (from 3% in 1994/95 to 12% in 1997/98).

Other services in AMKA’s portfolio, particularly when acting as a broker between producers and buyers, are essentially free; there is no fee or commission to producers for these services.

Overall, AMKA has not given a high priority to pricing its services. Most of its internally-generated revenue clearly derives either from consultancy services or charges to alternative trading organisations and not to the indigenous SME producers. However, it is becoming more aware of the need for more market-based pricing.

**Figure 2: Delivery of Key AMKA Services**

Service	Description	Number of clients
Business development workshops	Seven undertaken	82 producers, 10 intermediary organisations and 5 NGOs/government institutions
Trade fairs	Four organised	56 producers
Follow-up visits	Quarterly to provide one-to-one advisory and counselling services	To all clients (currently 18)
Support services	Trouble-shooting, monitoring fair trade practices, introduction of new suppliers, co-ordination of producers	-
Market research	Primary and secondary data collected on the market potential of Tanzanian products in international markets	-

**3.1 c) Product development and client-product mix**

AMKA’s products have developed with the support of TX. Currently, these are usually not differentiated according to specific client need but tend to be relatively generalised. Similarly, AMKA’s practice is to provide a range of comprehensive services to almost all clients; thus it has an in-depth relationship with a relatively small client base.

**3.1 d) The competitive environment**

There are few organisations that provide the kind of services that AMKA is offering. Those that might be considered competitors include the Board of External Trade (BET), FAIDA, a donor project funded by the Netherlands government and the Tanzania Business Centre (TBC), a USAID funded project. Presently there is not a ‘level playing field’ comprising solely of service providers and consumers; donor interventions distort the market with subsidised projects that affect continuity and supplier and consumer expectations and actions.

“Demand” for AMKA’s subsidised services remains strong, mainly because of the effectiveness of its service delivery and its good contacts with partners. There are requests from clients for AMKA to expand services further. There are also plans to extend AMKA’s activities into Uganda, but only on a project-by-project basis.

Although there are differences between AMKA and its three competitors in approach, intended beneficiaries, geographical coverage and available expertise, there is a great deal of overlap in the provision of similar services; both training and advisory services; as well as trade promotion and intermediary services. FAIDA and TBC in particular have considerably greater access to (grant) funds and specialised expertise than AMKA. The relationship between AMKA and FAIDA and TBC has been lukewarm; with BET a much more constructive relationship has been built. In essence all three organisations are potential competitors, especially as it is likely that they will sooner or later be pressured to aim for higher levels of financial sustainability.

### **3.1 e) Product marketing**

Training and other products are marketed through newspaper advertising, electronic media (radio and TV), the international newsletter of TX, promotional leaflets distributed in the UK, trade fair participation and a promotion catalogue. It is clear that AMKA’s products and services are well known by its present partners, but less so by other SMEs, commercial service providers, and other potential clients in the public and private sector. The challenge for AMKA is to market its present and future services more aggressively to attract a much broader clientele.

### **3.2 Positive factors**

Through its activities, AMKA has established a good reputation and strong respect among its partners. Its array of services are clearly wanted not only by existing clients but also by others. Its approach of developing close linkages with a relatively small number of key partner institutions and providing a wide range of services to them has brought success in a number of instances.

### **3.3 Challenges**

A range of challenges face AMKA in relation to its services, all of which are related directly to cost recovery.

#### **3.3 a) A more aggressive approach towards pricing**

While AMKA’s approach to pricing is evolving, there is some evidence to suggest that clients will pay a higher price for quality services. For example, producers participating in other trade fairs are willing and able to pay much more than is currently being charged. Just how much the market will bear for different services is not clear currently. Where no charge is made to producers for services, the rationale needs to be explicit.

#### **3.3 b) Improving financial information systems**

Currently, AMKA does not really know the contribution or level of subsidy from different services. Consequently, it does not know where resources should be allocated. For example, considerable time and money is spent on one-to-one advisory services for producers on a multitude of issues at no cost; at the very least, the scale of subsidies here should be made clear.

### **3.3 c) Defining and marketing products**

The current approach to products does not define clearly what products are, especially the one-to-one services. Currently, AMKA does not seek to break down its different types of expertise into services which may have a wider appeal rather than just its core group of partners; i.e. it seeks to provide a broad range of support for a small number of clients. While seeking to respond to the needs of clients is an important *instinct*, ultimately, AMKA has to know where its core competence lies and stick with this. Similarly, in an increasingly market-driven environment, AMKA has also to position itself in relation to the “offer” from other organisations.

### **3.3 d) Scaling-up: clarifying subsidies for services**

AMKA currently embrace a variety of services, some of which have more revenue-earning potential than others, and a multiplicity of development and business objectives. Within all this, there does appear to scope for higher fees in some types of services (especially, should it choose to enter this market, charging commissions as a broker). Currently, however, most services to producers are subsidised to a level of over 80% and AMKA’s higher level of internally-generated funds comes from the higher margins it can charge for services to ATOs. In order for AMKA to scale-up, therefore, either the scale of funding increases and/or it focuses its efforts on products and clients where it can earn revenue. There are three core subsidy-related issues therefore where further clarification may be helpful:

1. Which services warrant subsidies, why and of how much?
2. If subsidies are justified for some services, for how long should they be offered to particular clients? Unless it is envisaged that producers/SMEs should benefit from permanent subsidy (provided by external funds), at some point client-AMKA and client-buyer relationships should graduate to zero subsidy.
3. Which services should be offered at a commercial rate (direct cost plus a margin)?

### **3.3 e) Learning (appropriately) from regional and overseas experiences**

Interesting developments are taking place in the field of small producer support. Imaginative and promising approaches by business development services providers to achieve scale and cost-effectiveness have proliferated in recent years. AMKA management and trustees appear not to be fully aware of all these developments. It may be helpful for AMKA to develop mechanisms to learn from and capitalise more on the results of innovations and experiments elsewhere.

## **4. THE CLIENTS**

### **4.1 Current situation**

AMKA maintains, to a limited extent, data on clients’ profiles, services delivered and impact. However, there is no systematic and comprehensive data base. The information below is therefore partly impressionistic.

#### **4.1 a) Identity: who are they?**

AMKA effectively works with two groups of clients; SMEs in Tanzania, and overseas buyers. AMKA’s clients are largely in two sectors; food-processing (non-farm) and handicraft production. The client base is very varied in terms of the structure of the organisation, the

number of their employees, their activities and main products (see Appendix II). The size of client enterprises ranges from 4 to 446 employees. Client enterprises have a variety of ownership structures; producer groups (groups of self-employed people), co-operative societies, privately limited companies, parastatals, and associations. Not all owner-managers of enterprises receiving AMKA support are themselves poor, but many employees of producers are from poor rural and urban communities.

Initially AMKA focused on developing intermediaries (co-operatives and associations who could, in turn, deliver services to producers) to improve service to producers. However, primarily because of the weakness of these intermediaries and the difficulty in raising their capacity, AMKA has moved consciously towards providing more services directly to producers itself.

#### **4.1 b) Outreach: how many?**

AMKA's audits do not allow a precise assessment of its outreach, particularly in terms of small scale producers. However, AMKA currently works with at least 18 clients, and has worked with up to 23, providing training, advisory services, logistical support and trade introductions. AMKA also works with 18 export buyers on a regular basis (providing trade introductions, contract management and advisory services), and has established contact with a further 100 buyers.

#### **4.1 c) Impact: what changes?**

Impact, though always important in aid-assisted situations, is especially important for an organisation such as AMKA where financial sustainability, specifically direct cost coverage from client fees, is relatively low and there has been no real attempt to cover costs of most services directly through fees. One justification for low financial sustainability might be high and sustainable impacts.

The Project Memorandum specifying DFID support for AMKA indicated a number of impact targets against which its performance could be measured. Of these data are available for the following:

- Change in revenues attributable to AMKA: against a target of \$700,000, AMKA has achieved estimated sales growth among its clients of \$1.1-1.2m.
- Change in number of SME clients reaching new markets: it is estimated that around three-quarters of AMKA's clients have reached new markets.
- Change in number of employees and producers: the number of permanent employees in AMKA-assisted SMEs actually fell by 437 jobs in the 4-year period against a target of a 10% increase. However, the number of self-employed producers benefiting from AMKA-stimulated sales grew by 43% on average or 749 self-employment opportunities (against a target of 12%).
- Change in real income of producers and employees: against a target of 10%, real income grew only by between 2% and 6%.

The above figures do need to be qualified.

- ⇒ in the absence of baseline data, the recent project evaluation (Appendix III has more details) relied upon respondent recall, and this is obviously subject to error.
- ⇒ wider events - especially the growing competition from liberalising markets - have impinged upon AMKA clients and distort the figures, especially those for employment. Isolating the influence of AMKA in this situation is problematic.
- ⇒ overall the issue of attribution is difficult to assess<sup>6</sup>, especially when the *line of causality* between intervention and effect is blurred. It might, for example, be argued that a more open trading regime would push people towards export. However, the other major impact complication - displacement - is of limited relevance for these export products.
- ⇒ the key indicator of additional sales gives a misleading figure of economic impact; a more accurate indicator would be value-added - essentially wages plus profits. There is considerable value-added in both the handicrafts and food products which AMKA deal with; it is likely that a high proportion of the additional sales (50-75%) is real value-added to the Tanzanian economy generally and to producers/SMEs directly. Taking into account multiplier effects, every dollar invested in the AMKA project may generate around \$2-3 in additional income.
- ⇒ It is too early to make any authoritative assessment of the sustainability of impacts. This depends crucially on the supplier-buyer relationship, the market performance of products and the ability of suppliers to continue to provide appropriate products.

#### **4.1 d) Gender issues**

Focus on gender issues is promoted by AMKA as part of its fair trade principles. Approximately 20-30% of client intermediaries employ women. Although women are specifically mentioned as direct beneficiaries of the project, the data available do not allow an estimate of female participation in producer groups, nor is it clear how pro-active AMKA is in pursuing this objective.

#### **4.2 Positive factors**

Overall, it is clear that AMKA has had a positive impact on the Tanzanian economy generally and on producers/SMEs specifically. Businesses were saved, others were introduced to exports for the first time, or had export sales increased. 1-2,000 individuals and households have benefited from increases in incomes and savings and created employment opportunities (mostly in the form of self-employed producers). AMKA has worked with some 18 buyers in 11 countries overseas, and it is likely that it has been instrumental in forging at least 40 relationships between different buyers and different producers. Although the impact on priority groups such as the poor cannot be quantified, it is likely that a considerable proportion of the producers in particular are from poor backgrounds and their incomes have risen as a result of AMKA's intervention.

#### **4.3 Challenges**

##### **4.3 a) Developing a client information system for AMKA's needs**

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<sup>6</sup> AMKA's own estimate of the additional sales generated through them is \$3.9m; AMKA's clients' put this figure at \$0.9m; the external evaluation estimated \$1.1-1.2m

For an organisation for whom impact data is so important, there are a number of weaknesses in the current system. Of the thirteen main targets in the Project Memorandum, the achievements for as many as eight could not be established by a recent evaluation team due to the lack of surveys conducted, weaknesses in company records, absence of reliable base-line data and flaws in financial record-keeping. There are many questions on present and potential clients of AMKA, to which no categorical answers can be given at present. For example: what are the basic characteristics of intermediary organisations and producers? Do client profiles (small-large, private-parastatal, etc.) affect their export performance? How can client information be used more effectively in product marketing and product development? What impact data would AMKA find useful for its own purposes?

#### **4.3 b) Developing a client information system for funding agencies**

As long as AMKA benefits from donor grants, it clearly has an obligation to be accountable for the wider impact of its activities. While AMKA may be mainly concerned about client fees and client feedback, donors would be more interested in the wider impact on intermediaries, producers and the backward linkage to agriculture. AMKA acknowledges the importance of measuring impact: the challenge now is to address *what* should be measured, *how* and *at what costs*.

#### **4.3 c) Deciding on criteria for client selection and geographical coverage**

AMKA faces some fundamental questions in relation to who it seeks to work with. The current client portfolio has been arrived at through an iterative process of trial and error. AMKA inherited clients from TX's earlier work in Tanzania, among which were a number of parastatals. Further selection of clients was predominantly based on adherence to fair trade practices (fair prices for producers, ethical business principles, and focus on poverty alleviation). Selection of clients through diagnostic work proved difficult during the first years. Among the key questions now confronting AMKA are:

- To what extent should clients be *self-selecting* or restricted by criteria such as fair trade practices or sector? Self-selection would allow certainly a greater opportunity to develop a demand-led process with prospective clients but this might be seen to be at the expense of other objectives.
- Should the focus be on new and start-up businesses - spreading outreach - or on existing enterprises who already have some export experience? AMKA seems to have had a greater impact in terms of turnover with organisations that had exported before than with organisations that had not. These organisations are not only larger but already had existing sustainable export relations with a number of ATOs and commercial organisations. Against this, if AMKA only works with existing players, to what extent is it extending services to previously-excluded sections of the economy?

## 5. CONCLUSIONS AND IMPLICATIONS

Since its formation in 1994, AMKA has established itself as a key resource for export -related services in Tanzania. In a period of difficult economic change, AMKA has achieved or nearly achieved almost all its targets. In particular, it has created significant export market opportunities for SMEs which have had a substantial impact on employees and producers. Furthermore, it appears to be developing even more significant new export linkages. From this experience, a number of specific achievements and lessons can be highlighted as well as more fundamental issues relating more broadly to BDS.

### 5.1 Achievements

AMKA's accomplishments can be seen at three levels:

1. The development of a strong institutional capacity: this is manifested, for example, in the high level of competence among staff; the tangible sense of ownership; and, the excellent networks it has created built on a solid reputation.
2. The development of growing financial autonomy: AMKA has built an institutional capacity that has reduced its dependence on external donor funding to less than 60%. Although the proportion of funds coming from SME fees is relatively small, diversifying away from donor funds is a notable achievement.
3. The development of significant positive impacts: impact analysis suggests that AMKA has started to make a real difference to the organisations with whom it has worked. Organisations have started or strengthened (mainly the latter) their exporting effort and, overall, jobs and incomes are increasing as a result of AMKA's work.

### 5.2 Lessons

AMKA is a comparatively young organisation and so it is premature to draw too many hard lessons from its work. Nonetheless, three main lessons do emerge from AMKA's experience which are of wider relevance to BDS organisations and which accord with key principles from the Donor Committee's guidelines.

1. The importance of being business-like: although originating from an NGO background, AMKA have developed a business-like way of working. The cost base has remained "tight" with only three staff (but financial analysis is weak); in a difficult context charges are being made for services (although perhaps not terribly high) to establish a transactional basis to relationships; and their actions are rooted in a firm understanding of client needs and market realities. Support from TX has been important in shaping this development.
2. Staying focused on key sectors: AMKA concentrates on two sectors only - food processing and handicrafts - and this has allowed it to develop a comprehensive view of these markets and the networks associated with them. Moreover it has developed close links with a relatively small number of clients. While AMKA could arguably be more focused in its range of services, it does know and understand its niche.
3. Benefiting from a participatory approach: the value of a participatory approach followed by all the key stakeholders here - such as AMKA, TX and DFID - is that there is a strong

sense of ownership within AMKA (which augurs well for longer-term sustainability) and a sound knowledge of clients situations leading to better services.

### 5.3 Issues

Three underlying issues remain unanswered from AMKA's experience to date.

#### Can export promotion services be offered in a cost-effective and sustainable manner?

Some export-related services do appear to be inherently expensive. For example, participating in trade promotion events and supplying information on export market trends (involving travel and communication) may be both be important yet both require considerable resources to deliver them and - on the evidence of AMKA's experience - there seems little chance of them approaching financial sustainability. If there are relatively cheap ways of providing these services this case has not shown them. There are two competing arguments here to which no clear answer emerges. First, it is argued that the obstacles to export and trade - networks and information at a local and international level - are so large that only substantial and continued external investments can overcome them. Moreover, the potential benefits from access to lucrative markets make high costs justifiable. Second, it is argued that the focus on exports is actually inappropriate; small enterprises develop through learning and growing in local and then national markets before the export challenge is taken up; by encouraging businesses to short-circuit the normal business development and learning process and go straight to exports they are left dependent on subsidy-supported services.

#### Facilitator or player: should BDS organisations move beyond support?

Although, currently AMKA has not set up its own trading arm, this is their preferred course of action and the reasons for this are perfectly clear. Knowing the market, with good contacts and appropriate skills and having been encouraged to think and work in a business-like way, setting up in business is in some ways a logical next step for BDS organisations. Indeed, AMKA's decision to work directly with producers rather than intermediary organisations (co-operatives and associations) because the intermediary structures were simply not working does provide a precedent of more active intervention. However, there are complicating factors here, not least the danger of distorting markets by intervening "unfairly", the extent to which other developmental objectives are sacrificed in the process; and the general experience of failure when NGOs have attempted to set up in business. Certainly, in some very competitive economies, it would be difficult to justify this step; in others - especially perhaps in Africa where economies are characteristically less efficient - it may be a more consistent, if still risky step to take. Even in this last scenario, involving the existing private sector or supporting a staff spin out may be lower risk options.

#### Can social and business objectives be married?

To some degree, every aid-funded intervention represents a union of social, economic and environmental objectives. However, in the case of AMKA, there is a very explicit pursuit of fair trade objectives. This may manifest itself in a number of ways, for example, in its approach and its relationships. Most important, it may manifest itself in terms of *who* should be worked with. A fair trade approach would tend to guide organisations to a particular form of client and often towards an ATO rather than a commercial buyer. An approach which aimed to be more demand-led would seek to be more open in choice of clients and buyers and let those with the most to offer emerge and take advantage of opportunities so that aggregate benefits are increased; social elements may then be attached to the relationship. In AMKA's

case there has certainly been a move towards the latter of these positions but it remains to be seen how effective are efforts to combine social and business objectives.

## **References**

(1) Committee of Donor Agencies for Small Enterprise Development (1998); *Business Development Services for SMEs: Preliminary Guidelines for Donor-Funded Interventions*

## **APPENDIX I: The Tanzanian Economic Context**

Tanzania is in the early stages of transition from a command economy, based on the socialist model for economic development, to a more market-based liberalised economy. The legacy of state ownership and centralised control has been budgetary problems, high inflation (only falling below 20% in 1996/7) insolvent state banks and loss-making state-owned enterprises. Over the past decade Tanzania has experienced a wave of liberalisation, including external trade, the decontrolling of domestic prices, interest rates, exchange rates and agricultural marketing. Moreover, self-employment and individually-owned small enterprise development now have a legitimacy in government and in the culture which previously they lacked.

The government has introduced reform packages backed by the IMF to promote growth, address fiscal imbalances and accelerate structural and regulatory reform, including the privatisation to date of over 60 (out of 470) state-owned enterprises and the introduction of private banking. As a result of reform, economic indicators have shown significant and positive changes in recent years:

- real GDP growth has increased from 2.6% p.a. in 1994/5 to 4.7% in 1997/8;
- inflation has fallen markedly to 13% from 34% in 1994/5; and
- interest rates have fallen from 38.6% in 1994 to a current TB rate of 8.4%.

In spite of this reform and the progress it has stimulated, Tanzania continues to be plagued by a number of critical problems that impinge on the development of a vibrant and competitive small- and medium-scale enterprise sector. These include: inadequate infrastructure; a legal framework that is more suited to socialist rather than market-based structures; an underdeveloped financial system; poor governance and widespread corruption; and, a persistent failure to generate employment opportunities for new entrants to the labour market. Furthermore Tanzania is one of Africa's most indebted countries with an external debt of US\$ 6.5bn in 1994, two times greater than GDP and requiring debt servicing equivalent to 32% of exports of goods and services and transfers. With GDP per capita less than \$150 it is also one of Africa's poorest countries.

## APPENDIX II: AMKA's Client Base

Nr.	Name of client	Structure of organisation	Number of staff	Activities	Main products
01	DABAGA Vegetable and Fruit Canning Company Limited	Ltd. Company	20	Manufacturing and wholesale and retail trading	Fruit and vegetable products
02	Getting Old is to Grow Society (GOIG)	Co-operative Society	?	Vocational training and production	Handicrafts
03	KIBO Curio Industries-Moshi	Ltd. Company	8	Manufacturing, wholesale trading and intermediary	Handicrafts
04	KIBANDA Arts & Crafts Co-operative Society-Mwenge	Co-operative Society	?	Retail shop and export trading	Handicrafts
05	MTWARA Small Scale Entrepreneurs Development Association (MSEDA)	Association of SSEs	?	Trading, product development and business skill development	Handicrafts and foods
06	MADAWA Zanzibar Spices and Herbs	Ltd. Company	21	Processing, packaging and trading	Foods (spices)
07	Nyumba Ya Sanaa	Trust/NGO	120	Training and local and export selling	Handicrafts
08	SHAH Industries Limited	Ltd. Company	55	Production and export trading	Handicrafts
09	Tanzania Handicraft Marketing Company Limited (New Handico)	Ltd. Company (privatised parastatal)	27	Promoting, product development and trading	Handicrafts
10	Tanganyika Instant Coffee Company Ltd. (TANICA)	Parastatal	100	Production and wholesale and retail trading	Foods (instant coffee)
11	Tanzania Tea Blenders (TTB)	Parastatal	446	Production, packaging and local and international trading	Foods (tea and coffee)
12	Tabora Beekeepers Co-operative Society	Co-operative Society	32	Production, packaging and local and international trading	Foods (organic honey and beeswax)
13	Tanzania Coffee Board, Coffee Roasting Unit (TANCAFE)	Parastatal	4	Wholesale and retail trading	Foods (roasted coffee)
14	Umoja Wa Wazalishaji Wadogowadogo Wilayani Mwanga (UWAMWA)	Voluntary Association of SSEs	?	Community revolving fund and trading	Handicraft
15	Wanawake Katoliki Tanzania (WAWATA)	SME programme for women	?	Skill development, credit and trading	Handicrafts
16	Umoja Wa Wazalishaji Zanzibar (UWAZI)	Association	?	Local wholesale and retail trading and export trading	Handicrafts
17	Zanzibar Organic Spice and Herb Trading Company Ltd. (ZOSHE)	Ltd. Company	9	Processing, packaging and trading	Foods (spices)
18	Wazalishaji Wadogowadogo	Voluntary Association of SSEs	?	Community revolving fund and trading	Handicraft

**APPENDIX III: Impact of Interventions on Clients**

The objective of AMKA services to clients is to improve the export market performance of SMEs and, through this, the incomes of producers and employees involved in exports. Among the key indicators used to measure the effectiveness of AMKA’s assistance, highlighted in the case analysis are changes (attributable to AMKA) in:

- number of SME clients (reaching new markets);
- number of employees/producers;
- revenues/incomes (from exports/new markets); and
- agricultural output and business practices

It is clear that, although not all targets have been met, AMKA has made a significant contribution to improved SME performance. Performance against measurable indicators for changes in clients’ situation resulting from AMKA’s interventions include:

Contracts directly attributable to AMKA: The target here was to increase the value of sustainable exports from Tanzania, attributable to AMKA to be of the value of US\$ 700.000 p.a. There are problems ascertaining the exact level of sales attributable to AMKA due to several reasons; some organisations had previous relationships with organisations such as TCPLC and FTO and not all their export sales can be attributed to AMKA alone; others have provided figures to AMKA that comprised both exports generated on their own and those generated through AMKA’s interventions; and others have not been able to generate orders from AMKA to date. A recent evaluation gave the different figures of the impact AMKA has had on promoting export sales over a four year period, as given by AMKA and given by clients.

Range of export sales [US\$]	Number of AMKA clients	Sales given by AMKA	Sales given by clients
0	6	0	0
1 - 10.000	5	17.533	17.533
10.001 - 20.000	3	40.375	40.375
20.001 - 50.000	2	70.122	70.122
50.001 - 100.000	2	174.532	90.000
> 100.000	5	1.284.526	670.154
Total	23	1.587.088	888.184

The evaluation mission places the value of export sales generated in the range of US\$ 1.1 million to US\$ 1.2 million over four years. AMKA insists that export sales attributable (directly and indirectly) to its interventions amount to US\$ 3.9 million over four years and an additional US\$ 800.000 increase in local sales. The most accurate indicator of real economic impact is value-added, essentially meaning profits plus wages. When multiplier effects are taken into account, total value-added is likely to be in the region of \$1.2-1.5m, equivalent to \$2-3 for every dollar of support from development agencies.

Contracts indirectly attributable to AMKA: the target here was to increase exports indirectly attributable to AMKA to be 45% on base. Since no clear records are available, and no clear base-line figure were obtained as a standard, it is impossible to arrive even at a qualified

estimate of the real achievement on this indicator. The figures in the paragraph above include both directly and indirectly attributable sales.

Increase in number of employees and producers within AMKA's partner organisations: The target was to increase the number of employees with 10% on base and the number of producers with 12% on base. With respect to *permanent employment*, all but two organisations experienced negative growths in of between -14% and -63%, which led to the loss of 437 jobs. The two that grew generated 11 permanent jobs. These figures need to be seen in a context of considerable upheaval and restructuring resulting both from increased competition and retrenchments in advance of privatisation. Moreover, given that the environment now seems to be more stable, some of these partners may be able to create more permanent jobs as they grow in response to increased business.

While permanent employment declined, AMKA clients experienced an increase in *casual employment* of 12%. This represented an increase of 17 jobs. All but three organisations experienced significant growths in casual employment ranging from 54% to 100%. These figures need to be treated with some caution as this form of employment varies from low to high business seasons. The general trend however shows that AMKA clients are using more casual employees than they were at the beginning of the project period.

The biggest impact of AMKA on employment was in *producer self-employment*. The producer base of 75 % of the clients grew by between 25% and 1492%. There was an average growth of 43% which created a total of 749 self employment opportunities. AMKA can also be said to have contributed to the sustaining of a significant proportion of the 1757 self employment opportunities that existed at the beginning of the project period.

Increase in average real income of employees and producers: The average real income of AMKA clients grew modestly by between 2% and 6%, against a target of 10% on base. Presently AMKA clients have an average monthly business income of Tsh 8,240 (US\$ 14). The growth in incomes did not match the growth in sales, mainly due to a large increase in the costs of raw materials. Many of them who had previously relied on raw materials from their farms now had to buy them. Costs, in some cases, increased by 150%, diluting the gains made by increased sales.

Increase in value of agricultural output: there are no data available to assess whether or not the target of increasing the value of agricultural production by 20% on base was really achieved.

Business practices: there was no evidence of AMKA clients investing in business any more than their non-AMKA counterparts. In general, business expenditure was limited to replacing tools and working capital.