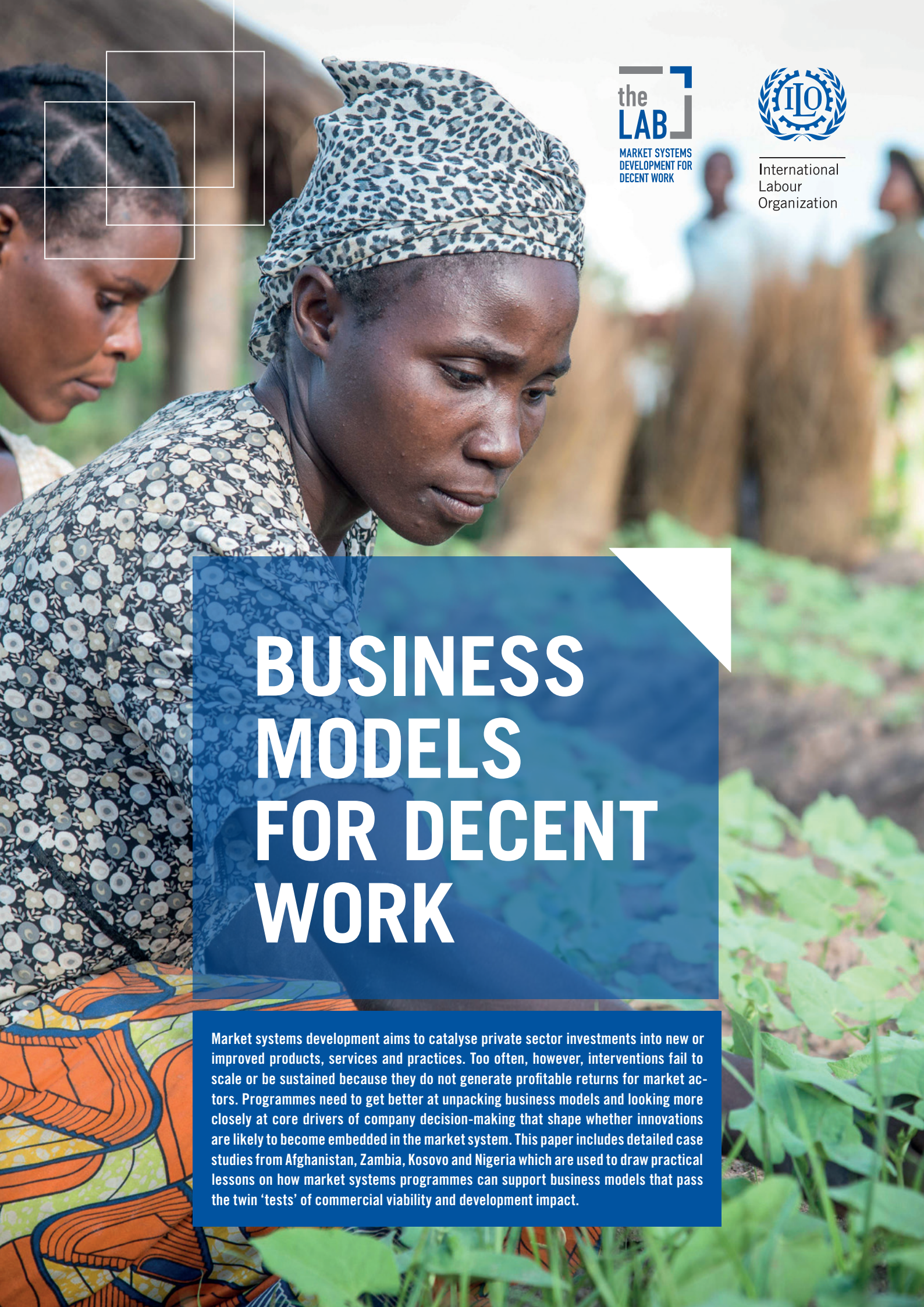

the LAB
MARKET SYSTEMS DEVELOPMENT FOR DECENT WORK

International Labour Organization

BUSINESS MODELS FOR DECENT WORK

Market systems development aims to catalyse private sector investments into new or improved products, services and practices. Too often, however, interventions fail to scale or be sustained because they do not generate profitable returns for market actors. Programmes need to get better at unpacking business models and looking more closely at core drivers of company decision-making that shape whether innovations are likely to become embedded in the market system. This paper includes detailed case studies from Afghanistan, Zambia, Kosovo and Nigeria which are used to draw practical lessons on how market systems programmes can support business models that pass the twin 'tests' of commercial viability and development impact.

BUSINESS MODELS FOR DECENT WORK

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Executive summary

Market Systems Development (MSD) is an approach to poverty reduction that aims to create long-lasting and large-scale change by stimulating more inclusive growth. To achieve a systemic change vision, market systems programmes often partner with the private sector to introduce new or improved business practices, products and services.

Understanding the mechanics of these business models is at the heart of programme success. After all, innovations will not be sustained unless they align with the core incentives of companies to continue to deliver value after programme support ends. But understanding partner motivations can be tricky. Programmes operate in data poor environments, have to navigate complex relationship building processes, and often lack the skills to interpret commercial performance from the private sector perspective.

This paper presents a framework for assessing the efficacy of business models. To help future practice be grounded in reality, we have included detailed business model cases studies from market systems programmes in Afghanistan, Zambia, Kosovo and Nigeria. The paper ends by extracting five key lessons for implementers to improve the way in which they engage with the private sector in building 'win-win' models.

Introduction

1. Profit is not a dirty word

MSD programmes measure success against two criteria: *Sustainability and scale*. A typical intervention logic is as follows. Based on initial analysis of the market constraint, a programme selects a limited number of partners to test an innovation that could benefit target groups; for example a new way of delivering last-mile services to smallholder farmers. Programmes provide a flexible mix of financial and non-financial support to partners to help pilot the innovation, and then work to encourage other actors to 'crowd in' to provide the same or variant of the innovation. This sequencing is captured in the popular 'adopt-adapt-expand-respond' framework for measuring systemic change.

Programmes do not deliver goods and services *directly* to target groups but work *indirectly* through partner market actors. Prospects for sustainability therefore depend on how embedded these innovations become within partners' business models. In this sense, understanding sustainability requires understanding the *incentives* of market actors to change what they do[1].

Fundamentally, for-profit companies exist for the purpose of utilising money from investors and seeking to turn a profit on the investments they make. For businesses, the primary means of survival is to extract value (revenues) that exceed the total costs required to generate those revenues while delivering value to their customers. The balance between value proposition and value extraction (the profit equation) is true regardless of type of for-profit business and what they do with those profits – across the spectrum from large publicly-listed multinationals paying dividends to shareholders, to micro enterprises with a sole owner who relies on profits to support his or her family[2].

The task of MSD programmes is not only to bring benefits to target groups - but to do this in a way that delivers value to all market players involved so the

1. According to the *Operational Guide for the Making Markets Work for the Poor* approach, incentives are the material, social, or purpose-oriented motivations that shape attitudes towards risk and reward
2. Social enterprises may have different motives but at the heart of the business model is the need to extract more value than what they deliver to sustain their core mandate

innovation can become a *new normal* in the market system. Sustainable profits are not by-product of change; they are the engine for creating sustained outcomes over time for target groups and companies alike.

In our experience, MSD programmes have focused much more on discussing, measuring and managing towards the *ends* of impact, but much less on the *means* of delivering impact: The business models themselves. This has led to a lack of understanding about how business models are structured and delivered and the array of commercial decisions involved – from costs to cashflow implications to return on capital. These neglected aspects ultimately determine whether new ways of working are truly being internalised by companies, let alone can start to be 'scaled' across the market system.

This paper aims to address this gap by examining business models being supported by market systems programmes through a more commercial framing. It aims to better understand what business models look like in reality, the practical challenges facing project implementers and their partners in building business models, and what others can learn from the experience.

We believe this reflection is important for two reasons. First, there is concern that 'win-win' business models are much easier to describe in theory than to put into practice. Ongoing academic and practitioner-led research has found that the 'profit promise' of these type of business models is rarely being achieved[3]. A Monitor Group review of more than 270 market-based ventures aimed at alleviating poverty found only a "handful" that were commercially viable[4]. A 2016 study funded by the BEAM Exchange found the reason that half of the reviewed projects failed to scale was because of "low profitability for partners or competitors"[5]. In other words, innovations may benefit target groups, but the business model is not viable for market actors – meaning it will be highly unlikely to be continued beyond the period of programme support because the business model does not allow sufficient value capture, which is a pre-requisite for any business model success.

Second, any development approach that deploys public sector resources in a way that benefits private enterprises needs to prove the genuine *additionality* of its support. After all, any resources expended – whether in terms of a cash grant or the transfer of knowledge or assets – is a form of subsidy. Two critical issues need to be understood. First, does programme support lead to transformational changes in the way in which market value is created and captured by market actors to transform their business strategies and operations. Second, are programme activities just a temporary transactional arrangement that will finish when programme support ends (or, worse still, do they create incentives for market actors to freely capture value without investing in value adding activities[6]). Paying attention to these two core questions is at the heart of examining the effectiveness of the private sector development approaches we facilitate as whole. Only by getting under the bonnet of business models can programme implementers position themselves to provide catalytic programme support, while avoiding a 'poverty wash' – simply helping the private sector to push products or services on the poor for temporary self-benefit.

3. See Erik Simanis, *Reality Check at the Bottom of the Pyramid* in the June 2012 issue of the Harvard Business Review
4. Ibid.
5. 12 out of 26 sampled projects failed to reach scale. See Blewett, J., Keddie, J., Van Hummelen, S. (2016) Pre-intervention investment toolkit: The challenge of achieving impact at scale in MSD (M4P) interventions.
6. Informally, this has been referred to as companies getting 'something for nothing' aid
7. The description of a market system is based on "Facilitating youth employment in the information technology (IT) sector in Bosnia & Herzegovina", by Roel Hakemulder and Andrew Wilson on behalf of the MarketMarkers project

What is a market system?

A market system is the inter-connected network of actors and factors that interact to shape the outcomes of an economic exchange[7]. In the case of decent work, the core exchange is between companies as employers (demand for labour) and workers as employees (supply of labour). These exchanges are governed by a range of:

- *Supporting functions*. The context- and sector-specific functions that inform, support and shape the quality of exchange; such as information, skills, infrastructure, finance and access to markets.
- *Rules and Norms*. The legislative and regulatory environment, including policies, voluntary standards and social norms that guide day-to-day attitudes and conduct.

Supporting functions and rules are carried out by a wide range of market actors, from businesses to financial institutions, trade associations, regulators and government agencies.

When certain rules or functions do not operate well, a market system *constraint* is created that reduces the effectiveness of the system and reduces the value captured by the people and market actors involved in the transaction.

Market systems development programmes aim to create positive systemic changes. A systemic change takes place when there is a lasting improvement in one or more market system constraints which leads to improved outcomes for target groups, be they workers suffering from poor safety and health conditions, or young people excluded from the labour force. Programmes discover why market actors have not addressed such constraints themselves, and then work on improving their incentive and capacity to perform new or improved roles. Market Systems Development for Decent Work aims to boost incomes, create jobs and improve working conditions.

2. What are business models?

A business model describes how an organisation creates, delivers, and captures value for itself as well as its customers[8]. According to management theorist Peter Drucker, a business model should answer the questions of "who your customer is, what value you can create/add for the customer and how you can do that at reasonable costs". A business model therefore needs to cover:

- Everything related to designing and manufacturing the product.
- Everything related to selling the product, from finding the right customers to distributing the product.
- Everything related to how the customer will pay and how the company will make money.

8. European Venture Philanthropy Associaiton

There are many different ways of conceptualising business models, and a vast body of literature exists detailing various business model tools and frameworks. In this paper we are less interested in the various ways in which business models may be documented, and more concerned with what is contained within them. To that end, we will consider Osterwalder's 9 fundamental building blocks necessary for any business model:[9]

Pillar	Building block	Description
Product/service	Value proposition	How a company's bundle of products and services create value for the customer
Customer interface	Target customer segments	The segment(s) of customers a company wants to offer value to
	Distribution channels	The means of reaching the end-customer
	Customer relationships	The nature of the link a company establishes between itself and the customer.
Infrastructure management	Value configurations	The mix of innovations that creates value for - such as a form of new technology, new products or services, or new distribution channel partners etc.
	Core capabilities	The ability to execute a repeatable pattern of actions that is necessary in order to create value for the customer.
	Commercial network	Voluntarily initiated cooperative agreements between two or more companies in order to create value for the customer
Financial aspects	Cost structure	The representation in money of all the means employed in the business model.
	Revenue model	Describes the way a company makes money through a variety of revenue flows

Business models can serve several purposes: to describe and classify businesses, to make external (e.g. investor) examination possible, and to act as a guideline for managers. There are countless typologies of different business models. Rather than summarise all the various permutations, we will consider they are all variations on four types of core business model[10]:

'Make-sell'. In this model, a focal organization designs the value content which is part of the offering, which may or may not be produced in-house. Market actors using this model to produce consumable goods are often called *manufacturers,* who utilize raw materials to create a product to sell. A *service provider* offers a wide range of intangible solutions -such as specialist advice or knowledge – either to businesses (Business-to-Business, B2B) or direct to consumer (Business-to-Customer, B2C).

'Resell'. The value content that is being delivered to the customer is not developed in-house but sourced from somewhere else. This means that no value is added to the value content that is part of the offering, instead, the added-value is in the service that is provided by giving access to the value content. Common market actor types are distributors, who buy products directly from a manufacturing company, or *retailers* who sell products and services directly to buyers at a mark-up from the actual cost. This can be face-to-face in a store or outlet ('traditional retail') or online ('digital retail').

9. Adapted from the Business Model Ontology by Alex Osterwalder at HEC Lausanne
10. Brehmer, M., Podoynitsyna, & Langerak, F. (2018). Sustainable business models as boundary-spanning systems of value transfers. *Journal of Cleaner Production*

License. The focal organization distributes licenses to other organizations that thereby obtain the right to develop, produce and/or sell certain value content. This can be either under the brand of the focal organization or not. A common market player arrangement under this model is franchising: and is one in which the owner of a business (the franchisor) assigns to independent entities (the franchisee) the right to market and distribute the franchisor's goods or service, and to use the business name for a fixed period of time.

Multi-sided. The focal organization mediates an exchange of value content between at least two different customer/user groups, and thus connects market parties to allow exchange. Actors adopting this model are usually referred to as brokers or *intermediaries* who generate a fee from a transaction between a buyer and a seller by acting as the agent of one or more parties, and can be paid by fixed fee or commission.

It is worth noting that business models cannot be simply 'copied and pasted' between different companies and countries - as each will have unique needs, capacities and value configurations. However, individual business model case studies can offer inspiration to others and provide a starting point to adapt and tailor models to fit a new context.

3. A framework for assessing business models

Assessment criteria

There are many different ways to analyse a business model. This paper looks at business models primarily from a private sector partner perspective – not from a programme implementer perspective – as prospects for sustainability are best assessed by seeing change processes through the eyes of those who are actually driving innovation and making commercial investments on-the-ground. We also view models using a realist lens. That is, while there are many important discussions about social and 'double bottom line' businesses, if we look at worldwide private sector activity, these types of businesses remain in the minority (for now). Businesses around the world survive based on the financial return on investment they provide to shareholders. In other words, we are looking at the core profit-and-loss side of the business, not 'bolt on' business models to satisfy philanthropic and corporate responsibility objectives.

We therefore use a single assessment criterion: Commercial viability - the ability of a business, product, or service to compete effectively and to make a profit[11]. If this first commercial 'test' is not passed, then other considerations of target group impact and scale are unlikely to be relevant – as the innovation will not gain a foothold in the first place. Turning this into a research question, our line of enquiry during the case studies was: *Through the innovation, is it possible for the private sector partner to transact with the target group on a profitable basis?*

A commercial lens does not mean focusing on companies at the expense of their customers. Indeed, the way to generate sustained commercial success is by generating superior value for customers (or employees, suppliers etc.). Commercial considerations therefore needs to be matched with utility for the end-user: The two have to be workable to sustain any innovation. The product may be profitable but if it does not deliver utility to customers, they will not buy.

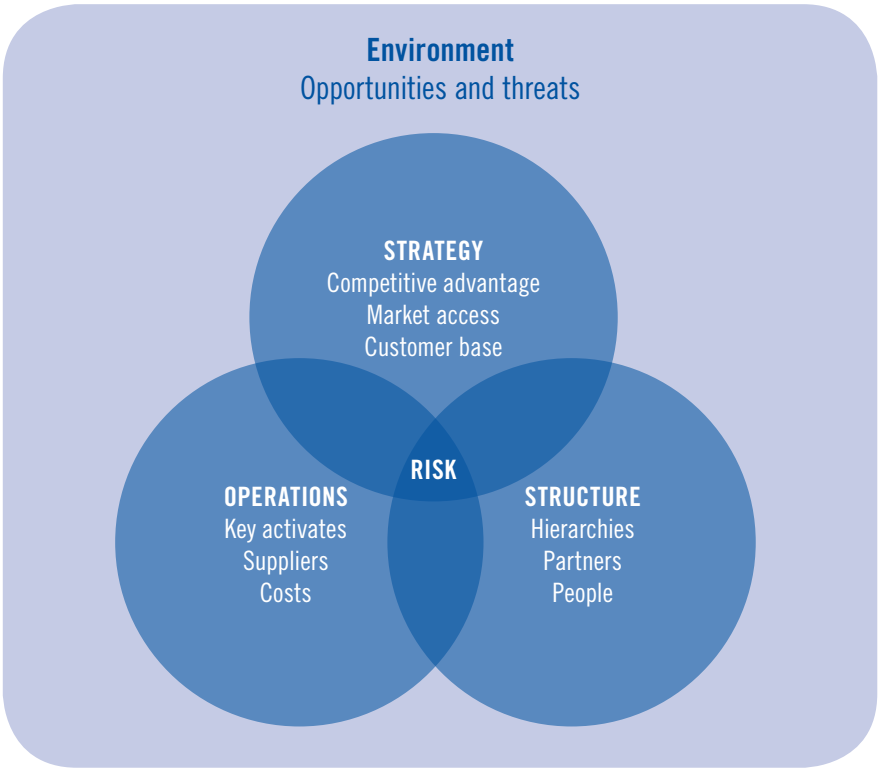
11. Cambridge Dictionary definition

Assessment framework

To understand commercial viability, we adapted a standard framework which sets out five 'lenses' through which to view a business model: Environment, Strategy, Structure, Operations and Risk (ESSOR)[12].

A business model bridges business *strategy* (making choices about what to do differently to deliver value compared to rivals) with business *operations* (executing and actually doing things better than rivals)[13]. In order to deliver their products or services, businesses require organisational *structures* – however simple or sophisticated they may be – to manage the flow of people, products and partners. All of this takes place within the overall business *environment*, which creates both opportunities and threats for the company to create and capture value. Finally, choices about which strategy, operations and structure options to pursue are determined by the business leaders' approach to balancing potential returns with their level of *risk* appetite.

Business model analysis (ESSOR)



12. Adapted from the work of Dr Michael Lim
13. Harvard Business School Institute for Strategy and Competitiveness

4. The business model case studies

Four business models are included: three from the agricultural sector, where the majority of market systems programmes are engaged; and one from the service sector (ICT)[14]. Annex A sets out the case study research methodology.

No.	Country	Programme	Business model title	Business model type
1	Zambia	Yapasa	Last mile input distribution	Blend of resell and licensee
2	Nigeria	PIND Foundation	Private extension services	Blend of make-sell and multi-sided provision of private agricultural extension services
3	Afghanistan	Road to Jobs	Supply Chain Management	Blend of make-sell and resell through a cool-chain system
4	Kosovo	Enhancing Youth Employment	Vocational education with ICT job placements	Multi-sided, whereby education providers act as a broker between labour supply and demand

14. According to data from the BEAM Exchange, over two-thirds of market systems programmes have a full or partial focus on agricultural sub-sectors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BUSINESS MODEL

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Last mile input distribution

Country: Zambia

Project: Yapasa

Objective: Create decent jobs for youth in agriculture through enterprise development in rural Zambia

Organisations: Implemented as a UN Joint Programme by the ILO and FAO, with funding from the Government of Sweden

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Intervention title: Access to quality inputs

Business model type: Combination of 'resell' (input suppliers retailing through agrodealers) and licensee (agrodealers setting up commission-based agents under franchise).

Key constraints the intervention aims to solve:

Target groups:

- Limited access to and awareness of productivity-enhancing agricultural inputs among farmers[15]

Market players:

- Limited appreciation among supply chain actors about the wants, needs and business opportunity of the rural smallholder farmer market segment
- High concentration of smallholder farming activity in a single peak season (lumpy and uneven cash flows)
- The current retailer distribution model is not cost-effective and has limited customer reach

15. Inputs are seed, fertility chemicals, herbicide, pesticide, fungicide, plant protection products (grow tunnel, mesh, polythene etc.) and irrigation equipment (e.g. pumps),

Systemic change vision: Market actors innovate commercially viable last mile distribution channels which can both generate youth-suitable jobs, and meet the needs of smallholder farmer customers through improved availability, affordability and higher quality inputs[16].

Status: Pilot covering one agricultural season

Timeframe: Yapasa began in 2013, but the access to inputs intervention ran from 2017-2018

Background: Yapasa initially had a portfolio of interventions including access to inputs, access to entrepreneurship services and stakeholder coordination in both soya and aquaculture value chains. However, over time the project shifted from a narrow focus on specific value chains to working across whole market functions such as distribution of inputs and provision of aggregation services.

Partnership development: Inspired by the agro-inputs work of Kenya Market Trust, Yapasa pitched a sales promotion partnership to the fish feed company they previously partnered with in a different intervention. The partner took many months to respond to this 'test balloon' idea, and Yapasa attributed it to a lack of interest.

As a result, Yapasa went back to the drawing board to visit target regions in the remote Northern part of the country. Through a prior intervention in soybean inputs, Yapasa had identified agro-dealers – who focus on retailing and distributing agricultural and livestock inputs - as a key intermediary. Markets in Northern Zambia are thin and under-developed, so Yapasa was able to speak to almost all of the major market players. Most agrodealer wholesalers and retailers were tentatively interested in the idea of diversifying their distribution channels, but had reservations: Can intermediary agents or franchisees really be trusted? Is there sufficient demand for off-season inputs to justify the investment? Will the agent business model be lucrative enough for the agents to make a living?

Agro-dealers had so far used a traditional retail business model, involving 'bricks and mortar' outlets. But these supply arrangements only generated revenues during the peak season and their shops often lay idle the rest of the time – while still incurring year-round fixed costs such as lease and staff. They also tended to be placed in central larger market catchment areas, far from hard-to-reach remote rural and peri-urban smallholder farmers.

Yapasa came up with two alternatives. The first was storeless retail, where inputs would be chosen from a catalogue and orders placed remotely. Agro-dealers were sceptical: Unless farmers see in-person that inputs are effective, they will be unwilling to buy. The second was a blend of a franchise and commission-based model, where agents would be hired on a pay-per-sale basis to run local marketing and retail on behalf of the agro-dealer. Here, Yapasa saw there was traction.

Partnership selection criteria: Yapasa presented the model to all agro-dealers they had spoken to who already had some last mile input distribution initiatives targeting the main crop season to service FISP beneficiary farmers (see below for more on FISP).

16. Last mile is a supply chain management term used to describe the final step in delivering a product to the end-consumer.

Market player partners: Four crop and aquaculture agro-dealers agreed to pilot the model in Luapula Province, Northern Province and North Western Province.

Secondary market players: Three input companies who provide stock to the agro-dealers on credit.

Company overview: A, B, C, D.

Company*	Current number of staff	Current number of retail outlets	Notes
A	78	8	Largest partner in terms of turnover. Well-established and rapidly growing business.
B	25	7	Well-established business
C	7	4	New business (less than 5 years old)
D	37	140	Spun out of company B. Established business (less than 5 years old)

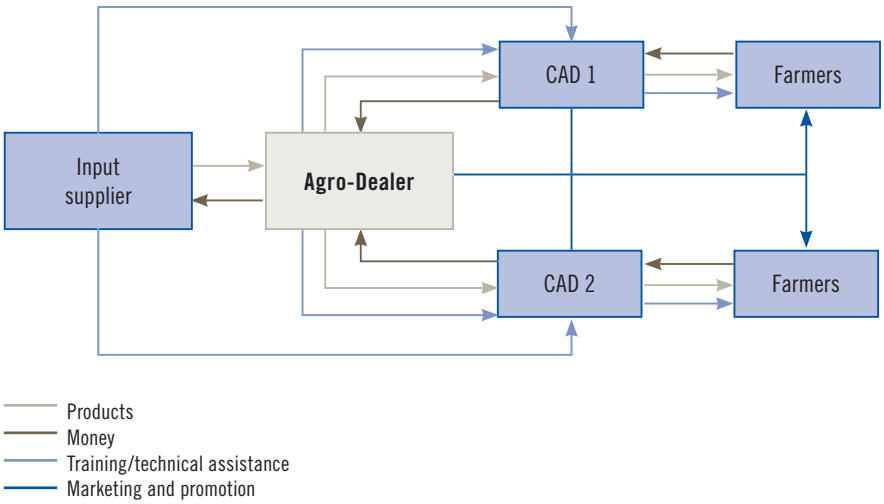
*Company names have been removed to preserve commercial confidentiality.

The Business Model

Summary:

Yapasa is supporting independent agro dealers to grow their input distribution network through Community Agro Dealers (CADs). The model is built on the physical distribution and promotion of inputs. CADs act as sales agents, running marketing activities (such as demonstration plots), holding stock and selling on behalf of the agro dealers, and are given a commission in return. Several input suppliers are also supporting the model through product promotion and CAD training.

How it works:



Simplified step-by-step process:

1. Agro dealers identify and select CADs
2. Agro-dealers, with support of the input suppliers, train CADs on the product range and technical specifications
3. CADs are supplied with initial stock of up to 3,000 Kwacha through the agro-dealers[17]. Company B supplies CADs with inputs between 8,000 – 10,000 Kwacha.
4. Agro-dealers pay for and supervise demonstration plots and field days, which are run by the CADs. Inputs provided in some cases by the input companies.
5. CADs make sales to farmers, collecting payment and transferring proceeds
6. CADs are paid commission and stock is replenished by the agro-dealers

Innovation: How the model is different from business-as-usual

Agro-dealers are experimenting with a new distribution channel and new strategy to target off-season sales and remotely located farmers. These dealers are entrusting their stock and sales to local-level agents. They are also more systematically investing in demonstration plots, which previously had been done only sporadically.

Input companies have a long-standing strategy to support their dealers with product-specific knowledge. However, they have never before engaged at the community-level with targeted training.

CADs themselves are mainly farmers, and few had previously been engaged in any kind of retail or off-farm income-generating activity.

Yapasa did not introduce the concept of CADs but used a different business model compared to previous development interventions. Another donor-funded project had supported an input supplier to develop their network of CADs – with mixed results – since their agents were not linked to independent agro-dealers. Yet another project had a model where the aid agency identified potential community entrepreneurs and tried to link them with an agro-dealer (but not as agents of the agro-dealer) and provided them with business training but not product knowledge – the model eventually failed because the CADs were not popular with the customers as they were repackaging inputs and selling at high prices.

17. Note: CADs exclusively sell the stock of a single agro-dealer. Agro-dealers, however, are independent and source from multiple input suppliers.

Business model elements:

Value proposition	Farmers can obtain inputs at the same price by travelling a shorter distance to the local CAD instead of a distant agro-dealer outlet
Target customers	All farmers with an emphasis on the smallholder market segment
Distribution channels	Expand product reach without having to incur any fixed costs or capital expenditures such as a physical shop
Customer relationships	Grow the customer headcount and relationship. Agro-dealers build their brand image in the eyes of the farmers
Value configurations	Channel improvement (distribution), which allows for more locally responsive marketing (promotion)
Core capabilities	Technical training for CADs; monitoring of stock and management of delivery schedules. Brand building through marketing and promotional activities
Commercial network	Deepen existing relationships with input companies, create new downstream partners in the form of CADs
Cost structure	Main cost drivers relate to *Variable costs:* Agro-dealer staff time, cash cost of demonstration plots, including inputs (where not provided by the input company), Cost of transportation of the inputs to CADs' place and monitoring *Profit-sharing:* Providing a commission to the CADs which comes out of the agro-dealer gross margin *Working capital:* Having stock tied up in CADs (Carrying and holding cost for inventory provided to the CADs) *Other costs:* Breakage/Damage and expiry
Revenue model	Agro-dealers provide 5% commission on total sales to CADs. As CADs sell inputs at the same price as the fixed retail store, the commission is being absorbed by the agro-dealer and not passed onto customers[18]. On average, agro-dealers make a 30% margin across their input range. Profitability therefore relies on two assumptions: ▪ CADs increase the overall volume of sales above the value of the margin sacrifice (5%) ▪ CAD unsold stock is the same as agro-dealer averages, or if above average, the sales are increased by the margin sacrifice plus opportunity costs of any product wastage. ▪ Two of the agro-dealers are also using CADs as their aggregators of agricultural commodities they are trading in[19]

Project contribution: Yapasa advised the agro-dealer on strategies to identify and select CADs. The project cost-shared a) the training of CADs on product knowledge, which was carried out by the input company, b) the running of regular farmer field days as a promotional activities, c) motorbikes for agro-dealer extension officers for monitoring and d) lunch allowances to Ministry of Agriculture staff involved in field days.

18. The commission structure varies across the products during the peak agricultural season and will be agreed jointly by Agro-dealers and CADs. It will depend on the gross margin the agro-dealers receive from the input companies. For off seasonal farming inputs, most of the agro-dealers have agreed to provide 5% on the sales volume
19. One agro-dealer pays a fixed fee of 0.1 Kwacha per bag aggregated

Progress to date: The four agro-dealers are managing a network of 76 active dealers, 80% of whom are youth. To-date sales have been made during the dry season (with input sales around May-June), with peak rainy season sales starting in November. All agro-dealers have reported increases in sales, and there is an indication from three agro-dealers that they are adding CAD for upcoming peak season. It remains to be seen whether this ends up being a temporary or sustainable expansion of their business. Dry season sales were primarily of horticultural inputs – small volume, light weight and relatively cheap and easy to move by motorbike. Rainy season sales of seed and fertiliser are bulkier and heavier and will pose greater distribution challenges and costs.

Impact: From the CADs' records, they have made sales to 3,043 smallholder farmers during the second quarter of the year, out of which almost half (1,256) are youth[20]. For just under half the CADs, selling inputs as an agro-dealer agent is not their primary source of income. The CADs reported making an average of 2,800 Kwacha ($275) in profit over the dry season.

Business model analysis (ESSOR)

Environment: Zambia's agricultural input market is shaped by the government's long-standing Farm Input Support Programme (FISP). Under FISP, subsidised maize seed and fertiliser were centrally procured by the government and distributed to farmers only through cooperatives. This served to crowd out private agro-dealers, and create a monopoly in the hands of a few powerful companies[21].

Recent reforms have led to the roll out of an electronic FISP voucher system, whereby a wide variety of inputs can be bought at a subsidised price, up to a certain value, directly through any agro-dealer of the farmer's choice. E-FISP is now being widely used by agro dealers nationwide for selling government subsidised inputs. This has created a more vibrant market with appropriate incentives for existing agro-dealers to invest in expanding their operations, and for new agro-dealers to 'crowd in'. However, in the coming season government plans to revert 40% of the FISP beneficiaries from e-voucher to conventional FISP where inputs will be distributed directly by input suppliers to the farmer through farmer cooperatives. This is likely to distort the market and could crowd partner agro-dealers in the affected districts.

Strategy: There is a high level of strategic fit between the new model being piloted and the company's existing business. All partners have their main function as an agro-dealer, while two have a parallel business line as an aggregator. Rather than an 'bolt on' to business-as-usual, therefore, for partner companies the pilot is about testing a new alternative means of delivering on their core commercial objective. To measure the success of this alternative distribution channel, agro-dealers are closely watching two KPIs: Stock turnover (speed and lead time); and outreach (number of new farmer customers).

Structure: All of the agro-dealers can be classified as small enterprises, with less than 100 staff employees. Smaller enterprises tend to have flatter management structures, and getting access to staff in charge of making marketing, finance etc. decisions tends to be easier. Yapasa has dealt directly with the company Managing Directors. Some agro-dealers have also assigned a specific focal person to oversee the pilot, from recruiting and training CADs to monitoring demo plots.

20. Youth are defined as between 16 to 35 years old according to national Youth Policy Zambia
21. https://www.daily-mail.co.zm/fisp-the-production-hurdles-and-future/ and https://www.zambiawatchdog.com/agro-dealers-left-in-cold-as-govt-reverts-to-fisp/

Operations: Beyond the formal flow of information, goods and money outlined in the graphic above, social capital is the secret sauce underpinning the model. The model relies on good faith – agro-dealers provide stock to CADs who are not formal employees but contracted distributors; so partners have to take it on trust that stock provided on credit will be sold (and not used on CAD's own farms); and any money collected from end-customers will be returned to them.

Risk: Almost all of the risk in the current model is being absorbed by the agro-dealers. *Reputational* risk stems from that fact that CADs are operating in the name of the agro-dealer; if CADs do something wrong (adulterate products, for example) this will reflect poorly on the agro-dealer brand. The likelihood of this risk occurring, however, has been deemed by Yapasa as low. The more significant risk is *financial*. Input suppliers have not changed their standard credit terms to agro-dealers, which is usually between 30 - 45 days depending on supplier. So if a CAD does not sell their stock in 45 days and pay the agro-dealer, then the partner is having to pay cash for inputs without booking a sale. This could have significant negative effects on cashflow, which is often make-or-break for small businesses.

Yapasa has identified two different levels of risk appetite in their partners. Companies C and D are very willing to take risks, and both are relatively new businesses. Companies A and B are well-established, and more risk averse. However, risk aversion can be no bad thing: Company A very carefully thought through potential risk mitigation measures – from who sells their products to where stock is stored – and keeps detailed transaction records. They even started to adapt the business model by introducing a mobile payment system to monitor stock levels in both the CADs and their warehouses. Company C tried to limit their risk exposure by providing limited stock and keep replenishing stock to keep the cashflow going.

> "The most established and the bigger (the company) the more risk averse the agro-dealer is."
>
> **Yapasa MRM Manager**

Company D, in contrast, is ambitious to scale – and even wanted to recruit more CADs than Yapasa initially suggested for the pilot. However, Yapasa was concerned that this huge risk appetite is not backed up by a sound understanding of the risks involved. Clearly, what is important is not an attitude of being willing to take any risks, but in taking informed risks.

Scale up strategy: Yapasa has two options to mainstream the business model, should it prove successful: *lead firm leverage*; and *organic replication.*

The first would be to move upstream and engage the large input companies who have been indirectly involved in the model. Agri-input companies could drive additional sales, and could act as an apex organisation to promote the model among agro-dealers. However, to overcome the potential 'free rider' problem – where input companies have little incentive to promote independent agro-dealers as other competing input companies would also benefit - agro-dealers would likely need to become sole agents.

A better option may be for CADs to 'step up' and graduate to running their own enterprise, becoming an agro-dealer themselves – and not just an agent of the agro-dealer. These CADs-turned-agro-dealers would then pull in additional CADs, growing the model organically and increasing the reach to marginalised farmers.

Yapasa deliberately structured their support to the partners to avoid co-funding recurrent costs, which partner agro-dealers would need to fully absorb

after the pilot ends, and new agro-dealers would need to take on without project cost-sharing. As the largest cost-driver relates to working capital – stock tied up with CADs on credit – it remains to be seen how the model would fare at scale. During the pilot, agro-dealers provided a relatively small amount of stock to CADs, but to move beyond 'proof of concept' and dramatically increasing sales – which is needed to make the model profitable - this stock 'credit line' needs to be increased, or an investment made in more responsive inventory management and delivery. But as the stock levels increase, so do the financial risks being taken. As the costs of capital are high in Zambia, none of the partner companies grow their business through external capital, so all costs – and the cash investment - must be on their balance sheet, which may be feasible for only the largest agro-dealers.

CRITICAL SUCCESS FACTORS:

- Choosing local CADs who already have the trust of farmers in the community, so their product recommendations are therefore more likely to convert interested farmers into repeat customers.
- In order to make last mile distribution commercially viable without passing on costs to farmers through higher product prices, agro-dealers need to make a healthy margin on the products they sell.
- While sales volumes will always be lower during the dry or off-season, this can act as a 'hook' to ensure the same farmers buy inputs from CADs during the more lucrative peak season.

What Yapasa learned

Neither Yapasa nor their partner companies conducted a break-even analysis to see how much stock needs to be sold to cover costs in the new business model. In short, this means that the agro-dealers have little idea what volume of product they need to sell to ensure the new distribution channel is not losing them money. In theory there is a clear cost advantage of commission-based agents compared to the previous 'bricks and mortar' model, but this relies on a number of assumptions about sales volumes and unsold stock.

It also means there is no clear understanding of the timeframe for the model to become profitable. Will it return profits after one season, one year, or many? By all accounts, agro-dealers are happy and say they have expanded sales and are making money. However, Yapasa did do a light-touch assessment of the financial management capacities of partners and found them to be weak. It is likely that the full range of costs – fixed and variable, one-off and recurrent – have not been considered and that partner's positive assessment of progress is based on guestimates rather than genuine data. When companies themselves do not have a sound grasp of their own business model, what role can projects play?

Yapasa believes that financial analysis and modelling – however basic – is something that they need to do more of to have confidence in the business model they're proposing. Yapasa did attempt to work with agro-dealers to unpack the financial components of their existing models during initial partnership discussions, but this did not go into any great depth as a) agro-dealer record keeping was poor, and b) there was a reluctance from companies to share financial information, especially at the outset of partnership development where relationships were still being built. In retrospect, however, Yapasa

"The challenge with market systems thinking [is this]: Implementers focus more on the target group and neglect value capture for the other market players. The focus should be on aggregate value creation and value capture by all actors in the innovation ecosystem"

Golden Mahove, former Yapasa Team Leader

believes they should have "pushed and tried a bit harder". According to the current Team Leader, Steve Morris, this *"would have really helped to develop a deeper understanding with agro-dealers that what we were suggesting is a change to their core business…(The agro-dealers) – some of them – still see it that they're doing something for us, rather than us helping them to change their core business. If we really had persevered in saying let's help you to build your business model, share your financials, and we'll keep it confidential, I really think it's worth persisting with that".*

One factor prohibiting Yapasa from engaging with partners on a business basis might be the continued reliance of some private companies in Zambia on development grants to finance their revenue and asset growth. One company in the Yapasa pilot, for example, has recently received a free truck and tractor from another multi-donor funded project, while others a have participated in NGO initiatives and inputted into project evaluations. This leads to questions as to whether businesses are focusing on developing their internal capabilities to run commercially successful business, or becoming adept at navigating the aid landscape to access grants, which are unencumbered by the rigours of having to think through financial returns on investment.

Takeaways from this case

1. Base business models on the market player reality - which often cuts across multiple crops and commodities - rather than a narrow project sub-sector view.
2. Iterate towards a viable pilot business model by bouncing ideas off market players themselves.
3. In addition to having an impact, interventions need to solve a pain point for market players: If there is no business imperative to act, or if the model does not deliver a core business objective, it is less likely to be sustained.
4. Any business investment decision should be subjected to proper financial appraisal: Projects can play a role helping companies think through the risk-return spectrum and cost structures where partner capacity is weak.
5. Testing new and improved ways of doing business requires a certain level of risk appetite. But this needs to be informed risk-taking, not just about intuition and ambition.


Essential Vitamins

BUSINESS MODEL

2

Private Extension Services

Country: Nigeria

Project: Economic Development Program

Objective: Build sustainable market systems that produce widespread and long-term opportunities for the poor

Organisations: Implemented by the Foundation for Partnerships in the Niger Delta (PIND), with funding from the Chevron Corporation

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Intervention title: Improved fish farming practices

Business model type: Blend of make-sell and multi-sided provision of private agricultural extension services

Key constraints the intervention aims to solve:

Target groups:

- Low level of knowledge among small farmers about improved fish farming practices, leading to decreased pond productivity
- Lack of understanding by farmers of the value proposition to participate in training, including business training
- Absence of an effective business development and technical support function for fish farmers

Market players:

- Limited market penetration and poor outreach in the remote areas feed companies and hatchery operators

Systemic change vision: To create a new class of service provider in the market who promote better quality inputs and improved cultivation techniques to farmers.

Status: Scale-up phase 2

Timeframe: Pilot in 2012, scale up from 2013-18

Background: Large fish feed manufacturers regularly market their products to fish farmers, but often rely on *explaining* the benefits of better feed formulation – without *showing* them in practice. On the basis that 'seeing is believing' is the best way to stimulate demand, in 2012-2013 PIND ran a pilot demonstration ('demo') pond intervention partnership with a fish farmers' association (United Ufuoma Fish Farmers Association), fish feed companies (Grand Cereals Ltd and Rannan Feed) and fish hatchery (Brafin Nigeria Ltd) in Delta state.

The pilot demo proved to be very successful in increasing the productivity of fish farmers[22]. As a result, the demo model was scaled up to cover four feed companies taking the lead at different locations across Delta state and Ondo state. At the beginning of the scale up, PIND identified a number of high potential fish farmers and freelance individual consultants and trained them on how to conduct technical and business trainings, as well as on how to manage demonstration plots. In fact, the consultants led the process and drove the scale up. The idea was that these private local service providers could run the demonstration ponds on behalf of the feed companies, and they became known as Aquaculture Service Providers (ASPs).

However, PIND saw that the feed companies were not scaling the model as rapidly as expected. This was because the feed companies were already selling at full capacity and saw little incentive to invest in different marketing tactics. It was also felt that only a few feed companies really understood the model and approach of promoting their feed using demos ponds, and few had the patience for a technique that took at least 5 months for fingerlings to grow to table size.

In its quest for improved models to accelerate pro-poor development, PIND worked with a sister project called 'MADE' to change its strategy and work directly with the trained and entrepreneurial ASPs with a commercial incentive and the mandate to scale up the intervention, who in turn would work with feed companies, fish farmers associations and fish farmers across the region[23]. The ASPs would not only manage but lead and drive forward a range of extension services to farmers, including technical and business management knowledge transfer through demo plots, training and advice.

Partnership development: Together with a USAID project, PIND ran an open 'Expression of Interest' (EoI) to find consultant ASPs. The original ASPs identified during scale up phase 1 (demos led by the feed companies) were also retained for scale up phase two (demos led by the service providers). PIND also developed a value proposition for business model and presented it to feed companies and consultants.

22. The results showed that the fingerlings stocking density was reduced by 29% and the total production cost was reduced by 0.3% whereas the yield was increased by 14% and the profit margin was increased by 17% compared to the baseline
23. MADE is funded by the UK Department for International Development (DFID)

Partnership selection criteria: In responding to the EoI, the selected service providers were required to present a:

- Marketing plan
- Proposed site location
- Commitment to run multiple phases of training, and guarantees for the number of people to be trained per demonstration

Market player partners: 12 ASPs were selected and provided with project support.

Secondary market players: Feed manufacturers and their distributors, as well as local agro-dealers, hatcheries and farmers' associations

Company overview: The ASPs were mostly individual self-employed entrepreneurs. Some were fish farmers or ran businesses in the aquaculture value chain, while most them were consultants that added the aquaculture sector as part of their portfolio. Their profile was generally educated, young and mobile.

The Business Model

Summary:

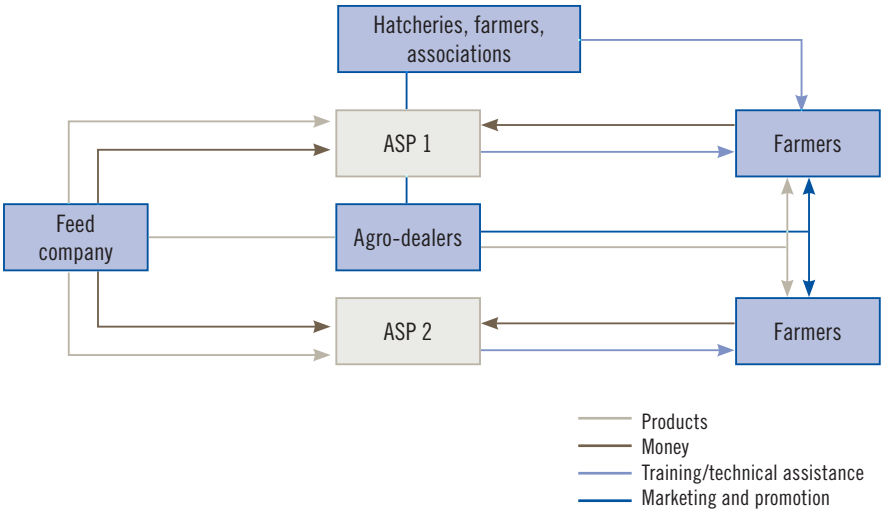
PIND is supporting selected entrepreneurs to provide training, advice and information to fish farmers. The model is built on a mix of demonstrations at fixed ponds and mobile service delivery direct-to-farmers.

ASPs organise demo ponds using equipment purchased by themselves and with partial contribution from PIND, and fish feed on partial credit from feed companies. Farmers are organised around a cluster to attend the demo pond, alongside a calendar of short training courses at the demo on best practices on fish farming, starting from pond preparation to harvest. The demo pond model illustrated better pond management practices like stocking, feeding by biomass, netting and water quality management.

In addition to the demo-plot training, ASPs provide classroom training on business management using the NAEC (Nigeria Agricultural Enterprise Curriculum) and on record keeping. PIND had previously modified the NAEC to be more relevant for aquaculture management. ASPs were also engaged by individual farmers to provide fee-based technical advice and assistance.

Fish farmers pay to attend demonstration and classroom training as well as to receive technical advice. ASPs engage in a profit share with the feed manufacture: 50% of the demonstration pond profits are returned to feed companies as a way of covering the costs of providing fish feed.

How it works:



Simplified step-by-step process:

1. PIND selects ASPs and provides start-up grant to purchase equipment for the demonstration plot
2. PIND provides training of trainers to ASPs on technical and business topics, in line with the NAEC
3. ASPs receive inputs on partial credit from feed company
4. ASPs run demo plots and a calendar of practical and classroom based training
5. ASPs engaged by individual farmer clients to provide bespoke technical advice
6. Farmers pay per service and ASPs retain 50% of profits, with remainder reimbursed to feed company to cover input costs
7. ASPs run follow on trainings, now that they have relationships and working capital.

Innovation: How the model is different from business-as-usual

The private extension business model addresses the market failure of a lack of supporting services for fish farming information and advice. The innovation is to create a new layer of actors – the ASPs – as intermediaries for knowledge exchange between feed companies and farmers.

Business model elements:

Value proposition	For farmers, adopting improved practices of fish production, including quality feeds and fingerlings, can increase their productivity and profitability. PIND has recorded average fish farmer profit increases from 5% to 22% over the lifetime of the intervention. These came about not by increasing retail prices, but by dropping the costs of production through better farm management.
Target customers	All fish farmers with a focus on those in the 'catchment area' of local demonstration plots
Distribution channels	New distribution channel for the provision of technical and business information and advice via fish pond demonstration sites and classroom training
Customer relationships	Service providers build their reputation by providing quality information through training and demonstration – which leads to repeat engagements and demand for bespoke technical advice
Value configurations	ASPs focus on teaching techniques such as feeding by biomass. This reduces the costs of production and increase yield by feeding fish with the right quantity at right time, therefore reducing wastage. Water quality testing reduces fish mortality.
Core capabilities	Technical training mixed with business management and record keeping skills
Commercial network	ASPs engage with feed companies, farmers' associations and hatchery operators and to explore synergies and create linkages between complementary products and services.
Cost structure	The main cost driver relates to start-up costs of around Naira 200,000 (USD600) for the demonstration pond equipment, plus cost of fish feed. There is a minimal opportunity cost as some of the ASPs were fish farmers already, and can continue to be so as they diversify into service provision.
Revenue model	Pay per service. Classroom and demonstration pond training as well as technical advice is subject to a fee.

Project contribution: PIND did a significant amount of up-front preparation work, which included:

- Developing the demo pond training curriculum and documented it in a manual that is accessible to all;
- Adapting the NAEC for Aquaculture and the training manual;
- Running training of trainers (ToT) on the use of the curriculum.

This model is also centred on the use of output-based performance grants[24]. The initial grant from PIND is designed to cover at least 50% of the cost of organizing two demonstration pond cycles and associated equipment such as the pumping machine, pH meter, discharging hose etc. The ASPs are required to show evidence of ability to cover the remaining 50% of the cost. There is also an implicit understanding that the grantee would utilize the profits from the initial demo to run at least two other cycles thereafter.

Payment of the 1 million Naira grant is contingent on reaching at least 40 farmers paying for training. A follow up grant of be 300,000 Naira based on a second round of demos and outputs of reaching 40 farmers paying for

24. Some ASPs get support from other DFID and USAID projects in the region

training with evidence of plans of reaching a further 20 farmers paying for training.

PIND organised training-of-trainers (ToT) on technical topics as well as the standard business curriculum. PIND also facilitated links to large feed manufacturers.

Progress to date: PIND provided direct support to 12 ASPs, but there are now close to 70 service providers active in the market. As farmers started trying to copy new production practices from their neighbours who had ASP support, this stimulated demand for further technical support – and led to the additional 58 ASPs 'crowding into' the market. As yet, however, these new ASPs are not functioning at the level of those who got support from project as they cannot access capital to finance demonstration plots, so rely on training and advice alone.

Impact: Results from the pilot and phase 1 scale up of demonstrations ponds show a combined income increase of up to 119 million Naira (USD325,000) to 520 direct and indirect beneficiary fish farmers. A further 5,700 farmers have been reached in the second phase of scale up.

At the end of selected demonstration ponds, assessments are carried out to measure the effectiveness of training. The results revealed variances in the adoption level of eight improved practices taught in the training. 96% of farmers adopted "netting of ponds" whereas only 11% farmers adopted "new methods of piping". The result also showed that 82% farmers adopted "record keeping" of expenditure-return of fish cultivation.

Business model analysis (ESSOR)

Environment: In 2017 Nigeria's central bank effectively devalued its currency by allowing dollars to be bought at almost 20% above the normal rate for travel, some school fees and medical bills. This macroeconomic shock placed considerable stress on the fish farming sector, particularly as some fish feed formulation is imported. The devaluation also led to increasing feed price and reduced imports of fish, creating more local demand. It also led to a major investment in feed by Olam, which has been a major factor in bringing the price of feed back down.

In line with many other countries in Sub-Saharan Africa, public agricultural extension services lack effective scale to be able to provide advice, information and other support services to farmers to enable them to improve their farm and non-farm incomes. In particular, agricultural extension in Nigeria has placed more emphasis on crop and livestock production and much less on aquaculture and fisheries extension. The root causes of this lie in politics, policy processes, and the enabling environment – which were deemed beyond the scope of the project to influence. However, private sector participation in extension has become an accepted way of funding and delivering services in other agricultural sectors, so there was an opportunity to leverage these models in fisheries.

Strategy: ASPs are essentially adopting a new business strategy – seeking to commercialise their knowledge and expertise as high-performing fish farmers to help fellow farmers. While some ASPs retain their ponds, others have become fully focused on service provision.

The major competitive advantage of ASPs is derived by their ability to a multi-side business model. That is, ASP incomes largely rely on brokering relationships with companies to provide feed on credit, and on linking farmers to complementary services. ASPs also sell a service – *primarily* information on good pond management – and as such are well-positioned to collaborate with sellers of *products* such as feed companies, their distributors and agro-dealers.

Structure: ASPs are micro-entrepreneurs. As such, there is considerable variety on how their business is structured and executed. However major growth has been driven by Master ASPs who continue to wear many hats – as pond owners, agro-dealers and even feed distributors. A small number of the highest performing ASPs are now dedicated entirely to service provision. About 16 ASPs have invested in demonstration plot equipment on their own or hired staff to expand their enterprise.

> 'We started our first demo with Vital Feed company. From there, my co-farmers were now seeking my advice because of the techniques and some other things we put in place that was not normal with what we were practicing before. I now became a kind of assistant to my farmers. I discovered that when I bring a solution to a problem, somebody will start paying me N2,000-3,000. That was how I discovered I can make money from it"
>
> **ASP**

Operations: The flow of knowledge and information depicted in the business model has a single critical success factor: The quality of the ASP advice. This can be partly influenced by the quality of the training-of-trainers provided by PIND, but is mainly a function of the technical ability and skills of the ASP. As would be expected, the quality of service provision varies but as this is a market-based mechanism, over time competitive forces will likely lead to poor quality ASPs exiting the market as farmers become unwilling to pay.

PIND did not dictate a pricing model for the extension services. Some ASPs priced themselves out of the market by charging rates that were too high. The best performing ASPs adopted forward-looking tactics: Running the demo trainings and only charging a nominal amount, which built up their reputation and levels of trust among farmers, who then saw value in engaging the ASP for advisory services at more market rates.

Risk: Risk is diffused throughout the business model rather than concentrated in one group of market actors. The feed companies used to carry a small risk of not seeing any return on the feed they provide to ASPs for demos – but as larger companies, such a default this would not represent any significant cashflow or revenue issue. ASPs themselves start with a diversified income strategy, retaining their ponds at the same time as starting to provide services to other farmers – only making the 'jump' to full-time service provision once a solid pipeline of clients has been established.

On the other hand, owing to years of heavy donor funding of training programs it has not been easy for ASPs to adopt new approaches to organizing training and charging fees for services. Few farmers see a clear incentive for engaging ASPs until they have seen concrete benefits (at demos or in neighbours' ponds) and willingness to pay is low, meaning uptake has been slow.

One final 'impact risk' is that ASP provide support to small farmers as well as commercial farms. However, PIND has noted that commercial farms have been increasingly keen to retain ASPs for technical advisory services.

With a relatively low number of ASPs in operation, this could mean that service providers are increasingly 'booked up' by larger farms who can likely afford to pay higher fees, leaving less time for small-scale fish farmers.

Exit strategy

ASPs are a new model and are not yet common in the market system. However, the emerging 'professionalisation' of the service providers – particularly of the 12 ASPs directly supported by PIND – points to an opportunity to build out intermediaries for information services.

The PIND grant was designed to stimulate and test the business model. Looking forward, PIND is creating a Master ASP structure, where up to 6 of the best ASPs will be tasked with driving forwards top up training and running the training of trainer courses for new ASPs. Some of the feed companies are also starting to think about re-entering the model to support ASPs and sponsor demonstration equipment, which is the major factor inhibiting more ASPs from stepping up their farmer outreach.

CRITICAL SUCCESS FACTORS:

- Making a strategy pivot mid-scale up to better align the market function (information provision) with a market actor (ASPs) who had a real incentive and capacity to carry out the role.
- Adopting 'pull marketing' strategies that drew customers to the service and establishes a loyal following, rather than 'push marketing' that requires highly visible branding and advertising.
- Smart grants to catalyse service provision and reach a critical mass of ASPs that can eventually lead to a 'tipping point' to unlock farmer demand and willingness-to-pay

What PIND learned

PIND benefitted from the time and space to be able to take a number of years to test and iterate the business model it was supporting. Rather than having to 'hit targets' quickly for the stake of donor reporting, PIND was able to have a short data-driven pilot and two scale up phases to arrive at a model with the greatest potential for systemic change. It was also able to incorporate 'tested' models from other projects, such as MADE.

If PIND could go back to 2012 and do things differently, they would not spend time in trying to persuade feed companies to lead demonstration plots. The demo model was meant to be a marketing strategy to help increase the customer base of feed companies, but the economics of small-scale farming in the Niger Delta Region made the demonstration idea commerically unaffordable, and feed companies were happy with their current business strategy. Instead, PIND would go straight into the supporting market and catalyse the creation of highly motivated ASPs to drive demos and deliver services at a cost affordable to fish farmers and viable for right sized service providers..

Takeaways from this case

1. Projects often try and 'bolt on' a service offering to a company selling products (such as an agro-dealer). This bolt-on is usually based on the argument that embedded services can help drive sales and create repeat purchases. While this is sometimes the case, a product-plus-service offering is not always aligned with commercial strategies or incentives. Instead of trying to force services through existing actors, consider creating new types of market actor better suited to the role.
2. This 'market creation' to overcome a completely absent supporting function is fundamentally different form the kind of 'tweaks' and small changes to business models often supported by market systems programmes. Such transformational change requires more time, resources and patience. It also requires an approach to implementation that is flexible, learning-led and adaptive – rather than being neatly 'boxed into' the tight boundaries of logframes and results chains.

> "Successful market creation requires a very different approach to product positioning and go-to-market strategies more broadly. The primary objectives are to help kick-start an initial consumer "sensemaking" process - a trial-and-error based form of experimentation - that invites consumers to figure out on their own terms how a product fits into their lives and the value it holds, and to then catalyse a bandwagon effect that, in sociological terms, normalizes the offering and makes it seem a necessary and vital part of any person's life."
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> **Erik Simanis, in Bringing Bottom of the Pyramid into business focus**

BUSINESS MODEL

3

Supply chain management

Country: Afghanistan

Project: Road to Jobs

Objective: Create more and better jobs in Northern Afghanistan

Organisations: Implemented by the International Labour Organization (ILO) with funding from SIDA

Intervention title: Market linkages in dairy production and collection

Business model: Blend of make-sell and resell through a cool-chain system

Key constraints the intervention aims to solve:

Target groups:

- Farmers struggle to sell fresh milk on the open market and therefore cannot generate additional income for their families.
- Productivity (litres per cow) is very low

Market players:

- There is a lack of cool-chain facilities and village-level milk collection centres, meaning that milk spoils soon after it leaves the farm.

Systemic change vision: Improved market infrastructure allows dairy producers to expand beyond local consumption and access higher value markets which can boost incomes and create jobs

Status: Scale up

Timeframe: July 2016 - ongoing

Background: Livestock keeping is an important element of the Afghanistan economy both for home consumption and the sale at market of dairy products like yoghurt and cheese. Despite producing surplus fresh milk, the lack of cold-chain facilities and village-level milk collection centres means there is limited access to markets and most milk is spoilt or given away for free or discarded. Some milk produced is processed into Chaka (yoghurt) and sold at local markets. Most industrially processed and packaged dairy products are imported.

Road to Jobs adopts a local economic development approach. During the project's initial market analysis phase, Dawlatabad District was identified as having a high potential for milk production. But the District is unstable with significant insurgent activity, so businesses and even other donor projects had been unwilling to engage in the area.

Partnership development: Road to Jobs worked with the Balkh Chamber of Commerce and Industry to organise consultative meetings with businesses in different sub-sectors. In dairy, a meeting was called with major livestock players – but this was not well-attended. Instead, Road to Jobs reached out to their Local Economic Development (LED) Coordinators – who in essence are community members with good connections and local market knowledge. These LED 'fixers' identified two relevant dairies.

The Balkh Livestock Development Union (BLDU) is a farmers' cooperative established through a USAID funded project. Each of the BLDU's 10 collection centres has 50 women members who keep cows, selling milk to the central processing unit of BLDU located in Mazar. Pakiza Livestock and Dairy Production Company is a private company, with more limited aggregation and processing capacity.

Road to Jobs asked the two companies to share their strategy and growth vision. The idea was to ensure that the project was helping address real business issues, as long as they were a) creating jobs for women and men, and b) opening up the supply chain to smallholders or poor dairy farmers. In Dawlatabad, research had shown high potential to engage more women suppliers, so Road to Jobs had specifically asked for the inclusion of women dairy farmers, processors and employees at key nodes in the value chain.

Partnership selection criteria: As there were only two market player partners on the shortlist, Road to Jobs approached partner selection on a more intuitive basis, rather than using strict assessment criteria.

In fact, the project initially started partnership discussions with BLDU as they had the highest collection capacity. BLDU were also much sharper in articulating their business needs and could articulate these needs in a well-written project proposal. But this made Road to Jobs suspicious - most of BLDU's business is done with donor programmes, and they are very good at writing documents for donors, but Road to Jobs was worried about the long-term sustainability of partnering with an organisation that was started by, and is mainly dependent on, external aid.

Pakiza, in contrast, struggled to put anything down on paper to explain their ideas. Road to Jobs had to help the business articulate their ideas, but this organization turned out to offer a bigger opportunity to help shape a more inclusive business model. At first, Pakiza was not even interested in growing their businesses – they simply wanted to collect enough milk supply to survive. Hitherto they had managed to build a good relationship with communities who produce milk but had serious issues with consistency and quality.

Market player partners: Pakiza Livestock and Dairy Production Company.

Secondary market players: Mobile collectors, retailers and larger national dairies.

Company overview: Pakiza is a sole proprietorship owned by an Afghan national, Abdul Matin Qasim. He runs the business and carries most of the managerial functions. The company was started in 2012 and now has over 60 employees. Pakiza currently processes around 3,500 litres/day.

The Business Model

Summary:

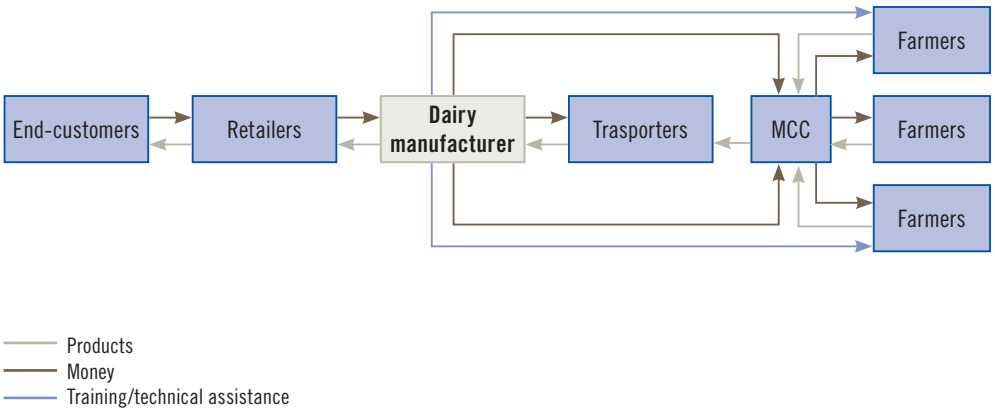
The supply chain management model is based on three factors of supply, demand and intermediation.

On the supply-side, Pakiza trains farmers in the good practice of dairy production methods to ensure a high-quality supply of milk. Cattle management training covers topics such as: different cow breeds and selection, raising dairy cows, fertilization, pre-and post-delivery hygiene, safe milking, fodder, silage, diseases, vaccines and treatments. Farmers were organized in classes of 25 to 30 and received training in both theory and practice. Illustrative materials such as video, images and signboards were used for theory sessions.

End market and product diversification has helped boost demand for fresh and processed milk. Pakiza Dairy now processes milk every day into seven different dairy products (processed milk, yogurt, cream, cheese, butter, dough and chocolate milk) and retails both locally in Balkh, and in Kabul.

Linking supply with demand, milk collection centres give farmers the opportunity to sell their milk to factories who then process the milk into dairy products. Three milk collection centres (MCC) Khalabachagan,Taligak and Qaraghujla each have a catchment area of 5-10 villages . These centres collect farmer's fresh milk on a daily basis, which is then bought by the Pakiza Livestock and Dairy Production Company.

How it works:



Simplified step-by-step process:

1. Pakiza trains catchment area farmers on dairy production methods
2. Farmers deliver surplus milk to three collection points
3. Pakiza transporters move milk to central processing facility
4. Pakiza treats and processes milk ready for market
5. Pakiza and partner retailers sell products to end-customers

Innovation: How the model is different from business-as-usual

Pakiza has previously received significant support from other donor projects including USAID, CARD-F (DFID and DANIDA) and GiZ. This support included help to develop the business plan for the dairy, start product diversification, train technical staff and build milk collection centres. The core elements of the business model were therefore not new to Pakiza.

However, many of these project-supported initiatives were not sustained, and Pakiza had stopped sourcing from a number of the collection centers due to the lack of quality and inconsistent milk supply. The business model innovation was therefore to use a market systems lens to better link supply with demand, particularly targeting untapped catchment areas such as Dawlatabad.

Business model elements:

Value proposition	Smallholders access the knowledge and markets they need to sell milk, while the commercial diary smooths out supply issues of quality and consistency.
Target customers	Supplier farmers with surplus milk for the market
Distribution channels	Upstream, Pakiza previously had access to milk collection centres, but these were the first covering the high potential Dawlatabad catchment area. Downstream, Pakiza began to market products outside of Balkh Province for the first time and now retails in Kabul.
Customer relationships	Already deep supplier-buyer relationships in communities were strengthened by adding an additional training element
Value configurations	Further product diversification within categories: Pakiza is experimenting with two types of flavoured yoghurt. They have also begun more sophisticated products by producing chocolate with pistachios, hazelnuts and almonds.
Core capabilities	Building on core technical capacities of Pakiza dairy in pasteurisation, homogenization, processing and packing
Commercial network	Expanded and diversified supplier base
Cost structure	Significant upfront costs including investment in milk collection center and farmer training
Revenue model	Profitability determined by margin between price per purchased litre of milk (from farmers) and price per litre of milk sold, either in fresh format or value-added products such as cheese and yoghurt.

Project contribution: Road to Jobs was unwilling to support the costs of building new milk collection centres as they wanted to back commercially sustainable strategies that build off of real business incentives - rather than funding 'white elephants' that may not function in the future.

The project therefore picked up the costs of building the supply side capacity, which primarily involved farmer training. On the demand side, Road to Jobs funded a technical consultant from Iran to advise Pakiza on further product development.

Finally, the project is supporting Pakiza to obtain a Hazard Analysis and Critical Control Points (HACCP) Certification. While Pakiza already has an International Standards Organisation (ISO) certificate, there are issues with the reliability of ISO certification in Afghanistan so greater competitive advantage can be obtained through HACCP.

Progress to date: In the first year of the intervention, Pakiza increased their sales of processed milk products by 21%. After the success of the two collection points in the Dawlatabad district the company has now invested in the construction of the third center entirely on its own and has plans to add new product lines, for which they plan to train and work with 50 new female processors. Pakiza products have been exhibited at the National Labour Conference in Kabul.

A total of 2,250 farmers, mostly women, have been trained by Pakiza in cattle management. While quality standards have improved, Pakiza secured a sufficient quantity of milk by adding new farmers to its network, rather than significantly improving the yield of existing suppliers. This points to ongoing and unresolved productivity issues.

Impact: Approximately 500 farmers actively sell milk through the collection points. 73% of these farmers had no previous access to markets at all. Women particularly have benefited from the initiative to sell milk via the collection centres and women farmers have been trained and have increased their income as a result. Due to the cattle management training the rejection rate at the MCC has been reduced by 75%.

14 new full-time jobs were created in Pakiza, and 7 jobs have been created in the collection points.

Business model analysis (ESSOR)

Environment: The ongoing conflict in Afghanistan means the security situation is precarious. This has a continued negative impact on the economic and investment climate, eroding incentives of many businesses to look beyond the short-term towards future growth and capital expenditures. Despite reforms to the legal and regulatory framework, there are still serious shortcomings in terms of developing the private sector, which is not yet sufficiently competitive. All of this makes for a very challenging environment in which to pursue inclusive business models.

Strategy: There is both sufficient supply of surplus milk in Dawlatabad, as well as sufficient demand for processed milk products in Northern Afghanistan. Proof of this is that Pakiza is eager to explore new activities through the production of ice-cream, chocolate, and watery yogurt. Nevertheless, additional research is needed to understand the market opportunities of investing more

in the dairy sector – within the overall strategic direction of creating competitive advantage through import substitution (more local production to replace expensive imported dairy products).

Structure: Business transactions in Afghanistan are often familial or community-based, meaning they are underpinned by a high degree of trust and cooperation. Relationships are therefore an important intangible aspect of any business-to-business structure. While there is ample labour in Afghanistan, there are challenges in finding and retaining skilled staff – meaning technical expertise often needs to be brought in from nearby countries.

Finally, the relatively small size of many companies – including Pakiza – creates a middle management problem. Owners often play active roles in all aspects of their business from marketing to finance. However, these often require specialised knowledge or dedicated managers as businesses expand, which means that owner-managers need to transition to less hands-on and more strategic roles. However, it is often difficult to find middle managers to whom owners can relinquish critical management functions.

Operations: Initially, Pakiza thought of establishing new physical centers with the purpose of collecting and transporting milk. Unexpectedly, a cooperative emerged as an existing and capable actor of undertaking the same function.

The milk cooperative existed before the intervention; however, it was not functioning. When Pakiza began to source milk from within the district, the cooperative saw a business opportunity to collect and sell milk. Although supporting the cooperative was not part of the project initially, the dairy company trained the cooperative members so they could become part of the value chain. Today, the cooperative has 100 members.

This represented a benefit to Pakiza, who now had two established collection centres and a cooperative to source more milk from more farmers. This experience shows that there might be possibilities of working with farmer groups or cooperatives in other districts, as opposed to heavily investing in the construction of MCCs. Although MCCs do offer more facilities for the pre-processing of milk, cooperatives might come in as a more affordable and faster solution to milk aggregation and sourcing.

Risk: Risk aversion pervades the sector. In this business model, there is no contractual relationship between Pakiza (the buyer) and farmers (suppliers), who are free to sell on the open market. This creates a risk that Pakiza invests in training farmers and developing collection points, only for farmers to 'side sell' elsewhere. While there is no evidence of this yet taking place – in part because of the lack of other buyers – the situation may well change in the future as other dairies start to explore an expansion of their supply chain into Dawlatabad.

Scale-up strategy

Markets in Northern Afghanistan are truly 'thin' – where limited numbers of investors and entrepreneurial growth firms within the economy have difficulty finding and transacting with each other at reasonable costs. Pakiza is currently benefiting from a 'first mover' effect in sourcing from Dawlatabad. While there are a number of other dairies in operation, Road to Jobs will not play an active role in helping them diversify supply into Dawlatabad and other untapped districts. Road to Jobs expects that the demonstration effect from the pilot will lead to an organic 'copying' by other companies, based on Pakiza's success.

Instead, the project is looking to scale by leveraging smaller players in the dairy value chain. The project recently commissioned a study of 1,000 cottage dairy processors to quantify the market potential in terms of litres of milk. One strategy would be to support these small home processors to 'step up' their activities by linking them to larger processors.

Another angle during scale up will be to link the supply chain model to a separate paravet intervention. Livestock paravets occupy a unique position in these communities, but so far focus their activities mainly on sheep and goats. To overcome continuing productivity issues, new models can be explored to diversify paravet services into dairy and poultry.

CRITICAL SUCCESS FACTORS:

- Using strategic and targetted market research and analysis to identify an untapped market segment
- Building the partnership around a pressing business challenge faced by both upstream and downstream players

What Road to Jobs learned

In collecting data, it was evident that that Pakiza lacked appropriate book-keeping capacity. This management limitation hindered the measurement of levels of sales, production, income increased, among other key indicators. As part of the future partnerships, Road to Jobs is thinking about working closely with the partner in formulating a simple but useful book-keeping tool and training.

> "No matter the mindset change, (they) still think you are giving them money for free, even when you are coinvesting"
>
> **Road to Jobs Team Leader**

This points to a wider lesson learned by Road to Jobs when working with private companies: no matter how hard you try to engage with firms on an equal, 'quid pro quo' partnership basis, companies often struggle to look at aid projects as anything other than a means of free cash.

Takeaways from this case

1. Find partners who already have a strong business incentive to try new models. Possessing the 'will' to change is much more important than the 'skill', as capacities can always be built – but it is much harder to shift motivations.
2. Allow form to follow function, rather than the other way around. So instead of fixating on the what the solution looks like (a physical milk collection center), work out what the market needs (a way of cost-effectively aggregating milk) and probe different solutions (which may be a cooperative, fixed or mobile collection point).
3. In donor-crowded, aid-saturated contexts, it may be impossible to find companies that have not received significant 'free' support. Working on a partnership 'co-investment' basis with these companies, rather than as a grant giver-recipient basis, may require a mindset change on the part of companies (and sometimes project staff!) which will not happen overnight.

BUSINESS MODEL

4

Vocational education for ICT job placements

Country: Kosovo

Project: Enhancing Youth Employment (EYE)

Objective: To increase employability and employment of young women and men in Kosovo in a socially inclusive and sustainable way

Organisations: Implemented by Helvetas and Management Development Associates (MDA), with funding from Swiss Agency for Development Cooperation (SDC)

Intervention title: Conditional contract pilot

Business model type: Multi-sided, whereby education providers act as a broker between labour supply (young people) and labour demand (ICT employers) alongside providing training modules.

Key constraints the intervention aims to solve:

Target groups:
- High youth unemployment rate
- Lack of skills due to low public investment in formal education
- Fragmented landscape of private ICT training providers

Market players:
- High - and unmet - demand for skilled labour in the ICT services export sector
- Poor information flows between non-formal training providers and private sector ICT companies leading to skills mismatch
- Coordination failure between employers and training providers hinders co-operation and mutual development of curriculum

Systemic change vision: Increased trust and cooperation in the IT market drives industry-supported innovation in curriculum and pedagogy for IT courses, enabling more youth to upskill and gain employment in IT firms. In turn, an increased supply of skilled labour enables local IT companies to more reliably bid on larger projects, retain skilled staff, and grow their position in the IT export services market. Ultimately, the vision is for more dynamic IT and vocational education sectors that offer opportunities for youth to invest in their education and enter the labour market with meaningful jobs.

Status: Pilot under negotiation with 15 partner companies and 23 students; plans to start offering training in August or September 2019. *Note: This case study captures the situation as of July 2019; and given the 'live' nature of the intervention, is subject to change.*

Timeframe: EYE has been active since 2012, supported initial partnership with training provider starting in 2017, current conditional contract pilot launches in 2019.

Background: EYE supports a portfolio of interventions related to youth employment in the ICT sector in Kosovo, including numerous past experiments to support companies to develop in-house training programs. While these programs had the benefit of being directly linked to the needs of at least one employer, they suffered from a narrow focus and the lack of economies of scale. The existing industry association, with support from donors, brings together local IT firms but hasn't yet managed to create sector-wide trust and relationships with training providers. This case study focuses on the second iteration of attempts to work with an independent private training provider that spun-off from a parent IT company with an excellent track record in the sector.

Partnership development: Two years ago, EYE supported CACTTUS, a leading IT firm in Kosovo, to develop curricula and gain accreditation for a 2-year community college "System Administrator & Web Design" course, with a plan for commercial banks to finance loans to students. Later, CACTTUS spun off CACTTUS Education as a separate, private training provider. Unfortunately, the program was too costly and its duration too long for sufficient numbers of students to enrol and invest in. Students cited financing and career planning as the main constraints to enrolling.

Drawing on a strong personal relationship between EYE program director and CACTTUS Education CEO, the two jointly diagnosed the deeper systemic issues of risk-aversion – not just among prospective students but also the companies in the IT sector and existing private training providers. Youth didn't see the immediate employment benefits of investing in IT courses; companies were skeptical that new graduates would stay with the company and not leave; and training providers lacked the legal recourse if tuition went unpaid.

With this diagnosis in hand, the CEO proposed a conditional contract model as a way of spreading the risk between the interested parties – students, employers and training providers. EYE could have walked away at this point from the 'failed' initial training offering, but because they had seen the level of investment (financially but also intellectually in the systemic problem) from CACTTUS Education's leadership, they decided to support the new contract model in its first iteration.

Partnership selection criteria: Currently, CACTTUS Education is the main partner piloting the conditional contract. This is because it was the organization's CEO who proposed the idea in the first place, based on trusted relationships and previous experience partnering with EYE to achieve similar goals. The criteria for partnering on the earlier interventions focused on the business orientation of CACTTUS, its intimate knowledge of industry needs (via parent organization) and its commitment to develop courses that serve the whole sector, not just the narrow needs of its own company.

Market player partners: CACTTUS Education, a private and professional education provider for ICT educational courses in Kosovo, is the core partner for the pilot.

Secondary market players: CACTTUS Education has subsequently reached out to more than a dozen ICT companies to support the model, develop conditional contracts, and agree to employ students part-time during the course and full-time after graduation.

Company overview: CACTTUS Education is a new entrant to an emerging market segment – private vocational education and training for the ICT sector. Because of its parent company's strong market position and reputation in the ICT sector at large, it is considered a leader in this new private market for vocational education in the country.

CACTTUS Education has around 20 full-time staff, and many more part-time trainers who are drawn from industry to teach specific modules. The company has five classrooms, equipped with computers to enable hands-on learning for ICT skills. The existing training offerings include 2-year community college diplomas (5th level qualifications) in systems administration and software development, as well as short-term trainings or boot camps which are increasingly favoured in the market for their short timeframes.

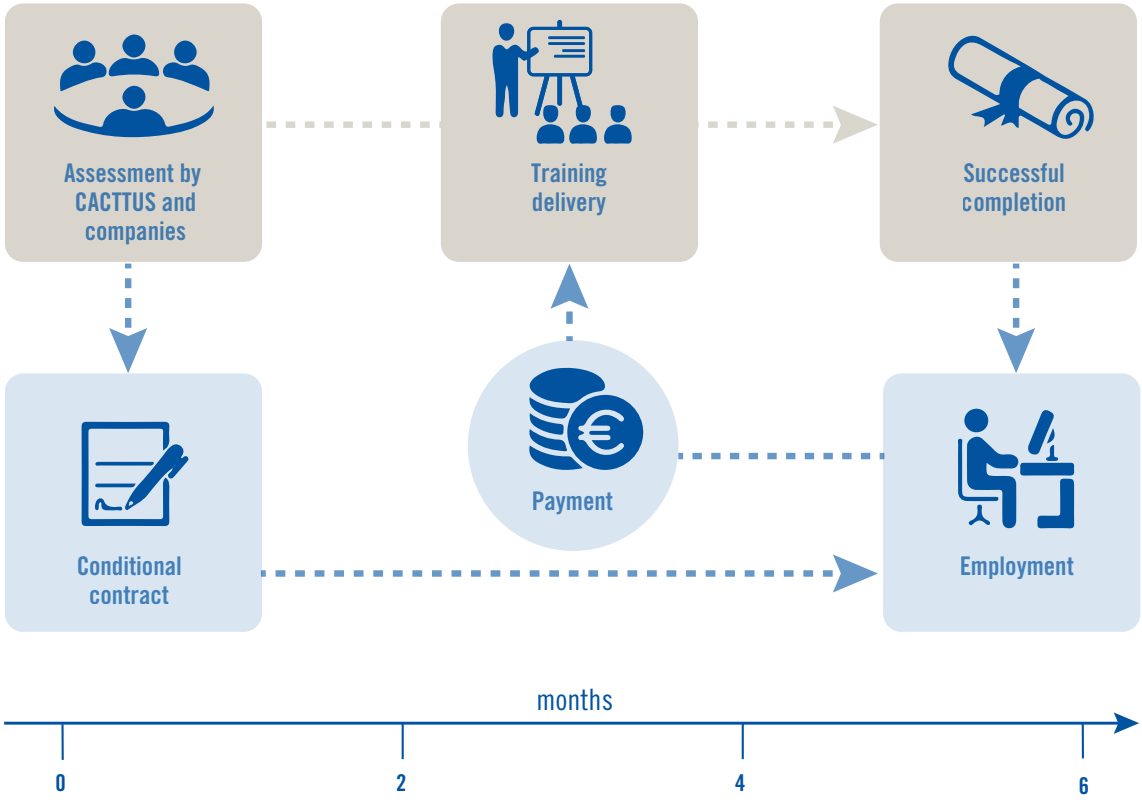
The Business Model

Summary:

EYE is supporting an innovative ICT training provider to pilot a new partnership with employers and students, underpinned by a conditional contract. Employers agree to cover part of the cost of the training and offer part-time jobs to students who are enrolled in the training course, with a commitment to full-time employment after completion. To get companies to agree, they are heavily involved in the selection process for students to be admitted into the course. The training provider agrees to forego up-front tuition, and instead agrees to be paid in monthly instalments of 200 Euro from companies for each student they employ.

How it works:

Figure 1: Conditional Contract Scheme (credit: Helvetas EYE internal document)



Simplified step-by-step process:

1. CACTTUS Education recruits companies who need to hire young graduates and are willing to participate in the scheme.
2. CACTTUS Education and participating companies assess prospective students, and all parties sign the conditional contract – which guarantees students a job in a particular company. This job would be part-time during the 6-month program, and full-time after graduation.
3. Students participate in the 6-month training program, which is led by CACTTUS Education staff and supported by industry experts from participating companies.
4. Once students are employed (even part-time), employers pay a monthly instalment to CACTTUS Education to repay the tuition for the course.
5. In the case of student drop-out, non-completion or leaving their job before tuition has been repaid, EYE agrees to cover 50% of the costs for drop-outs up to 20% of the size of the cohort. *Note:* This is only for the first pilot cohort. Future cohorts will be donor-independent, with costs covered by tuition alone.

Innovation: How the model is different from business-as-usual

The CACTTUS Education program offers an intensive, hands-on 'boot camp' to equip students with the knowledge and skills to develop web applications. The content is developed in close partnership with leading programmers in the industry. Compared to competitor in-house 'academies' which train students for employment in one specific firm, CACTTUS Education's offering is explicitly aimed to prepare students for the wider industry, although their contract places them with one specific company for the first year.

The major differences pertain to the involvement of employers in selection process, the timing of tuition payments, and the guarantee of jobs upon completion. The latter two significantly improve the offer to prospective students, who no longer have to pay high up-front tuition fees for the course, and simultaneously are guaranteed a job placement in the ICT industry from the day they begin the program. In return, they must accept a slight pay reduction to factor in tuition deductions from their salary, but the risk profile has been completely shifted from a student perspective.

Employers in this model are more invested in the quality of the education, as they have committed to hiring graduates in advance and referring them to the training program. In order to address employer concerns about student commitment, skill and fit, they are involved in the selection process from the beginning to be able to assess attitude, soft and generic skills. This is a radical departure from business as usual, where employers are often an afterthought in the educational process, left to vet both the quality of educational qualifications and fit with company culture after students have completed their courses.

The biggest risk in this case is borne by CACTTUS Education, which delays its usual revenue stream of tuition, typically secured with an up-front deposit and paid off by the end of the course. Companies share in this risk by contributing to monthly installments of tuition even before students graduate. The risk is highest for the first cohort of students participating in the contracts, as all parties learn to cooperate and trust each other. EYE de-risked the experiment by quietly guaranteeing 10 percent of the total training revenue in case of default.

Business model elements

Value proposition	*To students* - lower risk education with guaranteed rewards – jobs upon graduation. *To employers* - reliable supply of skilled labour with appropriate knowledge and skills, pre-vetted for company 'fit'.
Target customers	*Direct customers* – youth with soft skills, willingness to learn technical skills, and commitment to staying with companies. *Indirect customers* – employers willing to invest in newly hired staff, and to support their skilled employees to be part of teaching modules in the course.
Distribution channels	Students are recruited through traditional channels and social media campaigns. Once operational, the training course itself becomes a source of trained, skilled labour for companies to hire.
Customer relationships	Students learn to trust CACTTUS Education as providing relevant knowledge & skills that lead to sought-after jobs. Employers learn to trust CACTTUS Education for training students to be quickly onboarded. As reputation builds, both students and employers will compete for 'spots' in the course.
Value configurations	By integrating employers into the educational process, curriculum is shifted towards industry best practice, and is more responsive to changing markets.
Core capabilities	Technical knowledge of ICT skills, technologies; Pedagogical knowledge and skill to design dynamic courses; Relationship management to build trust with employers and manage expectations.
Commercial network	CACTTUS Education is expanding its network of partner companies through individual outreach and referrals from existing partners.
Cost structure	Main cost drivers relate to ▪ *Fixed costs:* Computers, projectors, tablets, courseware licenses (Approximately 65,000 Euro up-front) ▪ *Variable costs:* Instructor fees, space rental, electricity, equipment maintenance, project management, marketing (approx. 40,000 Euro for first cohort[25] of 30 students; approx. 30,000 Euro for subsequent cohorts)
Revenue model	Students and employers split the cost of 1,200 Euro for tuition fees spread across one year of monthly payments - throughout the duration of course and during full-time employment with the partner companies. After the first cohort, which includes cost-sharing from EYE to cover the up-front fixed costs, CACTTUS Education is projected to make a 10% margin for subsequent cohorts. This margin is contingent upon all students completing the course and staying in their new jobs long enough to pay off tuition.

Project contribution: EYE supported the strategic thinking and planning for the conditional contract model. In earlier interventions, the project cost-shared the fees for accreditation and curriculum development. For the conditional contract model presented here, EYE has agreed to cover 50% of the costs for the first cohort, with the other 50% borne by CACTTUS Education and tuition fees. Importantly, EYE's contributions are almost exclusively directed towards the fixed costs of buying the equipment, so the model is not dependent on ongoing subsidy to be sustainable. In the case of student drop-out, EYE has agreed to offset 50% of lost tuition revenue up to a maximum of 20% student drop-out from the initial cohort (up to 6 students out of 30) as all parties learn to manage student retention and adjust the financial model accordingly.[25]

25. The higher cost for the first cohort reflects the need for a larger marketing budget to introduce the new model to prospective students and employers.

Progress to date: CACTTUS Education has developed the curriculum, and engaged companies to supply some of the skilled teaching required to deliver it. At the time of writing, they have recruited 23 students spread across 15 companies, which represents over 85% of the required number to run a financially viable pilot, with the goal of achieving 100% and starting the training course by August or September 2019.

Projected impact: Because the pilot is still in its first iteration, there is no impact to report yet. EYE projects that students will earn approximately 200-300 EUR per month during the 6 months of training[26], which should raise to 500-600 EUR per month for the following 6 months. As graduates gain experience, they should be able to move closer to the industry standard of 900 EUR per month based on skills and position. This is a potentially transformative difference to the incomes and quality of life for successful applicants, compared to the prospect of unemployment or underemployment.

Business model analysis

Environment: Kosovo's ICT export services sector is one of the few growing segments of the economy. Local firms are competing for smaller contracts in EU and German-speaking markets on the basis of their lower labour costs. However, an unreliable supply of skilled labour, and variability of contracts mean that firms struggle to attract and retain talented staff on a more permanent basis.

The education sector in Kosovo is dominated by slow-moving publicly-funded[27] providers. The curriculum is static, which is a major problem for fast-moving sectors like ICT where knowledge requirements change rapidly to keep in step with industry demands. Frustrated with the out-of-date knowledge and skills of graduates from the public educational sector, ICT firms are looking for more responsive educational offerings. Several attempted to set-up their own in-house 'academies', with donor support, but nearly all of these have folded with insufficient student uptake to remain viable.

Strategy: CACTTUS Education's core business is providing industry-relevant ICT courses. The conditional contract model is an evolution of how the current core offering is positioned, and is a direct response to low student uptake of previous courses. The model responds to a gap in the current market, and seeks to address an underlying lack of trust between employers, training providers and students. For CACTTUS Education, the model builds stronger relationships between students and employers, through a deeper engagement in student selection early on. It also increases the profile of CACTTUS Education as a trusted broker and high-quality educational provider. Success will be measured in simple terms: the number of students who apply, are selected and complete the course; and the extent to which they stay in their jobs and deliver value to employers after graduation.

Structure: With only twenty or so full-time staff, CACTTUS Education has a simple management structure. Core staff playing recruitment and marketing functions are integral to the current phase of piloting, as attracting sufficient numbers of companies and high capacity students are key to testing the model. EYE has strong relationships at the senior leadership level, as well as ongoing communication with CACTTUS Education staff leading outreach to new firms. The company's core capability of delivering relevant training relies

26. This assumes students will be hired part-time during the training. Not all students will have exactly the same salary – some variation will depend on role, sector and the specific negotiations.
27. Much public funding is tied up in donor support, as donors agree to pay for trainings directly. This creates the expectation among students that formal training should be free/cheap, and orients providers to their 'true customer', donors.

on part-time trainers, many of whom are drawn from industry. As the company grows, retaining and strengthening relationships with this group will be crucial to quality control. Ideally, as new companies sign up to provide spaces for graduates, they will also create opportunities for their senior programmers to teach into the courses.

Operations: The physical and technical requirements for testing the new model are quite straightforward: CACTTUS Education simply needs to purchase the computers and course materials for an additional cohort of students, and to hire the trainers and rent the space for an additional classroom for six months.

The more complicated aspect involves the shifted cash-flow of delayed tuition payments, the risk of non-repayment, and the trust in employers that they will deliver on their promise of jobs to graduates upon completion. All of these dimensions are wrapped into the conditional contract itself between the three parties: Students, who commit to stay in their jobs and repay tuition as salary deductions; CACTTUS Education, who commit to deliver the course without payment until afterwards; and employers, who commit to employing students part-time and later full-time, paying them a salary, and contributing to the tuition repayment instalments.

The quality of the actual training course itself is partly assured by the role of industry experts in teaching certain aspects of the course. Ultimately, it is CACTTUS Education's reputation and prior strength in understanding ICT industry requirements that underpins the whole model – without this, employers would have no reason to commit to offering jobs to students, and students would have no reason to invest their time (and future earnings) in the course.

Risk: CACTTUS Education takes on the majority of the risk in the conditional contract model. It takes most of the *financial risk* by waiting to be paid for the training services it supplies; and the *reputational risk* that students will remain in their job and deliver value to employers. Any student that drops out of the course or fails to remain with their employer represents a loss of revenue to CACTTUS Education. Furthermore, students who leave their job prematurely cost employers the time and effort to search for a replacement, decreasing likelihood of the employer signing another conditional contract with CACTTUS Education.

To mitigate these risks, CACTTUS Education has designed the intake process so that students are thoroughly vetted, and employers are actively involved in their hiring. This ensures that employers' views and demands are an explicit part of selection, and in the case of student non-completion, the blame is not solely on CACTTUS Education.

Scale up strategy: Given the unfamiliarity with conditional contracts in the Kosovo context, organic replication is unlikely because of the legal complexity of the contract itself, the risk-appetite of the training provider, and the trust relationships required with a range of employers. Instead, EYE's strategy for scale-up is to support CACTTUS Education to expand and adapt is offering, and to proactively support second-movers.

CACTTUS Education has already started to develop new courses with one private sector partner in the banking sector to develop sector-specific ICT training courses that respond to the particular hiring requirements of banking. This signals an early adaptation of the model, and a commitment to the underlying principle of increased private sector engagement in the development and revision of external training provision. Once the first cohort completes the conditional contract model, the hope is to attract larger number of employers and student applications into future cohorts, growing the model and

increasing exposure of a larger proportion of the ICT sector to its benefits. EYE has structured its financial support to mean that after the first cohort, the financial model for the contract should be self-sustaining – CACTTUS Education will be able to cover the variable costs from the student tuition alone, while achieving a reasonable 10% profit margin.

Once a sufficient number of ICT companies realize the benefits of a sector-wide ICT training course with employer buy-in, then EYE may be able to support other private training providers to adopt a version of a conditional contract. EYE would not necessarily need to provide financial support for up-front fixed costs for second-movers, but could rather focus its support on technical assistance and strategic coaching so others can understand the outreach and relationship management aspects of the model, and the underpinning contract itself.

More important than spreading the contract itself is a changing set of norms around youth investing in education, and employers and training providers collaborating to revise and update training curricula. Even if the conditional contract itself proves unsuccessful, the pilot will provide crucial learning into shifting behaviours in this direction.

CRITICAL SUCCESS FACTORS:

- Supporting a respected training provider with deep ICT sector linkages that is more interested in making profit than attracting donor support.
- Recruiting a sufficient number of engaged ICT companies that can reliable offer salaried jobs for graduates, and whose senior employees might teach in the course itself.
- Attracting sufficient numbers of high-calibre students to apply to the program. Students need to complete the course and succeed in the jobs they are hired to do – so that companies see benefit, and the training provider gets paid.

What EYE learned

EYE and CACTTUS Education worked closely to build a financial model for the conditional contract. In fact, CACTTUS Education initially wanted to charge significantly higher tuition (closer to 2,000 EUR per student) but EYE managed to challenge the company to cut costs in order to make the tuition more reasonable and affordable for Kosovar youth. The financial model predicts the number of 'completing' students that are required to break-even in the first cohort – 26 students. With a conservative estimate of up to 20% drop-out, and EYE's commitment to cover half of the lost revenue in the first cohort, CACTTUS Education is clear in the need to have commitment from companies for 26 job placements before launching the training.

Such a significant investment in one partner might be perceived as reckless. However, given EYE's experience spreading support thinly across a number of partner training providers, and the deeper trust and relationship built in this case, management is confident in its decision to double down on CACTTUS Education. In fact, were it not for the trust developed through partnering for the prior two years, it is unlikely that the idea of the conditional contract would have come about, nor been nurtured. This trust allows EYE to differentiate between CACTTUS Education blindly following the project's lead, and

actually developing the contract for its own profit motive and to achieve its educational mission.

At this stage, much depends on the ability of CACTTUS Education to recruit companies and students to be able to test the uptake of the model, and the degree to which all parties stick to the contract they sign. The financial model is very sensitive to the number of students – both enrolling (costs) and completing (revenues). EYE anticipates much of the learning will emerge from how and why students complete (or fail to complete) the program. An important principle throughout is the ownership of the model by CACTTUS Education – despite some struggles in the initial company recruitment, EYE believes it is important to leave operational strategy and tactics in the hands of the company.

Takeaways from this case

1. **Be patient.** Deep trust between programs and market actors develops slowly over time – and failed initial experiments can be a crucial source of learning.
2. **Humility is welcome.** Transformative business model concepts emerge from understanding systemic problems as well as the business realities of market actors. It can be helpful for projects to see themselves as collaborators in this analysis and ideation process, rather than the source of ideas for new models.
3. **The customer (partner) is not always right.** At times, programs may need to challenge the assumptions of market players they partner with. In this case, the price point for tuition needed to be significantly reduced to make it viable for students. This may seem to run counter to the notion of local ownership, but can be crucial to overcoming blind spots.
4. **Do the math.** Detailed financial modelling, jointly developed by program and partner, helps both sides understand and discuss risk sharing based on explicit assumptions and projections of the break-even point.

Summary lessons for programme implementers

There is an emerging body of knowledge about how companies can build viable business models to benefit low-income or marginalised populations, much of it comes from the experience of multinationals and their 'Base of the Pyramid' operations. Critical success factors include:

- Leveraging existing operational infrastructure (distribution channels or retail points)
- Bundling products and services to make it more cost-efficient to deliver to hard-to-reach groups
- Developing a close relationship between consumers and service providers to add intangible value to the consumer experience, driving customer loyalty and increased willingness to pay

These are valuable learnings, but for market systems programmes often working with much smaller enterprises in developing country contexts, the question is not always *what does the perfect business model look like*, but more *how can I understand, measure and help partners iterate towards business model success*? The below lessons focus on how market systems programmes can support the creation of better business models that pass the twin 'tests' of commercial viability and development impact.

Lesson 1
Making money is not the same as making a profit

During interviews, we heard from project implementers how they struggled to assess the level of partner buy-in to the new models. A frequent proxy was to either track total sales (gross revenue), or to ask key informants, such as company management, for their perception of success. These managers, in turn, often self-reported – as in Case 1 of Yapasa - that through the innovation they have "expanded sales and are making money".

But as the maxim goes: Sales for vanity, profit for sanity. Simply put, it may seem like a 'good thing' to sell extra seed packets, but to be deemed successful the revenues have to cover both the cost of sales (e.g. stock or raw material) and contribute to the fixed (e.g. rent, wages) and variable costs (distribution and product promotion costs) of the new business model – as well as generating returns at a degree higher than the other alternative uses of company resources.

There may be some instances where companies do seek to generate higher revenues but not higher profits, such as loss-leader pricing (where companies sell at a loss to attract new customers, to whom they can then sell higher value products), but over the long-term few businesses can survive if they spend more than they sell. The only ones that do are those that are able to raise significant investment capital, such as technology start-ups, but this is rarely the case in the geographies where market systems programmes work.

Small business owners may not be able to make profitability calculations, but this is where programme implementers can play a value-added role in helping partners think through the financial aspects of the business model. As the Yapasa case shows, dedicating time and effort to do this upfront would have greatly helped further down the line. Soft measures of 'will' and stated preferences remain useful – but the motivating factor, ultimately, is profitability which can only be captured quantitatively.

Lesson 2
Explore the pathway to profitability; not profitability from Day One

Innovations, however, do not need to be *immediately* profitable. Indeed – very few are. Here it is useful to distinguish between different types of profit[28].

- *Gross profitability* is sales minus variable costs. It is used to show the company's efficiency in production and pricing. Gross profit will normally be expected to become positive relatively quickly, and the number (sometimes called the 'gross margin') may often need be quite high because of the operational costs required in some business model innovations, such as last-mile service delivery.
- *Operational profitability* deducts fixed costs from the gross profit figure. Operating profit is a key number for managers as it reflects the full range of revenue and expenses that they can control. Net profits – or the 'bottom line' – then deducts interest, tax and depreciation from this figure, but is more of interest in financial accounting rather than for business model analysis.
- *Investment profitability* is a measure of a project's overall return on investment which measures any gains against the investment's original cost. Depending on market conditions and expectations of the people providing the money (be they the company owners or shareholders), companies can generate high year-on-year profitability but still have negative investment profitability to meet the hurdle rates set by their investors and may only emerge out of 'the red' over long time horizons.

MSD programmes focus a lot of discussion and energy on detailed impact projections, but much less so on business performance projections. This may be in part because financial forecasting is thought to be a more established practice, and a task for businesses themselves. But at a minimum, programmes need to conduct due diligence to ensure the innovations they are helping introduce are viable. A range of profitability measures exist for this purpose[29]. Both PIND (Case 3) and EYE (Case 4) developed net cash flow margin projections to ensure that innovations would not put partner businesses under too much financial pressure, while the calculations could also help partners decide on appropriate stock levels and the size of credit lines for customers.

These projections are essential to set realistic expectations about the pathway towards profitability – and the timeframe for 'success'. For some innovations it may take 6 months to make a positive contribution to operating profits, for others it will take years: The key is to make decisions based on how the data coming back matches expectations, and using this data to inform any expansion or scale up strategies. Aggressively promoting an innovation that is recording a gross profit but not yet an operating profit has the potential to do more harm than good. Finally, it is critical to revisit and update the forecasts as innovations are iterated upon and as market conditions change. This is especially the case for innovations, such as PIND in Case 3, who are engaging in market creation to introduce an entirely new product or service offering.

28. Based on the work of Erik Simanis
29. https://corporatefinanceinstitute.com/resources/knowledge/finance/profitability-ratios/

Lesson 3
Focus on the metrics that matter

Different partner companies may have very different measures of business success. The job of a market systems programme is not to morph into a management consultancy, but to help businesses focus on the metrics that matter to track, monitor and assess innovation performance from a commercial viability perspective. To do this, market systems facilitators do not have to be accountants, economists or business analysts, but they do have to be armed with a certain business language and toolkit of common metrics that they can use to have data-driven conversations with company leaders. The BEAM Exchange's MSD Competency Framework outlines some of the basic knowledge, skills and attributes required to perform business and financial analysis on an organisation[30].

Multiple metrics will need to align across the pillars of products/services, customer interface, infrastructure and finances to make the business model work. A vast literature exists on business metrics (often called KPIs) that need not be repeated here. However, one practice deficit that emerged from the case studies is the underuse of *financial ratios* by MSD programmes. These ratios typically offer investors a way to evaluate a company's performance over time and compare it with industry benchmarks, but they can also be used by businesses themselves to identify what capital investments or future projects will yield an acceptable return and be worth pursuing.

Investment appraisal is critical as the question is not whether the innovation is profitable, rather – whether it is more profitable than alternative options. Businesses are constrained by the level of finance available to them, so choices need to be made between competing investments – based on their respective risk-return profiles[31]. For instance, if a new innovation generates revenues of $5,000 and a net profit of $1,000 in a quarter, while existing product lines generate lower revenues of $3,000 but the same net profit in the same time horizon –then business leaders would find it preferable to just stick to the existing models. The first case on Yapasa shows the importance of considering break-even points to compare benefits of switching from a 'bricks and mortar' model to a mobile sales agents.

> "We are business people, we are not development people. That is a very important distinction. We are people who have run businesses before… So, when we go to a private sector partner, we are not talking about testing out constraints and things like that, but immediately trying to identify their pain points, and show them what benefits there would be if changes in a business model, and what payoff would be down the line. And this is what excited partners".
>
> **Business Innovation Facility, Nigeria**

Such criteria guides business decision making in the smallest of enterprises – and even if these decisions are often made implicitly. An aggregator providing seed on credit may not perform complicated cashflow projections, but will know that they remain cash poor until they can recoup their initial investment costs – so would expect to see a return in excess of what they could have got by, say, putting the cash they spent on seed in the bank (or a local savings and credit group or cooperative). Programmes may not have full sight of company accounts, so 'back of an envelope' calculations may have to suffice to sense check. Where appropriate, The BEAM Exchange also has guidance on how to run more comprehensive calculations in their pre-intervention investment toolkit.

30. See https://beamexchange.org/msd-competency/
31. The three main investment appraisal techniques are payback period (time it takes to payback the initial investment), net present value (the monetary value of today of future cash flows), and rates of return (target return thresholds)

Lesson 4
Growth is not always good

In some situations, unplanned and rapid business growth may be as detrimental as no growth at all. Companies can come under intense pressure when customer demand outstrips supply, creating problems for inventory management and cashflow. Human resource management systems struggle to catch up – leading to overworked employees and new hires that are not properly trained, jeopardising quality service delivery.

Research has shown that the growth of any company-based innovation needs to be aligned to the growth of the ecosystem that supports it[32]. A company providing cold chain storage solutions, for example, relies on a steady supply of equipment provided by refrigerator manufacturers. To properly consider commercial viability we need to look beyond the direct partner into their upstream and downstream supply chain. As demonstrated in the PIND case with the links between service providers and feed companies, many business models rely on brokering B2B partnerships. The business case then has to make sense for the partner(s) and their wider value chain. Too-rapid growth can either place extreme downwards pressure on these chains to meet rising demand, or lead to excessive dependence on a limited number of suppliers. When market conditions change because of external shocks and stresses, this can leave market systems less resilient – increasing the risk that entire supply chain nodes collapse and stop the flow of goods and services to target groups.

For many programmes, the scale of impact is directly correlated to company growth. The more seed packets a company sells, the more farmers a programme can claim it has benefitted. Yet programmes need to be careful not to push companies into a growth phase too quickly without a corresponding support ecosystem from other supply chain players. What the optimum growth strategy is for a particular company will depend on their specific context. MSD programmes need to anchor company-specific plans within the programme's vision for market systems change, which is based on ideas about the pace and pattern of what 'healthy' growth looks like for the sector.

32. See *Right Tech, Wrong Time* in the November 2016 issue of the Harvard Business Review

Lesson 5
Look towards long-term value creation

Much of the so-called current 'crisis of capitalism' can be attributed to a culture of *short-termism* in the modern corporate world. The pressure to meet quarterly earnings figures creates incentives for company leaders to boost short-term results at the expense of long-term gains. In theory, MSD programmes should be immune against such short-termism, and focus on building robust, resilient business models that can continue to deliver benefits to business leaders and their customers long after programme support ends.

Yet the political economy of international aid means that many programmes face the same short-term pressures: Having to hit targets and demonstrate impact, especially where payment structures are tied to results. This can undermine the case for sustainability; creating temptations to 'buy impact' at the expense of building towards long-term sustainable business models' viability. Luckily, cases like PIND (2) show what is possible to achieve by iterating business models freed from the need to generate 'quick wins'.

Even where programmes do not face this pressure themselves, they likely operate in an environment which does – meaning partner businesses are not immune. In both the case of Yapasa, where some companies appear to rely on development grants to finance their revenue and asset growth, and in Afghanistan, where market players have become consummate at navigating the donor proposal system rather than building a business model based on sound commercial considerations, many companies are building their business models around grant funding mechanisms.

MSD programmes are often extremely conscious about the level of support they provide to companies, introducing strict cost-sharing rules and tapering off financial support year-on-year. But to create long term value, programmes need to base decisions not just on the *level* of support they provide, but also on the *nature* of support – and how intrinsic this is to business model creation. Is technical advice being provided for a one-off activity, or does the continued operation of the model rely on the programme, say, acting as a broker between distributors and sales agents? Who will fulfil this function when the programme ends? When recurrent activities are supported, it is often the case – as we saw in Cases 1 and 3 – that as soon as one programme 'steps out', another one 'steps in' to plug the gap. Different projects come and go, but partners remain the same year after year creating 'band aid' business models that cannot stand up on their own two feet without external support.

Conclusion: Towards better business models

There is a pressing need to understand the mechanics of business models and how they can be "proactively and deliberately harnessed in order to address the world's pervasive social problems"[33]. Much of the academic literature is centred on the 'success stories' of large corporate supply chains, with much less attention paid as to how SMEs can be supported to design and deliver viable business models. For market systems programmes working at the sharp-end of implementation in difficult and diverse environments, the search is not for "best in class business models", but good enough models and 'right sized rules of thumb' to help companies figure out, on a case by case basis, how to engage with partners and build towards commercially viable, impactful business models.

Ultimately, the aim is to create business models that:

- *Are transformational, not transactional*. Partner companies adopt and internalise new ways of working not because they see a short-term fix, but because they see a real business benefit in finding lasting solutions.
- *Play on incentives, not just capacity*. Partners can lack the resources to adopt more inclusive behaviours, but, more often than not they can lack the right incentives; often because of a market system that rewards extractive business practices. Incentives are more intangible and shifting than 'hard' capacities, but ultimately much more important to address for systemic change.
- *Aim for net positive, not zero-sum*. Partners do not adopt new innovations at the expense of others – in other words, competitive advantage does not come from strengthening monopolies, stealing market share or developing propriety methods; rather it comes from business models that create market growth and new opportunities for value creation and value capture.

This paper provides a starting point for getting under the bonnet of the business-side of the impact equation. We believe that further research is required to explore two follow-on questions:

a. This paper has focused on partnering with individual companies, but MSD programmes often work through layers of representative bodies and associations – or even through government initiatives. How are these 'ecosystem' players creating the conditions for better business models to flourish and to align incentives to innovate for the benefit of target groups?

b. These cases focuses mainly on pilot or early scale-stage business innovations. But what do business models look like for 'secondary' players (those crowding in) as markets mature, and innovations spread. What market opportunities and mechanisms help diffuse the business innovation beyond the pilot intervention; whether by leveraging lead firms, first mover demonstration, pro-active support of second-movers, or by strengthening supporting functions/rules[34]. How does this impact on business model evolution?

33. *Business models for people, planet (& profits): exploring the phenomena of social business, a market-based approach to social value creation* by Fiona Wilson and James Post
34. See '*Getting to Scale: Lessons in reaching scale in Private Sector Development Programmes*" by Gareth Davies

Annex 1: Research methodology

Research took place between June to December 2018. It consisted of a:

- Literature review
- Key informant interviews with MSD practitioners
- In depth interviews with project leads in Afghanistan, Nigeria, Zambia and Kosovo.
- Business model analysis, based on secondary sources and programme documents

The sampling of the case studies was purposive, based on projects that were willing to have their interventions profiles – and able to show sufficient data and evidence.

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