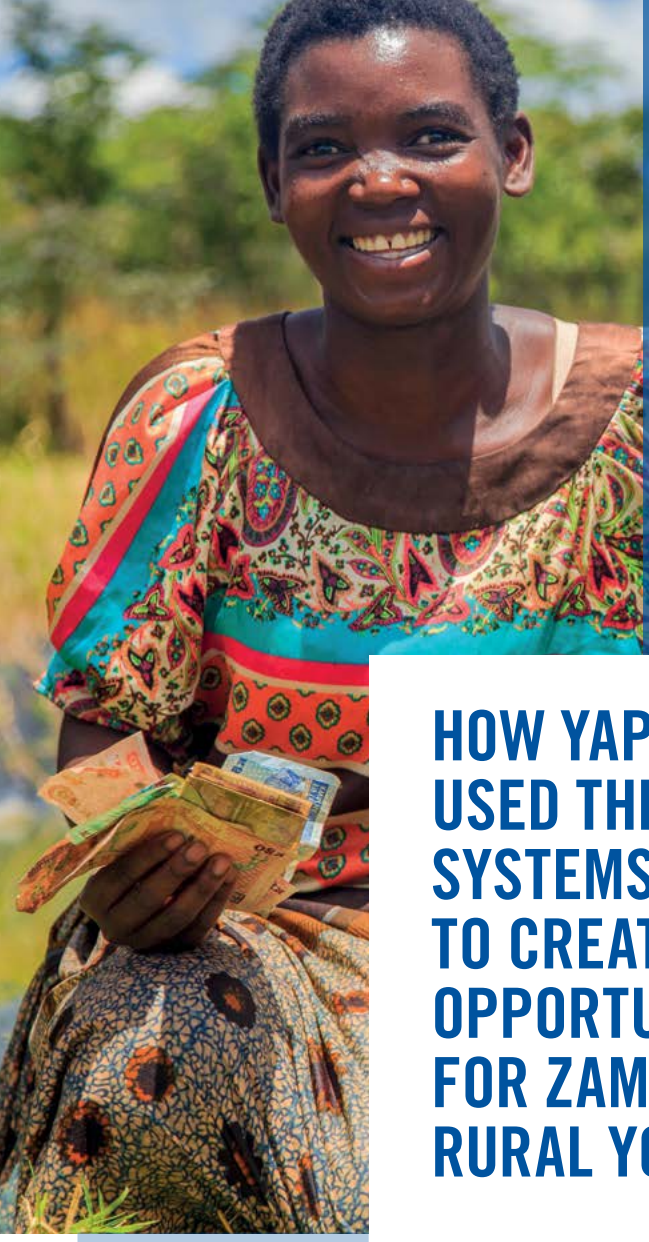


Fail, recalibrate, adapt, achieve:

International Labour Organization

the LAB

MARKET SYSTEMS DEVELOPMENT FOR DECENT WORK

HOW YAPASA USED THE MARKET SYSTEMS APPROACH TO CREATE OPPORTUNITIES FOR ZAMBIA'S RURAL YOUTH.

By Steve Hartrich and Isaac Cowan-Gore, September 2019

Driving along the roads of rural Zambia, the challenges in making a living through agriculture are noticeably stark. For starters, the road is flooded in parts and too muddy to be passable. Looking out the window, you notice the mudbrick huts and the small, geographically dispersed plots of land. You haven't seen a tractor or any other machine since you passed the nearest village 45 minutes ago. In fact, that was the last time that you saw another car, commercial activity, or a local government office.

You put yourself in the farmer's shoes and think, how could I make it out here? How could I physically move numerous heavy, bulky sacks of harvest out on such poor roads? How could businesses find a dense enough market to distribute inputs, offer mechanised services or aggregate harvested product in a commercially viable way? How could the government actually find me to provide technical training and information when they are located so far away? And if I somehow managed to get my harvest to the closest village, how could I find good market prices or even buyer when I don't know or trust anyone there?

The story in rural Zambia is a familiar one throughout rural areas in many developing economies and unfortunately, the story often ends with the deck being stacked against small-scale farmers. A series of constraints outside of farmers' control limit their crop productivity, production and incomes, which keep farmers and their dependent families stuck deep inside a poverty trap.

Rural youth have experienced first-hand how tough agriculture can be – they've worked the family farms all of their lives and have survived on subsistence for as long as they remember. They know that the challenges aren't going away any time soon, so they are running away

from the challenges – fleeing the farms and heading toward the cities in search of a better living, which may or may not be there[1]. This rapid urbanisation creates its own problems as well – governments can't keep up with infrastructure, services, and housing needs and migrating youth find the competition for jobs to be fierce as they typically lack the skills, work experience and social networks of their more established peers.

Against this backdrop the *Yapasa* project (see "Fast Facts") was tasked with finding a way to address some of these challenges – or market constraints – to enhance enterprises and create more and better jobs for rural youth in agriculture. To do this Yapasa used market systems development (see box 2) – a flexible and adaptive implementation approach in which local actors lead change and the objective is to drive toward sustainable and scalable benefits for the poor.

This brief dives into Yapasa's journey – from early missteps to strategic recalibrations – which ultimately delivered better business and employment opportunities for those that need them most. The process was slow and difficult, but in the end Yapasa managed to address some key market constraints – which have plagued smallholder farmers the world over – to create more and better jobs for Zambia's rural youth.

FAST FACTS

- ✓ **Project name**: *Yapasa: Youth in Agribusiness*; Yapasa translates to "the deal is done" in Nyanja and Bemba
- ✓ **Implementing agencies**: ILO & FAO
- ✓ **Donor:** Sida
- ✓ **Budget:** USD 7.6 million
- ✓ **Implementation:** Sept. 2014-Feb. 2019
- ✓ **Location:** Zambia
- ✓ **Sectors:** Soybeans and aquaculture
- ✓ **Objective**: Create jobs and enterprises for young people
- ✓ **Target group:** Rural youth
- ✓ **Project team size:** 9 staff

YAPASA RESULTS BY NUMBERS

14,626 **enterprises supported** (approx. 55% youth owned)

5,367 **total jobs improved**

2,228 **youth jobs improved** (33% female)

106 **enterprises** benefited from project innovations creating an additional 120 jobs

8,055 **youth entrepreneurs** received production skills training

1. The share of Zambia's national population that lives in Lusaka, Zambia's largest city, grows by 2% per year while rural areas lose 0.5% of the share national per year. See: Dino Merotto. 2017. "Zambia Jobs Diagnostic: Volume 1 - Analytics." World Bank, Washington, DC.

Box 1: What do youth think about agriculture?

Youth – defined in Zambia as between 15-35 years old – are not overly enamoured with the prospect of working in agriculture. The numbers support this: in 2008 youth were 37.4% of those employed in agriculture in Zambia, by 2014 that share had fallen to 27.8%[2]. Young farmers indicated that they see agriculture work as transitory or subsistence driven rather than as a long-term business opportunity. The work is physically demanding, risky, promises little reward and in most cases, has just one harvest - or payday – per year, factors which are not attractive to youth. This disinterest in agriculture presented a particular challenge for Yapasa in trying to engage and sell youth on the prospect of farming. However, as rural Zambia offers few employment alternatives, the project had no choice but to work in agriculture.

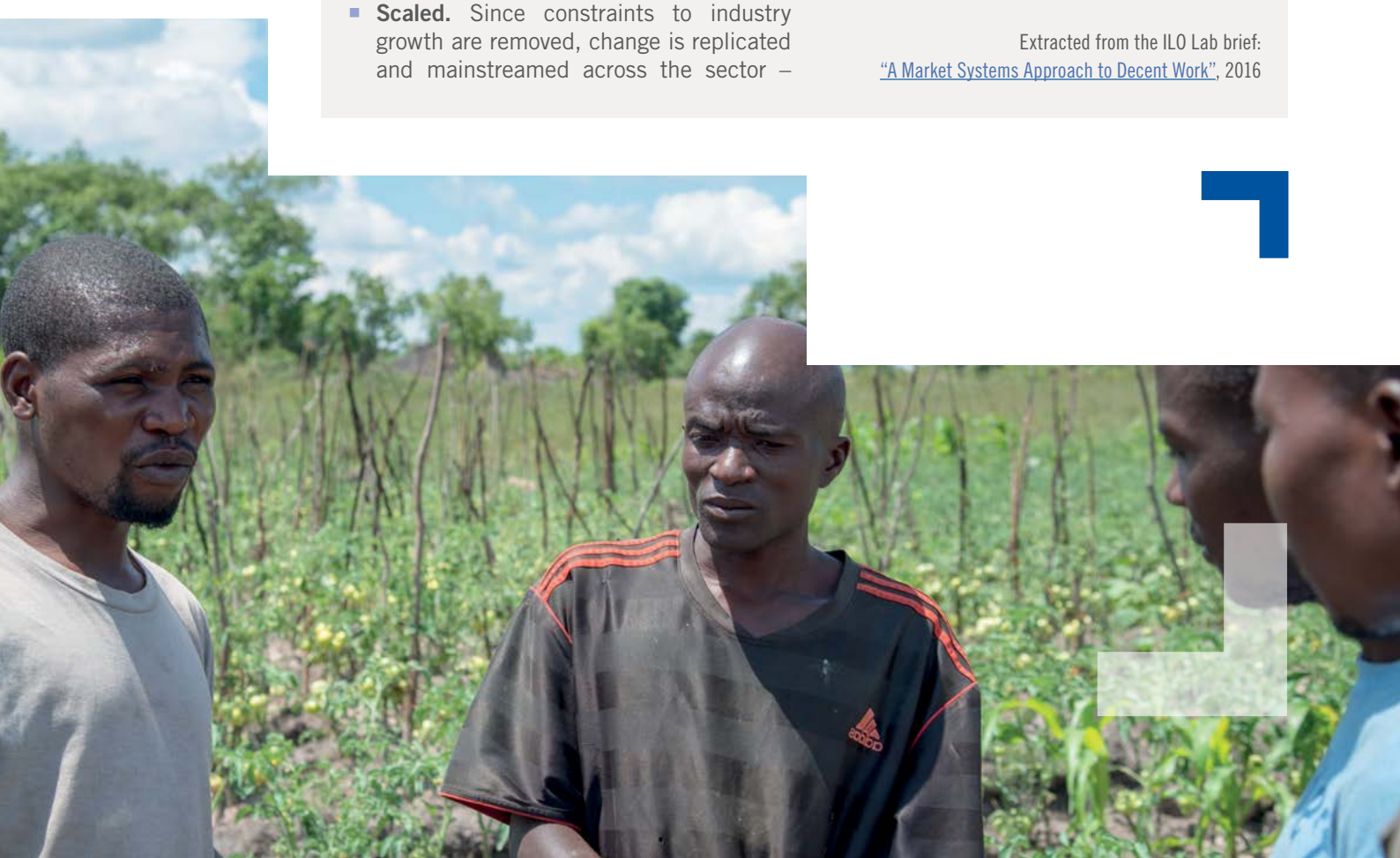
Box 2: What is the market systems development approach?

A market system is made up of the many 'supporting functions' and 'rules' shaping how well a market works for poor women and men. A market systems approach, in turn, seeks to identify, address and remove constraints that inhibit the growth of more inclusive markets. The goal is impact that is both:

- **Sustained.** Projects achieve lasting behaviour change in public and private actors by aligning interventions to their incentive and capacity to adopt new ways of working. Impact continues long after interventions end because actors see organisational value in continuing the new way of working; and
- **Scaled.** Since constraints to industry growth are removed, change is replicated and mainstreamed across the sector – rather than being confined to just the actors that the project directly works with.

Projects usually partner with a small number of actors to test out new ways of working and, if successful, then look to get others to copy the innovation. The activities that projects undertake to encourage partners to change may be varied – from using 'soft' facilitation tactics such as advice or brokering relationships to 'harder' tactics like financial cost-sharing. Such facilitation is an art - not a science. It needs to strike a balance between support to actors that ends up being too light to overcome resistance to change; and too heavy leading to dependence.

Extracted from the ILO Lab brief:
"A Market Systems Approach to Decent Work", 2016



Part 1: The art of learning by doing

It often takes some time before market systems development projects generate results. Projects need time to find their feet to: be fluent in a less prescriptive, more adaptable approach; identify good partners that can create sector opportunities; develop and test pilot interventions; and understand if it is worth committing further investment to scale-up these pilots. The most effective projects are those with long implementation horizons, benefitting from having time to build on lessons learned and iterate toward better results.

Getting stuck-in straight away

With an initial three-year implementation timeframe, Yapasa needed to get moving quickly. It began by targeting the production side in the aquaculture and soybean sectors as the project team believed that most jobs could be created and improved in this part of the value chain. For soybeans, farmers have just one crop cycle per year meaning that with Yapasa's initial implementation timeframe, it had just three crop seasons to trial, test and scale ideas on the production side. With implementation starting in September and planting season starting just two months later, Yapasa had to put together a partnership quickly or else it would have to wait until the following year to trial production related interventions – leaving just two crop cycles to refine the model and scale it.

In the two months before planting season, the project swiftly put together partnerships to deliver an outgrower model – a common intervention in market systems development projects, which creates a link between smallholder farmers and a trader. In the arrangement, the trader supplies quality inputs (seeds, fertiliser pesticides, etc.) and technical knowledge in exchange for a right to buy the harvested product at the end of the season[3]. To help farmers with little savings purchase the inputs, Yapasa facilitated a partnership with a bank that lent micro amounts to farmers with repayment expected at the end of the season. Here, Yapasa de-risked the banks appetite to lend by guaranteeing 50% of any potential farmer defaults on the loans.

On paper, the model played to the right incentives for all. The farmer presumably produces more crop and sells it at a decent market price, increasing her income.

The trader has a trusted source of quality crop and access to a larger collective sum of product that helps fill the domestic soybean supply shortage. The bank collects interest that offsets administrative costs to lending and expands its rural market share via organised farmer groups.

In practice, the model fell apart. The bank lacked staff capacity and systems to lend small amounts to geographically dispersed farmers who had little financial literacy, and

2. Ibid.

3. A general outgrower model is briefly illustrated in this video.

FAILURE BY NUMBERS

17% **farmers** thought the trader service provision was good

72% **farmers** unaware of interest rate of loan

53% wouldn't take another loan

1% able to repay loan

in any case, transaction cost for such loans were too high. The coordination for the trader required more than initially thought – distributing inputs, conducting trainings, providing on-farm technical advice and aggregating crop in different parts of the country required too much time and money to do even moderately well. And the farmers? Late finalisation of project partnerships with the bank meant that they received their loans late, which delayed the purchase of inputs and, in turn, delayed planting. Poor training delivery and technical support from the trader meant that the farmers didn't plant or maintain crops properly and to make matter worse, a prolonged regional drought killed most of their crops. The results were bad. Only one of 100 farmers could fully repay his loan; the rest defaulted[4].

If at first you don't succeed...

As market systems projects are a learning journey, Yapasa reflected on this failure and tried to put the lessons to good use in re-tooling the outgrower model for the next year[5]. For the next agricultural season, the bank dropped out – the incentives simply weren't strong enough to offer rural, small-scale lending. An input supplier, that was eager to expand its distribution market, filled the void and offered inputs on credit and provided training and technical support to the farmers.

The input supplier's incentive to support farmers was that if farmers used the inputs properly and had a good harvest, the value of their inputs would be demonstrated and more inputs could be sold the following year to those farmers and other farmers in their community.

The technical support offered by the input supplier reduced the resource burden on the three traders who signed up to lead the second year model. The traders now just needed to coordinate the farmers, aggregate crop and pay the farmers and input supplier at harvest. And what if another drought came along? Yapasa brokered a deal with an insurance provider to cover the value of the inputs in cases of extreme weather.

And in practice? The farmers suffered through another catastrophic drought, which again killed off the majority of the crop. Of the 561 participating farmers, only 8% could pay back the cost of the inputs supplied. When the insurance provider was called to cover weather damages, it had no idea how to assess what they owed and came up with a patchy calculation method which roughly compensated 15% of the input costs – not nearly enough to cover the losses incurred by the weather. The model failed again.

4. The defaults were covered by Yapasa and the bank in a credit-risk guarantee scheme.

5. The second year model is described in more detail in a brief that highlights how it used market facilitation principles. You can test your own facilitation skills in a game here.

Box 3: Lessons learned on finding partners

During implementation of the first outgrower model, Yapasa put out a public call for proposals to find traders to scale-up the model during the second year and find new, innovative ideas in both the soybean and aquaculture sectors. When the proposals came in, the results were disappointing; the majority of proposals asked for grants to deliver short-term, band-aid solutions. The businesses saw Yapasa as financier rather than an innovation partner and most lacked the operational or financial capacity to deliver on new, sustainable initiatives. The project wasted valuable resource time with the call and in working through potential model iterations with lower capacity businesses. Through that experience, the project learned to take a proactive role in looking for potential partners rather than wait for potential partners to find the project.

Box 4: Making the case for youth inclusion

A core challenge in this model was to get traders to work with youth. From the trader perspective, youth are less experienced farmers and thus perceived to generate less return on their resource investment. The project could have pushed for more youth to be included in the partner agreements, as this is a core project goal, but Yapasa recognised that forcing businesses to operate against their business incentives does not provide a pathway toward long-term sustainability. Rather, the project knew that it had to make a case for why youth are good for business if they should be included in a scheme. In this regard, Yapasa could not find solid evidence to develop a commercially sound business case that engaging with youth contributes to a healthier bottom line for traders. The development goal (better employment opportunities for youth in agriculture) and the business goal (profits) were simply not well-aligned and this challenged the project from the outset.

Understanding what went wrong

Yapasa's target of creating 5,000 decent jobs for youth largely guided its actions in the first stage of the project. That is, the project looked to engage high numbers of youth to generate considerable incomes rather than resolve specific, less complicated, market failures that build toward long-term, incremental improvements. The outgrower models were reliant on traders, banks, input suppliers and insurance providers to jointly address farmer access constraints to inputs, finance, technical capacity and markets. If one partner doesn't perform, the constraint becomes too challenging to address, or unexpected events occur (as is often the case), the whole intervention can fall apart and kill the incentives for anyone involved to adopt the model. If everything goes to plan, complicated interventions can be much more difficult to take to scale as they require continued coordination with many different partners.

KEY LESSONS:

- **Keep interventions simple** to increase the likelihood of partner adoption, wider scale-up and project understanding of what innovations work;
- **Be proactive in looking for partners** to ensure that you find those who are commercially minded and innovation driven rather than those looking for free development grants; and
- **Make the case for why youth are good for business** or otherwise be open to a wider target group that also includes non-youths.

Part 2: Project recalibration

Two years into implementation and with a few learnings in hand, Yapasa went back to the drawing board to recalibrate the project strategy. This process involved self-reflection from the team and support from external market systems specialists who had a fresh pair of eyes. Together they critiqued the past and shaped a new way forward – reviewing the project from top to bottom, from its sectors to the partners it worked with, to the management of partnerships and to the way data was collected and used.

Revisiting the project scope

In taking a fresh look at the strategy, Yapasa decided to broaden the sectoral focus to address constraints to market functions that are common across multiple sectors, rather than work to address them one sector at a time. Here, Yapasa realised that constraints to input supply and aggregation were not exclusive to the soybean and aquaculture value chains, they were cross-cutting issues. Addressing the pain points to these constraints could enhance the productivity and incomes for many. It would also support more youth participation and crop diversification, the latter providing a safeguard against unexpected price changes or severe weather events which are often the case in agriculture.

The project then looked to identify sectors[6] that were appealing to youth and had potential for growth such that they could address cross-cutting functions in sectors that had better prospects for engaging youth. This differed from the initial sector selection process which centred on identifying sectors with strong growth prospects through government recommendation (soybeans) and multi-stakeholder consultations (aquaculture). The new sector analysis pointed towards poultry, aquaculture and most considerably to vegetable horticulture, which requires little land or initial investment, provides more regular incomes throughout the year and enhanced opportunities for innovation and growth.

KEY LESSONS:

- **Don't be afraid to use lessons to challenge the focus and assumptions in the project design.**

6. Given the focus on rural youth and the scarcity of non-agriculture sectors in such areas, the sector review was isolated to within agriculture.

Getting the right players to jump in the game

One common tactic in getting to scale in market systems is to partner with market leaders who are well-positioned to drive change. In review of the outgrower model, the potential for any one of the small-sized traders to lead the change process was limited. Even if the outgrower model worked well, the small-scale traders simply didn't have the resource power to take the initiative to scale. As a result, Yapasa would have had to put in considerable effort to mainstream it across other small-scale traders to get the innovation to scale.

The project responded by seeking strategic partnerships at higher levels of the supply chain to complement the operational partnerships with smaller entities in target areas. They also took account of the broader political economy and the geographical presence of partners. They worked with larger national and international traders and end market buyers to ensure that downstream buyers would have a stake in improving the linkages with smallholders.

KEY LESSONS:

- **Look to partner with market leaders and first movers** who have the vision as well as technical and financial resource capacity to innovate and take an intervention to scale.

Doing business better

Going hand in hand with new types of actors that Yapasa wanted to work with, it also changed the way that it worked with its new partners. The initial approach used partner businesses to implement interventions on behalf of Yapasa. Through recalibration, Yapasa changed its approach to working with partner businesses to see how the project could help them operate more effectively.

For this shift to occur, Yapasa staff changed the way they interacted with partners. The project moved away from development project language towards a risk-return discourse that better aligned with the profit incentives of larger business (see Box 5). The project also moved into a business model analysis and de-risking role which focused on identifying key investment opportunities that could address both critical painpoints in partner businesses and deliver benefit to poor youth. That meant Yapasa bought down the risk to trialling innovations while businesses covered core operational costs. Yapasa also worked within the partners' current capabilities and incentives, rather than overloading them with so many functions that they could not manage their businesses as it had done in the outgrower model.

Overall, this shift in approach served to fundamentally alter how partners understood the relationship with Yapasa and resulted in increasing ownership of the changes they were driving in their respective markets.

KEY LESSONS:

- **Speak a language that shows understanding of the challenges and incentives** for commercially incentivised businesses.

Box 5: Talking business

As Yapasa found, speaking the right language helps set the right tone with commercially incentivised partners. How did Yapasa change the way it interacted with them?

They moved from development speak...

- We want you to…
- We think you should…
- We have designed this project and hope we can help you to implement it for us
- We can pay for…

...to talking business

- Let's jointly identify the pain point in your business.
- Did you know that other businesses have done xxx and that such an approach yields good returns?
- What risks would this incur for you?
- What stops you doing business this way?

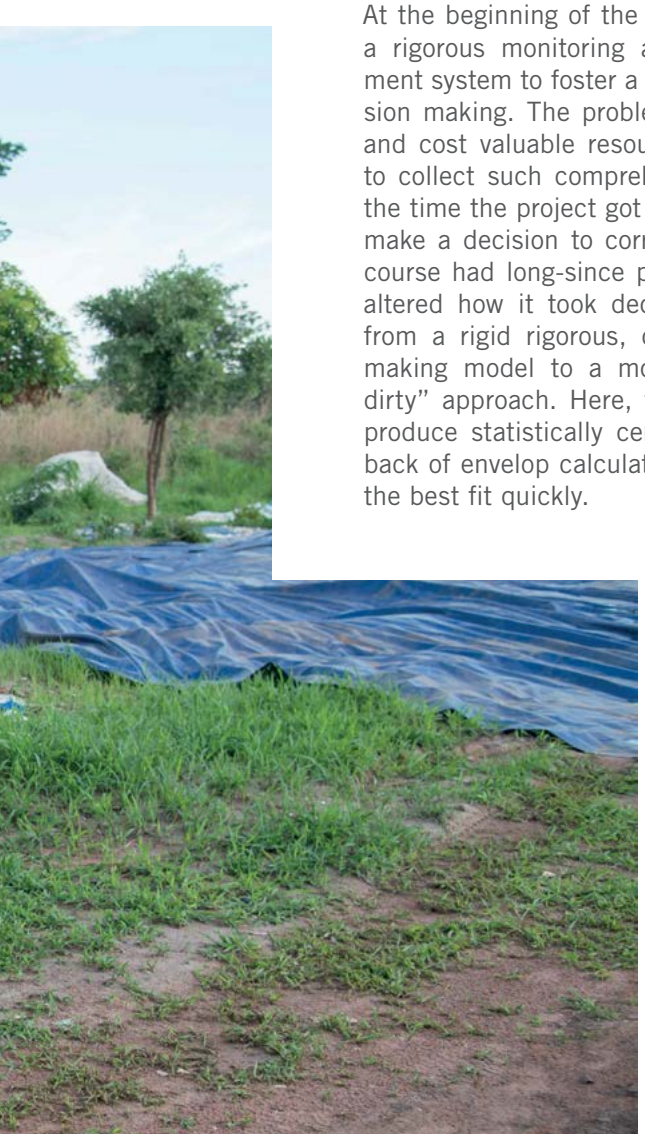
Action oriented results measurement

At the beginning of the project, Yapasa used a rigorous monitoring and results measurement system to foster a culture of sound decision making. The problem was, it took ages and cost valuable resource time and money to collect such comprehensive data, and by the time the project got it, the opportunity to make a decision to correct an intervention's course had long-since passed. Thus, Yapasa altered how it took decisions, moving away from a rigid rigorous, data-driven, decision-making model to a more agile "down and dirty" approach. Here, the focus was not to produce statistically certain data but rather back of envelop calculations which identified the best fit quickly.

To do this, Yapasa changed the way that it collected data. It worked with partner businesses to develop internal monitoring systems that suited their business operations but also yielded sufficient data for the project to monitor progress against key indicators. Yapasa then conducted "early warning checks" with partners at critical points to probe if the innovation was on track, get a sense of how partners were performing and get ahead of any potential problems.

KEY LESSONS:

- **Don't let perfect be the enemy of the good:** results measurement needs to be action oriented, not statistically perfect.



Part 3: Putting the lessons into practice

Armed with a new strategy and an 18-month project extension courtesy of the donor, Yapasa came back to implementation to apply what it had learned. The following two cases demonstrate how the new strategy yielded better results.

Last mile input distribution

Input retail typically takes place through brick and mortar stores located in provincial or district towns, which are not accessible for most smallholder farmers. Even more problematic is that input packages are often too large for most farmers and as most sales occur during a short peak season, agro dealers simply close-down during the off-season. This is particularly limiting to the year-round, small-scale input needs of emerging horticulture farmers.

To better align input distribution models with smallholder farmer needs, Yapasa developed a model[7] together with independent agro dealers to help enhance their input distribution networks through Community Agro Dealers (CADs). In this model, the agro dealers supplied the CADs – who were local farmers and acted as roving sales agents – with input stock. On behalf of the agro dealers, the CADs ran marketing activities and set-up demonstration plots, which promoted the correct use of inputs and good agricultural practices. This model effectively set-up a new distribution channel for the agro dealers which enhanced their input visibility as well as reduced access costs and facilitated year-round input distribution critical for year-round horticulture farmers.

In the model, the agro dealers assumed most of the risk – they supply the stock to CADs, which

7. The commercial incentives and key lessons that have emerged from this model are explored in further detail in the Business Models for Decent Work brief, published by the Lab.

LAST-MILE INPUT DISTRIBUTION BY NUMBERS

5,200	**farmers** reached in first 6 months
10,878	**farmers** reached in first 18 months
61%	**youth**
76	**operational CADs**
140%	average increase in sales for youth from previous year

if not sold, would be a loss on their books. This risk was reduced by keeping initial stock outlays small. The CADs had little risk as they operated on a commission basis. They were incentivised to join the model by the prospect of additional income and the enhanced community social standing that such a position would give them.

Four agro dealers took the risk and worked with the model – assessing the profit potential offered by the new market segment to be larger than the potential risk of losing unsold stock. By the latest count, these agro dealers managed a combined network of 76 active CADs, 80% of whom were youth. The agro-dealers all reported increases in sales and three agro-dealers indicated that they expanded operations by adding CADs for the following peak season. Partner agro dealers have taken full ownership of the model and are adapting it to their own risk appetite and expansion aspirations. For example, one agro dealer introduced mobile payment systems to monitor both CAD and warehouse stock levels.

> *"We're now able to sell about triple of what we used to"*
>
> Agro-dealer

Community aggregation services

Smallholder farmers struggle to get their products to market and sell them at a fair price. Transporting tonnes of harvest through rural roads is costly and this eats into farmers' profits. Once the harvest gets to market, farmers often sell it to transient, 'briefcase' buyers who know the market prices per quality type and have the incentive to maximise profit. Farmers generally have less than perfect produce due to poor handling and storage, and know little about the different prices per varied qualities. As one can expect, the negotiations on purchase price tilt in favour of the buyers.

To address some of these constraints, Yapasa piloted the 'Trusted and Transparent: Community Aggregation' model. Yapasa designed the model to link producers and trusted buyers more directly – providing smallholders with a secure and assured market for their commodities and the buyers more product with limited risk or cost.

To develop the idea, Yapasa engaged with agro-processors and national commodity traders who might be interested in sourcing products from smallholder farmers. Yapasa worked with these partners to develop a model that would support buyers to identify local aggregators who would then establish and manage community level aggregation agents. These agents would interact directly with smallholder groups in their catchment area, offering advice on post-harvest handling and market information like price and quality requirements embedded in their aggregation service. This set-up a trusted link between farmers and an aggregator who lives in the community who could link to larger aggregators and then to the buyers.

The model played to the incentives of all parties. The traders and processors could reduce aggregation costs and access to more product. The agents took a cut on the sales and had the opportunity to grow their business as an emerging trader and improve their standing in the community. Farmers would also reduce losses, improve quality and sell at a higher, more transparent price.

Four buyers saw the opportunity to set-up trusted and transparent community aggregation services, enabling greater market access for smallholder produce such as soybeans, maize and dried cassava chips. Yapasa supported the buyers to build the operational capacity of the local aggregator businesses on the condition that the local aggregators showed investment in the model through community mobilization, enterprise management, technical trainings in commodity handling and equipment purchases.

COMMUNITY AGGREGATION SERVICES BY NUMBERS

2,300	**farmers** reached in first season
85%	**farmers** intend to increase production
100%	**farmers** intend to sell to the same aggregator

With just one season to trial the model out, the intervention **reached just over 2,300 farmers** in a single season, far more than the much more resource intensive soybean outgrower models had[8].

Summing it all up

In four and a half years of implementation, Yapasa had a journey of missteps, self-reflection, recalibration and finally, success (see 'results' box on page 2). Through its work, the project learned a series of hard lessons – many of which reinforce good market systems development principles – through having an openness for internal critique and adaptation. The key lessons that helped Yapasa 'right the ship' and which may be useful for other youth-focused or agriculture market systems development programmes include:

- Keep interventions simple
- Be proactive in looking for partners
- Make the case for why youth are good for business
- Don't be afraid to use lessons to challenge the focus and assumptions in the project design
- Look to partner with market leaders and first movers
- Speak a language that shows understanding of partner challenges and incentives
- Results measurement needs to be action oriented not perfect.

8. The employment impacts couldn't be measured as the project closed in February 2019 before the agriculture effects of farmer productivity, production and incomes could be measured.

The ILO Lab would like to thank Yapasa staff Steve Morris and Gunjan Dallakoti for their key technical contributions and review. We are also grateful for the critical reviews conducted by Waltteri Katajamaki, Matt Ripley, Merten Sievers and Elisa Mandelli.

the LAB
MARKET SYSTEMS DEVELOPMENT FOR DECENT WORK

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Yapasa YOUTH IN AGRIBUSINESS

Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Swiss Confederation

Sweden Sverige

Federal Department of Economic Affairs, Education and Research EAER
State Secretariat for Economic Affairs SECO