MARKET SYSTEMS FACILITATION

how good are you?

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the LAB
MARKET SYSTEMS DEVELOPMENT FOR DECENT WORK

This short note summarises learning generated by the Lab (ilo.org/thelab @ILOTheLab). The Lab is an ILO global initiative that tests, scales and shares strategies to maximize the impact of market systems development interventions on decent work.

Who this document is for:
Market systems practitioners looking to learn how to achieve sustainable decent work outcomes at scale.

Purpose of document:
Share lessons on facilitation tactics used by ILO market systems projects, examining what worked, what did not – and why.

As a market systems project aiming for decent work outcomes - whether improved incomes for smallholder farmers, or better construction site safety for labourers - you've selected a sector with growth potential that's relevant to large numbers of working poor, you've done some preliminary sector analysis, and you've identified how businesses or government agencies need to change. It's time to begin implementing[1]. But how can you best support partners to perform more effectively?

What you have to do is facilitate: Run a temporary package of activities designed to stimulate lasting behaviour change in public or private players[2]. Since facilitation is an art more than a science – and doesn't just involve rolling out 'off the shelf' tools – it can sometimes be hard to grasp. And this is both its weakness, and its strength. Anything is possible with facilitation - from to 'hard' tactics like cost-sharing to technical advice, to 'softer' tactics like brokering relationships - as long as you stay true to your vision about developing a more efficient and inclusive system that benefits the poor, which doesn't have to rely on continued external support.

There's no 'correct' single way to do facilitation, or universal answer to difficult questions like 'when to enter or exit partnerships', or 'whether to provide lots of or little support'. These decisions will always be contextual. But with more experience and understanding – of the sector and country in question, as well as in the market system approach itself – we can make better decisions. The trouble is, in the real world there are few second chances: First impressions stick, wasted money cannot be clawed back, and blown credibility is difficult to rebuild.

The good news is that facilitators stand a better chance of making better decisions if they learn from what other projects have done - both their successes and failures. Over time, this experience has informed a body of practice that has led to a number of 'rules of thumb'. The six principles of facilitation, adapted from Engineers Without Borders, are outlined below[3].

1 For further information, read the Lab's overview of a market systems approach to decent work
2 See the Springfield Centre's 'Operational Guide for the Making Markets Work for the Poor' Approach
3 These have been adapted from Engineers Without Border's 'Principles of Facilitation'

Visibility

Underplay donor and project branding in the marketplace. High visibility leads to dependency and creates expectations that a facilitator is in the driving seat. Lower visibility makes it easier for your partner to own the change and for the impact to sustain over time, after you leave. Keeping your visibility low will also enhance the responsibility and ownership of your partner over their decisions.

Making a clear offer

Clearly explain to your partner what the goal of your project is, and why working with you can mean good business for them. You don't need to do this when you first meet your partner, but it's important to give details on the type of partnership you want as soon as possible.

Influence points

Early adopters and innovators are likely to have incentives to try something new and take risks. Try to show your partners how they can reap early-adopter benefits. Working with actors that others in the market look up to is also important to reaching scale. Ultimately, the change needs to spread!

Ownership

The overarching aim of a facilitative project is to put capable and incentivised local actors in charge of the change in order to ensure maximum sustainability. This requires making sure from the outset of the project that the partner leads on developing and implementing new business practices and ways of working, while the project plays a supporting role. Different strategies can promote ownership: working with a local partner, involving local actors in decision-making, having partners pay for most of the costs.

No free lunches

Offer financial assistance reluctantly, and do not make it too easy to get your time and resources. Try to push your partners to become the leaders of the change by building an incentive system that will reward their performance.

Lines in the sand

Be clear from the beginning about your intentions and expectations with your partner. This applies to ethical standards, roles and responsibilities of each party, terms of engagement and possible collaboration with other (competitors) in the industry.

LINKING SMALLHOLDER FARMERS TO MARKETS IN TIMOR-LESTE

This paper profiles two ILO projects – outlining the problem they set out to address, how they facilitated change, the results achieved, and what they learned about market facilitation.

Test your facilitation skills!

Try this online game, where you play the role of an analyst partnering with the private sector to grow more inclusive vegetable markets for poor smallholders in the country of 'Xland'. While the setting may be fictional – it is inspired by true events – so see how many facilitation badges you can earn!

http://training.itcilo.org/delta/VALUECHAINDEV/story.html

PROJECT SNAPSHOT	
PROJECT	Business Opportunities and Support Services (BOSS), Timor-Leste, funded by Irish Aid and New Zealand Aid (2011-2016)
SECTOR	Horticulture

WHAT WAS THE CONTEXT?

Despite recent and rapid oil-fuelled growth, poverty in Timor-Leste has remained acute with half the population living on less than a dollar a day. Three quarters of the poor live in rural areas, and most of them are farmers.

BOSS pinpointed a number of factors inhibiting the pro-poor growth of Timor-Leste's horticulture sector. While demand for vegetable products in the country's capital Dili is growing, it is largely satisfied by rising imports. Domestic production of vegetables is small-scale, scattered, and lacking in supporting services. The country's first dedicated agricultural input supplier, for example, only opened in 2012.

Production was a major constraint – with smallholders unable to penetrate stable and lucrative markets in the capital, Dili, and unable to access critical technical information and inputs. An underlying reason was thought to be that wholesalers and distributors did not see smallholders as commercially viable or reliable suppliers. The ILO Business Opportunities and Support Services (BOSS) partnered with Josephina Farm, a company supplying organic vegetable produce for onwards retail in the capital. The aim was to pilot a contract farming model – where buyers and farmers enter into a forward agreement for agricultural production – to better link smallholders to value chains. Such 'out-grower' models can result in improved access to technical assistance and inputs such as hybrid seeds, as well as a secured market and stable prices.

WHAT WAS FACILITATED?

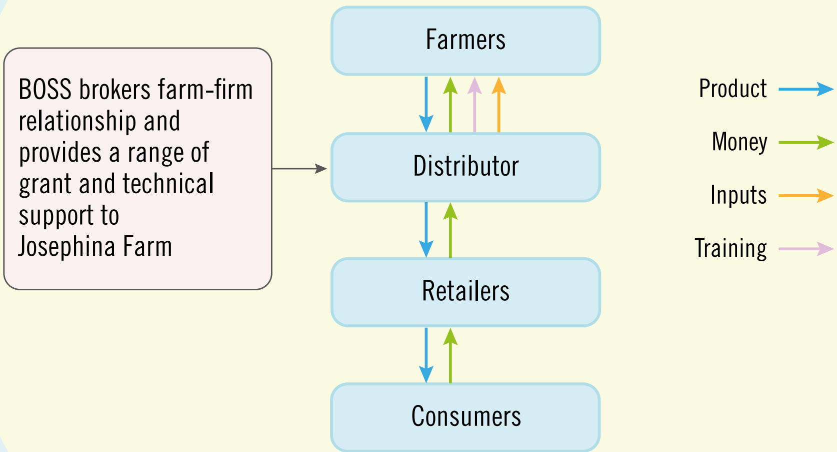
BOSS and Josephina Farm jointly identified a group of 45 farmers (16 women and 29 men) who had been growing 'traditional' produce such as tomatoes, cauliflower and cucumber for home consumption and local selling. Josephina Farm provided the farmers with a one-day on-site training on good farm management practice, including trainings on irrigation and seed beds. Based on end-market demand, Josephina Farm then reached an agreement with the farmers on which vegetables should be grown, and provided a verbal buy-back guarantee for a specified quantity, and a minimum quality, of produce. Josephina Farm also provided improved seeds to farmers to encourage them to grow new varieties such as zucchini and coriander. During the growing season, farmers received at least one follow-up monitoring visit from the company to receive advice on horticulture production, including seed management, planting and watering.

The farmers received a further 2 days of training from Timor-Leste's Institute of Business Support (IADE), the government ministry where the BOSS project

was embedded, to explain the concept of contract farming and simple marketing and business principles.

BOSS did not directly interact with the farmers, but supported Josephina Farm's business model in a number of ways. BOSS carried out market research for Josephina Farm, and paid for an international expert to undertake a technical assessment of the company's post-harvesting handling practices. BOSS also provided financial support for the construction of a compost production facility, a simple cool room facility, equipment for outdoor production and plastic to create protective tunnels. BOSS organized business match-making events for Josephina Farm, and funded the production of marketing material and TV commercials. BOSS also supported two farmers to undertake study programs in Bali to develop knowledge on indoor and outdoor horticulture.

The model is mapped onto a simplified value chain as follows:



WHAT WAS THE RESULT?

The contract farming model initially worked well, particularly in the first year of operation, with farmers anecdotally reporting income gains and Josephina Farm reporting regular sales to a range of clients in Dili. Following the initial out-grower pilot, the company replicated the same arrangement with a further three farmer groups, reaching a total of 125 farmers in Ainaro and Ermera Districts.

BOSS undertook an impact assessment in 2014 and found that farmers involved in the model were using better horticulture techniques than previously and that their involvement had resulted in attributable income increases of an average of $247 per farm per year. Over half (56%) of benefiting farmers were poor, as measured against the international poverty line.

However, the model began to break down after the director of Josephina Farm was taken sick in 2014. At the same time, farmers started to complain about the lack of sustained technical assistance from the company, and - following the promising start - the original group reverted to subsistence farming behaviours, failing to meet their agreed-on volumes of cash crop production.

Focus group discussions with farmers raised a number of issues such as poor information flows (changing market prices were not effectively communicated to farmers) as well as low motivation levels due to the perceived decrease in

support from the company. The absence of agreed-on price ceiling and floors between the company buyer and the farmer produce proved to be an issue when market prices fell.

By the third growing season, just 59 (out of 125) farmers continued to be part of the out-grower scheme.

WHAT WORKED?

Ownership

Josephina Farm was in charge of 'implementing' the contract farming model. They were the ones training the farmers, buying produce and selling onto retailers. BOSS brokered the connection and supported the company – but the project avoided 'going direct' to support farmers. They let the private distributor own the new model – increasing prospects for sustainable service delivery.

WHAT DIDN'T?

Lines in the sand

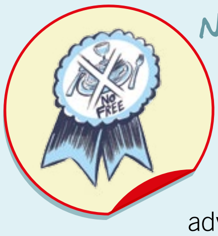
Timor-Leste is an extremely thin market in terms of private sector actors. BOSS found few alternatives other than to partner with Josephina Farm. This, however, created a situation where BOSS became dependent on Josephina Farm for the success of the intervention – and therefore for pro-poor impact.

When the contract farming model started to break down, the BOSS response was to provide Josephina Farm with even more support. The end result was that one fragile company could scale-out their operations, but it raised the barriers for other competing firms to copy the business model. With shifting lines in the sand, BOSS moved from a systemic change objective to individual firm support.

Lessons:

1. Make every effort to select more than one pilot partner to avoid a risk of facilitating put 'all their eggs in one basket'.
2. Formulate clear partnership plans with go/no-go decision points based on intervention progress to avoid the risk of throwing good money after bad when things don't work out.

No free lunch



Working in thin markets often means providing nascent enterprises with more support than in 'mature' markets. However, the success of the intervention ultimately became reliant on BOSS support to core company operations. 'On call' to provide Josephina Farm with advice and assistance over multiple years, BOSS time and resources were readily available. Josephina Farm was even part of the team running the initial market systems analysis, creating expectations from the very beginning that BOSS would continue to serve lunch, no matter what happened.

Lessons:

1. Do not involve potential partners in the market analysis to avoid creating unrealistic expectations;
2. Agree on the 'quid pro quo' contributions – what the partner needs to do to continue to access project support.

Influence points

Josephina Farm specialised in organic horticulture produce, itself a niche product in a thin market. As organic vegetables do not command a price premium in Dili supermarkets, competitors were unwilling to replicate the model. With no autonomous 'crowding in' effect, BOSS had to provide support to more companies to stand any prospect of scale. Change did not therefore spread beyond the firms BOSS directly worked with.

Lessons:

1. Early adopters cannot become influencers unless their business models are commercially viable;
2. If partners are not in a position to leverage change across a network, then additional partners should be found - such as apex organisations, associations and public agencies - who could act as scale enablers.

INPUTS ON CREDIT TO SMALLHOLDER FARMERS IN ZAMBIA

PROJECT SNAPSHOT	
PROJECT	Yapasa, Zambia, ILO and FAO joint UN Programme, funded by Sida (2013-2017)
SECTOR	Soybean

WHAT WAS THE CONTEXT?

Access to soybean inputs and poor production practices were determined to be key constraints for small-scale farmers in Zambia, with the common underlying problem that input distributors have not seen a viable business model for the distribution of inputs and embedded training services to the smallholder market.

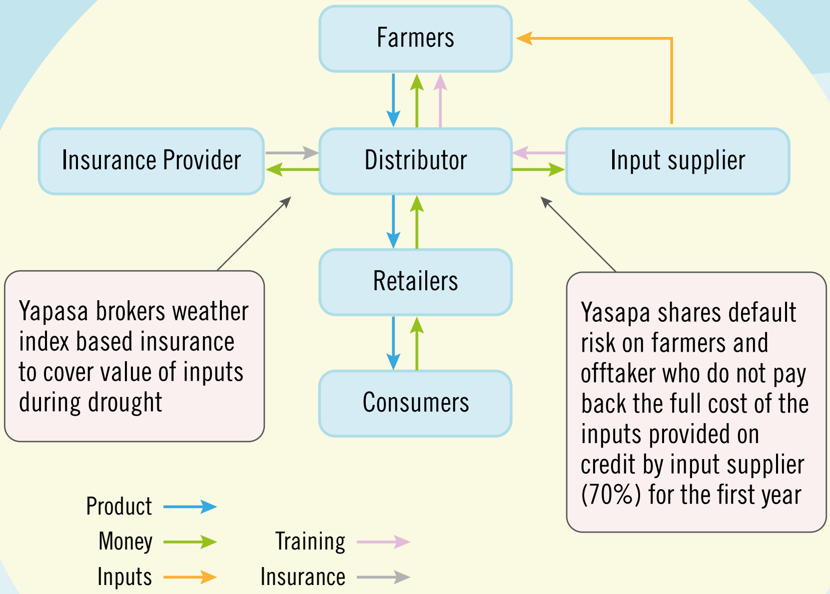
WHAT WAS FACILITATED?

To address this common underlying constraint, Yapasa brokered a deal with an input supplier to provide training and support services to 561 small-scale farmers before planting and during the crop cycle. The supplier also provided inputs on credit to each farmer, all of who were participating in one of three contract farming schemes, via the offtakers (traders) managing those schemes.

During the intervention, the input supply company conducted an initial training of lead farmers and youth representatives at each of the offtaker operation areas. In turn, each farmer in the contract farming schemes was trained on good agriculture practices by the lead farmers. The input supplier also provided continuous extension services during the agriculture season to address any issues that arose with maintenance or pests, among others. To the input supplier, engaging with the contract farming schemes provided an entry point for opening up its distribution network to the small-scale market. And as the engaged small-scale farmers served as demonstration plots for neighbouring farmers, it was in the input supplier's interest to provide quality training services as a means to enhance yields such that other farmers would be inclined to buy the supplier's product the following crop season.

To safeguard risk against farmers incurring financial losses due to drought or other adverse weather conditions, Yapasa linked an insurance provider to the farmers (through the offtakers) to provide weather-indexed coverage.

The model is mapped onto a simplified diagram below:



Before brokering the deal with the input supplier, Yapasa envisaged that the offtakers would serve as the immediate contact point for the farmers and provide all required support services and financial institutions would provide credit to the small-scale farmers to purchase the inputs. However, Yapasa evaluated the offtakers' capacity as too limited to provide such a range of services and the financial institutions weren't willing to lend due to a number of external factors including a rapidly devaluing currency. Yapasa revisited the model and identified that input suppliers, with their extension wing, were capable of training farmers on good agronomic practices while also being incentivised by increased sales to provide inputs to farmers on credit.

As Yapasa tested the waters in pivoting toward bringing the input supplier into the model, they were met with some initial resistance as the input supplier was concerned that small-scale farmers would not be able to repay the input cost. To help reduce this perceived risk and launch the intervention, Yapasa brokered a deal to cover 70 per cent of the farmer input-credit default risk for the upcoming year, the rest of which was covered by the offtaker and farmers.

The process to negotiate with partners, pivot the model and renegotiate deals took time – during which, quality soybean seed, a key component of the intervention, was running out. In an effort to ensure that interventions could go ahead in the upcoming season, Yapasa purchased seed in advance of finalising the partnerships or credit options for farmers to buy them, and delivered it to the farmers once the partnerships were all finalised.

WHAT WAS THE RESULT?

561 farmers received both the inputs (coordinated via the offtaker) and improved training services from the input supplier. Despite receiving the training and using these inputs, an estimated 92% of farmers did not produce enough to break even on the cost of their inputs and 50% produced nothing at all. Productivity was largely effected by drought which was brought on by "El Niño" and hit the rain-dependent farmers hard. The losses were somewhat softened through the crop insurance. However, the insurance provider did

not capture sufficient data on the weather conditions and thus had little basis to pay-out claims. The pay-out amounts were based on a qualitative and somewhat subjective assessment – often attributing losses to poor farming practices rather than the weather itself.

Drought was not the only factor which caused low productivity. Results were particularly poor in two contract farming schemes where offtakers performed little monitoring and provided little mentoring or motivation to farmers – putting the support onus completely on the input supplier to provide training and extension services.

WHAT WORKED?

Influence points

The programme engaged with a large multinational input supplier which had both the potential to scale-up and the sway to influence the direction of the industry. By demonstrating that a distribution model with small-scale end market is possible, the input supplier had potential to influence the perception surrounding the commercial viability of small-scale farmers. To broker a partnership with the input supplier, Yapasa had to first highlight the small-scale market potential and opportunity and later help quell the perceived input supplier risk of jumping into the market through a credit guarantee.

Making a clear offer

Yapasa engaged with both the offtaker partners and input supplier with a commercial focus from the outset – what was good for partner business was good for everyone. In initial engagements, it was clearly explained that Yapasa was not in the business of giving money freely with few considerations for long-term commercial viability or scale-up potential.

Ownership

Partners understood that Yapasa support would be in a limited capacity and for a limited timeframe - it was the partner responsibility to drive business and future growth. For the offtakers, Yapasa supported the review and refinement of their business models while linking them to the input supplier and insurance provider. In return the offtakers would engage with youth, the programme target group, and assume the costs in mobilising farmers, monitoring them and aggregating any produce. The input supplier assumed all costs as standard business practice, only relying on the one-off 70 percent credit guarantee as an incentive to jump into the market and access to Yapasa's network of farmers.

WHAT DIDN'T?

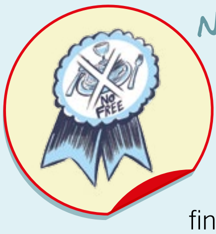
Influence Points

On one hand, Yapasa did well to work with an input supplier that had market influence. On the other hand, the success of the intervention hinged on Yapasa working with three small offtakers with limited organisational capacity or industry influence – kerbing potential for mainstreaming the intervention before it even started. The offtakers were also the lynchpin of the model, coordinating crop insurance, inputs, and many daily farmer activities, which were too broad relative to their operational capacity. As a result, the offtakers performed poorly and in turn, their farmers produced meagre results. Of perhaps equal consequence, the partnership with the input supplier, a key programme milestone, could have been jeopardised as the supplier would not see long-term commercial viability in depending on offtakers with limited capacity to deliver.

Lessons:

1. If a scale agent (the input supplier) depends on key partners which are not influencers and have a role that is sufficiently complex, try and objectively understand how non-influencer tasks can be simplified. This will increase the probability they will perform better and that other market actors, with similar capacity or size, can crowd-in to the market and mainstream the innovation alongside the scale agent.

No free lunch



Incentives were not properly designed. Yapasa presumed that responsibility for partially covering any default on inputs would serve as a strong incentive for offtakers and farmers. In reality, the model would have been better served if farmers and offtakers made up-front financial contributions to get into the scheme. Such contributions would have weeded out the less committed and engendered better performance from the outset. An up-front financial contribution could have also signalled that farmers were paying for training services, which as designed, were provided for free from the input supplier.

When Yapasa procured seed for all farmers, it did so with the intent of developing a mechanism to distribute it alongside the rest of the inputs and in a way that farmers thought they were purchasing it from the input supplier. In the end, the programme chose to distribute the seed to the farmers without cost – which largely undermined the facilitative role the project was trying to play. This may have contributed to farmers not taking the scheme seriously and consequently made them feel less accountable for paying back the input supplier and less likely to fulfil their end of the offtaker contract.

Lessons:

1. Willingness for a partner to make an up-front commitment is a signal that the partner has the right incentives to change its way of doing business – an early indicator for intervention sustainability. Commitment from all the players, whether financial or otherwise, is essential.
2. Programmes will have pressure to deliver results, and sometimes there may be a perceived need to become a player in the marketplace to get 'quick wins'. Avoid these at all costs, as they can have a distortionary effect and ultimately weaken the long-term sustainability that you are trying to facilitate.

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