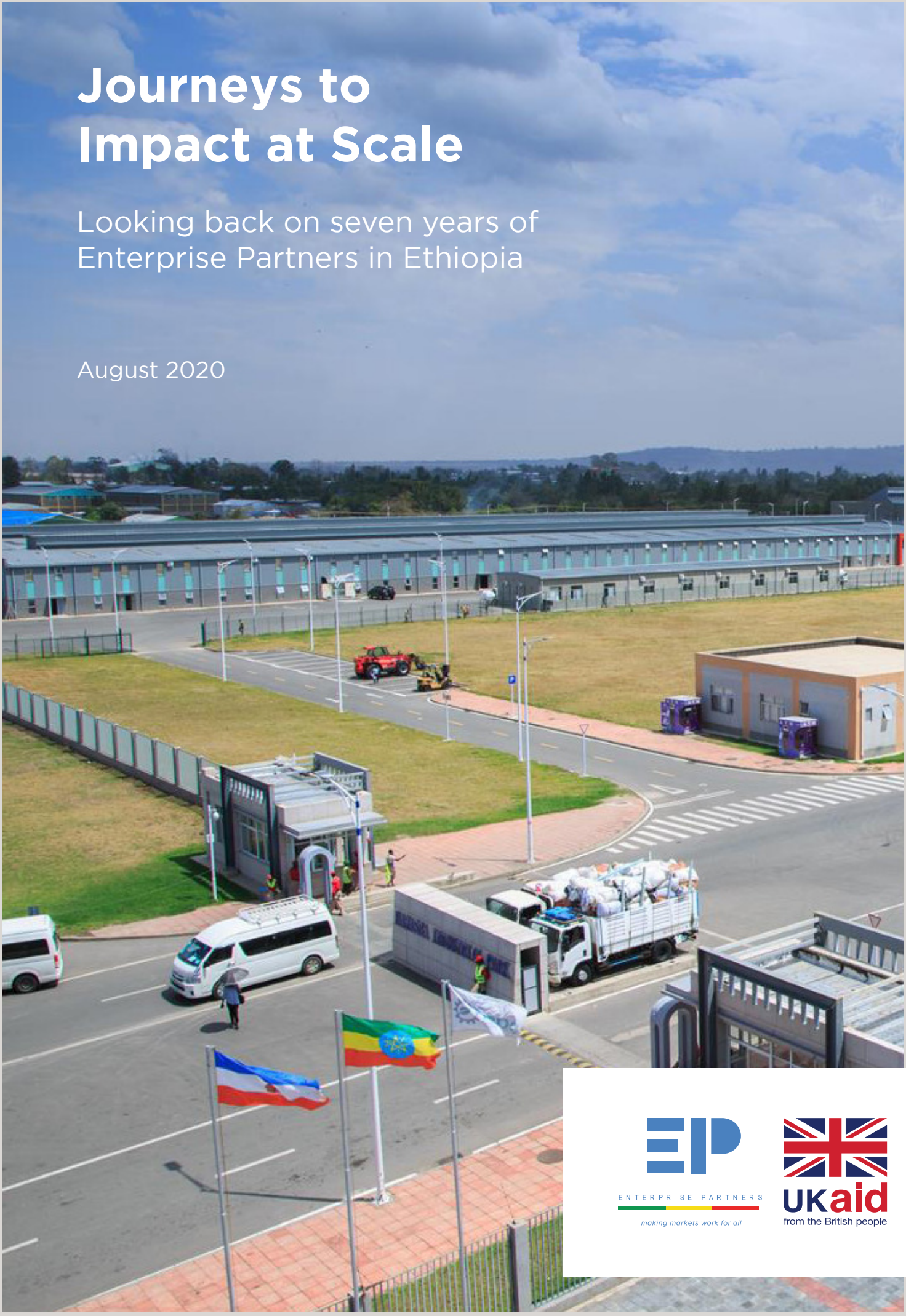
Journeys to Impact at Scale

Looking back on seven years of Enterprise Partners in Ethiopia

August 2020



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Looking back on seven years of Enterprise Partners in Ethiopia

August 2020

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Study Conducted by

DEVLEARN

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Acronyms

BoTI	Regional Bureau of Trade and Industry
ECPGEA	Ethiopian Cotton Producers Exporters and Ginners Association
EIAR	Ethiopian Institute of Agricultural Research
EIC	Ethiopian Investment Commission
ETIDI	Ethiopian Textile Industry Development Institute
GAP	Good agricultural practices
GoE	Government of Ethiopia
GTP	Growth Transformation Plan
HIPSTER	Hawassa Industrial Park Sourcing and Training Employees in the Region
HR	Human resources
IP	Industrial park
MSD	Market systems development
NCDS	National Cotton Development Strategy
PPP	Public-private partnership
RHS	Raw hides and skins
TA	Tenants' association
TWG	Technical working group
WER	Workers' engagement and retention

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Introduction

Objective of the case study

The objective of this case study is to take the audience through Enterprise Partners' (EP) seven-year journey to market systems transformation in Ethiopia. It looks beyond the results achieved and explores EP's journey of market systems transformation for inclusive growth at scale. In short, the case study answers the question: **'how did EP get there?'**

Drawing on examples from the garment, leather, and horticulture sectors, the case study showcases the pathways taken by EP to transform priority market systems in support of Ethiopia's income-generation and employment creation policies for youth and women, as highlighted in its Growth and Transformation Plan[1]. It also draws lessons for both direct stakeholders (government, industry, consumers, civil society) and supporters (development partners) of Ethiopia's economic growth in applying a market systems development (MSD) approach to achieve impact at scale.

Audience and interests

This case study targets two main audiences: Ethiopian and aid sector stakeholders.

Ethiopian stakeholders – government, businesses, industry bodies, consumers, civil society organisations – who are keen to facilitate a more competitive, inclusive, resilient, and equitable economy.

Aid sector stakeholders – donors, managing contractors, in-country leadership teams, consultants, academics – interested in how the MSD approach contributes to better aid performance. Ethiopia offers a unique example of stimulating market transformation using a public-private partnership (PPP) approach whereby businesses and government cooperate to provide better goods and services.

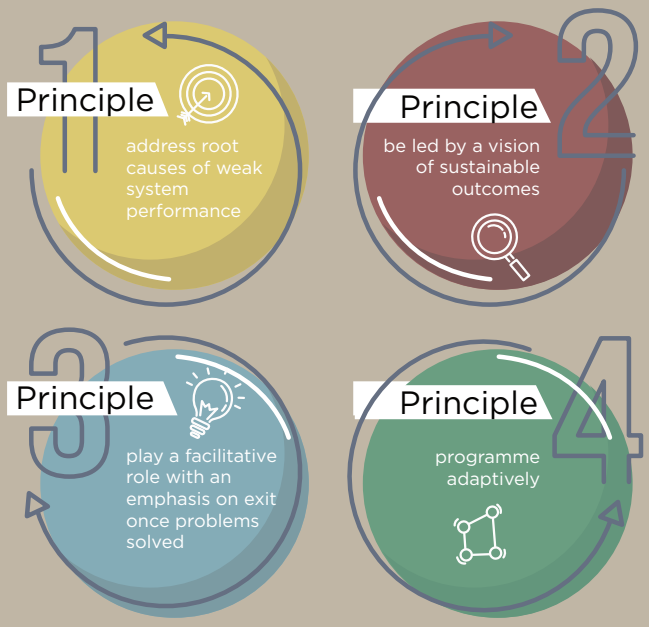
1. http://extwprlegs1.fao.org/docs/pdf/eth169444.pdf

The market systems approach

Enterprise Partners was designed to transform market systems for inclusive growth by using a market systems development approach to implementation.

A **market system** is an arrangement of actors (organisations & individuals) who produce and exchange a similar type of product, good or service or provide various system-supporting functions, in a particular region. Market actors may include both public agencies and private sector enterprises, formal and informal. They all operate in the context of formal rules and informal norms - also part of the system - that shape actors' behaviours and influence the overall performance of the system[2].

Market systems development (MSD) is a coherent approach to understanding and intervening in markets so that they perform better, creating lasting improvements in the livelihoods or well-being of large numbers of poor women and men. It is different from much conventional development cooperation and aid. It starts by identifying the root causes of weak or exclusionary performance in particular market systems. Instead of reacting to observed problems or symptoms with quick fixes, programmes aim to work by leveraging the actions of system actors (both businesses and governments). Through them, they aim to bring about lasting changes in incentives, rules, norms or supporting functions which ultimately improve the terms of participation in that particular system for poor women and men. From practical experience the MSD approach has evolved into four main principles.



This brief introduction is followed by three sections that make up the core of the case study.

Section 2 describes the analytical framework used for this case study and the criteria used to select the sectors showcased from EP's larger portfolio of sector engagements.

Section 3 narrates EP's adaptive management story using this framework.

Section 4 draws lessons from EP's experience for all relevant stakeholders.

[2] Adapted from Taylor and Donovan, 2016

02

Scene Setter and analytical framework

Context dictates the adoption of strategies to achieve impact at scale

Often, when market systems are functional, they disproportionately benefit those who are already economically advantaged. It is often assumed that the reason that the poor are excluded from the market system is due to weak or missing support functions and/or disabling rules, such as lack of information and skills, or misaligned government regulations. However, dysfunction goes deeper than improving market system structure and supporting functions: it must also involve shifting market actors' firmly held societal attitudes, beliefs and cultural norms.

This case looks at EP's journey of market system transformation by examining the interplay between market player incentives[3], relationships[4], capacities[5] and rules of the game[6] at the start of EP's engagement **(the context)** and throughout the course of its interventions **(the journey)**. The context, as defined by the interplay of these four factors, can be divided into three distinct scenarios. These scenarios, described hereunder, are central to EP's engagement as they dictate the course of EP's journeys and adaptive management practices.

1 **Best-case scenario:** This is when a market system is ready to embrace innovation due to competitive pressures to increase the value of goods and services to consumers. Players are aware of the innovation landscape and the rules of the game encourage investments in doing things better, safer, faster, and cheaper.

[3] Contingent motivators that drive behaviour at multiple levels: for and between individuals, for and between various groups. They can be materially oriented, shaped by the desire to win or not lose something; socially oriented, shaped by the desire to belong to or not be excluded from a group; and purpose-oriented, based on a quest to achieve a goal.

[4] Commercial and non-commercial interactions between players in the core of the system, and between core players and those that perform supporting functions and rules.

[5] Ability to perform a relevant function in market systems at different levels– individuals, groups, and organisations – and of different types – technical, financial, physical, strategic, or cultural.

[6] Regulatory context and the business and cultural environments in which the market operates. They can be laws, regulations, standards, social norms, and behaviours that influence when, were and how exchanges take place.

Incentives for inclusive growth exist but the benefits derived from investments in innovative business models are still uncertain and thus risky. A track record of good relationships is likely to already exist between trading partners. Trading partners acknowledge the need for and willingness to upgrade their capacity in varying degrees and can turn to others (e.g. financial services, technical consultants, equipment providers) for support in varying degree of usefulness. The biggest test these relationships will face is how they react when they encounter "bumps in the road" in working together. Do they blame the other or do they continuously search for solutions? This 'best-case' scenario describes the context for EP's work in the horticulture seedling market.

2 **Most likely-case scenario:** This is when competitive pressures that signal the need for innovation are weak for a number of reasons, such as the relative newness of the sector in the economy or the absence of useful information for planning and decision making. The rules of games can be enabling by means of government investments in sector growth, but they also can be disabling due to frequent policy shifts or unfunded government mandates. This in turn can hinder players to take advantage of incentives to invest in innovations for business growth. While market players acknowledge the importance of transparency in relationships, overall, relationships are tentative because there is a lack of clarity as to who should perform and pay for what function to achieve best results. This uncertainty limits actors from investing to fill their own capacity gaps or turning to other market actors for support services. This 'most likely-case' scenario best describes the context for EP's work in labour markets for the garment sector.

3 **Worst-case scenario:** This when all four factors are the weakest and shifts are the most difficult to catalyse. Market player incentives are aligned around growth for groups that are already economically advantaged. Relationships between market players are based on short term win/lose transactions instead of longer term win/win interactions. Market players have a greater capacity to seek rents than to seek solutions that are good for the system. The rules of the game – both formal and informal – tend to reinforce the status quo, rather than enabling investments in innovation and change. This 'worst-case' scenario best describes the context for EP work in the tanned leather sector.

Framework for analysing EP's 'journey'

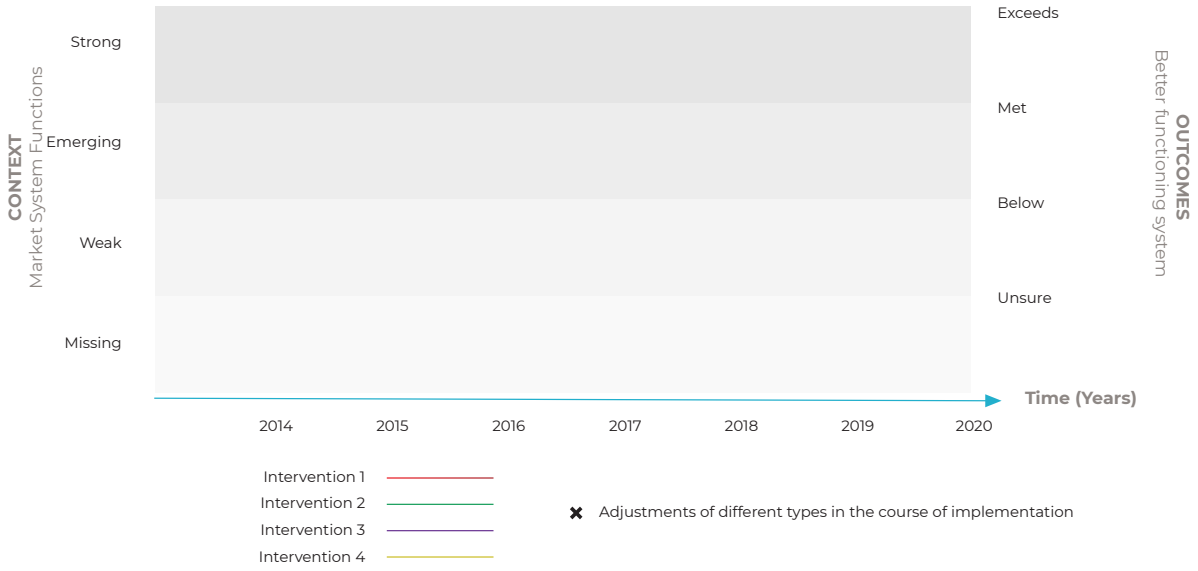
As mentioned in the introduction, this case study looks beyond the results achieved and explores EP's journey of market system transformation for inclusive growth at scale. In short, the case answers the question: 'how did EP get there?'. The case study shows how EP pivoted and adjusted its interventions over time while keeping an eye on how to increase potential for impact at scale through all stages of implementation.

Figure 1: Pivots Over Time to Achieve Outcomes offers the reader a visual to follow the narration of EP's journey. It provides an overview of EP's engagement over time, disaggregated by intervention, highlighting pivots and adjustments made along the way. The interventions are also plotted against the market systems context at the beginning of the interventions and the outcomes reached at the end of the interventions.

The "y" axis on the left-hand side describes the relative degree of market function strength or weakness EP's interventions were designed to improve. This axis also includes "missing" to denote where critical functions were not yet part of a market system.

The "y" axis on the right-hand side in the figure describes the relative degree of success in meeting expected outcomes in each market system change intervention. Some interventions worked better than others and some simply did not work at all.

Figure 1: Pivots Over Time



The "x" axis shows the years of EP's engagement from 2014 – 2020.

This framework plots EP's journey over time by showing when adjustments were made. The case takes the reader into the details of the pivots (EP's adaptive management practices) as well as the "why" behind these pivots, by examining the drivers behind any market system change process:

- Are incentives better aligned between market players in favor of competitive, inclusive, and resilient growth?
- Are relationships between market system players changing from short term transactions to longer-term win/win interactions?
- Do market players have the capacities to deliver on their promises?
- Do the rules of the game enable or disable solution-seeking behaviours by market players?

Why select these three market systems for analysis?

The cases on labour in garments, tanned leather and horticulture seedlings were selected for two reasons: firstly, for the results they produced despite the challenging context of operation; and secondly, for their ability to illustrate how context influenced the pathways taken (best, worst, and most likely-scenarios) and to show the type and range of adjustments made to achieve impact at scale.

03

Looking back on EP's journey to realise market systems transformation

This section describes EP's journey to achieve impact at scale across three market systems: labour in garments, tanned leather, and horticulture seedlings. It unpacks each journey in three ways:

First, it briefly describes EP's interventions, and how they changed over the time of EP's engagement.

Second, it briefly describes EP's assessment of results at the conclusion of its engagement in 2020.

Last, it guides the reader through each journey by showing what pivots and adjustments were made, when and why, using the analytical framework and the 'Pivots Over Time' figure introduced in chapter 2.2, which provides a visual representation of each journey.

1. Labour market system: the most likely scenario to achieve impact at scale

Ethiopia's emergent garment sector benefitted from multiple incentives from the Government of Ethiopia (GoE), including the creation of 'state of the art' industrial parks, tax benefits, and favourable trade agreements. Buyers and their manufacturing partners took advantage of these incentives and began investing in factories located in the parks. Ethiopia's large pool of labour did not respond to the factories' increased need for labour, notably due to perceived low wages and reluctance around industry-based work located in novel urban environments. The labour market for an industrial workforce simply did not exist in Ethiopia's predominantly rural economy. When EP started its interventions, there was a lack of clarity around the type of incentives (e.g. wages), relationships (between employers, job seekers and their families), capacities of assembly line work (e.g. soft and hard skills) and the rules that would govern factory-based workforce. Growth in one market system (garments) was being hindered by problems in an interconnected market system (labour). It is common for MSD practitioners to find themselves addressing this type of dynamic to facilitate inclusive growth, hence the 'most likely scenario'. EP adopted different approaches to develop a labour market system from scratch that could be scaled to meet the future labour requirements of the garment sector. These approaches included piloting different intervention models in sequence, as lessons from one informed the next intervention. This EP approach is referred to as 'facilitated muddling' through constant adjustments.

1.1 What EP Did

EP was actively engaged in the labour market for garments over a period of six years and through three distinct stages. In 2014, during EP's inception phase, the 'labour market' for industrial workers was identified as a missing interconnected market system that had been negatively affecting the growth of the garments sector, a priority sector in GOE's export industry development plan. Throughout the next six years, EP facilitated different approaches to develop an effectively functioning labour services market for sourcing, job matching, skills building and retaining workers in support of garment factories operating in industrial parks.

EP began with a pilot stage in two parts (2014 -2016). The first part focused on outsourcing soft skills training in partnership with two private training providers, targeting job seekers who were subsequently recruited by the factory in Addis Ababa. The second part focused on hard/technical skills training for new workers in partnership with the public sector Ethiopian Textile Industry Development Institute (ETIDI), in Hawassa Industrial Park (IP).

This two-year pilot stage was followed by two more distinct stages. Hawassa Industrial Park Sourcing and Training

Employees in the Region (HIPSTER 1; 2016 -2018) aimed to develop a public private partnership (PPP) approach to creating a viable, scalable labour services support function. The model brought together the Regional Bureau of Trade and Industry (BoTI) to screen applicants nationally across their local offices, ETIDI to conduct job matching, the Hawassa IP Tenants' Association (TA) to oversee worker allocation and human resource coordination, and private soft-skills providers to train new workers[7].

Based on the learnings of this PPP model, HIPSTER 2 (2018) improved labour sourcing by introducing a more robust database, an alternative sourcing channel, and by supporting factories to internalise soft-skills training. Factories also addressed retention challenges through a range of interventions. Finally, EP and its partners began expanding the model to two other industrial parks in Ethiopia: Mekelle and Kombolcha.

1.2 Results

Years of 'facilitated muddling' enabled EP and its partners to develop a sustainable and scalable model. The GOE has made the decision to replicate the HIPSTER 2 model at national level. It will be scaled up to three more industrial parks across Ethiopia in the next two years.

The partnership between the private sector and the GOE will continue to 'own' the model and 'sustain' pro-poor benefits by pursuing the coordination mechanisms that were facilitated by EP. Through their joint efforts, the partners are addressing critical market functions (sourcing, training, retention) that they were unable to address separately.

It can also be said that EP and its partners created systemic change in Ethiopia's workforce, from members of rural communities into an industrial workforce. At the start of EP's engagement, most employees considered factory work as a temporary solution until they found another job. Seven years later, factory workers are increasingly perceiving themselves as members of Ethiopia's emerging industry workforce. Factory work has also provided opportunities for women –who make up the majority of the workers – to engage in formal employment and self-identify as contributing to industrial growth. According to Kamilla Hamza, the CEO of the Investors Association at Hawassa Industrial Park, almost all factory workers returned to their jobs 8 weeks after being required to return home to fight against COVID-19. Absenteeism remains at a very low level even as a result of the COVID disruption.

Labour Sourcing

30,485 workers were hired

29,976 - BoTI channel
509 - Private sourcing

32 factories in Hawassa, Mekelle and Kombolcha industrial parks

Soft skills training

46 factory HR staff trained by EP

Factory HR staff trained **1,050 workers** in-house to date

Audio-visual content rolled out nationally by ETIDI and other donors and now considered Ethiopia's benchmark soft skills training curriculum'

Retention

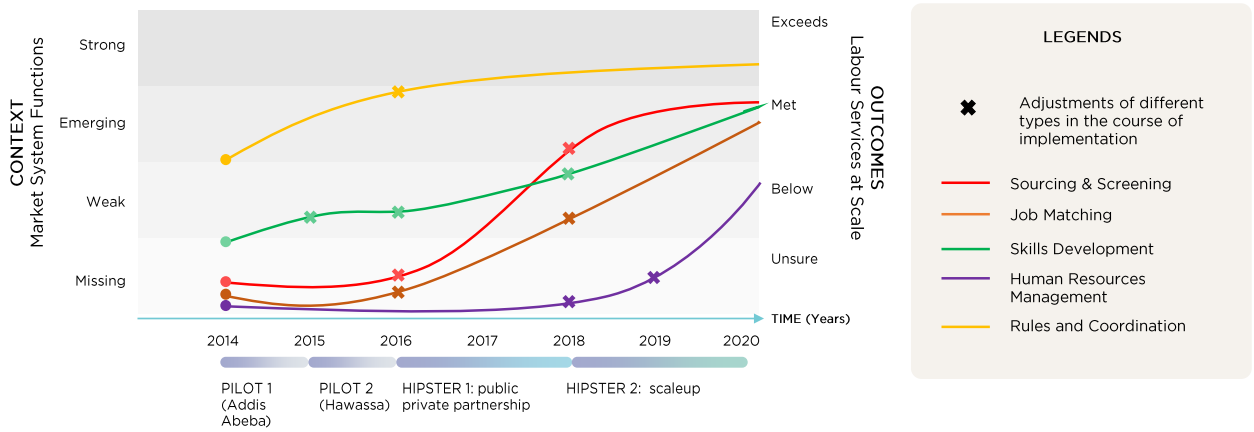
Over time, EP **identified retention as weak function** and addressed it through interventions resulting in **4%** decrease in average turnover rate (from 7% to 3%). Further, financial institutions have also responded to need of workers for retention through the development of a workers' savings scheme.

7. Further details on HIPSTER 1 and 2 can be found in Case Study 1: 'Enterprise Partners in Support of Industrial Transformation: Building an Industrial Labor Services Market'.

1.3 Journey towards impact at scale

Figure 2 hereunder provides an overview of EP's six-year journey in labour markets in garments, highlighting the adjustments made along the way. Market systems transformation regarding the labour services market system varied across its different functions. The rules and coordination function - the regulatory environment that governs the market system and the interaction between market players[8] has surpassed expectations, with the government planning to roll out the public-private partnership model to other IPs. The sourcing/screening, job matching and skills development functions - which were missing/ weak at the start of EP's engagement – have been internalised by market players. Human resources and other support functions to improve retention –which were addressed later in EP's engagement –have also improved but to a lesser extent, leaving scope for further interventions at factory level. This overview is followed by a narrative detailing how, when, and why these adjustments were made.

Figure 2: Labour Sourcing And Retention Timeline And Pivots



SKILLS DEVELOPMENT

2014
Soft skills outsourced to private providers, paid for by EP

2015
Hard skills provided by ETIDI, paid for by EP

2016
- Private skill providers deliver soft skills training; cost supported by EP
- Hard skills: internalized and paid for by factories

2018
Factories internalise and pay for soft skills training (audio-visual curriculum)

RULES AND COORDINATION

2014
Industrial park strategies forming, coordination platforms being set-up

2016
EP actively supporting labour market coordination to effectively manage coordination platforms.

2020
GoE leading coordination, Govt planning to roll out HIPSTER model to other IPs

SOURCING AND SCREENING

2016
Introduction of government sourcing channel

2018
2nd private sourcing channel established

JOB MATCHING

2016
ETIDI takes on job matching

2018
Introduction of new database by tech company

HUMAN RESOURCE MANAGEMENT

2018
Introduction of HR and retention interventions (HR system, women support services, savings scheme)

2019
Introduction of disability inclusiveness interventions

[8] Interaction between market players impacts the quality of policies. Often, policies that are unresponsive to the needs of market actors are partly caused by weak coordination between market actors.

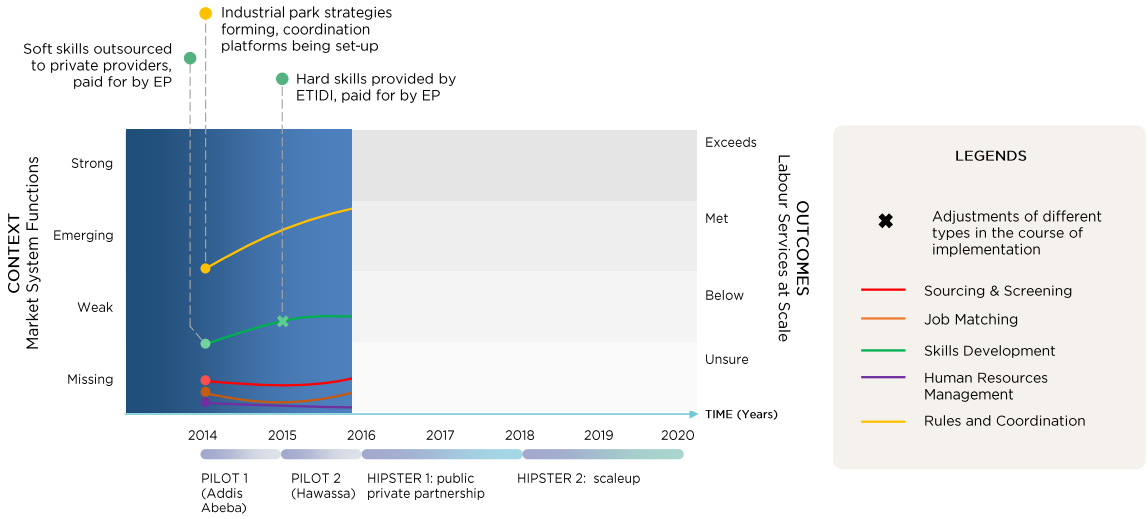
1.3.1 Pilot Stage 2014- 2015: Soft skills pilot (pilot 1: Addis Ababa) and hard-skills pilot (pilot 2: Hawassa)

Overview

In the first pilot (2014), EP tested the feasibility of outsourcing soft skills training to private training providers for factories based in the capital. This thinking at the time was that soft skills training (e.g. a bundle of workplace attitudes and practices) would be critical to inform new recruits on employer expectations while also educating employers how best to accommodate a new workforce – predominantly women – who had never lived in an urban setting or worked in industrial environments. EP covered the costs of this pilot because the benefits and costs of this model were not yet known.

The second pilot (2015) focused on taking the intervention to Hawassa IP and building a relationship with government stakeholders (ETIDI). It addressed the 'hard skills' component to test the feasibility of training workforce without any prior assembly line experience.

Figure 3: Pilot 1 and 2 timeline and pivots



Lessons:

By implementing two pilots with different partners and in different locations, EP gained insight on how to address skills development for garment factories. It became clear that sourcing and soft-skills training were both critical constraints and had to be addressed together. While factories considered skills development as important, their primary concern was sourcing and screening job seekers at scale and matching them according to their labour requirements. Stand-alone soft skills training did not offer factories enough value for a service they considered too costly and could not be shared with new employees without certitude of benefits of this investment.

Moreover, private training providers lacked the capacity to source jobseekers to attend their trainings or to train large numbers of jobseekers to meet bigger factories' requirements. The existing sourcing function was weak and required new players who had access to wider networks to source at scale: training providers needed to create relationships with government sourcing agents working in decentralised offices across the country.

As for hard skills development, factories themselves were in the best position to develop workers' technical capacity through on-the-job training, which enabled targeted and longer-term skills building and productivity. Subsequently, the factories internalised the hard-skills development function.

Pivots/Adjustments

The pilots created an avenue for EP to build relationships with key stakeholders and pinpoint what to address beyond skills development alone. Sourcing, screening, and job matching were urgent constraints and needed to be planned and coordinated with soft skills development. Neither the private nor public sectors acting alone would be able to effectively address the garment sector's labour needs, especially in the industrial park context.

Considering that Ethiopia's garments sector growth strategy was developed around large-scale investments and industrial parks, EP shifted its focus to Hawassa Industrial Park (HIP) – the government's flagship park –which was in its opening phase in 2016. This shift was strategic to achieve impact at scale. EP decided to facilitate a multi-stakeholder initiative through a new model: a public-private partnership that capitalised on the specific strengths of each market system player.

1.3.2 2016: HIPSTER 1: moving to a public private partnership model

Overview

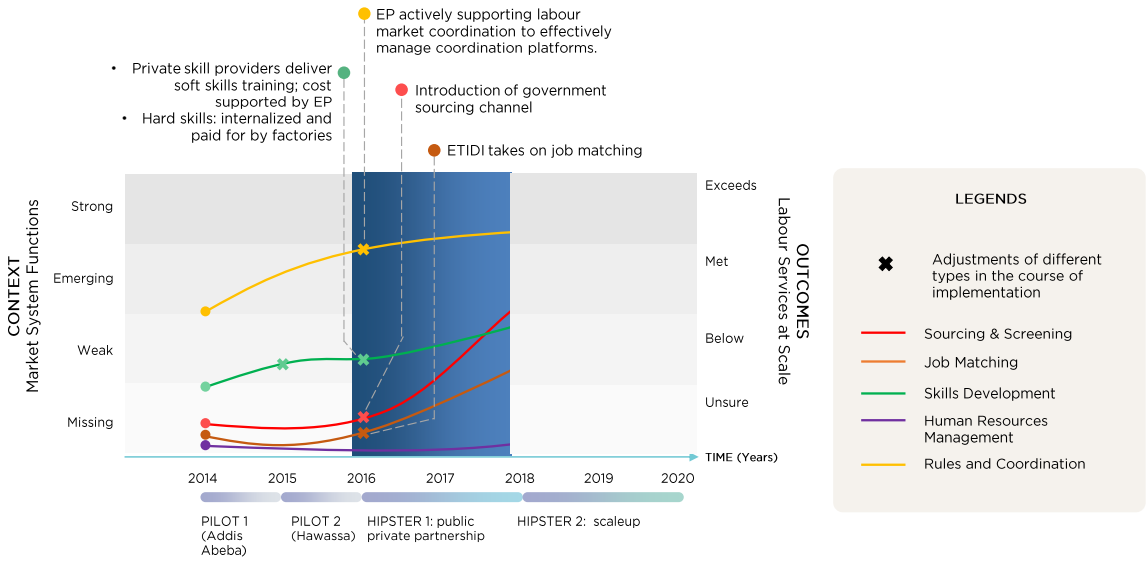
HIPSTER 1 was launched in 2016 in partnership with the Regional Bureau of Trade and Industry (BoTI), the Ethiopian Textile Industry Development Institute (ETIDI), factories through their Tenants Association (TA), and private training companies. Because organised labour sourcing and screening, skills development and job matching functions did not yet exist in Hawassa, EP developed a PPP model 'from scratch', with new players carrying out new functions. Although players - namely government – were proactive, there was little clarity on the exact incentives of market actors and how they would evolve with implementation. Although their roles were clear on paper, it was unclear if, for how long and how well they would perform these roles. To demonstrate a 'proof of concept', EP actively participated in developing the PPP model and capacity building of actors to create an effective and scalable labour services market. In sum, through HIPSTER 1, EP tested the feasibility of the PPP model to effectively address all labour market system functions at the same time[9].

EP had to gain thorough understanding of actors' capacities and incentives to build and coordinate partnerships accordingly, encouraging each to capitalise on their own strengths. To do so, EP set up a weekly coordination meeting platform which incentivised actors to communicate regularly. To provide steer

[9] Further details on the HIPSTER model can be found in Case Study 1: 'Enterprise Partners in Support of Industrial Transformation: Building an Industrial Labor Services Market'.

and maintain momentum, EP began each meeting with insights and updates on sourcing numbers, and shared learning points with all stakeholders. The platform was also the programme's common decision-making space..

Figure 4: HIPSTER 1 timeline and pivots



Lessons:

A robust database system was required to respond to increasing labour demand. The excel-based database created and managed by EP proved insufficient. Smoother information flow around the factories' demand for labour, worker identification and career tracking was necessary to develop feedback loops and enable analysis-driven decision-making by the PPP members. EP highlighted this as a key issue to the coordination forum: none of the current actors had the capacity to take over this important support function and the dependency on EP to fill the gap was hindering sustainability. The PPP members decided to outsource the development of a more robust database to an IT company.

An alternative sourcing channel was necessary to cater to walk-ins. While BoTI proved adept at mobilising labour across the region, a second sourcing channel was necessary to accommodate walk-ins at the industrial park. This channel would complement the government channel by providing a quicker, less bureaucratic option directly on-site. EP pitched the idea of a private sourcing channel within Hawassa IP to the coordination forum and organised recruitment events on site to verify feasibility and relevance. The recruitment events resulted in increased applications which convinced partners to go forward with the second channel.

Factories needed to internalise soft skills training to meet their skill development needs. The factories remained dissatisfied with the cost and delivery of training; they were reluctant to pay for it themselves after the first 7,500 were trained, but still valued the purpose and content. Managers –often foreign – had not anticipated the level of effort required by workers to adapt to an urban environment and an industrial workplace and realised they had to build their in-house capacity to include quality soft skills training in their internal procedures rather than as a standalone intervention. Discussions in the coordination forum enabled EP and

factories to agree on specific measures to do so. A dual training approach was preferred, whereby factories would introduce standard curriculum using audio visual platforms and their HR managers would receive ToT support to train staff in-house, cost-shared by EP.

Pivots/Adjustments

EP and the PPP partners adjusted the HIPSTER 1 model to solve problems in regard to sourcing and soft skills training, as described above. Retention was further identified as a critical constraint with 7% turnover rates and absenteeism rates between 17-25%. EP had pinpointed retention as an issue at the beginning of the intervention in 2015 but had chosen to focus on sourcing and soft skills training considering the immediate needs. As the labour force in Hawassa IP grew, it became essential for factories and workers to strengthen their relationships by addressing different support functions that could improve the work environment and improve retention.

In parallel, new industrial parks –Mekelle and Kombolcha—showed interest in adopting the HIPSTER model, which pushed EP to scale up the model past Hawassa. EP decided to continue investing in HIPSTER to develop a successful and replicable 'proof of concept' and simultaneously started showcasing the model to governments, development partners, and other industrial park actors. Mekelle and Kombolcha government representatives agreed on replication plans with Ethiopian Investment Commission (EIC) and BoTI. EP facilitated the replication process, namely by supporting the identification and training of the most suitable actors for sourcing and screening, and covering the costs of the database setup and management in the two new IPs.

1.3.3 2018: HIPSTER 2- scale and commercialisation, and addressing 'retention' challenges

Overview

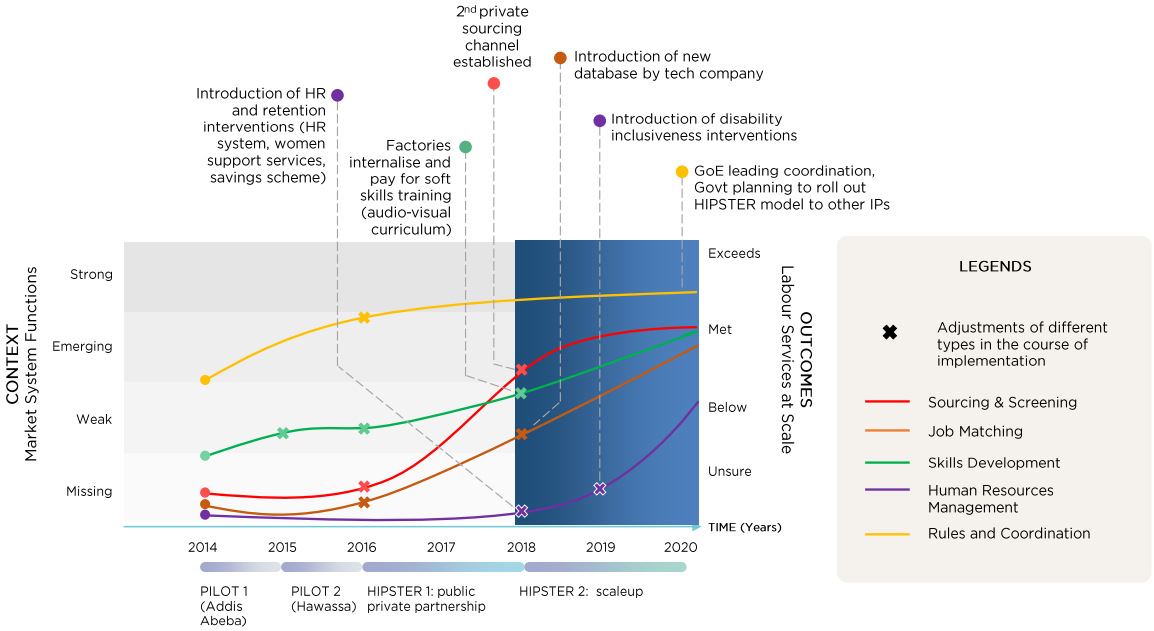
EP launched HIPSTER 2 in 2018 with a view to improve the HIPSTER 1 'concept' based on the learnings mentioned above. EP also facilitated the launch of several workplace improvement interventions to address retention. These included developing quality human resource procedures for industrial parks, providing training on gender inclusivity in the workplace, and establishing a workers' savings scheme[10]. In summary, EP was testing the HIPSTER model's ability to scale and sustain.

Lessons:

Overall capacity and coordination increased. Throughout the implementation of HIPSTER 2, actors improved their capacity as well as their coordination, leading to a more efficient labour market system. The relationships between government and factories became clearer, which consolidated the public private partnership. The Ethiopian government took ownership over the sourcing, screening, and database management functions, supported by private actors such as the database management company. The factories took ownership of both soft[11] and

[10] Further details on the retention interventions can be found in Case Study 1: 'Enterprise Partners in Support of Industrial Transformation: Building an Industrial Labor Services Market'

Figure 5: HIPSTER 2 timeline and pivots



hard-skills training, as well as retention interventions, supported by government institutions (ETIDI and EIC).

The commercialisation of the database brought many challenges. Factories and government agreed data analytics services were essential but disagreed on who should pay for this service. As the EIC lacked the technical capacity to run the service, it maintained outsourcing to the IT company—but could not charge the factories for the service as per its public mandate. To cover the costs, EP facilitated discussions between the government, factories, and the database provider to mainstream database services in the rental fees paid by park tenants; however, factories were unwilling to pay extra for a service they considered part of their current rental package. As a result, EIC decided to scale the model to other IPs through additional donor funding. A key learning is that in weak markets, even when a model is functional, core market actors – in this case, the factories– are not ready to pay for services such as database management. One way to scale it is for scale agents (EIC) to generate more funding through other donors.

Retention increased but remained a work in progress. Although retention remains an issue, factories have seen a 4% decrease in average turnover (from 7% to 3%) which can be partly attributed to these interventions. This points to increased alignment of incentives between factories and workers. 267 supervisors were trained on gender sensitive management across 11 factories; 438 peer educators were trained in health and gender relations and disseminated key messages to 1,385 workers across 8 factories at the end of 2018. This has resulted in more positive working environments in the target factories. 313 workers have signed up to the workers' savings scheme[12].

[11] EP facilitated factories' uptake of in-house soft skills training in partnership with ETIDI. First, international experts trained ETIDI master trainers. Second, ETIDI master trainers trained 46 persons from factory human resources teams, building their capacity to conduct the 'workers' engagement and retention' (WER) training in-house. This was rolled out in combination the audio-visual platform basic soft-skills training.

1.4. Conclusions from EP's journey in the 'most likely' scenario

Labour in garments represents the 'most likely scenario' MSD practitioners face in their pursuit of impact at scale. MSD practitioners often find themselves addressing constraints in weak interconnected markets (labour) that fail to respond to real economic opportunities (jobs in garments).

EP adopted different approaches to develop a labour market system from scratch that could be scaled to meet the garment sector's future labour requirements. These approaches included piloting different intervention models in sequence, as lessons from one informed the next intervention. It took trial and error to identify the public-private partnership model as the best model, and even more to refine it. EP facilitated this journey of discovery by engaging stakeholders in an iterative process of testing the best alignment of incentives and capacity to create an effective labour services market for an industrial workforce. This EP approach is referred to as 'facilitated muddling' through constant adjustments. The final model is more than a sourcing and training mechanism; it is a comprehensive system for labour market development that builds on the strengths of each marker player.

[12] An additional 1,500 workers were expected to sign up by September 2020 but could not due to the effects of COVID-19.

Most Likely-Case Scenario Feature:
Cotton Seeds

The cotton seed market system in Ethiopia was constrained by multidimensional factors including poor quality of seed, low access and availability, and a weak policy environment. As a result, it was partly functional, characterised by limited actors with low capacity but clear incentives to increase cotton seed and cotton lint production. The lack of regulated seed system (unclear rules) hindered actors from building the relationships they required to increase production. EP therefore addressed multiple constraints simultaneously from the get-go to unlock potential for market transformation.

At inception phase, EP identified discrepancies between offer and demand in the Ethiopian cotton sector. The amount and quality of locally- produced cotton did not fulfil the demand of the textile factories, which in turn resorted to imports. Sectoral growth was further exacerbated by the lack of national sectoral strategy and regulation. EP identified the supply of quality cotton seed as a critical constraint for both smallholder and commercial cotton farmers.

Considering the criticality of activating the seed system for cotton, EP engaged in improving the seed system on multiple fronts: improved seed multiplication and processing, access to seeds for both smallholder farmers and commercial farmers, and improved agricultural practices in seed multiplication. Simultaneously, EP supported the government to establish and implement a National Cotton Development Strategy (NCDS).

Addressing multiple issues at the same time was necessary to ensure that the seed supply system was providing both quality and volume of seeds in a sustainable manner at scale. This approach differed from EP's work in the labour market system where it first piloted different business models and addressed new constraints –such as retention– as they became more critical. This approach was necessary for the cotton system to function efficiently, as the constraints were intertwined and impact at scale was not achievable unless multiple issues were addressed simultaneously.

However, this approach did not require significant financial investment from EP, as it adopted 'light touch' facilitation, meaning focus was placed on facilitating discussions rather than intervening directly in the market. Market players' roles, incentives and capacities were clear from the pilot, and the added value was evident. The relationships between the different actors were missing, however. EP therefore facilitated regular meetings and discussions, led by the technical working group, and ensured extensive involvement from government and non-government stakeholders. These 'light touch' facilitation tactics were successful in ensuring a shared understanding of the challenges and opportunities and a coherent implementation strategy for certification, seed multiplication and processing.

As a result of EP's engagement, seed certification and supervision systems were developed, and a National Cotton Development Strategy was adopted in February 2018. By 2019, the multipliers earned 13.4 million ETB selling improved planting seeds. Thanks to the use of improved seeds, commercial farms earned an addition 245.6 million ETB from selling lint cotton. Certified seed multipliers continue to sell seeds, and additional seed companies and commercial farms are showing interest to become multipliers.

Further information on EP's engagement in cotton seeds can be found in Case Study 5: 'Changing the rules with evidence, strategies and action: Looking back at our interventions in the cotton and leather sectors .

2. Leather tanning system: the worst-case scenario to achieve impact at scale

In 2012, the Government of Ethiopia imposed a 150% tax on the export of semi-finished leather, with the aim of incentivising tanneries to export higher value, finished leather. At this point in time, the majority of tannery sales was made up of unprocessed and semi-finished leather. While the policy aimed to increase value addition within the country, the policy shift presented a serious challenge to Ethiopian tanneries, who did not have the capacity to invest in new equipment, secure new buyers, and produce finished leather to international standards. Following this decision, many Ethiopian tanneries reduced their operations to approximately 50% of their capacity and faced significant cash constraints as a result. Because they had weak relationships with finished leather buyers both in the domestic and export markets, they had minimal understanding of their requirements and could not secure orders. The tannery industry's weak performance also led to the deterioration of relationships between tanners and raw hides and skins suppliers. The tanneries reduced the volume of their raw hides and skins (RHS) orders and delayed their payments, which in turn disincentivised the RHS producers to invest in the quality of their products. Overall, due to weak capacity, misaligned incentives, and poor relationships amongst key actors, the leather sector was performing poorly according to the country's Growth and Transformation Plan (GTPII).

In such worst-case scenarios, two options prevail: avoid interventions altogether due to low impact potential or provide intensive support to key market actors to demonstrate potential for market transformation. EP opted for the latter and decided to focus on championing a limited number of public and private actors in their organisational approaches, as well as supporting the industry to revisit the rules governing the sector's performance. Once a track record of success was developed, other market actors would increase their will to change their practices, respond to changes in rules, representing a first step towards transformation and impact at scale.

2.1 What EP Did

In 2014, EP identified tanneries' weak capacity to produce finished leather as a key constraint. In particular, EP identified a lack of technical skills, knowledge and availability of chemicals and inputs. Over the next three years, EP tested and adapted interventions to support the growth of the finished leather sector.

From 2016 to 2018, EP piloted two different interventions with different partners and focuses. The first pilot partnered with chemical companies who understood buyer specifications for finished leather and who provided technical assistance to ten local tanneries[14] to secure orders from leather product factories. From the pilot learnings, it became clear that tanneries needed more intensive, tailored support that they could get from chemical companies alone; weak marketing capacity was also a major constraint for the tanneries. Subsequently, EP piloted a second intervention in partnership with individual industry experts who had extensive experience working on the floor and understood buyer requirements for finished leather. These individuals started working as market agents providing both technical assistance and marketing support to a reduced number of tanneries (four in total).

In 2018, EP scaled up the model from the second pilot, facilitating the same technical assistance and marketing support intervention, to two new tanneries, for a total of six. Market agents succeeded in supporting tanneries to secure finished leather commercial orders.

Despite the success of the intervention, it did not have the desired demonstration effect on other tanneries. From its engagement, EP learnt that a majority of the tanneries were not ready to switch from semi-processed to finished leather due to their weak technical capacity, lack of access to finance, poor environmental and social compliance as well as the market agents' limited capacity to support the whole industry.

The GOE's policy of introducing a prohibitively high export tax to incentivise tanneries to radically shift their business model from price to quality was not achieving the desired results in terms of expected value-addition. In this context, EP's offer of technical assistance and marketing support was not working to transform the tanned leather market system towards greater value addition and forex earnings. Therefore, EP convened key actors and government to revert the 150% tax on semi-processed leather itself, thus enabling tanneries to leverage their strengths (producing semi-finished leather), while investing in building technical capacity to gradually move to finished leather production with the support of the market agents.

2.2 Results

When the GOE imposed a 150% tariff on semi-finished leather exports, tanneries were unable to respond because they lacked the capacity to adapt their business models and operational processes to produce finished leather. EP intervened to demonstrate possible ways in which tanneries could navigate this new policy environment by increasing their capacity to export finished leather.

EP's engagement in leather tanning had meaningful but incremental results for the finished leather market by linking local tanneries to foreign buyers through chemical chemicals and market agents familiar with foreign buyers and their specifications. Through EP's engagement, a missing yet critical market intermediary function was proven feasible and continues through two agents, without continued EP support.

Participating tanneries – about 30% percent of all local tanneries in Ethiopia – were able to increase sales of exported finished leather but fell short of GOE targets set in GTP II. The GOE policy asked too much of the tanned leather subsector causing factory closures while also disrupting the raw hides and skins market as tannery demand dwindled. In response to this, EP addressed the rules which resulted in a roadmap for the leather sector[15] through

[14] Support was provided to 10 of the 20 existing local tanneries in Ethiopia

[15] EP's work on the leather sector roadmap is detailed in Case Study 5: 'Changing the rules with evidence, strategies and action: Looking back at our interventions in the cotton and leather sectors'.

an evidence-based participatory policy formulation process. In January 2020, the GOE re-established the sale and export of semi-processed finished leather targeting local tanneries while also encouraging them to diversify into the higher value finished leather market.

Technical Assistance and MarketingSupport

The combined technical assistance and marketing support model was successful in enabling factories to secure commercial orders.

By the end of the scaleup, the tanneries' sales reached **3.6 million GBP** (1.2 million during the pilot stage, and 2.4 million during scaleup).

Market Agent Model

The two market agents provided services to 6 tanneries **(four during the pilot stage and two during scaleup)**

The tannery work has become the **market agents' core business** and to date, the model continues to operate with no support from EP.

Addressing Rules

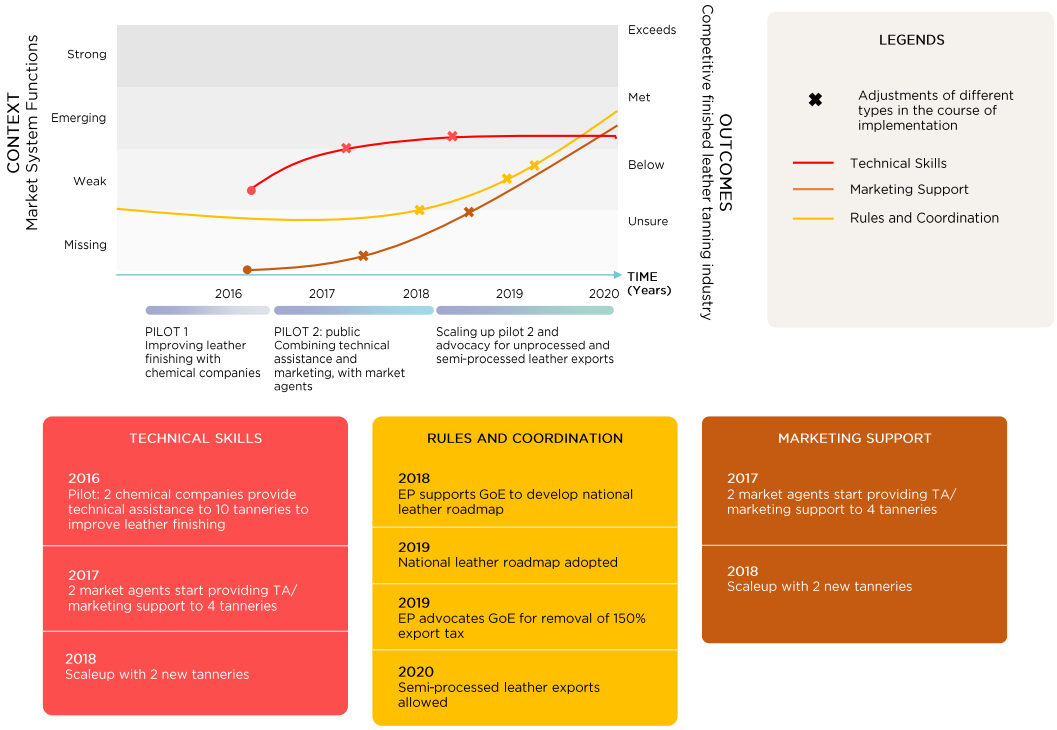
EP's research on semi-finished leather led to GoE addressing structural change: in January 2020, the government re-established the sale and export of semi-processed finished leather for local tanneries.

2.3 Journey towards impact at scale

Figure 3 hereunder provides an overview of EP's four-year journey in leather tanning, highlighting the adjustments made along the way. Interventions to transform the tanned leather market system faced multiple challenges, ranging from tanneries' low capacity (both technical and financial) to incentive-distorting policies that attempted to push tanneries too far, too fast. Tanneries' technical leather finishing and marketing skills increased thanks to the introduction of the market agent model, but this only benefited a limited number of tanneries. The business enabling environment (rules and coordination) also improved, namely by re-allowing semi-processed leather exports, but comprehensive and coordinated public-private partnerships are still required to boost export and increase value addition in the country. Even though EP's interventions were close to meeting their own objectives, the desired demonstration effect on other tanneries did not work during EP's lifetime, due to extremely weak capacity of the tanneries and disabling rules impacting their business performance of tanneries.

This overview is followed by a narrative detailing how, when, and why these adjustments were made.

Figure 6: Leather tanning timeline and pivots



2.3.1 2016-2017- Pilot 1: Improving leather finishing, supported by chemical companies

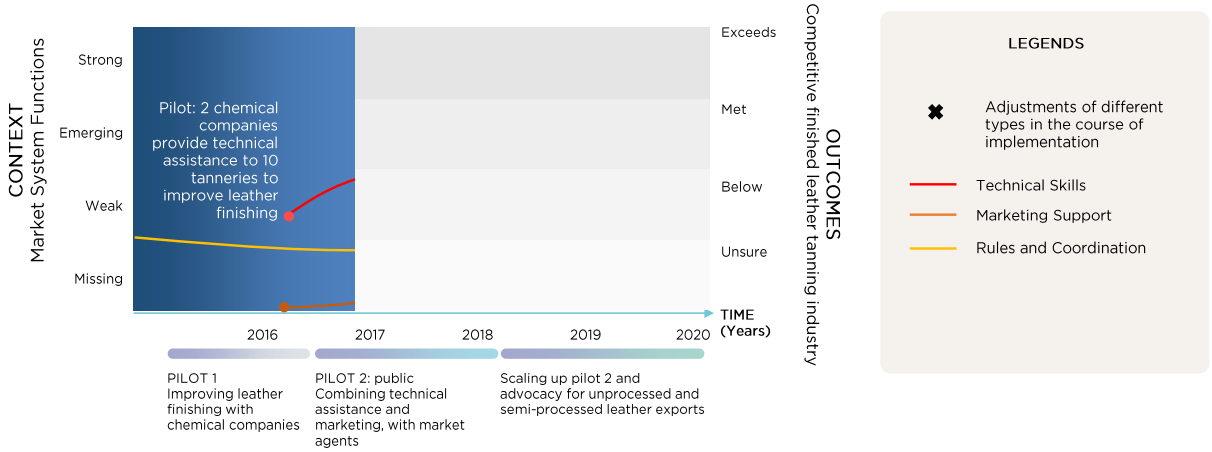
Overview

In this first pilot, EP tested the feasibility of chemical companies adopting a 'sales plus service' business model in support of tanneries who were ready to shift into higher value finished leather export markets. Chemical companies had knowledge of buyer specifications for finished leather at a time when tanneries wishing to make this shift to higher value markets did not. If this business model proved feasible, chemical companies would become scale agents in support of a transforming tanned leather sector into higher value markets.

EP piloted an intervention with two chemical companies. Ten tanneries were selected based on their interest to use quality chemicals and improve their production technology. The chemical companies provided technical assistance to the tanneries to secure orders from leather product factories. As the tanneries were significantly constrained with finance, technical know-how, and equipment, EP provided grants to the tanneries to buy inputs and invest in machinery. EP also supported the chemical companies' operational costs in the provision of additional and focused technical assistance to the tanneries.

The results of the pilot showed that technical assistance provided by chemical companies, combined with the right use of chemicals, enabled tanneries to produce export-quality finished leather. Five of the ten tanneries secured commercial orders and increased their sales by 936,480 GBP.

Figure 7: Leather tanning Pilot 1 timeline and pivots



Lessons:

Chemical companies were not well suited to provide tailored technical assistance. The cost to chemical companies of embedding technical assistance in their sales strategy was not sufficiently compensated by increased sales. Chemical companies did not trade leather and they had no incentive to conduct marketing related activities beyond providing technical assistance support.

The tanneries required more intensive, diversified, and tailored assistance than could be provided by chemical companies. Only half of the ten tanneries managed to secure export orders and purchase the right chemicals; they were the ones who had previously established relationships with a few buyers, with relatively stronger internal HR capacity to manage these relationships and technical skills to meet quality requirements. Fence-sitting tanneries needed to establish more direct relationships with buyers of finished leather and strengthen their capacity to produce higher-quality products. Tanneries therefore required marketing support in addition to technical assistance.

Pivots/Adjustments

EP pivoted its intervention to identify partners with the knowledge and expertise to link tanneries directly with buyers of finished leather. The same 'sales plus service' model that was piloted with the chemical companies was pursued with marketing intermediaries. These individual market agents were better placed to perform these services because their financial incentives depended on the tanneries' finished leather sales, and they were able to provide intensive support tailored to the tanneries' needs. The pilot also demonstrated that partner tannery selection required stricter criteria than basic knowledge and interest to produce finished leather: the intervention hence decided to 'scale down' the number of partner tanneries to champion a small number of relatively higher capacity of them as industry leaders. EP launched a second pilot to test the feasibility and success of this approach.

2.3.2 2017-2018- Pilot 2: Combining technical assistance and marketing functions; led by agents

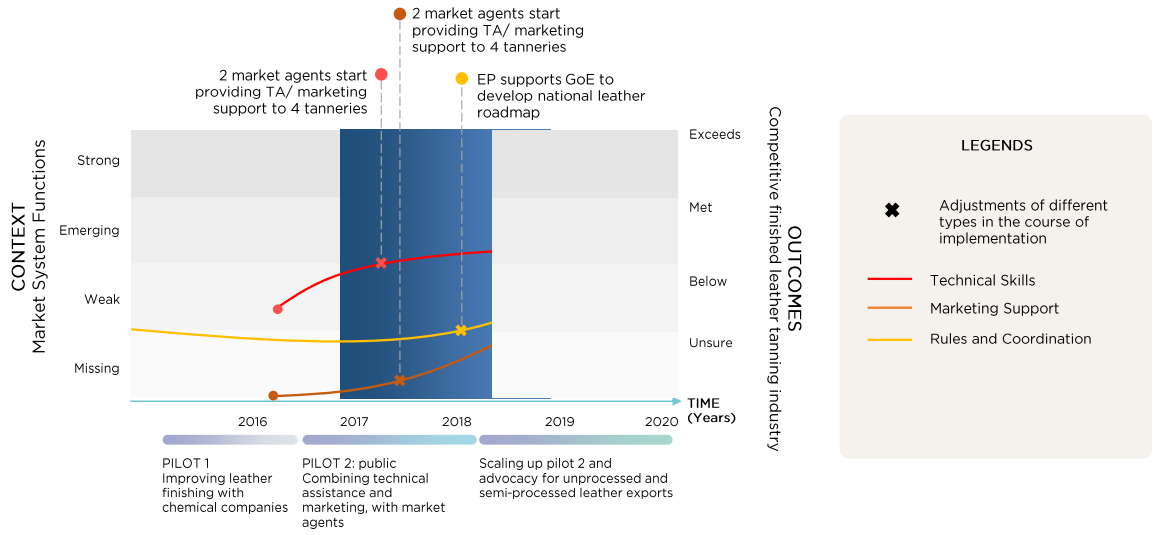
Overview

EP piloted a new 'sales plus service' model in partnership with two individuals who acted as marketing intermediaries between tanneries and buyers. They provided a range of services including technical advice, in house production support when needed, quality assurance and control, business development, communications and negotiation with buyers, for which they charged a fee.

Market agents earned a margin on tannery sales which were negotiated and paid for by either the tanneries or buyers depending on their arrangements. To de-risk the tanneries and buyers' investment in this new model, EP covered the market agents' fees regardless of sales for the first year, until actors were convinced of the value of the service provided by the agents.

The four tanneries they worked with secured 19 commercial orders with 8 buyers and were able to bring in an additional 1.2 million GBP. Relationships between tanneries and buyers improved thanks to the intermediary agents, resulting in continued orders past EP's support.

Figure 8: Leather tanning Pilot 2 timeline and pivots



Lessons:

The key learning from this intervention was that the agent model was effective: tanneries with minimum capacity were able to improve their finished leather producing capacity and meet quality standards with tailored technical and marketing support.

The agent model successfully realigned incentives between actors, as the agents' fees were tied to the tanneries' performance, unlike the initial pilot where the chemical companies only focused on the volumes of chemicals sold and used. Agents calculated the number of consultancy days required for tanneries

to secure a commercial order. EP cost-shared approximately 50% of these consultancy fees[16], which provided a basic level of security for the agents and incentivised them to invest time in working with the tanneries. If they succeeded in securing an order, agents also charged a 3% commission on the total sales.

Moreover, the agents provided the intensive, tailored support tanneries required to secure orders. In comparison to the chemical companies' 'light touch' quarterly service provision in the initial pilot, the market agent model allowed for ongoing intensive technical and marketing support that was tailored to the tanneries' and market needs.

The relative success of the intervention with the four tanneries created space to inspire crowd-in from other tanneries with similar capacity: the incentives were sufficiently robust that buyers, tanneries, and market agents could strike a deal without EP's cost share subsidy. However, it was evident that, due to low capacity and poor performance of tanneries, it is not feasible for market actors to 'crowd-in' in absence of further support from EP. More success stories are required induce impact at scale.

Pivots/Adjustments

EP decided to partner with two new tanneries to ensure the industry could learn from multiple champions, all positioned to generate forex by exporting finished leather in line with GOE priority for the Ethiopia's leather sector. These new tanneries were selected based on their minimum capacity to produce finished leather and their demonstrated interest to work with market agents.

Ideally, an MSD project would have focused on demonstrating the pilot's success to other tanneries and refrained from providing further intensive support. However, this approach would have failed in this 'worst-case scenario.' Given Ethiopia's thin market and the continued industry pushback on the export tax, the industry required additional success stories, which in turn required EP to establish a robust 'proof of concept'.

EP decided to continue working with the same two market agents. EP did not engage with more than two tanneries for multiples reasons: the market agents were sufficiently busy with the work from the six tanneries, there were no other individuals with the skills to provide the market agent services, and there was not enough of a market on the tannery side to justify EP investing in training up new market agents.

2.3.3 2018- 2019- Agent model scaleup

Overview

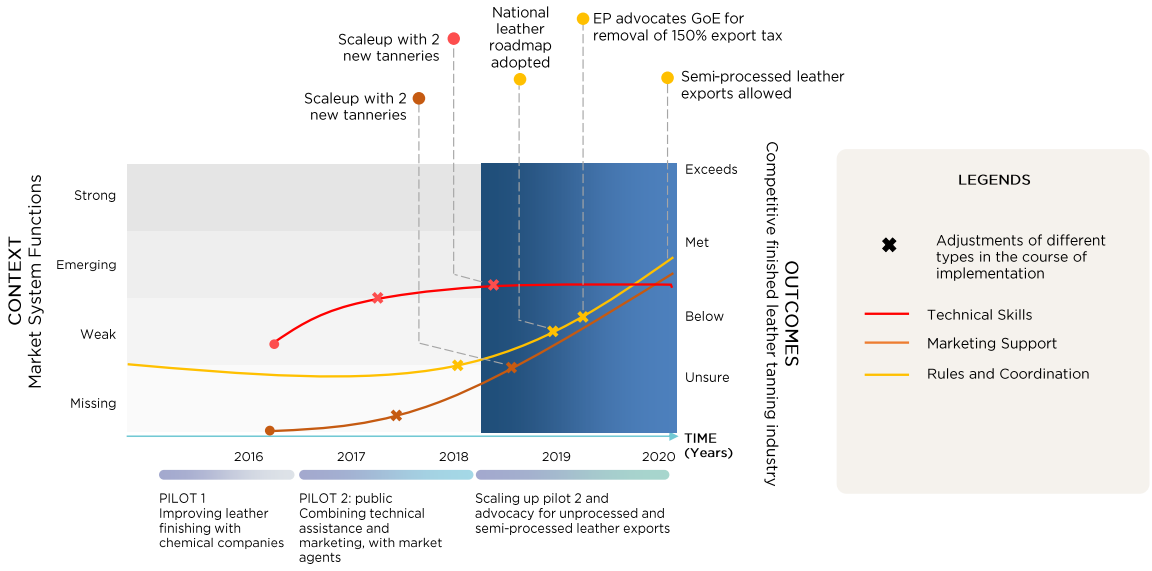
EP wanted to test the volume and value of finished leather sales that would provide sufficient incentives to sustain the relationships between tanneries, their buyers and marketing agents without (or with greatly reduced) cost share support. EP also wanted to inspire a larger pool of tanneries to work with the market agents. Lastly, EP wanted to learn if tanneries with increased export sales would reinvest their earnings in building their capacity to become longer term

[16] EP also paid for certain administrative costs for the tanneries linked to developing international market linkages, including participation in trade shows, advertisement, and marketing costs.

trading partners with export buyers with or without the services of a market intermediary.

The market agents started to provide support to two additional tanneries through the same cost-sharing support offered by EP. The two marketing agents have since adopted this new 'sales plus service' as their core business model. To date, the two marketing agents continue to work with the six tanneries with no support from EP. Tannery sales reached 3.6 million GBP (an additional 2.4 million GBP) by December 2019, and the agents' revenues were estimated at approximately 26,500 GBP.

Figure 9: Leather tanning Scaleup timeline and pivots



Lessons:

Despite the success of this intervention, new market agents and tanneries did not crowd into the market system. Although partner tanneries were successful, their internal technical capacity remained weak and their operational capacity only marginally increased. Financial gains were meaningful but incremental. It remained challenging to bring lower-performing tanneries on board: they were significantly cash constrained and could not invest in their businesses by purchasing new machinery or hiring agents.

EP learnt that the broader Ethiopian leather industry was not ready to switch from semi-processed to finished leather. The tanning industry overall continued to decline, with some tanneries leaving the export market and others shutting down. To revitalise the industry, it was necessary for tanneries to have the option to export semi-finished leather, which continues to be in demand globally and requires less technical skills and compliance requirements.

Pivots/Adjustments

The 2012 regulation on semi-finished leather exports, which had aimed to stimulate value addition, was simply beyond the ability of all local tanneries in

Ethiopia to comply and succeed. This led EP to address the policy environment. EP engaged with the government to develop a roadmap for the Ethiopian leather sector based on its results and learnings.

2.3.4 Advocacy for semi-processed leather export and national action plan

EP engaged with key government stakeholders to develop a long-term roadmap for the leather sector, aiming for increased exports, investment, and sector transformation[17]. EP hired international leather sector experts to support the process and facilitated multiple government-led stakeholder discussions. EP's strategy was to develop an evidence-based roadmap, using international and domestic experience, that reflected the government's ambitions.

As a result of the roadmap, EP developed its credibility and conducted additional research for the Government of Ethiopia; results showed the need to liberalise the sector and adopt rules that incentivise leather exports rather than restrict them. EP worked closely with the Ministry of Industry, presenting technical evidence to support the need for a policy change, as well as promoting ownership over it. The 150% tax on semi-processed leather exports was subsequently lifted in January 2020. This shift in rules has already shown encouraging results in terms of industry revitalisation[18]. Following a period of distrust after the regulation was first passed in 2012, the government has proved its ability to respond to the industry's concerns.

2.4 Conclusions from EP's journey in the 'worst case scenario'

In this 'worst case scenario' characterised by the weakness of the leather tanning industry and disincentivising rules, EP adopted an intensive facilitation approach[19] to build a 'pathway' for market transformation. EP championed key industry players through intensive facilitation (cost-sharing of market agent fees) and handholding (through tailored support) to establish business models and support systems from scratch. EP engaged in two pilots and made bold decisions in order to develop a successful intervention model combining both technical assistance and market support: EP changed partners from chemical companies to individual market agents, and reduced the number of partner tanneries from ten to four. Finally, realising the importance of change in rules to impact all industry actors, EP supported the development of a national leather road map and successfully advocated for policy changes to support the overall sector performance in both the export and domestic market –namely the export of semi-processed leather.

Although the tanneries' quantitative results were incremental within the project life cycle, the success of EP's engagement must be approached from a longer-term perspective: the introduction of the market agent model and changes in the rules of the game will have sustainable positive effects on the Ethiopian leather tanning industry.

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[17] Further details can be found in Case Study 5: 'Changing the rules with evidence, strategies and action: Looking back at our interventions in the cotton and leather sectors'.

[18] Early signs of increases in sales on wet blue leather have slowed down due to the impact of COVID 19 on the market.

[16] Intensive facilitation encompasses more direct intervention in the market system (through cost-sharing, staff placement or bring in external consultants, for example). On the contrary, light touch facilitation focuses on facilitating relationship building, discussions, learnings between key stakeholders (through exposure visits and discussion forums, for example).

Worst-Case Scenario Feature:
Private Equity Capital Market

The private capital market was at infancy stage when EP began its engagement in 2014. The investment sector in Ethiopia was dominated by debt financing (loans) and donor-funded grants. EP identified private equity capital as an opportunity for 'alternative financing' for the companies in Ethiopia who were seeking for growth capital. However, considering that private equity was a new concept for Ethiopian firms and an industry at an early stage of development, there were fundamental constraints and challenges.

First, Ethiopian companies lacked awareness around the opportunities of private capital; they assumed private equity implied company and/or management control and were wary as a result. Second, companies were not ready for investment as they lacked the capacity to reach compliance with investors' requirements. Finally, the advisory services market was highly fragmented. No actors provided comprehensive service packages, including due diligence, accounting systems, and valuation. Further, the quality of the fragmented services provided by advisors were questionable. As a result, the companies were reluctant to invest in these services.

EP deployed a combination of intensive and light-touch facilitation approaches to build awareness around private capital and generate investment. EP launched a new interest-free financial product managed by Zemen Bank (a leading private bank in Ethiopia) enabling companies to hire advisors to build their capacity to negotiate an investment deal. The aim of this intervention was to develop a vibrant advisory market, whilst ensuring a track record of private equity capital investment was developed. In some cases, the fund was used to directly support the Ethiopian firms to invest in improving internal bookkeeping and processes to attract private capital. Moreover, EP facilitated workshops between potential investees and equity funds to create a platform for communication and linkages.

However, in the course of its engagement, EP learnt that distrust around private equity was such that companies remained reluctant to adopt new growth capital from private equity sources. In parallel, Ethiopia was going through a political shift which created high levels of uncertainty amongst investors, thus resulting in lack of interest in investing.

The key takeaway of EP's engagement in the private capital market is that there is no shortcut to impact at scale when targeting an infant industry. The industry must go through different stages of development in order to mature. In this case, whilst EP's effort in developing a vibrant advisory market was a step towards growth, the fundamental issues –firms' poor awareness and distrust of private equity, coupled with investors' low interest in Ethiopia –compromised impact at scale.

Despite these challenges, EP's engagement in the private equity capital market resulted in 32 companies approved to use the fund (out of 142 applicants) for a total planned investment of 167.2 million USD. To date, 5 companies have signed deals with investors and 4 have shown evidence of partial payment on agreed investments. A total of 35,852,000 USD of investment are attributed to EP's intervention.

Further information on EP's engagement in the financial and investment sectors can be found in Case Study 4: 'Use of Technical Assistance as capacity building effort to strengthen the financial and investment markets in Ethiopia: The case of Enterprise Partners'.

3. Horticulture seedlings: the best-case scenario to achieve impact at scale

There are approximately 21 million smallholder farmers in Ethiopia, who supply over 90% of the domestic fruit and vegetable market. However, they lack access to quality, affordable seeds and hence recycle their own seeds to produce (low quality) seedlings that hinder their productivity. Due to restrictive seed regulation, developing smallholder farmer access to quality seeds was identified as unfeasible over the project cycle and EP therefore turned to seedlings production with a view that the GOE would revisit the long approval for seed licensing and distribution. EP decided to facilitate the development of a new business model around targeted commercial farmers who could access quality improved seeds and produce improved seedlings to retail to smallholder farmers. The model would enable smallholder farmers to access quality seedlings within a short timeframe and increase their productivity. Further, they could use the land currently reserved for individual seedlings production to increase their fruit and vegetable production and in turn, their income. Although there was a clear business case for seedlings production and marketing, the commercial retailing business model did not yet exist. On the supply side, the commercial farms that were already producing quality seedlings had the capacity to produce surpluses beyond their own needs and retail seedlings. However, they mainly used them for their own production or sold them on an ad hoc basis, and did not consider smallholder farmers as clients. They did not have the incentive to develop a retail model as they lacked information on the smallholder farmer market size and their willingness to pay for improved seedlings. On the demand side, smallholder farmers had poor awareness and knowledge on the use and benefit of improved seedlings but showed interest in procuring them if it increased their productivity.

In sum, the product already existed, as did relationships between smallholder farmers and commercial farmers, albeit informally. The innovation of the proposed business model was to target and market the products to a new, wider client base. As such, it fits into the 'best-case scenario.' EP's strategy was to invest in improving seedling producers' capacity to produce and retail to smallholder farmers, de-risk their investment, increase smallholder farmers' capacity to use seedlings, and use learnings to support crowd-in. Although the business model was clear from the beginning, EP refined the business model to increase potential for scale, and continuously invested in building capacity in weaker areas.

3.1 What EP Did

EP's four-year engagement was divided into three phases: pilot (2016-17), regional scaleup (2017-18) and national scaleup (2018-19). During the pilot, EP partnered with two commercial farms (seedling propagators) to address quality production, retail strategies, and build awareness on the usage and benefits of improved seedlings. The pilot proved that smallholder farmers were a promising customer segment for producers, and that the use of improved seedlings effectively increased their yield. However, the propagators' marketing and distribution strategies required further improvement to reach more smallholder farmers. Subsequently, EP continued supporting the pilot partners to expand their geographical reach and increase localised production, marketing, and retailing, through the introduction of satellite nurseries and market agents. The regional scaleup demonstrated continued demand for seedlings but brought new challenges regarding the market agent model. The national scaleup therefore focused on introducing 'mid-level' propagators[20] in new target areas that could provide propagation, marketing, and extensions services to smallholder farmers directly.

3.2 Results

EP began its engagement in Ethiopia's seedling market knowing that sustained access to better quality planting materials (e.g. seeds and seedlings) at scale would require a major shift in government policy revising tortuous approval requirements for seed licensing and distribution.

EP's seedling intervention demonstrated that the private sector could be trusted to deliver quality planting material to smallholder farmers and improve their livelihoods in a short period of time. Indeed, it did: EP's engagement in the quality seeds market system increased the availability, access, and usage of improved seedlings by smallholder FAV (fruit and vegetable) farmers across different regions of Ethiopia.

In the course of EP's engagement, the two partner propagators (Jeju and Joytech) expanded their operations to **6 new regions of Ethiopia.**

14,250,027
seedlings produced

farmers reached
27,613

14
mid-level propagators established across 3 regions

[20] Mid-level farmers with approximately 1-5 hectares of land (more than smallholders, but less than commercial farmers)

3.3 Journey towards impact at scale

Figure 4 hereunder provides an overview of EP's four-year journey in horticulture seedlings, highlighting the adjustments made along the way. Both access to improved seedlings and marketing and extension services were successful in meeting the expectations laid out by the programme. The adjustments made during the first and second scaleup phases enabled propagators to scale the sale of improved seedlings to smallholder farmers through the emergence of localised, mid-level propagators across the country which provided marketing and extension services directly to smallholder farmers.

Figure 10: Horticulture seedling timeline and pivots

3.3.1 2016-2017: Pilot on production and retailing of seedlings

Overview

EP piloted an intervention with a medium-sized private commercial farm (Jeju Farms) and a large, renowned fresh produce commercial farm (Joytech) to propagate and retail quality seedlings to smallholder farmers. Incentives on both sides appeared as noticeably clear. On the demand side, smallholder farmers showed interest in purchasing improved seedlings to increase their production[21]. On the supply side, Jeju and Joytech wanted to increase their seedlings sales by reaching a new, wider market. In addition to selling seedlings, propagators would provide agricultural extension services to smallholders to ensure maximum benefit from seedlings usage[22], thus increasing the potential to retail more seedlings. As retailing to smallholder farmers was new, EP cost-shared the model with the propagators and closely facilitated the development and marketing of the products.

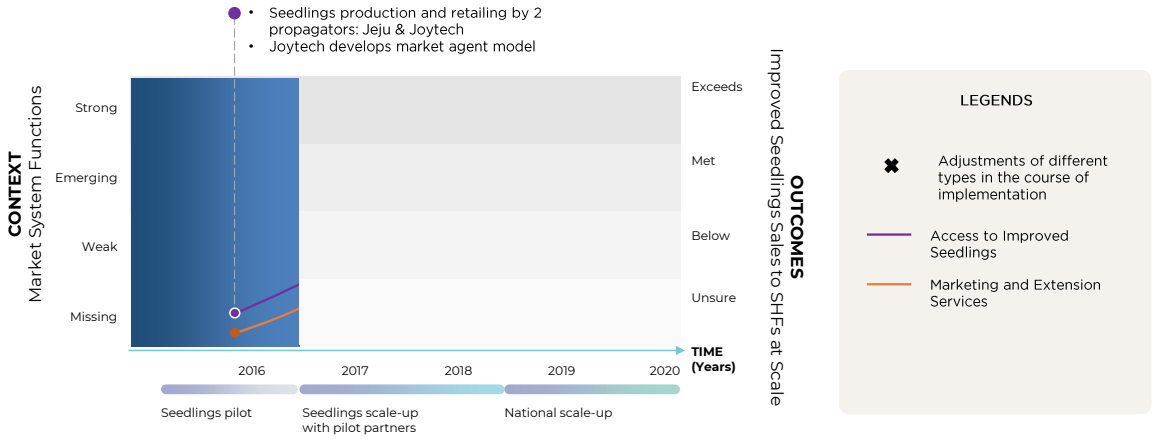
[21] Smallholder demand was assessed through field assessments. Anecdotal evidence also showed that larger commercial farms were already selling or distributing seedlings to smallholder farmers on an ad-hoc basis.

[22] It was common knowledge that after sales and extension services would be beneficial to smallholder farmers who lacked good agricultural practices.

In sum, EP tested the alignment of incentives between seedling buyers and sellers, with a focus on smallholder farmers' willingness to pay for improved seedlings. Jeju propagated improved onion seedlings, sold them to smallholder farmers, and provided extension and training support directly to farmers to apply yield-enhancing agronomic practices. Joytech, as a more established company, used marketing agents to promote and retail their existing products. The marketing agents were lead farmers and provided pre- and post-delivery extension services to smallholder farmers.

The results of the pilot were promising. Jeju and Joytech sold 23,800 onion seedling beds, reaching 839 farmers who in turn harvested 16,473kg of onions. An increasing number of farmers started to request improved seedlings.

Figure 11: Seedling Pilot timeline and pivots



Lessons:

The pilot demonstrated the feasibility of a seedling market for smallholder farmers with a limited range of products (onion for Jeju and onion, tomato, chili pepper and cabbage for Joytech) **and within a small geographic area.** The costs to seedling producers to upgrade production, deliver seedlings and advise smallholder farmers on good agricultural practices was worthwhile, as evidenced by sales data from Jeju and Joytech. The smallholder farmers targeted in the pilot improved their productivity and income. The propagators' next step was to expand their geographical coverage and diversify their product mix.

The pilot also revealed that promotion, marketing, and awareness raising capacity enabled to increase sales to smallholder farmers, a strength of Joytech's but a weakness of Jeju's. Joytech had marketed its products through market agents at a limited scale during the pilot. Although the relationships between Joytech and the agents revealed challenges (notably in terms of compensation), the model was promising and was pursued during scaleup. Jeju had no marketing experience and needed to focus on branding and marketing its products in new local markets.

Finally, EP learnt that localised nurseries were necessary to maintain the quality of seedlings. Seedlings, unlike seeds, are perishable. To successfully scale the intervention beyond a small geographic area, an efficient transportation system was required to deliver the seedlings and ensure immediate planting upon arrival. As this option proved risky and costly for the producers, EP's intervention manager suggested an alternative: propagators would set up satellite nurseries whereby seedlings would be propagated on local plots and sold directly to farmers thereby addressing the issue of perishability. These satellite nurseries, with support from central nurseries, would cover large areas in strategic growing areas, providing both seedlings and extension services to local farmers.

Pivots/Adjustments

In order to expand the seedling market beyond the first pilot's limited scale and scope, EP needed to test the feasibility of the model's geographical expansion, with a diversified product mix and a marketing and distribution system to a much larger number of farmers located in new and more distant agricultural zones. EP chose to continue to work with both Joytech and Jeju because they had already demonstrated their commitment to serving the seedling market for smallholder farmers. EP did not increase its number of partners because it first wanted to focus on developing a successful retail business model at a larger scale.

Joytech would champion the satellite nursery model due to its higher capacity and willingness to invest. As an established company, it had more resources and incentives to expand its operation model. Jeju would focus on diversifying its product mix to include mango and orange seedlings, and branding and marketing its products professionally using the market agent model.

3.3.2 2017-2018: Geographical scale-up with pilot partners focusing on increased marketing

Overview

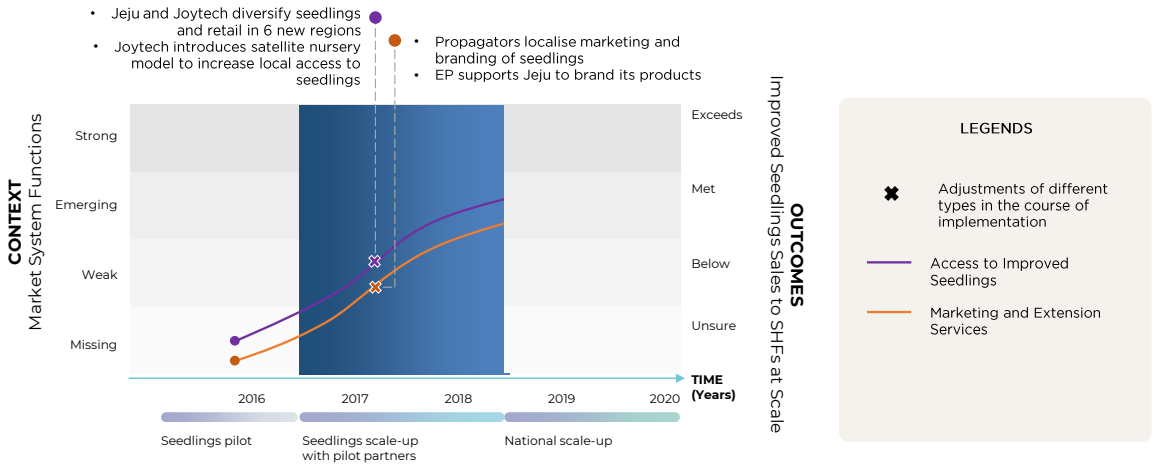
EP tested the feasibility of the seedlings retail business model to increase both scope (product mix) and scale (more farmers in more distant locations). The same challenges – awareness raising, marketing through agents, distributing a perishable product, embedding knowledge of best agronomic practices for seedlings – would be magnified for EP's two partners. Similarly to the pilot, EP pursued a cost-sharing modality[23], albeit with reduced investment and with increased focus on marketing and product diversification activities.

Both Jeju and Joytech continued to work through marketing agents selling their branded seedlings. This enabled both partners to increase their outreach and brand recognition. As the market developed and demand grew, Joytech introduced satellite nurseries in key areas with market growth potential.

By October 2018, the propagators increased their seedlings production by 130% and expanded to 6 new regions, selling quality seedlings to 8,793 new smallholder farmers, compared to 839 farmers during the pilot phase.

[23] It was necessary for EP to maintain cost share support because of the commercial risks associated with the marketing of seedlings at scale while simultaneously adjusting their business model.

Figure 12: Seedling scaleup with pilot timeline and pivots



Lessons:

The challenges of the market agent model were amplified during scaleup. Despite the challenges with the market agents, Joytech was convinced of the model's potential for success and decided to maintain it during scaleup. Joytech agreed to hire 19 market agents to reach new areas of intervention over the course of the scaleup. However, they faced significant challenges with the first three market agents, failing to establish a win/win working relationship as they could not agree on a payment mechanism to take advantage of their common incentive to market and retail seedlings. Joytech chose to remunerate market agents in kind (with seedlings and training) while agents requested commission-based cash payments. Even if they had been willing to invest in full-time employees, the agents were farmers themselves who had no interest in full-time employment and were driven by sales commissions. This further reduced Joytech's willingness to invest time and financial resources in agent knowledge development (on new techniques, chemicals, etc)[24]. As a result, Joytech did not pursue with the market agent model.

The scaleup provided continued evidence of demand for seedlings. Propagator and farmer incentives identified in the pilot were once again demonstrated during scaleup. Despite the growing number of smallholder farmers using the improved seedlings, the intervention only reached a small percentage of them nationwide, which built the case for EP's continued investment in taking the seedling market to national scale.

The satellite nursery model was preferable, but costly. Satellite nurseries, as smaller-scale propagators, were able to sell quality seedlings to local smallholder farmers and avoid perishability issues during transportation. They also

[24] Jeju had similar experiences to Joytech and are therefore not described in detail.

provided marketing and extension services directly to the farmers in their local communities. However, setting up satellite nurseries was expensive and therefore required identifying farmers who were previously producing seedlings in some capacity and could take up the business model quickly to make a business case for investment. This built the foundations of the next stage of the intervention, whereby EP and its partners pursued the development of networks of mid-level, local propagators.

Pivots/Adjustments

It was evident that the national scale-up of seedlings retailing would not be feasible through a strategy of geographic expansion and through a limited number of specialised seedling businesses. Economies of scale and scope could not be achieved by a single firm distributing a perishable product through multiple agents across multiple geographic areas with different product needs. Instead, a strategy of localisation was necessary to tap into demand for seedlings at a national level. Subsequently, EP focused on scaling up the intervention at national level by facilitating the emergence of mid-level local seedlings propagators across the country. EP hired consultants to conduct a feasibility assessment of national level scale-up, which identified a list of potential mid-level propagators who could take up the seedlings retailing business model. However, it also revealed that these mid-level propagators had wide-ranging capacity gaps and required support from EP in developing and implementing their business plans, notably in terms of marketing and promotion strategies. Fortunately, EP could draw on lessons from the first two interventions to a develop a business model that worked within a smaller geographic scope.

3.3.3 November 2018: National scale-up

Overview

EP partnered with 14 local propagators and developed a cost-sharing intervention to support them on business planning, marketing, and extension services. EP's support encompassed the development of marketing materials, the organisation of experience-sharing events with the initial pilot partners, and training events for lead farmers. The learnings from the engagement with Jeju and Joytech were crucial in assessing the capacity of these new propagators and to develop robust business plans.

At the end of the scale-up in 2019, propagators had reached a total 27,613 farmers.

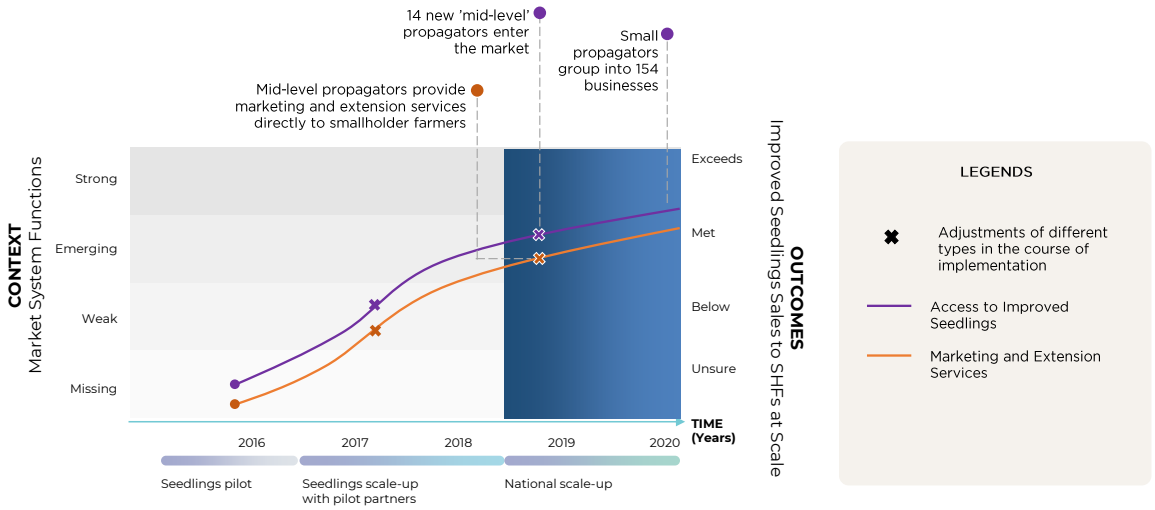
Lessons:

The national scale-up confirmed that establishing mid-level local propagators was a right-fitting approach for the seedlings market. The 14 new local propagators successfully marketed and sold seedling and provided extension services to smallholder farmers in their respective communities. The intervention has increased smallholder farmer awareness and interest around the use of improved seedlings thanks to their productivity-enhancing properties. As a result, an increasing number of smallholder farmers are willing to invest in improved seedlings.

Two main challenges remain. First, EP played an active role in identifying and supporting new propagators to kick-start their businesses. In order to convince

others to crowd in, another market actor needs to fill EP's facilitative role in terms of demonstrating success stories, proactively sharing information on the business model, and providing support to develop business and marketing plans. Government institutions can potentially take up this role; however, EP was unable to identify and hand over this role to such institutions. Second, the supply side of the market remains an issue due to unreliable supply and price of quality seeds to propagate the seedlings.

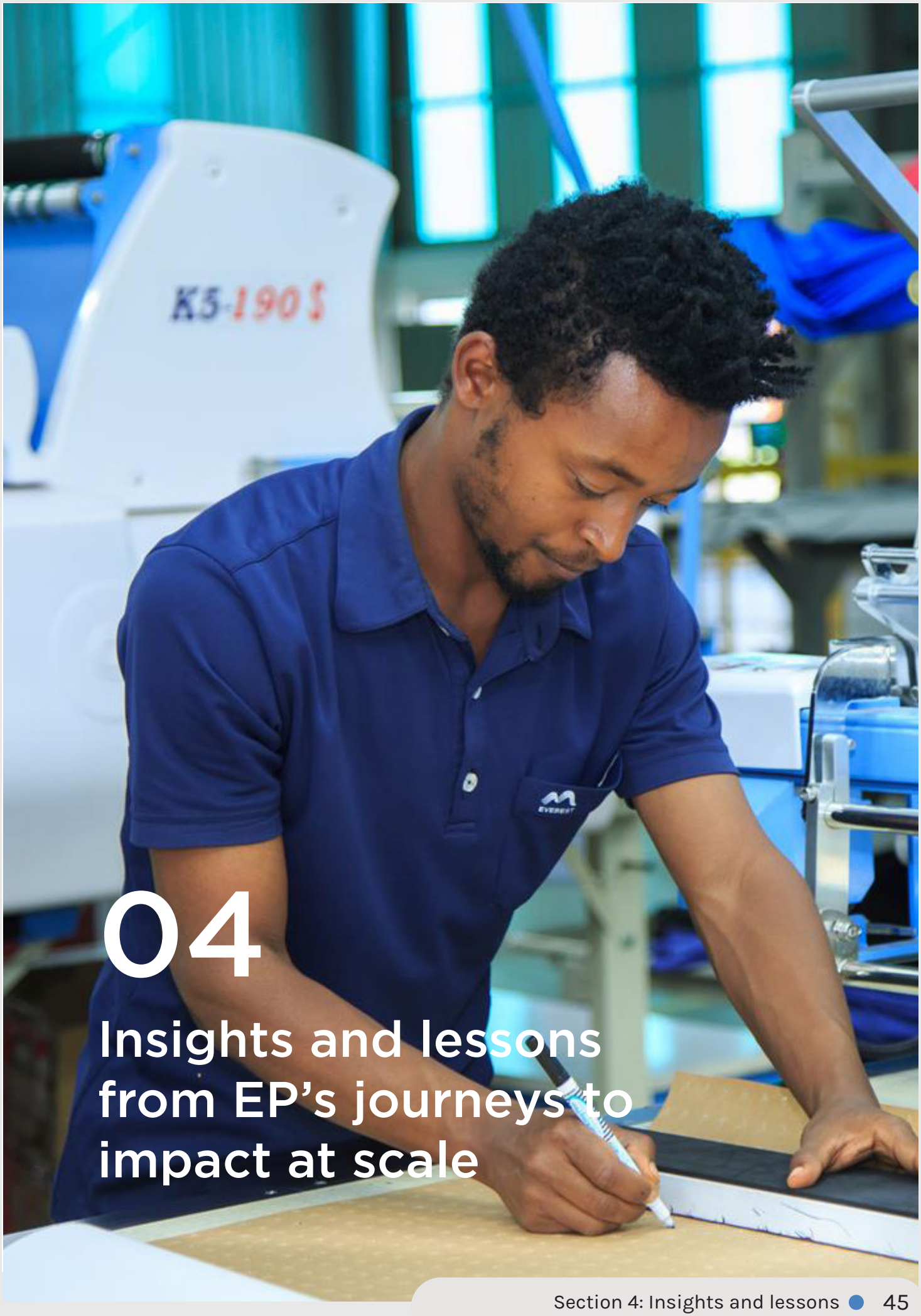
Figure 13: Seedling national scaleup timeline and pivots



3.4 Conclusions from EP's journey in a 'best-case scenario'

EP's fruit and vegetables seedlings intervention is an illustration of the 'classic' market systems development approach whereby a pilot intervention is successfully scaled. Even in 'best-case scenarios' where business models appear to be clear from the get-go, continuous engagement with pilot partners and further engagement with market actors is required to refine the business models and invest in building capacity in weaker areas.

In this case, what seemed promising at pilot stage did not necessarily work at scale. The centralised seedlings producer model working through market agents showed potential during the pilot but proved more challenging during scale-up, due to perishability issues and market players' inability to develop a win/win relationship. EP therefore pivoted to facilitate the development of networks of smaller-scale propagators across the country who provide marketing, sales, and extension services directly to local smallholder farmers.



04

Insights and lessons from EP's journeys to impact at scale

Insights and lessons from EP's journeys to impact at scale

This section draws insights and lessons from EP's journeys to impact at scale relevant for MSD practitioners, especially those working in weak and/or thin market settings. At inception phase, programme teams develop theories of change to guide them in achieving impact at scale following a predominantly linear pathway from pilot to scale. However, EP's experience highlights the multitude of pathways that programmes can take to achieve that impact: facilitation strategies change according to context. Risk- taking and flexibility are key to navigating these 'journeys', embracing discomfort and making bold decisions about continuing or discontinuing pilots, engaging on multiple fronts simultaneously, adjusting expectations, and finding creative solutions to challenges, especially in worst-case scenarios. The result of this analysis is summarised in the six following key takeaways, to be used by practitioners, Ethiopian stakeholders, and development partners for MSD programming.

1. Market systems approaches to achieve impact at scale considerably differ from traditional development approaches

MSD programme strategies to achieve scale differ from traditional development thinking. The traditional school of thought seeks to find a feasible/scalable model and then heavily invests to replicate the same model through donor funding. In comparison, while an MSD programme also seeks to find a feasible/scalable business model, it does not stop at replicating it. First, the model is replicated and refined to demonstrate a 'proof of concept'. Following this, the programme seeks to leverage market actors to crowd-in and foster increased competition as the foundation for future innovation and change.

2. Engage in multiple pilots to gather learnings, and continuously adjust interventions to achieve impact at scale

No single pilot will enable a programme to understand and find solutions to respond to market actors' different levels of capacity, misalignment of incentives, weak relationships, and dysfunctional rules of the game. EP's engagement in the labour market system required two pilots to understand that sourcing and soft

skills development were both critical constraints that needed to be addressed simultaneously, through a public-private partnership. In the leather tanning market system, the first pilot highlighted shortcomings in the model that were addressed in the second pilot: EP combined technical assistance and marketing support functions and switched from chemical companies to individual market agents to provide these services.

Even when a successful model has been identified, programme teams must continue to monitor the successes and challenges of the interventions and facilitate analysis-driven adjustments to achieve impact at scale. Even in the 'best-case scenario' illustrated by the horticulture seedling market system, continuous engagement with pilot partners and further engagement with market actors was required to refine the business models and invest in building capacity in weaker areas. Further, what works during a pilot will not necessarily work at scale. In the case of the horticulture seedling market, the market agent model which seemed promising during the pilot proved more challenging during scale-up. As a result, EP facilitated the establishment of mid-level propagators who could perform propagation, marketing, retail, and extension services for smallholder farmers themselves.

While flexible implementation approaches are necessary to achieve impact at scale, the success of an intervention is dependent on multiple external factors in the market system, as highlighted in chapter 2. It is therefore essential for MSD programmes to continuously update their understanding of the impact of these external factors and ensure transparent reporting. A culture of self-reflection as well as robust monitoring, evaluation and learning systems are paramount to achieving this. Further details on EP's internal management practices and processes can be found in Case Study 2: 'Adaptive Management: From the Inside Looking Out.'

3. Address multiple constraints simultaneously

It is usually impossible to identify a single source of market system dysfunction. Often, market systems are exclusive and/or dysfunctional due to a multitude of constraints, that are themselves intertwined. Programme teams need to understand the root causes of dysfunction and be ready to address multiple constraints simultaneously to achieve scale. The cotton seed market system, for example, was constrained by multidimensional factors including poor quality of seed, low access and availability, and a weak policy environment. EP therefore engaged in improved seed multiplication and processing, access to seeds for both smallholder farmers and commercial farmers, as well as improved agricultural practices in seed multiplication. Simultaneously, EP supported the government to establish and implement a National Cotton Development Strategy. This approach, which required bold decision making to address multiple constraints from the very beginning of EP's engagement, was essential to achieve transformation in the cotton seed market system.

4. Adopt an intensive facilitation approach in thin markets

Interventions in thin markets require more intensive facilitation (i.e. more direct intervention in the market system); this is valid at pilot stage but also during scaleup. In industries marked by dysfunction and market player reluctance to adopt new behaviours, MSD programmes needs to develop a track record of success to convince other market actors to crowd in – a single successful pilot is not always convincing enough. Further, even with a clear business case, market actors may lack the technical and financial capacity to take it up. In the leather tanning market system, the second pilot demonstrated that technical assistance

and marketing support enabled tanneries to secure finished leather commercial orders. However, due to the lack of capacity of the tanneries, it was necessary for EP to continue supporting additional tanneries and market agents, so as to develop a track record of success.

In thin markets, MSD programmes often need to develop support functions from scratch as they are too weak or missing. The HR function in the labour market system, for example, was inexistent and was developed a few years into EP's engagement through retention interventions. Similarly, the technical and marketing advisory support function was very weak for the tanneries.

While developing certain weak and/or missing support functions may require intensive facilitation, others can be supported through light-touch facilitation. EP did this in its cotton seed interventions, where the added value of the intervention model was evident, but the relationships between the different actors were missing. EP therefore facilitated extensive cooperation between the government and private sector to achieve a coherent implementation strategy for certification, seed multiplication and processing.

The key takeaway here is that facilitation is a spectrum: programme teams must adopt lighter or more intensive facilitation based on their understanding of the capacity and incentives of market actors; they must also adapt their facilitation techniques as these capacities and incentives evolve. Further, programmes must also have a vision for stepping out of the market system. In the leather tanning market system, EP first cost-shared the market agents' fees to minimise risk for tanneries and buyers; once they were convinced of the model, they took on the costs and EP stepped out as a facilitator. In the labour market system, EP quickly realised that hard skills development was not a critical constraint, and that it could easily be internalised by factories: EP stopped addressing hard skills and focused on soft skills development instead.

5. Adjust expectations in worst-case scenarios and aim to create a 'pathway for transformation'

As previously mentioned, two options prevail in worst-case scenarios: avoid interventions altogether or provide intensive support to key market actors to demonstrate potential for market transformation. To engage in these market systems, MSD programmes need to address the constraints in a creative manner to build a 'pathway for transformation'. To do so, they need to carefully develop the theory of change, an intervention strategy focused on championing a small number of actors through intensive support, address rules, all while adjusting expectations. Programmes should anticipate that short-term results will not be generated, and that satisfactory numbers will take time to appear. However, it does not mean that the programme is not on the right track; as such, it is important for programmes to have a clear understanding of what the 'right track' is and if they are moving towards their longer-term goals. In the leather tanning market system, the tanneries' results were incremental within the project life cycle, but the work of introducing market agents and changing the rules of the game are long-lasting. As a result, the system will improve for good and will eventually generate results long after the project is completed. Similarly, in the private equity capital market, EP realised that the distrust around private equity was such that companies remained reluctant to adopt new growth capital from private equity sources. The industry was at an infant stage of its development and supporting functions such as professional advisory services were missing. Despite EP's significant investment, it was not feasible to achieve impact at scale within the project period.

6. Facilitate coordination and relationship building between the private and public sector

Regardless of the 'scenario' that MSD projects operate in, the only way to achieve impact at scale is by ensuring that market players' incentives align and that they develop relationships that draw on each other's strengths. Different actors are better placed than others to lead and improve certain support functions and must therefore be identified. Due to the interdependence of support functions, these actors need to work together to ensure that these different support functions are strengthened simultaneously to successfully impact the market system as a whole.

This requires MSD programme teams to facilitate relationship building and effective coordination between both private and public actors. This can be achieved through public-private partnerships –such as in the labour market system, where the government's strength in terms of labour sourcing is essential to cover the factories' labour force needs–or through less formalised processes, such as in the cotton seed market system where the government and private sector worked together to develop a certification and seed multiplication system through a technical working group facilitated by EP.

EP's journey towards impact at scale was bumpy and faced many roadblocks, like many other development programmes applying a market systems development approach. EP's organisational culture and staff, evidence-based decision making, and flexible management practices enabled it to embrace these challenges and respond according to the different contexts.

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