



LEARNING REPORT #4:
**Youth-Inclusive Value Chain Finance
in Tunisia**

IFAD RURAL YOUTH ECONOMIC EMPOWERMENT PROGRAM (RYEEP) 2013-2016

LEARNING REPORT #4: Youth-Inclusive Value Chain Finance in Tunisia



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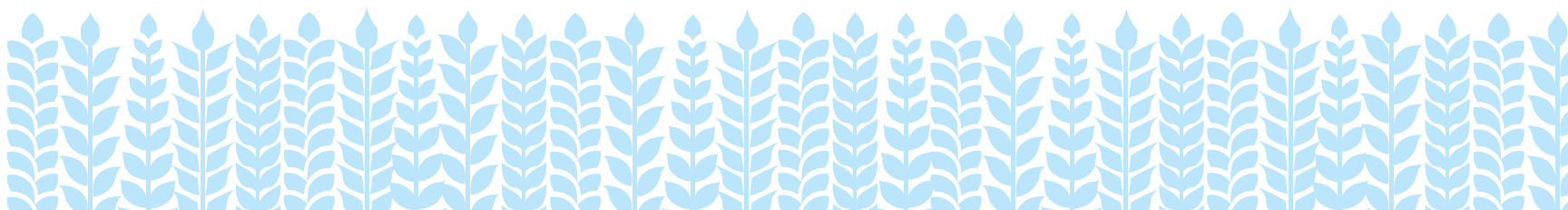
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ABBREVIATIONS AND ACRONYMS

ICT:	Information and communication technology
IFAD:	International Fund for Agricultural Development
MFI:	Microfinance institution
NENA:	Near East and North Africa
NFS:	Non-financial service
NGO:	Non-governmental organization
RYEEP:	Rural Youth Economic Empowerment Program
SMS:	Short message service
USSD:	Unstructured Supplementary Service Data



TUNISIA



1- EXECUTIVE SUMMARY

With funding from the International Fund for Agricultural Development (IFAD) and in partnership with Silatech, Making Cents International implemented the IFAD Rural Youth Economic Empowerment Program (RYEEP), a three-year grant seeking to increase employment and self-employment of young people aged 15-35 in the Near East and North Africa (NENA) countries of Egypt, Yemen, Morocco and Tunisia. The program provided capacity-building and technical assistance to local institutions to pilot models delivering youth-inclusive financial service (YFS) and non-financial service to rural youth and to the enterprises that employ them. **By the program's end, RYEEP pilot projects delivered savings or credit services to 20,543 rural youth and non-financial services to 14,252 rural youth.**

As important as these quantitative outputs was the knowledge generated by the five pilots. Thus, a major focus of the program was to capture and disseminate this learning to help IFAD and financial services practitioners develop more effective and scalable programs for rural youth. The program, which built upon proven and successful methods, advanced learning around five research topics:

- Adapting and Developing Effective Financial Products for Rural Youth
- Determining the Appropriate Level and Delivery System for Supportive Non-Financial Services
- Using Technology to Lower Costs and Provide Youth with Alternative Forms of Finance
- Linking Products or Institutions to Facilitate Movement from Informal to Formal Financial Services
- Designing Innovative Approaches for Scaling Products in Rural Environments

In Tunisia, RYEEP partner Pro-Invest piloted a value-chain approach to improve outcomes in the rural retail sector, a market segment that employs a large number of youth. The program leveraged Pro-Invest's highly successful Najjahni¹ mobile services platform to develop a supply chain solution (MobiPOS) addressing inventory management, transactions, and payment bottlenecks experienced by rural shop owners and food suppliers/distributors. In addition, by using a basic mobile phone to automate and record what users are already doing through other means (ordering, payment), the system created a transaction history that could be used to develop a trade finance product for retailers.

Pro-Invest also provided supplemental non-financial services via the MobiPOS platform. During the program, Pro-Invest tested the platform, revised its model, developed a business plan, and established a new private sector entity to take the service forward. Key findings relating to the RYEEP learning agenda included the following takeaways:

- Understand the informal credit system to develop innovative financial products for youth
- Recognize that youth financial inclusion requires changes on both the supply and demand sides, and an intermediary may be needed to bridge this gap
- New technologies offer the potential to disrupt business practices that disadvantage young retailers
- Investments led by the private sector should be considered as part of an overall scaling-up strategy

This document shares the outcomes and learning on the project, describing the overall approach, financial services demands of retail shop owners, and methods by which technology can be used to address both the business and financing needs of rural youth. It is one of six learning products to be delivered by the RYEEP grant.

¹<http://www.gsma.com/connectedliving/wp-content/uploads/2014/02/2013-2014-Q4-Tunisia-Najjahni-services.pdf>



2- THE RURAL YOUTH ECONOMIC EMPOWERMENT PROGRAM LEARNING AGENDA

2.1 The Challenge of Serving Rural Youth

Rural youth in developing countries make up a very large and vulnerable group. Globally, three quarters of the poor live in rural areas, and about half of this population is composed of young people, generally defined as between the ages of 18-30². This young and growing population is confronted with a number of challenges to building sustainable livelihoods. The quality of education in rural areas is worse than in urban areas and does not prepare youth adequately for existing livelihood opportunities. The lack of basic infrastructure such as electricity and water supply limits livelihood options and burdens youth with responsibilities that can reduce training and educational opportunities. While agriculture is for many the most viable livelihood option, growing populations, the ongoing subdivision of land, and soil degradation means that youth often lack access to or control of sufficient land for farming, thus preventing or inhibiting their pursuit of this opportunity. Finally, for girls in particular, more traditional cultural stereotypes in many societies reduce livelihood options to those within the household.

Nonetheless, rural youth are economically active and options exist for improving their livelihoods. In contrast to urban areas, **the problem for youth in rural areas is not one of unemployment**, but underemployment. Youth are active in a variety of farm and non-farm activities and for those who cannot pursue farming directly, the rural non-farm sector can serve as the “ladder” from underemployment in low-productivity, smallholder production, to regular wage employment in the local economy, and from there to jobs in the formal sector.³ **In this context, the challenge for those interested in rural youth development is to develop the right mix of cost-effective and appropriate financial and non-financial services that increase youth capacity and access to the resources that they can use to invest in farm or non-farm opportunities.**

2.2 RYEEP Pilot Projects

The five RYEEP pilot projects are designed to address many of these challenges and to test different financial and non-financial service delivery models for rural youth. Pilots are implemented by local partners, including commercial banks, microfinance banks, local community development organizations, and for-profit companies, and supported technically by Making Cents International and Silatech.

Figure 1: IFAD RYEEP: Four Countries, Five Models

COUNTRY	LOCAL PARTNER (Institutional type)	FINANCIAL INSTRUMENT	NON-FINANCIAL INSTRUMENT
EGYPT	Plan Egypt (NGO)	Savings & Credit Groups	Entrepreneurship and life skills training offered through Savings Groups
YEMEN	Al Amal Bank (Microfinance Bank)	Enterprise Lending (for existing businesses)	Financial literacy, entrepreneurship and technical training offered by NGO partners
MOROCCO	Al Barid Bank (Postal Bank)	Individual Savings Product	Financial literacy training offered through mass media and face-to-face training
TUNISIA	Microcred (Microfinance Company)	Enterprise Lending (for start-up businesses)	Entrepreneurship and business management training offered by NGO partners
TUNISIA	Pro-Invest (Private Company)	Value Chain Finance (Trade Credit)	Value Chain Development, entrepreneurship and financial literacy offered through SMS

Case studies for each of these pilots have been developed and the overall learning has been encapsulated in a single report entitled (“Findings from Five Youth Inclusive Rural Finance Pilots”). Those documents can be found on the IFAD and Youtheconomicopportunities.org websites.

²Bennell, Paul. Investing in the Future: Creating Opportunities for Young Rural People. Publication. IFAD, Dec. 2010, pg. 1.

³Bennell, Investing in the Future, pg. 6.

2.3 RYEEP Learning Topics

Pilot project implementation under RYEEP has been designed to build on the body of knowledge developed by youth financial service practitioners and IFAD. In addition, Making Cents, IFAD and Silatech have decided to focus knowledge management efforts on five learning topics of interest specifically to those serving rural youth.

Learning Topic 1: Adapting and Developing Effective Financial Products for Rural Youth

Inspiration for effectively serving rural youth can be found in successful rural finance models for adults or youth-inclusive financial service programs in urban areas. What are the key aspects of these products that need to be adapted for successful rural environment delivery?

Learning Topic 2: Determining Appropriate Level and Delivery for Supportive Non-Financial Services

Rural youth tend to be more poorly educated, have fewer livelihood opportunities, and are harder to reach. What financial capability or livelihood development services should be provided in rural areas, who should deliver them – financial institutions, NGOs or the government – and how?

Learning Topic 3: Using Technology to Lower Costs and Provide Youth with Alternative Forms of Finance

Making the business case for providing financial services to rural youth is especially difficult considering youth's general tendency to save less and demand lower loan sizes, combined with the low population density and poor infrastructure in rural areas. How can technology lower the cost of financial service delivery to youth, whether through financial institutions or value chain actors?

Learning Topic 4: Linking Products or Institutions to Facilitate Movement from Informal to Formal

Youth capacity to use financial services develops over time as they grow in experience and knowledge. While informal financial services such as savings groups may be appropriate for youth starting out, how can these services be linked to formal financial institutions to provide youth with the greater variety and sophistication of formal financial services? Similarly, many youth begin informal income-generating activities as their first foray into business; how can financial or non-financial products encourage business growth and graduation from informal to formal enterprise management?

Learning Topic 5: Designing Innovative Approaches for Scaling Products in Rural Environments

Successful pilot projects can be scaled through the government – by policy changes or adoption of services by government agencies, the market – by private sector companies or entrepreneurs seeing value in services and offering them on a for-profit basis, or culture – when public awareness campaigns and behavior change strategies become adopted by communities and new practices are propagated. Which scaling-up pathways are appropriate for successful elements of RYEEP pilots and what strategies can be followed for expansion?^{4|5}

⁴Muthoo, Ashwani, David Francis, and Oanh Nguyen. IFAD's Capacity to Promote Innovation and Scaling Up: Corporate-level Evaluation. Rep. no. 2240. IFAD, June 2010. Web.

⁵Cooley, Larry and Kohl, Richard. Scaling Up -- From Vision to Large-scale Change; A Management Framework for Practitioners. MSI and the MacArthur Foundation. March 2006

3- CASE STUDY: Pro-Invest MobiPOS - Value Chain Finance for Rural Youth Retailers

3.1 Project Summary

In Tunisia, RYEEP partner Pro-Invest focused on improving access to inputs, finance, and business support services for young retail shop owners in rural areas through an approach that sought to strengthen the value chain. Despite its middle-income status, Tunisia has the highest unemployment in the NENA region, above 30% compared to 12%⁶ in Egypt, 10% in Yemen and 9%⁷ in Morocco, according to a 2011 International Monetary Fund (IMF) report. While the government and some donors are focused on creating formal-sector employment, micro and small businesses remain an important source of self-employment for Tunisian youth. The retail sector, which employs more than 500,000⁸ people, is one area that demonstrates promise for youth. More than 250,000 small grocery stores dominate the Tunisian retailing structure. Despite a fast-growing supermarket industry, small retail shops account for more than 80% of food retail sales. Referred to locally as Hanouts and Hammas, these rural retailers are important to the average Tunisian, critical to rural Tunisians who have no other options to buy food and household goods, and provide important support to the social fabric in poor rural areas.⁹

To support the growth of these small businesses, many owned by youth, the MobiPos project piloted a value-chain-strengthening approach that sought to provide Hanouts with access to goods at a lower cost, a source of trade credit, and mobile-phone-delivered business and financial literacy training. The objectives for this project were:

Objective 1: Pilot a mobile application that integrates 100 small retail shops (50% owned and operated by youth) into rural retail value chains, provide them with complementary business management training,¹⁰ and document the learning generated from the process.

Objective 2: Increase 50 rural youth retail shop owners' access to value-chain finance through a new mobile application, MobiPOS, and document the learning generated from the process.

The program leveraged Pro-Invest's highly successful Najjahni¹¹ mobile services platform to develop a supply chain solution that would facilitate inventory management, process transactions, and ease payment bottlenecks experienced by young rural shop owners and food suppliers/distributors. In addition, through a tri-partite financing arrangement with a local microfinance institution (MFI), a trade finance option was developed that could be offered to young entrepreneurs. Pro-Invest also provided supplemental non-financial services via the MobiPOS platform. During the program, Pro-Invest tested the platform, revised its model, developed a business plan, and established a new private sector entity to take the service forward.

⁶Reported by the Central Agency for Public Mobilization & Statistics (CAPMAS)

⁷Reported by the Haut Commissariat au Plan de Maroc

⁸Mongi Boughzala, Youth employment and economic transition in Tunisia, Global Economy & Development, Working paper 57, January 2013

⁹Youssef Chahed, "2012 Tunisia Retail Foods," USDA Foreign Agriculture Service, Gain Report TS1210, December 2012

¹⁰Pilot size: 50 retailers. Total market potential: 250,000 small shop owners that account for 80% of Tunisia food retail sales.

¹¹<http://www.gsma.com/connectedliving/wp-content/uploads/2014/02/2013-2014-Q4-Tunisiana-Najja7ni-services.pdf>

PRO-INVEST MobiPOS: AT A GLANCE

- ▶ **Geographic area:**
Tunisia - Nabeul, Tunis, Ariana, Ben Arous and Manouba governorates
- ▶ **Local partners:**
 - Telecom operator: Ooredoo
 - Micrifinance: ENDA
 - Distributors: UNIBRO
- ▶ **Target beneficiaries:**
100 youth and adult rural small-scale retailers (50% below the age of 35; 50% above)
- ▶ **Results:**
 - 383 subscribers recruited
 - 193 youth subscribers
 - 184 MobiPOS orders made
 - 1 Trade Credit product
- ▶ **Duration:**
July 2013 - February 2016

3.2 Target Beneficiaries

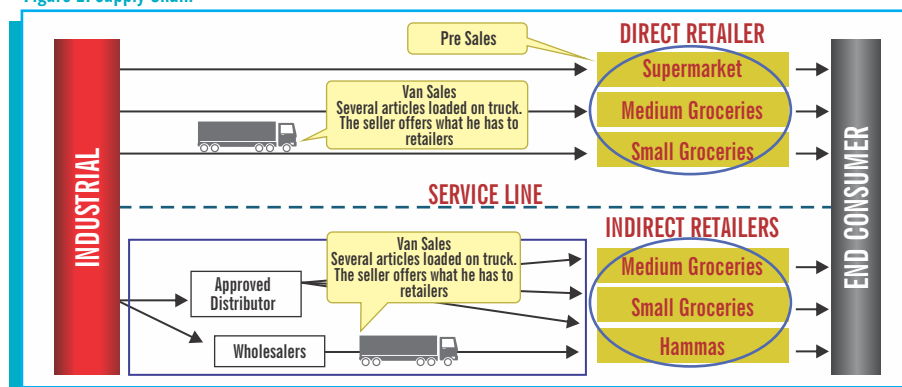
Geographic zones: The MobiPOS project focused on rural towns located 20-60 km from major urban centers in five governorates: Nabeul, Manouba, Ariana, Ben Arous and Tunis. These areas are characterized by high levels of illiteracy and poverty and limited skills, especially in financial acumen and business. The relatively low levels of human capital have led to higher unemployment rates than urban areas and a dependence on agriculture for livelihoods.

Rural Retailers: The project focused on rural retailers in general, with a particular focus on youth between the ages of 18-35 operating in rural and semi-rural zones in Tunisia (see above - Geographic Zones). While there are broad differences in the educational background and experience of rural retailers, youth retailers tended to have at least completed secondary school education, have less than five years of business experience, rent their store, and have fewer assets than their older competitors (averaging half the number of brands and volume). Youth entered the retail sector for a variety of reasons, among the most important being low barriers to entry and demand for retail products.



The Retail Supply Chain: Tunisian retailers (called “Hammas” or “Hanout” and for this document, generally referred to by their most common name “Hanout”) are an important part of the business landscape in rural Tunisia. They provide rural households with access to common staples, dried goods, and dairy products and can be found in villages, small towns, and cities. While supermarkets are beginning to encroach on their business, Hanouts are still important as a source of familiar products and often offer short-term credit to rural households with seasonal or unpredictable incomes (extending as much as 1,000-2,000 USD in total sales on credit per month). Hanouts tend to be of the micro or small enterprise size, generating monthly gross revenue of 7,000-10,000 Tunisian Dinars (3,500-5,000 USD) and employing 1-2 people (including the proprietor). In urban areas, Hanouts are larger and might buy directly from major producers (e.g. Vitalait) or distributors, but generally (especially in rural areas), they purchase their goods through wholesalers who have warehouses in larger rural towns or who deliver goods directly to the Hanouts on an ad hoc basis. This supply chain provides Hanouts with a ready supply of goods, but with some key disadvantages for them: Their choice is often limited by their local wholesaler's inventory, they are subject to linked sales -- in which their purchase of one product necessitates purchase of others -- the quality of goods is low (particularly for extremely rural Hanouts), and the price they pay for goods is higher due to the long supply chain and inability to buy in bulk. As a result, Hanouts often run out of stock or are unable to meet the demands of their consumers, conditions that inhibit their profits and growth opportunities. The below graphic represents the supply chain for retailers (mostly supermarkets) who are able to buy directly from producers and major distributors (“Industrial”) as compared to those who purchase goods through wholesalers (“indirect retailers”).

Figure 2: Supply Chain



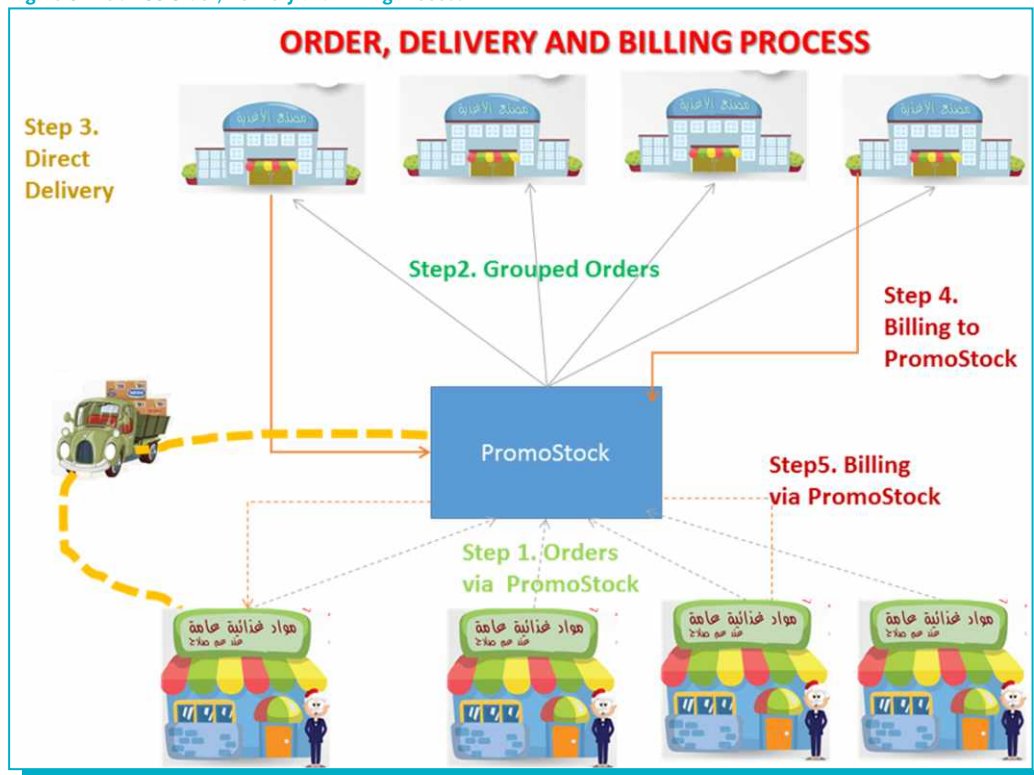
In terms of finance, Hanouts are sometimes able to obtain limited trade credit from wholesalers, but they more often pay cash on delivery. Some can also access financial services from MFIs or banks, though many are not registered, have difficulty meeting collateral requirements, or are located in areas with few financial service providers, constraining their ability to grow.

3.3 Proposed Solution

The supply chain for Hanouts has been in place for many years but is ripe for disruption by new technologies. MobiPOS' pilot aimed to deliver via mobile phones a supply chain solution that would improve the efficiency of the ordering and payment process, provide Hanouts with additional goods to select from, facilitate collective ordering to lower costs, and provide trade finance through an innovative tri-partite arrangement with a local MFI.

Through the market research process, Pro-Invest considered a number of business models to achieve these goals. In the end, the model that appeared most viable was for Pro-Invest to create a new company tentatively called “Promostock” that would substitute traditional wholesalers and use the MobiPOS ordering system via mobile phone to improve efficiency. The operating process works as follows: Hanouts order goods from Promostock through MobiPOS, and Promostock delivers the goods within 48 hours to the Hanouts. Promostock uses the data generated by the ordering to predict demand and buy goods in bulk from major distributors, then passes on part of the savings to Hanouts. Promostock also uses the data to generate a digital transaction record that it leverages to help clients obtain trade credit from the MFI, Enda. In addition, Promostock provides its clients with access to SMS-delivered financial literacy, entrepreneurship, and food safety content. The overall arrangement and the specific steps are depicted in the graphic below.

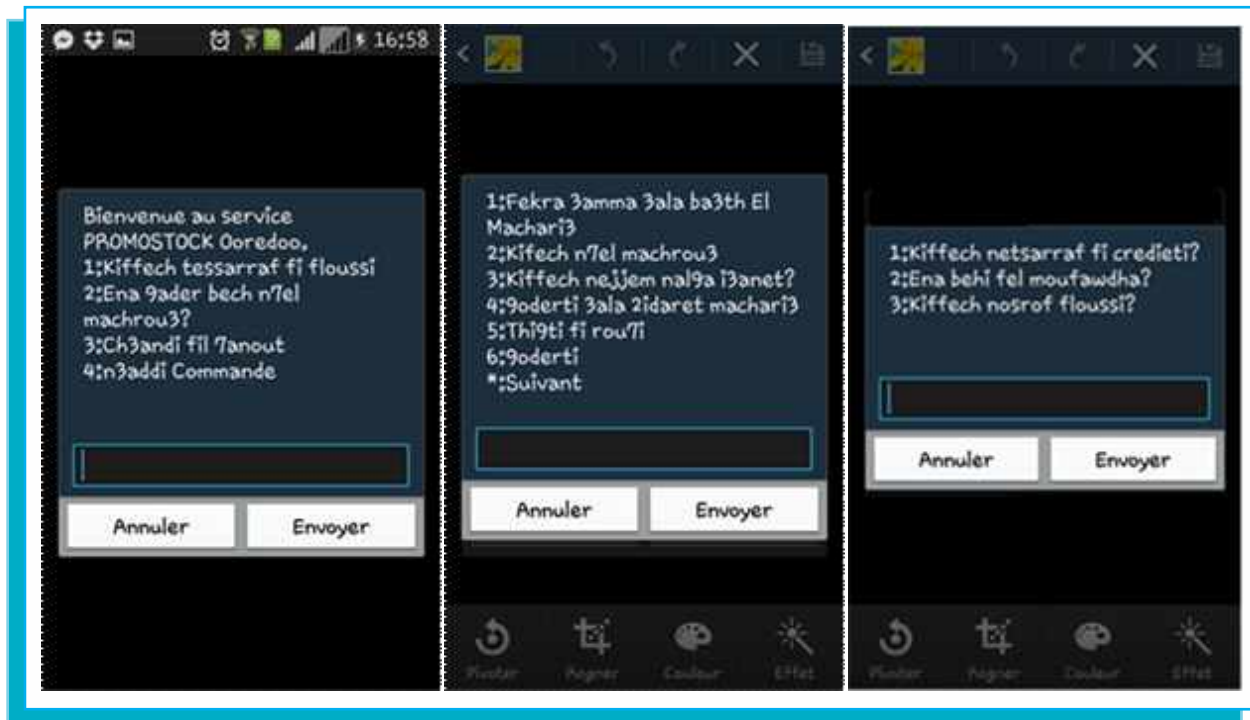
Figure 3: MobiPOS Order, Delivery and Billing Process



3.4 Non-financial Services Offered

The key innovation of the Promostock business model is the MobiPOS ordering application on mobile phones. MobiPOS can be used on simple feature and smart phones. It uses a USSD¹² interface that enables users to download simple menus for free that they can navigate to make orders. The orders are transmitted immediately to Promostock, which begins the fulfillment process. The graphic below provides screen shots of the mobile phone as a user navigates to order goods.

Figure 4: Promostock Screen Shots



Through use of the MobiPOS system, Promostock is able to provide four main services to Hanout members to support their business growth:

1. Buying goods at a lower cost

Since Hanouts are at the end of the supply chain, hard to reach, and buy in small quantities, they pay on average 15% more for goods than their urban counterparts. By using MobiPOS and data analytics, Promostock will be able to predict demand for goods, buy in bulk, and pass a portion of the savings on to the Hanout.

2. Opportunity to buy a greater variety and quality of goods

Hanouts are subject to the whims of the mobile wholesalers who deliver on an ad hoc basis, often carry insufficient quantities of goods, and generally carry only certain product lines, restricting the choice of products that a Hanout can offer. By using MobiPOS, Promostock promises to offer goods across product lines and in the quantity requested, helping to ensure that a Hanout is able to purchase the goods that are most in demand.

¹² USSD (Unstructured Supplementary Service Data) is a Global System for Mobile (GSM) communication technology that is used to send text between a mobile phone and an application program in the network. Applications may include prepaid roaming or mobile chatting.

3. Regular supply of goods

The ad hoc nature of many mobile wholesalers or the cost of traveling to a rural center to purchase goods directly means that many Hanouts run short of goods, hurting sales. Through MobiPOS, Promostock offers a regular delivery service that can help ensure Hanouts obtain sufficient stock to meet their consumer demands.

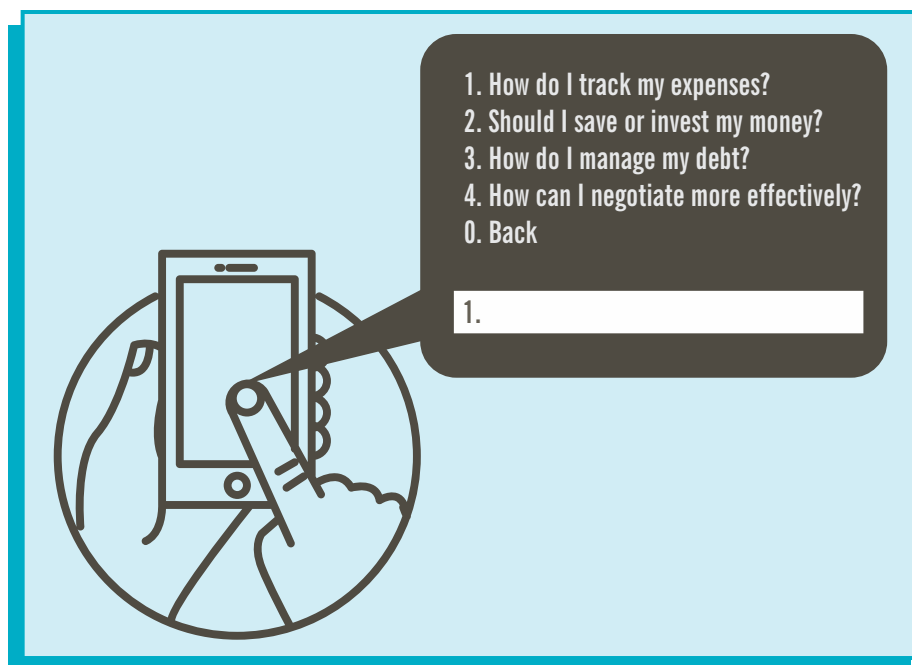
“It's hard for me to tell customers I don't have the product they need, when I'm out of stock. A customer can be disappointed one time and never come back again.”

-Moez, Focus Group Participant in Jendouba

4. Training and support

Young retailers are also hampered by a lack of experience. While some may rely upon family members who also manage small businesses for advice, there are few resources for young entrepreneurs in rural areas, and Hanout owners rarely share information about good practices. As a result, younger entrepreneurs often make investment or financing errors that can handicap their businesses. In response, Pro-Invest began providing Promostock members with entrepreneurship and financial literacy training through the MobiPOS platform. The system works through a free USSD interface and builds knowledge through a series of true/false and multiple choice questions on key topics. In the future, Pro-Invest is considering providing food safety and merchandizing training as well. An example of one of the initial menus for the SMS-based education program is included in the text box to the right.

Figure 4: Promostock Screen Shots





3.5 Financial Services Offered

One of the challenges raised by Hanouts in the initial market study was a lack of working capital, an especially acute problem for younger entrepreneurs. In response, Pro-Invest considered a few options: It could ignore the finance challenge and ask Hanouts to finance the purchase of goods themselves or by getting loans; it could provide trade credit itself to Hanouts; it could facilitate credit for Hanouts clients by providing information to financial institutions about strength of the Hanouts' businesses (as indicated in a history of transactions); or it could engage financial institutions directly in the process through a tri-partite agreement. Despite being a more time-consuming mechanism to establish, Pro-Invest chose the tri-partite option and engaged the local MFI Enda as a partner.

Through this process, Enda is serving as a financing partner, lending capital to the Hanouts to purchase goods delivered by Promostock. Payment is made by the Hanouts to Enda 30 days after delivery of the goods, and interest is paid by Promostock, who recoups the cost through a mark-up on the cost of its goods to Hanouts. The specific steps of the process are described below:

1. Promostock shares Hanouts contact details with Enda team;
2. Enda team conducts credit assessment;
3. If Enda pre-approves the Hanout, Promostock tells retailer to place order through his/her mobile phone;
4. When the retailer receives the order, s/he signs an agreement to refund the whole amount (without any interest) to Enda;
5. MobiPOS team sends Enda the invoices of credit beneficiaries and requests reimbursement;
6. After 30 days, Enda collects reimbursement of the amount lent (the interest cost is borne by Promostock).

Figure 5: Enda Involvement with Promostock and Hanouts

FEATURES	MICROFINANCE
Purpose	Funding to purchase stock
Amount	100-250 USD
Duration	1 Month
Interest rate	0% (2% paid by SMART to Enda)
Eligibility	Clients with good standing with Promostock
Collateral	None
Delivery vehicle	In the form of goods
Other	Agreement signed with Enda; requires Enda to conduct credit analysis on client at outset; afterwards as long as prompt payment is received, credit is renewed.

Besides facilitating this form of trade credit, Promostock will encourage payment via mobile phones using the Mobiflous payment system. Mobiflous is available to all Ooredoo subscribers with a specific focus on unbanked and under-banked population. After buying an eDinar Smart Card at La Poste (the Tunisian Post office that offers limited banking services), Hanouts owners complete the simple subscription process (typically completed in less one 1 minute) directly through the phone using USSD. Among the services offered on mobile phones are the instant top-up of their airtime credit, payment of bills, instant money transfer any time, cash-in of cash remittance directly to the account without having to queue at La Poste, and more. All transactions require a validation and confirmation by a PIN code which makes the service secure for end users. While facilitating payments for Promostock, familiarity with the Mobiflous payment system may enable cost savings for youth retail owners in other areas as well.

4- PROJECT RESULTS AND LEARNING TO DATE

During the pilot period, Pro-Invest was able to demonstrate proof of concept for this approach that promised improved growth opportunities for rural retailers as well as a sustainable means of providing the services. To reach this point, Pro-Invest followed a comprehensive four-phase process to research, develop and test the MobiPOS solution.

- 1 Phase I: Market Study and Marketing Research
- 2 Phase II: Prototype Design & Mobile Application Development
- 3 Phase III: Prototype Testing and Refinement
- 4 Phase IV: Piloting of Solution & Knowledge Capture

During Phase I, Pro-Invest was able to develop a strong understanding of the rural retailer value chain, the constraints that young retailers face, how they use technology, and how a supply chain solution could be delivered. Activities under Phase II then focused on developing the MobiPOS supply chain solution and exploring the business model in more detail. Phase III activities focused on piloting MobiPOS, gaining experience in order fulfillment, and negotiating the financing arrangement with Enda. Finally, during Phase IV, Pro-Invest finalized the agreement with Enda, developed a business plan to attract private-sector investments for the overall program, and began to recruit additional subscribers for the future launch of the company.

From a quantitative standpoint, Pro-Invest achieved the following goals during the nine-month pilot period:

Figure 5 Results Planned vs. Actuals January 2016

INDICATORS	TARGET	ACHEIVEMENT
Number of retailers who subscribed by the end of the pilot	100	383
Number of users aged less than 35 years	50	193
Number of users older than 35 years	50	190
Number if women with MobiPOS	30	42
Number of subscribers that were actively using MobiPOS to place orders	8	20
Number of women that use MobiPOS to place orders	2	8
Number of MobiPOS transactions	-	184

During the pilot stage, Pro-Invest recruited the targeted 100 retailers and tested the system with them. The retailers found that the interface was relatively easy to use and liked the concept. However, the initial catalog of goods was insufficient to encourage frequent use, so many retailers tried the system once but are waiting to fully engage until Pro-Invest is able to provide a larger variety of goods and offer trade credit. Based on this feedback, Pro-Invest is in the process of scaling it up with private sector support. A company has been registered, key staff hired, and investments of over 250,000 USD secured.

This experience has demonstrated the potential of value-chain approaches for youth employment and generated learning about how to research and design technology-based value-chain financing for rural youth. The next section describes learning to date over the life of the project.

Learning Topic 1: Adapting and Developing Effective Financial Products for Rural Youth

Research the credit system first and develop methods that mimic but improve upon it for innovative youth financing strategies.

Through its market research, Pro-Invest quickly learned that working capital was a constraint for Hanout owners in general, and especially for young owners. Understanding the different sources of capital and their relative strengths and weaknesses took longer to decipher, but was ultimately critical to the product design process.

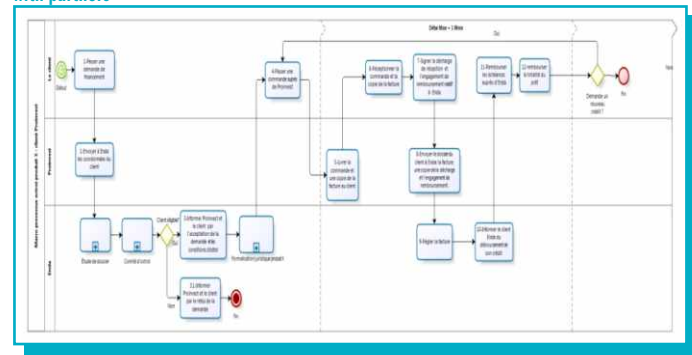
Adult Hanouts owners typically have two sources of finance (outside of family and friends); the first is trade credit provided directly by wholesalers. Trade credit is typically for very short periods (15 days) and only afforded to long-term clients, since wholesalers do not have the capacity to sell on credit to many clients for a long period of time. While helpful to rural retailers, the very short-term nature of the credit and the fact that it is with some (rarely all) individual wholesalers, each of whom only supplied a portion of the Hanouts' goods, means that it does not fully serve the shop owners' needs. This type of credit is also conditional in that it is linked to the purchase of certain goods that are not always the most demanded in a Hanouts' market.

The second source of capital was from MFIs or banks. These institutions tend to lend for longer periods of time that are most appropriate for purchase of capital goods or site expansion, whereas Hanouts typically had a greater need for shorter-term working capital credit. These institutions are only serving a portion of the market since they do not have transaction-level data to understand the credit-worthiness of clients and often require collateral that is difficult to find or to pledge. In this environment, Pro-Invest found that some adults were not accessing credit at all, and those that were used a mix of instruments, none of which were suited particularly well to their needs.

For youth, this inadequate system described above is even less beneficial, as fewer wholesalers offer them trade credit with appropriate terms. At the same time, MFIs generally steer clear of them, as young people lack sufficient collateral or the track record to make them attractive borrowers.

Once it understood the system, Pro-Invest was able to consider an innovative solution that used the strength of trade credit – that it is directly linked to the Hanout business cycle and based on an intimate knowledge of a Hanout's transactions and business – with the strength of an MFI – that it has large amounts of capital that can be lent to retailers and the capacity to recover loans. The end result – a scalable trade finance solution – has the potential to drive Promostock's growth since it will be providing both a large selection of goods to rural retailers, and the means to finance their purchase.

Figure 6: Thumbnail of flow chart indicates importance of mapping roles and responsibilities with partners



Understand microfinance institution procedures and develop win-win strategies to serve youth

Negotiations between Enda and Pro-Invest spanned over eight months before an agreement was reached. The process was slow at first because initial conversations were based on an assumption that Enda would jump at the chance to work with Pro-Invest to reach a new youth segment, rather than on a more nuanced understanding of Enda's goals, procedures, and constraints. Once both sides became aware of each other's operations, a win-win strategy was developed and procedures that met both organizations needs finalized. The final flow chart of decision making (see figure 6) reflects this more nuanced understanding of each party's appropriate roles in the credit underwriting process.



Rural young female retailer from Borj Amri, who co-manages business with her younger brother



Young retailer in Oued Ellil; working with limited resources but proud of what he has

Recognize that access to finance involves both supply and demand

In the initial research, Pro-Invest assumed that the finance challenge was largely a problem of supply- that MFIs and banks were unwilling to lend to youth. While that was indeed a constraint, an equal challenge was presented by young retailers who were uncomfortable borrowing - fearing that they would not be able to repay on time and believing that the cost was too high. This lack of demand for formal financial services is one of the reasons why Pro-Invest chose the trade finance route that offered retailers credit for purchase of a good, a concept that they were comfortable with, and at no extra cost, since the fee was rolled into the overall cost of the goods.

Learning Topic 2: Determining Appropriate Level and Delivery for Supportive Non-Financial Services

Prior to the pilot, Pro-Invest had conducted initial research and realized that there was a constraint to young rural retailers' business growth and that a supply chain improvement could be one solution. Based on this research, Pro-Invest developed a concept that was funded through RYEEP. However, Pro-Invest, Making Cents, and Silatech recognized that due to the complexity of the concept, further research was necessary to fully test the assumptions. This caution proved warranted, as Pro-Invest had correctly identified the problem and a potential technology-focused solution, but not a viable sustainability strategy.

In the original concept, the MobiPOS supply chain solution would directly link retailers with large producers and distributors, enabling them to bypass the various wholesale middlemen. Pro-Invest would operate a virtual middleman that would serve to transmit data between the parties, but not engage in the direct delivery of goods. After conducting additional research, however, Pro-Invest and Making Cents discovered that while the MobiPOS supply chain solution had potential, producers/distributors were not interested in engaging directly with retailers, necessitating the business model to incorporate a physical middleman that would deliver goods in addition to managing the new supply chain solution. Armed with this information, Pro-Invest was able to reconsider its overall concept, recruit additional logistics/retail expertise, and develop a viable business plan.

Mobile-delivered information offers potential as complement to other interventions

Through the Najjahni platform, Pro-Invest had already demonstrated that Tunisian youth were interested in receiving entrepreneurship and English language training through their mobile phones. For example, one month after its launch, over 300,000 Tunisian youth had signed up for its m-English service. For MobiPOS, rural retailers saw that access to this system could deepen their knowledge of entrepreneurship, financial literacy, and food hygiene. Pro-Invest was only able to introduce this service at the end of the pilot, so results were limited. Initial uptake/responses from youth were enthusiastic, however.

MobiPOS Original Hypothesis:

“Successful rural retailers are an integrated part of the rural value chain(s). Shops are better integrated into the retail rural value chain when they have four essential assets: a) are part of marketing networks such as direct links with distributors & producers, b) use stock ordering and management tools, c) gain bargaining power through association, and d) have links to formal finance.”

Research Priorities

- Retail ordering and inventory: how is it done?
- Supply chain: people and logistics? SWOT?
- Retailer access: 1) to technology, 2) to information and training, 3) to finance
- Mobile phone “user experience”: How are phones used now? What is possible?

Key Findings

- Mobile-based supply chain solution (MobiPos) could address retailer constraints
- Trade finance necessary to unlock potential of solution
- Distributors/Producers not interested in linking with rural retailers
- Direct links are not possible, so a new physical wholesaler is necessary to lead intervention



Learning Topic 3: Using Technology to Lower Costs and Provide Youth with Alternative Forms of Finance

Know the needs and habits of rural retailers and meet them where they are on technology and user

A key part of the research was to determine technology use and preferences by rural retailers. Of the retailers interviewed during the initial market research phase, 90% indicated an interest in the use of ICT tools for business if offered through mobile phones. Hanouts were already using their mobiles to sell airtime, so the addition of new services through mobiles presented the easiest access point for Pro-Invest.

While responses of youth and adults hardly differed during the research phase, during the pilot phase, Pro-Invest found that the willingness and capability of youth differed from that of their adult counterparts. Youth were more eager to subscribe to the system and required less reinforcement and training to use the mobile ordering system effectively. This finding matches previous experience, where Pro-Invest recorded the greatest interest for its Najjahni mobile-based education and employment services among those aged 15-35 in rural areas.¹³ Based on this experience, Pro-Invest expects a majority of its subscribers during the expansion phase to be youth, despite their comprising only a minority of all Hanout owners.

Retailers generally cited the following as useful (YES) or not useful (NO) in response to the question about what features would be attractive:

- Online ordering – NO
- Online payment – NO
- Online inventory control – NO
- Keep track of stock – YES
- Allow merchandise orders via mobile phone – YES
- Allow for mobile payments using MobiFlouss – YES
- Access to trade credit and/or micro-financing – YES

Carefully consider trade-offs of how and when to layer services

Through the research process, Pro-invest identified many of the constraints that could be addressed through the MobiPOS supply chain solution - from ordering merchandise, to managing inventory, to credit and mobile payments. Rolling out all of these features at once, though, would potentially overwhelm prospective participants and inhibit uptake. In response, Pro-Invest carefully prioritized the services and focused on the key solutions first - ordering online and credit. Pro-Invest recognized that if these two services were addressed, enough interest in MobiPos would be generated to get started, allow additional services like mobile payments and mobile education to be offered.

Creating the ICT tool first is like putting the cart before the horse, before the road has even been paved.

With a new and innovative product idea like MobiPOS, not getting caught up in the excitement of the tool itself is challenging. RYEEP partners were very interested in the initial concept, and there was enthusiasm to jump into MobiPOS development. Nonetheless, as described in Learning Topic 2, it was important to slow down and reflect on the target market. Who will ultimately use the product? What does the process for moving data, money, and food products look like? How do these people and components interconnect and what's important for each of them? Asking these questions upfront and developing the overall business model were key activities and shaped the outcomes of the pilot.

When considering technology-focused solutions, a multi-sector team is needed

At project outset, Pro-invest had an IT department experienced in mobile-phone solutions. Accordingly, the company was able to research and understand the technology aspects of the project well from the beginning. However, Pro-Invest lacked experience in the retail sector and did not recruit this expertise until half-way through the pilot. Engaging appropriate expertise earlier would have saved some time during the pilot as the business model could have been vetted and refined during the initial research phase.

¹³ <http://www.gsma.com/connectedliving/wp-content/uploads/2014/02/2013-2014-Q4-Tunisia-Najja7ni-services.pdf>



Learning Topic 4: Linking Products or Institutions to Facilitate Movement from Informal to Formal Financial Services

Linking youth to finance may require a strong intermediary

As noted above in the finance lessons learned, young retailers' access to finance was a problem of both supply and demand. On the supply side, MFIs often had insufficient information on rural retailers to complete their underwriting process. On the demand side, retailers often were not interested in formal finance because of risk aversion or cost. In the initial concept, the idea was simply to provide transaction-level information to MFIs that could help them conduct their credit analysis. However, after working with both potential clients and Enda, Pro-Invest realized that a more direct approach would be necessary to bridge this gap, at least at the outset. In the future, once a credit relationship is established between Enda and the clients, it is likely that youth will become more comfortable with borrowing, while Enda will become better-prepared to provide higher loan amounts. Nonetheless, in the initial stages, a strong intermediary is necessary.

Focus on formalizing the 80% of retailers who comprise small and medium enterprises

A World Bank survey on business in Tunisia finds that one-third of all self-employed youth struggle with the burden of bureaucracy, including the costs, difficulties, and delays involved in obtaining required licenses. As a result, most Hanouts choose to remain informal, hindering their ability to access markets and requiring that they operate in unfavorable locations to avoid fines and extortion. During the research and pilot process, Pro-Invest identified this issue and recognized that informality would also be a barrier to Promostock's success, as a large segment of their potential clients would not be able to grow without changes to their business outside of a new ordering system.

In response, Promostock will organize its subscribers into a network and expand the non-financial education to cover topics like registering your business and complying with health codes. Members who then act on this information by registering or meeting quality standards will receive additional benefits (e.g. higher credit amounts.) This formalization and improvement in quality will benefit both Promostock, whose brand will be associated with quality, and the Hanouts, who will be able to attract more clients and order more goods once they've improved their business.





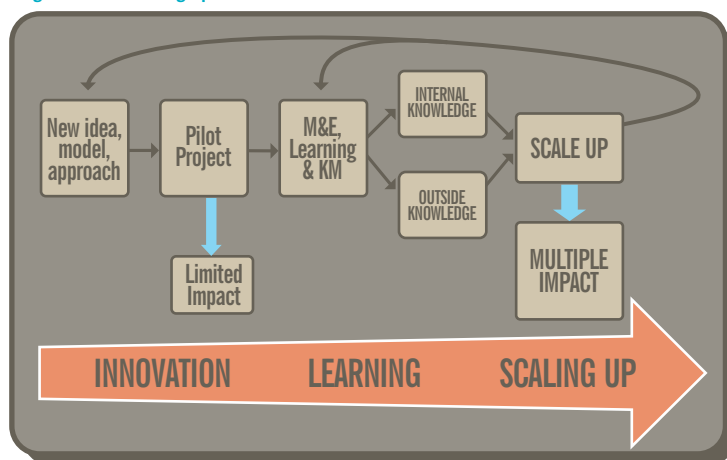
Learning Topic 5: Defining Innovative Approaches for Scaling Products in Rural Environments

Developing Proof of Concept for private-sector investment can serve as one scaling-up strategy

The Rural Youth Economic Empowerment Program focuses on the first two stages of IFAD's “Innovation, Learning, Scaling Up” framework. During the project, innovative pilots are tested to develop learning about what works. Afterwards, IFAD will scale up the ideas with the most potential through partnerships with the government, private sector, and/or communities.

The Pro-Invest case study indicates the potential of developing proofs of concept for private-sector investment. At the end of the pilot, Pro-Invest was able to use the research and testing to develop a full business plan. The plan indicated that with an initial investment of 250,000 USD, Promostock could reach 1,500 retailers in five years, employ 27 staff, and sell over 10 million USD in goods. Pro-Invest used the plan to recruit investors and secured the initial capital. It has now hired a CEO and logistics staff and will begin formal operations in mid-2016.

Figure 7: IFAD Scaling Up Framework



5- CONCLUSION

The MobiPOS pilot was designed to test an alternative to traditional interventions led by financial institutions to improve access to finance for youth. Through an approach designed to strengthen the retail value chain, Pro-Invest was able to study the rural retail market, determine some of the key constraints for rural retailers especially youth, then develop a technology-based solution that addressed the problems associated with buying goods at the end of the supply chain. In addition, Pro-Invest was able to develop an innovative trade finance solution that used its position in the value chain to link financial institutions with rural retailers. Since the pilot duration was short, actual outreach was relatively small, yet enough interest was generated to prove that this is a viable concept and to develop an in-depth business plan that is attracting interest from investors.

Key learning related to the RYEEP agenda also included:

- Understand the informal credit system to develop innovative financial products for youth
- Recognize that youth financial inclusion requires changes on both the supply and demand side, and an intermediary may be needed to bridge this gap
- New technologies offer the potential to disrupt business practices that disadvantage youth retailers
- Private-sector investments should be considered as part of an overall scaling up strategy

As Pro-Invest evolves the MobiPOS concept, more is certain to be learned about youth financial inclusion and enterprise development.

