

The Rural Services Franchise Company – an Idea for Providing Services with a Commercial Potential in Rural Areas?

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For quite some time in LBL we are challenged with exploring how to ensure service provision in rural areas in the face of continuously decreasing public budgets. Based on a few initial experiences and explorations, we have found that for services with a commercial potential the concept of franchise operations may be one possible option for sustained provision of service packages. Ueli Scheuermeier presents these ideas so far as an exploratory concept which may show new leverage points for public intervention for sustained income generation in rural areas.¹

Vision: the village entrepreneur

Musa is a village entrepreneur (VE) who lives in the village of Masamba in Tanzania. He is on his way home from a group of farmers on the other side of the hill. There he made sure the women in that group filled in the maize correctly into the new grain stores they had each constructed at their homes. Over the last few weeks he had regularly visited the group and showed them how to build the grain stores. He also provided the required special plastic lining, and checked with them on the building. And today was the crucial filling in of the harvested maize. He showed them how to safely handle the fumigation pills. The maize of those families looks fairly okay. So he is quite sure that the grains will keep for another 7 months. The deal with

those families is, that for each full store that manages to store the maize for at least 6 months, he will get one full bag of that maize as payment. He is quite confident that it will work this time too. Actually this program of grain storage has been his main business so far, allowing him a substantial increase of income compared to what he had before. And most of his clients were obviously happy, as more and more families want to enter into the same deal with him. This is not so surprising, since the market price of maize is three times higher after six months than at harvest time. But he only works with groups now, since he also has other things that begin to interest him, and he doesn't want to spend too much time for each individual household.

For instance at the last meeting that the Kilosa Rural Services (KRS) organised, Grace showed some interesting photos of drip-irrigation material. She is another VE colleague from nearby Vikumi village. She took part in the trials that the Kilosa Rural Services was doing, and the photos of the first installations and the farmers reactions were very intriguing. It looks as if they are now growing a rather big field of off-season vegetables up in the cool hills, and at this time of the year they should be making a lot of money with that in the markets down in the villages along the road. Already during the meeting he fixed a date with Grace on which he would come with a few farmers and have a look at this innovation. Of course they will pay something to Grace and the farmers there for the hassle of showing them around. Musa thinks, that such drip-systems would interest the farmers in his village very much too. Well, on a second thought, he might focus on the women, as Grace explained that women were chiefly interested in the initial small systems. And then he plans to expand his business from grain stores and add providing the micro-irrigation materials and services to such interested farmers. Because he has a franchise agreement with KRS, he is sure to get the

¹ Please note, that the presented vision is of course just an example. But it has a real foundation: The village entrepreneurs and the Kilosa Rural Services mentioned in the vision actually already exist in Tanzania, based on small private investments. Their plans for doing something about grain storage, microirrigation and seeds are real too. The vision simply attempts to put their ideas into a broader perspective and figure out sustainable logistics and financial arrangements for making them be come true.

Examples of service-packages

Commercially viable service-packages can vary widely. The average level. VE will probably combine several such packages in her offerings, and continuously recombine and upgrade them as opportunities arise. Following some examples of packages that come to mind, just to illustrate the range ...

Grain Storage

VE sells materials, building instructions and supervision to build household level grain stores. She also instructs on proper storage, and sells the required fumigation chemicals and supervision on their safe use.

Nurseries

The VE operates a nursery with a wide range of species, i.g. forest plants, fruit plants, medicinal plants, vegetable seedlings, commercial plants, etc. The VE sells these plants and know-how to villagers.

Veterinarian

The VE is a village veterinarian. She also has the skills to advise on animal husbandry in general, including feed and fodder, processing of animal products, connections to markets, diversification, sanitary control and even on technology to make profitable use of slurry and manure.

More examples see boxes on the following pages.

materials from them at preferential conditions. And of course he will also have to pay for a training by KRS, but that is all right, because after all, he has already earned quite a bit with selling his grain storage services that he had learnt from KRS before. Musa plans to start small with this drip stuff, and grow as the interest in his village increases.

Actually Grace owes him a good advice, since he had brought her some sets of this new terrific banana variety he had found during one of his trips to a cousin far away in the city. Oh yes, that too turned out to be a good little business. KRS immediately showed interest and put up a trial to evaluate the variety. Now he is running a small nursery, supplying new sets to his KRS VE colleagues throughout the district.

And as Musa reached home he smiled as he saw his little daughter running towards him with the printout of the photograph he had made two days ago back at KRS

in Kilosa. Usually he stays a day longer at Kilosa town, like most of his VE colleagues and visits the news centre and the internet café. Two weeks before, a staff of KRS had come on her regular field-check visits and he had asked her to make a portrait photo of all his children and his wife. The photos were waiting on his own file on the KRS computer when he reached there. He asked for some of them to be printed. It wasn't even all that expensive. Oh yes, the KRS folks film and shoot pictures like crazy when they are moving around. And sometimes when they come to the villages they bring along their laptops and beamers and show all this stuff in the village, all those interesting things happening in other villages, and so on. Over the following few days, people then usually approach him and ask him to organise a visit to people in some village who were doing something interesting. He only organises such visits with groups of more than 10 people, or else he doesn't earn enough from what each person can pay him to organize and conduct the visit. Of course, when people from his village get interested in new things, there is always the chance that they ask him to help them launch the idea on their farms.

But first he needs to get that microirrigation group launched here in Masamba. That's definitely the next thing to do. Tomorrow he needs to talk with a few women and show them the photos he brought along....

Core element: the village entrepreneur

Core business

The foundation and building block of the whole Rural Services venture is the village level small entrepreneur VE. These are independent people who live in villages and rural towns, and who are trained and coached to sell services and materials to rural people which they can use to make a profit. VEs will only prosper as businesses, if their client households in the villages make enough profit, to be willing to pay cost covering prices for the services. What the rural people pay to the VEs is what finances the whole system.

Service packages are the products

These services are usually packaged, ie. they are not just material, but include the advice and coaching to

enable the client to use the material. Such advice and coaching is rarely just on production, but will also include planning and marketing. Often VEs also trade with materials and inputs, engage in bulking operations and possibly transport. They also act as a conduit of information to and from the village.

Broad range of service packages

VEs over time develop a broad range of expertise to provide many different service packages. It is also possible that VEs specialise in services around a particular topic e.g. animal husbandry, grading and bulking, transport and trade, grain production, processing, information and communication, forestry, horticulture, aquaculture, etc. In such a case several VEs can operate in the same village.

Income depends on client satisfaction

Payment is normally tied to the success of the client households, and can take many different forms. So the VE provides services, that the households pay for in cash or in kind, depending on how successful they were as a result of the service. First-timers usually pay nothing at all until they have a success.

Quality and knowledge management

The skills and know-how of VEs have to be continuously upgraded, so that they can stay ahead of the learning curve of the villagers, remain relevant and thereby continue to make business. For this they need a continuous source of training and information and a lot of peer exchange and coaching. The Kilosa Rural Services KRS provides these services to VEs. VEs and KRS conclude a franchise agreement.

The backup: the Kilosa Rural Services KRS

As pointed out above, the VEs need a continuous, reliable and competent backup service. The franchise agreement ensures that the KRS is itself interested in the level of success of the VEs, because if the VEs are not successful in their business, the KRS will not flourish either.

The KRS provides the following types of services to VEs:

- training and coaching to run their business
- Participatory Innovation Development (PID) to explore new potential ventures
- Networking among the VEs in order to facilitate the horizontal exchange of experiences and ideas
- specialized equipment and materials for service packages of the VE
- access to sources of credit, coaching for loan formalities
- quality control
- exclusive access to KRS services, etc.

The VEs pay in various ways. Of course they buy materials and equipment, and VEs have to pay cost-covering fees for the necessary trainings. Their earnings from their businesses must allow for this. If they fail to participate in such trainings, they lose their franchise.

Bulker of non-timber forest products

The VE buys a wide range of non-timber forest products ranging from honey to rattan, bamboo, dried mushrooms, medicinal plants, etc. He also shows villagers how to collect and process, improve the quality, adhere to certification standards, deal with forest authorities, and how to protect and increase the wild resources.

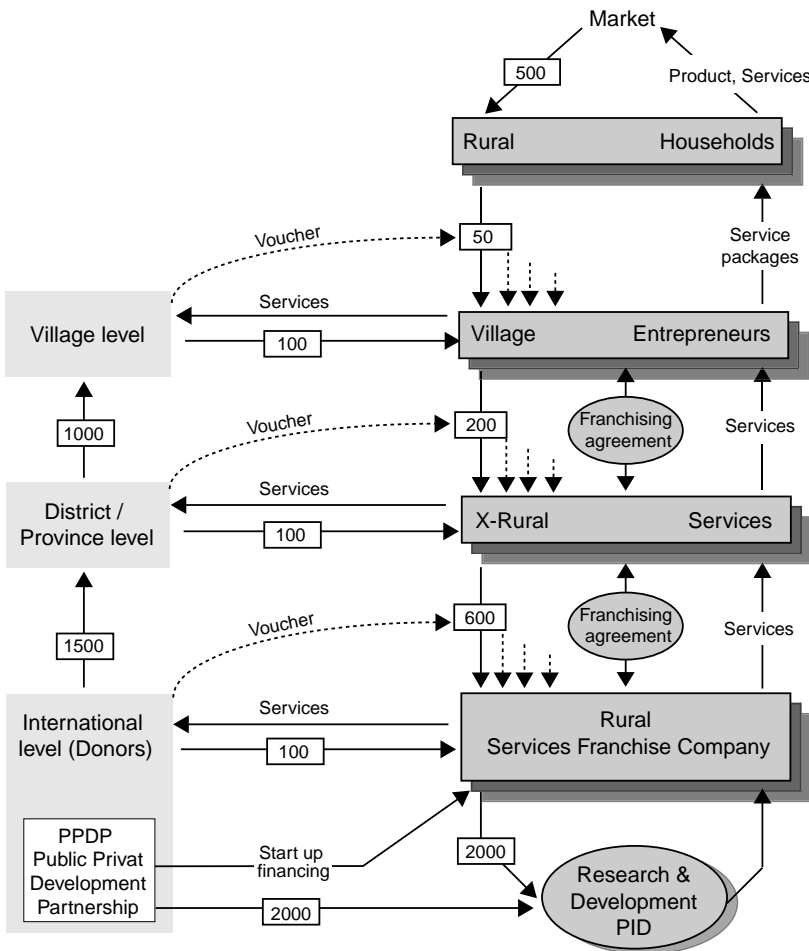
Seed Producer

The VE produces or procures and sells the seed for the village. She advises on the most recent cultivation practices. She starts with the main food crops and then branches out into vegetable seed, etc.

Bulker of certified organic cotton (or coffee, shrimps, mango, etc...)

The VE trains farmers how to grow organic cotton. He shows them how to achieve the correct standards so that they can pass the controls when the certification controllers come and check. He then also bulks the cotton for transport, and sells it to the bio-cotton company on a commission basis. The commission can be paid by the company or by the farmers, or both.

The envisaged organizational structure of the RSFC



Villagers make a profit by using the service package that the VEs sell to them. Part of the profit pays for the costs of the service package.

Village entrepreneurs **VEs** make business with villagers by selling the service packages to them. The VEs are franchised by the local Rural Services Company KRS. The franchise helps them to be successful in their business with farmers.

The local Rural Services Company KRS provides services to the VEs. The Kilosa Rural Services is just one such service provider operating at a local level. Generally they can be called XRS. Various XRS are franchised to the internationally active company RSFC. The franchise helps the various XRS to be successful in their business with their VEs.

The Rural Services Franchise Company RSFC operates at the international level and links the various XRS into a learning network.

Assessment, discussion, issues, . . .

Is the RFSC-idea a good business? It is a slow business and a solid business!

On the one hand, the challenge of this business is that it is an umbrella operation of a wide range of very diverse sub-businesses spread over a wide area. These sub-businesses cannot flourish and spread without the umbrella. This makes it technically and operationally complex: Distance and transport needs to be mastered, monitoring and information management, diverse trainings, and quality control become quite costly. Furthermore, the possible margins may not allow profits for the franchising over two or more steps, or the higher level franchises only break even when economies of scale can come to bear. This means, this business will take a long time to build from the bottom up until it breaks even at the top, and a lot has to be learnt on the way. So, it is a SLOW business.

On the other hand, the business is very skill intensive. Whoever masters the skills to run it, will have a unique position in the service market. Furthermore with its wide range of service packages, it will be able to flexibly react to changes in the various local rural markets. It may even trigger developmental changes on which it can build further business. The various service packages can be combined for synergies in many diverse ways. This makes the business strong in the face of change. So, once the initial phase is mastered and break-even is achieved, this is a SOLID business.

Rural services must be multi-commodity, multi-services, broad range

An important and unusual feature of this business is the diversity of the service packages that need to be combined by the VEs to make an acceptable profit with their village level ventures. This is due to the typical situation of service markets in rural areas: High demand for services, but limited clients within a certain area for each type of service. Therefore this

business is specifically aimed at what is typically a rural challenge. The mastery of this venture will result in a unique market position which will be difficult to compete with.

Skill-intensive business, where knowledge is share-ware.

This business only works with a high level of diverse skills that need to be continuously upgraded and re-combined at all levels in the franchise chain. This will result in the business having something like the outlook of a learning organization.

Knowledge and information are important, but not critical. The core money-making competence is the skill to apply the knowledge and information in ventures and trainings that are profitable for farmers, and therefore also for VEs. It is thus likely, that all the technical knowledge and information in the company will be made freely available to the public. This will attract people to contact the company to learn how to use such technologies and information to make a profit. It is even conceivable that the company will pay a margin to innovators, if their innovations are being used for trainings and services. This will make it very attractive for people to share their technical innovations. The point to make here is that the company makes its money from training and coaching people in how to make a profit from a wide range of technological and marketing innovations.

Investments for building and operating the RSFC and XRS

Operational

These are the infrastructural and logistical investments needed to make the XRS capable of providing services to the VEs. This includes communication, management, and all other day-to-day operations.

These investments are expected to be borne mainly by private investors. The XRS must concentrate to be able to bear the operational costs from own earnings as soon as possible.

Research & Development

These are the investments needed for designing the service packages and for testing them. In effect, these R&D investments are like venture capital. Since in

Fruit-processor

The VE has the equipment that allows to process fruits at the village level. He shows households how to adhere to the quality standards, buys their semi-processed products or bulks them on a commission basis, or manages the processing of the whole group of producers. He also maintains the information links to the transporters and wholesalers – either on behalf of the selling households, or as a trader in his own right.

Micro-irrigation and pumps

The VE sells micro-irrigation equipment. She also provides advice in planning and installing the equipment, in correct planting, in production of the irrigated crops and even up to brokering for the marketing of the produced crops. She may also branch out into reliable pumps to feed into drip-systems, and in case of solar pumps even branch out further to provide and install solar home systems for lighting.

most cases high returns cannot be expected, venture capitalists will not be attracted. Provided, there is a clearly defined public interest for the service package to be developed and offered to farmers, it is expected that the public will invest (government, donors, foundations).

Training

These are investments into the design and testing of curricula for the VEs and the staff of XRS, and into human resource development itself. The costs for this is expected to be the main burden during initial stages of the RSFC and XRS, with slow returns coming back in. It is therefore expected that the public will mainly invest in such trainings, provided there is a clearly defined public interest that these trainings happen.

Potential investment arrangements

Private funding

Of course the company itself will invest whatever own resources it can make available. The initial focus will be for achieving operational sustainability at all levels, followed by R&D and then development of trainings.

Microcredit operations are expected to invest in the operations of VEs and possibly also in R&D if it fits with certain programs that they follow. Investment

funds (social investment funds, ecological investment funds, etc) are expected to be investing in R&D and in refinancing microcredit operations. Whether or not the RSFC itself goes into financial services remains to be seen. It is expected that where financial services are inexistent, XRS will cooperate with some microcredit program to provide this service in the area.

Other companies are expected to invest into R&D and trainings, if this results in produce of acceptable standard quality that they need for their operations, for instance a large commodity exporter or a processing enterprise. Supply companies may also invest in training and R&D conducted by XRS, as this allows them to use VEs as retailers of their equipment.

Public funding

The public is expected to invest mainly through Public Private Partnerships wherever a public interest can be efficiently achieved through the RSFC and/or one of its franchised XRS. This is expected to be mainly for trainings, and also for R&D.

The public funds will be channelled to the direct beneficiaries (at whatever level), who will then be able to buy themselves the services they need.

In many rural areas financial services are poorly developed, and therefore no suitable long-term loans are available for VEs and XRS. In such cases the public may support the emergence of suitable local financial services for VEs.

It is also possible, that the public (be it the village, the district, the nation or a donor agency) buys the services of VEs and XRS for achieving a public interest (for instance for reforestation of publicly owned land, or for conducting environmental awareness programs, or epidemiological control services). Such public contracts will enhance the business of VEs and XRS, particularly in initial stages.

Development leverage for donor-agencies?

Are RSFCs and XRSs suitable options for donor agencies to push their agendas for rural development? What leverage can they apply through investing in this type of franchise operation?

Funding Research & Development leverages private investments

When donors pay for the operational and economic R&D of various emerging rural business ideas, they have to make sure that the results will be publicly accessible. These results will then allow various interested actors to put together viable business proposals that are proven to result in income in rural areas. These business proposals can then be submitted to credit institutions. Thereby the effect of the successful pilot-R&D will be scaled up.

Funding training leverages "learning business by doing business".

When donors invest in training in a franchise operation, they can leverage the emergence of income generating skills in rural areas "in situ", particularly along value chains. This means that most trainees will be learning their skills while actually setting up a viable income generating activity, since the learning is part of the franchise agreement. This should help to keep innovative and initiative people in the villages and show them opportunities for making money there.

Counter-leverage to avoid

Donors and their agencies must refrain from providing services that a future franchise operator could provide. Rather they must promote the setting up of a commercial service provider right from the beginning through support in doing the necessary R&D and skill development. Whoever takes on the role of franchise operator must do this right from the beginning, and learn it by doing it – as opposed to donor-funded agencies providing these services with a view to later "commercialise" them. Whenever there is a strong public interest in the provision of a service that cannot become commercially viable, then public contracting can still involve capable franchise operations.

We will be delighted to hear of any efforts that already go in this direction. We will listen carefully to anybody who points out experiences that suggest that such franchise operations may be counterproductive. And of course we will gladly cooperate with people who want to further explore this with us in real situations.