

BUSINESS TRANSFORMATION MODEL

Heifer recognizes that measuring Farmer Owned Agricultural Businesses (FOABs) is fundamental to assessing the economic sustainability of these businesses, which directly fits into Accelerate objective 2. For farmers to reach sustainable living income, Heifer partners with them to develop an infrastructure that supports wealth creation, which includes a strong project foundation for supporting, building, and empowering FOABs. Heifer developed the Business Transformation Model (BTM) as an outcome metrics tool based on Heifer's existing FOAB assessing methodologies, along with internal and external tools. to design a set of key performance indicators associated with business health and economic sustainability.

Among the tools used to build the Business Transformation Model are the Capacity Assessment Tool (CAT), the Enterprise Categorization Tool (ECT), the Household Transformation Model, and the IRIS GIIN Indicator Database. Heifer M&E Staff reviewed these tools with HQ Programs and Field staff to ensure that existing practices were used as inputs into the new BTM framework and to align the models.

The CAT and ECT tools contained a set of progress indicators to help assess the current status of a FOAB, to plan for FOAB strengthening. The BTM expands from these progress indicators to a framework for assessing FOAB-related outcomes. The BTM's five domains of economic sustainability were inspired by the assessment criteria included in the CAT and the ECT.

BTM Differentiators

- 1) The BTM is a set of metrics that measure the outcome of the activities performed at the FOAB level
- 2) The five domains were reviewed for alignment with the assessment tools.
- 3) Checked for alignment with the Household Transformation Model
- 4) Checked against the IRIS-GIIN for alignment with Impact Investing
- 5) Included environmental sustainability to ensure alignment with the triple bottom line

Overview

The Business Transformation Model was established to provide common impact metrics for professional farmer producer organizations (FPOs). Measuring common impact metrics allows Heifer to benchmark the level of maturity of an FPO and compare that level of maturity within a project, throughout a region, or even throughout the world. As supporting vulnerable populations achieving a living income is at the center of Heifer's global strategic vision, supporting FPOs to reach economic sustainability is an essential piece to a healthy business ecosystem where farmers thrive.

The Business Transformation Model (BTM) is a five-domain assessment tool used to measure the current status of an entity toward achieving *economic sustainability*. Intended to holistically assess an entity's economic health through the lens of the triple bottom line: people, profit and planet, the BTM benchmarks an entity's maturity at a given point of time and tracks the improvement of maturity over the life of a project and beyond. Within the BTM's five capacities there are sub-capacities that take a nuanced view on critical elements of an FPO maturity. Each domain acts as a thematic bucket of key performance indicators with precise definitions, standard calculations, and established method of analysis to ensure data quality and consistency. Together these key performance indicators, sub-capacities and capacities make up the BTM.

Domains

1. **Administration and Internal Management**: Administration and internal management refers to the policies and procedures an FPO follows in its business operations. In the case of the BTM, core indicators for this domain include **strong governance** to ensure fair and equitable access to services and decision-making ability for FPO members and **women in leadership positions** to measure the inclusiveness of the agricultural business analyzed.
2. **Strong and Sustainable Relationships**: FPOs are most successful when they establish meaningful, long term connections with a network of market system actors oriented to their core business. This network often lends itself to increase in efficiency and effectiveness, as comparatively advantaged entities are relied on for key roles necessary to FPO success. This includes upstream actors such the FPO members, which Heifer measures with the core indicator: **proportion of active members in an FPO**, and within the larger market system, measured through the core indicator: [number of] **long-term formal (e.g., contractual) relationship with financial institutions and value chain actors**.
3. **Financial Management**: Financial management is imperative for ensuring high functioning businesses. While it's possible to measure the financial stability of businesses from many angles, from liquidity to compliance, Heifer focuses on **net returns** as the core indicator within this domain. This core indicator requires businesses to maintain strong recordkeeping of both sales and expenses, with multiple years of positive business returns required to demonstrate a high level of financial management.
4. **Effective Business Operations**: Effective business operations are highly correlated with the economic sustainability of a business. Within this domain, Heifer focuses on **business plans being completed and implemented** as the core indicator. In defining this core indicator, Heifer determines the minimum components these business plans must include to be considered complete and measures if businesses have followed through on the actions included within the plans. A high level of operations requires completing all of the minimum business planning requirements and demonstration of follow-through on the planned actions.
5. **Environmental Stewardship and Management**: Heifer recognizes the environment as a key component in all aspects of our work. Heifer identified several variables to capture environmental impacts within the process of ensuring business economic sustainability. **Integrated waste management serves** as the core indicator within this domain, as it captures both how businesses plan to control their waste and measures the actions their taking to implement these plans. A high level of integrated waste management requires businesses to complete their plans and demonstrate implementation of these plans with actions.

Business Transformation Model



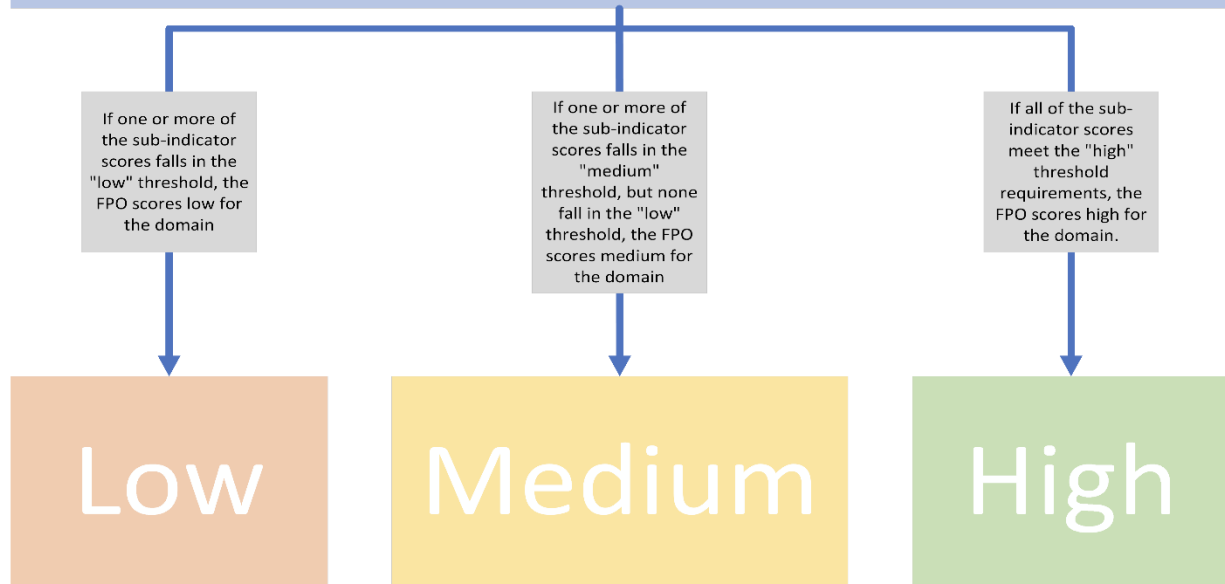
The BTM includes a set of five mandatory domains of economic sustainability, with a top-level indicator in each domain area and a set of sub-indicators under each top-level indicator. Amongst the sub-indicators, there are a total of seven that are considered mandatory to track within any project dealing with FOABD development or strengthening. The overall score of an FOAB (Low, Medium, or High) within the top-level indicator for each of the five domains is the lowest value amongst the sub-indicators contained within that are being tracked by the project. Thus, if two sub-indicators under the Profitable Business Operations (or any other) domain are marked medium and one is marked low for an individual FOAB, the overall score for that domain would be low.

Overall FOAB scoring is based on the top-level scores for each domain. FOABs with most domains scored at a medium or high level will be recorded as a medium level FOAB. FOABs with most of their domains scored at the high level, and none of the domains scored at the low level, will be recorded as a high level FOAB.



During Project Design, any project whose results framework includes FPO-related desired outcomes and activities must track the **seven** mandatory Business Transformation Model indicators, along with any non-mandatory BTM indicators as desired or required by donors. BTM transformation is calculated using a two step process. The first step is to calculate where the FPO falls within each of the five domains of economic sustainability identified within the BTM.

Each of the five domains contains a root indicator (or "top level" indicator) and a set of sub-indicators. The score for the root indicator, and therefore the domain, is equal to the lowest score amongst the sub-indicator thresholds (illustrated below).



Once an overall score for each of the five domains of economic sustainability is calculated, then the FPO in question is evaluated on its overall progress toward economic sustainability using the following method.

