Beyond the Pioneer

GETTING INCLUSIVE INDUSTRIES TO SCALE

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April 2014

THIS WORK HAS BEEN MADE POSSIBLE BY THE SUPPORT OF THE FOLLOWING ORGANIZATIONS:

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This report has been developed and published with financial support from the organizations listed above. The findings, conclusions and recommendations contained within these pages are those of the authors and do not necessarily reflect the views, positions or policies of any of these organizations.

The Challenge of Scale

Across the developing world, a new kind of business is emerging to serve and benefit the poor. It is known by many names: market-based solutions to poverty, inclusive businesses, impact enterprises, social enterprises, or enterprises serving the Bottom of the Pyramid (BoP).

Many are giving poor households access to beneficial goods and services, by bringing safe drinking water to slums, powering villages in deep rural areas, delivering high-quality but low-cost surgical procedures, or boosting educational attainment at affordable prices. Others are enhancing the livelihoods of the poor by raising the earnings of smallholder farmers, or giving more consistent and better-paid work to rural artisans.

Meanwhile, impact investors, foundations, aid donors, and increasingly, governments are banking on these businesses to grow and flourish, and generate both financial returns and social impact on a large scale.

While it is exciting that innovations like these are emerging, most of these solutions are still operating at low levels of scale: our 2011 analysis of 439 such firms in Africa showed that only 13% of them had begun to scale significantly. **We believe that scale is important because the problems of global poverty are vast: billions of people around the world live in poverty and suffer its consequences.** Wherever market-based solutions have impact and are commercially viable, we want to see them scale up so that they can make a significant difference to more of these people.

In this report, we take a close look at the challenge of scaling. Why aren't more market-based solution models scaling? What barriers do they face? Where market-based solutions have achieved scale, how has this been achieved? By addressing these questions, we hope to help:

- **Philanthropic foundations, aid donor agencies and multilateral development institutions,** to create greater impact on the problems of global poverty, by directing and modulating their resources most effectively to accelerate market-based solutions to scale;
- **Nonprofits and other mission-driven intermediaries** working locally with market-based solutions, to enhance their effectiveness and understand them within a wider global context;
- **Impact investors,** to enhance the way they select and manage investments to deliver desired financial returns and social impact;
- **Governments,** to understand how their laws, policies and actions can influence the development of market-based solutions, for better or for worse; and
- **Companies,** both large and small, to improve their chances of success at scaling innovative solutions to benefit the lives of the poor.

Beyond the Pioneer

GETTING INCLUSIVE INDUSTRIES TO SCALE

Foreword

Like so many of our peers, we are deeply inspired by entrepreneurs innovating to better serve disadvantaged populations in emerging markets. From solar lighting to mobile money to affordable high-quality education, the size of these markets and therefore the opportunity for positive impact is enormous. As investors, however, we've become acutely aware of the barriers facing entrepreneurs in such difficult environments, including weak distribution channels, regulatory challenges, and difficulties in finding skilled talent. Sometimes these obstacles are too big for any individual firm to solve on its own, suggesting the need for independent efforts that can benefit all firms in a given sector.

In *Priming the Pump,* we laid out lessons from nearly a decade of experience at Omidyar Network of pursuing such an approach. But a number of unresolved questions remained, and we are eager to learn more systematically from peers engaged in similar efforts. So when the Monitor Inclusive Markets team approached us to propose a comprehensive look at the topic, we were thrilled to come on board as a lead supporter.

It was no small task to look across continents, sectors, and decades of history to isolate relevant lessons for those wishing to accelerate market development to serve lower income segments. Rich case studies herein detail lesser-known chapters of development history, from the spread of mobile money in Tanzania after an initially slow market entry, to the successful development of smallholder tea in Kenya. These and many other examples confirm that it is not only possible to accelerate market development that benefits lower income segments, but that it has been accomplished in diverse circumstances, and with varying degrees of speed and success. We have much to learn from these cases about what works and what does not.

Notably, this report describes the idea of an industry facilitator — an actor not usually tied to any single enterprise that makes a long-term commitment to building capacity in a given sector and geography. The authors clarify that the entrepreneurial firm has always been, and remains, at the heart of these efforts. There is little chance of driving a thriving market without enterprises that make smart choices about their products, business models, and structures. But industry facilitation dramatically increases the pace, potential and scale of the success that these firms can achieve.

This report's biggest contribution, however, may be the questions it raises. What is a realistic timeframe for this facilitation? Years? Decades? How can we speed up a process that has often been painfully slow? How do we know when we are failing and should walk away versus sticking it out and being persistent? *Beyond the Pioneer* does not offer silver bullets or easy answers. It does, however, offer thoughtful ways to examine the successes and failures of those who have pioneered this approach to market-led development, so that we can all refine our approach and enhance our effectiveness.

In their first chapter, the authors rightfully ask, *"If pioneer firms cannot do this on their own, who will?"* The answer, of course, is that we all must. As shown by the diversity of actors in these case studies, investors, foundations, aid agencies, policymakers, corporates, and intermediaries alike all play an essential role in building thriving inclusive markets that dramatically increase opportunities for the poor.

Matt Bannick
Managing Partner
Omidyar Network

Paula Goldman
Senior Director
Omidyar Network

How We Arrived Here

Left: typical low-income settlements. Right: new affordable housing units available to low-income home buyers today.

This story began in 2006 when our team at Monitor Inclusive Markets (now a part of Deloitte) began working with the National Housing Bank, FIRST Initiative and the World Bank to see how housing markets in India could better serve low-income households in urban areas. We were all concerned about the growth of low-income neighborhoods and informal 'slum' settlements which were overcrowded, unsanitary, lacking in municipal services and prone to flooding in the monsoons, yet were costly for tenants and provided no security of tenure.

To build the market, we promoted the idea to over 600 developers, drafted architects and even constructed a show flat

Our initial analysis revealed a strong business opportunity to build and sell high-quality, purpose-built apartments to these low-income households. Our analysis indicated that profit margins would be very healthy, and customer research told us that demand would be strong. But our conversations with the large housing developers went nowhere: there was little to no interest in building houses for low-income households when there was so much more money to be made from serving the rich.

With support from the Michael & Susan Dell Foundation and International Finance Corporation, we kept on developing the idea, and promoted it to over 600 existing and potential developers. We drafted in architects to produce plans and even constructed a show flat in Mumbai. When a smaller developer in the city of Ahmedabad finally showed interest in 2008, we helped them select a site, refine their plans and pricing, and even sign up customers in local factories. The project launched to overwhelming demand, catching the attention of other developers and spurring the development of further projects in Ahmedabad and Mumbai. When Jerry Rao, a leading Indian businessman and entrepreneur, decided to set up a company to enter the market, it seemed that the fledgling industry was well on its way.

However, we knew that the vast majority of low-income customers were still finding it hard to access housing finance because they worked in the informal sector or otherwise lacked formal income documentation. Despite having ample and reliable income and money for down payments, these customers were locked out of the traditional mortgage market. In 2009, we started actively promoting a new model for housing finance, using field-based methods of credit assessment. By then, we had incubated a new company, led by former senior banking executives, that would pioneer this new model. The following year, we helped an established financial services group to launch a similar business, and more specialist lenders were beginning to appear on the horizon.

By 2011, we were working with large Indian industrial conglomerates on setting up low-income housing businesses. But there was rising chatter about the serious regulatory obstacles facing such developers, such as cumbersome approvals processes that could mire a new project in bureaucracy for years; with land prices rising, such delays made it difficult to achieve commercial returns while remaining true to a focus on low-income customers. Recognizing this, we shifted our efforts to working with government at all levels, from helping the central government lay out effective guidelines, to working at the state level in order to inform the development of conducive policies, to working with municipalities to encourage new developments.

In parallel, we were tracking the outcomes for households moving into these new developments to see if their experiences were in line with what they and we desired. In particular, we were keen to spot any unintended consequences of the model, and feed this learning back to the industry so that they could be addressed before becoming major problems. We also tracked the overall development of the market and shared it widely to help all industry players adapt their strategies in a changing environment.

We realized the systemic nature of the challenges faced by us might be the norm, rather than the exception

When we shared our journey — from getting a few firms to adopt a new model, to helping to move a whole industry towards scale — with the organizations and individuals who went on to join the Advisory Board for this project, it resonated strongly. We realized that the systemic nature of the challenges faced by us might be the norm rather than the exception. But those conversations also revealed a common desire to approach these challenges in a more systematic and effective way, and to encourage other colleagues working on market-based solutions to do the same.

Just over a year later, we are excited to be sharing these initial thoughts, based on new research into this topic as well as the first-hand experiences of our Advisory Board members and ourselves. We are sure of one thing: ours will not be the last word. Our hope is to start an important conversation, not to end it, and to answer some questions that lead to many more.

1 Going Beyond the Pioneer

SERVING THE RICH

Twenty-seven year-old Varun returned home to Mumbai two years ago to become an entrepreneur. Armed with a degree in computer science from India's top engineering college and an Ivy League MBA, he had just started working with a US hedge fund when he was bitten by the entrepreneurial bug. He quit his job, moved back to India and started an e-commerce company with a classmate from business school. One of a growing number of online retailers, the company sells stylish business wear aimed at young professionals in India's big cities. The website has only been running for a year but it is already attracting significant traffic from young buyers in cosmopolitan cities like Bangalore, Delhi and Mumbai. Varun is now making plans to expand delivery to smaller cities like Pune and the future is looking bright.

Any small and growing business faces an array of significant challenges. But Varun and his partner have a number of important factors in their favor. Rising internet penetration, growing disposable incomes and an increasingly globalized consumer ethos have combined to create a growing pool of ready customers for e-commerce retailers. Increasingly pervasive social media has allowed the venture to build its profile quickly, with a large number of its target customers. The high penetration of online banking services and credit cards has simplified the process of making online purchases securely. For those customers who cannot pay online, the firm offers a cash-on-delivery service through an experienced third-party vendor that also supports larger e-commerce businesses.

Raising capital has been relatively easy with so many angel investors and venture funds eager to invest in new tech start-ups: Varun and his partner have raised seed funding from a Mumbai-based angel investor and they are expecting to close their next round of funding with two venture funds. Although both Varun and his partner are first-time entrepreneurs, they are getting powerful support from an experienced board, including the head of a publicly listed Indian tech company, thanks to their business school and family networks. Board members have helped with everything, from securing tie-ups with established clothing brands, to setting up outsourced logistics partnerships that have enabled deliveries across several cities. Meanwhile, as the partners look to expand, the company is able to hire talent from top schools, as graduates increasingly choose exciting tech start-up opportunities over jobs in established companies.

SERVING THE POOR

Now let us consider how starkly different reality might be for firms pioneering new business models to serve and benefit the poor in countries like India. Obviously, the poor have much less money than the rich, but this also makes them much more risk-averse; they are therefore less likely to spend their money on unfamiliar products. They are less well informed about available solutions to their needs, because they do not have access to the same information channels and resources, and because they tend to be less well educated than the rich. They are also often harder to find and to serve, because they are scattered across remote rural areas or live in informal settlements in urban areas.

A business serving the poor has to contend with a much weaker ecosystem

But that's not all. A business serving the poor also has a much weaker business ecosystem to contend with than one serving the rich. There are far fewer organized marketing agencies, distributors and retailers that serve the poor effectively. Mainstream financial services institutions, like banks and consumer finance firms, find it difficult to extend financing to the poor to help them buy durable goods or invest in their livelihoods, because poor borrowers are much less likely to have documents to prove their identity and income, much less a credit rating. It is also typically harder to recruit the right personnel for these businesses. This may be because serving the poor is less aspirational for most than serving the rich and may require unattractive trade-offs, such as lower salaries, or living in towns or villages rather than in big cities.

To make it even harder, many of these entrepreneurs, driven by the desire for social impact, strive to create ambitious business models that truly push the boundaries of possibility. Our friends at Acumen, the pioneering impact investor, have described this quality as "moral imagination: the humility to see the world as it is, and the audacity to imagine the world as it could be". This can easily be seen in the number of businesses organized around *push products* that poor consumers can and should buy because it would improve their lives significantly, but that they do not readily demand (for more on this, see sidebar titled 'Push or Pull?'). It can also be seen in businesses that aim to improve livelihoods for poor farmers or artisans by encouraging them to cultivate unfamiliar crops or produce new types of handicrafts. These innovations, while enhancing the potential for positive social impact, compound the difficulties facing these firms.

LOOKING BEYOND THE PIONEER

One of the key implications of all this is the phenomenon of the *pioneer gap*, as we explained in *From Blueprint to Scale*, the report we published in 2012 in collaboration with Acumen. In it, we described how pioneer firms are being starved of the right capital and support at critical stages in their development: the *validate* stage, where their business models are refined and proven, and the *prepare* stage, where growth begins to accelerate as the conditions for greater scale are created.

PUSH OR PULL?

When marketing beneficial products to consumers, we have found it useful to distinguish pull products, which consumers readily desire and demand, from push products, which they do not. Clearly, push products and the companies that sell them face a tougher challenge in the marketplace and in moving towards scale.

In reality, products lie on a continuum between the extremes of push and pull, since consumers are not a homogenous population in one country or even one city, nor can their desires be characterized as simply present or absent. However, we can say that products exhibit stronger push characteristics when consumers do not recognize the problem the product aims to solve, or are not aware that the product solves that problem, or both. The more of a target consumer population this applies to, the stronger the push characteristics associated with a product. In addition, if consumers are unable to easily assess the benefits or reliability of the product before buying it, the challenge in the marketplace escalates.

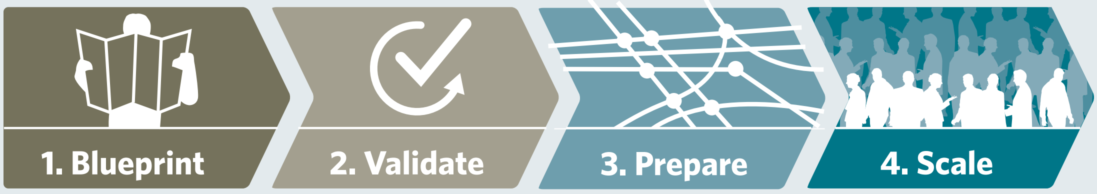
Many beneficial products have push characteristics. For example, clean cookstoves create significant health benefits for households because they emit less smoke than traditional cookstoves. However, because the severity of indoor air pollution's health effects is largely unrecognized by consumers, the health benefits of clean cookstoves are not appreciated. Safe drinking water faces similar challenges, particularly in areas where consumers are used to an existing source that is contaminated but does not look, smell or taste bad.

Another example is low-cost cataract surgery. While the loss of vision due to cataracts is a problem, there is no awareness in many communities that a simple surgical procedure could restore sight to those affected. Indeed, because deteriorating vision is often seen as a natural and inevitable aspect of aging, it may not even be intuitive in these communities to seek out solutions for this problem. In response, many hospitals providing such services run eye camps in rural villages to drive community awareness, diagnose problems and refer patients to treatment where appropriate.

THE PIONEER GAP

Monitor Inclusive Markets has identified the following four stages of pioneer firm development:

TABLE 1: Four Stages of Pioneer Firm Development



1. Blueprint

- Understand customer needs
- Develop initial customer proposition
- Develop business plan
- Develop core technologies and/or product prototypes

2. Validate

- Conduct market trials
- Test business model assumptions
- Refine business model, technologies and/or product as required

3. Prepare

- Stimulate customer awareness and demand
- Develop supply chains, upstream and downstream
- Build organizational capability to scale: systems, talent, plant

4. Scale

- Move into new geographies and segments
- Invest in assets and talent
- Enhance systems and processes
- Exploit scale efficiencies
- Respond to competitors

In the young field of inclusive business, most pioneers are still in the early *blueprint*, *validate* and *prepare* stages, so this is where disproportionate support is needed. Unfortunately, few impact investors seem prepared to do this: Monitor's Africa research in 2011 found that only six of the 84 funds investing in Africa or across regions offer truly early-stage capital.

This is entirely rational. In the *blueprint* and *validate* stages here, unlike in the case of angel or venture capital investing in mainstream business ventures, there is limited potential for outsized financial returns within a timeframe that is acceptable to investors (typically five to seven years) in order to compensate for greater early-stage risk and small deal sizes. In the *prepare* stage, where new categories or value chains are being created, the initial spending on market preparation may not be recouped by the firm and its investors because much of the benefit flows to new entrants, or to customers or suppliers.

How will promising inclusive business models get to these later stages where they become investable if no one will support them earlier on in their journey? **We call this critical gap in support the 'Pioneer Gap', and we believe that this is a key factor constraining the availability of investment opportunities for impact investors.** Unless we address this pioneer gap, impact capital will fail to achieve its potential as a catalyst of powerful new market-based solutions to the problems of poverty.

Excerpt from Koh, H., Karamchandani, A., and Katz, R., (2012) *From Blueprint to Scale: The Case for Philanthropy in Impact Investing — Executive Summary*, Monitor Group.

But even as we wrote two years ago about the pioneer gap with a strong focus on individual firms, we were aware that the firm itself represented only part of the picture. Our experience on the ground — as we have described in the introduction to this report — was that getting market-based solutions to real scale required us to look, think and act *beyond* the pioneer.

We mean this in two senses. **The first is that the scaling barriers are often not at the level of the firm itself, but in the industry ecosystem around it,** and the *prepare* stage calls for action on both kinds of barriers. For example, customer awareness may need to be created, or farmers taught how to plant new crops; last-mile distribution channels may need to be built from scratch, or onerous government regulations streamlined. In order to truly close the pioneer gap, we need to resolve *all* the barriers that are critically impeding growth, including the ones in the ecosystem.

The other sense is that we need to expand our focus from just building inclusive firms, to building inclusive industries. We believe that having a diversity of firms in an industry and healthy competition between them drives greater value for customers in the long run. Our keen interest in pioneer firms springs from their potential to break new ground, prove new models and create new markets so that other firms can follow in their footsteps and reach many more people. For instance, as we noted in 2012, Grameen Bank, the pioneer of the microfinance institution (MFI) model in South Asia, not only continues to serve millions of poor households in its own right, but has also contributed to the development of many other MFIs in Bangladesh, India and beyond, that serve many millions more.

WHAT IS AN INDUSTRY?

For the purpose of this report, we define an industry as a group of businesses related in terms of their core business activity (e.g., providing similar products to customers), organized around a common business model, and operating in the same geography (typically a country or a part thereof).

Therefore, we would consider microfinance institutions in India — based on joint-liability group lending, rapid disbursement of funds and funding by capital institutions rather than deposits — to constitute a distinct and coherent industry. However, we would not apply this to all financial services for the poor or even all microcredit providers in India, since that would include players operating substantially different business models such as community organizations providing microloans to self-help groups.

We have chosen this relatively narrow definition because it is the most meaningful level at which to approach scaling a market-based solution. Any given market-based solution typically involves a specific set of innovations relating to products for poor customers (or livelihoods for poor producers) and the business model that makes the delivery of these commercially viable, and operates under conditions specific to its context, which could be very different from country to country (or even between different parts of the same country).

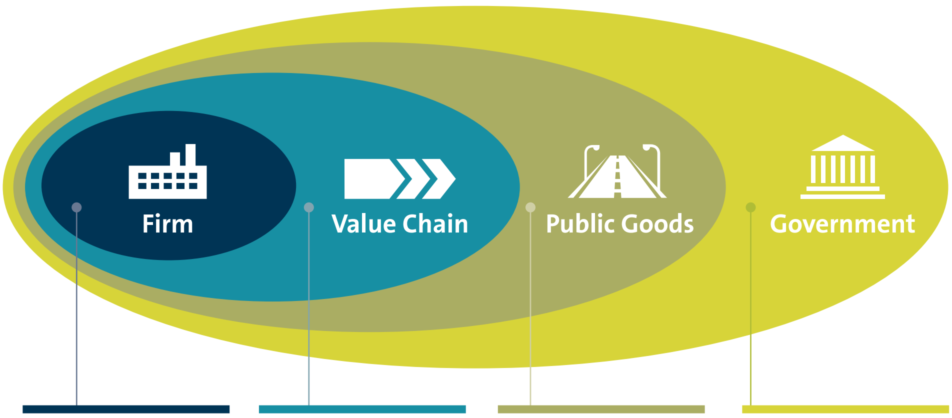
This perspective has important implications for those actors — impact investors, foundations, aid donors, even host governments — that are interested in scaling market-based solutions. It implies the need to start with an analysis that takes in the full range of scaling barriers that affect market-based solutions, both within the firm and in the ecosystem around it. It also implies that, where firms are unable to effectively address key scaling barriers themselves, we need to consider how we (or others) might be able to help them do so. And, importantly, if we do decide to act to address these barriers, we should take care to resolve them for all current and potential future firms in the industry, and not just for one firm.

Firms often face barriers, within the firm and in the ecosystem, that they cannot address alone

SCALING BARRIERS

What are these scaling barriers and how do they constrain the growth of industries that benefit the poor? As illustrated in Figure 1, we see potential barriers at four distinct but related levels: the firm itself, the industry value chain of which the firm is a part, public goods relevant to the industry, and governmental laws, policies and actions.

FIGURE 1: Scaling Barriers



Firm
- Weak business model
- Weak proposition to customers/producers
- Weak leadership
- Lack of managerial and technical skills
- Lack of capital

Value Chain
- Lack of suitable labor/inputs
- Weak sourcing channels from BoP producers
- Weak distribution channels to BoP customers
- Weak linkage between BoP producers and end demand
- Lack of financing for customers, distributors and producers
- Lack of support service providers

Public Goods
- Lack of customer, producer or channel awareness of new market-based solution and appreciation of its benefits
- Lack of market information and industry knowhow, e.g., customer insight, business models
- Absence or ineffectiveness of standards e.g. for quality
- Lack of hard infrastructure

Government
- Inhibitory laws, regulations and procedures
- Inhibitory taxes and subsidies
- Adverse intervention by politicians or officials

Source: Monitor Deloitte analysis

Firm and Value Chain

Most obviously, scaling barriers could lie *within* the firm itself. It may not have the leadership it needs to drive growth, or the managerial and technical skills needed to operate its business effectively as it grows. It may have developed a business model and structure that worked well when serving just a few hundred people, but cannot effectively serve thousands. And it may simply not have enough financial capital and other internal resources required to fuel its growth.

Value chain barriers range from missing distribution or sourcing channels, to lack of financing

Looking beyond the firm, we see potential scaling barriers in the industry *value chain*.

If the firm serves poor customers, distribution channels may not exist to take its products to its target areas and communities. For example, many innovative pharmaceutical products do not reach rural areas in developing countries because of the lack of well-developed pharmacy distribution networks. A firm may also find it difficult to source key inputs, such as specialized technical components, in a cheap and reliable way in the areas close to its customers. If the firm is engaging with poor producers, it may lack aggregation mechanisms to help it procure efficiently. For example, an agricultural marketing company in Ghana that sourced produce from thousands of smallholder farmers faced a considerable challenge in managing the logistics, as well as the contractual relationships in a fragmented environment. It was able to succeed once smallholders had been organized into 'farmer-based organizations' at the village, district and regional levels, but the scale of the challenge continued to increase as the firm sought to add more smallholders and move into new areas.

Access to finance can be a contributing factor to these problems. For suppliers, this could mean that they are unable to invest in additional capacity to serve firms' needs. For distributors, this could mean they are unable to carry more stock and are therefore unwilling to add novel product lines at the expense of existing ones. Meanwhile, customers' limited access to credit can make it difficult to finance purchases of durable goods that represent a significant proportion of a household's monthly income. For example, mainstream banks in South Asia are often reluctant to lend to poor households wishing to buy solar home electricity systems even though there is evidence that such systems tend to lead to substantial increases in household incomes. As a result, providers have had to facilitate bank loans or even provide credit for these customers in order to drive purchases.

Public Goods

Customers may not even be ready to buy these products, especially if the products are unfamiliar. Poor households have limited means and are economically vulnerable, which makes them highly risk averse; few will be in a rush to adopt innovative products, even if their use could bring significant benefits. Lack of awareness of new products, and appreciation of their value, could therefore be a key scaling barrier. This is particularly severe for push products. However, such awareness and appreciation is typically a *public good*,[1] because it benefits not only the pioneer but also all the other firms that enter the same industry.[2]

Lack of awareness of new products, and appreciation of their benefits is a key challenge

Another public good that is often lacking in these environments is hard infrastructure. Poor road networks, erratic power supplies, and patchy and unreliable telecommunications networks are common, especially in rural regions. While firms can sometimes overcome — or work around — these issues on a limited scale by choosing initial operating areas that have adequate infrastructure, the lack of wider availability of infrastructure makes it difficult for them to scale further.

Yet another potential public good deficit in this context relates to information and knowhow needed by the industry. There is typically a weak understanding of poor customers — where they live, what they desire, how they make buying decisions, how they use products, and so on — while wealthy customers are often well understood. Partly as a result of this, general knowledge of what works in creating and scaling a business to serve poor customers is also likely to be limited. Not only could this impede the growth of existing firms in the industry, it also makes it difficult to attract new entrants.

Absence of quality standards inhibits customers from distinguishing between high-quality alternatives from existing low-quality products

The lack of effective quality standards could also be a scaling barrier, because many inclusive business products are higher-quality alternatives to goods or services that the poor are already buying. For instance, poor households in many countries consult private medical practitioners and send their children to cheap private schools because of the dismal level of public provision. The problem is that consumers are unable to reliably assess the quality of the services they buy, particularly in areas such as healthcare and education where they often rely on poor proxies for quality (such as whether their child wears a uniform to school, or gets prescribed medicines at the clinic). As a result, high-quality providers may not enjoy the advantage they deserve in the marketplace. Conversely, high-quality product markets can also be spoilt by the entry of low-quality competitors. For example, we have observed how the early success of high-quality community water plants in urban slums

1 In economics, a 'public good' is a good that is both non-excludable and non-rivalrous. This means that individuals cannot be effectively excluded from use, and that use by one individual does not reduce availability to others. Common examples are fresh air, public domain knowledge and national defense. Our use of this term focuses on the non-excludable nature of public goods, and merges into this a class of goods sometimes referred to as 'common goods' (or common-pool resources), which are non-excludable but rivalrous: it could be argued, for instance, that physical infrastructure such as a road is rivalrous once usage (or consumption) exceeds a certain level. For the purpose of simplicity, we have used the term 'public goods' broadly to describe economic goods that are non-excludable, and may or may not be rivalrous.

2 The exception would be if a firm could erect high barriers to entry to deter other potential entrants, for example, through a proprietary technology that is protected (e.g., by a patent that can be easily enforced in a given jurisdiction) or exclusive control of critical distribution channels.

then attracts informal players with much less stringent quality standards; if left unchecked, this has the potential to devalue the entire community water plant model in the eyes of local consumers.

Government

Existing laws, regulation and procedures lack the flexibility needed for innovative firms

There is a further class of scaling barriers that relates to *government* actors, such as legislators and governmental (or quasi-governmental) agencies. The most obvious barrier comes from laws, regulations and procedures that inhibit the firm from operating its model easily, often because they are designed to regulate mainstream models rather than innovative ones.

For example, Indian law describes minimum standards for schools that include a ratio of one trained teacher to every 30 students, and the provision of playgrounds and libraries in every school. However, the limited supply of qualified teachers means that India is short by an estimated 1.2 million teachers,[3] and there is also a lack of suitable school premises. Innovative low-cost school models have delivered strong educational outcomes for poor children by working around these challenges: they use paraskilled classroom instructors rather than qualified teachers, and operate in temporary classrooms with few amenities. However, while such models may be able to operate locally with the approval of municipal or district government officials, their lack of compliance with national legislation represents a key barrier to widespread scaling across the country.

Government taxes and subsidies may represent another scaling barrier. For example, solar lighting products provide poor rural households with a safer and cleaner source of light than kerosene lamps. However, solar products in a number of African countries are subject to a range of taxes and duties, reducing their affordability and attractiveness in relation to kerosene, which is exempt from these levies and in some cases even benefits from government subsidies.[4] This uneven playing field makes it more difficult for solar lighting providers to scale.

Sometimes, official institutions may act outside of these established frameworks in ways that are adverse to pioneer models, particularly in countries with less developed governance systems. These may include actions to restrain the activities of the industry, or actions to support other, often incumbent, industries that pioneer firms are threatening to displace as they grow.

Observant readers will have realized that a conducive framework of government is also a public good for our industry. However, we believe that the nature, structure and dynamics of government institutions are so distinct from the market sphere inhabited by firms and other industry participants that it is worth highlighting them separately.

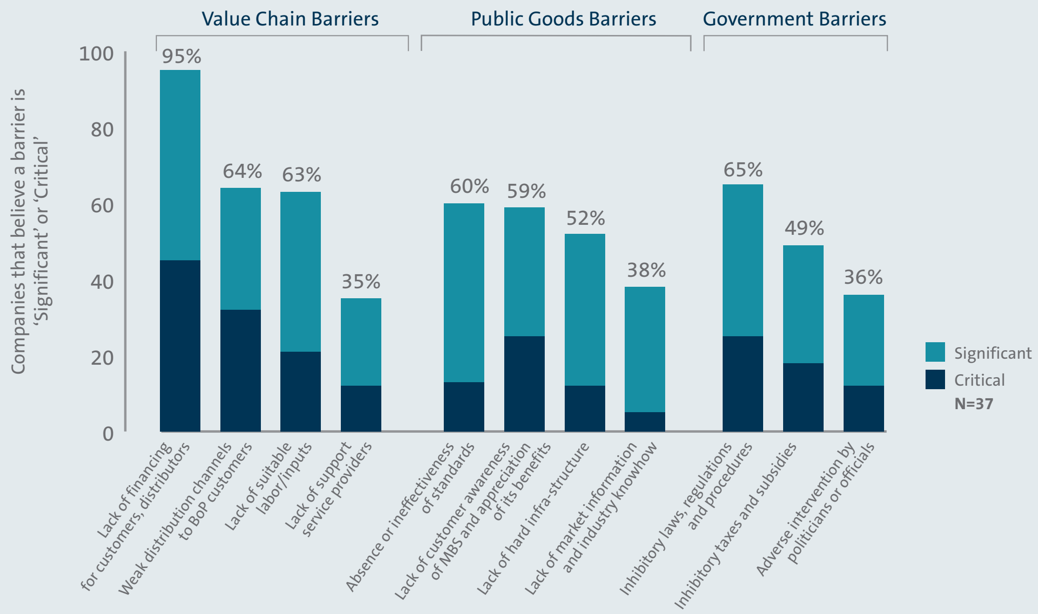
3 *Annual Report*, (2009-10) National Council for Teacher Education.
4 *Policy Study Report Note*, (2011) Lighting Africa.

WHAT FIRMS SAY

We surveyed more than 50 enterprises serving the poor across Asia, Africa and Latin America, in order to better understand the landscape of ecosystem scaling barriers facing these firms. All respondents reported that they faced one or more significant barriers (i.e., these barriers would significantly impede continued business growth). Moreover, four in five respondents said they faced one or more scaling barriers that were affecting them critically, meaning that they would be unable to grow their business further without removing or mitigating these barriers.

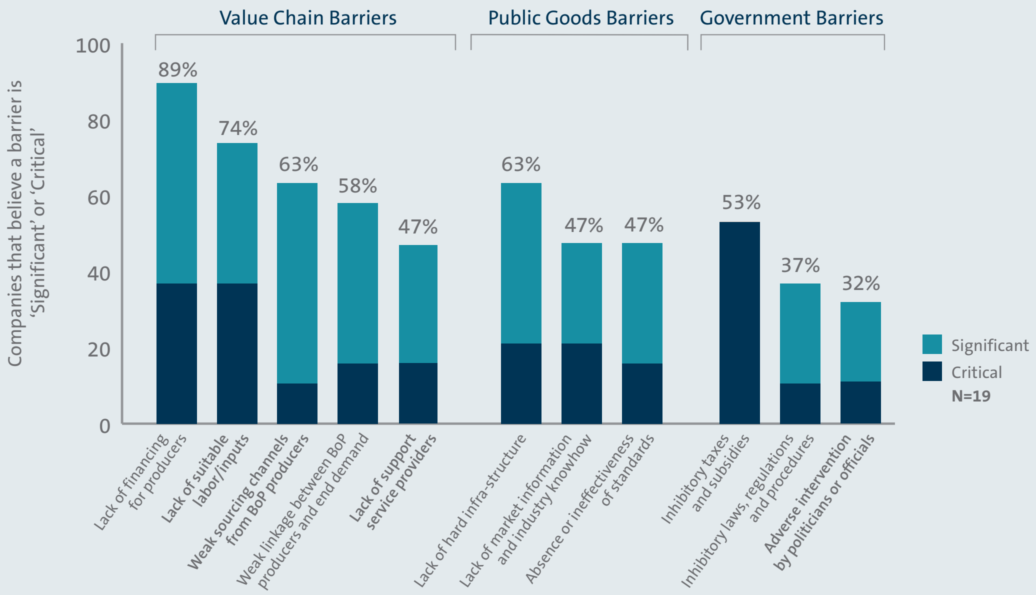
Figures 2 and 3 below show the wide range of scaling barriers reported by these businesses.

FIGURE 2: Significant and Critical Barriers for Firms Engaging Poor Consumers



Source: Monitor Deloitte survey of social enterprises

FIGURE 3: Significant and Critical Barriers for Firms Engaging Poor Producers



Source: Monitor Deloitte survey of social enterprises

ENTER THE INDUSTRY FACILITATOR

In short, while innovative firms are the key to driving market-based solutions, many scaling barriers lie in the wider business ecosystem beyond the firm.

Moreover, most of these barriers are difficult for firms to resolve on their own. In many cases, firms simply lack the resources to do so: they may lack capital to provide the necessary financing to their distribution channels, or the political access required to influence government policymakers. Even when they do have adequate resources, a firm may choose not to do so. This is most easily seen with public goods barriers because the benefits of public goods are, by definition, enjoyed by the whole industry so an individual firm is not incentivized to take action to try to solve these problems — this is commonly known as the free rider problem. And while collective action on such barriers might be the ideal solution, firms' competitive instincts and lack of trust in each other tend to get in the way of such cooperative efforts.

The question arises: if firms cannot do this on their own, who will?

Our experience on the ground and research into numerous other cases of scaling market-based solutions suggest that one or more facilitating bodies — typically actors that are not themselves participants in the industry — can play a vital, catalytic role in addressing this problem. **These *industry facilitators* act to resolve scaling barriers, at the levels of both the enterprise and its wider business ecosystem, to the benefit of many firms, not just one.**

Industry facilitators can play a powerful role in shaping ecosystems to maximize the full potential of inclusive business models

To see the work of industry facilitators, one needs to look no further than the impressive growth of the MFI industries around the world. Peer behind the star performances of the BancoSol and PRODEM in Bolivia, and you will see the concerted facilitation efforts of Accion, a global nonprofit headquartered in the United States. In India, the spectacular growth of companies like SKS and Spandana in the ten years to 2007 owed much to the commitment of facilitators like the Small Industries Development Bank of India (SIDBI), a local development finance institution, and the Department for International Development (DFID), the United Kingdom's official development assistance agency. At a global level, too, facilitators like the World Bank's Consultative Group to Assist the Poor (CGAP) played a role in developing and disseminating the critical knowhow that allowed the MFI model to spread far and wide.

Similar stories have played out in numerous other industries and countries, with industry facilitators working, sometimes quietly behind the scenes.

To name but a few:

- In Tanzania, mobile money services from companies including Vodacom and Tigo have scaled to nearly ten million active customer accounts,[5] accelerated by the facilitation efforts of the Bill & Melinda Gates Foundation and the Financial Sector Deepening Trust Tanzania.
- In Bangladesh, companies like Grameen Shakti have sold and installed over 2.6 million solar home lighting systems, supported by a comprehensive facilitation program run by IDCOL.[6]
- In Rwanda, cooperatives producing specialty coffee have scaled to reach a third of the country's smallholders, improving their income by 75% on average,[7] assisted by a number of facilitation initiatives launched by the United States Agency for International Development (USAID).
- In Ghana, clean cookstove manufacturers Toyola Energy and Man & Man Enterprises have reached more than 320,000 households,[8] thanks in part to the work of facilitators such as EnterpriseWorks/VITA.
- In Myanmar, the Sun Quality Health model for improved reproductive health services delivers over two million consultations a year through 1,200 franchised doctors across the country,[9] facilitated by Population Services International.

However, the point of this is not to take credit on behalf of industry facilitators; indeed, it is difficult to attribute success in instances of industry growth to any one party. Rather, it is to try to understand what both firms and facilitators *contributed* to such successes. Who were the actors involved? What barriers did they face and how did they work to resolve them? What were the results and what seems to have been the key to achieving this?

Our aim is to try to understand what both firms and facilitators contributed to successful scaling

To answer these questions, we took a case study approach, diving deep into a small number of cases so that we could really understand what had happened in those industries and markets, but at the same time recognizing the diversity of industry situations: facilitating producer business models would likely be very different from facilitating consumer ones, and working with established corporations very different from supporting smaller entrepreneurial enterprises.

5 Bank of Tanzania.
6 Infrastructure Development Company Limited (IDCOL) website, retrieved March 2014 from http://www.idcol.org.
7 Oehmke, J., Lyambabaje, A., Bihogo, E., Moss, C., Kayisinga, J., and Weatherspoon, D., (2011) *The Impact of USAID Investment on Sustainable Poverty Reduction among Rwandan Smallholder Coffee Producers: A Synthesis of Findings*, retrieved March 2014 from http://www.jfoehmke.com.
8 *Ghana Market Assessment — Intervention Options*, (2012) Accenture Development Partnerships and Global Alliance for Clean Cookstoves.
9 Center for Health Market Innovations website, retrieved March 2014 from http://healthmarketinnovations.org/program/sun-quality-health-network-myanmar.

The next three chapters focus on the journey of industries to scale, and we have chosen three primary cases, across a diversity of situations, that have achieved impressive scale.

In Chapter 2, we look at microfinance institutions in India up to 2007 (a consumer model led by entrepreneurial nonprofits that evolved into commercial firms). We also wanted to consider the additional challenge where consumer products have strong push characteristics, so we examined the clean cookstoves industry in India, where the industry is still developing and facilitation efforts are on-going.

In Chapter 3, we look at mobile money in Tanzania (a consumer model led by established corporations), and in Chapter 4, we examine smallholder tea in Kenya (a producer model led by a parastatal with international development finance investors).

But does the work of industry facilitation end once an industry is at a high level of scale? Are there new challenges that industries must face and what should be done to support them? To better understand the implications for firms and facilitators of being at scale, we also put the later-stage experiences of the Indian MFI and Kenyan smallholder tea industries under the microscope. The results of these are shared in Chapter 5.

OUR CASE STUDY APPROACH

The case study approach is particularly suitable here because of the complex nature of the situations we are investigating: any industry's outcome is shaped by the actions and contributions of many actors, including but not limited to the firms themselves. (For more on assessing contribution rather than attribution, see Chapter 6.) As such, we delved deep into relatively few cases, rather than skim the surface of many. These cases have been identified from our past research as well as expert interviews conducted at the outset of the project leading to this report.

Each key case study has been produced following an intensive research exercise typically involving dozens of primary research interviews and site visits, analysis of documents and other information provided by the key actors in the case, and review of existing literature and other information available in the public domain. All this is required because it is in the nature of case studies — and, indeed, any historical analysis — that accounts of the past will vary significantly from actor to actor, and from observer to observer. Therefore, what we are sharing in this report can only be our best view of the facts of each case and our interpretation thereof.

SCALING WITHOUT INDUSTRY FACILITATION

Not all industries need substantial facilitation in order to scale. One well-known exception is the meteoric rise of mobile money in Kenya in the form of M-PESA that has been driven by the mobile network company Safaricom, helped by an initial grant from DFID in the *validate* stage to test and refine the model. But Safaricom was blessed with exceptional advantages: it dominated the Kenyan mobile voice and data industry with over 80% market share, and had strong influence over its distribution channels. Kenya itself had well-developed bank branch networks to support mobile money agents, and the established practice of urban-rural remittances combined with a paucity of good existing solutions provided a ready 'killer app' for the service. These factors provided a uniquely favorable context for scaling. As we will see in Chapter 3, different conditions in Tanzania resulted in a more challenging path to scale, and one that required industry facilitation to succeed.

Another well-known exception is the low-cost cataract surgery model pioneered by the Aravind Eye Care System in Tamil Nadu, India. A number of scaling barriers have had to be addressed in the model's journey to scale, but these have been done by the firms themselves, albeit with the help of philanthropic funding: for instance, Aravind has run rural outreach camps to drive awareness and has set up its own venture to manufacture low-cost intra-ocular lenses. In some ways, Aravind is taking on the role of an industry facilitator, having established a unit called LAICO to help others replicate its model and a research institute to generate an improved evidence base for advocacy with stakeholders. Certainly, Aravind's success stands testament to the strength of its model and the value of its service, but it must also be recognized that the firm took a long time to reach significant scale: it took 22 years from inception for the firm to cross the one million mark in cumulative cataract surgery procedures.[10]

10 Srinivasan, A., *A Global Business Bridge: Linking Kentucky & India*, presented at Gatton College of Business & Economics, retrieved March 2014 from: http://gatton.uky.edu/GBB/Downloads/session1.ppsx.

2 Getting to Scale: Consumers and Entrepreneurial Firms

In this chapter, we examine the journey to scale for industries where entrepreneurial firms are serving poor consumers, by taking an in-depth look at two cases in India. One, the MFI industry up to 2007, is a historical case involving a pull product that has already achieved large scale. The other, the clean cookstoves industry, is an on-going case that illustrates the greater challenges that come with push products.

CASE STUDY: MICROFINANCE INSTITUTIONS (MFIS) IN INDIA

Meena, the young loan officer, does her weekly roll call with a group of borrowers in a small village in the Indian state of Karnataka. The women hand over their repayments to her, and she systematically enters them into her repayment log. The amounts are small, typically between $3 and $4, but these loans have helped some women to become self-sufficient.

"Everything I have, I invest," says 30-year-old Savitri. Her village kirana store sells everything from small sweets to shampoo sachets. Started three years ago with a $60 loan, it has since grown steadily. As the meeting draws to a close, Savitri tells Meena that she would like to take out another loan to add more products to her store, just in time for the festive season. "It's my own business," Savitri says with a smile. "It is hard work, but at least it's mine."

In 1983, a university professor by the name of Mohammed Yunus established the Grameen Bank in Bangladesh. Its objective was to provide poor people with small loans on easy terms. In doing so, Yunus was able to demonstrate how microcredit could be used as a tool not only for survival, but also to harness the entrepreneurial spirit of the poor and help them to emerge from poverty. Primarily targeted at women, the Grameen Bank microfinance institution (MFI) model leverages peer solidarity to provide microloans with no collateral.

In the India of the early nineties, hundreds of small non-governmental organizations (NGOs) were working to help the rural poor step out of poverty through livelihood training and income generation projects. However, it was becoming increasingly clear that lack of credit was a critical stumbling block. The Self-Help Group (SHG) model promoted by the National Bank for Agriculture and Rural Development, a development bank owned by the Government of India, was one way for the poor to get small loans, but it was unable to meet the vast needs of India's population. Another solution was desperately needed.

In 1992, Friends of Women's World Banking (FWWB) took the leaders of a number of Indian NGOs working on rural livelihoods on a study tour to Bangladesh to learn about the Grameen model. Inspired by what they saw, these entrepreneurs began to experiment with implementing the MFI model upon their return. Years of painstaking iteration in Bangladesh had produced a good model, but this was tweaked in India to make it even easier and faster to scale: the Indian model allowed women who were not SHG members to access microloans by creating groups purely for borrowing, and significantly compressed the elapsed time between group formation and loan disbursement.

India's history of Self-Help Groups meant that customers were familiar with group finance

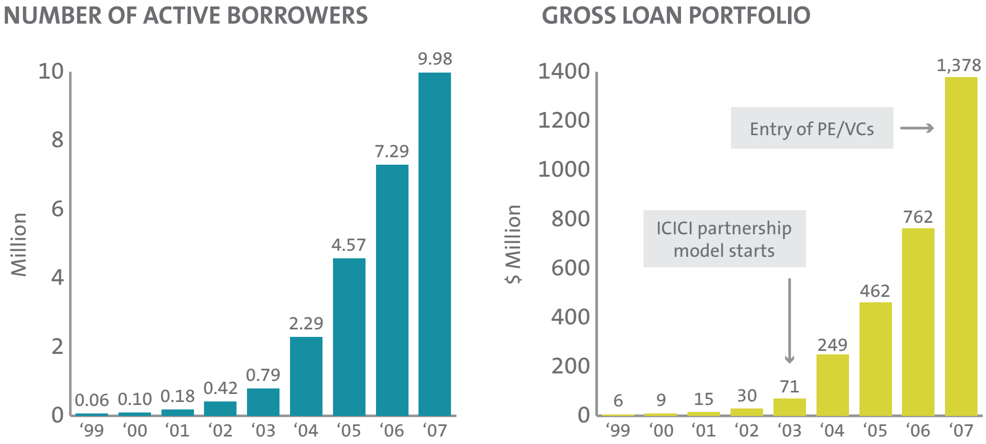
These first Indian MFIs launched themselves into a ready marketplace: the long-standing prevalence of SHGs in India had already ingrained the concept of group finance into borrowers' minds, so the product was easily explained to customers. Meanwhile, the demand for credit was strong: in 1994, it was estimated that the total credit need of the poor that year was approximately $12 billion.[11] Because formal institutions did not serve them, the poor were largely dependent on informal providers like moneylenders, who charged usurious interest rates. MFI loans offered a very appealing alternative.

Armed with a simple model and facing ready demand from rural borrowers, the industry grew rapidly. By 2007, just 15 years after the Bangladesh study tour, the industry had achieved impressive scale: a total of 78 MFIs were registered with the Microfinance Information Exchange (MIX), serving nearly ten million active borrowers, with a combined gross loan portfolio of almost $1.4 billion.[12] But how did this

11 Mahajan, V., Gupta Ramola, B., and Titus, M., (1994) *Dhakka: Starting Microfinance*, BASIX.
12 Microfinance Information Exchange website, retrieved March 2014 from www.mixmarket.org.

happen? Even with such favorable market conditions, the industry must have faced significant challenges. How did it transition from being a clutch of experimental programs to become a large commercial industry? How did the heads of those small grassroots NGOs turn themselves into captains of huge lending businesses fueled by commercial capital? And how did all that capital find its way to MFIs, at a time before concepts like 'impact investing' existed? As we dug deeper, we found that the story of scaling Indian microfinance was not a simple one. It had a wide cast of actors, each of whom played a critical role to help the MFIs move along their path to scale.

FIGURE 4: Development of the MFI Industry in India (1999-2007)



Source: Microfinance Information Exchange (MIX) market data; Monitor Deloitte analysis

Building the Microfinance Sector from 1998 to 2005

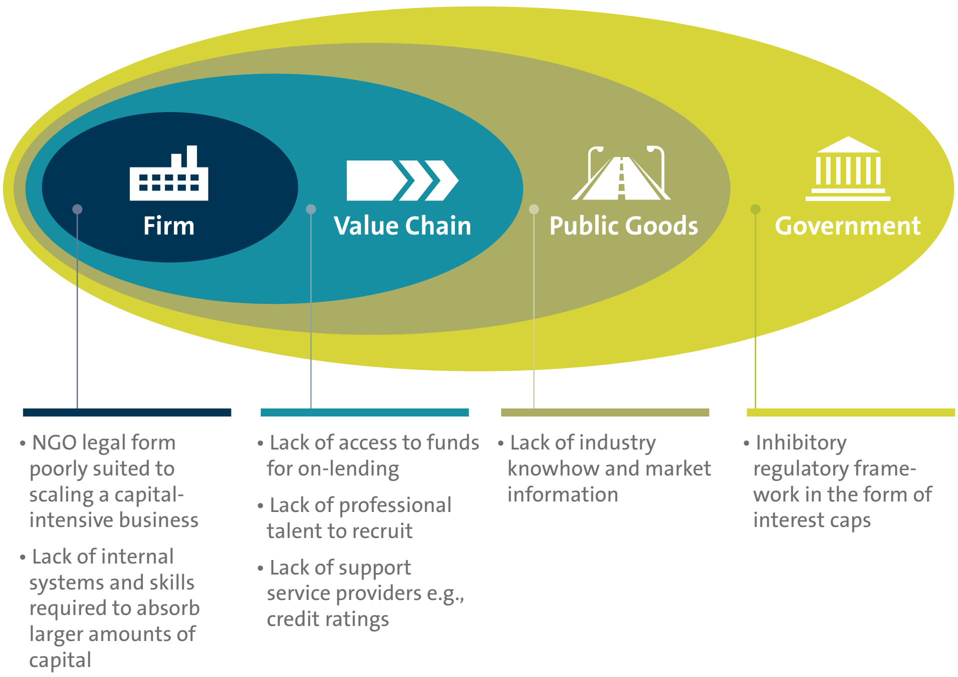
In the early nineties, many NGOs with livelihood programs had started making microloans to rural entrepreneurs, mostly women. The Small Industries Development Bank of India (SIDBI) had been supporting over 80 such organizations to develop their micro-lending operations through its development fund, with the expectation that these lending programs would eventually grow to become sustainable financial businesses. However, growth was slow. SIDBI was frustrated that the organizations' lack of systems and legal structures meant that they could not scale, and it realized that it needed to overhaul its initiative in order to achieve the aim of a vibrant Indian industry.

In 1998, the UK development agency DFID partnered with SIDBI to launch a comprehensive seven-year effort to scale the Indian MFI industry, called the National Microfinance Support Program.[13] Grant funding came from DFID ($26.5 million) and SIDBI ($23.5 million). The International Fund for Agricultural Development provided a soft loan of $22 million for on-lending purposes. The frontline facilitation role was to be undertaken by a newly created unit within SIDBI, known as the SIDBI Foundation for Micro Credit (SFMC), and the first priority of the initiative was to enhance the institutional capacity and effectiveness of this unit. Following this, it aimed to:

- Support a large number of MFIs to help the industry significantly scale
- Enhance the involvement of formal financial institutions in providing financial services
- Strengthen the supporting infrastructure for MFIs, including capacity-building institutions and trainers, and
- Influence the policy environment by supporting studies, workshops, action research and providing support to MFI networks.

A comprehensive and systematic seven-year effort to scale the Indian MFI industry was launched

FIGURE 5: Scaling Barriers for MFI in India



Source: Monitor Deloitte analysis

13 BASIX, the first non-bank finance company in the microfinance sector in India, provided consulting support to DFID and the International Fund for Agricultural Development in developing the program.

The challenges facing the Indian MFI industry went beyond capital, as firms required capacity building in order to scale

Around the same time, FWWB was also actively supporting MFIs by helping entrepreneurs — particularly those in new, unserved areas — to develop their business plans, and giving them demonstration loans to help them operationalize their businesses.[14] In some cases, they would provide the initial loan to a new business, and SFMC would then step in with a second, larger loan as the business grew. SFMC also provided wholesale funds and capacity-building grants to FWWB to work with young organizations that were too small for them to work with directly. But the challenge went beyond capital alone: these firms found it difficult to grow because they lacked the technical and managerial skills (such as accounting and portfolio management) they needed in order to absorb more capital. In response, SFMC contracted EDA Rural Systems to deliver training programs to industry leaders and their staff. EDA became a training partner of the World Bank's Consultative Group to Assist the Poor (CGAP) and adapted CGAP's materials to develop the India-specific training modules that were required.

A series of important workshops in 1998 — organized by SFMC, FWWB and the Bankers Institute for Rural Development, and attended by MFI industry leaders — began to lay the foundations of the industry. A policy paper entitled *Dhakka*:[15] *Starting Microfinance in India* was produced. This went on to become a common reference point for the development of the industry, especially on public policy issues. The workshops also discussed key scaling barriers. One such barrier was the interest rate cap that stood in the way of MFIs' commercial viability. This government cap on interest rates — had been intended for small bank loans of less than $4,000 but was now being applied to MFIs, making the model unsustainable without grant subsidies.[16]

The early leaders in the industry saw an urgent need to lobby the central bank — the Reserve Bank of India (RBI) to amend this policy, and moved to establish an industry association that could function as an effective advocate. As a result, Sa-Dhan was incorporated in July 1999 as an industry association for all community development finance institutions including MFIs.[17] Sa-Dhan went on to play a critical role as an advocate for the MFI industry, one of its first moves being to lobby — successfully — for the removal of the interest rate cap on MFI lending.

Now the MFIs needed access to finance, but the banks were reluctant to lend to these new and unfamiliar businesses. Industry leaders saw an opportunity to

14 FWWB's efforts were supported by a number of funders, the largest being USAID, which provided $13.5 million in grant funding between 2001 and 2006.

15 The word '*dhakka*' means 'push' in Hindi, and was used to indicate the aim of push-starting the industry.

16 Loans below $4000 were subject to an interest rate cap that was in line with the banking institutions, prime lending rate, which varied by bank.

17 The founding members of Sa-Dhan included SEWA, BASIX, FWWB, MYRADA, Dhan Foundation, RGVN, SHARE and PRADHAN.

encourage the banks by piggybacking on the existing Priority Sector Lending (PSL)[18] mandate from the Reserve Bank: if lending to the firms could count towards PSL requirements, banks would have stronger incentives to lend to them, leading to greater access to funds and lower borrowing costs. In response to vigorous lobbying from industry leaders, a special task force headed by the Chairman of the National Bank for Agriculture and Rural Development considered this question and recommended that MFIs should be covered by PSL, a recommendation that was then accepted by the central bank. To encourage banks to start lending to the industry, SFMC supported the creation of a specialist MFI debt rating service provider called M-CRIL, provided grants to the firms to get themselves rated, and allocated resources to the marketing of the opportunity to commercial banks. In spite of all of this, banks continued to show no interest in the industry for four more years.

In 2002, however, ICICI Bank merged with two of its wholly owned retail finance subsidiaries.[19] An unintended outcome of this move was to dramatically increase the bank's absolute PSL target. Nachiket Mor, a Board member of the bank at the time, realized that a new solution was needed quickly to avoid the bank missing its target. Having a keen interest in financial inclusion, he took a closer look at the MFIs. The industry was still young and unproven, and poorly capitalized, but its growing capital needs and newly available M-CRIL ratings potentially offered a neat answer to the bank's PSL challenge. In 2003, ICICI launched its innovative 'MFI partnership model',[20] which allowed MFIs to expand their lending activities without growing their own balance sheets. The results were dramatic: between 2003 and 2006, the bank extended $55 million in loans to the clients of 30 MFIs. ICICI's move opened the floodgates: other banks like HDFC Bank and ABN Amro began to explore opportunities and later started lending to the industry.

ICICI's capital infusion under the partnership model resulted in dramatic growth for MFIs

As a result, industry growth accelerated. But the management teams of these firms did not have the necessary skills to operate multiple loan books across different product lines, nor did they possess management information systems that were effective at large scale. SFMC continued to play a strong role in capacity building on these fronts, by helping firms access the services of support service providers like software firms and accountants. EDA Rural Systems developed more modules to meet the evolving needs of the industry. The expansion of the sector also meant an increasing need for human capital. Encouraged by SFMC and others, a number of the premier business schools in India began to teach courses on microfinance to help grow the pipeline of talent needed to meet the managerial needs of these firms.

18 Priority Sector Lending (PSL) is a mandate from the RBI requiring that a defined minimum proportion of bank lending should be to priority sectors like agriculture or small-scale industries.

19 The two subsidiaries were ICICI Personal Financial Services Limited and ICICI Capital Services Limited.

20 Under the partnership model, the loan contract is directly between the bank and the individual borrower, who is an MFI client; the MFI services the loan throughout its tenure but does not hold it on its balance sheet. Essentially, the MFI acts as a field operations agency, both disbursing loans and collecting repayments from borrowers. This model separates ultimate borrower credit risk from MFI business risk, since theoretically the bank is still able to collect on client loans through another agency, even if the MFI itself fails. It also reduces the regulatory capital requirement for MFIs, which has crucial implications on ratings, pricing, and marketability.

The final barrier to scale was the legal form of the MFIs themselves: as nonprofit Section 25 companies, they could not receive equity investments that could improve their capitalization and enable them to borrow a much greater level of funds directly for on-lending. The solution was clear: MFIs could turn themselves into for-profit Non-Banking Financial Companies (NBFCs) so that they could receive equity investment and raise debt funding easily from mainstream lenders. Once again, SFMC stepped up to help: in 2003, it began to provide 'transformation loans' — five-year interest free loans that would turn into equity if the MFIs met pre-agreed performance conditions — to support the MFIs in setting up and capitalizing their new NBFC entities. All in all, SFMC provided $22.9 million in funding to the industry for this purpose.

SFMC's transformation loans enabled MFIs to become NBFC entities and receive equity capital

By 2005, many MFIs had become NBFCs. This enabled equity investment to flow in from impact investment funds including Bellwether, Lok Capital and Unitus, funds that were in turn capitalized by the likes of Omidyar Network, Legatum, Gray Ghost, Hivos Triodos, and the Rockefeller Foundation. Before long, the sector was attracting the interest of mainstream investors, including venture capital firm Sequoia Capital, which were increasingly convinced of the commercial potential of the industry: it seemed that C.K. Prahalad's promise of a "fortune at the bottom of the pyramid"[21] was finally coming true.

By the end of 2006, the number of active MFI borrowers stood at 7.3 million and the combined gross loan portfolio at $772.4 million,[22] and the three biggest firms — SKS, Spandana and SHARE — had the prospect of initial public offerings of shares on the horizon. In the same year, recognizing the impressive scale and reach of MFIs around the world, the Norwegian Nobel Community awarded their Peace Prize to Mohammed Yunus and Grameen Bank. The industry was now squarely on the world stage.

MFI AFTER 2007

Of course, the story of Indian MFIs did not end in 2007, and many readers will be aware of severe setbacks suffered by the industry in recent years. Because these relate to the challenges of being at scale, rather than the challenges of getting to scale, we will cover these developments in Chapter 5.

21 Prahalad, C.K., (2006) *Fortune at the Bottom of the Pyramid: Eradicating Poverty Through Profits*, Dorling Kindersley.
22 Microfinance Information Exchange website, retrieved March 2014 from www.mixmarket.org.

TABLE 2: Summary of Key Barriers and Interventions in Indian MFI (1998–2007)

PRESENTING PROBLEM	RELATED SCALING BARRIERS	FACILITATOR INTERVENTIONS
MFI growth constrained by grant funding due to unprofitable model	Weak model scalability Inhibitory interest rate cap imposed on MFIs	• Creation of Sa-Dhan as an industry association for community development finance institutions (including MFIs) to advocate and liaise with government • Removal of interest-rate cap through successful advocacy by Sa-Dhan and MFI industry leaders
MFIs faced a shortage of funds with which to grow lending to clients	Mainstream lenders unwilling to lend to MFIs Lack of support service providers for ratings	• Seeding of M-CRIL to provide a standardized rating service for MFIs • Grants to MFIs to get M-CRIL ratings • Advocacy with policymakers to formalize MFI as a part of Priority Sector Lending • Advocacy with banks on the MFI opportunity • 'Transformation loans' to help MFIs change form, from NGOs to non-bank finance companies
MFIs lacked the capability and capacity to run larger businesses	Lack of systems and skills Lack of support service providers (for training) Lack of industry knowhow Lack of professional and managerial talent	• Appointment of EDA Rural Systems to develop training content tailored to Indian needs • Training for MFIs on improving managerial and technical systems, and other technical assistance • Advocacy with professional institutions to provide microfinance-related courses for the development of talent

LESSONS

The journey of the MFI industry illustrates four key lessons on how market-based solutions get to scale and how industry facilitators can help:

1 Get the model right for scale.

Fundamentally, much of the success or failure of any model is still determined at the level of the enterprise: its products, its business model, and its structure, resources and capabilities.

MFI loans, as with many other credit products, have always been a relatively easy product to sell. Poor households in India were used to borrowing from moneylenders, which charged much higher rates than MFIs. Many households, particularly in Andhra Pradesh, were also already familiar with group borrowing through the SHG model and so were immediately receptive to the MFI proposition. Moreover, Indian MFIs tweaked the original Grameen model to make it even easier and faster for borrowers to access, and therefore more scalable.

The MFI industry also benefited from being built on the foundations of the community development and SHG 'industries' in other ways, including the presence of strong leaders with established networks, and a ready pool of human capital with many of the right skills. As the industry developed, its business model evolved to become more scalable: MFIs that started out as NGOs transformed into NBFCs and developed improved business capabilities, in order to attract and effectively deploy much larger amounts of capital.

2 Resolve barriers for the whole industry.

On-the-ground industry facilitators such as SFMC and FWWB played a critical role in developing the industry, by helping to resolve scaling barriers. They channeled significant funds into the MFIs, together with advisory and other capacity-building services: these helped the MFIs to grow and evolve as the industry developed. Importantly, facilitators worked to develop the whole industry, not just one or two players; their direct funding and support programs eventually served hundreds of MFIs, creating a vibrant, competitive industry.

Industry facilitation also helped firms to resolve collective action problems that prevented them from effectively addressing barriers, such as by helping key industry players to establish Sa-Dhan and then advocating successfully for the removal of the government's interest rate cap.

Industry facilitation does not always act directly on the barrier it is trying to resolve. Successfully lobbying for the extension of the PSL mandate to cover MFIs was an ingenious move, creating an incentive for banks to fund a young industry that otherwise might never have garnered much interest. While the lack of funds to on-lend is a *value chain* barrier (since these funds are the key input into MFIs' businesses), the solution lay in stimulating change at the level of *government*.

3 Step into a role that fits.

In order to be effective, industry facilitators need to tailor the roles they choose to the strengths they bring, and recognize when others bring complementary strengths — it is too easy to fall into the trap of thinking that we must resolve all challenges on our own. SFMC and FWWB both had a strong on-the-ground presence, allowing them to work effectively with a large number of MFI organizations. Indeed, FWWB, because of its heritage in working with grassroots organizations, was particularly effective in supporting smaller and earlier stage MFIs. So it focused on working with those companies, many of whom would then transition to support from SFMC when they were more mature. But these players also recognized their own constraints. For instance, SFMC brought in specialists to meet specific needs, such as EDA in training and, where appropriate, seeded new players, like M-CRIL in ratings, rather than attempt to respond to all needs on its own. Meanwhile, Sa-Dhan, a permanent industry association, was uniquely placed to put across a united voice advocating the interests of the industry with government, and to work with all the firms to gather and disseminate much-needed market information.

DFID played a key role in shaping the development of the industry, but it too was careful in choosing a role for itself. It did not have a large field team that it could dedicate to the MFI work, and so could not be a frontline facilitator working directly with the companies. But it did bring funding that allowed it to support the work of other frontline facilitators, and a position of influence that enabled it to shape an overall agenda for industry development with those other players. Its unique position also allowed it to convene the many actors working across the industry, and in doing so facilitated information sharing and collaboration between them.

4 Commit *and* adapt.

Industries take time to scale, which suggests that facilitators should prepare to remain committed over long periods of time. Even with a product with strong pull characteristics like microloans, the industry took 15 years to go from its humble beginnings in community organizations to becoming a scaled industry attracting mainstream commercial capital. The sustained commitment of both key organizations and key individuals was an essential contributor to the success of the industry.

However, industry facilitation is necessarily adaptive, because markets are complex, dynamic systems that will evolve in unpredictable ways over these long timeframes. In the case of the Indian MFI industry, while DFID and SFMC were unwavering in their pursuit of greater scale for the model, they were able to adapt their approach on the ground over time in response to new needs and challenges, and new opportunities. In order to do this, industry facilitators need to closely track developments on the ground and review their approach, revisiting their initial analyses and plans if necessary.

CASE STUDY:
CLEAN COOKSTOVES IN INDIA

It is noon and Chinnamma is preparing the day's meal. She squats beside her preparation of lentil curry inside her mud hut in a village outside Shimoga in Karnataka, India. Chinnamma has no access to electricity. "Before, when I used to cook, I couldn't keep my son near me. The whole house would become filled with smoke and he would start coughing and crying," explains Chinnamma. She switched from her stone 'chulha'[23] *to an Envirofit stove after learning about it at her weekly MFI meeting. "I bought this stove two months ago with a microfinance loan. It looks nice and my house isn't full of smoke when I cook now. And my son no longer coughs."*

Customers do not readily appreciate the benefits of clean cookstoves

Not all markets will be able to replicate the path to scale demonstrated by the MFI industry. Loans to credit-starved poor households, at much lower rates of interest than moneylenders, find a ready market — it is what we call a *pull* product that most target customers readily demand.

Push products are different. Customers do not readily perceive the need for these products as they are unaware of the problem, solution, or both. Often, even if they are aware of the problem, they are unable to easily try out the new solution to understand its value proposition, leading them to make do with established, inferior solutions.

Clean cookstoves (also known as clean-burning, improved or advanced cookstoves) are a clear example of a product exhibiting clear push characteristics. To begin with, most customers are unaware of the problem of indoor air pollution. So, not only is the value of clean cookstoves not clearly and readily apparent to target consumers, but using these products also often involves changes to established cooking practices in the home.

23 '*Chulha*' is Hindi for stove.

Clean cookstoves are a solution to indoor air pollution (IAP). Cooking for the family can be a dangerous occupation for poor people in many developing countries. Exposure to harmful fumes from cooking with wood and other biomass fuels is the leading cause of environmental death in the world, causing almost as many annual deaths as malaria and tuberculosis combined. Women and children are the main victims, as they spend the most time indoors. All in all, it is estimated that four million premature deaths a year result from exposure to smoke from cooking.[24]

However, in spite of these benefits, clean cookstoves have seen slow adoption in India. While there is a high level of social need — more than one in ten IAP-related deaths globally happen in India — these health impacts (and therefore the health benefits of clean cookstoves) are not recognized by poor households in India. Most poor Indian households gather their own fuel and so do not see any cash savings from reduced fuel usage. Indian households are also accustomed to fixed stoves rather than portable ones, and the women who use the stoves tend to have little say in purchasing decisions for household durables. Moreover, the sheer diversity of cuisines, cooking methods and biomass fuels across India makes it difficult to develop and sell a single product line that meets a broad spectrum of consumers' requirements.

These market conditions are very different from those in, say Ghana, where firms such as Toyola Energy and Man & Man Enterprises have seen strong growth.[25] In Ghana, households tend to buy their cooking fuel, typically charcoal, and therefore see significant savings from using more efficient stoves. Relative to India, portable stoves are also more established and women are more influential in household purchasing decisions, as in a number of other African countries.

Indian market conditions make clean cookstoves a harder sell than in Ghana

As a result of these challenges, decades of initiatives focusing on clean cookstoves in India — led by government, NGOs, international donors and even multinational corporations — have not succeeded in driving widespread adoption.

Shell Foundation and Clean Cookstoves in India

In 2002, Shell Foundation decided to step into this challenging area of work as an industry facilitator through its global *Breathing Space* program (now part of its *Access to Energy* program). From 2003 to 2007, the Foundation funded and ran nine pilots across seven countries[26] with a number of IAP-focused NGOs primarily to understand different stove technologies, fuels, cultural differences, customer behavior, business models, and scaling barriers. In India, there were two pilots with ARTI and Development Alternatives, both of which had been part of an earlier government cookstoves program.

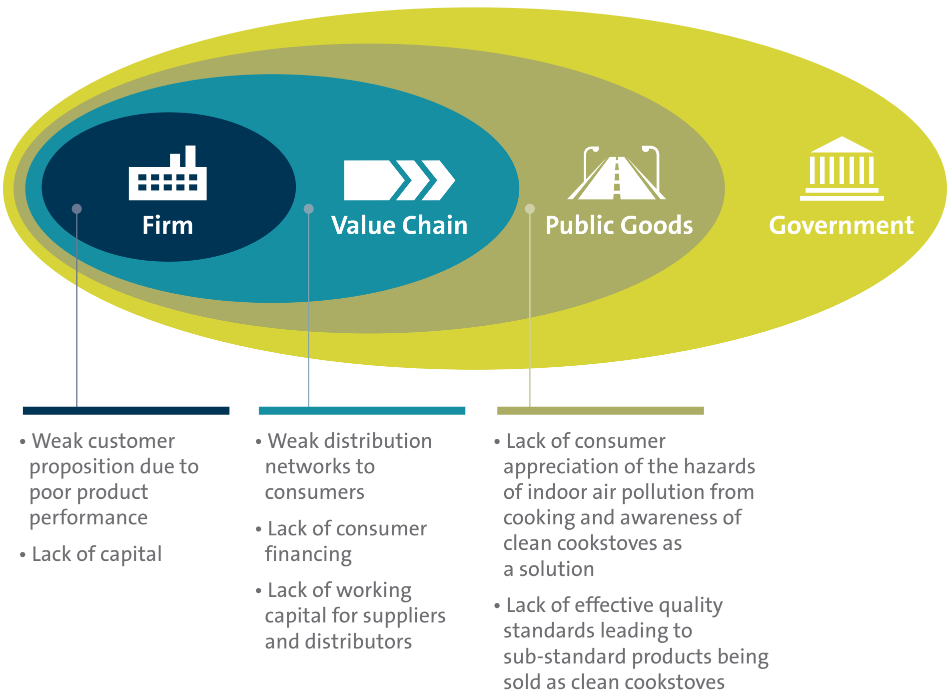
24 Global Alliance for Clean Cookstoves website, retrieved March 2014 from http://www.cleancookstoves.org/blog/new-study-estimates-4-million-deaths-from-hap-each-year.html.

25 Many of these companies can trace their origins to the initial efforts of Enterprise Works/VITA in 2002, funded by USAID and Shell Foundation, to help 80 micro-entrepreneurs get started in manufacturing and distributing clean cookstoves.

26 Countries covered were India, Mexico, Guatemala, Ethiopia, Ghana, Kenya and Brazil.

The results of the Foundation's pilots pointed to a number of critical scaling barriers. Chief among these was the weak customer proposition: put simply, the product was not good enough. The stoves lacked durability, performed inefficiently in the field (despite good results in the laboratory), and had not been sufficiently tailored to suit local cooking habits. They were also too expensive for many of the target households. It also became clear to the Foundation that the NGO partners it had engaged during its pilots lacked the capability to develop a scalable commercial solution. According to Pradeep Pursnani, Deputy Director at Shell Foundation, "The industry needed a firm that was good not only in R&D and engineering capabilities but also in mass manufacturing techniques, global supply chain management, and management ability to envision and build a commercially viable global business in the long-term."

FIGURE 6: Scaling Barriers for Clean Cookstoves in India



Source: Monitor Deloitte analysis

The Foundation partnered with Envirofit to co-create an improved cookstoves solution

The Foundation's first response in 2007 was therefore to partner with Envirofit International, a company spun out of Colorado State University's Engines and Energy Conversion Laboratory, to co-create and scale up an improved cookstoves solution globally. Envirofit brought deep expertise in combustion technology and demonstrated global operation capabilities, having produced and sold direct injection retrofit kits for two-stroke motorcycle engines in the Philippines. Meanwhile, its management team, including CEO Ron Bills, had a proven track record of running commercial businesses effectively.

Shell Foundation supported Envirofit with grants, as well as management support in developing a business plan. The company developed a clean cookstove that could be mass produced and offered good performance and durability. Since India was a key part of the Foundation's cookstoves scaling aspirations,[27] Envirofit began its operations in the southern Indian state of Karnataka where it started selling stoves commercially after running a number of market trials.

However, consumer awareness of the benefits of these cookstoves was low. Being a push product, cookstoves would find it difficult to make headway without addressing this barrier. Realizing this, the Foundation launched its *Room to Breathe* pilot campaign in 2008/09 to raise awareness about IAP and clean cookstoves in the Shimoga district of Karnataka. The campaign promoted stoves from a range of suppliers, including Envirofit, First Energy, and Prakti/SELCO. However, results from initial trial promotions indicated that health messages around IAP, targeted at women, were not having much impact. When the Foundation rolled out a broader campaign, it changed the messaging to themes that were more relevant for customers, including the appeal of a cleaner house, the impact on children's health, the modern styling of the stove, and even shorter cooking times. Responding to the cultural context, it also differentiated the messages it was sending to men and to women. The Foundation then shared these findings in a public report[28] so that its learning could benefit other firms and facilitators trying to reach similar customer groups.

The lack of effective quality standards was another ecosystem barrier. Because consumers found it difficult to assess the quality of cookstoves when making purchase decisions, high-quality suppliers could be disadvantaged when competing against cheaper, lower-quality products. Moreover, the poor performance and durability of the latter could negatively impact consumer perceptions of the overall product category. In response, Shell Foundation engaged the Aprovecho Research Center in 2006 to develop robust standards, which then set the benchmark for the Foundation's 'Blue House' assurance symbol, promoted as part of its Room to Breathe marketing campaign.[29] However, the 'Blue House' assurance was not widely adopted by the industry, as Shell Foundation's close relationship with Envirofit caused several competitors to worry that the standard might be tailored to the company's advantage. In parallel, the Foundation partnered with the University of California, Berkeley, to set up the Berkeley Air Monitoring Group, a technical monitoring organization that could evaluate the impact of the Foundation's program in India, as well as monitor other programs and manufacturers around the world.

Consumers found it difficult to assess the quality of cookstoves when making purchase decisions

From these experiences, the Foundation believed that the global clean cookstoves industries needed a collective body to resolve these issues, and so worked with the UN Foundation to seed the Global Alliance for Clean Cookstoves in 2010. Most recently, the Global Alliance convened over 90 stakeholders from 23 countries to reach an international consensus on standards. Chaired by the International Standardization Organization (ISO), the meeting resulted in an agreement that provides guidance for rating clean cookstoves on a range of tiered standards relating to four

27 Countries were India, China, Uganda, Kenya, Guatemala, and Brazil starting in 2006.
28 Bishop, S., Pursnani, P., and Sumpter, C., (2013) *Social Marketing in India*, Shell Foundation.
29 Ibid.

performance indicators: fuel use, total emissions, indoor emissions, and safety. It is hoped that this consensus will form the basis for more effective quality standards across the industry, in India and elsewhere.

The work in Shimoga had also identified distribution and cash affordability as key scaling challenges.[30] Because conventional distribution networks were not proving effective in getting cookstoves to rural households, the Foundation worked with partners to develop and test various distribution models, including traditional retail channels such as small town stores and new distribution networks using village-level entrepreneurs. One such business was Project Dharma (now Dharma Life), an independent rural distribution agent, where the Foundation provided both grant funding and business expertise to help the company validate its last-mile distribution model for a basket of goods for the rural poor. However, while sales of some durable goods such as solar lights were strong, sales of cookstoves were relatively weak. Dharma Life is now working to address this with better sales activation training for village-level entrepreneurs based on the learning from the Shimoga pilot, and by partnering with the German official aid donor agency, Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), to test a range of different cookstove products with consumers to optimize its product range.

Microloans from MFIs made clean cookstoves affordable for customers

The Shimoga pilot also made it clear that the typical product price of around $20 was not affordable for many consumers without financial support. The Foundation identified MFIs as a potential solution to this problem, since they could provide microloans to help households buy cookstoves. In 2010, the Foundation gave a grant to Grameen Koota, a Karnataka-based MFI, to design and run a pilot where they would distribute clean cookstoves from a range of suppliers and offer top-up loans to finance the purchase. The pilot proved successful and Grameen Koota now sells cookstoves across its business in partnership with Envirofit and Greenway Grameen, another fast-growing cookstove supplier. More recently, other lenders, such as Sonata Finance and Fullerton India, have followed Grameen Koota's lead and entered the cookstoves market.

Financing for manufacturers and their suppliers and distributors was another identified scaling barrier. The critical shortage of working capital to support growth was a problem that afflicted not just the cookstoves industry but many other impact industries in India. Seeing the reluctance of mainstream banks to lend to these small businesses, the Foundation supported the creation of a new specialist lender, IntelleGrow, in 2011 in partnership with Intellecap. The goal was to help meet the working capital needs of small and medium-sized energy enterprises in India.[31] IntelleGrow's model was fundamentally different from that of the banks, in that it would evaluate applicants based on their business viability and lend against cash flow, rather than against balance sheet assets, as banks would. At the time of writing, IntelleGrow has already made loans to two cookstoves manufacturers.

30 Bishop, S., Pursnani, P., and Sumpter, C., (2013) *Social Marketing in India*, Shell Foundation.

31 Shell Foundation has also partnered with responsAbility to create and manage a global working capital fund for cookstove firms and other energy solution providers in Africa.

The Foundation has also explored the use of carbon credits as a way to draw more resources into cookstoves businesses globally, including the setting up of a carbon finance fund in 2011 to sell credits generated by clean cookstoves. Two years later, the Foundation set up a further carbon finance fund in partnership with Cardano Development, a Netherlands-based organization, which has now received $1 million in carbon revenues for cookstoves in India and Tanzania. Other facilitators have launched similar efforts: notably, GIZ has partnered with the Ministry of New and Renewable Energy in India to register a Programme of Activities for any manufacturer to submit and sell credits rather than go through an expensive and onerous process to set up individual carbon credit programs.

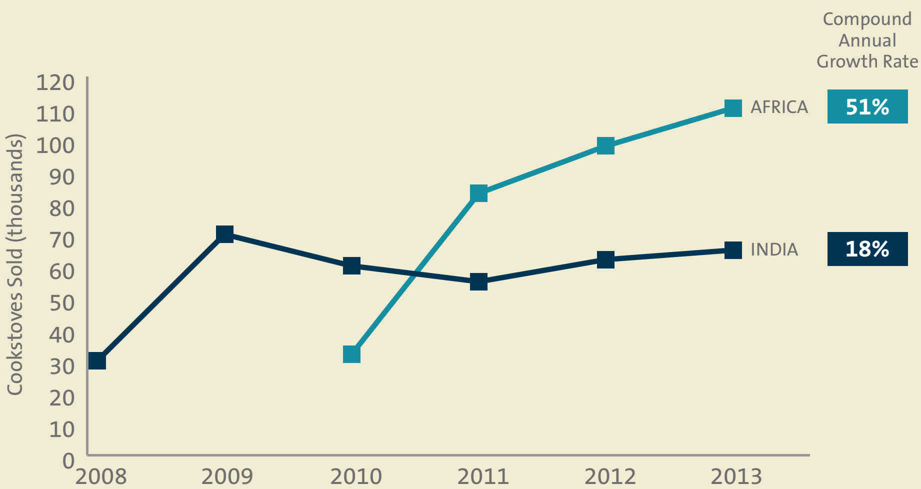
LESSONS

Scaling the clean cookstoves industry in India has been a tough challenge. It has been tougher than scaling MFIs, because clean cookstoves are a product with strong push characteristics, unlike microloans. Shell Foundation's facilitation efforts here are also still very much in progress, having started in 2008. Unsurprisingly, then, the market in India has not yet been made: Envirofit and Greenway Grameen have together sold some 420,000 stoves in the country to date; while total India market sales numbers are unavailable, they are almost certainly far short of the aspirational target of five million stoves initially set by the Foundation. This challenging picture stands in contrast to the situation in Africa, where Envirofit's sales results have been much stronger (see 'Comparing Indian and African Markets').

COMPARING INDIAN AND AFRICAN MARKETS

The different trajectories of Envirofit's sales in its Indian and African markets illustrates the significantly greater challenges it has faced in India, as seen in Figure 7.

FIGURE 7: Envirofit Cookstoves Sales (2008-2013)



Source: Shell Foundation

Despite this, the lessons from this much more challenging case reprise — and add nuance to — the same four themes we introduced earlier in this chapter:

1 Get the model right for scale.

The initial barriers identified by the Foundation's efforts were the weak customer proposition due to poor product performance and durability, and the absence of a strong, commercially minded firm. It addressed these barriers by backing Envirofit, a firm with the right technical skills to create an improved product, led by a team with a track record in commercial business. The company now offers a range of cookstoves tailored to different cooking practices and needs in different areas.

The current state of the market suggests that the work of perfecting the product and model is continuing, just as it did in the MFI industry throughout its scaling journey. Most recently, GIZ has been working on testing cookstoves from a range of suppliers with households in different parts of India to improve understanding about which products work best where, and about optimizing supply chains so that companies can reduce their cost to serve rural villages.

2 Resolve barriers for the whole industry.

Despite Shell Foundation's close working relationship with Envirofit, its facilitation activities have always been intended to benefit all the firms in the industry. This is clear in the examples of IntelleGrow and the Global Alliance, both of which work with many companies. This can also be seen in the creation of the MFI distribution and financing channel that now provides a number of cookstoves suppliers with an effective and scalable route to market. Meanwhile, the Foundation's social marketing pilot campaign in Shimoga supported a range of suppliers and it went on to publish and share its findings widely to benefit as many others as possible. The importance of taking an industry-wide lens in facilitation is underscored by the entry of new players — such as Greenway Grameen, Nav Durga Metal Industries, and ISquareD Chulika — into the industry since 2008.

However, it is in the nature of facilitation in these challenging situations that not all efforts will turn out as expected. The carbon finance fund established by the Foundation in 2011 has yet to deliver monetized benefits for Envirofit in India as the process to register carbon credits has been slower than in Africa, and no other suppliers have yet signed up to use it.[32] Meanwhile, some challenges are simply beyond the capacity of the Foundation itself to address, such as in social marketing to drive customer awareness:

32 However, in countries like Ghana, carbon programs have been successfully registered by firms like Enterprise Works Vita and Toyola, and this has helped to drive prices down to the benefit of the consumer.

the pilot campaign could help determine what was effective in influencing the target customer, but such activities are expensive to run and any broader roll-out would have to be driven by an actor with deeper pockets, such as a government agency.

3 Step into a role that fits.

The Foundation's approach aligns closely with its core capabilities and resources. As a corporate foundation with a strong commercial skillset, it was naturally able to support Envirofit with both targeted funding and business expertise. As a funder, it was able to catalyze activity through pilots (such as the one with Grameen Koota) and the seeding of new players needed in the value chain (such as IntelleGrow).

However, a single facilitator can rarely do all that is needed on its own. For instance, the Foundation recognized the need for a global advocacy and convening role for the clean cookstoves industry but also recognized that it lacked the natural capabilities and legitimacy required to do this. Therefore, it partnered with the UN Foundation to set up the Global Alliance for Clean Cookstoves. The other operational challenge for the Foundation is its limited on-the-ground presence in India. The Foundation has therefore engaged in partnerships where appropriate (such as with Intellecap) and continues to seek out other local partnership opportunities that could advance its goals for the industry.

4 Commit *and* adapt.

In the face of a difficult challenge, the Foundation has kept up its commitment to the clean cookstoves industry, recognizing that progress in such situations will be neither quick nor straightforward. It continues to support the Global Alliance as well as Envirofit, and is also working to increase the impact of its industry facilitation efforts on the ground in India.

But this journey has also been one of adaptation. Learning from its early pilots in India up to 2007 caused the Foundation to launch a new industry facilitation strategy, beginning with Envirofit and the work in Shimoga. Those early efforts in Karnataka then generated additional insights, such as the need for consumer and industry financing. This in turn led it to launch new activities, such as the incorporation of MFI finance into sales channels and the provision of working capital to stoves suppliers and distributors. Meanwhile, recognizing the limitations of establishing a local assurance standard, the Foundation encouraged the Global Alliance to work on defining authoritative global standards that would be endorsed by all major cookstoves companies.

PUSHING INNOVATIVE HEALTHCARE

The challenges of creating new markets for products with strong *push* characteristics are experienced acutely by many firms pioneering innovative health-care products for the poor.

Zinc for childhood diarrhea is a case in point. Every year, millions of children in the developing world die unnecessarily from diarrhea, despite the existence of highly effective and affordable treatments like zinc and oral rehydration salts (ORS). Zinc, in particular, is still overlooked by many medical practitioners and caregivers despite carrying recommended treatment status from the World Health Organization along with ORS: zinc treatment significantly reduces the severity of diarrheal episodes and the likelihood of recurrence within six months.

Despite this, fewer than 5% of children globally receive it. Instead, caregivers across the developing world, unaware of the benefits of zinc with ORS, still frequently treat diarrhea with ineffective home remedies. Medical practitioners regularly prescribe harmful anti-diarrheals that give immediate symptomatic relief but do not aid recovery. In many areas, practitioners also over-prescribe antibiotics, leading to harmful effects from the destruction of intestinal flora and the growing public health problem of antibiotic resistance. Zinc is therefore another example of a push product without ready demand. As a result of this, as well as zinc's low profit margins, pharmaceutical manufacturers and distributors have not had a strong interest in developing zinc product lines, especially when many of the potential customers are poor and live in hard-to-reach rural areas.

Since 2005, the international nonprofit FHI 360, funded by USAID and the Bill & Melinda Gates Foundation, has been working in a number of countries to reduce childhood deaths from diarrhea by promoting zinc and ORS therapies. In India, FHI 360 initially focused on including zinc in the national guidelines and encouraging mainstream pharmaceutical companies to start producing zinc. However, these companies were primarily interested in serving urban, higher-income households where they already had an established business, and had little interest in building new distribution channels to reach the rural poor, the group most severely affected by childhood diarrhea.

After two years of successful but limited zinc treatment penetration in the urban areas,[33] FHI 360 realized it needed to expand its approach to reach those who were most in need, and began working with pharmaceutical distributors on a new model in the Indian state of Uttar Pradesh. These firms would procure zinc from contract manufacturers and sell it in remote villages through rural medical practitioners, informal providers who are often the first port of call for the rural poor for primary care. These practitioners have little formal training or qualifications in medicine; instead, they build up their knowledge of common illnesses and treatments while working as pharmaceutical sales staff or as assistants to qualified doctors, then return to their native village to set up private clinics providing both consultations and medicines to patients.

In its intervention areas in Uttar Pradesh, FHI 360 mapped 45,000 practicing rural medical practitioners with the assistance of its NGO partners, and began educating them on the benefits of zinc and ORS treatment. FHI 360 provided this information to its partner pharmaceutical distributors so that they could target these practitioners and nearby village drug stores to sell them zinc. While zinc profit margins and volumes are too thin to sustain a distribution network on their own, distributors believe selling zinc as part of a larger basket of products to be commercially viable.

The challenges of building rural medical practitioners as a new channel — their lack of formal training, their remote locations, the small quantities they purchase at any one time — called for substantial investment in building a field sales force and also heightened the level of business

33 Twenty large and medium sized pharmaceutical companies were manufacturing and marketing zinc.



risk for the companies. Therefore, FHI 360 provided grants to distributors to subsidize half the salary and expenses incurred by field staff for selling and raising awareness about zinc products — while firms covered their own procurement and marketing costs — effectively de-risking the entry of these firms into an unproven market. Even with this support, the companies were unable to serve the most remote villages, so FHI 360 engaged local NGO partners to supply zinc to these areas.

But distribution was only part of the problem. The bigger challenge was in changing prescriber and caregiver behavior to adopt new treatments, since anti-diarrheals and antibiotics were so well entrenched. The perception of immediate relief provided by these medicines, unlike the benefits over time of a 14-day course of zinc, results in a high degree of caregiver satisfaction and makes practitioners reluctant to change their prescribing behavior for fear of losing business. Responding to this challenge, FHI 360 worked through its local NGO partners to drive awareness among practitioners about both ORS and zinc. It also worked with the firms to jointly create appropriate sales and marketing strategies, and supported their outreach activities by providing training to their sales reps and creating marketing collateral including brochures, pamphlets and videos featuring key opinion leaders.

All these industry facilitation activities have been made possible by substantial amounts of donor funding. FHI 360's Uttar Pradesh program has received a total of $7.5 million in grant funding since 2005, first from USAID and then from the Bill & Melinda Gates Foundation. This then leveraged $2.6 million of capital investment from the pharmaceutical firms marketing ORS and zinc in the first year of the program alone. While FHI 360 estimates that 70% of practitioners in the intervention areas are now prescribing zinc with ORS, it is difficult to know how much of this will be sustained when active facilitation comes to an end. It may take many years, maybe even a generation, to entrench zinc with ORS as the preferred treatment for childhood diarrhea, and continued donor funding is therefore likely to be needed for some time. Going forward, FHI 360 believes that awareness efforts need to be stepped up to target caregivers directly, leveraging the influence of the converted practitioners.

The example of zinc exemplifies the difficulties involved where products have strong *push* characteristics, when what consumers need is not what they want. Some would argue that such treatments are better delivered through public healthcare systems that leave less room for consumer choice. FHI 360's experience in Indonesia, where the poor overwhelmingly access healthcare through government health centers and hospitals, illustrates this different approach. In this case, pharmaceutical companies scaled delivery of zinc to the poor through the public system while serving upper-income customers through the private markets.

In Indonesia, FHI 360 carried out advocacy work with the government to recognize zinc as a treatment for childhood diarrhea in the national policy while simultaneously promoting the business opportunity to pharmaceutical firms. In 2011, the Indonesian Ministry of Health added zinc to its essential medicines list and made it available throughout the country through public healthcare centers. It also changed national treatment guidelines for young children, and launched a nationwide campaign developed with FHI 360, targeting both doctors and caregivers. Even midwives — who provide essential outreach services in villages far from government health centers — were drafted into the effort by the thousands to educate caregivers and ensure the availability of zinc. While this approach has been effective at reaching the poor, its success has depended on the presence of a fairly well-organized and high-functioning public healthcare system, something that is not always found in developing countries.

3 Getting to Scale: Consumers and Corporates

In this chapter, we take a look at a different kind of journey to scale — where industries are led by established corporations selling beneficial products — by studying the case of the mobile money industry in Tanzania, and we consider the implications for both firms and facilitators.

CASE STUDY: MOBILE MONEY IN TANZANIA

Emmanuel's family lives in a small village in the rural southwest of Tanzania. For years he has toiled periodically as a day laborer, shifting granite on urban construction sites, and traveling long distances over rugged dirt roads. When he found work, Emmanuel made $1 a day. But on some days, he just couldn't: it might be a day when he had to travel home to hand over his earnings to his family, usually a minimum of three hours away by bus. For the loss of earnings on those days, Emmanuel and his family would often have to go hungry later.

Then one morning, a couple of strangers showed up in Emmanuel's village. "They explained they worked for a telecoms company and that I could use my mobile phone to send and receive money. They said it would save me the long journey from town to village," recalls Emmanuel. "I couldn't believe it at first. I thought a politician was tricking us into buying votes."

Today, Emmanuel has three SIMs from different Mobile Money providers, and he switches between them depending on the deals they have on offer and to whom he's sending money. "Saving time and money like this is important for me," says Emmanuel. "It puts food on the table."

From Kenya to Tanzania

In March 2007, a Kenyan mobile telecoms operator saw an opportunity to help the poor manage their money. Safaricom, the local affiliate of Vodafone Group Plc, launched M-PESA, a service that allowed anyone with a mobile phone to move money securely through the mobile network. This was done by leveraging Safaricom's nationwide telecoms infrastructure and using Safaricom airtime dealers as agents. For poor communities with low levels of bank account penetration, M-PESA and other similar 'mobile money' products allow financial transactions to be conducted with unprecedented ease and security. Within seven months of its launch, M-PESA had signed up over one million users. Today, M-PESA handles transactions equivalent to 31% of the gross domestic product of Kenya.

This story has fired the imagination of entrepreneurs, investors and donors around the world. Safaricom was not the first to deploy a mobile money solution — notably, SMART, and GCASH from Globe Telecom, had been operating in the Philippines since the early 2000s — but it was the first to reach such impressive levels of scale. The way in which Vodafone and Safaricom overcame various challenges in order to achieve this (assisted by a small grant from DFID's Financial Deepening Challenge Fund in 2003) is already familiar to many, having been studied and reported extensively.[34]

Safaricom enjoyed some exceptional advantages at launch, reaching over a million customers in seven months

But it is also clear that Safaricom enjoyed some exceptional advantages in launching M-PESA in Kenya. It was the market leader in mobile airtime, with an almost 80% share in a country with high levels of mobile penetration, and had a far-reaching and loyal airtime dealer network. In addition, Kenya had a fairly well developed banking system and branch network to support liquidity requirements across M-PESA's web of agents. There were also high levels of awareness of formal financial services such as money transfers in the general population. Meanwhile, the need for a more secure way to remit money, particularly from urban workers to their families in the rural areas, provided a ready 'killer application' for the new service.

It soon became clear that these conditions were unlikely to be replicated elsewhere. In April 2008 in neighboring Tanzania, Vodacom Tanzania, Safaricom's sister company, launched its own M-PESA service based on the same Vodafone group platform. Vodacom borrowed elements of the marketing campaign that had worked so well in Kenya, focused on remittances, and engaged a field marketing agency to recruit agents into a new dedicated M-PESA channel. Tanzania had the benefit of good mobile telecoms infrastructure, and its population was larger than Kenya's and more scattered geographically. Combined with low levels of rural bank branch penetration, this suggested a strong need and market potential for such a service.

34 For readers unfamiliar with this story, we recommend starting with the excellent piece from the 'intrapreneurial' team behind M-PESA: Hughes, N., Lonie, S., (2007) MPESA: *Mobile Money for the "Unbanked" — Turning Cellphones into 24-Hour Tellers in Kenya,* published in Innovations Winter / Spring 2007, MIT Press.

M-PESA's early performance in Tanzania was disappointing

Despite this potential, however, M-PESA's early performance in Tanzania was disappointing. After 14 months, the service had only signed up 280,000 users and 930 agents. By comparison, M-PESA in Kenya had 2.7 million users and 3,000 agents 14 months after launch.

The Problems — Distribution and Demand

The critical challenge in both countries was to create a strong distribution network for the new service. Mobile money products lose much of their appeal without two critical factors in place: a widespread availability of dealers who can enroll new customers and boost their confidence in using their phones to transfer significant sums of money. Also necessary is a similarly extensive access to CICO outlets to facilitate conversion of M-PESA credits to and from cash. Because M-PESA is a network product (like mobile telephony), its value to the customer increases exponentially with the size of the network and the number of users connected through it. So the mobile operator not only needs to build distribution, it needs to do it fast and ideally, everywhere.

The differences between the two countries started with the mobile operator's ability to drive a step change in their distribution landscape. In Kenya, Safaricom had a 79% market share and managed its dealer network through approximately 1,000 'super agents'.[35] In Tanzania, by contrast, Vodacom had a 41% market share and engaged with its distribution channels through just five super agents. This suggests that Safaricom started from a position of greater influence vis-à-vis its channel partners than Vodacom. And the engagement of these super agents was critical. In Kenya, super agents went out to persuade existing dealers to become M-PESA agents. They trained them not just to sell the product but also to provide crucial handholding service to customers as they familiarized themselves with the system and developed their confidence to make significant transactions through it.

Because M-PESA is a network product its value to the customer increases exponentially with the size of the network

Meanwhile, the lower level of rural bank branch penetration in Tanzania was a formidable barrier in establishing an effective agent network. Agents faced a working capital challenge because they needed to hold substantial amounts of both e-float (basically, their own mobile money on deposit) and cash float in their shops, to meet the demands of M-PESA clients. Liquidity management is also easier if there are banks close by, but bank branches were fewer and farther between than in Kenya. In 2009, the number of commercial bank branches per 100,000 inhabitants in Kenya was 4.4, compared with 1.8 in Tanzania.[36]

A large operator such as Vodacom could have decided to fix these problems by, for instance, subsidizing the training of agents. However, the competitive environ-

35 *M-Money Channel Distribution Case — Tanzania*, (2010) International Finance Corporation, World Bank.
36 The World Bank Databank, The World Bank, retrieved February 2014 from http://data.worldbank.org/indicator/FB.CBK.BRCH.P5.

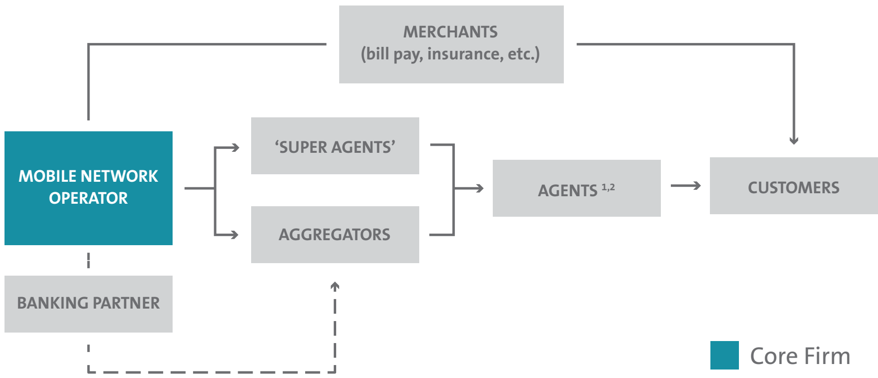
ment in Tanzania was radically different from the one in Kenya. Unlike Safaricom, which had exclusive relationships with its dealers, Vodacom operated in a more fluid competitive environment. One dealer would often run several notional dealerships, each serving a different network operator. That dealer's shop-front would display brand signage from all these networks, something that would not be seen in Kenya. Customers also often had SIMs from multiple operators, and some even had dual- or triple-SIM phones. The indication was that mobile money in Tanzania would likely be every inch as competitive as mobile voice services. Another operator, Zantel, already launched a limited mobile money product in 2008 called Z-PESA, in partnership with FBME Bank. Two other players, TiGO and Airtel, were both preparing their own mobile money services for launch. Because of this, the potential for competitors to free ride on any one company's investment in creating mobile money agent networks was therefore very high. This created a disincentive to invest in this new area, especially when there were other attractive opportunities in mobile voice and data.

Concerns about free riding discouraged Vodacom from investing in mobile money

Another obstacle that M-PESA faced in Tanzania was the low level of recognition among consumers about the benefits of using mobile money, and therefore limited uptake of the service even where it was provided. Isack Nchunda (Head of Marketing, M-commerce, Vodacom) says, "Customer education was a hurdle not just for uptake but also created difficulties in signing on agents. People just didn't understand what mobile money could do for them and what it could be used for."

The 'Send Money Home' marketing message from Kenya failed to resonate because levels of urban-rural remittances were lower in Tanzania, and there was a different, more formal culture that placed greater value on presenting money and other gifts in person rather than through an intermediary service. Levels of financial literacy were also lower, so above-the-line marketing was less effective than live product demonstrations and handholding of customers in the early stages of using the product to develop their confidence.

FIGURE 8: Adapted Mobile Money Channel Structure (from 2010)



Note: [1]Mobile money agents channel can be separate or be part of the existing talk-time network; [2]M-PESA agents do both Enrollment as well as Cash In-Cash Out, but functions are often separated in case of other deployments
Source: Monitor Deloitte analysis

Change of Tack

The Aggregator model in distribution and a change in marketing led to a turnaround

In early 2010, Vodacom began to engage a new type of channel intermediary — aggregators — to help accelerate the establishment of a dedicated M-PESA distribution channel, particularly in the rural areas (illustrated in Figure 8). Aggregators would work in the field to acquire and train M-PESA enrolment agents to do what was required, from registering new customers to maintaining accurate log books. Aggregators would then provide on-going support and performance monitoring, typically calling on agents three times a week. Aggregators would also recruit agents and help them to manage their floats; initially, they would also provide agents with some working capital to help them get started. Meanwhile, Vodacom increased its commission levels to support this heavier channel structure and increase the incentives for agents to drive actual transactions on the platform.

Vodacom also changed its marketing approach. In 2009, the company dropped the 'Send Money Home' campaign and replaced it with one depicting a variety of other scenarios of mobile money. It focused its marketing campaign on being more educational and highlighting cases where "M-PESA is easy, affordable and for everyone". From the second half of 2009, the service presented different usage scenarios such as paying water and electricity bills. While Vodacom continued to advertise on TV and radio, and on billboards, it also rolled out a 'feet-on-the-street' initiative using local events with music, dance and drama to draw large audiences. Field marketing agencies also supplied posters and other marketing materials to agents so they could display them in their shops. Crucially, Vodacom representatives roamed far and wide to do the live demonstrations that were key to bringing the product to life and explaining its benefits for customers.

But what about the free rider problem we described earlier? Surely any investment in creating mobile money distribution channels and stimulating customer demand would benefit the whole industry, and therefore would be difficult for any one player to justify?

The breakthrough came in the form of grant funding from the Bill & Melinda Gates Foundation, which had been looking for ways to improve access to financial services for the poor in a number of countries. The experience of Kenya had shown that mobile money could be a valuable platform for enabling that access. Experts from the Foundation had been engaging directly with the Bank of Tanzania (BoT), the country's financial services industry regulator, on the development of a conducive policy. The Foundation had also set up and funded bodies such as the Alliance for Financial Inclusion (AFI) to provide the BoT and other similar institutions around the world with information resources and peer-learning networks.

Vodacom received a grant to defray the costs of addressing demand and distribution

The slow starts of both M-PESA and Z-PESA in Tanzania were a cause for concern. Mireya Almazan, the Foundation program officer working on this at the time, says, "When we decided to engage with Vodacom in 2009, the industry at large was discouraged by the slow growth of mobile money outside of Kenya. The Foundation saw an opportunity to support Vodacom to accelerate uptake and usage of M-PESA in order to promote greater private investment in mobile money and more quickly reach poor families with access to safe and affordable financial services."

After careful consideration, in mid-2009 the Foundation decided to make a $4.8 million grant to Vodacom to help defray the cost of building mobile money distribution and stimulating customer demand. This grant was used by Vodacom to engage the assistance of the first aggregator, Afrikings (now Brand Fusion), as well as to fund above- and below-the-line marketing activities. GSMA, the global association of mobile network operators, provided a further $250,000 grant through its 'Mobile Money for the Unbanked' program to Vodacom to fund a revolving credit facility for the M-PESA agent network. This funding, and the subsequent improvement in M-PESA's performance, then unlocked greater investment from Vodacom in this new business. Since 2008, Vodacom estimates that it has invested approximately $25 million in mobile money in Tanzania.

The intention of the grant was to accelerate the entire industry rather than to advantage a single operator

Although its grant was made to Vodacom, the Foundation has made it clear that its intention was to accelerate the entire industry rather than to create an advantage for a single operator. Because the competitive dynamics of the Tanzanian mobile sector made it difficult for any one operator to build a captive distribution channel (or indeed to capture all the benefits of greater customer demand for mobile money), it could work with one operator who was already well-positioned in mobile money in the expectation that its success would create trickle-down benefits for others.

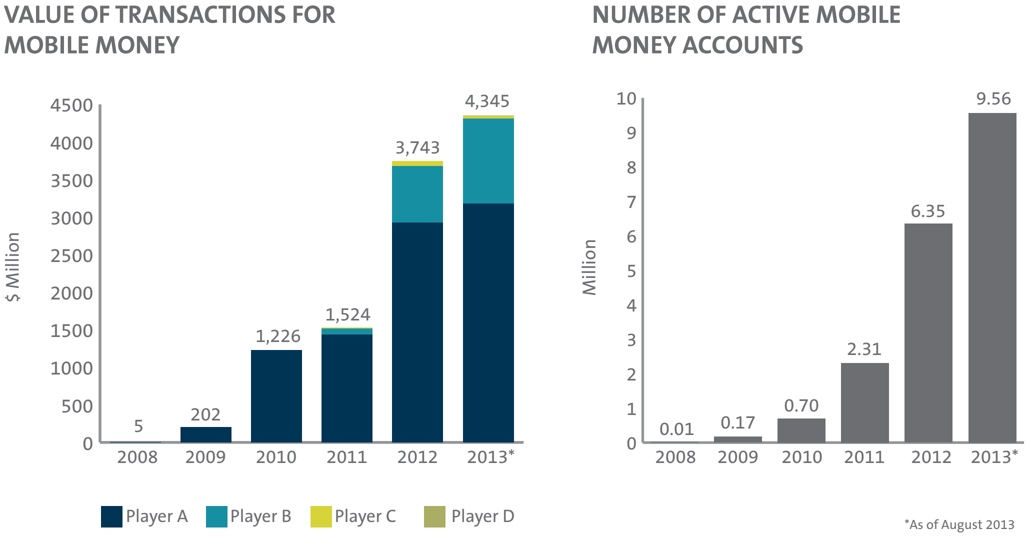
Mobile money has flourished into a growing and competitive market in Tanzania

Our analysis shows that these decisions broadly achieved their intended results. Mobile money in Tanzania has boomed, with the number of active users growing from 170,000 in 2009 to over nine million in 2013. Transaction volumes have also grown from $202 million to over $4 *billion* over the same period, and mobile money penetration of the mobile subscriber base is now higher in Tanzania than it is in Kenya.

While impressive growth was recorded for M-PESA in 2010 and 2011, other operators have been catching up in recent years and now have almost a third of the market (see Figure 9). In October 2012, 99% of Tanzanians surveyed were aware of mobile money, but the largest increases in awareness over the year before were for Airtel Money (from 41% to 92%) and TiGOPesa (from 65% to 88%).[37]

On the ground in Tanzania, it is evident that mobile money channels are operating with the same free-wheeling liberalism as the airtime reseller channels that they are built on. Multiple mobile money products are offered at most of the outlets we visited, colorfully adding to the jumble of signs in front of each shop. And this competitive environment has resulted in tangible benefits for the customer in terms of lower transaction costs: our analysis shows that a $25 transfer is two-thirds cheaper through M-PESA Tanzania compared with M-PESA Kenya.

FIGURE 9: Development of Mobile Money Industry in Tanzania (2008-2013)



Note: Current rates from relevant years have been used to convert to dollar terms
Source: National Payment Systems, Bank of Tanzania; Monitor Deloitte analysis

37 *Mobile Money: A Path to Financial Inclusion*, (2013) InterMedia.

The Supportive Regulator

It is tempting to end the story here. The mobile network companies have successfully scaled an innovative solution, with some philanthropic assistance for building a new distribution channel and creating public goods. However, the financial services sector in most countries is highly regulated. The story is therefore incomplete without examining the role played by the regulator in building the market — in this case the Bank of Tanzania (BoT). In order to do that, we must begin by looking at the context in which the BoT was operating when mobile money emerged.

The Bank of Tanzania played an important role in supporting mobile money

Following the 2005 privatization of the two major state-owned banks — National Microfinance Bank and Tanzania Postal Bank — many rural bank branches were closed and the BoT became increasingly concerned about the rural population's level of access to financial services.

It also saw the potential for new mobile-based systems to help meet this need:

> *"The Bank of Tanzania encourages banks and financial institutions to implement non-cash-based retail payment instruments due to their advantages over cash. There is a huge potential and opportunities of implementing such instrument in Tanzania for instance, implementers of mobile phone payments can use the opportunity of the number of mobile phone users and the network coverage to reach even the unbanked areas and population."*
>
> \- Tanzania National Payment Systems Newsletter (April 2007)

In 2006, the BoT lobbied successfully to get the Bank of Tanzania Act amended to give it supervisory authority over non-bank financial institutions providing card services and other payment systems, in order to properly regulate these fast-growing services. The following year, the BoT introduced its 'Guidelines for Introducing Electronics-based Schemes', which was intended to shape the provision of services such as electronic banking and card services, but also became the relevant regulatory framework for mobile money services. These frameworks, combined with the BoT's underlying interest in new solutions, led it to look favorably upon the introduction of mobile money products, and to grant 'Letters of No Objection' to Vodacom, Zantel and the other operators when they were seeking to launch their services.

However, the BoT's established capability was in regulating banks, not telecom companies, so it initially moved to keep these new services close to its comfort zone, mainly by requiring operators to partner with a 'trust bank' rather than take deposits themselves. This meant that the BoT could continue to monitor the development of the service through its existing relationships with the banks. This situation evolved as the industry developed and the BoT became more familiar with the activities of the mobile operators. By 2011, the BoT was working increasingly through direct relationships with the mobile operators, strengthening its ability to provide effective oversight.

Industry information generated by multiple actors enabled the BoT to frame conducive policies

While the central role of the BoT in enabling this innovation to come to market is unequivocal, it has also become clear that they did not develop their policies in a vacuum but rather benefited from information generated by others. This included the FinScope survey commissioned by the Financial Sector Deepening Trust Tanzania (FSDT)[38] every two to three years, with the BoT as the primary intended beneficiary. The survey provides detailed information about the usage of, demand for, and behavior towards financial services by the population in a given country. It allowed policymakers and other actors to develop a better understanding of financial exclusion across the country. FSDT also encouraged the BoT to familiarize itself with mobile money services. It paid for a contingent from the Bank to attend conferences and training on mobile payments in London, and organized the first major conference on the role of mobile money in improving financial inclusion in Dar Es Salaam, in partnership with the Foundation.

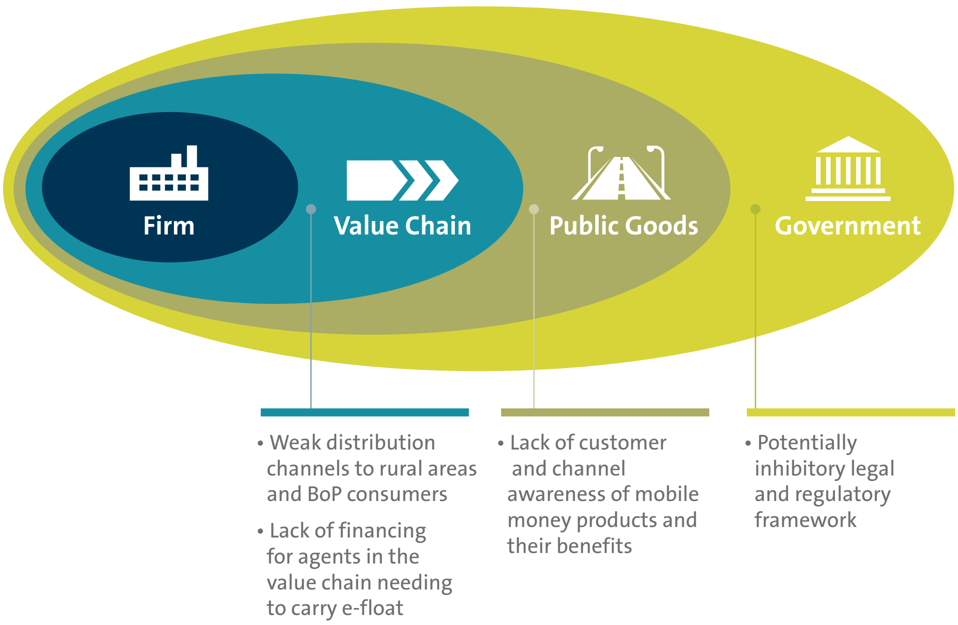
Meanwhile, the Foundation brought in experts to help inform the BoT about various aspects of mobile money implementation and implications for policy frameworks, notably Ignacio Mas, who had previously been Director for Global Business Strategy at Vodafone Group. He was brought in to speak at FSDT's 2010 conference and subsequently spent a substantial amount of time engaging with the Bank. Mireya Almazan, a Foundation program officer, was stationed with FSDT in Tanzania in order to maintain a continuous link with the BoT and track developments on the ground. The Foundation also funded a range of projects to generate information about this new market, such as studies to track awareness of mobile money.

The Bank has also drawn on an array of peer learning resources. The Alliance for Financial Inclusion (AFI)[39] facilitated an early visit in 2008 by the BoT to the Philippines to examine the mobile money solutions operating there, as well as visits to Brazil and Kenya to study agent banking models. In addition, AFI convened a working group on mobile money with the participation of a number of interested regulator representatives, including the Bank's Director for National Payments Systems. This has provided helpful peer feedback on drafts of proposed new regulation, among others. Official networks, committees and resources through the Southern African Development Community and the East African Community have also been channels for peer learning with neighboring countries across the entire spectrum of payment systems and financial inclusion, and not just for mobile money.

38 A Tanzanian nonprofit funded by a number of donors including DFID and the Bill & Melinda Gates Foundation that supports financial sector development in Tanzania.

39 A global network funded by the Bill & Melinda Gates Foundation.

FIGURE 10: Scaling Barriers for Mobile Money in Tanzania



Source: Monitor Deloitte analysis

LESSONS

1 Get the model right for scale.

Fundamentally, the product itself was easy to use, and easy to trial with small amounts to build confidence. It offered a strikingly superior solution to a need that the customer already recognized: this is most easily seen in remittance applications, where the alternatives were either very risky (such as sending parcels on a bus) or very expensive (such as Western Union transfers). Vodacom was also mainly selling to existing customers who were already buying airtime, distributing through agents who were already reselling airtime and running the service on the existing mobile network infrastructure. This ability to leverage existing assets, channels and — to some extent — understanding of the target customer, significantly helped Vodacom's chances of success.

However, even with these advantages, the business model and value chain needed to be adapted to local conditions, and enhanced for scalability. We see clearly that the mobile money model that grew so easily in Kenya had to be tailored to local conditions in Tanzania, in aspects ranging from marketing messages to distribution channel development. Moreover, as with microfinance in the previous chapter, the model had to be significantly refined in order to scale — in this case, by adding aggregators into the industry value chain. Aggregators were able to find, add and train agents more effectively than either the mobile operator or the super agents, and were also able to provide liquidity support to agents that became increasingly important as transaction volumes rose.

2 Resolve barriers for the whole industry.

The Bill & Melinda Gates Foundation and GSMA played a valuable role in helping the whole industry to address its distribution and demand challenges, even when they were working closely with one firm. The structure of the industry had created a free rider problem that was holding up required investment in creating a new channel structure and stimulating customer awareness of the new product; the networked nature of the service also required the bold move of a lump sum investment, rather than a gradual, 'wait-and-see' investment approach that could potentially have overcome the uncertainty problem. The grants from the Foundation and GSMA helped to break this deadlock, and the benefits of this are now flowing not only to Vodacom but also to other industry players.

Industry facilitators also helped to shape a favorable regulatory environment: as in the case of MFI in India, a supportive approach from the regulator was key to the industry's growth. The BoT created an appropriate framework that allowed enough space for innovations to emerge, but it did not develop these policies in a vacuum; instead, it drew on information and best practice generated by others, through resources and networks provided by industry facilitators. Notably, facilitators such as FSDT, AFI and the Foundation worked with the regulator *ahead* of the curve of actual regulation, to head off the risk of inhibitory or inappropriate regulation, which were likely to be more difficult to dislodge once in place.

3 Step into a role that fits.

The industry facilitators here chose roles appropriate to their strengths and limitations. The Bill & Melinda Gates Foundation brought considerable financial resources that allowed it to make a $4.8 million grant to break the deadlock on investing in distribution and awareness. It is likely that this grant, and the complementary grant of $250,000 from GSMA, catalysed further investment from the industry: Vodacom alone is estimated to have invested $25 million in building its M-PESA business in Tanzania.

However, funding was not the only lever used by industry facilitators here: engaging with policymakers at the BoT was also a key part of the effort. FSDT, with its permanent presence in Dar Es Salaam and deep expertise in the financial sector, was able to maintain and develop the on-going relationship with the Bank, and closely monitor developments on the ground. To this process the Foundation contributed specialist expertise, notably in the form of Ignacio Mas, working closely with FSDT. The Foundation also stationed a program officer in Dar Es Salaam, recognizing that so much of the work of facilitation is intensely local. At the international level, AFI helped the Bank to learn from the experiences of other countries and regulators. It is interesting to note the nature of the organizations who were effective in these roles: as actors committed to social goals and without vested financial interests, FSDT, AFI and the Foundation were more likely to be seen by the regulator as impartial advocates than the market participants themselves or groups with strong ties to those participants.

4 Commit *and* adapt.

The mobile money industries in East Africa are among the fastest scaling market-based solutions we have observed, but even in this highly accelerated scenario, industry facilitators have had to stay committed over a considerable period of time. Industry facilitation efforts, particularly with policymakers, had begun several *years* before the launch of M-PESA in Tanzania and, in the case of FSDT and AFI, continue to the present day.

However, their activities have adapted over time in response to changing barriers and opportunities. The weak growth of the industry in the early years challenged the assumption that the Tanzanian market would develop along the lines of Kenya's, causing disappointment but also spurring both firms and facilitators to look for alternative solutions. When one was identified, in the form of a reshaped distribution channel structure, the industry's disincentives to invest proved a stumbling block. In response, the Bill & Melinda Gates Foundation adapted its strategy and moved to make its breakthrough grant, catalyzing further investment from Vodacom and paving the way to rapid growth.

4 Getting to Scale: Producers

In this chapter, we examine the scaling journey for market-based solutions that engage poor producers. While our main case study involves a parastatal with strong development finance institution involvement, we believe that there is much to learn from it that can be applied to other situations.

CASE STUDY: SMALLHOLDER TEA IN KENYA

"I was the first native African manager of a tea factory in Kenya," declares Naftali Wachira, as he looks proudly over his tea farm and others that dot the hillsides of Nyeri. "Before KTDA, smallholders knew nothing about tea farming. We didn't have any tea bushes, didn't know how to plant them, how to pick tea."

Mr. Wachira's KTDA is the Kenya Tea Development Agency, the second-largest exporter of tea in the world. It is wholly owned by the 560,000 smallholders who grow tea for it. "KTDA tea — not Kenyan tea, but KTDA tea — is the best in the world," says Mr. Wachira. As we sip from our cups, we find it hard to disagree.

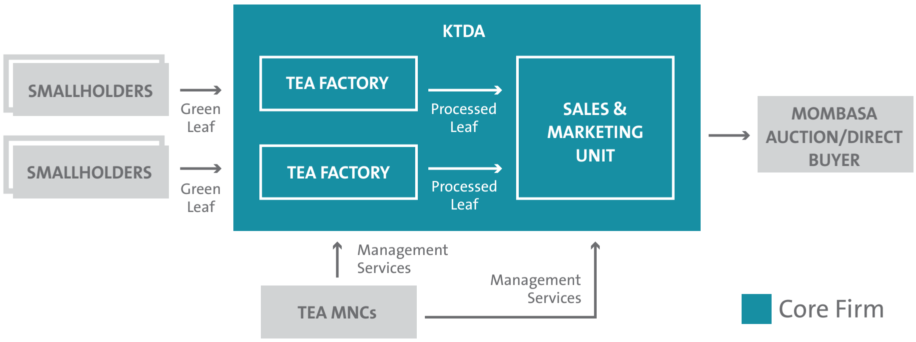
The 1950s were a turbulent time in the history of Kenya. Rebellions were rising across the country as native Kenyans pushed for independence. The British Empire was beginning to collapse. India and Pakistan had recently declared their independence, and the imperial grip over Kenya was weakening. Charged by the prospect of freedom, most Kenyans wanted reforms that allowed them greater participation in the economy of their country. Under colonial rule, they had been excluded from most commercial activity including agriculture, even as British settlers took full advantage of the favorable climate and soil to grow lucrative cash crops like coffee and tea on their estates. But this was all about to change.

In 1954, Roger Swynnerton, then an Assistant Director in the Ministry of Agriculture, created a policy to improve the lives of rural Kenyan families by creating small land holdings that could provide food security and help them to earn an income. The Swynnerton Plan recommended that Africans should be allowed to grow cash crops, and should be given comprehensive support, including access to inputs, technical assistance, linkage to markets and improved infrastructure. The Plan set in motion a series of reforms that would allow much greater Kenyan participation in growing cash crops like tea, coffee, fruit and sugar cane.

Reforms initiated by the Swynnerton Plan allowed greater Kenyan participation in growing cash crops

Soon after the plan was announced, the Ministry considered the feasibility of different cash crops for smallholder farming. Tea was attractive from the outset. Local weather and soil conditions favored its growth. Its cultivation was naturally a small-scale endeavor since it required no irrigation or mechanized processes, and green leaf could be produced almost all year round, delivering a steady income for smallholders. The Ministry decided to run a subsidized contract farming pilot. Smallholders were given land to grow tea and their green leaf was then bought, aggregated and processed at a newly constructed, dedicated factory. Inputs and technical assistance were provided by the Ministry, and the tea was sold at the Mombasa auction. The experiment showed that smallholders could produce quality tea that could command a good price at auction. In fact, it quickly became clear that smallholders had an inherent advantage over the large estates in producing high-quality tea since manual plucking helps to ensure that only the best leaves are harvested.

FIGURE 11: Kenya Smallholder Tea Business Model

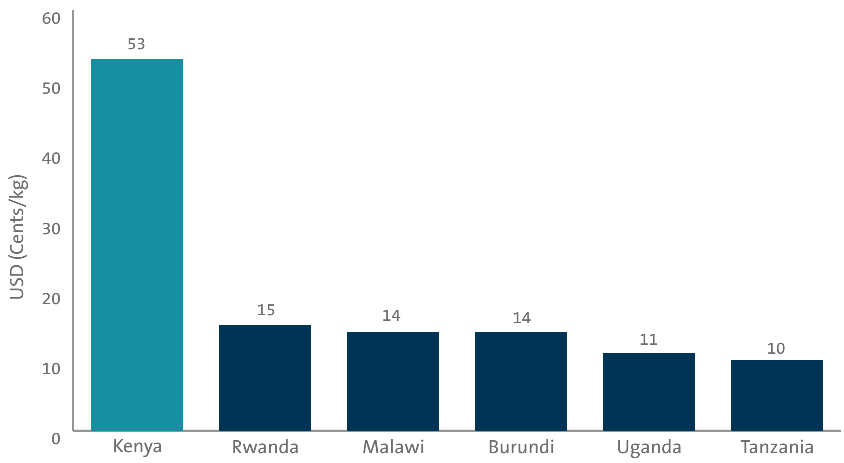


Source: Monitor Deloitte analysis

Tea smallholders in Kenya receive a much higher payout than their counterparts in neighboring countries

Following the pilot, the Special Crops Development Authority (SCDA), a parastatal with a mandate to help the growth of the smallholder tea industry, was formed in 1960. This was renamed Kenya Tea Development Authority (KTDA) in 1964. In the same year, smallholders were given the legal right to grow tea commercially. Working to the principles outlined in the Swynnerton Plan, KTDA organized the entire value chain from tea plant nurseries to supplying the first tea bushes to growers, through sourcing quality green leaf to marketing and sales at the weekly Mombasa auction. Today, a total of 66 tea factories produce 1.1 million tons of tea worth around $800 million[40] annually. Almost all of it is exported, making KTDA one of the country's top earners of foreign exchange. KTDA growers not only produce tea that fetches a premium price on world markets, they also receive an impressive 75% of that price.[41] As a result, tea smallholders in Kenya receive a much higher payout per kilogram than their counterparts in neighboring countries (see Figure 12).

FIGURE 12: Payout to Smallholder Tea Growers (2010-2011)

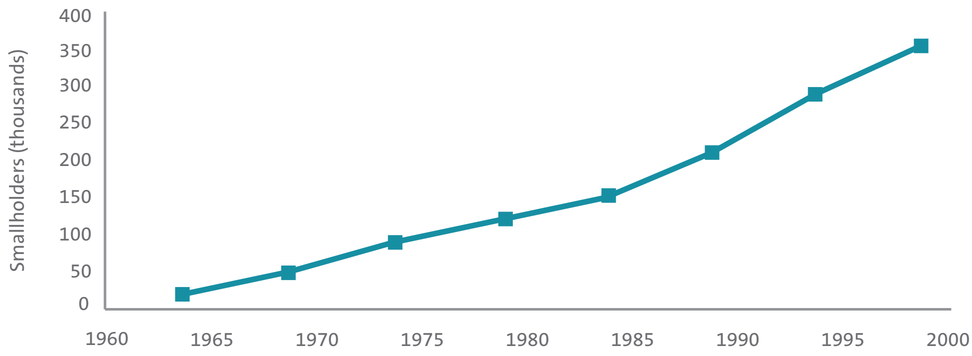


Note: Currency conversion rate of 1KSh = 0.011 USD
Source: Monroy, L., Mulinge, W., and Witwer, M., (2012) *Analysis of Incentives and Disincentives for Tea in Kenya*, MAFAP, FAO Rome; Monitor Deloitte analysis

40 Revenues for 2012-13.

41 The Wood Family Trust website, retrieved March 2014 from http://www.woodfamilytrust.org.uk/current-programmes/Imbarutso.php.

FIGURE 13: Growth in Number of Smallholders Engaged (1964-2000)



Source: KTDA

In order to understand how KTDA achieved this, we will first take a close look at its journey. What were the critical scaling barriers, and how were those addressed? We will then turn to the thorny question of why KTDA has succeeded when so many other smallholder agriculture initiatives have failed, by comparing its journey with those of smallholder coffee in Kenya and smallholder tea in neighboring Tanzania.

The Early Days (1960-1973)

To understand KTDA, we must understand its initial context in the late 1950s, when the smallholder tea model did not look at all like a success story in the making. On the contrary, most observers thought it was doomed to failure, if only because tea had never been successfully produced on smallholdings anywhere in the world. Smallholders did not know the first thing about planting tea and had no tea bushes in the ground. They were also scattered across wide geographic areas served by poor road networks; without any motor vehicles of their own, they could not feasibly travel the considerable distances to the factories. Meanwhile, there was no ready access to capital with which to establish tea factories. Even if it had the money, the new organization had no expertise or experience in running such factories.

It was around this time that CDC[42], the UK development finance institution, stepped in to advise the Kenyan government on establishing the SCDA, helping to develop the concept and operational strategy for it.[43] In the early days, a range of Kenyan government agencies and parastatals also played a critical role in addressing barriers that were preventing the growth of smallholder tea. One of the cornerstones was put in place in 1961 when the Kenyan government helped to create the Tea Research Institute of East Africa (TRIEA)[44] to advance industry knowhow in tea cultivation within the local context. KTDA worked with the TRIEA to establish

Before the 1960s, tea had never been successfully produced on smallholdings anywhere

42 Originally the Colonial Development Corporation, then the Commonwealth Development Corporation, now CDC Group Plc.
43 CDC was persuaded to enter the sector by Roger Swynnerton, who joined CDC as the Head of Agriculture after the formation of SCDA.
44 Following the collapse of the East African Community in 1977, the Tea Research Foundation of Kenya was established as the successor organization to the TRIEA.

tea plant nurseries and to develop improved varieties of tea adapted to Kenyan conditions. Initially aided by government subsidies, smallholders were able to then procure these tea bushes and establish their first plantings of tea.

TRIEA developed improved varieties of tea and created basic knowhow

TRIEA also created the basic knowhow that underpinned the much-needed extension services[45] provided by KTDA in conjunction with the Ministry of Agriculture. These extension workers provided intensive support to growers, many of whom were illiterate, helping them with everything from site selection and drainage, to how they should pluck green leaf to meet quality standards. At one point, over 800 extension workers were on secondment from the Ministry to KTDA.

Meanwhile, the Tea Board of Kenya, the official government regulator for the tea sector, tightly controlled approvals for new factories. The Tea Board made sure that new processing facilities were in line with growing capacity in its local catchment area, thus minimizing the risk that a new factory would be tempted to encourage side-selling[46] to it by growers who had been supplying other factories. It is also likely that the Kenyan government's clear backing of KTDA and official involvement of Ministry personnel in extension services made it less likely that growers would consider engaging in side-selling, even if opportunities arose. And in this case, it is likely that political sponsorship came from the very top, as export-led growth fueled by private-sector investment was a key plank in the policies of the first President of Kenya, Jomo Kenyatta.

KTDA set up a network of buying centers to address sourcing for factories

But the factories still had a sourcing problem, so KTDA set up a network of buying centers across the growing region to which growers would bring their green leaf. At these centers, buyers would inspect the quality of the leaf and only buy that which met their standards (see *'Two Leaves and a Bud'*); the rest would be rejected. After it had been bought, the green leaf would be weighed and then transported by factory-owned trucks to the factories, on feeder roads that were upgraded and maintained by the Kenyan government. At the factories, the green leaf would be weighed and examined again before it was processed. This system allowed factories to source leaf efficiently from growers, while instituting an effective mechanism for quality control.

In doing all of this, the government and KTDA benefited from the support of CDC, which provided $2.5 million in 1960, and the World Bank, which provided $4.4 million in soft loans between 1964 and 1972 for 'field development'. This included the financing and establishment of nurseries and the sale of planting material to smallholders, field training and supervision, and the operation of buying centers. The World Bank also made a loan of $3 million in 1965 for the construction of roads.

45 Extension services help farmers by educating them in improved farming methods, techniques and inputs to increase their productivity and crop quality.

46 'Side-selling' is the practice of farmers selling their produce to buyers other than those they hold a contract with, and is a key risk associated with contract farming models like KTDA's.

TWO LEAVES AND A BUD

"'Two leaves and a bud' is the mark of distinction that gives KTDA tea its global appeal. Over the years, farmers have been encouraged to carefully pluck 'two leaves and a bud', to produce the world's best teas."

— Stephen M'Imanyara, KTDA Group Chairman 1991-2011[47]

KTDA's focus on quality starts with its green leaf. Its growers harvest tea by hand according to its 'two leaves and a bud' standard. The method and intervals of plucking tea shoots determine the yield and quality of black tea. At the right maturity, the shoot contains the optimal mix of enzymes needed for high-quality tea. Practices on the ground vary between plucking tender shoots with two leaves and a bud (fine plucking) and less tender shoots with four leaves or more (coarse plucking). Although coarse plucking results in a higher yield, the quality of tea deteriorates as the leaves are older. Therefore, fine plucking, while more labor intensive, is the recognized gold standard for premium tea.

47 Article in the *Proudly African*, retrieved February 2014 from http://www.proudlyafrican.info/Proudly-African/Proudly-African-Territories/Kenya/Business-Investment/Coffee-Tea-Horticulture/Kenya-Tea-Development-Agency-Holdings-Limited.aspx#.

At this point, the KTDA story begins to diverge from those of the many other agriculture parastatals that have been established across Africa. Critically, the real industrial engines of the value chain — processing and marketing — were not run by KTDA itself, since it did not have the necessary technical and managerial skills. Instead, commercial estate companies like Brooke Bond Liebig and George Williamson that had been growing and producing tea in Kenya for decades, and which were themselves part of large multinational corporations, were appointed as KTDA's managing agents. They would help to construct and run the new factories, and market the tea to international buyers. These deals meant that the new factories, and the tea-growing practices around them, were shaped from the outset by the deep knowhow of experienced operators, as well as by their uncompromisingly commercial orientation.

Commercial estate companies were initially appointed as KTDA's managing agents

This remarkable model resulted from the unusual style of cooperation in this instance between the Kenyan government and the two principal investors in KTDA: CDC and the World Bank. As a new undertaking with a decidedly risky proposition, KTDA would have had tremendous difficulty raising investment in the early days, so this support was invaluable. CDC also provided non-financial support, such as helping KTDA to negotiate contracts with large tea companies to build and manage their factories. Each factory was set up as a separate company, managed by an experienced commercial operator, in which CDC and KTDA held equal amounts of equity; notably, the government held none. Moreover, just under half of the shares in each factory were held in reserve for future issuance to smallholders. CDC also provided $47 million in soft loans for the expansion and operation of these factories. Similarly, the World Bank loaned a further $10.4 million for new factories.

As a result, CDC and the World Bank acquired wide powers from the outset. The World Bank and CDC placed representatives on the board of KTDA, and needed to agree to any changes in senior management, grower levies, managing agency contracts, and any change of more than 10% in the planting program, among other things. CDC also seconded employees to KTDA, including technical experts and, at one point, an acting chief accountant.

Vertical Integration (1974-2000)

By the early 1970s, dissatisfaction with the commercial estate companies that were managing the factories had set in at KTDA, because of a widespread view that the charges levied by these managing agents were too high. In 1973, this prompted Charles Karanja, then General Manager of KTDA, and grower representatives on the KTDA Board to push for a transition to in-house management, encouraged by the continuing success of the Ragati factory. By then, this had clocked three years under the watch of a native Kenyan manager, Naftali Wachira (who appears in the introductory section of this chapter). This proposal foundered initially on opposition from Board members who questioned whether KTDA was ready to take on these new responsibilities, barely ten years after its inception. But Charles Karanja persevered and, remarkably, took the matter to Kenyan President Jomo Kenyatta, as Karanja was from the same constituency as Kenyatta and knew him personally. At the end of the day, Karanja's reasoned argument, personal assurances and appeal to the President's Africanization drive won through. In 1974, KTDA took over the management of all of its factories.

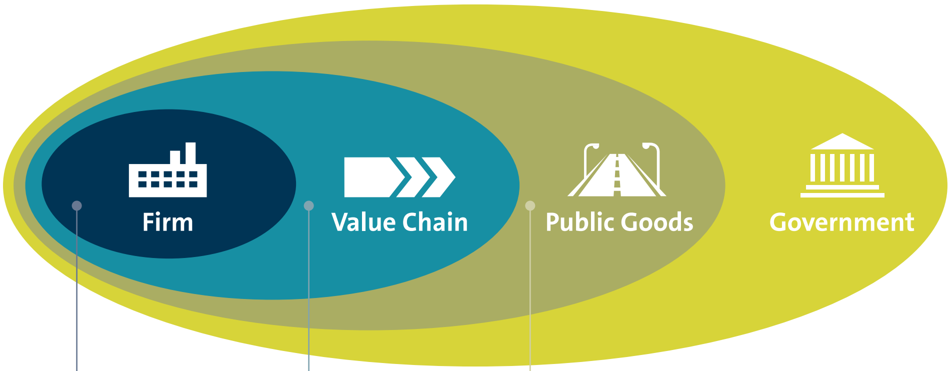
The transition to local management succeeded because they were well-trained and experienced

With the departure of the commercial operators, many feared that the factories would collapse, but these fears turned out to be unfounded. The key to this successful transition was that many African personnel, like Wachera, had been recruited and trained by the managing agents through the first decade of operation. KTDA had also made arrangements for the estate companies, which were part of the multinational corporations, to send some of the local personnel overseas — to England in particular — to improve their understanding of buyers' requirements and end-consumer markets for tea. As a result, KTDA attracted many bright young people who saw it as a good place to build a career, and helped them develop and eventually take on positions of leadership. One example is that of Charles Karanja himself, who joined as an Executive Assistant after obtaining his degree in Engineering and rose through the ranks to become General Manager of KTDA in 1970.

As a vertically integrated producer of tea, KTDA was able to achieve cost savings and improve profits, and continue to grow. In 2000, KTDA was rechristened the Kenya Tea Development Agency and transformed itself into a smallholder-owned company. Freed from government control and reinvigorated by new management, KTDA has driven greater quality and efficiency in its operations, supported by a vibrant dynamic of internal competition. For instance, growers receive a weekly report of prices achieved at auction for the teas from each and every factory, and get a bonus at the end of the year from the profits made by their own factory. The company has also diversified into new businesses such as blending, packing and warehousing and, crucially, has continued to improve its payouts to the smallholders who are now also its owners.

After vertical integration, KTDA was able to achieve cost savings and improve profits, while growing strongly

FIGURE 14: Scaling Barriers for Smallholder Tea in Kenya



Firm:
- Lack of capital to set up factories
- Lack of managerial and technical skills required to run factories and marketing operations

Value Chain:
- Lack of quality input of green leaf
- Lack of smallholders' access to credit to buy their inputs, e.g., fertilizer
- Weak sourcing channels from smallholders for green leaf

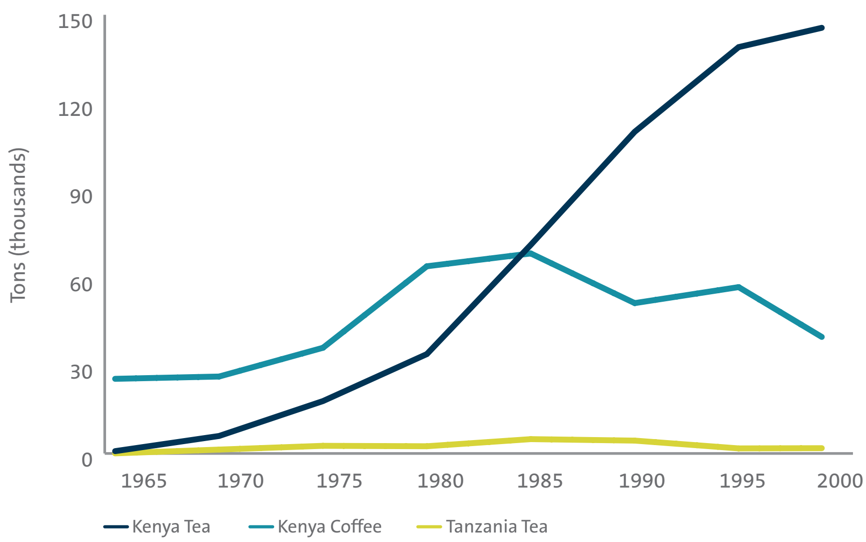
Public Goods:
- Lack of industry knowhow on cultivation and harvesting of high-quality tea
- Lack of improved tea varieties adapted to local conditions
- Lack of good feeder roads for transport of green leaf to factories

Source: Monitor Deloitte analysis

KTDA's journey has been extraordinarily successful, and stands in stark contrast to many smallholder development initiatives across Africa. Why was it so successful when so many others were not? Some have argued that it is a case of 'Kenyan exceptionalism' — essentially, that favorable conditions in Kenya made success more likely than in other African countries. Certainly, Kenya benefited from relative peace (despite serious political turmoil) in the critical few decades after independence, unlike Uganda, where civil war destroyed the fledgling smallholder tea industry. Others suggest that KTDA's success could be credited to the suitability of tea as a smallholder crop and to favorable conditions in the global tea markets, which has had lower volatility in prices compared with other crops.

To improve our understanding of the reasons behind its unusual success, we examined the KTDA case alongside two comparison industries — smallholder tea in Tanzania and smallholder coffee in Kenya. Both were, like KTDA, the focus of state-sponsored development initiatives in the 1960s and 1970s. The climate and soil conditions in both countries are favorable for coffee and tea, making both viable cash crops. However, as is clear from Figure 15, the performance of Kenyan smallholder tea stands apart from the other two. Tanzanian smallholder tea never achieved any significant scale; and Kenyan smallholder coffee, while initially successful, has been in decline since the mid-1980s.

FIGURE 15: Smallholder Production (1965-2000)



Source: Christian Partners Development Agency (CPDA), (2008) *Report on Small Scale Tea Sector in Kenya*; Etherington D., (1971) *An International Tea Trade Policy For East Africa: An Exercise In Oligopolistic Reasoning*, Food Research Institute Studies; Mureithi, L., *Coffee in Kenya: Some challenges for decent work*, (2008) International Labour Office; Baffes, J., *Tanzania's Tea Sector - Constraints and Challenges*, (2004) World Bank; Monitor Deloitte analysis

TANZANIA SMALLHOLDER TEA

Historically, tea cultivation and processing in Tanzania had been dominated by large settler estates, as was the case in Kenya. Smallholders only began to grow tea after independence in 1961. In 1968, the Tanzanian government established the Tanzania Tea Authority (TTA) and charged it with developing the smallholder tea industry across the areas of production, processing and marketing. It set up large nurseries to supply tea plants to smallholders, and established eight factories to process smallholder green leaf. However, TTA also functioned as the regulator for the overall tea sector, unlike in Kenya where the Tea Board of Kenya performed that function independently. It also managed its own processing factories from the outset, unlike KTDA's reliance on experienced commercial managing agents in its first decade of operation.

Smallholder production nearly doubled in the ten years from 1976, from 2,614 tons to 4,900 tons, representing nearly 30% of national output.[48] However, behind this growth lay some serious problems, as described in a World Bank report written in 1983 when the industry was near its peak:[49]

"[T]here is a problem of engineering standards, lack of spare parts, power failures, non-replacement of machinery and overloading. There have also been substantial delays in payments to smallholders, as a result of Tea Authority's precarious financial position (p. 24). ... Accounting records show total 'over payments' for green leaf to smallholders amount to Tsh 3.6 million, implying falsified weight and/or payment records. Similarly, per kilogram costs attributed to Tea Authority-managed estate production were up to three times higher than the price paid to smallholders, again implying great inefficiencies if not falsification of records."

Other reported problems included inadequate use of inputs such as fertilizer and crop protection, poorly maintained feeder roads between farms and factories, and low yields due to failure to adopt new tea varieties.

The research base supporting smallholder tea was also weaker than in Kenya. When the East African Community collapsed in 1977, so did the TRIEA. Unlike in Kenya where the Tea Research Foundation of Kenya was set up as an independent successor organization, tea research activities in Tanzania were transferred to the Ministry of Agriculture. The Ministry was unable to adequately fund these research activities, and the research that was conducted focused on high input intensity cultivation as practiced by the large estates rather than that practiced by smallholders.[50]

As a result of these problems, smallholder production began to fall in the late 1980s. Then, in 1994, the Tanzanian government went into a severe financial crisis, lengthening delays in grower payments by TTA and bringing an end to subsidies for fertilizer. Production went into free fall: by 1998/99, smallholder output had fallen to 1,207 tons, barely a quarter of its peak level 13 years earlier.[51]

Tanzanian smallholder tea production declined by three quarters in less than 13 years

Faced with poor performance, and under pressure from the World Bank (which had been a significant contributor of funds), the Tanzanian government took steps to reform the tea sector. In 1996, it established the Tea Research Institute of Tanzania (TRIT), a new organization to be funded by a tea industry levy, with Cranfield University in the UK appointed as managing agent. A third of its budget was earmarked for activities to benefit smallholders, even though they contributed only

48 Baffes, J., (2004) *Tanzania's Tea Sector — Constraints and Challenges*, World Bank.
49 *Tanzania Tea Sector Report*, (1983) World Bank (pp. 87).
50 Baffes, J., (2004) *Tanzania's Tea Sector — Constraints and Challenges*, World Bank.
51 Ibid.

a tenth of industry levies due to their small share of total tea production. External funding also played a supportive role: TRIT has received funding from DFID and the European Union, as well as from the Tanzanian government.

The government also took steps to separate the roles of regulation and smallholder promotion through the Tea Act of 1997. It broke up TTA and established two new bodies in its place: the Tea Board of Tanzania would assume regulation and licensing responsibilities for the overall tea sector, and the Tanzania Smallholder Tea Development Agency (TShTDA) would promote and develop the smallholder industry.

The privatization of TTA factories promoted a recovery

The next step was the privatization of TTA factories by the Ministry of Agriculture beginning in 2000. The Wakulima Tea Company, backed by investment from CDC through Tanzania Tea Packers, bought two of these factories in 2001, setting in motion a remarkable journey of revival in this beleaguered industry. Wakulima renovated the facilities, reinstated extension services and, importantly, began to pay growers on time. Many aspects of Wakulima's model resemble KTDA, albeit on a much smaller scale. The company has tea collection centers in every village to reduce traveling distances for farmers, procures inputs centrally to lower prices for growers, provides credit to growers to help them purchase those inputs, and provides extension services through a contract with TRIT. Smallholders currently own about 30% of the company through the Rungwe Smallholders Tea Growers Association and the company aims to transition to full smallholder ownership over time.

The Wakulima Tea Company is now a growing, profitable enterprise engaging over 12,000 smallholders. Over the past decade, production has increased by over 600% and per-kilo payments made to growers have risen by 275%.

However, the company has continued to face significant challenges in recent years, and external industry facilitators have helped to address some of these challenges. One of these was the prohibitive cost of entry into certification schemes, notably the Rainforest Alliance scheme, now required by leading tea buyers. Wakulima was unable to afford the cost of certification-related activities and faced being locked out of large parts of the export market, so the Chai Project[52] stepped in to cost-share a number of activities related to certification. On-going challenges include power struggles within the tea growers' association and the emergence of a splinter group within it, and a (not unrelated) rise in side-selling to a competitor factory on a neighboring estate. These are difficult problems for the company to resolve on its own, so the Chai Project, together with TShTDA, has been working intensively with the association to help it strengthen its management capabilities and governance.

52 The Chai Project is a smallholder tea development programme jointly funded by The Wood Family Trust, Gatsby Charitable Foundation, and DFID. The Wood Family Trust has operational lead of Chai which is implemented in partnership with the broader tea industry. The objectives of Chai are to double smallholder made tea production and increase overall competitiveness of the sector.

KENYA SMALLHOLDER COFFEE

The smallholder industry in Kenyan coffee had much deeper roots than those in Kenyan tea, since Africans were allowed to grow coffee as early as 1934, albeit with strict controls on the size and location of farms to safeguard the interests of the established coffee estates around Nairobi. In 1937, the Kenyan Planters Cooperative Union was set up to procure and provide inputs to smallholders on credit. The Union later extended its scope to processing by setting up and managing milling facilities. In what would prove to be a critical shift, smallholders were mandated in 1944 to join cooperatives administered by the government through the Coffee Board, the industry regulator and the sole marketing agent for smallholder coffee.

Following independence, the Jomo Kenyatta government allocated more land to farmers and set up another institution, the Coffee Development Authority, whose primary role was to provide technical assistance to farmers and extend loans to cooperatives for the construction of processing facilities. Following Kenya's entry into the International Coffee Agreement in 1966, highly restrictive export quotas were put in place and the Coffee Board introduced stringent price controls. This created difficult conditions for the commercial estate operators and many decided to exit the industry. Smallholder production overtook that of the estates in 1978 and continued to flourish through to the mid 1980s, achieving a record crop of around 50,000 tons in 1985.[53]

Fundamental weaknesses remained behind the strong growth of smallholder coffee in Kenya

However, fundamental weaknesses remained behind the strong growth of the 1970s and early 1980s. The appointment of cooperative managers was controlled by the government, which led to appointments being made for political reasons rather than in the interest of sound professional management. There was also little investment made in upgrading milling facilities in order to produce higher quality coffee. Meanwhile, the fragmented and complicated nature of the value chain, and lack of transparency in market information, created considerable scope for mismanagement and corruption, which compromised payouts to farmers. Unlike KTDA factories, which purchased green leaf selectively, the cooperatives were not discriminating in what they accepted from their members and mixed cherries from different farms together into a common batch at the mill. These conditions made the industry vulnerable. When world prices became more volatile in the late 1980s, processing facilities fell into disrepair, farmer payments faltered, and supplies of fertilizer and other inputs were interrupted.[54]

In the 1990s, the Kenyan government, under pressure from the World Bank, liberalized the industry. It pulled out of its management role in the cooperatives, and

53 EDE Consulting (2005) quoted in Condliffe, K., Kebuchi, W., Love, C., and Ruparell, R., (2008) *Kenya Coffee: A Cluster Analysis*, unpublished, retrieved March 2014 from: http://www.isc.hbs.edu/pdf/Student_Projects/Kenya_Coffee_2008.pdf.
54 Mureithi, L., (2008) *Coffee in Kenya: Some challenges for decent work*, International Labour Office.

allowed private investors to build new processing mills. Unfortunately, however, instead of strengthening the smallholder industry, these measures weakened it. The cooperatives had relied on government management for so long that they had no managerial capability of their own. As political tensions and ambitions grew, groups splintered: between 1994 and 1999, the number of coffee cooperatives increased by 45% even as total smallholder coffee production *fell* by almost 40%.[55]

Smallholder coffee production in Kenya today is at half the level of its peak in 1985

Today, smallholder coffee in Kenya remains in the doldrums, with production at half the level of its peak in 1985. Farmers are believed to receive payouts equivalent to just 20% of the auction price,[56] compared with 75% in the case of KTDA's growers.

LESSONS

While host governments loom large in all three cases described above, our key finding is that much of the success comes from tailoring and limiting the roles of government agencies to the areas they are uniquely placed to address. Certainly, we believe that agencies should steer clear of direct management of firms, since their capabilities do not match the needs of market-based enterprise. Even in industry facilitation, governments should carefully assess where they should intervene directly, and where they should create, enable or bring in other actors to provide needed support.

1 Get the model right for scale.

At its core, KTDA was a market-based enterprise that aimed for, and delivered, premium customer value. The deep involvement of CDC and the World Bank in both KTDA and its factory subsidiaries meant that the industry could not be run simply as an extension of the Ministry of Agriculture. Meanwhile, the critical role of the commercial tea estate companies in processing and marketing during KTDA's first decade infused it with their operational knowhow and strong market orientation, and shaped a generation of native Kenyan managers and workers who went on to run the Agency when it outgrew the aegis of the commercial estate companies in 1974.

It is also very clear that, despite its strong sense of mission to benefit smallholders, KTDA's primary operational focus as a business was on *delivering customer value*, not on pandering to its growers. It positioned itself to produce high-quality tea that achieved a price premium in the market, and organized its entire value chain to deliver on that strategy, including the

55 Owino, K., (2002) *The Coffee Industry in Kenya*, published in *The Point*, Bulletin of the Institute of Economic Affairs, Issue No. 36, Institute of Economic Affairs.

56 EDE Consulting (2005) quoted in Condliffe, K., Kebuchi, W., Love, C., and Ruparell, R., (2008) *Kenya Coffee: A Cluster Analysis*, unpublished, retrieved March 2014 from: http://www.isc.hbs.edu/pdf/Student_Projects/Kenya_Coffee_2008.pdf.

decision to vertically integrate in 1974. Upstream, KTDA eased growers' access to costly inputs such as fertilizers that were critical for maintaining yield, by negotiating lower prices with suppliers and then providing these inputs to growers on credit. It ingrained 'two leaves and a bud' as the mantra spoken by every grower and company worker, and created strong incentives for quality by rejecting sub-standard green leaf and having each factory pay an annual bonus to its growers based on its own profits. The company even developed special bags to ensure adequate ventilation and prevent premature fermentation of leaves during transportation.

Critically, KTDA also fostered a strong sense of competition to drive performance as it grew, in sharp contrast to many other organizations that lose their edge as they grow, as good performance gets lost in a sea of mediocrity. It achieved this by making the weekly auction prices — one of the key drivers of smallholder payout levels — for each factory completely transparent to growers, driving strong pressure to improve performance where factories were falling behind their peers.

In contrast, Tanzanian tea performed poorly because it was not driven by strong enterprises built around a robust business model, with TTA functioning very much as an extension of the Ministry of Agriculture. Not only did the Tanzanian government not bring in commercial expertise to establish and run the TTA factories, the wave of nationalization in the 1970s actually saw the government take over private tea estates in the West Usambara region; the total output of the estates after nationalization collapsed to 300 tons, from over 1,800 tons before. [57] Weak managerial and technical skills, corruption, and limited resources were the causes of poor performance at both the nationalized estates and the TTA factories.[58] There were also weak incentives for TTA growers to improve quality since they knew that all their green leaf would be bought up regardless, for a fixed price. Moreover, growers could not count on being paid on time for green leaf, which inevitably eroded their commitment to tea cultivation over time. In contrast, by applying commercial discipline and a professional management approach, the Wakulima Tea Company has brought a new lease of life to old TTA factories and achieved a remarkable turnaround for their growers.

The Kenyan smallholder coffee industry was similarly beleaguered. Fundamentally, smallholder cooperative structures gave farmers ownership of facilities, but lacked the management and technical skills needed to manage extension services, input supply and milling. Incentives for quality were weak at the farm gate, since all cherries were bought indiscriminately

57 Baffes, J., (2004) *Tanzania's Tea Sector — Constraints and Challenges*, World Bank.
58 Ibid.

and mixed together into a common batch at the mill. And whereas KTDA's weekly reports and regular grower meetings allowed smallholders to easily assess the fairness of their payouts, the cooperatives had an impenetrable structure of levies and charges that allowed corrupt officials to divert money away from farmers.[59]

2 Resolve barriers for the whole industry.

In Kenyan smallholder tea, a number of actors, including KTDA itself in the early days, facilitated solutions to key ecosystem scaling barriers. TRIEA generated industry knowhow particularly in tea cultivation, and produced improved tea varieties so that growers could achieve higher yields. KTDA and the Ministry of Agriculture delivered extension services to help farmers cultivate tea to a high standard. They also helped cash-strapped growers to buy key inputs such as tea bushes and fertilizer. KTDA established buying centers and protocols, and the government upgraded and maintained feeder roads. It also trained and groomed a whole generation of local Kenyan leaders and managers to take over the running of the factory companies. Meanwhile, the Tea Board's effective regulation of the sector, including the strict control of factory licenses, minimized the risk of side-selling by growers.

In Kenyan smallholder coffee, key scaling barriers were unresolved. Extension services were inadequate as the Ministry of Agriculture's officers had not had specialist training and were unable to provide focused support, and the cooperatives were not capable of reshaping these services to better serve farmers' needs nor of delivering such services themselves. As one observer told us, "There was a critical lack of skill for producing quality coffee beans in the sector. Farmers were never really trained to produce quality coffee." Worse, direct government interference in cooperatives' affairs and the imposition of political appointees actually *strengthened* barriers to scaling, as did the subsequent government retreat from direct administration that precipitated the splintering of many cooperatives.

In Tanzanian smallholder tea, deficits in industry knowhow, improved tea varieties and supplier capability were some of the fundamental barriers that were not effectively addressed, particularly after the end of the TRIEA in 1977. It is interesting to note that in more recent years, TRIT has shown significant progress in resolving these barriers, and has very likely contributed to the early success of the Wakulima Tea Company.

59 Mureithi, L., (2008) *Coffee in Kenya: Some challenges for decent work*, International Labour Office.

3 Step into a role that fits.

The industry facilitators in Kenyan smallholder tea played to their strengths. Government, with the support of multilateral development institutions, was particularly effective at intervening directly in some aspects, such as the provision of hard infrastructure and extension services, two areas where it already had considerable capabilities. In others, it helped to create new institutions to house new capabilities, such as in tea industry research where it created an independent institution in the form of TRIEA (and later the Tea Research Foundation of Kenya) that could be permanently dedicated to this challenge. Meanwhile, CDC and the World Bank played significant roles as investors in shaping the trajectory of the industry, bringing in both substantial amounts of money, and expertise both at operational levels and on the Board. They also leveraged their influence to push for key design decisions that determined the course of the industry, including having the SCDA (and then KTDA) constituted not as a division of the Ministry of Agriculture but as a parastatal, and having each factory set up as a separate company.[60]

Our two comparison cases suggest that there are clear risks to government agencies overstepping the bounds of their appropriate facilitation roles. For instance, Kenyan coffee cooperatives were organized directly by the government, and this dramatically increased the potential for abuse for political ends, hurting the industry. Meanwhile, in Tanzanian smallholder tea, research activities suffered when they moved into the Ministry of Agriculture following the closure of the TRIEA, but these have begun to recover with the establishment of TRIT as an independent institution in 1996.

4 Commit *and* adapt.

The case of Kenyan smallholder tea is a long one, and its success owes much to the sustained efforts of industry facilitation, such as over three decades of extension services provided by the Ministry of Agriculture and the continuing work of the Tea Research Foundation in advancing industry knowhow. Meanwhile, as an investor, CDC played a role in KTDA that spanned almost five decades.

CDC's approach also evolved over time. At the outset, it provided advice on the establishment of the SCDA, and provided a significant level of support even at operational levels to the fledgling industry. As the industry matured and local Kenyans began to move into managerial and leadership positions, CDC's role evolved even as it remained influential as a voice on the KTDA Board. The most dramatic change during this period, and one that the

60 Ochieng, C. M. O., (2008) *Development through Positive Deviance and its Implications for Economic Policy Making and Public Administration in Africa: The Case of Kenyan Agricultural Development, 1930-2005,* Elsevier.

investors were not expecting at the time, was the move to in-house management of processing and marketing. Nevertheless, once KTDA demonstrated that it could run its operations effectively, CDC and the World Bank adapted their plans to invest behind the new strategy.

FURTHER LESSONS — BEYOND AGENCIES AND PARASTATALS

While we have chosen a set of primary cases for this chapter where governments have played a large role, we are not suggesting that government must always be involved, either in the enterprise or in facilitation. Indeed, the emergence of the Wakulima Tea Company in Tanzania illustrates how the real key to success lies in having a strong commercial enterprise at the core, which is then supported by appropriate facilitation, in this case by a private foundation, a government agency and a parastatal.

Another example of this can be seen in the case of the Jaipur Rugs Company (JRC), an innovative enterprise based in Rajasthan, India, which engages some 40,000 poor rural artisans to produce premium hand-knotted rugs for export. The company, set-up by founder-chairman Nand Kishore Chaudhary, provides designs and materials to artisans on credit towards sales of the finished rugs to the firm. This is not an entirely new business model in India, but JRC pays its suppliers substantially more than existing middlemen, a model that it is able to sustain by selling high-quality products for a premium in markets such as the United States — their business model therefore has clear parallels with KTDA's despite the obvious differences in sector and geography.

A key scaling barrier here is that people in the rural communities targeted by the company do not have pre-existing skills required in order to weave these rugs. Therefore, in order to facilitate the entry of new artisan communities into the value chain, Chaudhary set up Jaipur Rugs Foundation (JRF) in 2004. The Foundation identifies target villages, assesses their readiness through field research, mobilizes the community in high-potential sites, and then trains selected individuals in those communities in the basic craft of weaving. Trained and competent weavers can then be incorporated into the company's value chain where they continue to develop their skills. JRF also helps to provide weavers with social development services like healthcare camps and literacy programs. As a nonprofit, the Foundation is more easily able to leverage external philanthropic funding with an interest in improving rural livelihoods, and work with other partners on initiatives that have the potential to benefit the villages where the company's artisans are based.

Looking across all these cases suggests one further lesson on scaling market-based solutions for poor producers, and that is that **facilitators often need to intervene directly with poor producers so that firms can stay focused on their customer markets.**

Focusing on one's customers and on serving them well is, of course, one of the basic rules of business. In a market-based solution engaging poor consumers, while this is not always easy, the firm's customers are also its intended beneficiaries; for example, a water kiosk's customers and the members of their households benefit directly from consuming its products. Where solutions engage poor producers, these groups diverge: while the firm's commercial success hinges on serving its customers, its impact comes from benefiting poor producers. Yet these producers present clear *value chain* scaling barriers, as they tend to lack the necessary skills, resources and structures to readily participate. This has the potential to divide the firm's attention, causing it to be insufficiently focused on its customers and weakening its business performance.

In these situations, facilitation directly with producers can help to address this scaling barrier without diverting the firm's attention from its customers. For example, the Jaipur Rugs Company is able to maintain a strong focus on understanding its target customers in the United States and delivering products that meet their needs and desires, while a closely aligned facilitator in the form of the Jaipur Rugs Foundation trains and prepares new artisan groups to enter the industry value chain. In much the same way, the work of the Wood Family Trust, TShTDA and TRIT as facilitators in Tanzania helps resolve barriers relating to smallholder tea growers so that the Wakulima Tea Company is focused not on the latest political intrigue in the local community, but on achieving quality and premium prices at the Mombasa auction.

5 Sustaining Scale

So far, we have focused our attention on the challenge of getting market-based solutions to scale. But what happens to industries once they are operating at scale, when they are benefiting hundreds of thousands or even millions of poor households each year? Does scale itself present new risks and challenges to these industries? If so, how can these industries best prepare themselves to sustain scale and impact in the long run, and what role can industry facilitators play?

In this chapter, we will reflect on these questions by considering the later-stage experiences of two industries we have already introduced: MFIs in India (and in Andhra Pradesh in particular), and smallholder tea in Kenya.

THE INDIAN MFI CRISIS

On 6 August 2010, SKS Microfinance became the first Indian MFI to be publicly listed on the stock exchange following its initial public offering (IPO) of shares. From humble beginnings as a nonprofit in 1998, SKS had become India's largest MFI reaching over 7.3 million women across 19 states, and a 99% on-time repayment rate in 2010.[61] Its IPO was oversubscribed by almost 14 times. Spurred by the successful stock market debut of SKS, others like Spandana and SHARE were expected to announce their IPOs in short succession. In short, MFI was the hottest ticket in town.

However, in October 2010, the party came to a grinding halt.

61 Nath, S., news article in Forbes India (October 2010), retrieved March 2014 from http://forbesindia.com/printcontent/18502.

Thousands of borrowers in the southern state of Andhra Pradesh, deciding that MFI interest rates were too high, had stopped repaying lenders. At around the same time, a spate of suicides involving over-indebted MFI clients were reported in the media, and local politicians and government officials were quick to blame the predatory behavior of MFIs. Fearing a voter backlash, the state government moved to restrict the activities of MFIs. The loan book contracted from $5.4 billion to $3.6 billion[62] in just one year, and around 35,000 people lost their jobs with MFIs across the state.[63] Three years later, the industry is still saddled with approximately $965 million in bad loans.[64]

The Andhra Pradesh crisis, sensationalized though it was in the media, underscored a real issue: the rising indebtedness of thousands of poor borrowers brought on by aggressive lending growth. With the entry of commercial investors—the industry received $529 million in private equity investment in the 18 months to July 2010[65]—MFIs were increasingly focused on growth targets, even in crowded markets such as Andhra Pradesh and certain districts in Karnataka. According to reports, the six largest MFIs were each adding around 479 loan groups a day in the two years to March 2010[66]. This breakneck growth was achieved at the expense of credit quality, resulting in multiple lending and debt rollovers. The industry was overheating.

It might seem that the Indian MFI crisis exploded suddenly, but there had been warning signs

It might seem that the Indian MFI crisis exploded suddenly in 2010, but there had been warning signs. In 2006, a small repayment crisis occurred in the Krishna district of Andhra Pradesh. The local government District Collector ordered the closure of 50 local MFI branches, following accusations that they were charging usurious interest rates, using coercive collection methods, and disrupting self-help groups (SHGs) by poaching their members. After receiving a warning from the Reserve Bank of India (RBI) to change their lending practices, the MFIs offered to reduce interest rates and adopt more responsible lending practices. But this seemed to have had little impact, and it was just business as usual when the branches reopened. Y. Venugopal Reddy, a former Governor of the RBI, writes:[67]

"In May 2007, a formal circular was issued to all the [MFI] NBFCs, expressing the concerns of the RBI and hoping for responsible conduct... In retrospect, given the track record, the RBI should have insisted on enforceable regulations and not been content with an advisory role."

62 Microfinance Information Exchange website, retrieved March 2014 from www.mixmarket.org/
63 Unnikrishnan, D., news article in Livemint (October 2013), retrieved March 2014 from http://www.livemint.com/Companies/99un1M17pdKE1O6BOAB1qJ/Microfinance-crisis-leads-to-loss-of-35000-jobs.html.
64 Ibid.
65 Mader, P., (2013) *Rise and Fall of Microfinance in India: The Andhra Pradesh Crisis in Perspective*, John Wiley & Sons.
66 Ibid.
67 Reddy, Y.V., (2013) "Microfinance in India — Some Thoughts", in *Crests & Troughs: Microfinance in India* (pp. 205-213), ACCESS Development Services.

In 2009, another repayment crisis flared up in the Kolar district of Karnataka, instigated by a local group. The local silk-weaving community had experienced a slowdown in activity, resulting in a sharp drop in income, so women who had taken multiple loans were struggling to make repayments. By stopping repayments, the local group had achieved a reprieve for these women but left their lenders holding millions of dollars in bad debts.

Part of the problem was that Indian MFIs, in their modern incarnation as non-bank finance companies, had evolved a model that was heavily reliant on external commercial capital since they were prevented by Reserve Bank regulations from taking deposits.[68] This commercial capital brought with it pressures of high growth and return expectations. This was unlike MFIs in many other countries—MiBanco in Peru and BRI in Indonesia, to name but two—that had evolved more balanced product portfolios encompassing both lending and saving, and that arguably felt the influence of commercial investors less acutely than their Indian counterparts.

Indian MFIs were sitting on a political tinderbox

To make matters worse, the industry was sitting on a political tinderbox. As MFIs scaled, their relationships with the Andhra Pradesh state government became increasingly strained. Since the late 1980s, the government had meticulously built the SHG-Bank Linkage Program with support from the World Bank. Together with the local nonprofit sector, the government had spent years educating local communities, establishing thousands of groups and building up a sizeable microloan portfolio with these groups. But as more and more MFIs entered the villages of Andhra Pradesh, bringing with them the offer of bigger and easier loans, SHG participation began to decline. These tensions would result in clashes such as the 2006 Krishna crisis. In 2010, when borrower deaths sparked public outrage, the tinderbox exploded into flames. Seizing the momentum, the state government passed an ordinance severely restricting general access to MFIs.

The industry was neither unaware of the risks it faced nor inactive in responding, but it is clear it did too little, too late. After the Kolar repayment crisis in 2009, 43 MFIs came together to form the Micro Finance Institutions Network (MFIN), an industry association for non-bank finance company microfinance institutions (NBFC MFIs). Recognizing that multiple lending was a cause of the Kolar crisis, the association worked with the International Finance Corporation to create the industry's first credit bureau, called High Mark. Meanwhile, various actors—including CGAP, the Michael & Susan Dell Foundation, Ford Foundation, and rating agency M-CRIL—had been promoting systems to improve the tracking of social impact. These could have helped restore balance to commercial and social goals, and could potentially also have helped to defuse political risks, but MFIs did not move quickly to adopt them.

68 The RBI had prohibited the taking of deposits by NBFCs following a spate of financial fraud involving these non-microfinance firms in the 1990s that had resulted in depositors losing their savings.

One way of understanding these problems is as a failure of effective self-regulation and management of political risk by the industry. Seeing this need, the early leaders and facilitators of the MFI industry had set up Sa-Dhan in 1999 as a sector association for a broad spectrum of microfinance and community development organizations. But the evolution and growth of the MFI industry strained the coherence of Sa-Dhan's membership, as the large NBFC MFIs increasingly felt that the association did not represent their interests. When Sa-Dhan issued warnings about the problems that could arise from poor lending practices, they went unheeded by these MFIs. The association had also developed a code of responsible conduct and worked to institute it across its membership but was unable to achieve widespread adoption. By 2009, a chorus of other voices, notably CGAP and Nobel Prize winner Mohamed Yunus, were also calling on the MFIs to moderate their growth and renew their focus on their mission goals. However, these had no discernible effect.

The industry failed to effectively self-regulate and manage political risk

By 2009, the only effective lever for changing the industry's practices, in all likelihood, was official regulation, but the regulatory regime addressed MFIs only as part of the wider NBFC sector, and the RBI was reluctant to extend itself into addressing industry-specific issues. Since 2005, Sa-Dhan has been pushing for the passing of a microfinance bill that would recognize MFIs' unique operating model and context, and provide a sound basis for specific official regulation, but this has proved difficult to achieve. Even today, the bill remains mired in policy disagreements—one of the areas of friction being whether microfinance should be subject to state or central regulation—amid a continuing lack of enthusiasm from the RBI.[69] As noted microfinance expert, Elizabeth Rhyne writes in her analysis of the Indian microfinance crisis:

> *"The crisis of the moment has, correctly, focused attention on modifying specific lending behaviors: restraining growth, instilling better client protection practices, developing credit bureaus. However, at the same time, there's an opportunity now for Indian policy makers to think more deeply about the role of MFIs in the financial sector."*[70]

KTDA CRISIS AND TRANSFORMATION

In Chapter 4, we examined the story of KTDA, ending with its eventual transformation from a parastatal agency into a smallholder-owned enterprise, as part of a broader wave of economic liberalization that swept through much of the world in the 1980s and 1990s. As it happened, KTDA made the transition smoothly to private smallholder ownership and has continued to perform well over the past 13 years, having added over 200,000 smallholders and 11 factories to its fold. But there was nothing inevitable about this success.

69 News article in The Hindu (February 2014), retrieved March 2014 from: http://www.thehindu.com/business/Industry/parliamentary-panel-asks-govt-to-bring-fresh-micro-finance-bill/article5699350.ece.

70 Rhyne, E., *On Microfinance: Who's to Blame for the Crisis in Andhra Pradesh?*, blog in The Huffington Post, retrieved March 2014 from: http://www.huffingtonpost.com/elisabeth-rhyne/on-microfinance-whos-to-b_b_777911.html.

It certainly did not start with a rosy situation. By the early 1990s, despite KTDA's strong performance and rising grower payouts, discontent was brewing. Eustace Karanja, who was Managing Director between 1993 and 1999, says that he "came in at a time when KTDA was seeing a lot of commotion, dissatisfaction from farmers and disagreement from government about how it was to be run." Smallholders were demanding greater active involvement in decision-making at KTDA. Their participation on the factory company boards, and representation within KTDA through tea committees and the national board, did not give them much of an influence over important decisions. Part of this was because KTDA operated the processing business in a highly centralized fashion. As the researcher Cosmas Ochieng notes[71]:

"The KTDA routinely failed to contact the respective factory boards on major investment decisions directly affecting them. Moreover, KTDA headquarters procured virtually all goods and services required by the factory companies it managed without consulting them."

By the early 1990s, discontent was brewing at KTDA

When KTDA started, it was an economic minnow flying under the radar of the political classes, sparing it the worst of political interference and rent seeking. By the early 1990s, this was no longer the case. The gains to be had by influencing decisions on the award of vendor contracts, for instance, were considerable. Managers and directors—even managing directors—who tried to stop these practices faced a very real risk of displeasing their political masters. Moreover, the influence of external investors such as CDC and the World Bank, who had helped to maintain discipline in the early days, was waning.

The rise of tea smallholder agitation in this period coincided with increasing political liberalization in Kenya, marked by a return to multi-party democracy in the 1992 elections. KTDA was becoming more important politically. Not only was it now a key generator of foreign exchange for the country, it also provided a livelihood for hundreds of thousands of growers and their families. Whatever troubled KTDA would concern the leaders of Kenya. As such, it was unsurprising that tea smallholders found a sympathetic ear in a group of Members of Parliament with constituencies in the tea- and coffee-growing regions. They set up a parliamentary group called the Coffee and Tea Growers Parliamentary Association, chaired by Mwai Kibaki, Chairman of the Democratic Party and a former Minister with roots in the tea-growing Nyeri district.[72] It advocated grower strikes as a way of driving policy change, and spawned an activist group[73] that coordinated grower opposition through protests and boycotts, and exerted increasing pressure on the government for reform.

71 Ochieng, C. M. O., (2010) "The Political Economy of Contract Farming in Tea in Kenya: The Kenya Tea Development Agency (KTDA)" in *The Comparative Political Economy of Development: Africa and South Asia,* Routledge. Available at: http://works.bepress.com/cosmas_ochieng/6.

72 Mwai Kibaki went on to win the race to become President of Kenya in 2002.

73 The group was called the Kenya Union of Small-Scale Tea Owners (KUSSTO).

These agitations occurred against the backdrop of a broad international push for economic liberalization, not least from the World Bank and the International Monetary Fund through their Public Enterprises Reform Program. This aimed to bolster the role of the private sector in the economy, by privatizing parastatals that were considered to be inefficient, improving the regulatory environment, increasing private ownership, and strengthening capital markets.[74]

In 2000, KTDA became the world's largest smallholder-owned company

Encouraged by these developments, KTDA launched its privatization process in 1996, hiring external consultants to help it value its assets and to determine the best route to privatization. The CDC offered to invest additional capital in return for a 40% stake in the firm and its factories, but this was declined. Instead, the blueprint proposed by the leadership of KTDA placed the entire industry in the hands of smallholders. Factory company shares would be allocated to growers based on the amount of green leaf supplied between 1988 and 1996. KTDA would in turn be owned by the factories: 25% of its shares would be divided equally across the 45 existing factories, and another 25% would be allocated to factories in line with their share of production between 1988 and 1996. The remaining shares would be reserved for future distribution to new factories. The factory companies would appoint KTDA as managing agents, but would also be free to terminate these contracts if they were unhappy with the service provided. In 2000, the Daniel arap Moi government approved these recommendations, and on June 15th, 2000, KTDA, now renamed Kenya Tea Development Agency, became the world's largest smallholder-owned company.

LESSONS

1 Scaling success itself creates new risks.

Working to affect the lives of the poor is a politically charged subject, so a scaling industry may run into opposition from established players and stakeholders here, some of whom may be in the governing political class. As they become more prominent, inclusive industries are also likely to come under greater scrutiny, particularly around their claims of impact. Their commercial success may also create other risks, such as rent seeking by political actors or retaliation by established businesses that may feel their interests are being threatened. Meanwhile, industries can also overheat when the sheer force of commercial investors' expectations overwhelms self-regulating mechanisms that worked perfectly well in the earlier stages of growth. This can lead to both social impact and business performance being compromised, as well as an aggravation of political and other risks.

74 *1992 Policy Paper on Public Enterprises Reforms and Privatization,* (1998) Ministry of Finance, Republic of Kenya, retrieved March 2014 from: http://www.pc.go.ke/index.php?option=com_content&view=article&id=128&Itemid=518.

2 Someone needs to watch out for the poor.

Because of these risks, it is important that inclusive industries should always be vigilant on the question of impact on the poor—while we have described the position of the poor as customers or producers in relation to these business models, they are also the intended beneficiaries from an impact perspective. This vigilance might be achieved through company governance structures, by giving beneficiaries a measure of ownership and influence, as we see with KTDA. The model adopted by BancoSol in Bolivia combines this with the participation of impact-focused investors, such as international development finance institutions. Industry associations are likely to have a role to play in this regard, but it remains to be seen if such groupings have the ability to regulate the actions of their members effectively when this runs counter to the pressure of powerful commercial forces. Of course, external official regulators can play a strong role in this respect, but as we see in the case of MFIs, it may be difficult to achieve an ideal regulatory environment (which may involve several regulatory agencies) that balances encouragement and restraint. Certainly, there is a risk that external regulation may be unduly harsh because of the political dynamics at play.

3 Political dynamics need to be addressed.

It is important to remember that inclusive businesses do not automatically win favor with the political classes. Instead, there is typically a range of political dynamics that have to be addressed and risks that need to be managed. Perhaps because KTDA's roots were in the public sector, its leadership was adept at engaging in this. Both of the key transitions in KTDA's life have needed approvals from the Kenyan President, first the transition to in-house management under Jomo Kenyatta, and then privatization under Daniel arap Moi. On both occasions, KTDA's leaders appealed to the natural political interests of these leaders as both Kenyatta's ethnic Kikuyu power base and Moi's Kalenjin community had significant participation and interests in smallholder tea at the time of their respective decisions. On the contrary, the failure of MFIs to address political dynamics in Andhra Pradesh set them up for a severe backlash when borrower problems provoked public ire.

4 Industries benefit from effective mechanisms for learning.

Effective learning mechanisms need to feed through into appropriate actions in response to what is being learnt, about both impact and business performance, and correcting course if necessary. In this sense, the Indian MFI industry had weak learning mechanisms. Despite the notes of caution and moderation sounded by Sa-Dhan, CGAP and Professor Yunus, and the Kolar repayment crisis, the industry failed to respond decisively to prevent the 2010 crisis. Ultimately, the industry has gone through a correction, but one that has been imposed on it by external circumstances and actions, rather than one of its own volition. The case of KTDA illustrates a stronger learning mechanism. KTDA's leadership moved decisively to channel smallholder discontent into a compelling way forward and it benefited from a fairly well-developed system of parliamentary democracy that was becoming stronger and increasingly pluralistic through the 1990s. Moreover, the World Bank and the IMF played a helpful role in encouraging this process of learning and adjustment through their programs and strong liberalization agenda during that period.

5 Get ahead of the curve.

Because at-scale problems can be difficult to fix once they emerge, it helps to take steps to mitigate these risks even as the industry is scaling. A closer examination of KTDA's history, for example, reveals a number of stepping stones that helped it to transition successfully in 2000. At the outset, KTDA had institutionalized smallholder representation through an elaborate structure of divisional, district and provincial tea committees and on the National Board.[75] While the role of tea committees was largely advisory, they were also asked to make recommendations across a number of areas. District committees, for instance, would select sites for buying centers and recommend the number of new growers to be allowed each year. Smallholders were also allowed to buy shares in factory companies, although only a small minority took up the offer before 2000. Despite the limited nature of this type of participation, this allowed many smallholders to gain experience of shareholding, governance and management for several decades before privatization. Meanwhile, the structure of the factories as separate limited liability companies, which had been a requirement of their early investors, eased the transition to ownership by local growers. While it is not known to what extent these early decisions were taken with the foresight that complete smallholder ownership would one day be a conceivable option for KTDA, it is certain that they made this option more realistic when it came along and improved its chances of success when implemented.

75 It is likely that this move was taken at least in part to neutralize the Central Province Tea Growers Association, a group that was agitating against the stringent restrictions imposed on growers by the Special Crops Development Authority, the predecessor of KTDA, and pressing for greater smallholder representation in the initiative. By instituting its tiered Board structures with smallholder representation, the KTDA effectively co-opted the tea growers' association into its own structure.

6 Approaching Industry Facilitation

Industry facilitators act to resolve scaling barriers, at the levels of both the enterprise and its wider business ecosystem, to the benefit of many firms, not just one. They do this in order to help promising market-based solutions — which are commercially viable and benefit the poor — accelerate towards scale.

In this chapter, we reflect on our findings from the case studies and other research, and consider the following questions in greater depth:

- Why are industry facilitators needed?
- What does an industry facilitator do?
- Who can be an industry facilitator?
- How is industry facilitation best done?
- How much does industry facilitation cost?
- How do industry facilitators learn and adapt?

WHY ARE INDUSTRY FACILITATORS NEEDED?

In Chapter 1, we said that industry facilitators were needed because firms often do not effectively resolve key scaling barriers on their own. But *why* do firms not do this? This is not an academic question. In order to be truly effective, industry facilitators must respond not only to the scaling barriers in a given situation, but also the specific constraints on firms that prevent them from resolving these barriers.

Most commonly, firms do not resolve these barriers because they just *cannot* do so, especially if they are relatively small, entrepreneurial ventures.

The challenge of building last-mile distribution networks for clean cookstoves, for instance, required much greater *financial resources*, *knowledge* and *skills* than Envirofit could reasonably possess. The transformation of the early MFIs in India into non-bank finance companies — the key to tapping mainstream sources of commercial funding — could not have been achieved without a combination of both grant capital and capacity building from external sources. In the same way, KTDA was unable to generate essential knowhow on tea cultivation, build feeder roads, subsidize tea bushes and raise money from lenders on its own. It relied heavily on the support of various government agencies to resolve these barriers. Meanwhile, Jaipur Rugs Foundation leverages external grant funding to identify and prepare potential new weaving communities for participation in Jaipur Rugs' value chain, including by training them in basic weaving techniques.

But it is not just about money, knowledge and skills. Where there are key institutional barriers, as in the case of solar lighting providers in Africa operating under an unfavorable tax and subsidy framework, the problem can also be that smaller firms lack the *relationship networks* and *influence* that would allow them to put their case across to governments effectively. Therefore, the International Finance Corporation (IFC), through its Lighting Africa initiative, is stepping into this role, formulating recommendations and meeting with government officials to promote more favorable policies.

Firms that can remove scaling barriers sometimes will not do so

Larger, more established corporations, such as the Tanzanian mobile network operators in Chapter 3, are more likely to have these networks. But even they can be constrained by their lack of *neutrality* when they attempt to resolve barriers at the institutional level. In Tanzania, industry facilitators like the Bill & Melinda Gates Foundation were able to inform policymakers in ways that the companies, with their strong vested interests in the market, were unable to do.

Meanwhile, firms that can remove scaling barriers sometimes *will not* do so. Sometimes, this is because the firm does not have the *perspective* that allows it to clearly see and understand scaling barriers. At other times, the required investment might be so large or so risky — or both — that the firm does not expect to achieve its *required rate of return*. The cost of educating consumers and channels on the benefits of products with strong *push* characteristics, such as zinc for childhood diarrhea, is often greater than can be justified by the potential profits alone, making it a losing business proposition for firms.

Often, this problem is bound up with the *free rider problem*. In Tanzanian mobile money, because the benefits of building new distribution channels and stimulating awareness would be diffused across the highly competitive mobile sector, any player deciding to invest in this faced a high risk that returns would flow to its competitors. In situations where firms are unlikely to come together to invest collectively — which is the vast majority of industry situations — facilitators can break the deadlock by addressing these barriers.

The disinclination of firms to work and act collectively to resolve barriers has wider ramifications. Even where there are no free rider problems, firms' *competitive instincts* and mutual lack of trust make such cooperative efforts unlikely. For example, manufacturers of high-quality clean cookstoves benefit significantly from having effective standards that give them an advantage over low-quality suppliers, but they would not have been able to collectively define these standards without the facilitative intervention of the Global Alliance for Clean Cookstoves and International Standardization Organization.

These constraints are summarized in Table 3.

TABLE 3: Constraints on Firms in Relation to Addressing Scaling Barriers

FIRMS CANNOT ADDRESS BARRIERS	FIRMS WILL NOT ADDRESS BARRIERS
• Lack of financial resources • Lack of knowledge and skills • Lack of relationship networks and influence • Lack of neutrality	• Poor understanding of barriers • Insufficient risk-adjusted return • Free rider problem • Competitive instinct

Having an accurate analysis of these constraints is a useful basis for effective industry facilitation

We believe that having an accurate analysis of these constraints in any given situation is a useful basis for effective industry facilitation. Consider a situation where firms face inhibitory government policies. An industry facilitator might conceivably give funding to firms to pursue advocacy activities with policymakers, or to commission research to build the evidence base for the impact of the industry. But if the real barrier is that firms do not have the networks that give them access to policymakers, then these will not be the most effective measures. Instead, an industry facilitator might use its own networks and influence to engage policymakers, or co-opt the help of another agent who can do so.

WHAT DOES AN INDUSTRY FACILITATOR DO?

Industry facilitators could engage in a wide range of activities to help resolve key scaling barriers where firms cannot or will not do so, and these fall into three categories:

1. **Providing resources to firms.** Most obviously, when firms are unable to resolve barriers because they or other participants in the industry (such as suppliers or distributors) lack resources, industry facilitators can help by supplying these resources. These might be in the form of grants, as the SIDBI Foundation for Micro Credit (SFMC) did with many Indian MFIs, or they might be investment capital, as with the soft loans provided by CDC to the KTDA factory companies. But resources can also be helpful in resolving barriers when firms are unwilling to do so.

For instance, in Tanzanian mobile money, the Bill & Melinda Gates Foundation's grant overcame a critical free rider problem. Of course, resources go beyond money alone: people, intellectual property, professional services, access to networks, or even endorsements, could be valuable, depending on the situation. If an industry facilitator is unable to effectively provide a resource that is needed by the industry, it should look to co-opt another actor who is able to do so (see point 3 below).

2. **Acting or advocating directly.** Where firms cannot or will not act, even when provided with the right resources, industry facilitators can help by acting or advocating directly. These interventions might take place directly with firms, such as when FHI 360 helped pharmaceutical distributors develop new marketing and sales programs, or when the Global Alliance for Clean Cookstoves and the International Standardization Organization convened clean cookstoves producers to define common standards. But they might also intervene directly in the wider ecosystem: for example, an industry facilitator might seed new supporting service providers (as Shell Foundation did with IntelleGrow), bring new producers into the industry value chain (as Jaipur Rugs Foundation does with would-be rug weavers), conduct research to advance industry knowhow (as the Tea Research Institute of East Africa did), or advocate the industry's cause with government policymakers (as FSDT did with the Bank of Tanzania).
3. **Stimulating and aligning complementary facilitation.** Any single industry facilitator is unlikely to be able to effectively address all the significant scaling barriers in a given situation. It is therefore often useful to stimulate others to engage in additional facilitation, by relating the growth of the industry to their core interests. It seems obvious that doing this could be helpful in many situations, yet this aspect of industry facilitation is easy to overlook because we naturally focus most easily on what we can deliver ourselves. The key here is to get the right actors to join the effort, and to try to ensure that the activities undertaken by various facilitators stay aligned. Sometimes, this takes the shape of formal partnerships (such as between DFID and SFMC in the Indian MFI case). But coordination can also happen informally, even unconsciously. One of the simplest ways to enable alignment is to generate and share information systematically across all facilitators, to provide a shared basis for conversations to take place and decisions to be made.
4. **Industry facilitation is primarily a local activity.** Because it involves working with local industry participants and stakeholders over time, industry facilitators need to have strong local knowledge and relationships, and must be able to follow developments closely and respond quickly if needed. This means that international organizations and other actors based primarily outside the geography in question need to commit their personnel to substantial time on the ground, as the Bill & Melinda Gates Foundation did in Tanzania, for example. However, in

Any single industry facilitator is unlikely to be able to address all barriers cases where similar industries have emerged (or are emerging) across a number of countries, some aspects of local facilitation might be complemented by international efforts. For example, the MFI training toolkits developed by CGAP for international use were then adapted by SFMC to meet the specific needs of the Indian industry. In a similar way, the support provided by the Alliance for Financial Inclusion to the Bank of Tanzania complemented the facilitation efforts of FSDT and the Bill & Melinda Gates Foundation in Dar Es Salaam.

In working to resolve barriers, industry facilitators should understand that scaling barriers are often inter-related across different levels. Consider the Indian MFIs' need for additional funds to on-lend, as we described in Chapter 2; this shortage of funds was a *value chain* barrier, but effective change was precipitated by a combination of three interventions, only one of which was at the same level: the creation of M-CRIL as a ratings service provider. The other two interventions — the advocacy that resulted in the extension of the Priority Sector Lending mandate to cover MFI, and the transformation loan program led by SFMC that helped turn the firms into non-bank finance companies — were at the *government* and *firm* levels respectively.

Scaling barriers are often inter-related across different levels and may require a combination of interventions

Therefore, industry facilitators should consider not only what scaling barriers are presenting themselves — or, to put it differently, what scaling barriers have been experienced and identified directly by the firms — but also what other barriers, across all levels, might be driving or contributing to the challenge that is first observed. Based on this understanding, industry facilitators should also consider when *combinations* of interventions might be more effective in resolving a key barrier than single interventions.

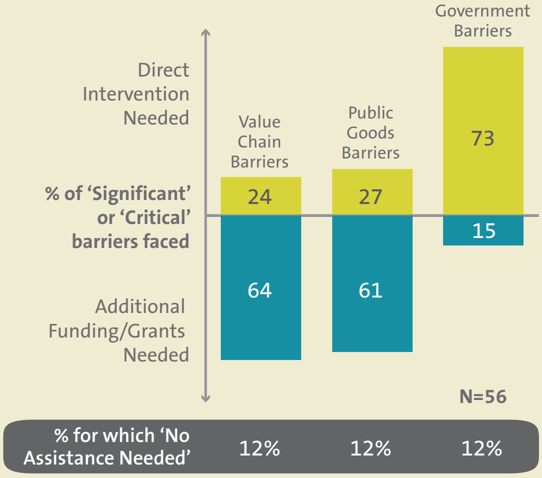
Industry facilitators may act ahead of the curve, to pre-empt potential scaling barriers before they emerge. Industry facilitators should consider acting in this way when a critical barrier has a high likelihood of emerging and would be much easier to pre-empt than to resolve once it has emerged. The case of mobile money in Tanzania illustrates this, where industry facilitators engaged pro-actively with the Bank of Tanzania to help lead to a favorable regulatory climate for the industry before any specific barriers existed.

Large scale brings new challenges of its own. Industry facilitators should therefore consider working to mitigate at-scale risks as the industry is scaling because they may be more difficult to address effectively once actual problems emerge. As we saw in Chapter 5, the seeds of the financial overheating and political backlash that triggered the Indian MFI crisis in 2010 had been sown in the years of heady growth. While we will never know with certainty what would have averted the crisis, it is arguable that moves such as strengthening MFI governance structures, changing its capital base, instituting self-regulatory mechanisms, or bringing it under more robust official regulatory oversight, might have been the stitch in time that was needed to save the proverbial nine.

FUNDING OR DIRECT INTERVENTION?

In our recent survey of inclusive enterprises, we asked respondents if they wanted assistance in resolving scaling barriers at each level and, if so, whether they would prefer to receive additional funding so that they could address the barriers themselves or have a third party intervene directly to address the barrier. The results are shown in Figure 16. At the *value chain* and *public goods* levels, the majority of respondents who wanted help preferred to receive the money, but at the *government* level, they would rather have a third party intervene directly. This is perhaps not surprising given that our respondents were typically smaller, entrepreneurial firms, which presumably lack some combination of the skills, networks and neutrality required to affect barriers at the *government* level.

FIGURE 16: Firms' Preference for Direct Intervention or Additional Funding Assistance



Source: Monitor Deloitte survey of social enterprises

In addition, where market-based solutions engaged poor producers, direct intervention is likely to be useful in helping new producers to enter industry value chains, so that firms can focus more readily on their customer markets, as we explained at the end of Chapter 4.

WHO CAN BE AN INDUSTRY FACILITATOR?

The industry facilitator is a role, not a type of actor. We believe that a range of different actors can play facilitation roles.

However, as we have seen in our case studies, the key is to always step into a role to which we can bring our strengths while recognizing our constraints. Potential actors that could step into these roles include:

- **Foundations and aid donors.** Philanthropic funders are able to direct their financial resources to actors who can address key scaling barriers. For instance, Shell Foundation used targeted funding to help Envirofit develop its cookstoves business, and to stimulate further innovation to plug gaps in the industry value chain relating to last-mile distribution, financing and carbon credits. The Bill & Melinda Gates Foundation's grant to Vodacom broke the deadlock on building mobile money distribution and stimulating demand, and their creation and support of the Alliance for Financial Inclusion helped the Bank of Tanzania to develop better policies. USAID's committed support to Rwandan coffee smallholder programs over ten years helped scale the specialty coffee model there.

We believe that a range of actors can step into industry facilitation roles

But funders can also act in more direct ways. The Bill & Melinda Gates Foundation had direct access and credibility in entering into close dialogue with the Bank of Tanzania on the appropriate regulatory framework for mobile money. Meanwhile, Shell Foundation's team was able to help Envirofit design and execute on its clean cookstoves business model, thanks to its past experience with incubating and scaling other enterprises.

- **Mission-driven intermediaries.** Locally based, mission-driven intermediaries with relevant skills and assets are well placed to be frontline industry facilitators. As a specialized financial inclusion nonprofit based in Dar Es Salaam, FSDT was able to engage continuously with the Bank of Tanzania on policy issues relating to the mobile money industry and other financial inclusion topics. In facilitating the ORS/zinc industry in Uttar Pradesh, India, the deep local presence of FHI 360[76] and its local partner NGOs has allowed them not just to build and maintain the relationships needed with firms and rural medical practitioners, but also to closely observe market developments and adapt the facilitation program in response.
- **Multilateral development agencies.** The Lighting Africa initiative of the International Finance Corporation and World Bank is taking the lead in facilitating a number of industries related to modern off-grid lighting across Africa. Its activities include running consumer education campaigns, defining quality standards, and generating market intelligence. Sometimes, these agencies take a broader, supportive role in relation to the industry. For example, the successful development of Rwandan specialty coffee and transformation of KTDA into a smallholder-owned enterprise were precipitated partly by the liberalization efforts of influential actors like the World Bank.
- **State agencies and parastatals.** In the case of smallholder tea in Kenya, the Tea Research Institute of East Africa, established as a state corporation, was key to building the required base of knowhow on tea cultivation and to breeding better tea varieties to improve yields. The Ministry of Agriculture provided hundreds of agricultural extension workers to help new tea growers climb the learning curve, and provided a sovereign guarantee so that KTDA could borrow more easily. However, government agencies should take care to limit their direct facilitation activities to areas where they are clearly better placed to address barriers than other types of actors.
- **Industry associations.** Industry associations can help to address key scaling barriers that benefit from collective action from firms, such as when there is a free rider problem or when a united voice is needed to get the attention of government policymakers. Sa-Dhan in the Indian MFI case is one such example. While

76 Even though FHI 360 is an international nonprofit, it has an India office in New Delhi and delivers its programs in Uttar Pradesh through a local team based in its field office in the state capital, Lucknow.

these bodies can be effective in facilitation, it must be noted that forming such an association does not create an effective industry facilitator *per se* since, as we explained earlier in this chapter, collective action does not come naturally to competitive firms. Because of this, careful thought and deliberate effort (and quite likely assistance from another facilitator) should be put into helping firms come together and move forward effectively on a common agenda.

- **Investors.** While it may seem strange to include investors, whose primary focus is on individual firms rather than on entire industries, in this list, there certainly are investors who have been active in facilitation. One example already described is that of CDC, which invested in KTDA itself and in its subsidiary factory companies, providing both financial and non-financial support. Another, more recent, example is that of the Medical Credit Fund, a Dutch nonprofit established in 2009 that is improving private primary healthcare provision in four African countries. The Fund deploys its investment capital to facilitate local bank lending to private clinics, and couples this with the delivery of technical assistance and accreditation programs to improve quality of provision.

Anchor facilitators can provide leadership and coordinate actions from multiple facilitators

Sometimes, multiple facilitators work alongside each other to support an industry. In such cases, there may be an *anchor facilitator* who provides leadership, stimulates appropriate actions from other facilitators, and enhances coordination between all facilitators. An example of this is the role played by the UK development agency DFID in the Indian MFI industry. Anchor facilitators can help to guide appropriate actions from other facilitators by setting out a clear analysis of the situation and describing an overarching strategy to resolve barriers. Even more so than others, anchor facilitators must clearly look out for and encourage roles that others can play in resolving barriers, and not just focus on their own capability and role. Anchor facilitators have tended to be independent of financial interests in the industry they are facilitating, although this is not always the case. This position allows them to deal neutrally with all industry participants, as well as with official institutions and other stakeholders, since such facilitators have no potential to enjoy financial gains from any industry development. In some situations, an anchor facilitator might need to make financial investments because of the absence of other investors, but it should do so in full knowledge of the trade-offs that may result (see '*Does Investing Go With Facilitation?*').

DOES INVESTING GO WITH FACILITATION?

Using investment tools in a broader strategy of industry facilitation involves a trade-off, as investing in one or more industry players will change other players' and stakeholders' perceptions of the facilitator. This change might be unfavorable, if the other parties perceive this to compromise a facilitator's neutrality and interest in the industry as a whole. It might also be favorable, bringing the organization closer to the day-to-day concerns of other businesses and developing a better understanding of the reality on the ground.

One case that illustrates how thoughtfully one should approach these trade-offs is the work of the Gatsby Charitable Foundation and the Wood Family Trust in Rwanda, where the two foundations have their Imbarutso program to assist the local smallholder tea industry. Smallholders in Rwanda earn about 25% of the made tea price, compared with 75% earned by KTDA growers in Kenya (as described in Chapter 4). In late 2011, when the Rwandan government announced the privatization of two smallholder-supplied factories at Mulindi and Shagasha, it seemed a good opportunity to demonstrate the benefits of a new model along the lines of KTDA's — a well-managed business providing professional services and fair prices for quality leaf to growers, with the aim of eventual smallholder ownership. Success here had the potential to influence the companies that owned the other tea factories in Rwanda, as well as the structuring of any new greenfield factories, and could even have impact beyond the country's borders.

As industry facilitators, both Gatsby and the Wood Family Trust believed that taking an investment stake would normally be an instrument of last resort. Their preference would have been to facilitate investment by development finance institutions or impact investors, and to limit their role to providing technical advice and ensuring effective structures and governance. In this case, however, they felt that it was highly unlikely that other investors would step in. After carefully assessing that the potential benefits outweighed the risks, the foundations made the decision to form Rwanda Tea Investments (RTI), an investment vehicle which entered the competitive bidding process and subsequently acquired majority shares in the factories on behalf of local growers. RTI intends to eventually fully transfer ownership to the smallholders when their investment is repaid[77] and key performance indicators met.

Following the acquisition, the industry facilitators' dialogue with other factory owners has actually improved, partly because there is little direct competition between the factories. Meanwhile, their financial stake in the industry's success seems to have increased their credibility with the Rwandan government and boosted their engagement with them. This is partly because the facilitators have taken action to mitigate the trade-offs associated with the investment, but also because the Rwandan government has a very specific focus on developing the smallholder farmer, in addition to its strong pro-business leanings. Context, therefore, is crucial in determining whether investment can contribute successfully towards industry facilitation.

77 The foundations do not seek a commercial return on their investment.

HOW IS INDUSTRY FACILITATION BEST DONE?

Industry facilitation is a *facilitative* process because it is fundamentally about getting other actors — firms, suppliers, distributors, customers, government stakeholders — to act differently. It is about building industries that continue to scale and have impact beyond the period of facilitation itself. This has important implications for the way in which industry facilitation is done. Here are five initial themes that emerge clearly from our research:

1. **Help the whole industry forward.** It seems obvious to say that facilitators should aim to help whole industries advance, but this can easily be forgotten once the work is underway. It is only natural that relationships with some firms will be stronger than those with others. Indeed, it is often helpful to have particularly close relationships with a few firms that can provide honest feedback, help innovate solutions to tough problems and step up to lead when the situation calls for it. However, this must be balanced with the overarching aim of resolving scaling barriers for *all* firms. For instance, an industry facilitator might begin to solve a problem by designing and piloting a solution with one firm, but must then consider how any successful solution could thereafter be replicated by others. This may or may not happen automatically, and may vary between industries as well as over time. In the early days of the Indian MFI industry, the Michael & Susan Dell Foundation funded and invested in many MFIs because it felt that replication effects were weak in the fledgling industry. Now, however, things are different: the Foundation recently funded just one MFI to carry out market research and to explore opportunities for new customer products, because it expects any resulting successes to be adopted easily by the rest of the industry.

2. **Balance design with adaptation.** Industry ecosystems are clearly complicated because they are made up of many parts, but they are also *complex* in that these parts interact with each other in multiple ways to produce unpredictable outcomes for the whole system. Therefore, while industry facilitation benefits from the application of rigorous analysis and thoughtful design before action is taken, it must also continually adapt once it is in motion — as industries evolve, as obstacles emerge or dissipate, as opportunities come and go. None of the real-world industry facilitators described within the previous chapters set out with a complete roadmap. Instead, they observed and learned as they went along, and adapted their activities in response to the changing environment. For example, it would have been impossible for SFMC and DFID in 1998 to predict that the first

Industry facilitation must continually adapt once it is in motion big breakthrough for MFI financing would arrive five years later in the form of ICICI's partnership model, yet it was vitally important that SFMC responded to this development by stepping up its efforts to upgrade MFIs' skills and systems so that they could safely absorb and effectively deploy the additional capital.

3. **Mobilize, don't drive.** Fundamentally, it is not facilitators that must scale industries, but firms. Therefore, a critical aspect of industry facilitation is to mobilize firms to find, implement and exploit solutions to the problems facing the industry; facilitators can lend a helping hand but should avoid imposing their own ideas.[78] In the case of Tanzanian mobile money, for example, while it was critical that the Bill & Melinda Gates Foundation provided funding to break the free rider deadlock, it has also been essential for the mobile network operators to establish distribution channel structures and launch marketing campaigns that were right for them, and to continue to innovate and evolve their strategies, for instance by integrating mobile money more closely with their airtime businesses. Industry facilitators should also consider where they need to act directly, instead of enabling firms (whether individually or collectively) to act. For example, industry facilitators helped leaders from MFIs and related organizations to come together to form Sa-Dhan, a move that then helped to secure key government policy changes essential to the industry's viability and scalability.

It is not facilitators that must scale industries, but firms

4. **Pay attention to leadership.** The stories of success in this report are also testaments to individual leadership, certainly in firms but also in industry facilitators. Many of us — not least investors and funders — pay careful attention to questions of leadership when we look at individual firms, but forget to do the same when considering industries. Yet the dynamics that drive the growth of industries emerge from those that drive the growth of firms, and we all know that leadership is a critical part of any firm's success. Industry facilitators should therefore understand the profile of leadership across the industry as they design, implement and adapt their activities. They should also invest in cultivating leadership potential. After all, a fast-growing industry will need many more leaders in the future than it does today. Consider the example of KTDA, where investment in training and grooming local personnel for leadership enabled it to successfully transition to in-house management after its first decade of operation.

78 This aspect of industry facilitation practice has much in common with the concept of *adaptive leadership* described by Heifetz, Kania & Kramer in the *Stanford Social Innovation* Review in 2004 (see the *Recommended Reading* section later on in this report). While written in the context of the foundation and nonprofit world, we believe that many of the lessons they offer have broad relevance to many other areas of endeavor where so-called adaptive problems (rather than technical ones) are faced, such as in the area of industry facilitation.

5. **Think long term.** The journey to scale can take many years, particularly where scaling barriers are difficult to resolve, such as with push product industries. And, as we have discussed, there could be continuing challenges and facilitation needs even after scale is achieved. There are two key implications of this. The first is that industry facilitators need to commit to working on a sustained basis for a long period of time. While it is difficult to say exactly what this period is because it varies so widely, our past research suggests that market-based solutions typically take at least five to ten years to reach significant scale. This could imply changes to the way in which plans are developed, resources committed, teams configured and results assessed. The second implication is that, because most types of industry facilitators (government agencies being the most likely exception) will not be able to sustain their involvement for the entire duration of the industry's journey, they should consider how best to 'exit' from the industry before all significant barriers and risks are resolved. This may involve establishing or strengthening mechanisms to deal with known barriers and risks, or co-opting or creating new industry facilitators that could deal with both known challenges and those yet to emerge.

The journey to scale can take many years, particularly where barriers are difficult to resolve

LEARNING FROM WIDER MARKET SYSTEMS DEVELOPMENT PRACTICE

Industry facilitation can be seen as part of a broader field of practice involving the development of market systems to benefit the global poor. One related approach is Making Markets Work for the Poor (commonly known as M4P) — initiated and driven by practitioners, coordinated and developed by the Springfield Centre, and supported by a group of donors including the UK's DFID, the Swiss Agency for Development and Cooperation, and the Swedish International Development Cooperation Agency. The M4P approach aims to reduce poverty by changing market systems to work more effectively and sustainably for the poor, and facilitation roles taken on by donor organizations and their intermediaries are central to these efforts. This and other similar approaches, such as the USAID Value Chain Analysis approach, have been applied extensively for many years. As a result, we believe that there are, and will continue to be, opportunities to share learning between these related practices

For instance, the Springfield Centre's analysis of past M4P programs has led it to synthesize a list of four key characteristics for effective facilitating organizations.[79] We believe that these are equally useful for industry facilitators to consider. They are:

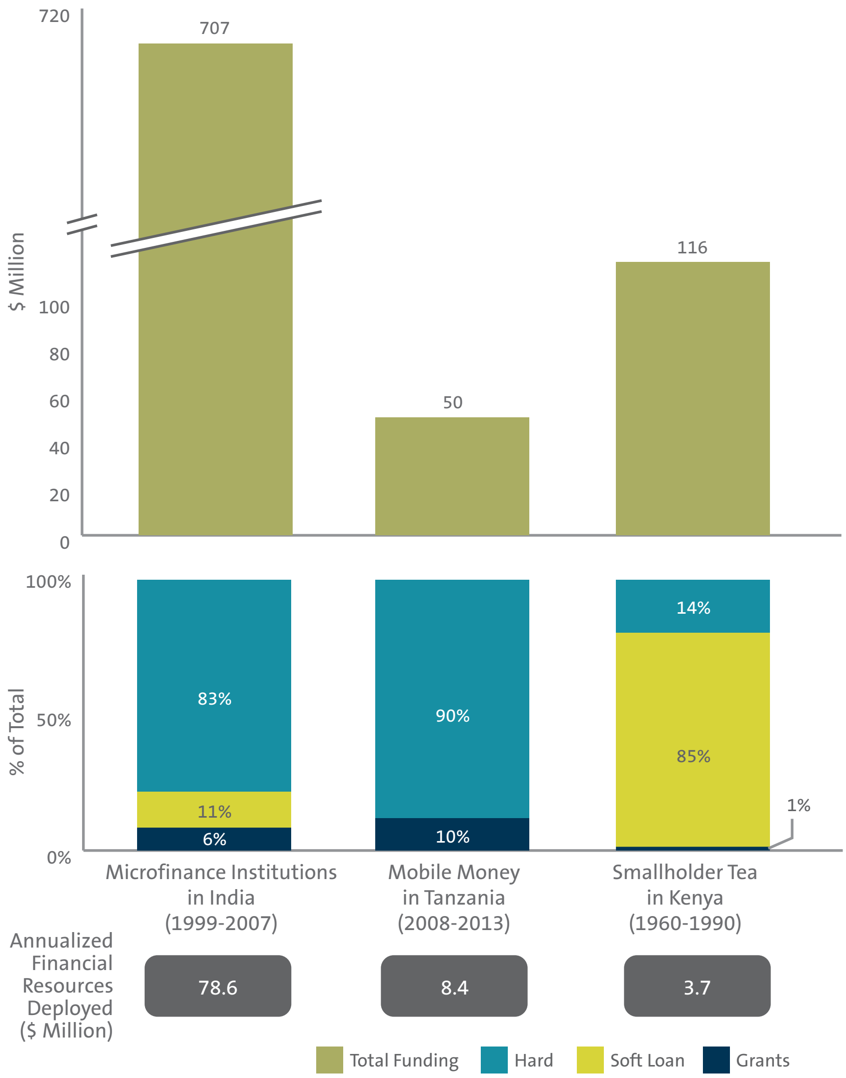
- **Closeness:** A relationship with market players that shows understanding and informed empathy but without being captured by them. The task of facilitation can be seen as acting as a bridge between the public objectives of funders (agencies and government) and the narrow, private aims of individual market players.
- **Knowledge and insight:** Knowing enough to be able to analyze a market system and assess opportunities to intervene and add value.
- **Entrepreneurial instincts:** Married to knowledge, the capacity to see where opportunities may lie, and to be able to shape and convey an 'offer' to different players in the market that responds to their situation and addresses systemic constraints.
- **Independence:** A status that allows facilitators to be independent, and — equally as important — to be seen to be independent in the eyes of market players so that their role and their status is understood and accepted.

79 *A Synthesis of the Making Markets Work for the Poor* (M4P) *Approach*, (2008) Swiss Agency for Development and Cooperation (SDC).

HOW MUCH DOES INDUSTRY FACILITATION COST?

Industry facilitation requires money — substantial amounts of money — to provide resources to industry participants and to support direct intervention activities. Moreover, a blend of different types of capital, including grant funding, has supported the development of these industries. In Figure 17 below, we summarize the estimated financial resources that have gone into four of our studied cases, not including the cost of facilitation activities funded internally by facilitators.

FIGURE 17: Estimated Financial Resources for Industry Facilitation



Note: The financial resources are estimates and are not comprehensive; Hard - Commercial rate equity, debt and investments by firm; Soft - Non commercial capital like grants and non-commercial rate debt; Financial resources deployed for MFIs include equity infusions between 2004-Q12007, Commercial bank loans as of 2006; Financial resources deployed for mobile money include estimates for investments from players other than Vodacom
Source: Monitor Deloitte analysis

HOW DO INDUSTRY FACILITATORS LEARN AND ADAPT?

Because the work of industry facilitation is adaptive, it is vital that facilitators are able to learn as markets evolve and new information emerges, and to adjust strategies and tactics as required. This has important implications. Industry facilitators need to be able to pick up information from the field on an on-going and timely basis, such as through market research instruments or information-sharing arrangements with firms. Generating the data required to do this typically requires significant expenditures — if not of money then certainly of time and effort — since facilitators will by definition be working in emerging industries that have not attracted wide interest, and in countries with under-developed information infrastructure. Once they have this information, industry facilitators must then regularly reflect and review their activities in light of industry developments — adaptation need not only happen at these points, but they may not happen at all without them.

Focusing on contribution, rather than attribution, is a meaningful and useful approach to industry facilitation

Industry facilitation, like any intervention in a system, creates particular methodological challenges for monitoring and evaluation. Facilitation is only one part of industry development, albeit a critical one, and there may be more than one facilitator at work, making it difficult to attribute any industry changes to the actions of an individual facilitator. In situations like these, where observed outcomes tend to flow from a multiplicity of causal factors, focusing on *contribution*, rather than attribution, is a more meaningful and useful approach. This means that industry facilitators should consider how their actions contributed alongside the actions of others to observed changes in the industry, rather than try to assess if the change would have happened but for their own actions. The tools that can be used to implement this approach are well established. For example, an industry facilitator could build a Theory of Change (also known as a Results Chain by some aid donor agencies[80]) that describes the causal chain that relates their activities and those of others to desired outcomes; indicators could then be defined at various points and tracked to help assess progress. To help spot problems and opportunities quickly, facilitators should include some leading indicators that give advance warning of potentially significant changes. Other methods of analysing contribution include in-depth case studies such as those used in this report, as these can allow us to build richly detailed explanations of contribution, and causal inquiry with firms and stakeholders.

When it comes to taking action in these dynamic situations, agility is key — windows of opportunity can close as quickly as they open up. Where foundations or official aid donors are funding intermediaries to be frontline industry facilitators, these relationships should be configured to allow agile adaptation. This requires high degrees of flexibility, as well as a good flow of information from the field to the funder. In the case of zinc in Uttar Pradesh, multiple rounds of program adaptation have been made possible by the close and highly engaged relationship between FHI 360 and the Bill & Melinda Gates Foundation, and by the commitment of the lead program officer from the Foundation to spending a week each year in the field to observe developments and to participate in a shared learning process.

80 For more information on the Results Chain and the DCED (Donor Committee for Enterprise Development) Standard for Measuring Results in Private Sector Development, see http://www.enterprise-development.org/page/measuring-and-reporting-results.

OUR STORY OF LEARNING AND ADAPTATION

Our own journey in the Indian low-income housing industry, as introduced at the beginning of this report, has been full of the twists and turns that await all industry facilitators. Of course, key scaling barriers became apparent as the industry developed, such as customers' access to finance and the severity of delays caused by regulatory procedures. But important opportunities emerged too. One of these was the chance meeting with the entrepreneurs who would establish the first specialist housing finance company to serve informal sector customers. Another was the World Bank workshop where we met the Municipal Commissioner of Surat, who then invited us to help promote the solution in her city. Meanwhile, some aspects of the industry have developed as we expected, but others have not. For instance, there has been a greater proliferation of projects from smaller local developers than from larger 'corporate' players with national aspirations.

Some things we got completely wrong. Most notably, we had always envisaged a supporting service — a 'demand aggregator' — within the industry that would give our target customers a helping hand in accessing this new supply of low-income housing, because we were concerned that they might lose out to middle-income homebuyers and investors. As we did the groundwork for a potential service pilot, we realized that some of our assumptions were unfounded. For instance, awareness of projects was already fairly high among our target group, and the real barriers to purchase were ones that would be difficult to influence, such as where projects were located, or customers' location preferences and expectations. When this was set alongside the limited potential to monetize revenues from developers, housing finance companies and customers, we simply could not see a way for the service to be commercially viable. When we shared these concerns with our project funders, the Michael & Susan Dell Foundation, they came to the same conclusions and together we decided to stop the work and not move forward into the pilot phase.

Going forward, we are de-prioritizing our work directly with individual developers and housing finance companies, and focusing instead on engaging with government on conducive policies and implementation, as well as tracking of industry and market development in terms of both business and impact.

7 Moving Into Action

In our introduction, we declared our belief that market-based solutions should operate at large scale because the problems of poverty afflict so many people. We are dissatisfied with a situation where small and beautiful new solutions continually excite and inspire us, but fail to lift significant numbers of people out of poverty. We strive for a world where these solutions get to meaningful scale against these problems, and where they might even begin to reshape the mainstream of business itself.

But we hope that we have also shown throughout this report that such market-based solutions—not just single firms, but whole industries—can get to large scale. Importantly, none of these successful growth stories have been about the absence of scaling barriers. Instead, they clearly show both how barriers emerge as solutions begin to scale, and how they can be effectively resolved through the actions of a range of actors. We also see how significant challenges persist even after a solution achieves large scale, because new risks emerge that must be mitigated. And while innovative firms are clearly the stars of the show all the way, it is clear that industry facilitators can play powerful supporting roles in shaping long-term success.

The work of industry facilitation is neither quick nor simple. It calls for the mobilization of industry participants and stakeholders, not the imposition of the facilitator's own ideas. It takes the sustained commitment of substantial resources over time. It requires both thoughtful analysis and design up-front, and continual learning and adaptation once in motion. Crucially, all of these actions are specific to local markets and industries, since that is the level at which barriers and risks can be meaningfully understood, and therefore where they must ultimately be addressed.

It is our fervent hope that these early lessons will help all of us who work on accelerating market-based solutions to scale, to reflect on and evolve our practice. In particular, we hope that more of those that can be effective industry facilitators will step into those roles, and that more of us can be open with our successes and our failures so that we can truly advance this practice. By doing so, we believe that many more new industries that benefit the poor can be helped to reach and sustain large scale.

While much of this new practice can be achieved within the framework of current structures and capabilities, some will require more significant changes. For instance, we may need to augment the capabilities of intermediaries that take on frontline industry facilitation roles, or create and support new ones. More radically, we may need to revisit and expand our conceptions of impact investing vehicles and how they are structured: in some situations, hybrid models that are supported by a blend of capital and can take on stronger facilitation roles, may be more effective than those based on established models imported from mainstream private equity.

Over the next two pages, we lay out some initial recommendations for a range of actors. We hope that this will be the beginning of the conversation, not the end, and we look forward to hearing your questions, observations and lessons.

FOUNDATIONS, AID DONORS, MISSION-DRIVEN INTERMEDIARIES AND MULTILATERAL DEVELOPMENT AGENCIES:

- **Engage in, or fund, facilitation to address key scaling barriers for high-potential market-based solutions.** Look out for public goods and government barriers, and be prepared to intervene directly: these are often overlooked, and can be particularly difficult for firms to take on themselves.
- **Consider how you can generate and disseminate industry and market information, encompassing both financial and social indicators.** Information can be a powerful lever for influencing firms and stakeholders, and improving alignment among facilitators. It is especially useful when updated regularly and tracked over longer periods of time, even after what industry facilitators might consider to be the 'active' phase of their intervention.
- **Recognize that industry facilitation is primarily a local activity — if you don't have the right local capabilities, work with someone who does.** It is important, however, that these local partners or intermediaries exercise leadership in their own right, chiefly because the work requires perseverance in the face of formidable challenges and the ability to adapt effectively to evolving situations on the ground.
- **Recognize that industry growth takes time, and that industry facilitation therefore requires sustained commitment.** In situations where critical scaling barriers are difficult to resolve, such as where industry products have strong push characteristics, some aspects of facilitation might need to be sustained for a decade or more. If industry facilitators cannot sustain their involvement over the period required, they should consider other ways of working, perhaps by creating or supporting more permanent facilitators.
- **Work and fund flexibly, because industry facilitation is an adaptive process.** Facilitators are actors with imperfect information, working in and with complex systems, so the only certainty is that plans drawn up at the outset will be redrawn after the work begins. Perhaps this situation more than most others reflects the truth of the maxim that "no plan survives contact with the enemy," as observed by Helmuth von Moltke the Elder, the 19th-century military commander and strategist. Funders who support partners and intermediaries should build in sufficient flexibility into funding instruments as well as engage pro-actively on adaptation over the course of their programs.
- **Engage with impact investors who are active in the industries you are facilitating.** Through their investment search and selection processes, and their relationships with investees and other stakeholders, investors can offer valuable information and perspectives on the industry. There is also the possibility of drawing them in to assist actively with facilitation efforts, although the scope for this will vary hugely between different investors and situations.
- **In assessing the effectiveness of your work, focus on contribution, not attribution.** This is a persistent challenge for many of us who work for social impact, and it is one that we must face squarely. Good tools are widely available but they call on us to abandon the certainty of attributive approaches and to be willing to invest resources in using new methods.

IMPACT INVESTORS:

- **Integrate a perspective on ecosystem scaling barriers when considering investment decisions and tailoring support provided to portfolio companies.** In particular, impact investors should recognize investees could face scaling barriers that they may not be able to address on their own, even with the help of significant external investment.
- **Engage with foundations, aid donors and other players that may be in a position to help resolve key scaling barriers.** Most investors' capability sets and financial requirements constrain their ability to facilitate industries effectively, so they should engage with others who may be better at doing so. Investors should also look for relatively easy ways to support the industry facilitation efforts of others, such as by providing access to data from investees.
- **Consider moving into or funding industry facilitation activities.** This may require developing 'hybrid' fund structures that differ from established models, such as the Medical Credit Fund described on page 85. We believe that general partners, limited partners and grant funders should more actively explore opportunities to create new structures, and not be unduly attached to established models.

GOVERNMENTS:

- **Consider roles in industry facilitation, but be careful only to intervene directly where you are better placed to do so than others.** Government actors bring unique influence and resources, but also particular political dynamics, to their work, so they must consider where it is better for them to act directly and where they should rather support others. Naturally, government agencies and institutions should try to resolve barriers within their own control or influence, such as regulatory frameworks that inhibit the growth of promising market-based solutions, or subsidies that disadvantage those solutions in the marketplace.
- **Allow enough legal and regulatory freedom for new innovations to emerge.** Innovative market-based solutions need sufficient freedom to develop and grow, though government actors should also then be proactive in identifying at-scale risks and potentially regulating to mitigate these as industries approach large scale.

COMPANIES:

- **Develop a complete perspective on your scaling challenges.** Companies should analyze ecosystem scaling barriers, and assess how they might or might not be able to resolve these. Companies should also recognize that it takes significant time and effort to create market-based solutions with high potential for social impact, which has implications for the leadership commitment, resources and skills required in order to be successful.
- **Engage with industry facilitators and stakeholders to help resolve key scaling barriers.** While it is the companies that will drive success or failure in any industry to benefit the poor, others can help. Therefore, companies should seek out appropriate engagement with industry facilitators to help achieve common objectives. Companies should also be willing to enter into appropriate dialogue and cooperation with each other, despite their competitive instincts, if that is the key to resolving specific barriers for the industry.

FOUR CURRENT

PARTNERING TO ACCELERATE ENTREPRENEURSHIP (PACE)

Accelerating the growth of small and growing businesses

USAID launched the Partnering to Accelerate Entrepreneurship (PACE) initiative in October 2013. This program was launched to help accelerate the growth of early-stage enterprises that promote broad economic prosperity or address development challenges such as food security, health and energy access.

Through partnerships with businesses, investors, foundations, universities, incubators and others, PACE intends to identify and test models for acceleration. By drawing on the resources of all partners, these models will facilitate the deployment of a range of different types of capital and industry capabilities to help overcome challenges to scaling enterprises. PACE will also address knowledge gaps in the broader sector by identifying best practices, gathering longitudinal data, and disseminating learnings to relevant stakeholders.

DIGITAL JOBS AFRICA

Generating aspirational, digital livelihoods

Digital Jobs Africa is a Rockefeller Foundation initiative that seeks to impact the lives of one million people in six countries in Africa. The program aims to catalyze sustainable Information and Communications Technology enabled employment opportunities for African youth, who would not otherwise have an opportunity for sustainable employment.

This initiative will connect youth to jobs in three ways — by leveraging the rising demand from Africa-based companies, government and multinationals to create employment opportunities, by exploring new and innovative digital job opportunities, and by catalyzing the Impact Sourcing sector.

EFFORTS

SUPPORTING SUSTAINABLE SANITATION IMPROVEMENTS (3SI)

A market-based solution to improve access to sanitation in India

In 2012, Population Services International (PSI) launched the 3SI program, supported by the Bill & Melinda Gates Foundation. The program aims to coordinate demand and supply to develop the sanitation market in Bihar, a populous state with some of the poorest sanitation indicators in India.

The program's approach involves identifying barriers in the uptake of sanitation products, creating an affordable and sustainable business model, and then systematically addressing the challenges to providing access to toilets. The initial research and design phase of the program has identified a number of routes for enhancing and scaling the local toilet supply industry. PSI is now moving ahead with initial efforts to build this industry with partners such as Water for People, PATH and local microfinance institutions.

MARKET SYSTEMS DEVELOPMENT PLATFORM

Instilling market systems approaches to impact programs globally

To be launched in April 2014, the Market Systems Development Platform will be a global knowledge platform that seeks to support the development of more efficient and sustainable private sector-led markets that serve poor people. The programme is funded by DFID and SDC, and will be implemented by a consortium led by PwC.

The Platform is intended to benefit a diverse base of development actors by supporting the design of programs with a knowledge repository of market systems approaches and application. At the core of this initiative is a live and inclusive website that will help shape the process of market systems policy development, codify good practice, demonstrate the benefits of the approach, and increase its applicability to a wider range of sectors and development players. In addition, the Platform managers will also provide significant outreach, networking and events for the practitioner community.

Glossary of Terms

- **BOP:** The term 'Base (or Bottom) of the Pyramid' (BoP) popularized by Professor C.K. Prahalad in his 2004 book, is widely used to refer to low-income communities that have historically been excluded from formal markets.[81] The World Resources Institute reports that there are 4 billion people in the BoP, with incomes below $3,000 in local purchasing power. Their incomes in 2005 PPP dollars were less than $3.35 a day in Brazil, $2.11 in China, $1.89 in Ghana, and $1.56 in India. BoP markets are often rural, poorly served, dominated by the informal economy, and are therefore relatively inefficient and uncompetitive. Despite this, the BoP constitutes a $5 trillion global consumer market in aggregate.[82]
- **INCLUSIVE BUSINESS:** A business that provides a product or service that is clearly socially beneficial to the BoP, based on a business model that is commercially viable and ideally scalable.
- **PIONEER GAP:** The term as defined in *From Blueprint to Scale* (published by Monitor in collaboration with Acumen) refers to the critical gap in technical and financial support in the *validate* and *prepare* stages for firms pioneering new models to benefit the poor. This creates a bottleneck in the pipeline of new business models, limiting opportunities for impact investors and ultimately constraining the impact potential of inclusive business.
- **COMMERCIAL VIABILITY:** A commercially viable firm or business model is one that is able to sustain itself and attract investment because earned revenues from sales to customers exceed costs, over time.
- **PHILANTHROPIC FUNDER/DONOR:** An organization that provides grants and/or capacity building to achieve social and/or environmental impact objectives. This would include private or public philanthropic foundations, aid donors (bilateral or multilateral), and development finance institutions.
- **GRANT:** A monetary or in-kind award provided to an organization, typically to achieve a defined social or environmental benefit, with no expectation of financial return.
- **IMPACT INVESTOR:** Investors who actively place capital in businesses to generate social and/or environmental good and at least earn a nominal return on principal.
- **CAPACITY BUILDING/TECHNICAL ASSISTANCE:** An in-kind award to an organization to support the building of organizational capability and capacity, and/or enable project delivery. This might take the form of business advisory services, technical advisory services, research services, organization-building activities or facilitation of linkages with partners.
- **FREE RIDER PROBLEM:** A situation in which players may benefit from the actions of others without contributing. Thus, each person has incentive to allow others to pay for the public good and not personally contribute.

WHAT IS SCALE?

Scale, it may be said, is in the eye of the beholder. However, in this report, we have used the term "significant scale" to mean that a market-based solution is benefiting what we consider to be a large number of BoP consumers or producers within a given country.

Based on our previous research in India and Africa, we consider a firm or model serving poor consumers as having reached significant scale if it is annually benefiting one million customers in India, or 100,000 customers in a country in Africa where products are for immediate consumption (such as safe drinking water) or involve recurring purchases (such as schooling). We recommend that this threshold be adjusted for products that are durable (such as solar home systems) or have long-lasting benefits (such as cataract surgery). Meanwhile, we consider a firm or model engaging with poor producers to have reached significant scale if it is annually benefiting 30,000 producers in India, or 10,000 producers in a country in Africa.

81 Prahalad, C.K., (2004) *The Fortune at the Bottom of the Pyramid*, Wharton School Publishing.

82 Hammond, A., Kramer, W. J., Tran, J., Katz R., and Walker, C., (2007) *The Next 4 Billion: Market Size and Business Strategy at the Base of the Pyramid*, World Resources Institute, International Finance Corporation.

For their invaluable contribution to our research, we would like to thank:

- Vineet Rai, *Aavishkaar Venture Management*
- Suma Pathy, *Abt Associates*
- Ben Jaques, *Abul Latif Jameel Poverty Action Lab, MIT*
- Claire Walsh, *Abul Latif Jameel Poverty Action Lab, MIT*
- Vipin Sharma, *ACCESS Development Services*
- Paul Breloff, *ACCION*
- Abhay Garg, *Acumen*
- Ankur Shah, *Acumen*
- Sasha Dichter, *Acumen*
- Dr. Alexandra Mandelbaum, *Africa Enterprise Challenge Fund*
- Bernard Chidzero, *Agis Investments*
- Ben Powell, *Agora Partnerships*
- Amita Puri, *All India Artisans and Craftworkers Welfare Association*
- Daniel Grimm, *Amazon, Ex-Monitor Deloitte*
- Vijayalakshmi Das, *Ananya Finance for Inclusive Growth, Ex-FWWB*
- Brij Mohan, *Ananya Finance for Inclusive Growth, Ex-SIDBI*
- R.D. Thulasiraj, *Aravind Eye Care*
- Sashi Priya, *Aravind Eye Care*
- Rohini Nilekani, *Arghyam*
- Randall Kempner, *Aspen Network of Development Entrepreneurs*
- David Porteous, *Bankable Frontier Associates*
- Vijay Mahajan, *BASIX*
- Dana Boggess, *Bill & Melinda Gates Foundation*
- Daniel Radcliffe, *Bill & Melinda Gates Foundation*
- Jan-Willem Rosenboom, *Bill & Melinda Gates Foundation*
- Richard Rogers, *Bill & Melinda Gates Foundation*
- Robin Schofield, *Bill & Melinda Gates Foundation*
- Shelby Wilson, *Bill & Melinda Gates Foundation*
- Victoria Vrana, *Bill & Melinda Gates Foundation*
- Godlizen Matari, *Brand Fusion*
- Raynard Conradie, *Brand Fusion*
- Samuel Mlay, *Brand Fusion*
- Brian Trelstad, *Bridges Ventures*
- Clara Barby, *Bridges Ventures*
- Homi Kharas, *Brookings Institution*
- Laurence Chandy, *Brookings Institution*
- Mona Kachhwaha, *Caspian Advisors*
- S. Viswanatha Prasad, *Caspian Advisors*
- Edgar Buckley, *CDC Group Plc*
- Geoff Tyler, *Ex-CDC Group Plc*
- Gurmeet Kaur, *CDC Group Plc*
- Elizabeth Rhyne, *Center for Financial Inclusion*
- Usha Thorat, *Centre for Advanced Financial Research and Learning (CAFRAL)*
- Mark Cheng, *Chelwood Capital*
- Stephen McCarthy, *Chemonics International*
- Steven J. Davis, *Chicago Booth School of Business*
- Maneesha Chadha, *Citibank India*
- Robert Annibale, *Citigroup*
- Chandra Sharma, *Clinton Health Access Initiative*
- Harkesh Dabas, *Clinton Health Access Initiative*
- Stephen Rasmussen, *Consultative Group to Assist the Poor (CGAP)*
- Joy Anderson, *Criterion Institute*
- Donn Tice, *d.light*
- Kanishka Bhattacharya, *Dalberg Global Development Advisors*
- Tarun Mathur, *Dalberg Global Development Advisors*
- John Mennel, *Deloitte*
- Kathleen O'Dell, *Deloitte*
- Mark McCord, *Deloitte*
- Rodrigo Ortiz , *Deloitte*
- Adrian Stone, *Department for International Development, UK*
- Gregory Briffa, *Department for International Development, UK*
- Ragini Chaudhary, *Department for International Development, UK*

- Chris Purdy, *DKT International*
- Philip D. Harvey, *DKT International*
- Jim Tanburn, *Donor Committee for Enterprise Development*
- Shalabh Sachdeva, *Dr. Reddy's Laboratories Ltd.*
- Anne Marie Burgoyne, *Draper Richards Kaplan Foundation*
- Peter Kimanga, *East Africa Tea Trade Association*
- Minh Chau Nguyen, *East Meets West*
- Sandeep Farias, *Elevar Equity*
- Pedro Tarak, *Emprendia*
- Titiati Atsu, *EnterpriseWorks/VITA, Ghana*
- Harish Anchan, *Envirofit*
- Ravi Kumar, *Envirofit*
- Ron Bills, *Envirofit*
- Jackie Vanderbrug, *Ex-Criterion Institute*
- Nigel Harris, *Farm Africa*
- Abhay Singh, *FHI 360*
- Camille Saadé, *FHI 360*
- Dewi Utari Nugrohowati, *Ex-FHI 360*
- Manisha Tripathi, *FHI 360*
- Nidhi Kant Joshi, *FHI 360*
- Saikat Mukhopadhyay, *FHI 360*
- Agathamarie John, *Financial Sector Deepening Trust, Tanzania*
- Sosthenes Kewe, *Financial Sector Deepening Trust, Tanzania*
- Karthik Chandrasekhar, *First Light Accelerator*
- Bhaskar Chakaravorti, *The Fletcher School of Law and Diplomacy at Tufts University*
- Marco Gerevini, *Fondazione Housing Sociale*
- Ajit Kanitkar, *Ford Foundation*
- Frank DeGiovanni, *Ford Foundation*
- Sally Uren, *Forum for the Future*
- Nilanjan Dey Chaudhury, *Friends of Women's World Banking*
- Mainak Pal, *Fullerton India Credit*
- Manish Odeka, *Fullerton India Credit*
- Ravi Shankar, *Fullerton India Credit*
- Cheryl Dahle, *Future of Fish*
- James Foster, *Gatsby Charitable Foundation*
- Venkat Krishnan, *GiveIndia*
- Santosh Kumar Singh, *GIZ*
- Simon Bishop, *Ex-Global Alliance for Clean Cookstoves, Ex-Shell Foundation*
- Abhilash Mudaliar, *Global Impact Investing Network*
- Sapna Shah, *Global Impact Investing Network*
- Suresh Krishna, *Grameen Koota*
- Harold Rosen, *Grassroots Business Fund*
- Brian Cayce, *Gray Ghost Ventures*
- Ankit Mathur, *Greenway Grameen Infra*
- Sacchit Naik, *Greenway Grameen Infra*
- Mireya Almazan, *GSMA*
- Philip Levin, *GSMA*
- Jacob Harold, *GuideStar*
- Michael Chu, *Harvard Business School*
- Nguyen Van Quang, *iDE*
- Animesh Kumar, *IDFC Foundation*
- Bindu Ananth, *IFMR Trust*
- Alvaro Rodriguez Arregui, *IGNIA*
- Dr. Emi Nurjasmi, *Ikatan Bidan Indonesia (Indonesian Midwives Association)*
- Badriul Hegar, MD, PhD, *Ikatan Dokter Anak Indonesia (IDAI) (Indonesian Pediatric Society)*
- Robert Kraybill, *Impact Investment Exchange Asia*
- Varun Sahni, *Impact Investment Partners*
- John Goldstein, *Imprint Capital Advisors*
- Ansulie Cooper, *Independent*
- Caroline Ashley, *Independent*
- Christopher Meyer, *Independent*
- David Carrington, *Independent*
- Donald Peck, *Independent*
- Ignacio Mas, *Independent*
- M. S. Sriram, *Indian Institute of Management Bangalore*
- Sanjib Jha, *Intellegrow Finance Pvt. Ltd*
- Rekha Mehra, *International Center for Research on Women*
- Aida Der Hovanessian, *International Finance Corporation*

- Patricia Mwangi, *International Finance Corporation*
- Russell Sturm, *International Finance Corporation*
- Zara Khan, *International Finance Corporation*
- Martin Webber, *J.E. Austin Associates, Inc.*
- Asha Chaudhary, *Jaipur Rugs Company*
- Kavita Chaudhary, *Jaipur Rugs Company*
- Nand Kishore Chaudhary, *Jaipur Rugs Company*
- Sanjay Singh, *Jaipur Rugs Company*
- Sitara Menon, *Jaipur Rugs Company*
- Yogesh Chaudhary, *Jaipur Rugs Company*
- Sameer Chaturvedi, *Jaipur Rugs Foundation*
- Goetz Ebbecke, *Katalyst*
- Eliud W. Kamau, *Kenya Tea Development Agency*
- Eustace Karanja, *Ex-Kenya Tea Development Agency*
- George Waireri, *Ex-Kenya Tea Development Agency*
- Julius N. Ethang'atha, *Ex-Kenya Tea Development Agency*
- Lerionka Tiampati, *Kenya Tea Development Agency*
- Peter Kanyago, *Kenya Tea Development Agency*
- Naftali Wachira, *Ex-Kenya Tea Development Agency and Special Crop Development Authority*
- Charly Kleissner, *KL Felicitas Foundation*
- Lisa Kleissner, *KL Felicitas Foundation*
- Jennifer White, *Kuramo Capital Management*
- Abigail Sarmac, *The Lemelson Foundation*
- Oliver Karius, *LGT Venture Philanthropy*
- Vishal Mehta, *Lok Capital*
- Dr. Rajesh Chandy, *London Business School*
- Stephen Nairne, *Lundin Foundation*
- Monica Jain, *Manta Consulting*
- Kelly Clark, *Marmanie Consulting*
- Dr. Madhukar Pai, *McGill University*
- Sanjay Sinha, *M-CRIL*
- Gautam Ivatury, *MeraDoctor, Signal Point Partners*
- Evelyn Stark, *MetLife Foundation*
- Dr. Dan Clay, *Michigan State University*
- Dr. Mahesh Srinivas, *Micronutrient Initiative*
- Bhavana Srivastava, *MicroSave*
- Drs. Bayu Teja Muliawan, *Ministry of Health, Indonesia*
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- dr. Eva Yullita Yuzwar, *Ministry of Health, Indonesia*
- dr. Jane Soepardi, *Ministry of Health, Indonesia*
- dr. Slamet Riyadi Yuwono, *Ministry of Health, Indonesia*
- Anshul Goswami, *Monitor Deloitte*
- Carlton Jones, *Monitor Deloitte*
- Mark Robertson, *Monitor Deloitte*
- Noah Rimland Flower, *Monitor Deloitte*
- Geoff Darrell, *Mufindi Tea Company*
- Don Mohanlal, *The Nand & Jeet Khemka Foundation*
- Kennedy Komba, *National Payment Systems, Bank of Tanzania*
- Antony Bugg-Levine, *Nonprofit Finance Fund*
- Jessica Seddon, *Okapi Research and Advisory*
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- Anurag Mairal, *PATH*
- Romano Kiome, *Ex-Permanent Secretary for Agriculture, Kenya*
- Bongo Mgeni, *Population Services International*
- Gillian Burkhardt, *Population Services International*
- Nikki Charman, *Population Services International*
- Dr. Victor Lara, *Population Services International*
- Deep Joshi, *Pradan*
- Suzanne Singh, *Pratham Books*
- Sanjit Singh, *Prayas*
- Business Innovation Facility
- Jack Newnham, *PricewaterhouseCoopers*
- Gaurav Mehta, *Project Dharma, Gajam India Pvt. Ltd.*

- Arif Setiawan, *PT. Combiphar*
- Yuddi Suyud, *PT. Combiphar*
- Hilda Yani, *PT. Indofarma (Persero) Tbk*
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- dr. Heni Puspawati, *Puskesmas Matraman, Jakarta (Primary Healthcare Facility)*
- dr. Jun Helminda, *Puskesmas Matraman, Jakarta (Primary Healthcare Facility)*
- John Kohler, *Redleaf Group*
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- Margot Brandenburg, *Ex-Rockefeller Foundation*
- Willy Foote, *Root Capital*
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- Meera Shah, *Shell Foundation*
- Pradeep Pursnani, *Shell Foundation*
- Richard Gomes, *Shell Foundation*
- Simon Desjardins, *Shell Foundation*
- Muhul Jotaniya, *Shell Foundation*
- Nitin Agarwal, *Spandana Sphoorty Financial Limited*
- Padmaja Reddy, *Spandana Sphoorty Financial Limited*
- Peter Giuliano, *Specialty Coffee Association of America*
- David Elliott, *The Springfield Centre*
- Roger Oakeley, *The Springfield Centre*
- Filbert Y. Kavia, *Tanzania Smallholders Tea Development Agency*
- Mtingwa J. Lutenge, *Tanzania Smallholders Tea Development Agency*
- Nicholaus W. Mauya, *Tanzania Tea Board*
- Jones Sikira, *Tea Association of Tanzania*
- Arthur Nganga, *TechnoServe*
- Brent Habig, *TechnoServe*
- Paul Stewart, *TechnoServe*
- Abhishek Kar, *The Energy and Resources Institute (TERI)*
- Dr. Wiebe Boer, *The Tony Elemelu Foundation*
- Daniella Ballou-Aares, *U.S. Department of State*
- Mitul Desai, *U.S. Department of State*
- Curt Reintsma, *United States Agency for International Development*
- David Cohen, *United States Agency for International Development*
- Malia Boggs, *United States Agency for International Development*
- Nandini Harihareswara, *United States Agency for International Development*
- Osgood Bateman, *United States Agency for International Development*
- Abhishek Fogla, *Unitus Capital*
- Vallabh Rao, *Unitus Capital*
- Malcolm Potts, *University of California, Berkeley*
- David Kyle, *University of California, Davis*
- Erik Wurster, *UpEnergy*
- S.B. Singh, *Utopia Medi Health Private Limited*

- Martha Campbell, *Venture Strategies Innovations*
- Nuriye Hodoglugil, *Venture Strategies Innovations*
- Paul Basil, *Villgro*
- Brahmanand Hegde, *Vistaar Finance*
- Gloria Niju, *Vodacom, Tanzania*
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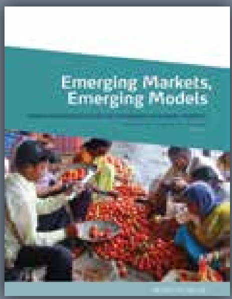
- Julius Kastabu, *Vodacom, Tanzania*
- Sudhir Upadhyaya, *Vodacom, Tanzania*
- Walarick Nittu, *Vodacom, Tanzania*
- Nick Hughes, *Ex-Vodafone Group Plc*
- Peter Rowland, *Wakulima Tea Company*
- Jason Cardosi, *Water and Sanitation Program, The World Bank*
- Jema Sy, *Water and Sanitation Program, The World Bank*
- Susanna Smets, *Water and Sanitation Program, The World Bank*
- Madhu Krishnamoorthy, *WaterHealth International*
- David Knopp, *Wood Family Trust*
- Matthew Ng'Enda, *Wood Family Trust*
- Robert Goose, *Wood Family Trust*
- John Baffes, *Ex-World Bank*
- Dr. Timothy Schilling, *World Coffee Research*
- Dr. Long Chhun, *World Health Organization, Indonesia*
- Steven Chapman, *World Wildlife Fund*
- Antony Sheldon, *Yale School of Management*

For entering their portfolio companies and network partners in our survey, we would like to thank:

- *Alliance for a Green Revolution in Africa*
- *IGNIA*
- *Caspian Impact Investment Adviser*
- *LGT Venture Philanthropy*
- *All India Artisans and Craftworkers Welfare Association*
- *Lok Capital*
- *Impact Investment Exchange Asia*
- *National Association of Social Enterprises, India*
- *Aravind Eye Care System*
- *Development Innovation Ventures, USAID*

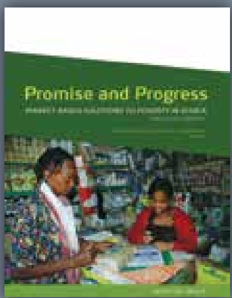
Recommended Reading



Emerging Markets, Emerging Models

Ashish Karamchandani, Mike Kubzansky, Paul Frandano (March 2009)

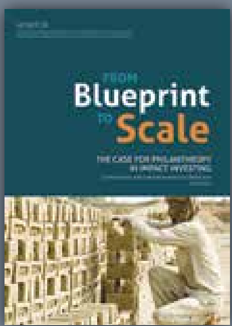
This report focuses on the actual behaviors, economics, and business models of successful 'market-based solutions' in India. Findings were based on more than 600 in-person interviews with low-income customers and small suppliers, and detailed interviews with and research on over 270 social enterprises.



Promise and Progress: Market-Based Solutions to Poverty in Africa

Mike Kubzansky, Ansulie Cooper, Victoria Barbary (May 2011)

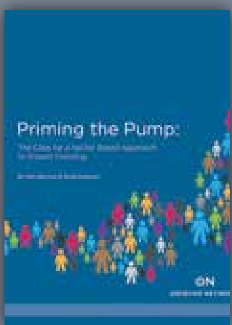
This report provides a comprehensive analysis of financially sustainable enterprises that address challenges of poverty. It is the result of a 16-month research project on the operations of 439 enterprises across 14 sectors, in nine sub-Saharan nations. The focus is on understanding the behaviors, economics, and business models of successful inclusive enterprises.



From Blueprint to Scale: The Case for Philanthropy in Impact Investing

Harvey Koh, Ashish Karamchandani, Robert Katz (April 2012)

This report describes the phenomenon of the 'pioneer gap' in funding and support for firms pioneering new models of inclusive business, and the emerging practice of enterprise philanthropy in closing this gap and establishing new models. The report, published in collaboration with Acumen, analyzes a number of companies from the Acumen portfolio and sets out key recommendations for philanthropic funders and impact investors.



Priming the Pump: The Case for a Sector Based Approach to Impact Investing

Matt Bannick, Paula Goldman

(Omidyar Network, 2012)

In this paper, the authors argue that the field of impact investing needs to shift its focus towards accelerating entire sectors, in addition to scaling individual firms.

A Synthesis of the Making Markets Work for the Poor (M4P) Approach
(Swiss Agency for Development and Cooperation, 2008)

Leading Boldly
Ronald A. Heifetz, John V. Kania, Mark R. Kramer
(Stanford Social Innovation Review, Winter 2004)

The Slow Pace of Fast Change: Bringing Innovations to Market in a Connected World
Bhaskar Chakravorti
(Harvard Business Review Press, 2013)

The Importance of Business Models
Mike Kubzansky
(The Brookings Blum Roundtable Policy Briefs, 2012)

Tackling Barriers to Scale: From Inclusive Business Models to Inclusive Business Ecosystems
Christina Gradl, Beth Jenkins
(Harvard Kennedy School, 2011)

Facilitating Market Development to Advance Financial Inclusion
Mayada El-Zoghbi, Kate Lauer
(CGAP, 2013)

CASE-RELATED READING:

Crests & Troughs: Microfinance in India
Malcolm Harper, Vipin Sharma, Vibhu Arya (Editors)
(ACCESS Development Services, 2013)

State of the Sector reports – Microfinance
(ACCESS – Assist, 2006-2013)

M-Money Channel Distribution Case – Tanzania
(International Finance Corporation, World Bank, 2010)

M-PESA: Mobile Money for the “Unbanked” – Turning Cellphones into 24-Hour Tellers in Kenya
Nick Hughes, Susie Lonie
(Innovations, MIT Press, Winter/Spring 2007)

Development through Positive Deviance and its Implications for Economic Policy Making and Public Administration in Africa: The Case of Kenyan Agricultural Development, 1930-2005
Cosmas Milton Obote Ochieng
(Elsevier, 2008)

Investing in Agribusiness: A Retrospective View of a Development Bank’s Investments in Agribusiness in Africa and Southeast Asia and the Pacific
Geoff Tyler, Grahame Dixie
(The World Bank, 2013)

Social Marketing in India
Simon Bishop, Pradeep Pursnani, Chris Sumpter
(Shell Foundation, 2013)

THE AUTHORS WISH TO EXPRESS THEIR SINCERE GRATITUDE TO:

Omidyar Network, Shell Foundation, Bill & Melinda Gates Foundation, The David and Lucile Packard Foundation, Global Impact Investing Network, Department for International Development (UK), The MasterCard Foundation, The Rockefeller Foundation, United States Agency for International Development and The William and Flora Hewlett Foundation, for supporting this work

Matt Bannick, for chairing our Advisory Board

Amy Klement, Lauren Booker, Mike Kubzansky, Paula Goldman, Judith Pollock, Guy Stallworthy, Diana Scearce, Lester Coutinho, Lisa Monzon, Madeline Wu, Susan Phinney Silver, Amit Bouri, Liz Patterson, Lindsay Wallace, Rehana Nathoo, Chris Jurgens, Rob Schneider, Kelly Born, Jane Nelson and Louis Boorstin – for giving time to attend Advisory Board meetings, contributing their wisdom, reviewing our draft manuscript, and connecting us to their networks

Anamitra Deb, Anna Gibson, Bill Eggers, Carolien de Bruin, Geeta Goel, Jayant Sinha, Jitinder Kohli, Justin Highstead, Kurt Dassel and Tom Blathwayt, for significant contributions including reviewing our draft manuscript

The many other expert practitioners, funders, investors, entrepreneurs and advisors who contributed valuable observations, opinions and suggestions

The key actors implicated in our case studies, for their boldness and thoughtfulness, and their candor in sharing these stories with us

Aravind Eye Care, CDC Group Plc, Envirofit India, FHI 360, and FWWB India for generously allowing us to use their photos

The core Monitor Deloitte team of Chandrima Das, Swati Chaudhary, Indrani Handa, and Subhash Chennuri, along with Amy Lin, Ahmed Irfan, Aroon Vijaykar, Dewangi Makwana, and Kushal Agarwal who supported the project at different stages

Kashmira Ranji and Parendim Bamji, for their logistics and administrative support

Vicky Anning and Shloka Nath, for invaluable writing and editing support, and Zarine Commissariat for patiently proofing the manuscript

Our design team of Julia Frenkle, Lily Robles, Ellery Curran and Emily Knapp at Opus Design

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