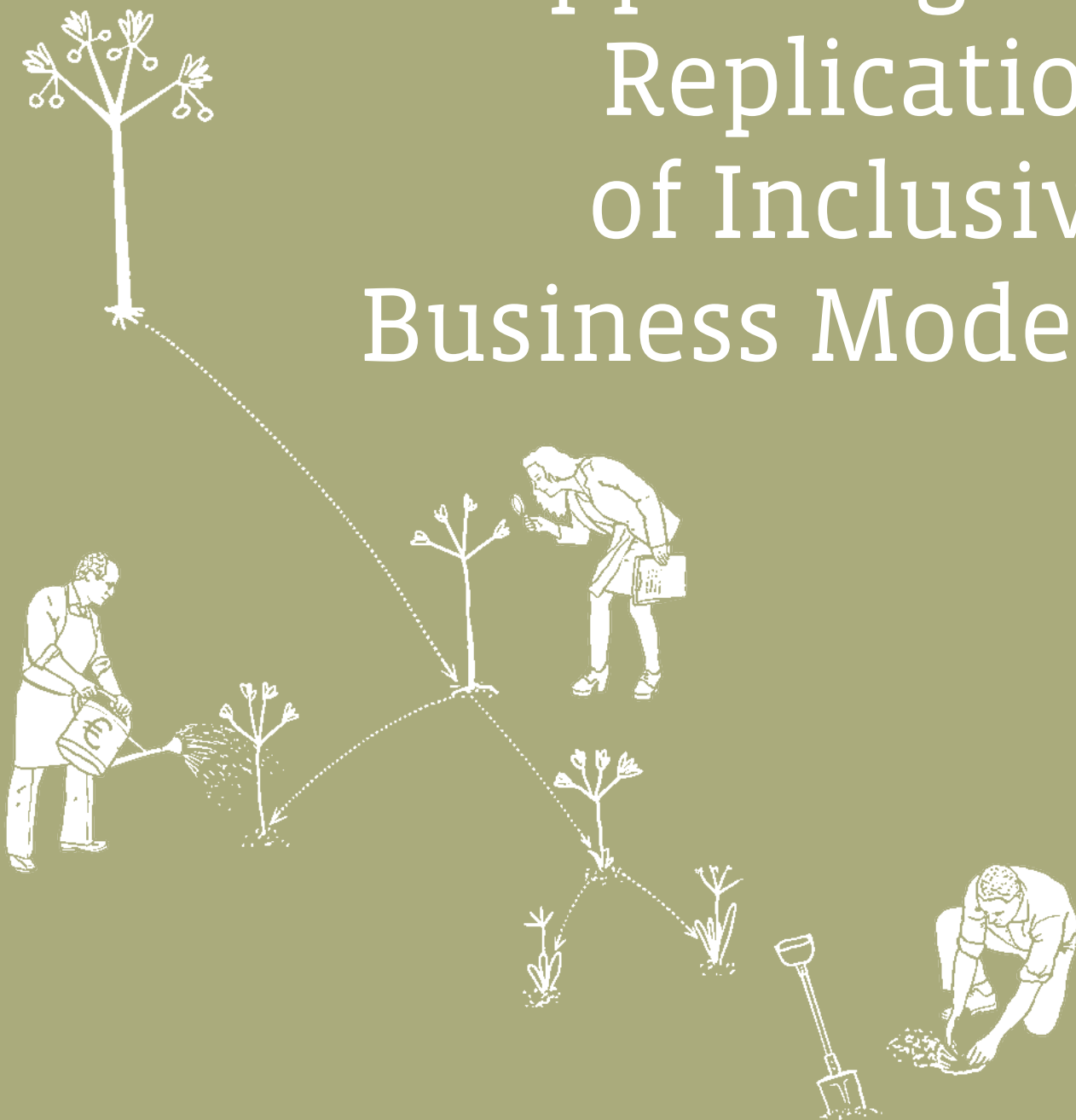




# Multiplying Impact: Supporting the Replication of Inclusive Business Models



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# Multiplying Impact: Supporting the Replication of Inclusive Business Models

*Aline Krämer  
Clara Péron  
Tendai Pasipanodya*

### *Dear Readers:*



In recent years, the German Federal Ministry for Economic Cooperation and Development (BMZ) has increased its efforts to support the development and reach of inclusive business models in our partner countries. Inclusive business models have the potential to create win-win solutions for profit-driven and social interests alike. They provide access to products or services, increase the purchasing power of the poor, and generate employment and income opportunities by integrating the poor into the value chain as distributors, suppliers or employees. This is what makes inclusive business models such a compelling approach in development cooperation.

We have seen many great examples of such business models being implemented in very different markets. Through instruments such as the BoP Sector Dialogues, agents of German development cooperation have helped identify market potentials and business models that serve the poor. To achieve financial sustainability, most of these businesses have to broaden their consumer base and realise economies of scale. Yet many of these examples, as shown in this report, face great challenges when it comes to scaling up their business or replicating their model in other markets. Specific challenges include a lack of market information, insufficient access to finance and problems associated with finding appropriate business partners. This is why we, as well as many other development partners, are exploring ways to improve our support for the replication of successful inclusive business models. With this report, we hope to promote the discussion on successful support mechanisms while drawing on the many good ideas already being put into action

Most recently, we established a number of Responsible Inclusive Business Hubs in several regions around the world. These hubs serve as a central contact point in driving forward regional solutions that promote inclusive business models. Most importantly, they serve as a learning platform and broker of ideas. They do so by facilitating the collaboration between companies and organisations tasked with international development cooperation. They also provide practical advice for companies in a variety of sectors planning to replicate their particular inclusive business model. At the global level, we have initiated the Inclusive Business Action Network, which aims to promote inclusive growth by economically integrating those at the bottom of the pyramid (BOP), and scaling and replicating inclusive business models. The network also builds on the relationships developed with participants of the global G20 Challenge on Inclusive Business Innovation. Through these initiatives, we hope to contribute to the reach of inclusive business models and thereby generate opportunities for those individuals at the base of the pyramid.

*Susanne Dorasil*

Head of Division, Economic Policy, Financial Sector  
German Federal Ministry for  
Economic Cooperation and Development

## *Improving scope, reach and impact*



The scope, reach and impact of inclusive business models have grown considerably in the last 10 years. During this time, we've seen a multitude of pilots being developed in a variety of sectors on all continents. Some of these projects have failed but nonetheless generated important lessons from which others can learn. Other projects have overcome their challenges and stand today as models of success. However, the majority of inclusive business models are still "island solutions," that is, they are scattered and of a small scale.

Now is the time to learn from past mistakes and successes by consolidating the lessons learned so that we can effectively replicate and grow what works. We need to stop wasting effort by trying to re-invent the wheel. Identifying and replicating success allows us all to create significant change for the billions of people living in poverty.

Providing 12 actionable recommendations, this report shows how a variety of actors can support companies in identifying, replicating and ultimately growing successful inclusive business models. Regardless of size or scope, each actor, from small think tanks to large development organisations, can help nurture the replication ecosystem.

We hope this report marks the beginning of a journey in which we learn from each other, triggering along the way not only more dialogue on the whys and hows of replication, but effective action.

*Aline Krämer  
Clara Péron  
Tendai Pasipanodya*

Endeva, Berlin

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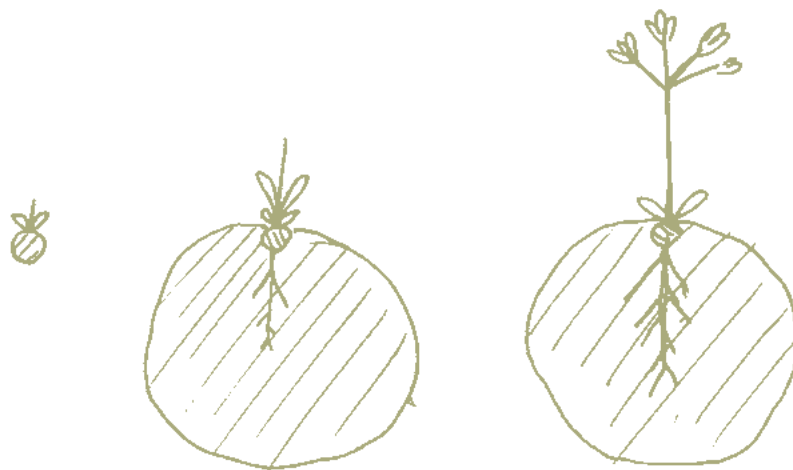
## Executive summary

In recent years, companies both large and small have worked to develop inclusive business models in a variety of sectors and countries. These activities demonstrate that positive social and economic results can be achieved by integrating people living in poverty into value chains, whether on the demand side as consumers or on the supply side as producers, employees or entrepreneurs.

To date, however, only a handful of inclusive business models have managed to reach significant scale. One example of success is Greenlight Planet's solar-powered Sun King lamp, which has positively affected the lives of approximately 3.9 million low-income consumers in 31 countries since 2008. Yet, there are 1.3 billion people worldwide who still lack access to electricity, and many more who would benefit from solar-powered lighting alternatives despite having access to electric power.

After at least 10 years of experimentation, we need to recognise what works and replicate it. Replication is the most effective and efficient way to reach the people at the base of the pyramid, the 4 billion people living on less than US\$ 3,000 per year, with essential goods and services while providing them with economic opportunities. If we learn how to support replication, we can help multiply the impact of inclusive business.

However, this requires support from a variety of actors throughout the inclusive-business ecosystem, both within their home markets and in new target markets. This report therefore addresses development partners, multinational corporations based in developing and developed markets, investors, local banks, accelerators, think tanks, universities, chambers of commerce, non-governmental organisations (NGOs) and all the other actors in the inclusive-business ecosystem. It seeks to provide guidance on how best to support the replication of inclusive business models. It therefore defines replication, explains the paths that inclusive businesses follow in the replication process, and makes targeted recommendations based on three primary challenges faced by inclusive businesses: the lack of information on and knowledge about replication; the difficulty in finding the right people and partners to execute replication plans; and the general absence of financing instruments tailored to support replication.







### Forging new trails: Replication paths

Inclusive businesses can either replicate their own business model themselves, and thus expand their business. Alternatively, they can disseminate information on their model as well as their experiences with others, allowing them to follow a similar path. Neither case is about blindly copying and pasting existing models. Indeed, all models must be tailored to fit the markets in which they are newly implemented. Indeed, companies can follow previously created paths only up to a certain point. At some point, companies engaging in replication must forge their own trails.

#### Expansion



Once a company has created a successful inclusive business model, it can seek to replicate it. This can be done in several ways, depending on how much control the company wants or needs to maintain over the replicated entity. Setting up branch offices or franchises, for example, allows a company substantial control over replicated entities by enabling it to keep a close eye on its brand and the quality of its goods or services. A company may also choose a looser affiliation model and set up a partnership or joint venture, which can allow for more flexibility in adapting the model to meet local market needs.

#### Dissemination and reproduction



Inclusive businesses are often strongly motivated by an underlying mission – to provide clean energy, high-quality health care, or mobile-banking services to low-income populations, for example. When a company wants to extend its reach, it may realise that the problem it is addressing is too big to be solved alone and decide to disseminate its model so that others can

adopt it. Disseminating, or releasing a model into the public sphere can take many different forms, depending on the company's time and budget: Some companies create and distribute informational material on their model, while others invite third parties to observe their successful projects.

In doing so, they encourage others to take up their model in another market and adapt it to local needs. In fact, reproduced models, which are often misleadingly referred to as “copycats”, are very rarely identical with the original – these second movers often adopt only the principles of the original business model while adapting operations-level processes to local conditions.

#### Information and knowledge: Powering replication



Inclusive businesses wishing to replicate successfully their model require access to a significant amount of information. This ranges from information on the specific demographics and behaviours of low-income populations in new target markets, to information on potential partners in the replication process in these new markets, to first-hand knowledge on how best to go about implementing a specific replication strategy. Actors in the inclusive-business ecosystem can help companies engaging in replication overcome key information and knowledge gaps, thereby improving the success of replication efforts. The following recommendations are key to providing this support.

#### 1. Provide information on replication-relevant topics:

Research can provide inclusive businesses with more and better information on making a model replication-ready, whether this is high-level or granular information. Research can also provide market intelligence on low-income markets, but should be updated

continuously to ensure it remains relevant. Moreover, additional research on potential replication partners and specific replication strategies can be of value in replicating inclusive businesses.

**2. Match inclusive businesses with replication experts to share knowledge:** Brokering effective knowledge exchange can be achieved by developing innovative knowledge-exchange conduits that match inclusive businesses with their peers or other experts with practical experience in the area. This does not necessarily mean creating more conferences; rather, organisers should ensure that existing forums offer opportunities for real exchange and concrete, solution-oriented discussions. Online solutions are making such knowledge-exchange efforts more cost effective and easier to coordinate, even across widely dispersed geographies. However, care should be taken to avoid creating new platforms unnecessarily; developers should instead expand existing ones so as to ensure information remains consolidated.

**3. Create service providers that offer information and knowledge:** To support the replication of inclusive businesses, local business-service providers are needed that can help provide expert advice on issues such as tax or regulatory systems in expansion markets. In addition, accelerators – also those offered virtually – can focus specifically on helping inclusive businesses along their path to replication.

**4. Foster second movers by providing granular information on vetted business models:** Information on what works and what does not is crucial to businesses. Dissemination can be supported by helping inclusive businesses share their models with potential second movers, in part by providing details on best and failed practices. Alternatively, such second-generation businesses can be given assistance in identifying vetted business models that merit replication.

#### People and partners: Joining forces to multiply impact



Finding and recruiting talent for operations in new markets is often a challenge for expanding inclusive businesses. This is partly because inclusive businesses need employees with a special combination of skills – a mix of business skills coupled with a strong knowledge of the social sector. Additionally, finding suitable partners when setting up replication entities such as franchises or joint ventures is a challenge. The following interventions can provide assistance.

**5. Help inclusive businesses pursuing replication find talent:** Career fairs, job searches, recruitment platforms and headhunting services provide companies in traditional markets opportunities to find good human resources – particularly managers capable of running operations in new markets. Providing these services in low-income markets could greatly facilitate the search for competent and skilled managers.

**6. Build a talent pool:** Beyond the managerial level, inclusive businesses need a broad range of employees to help operate the expanding business. However, recent graduates or workers with combined business and social-sector knowledge and experience are rare. Working with local business schools is one way to help build pools of inclusive-business-savvy talent in low-income markets. In addition, specialised executive-training programmes or replication-focused coaching and mentoring schemes can help inclusive-business entrepreneurs overcome difficult obstacles as their organisations expand. However, particularly when providing pro bono support, care should be taken that coaching services actually help establish capacities in-house rather than making the business dependent on them.

**7. Connect inclusive businesses with potential replication partners and second movers:** Matching companies with suitable partners through innovative knowledge-exchange conduits or industry events can foster replication, making it possible for others to copy successful models. This can be done through creating forums such as trade fairs and exhibitions. Only vetted models that merit replication should be showcased at such events. Development partners with a network of offices across different countries can also establish focal points that support the dissemination of proven models across geographies or match replication partners with each other.

**8. Train second movers:** Immersion programmes are a powerful tool for building the capacity of second-generation businesses, as these give them the chance to observe, first-hand, how successful inclusive business models function. Supporting disseminators in establishing training programmes and centres for developing the skills of second movers is another effective mechanism in easing the way for entrepreneurs who wish to replicate an existing model.

#### **Finance: Properly funding replication**



Replicating inclusive businesses requires considerable resources. While getting access to financing is a common challenge for many businesses, it is amplified during the initial stages of the replication process. The following are key ways to support the financing of inclusive-business replication.

**9. Use financial innovation to make the replication of inclusive business models more attractive:** Inclusive businesses need different kinds of financial support at different stages of their replication and growth process. When setting out to replicate, grant funding or internal resources are required to prepare the strategy, whereas in the subsequent replication stages, the company needs access to a substantial

amount of investment capital with a high risk tolerance. Once the replication strategy has been implemented and revenue streams stabilise, other forms of external capital may be required. In general, inclusive businesses require targeted and more flexible financing arrangements than are often available to support replication. For example, tailored products to secure liquidity are needed. In addition, new financing arrangements can be created that support affiliates of inclusive businesses. Finally, reducing the risk in providing inclusive businesses access to finance can be achieved through instruments such as co-investment funds, risk-sharing or first-loss guarantees.

**10. Bring in new players to participate in inclusive-business financing:** Given the complexity of the markets in which inclusive businesses operate, these enterprises often look for funders and investors that become real partners and add other forms of value in terms of mentoring, networking or technical support. Corporations, diaspora communities, impact investors and philanthropic donors and foundations have an important role to play when it comes to financing the replication of inclusive businesses. Each group holds vast and largely unexplored potential to take inclusive-business entrepreneurs to the next level.

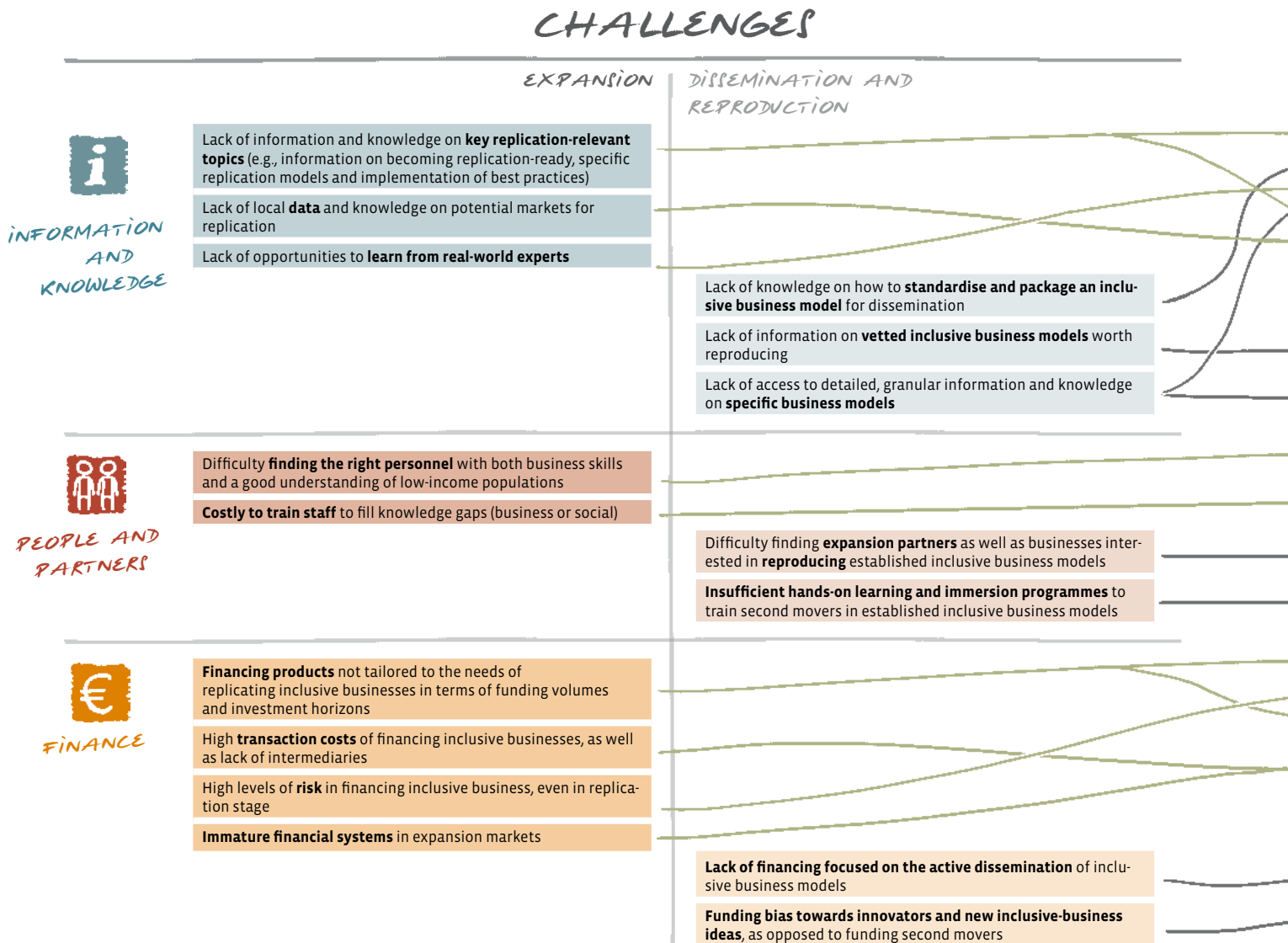
**11. Create market infrastructure and intermediary bodies:** While businesses often complain about not being able to find an investor that can meet their financing needs, investors frequently express frustration that they have ample financial resources but struggle to find investment-worthy businesses. Information asymmetries and high transaction costs are generally the culprits here. Both parties may simply lack the time and resources needed to identify potential investment opportunities or the right investor. Investors also shy away from investigating

relatively small investment opportunities because of the high costs associated with the due-diligence process. Intermediaries that encourage more cooperation between actors or create online solutions to match investors and businesses can provide real value.

**12. Provide incentives for the dissemination and reproduction of inclusive business models:** Entrepreneurs that have developed a functioning inclusive business model are often very mission-driven. They aim to reach the 1.2 billion people worldwide without access to energy, for example, or the 783 million people who lack access to clean water.<sup>1</sup> However, many social in-

<sup>1</sup> World Bank (2014). Energy - The Facts. <http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTENERGY2/0,,contentMDK:22855502~pagePK:210058~piPK:210062~theSitePK:4114200,00.html> (Accessed 4 April 2014).  
UN (2013). UN Water Day 2013, Facts and Figures. [www.unwater.org/water-cooperation-2013/water-cooperation/facts-and-figures/en/](http://www.unwater.org/water-cooperation-2013/water-cooperation/facts-and-figures/en/) (Accessed 4 April 2014).

Table 1: Overview of challenges and recommendations

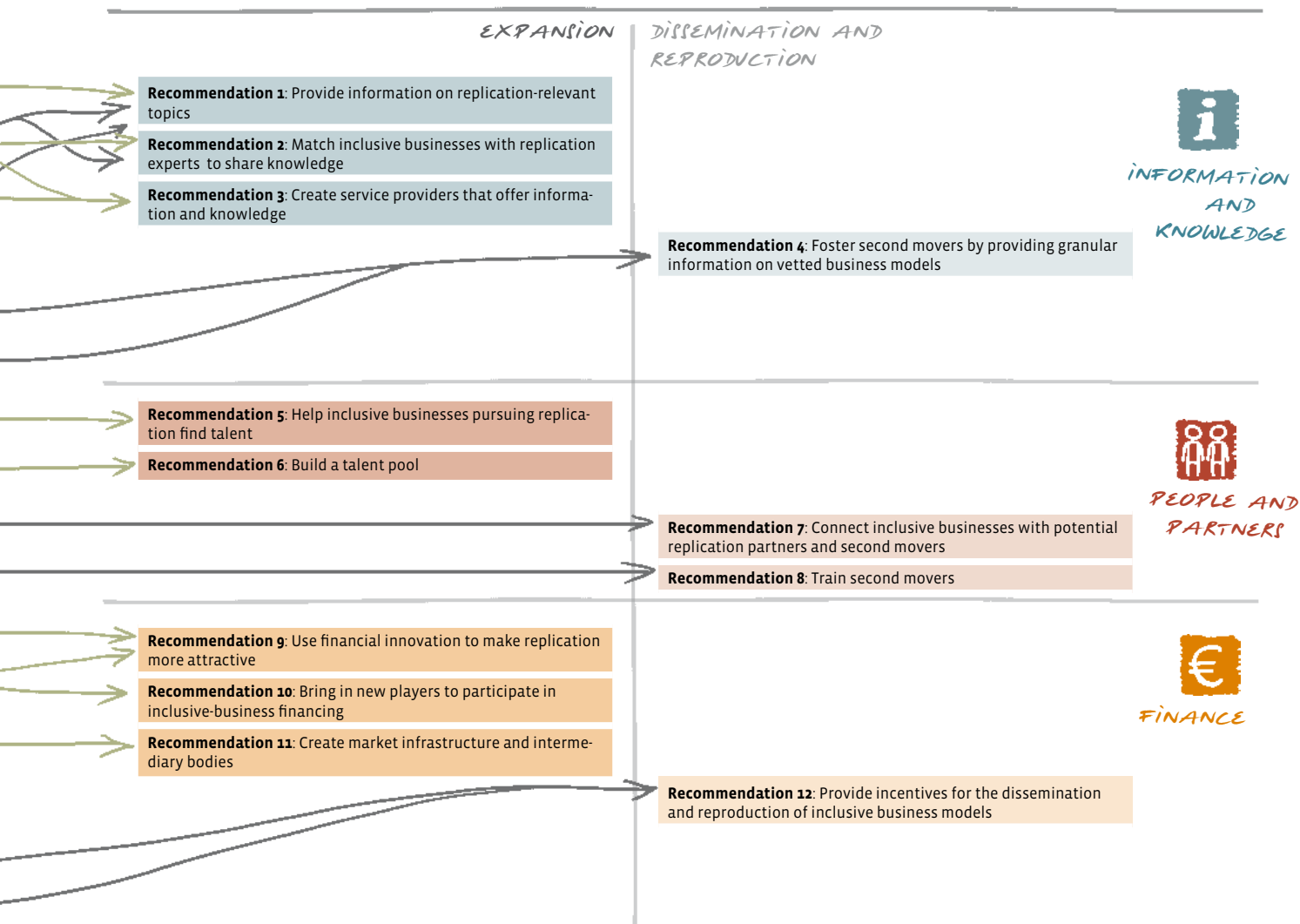


novators are grounded in local markets and thus have little interest, capacity and network to expand regionally or globally. Instead, they would much rather share their experience with those who can replicate their model in other markets, particularly if the incentives are in place and dissemination would be facilitated by a suitable intermediary. Financially supporting dissemination can help incentivise those entrepreneurs to share their experiences with potential replicators. In addition, suitable targeted instruments can be created that specifically support those second movers.

**Taking action: Nurturing the replication ecosystem**

The replication of inclusive business models is a dynamic process that requires support from an entire ecosystem of actors. Companies, development partners, investors, research institutions, civil society organisations and others can contribute their own unique capacities in transforming successful inclusive business models from isolated solutions into models with global reach. Providing targeted recommendations to these different actors, this publication aims to trigger more dialogue and action on how to replicate inclusive businesses. Only through our joint efforts can we build on what we have learned and multiply the impact of the models that work.

## RECOMMENDATIONS



## Introduction

A variety of solutions have been developed in recent years by visionary entrepreneurs around the world that improve the quality of low-income people's lives. These innovations range from water filters, sanitation solutions and solar lamps to low-cost medicines and crop insurance programmes.

However, relatively few inclusive business models have to date managed to reach a significant number of people. And even those that are already reaching millions could replicate their success on a broader scale. In fact, targeting the low-income segment in developing and emerging countries means addressing a market of 4 billion people.

Take the example of solar lamps. Since 2008, Greenlight Planet's Sun King lamp has positively affected the lives of approximately 3.9 million low-income consumers in 31 countries. D.light, another solar-powered lantern company, reports that its products have reached 28 million people living in poverty over the past six years. Users of these companies' products have better-quality light, save on energy-related expenses, study or work longer hours, have the ability to increase their household income, and are less worried about fires and burns. However, there are 1.3 billion people worldwide who still lack access to electricity, and many more who would benefit from solar-powered lighting alternatives, despite having access to electric power.

This anecdotal evidence reveals cases of inclusive businesses that have successfully grown their customer or producer base while creating a positive impact on the lives of the world's poor. But the numbers also show that there is further room to grow. To provide solar-powered lighting for this entire target market, d.light's success would need to be replicated 50 times – or Greenlight Planet's over 300 times – not factoring in population growth.

Many more businesses have developed functioning business models that positively affect the lives of the poor, but which have not reached a scale comparable to successful cases such as d.light, Aravind or M-Pesa. **In fact, many inclusive business models remain “island solutions” whose impact is limited to a relatively small number of people in a few geographic areas.** If these functioning models could be replicated, their economic and social impacts could be multiplied. **Yet what prevents replication from happening? And, consequently, how can the replication of inclusive business models best be supported?** These questions are addressed by the present publication.

### *Inclusive business at a glance: Who, what and where?*

Inclusive businesses include the poor, that is, those people living in rural areas and urban slums in developing countries, into their value chain. In doing so, they aim to benefit both the business and the local communities. For example, poor people can be included on the demand side as clients and customers, or on the supply side as employees, producers and entrepreneurs. Inclusive businesses are focused on more than making immediate profits. On the business side, additional goals include driving innovation, building markets and strengthening supply chains. On the social side, they include facilitating higher productivity, sustainable earnings and greater empowerment for the poor.

Inclusive business models are driven by a variety of organisations. Many such models are developed by social entrepreneurs or local small or medium-sized enterprises (SMEs). In addition, multinational corporations from developed and developing countries are increasingly recognising markets at the base of the economic pyramid (BoP markets) as a business opportunity. At the same time, not-for-profit organisations and civil society organisations (CSOs) see inclusive business as a way to achieve their mission and develop a model that makes them independent of outside funding. Clearly, these various organisations not only have differing resources at hand, but also face different hurdles when developing or replicating their inclusive business models.

**Source:**

Endeva (2010). Inclusive Business Guide: How to Develop Business and Fight Poverty.

*The Mc Donald's concept is simple; they train people all over the world irrespective of different religions, cultures and all those things to produce a product in the same way and deliver it in the same manner in hundreds of places. Suppose I am able to produce eye care techniques, methods etc. in the same way in every corner of the world, the problem of blindness is gone.*

Govindappa Venkataswamy, Founder of Aravind Eye Care Hospitals<sup>2</sup>

### Supporting replication to accelerate change

Inclusive business models are designed to achieve development objectives. For example, they provide access to clean water or clean energy, or give smallholders access to more profitable value chains. In addition, inclusive business models promise to be both sustainable and scalable. Development partners, investors, research institutions, civil society organisations and others thus see the private sector as a partner in addressing global challenges.

In fact, supporting inclusive businesses creates value for all parties involved. Whereas organisations wishing to address global challenges can leverage the resources and expertise of the private sector, the private sector can tackle business opportunities that have a social impact, and the poor benefit from better economic opportunities and access to life-enhancing goods and services.

Over the past decade, a wide variety of inclusive business models has emerged in sectors ranging from agriculture, energy or information and communications technology (ICT) to construction and housing. However, even the very successful initiatives cannot by themselves solve the massive development challenges affecting billions of people. But, if these proven models can be replicated more widely, quickly and systematically, their impact will be multiplied.

Companies, development partners, investors, research institutions, civil society organisations, and others – each in their unique capacity – can support the replication of inclusive business models. This support includes, but goes beyond, the support already available for inclusive business initiatives at large. Replication

requires specific types of support, because the process of replication is very different from the process of innovation that is usually the focus of assistance. It starts from an existing model, and requires information and knowledge about the model, new markets and the process of replication itself, people and partners who are willing and able to manage and adjust a predefined model, as well as medium-sized investments and financing that reflect the different risk-profile.

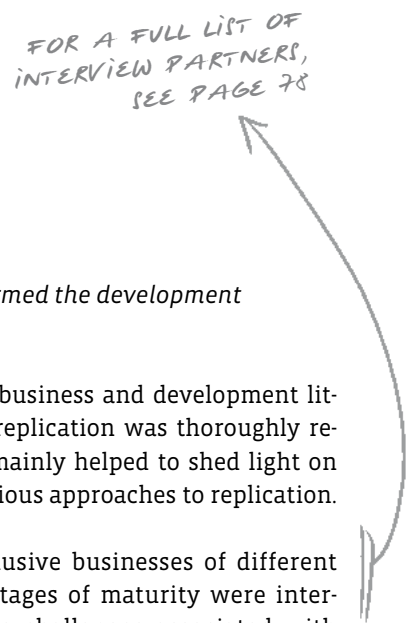
At the same time, inclusive businesses that are being replicated still face the same issues all inclusive business initiatives face. These challenges arise from the context of poverty, the slums and villages where poor people live, where enabling conditions for business are often missing on the levels of information, infrastructure, regulation and financial services. Therefore, organisations wishing to support replication do not necessarily have to set up new programmes. They can also look at their existing activities with this new lens, and adjust, specify or extend these activities to appeal to replicators. For example, financial products for inclusive-business start-ups may also be relevant for franchises created by companies replicating previously successful models or new companies copying a model. But the risk assessment of these companies should take the experience and proven success behind the approach into account. Matchmaking formats that broker relationships between inclusive businesses and suitable partners may also help entrepreneurs find specific partners for the replication process, and a special track or facilitation format could help identify this specific agenda. In short, organisations can review their support portfolio to identify which activities could be better tailored to the needs of companies engaged in replication.

This report aims to inspire both new initiatives and efforts to adapt existing programmes.

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<sup>2</sup> Quote from TED Talk [www.ted.com/talks/thulasiraj\\_ravilla\\_how\\_low\\_cost\\_eye\\_care\\_can\\_be\\_world\\_class](http://www.ted.com/talks/thulasiraj_ravilla_how_low_cost_eye_care_can_be_world_class) (Accessed 11 April 2014).

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**Target group: The support ecosystem**

**This report targets actors in the inclusive-business ecosystem** that have the potential to support inclusive businesses on the path to replication. These range from large organisations such as development partners, international finance institutions, foundations, multinational corporations from developed and developing countries, banks and investors to smaller organisations such as think tanks, not-for-profit organisations, incubators and accelerators.

**Methodology: Tapping different sources**

In order to develop support activities tailored to the needs of businesses pursuing replication, we first aim to clarify what replication is and which paths to replication are most often taken by companies. The starting point of the report was a thorough assessment of the replication activities pursued by inclusive businesses, as well as the challenges these businesses face. Subsequently, we set out to develop a set of recommendations based on these companies' needs.

SEE PAGE 78



Three main sources informed the development of this report:

**Desk research:** Existing business and development literature on scaling and replication was thoroughly reviewed. Desk research mainly helped to shed light on terminology and the various approaches to replication.

**Interviews:** Sixteen inclusive businesses of different sizes and at different stages of maturity were interviewed to assess (a) the challenges associated with replication and the means by which entrepreneurs cope with them, and (b) what support from intermediaries has been or could be particularly useful. Additionally, 18 selected intermediaries were interviewed. They provided their views on what has and has not worked, and what could be done to further support the replication of inclusive businesses.

**Expert reviews:** Reviews of the report were conducted by a panel of experts with experience in working with inclusive businesses. This process was directed at formulating recommendations directed at intermediaries.

*Scaling up and replicating – disentangling related concepts*

“Replication” and “scale” have become popular buzzwords within the inclusive-business community. Though each term has a specific meaning, they are often used interchangeably. This confusion is exacerbated by the fact that inclusive-business activities are rooted in the development, social and private sectors. Business actors – as well as those writing about and researching business activities – commonly speak of “growth”, whereas actors from the development and not-for-profit fields tend to prefer the terms “scaling up” and “replication”, which capture aspects of development that are not exclusively economic. Each term has a specific meaning, but they all express similar concepts.

Achieving or reaching scale means that the size of an entity has been increased to a certain point, whereas replication refers to the action of reproducing or copying something. A business that creates various new branch offices, for example, is increasing in size, and is thus scaling up, but is also reproducing its model, and is thus replicating. **Hence, replication can be seen as one way of achieving scale.**

Below are the definitions of scale and replication used in this report:

**SCALING** up refers to an increase in size of an inclusive business model, in terms of people served, revenues generated, or the expansion of key targets related to the model’s social and environmental impact.

**REPLICATION** refers to the action of copying or reproducing all or portions of an inclusive business model. Replication does not mean creating an exact copy of the business. Rather, the aim is to replicate the business model or key components of it while adapting them to the new target market and environment. Replication can be driven by the original organisation, alone or with partners, or can be managed by a completely separate entity.



*The ecosystem does not exist – and so we are **building the ecosystem on our own ...** By this I mean developing training materials for salespeople and manufacturers, trying to provide information to banks to lend to the sector, looking at different kinds of distribution systems... all of this is us learning at a very high cost.*

*Svati Bhogle, Founder and Managing Director, Sustaintech*

**Structure**





*This report is divided into five chapters:*

**Chapter 1** explains the paths businesses take in the process of replication. For example, this may entail expanding to new markets on their own, supporting other entrepreneurs’ efforts to reproduce and adapt their model, or doing both. In addition, the chapter introduces the key needs that inclusive businesses pursuing replication have as they follow these various paths. Based on these needs, the chapter presents three key action areas for organisations wishing to support replication. These include information and knowledge, people and partners, and finance.

**Chapters 2 through 4** focus on each of these action areas in greater depth. Beginning with the challenges businesses face in a specific area, each chapter also provides concrete recommendations for entities that could support inclusive-business replication.

**Chapter 5** provides a summary of recommendations by type of actor to enable a quick overview of the primary types of support that can be provided by each.

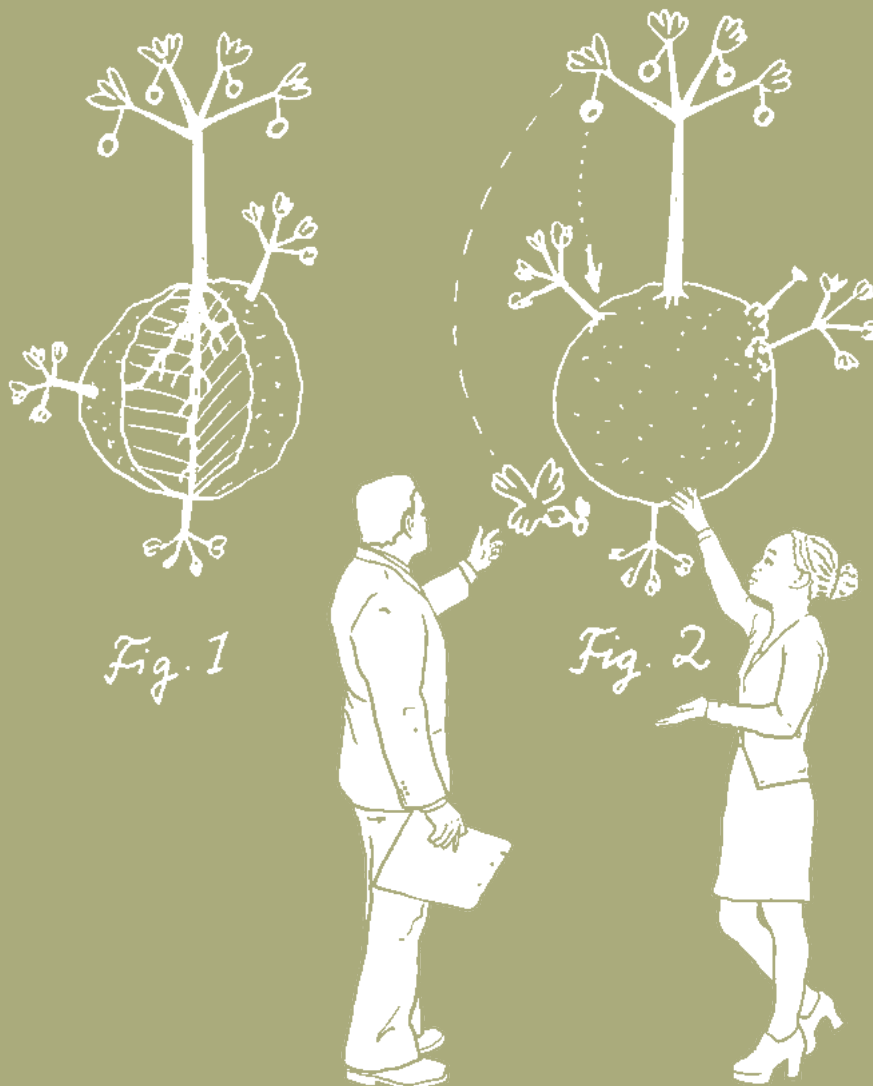
Table 2: Legend of symbols used in chapters 2–4

1. EXPANSION VS. DISSEMINATION OR REPRODUCTION	
Symbols have been placed in front of each recommendation to clearly show which replication path it is associated with.	
	Recommendation is related to the <b>expansion</b> of an inclusive business model
	Recommendation is related to the <b>dissemination</b> or <b>reproduction</b> of an inclusive business model
2. OPPORTUNITIES AND WARNINGS	
The new opportunity symbol indicates ways that organisations in the inclusive business ecosystem can support replication. Some are best practice examples, others have not been implemented but represent promising ideas. The warning symbol signals approaches that have been ineffective or even detrimental to the replication of inclusive businesses in the past. It is important to be aware of these issues and avoid them.	
	<b>New opportunity</b> to support the replication of inclusive businesses
	<b>Warning!</b> Ineffective activity

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# Chapter 1

# Understanding and supporting replication



Inclusive business models already positively affect the lives of thousands of low-income people. They create income opportunities, provide goods and services that fulfil people's basic needs or make people more productive, and they empower the poor. Replicating these models could multiply these results.

Yet how do inclusive businesses go about replication? What challenges do they face? And what should targeted replication support look like?

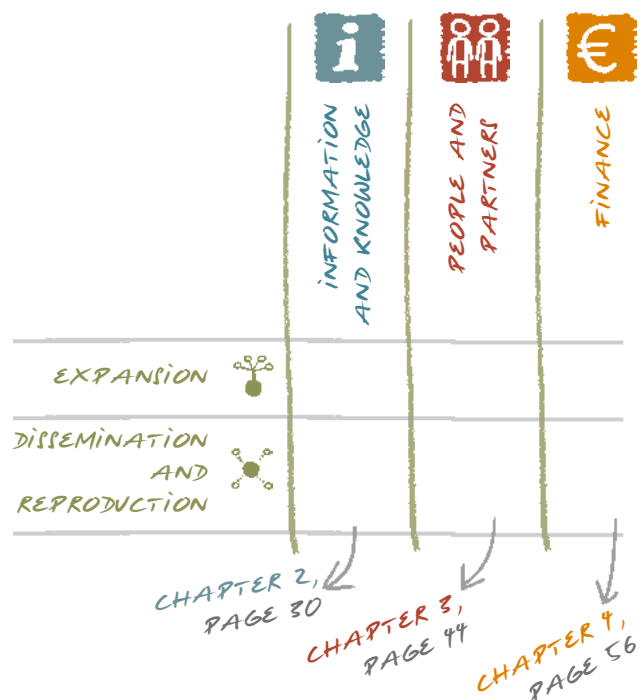
## Paths to replication: Expansion or dissemination

In order to provide targeted support, organisations aiming to promote the replication of inclusive business models need to develop a sound understanding of how companies replicate and the challenges they face. Replication refers to reproducing the structures and processes of an existing inclusive business. This can be done in different ways, and can be led by different actors.

Most commonly, businesses first **expand** by replicating the model on their own, through a branch-office strategy or with partners (i.e., through a franchise, joint venture or partnership strategy). Some businesses also actively **disseminate** their business model, enabling other entrepreneurs to adopt it. These adopters, or second-generation businesses, can also reproduce the model without the active involvement of its originator.

Ecosystem actors, that is, those actors aiming to support inclusive businesses, can invest in three areas to help them grow. The production of **information and knowledge** helps drive replication, for instance, by spreading successful practices. Finding skilled **people and partners** can be essential in establishing and operating replicated entities. Finally, access to **finance** is crucial in supporting the costs of replication. The recommendations presented here fall into these three action areas (chapters 2-4).

Figure 1: Replication paths and key action areas



### Defining the key action areas

There are many ways that development partners, foundations, governments, think tanks and others can support the replication of inclusive business models. Many of these activities can also support inclusive and other business more generally. For example, development partners can advocate the dismantling of regulatory hurdles or create incentives for businesses that contribute to the social good. Governments could create tax privileges, or provide end-user subsidies for products that have socially desirable effects. Instruments of this kind would help provide incentives for entrepreneurs who are seeking to establish new enterprises or are looking for a suitable expansion market.

The recommendations presented in this report address the key challenges identified by entrepreneurs in a series of interviews held in 2013. These recommendations are designed to support the replication of inclusive businesses in particular, but are often also applicable to the broader context of inclusive business as well.

SEE PAGE 14 ON METHODOLOGY

SEE "ENDEVA (2014): INCLUSIVE BUSINESS POLICIES: HOW GOVERNMENTS CAN ENGAGE IN MEETING DEVELOPMENT GOALS"

INTERVIEW WITH: David Keogh, Program Director, Global Good

## Replication: From principles to practice



Grameen Foundation's Village Phone programme, launched in Bangladesh in 1997, is a micro-franchise model for telecommunications. David is co-author of the Village Phone Replication and Village Phone Direct manual and pioneered the model's replication from Bangladesh to

Cambodia, Cameroon, Cote d'Ivoire, Haiti, Philippines, Rwanda and Uganda. He is currently programme director for Global Good, a collaborative initiative by Bill Gates and Intellectual Ventures to identify innovative solutions to development challenges.

**Mr. Keogh, based on your experience with the Grameen Village Phone project, how is replication possible even in cases of an evidently "unique" business model?**

The Village Phone programme in Bangladesh was considered to be too unique to Bangladesh to replicate – we had Grameen Bank, Grameen Telecom and Grameen Phone all working completely in concert towards a very mission-focused deliverable: putting telecommunications in the hands of the poor. These favourable circumstances cannot be replicated.

Nonetheless, we sat down and sought to understand what fundamental principles of the model and what the locally adapted practices were. An understanding of both is necessary to be able to create a generalised replication model. We then maintained the principles of success and adapted the practices to suit the local environment in replication markets. For example, in Uganda, there was no single large microfinance organisation to partner with. For this reason, we had to craft partnerships individually with 12 different microfinance organisations to provide the finance side of the model. We also worked with MTN as the major telecom partner. The programme has been very successful there.

**How should replication of inclusive business models be supported?**

First and foremost, there is not enough granular information and knowledge on what actually works. There is a lot of talk about micro-franchising, but not a lot of detailed understanding of the fundamentals of the models that work. In replication, you do not want to reinvent the wheel. Take the example of the energy sector. There is very little research on the "whys" – why are there only two or three energy models that have actually been replicated successfully in low-income markets? Whether it's energy, water or telecommunications, we need to improve our ability to document and draw upon the vast array of lessons learned.

To disseminate the Village Phone model, we created a manual that would **provide detailed information** on why the model works and how. However, there is a need to go beyond the manual. Some organisations might be able to take the manual and run with it, but some need a lot more hand-holding. In fact, learning from a static document is difficult. Thus, **building talent** – that is, building the capacity of those doing the replication – is crucial. We thus provided consulting support for some of the replicating organisations – in Cameroon and Indonesia, for example. Also, we encouraged the sharing of lessons learned between replicators.

In addition, **financing** is very important. You need to let business owners and leaders focus on building their businesses, not on figuring out where the next \$100 is coming from. Financing is important not only to replicate the model, but also to keep it functioning where it already exists. How can we build a macrolevel replication-financing vehicle that will give replicating companies access to capital? This is a key question that has yet to be answered.

*There is a lot of talk about micro-franchising, but not a lot of **detailed understanding of the fundamentals of the models that work.** In replication, you do not want to reinvent the wheel.*

SEE  
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## Expansion: Driving and implementing replication

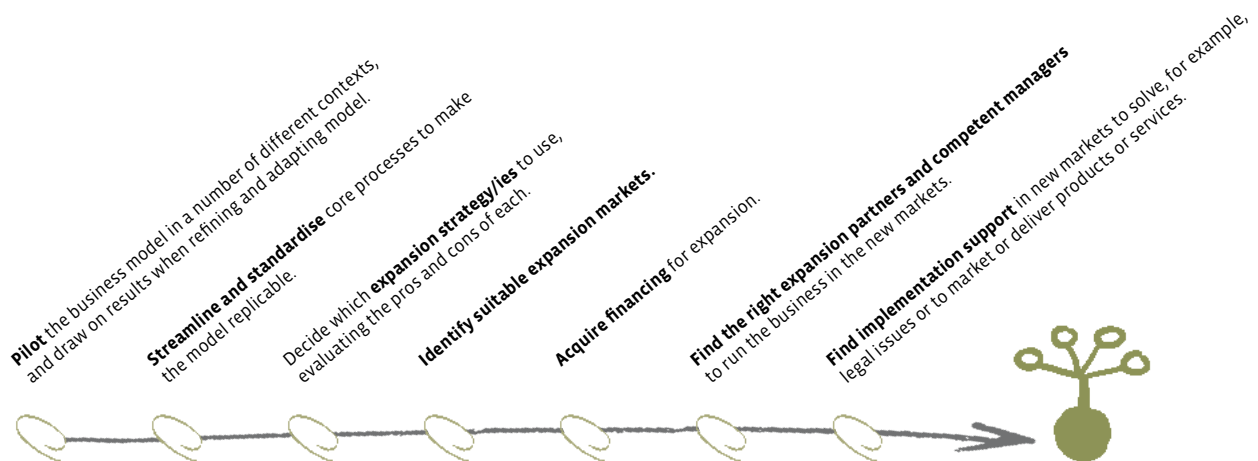
Most inclusive businesses that have developed a functioning model also drive and implement its replication. This allows them to test and refine the model, and continuously improve and standardise its operational processes. But how do businesses decide on a specific expansion strategy? Differing business approaches and management preferences influence this decision.

SEE PAGE 22

In principle, inclusive-business entrepreneurs tend to choose a replication strategy that fits the mission and vision of their business. Entrepreneurs primarily aiming to increase their own company profits tend to favour a more **closed approach** to replication. The high level of control retained by such approaches allows the originator to protect its intellectual property and brand. Through its micro-franchises system, for example, **One Family Health (OFH)** can ensure the quality of the medicines dispensed by its franchisees, thus establishing a trusted brand. A high level of control may also be important when product quality lies at the heart of the business. The branch strategy allows the originator to retain the highest level of control over its replication, since all replicated entities are owned entirely by the original business.

**Waterlife India**, for example, only replicates by establishing wholly owned branches, allowing the parent company to ensure the quality of water distributed. For some inclusive businesses, the speed of replication is also important in order to allow quick realisation of the social and economic benefits of their market solutions. Less bureaucratic forms of affiliation, such as partnerships, often allow fast replication. For example, **VisionSpring** – a company that provides affordable eye care to the poor – replicated quickly using a partnership model.

Figure 2: A typical roadmap for expansion



## Supporting expansion

Although different expansion strategies exist, businesses that replicate on their own or with partners generally follow a similar set of steps. In the process, businesses face a variety of challenges. This is where development partners, investors, companies and others can play relevant roles, providing targeted support.



**Information and knowledge:** A primary concern for expanding inclusive businesses is the lack of information about new expansion markets. In addition, granular information on various replication models and strategies is rarely available. Advice from experts or peers who already have developed a micro-franchise or set up a joint venture, for example, could help entrepreneurs avoid the most common pitfalls.



**People and partners:** Expanding inclusive businesses face difficulties in attracting people who can skilfully execute their expansion plans. This is because support infrastructure for recruiting and training talent is largely lacking in low-income markets. Furthermore, matchmaking support can be useful to inclusive businesses looking for suitable replication partners.



**Finance:** Expanding inclusive businesses need access to patient, risk-tolerant capital to cover the costs of expansion and the establishment of affiliates, as well as to cover their increased working-capital needs.

⚠ When aiming to support the expansion of inclusive businesses, care should be taken **to avoid distorting the market**. Thus, instead of providing support to one particular business, organisations should consider options that could help multiple businesses replicate their models. The recommendations provided in this report should be viewed in that light



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## FEATURE

*Expansion strategies*

Expansion strategies range from the establishment of wholly owned branches managed by the company itself, thus allowing a high level of control, to the creation of affiliates such as franchises or joint ventures. Partnerships are the most flexible form of the affiliation-based model.

**Wholly owned branches**

The branch strategy involves setting up new points of presence in a new market that are owned and operated by the parent company. This strategy is therefore also referred to as the “wholly owned approach” to replication. With a branch strategy, the original inclusive business retains control of all (or almost all) business aspects in the replicated entity, including business strategy, governance, systems, processes and human resources.

**Waterlife**, for example, chose a branch strategy for its water-treatment plants in various parts of India. This ensured the company could retain a high degree of control over the quality of the water treated by the plants, a critical point given that the success of its business relies on maintaining customer trust.

*There is a huge opportunity for replication driven by the demand of entrepreneurs to bring successful business models to their own countries. That is going to make it happen much faster than the growth of those enterprises that originated the model. Copycats, partnerships and licensing should be fostered.*

**Andrew Lieberman**, *New Programs Director, Global Social Benefit Institute*

**Franchising**

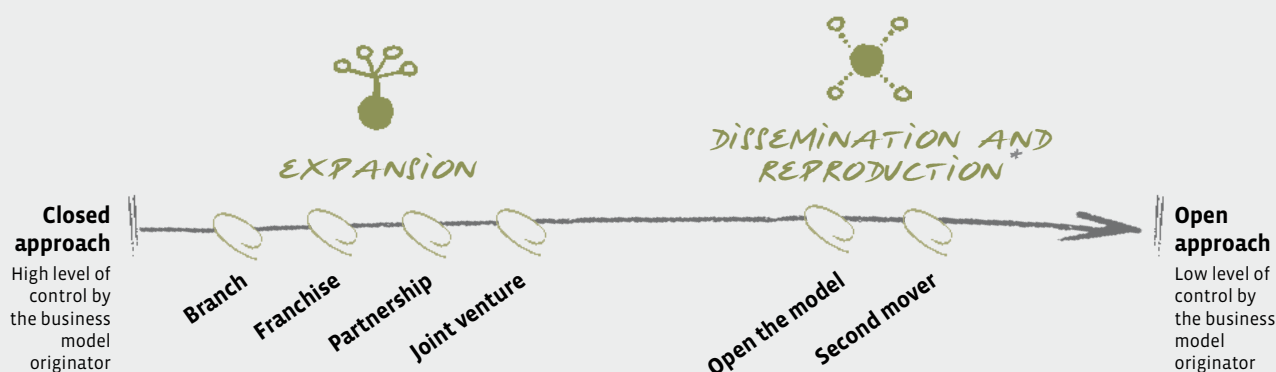
Franchising involves a contractual agreement in which one party, the franchisor, licenses either its whole business concept and operational system, or its trademark (including products, name, logos) to a second party, the franchisee. The franchising agreement grants franchisees the exclusive right within that market to use the business name and logo of the franchisor, and to sell the franchisor’s products.

Typically, the franchisor compiles a manual that describes the business concept in detail and facilitates replication by the franchisee. Within a franchising framework, the franchisee acts as a highly autonomous entrepreneur to whom the franchisor has to provide certain services such as technical assistance, marketing, training, market information and agreements with suppliers. In return, the franchisee has to adhere to the specifications outlined in the franchising contract (or manual); these may include elements such as quality standards and the payment of a franchise fee (some models include a fixed franchise fee, others a percentage of profits). Micro-franchising and social franchising are varieties of the franchising model. Social franchising has a focus on creating benefits for society rather than creating profits, while micro-franchising more specifically describes franchising activities where micro-enterprises are created to serve low-income markets.

**One Family Health (OFH)** chose micro-franchising as a means of achieving its mission of improving access to medicines and primary health care services in low-income markets. It currently operates 70 health posts in Kenya and 35 in Rwanda, each of which are run by local nurses who act as micro-franchisees and receive training in health- and business-related topics. In addition, OFH has strict franchise rules and treatment standards in place. An ongoing monitoring process based on an electronic tracking system and audits ensures that all clinics run according to OFH standards.



Figure 3: Overview of replication strategies



### Partnership

As inclusive businesses move from pilot projects to viable business models capable of replication, significant investments are often needed, as well as specific knowledge of local markets. At this point, businesses may seek to enter into partnerships in order to compensate for a lack of specific expertise or capital. Partnership is a term used to describe an extremely broad range of relationships between a company and other actors, in which inclusive businesses and other organisation(s) (e.g., non-governmental organisations, local businesses, multinational corporations) agree to cooperate and pool their money, knowledge or other resources in order to advance their mutual interests. Partners share profits and losses in accordance with the terms laid out in their partnership agreement.

To reach its new markets, **VisionSpring** – a company that provides affordable eye care to the poor – made extensive use of partnerships. To date, the company works with no fewer than 23 different partners. In Bangladesh, the company partnered with BRAC, an international development organisation, to provide training to over 7,500 health workers. Similar partnerships were established with Community Enterprise Solutions in Guatemala, Living Goods in Uganda, and Fundación Paraguaya in Paraguay.



Photo: VisionSpring

### Joint venture

One of the main defining aspects of a joint venture is that a separate entity is formed by two or more parties to the agreement, with each of the original parties acting as shareholders. A joint-venture arrangement is designed to share risk and/or expertise, as each of the participants is responsible for the profits, losses and costs associated with it. A joint venture is the most formalised variety of a partnership. Depending on the terms of their agreement, partners are given various levels of control and receive economic benefits accordingly.

**Fosera** is a German-based company that produces solar-energy-powered products in Ethiopia, India, Kenya, Mozambique, Portugal and Thailand. It chose to set up the production of its products, which range from portable lamps to home solar-power systems, as joint ventures in its largest markets. This allows the company to tailor products to local needs and enables just-in-time assembly. Fosera provides the technology and the local partner manages sales. The replication of this joint-venture system has allowed Fosera to scale and replicate its model in a way that lets the company maintain a degree of control over its products and intellectual property while pursuing its mission of rural electrification.



Photo: Catherine Adelmann, Fosera

## Opening the model: Dissemination and reproduction

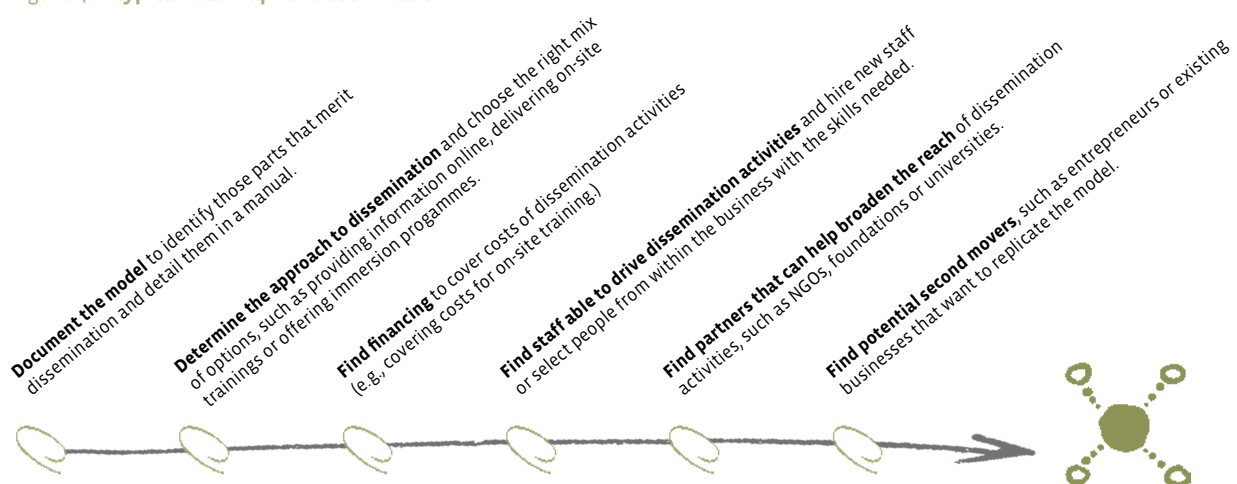
Some inclusive businesses realise early in their development that they can reach only a fraction of the world's poor through their own business activities. Highly mission-driven entrepreneurs thus set out to disseminate their model.

Opening a business model to others' replication can be accomplished in different ways and with differing degrees of involvement by the originator. For example, businesses can simply document their model, best practices and lessons learned, and make this information available to others. Businesses that disseminate their model can also provide hands-on learning opportunities, for example, by allowing interested organisations to visit their business sites. Some companies even develop specialised training programmes for those aiming to adopt the model. **Aravind Eye Hospitals**, for instance, offers on-site instruction for foreign medical practitioners who want to learn how to provide cost-efficient cataract surgeries. These potential replicators visit Aravind's facilities and take part in a one-week training programme, followed by on-location implementation support by experienced Aravind managers and two years of follow-up support. These steps are all intended to secure an efficient transfer of knowledge to the replicating hospital.

Dissemination can also be initiated by a request from the business seeking to copy the model. For example, the founders of **Healthy Entrepreneurs**, a franchise that aims to improve access to essential medicines, were still busy replicating their approach in DR Congo and Rwanda when they were asked by an organisation in Sierra Leone to share their model. The founders actively supported this organisation in adapting the model to the new country context by sharing their training material and providing on-site support.

As the examples above already indicate, **expanding and disseminating are not mutually exclusive paths to replication**. In fact, businesses can do both, either simultaneously or sequentially. Inclusive businesses often choose to expand within their own territories, where they can best ensure the maintenance of quality and already understand the needs of consumers, while opting to provide information on their model to those that are experts in other markets. The businesses trained by the originator can, in turn, become disseminators themselves, as the case of Aravind shows.

Figure 4: A typical roadmap for dissemination



Note: While this is a typical roadmap for expansion, the sequence of steps may vary from case to case.

CASE STUDY: Aravind Eye Care Hospitals, India

*Expanding and disseminating to combat cataracts in over 30 countries*



A patient is examined for cataracts.



Photos: M. Rajkumar

Visiting hospital staff from South Africa and Paraguay learn about the Aravind model during a workshop.

Worldwide, 37 million people are affected by blindness; 80% of these cases could be either prevented or treated. On the rise globally, cataracts are one of the key causes of blindness. In India alone, they result in 3.8 million cases of blindness. But most cataract cases are operable, which means blindness can be prevented if patients have access to surgery. This is where Aravind Eye Care Hospitals' mission comes in.

Founded in 1976 by Dr. G. Venkataswamy, the hospital aims to eliminate blindness by providing high-quality eye care to both the rich and the poor. From a modest beginning in Madurai with only 11 beds and four medical staff members, Aravind Eye Hospitals have since expanded their operations across the state of Tamilnadu in India, and are now operating in nine locations. Aravind's hospitals handle over 3.3 million outpatient visits and perform over 378,000 surgeries per year with over 50% of the patients paying nothing or very little for the services.

In addition to establishing multiple wholly owned branches, Aravind also engages in joint ventures and partnerships, for example in Nigeria and Bangladesh. These models put strong emphasis on local ownership.

The company also actively disseminates its approach so as to facilitate effective adaptation of its model in other countries. To this end, it created the Lions Aravind Institute of Community Ophthalmology (LAICO)\* training institute, which has supported replication of the Aravind model in over 300 eye hospitals in 30 countries.

Interestingly, some of the hospitals trained by Aravind have already become disseminators of the approach in their own region. For example, the Visualiza hospital in Guatemala has disseminated the model in Haiti and Peru. The Lumbini Eye Institute in Nepal is mentoring hospitals in Nepal and Cambodia.

Source: Interview with Thulasiraj Ravilla, Aravind Eye Care System

\*SEE CASE STUDY ON PAGE 55

*There is considerable need for the provision more eye care in Africa, so we will work with five hospitals to increase the number of surgeries by about 20,000 per year. [...] We are not hung up on ownership; we care about making eye care happen.*

**Thulasiraj Ravilla**, Executive Director of LAICO; Aravind Eye Care System

When an inclusive business model demonstrates success it is likely to inspire others to follow in its path and reproduce it elsewhere – which can also be seen as a form of replicating the model. Businesses that transfer a model to a new context are often colloquially referred to as “copycats”. This rather pejorative term is misleading; such businesses rarely outright copy a model and therefore do not represent a threat to the original inclusive business model. They adapt and apply the essence of the original model to their own specific context and circumstances. Furthermore, these businesses can be crucial to the growth of society as they help reach large numbers of consumers, producers and entrepreneurs in low-income markets worldwide, as is demonstrated by the examples of M-Pesa and bKash. In this report, we therefore refer to them as “second movers” or “second-generation businesses”.

Indeed, the reproduction of a model is rarely so simple as one business being copied by others. Successful models can only infrequently be said to have a single originator. Rather, they begin with a group of early movers that adapt and test a model. From this group of early movers, one business may emerge with the most widely known and successful form of a particular business model. Take the example of solar lamps, which are provided today by a variety of companies. Among the most well-known producers are d-light, Greenlight Planet, ToughStuff and Fosera, all of whom appear to learn and copy from each other constantly when it comes to product features (such as radios,

mobile-phone chargers or battery quality), additional services (such as warranties), or marketing and distribution strategies (such as selling through micro-franchisees). This direct competition and constant learning leads to improved business models and, ultimately, to improved social results. The emergence of various offers also increases choice for low-income consumers and helps to spread pro-poor solutions widely: As of 2010, businesses that offer portable solar lighting products had sold over 600,000 units in Africa alone.<sup>3</sup> Since then, the market has grown an average of 25% per year.<sup>4</sup> These numbers would not be possible if multiple businesses had not adapted the model to their own markets and purposes.

Another successful inclusive business model that has been reproduced by several companies is the manufacture and sale of low-cost drip-irrigation technology. Each new company in the market has contributed its own improvements and variations based on the unique demands of farmers and local growing conditions in different markets. One such successful second-generation company is Dripteck Inc., a California-based company founded in 2008. The founders studied the unique conditions faced by farmers in Ethiopia, and subsequently created products that worked more reliably than those previously existing on the market at a fraction of the cost (two to five times less, according to Dripteck Inc.).

<sup>3</sup> Lighting Africa (2010). Solar Lighting for the Base of the Pyramid – Overview of an Emerging Market. Accra: Lighting Africa.

<sup>4</sup> International Energy Agency (2013). World Energy Outlook 2013. Paris: International Energy Agency.

*In a country like India, which has 1.3 billion people, and half of the population has no access to electricity, you need hundreds or probably thousands of SELCOs.*

**Harish Hande**, Managing Director and Co-Founder, SELCO

CASE STUDY: **bKash, Bangladesh**

*Increasing financial access in Bangladesh by reproducing mobile money models*

M-Pesa – “mobile cash” in Swahili – originated in Kenya. Offered by Safaricom, the service allows customers who lack access to bank accounts to deposit, withdraw and transfer money at a low cost using a mobile device. These “mobile wallets” allow customers to load money onto their phone; the money can then be sent via text message to the mobile device of a third party, who can pick up the cash at the nearest vendor. Integrating the poor into the financial system through such a service has a variety of positive effects. For example, it increases the productivity and physical security of those collecting or sending money, such as remittances, or facilitates making savings. The service has attracted 17 million active users, roughly one-third of Kenya’s population.<sup>5</sup>

The success of M-Pesa has inspired other companies to develop modified versions of M-Pesa’s mobile-banking business model in new markets. An estimated 60 second-generation versions of the M-Pesa model exist worldwide, amplifying the trailblazer’s social and economic impact.<sup>6</sup>

One example is bKash, in Bangladesh. While the company copied the M-Pesa model’s basic mobile-wallet idea, bKash also adapted it to local conditions. In Kenya, Safaricom holds a 67% share of Kenya’s total mobile-phone market, making it the clear market leader and giving it the ability to offer a mobile wallet that functions only on its own network.<sup>7</sup> In Bangladesh, in contrast, there are several prominent mobile carriers. bKash thus offers mobile wallets that work on any wireless network, overcoming the inconvenience of such services usually being tied to a single network. In addition, bKash did not evolve like M-Pesa as a single firm, but rather was created as a joint venture between BRAC Bank and Money in Motion LLC. Working with over 45,000 distribution points, mostly mom-and-pop shops that serve as retail agents, bKash has managed to gain more than eight million users with a growth rate of 16% per month.<sup>8</sup>



**A bKash user applies mobile money technology to save and transfer money.**

bKash and other adaptations of the M-Pesa model such as EcoCash in Zimbabwe, BEAM in India, and MTN Mobile Money in Uganda have enabled a much wider reach and had a much larger impact on previously unbanked populations than a single company could have managed.

<sup>5</sup> Safaricom (2014). Celebrating 7 years of changing lives: M-PESA Timeline. [www.safaricom.co.ke/mpesa\\_timeline/timeline.html](http://www.safaricom.co.ke/mpesa_timeline/timeline.html) (Accessed 11 April 2014).

<sup>6</sup> African Business Magazine (January 2012). Can M-Pesa Template Travel? <http://africanbusinessmagazine.com/special-reports/sector-reports/mobile-banking-in-africa/can-m-pesa-template-travel> (Accessed 11 April 2014).

<sup>7</sup> Erik Ombok (2014). Vodafone’s Safaricom May Withdraw Its Offer for Essar Kenya. Bloomberg, 26 May 2014. [www.bloomberg.com/news/2014-03-25/safaricom-may-drop-bid-for-essar-kenya-unit-over-regulator-delay.html](http://www.bloomberg.com/news/2014-03-25/safaricom-may-drop-bid-for-essar-kenya-unit-over-regulator-delay.html) (Accessed 11 April 2014).

<sup>8</sup> Wall Street Journal Live (2013). bKash Offers Mobile Banking for Bangladesh. 16 April 2013. <http://live.wsj.com/video/bkash-offers-mobile-banking-for-bangladesh/0BC404BE-997A-4819-A6B7-AAABAD550020.html#0BC404BE-997A-4819-A6B7-AAABAD550020> (Accessed 12 April 2014).

## Supporting disseminators and second-generation businesses

Inclusive businesses that aim to disseminate their model often find it challenging to devote time and resources to this task. This is particularly the case since dissemination supports the mission of the enterprise but is not associated with any financial benefits.

Thus, outside organisations can add significant value in supporting the dissemination process. In fact, development partners, foundations, think tanks and others can play a decisive role in encouraging dissemination, and in helping to implement it.



**Information and knowledge:** Organisations that aim to support dissemination can provide information on the value of opening a business model to the public, and on how to go about disseminating it. They can also help inclusive businesses identify those elements of their model that merit replication. Second-generation businesses can then be fostered through the spread of existing models' best practices.



**People and partners:** Inclusive businesses motivated to disseminate their model need staff members able to carry out this work. They moreover need to find businesses and/or entrepreneurs interesting in adopting and adapting their model. Facilitated information-exchange forums, whether in person or online, could enable such encounters between disseminators and potential second-generation businesses. Furthermore, second movers could be fostered at the university level by making future entrepreneurs aware of the potential of inclusive businesses and the models that already exist, and by building up entrepreneurial skill sets.



**Finance:** Dissemination is associated with costs that cannot be recovered. Rather, the decision to invest in opening a model for use by other companies is an altruistic one. Organisations that finance the development of informational material or training programmes can lower the barriers to moving inclusive business models into broader use.

Furthermore, financial support often focuses on supporting new and innovative models. Providing targeted financial support for potential second-generation inclusive businesses could be one way of spreading the benefits created by inclusive businesses.

⚠ Supporting the dissemination of a model aims to multiply its social benefits. However, as the example of microcredit shows, this is not always a given. Thus, organisations that aim to support the dissemination of inclusive businesses need to closely **examine the actual development outcomes achieved by the model**.

⚠ When supporting the reproduction of existing models, care should be taken to ensure no intellectual property rights held by the original business are violated; otherwise, even well-intentioned efforts to support second movers could backfire.

CASE STUDY: **Microcredit Models, Global***Replicating microcredit, multiplying financial inclusion*

**Microcredit** is a banking service in which small loans are provided to low-income individuals who typically lack access to formal financial services. Microcredit is among the most frequently replicated business models targeting low-income markets, and has been used as an element of broader financial-inclusion strategies, particularly for customers who have no collateral or credit history. The loans are often intended for productive purposes, helping poor households – particularly women – generate revenues. They are thus effective tools in alleviating poverty. Microcredit is also offered in combination with other inclusive products and services, enabling low-income consumers to obtain valuable goods such as solar-powered home lighting systems or water filters.

Though often used interchangeably with microfinance, which is a broader concept referring to financial products targeting the poor, these terms are not synonymous. Microfinance is a broader concept that refers to loans, savings, insurance, money transfers, and other financial products targeted at the poor. Microcredit refers more specifically to the provision of small loans to low-income people, especially those without access to formal financial services. Microcredit is often disbursed by a microfinance institution.

**The history of microcredit**

The underlying concept of microcredit has existed in various forms for centuries. Economic development in different regions around the world has driven the demand for microcredit practices that often originate in the agricultural sector. For example, Raiffeisen Group banks in Germany and Austria supported mid-19th century farmers through organised banking cooperatives and microcredit. Publicly owned banks in South America first engaged in microlending for agricultural-development purposes in the 1980s.

One of the best-known models of microcredit is that of Grameen Bank in Bangladesh, established in the mid-1970s by Dr. Muhammad Yunus. This model grew out of an action-oriented research project with the aim of designing a feasible credit-delivery system able to provide banking services for the rural poor. Thanks to these and other successes, the market for microcredit has expanded considerably since these fragmented beginnings. By the end of 2010, microfinance institutions had extended credit to over 200 million clients, impacting an estimated 1 billion people in emerging and developing markets when the various socio-economic ties of the borrowers and their families are considered.<sup>9</sup>

**Disseminating the microcredit model**

Grameen, as well as a wide variety of other companies, NGOs, think tanks, academic institutions and public organisations have invested considerable effort in disseminating the microcredit model. For example, the Grameen Bank Replication Program (GBRP) was launched in 1989 by the Grameen Trust (GT) as a response to growing demand by organisations worldwide seeking to experiment with the model in their own countries as a poverty-alleviation tool. Since then, GT has invited interested individuals and institutions to spend time at a Grameen Bank branch in order to gain first-hand experience with the model. Project leaders are then selected for training in the model's replication, with ongoing financial, technical and informational support provided by the GT, as well as monitoring.

In addition, partnerships such as the Consultative Group to Assist the Poor (CGAP) have played a strong role in disseminating the model. CGAP is a global partnership of 34 organisations

working to advance the cause of financial inclusion. CGAP activities range from practical research to active engagement with financial service providers, policymakers and funders. Its online Microfinance Gateway platform, for example, features current research results, important developments and opportunities in the field of microfinance, and examples of best practices, thus contributing to their dissemination. The platform also provides announcements of events, training programmes and job opportunities related to microfinance.

International non-profit organisations, such as the PlanNet Finance Group, have advanced the microcredit model and contributed to greater outreach in terms of depth, breadth and scope. They help structure the microfinance sector by providing microfinance institutions with consulting services, technical support, financing, investment, insurance and ratings. Another important aspect of their work involves sharing their findings with the public through publications, workshops and trainings, thereby fostering the participation of new stakeholders.

Governments' role in supporting and disseminating microcredit is also crucial. Their most important function is not in providing credit services, but rather in creating an environment in which microcredit can thrive, for instance by setting sound and stable macroeconomic policy, adjusting banking regulations to facilitate deposit-taking by solid microfinance institutions (MFIs), and creating government wholesale funds to support MFIs.

The fact that Muhammad Yunus won the Nobel Peace Prize in 2006 helped showcase microfinance ideas to a wider public. Organisations around the world, seeing the success achieved by the model, have independently adopted microcredit practices and adjusted them to their markets. In addition, think tanks and academics that analyse the model and publish their results also help disseminate the lessons learned by existing practitioners.

**The impact factor**

Any successful inclusive-business model owes its achievements to a variety of factors. In the course of replication, even the most successful models have to be considered very carefully. Replicating a model in a new market does not ensure that its positive impact will also be replicated. Hence, new practitioners must carefully study the conditions that contributed to the original model's success, examining how they might be achieved in the new market context.

Replication of the microcredit model has often taken place independently of broader financial-inclusion strategies, raising questions regarding its developmental impact and poverty-alleviation effects. For example, when consumers use loans for consumption (such as for the purchase of food) rather than to start businesses, or when they finance one microcredit with another, ultimately entering into a spiral of indebtedness, poverty is not effectively eliminated over the long term.<sup>10</sup> However, embedding the microcredit model into a larger financial inclusion strategy – for example, by providing other services such as savings support or insurance in parallel – has yielded more clearly positive results.<sup>11</sup> The example of microcredit thus shows that supporting the replication of inclusive business models requires careful consideration not only on the level of the model itself, but also in the broader market context.

<sup>9</sup> Lützenkirchen, Cédric. "Microfinance in evolution: An industry between crisis and advancement." 13 September 2012. Deutsche Bank AG.

<sup>10</sup> [www.odi.org.uk/sites/odi.org.uk/files/odi-assets/publications-opinion-files/6291.pdf](http://www.odi.org.uk/sites/odi.org.uk/files/odi-assets/publications-opinion-files/6291.pdf) (Accessed 12 May 2014)

This argument has been presented by the Overseas Development Institute (ODI) and others, in contexts such as "Due Diligence: An Impertinent Inquiry into Microfinance", published by the Center for Global Development.

<sup>11</sup> <http://international.cgdev.org/publication/9781933286488-due-diligence-imper-tinent-inquiry-microfinance> (Accessed 12 May 2014)

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## Chapter 2

# Information and knowledge

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Replicating an inclusive business model requires a wealth of information and knowledge, ranging from market intelligence on potential replication markets to granular knowledge on potential replication models.

The dissemination of successful models can be fostered by providing needed information to potential second-generation businesses.

## Information and knowledge

When replicating, inclusive businesses need access to detailed, vetted information. Data on potential replication markets is essential, as is granular information on existing inclusive business models, their success factors and failures. Acquiring the requisite quality information remains challenging.

La Corporación Universitaria Minuto de Dios, or Uniminuto, is a private tertiary-education provider serving low-income students in urban and rural areas in Colombia. Its programmes are tailored to the realities of low-income markets in Colombia. Eudist priests, whose congregation is strongly focused on working with poor communities, founded the university in Colombia in 1990, and decided to replicate the model in Benin and Côte d'Ivoire due to the Eudist presence in those countries. However, Uniminuto lacked information and knowledge on various fronts, such as an in-depth understanding of education systems, education markets and training needs in those countries' local communities. To bridge this knowledge gap, Uniminuto has been partnering with outside experts and consultants to conduct market research and create a "road map" to replication by documenting the original Colombian model and packaging it for future partners in Africa.

Like Uniminuto, many inclusive businesses expanding into new low-income markets **lack key market data** necessary to successfully adapt their business model to expansion markets. This might include information on consumer habits and needs, key demographic statistics on low-income households, or information on local logistics networks. Considerable time and money is often spent by each individual inclusive business to acquire this kind of information, leading to unnecessary costs and significant inefficiencies.

More importantly, however, businesses aiming to expand **lack access to information on key replication-relevant topics** beyond a mere collection of so-called

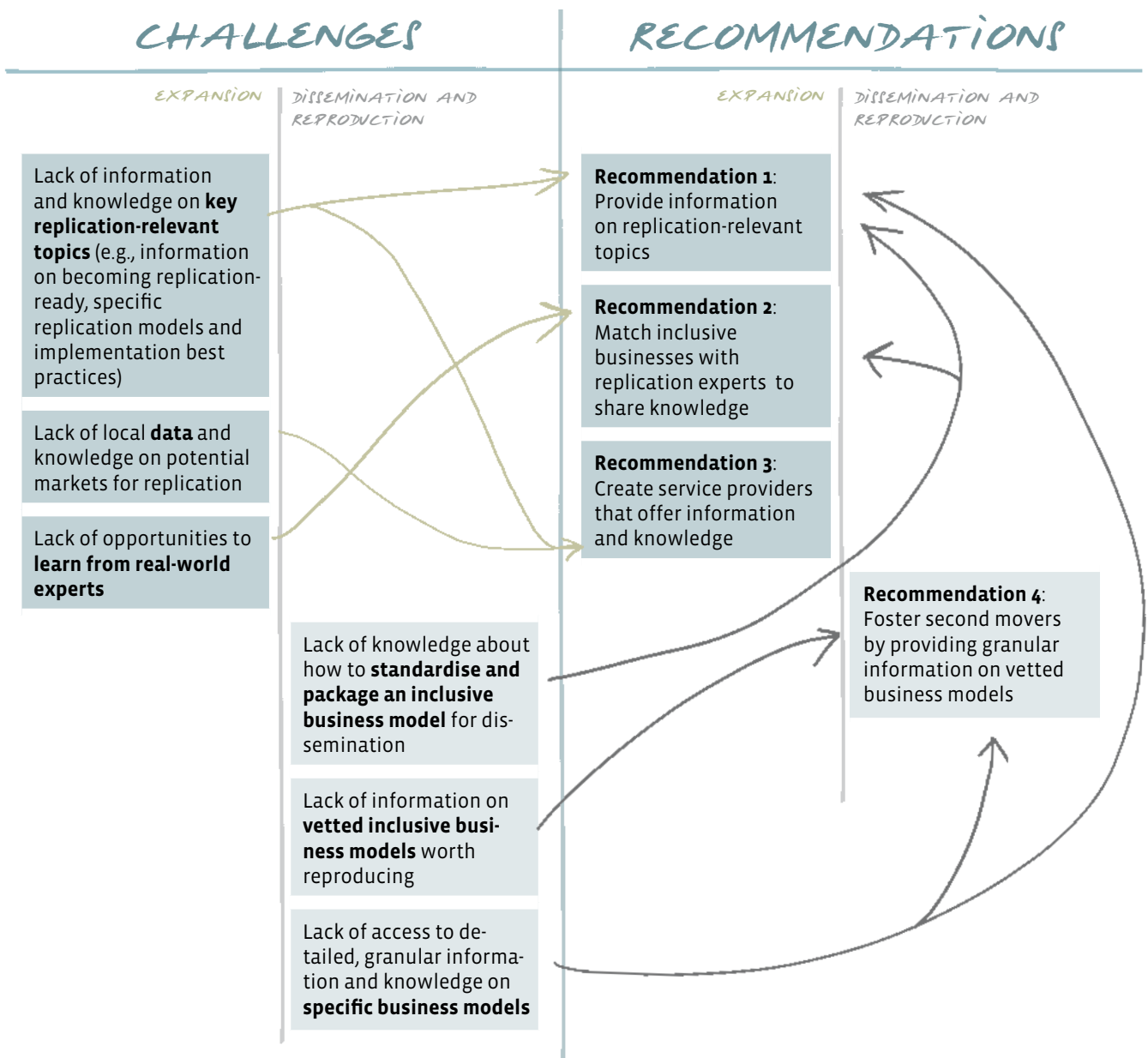
best practices. While there is a wealth of case studies and high-level information available on inclusive businesses, little of this delves deeply into describing their replication processes. In addition, there is little practical information on topics relevant to replicating businesses such as how to standardise a business model for replication, how to properly conduct partnership due diligence, or how to best recruit and train new staff members. Additionally, while many experts and even other businesses have gathered experience and knowledge on these topics, there are still too few events or coaching platforms that focus on efficient information exchange. As a result, many inclusive businesses engaged in replication go through a trial-and-error process, all too often reinventing the wheel.

The same is true of businesses that aim to disseminate a functioning inclusive business model, as well as of those that aim to reproduce one. The former often lack input on how to standardise and package their model so the information becomes relevant to those aiming to replicate it. The second-generation businesses, on the other hand, require **granular information on vetted inclusive business models**. The information currently available – for example in the form of case studies – is often written at a very high level, providing little insight into whether a model is actually profitable or into the real foundations of its successes. In fact, in most cases, very little is known about the economic and development outcomes actually created by specific inclusive business models. Thus, more support is needed to identify models and best practices that merit being spread.

*Gaining access to reliable data about the market context in target countries is challenging, which makes it difficult to develop a detailed expansion plan.*

**Dr. Leonidas López**, Rector General, Uniminuto

Table 3: Overview of challenges and recommendations





REPLICATION PATH: EXPANSION

## Recommendation 1: Provide information on replication-relevant topics

Replicating businesses need information that goes beyond high-level best practices, as they need access to data on potential expansion markets, detailed descriptions of specific models and information about potential replication partners. The more detailed this knowledge is, the more useful it becomes. A variety of actors, from development partners to local universities, can help close these knowledge gaps.

### Provide information on getting a business replication-ready

It is often difficult for inclusive businesses to know whether they are ready for replication, or to know how to prepare for replication once they are ready. Indeed, growing an organisation is a complex undertaking that needs careful preparation and planning. For example, replication requires the standardisation of key organisational processes – the principles underlying the business model – such as sales and accounting procedures. At the same time, entrepreneurs must be able to respond to changing needs and innovate or adapt to local contexts. Information on how to assess replication opportunities and financially plan for replication is also of value.

Toolkits and checklists can help organisations self-assess their replication readiness. For example, the **International Centre for Social Franchising** offers a replication-readiness test for social entrepreneurs.<sup>12</sup> Concrete information and advice on how to prepare for replication can also be of assistance. The **UnLtd Ventures Institute** – a U.K. consultancy for social entrepreneurs – has developed an online toolkit that guides the entrepreneur through key questions offering concrete tips for this crucial phase.<sup>13</sup> The institute helps entrepreneurs identify, for example, the elements of a business that merit replication, and helps assess market opportunities.

⚠ Although these resources can be good places to start, toolkits and checklists are of little use if they are too general or theoretical. All too often, the information on offer can be figured out by the entrepreneur on his or her own. 💡 Instead, businesses need detailed information and advice on how to properly prepare for replication. Development partners, academics, think tanks, consultancies and other service providers could support research on replication readiness and help create channels for the dissemination of this knowledge. In creating toolkits, organisations should work with entrepreneurs – the potential users – so as to understand clearly what knowledge gaps exist.

### Support the provision of market intelligence on low-income markets


When evaluating markets in preparation for replication of an inclusive business model, entrepreneurs need access to a wealth of data such as low-income consumer demographics (household income, size, spending allocation patterns, etc.), information on low-income producers (production capabilities by sector, organisation of producers, etc.), key socio-economic indicators (relevant health issues, educational information, female/male employment statistics) and key legal parameters affecting the conduct of business (rules on foreign ownership of land, incorporation processes, tax issues, etc.).

<sup>12</sup> International Centre for Social Franchising (2013). Am I Ready to Replicate? A 10 Question Test. [www.the-icsf.org/wp-content/uploads/2013/04/ICSF-Replication-Readiness-Test-V2.pdf](http://www.the-icsf.org/wp-content/uploads/2013/04/ICSF-Replication-Readiness-Test-V2.pdf) (Accessed 11 November 2013).

<sup>13</sup> UnLtd Ventures (2007). Replication Readiness – An Overview. London: UnLtd Ventures.

International development partners can support the provision of detailed market intelligence by supporting better research on low-income markets. For example, the **Deutsche Investitions- und Entwicklungsgesellschaft** (DEG) and the **German Market Research Institute** (GfK) have teamed up to improve market-research capacities among sub-Saharan African universities.<sup>14</sup> In addition, private companies can create solutions that facilitate access to better data. For example, **Jana** is a telecommunications-research and rewards company that has developed a way to gather data about low-income consumers through cost-effective surveys via mobile phones. Due to the high penetration of mobile phones, it is able to reach customers even in the most remote villages. Providing mobile-phone airtime in return for survey input provides incentives for customer participation, thus redirecting some of the money spent on market research back to low-income consumers.

Alternatively, private or public organisations can compile and publish information themselves. A first attempt to compute the size of the low-income market in different countries and sectors was undertaken by the **World Resources Institute** (WRI) and the **International Finance Corporation** (IFC) in their 2007 report called *The Next 4 Billion*. Other groups have started to provide data on specific sectors. For example, **FinScope** provides detailed information about consumer perceptions of financial services in 14 African countries. The study provides insight into the sources of consumers' incomes and how they manage their financial lives. The initiative is primarily funded by the U.K. Department for International Development (DFID).

 These datasets must be updated continuously if they are to remain useful. Therefore, when creating a dataset, it is crucial to factor in the necessary financial and human-resources costs associated with keeping the data up to date over the long term.

### Commission or support research on potential replication partners

Entrepreneurs seeking support for replication often seek to do so with partners. The search for potential partners can be supported by the commissioning of research on replication partners. This research could be financed by development partners, or even by multinational corporations or investors seeking to invest in replicating businesses. Research and consultancy organisations are often best positioned to carry out these studies.

For example, **GlaxoSmithKline** (GSK), a large multinational pharmaceutical company, wanted to support the development of promising franchise models for delivering health care solutions in low-income markets. The company commissioned a study\* by the **International Centre for Social Franchising** (ICSF) that assessed replicable models in health care in order to increase access to affordable medicines. The study evaluated more than 900 health care programmes around the world on the basis of investment suitability and potential for scalability and replication. A great variety of businesses are documented in the study, providing useful information for businesses in the health sector looking for strategic partners as well as impact investors aiming to identify investment opportunities. One of the replicated models identified was that of **One Family Health** (OFH). GSK and OFH began a partnership that ultimately included additional partners such as Ecobank, HealthStore Holdings and the Rwandan Ministry of Health. Through this partnership, OFH was able to expand its model from Kenya to Rwanda, establishing 240 health clinics between 2012 and 2015.

\* SEE PAGE 76

<sup>14</sup> KfW (2012). DEG and GfK Promote Market Research in Africa. [www.kfw.de/inlandsfoerderung/Technische-Seiten/Pressemitteilung-Details\\_6101-2.html](http://www.kfw.de/inlandsfoerderung/Technische-Seiten/Pressemitteilung-Details_6101-2.html) (Accessed 4 April 2014).

**Provide detailed information on specific replication strategies**

Inclusive businesses that are ready for replication need to decide which replication strategy\* is most appropriate for their purposes. This decision partly depends on the nature of the business – some models are ideally constituted for a franchise system, while others require a joint-venture approach. However, the decision also depends on other parameters, such as the level of control the entrepreneur wishes to retain.

Manuals can provide a good information base when it comes to selecting a specific replication strategy. They can also provide granular information on specific replication strategies, including advice on branding or legal questions, and often identify factors critical to success. For example, the **Brigham Young University's** (BYU) Department of Economic Self-Reliance has published a micro-franchise toolkit that provides essential instructions for establishing a micro-franchise, including information on branding, developing contracts and franchise agreements. **FUNDES** has produced three guides\*\* for replicating micro-franchises in Mexico; one is targeted at social entrepreneurs, one at small and medium-sized enterprises (SMEs), and one at large companies. All three are published in English and Spanish on the organisation's website. These guides provide very detailed information on topics ranging from selecting and recruiting micro-franchisees to developing operations manuals.

💡 Similar manuals for other replication strategies could be developed, such as manuals for the creation of new branches, joint ventures or partnerships. Before writing a manual, however, a proper needs assessment should be performed to establish exactly what information is needed by entrepreneurs engaging in replication. Furthermore, manuals should be as concise and action-oriented as possible, for example by offering checklists or contact information for relevant experts or advisors. 🛑 Information on best practices should be provided only if it has been distilled from actual experiences and vetted. Businesses may also appreciate information on cases of failure, which often provide rich learning opportunities. 💡 In addition, existing manuals could be improved. Manuals are often provided as a static paper document. However, information on best, good or failed practices may evolve over time. Thus, creating an online version of the manual in wiki form or pairing it with an online community may be a way to keep it up to date as the field evolves. Finally, manuals must be actively promoted and disseminated in order to reach the people who will most benefit from them.

\*SEE FEATURE  
ON PAGE 22/23

\*\*SEE PAGE 76

*A manual is a static document. Reading it is theoretical, applying it is something else. **Pairing manuals with an online community** where businesses can share information, blog their progress and stories, and bring up problems with models they are trying to implement would help show how the models can evolve on the ground.*

*However, you need an entity that has the funds and personnel to help manage the online platform long-term and **foster continuous knowledge creation.***

**Elizabeth Berthe**, Social Venture Architect, Mercy Corps (previously Director, Grameen Foundation)



## REPLICATION PATH: EXPANSION


## Recommendation 2: Match inclusive businesses with replication experts to share knowledge

When it comes to replication, the most interesting pieces of knowledge are difficult to capture in reports or on websites – they are tacit. As a result, inclusive businesses seeking to engage in replication need first-hand information from experts or those who have undergone similar experiences.


### Develop innovative matchmaking events and workshops

Inclusive-business entrepreneurs preparing their business model for replication need to juggle a number of responsibilities. These include the management of day-to-day operations, the development of their replication strategies, the selection of expansion markets and the identification of replication partners. While outside support exists, many businesses find it difficult to navigate the support landscape. Development partners and other intermediaries can facilitate matchmaking by organising events that link inclusive-business entrepreneurs to replication experts or support services. The goal of these meetings should be to create as many real links as possible, and not just the exchange of business cards.

One example is the **Sankalp Forum**, an initiative of the India-based Intellectap, which aims to build links between inclusive businesses, investors and other potential partners. Each year, it offers a select group of entrepreneurs the opportunity to receive unique mentoring to develop their businesses and showcase their models. Sankalp Africa is an expansion of this forum that seeks to facilitate information exchanges between India and Africa, and to create a platform to replicate high-impact SMEs in the African region. It too offers meeting opportunities that bring together entrepreneurs, multinational corporations, intermediaries, funders, industry experts and policymakers from both regions, thus catalysing the dissemination of business models.

 Conferences and workshops can be designed to offer knowledge and advice useful to businesses engaged in replication. However, care needs to be taken to get the format right: Real learning is not fostered through long-winded panel discussions. Rather, well-prepared workshops can ensure the right people are brought to-

gether. They also allow experts to discuss in detail the challenges faced by replicating businesses, as opposed to offering presentations that stay on an abstract level. The **G20 Challenge on Inclusive Business Innovation**, for example, offered workshops for its winners that facilitated knowledge exchange between the selected companies on the topic of replication. Selected companies were encouraged to report on the challenges they have faced when replicating, while also receiving feedback and input from other businesses and selected experts. A subsequent conference provided entrepreneurs with further opportunities to meet inclusive-business experts and potential partners. The **Ashoka Globalizer Summit on Economic Inclusion**, held in Chennai from 28 February to 2 March 2014 was another example of a solution-focused conference that created links between businesses, experts and ecosystem actors. More facilitated events that enable real, hands-on and solution-oriented exchange with peers and experts in small groups are needed.

 Intimate workshop settings focused on peer-to-peer exchange may also allow businesses to share confidential information, such as bad practices or mistakes they have learned from – information that may prevent others from committing the same mistakes. A business that shares its experience, on the other hand, may receive advice allowing it to “fail forward”. The **Innovations Against Poverty Annual Conference**, held in Zambia in 2013, provided entrepreneurs with an intimate setting in which they could discuss inclusive-business activities or models that had proven ineffective; this received very positive feedback from participants.<sup>15</sup> In the course of future events, organisers could consider offering similar sessions to learn from cases of replication failure.

<sup>15</sup> Business Innovation Facility (2014). Inside Inclusive Business: When Things Don't Go to Plan. <http://businessinnovationfacility.org/forum/topics/insider-when-things-don-t-go-to-plan> (Accessed 12 March 2014).

### Enable businesses to find and meet peers, potential replication partners and experts online

Not all businesses have the time and resources to attend conferences and workshops. Enabling them to find experts or partners online may be a valuable alternative. Online platforms, for example, can provide a database of expert and support-organisation contacts. The **Practitioner Hub**, for example, offers a database of financial- and technical-support services for inclusive businesses. This site's online community allows practitioners and experts to connect directly and share their experiences. Similarly, the Results for Development's digital platforms – the **Center for Health Market Innovations (CHMI)** and the recently launched **Center for Education Innovations (CEI)** – are targeted at organisations that improve access to health care and education for the world's poor. In addition to documenting and analysing existing health and education business models, these platforms provide information on funders and available technical assistance, as well as potential replication partners.

Many organisations are using new online tools to put businesses directly in touch with experts. For example, **Business Fights Poverty**, an online community of professionals who work at the intersection of business and development, frequently organises live online discussions with experts. These have proven to be an efficient way for businesses and others to engage directly with experts by asking questions in a live chat. 💡 This and other similar online platforms could host discussions with experts more specifically focused on replication, or enable replicating businesses to meet partners and experts.

🚫 Organisations aiming to support replicating enterprises through the use of online tools should first explore the potential of existing websites and online communities, rather than immediately creating a new service. This latter course can consume resources unnecessarily, while fragmenting available knowledge.

INTERVIEW WITH: **Donika Dimovska, Programme Director, Results for Development (R4D)**

### Pairing Partners: Connecting stakeholders for better information access

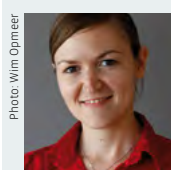


Photo: Wim Opmeer

**CHMI and CEI are platforms managed by R4D that enable people to learn about and connect with innovative market-based programmes, policies and practices that improve health care in low- and middle-income countries. Donika is programme director and has followed the replication – both successful and unsuccessful – of many companies and projects. She works to further replication through effective facilitation and by connecting partners on R4D's platforms.**

#### Ms. Dimovska, how does CHMI support the replication of health-related inclusive business models?

CHMI seeks out businesses providing access to health care and documents their models. We have a comprehensive health database, launched in 2010, with about 1,250 enterprises documented ([www.healthmarketinnovations.org](http://www.healthmarketinnovations.org)). We at the Center for Education Innovations (CEI) recently launched an education platform that is now growing, with about 400 enterprises documented to date ([www.educationinnovations.org](http://www.educationinnovations.org)).

We analyse these models to identify patterns in terms of what is working and what isn't. For example, we see many small primary-care chains as models that are growing around the world, but these are struggling to expand. Analysing their challenges and best practices will help them learn from each other, and supports them as they grow. Furthermore, documenting these models in detail supports their dissemination:

Interested adopters can learn about models and best practices – and potentially even get in touch with the originator through our website and country-based regional hubs.

#### How do you provide support for businesses seeking suitable partners?

With our partners, we work at a global and country level to connect programs to opportunities that help them grow and refine their models, such as impact investors, accelerators, funders, competitions, etc. For example, if a business would like to be more visible to funders, we have events and other opportunities, such as competitions, where businesses are showcased for government policymakers and other actors, and are able to get funding. We also serve as a pipeline for charity funds; big challenge and innovation funds such as DFID and USAID are looking for innovative businesses to support with mid-level financing, which is exactly what some businesses are struggling to get from commercial financial organisations.

#### So CHMI not only provides aggregated information, but also plays a role as a broker?

Right. We see ourselves as a neutral intermediary that sits between funders, policymakers and businesses. We help all sides to access information, reducing information asymmetry and improving information flow.



CASE STUDY: **Ashoka Globalizer Summit's Ecosystem Day, India**

*From networking to scale: Constructing effective dialogues between ecosystem actors*



A participant at the Globalizer Summit shares her ideas.



The Globalizer Summit allowed for a solution-oriented dialogue between different actors.

The Ashoka Globalizer was founded in 2010 with the explicit purpose of helping Ashoka-selected social entrepreneurs (Ashoka Fellows) scale the impact of their idea – or to “globalise”, using the organisation’s term. The Globalizer is preceded by a mentoring process, in which each Ashoka Fellow is paired with an expert who acts as a sounding board as a scaling or replication strategy is developed. The actual Globalizer Summit is a three-day event where all participating Ashoka Fellows meet in person and are able to talk among themselves and with experts about the challenges and opportunities they face in globalising their models. One of the summit days is called the Ecosystem Day; here, external actors such as impact investors, foundations, multinational corporations and donors are also invited. The latest Globalizer Summit Ecosystem Day in Chennai, India, focused on scaling the impact of inclusive business models. It offered a good example of how a conference can lead to practical results and help kick-start collective solution brainstorming among the various actors in the inclusive-business ecosystem.

The Ecosystem Day began with a plenary session that presented, still at a very high level, the various challenges inclusive businesses can face when wishing to globalise their models. Participants were then divided into four groups, each focusing on one of four overarching topics: finance, human resources, information technology and value-chain linkages. For the rest of the morning, in sessions moderated by two facilitators, each of the groups sought to distil the top four specific challenges related to their topic. This was done in a very participatory way, enabling inclusive-business entrepreneurs, representatives of multinational corporations, impact investors and all other stakeholders present to contribute their individual perspectives. By the end of the morning, each of the four

groups had to generate four concrete proposals for solutions. For example, under the topic of value-chain linkages, it was proposed that an online “one-stop-shop” platform facilitating matchmaking between inclusive businesses, suppliers, investors, experts and other interested parties be created. Each of the solutions had to have an assigned “leader” – a participant who was willing to guide an afternoon session that would further flesh out the solution. At the end of the Ecosystem Day, 16 very concrete solutions had been developed, each of which reflected the perspectives of all the different actors in the inclusive-business ecosystem.

By and large, the Ecosystem Day was viewed as a positive way of opening a constructive, solution-oriented dialogue between all actors in the inclusive-business space. What made it a real success was the fact that the sessions were carefully structured, had clear goals and were strictly regulated on the basis of time. Furthermore, there was real incentive to create viable solution concepts in the brainstorming process: Through the Ecosystem Solutions Grant Fund, supported by the eBay Foundation and the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ), the top four ideas for solutions were to be made eligible for financial support in implementing their ideas, contingent upon the presentation of a detailed proposal one month following the summit.

**Source:** Nadine Freeman and Michael Vollmann, Ashoka.






REPLICATION PATH: EXPANSION


## Recommendation 3: Create service providers that offer information and knowledge

In implementing replication strategies, many businesses face very specific challenges on the ground. For example, they struggle to find an appropriate legal status for their subsidiaries, an issue that is often a challenge for businesses that are both profit oriented and socially minded, or have difficulties in developing distribution channels able to reach all their rural franchisees. For these types of challenges, local and specialised implementation support is needed.


### Support the establishment of local business-services providers to assist with replication

Through their private-sector development programmes, many donors support the creation of local markets for business-development services. These local public and private business-services providers can be of particular help to inclusive business that are replicating their model in new markets, where they lack market data or knowledge about regulations, tax systems or appropriate marketing and distribution channels. Local service providers can include consulting and advisory firms, as well as trade associations and chambers of commerce.

 In addition to offering their local knowledge and networks, these service providers could be trained to meet the specific needs of inclusive businesses engaged in replication. **Challenges Worldwide** is one group that is actively building up such local consulting services. For example, with financial support from the Scottish government, they helped create **Umodzi**, a local business consultancy in Malawi that has already become a self-sustaining business.

 Legal, tax and accounting advisory services can help inclusive businesses expanding into new markets navigate the complexities of contract law, book-keeping practices and taxation issues. Some larger organisations provide pro bono support, such as the **Thomson Reuters Foundation's** TrustLaw Connect programme, which connects social enterprises with law firms around the world. However, local services are often immature. Development partners and investors could help build up the landscape of locally specialised tax and legal services for inclusive businesses

operating in emerging and developing economies. Ideally, these services should also be provided at a price point affordable to inclusive businesses.

 In addition, the capabilities of NGOs and other organisations could either be leveraged to provide targeted, high-quality services in more locations, or supported in efforts to spin off local service providers. However, it should be noted that NGOs in particular can only perform fee-for-service work to a limited extent, and should be prepared to withdraw from participation once the business models are functioning. **FUNDES**, for example, went from being philanthropically funded to becoming a self-sustainable business in less than five years, and now offers valuable services to inclusive businesses in various local markets. The Costa-Rica-based organisation has offices in ten Latin American countries, helping inclusive businesses to identify, recruit and build up the skills of small producers and suppliers. It also helps identify supply-chain problems and logistical support solutions that enable businesses to reach low-income producers and/or consumers effectively and thus operate efficiently at scale. Most recently, this organisation has developed a manual for replicating micro-franchises in Mexico.

INTERVIEW WITH: **Eoghan Mackie, CEO and Director, Challenges Worldwide**

## Building local replication capacity for long-term success



Challenges Worldwide is a U.K.-based nonprofit social enterprise with more than 15 years of experience in enabling inclusive economic development that has a longlasting impact in low- and middle-income markets. Eoghan is founder and chief executive of the Challenges group, which includes Challenges Worldwide, Consulting and Challenges Marketplace, among other entities. Eoghan has helped direct over GBP 30 million in strategic support to over 1,000 organisations in almost 40 countries.

**Mr. Mackie, how has Challenges Worldwide helped to build an ecosystem of services to support the replication of inclusive businesses?**

We've invested just under GBP 1.5 million over the last five years to develop a model for supporting the start-up or growth of business-support firms based in emerging and developing markets. Using local consultants, these firms sell high-quality consulting services.

**What were some of the challenges you faced doing this?**

In our research, which focused on Africa initially, we learned that local companies did not necessarily trust people from their own countries. We wanted to address this.

**And how did you do this?**

In Malawi we've built an indigenous firm called Umodzi, which now has about 12 consultants that we've qualified to meet

U.K. Institute of Consulting standards. In the early stages, we helped them build up their consulting business model, and helped them gain experience by matching them with international counterparts. They are now successfully operating in Malawi. Because of their quality "seal", they are trusted, but at the same time offer specific local knowledge of the Malawi market and understand low-income populations in the country. This enables them to deliver a superior quality of service to inclusive businesses.

**This model of creating a local consulting company is very interesting. What are your plans going forward? Do you wish to expand it?**

Yes, indeed. The idea is to replicate the Malawi model, but it's a tough project to get financing for – because it's building the "nuts and bolts" of a small-business ecosystem, which is not always the most attractive project to fund. We've consolidated the consulting-services model so it can be delivered at a low cost. You essentially need a small group of individuals delivering consistently high-quality work at a sensible price. With a local management team and our support, you could get one of these firms up and running in another country in about 36 months, and this is precisely what we would like to pursue. In 2014, we will replicate the model in two further countries, both of which are already confirmed. There are a few more countries in the pipeline. We believe this is a key part of the ecosystem to put in place if we want to see the sort of results that sector commentators such as J.P. Morgan and the Global Impact Investment Network (GIIN) have been forecasting.


### Support the establishment of accelerators for replicating inclusive businesses


Business accelerators are similar to incubators, but focus on getting businesses ready for growth. They often provide businesses with free or highly subsidised services. Among the services offered are support in refining and streamlining business models so as to enable their replication, and in defining marketing strategies for expansion. Though such services already exist, accelerators can support inclusive businesses on their path to replication in particular.

For example, accelerators can support the training of affiliates that are tasked with replicating the original inclusive business model. The South-Africa-based **Microfranchise Accelerator** (MFA) actively disseminates micro-franchise opportunities to potential franchisors. The MFA helps the franchisor design, develop and roll out micro-franchise businesses at scale. They also get access to a screened network of franchisees who are trained by the MFA.<sup>16</sup>

In addition, the **ICSF** has recently established a **Social Franchising Accelerator** in South Africa in cooperation with the University of Cape Town's Graduate School of Business' Bertha Centre for Social Innovation and

Entrepreneurship. It will take social-impact organisations under its wing, passing on the ICSF's expertise in setting up sustainable franchise systems and setting up franchisees in new locations, enabling them to reach more beneficiaries more quickly. In addition to offering one-to-one franchising support to selected organisations, the accelerator will also offer training, funding and mentoring to a wider group of enterprises. The accelerator receives financial support from the Rockefeller Foundation.

 Accelerators offer public and private entities a great cooperation opportunity. However, a variety of accelerators have been set up that rely only on public funding. When setting up new accelerators, care should be taken to develop a business model enabling them to become self-sustaining in the long run.

 Many inclusive businesses based outside large cities or in countries with weak entrepreneurial-support structures lack access to acceleration and investor-matchmaking support services. Virtual incubation and acceleration for impact-oriented businesses may be able to close this gap. Leading actors and experts are currently discussing such offers. For example, a discussion on the topic was held at the Sankalp Forum in Kenya and India in 2014.

<sup>16</sup> Fast Company. (2013). Strengthening Underserved Communities with Changemaking Businesses. [www.fastcoexist.com/1681119/strengthening-underserved-communities-with-changemaking-businesses](http://www.fastcoexist.com/1681119/strengthening-underserved-communities-with-changemaking-businesses) (Accessed 4 April 2014).



## Recommendation 4: Foster second movers by providing granular information on vetted business models

Many inclusive businesses struggle to find ways to efficiently provide information on their model to potential second-mover entrepreneurs seeking to set up an inclusive business elsewhere. At the same time, potential second-generation businesses often struggle to identify models that have been vetted sufficiently to merit reproduction. In both cases, development partners and others can provide valuable support.

### Support disseminators in sharing their model with potential second movers

Many inclusive business models work well in a specific location, but not all entrepreneurs have the financial backing or manpower to replicate these models countrywide or on another continent. They often also lack the time and resources to capture and disseminate their lessons learned, for example, in the form of detailed publications. Development partners, think tanks and academics can help those willing to share their model to collect this information and disseminate the results.

The **Grameen Foundation**, for example, developed a replication manual to facilitate dissemination of the Village Phone model. The development of the manual was supported by a variety of organisations, among them the Consultative Group to Assist the Poor (CGAP), invoDev, IFC and the United Nations Information and Communications Technologies Task Force. 💡 Like the manuals on replication strategies, manuals on specific business models could be created in wiki form online, or paired with online communities to keep them up to date as the field evolves.

💡 In addition to developing manuals focusing on specific models, online platforms can provide valuable opportunities to engage with experts or other businesses implementing similar models.

### Help second-generation businesses identify vetted business models, as well as best and failed practices

Entrepreneurs aiming to reproduce an existing inclusive business model in their own country often find it difficult to identify successful models. Thus, development partners and other intermediaries can facilitate the identification of well-vetted inclusive business models.

💡 The identification of vetted models that merit replication could be done through an award scheme, for example. A variety of international awards already exist, including the SEED Awards for Entrepreneurship in Sustainable Development or the **Ashden Awards**, but none specifically focuses on identifying models suitable for replication. 💡 Instead of setting up new awards, organisations wishing to support replication could leverage existing awards to specifically showcase replicable models. 🛑 All too often, a small

*There's a whole lot of buzz, but no one actually understands the fundamentals and getting down to the nitty gritty of what makes a model work.*

**It's not Subway, it's not McDonald's – it's a lot more nuanced – and the environments we are working in are challenging environments.**

*To develop our replication manual, we had to dive deep to understand the fundamental principles of the business model and the practices. We did this at a very detailed level. Only then can you go on and replicate the principles – verbatim – and adapt the practices to suit the local environment of where you want to replicate.*

**David Keogh**, Director of Portfolio Office, Global Good/Intellectual Ventures (previously Director, Grameen Foundation)

CASE STUDY: **Grameen Village Phone Replication Manual, Global**

*Taking replication from a handbook to the field*

The Village Phone Replication Manual was produced by the Grameen Foundation to provide step-by-step, granular information to organisations wishing to create a Village Phone programme in their markets. The Village Phone programme, launched in Bangladesh in 1997, is a micro-franchise model for telecommunications. When the manual was developed, access to telecommunications services in the country was very limited. The lack of this very basic service meant people could not call a doctor if someone was sick, could not check prices for their crops, and often lost time having to send a productive member of the household to relay or receive a message. The Village Phone project circumvents these challenges by providing cell phones to local “phone ladies”, who purchase them with a loan from Grameen Bank and sell the use of them on a per-call basis.

The manual contains detailed instructions on how other organisations can set up Village Phone programmes in other countries, while encouraging adopters to tailor replication efforts to their counties’ unique characteristics. Highlighting the model’s principles and discussing local practices that would have to be adapted to new markets provided an excellent foundation for further replication of the project. Grameen and other organisations such as the IFC used the manual to begin Village Phone programmes in Rwanda, Uganda, Cameroon, Indonesia, Cambodia and other countries.

However, Grameen realised over time that the main challenge in creating such a manual was its static nature. It simply does not evolve along with the business model. The unprecedented increase in access to telecommunications in the past decade means that the Village Phone programme in its original state – offering voice services alone – is relevant in only three markets today: Myanmar, North Korea and, possibly, Ethiopia.



Photo: Grameen Foundation

**Village Phone has enabled women to become micro-franchisees and has evolved to offer many more services.**

The most successful replications of the original Village Phone programme have evolved to offer additional services such as job searches, access to agricultural data and more. Each evolution of the original programme has been unique. Village Phone businesses in Uganda and Rwanda provided the institutional and operational foundations for the development of mobile money, which is the most successful product that has emerged from this evolutionary process.

Based on this experience, the Grameen Foundation recommends coupling a manual with an evolving and organic solution such as an online platform, thus facilitating the exchange of experiences and ideas on how to improve and further evolve an inclusive business model.

**Sources:** Interviews with David Keogh and Elizabeth Berthe, former directors of the Grameen Foundation

number of well-known businesses are repeatedly selected as award winners, or prizes are given to businesses that are still struggling to make their business case. Thus, when designing award programmes, care should be taken to examine businesses closely, and to feature only those worthy of recognition. This can be achieved through the creation of selection criteria that require a solid business case as well as proven social and environmental impact.

However, replication requires more than simply information on a single specific model. Indeed, analysing best practices across models within a specific sector can help second-generation businesses to adapt them to their specific conditions. For example, the GIZ, on behalf of BMZ, has developed reports as part of its **BoP Sector Dialogue Series** that extract best practices from an analysis of inclusive business models in sectors such as insurance, energy, health, agriculture and ICT. Also, the above-mentioned **Center for Health Market Innovations (CHMI)\*** analyses the business models featured on its platform, and publishes lessons learned in reports and blog posts.

\*SEE INTERVIEW ON PAGE 38

⚠ In this case too, care should be taken to avoid calling case studies best practices in the absence of evidence that they are actually achieving impact on the ground. Many published case studies have not been verified as successful and truly functional by third parties. Intermediaries can achieve a great deal by separating fact from fiction, in addition to publishing information on failed practices.

**Support research that measures results in order to identify models that merit being spread**

The results generated by inclusive business models need to be assessed in order to identify models that are profitable, create a positive social impact, and thus merit being disseminated and reproduced. Development partners and other intermediaries can help build businesses’ capacities to measure the results they create by offering training and financial support, or simply by providing information and guidance. Measuring the results created by inclusive business models also has benefits beyond supporting replication; it can help businesses enhance their model’s performance or help communicate their business and development case to investors that could finance their replication efforts.



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# Chapter 3



# People and partners

An organisation's success or failure often rests with the people it employs. This also holds true for inclusive businesses that are expanding or actively disseminating their model.

However, talented people that understand both the need for profit maximisation and social progress are rare. In addition to high-quality employees, inclusive businesses need to find suitable replication partners. Thus, targeted brokering and matchmaking support is a must.



## People and partners

When expanding into new markets, an inclusive business needs to find employees with the right background and vision to get the model going. It also needs to pinpoint the partners to make the model work. Targeted recruiting, training and matchmaking support can make this process much more efficient.

Inclusive businesses in the process of replicating often focus on remote rural areas where low-income populations live, and where living conditions in general can be difficult. One example is **Arogya Parivar**, a for-profit health care business set up by Novartis. It offers improved access to medicine, health education and treatment options, and preventative health measures to 42 million people in 33,000 villages in rural India.<sup>17</sup> When starting to replicate its business model across various states in India, the company struggled to attract qualified physicians and health educators interested in relocating to a rural area. To find candidates from a variety of backgrounds, such as individuals with experience in the pharmaceutical industry, the health care industry, the fast-moving consumer-goods industry or non-profit sector, Novartis organised a large recruiting and training drive throughout India. The company also developed a solid training programme to ensure all employees are properly and consistently informed, and to ensure compliance with the company model.

Indeed, **finding talented people and suitable partners** to carry out replication efforts in new and unfamiliar markets is particularly challenging. Not all companies have the resources to organise large recruiting efforts, as did Novartis for Arogya Parivar. Many businesses rely only on personal networks to find qualified entrepreneurs to run a local branch or franchise or the staff to support a subsidiary. Personal networks have remained a crucial source of talent for inclusive businesses expanding abroad, as specialised and affordable recruiting platforms, headhunting firms and matchmaking services are rare.

Attracting qualified personnel is also difficult for small inclusive businesses, as they face competition from traditional businesses that can offer better pay and other benefits to lure the best and brightest. As many inclusive businesses cannot offer salaries comparable to those offered by traditional businesses or established NGOs, their claim to create sustainable social change and provide meaningful work opportunities is a considerable draw for talented individuals.

While most inclusive businesses need team members with strong business skills to replicate and manage an enterprise, many start with a management team that is socially motivated yet lacks concrete know-how. Recruiting business graduates or experienced business executives isn't necessarily the answer either, as such candidates often have had little exposure to low-income populations and first need to learn about the realities of poverty. To **build the unique business and social skills** employees of inclusive businesses need, training and mentoring programmes are required. Faced with a lack of external providers experienced in addressing the training needs of inclusive businesses, companies have had to set up their own training and mentoring programmes, a process that consumes both time and significant staff resources.

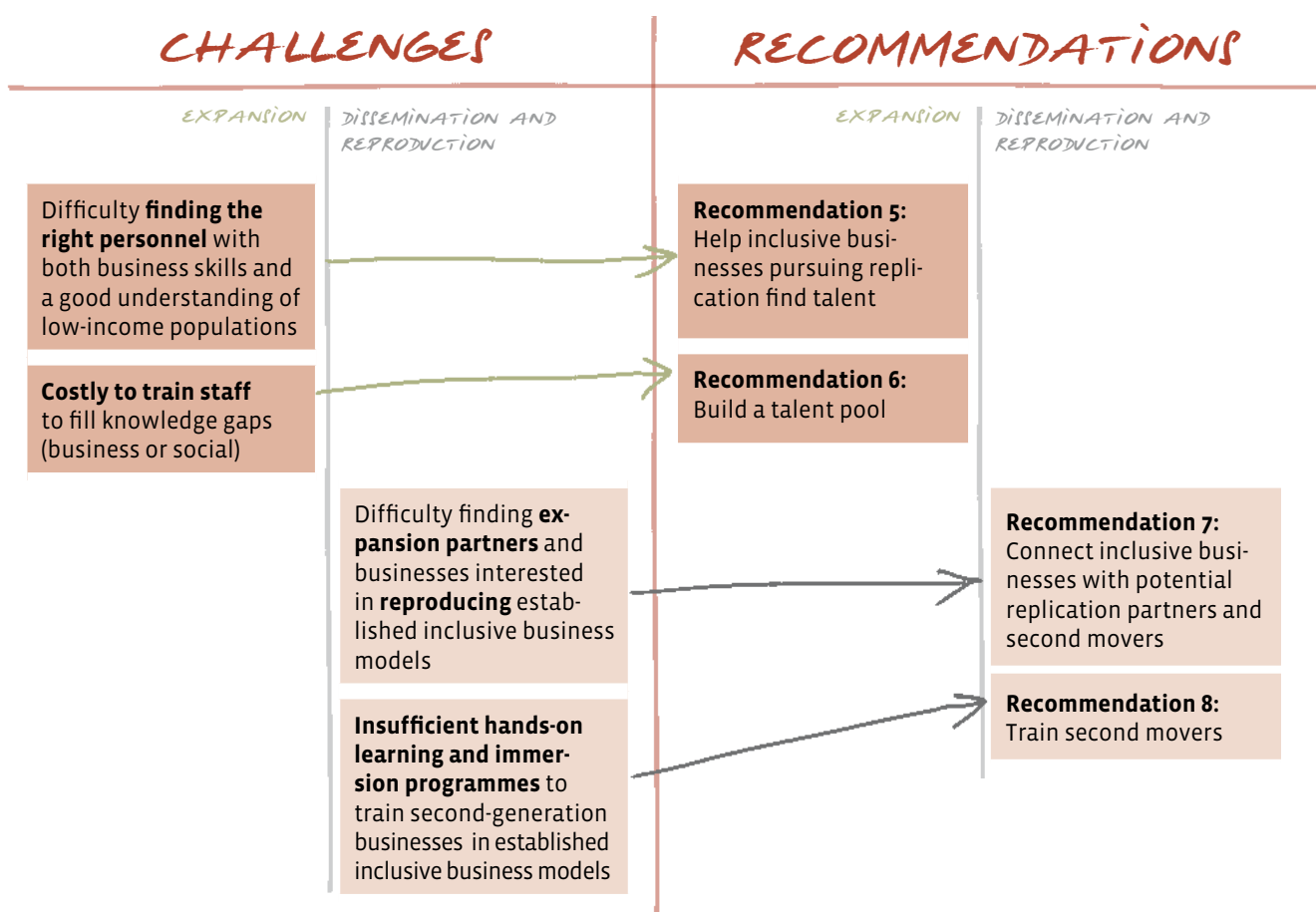
<sup>17</sup> Novartis (2013). Improving Health in Rural India: Arogya Parivar Fact Sheet. [www.novartis.com/downloads/corporate-responsibility/arogyafactsheet.pdf](http://www.novartis.com/downloads/corporate-responsibility/arogyafactsheet.pdf) (Accessed 4 April 2014).



*It was really difficult to find the right people to help expand our business in rural areas where we serve the poor. Life isn't easy there, so you really need to make sure you **find and keep those people who are intrinsically motivated** to help create a positive social impact.*

**Olivier Jarry**, founder of 3XBL (started and ran Arogya Parivar while at Novartis)

Table 4: Overview of challenges and recommendations



Inclusive businesses looking to disseminate their model face similar **challenges in finding suitable entrepreneurs or companies interested in reproducing their model**. There is, in fact, a lack of formalised platforms of information exchange, such as conferences or forums, which could help disseminate successful inclusive business models across industries and/or geographical borders. Currently, potential partners often find each other simply by accident.


On the other hand, businesses aiming to copy an existing model **face difficulties getting access to the tacit knowledge** the original business has gathered over the years. Most training still relies heavily on traditional classroom learning and high-level case studies, and less on actual immersion programmes in cooperation with an inclusive business. As a result, valuable tacit knowledge is not transferred.



## Recommendation 5: Help inclusive businesses pursuing replication find talent

The concept of inclusive business is still relatively new to many potential employees living in developing countries and emerging economies. At the same time, many inclusive businesses that replicate their models are still quite small and often work on a tight budget, which makes finding and recruiting talent a challenge. Development partners and other intermediaries can play an important role for inclusive businesses in facilitating the search for skilled individuals.


### Support career fairs that help match talent with inclusive businesses that are replicating

 The search for talent can be facilitated through career fairs. Such fairs offer a platform for inclusive businesses to showcase what they do while educating talented graduates about work opportunities that create positive social change. Importantly, fairs help businesses recruit new staff. Career fairs could be organised for graduates from vocational schools, technical training institutes, universities or business schools. Development partners and other actors willing to support inclusive businesses looking to replicate could help fund the organisation of such fairs. Support could also come from local chambers of commerce.

Conferences for students also offer businesses an opportunity to recruit potential employees. For example, at the annual **Social Enterprise Conference**, organised by students from Harvard Business School and the Harvard Kennedy School of Government, inclusive businesses showcase their work to students who then can network informally during conference breaks and potentially find a meaningful post-graduation job. Such conferences could also be organised at the growing number of reputable universities in Africa, Asia or Latin America

### Support the development of job-search and recruitment platforms and headhunting services

Finding competent staff and managers to fulfil expansion plans in new markets is an important challenge for inclusive businesses. Online search engines for jobs in emerging and developing markets could provide an affordable way for inclusive businesses to post job openings and recruit interested talent. One such example is the **Microfinance Gateway**, an interactive platform that aims to improve financial access for the poor, while offering a jobs database specifically for the microfinance sector. Another example is **Jobs for Good**, based in India, which offers recruitment and human resource advisory services exclusively to non-profit organisations and social enterprises. **Karmany** is another technology platform focused on the Indian market that aims to match social enterprises with suitable talent. Some of these platforms also offer headhunting services, such as the Ashoka spin-off, Talents4Good.

 Recruiting and headhunting services are still relatively limited and most examples focus only on a single country or sector. Development partners, local chambers of commerce or investors could provide targeted support for companies looking to start similar services.

SEE INTERVIEW WITH AVINA ON PAGE 50



REPLICATION PATH: EXPANSION

## Recommendation 6: Build a talent pool

Inclusive businesses engaged in replication need to hire staff to fulfil their expansion plans. However, most education systems around the world produce graduates who either have solid business skills or strong social-sector knowledge, but not both. This results in an additional training burden on inclusive businesses. Development partners, universities or other intermediaries can play a significant role in supporting the training and development of the talent needed by inclusive businesses.

### Support the establishment of education and training programmes

A few business schools and universities in developing and emerging economies have already begun to provide specialised entrepreneurship, social and inclusive-business classes. For example, GIZ, on behalf of BMZ, supported the introduction of the first master's degree in social entrepreneurship in the Arab world at the **I'Institut des Hautes Etudes Commerciales (IHEC)** in Tunis, applying new concepts and teaching methods.

To enhance the capacities of managers to begin or advance inclusive business models of both small and large businesses, the European network of BoP Learning Labs, the World Business Council for Sustainable Development (WBCSD) and Business Fights Poverty jointly offer an online course, the **Inclusive Business eLab**. The course targets managers, offering eight modules in a webinar format that provides the essential management knowledge that is specific to inclusive businesses. A unique feature of the course is that each

participant has the opportunity to be paired with a coach to provide personal guidance and support.

💡 Similar courses could be developed that specifically target enterprises seeking replication.

Many courses currently offered still provide traditional, case-study-based classroom training. Yet real learning happens most effectively when an individual personally experiences the day-to-day realities of an inclusive business. In addition to its executive-education course entitled Building Business Models for Low-Income Markets, the **Gordon Institute of Business Science** in South Africa also organises immersion tours and consulting assignments for MBA students. Bringing students in direct contact with small enterprises in townships creates opportunities for mutual learning. 💡 Universities that offer programmes combining classroom learning and fieldwork may offer recruitment opportunities for inclusive businesses. However, more such programmes are needed.

*We found it challenging not only to find qualified, trustworthy talent in our expansion markets, but also found that it was difficult **to find them at the right price point**. In East Congo, we searched for qualified pharmacists who could speak English and French, offering them a good income for the area. However, NGOs and international organisations were offering wages at over three times the baseline fair wage in the country for the same qualifications, creating **strong competition for local talent**. Unfortunately, this is not a unique situation.*

**Maarten Neve**, Co-Founder, Healthy Entrepreneurs

INTERVIEW WITH: Sean McKaughan, Chairman, Fundación Avina

*Working with universities to build talent for inclusive businesses*



Photo Avina

**Avina was established in 1994 with the initial goal of strengthening initiatives by social and business leaders in Latin America aimed at promoting sustainable development in the region. As a dynamic organisation that is constantly learning and changing with the times, Fundación Avina now looks to identify opportunities to participate in global sustainable development by creating favourable conditions for diverse actors to join forces in contributing to the common good. Sean is chairman of Fundación Avina's board of directors and previously served as leader of its executive team.**

**Mr. McKaughan, how has Avina supported building talent for inclusive businesses?**

We certainly took part in the first experiments in Latin America to build a pool of business talent that was aware of and interested in the concept of social entrepreneurship and inclusive business. One way we did that was to work with the business schools in Latin America – approximately 15 in total across the region.

**And what exactly did you do with the business schools?**

We ensured that the core business curriculum included modules on the theory and practice of social entrepreneurship and

inclusive businesses. We also actively supported the formulation of case studies regarding successful social enterprises from the region. Our hope was that this would inspire them to work for such businesses or set up some of their own.

Among other initiatives, in 2001 we formed a partnership with the Harvard Business School that created the Social Enterprise Knowledge Network (SEKN) for socio-economic change and collaboration among ten of the most prestigious business schools in Latin America. SEKN actively supported the integration of corporate responsibility, social entrepreneurship and inclusive-business topics in the curricula of these universities.

**And what has been the result of your efforts to date?**

First, our work has resulted in the production of many case studies, journal articles and didactic materials. Second, the number of course offerings in the business schools has increased significantly, leading to thousands of future business leaders educated in inclusive business. Third, the network of universities and faculty members has made Latin America a reference for social-enterprise and inclusive-business education. After almost 20 years, the ideas of corporate social responsibility, social enterprises and business sustainability have entered the mainstream in Latin American business thought and practice.


**Support replication-focused coaching and mentoring programmes**


Inclusive-business entrepreneurs face many new challenges as they seek to replicate their business model. Having a coach or mentor to act as a sounding board or expert voice can be highly effective in helping entrepreneurs successfully navigate obstacles along their replication path. Coaching and mentoring programmes could, for example, match entrepreneurs that have successfully expanded a business with more novice entrepreneurs. **Santa Clara University's Global Social Benefit Incubator (GSBI)** in California connects social entrepreneurs with Silicon Valley executives, academics and mentors in order to create social enterprises with sustainable and replicable business models. Its accelerator programme offers a ten-month mentoring component before participants take part in a nine-day residency at the university.

Many impact-investing funds and platforms have recognised this need and offer mentoring in parallel to investors' financial capital. For example, the **Artha Platform** includes such a mentoring programme.

Another example of a successful mentoring service is the business support programme offered by **Challenges Worldwide**. In this programme, volunteers (called ex-

pert associates) with business planning, financial management, marketing and other relevant skills spend three months offering tailored advice and support to businesses in low- and middle-income countries.

 When engaging volunteers or pro bono support for coaching and mentoring, many inclusive businesses neglect building in-house capacities and thus become dependent upon external support. Care should be taken to use mentors to build capacities within an organisation. Many coaching and mentoring programmes are still quite generic, in that they target businesses at many different stages of growth. More specific support programmes could thus be created that focus on getting inclusive businesses ready for replication or aiding those that are actively replicating their model.

 For businesses seeking information, online platforms can provide valuable opportunities to engage with other enterprises implementing similar business models, encouraging exchange on a peer-to-peer level over business challenges, as well as exchange on an expert-to-business level. To facilitate this, existing online platforms that already support a community of experts could, for example, specifically enable a search for coaches and mentors.

Smallholder farmers take part in Sustainable Harvest's in-app trainings.



Photo: Sustainable Harvest

## Addressing the talent gap through ICT solutions

ICT can be an invaluable tool in introducing human-resource efficiencies. It can streamline processes, allowing a company to more productively run replicated business entities. A company can use market data to adjust local practices as needed, even remotely, which reduces the need to hire a large staff on the ground. ICT can also be a great training tool, as most programmes and apps can be continuously updated to include information in local languages or on state-of-the-art production and agricultural practices, for example. A basic training programme can also feature elements that can be easily tailored to local needs, instead of building an entirely new programme for each market.

### Remotely controlling business operations in newly established entities

At One Family Health, a central office in London can review key business statistics from its offices in developing markets. Progress in sales revenues can be tracked and irregularities in clinic expenses can be detected at a central level. This reduces the need to hire senior management in the developing country or to relocate a manager from an established office, cutting costs considerably and avoiding human-resources challenges.

### Improved training of low-income suppliers/producers

Sustainable Harvest uses an iPad to provide ongoing training to smallholder coffee farmers. Developed in the smallholders' native languages, the training applications are pre-loaded on iPads and Sustainable Harvest's in-country offices distribute the tablets. As the iPad's finger-flick technology is more intuitive than working on a traditional PC for many participants, initial training time was reduced from two or more days to about four hours. The apps provide short training videos that aim not only to standardise and improve the quality of the farmers' coffee, but also provide information on how to set up side projects to help build a relationship between farmer and buyer as well as increase the farmer's overall quality of life – such as how to set up mushroom gardens that can provide nutrients to both the farmers' families and livestock.

#### Sources:

Interview with Dr. Gunther Faber, One Family Health

Interview with David Griswold, Sustainable Harvest





REPLICATION PATH: EXPANSION + DISSEMINATION AND REPRODUCTION


## Recommendation 7: Connect inclusive businesses with potential replication partners and second movers

Inclusive-business entrepreneurs aiming to spread their model do not necessarily have access to the right individuals or networks interested in copying their model. Intermediaries can play a crucial role in engineering and brokering relationships between inclusive businesses and replication partners.

### Engineer opportunities that support inclusive businesses in finding replication partners

 To enable inclusive businesses to find partners for expansion or dissemination, development partners and other intermediaries can organise in-person meetings. This can be done by funding or organising events for this purpose. In 2013, the mEducation Alliance International Symposium: Commit Fair for Project Scaling offered leading donors, businesses, NGOs, researchers, project innovators, and other key policymakers involved in the field of mobile technologies and education a platform to improve and scale up select projects from the field.

 These events need to be carefully designed to feature only vetted models that merit replication; moreover, the invite list needs to be well-chosen, so that attendees share common and compatible interests (including “serial entrepreneurs” looking for a new project). The event format should be designed to create a meaningful exchange between disseminators, second movers and those wanting to support them.

 Supporting inclusive businesses at industry events such as trade fairs can also be a good way of disseminating the approach on a sector level. The BoP World Expo aims to hold the first trade fair exclusively focused on inclusive business. The event, to be held in Singapore in August 2014, is intended to showcase businesses’ holistic solutions, products and services that target the base of the pyramid.

### Set up focal points in development partners’ local offices to support matchmaking and dissemination

The local offices of international and bilateral organisations could be leveraged to support replication activities. As they are based in local markets, their knowledge of the local context and various support structures is often an underutilised resource. Setting up focal points within these local offices to share information on successful models with offices in other countries and regions could help disseminate successful ideas. In addition, local development offices could actively scout for models that would be suitable for the country and should be “imported”, or reproduced by local companies. Once established in various offices, these focal points could organise periodic meetings to discuss potential examples for disseminating or copying models.

*If you want more replication to happen “by accident”, you need to increase the probability that such accidents will occur, such as by **getting more of the right people together in one room.***

Harvey Koh, Director, Monitor Deloitte

*Donors are increasingly starting to cooperate with the private sector. If we want inclusive business models to be replicated, we need the private sector to be involved. We need to put the business models in front of them to show that there is a market.*

**The private sector can really make the numbers grow.**

*Elizabeth Berthe, Social Venture Architect at Mercy Corps (previously Director at Grameen Foundation)*

INTERVIEW WITH: Shameer Khanal, Component Leader, GIZ Uzbekistan

### Taking successful business models abroad to multiply impact



**The GIZ, on behalf of BMZ, is currently seeking to develop inclusive business models in Uzbekistan in the carpet-making trade, working in concert with the local chamber of commerce. The idea is to replicate the successful Jaipur Rugs model.**

**Jaipur Rugs is an Indian manufacturer of hand-knotted carpets. It has 20 branches in ten states of India with over 40,000 independent weavers. The business model created a direct link between the weavers and the company, cutting out middlemen and thus avoiding the former exploitative industrial practices. It has also established global supply chains that grant rural weavers access to high-end markets. Shameer is part of the GIZ team responsible for replicating the Jaipur Rugs model in Uzbekistan.**

**Mr. Khanal, how did you get the idea of bringing the Jaipur Rugs model to Uzbekistan?**

It all started with an interesting coincidence – a chance meeting. I was at the DOMOTEX fair in Hannover in 2013, which is a fair dedicated to carpets and floor coverings. Together with local Uzbek partners, I was exhibiting handcrafted rugs from Uzbekistan, and Mr. N.K Chaudhary, the founder of Jaipur Rugs, happened also to be there. Mr. Chaudhary came over to our stand and was fascinated with our approach to ensuring competitiveness of Uzbek rugs by improving market opportunities through various GIZ capacity-building measures. I reciprocated

his visit and went and talked with him at his exhibition stall and he explained the company’s inclusive business model to me. It immediately caught my interest and I asked him if he was interested in expanding his model beyond India’s borders, of course by tweaking it and localising it, since it was an ideal role model for improving and building the market for local handcrafted carpets produced by small entrepreneurs in Uzbekistan.

**What has happened since then?**

I had the chance to go to India and visit Jaipur Rugs’ production sites and study their model. In late 2013, a representative of Mr. Chaudhary and Jaipur Rugs visited Uzbekistan and observed the social and working norms of the country. The plan is that Mr. Chaudhary will come to Uzbekistan with his due-diligence team sometime in 2014 and help us initiate the model here, possibly together with an Uzbek partner.

**What an interesting coincidence that it all began at the fair!**

Yes, indeed. I really think these types of fairs are great ways to help with the cross-pollination of successful inclusive business models. I really think such fairs should be encouraged and that inclusive-business entrepreneurs should be supported in attending them. They are an ideal way to help spread the concept of inclusive business on a global scale. The more second movers, the better!

For example, the Uzbek Carpet Project, funded by BMZ and implemented by GIZ, is a good illustration of this potential. This local office learned about **Jaipur Rugs**, an Indian producer of handmade quality carpets that revives ancient designs, and helped to actively facilitate the transfer of the business model to Uzbekistan. In doing so, GIZ is also cooperating with local organisations, such as the Uzbek Chamber of Commerce and the Ministry of Foreign Investment and Trade.

Local offices of development partners can also be the first contact point for businesses aiming to replicate a model in a specific country, matching the businesses with investors or even potential replication partners, and helping create markets for business-services providers focusing on inclusive business models. The **Responsible Inclusive Business Hubs (RIBHs)** set up by GIZ on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ) in Egypt, Indonesia and South Africa work to broker such collaborations.



## Recommendation 8: Train second movers


As inclusive business models start showing positive economic and social results, the next step is to specifically train a team of entrepreneurs to take functioning models and replicate them in new geographical markets. Building these capacities requires giving potential second movers the chance to gather hands-on experience and tacit knowledge about how specific models work.

### Building potential second movers' capacities through immersion

An effective mechanism to encourage dissemination and train aspiring second-generation entrepreneurs is to organise immersive experiences that enable individuals to visit inclusive businesses or even work for them for a period of time. These immersion programmes could range from a short visit for a group, such as during an “open house” visit, to a longer placement programme. Such an experience would provide an opportunity to acquire first-hand knowledge on how a business works, which is usually difficult to transfer – but crucial for successful replication. Target groups could include students as well as executives.

The German-based **ASA Programme** is one such effort. Each year, ASA invites 250 young people from Europe to take part in a learning and qualification programme focused on development education. ASA also organises practical internships with inclusive businesses in developing countries.

Corporate executives can also benefit from first-hand exposure to successful inclusive business models. Not only can they learn from such businesses, but they can also pursue partnerships to replicate their model. For example, the **East Africa BoP Trek for Intrapreneurs**, organised by CleanStar Ventures and VentureLabs, is a structured immersion tour for executives. While the programme is not necessarily focused on fostering second movers per se, a programme like this could be reorganised towards such a purpose.

 Similar immersion programmes specifically focused on building the capacities of second-generation businesses and linking up disseminators could be established. These programmes could target pre-selected students, executives or seasoned entrepreneurs from emerging economies and low-income countries. Selection criteria important to disseminators include proof of a participant's previous entrepreneurship experience and access to start-up capital. Additionally, such programmes could be combined with financial or technical support to help participants disseminate the business model afterwards.

### Support disseminators by establishing training programmes and centres to coach second movers

Some inclusive businesses keen to disseminate their model develop their own training programmes, with the goal of actively spreading their approach and building the capacities of potential second movers. Development partners, investors, think tanks, consultancies or universities can help with financial or technical support, such as curriculum development or even training implementation.

The **Lions Aravind Institute of Community Ophthalmology (LAICO)** in India, for example, provides a full coaching and training course to hospitals willing to replicate the Aravind Eye Care System model for cataract surgeries. The programme is essentially a longer-term consultancy process, including a needs assessment for participating hospitals and health clinics, a week-long capacity-building and strategic planning workshop in Madurai, Tamil Nadu, for key hospital staff, on-site implementation guidance, and off-site monitoring and advice for two years after implementation. The costs for such support, which range from US\$ 25,000 to US\$ 50,000, is funded by international organisations such



CASE STUDY: The Lions Aravind Institute of Community Ophthalmology (LAICO), India

*From a classroom to an e-Platform: Enabling replication through targeted training*



LAICO hosts many workshops in order to spread its model.



Farmers in Tapurah, Brazil, rotate field use from soy crops to cattle grazing.

LAICO is an international training facility for health care professionals and managers in the field of blindness prevention. Following the Aravind Eye Care System model,<sup>\*</sup> LAICO helps hospitals redesign their management systems and better utilise existing eye-care infrastructure. The institute was founded in 1992 as an integral part of Aravind, the world's leading eye-care provider, headquartered in Madurai.

LAICO allows participants to immerse themselves in the Aravind model by offering numerous field visits to Aravind Eye Hospitals, community centres and other Aravind facilities. This immersion is supplemented with individual consulting support as well as classroom discussion designed to help participants understand the principles underlying successful practices. LAICO's programmes are focused on adapting the principles behind the Aravind Eye Care System model to the needs of its target groups, including hospital managers and entrepreneurs who want to replicate Aravind's high-quality, low-cost eye-care model, as well as governmental representatives and NGOs.

So far, over 300 hospitals in 30 countries have benefited from LAICO's training and mentoring programmes, such as health care services provider SalaUno. Some trained hospitals are now acting as disseminators themselves, educating others on Aravind's model and thus contributing to the further replication of the model worldwide.

With its recently developed Aurosiksha e-learning platform, LAICO has worked to further enhance and facilitate a process of continuous learning as well as the exchange and dissemina-

tion of knowledge between eye-care professionals worldwide. The idea for the platform originated from Aravind's own need for trained health professionals to work alongside doctors. A repository of online learning modules will be available on the platform. The project's long-term goal is to offer access to the learning platform to professionals globally, with lectures available in different languages – thereby transforming Aurosiksha essentially into a wiki for ophthalmic information.

LAICO was founded with the support of the Lions Club International Foundation's SightFirst programme and the Seva Foundation's Sight Program. Since its founding, LAICO has partnered with NGOs and foundations across the globe, such as the Christian Blind Mission (Christoffel-Blindenmission), Sight Savers International, the International Eye Foundation (IEF), ORBIS International, Right to Sight and the World Health Organisation. Partners assist either in identifying hospitals in need of capacity-building and/or in funding LAICO's training services. Businesses have also partnered with LAICO to support the replication of the Aravind model. TOMS Eyeware, for instance, financially supports eye hospitals with which LAICO is working, such as the Grace Vision Netralaya in Sambalpur, India.

**Sources:**

- Interview with Thulasiraj Ravilla, Aravind Eye Care System.
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- TOMS (2013). Giving Sight with LAICO in India. <http://toms.tumblr.com/post/41827122602/giving-sight-with-laico-in-india> (Accessed 4 April 2014)

<sup>\*</sup> SEE CASE STUDY ON PAGE 25

as the World Health Organisation (WHO).

Similarly, the **SELCO Incubation Centre** was created to disseminate SELCO's knowledge and experience while increasing the number of companies active in the sustainable-energy sector. Selected entrepreneurs are trained in the classroom and in the field, a year-long process for both founding team members and operational staff. The centre gives information on key areas

of SELCO's business model. This includes helping with marketing and sales, building partnerships, managing finance as well as talent and understanding industry policy. The centre provides a shadow team to guide early-stage management in new markets, connects entrepreneurs with other stakeholders, and helps companies raise a mix of social investment commensurate with their stage of growth.

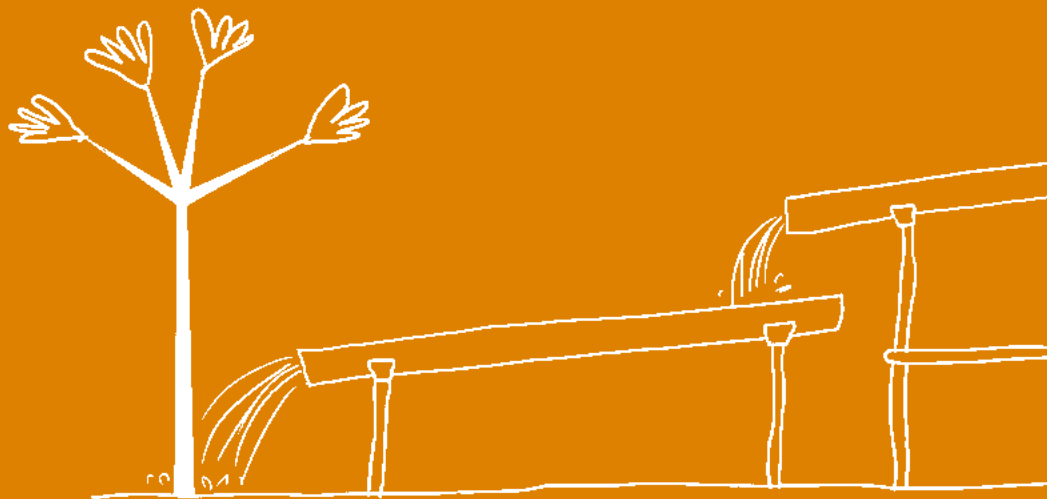


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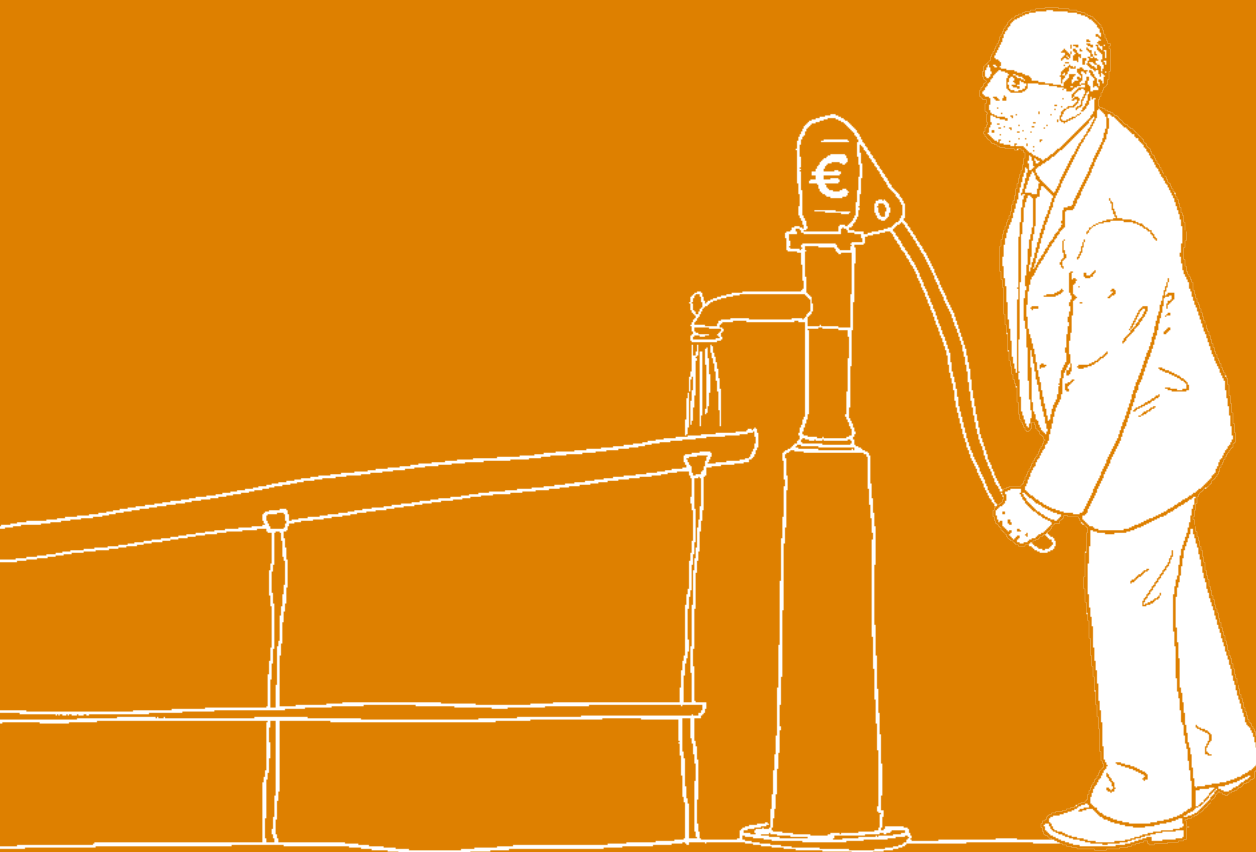
# Chapter 4

# Finance

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For inclusive businesses, gaining access to financing represents a frequent challenge that is amplified during the initial stages of the replication process. Support organisations can create financial products tailored to the needs of replicators and cooperate to reduce investment risks and transaction costs.



## Finance

Often, inclusive business's efforts to replicate are stunted by a lack of appropriate and targeted financing. Products that combine what companies need with measures to reduce risk and transaction costs for investors can bridge this fundamental gap.

When Sustaintech – an inclusive business that produces and sells a line of environmentally and health-friendly cooking stoves – was preparing to scale up and replicate its model, it faced considerable difficulties in securing appropriate financing. The company needed about US\$ 250,000 to cover the core costs of expansion. However, potential grants were too small, while investors were willing to start only at a level of US\$ 1 million.

Securing financing appropriate for growing a company is one of the most common challenges faced by all entrepreneurs. However, inclusive businesses face hurdles even greater than those of other entrepreneurs in accessing financing and in investing for replication, given the nature of their businesses and the market environments in which they operate. In fact, introducing an innovation that targets low-income populations in developing countries is risky even when the start-up phase has been successfully completed. This is because reaching out to target groups in rural areas or urban slums with poor infrastructure, or cooperating with smaller partners along the value chain, can lead to comparatively high operating costs that may result in correspondingly low (per-unit) margins. Furthermore, addressing complex social problems with business approaches takes longer than setting up business models in traditional markets.

Inclusive businesses seeking to replicate need financing in order to purchase new facilities and equipment, establish new systems and processes, and/or simply to recruit staff. However, the financing needs of inclusive businesses vary depending on the replication strategy selected. For example, an entrepreneur following a wholly owned branch expansion strategy faces different economic terrain, revenue flows and risks than does a first-time franchisor helping franchisees get operations underway or an existing franchisor expanding its operations in the hopes of increasing royalty

and fee income from its franchisees. Furthermore, the investment levels, risks and other support needs also vary depending on the stage of a replication strategy. During the early franchise stage, for example, risk levels are still high, and a higher level of investment capital is required. At later expansion stages, as risk diminishes, capital becomes more easily available. Investment needs are then lower than in the previous replication phase.

The core financing needs of replicating inclusive businesses include:

- **Short-term liquidity:** Working capital, necessary to cover the costs of day-to-day operations during replication, is particularly important.
- **Long-term financing:** Replication strategies have to be carefully prepared and implemented over a comparatively long period of time to be successful, thus making long-term financing critical.
- **Diverse risk profiles:** Cash flows in the first stage of replication are often volatile and the outcome of the replication strategy is uncertain, making flexible forms of repayment and/or patient capital investments as well as aligned investor/investee risk profiles necessary.
- **Financing activities with positive externalities:** Replicating inclusive-business enterprises can have progressively greater impact at reduced marginal costs, while dissemination creates positive externalities justifying public-sector intervention and possibly smart subsidisation.

*One of our biggest challenges is covering our working-capital needs, especially for our local assembly lines. It's very difficult as an SME to **secure the right type of financing at the right terms**. We also see that our commercial partners – also SMEs – struggle in getting the right financing to buy more of our solar energy systems to import and then sell them.*

**Catherine Adelman**, Founder and CEO, Fosera

Initially, most businesses seeking capital to replicate tend to prefer grant finance. However, grant finance is often short term, and is directed towards specific projects rather than towards strengthening an entire organisation to the point of replication readiness. Moreover, the managing and reporting of grants is often bureaucratic, time-consuming and expensive. Most importantly, many for-profit organisations are not eligible for grant funding, while those who are risk becoming dependent on grant money and losing their entrepreneurial acumen. Grant funding may also deter future commercial-capital providers if there is a lack of transparency with respect to the level of subsidy being provided and the true cost of service provision.

However, alternative types of financing for entrepreneurs that wish to replicate and grow is typically scarce in developing and emerging countries, and is often ill-suited to the needs of inclusive businesses in their growth phase. The barriers that impede the flow of debt or equity capital to small and medium-sized replicating inclusive-business enterprises in developing and emerging countries are manifold and interrelated, and include the following.

- **Capacity constraints:** Inclusive businesses that wish to take their organisation to the next level, even those that have received wide recognition for their work, are in some cases insufficiently prepared for entering into discussions with funders and investors. An internal World Bank Development Market study looking at their cohorts and prize winners confirmed that too few entrepreneurs have the ability to define and articulate their business models and develop sound financial plans. In addition, many inclusive-business entrepreneurs lack awareness and understanding of financing instruments.
- **Financing size:** After successfully surmounting early-stage challenges, most inclusive businesses require an amount between US\$ 75,000 and US\$ 1 million in order to continue expanding. However, in the realm above microfinance and below institutional financing, there is a gap (“the missing middle”) in the funding volumes available to small and medium-sized entrepreneurs. Even for impact investments, the average ticket size is estimated at US\$ 2 million, according to a report published by the World Economic Forum.
- **Time horizon:** Compared with early-stage prototyping and market testing, replication often requires investment in long-term assets and equipment. However, long-term debt or equity capital is scarce in many developing and emerging countries. The few investors that operate in these markets often underestimate the time an inclusive business requires to implement a replication strategy. While roughly 75% of impact investors consider time horizons ranging from five to ten years, experienced impact investors acknowledge that returns often cannot be expected until after ten or even 15 years.
- **Risks:** While the probabilities that the asset owner will lose any of the original investment amount or that the enterprise will fail to realise the expected return potential are generally lower in the replication stage than during the early pioneering stage, risk remains considerable during the initial phase of replication. However, what little risk capital is available in low-income markets often flows into technology projects or other ventures that promise comparatively high returns in relatively short periods of time.



– **Immature financial systems in expansion markets:**

In many developing and emerging countries, financial systems are immature, and commercial banks facing a lack of competition earn handsome returns from lending to large private and public entities. This makes it easy to ignore smaller enterprises, particularly companies with specific financing needs. Despite the fact that development-finance institutions offer credit lines, provide loan guarantees through commercial banks, and set up guarantee funds to encourage lending to enterprises in disadvantaged geographical areas or to specific groups such as women entrepreneurs, local banks' own risk assessment and lending procedures often remain rigid and cumbersome. Furthermore, mainstream financial institutions in many emerging countries often lack certain financial products such as franchising or working-capital loans.

As capital markets in developing countries remain underdeveloped, investors furthermore find it difficult to exit equity investments successfully. This is particularly true in the case of inclusive businesses that generate below-market-rate returns, in cases where other social investors are not readily available to take the company to the next level, or where entrepreneurs are not in a position to buy back shares themselves.

– **High transaction costs and lack of intermediation:**

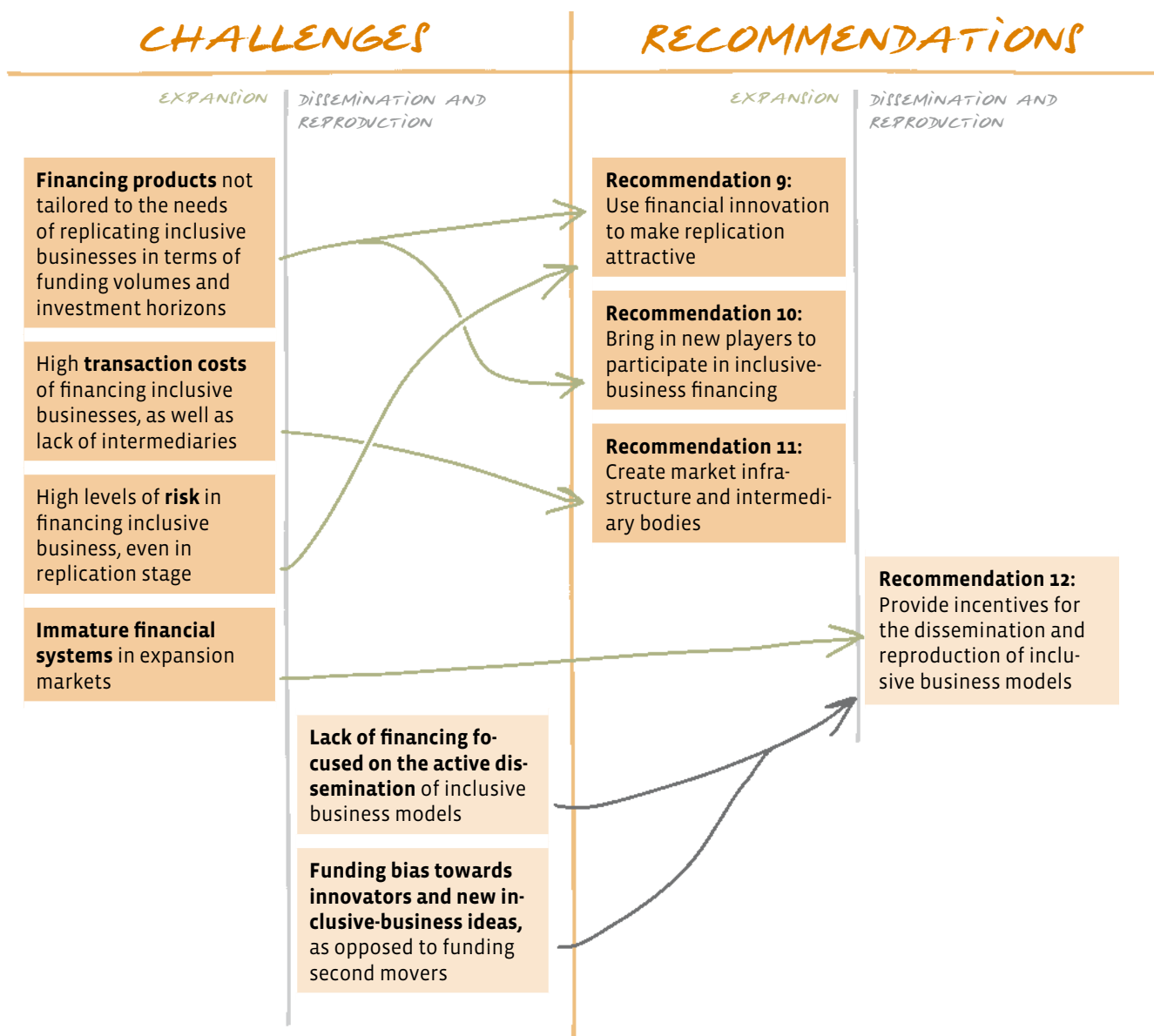
The time and resources needed to identify potential investment opportunities, conduct proper due diligence and complete a transaction often make traditional investors shy away from small-scale opportunities, particularly if expected returns are below market rate and risks are high. High administrative costs are also a major constraint for companies seeking to access grants.

In immature markets, however, the volume and size of potential inclusive-business transactions remain too low to make market intermediation a financially viable business for any potential intermediary. The resulting lack of services matching investment recipients and investors, creating market standards, or offering other professional services leads to a vicious circle of high costs for investors in identifying potential investment recipients, higher transaction costs, a rigid and limited supply of financial products, and a dearth of investors catering to inclusive businesses' specific needs.

– **Impact concept:** Impact investors and responsible investors are an important source of financing and investment for inclusive businesses. However, the role impact investors play in financing inclusive businesses on their path to growth remains underdeveloped. This is partly because descriptions and definitions of successful business models rarely go beyond anecdotal evidence related to individual cases, making it difficult to attract the capital necessary to make further impact. Furthermore, despite efforts to create common metrics and rating systems such as the Impact Reporting and Investment Standards (IRIS) and the Global Impact Investing Rating System (GIIRS), defining inclusive businesses, measuring social returns and comparing inclusive-business investment portfolios remains challenging. Moreover, the impact-investing industry still lacks high-quality financial and social performance data, and does not yet have a long-term track record.

Finally, disseminating a business model and having other entrepreneurs reproduce it in new markets is the financially "leanest" way for an inclusive business to replicate its model. However, this alternative is appropriate only for those businesses that are more interested in maximising their social impact than in obtaining additional revenues through replicating the business model on their own. In practice, without external encouragement, few pioneering organisations make the effort to engage in dissemination. This is mostly due to a lack of the time and resources required to implement such a dissemination strategy, as well as the wish to keep some level of control. Moreover, second movers reproducing pioneering inclusive-business models often lack access to the financial support necessary to accomplish their goals. In fact, many funders are today more interested in providing support to innovation.

Table 5: Overview of challenges and recommendations






## Recommendation 9: Use financial innovation to make replication more attractive

Inclusive businesses require targeted financing arrangements that are more flexible than those typically available to support replication. Leveraging financial innovation to meet replicators' needs can foster the economic and social development of low-income markets due to the multiplier effect associated with inclusive-business replication.

### Develop innovative financing arrangements for affiliates of inclusive businesses

Franchising, joint-venture and partnership models can only work if franchisors, franchisees and affiliating partners have access to financing appropriate for expanding existing operations or for starting new operations in new markets.

One of the advantages of a franchising strategy compared to a branch-based expansion strategy is that it typically shifts financing requirements from the franchisor to the franchisee. Furthermore, franchisees in many cases find their access to financing eased by the fact that they are not starting a business from scratch, but can refer instead to the franchisor's proven business model and support. However, in practice, there are conditions that change the economics in the relationship between franchisor and franchisee and potentially affect the creditworthiness of (social) franchisees. These include the small size and lack of established reputation of many franchisees, in particular first-time and/or micro-franchisees. Furthermore, in cases when substantial investment in assets and equipment for a start-up franchisee is needed, profitability will only be reached after two to three years, and franchise loan products are not available, more creative solutions are needed.

 In many cases, financial products tailored to franchisors may be a suitable solution. For example, a franchisor might underwrite a loan needed by the franchisee to buy start-up assets. Development partners can facilitate the establishment of affiliates, thus increasing social returns, for example, by offering interest-free loans. For example, the multi-donor financing initiative Africa Enterprise Challenge Fund (AECF) provides loans to businesses from selected sectors. Some initiatives funded by the AECF have specifically enabled inclusive businesses to set up networks of affiliates.

Furthermore, a franchisor might also establish a revolving working-capital or start-up fund to support the financing needs typically faced by new franchisees. For example, **Healthy Entrepreneurs**, a company that works to improve access to affordable medicine, used a grant from the **Dutch Ministry of Foreign Affairs** from the government's Sexual and Reproductive Health and Rights Fund specifically to set up a revolving fund allowing them to bridge the working-capital needs of their franchisees.  However, the reporting requirements associated with grants should not produce unnecessary reporting burdens for inclusive business. Grant providers should seek to limit these requirements to simple, concise reports on key financial and social indicators aligned with industry standards which harmonise with reports already provided to other financial actors. Most importantly, honesty in reporting needs to be encouraged, and reporting failure should be welcomed. Only then can lessons be learned from replication efforts.

An established social franchise could also set up **network guarantees** enabling individual members to raise money at costs lower than these members could achieve on their own. Similarly, network partners (e.g., existing partners and investors in the inclusive business seeking to expand) could act as guarantors for the social franchise as a whole or its individual franchisees. Alternatively, the franchisor could enter into a partnership with a local or regional financial institution to achieve favourable conditions for all its franchisees.

### Help replicating inclusive businesses secure liquidity

A major challenge for inclusive businesses and their affiliates in any phase of expansion is covering day-to-day liquidity needs. Various development-focused financial institutions are today working with local



*Helping inclusive businesses replicate requires a significant amount of **patient and flexible risk capital**, along with a range of **support services beyond funding**. We use Shell Foundation's assets (our expertise, networks and grant funding) to enable enterprises to replicate their models. This often involves modifying their business model to fit a new geography or customer base, where a great deal of uncertainty usually exists. Our role in these cases is to **help reduce the level of risk** driven by uncertainties around the actual demand, economics, and infrastructure, and enable an enterprise to commit scarce resources to replicating their model.*

*Simon Desjardins, programme manager, Shell Foundation*

banks to address this issue. Furthermore, some impact investors such as LGT Venture Philanthropy have recently **added working capital** to the range of products provided to their portfolio companies.

💡 In addition, foundations can help replicating inclusive businesses cover their liquidity needs. For example, in late 2010, the **Shell Foundation** partnered with the Indian non-banking finance company **IntelleGrow** to provide collateral-free short-term loans to small inclusive businesses with high growth potential. The facility provides working capital (up to US\$ 250,000 per loan) to businesses on the basis of specific anticipated cash inflows, such as an order or government subsidy.

Alternatively, interest finance can help make credit for affiliates of inclusive businesses more affordable by lowering the effective interest rate charged by traditional financing institutions, which in many countries can be above 20%.<sup>18</sup> In the case of **One Family Health (OFH)**, loans were made affordable for franchisees wishing to open health clinics in Rwanda. The foundation negotiated an interest-financing agreement with Ecobank, a local bank. Franchisees ended up paying “normal” interest rates while donors topped up the interest through grant money, so that the bank essentially received its desired risk-adjusted interest rate.

🚫 Interest-based finance should be handled cautiously, as this practice can have a market-distorting effect. If banks are still being paid the full interest amount, they in essence have little incentive to lower interest rates for inclusive businesses. Ideally, interest-based financing should be a temporary measure complemented by efforts from DFIs and donors to help local banks gradually make better assessments of the real risks associated with lending to inclusive businesses, thus eventually reducing the interest rates charged to these enterprises.



A woman cooks under two lights. Funding from Shell Foundation is being used by D.Light as risk capital to jump-start consumer-financing solutions and test market-education activities.

<sup>18</sup> Andrew Gray (2012). The Practitioner's Hub: Access to Finance for Inclusive Businesses in Zambia. <http://businessinnovationfacility.org/profiles/blogs/access-to-finance-for-inclusive-businesses-in-zambia> (Accessed 4 April 2014).



### Reduce the risk of providing access to finance for replicating inclusive businesses

There is a broad range of instruments that can reduce the risk faced by banks, investors and other actors when lending to or investing in inclusive businesses. 💡 The most relevant instruments in this regard include co-investment funds and risk-sharing or first-loss guarantees (also called catalytic first-loss capital). These guarantees should ideally come from internationally recognised financiers (official development assistance or DFIs) or local-market governments, thus providing the guarantees with sufficient credibility. Providers of this type of guarantee, such as individual donors, DFIs, foundations and private impact investors, are typically comparatively philanthropic in nature and driven by social-impact concerns.

🚫 These instruments often create incentives for mainstream investors by reducing downside risk, improving the terms on which the investment recipient can access funding and employing a “demonstration effect” to encourage the flow of capital into unexplored and/or high-risk markets. However, these mechanisms should be employed only as a short-term measure until financial institutions and investors become comfortable financing inclusive businesses.

For example, the **Deutsche Investitions- und Entwicklungsgesellschaft (DEG)**, a subsidiary of KfW, a German credit institution for business development, offers a special up-scaling programme for SMEs in developing and emerging economies that provides up to 50% of an enterprise’s financing needs (up to a maximum of €500,000) in scaling up an innovative business model if co-investors cover at least 25% of the firm’s equity needs. The invested amount is provided as a concessional loan, and only needs to be paid back if the SME is successful according to pre-agreed financing terms, as for example if it meets profitability, cash-flow or annual revenue targets.<sup>19</sup>

Loan guarantees cover a significant portion of losses in case of repayment defaults. The International Finance Corporation (IFC) is currently working with an African bank to develop such a scheme. The model will be set up as a risk-sharing facility under which the IFC will underwrite 50% of the portfolio of loans to SMEs, essentially taking on 50% of the risk. The facility is expected to be launched in 2014.

A concept related to co-investments is **catalytic first-loss capital (CFLC)**. Providers of CFLC – most commonly development organisations, governments or grant makers – cover an investment’s “first losses” up to a certain previously agreed-upon amount by taking the most junior equity position in the capital structure, by issuing subordinated debt (without equity backing), or by providing grants or guarantees explicitly provided for this purpose. For providers of CFLC, financial returns are limited or concessionary. Compared to traditional junior equity or subordinated debt, CFLC also seeks to achieve specific social and/or environmental goals, thereby catalysing the deployment of comparatively risk-averse capital towards social impact. Thus, CFLC helps investment recipients such as inclusive businesses gain access to other sources of capital at more favourable terms than they could otherwise achieve.<sup>20</sup>

For example, **Germany’s Federal Ministry for Economic Cooperation and Development (BMZ)**, supports a novel CFLC scheme created by the Africa Agriculture and Trade Investment Fund (AATIF), which aims to promote investments by development partners, institutional and private investors in Africa along the agricultural value chain. The fund offers three different investment levels, each with different risk/return profiles. Other funds with a similar capital structure spearheaded by the Kreditanstalt für Wiederaufbau (KfW) include the Regional MSME Investment Fund for sub-Saharan Africa (REGMIFA) and the European Fund for Southeast Europe (EFSE).

<sup>19</sup> Deutsche Investitions- und Entwicklungsgesellschaft mbH (2014). Going Further with Up-Scaling. [www.deginvest.de/International-financing/DEG/Unser-Angebot/F%C3%B6rderprogramme/Up-Scaling/](http://www.deginvest.de/International-financing/DEG/Unser-Angebot/F%C3%B6rderprogramme/Up-Scaling/) (Accessed 11 March 2014).

<sup>20</sup> Global Impact Investing Network (2013). Catalytic First-Loss Capital. [www.thegiin.org/binary-data/RESOURCE/download\\_file/000/000/552-1.pdf](http://www.thegiin.org/binary-data/RESOURCE/download_file/000/000/552-1.pdf) (Accessed 4 April 2014).





REPLICATION PATH: EXPANSION


## Recommendation 10: Bring in new players to participate in inclusive-business financing

Given the complexity of the markets in which inclusive businesses operate, these enterprises often look for funders and investors that become real partners and add other forms of value in terms of mentoring, networking or technical support.


Corporations, diaspora communities, impact investors, and philanthropic donors and foundations each have an important role to play when it comes to financing the replication of inclusive businesses. Each group holds vast and largely unexplored potential to take inclusive-business entrepreneurs to the next level.

 **Corporate impact venturing** is a comparatively new way of combining corporate venture capital and corporate social responsibility. For corporations, it opens up new opportunities to increase innovation while simultaneously supporting inclusive-business entrepreneurs in their growth phase. For example, the pharmaceutical company **GlaxoSmithKline (GSK)** committed GBP 900,000 to Health Store Holdings (HSH) to establish 60 health clinics in Rwanda under the One Family Health model. As the model expanded, GSK said it would provide an additional GBP 1.8 million as an interest-free loan, enabling HSH to expand the franchise by a further 180 clinics.

 **Value-chain finance** focuses on the relationship between actors across the entire value chain, from production to the marketplace, rather than on the single value-chain actor applying for finance. This funding can come from banks, buyers or input providers. However, for value-chain finance to function effectively, a holistic view beyond the single-company level is required, as are reliable data and a transparency of information across the value chain.

 Recently, development-focused financing institutions, social-impact investors and support organisations have begun thinking about how to harness the commitment, skills and financial resources of **diaspora communities** to contribute to the development of their home countries. For example, the **Overseas Private Investment Corporation (OPIC)**, a U.S. development-finance institution, is partnering with African diaspora communities to make investments on the Af-

rican continent. Give2Asia, a social enterprise, serves as a catalyst for philanthropic investment in social organisations in Asia. The Indus Entrepreneurs, which started as a dinner group of Indian expatriates in the United States in 1992, is now a global entrepreneurship organisation with more than 11,000 members in 12 countries worldwide.

Impact-investment funds have also emerged as a new player in this field. Many (78%) focus particularly on growth-stage businesses with a measurable social impact. However, impact investing has not yet lived up to its potential with respect to financing growing inclusive businesses.  Indeed, the concept of impact investing still needs to gain traction beyond popular investment destinations such as East Africa and India. Furthermore, the concept of impact needs to be better understood and standardised internationally. In addition, the policy framework, both locally and internationally, needs to be made more conducive to impact-capital investment, including that involving institutional capital providers (pension funds and insurance companies).

Philanthropists and foundations also have a role to play when it comes to financing the replication of inclusive businesses. Large U.S.-based foundations are at the forefront of this movement. They are able to provide financing ranging from grants to debt to equity capital in much more flexible ways than are traditional financial institutions such as development-financing institutions. Furthermore, with large sums of endowment capital behind them, they have spearheaded innovation by putting funding and support behind high-risk, high-impact organisations, seeking to expand their impact and catalyse impact-investment capital. Other important philanthropic investors are high-net-worth individuals, as well as organisations such as the U.S.-based W.K. Kellogg Foundation, the MacArthur Foundation, and LGT Venture Philanthropy.





## Recommendation 11: Create market infrastructure and intermediary bodies

While businesses often complain about not being able to find an investor that can meet their financing needs, investors often express frustration that they have ample financial resources but struggle to find investment-worthy businesses. Intermediaries that encourage more cooperation between actors or create online solutions to match investors and businesses can provide real value.

### Support collaboration between investors

A common problem contributing to the financing gap faced by inclusive businesses is the high cost of the due-diligence process. For investors investing only a small amount of money in a company, the costs of due diligence can be as large as the size of the investment itself. However, many inclusive businesses in the process of replication have already been assessed by other interested investors.

One means of addressing the problem of high costs associated with small investments is through the coordination of due-diligence efforts and a pooling of investment, with multiple entities thus jointly carrying out the screening of promising deals and bringing them to the attention of interested investors. The **Investor's Circle**, the oldest network of impact investors, and **Toniic**, a separate network of private high-net-worth impact investors, are two U.S.-based groups that share the results of due-diligence efforts and pool investments. Other examples of member-based impact or social-investor circles include the Indian based **Artha Platform**, the **Intellectap Impact Investing Network (I3N)** and the **Put Your Money Where Your Mouth Is Community (PYMWYMIC)** in the Netherlands. In many cases, these networks also contribute to investor education, awareness-raising and industry research. For the model to work, members must trust one another, and all must be committed to sharing the network's costs. 💡 These networks are today viewed as promising, yet more such groups and platforms are needed.

### Support matchmaking

If properly designed, online platforms can decrease the often-high transaction costs involved in finding partners with which to engage in replication. Some platforms already focus on linking replication-ready inclusive businesses with investors. For example, the **BiD Network** and **VC4Africa** provide information to investors, investment recipients and mentors wishing to support inclusive businesses. However, both networks' coverage areas remain small in size and breadth. The **Artha Platform** is dedicated to forging relationships between impact investors, donors, social entrepreneurs and capacity-building organisations in India. The secure, members-only platform links inclusive businesses with experienced impact investors and engineers connections to intermediaries that provide specialised support.

💡 Future platforms might also enable businesses in the process of replicating to specify their explicit support or investment needs, so that investors could more easily identify good fits for their portfolios. Enterprises could also be rated based on objectively measurable dimensions so as to further facilitate matchmaking.

CASE STUDY: Artha Platform, India

*Sharing due diligence for more effective investments in replication*



The Artha platform provides a space for investors to collaborate online and share due diligence costs.

Due-diligence costs for impact investments in small and medium-sized social enterprises and inclusive businesses can be disproportionately high, even exceeding investment requirements where levels of effort are higher than average due to distance or market challenges. The initial idea of the Artha Platform was to create a social network enabling like-minded entities to disseminate and share information gained through the process of due diligence. Since its foundation by Rianta Capital in 2012, the Artha Platform has facilitated networking between numerous impact investors as members of a community focused on the Indian market, providing a safe space in which information on due-diligence processes can be shared, thereby saving time and money.

The Artha Platform demonstrates how coordination mechanisms can help develop the inclusive-business-financing ecosystem. In addition to facilitating collaboration between impact investors, the platform further aims to connect social enterprises from all sectors with potential investors, and to build up a network of individuals who specialise in due diligence and other support services for inclusive or social-impact-oriented businesses.

Social enterprises and inclusive businesses can join the platform free of charge, regardless of their maturity as a company. Firms can pre-register on the website and are approved if the company demonstrates a tangible social orientation. Support organisations such as incubators, donors and third-party service providers and investors can join the platform by invitation only, thus guaranteeing a certain quality and standard of services.

The platform includes two particularly interesting features. One is a signaling tool, through which investors can communicate that they are performing due diligence on a particular enterprise. This allows informational exchanges to be systematised, lowering transaction costs for investors. The second feature is the tendering of due-diligence processes to a network of in-country, local providers, which are often only accessible after years of experience in a given market. The fact that these providers are often located in the markets where the inclusive businesses are situated can produce significant cost savings as well as local-knowledge benefits that improve the process overall. In addition, this service supports the growth of local SMEs as providers of services to impact investors. The platform also includes a review and rating function that helps signal investors' satisfaction with past due-diligence reports carried out by local service providers. This creates a track record, and builds trust between third-party service providers and investors.

To facilitate the replication of the Artha Platform in markets beyond India, a separate entity, Artha Networks (ANI), has been established. ANI oversees licensing of the core technology behind the Artha Platform to facilitate worldwide distribution. In March 2014, a new country portal for Latin America, InvestAmericas, will be launched. The Latin American platform, which is operated by the Inter-American Investment Corporation (an affiliate of the Inter-American Development Bank) will pilot the service in four countries (Uruguay, Costa Rica, Trinidad and Tobago, and Colombia) and eventually introduce it to all member countries.

Source: Interview with Audrey Selian, Artha Platform.

**Strengthen the role of social impact**

The intention and growing commitment of impact investors to generate both financial returns and societal impact underlines the need for inclusive businesses and their investors to measure and demonstrate their real-world impact.

Descriptions and definitions of success in inclusive business will thus need to go beyond storytelling and case studies. Instead, internationally accepted measurement standards, ratings and certifications

are required that facilitate investors' due diligence, allow for comparisons between investment alternatives, and provide assurance to investors such as institutions or governments that are bound by fiduciary responsibilities. It will also be important to collect evidence on financial and social-impact performance records, over time and across country and sectoral boundaries.





## Recommendation 12: Provide incentives for the dissemination and reproduction of inclusive business models

Single enterprises are rarely able to address consumers effectively on a global scale. Socially minded entrepreneurs are thus often interested in sharing their experiences with those who can replicate their model in other markets.


### Finance the establishment of dissemination centres

Some entrepreneurs have developed dissemination centres\* for companies aiming to expand on and replicate an original business model. However, the establishment of such an organisation requires considerable time and resources. This is where development partners, think tanks and others can be of help, providing financial and technical support to organise the knowledge transfer between a model originator and potential second movers.

One example of such an approach is the **SELCO Incubation Centre**, founded in 2012. While SELCO has gained considerable scale in India, the company's founder, Harish Hande, recognised that he would not be able to bring safe and affordable lighting to all the world's poor. The SELCO Incubation Centre was therefore established as a non-governmental organisation that disseminates SELCO's business model, sharing its refined approach and best practices with other companies seeking to enter the sector. The centre is supported by the **Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)**, the **Swiss Agency for Development and Cooperation (SDC)**, the **Asian Development Bank (ADB)** and the **DOEN Foundation**.

### Provide specific funding for second movers

In many cases, development partners and investors opt to provide financial support to the most innovative business model instead of helping to replicate successful existing models. To support the dissemination of functioning models, tailored financing could be provided to second movers or second-generation companies in their quest to replicate successful existing models elsewhere.

 To support the dissemination of functioning business models, a **replication fund** could be created that matches vetted models with potential second movers. Such a fund could focus on "importing" successful models to a target country through the creation of a system providing well-targeted information throughout the investment process. The fund itself could vet existing business models, selecting a portfolio of the most promising models. Entrepreneurs could then make a business plan for replicating a particular model in the target country. Their funding proposals should specify how the model would need to be adapted to fit the new local context. Based on the merits of the application and the business model to be replicated, funds could then be released. Such funds could also couple business-development support with financial support, tied to a mentor programme in which entrepreneurs who have previously implemented the model could coach the new entrepreneur through the replication process. In addition, study trips to existing businesses could be organised in order to foster knowledge exchange. Private foundations, a group of impact investors, or a pool of international donor agencies could set up such funds.

\* SEE RECOMMENDATION 8  
ON PAGE 59

INTERVIEW WITH: **Olivier Kayser, Managing Director, Hystra**

## *Fostering dissemination by "importing" inclusive business models*



**Hystra is a consulting firm working with businesses and social sector pioneers to design and implement profitable, scalable, and impactful business approaches. Olivier is the founder and managing director of Hystra. He was previously a vice president at Ashoka, responsible for launching operations in France and the United Kingdom, creating the global Ashoka Support Network and advising its Full Economic Citizenship Initiative. Prior to this, he was a senior partner at McKinsey.**

**Mr. Kayser, what could development partners and other intermediaries do to support the replication of inclusive businesses?**

Over the last decade, financially sustainable business models with effective social impact have emerged. But few have achieved scale and even fewer have replicated in new geographies.

A fundamental premise of most donor organisations or impact-investing funds is that local entrepreneurs know the problems of their country best. While this is undeniably true, our experience has been that these local entrepreneurs are not aware of successful models from other geographies and are spending precious time and resources reinventing the wheel.

This explains the frustration of most impact-investing funds that have raised considerable financial resources but struggle to find "investable" projects. Similarly, donors providing technical assistance to local entrepreneurs have frequently been disappointed with the limited development of their strategies.

We trust that an alternative, more effective approach would be to expose local (social) entrepreneurs in a given country to global best practices to enable them to "adapt and import" the key aspects and lessons learned from successful projects. Interestingly, this is already a widespread practice in the for-profit venture capital industry, where it is called "geo-arbitrage" or "tropicalisation" (e.g., venture capital groups such as Benchmark Capital and General Atlantic). The terms refer to the practice of backing start-ups that take an established business model and adapt it to an emerging market.

**How can this be accomplished in concrete terms for inclusive businesses?**

Donors could organise sectoral workshops in countries where they have a local presence. They would gather all the necessary players of the chosen sector in one room (e.g., in housing: real estate developers, construction material providers, local government, financial institutions), and expose them to selected best practices in the field. Interested players would take the lead in adapting and replicating those practices. Hystra has already tested this "import" approach in Pakistan (with the support of the United Kingdom's Department for International Development). Out of five sectoral workshops, three found interested local players willing to replicate the models they had learned about. Optimally, these players could then benefit from technical assistance in the development of their business plan and implementation of their pilots, increasing their likelihood of success.

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# Chapter 5



# Taking action



The replication of inclusive business models is a dynamic process that requires support from an entire ecosystem of actors.

Organisations that understand which specific interventions inclusive businesses need on their path to replication are well positioned to provide effective and targeted support.

This support is crucial in transforming successful inclusive business models from isolated solutions into models with a global reach.



## Taking action

This chapter summarises the recommendations presented throughout this publication by type of actor and area of support (information and knowledge, people and partners, finance) in order to highlight more clearly the specific contribution each actor can make in supporting the replication of inclusive businesses, thereby multiplying these businesses’ power to effect transformative change.

Table 6: Who are the actors and how can they best support replication?

ACTOR	INFORMATION AND KNOWLEDGE	PEOPLE AND PARTNERS	FINANCE
<p><b>Development partners</b> Bilateral and multilateral public development partners, private foundations</p>	<ul style="list-style-type: none"> <li>• Support research on replication and make granular information on the replication strategies of vetted inclusive business models available.</li> <li>• Support the organisation of well-focused conferences, fairs and hands-on workshops, where inclusive-business entrepreneurs can be matched with experts, catalysing replication.</li> <li>• Strengthen local ecosystems by supporting local business-services providers and accelerators, thus providing replication support.</li> <li>• Support dissemination through immersion programmes and on-site training, in which businesses can gain hands-on knowledge about successful models.</li> </ul>	<ul style="list-style-type: none"> <li>• Facilitate and support the organisation of career fairs to help inclusive businesses pursuing replication find and recruit talent.</li> <li>• Act as matchmakers by helping expanding inclusive businesses find local partners in new markets, and by connecting inclusive-business-model disseminators with second movers.</li> </ul>	<ul style="list-style-type: none"> <li>• Help inclusive businesses become replication-ready by providing patient capital.</li> <li>• Create financing instruments specifically targeted at inclusive businesses pursuing replication, such as grants for businesses to open their model to the public or to create dissemination centres, or start-up loans for franchisees and second-generation businesses.</li> <li>• Support the provision of working capital to inclusive businesses pursuing replication.</li> <li>• Coordinate collaboration among impact investors, enabling due-diligence reports to be shared and transaction costs related to investing in inclusive businesses to be lowered.</li> <li>• Make financing available to second-generation businesses seeking to reproduce proven inclusive business models in new markets.</li> </ul>
<p><b>Local-market governments</b> National governments and their ministries</p>	<ul style="list-style-type: none"> <li>• Provide data on low-income markets, encouraging replicators to invest.</li> <li>• Encourage local universities and think tanks to conduct research on replication-related topics.</li> </ul>	<ul style="list-style-type: none"> <li>• Encourage local universities and other education providers to offer courses on inclusive-business development.</li> <li>• Organise and support career and trade fairs related to inclusive business.</li> <li>• Enable local inclusive-business entrepreneurs to attend trade fairs abroad.</li> </ul>	<ul style="list-style-type: none"> <li>• Ensure that local banking practices and services support inclusive-business development.</li> <li>• Set up a local replication fund, providing incentives to import successful models.</li> </ul>

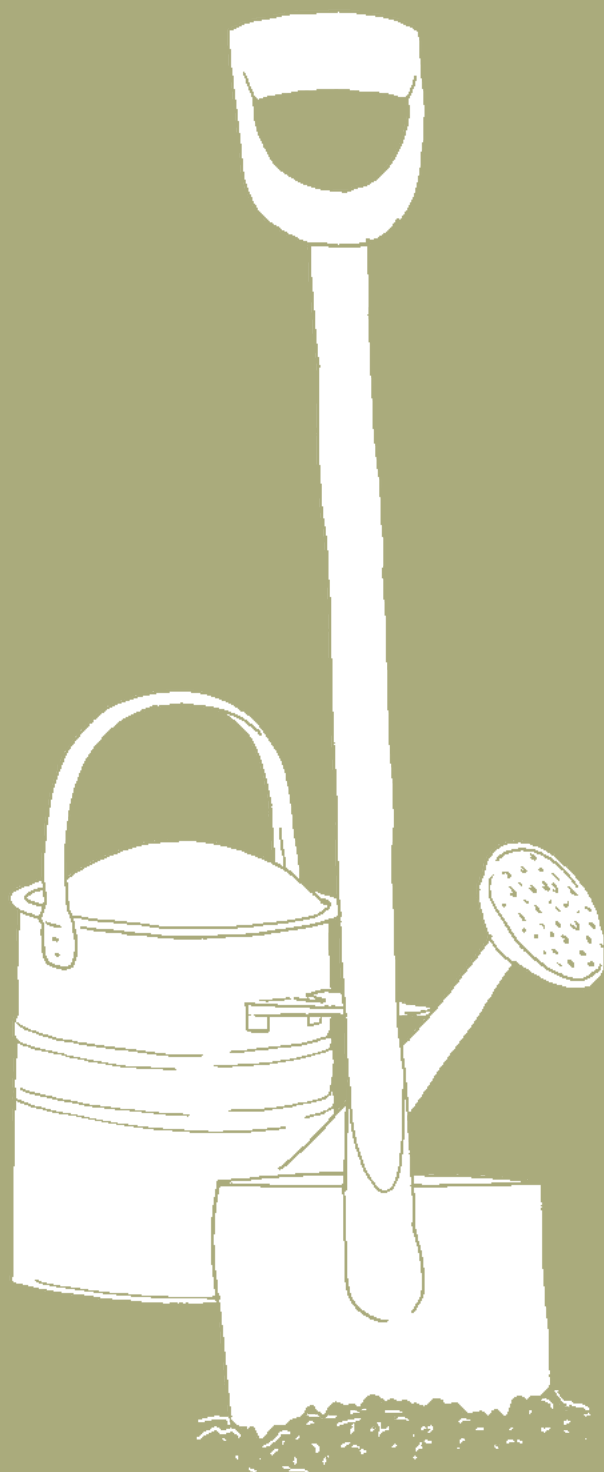
ACTOR	INFORMATION AND KNOWLEDGE	PEOPLE AND PARTNERS	FINANCE
<b>Private-sector companies</b> Multinational corporations from developed or developing countries, SMEs, start-ups, entrepreneurs, market-research companies, business-services providers	<ul style="list-style-type: none"> <li>• Inclusive businesses with a functioning model can disseminate lessons learned, opening their model to use by second movers.</li> <li>• Inclusive businesses that have replicated can provide information on their lessons learned.</li> <li>• Local market-research companies can produce data on low-income markets to attract replicators.</li> </ul>	<ul style="list-style-type: none"> <li>• Experienced replicators can act as mentors for other businesses, providing their expert advice.</li> <li>• Local SMEs can act as business-services providers, offering recruitment services, training programmes, and legal or tax support</li> </ul>	Larger businesses can engage in corporate venturing, financially supporting the replication of inclusive businesses.
<b>Investors</b> Investors, impact investors, financial institutions	Showcase successful – and unsuccessful – models and lessons learned in the course of supporting expanding inclusive businesses, thus promoting a culture in which replication successes and failures can be openly discussed.	Act as matchmakers, linking inclusive businesses engaging in replication with peers, experts and partners in expansion markets.	<ul style="list-style-type: none"> <li>• Provide financial products that meet the needs of inclusive businesses pursuing replication, such as products for affiliates or second movers.</li> <li>• Collaborate with other impact investors by sharing the results of due-diligence surveys.</li> </ul>
<b>Incubators, accelerators and hubs</b>	Help disseminate granular information on vetted models, while making models available to potential second-generation businesses as they become capable of replicating them.	<ul style="list-style-type: none"> <li>• Link inclusive businesses with talent.</li> <li>• Match inclusive businesses with business-services providers and other experts.</li> <li>• Organise mentoring programmes that enable peer-to-peer exchange among inclusive-business entrepreneurs, and support coaching programmes led by experienced business entrepreneurs who have led a company through expansion.</li> </ul>	Link inclusive businesses with potential investors, and help entrepreneurs develop successful pitches.
<b>Research institutions</b> Universities, think tanks, research institutes	<ul style="list-style-type: none"> <li>• Conduct research on how inclusive businesses can best become replication-ready, and disseminate findings.</li> <li>• Conduct in-depth research on various inclusive-business replication strategies, examining sources of success or failure, and make the findings available.</li> <li>• Support identification of effective inclusive business models by conducting in-depth research on real-world business cases and social outcomes.</li> <li>• Support the dissemination of proven inclusive business models.</li> </ul>	<ul style="list-style-type: none"> <li>• Raise awareness about inclusive business through activities such as business-case competitions.</li> <li>• Build a talent pool by offering courses on inclusive business and social entrepreneurship, and by organising immersive training programmes that foster hands-on learning.</li> </ul>	Conduct research on the specific financing needs of inclusive businesses pursuing replication, and develop recommendations for targeted financial services.
<b>Civil society organisations</b> CSOs, NGOs, NPOs in the low-income markets where inclusive businesses operate	<ul style="list-style-type: none"> <li>• Support the dissemination of inclusive business models, and act as catalysts for the successful implementation of proven business models in new markets.</li> <li>• Develop free information platforms online that link inclusive-business entrepreneurs with key resources in low-income markets.</li> </ul>	Build talent for inclusive businesses.	

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In recent decades we've seen a wave of experimentation in developing inclusive business models. In the next decade, we need to build on what we have learned and multiply the impact of the models we now know work.

We need to identify these models and provide entrepreneurs with targeted support to expand, disseminate and reproduce what works. Many actors are involved in nurturing an ecosystem for replication.

This publication aims to trigger more dialogue and action on how to replicate inclusive businesses. If we want to realise the promise of inclusive business to make poverty a thing of the past for all who continue to face constrained opportunities, this is the road we have to take!



# Annex

## Further reading

Bell, Thomas, Elizabeth Berthe, Lian Carl, Sean DeWitt, David Keogh, Emma Le Du, Tim McNeil and Tim Wood (2007).

**Village Phone Direct Manual: Enabling Microfinance Institutions to Bring Affordable Communication Services to the Poor.** Seattle: Grameen Foundation USA.

*A manual that provides a template for creating local Village Phone Direct programmes, a variation of the Village Phone programme, which brings telecommunication and information services as well as micro-franchising opportunities to the rural poor.*

Berelowitz, Dan, Mark Richardson and Matt Towner (2013).

**Realising the Potential of Social Replication.** London: Big Lottery Fund and International Centre for Social Franchising.

*A survey of more than 150 organisations that assesses the scale of replication efforts across the United Kingdom, revealing stages each organisation seeking to replicate should follow, key barriers, and interventions needed to increase the probability of success.*

CSCP (2014). **Scaling Up Business Impacts on Sustainable Living: Baseline Assessment Report for Business Innovation for Sustainable Scale-up (BISS) Project.** Collaborating Centre on Sustainable Consumption and Production, Wuppertal, Germany. Report for Federal Ministry for Economic Cooperation and Development (BMZ).

*A baseline assessment for scaling up business impacts on sustainable living, including strategies and success factors. The report introduces the Scaling Up Innovations Framework, relevant for a range of stakeholders.*

Fairbourne, Jason S. and Stephen W. Gibson (2007). **The Micro-franchise Toolkit: How to Systematise and Replicate a Micro-franchise.** Provo, UT: Brigham Young University.

*A guide designed to assist organisations in establishing micro-franchises, including topics such as operations, funding, selecting sites, managing culture, branding and servicing customers.*

Keogh, David and Tim Wood (2005). **Village Phone Replication Manual: Creating Sustainable Access to Affordable Telecommunications for the Rural Poor.** Seattle: Grameen Foundation USA.

*A manual for the replication of the Village Phone programme in new countries, drawing upon Grameen's experience in Bangladesh and Uganda, providing guidelines for sustainable telecommunications initiatives and the creation of new business for micro-entrepreneurs.*

Koh, Harvey, Ashish Karamchandani and Robert Katz (2012). **From Blueprint to Scale: The Case for Philanthropy in Impact Investing.** Mumbai: Monitor Group.

*A report on the role of philanthropy in impact investing, based on over 60 interviews and ten years of Acumen Fund data, showing the need for grants in addition to impact capital to bridge the "pioneer gap" and realise the potential of inclusive business models.*

Koh, Harvey, Nidhi Hegde and Ashish Karamchandani (2014).

**Beyond the Pioneer: Getting Inclusive Industries to Scale.** Mumbai: Monitor Deloitte.

*The report examines why only a small percentage of inclusive businesses have reached significant scale and offers key recommendations on how all actors in the ecosystem can serve as industry facilitators for companies to overcome key scaling barriers.*

WBCSD (2013). **Scaling Up Inclusive Business: Solutions to Overcome Internal Barriers.** Geneva: WBCSD.

*An issue brief that identifies a series of internal organisational barriers for companies looking to scale up commercially viable business initiatives for low-income communities, as well as a range of solutions to address them.*

Unltd. Ventures (2008). **Social Enterprise Replication Overview.** London: Unltd Ventures.

*A toolkit that identifies replication models for social enterprises, laying out a high-level framework to assist businesses in extending and/or adapting business models for their new markets.*

Dalberg (2011). **Impact Investing in West Africa.** New York: Dalberg.

*A comprehensive analysis on the impact-investing industry in West Africa. This report maps the landscape of impact-investing supply and demand, identifies challenges hampering the growth of the industry, and makes recommendations to overcome them.*

FUNDES (2012). **Micro-franchising: Development of a Micro-franchising Ecosystem in Mexico.** Heredia: FUNDES.

*A report providing a comprehensive overview of micro-franchising models. It describes the project phases for developing such operations in Mexico, including a series of case studies on small, medium and large companies worldwide.*

## Acronyms

<b>AATIF</b> .....	Agriculture and Trade Investment Fund	<b>OFH</b> .....	One Family Health
<b>ADB</b> .....	Asian Development Bank	<b>PYMWYMIC</b> ..	Put Your Money Where Your Mouth Is Community
<b>AECF</b> .....	Africa Enterprise Challenge Fund	<b>REGMIFA</b> .....	Regional MSME Investment Fund for sub-Saharan Africa
<b>BMZ</b> .....	Federal Ministry for Economic Cooperation and Development	<b>RIBH</b> .....	Responsible Inclusive Business Hubs
<b>BoP</b> .....	Base of the economic pyramid	<b>SDC</b> .....	Swiss Agency for Development and Cooperation
<b>BYU</b> .....	Brigham Young University	<b>SEKN</b> .....	Social Enterprise Knowledge Network
<b>CFLC</b> .....	Catalytic first-loss capital	<b>SME</b> .....	Small and medium-sized enterprises
<b>CGAP</b> .....	Consultative Group to Assist the Poor	<b>USAID</b> .....	U.S. Agency for International Development
<b>CHMI</b> .....	Center for Health Market Innovations	<b>WBCSD</b> .....	World Business Council for Sustainable Development
<b>CSO</b> .....	Civil society organisations	<b>WHO</b> .....	World Health Organisation
<b>DEG</b> .....	Deutsche Entwicklungsgesellschaft	<b>WRI</b> .....	World Resources Institute
<b>DFID</b> .....	Department for International Development	<b>YEN</b> .....	Youth Employment Network
<b>EFSE</b> .....	European Fund for Southeast Europe		
<b>GFK</b> .....	German Market Research Institute		
<b>GIIN</b> .....	Global Impact Investment Network		
<b>GIIRS</b> .....	Global Impact Investing Rating System		
<b>GIZ</b> .....	Deutsche Gesellschaft für Internationale Zusammenarbeit		
<b>GSBI</b> .....	Global Social Benefit Incubator		
<b>GSK</b> .....	Glaxo Smith Kline		
<b>HSH</b> .....	Health Store Holdings		
<b>ICSF</b> .....	International Centre for Social Franchising		
<b>ICT</b> .....	Information and communications technology		
<b>IFC</b> .....	International Finance Corporation		
<b>IRIS</b> .....	Impact Reporting and Investment Standards		
<b>LAICO</b> .....	Lions Aravind Institute of Community Ophthalmology		
<b>NGO</b> .....	Non-governmental organisations		

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Endeva's mission is to inspire and support enterprise solutions to the world's most pressing problems: making poverty a thing of the past and preserving ecosystems for the future. In our projects, we build, share and apply knowledge to develop, implement and grow inclusive business models.

As an independent institute, we work closely with partners from all sectors. The people at Endeva share a passion for positive change and inspiring collaboration.

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Isolated inclusive business models can achieve only limited impact. Only through replication can we reach the 4 billion people at the base of the economic pyramid with essential goods and services and provide them with economic opportunities.

Recent decades have seen a wave of experimentation in the development of inclusive business models. Now is the time to build on what we have learned and multiply the impact of the models that work. We need to identify these models, and provide entrepreneurs with targeted support to expand, disseminate and reproduce them.

This publication provides 12 recommendations for companies, development partners, investors, research organisations, civil-society organisations and other intermediaries, compelling them to engage in dialogue and take action in replicating inclusive businesses, thereby nourishing an ecosystem for replication.