MPEP SEMINAR SERIES

Exploring Frontiers in Inclusive Market Development

OVERCOMING BARRIERS TO SCALE TO REACH THE POOR

AUDIO TRANSCRIPT

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Presentation

Kurt Dassel: This morning we'll be talking about some research that Harvey has led over the last year on overcoming barriers to scale to reaching the poor. Harvey, as I said, led this work and is closest to it, so in a moment I'm going to pass it to him. But before doing that I just want to set a little bit of the context for his talk and for our talk this morning.

Over the last five years or so there's been a lot of excitement in this theme that I think we as a field haven't really settled on what we're calling it yet. Some call it inclusive businesses, some call it market-based solutions, others, impact enterprises. But basically it's an enterprise that is commercially viable that is doing something that serves poor communities and is capable of scaling. And the reasons for the excitement are pretty clear, you know, once you sort of inject some capital into this enterprise and get it going, once it's up and running it can carry on by itself. Right? You don't need to keep infusing it with more and more donor money. And ideally it's scaling as well, so if we can get enough of these things going, you know, we can really move the meter and affect change and reduce poverty, alleviate poverty around the world.

So its exciting stuff, and we as a firm have been very excited about it and big proponents of this approach to development. Now that said, one could have some skepticism about how much impact these enterprises have had; you know, has reality really reached the hype? And we've certainly done some research ourselves into this as well, and I'm looking at – I want to talk to some data on slide 6 here. This is data from a few years ago – not from Harvey's most recent work, but from a few years ago, where our teams went out in the field and we tried to identify some of these impact enterprises.

The chart on the left, you can see that we went out and we interviewed a lot of enterprise and we found about 440 or so companies that we found had some promise, and you know, by this it's not a real kind of rigorous definition; it's our impression that this is an operation that has some ambition to scale, it's doing something pretty constructive, it's not just a grocery store or a vegetable stand or something like that; it's a real going concern. Of those 440 or so about 140 were commercially viable, okay? So most of them were not even commercially viable. And of those only 59 were at scale by our definition. So, you know, that is not a huge number. So while there is certainly promise here, so far we haven't really had the kind of impact that I think we've all hoped these sorts of enterprises would have.

On the right side of this chart is just some survey data of impact investors where it indicates something I think we're all aware of, is that one frustration impact investors have is they're looking for deals, they're looking for impact enterprises in which to invest, is they really have trouble deploying all their capital. Right? They can't find enough deals at scale that make sense and seem like they're going to have both the social impact and the financial return that's sort of attractive enough to the investors to get them to make those investments.

And so again, it's difficult to find a lot of these enterprises that are really kind of having that impact on the market. Now this is actually pretty important; it's not just that there are some wealthy individuals or wealthy institutions that are a little frustrated 'because they can't deploy their capital. That's not necessarily something we should be concerned about. But the problem is what we have is a situation where we have, relatively speaking, a lot of money going after a few deals. Right? So a lot of money chasing a few deals. And if you think about it, we actually have a term for this sort of thing, right? This is what we call an asset bubble, right? So if you think back to 2008 and the housing bubble, what we had is a lot of money chasing a relatively small number of houses, and so the price of houses went up, right? If you think back to 2001, we had a lot of money chasing a relatively few number of dot-com companies, so the price on the dot-com companies went way up, right?

So these are bubbles, and what tends to happen with bubbles is they burst and they burst in unpredictable and unpleasant ways. And so the question has to be is do we have an impact enterprise bubble right now? Are we facing a situation where investors will chase these deals, will get a bubble, and eventually it'll burst. I mean it's not too difficult to imagine what the impact investors are going to say is, you know, "That was a great idea, but unfortunately it's just not working out and I can't get a social return, I can't get a financial return, so I'm just not going to invest in this asset class anymore."

So that's the fear, right? Because if that happens then we as a kind of economic development community have missed the chance to deploy a lot of capital in ways that could really help a lot of poor people around the world, and that would obviously be a huge thing. Hence our interest in how do we scale up – how can we scale up more of these sorts of impact enterprises or market-based solutions. This is kind of an important question at the moment.

And now I'm talking to slide 5 in the deck. Historically we as a firm have argued that in order to scale it's really important to pay attention to the business model. Right? Lots of different things matter: the team matters, idea matters, the product matters, all this sort of stuff, capital matters. But that kind of underappreciated and yet really important thing is the business model, right? So how are you going to make your product, who are you going to sell it to, what market segments, what kind of messaging and marketing are you going to have around that to those segments, how are you going to distribute your product like, how are you going to do this? There's lots and lots of different ways to produce and sell and distribute your goods, and figuring out how to do that, figuring out what the business model is, that's really important, 'cause if you don't get that right you could have the coolest idea, you could have the best technology, but it's just going to sit on the shelf and not go anywhere. We have lots and lots of examples of very cool, very productive technologies that have been deployed in the developed world that are not getting deployed in the developing world, and often this has to do with a business model that just doesn't quite work in that environment.

So historically we paid a lot of attention to business models. That said, we've always recognized that there's something about the business environment around that business model that matters a lot. It's not as though there's just sort of certain business models that work in all times and all cases and it's just a question of, you know, picking the right one off the shelf. There's kind of an interplay between the business model and the environment in which it sits. And to some extent the business model solves for certain deficiencies in that environment and hence it works. So it's often about fitting the business – seems to be about fitting the business model to the environment.

So we have always wanted to kind of dig into this environment and come to understand it better and understand the interplay between the business model and the environment, and that is something that Harvey and his team have been doing over the course of the last year. So we think kind of in combination of understanding business models, understanding the business environment and how to overcome barriers of scaling in the environment will hopefully help us push along the way to understanding how to scale these impact enterprises, so hopefully we can avoid an impact bubble if in fact we do have one.

So with that context setting let me pass it to my colleague, Harvey, who will talk about the research that he and his team have been doing over the past year or so. And it looks like he's going to start off by talking about the four stages of pioneer firm development. Harvey.

Harvey Koh: And so when we spoke to impact investors, the people that Kurt was describing there, you know, part of the reason why they can't find deals is because they're looking all the way on the right-hand side, right? So we spoke to investors, they said, "We want to find enterprises that have already achieved breakeven, they're already scaling, you know, they're low-risk, but confident they can achieve their plans and don't want to put money in and get them to scale." Hardly anyone was investing earlier on in these difficult stages, especially validate and prepare. And so part of what we did was call out this what call the "pioneer gap," right? Recognizing that firms that are pioneering new models take on – shoulder this disproportionate risk in terms of proving out that model, and so what we need to do is direct more support and in particular more risk-tolerant, more flexible, more patient capital to those who are pioneering models. So that's part of what we did. And the conversations actually developed I think are in over the last two years and we're seeing a lot more activity now in this pioneer gap, accelerators, funding coming in to fill that gap.

But a lot of what we've seen is still at the level of the enterprise, right? And, you know, I guess we're partly to blame for that because we said let's look at the pioneer firm and kind of focus our resources on the pioneer firm, because they're kind of pioneering a model. But what's interesting for us when we reflect on the actual stories of scale that we've seen and that we've been working on in India and Africa is not all the barriers to scale are at the level of the firm, right? So you've clearly got barriers of scale at the level of the firm; you've got, you know, lack of investment, lack of capacity, lack of leadership, lack of the right know-how, technical skills, all of those things on the level of the enterprise.

But then you look at it further and you say, well, okay, actually there could be barriers outside of that, right? There could be gaps in the value chain; they don't have the inputs they need, they don't have the distribution they need, they don't have the financing that they need. The customers don't have the financing that they need. So all of these things are gaps in the value chain or linkages that are broken in the value chain that could really inhibit growth. All right? So you could operate in a very small area and do perfectly well, but you can't go much further because of those gaps.

But then we thought actually there are some issues beyond that, right? And that's when we got to their public goods. So one of the biggest barriers that we see with new models growing is just a lack of information and know-how in terms of how to expand, where to expand, where the opportunities are. There are gaps in terms of standards, quality standards in the market, the disadvantage of new models. There could be gaps in terms of awareness, so, you know, are customers aware that there are these beneficial products that they could buy and that are good for them, that are worth buying? As well as all the usual ones around kind of physical infrastructure, like the usual things we think about in terms of public good. So there are a whole bunch of public goods gaps that may be barriers to scale.

And then finally we thought actually there's a bunch of barriers that sit at the level of official institutions, government regulation and policy, and that could be regulations that are inhibitory to new models, they could be tax and subsidy regimes that are, you know, disadvantaged new models, they could be political interventions of various sorts that may not be systematic, but which may get in the way of new models. And when we looked at this we thought actually this is so interesting because if you ask a lot of people who are in this space now who maybe have come in through the impact investing lens or who may be, you know, donors or foundations working in this space, a disproportionate amount of the focus is on the enterprise. Right? And we think if we want to get them to scale that's where we invest surely. And we're saying that's completely right, but we also need to think about the other barriers of scale outside the enterprise and think about what we're doing against those.

And so for the past year we've been working on a research study, trying to understand what these barriers of scale are, how they actually play out in the lives of these innovative business models. But then more importantly, what can we do about them? You know, if these exist what are the actions that we can take as funders, as entimetries, as investors, as governments to actually work with enterprises and alongside enterprises to remove some of those barriers to scale.

Two things; I'm going to talk to through a couple of case studies, but before I do that I'm going to say two things. One is thank you to USAID, who have been a part funder of this – hi, Rob – together with seven other agencies and foundations, and they provided both funding, but also access to data and expertise, which has been really helpful. But also the second thing is we're not quite ready with this yet. So this is as advertised, a sneak preview. We're only going to publish probably at the end of March, so if anyone's interested in the report just give me your card and we'll make sure we put you on the mailing list. So we're kind of limited in terms of how much detail we can go into each of the cases today, but we'll certainly be able to share the high-level descriptions and insights. So that's just a little caveat for you before we dive in.

So the first case we're going to talk about, and they're very, very different cases, you know, was engaging consumers, poor consumers, and the other is engaging corporate uses. So the first one is about engaging poor consumers. They're both in East Africa; this one is in Tanzania. Some of you will know about mobile money and the experience of M-Pesa, in particular in Kenya, which is kind of widely hailed as this very, you know, successful, beneficial, easy-to-use, widely-scaled product that allows the poor, or anyone really, but especially the poor, to send money easily, you know, to send remittances, to make payments, to save your _____ postings when they might not be able to do that easily with other methods, like using a bank or using a post office or just sending cash.

So what we found interesting was that the real interesting story for us in mobile money wasn't in Kenya, which is what everyone talks about, where M-Pesa is hugely successful, launched by Safaricom. What's interesting when you look at Tanzania, which launched M-Pesa a year later, so April 2008, Vodacom Tanzania, which is the sister company to Safaricom in Kenya, part of the Vodafone Group, launched M-Pesa. So the same technology, the same business model, they even took the same marketing campaign and said, you know, "The Send Money Home campaign, that worked really well in Kenya, let's use that in Tanzania." What's funny is that it didn't take off, right? So the first year saw very disappointing enrollments and usage. After 14 months there were just under 300,000 registered users in Tanzania. After the same time in Kenya it had nearly 3 million customers, so very, very different performance and they have roughly the same population.

So we thought this is quite interesting. What's different, right? So we looked at the two countries and we thought they're neighboring countries, they're both in East Africa, but they're very different. They're similar sized, but the population in Tanzania is much more scattered geographically, they're much less knowledgeable and aware and sophisticated about financial services products. There's lower mobile phone penetration in Tanzania than there is in Kenya. There's a lower density of bank branches. And also there was a weaker remittance culture, right? So part of the reason the Send Money Home campaign didn't work is because in Tanzania people don't have as established a practice of sending money home, or rather sending money home using an intermediary, you know. There's a whole culture of if you're going to send money home you take the money home and you give it to them in person, you know, 'cause that's polite to do. You don't send it on a bus, which is what people would do in Kenya, and for which M-Pesa was a perfect substitute. So all those differences really came out when you compared the two countries.

But also the sectors are very different. The telecoms in Tanzania is very different from telecoms in Kenya, as those of you who know it and who have been there will know. So it's a very competitive mobile telecoms industry, so unlike Kenya, where Safaricom has over 80-percent market share, Vodacom has about 50-percent market share and there are three other pretty significant players in Tanzania. So much more competitive.

And then the channel structure. So the channels, the agents through whom the mobile companies get their products to market are also settled very different in Tanzania versus Kenya. So in Kenya Safaricom, who are the leading player, deal with 1,000 super-agents to get their products to market. In Tanzania the 4 mobile companies deal with 6 super-agents to get their products to market. So a very different dynamic and level of market power in that country versus in the two countries. So there's just a lot of changes in the way that they approach the business.

In terms of values to scale I'll just lay this out using the framework that we have. When the mobile money model started in Tanzania obviously there were gaps in the value chain, right? You're trying to sell a new product, distribution for the product doesn't exist. Sure there's a network of airtime resellers that you could recruit from and retrain and equip them to do mobile money, but they're not there yet, so you need to kind of build that channel, especially to rural markets, which are generally hard to reach with these technologies. And even when you do build the models there's a question of financing, right? I mean this is not the same as selling airtime, right? If people use mobile money in the rural areas they need to be able to cash in and cash out of the agent; that means agents need to carry cash, agents need to have balances on their own mobile money accounts to be able to transact, so you need to think about filling those gaps.

There's also a huge public good barrier, right? Because you're trying to launch a new model and a new product in a country which has never used this product before, where there's generally a low level of awareness of financial services of any kind, never mind an innovative mobile money service that you're trying to sell them. So you need to deal with that gap as well.

And then we thought at the level of government there was a potential barrier that had to be addressed, because this was a new, innovative model that was outside the banking system and there was a risk. The regulator would say – the Bank of Tanzania would say actually, you know, "This is not allowed. You can't do this.

This is risky and we're not going to allow the model to operate up to scale." So potentially the legal and regulatory framework could have been inhibitory towards the new model.

So what happened? A few things. So one of them was the model itself had to evolve because of these barriers that were in place. This diagram here shows essentially the model that was inherited from Kenya, so you've got the mobile network operator on the left. If you look at the diagram, they deal with super-agents who then have a network of agents who then serve the customer. The agents would, you know, enroll the customer, do cash in/cash out transactions with them, right? So that would be the main role that they would play. And in Safaricom in Kenya this is pretty straightforward because, you know, Safaricom said, you know, "Look, there are 1,000 of you, there's one of me, you're going to do this, right? And I'm going to train you up, I'm going to give you the resources, but you are going to do this." In Tanzania, with 4 mobile companies and 6 super-agents you couldn't quite do that. And so what they found was that the super-agents actually weren't coming onboard fast enough. You know, so part of the reason the growth was slow was because super-agents weren't taking up the new product and they weren't pushing it down to their agents and they weren't involving customers.

So they took a different approach, they said, "Let's cut the super-agents out," all right? "They'll still be in the chain, but we need someone else to work alongside them," and they called these people aggregators. They set up a new kind of entity in the value chain who would be partnered with the bank. Aggregators would go out and map resellers in the rural areas, figure out who could be recruited to in their time to be an M-Pesa agent. Recruit them, train them, get them in place to sell mobile money, and then tie it with a banking partner who will then provide liquidity for them to have e-floats – to have a balance in the mobile money account so that they could transact with customers in the regional rural areas.

And so that was really the key to them recruiting many more agents and rolling many more customers and actually getting the model to grow. And I think this is almost the kind of purest sense of what a scaling barrier is, right? Because it's not that M-Pesa couldn't operate at a small scale using the old model; they just couldn't grow. Right? And so the model adaptation was essential to get it to scale.

Now this was the industry timeline of mobile money in Tanzania, so it starts about 2007, where the Bank of Tanzania starts thinking about electronic-based schemes because some of the companies are interested. It then gives permission to Vodacom to establish the new business; Vodacom begins building out the network. In 2010 is when Vodacom decides it's going to change the model and bring in the aggregators to help the model scale, and also change the marketing campaign. So from Send Money Home it changed it to actually you can use this for a whole range of other reasons, like paying bills, you know, making insurance payments, paying school fees, using it for all those other applications.

And when you look at it this way you think, "Well, yeah, this is great, but this is another corporate-led scale-up story, a little different from Kenya because, you know, it's in a much more competitive environment, but it's still led by corporates." But to look at it this way kind of ignores I think two big parts to the story, right? So one is that in terms of changing the model and building awareness and building the value chain, one of the differences, again, between Kenya and Tanzania is that if you're not the big player in telecoms, right, you're the biggest player, but you don't control the market, you don't have the lion's share of the market, there's a real chance that as a first mover you'll be disadvantaged by making all the early investments, right? So if you put all the money in to build the agent network, you put all the money in to educate consumers about this new product and it works, all the other three players are going to be coming in and, you know, stealing your lunch. So how do you get over that disincentive to invest when there are these huge barriers?

And the solution in this case was that external facilitators came in and said, "This is really important from an impact point of view and we're going to help break the deadlock." So the Gates Foundation and GSMA, who were the global industry association for mobile network operators came in and said, "We're going to give grants to Vodacom to do these two things: educate the customer and make them aware" – so this was the public goods barrier we talked about, and also build a value chain, right? Because obviously they will benefit from it, but then other people will also kind of ride on those. Anyone who has been to Tanzania will notice that if you go to a mobile phone shop there are always four logos in front of the shop, right? So the operators say you have to be exclusive, but actually what they do is each operator has four different books, and depending on which one you want, they pull out a different book. So they're exclusive; they've got four businesses, but actually all the same counter. So in my kind of environment, you know, it's very easy for other people to come in and ride on the channel infrastructure that you've built. So for Gates to come in and GSMA to come in and build that infrastructure through Vodacom allowed other people then to kind of ride on that infrastructure.

The other piece that was done, which I guess isn't so clear from just looking at the industry timeline, is you see, well the regulator just, you know, was very progressive. And it's true that actually in 2007 the regulator of the BOT actually was open to these new systems, they're very concerned about financial inclusion in the rural areas because there have been lots of bank ____ closures in the rural areas. But what's interesting is that, you know, policies never develop in a vacuum, right? And so the BOT actually drew on a whole range of resources from facilitators to help them develop policy. So there's actually a whole timeline of different actions that facilities have taken, so, you know, non-profits, like the FSDT and ThinScope did these surveys to understand financial exclusion in Tanzania, provided that as data to the BOT to help them inform policy.

AFI, the Alliance of Financial Inclusion, took the BOT on a sunny tour to the Philippines in 2008, 'because there were some early models that had been running in Philippines, and mobile money said, you know, "Look at these models. Think about how this might work in Tanzania." FSDT is a local trust in – a local non-profit in Dar es Salaam, organized the first financial inclusion conference in 2010, talked about mobile money. Gates then came in and sent experts in to speak to Vodacom and the BOT about mobile money solutions. And even in 2012, you know, AFI continued to help the BOT by providing this working group that they could get feedback on draft regulations and so on. And so there's this whole kind of hidden story behind the scenes of facilities working with government with the company to really make this happen.

The results, a scaled industry. So mobile money penetration in Tanzania is now higher as a proportion of the subscriber base than in Kenya. You'll see in the chart on the left that it's not just one company that's nominated; of course Player A, and you can guess who that is, has scaled quite significantly, but actually in recent years you've seen other people come in and actually grow that market as well, so it's actually competitive. As a result of competition costs to transact are lower in

Tanzania. So they're two-thirds lower in Tanzania than in Kenya, and we think that is a direct result of competition in this space.

I think what's interesting is that if you look at the interventions that were done, you know, at the surface, you know, something like the Gates grant was given to one company, but the effect of it has been to lift up the whole industry and remove barriers from the whole industry, and we think that's the essence of what we're calling market or industry facilitation.

Key findings. So these are kind of four themes that we found really across all the cases that we've looked at. So let me just talk it through in the case of mobile money. The first is you still have to get the model right. So even though we're sad, it's not all about the firm, it's not all about the enterprise; you've got to think about the system and, you know, scaling back because of the ecosystem. You still have to get them all right, and the first thing that they had to fix was change the model, you know, don't go through the existing channel structure, bring in new aggregators, work in a different way, change your marketing campaign. You've still got to get the model right. But often that's not enough, right? So without the efforts of facilitators like Gates coming in and saying we're going to break the deadlock around investment in public goods and value chain, without FSDT and Gates coming in and saying we're going to help the BOT, you know, inform their development policy, we probably would not have seen the industry scale the way it has.

The third piece is leadership. And I bring this up because at the level of single enterprises and technologies and products and firms we are very accustomed to thinking about leadership, but often when we step up to the level of systems and industries we stop seeing that, which is quite strange, because actually all these industries are, they're agglomerations of firms, right? And so if we look at the story we see individuals like the people at Vodacom for sure, so those are the people we know about, the Nick Hughes and Michael Joseph, came over from Safaricom to help start the model in Tanzania. People at Vodacom in Tanzania, but also people in the regulator, right. So the regulator, the chairman of the Bank of Tanzania, you know, took a very progressive view towards financial inclusion, really championed the adoption of this model, and supported regulation of the model. People like Ignacio Mas and Daniel Radcliffe of Gates played a leading role on the ground in

Tanzania over a period of years really to kind of make this thing happen. And the role that we see here is really innovative – committed, innovative leadership. You know, individuals are committed, not just to trying out new things, but to really making them happen over a period of time and betting on making those things happen.

And the final thing is money, right? So all these things cost money. Obviously the direct facilitation on the ground, you know, took a number of years and a lot of concerted effort to make that happen. But also the $5 million investment that Gates and GSMA put into Vodacom to deal with public goods and value chain barriers also, you know, broke the deadlock. Now what's interesting is that Vodacom has ended up putting in about $20 million to $25 million investment over the $5 million grant, so it's not as though the grant moneys built the industry, but we think that it broke the deadlock and managed to be catalytic in development.

So let me go on. I think we'll probably save questions for the end. Does that make sense, Jeanne?

So the next case we're going to talk about, and this is very different, so this is about engaging small holders. This is poor producers in innovative models, and this is about Kenya and small holder tea. And this is a much, much longer story. So this story actually started in the 1950s, and this is the reason we got interested in small holder tea. If you look at what tea farmers get for the green leaf that they produce per kilo, Kenyan farmers get $0.53 on the kilo, and you can see what farmers in the other countries get. So there's a massive, massive difference between them and the neighboring countries. So we thought, why is that? The story actually starts in the '50s, there's this company called the Kenyan Tea Development Authority, KTDA, which established in 1964, following a government plan to really expand small holder tea growing. It's grown over the decades and in 2000 it was privatized and it's now owned by the small holders. It started life as peristatal as now owned by small holders to provide the green leaf.

Very briefly, this is the model, so this is a classic contract farming model, for those of you who are familiar with these models in agriculture. So small holders sell green leaf to the factory, they get inputs and credit from the company, the company processes the leaf, sells it to buyers and passes the earnings back to the small holders. And usually for these kinds of models, especially for a peristatal, what's interesting about KTDA is that it engaged commercial tea companies to come in and manage the factories and the marketing activities for the first ten years of its operation and then it transitioned to managing them in-house.

Barriers, so many, right? So if you look at tea in the 1950s for small holders in Kenya, farmers weren't planting tea, they didn't know how to plant tea, there were no tea bushes in the ground, there were no roads to supply the tea, there were no factories, nothing. Right? So I won't go through all these in detail, but, you know, lack of capital, lack of skills, you know, there's no credit to get them to buy inputs, there were no channels of sourcing, ______ didn't know how to plant tea, there were fewer tea varieties. So lots of different barriers. I mean the only thing that wasn't a barrier was government, because government was right behind the initiative, right? But everything else was a barrier.

And so what's interesting is that you had these two complementary efforts that were driven through the '60s and '70s to solve this problem, one was facilitation, which we've talked about. So mainly government agencies and peristatals, so KTDA, the ministry of agriculture, the ministry of works, the team research institute worked together to do research, develop new varieties, do extension services, all the things that we think about normally when we think about small holders and ag, all the way down to kind of building roads and guaranteeing loans so that we could get the capital into KTDA.

But I think what's interesting about the story isn't the facilitation, which is what I thought was interesting about mobile money, is actually the enterprise. All right? So what was unusual about KTDA when you compare it to lots of other state sponsored activities in agriculture, especially in the '60s and '70s, was that it was very private sector in its orientation; it engaged commercial tea companies to come in and manage the factories, 'cause they realized they couldn't do them itself. It put a lot of effort in thinking about how you create an aggregation network to buy green leaf. It brought into very strict quality standards, so the little picture you see there is the little mantra of "two leaves and a bud," that's the kind of gold standard for quality in picking green leaf, and they wouldn't buy anything that didn't meet those standards. A very, very I would say religious commitment to a level of quality and enforcing that all the way up and down the value chain and of course, you know, making sure that they could sell it at a good price at auction.

Results speak for themselves. I think we all dream of charts that look like this for the companies that we're involved in. But, and this shows them to 1990 because that was kind of the pre-privatization phase, but I'm happy to report that they continue to do well since then. So they had 200,000 in 1990, or just over; they're now nearly at 600,000 small holders, and one of the largest exporters of tea – second-largest exporter of tea in the world.

I won't go into this in detail 'cause I think Kurt's telling me I'm nearly out of time, but one of the things that we do explore a little bit in the report when we publish is this comparison between how KTDA has done and what other similar state-sponsored activities in ag have done. So we've compared it against Kenyan small holder coffee and also Tanzanian tea, which started around the same time. But as you can see from the chart, they haven't had quite the level of success that Kenyan tea has. In fact, Kenyan tea is a huge outlier in terms of performance.

And when we look at the reasons for that outperformance it's pretty much the same themes, right? So the first one is we got the model right. One of the things that we see consistently across lots of kind of state-sponsored initiatives, especially in agriculture, is there's a whole focus on facilitation, but not on the enterprise, right? There might be an emphasis on giving small holders ownership, but not on the model itself or who's going to manage the model. And what we see, interestingly, in the case of KTDA is there's a lot of effort put into designing the right model, bringing in the right people to run it, who in the first ten years were not the company themselves, but someone outsourced, commercial tea companies. They didn't really worry about giving ownership to the tea small holders for 36 years, so it's a peristatal for 36 years and then they got to this question of ownership, which I think is quite interesting.

So they got the model right. And everything about the model was focused not on serving the grower, but on serving the customer, which I think is also an interesting distinction here, 'cause I think often when we think about, you know, unlikely cases serving the poor consumer, where the beneficiary is your customer and so you focus always on them, in this case you're kind of looking in both directions, right, and you're thinking let's benefit the small holder, but we've got to serve, because it's so easy to get distracted and say, "Actually we're all about serving the small holder," but actually the key to growth, as we all know in business, is serving the customer.

The _______ helps. Obviously there are so many barriers. There's a construction knowledge for ITs of tea, value chain, all those had to be plugged in order for this to work. It takes leadership, so there is a noted researcher of KTDA who has coined a really cool term, I think; he says there are "positive deviants" in the system. The history of KTDA is a history of positive deviants, civil servants who have bucked the trend and said, "Actually we want local small holders to start growing this new stuff, but no one's doing it." There were leaders within KTDA who said "Actually we don't need these commercial companies running it; after ten years we can do it ourselves and we're going to prove it." People within the early investors, so CDC and the World Bank have said "This is a huge risk, but we're going to take it and prove that this can work." All the way up to, you know, governments and senior administers who got involved. So I think also in this case we see the role of individuals who kind of buck the trend, seize on innovation, and then committed to seeing it happen, and that's led to success.

The final thing is it takes money. So if you look, particularly when you look at this across the cases of Kenyan coffee and Tanzanian tea, you'll see that a lot more money has gone into this sector than the others, right, so money does make a difference. It's a blend of money, so it's not all hard commercial capital; some of it was grant, including some from USAID and some that was also soft loan. Most of it was soft loan actually to the companies to get this thing to scale.

So I'm going to stop there.

[End of Audio]

Questions and Answers

Harvey: I think we've got some time for questions. *[Inaudible due to crosstalk]*

Joy Chen: Yep. And we have over 100 people on webinar so we're going to turn to the webinar first for questions. When we take questions in the room, please wait for someone to pass you the microphone and say your name and organization for everyone.

Marisol Pierce-Quinonez: The first question comes from Kate Philbert from MSI in DC. "In MSI's health work, we call the agencies who take on managing the skim process to gap "intermediaries" but there are few and hard to find. And even _, who is best suited or most willing to support this pioneer gap would be great. Could we ask the presenters who their intermediaries were?"

Harvey: So, that was a question about intermediaries in the pioneer gap. So, what we've said – there's a pioneer gap which I think is, in our previous work, was much more focused on the enterprise and then there's this piece which we're seeing is more about market facilitation, right? It can operate in the pioneer gap, but they're kind of operating at different levels and I think we've got to see the work that's involved at those different levels too, right? So, we see a bunch of accelerators, for instance, working the levels firm who can really provide hands on support, capacity building, investment to enterprise to get them to scale. But then we also see the role for these facilitators where that described gates, KDTA – there are bunch of types of entities that can do the facilitation.

And what we see when we look across all these cases is that facilitation is not a type of actor. It's a type of role. And so we can see government stepping into that – if it's the right government entity. We can see foundations. We can see aide agencies. We can see non-profit intermediaries on the ground actually working with them.

I think what's key about all these different types of actors, though, is they bring what they're really good at to the problem and often, its a few different types of actors who can bring complementary strengths to it. So, if you look at mobile money – the case of mobile money in Tanzania – what you see is gates and this local organization called FSDT – Financial Services Deepening Trust – in Tanzania working in a very complimentary way. So, gates, obviously they're sitting mostly in Seattle. They send people over to Tanzania. They have resources that they can direct to the problem.

They have a lot of credibility on the problem but they don't have a presence on the ground. So, what they can do is break the deadlock around value chain because they're bringing their financial resources and with their cloud, they're able to get in back in Tanzania and have credibility that maybe a local organization couldn't. But then they had to work with FSDT because they weren't there all the time, right? So, FSDT could then be the local organization who would work day to day with the BUT and gave with them a whole range of other financial inclusion issues, have the local knowledge to bring to that conversation. So, this partnership, actually, between gates and FSDT was key to making the facilitation work.

So, I think there's no one answer to it. I think there's going to be a range of different types of actors. But the key is to think of it as a role that the people can step into.

Ed Catalackiss: Hi. Ed Catalackiss -- I'm with Apt Associates. In both of the models that you presented, you talked about a time scale that was quite long – the KDTA, which started in the '50s, and the other one which had champions for at least 10 years ago. A lot of us in the room are implementers of USAID funded projects and were asked to have results starting from scratch within three to five years and there's even a focus on quick wins in the early phases of the project – sometimes six months. So, my question is, knowing the model and having studied what you've looked at, how compressed do you think that model really can feasibly be and is that time frame possible?

Secondly, I was just wondering if you'd studied some of the work that's done by Avbevco as an impact investor. I believe it's mostly different for you but I know USAID has a dog in that fight and they've done interesting things in Mozambique, in the ___ quarter corridor working with small holders and out grower schemes. So, if you have any comments about that, it would be interesting as well.

Harvey: Yeah, so time scales are interesting. The mobile money case – actually, if you look at the journey to scale, is about five years in Tanzania. That's about as fast as we've seen it happen. That is incredibly fast.

So, the work that Kurt was talking about where we had the 439 companies down to 59 viable at its scale – that piece of work, we thought the time to significant scale was about 10 to 15 years for most models. And those are the ones that make it, right? So, a lot of them actually does go much slower, don't gather at all. So, it's a much longer time scale than five. And in the case of mobile money, that went fast because the product was – it's what we call a pool product, right?

So, it's a product that customers, once they're aware of it, actually do want to buy. You don't have to convince them that it's good for them. It's so much better, much cheaper, so much faster; it's much more secure than everything else that people will buy it. And it was being driven by corporate, right, who had lots of resources, lots of existing assets and capabilities and networks in the field so it could grow quickly using existing technology. Most things are not going to go that fast and I do think that this is one of the challenges that we have to face because like in most areas of creating social change, it's not fast.

Just because we're now dealing with market based solutions doesn't mean everything's going to work very quickly because the environment's we're working in are still highly challenging. And this, I think, does create challenges, I think, for people working in this space and I think also has implications for relationships between funders and intermediaries, I think, as you were leading to. And I think one of the ways that we've seen this work well is where funders have made longer terms commitments. But I think the __ commitments; it's also an openness to learning, right? The other piece that comes in – which we haven't talked about – is how adaptive this process is.

You cannot predict – we've made this out like you can go into this dot and you can draw the picture and you know the barriers and then you have this 10 year program of doing it. And none of them have done it like that. You go into it and you know five percent of the problem and then you discover and you adapt. And I think having the right relationship over time between funders and intermediaries on the ground is actually key to making that work.

Kurt: Yeah, just to jump in on that. Is this – yep? Good? So, first – I'm shocked to hear that you have a client who wants results faster than you *[Inaudible due to laughter].* That's the first thing.

But anyway – the point about quick wins is, I think, pretty important. Harvey talked about leadership and various leaders stepping up and taking risks and having kind of the courage and the motivation for everyone to kind of keep on keeping on the in the face of a kind of -- a system that's not functioning at all. And so quick wins of some sort, I think, are pretty important for keeping that – getting some momentum and keeping it going. And I think the only way you – five years is incredibly fast. There was a big company with a lot of resources and oh, by the way, Gates jumped in as well. That's helpful.

[Laughter]

That's really fast. And so most of the time, you're never going to get something like that. So, you need to identify milestones along the way that you can hold up as a quick win. For instance, on the model slide – which we both glossed over pretty quickly – a big point of that is the first business model you hit upon often usually doesn't work. And so you need to cycle through a lot of business models before you can kind of hit it right.

So, one indicator of success that something's on the right path is that you're seeing changes in the business model. You're not just trying to force the same. So, if you can kind of – what is the path to success? What does it look like? What are some indicators of are we on that path to success? And if you're not, at least you know sooner rather than later you can pull the plug on the thing.

Joy Chen: Let's take in a webinar question.

Marisol Pierce-Quinonez: This question comes from Lisa Koon, an independent consultant. "How did we ever get onto the assumption that any ___ investments should be safe investments with quick returns? Is it because there's an assumption that there's a moral limit of ___ sites so we don't attract the early stage investors with higher risk tolerance?"

Kurt: Say that again.

[Laughter]

Marisol Pierce-Quinonez: It's a question about attracting investors with higher risk tolerance.

Kurt: So, I'm not going to presume to suggest how we got onto this. One important distinction I will note between investing in this kind of enterprise and investing in commercial startups is with commercial startups, you can have a business model where lots and lots of things fail but then you invest in something like Clah of Clans and you just rake it in. How many people know what Clash of Clans is?

[Laughter]

And I'm sorry – for the people on WebX, my mouth – my jaw has dropped. Really? Clash of Clans? Well, anyways, so I have it on my IPhone and I – so I have a Blackberry, which is my work phone, then I have my IPhone where I can play games and you know, they don't know. It made a lot of money, let me just put it to you that way.

So, in the commercial world, you can have the hope of really hitting it big, and that covers your cost for all these other ones that kind of went belly up. In the impact investing world, the opportunity to really hit it big – it's not quite as likely so it's difficult to recover your costs on the ones that don't work. And so it tends to make investors, less willing to make those risks and they want to invest later in the game so they are more confident they're going to get a return.

Female Voice: Hi. I have a, I guess, larger question about impact investing and then maybe getting back to the evaluation question, I think, that he was asking before. So, I'm not sure how much you're actually trying to look into other impacts other than just growing the businesses. It seems like there's an underlying assumption that growing the businesses is going to be good for the economy in general which is going to address poverty. That ___ assumption, but at the same time, USAID, I could imagine, want to see some results also with social indicators. Is there any sort of thinking – kind of the triple bottom line idea – you know, where you're looking at environment and social indicators?

And if so, you've got people already using mobile phones to do banking. There's, right now, a lot of surveys that are possible via mobile phone to collect data from those same people that could be done from the get go before. Actually, essentially of the idea of the treatment group versus the control – even though it's not really treatment in this case than it is a – you can definitely gather data beforehand but if before, these small holders, for example, are growing their ____.

Harvey: Yeah, so we did think about that question and we did address it in selecting the cases that we looked at so there were definitely some fairly high profile impact enterprises that we decided not to study because we couldn't find any data in their impact. So, that was a question we asked. Not, not all of them were rigorous RCT type data but we needed to know enough. For instance – what was happening with incomes with small holders to be able to know that that was actually working? Just scaling the number of farmers actually wasn't interesting to us unless it was improving farmer incomes.

I do think, though, that going forward, the level of interest and scrutiny is going to be much greater and so people need to put more effort into this than they have done and the big question's going to be who is going to help businesses do that, right? Because that is an additional requirement that we're loading on to these businesses. Can they, as they're growing, really kind of do all that stuff and worry about how we're going to track impacts for that? So, I actually think facilitators should just go back to the facilitation element. One of the things facilitators could actually think about moving into is actually enabling that at an industry level and not just thinking about individual firms.

Male Voice: *[Inaudible due poor audio]* from _________ facility. I'm sorry if you've shared the data in the beginning. I missed it and the graph went too fast for me to observe it. But what is the penetration level as ____ subscribers in Tanzania for mobile money? And secondly, how many of them are actually active users of mobile money?

Because we've seen this __ -- there's a lot of people subscribing to a service but not too many people using it. Secondly, relatedly, you mentioned the cost being much lower than in Kenya and Tanzania so is it primarily due to the intermediation and charges for the agents or are there other reasons for it? I can understand competition, but that would lead to something. That's why I'm asking. Thank you.

Harvey: Penetration was the first one, right? So, I think the last time we checked, it was in the low 80s – mobile money as a – of the mobile phone subscriber base. Now, I don't have that figures for mobile phone penetration, but that is lower in Tanzania than it is in Kenya. So, the overall numbers are small but the penetration of the mobile base is higher. Active users – active users are pretty high.

I don't have the exact number, but actually what we found was really interesting was people actually not enrolling and not using the service. Actually, everyone's using it. And what's interesting is when you look at who's using what, there actually – people tend to have two or three different accounts. I don't know which charts – let's try that. Right.

Sort of active accounts – active accounts on the right, yeah. And actually, the number of inactive accounts is pretty small when we looked at the data. I do think that competition is the big driver, right? So, what's interesting is when you go – so, not only do the shops have the four logos and the four books and everyone can get any product, people also tend to have more than one mobile phone account and more than one SIM. And they actually switch depending on who's got a better offer for doing a specific type of call, specific service.

The operators also run deals on mobile money and have promotional rates on transfers and so people actually swap SIMs in and out depending on who's got a good offer that day. It's also the only country where I've heard of a triple SIM phone so you can actually switch between them. If that's not competitive, I don't know what is. Like, I wanted to buy one, but I didn't have time.

Marisol Pierce-Quinonez: This next question comes from Steve Lynn, an independent agro based consultant from Brattleboro, Vermont and they're two sort of clarifying questions. The first one is, "I'm curious about how Vodacom build up its rural rep network. It sounds like a huge job and investment. And secondly, how did tea growers end up with company ownership. Did they purchase shares?"

Harvey: Ah.

Kurt: First of all, how cold is it? Ask him how cold it is in Brattleboro.

[Laughter]

Harvey: I've forgotten the question now.

Marisol Pierce-Quinonez: The question again was about the rural rep network and tea growers with company ownership.

Harvey: And for then ownership. Okay. The rural rep network – so this was really the aggregators. So, a lot of the money that Gates gave to Vodacom was actually to hire a company called Africans who became the first aggregators.

They were essentially a kind of marketing agent and recruitment agent. They went out to rural areas, mapped all the resellers, educated them about that product, brought them on board, trained them – it took a lot of effort to make this happen and so that's why Vodacom couldn't do it themselves; they didn't have the field staff to do it. So, they have to bring in these aggregators who could work in the field to do that. What was the other question? Ownership. Right.

So this gets a lot more air time in the actual reports. So, the actual report __ come out, deals with obviously this whole question of getting to scale. It also deals with the question of what do you do when you're at scale, right? And what's interesting for us is when you look at something like the MFI industry. The problems didn't go away when they were at scale; they just had different problems at scale than they had when they were getting to scale.

And we're going to dig a little deeper into that but in Kenya and KTDA, what's interesting is that in the '80s and '90s you started having a whole bunch of problems coming up because it was no longer the minnow of Kenyan agriculture which was kind of under the political radar. It was now this massive, massive enterprise throwing off lots of foreign exchange, throwing up lots of money, controlled my government so you can image the pressures and interference that were coming into that kind of organization through the '80s and '90s. So, what happened in the early '90s – and this coincided really with liberalization politically in Kenya and return of __ democracy and so the farmers decided, "You know, well, actually, we're kind of in revolt now because we're not seeing enough money come to us. We're seeing money sucked out of the system, corruption, probably fraud and we want control of the company." And so there was a whole kind of parliamentary group set up to deal with this.

Over the course of eight years, the framers, politicians and the government really got together and said, "We need to map up a new course for privatization helped, to a certain extent, by pressure from the World Bank and IFC who trying to kind of obviously push privatization in lots of these countries." So, all these things really led to a blueprint that privatized the company and gave them to the small holders. And actually, the way that they did it was they didn't – they sold the company to the small holders and instead of requiring them to pay cash, they would pay for it through tea. And the company was sold to the factories who were all set up as separate companies and then the small holders who supply that factory, all became shareholders in the factory companies. That it's in summary.

Marisol Pierce-Quinonez: By the way, it's -8 in Brattleboro, Vermont.

[Laughter]

Jennifer Breamer: Yeah. I'm Jennifer Breamer from DAI. Very interesting presentation although, I have to say, a lot of the things like business sense takes leadership and money and so forth is sort of probably not news. But nonetheless, the case studies are very interesting but both of the ones that you presented are large companies and in the latter case, in a product area that is different from other kinds of contract farming – the product is not perishable and has an _ market. But still, interesting. But my question is – this is perhaps a stupid question but – is the answer to how you get to scale "Start big'?

[Laughter]

Harvey: That is a good question. Now, we didn't choose these – we chose these because they were quite interesting and they were technology based. In the final report, we will look at industries like MFIs that really kind of start as small and then go to scale but I do think, yeah, you start with certain advantages if you're already big, right? If you've got the government behind you, that helps with facilitation. That helps with money.

Having the government stand _ to offer you loans – that kind of helped getting more capital in to build factories. Having the government educate farmers reduces the risk of side selling, which is a huge risk with contract farming models. So, I do think yes, there are certain benefits that that brought but KTDA would be the first example also of the risks that that can bring. So, you have a bunch of risks with government models that – you know, they won't be run professionally, right? They won't be run commercially. They'll be __ inferior.

So, all those things – those'll come with that. I think in the case of corporate, yes, they do have lots of money but there's also a lot of internal competition for that money, right? There's certain hurdle rates, terms of return that you need to get from investments that you make which I think is why I think it's interesting to see in this case in Tanzania, it's not that Vodacom didn't have money to build the agent structure. It's because they weren't incentivized to build the agent structure. So, recognizing, I guess, the kind of actor that you've got and figuring out who you can help them.

So, when you look at some of the MFI in India – which all started with kind of small NGOs; they're trying to get to scale – there was a lot more activity on capacity building and getting them to kind of chain structure, develop systems, develop skills to gradually scale the model, which is not the kind of thing you would do with a Vodacom in Tanzania. So, I think there's all that recognizing that things are different. Yeah. So, I'll stop there.

Kurt: Yeah, just – and just to call it out – there's often a lot of reluctance in our field to kind of work with MNCs and to do things that flow money to MNCs, but to get big, helps to be big, as you put it. And how many big things are there out there to work with? So, something to keep in mind.

Marisol Pierce-Quinonez: This question comes from __________, a Ph.D. student at Addis Ababa University in Ethiopia. "In most countries, it is the mobile network operators, in collaborations with banks that deployed mobile money services. Will private, non-mobile network operators be successful if they're interested in deploying these services as well?"

Harvey: Hmm. Yeah. Well, those are the models that we've seen be successful and it makes sense that they would be well positioned, I guess, for success because they're riding on existing infrastructure, right? So, one of the reasons that – we talked about the challenges in Tanzania -- __ Viacom, the MNOs – but actually, they also have advantages, right? So, Tanzania actually has a pretty good mobile network in place that actually works. It's reliable.

The last thing you need, if you're trying to move money in the network, is it doesn't work or it fails when you're trying to make a transfer. So, that doesn't inspire confidence. So, one of the reasons we think it's not worked in some other countries – like Uganda, for interesting, its neighboring country – is this question of reliability and _____ of mobile networks. So, I think it does depend on those other pieces and if you happen to be a company that owns those operators of the pieces, it helps.

Christine

Prannick: Christine Prannick, USAID. Kind of keep pulling back from the case studies and thinking about the larger lessons here for us, I think it's encouraging to know -- we love to believe that we can use our money in a catalytic way, especially with a private entity. So, the example of Gates really kicking this off with Vodacom and then they investing on top of that a lot more money, this is what we like to see and hope that we can up the keep. But determining who to do that with, when to do it and where to do it is really difficult for us and I think a lot of times, we're kind of casting about in the dark and hoping for a hit. So, are there any other early indicators – besides what you said in terms of the fact that this needs to be a learning orientation?

And if you're seeing changes in a business model, that's a good sign that they're on the right track. Is there anything else of that sort that we should be looking for when we're trying to figure out where to place our catalytic funds?

Kurt: So, I think there's two things to kind of look for to kind of look for and develop an understanding around, okay? I think one thing is – there has to be kind of a latent chunk of value that could be seized and realized out there. So, there has to be a bunch of people who are interested in mobile banking that don't have it yet, right? The work – low *[Break in audio]* housing India – there has to be a lot of people out there looking for low incoming housing. There has to be some big chunk of money that could be realized that's not yet realized.

And then around that chunk of money, there are barriers that are stopping someone from realizing that money. What are those barriers? And you have to map the system, right? And sometimes the system is so messed up that it's just – it's not going to go anywhere. You're not going to be able to do anything about it.

And other times, it's so close to kind of breaking free that you've missed the boat and someone's already going to take care of it – probably a company with some first _ there. You're kind of looking for that sweet spot. Well, where can we see the barriers, intervene well enough so that we can seize all this money? One kind of puzzle that keeps bugging me is fertilizer in Africa, right? We know if we apply more fertilizer to the ground, yields go up and yet – and that's more money to be had but something's sticking it up, right?

What is that system that's sticking it up and why can't we realize it? Could be one thing but it's probably more than just one thing, right? And probably what has to happen is five things have to happen simultaneously, which gets to the who is the facilitator that can understand those five things and make them happen simultaneously.

Harvey: Just to build on that. I think this whole question of "What's the market and is there really a market opportunity?" Like many things, seems banal and it seems basic. But it's so often overlooked, right? Especially if we come with an impact lens because we think about beneficiaries and we think about their needs and what would be beneficial for their needs. And often what people need is not what they want. Not what they want to buy, right?

And a lot of our work, over the past eight years, has been really kind of understanding customers, right? And when you understand customers, it's not only about understanding need; it's about understanding desire and understanding their ability to pay. And I think that's probably one of the biggest gaps that we see at the level of – certainly, the enterprises that are coming into this space – that there isn't enough effort or maybe capability and sophistication around understanding customers and serving them. And I think similarly, I think, when we're thinking about facilitation and working with them, we have to bring that lens to the enterprise level, otherwise, we'll be going down some dead ends.

Marisol Pierce-Quinonez: So, this question follows up on a very interesting conversation happening on the webinar about the tea leaves example – about the merits of cash crops versus food security. And Hans Mezoua from Agredem Solutions in Burlington, Massachusetts was curious to know about the impact indicators that were used in the KTDA case for the social and economic impact.

Harvey: So, the main thing was really just the rising payouts for growers, which I think we showed as one of the four charts. We did ask them if they'd ever done an analysis of how household incomes have changed and they haven't – they haven't done that. But the two indicators were really rising payouts and then, in recent years, they've also had dividends paid out to farmers. The reason we actually did try to push them on household incomes and who these incomes were changing for is that the industry – the structure of small holders has changed over the years, right? So, that's the other thing we don't talk about is actually, that the small holders that were described in the '60s are not the small holders you're describing in 2013, you know?

In 2013, you're seeing a completely different structure. Some small holders are small. They've got really small plots. They're giving them to the children. Some of those are not viable anymore because they're too small.

On the other end, you've got large farms now where they're hiring people to pick the tea and cultivate the tea. So, it is one of those questions and I was saying, "Is it one of those things we have to think about more going forward? How do we actually track impact and not just assume that it happens?" We've just done the best that we can from the data that we had.

Joy Chen: We'll take one last question from the room.

Christopher Pray: Hi. Christopher Pray. I wanted to go back to the sort of microsystem dynamics which you started with in your both of your presentations -- for example – talked about micro franchises with free criteria, having positive cash flows, serving the poor and potential to scale. So, when you look at that or when you look at your ecosystem picture, have you come up with some clues as to who would you trust to sort of own the aggregation across many of those parts? Is it a bank? Is it an educator? Female

Is it the open technologist who actually wants to change the whole of the value change in that sector? Who are the owners you'd most trust for connecting a lot of those small parts?

Harvey: By owning, do you mean –?

Christopher Pray: Well, ultimately, the investors but the investors who make sure that all of those things scale the way that they could have done given – you were saying in the case of the micro franchises – I think you started with 459 micro franchises you've identified across Africa. So, if you were to look for one owner, investor, to the do the most good across all of those, what sort of entity would it be?

Harvey: Does it exist? I don't know that there's one kind of player who would be able to do it and I think part of what we're trying to do with this work is describe the range of different situations. I think before we got into this, we never thought that we'd see a parastatal being a successful enterprise and facilitator. It's not what you think, right? You think, "Parastatal – inefficient. They're not going to do it. Government – too focused on the big picture; can't focus on innovation." But actually, they made it work. So, I think it's kind of horses for courses really.

Kurt: It's certainly, at different stages, the kind of friends and family when they're small. Things like that aren't going to change. But I do think you get to a certain point where somebody has to kind of come in and not – and kind of be altruistic. They can't be looking to make money off the system because that just kind of turns people off and makes them suspicious. So, Gates can come in and like -- well, that's guy's not too worried about making money off of me. He's pretty set.

Have some credibility and sort of gravitas credibility, not trying to take a piece of the action. And that's kind of back to the leadership point as well. It's trite, but it's just over and over and over when you look at these things, there's names of people you can say and point to and it's just kind of different in different places and you just going to find those people.

Christopher Pray: There's so many things.

Kurt: Yeah. And again, back to the – the problem is that there is some system of activities that has to happen for this to start netting out and going and it's a dysfunctional system and what are the barriers and points of dysfunction and who can do what? And sometimes, that's just the way it is. It's not going to change now. We're going to have to park that one.

Sometimes, the dam's about to break – you don't have to do anything but there's kind of this big chunk of things in the middle where sometimes you can intervene and do something.

Harvey: And just to pick up on the leadership points – so we recognize, whenever you put something like, "It takes leadership" on a slide, people are going to say, "Well, of course." And we did have our own arguments about whether to put it up but it's true, right? So, one of the things is its true. I also think that there are some blind spots around leadership, which I alluded to earlier. I think if you're an investor and you're putting money into a business, you naturally think about leadership, the team that you're backing and do want to back them and do believe in them to deliver this plan.

I think those of us – once you kind of elevate it to "I have this program. I have a stage gate for this program. Do I commit to five more years of this program? It's about developing a sector, making linkages." Often the leadership stuff then kind of recedes into the background.

We think about market signs. We think about barriers – all the stuff that we've described. But actually, once you start on that, who's going to be doing it? It's still the firms. It's still their leaders. If they don't have the leadership potential to make this happen, it still won't work.

So, there's a kind of depersonalization that happens as we kind of step up to the levels of industries and sectors that I think we're trying to speak against and say, "Actually, we should also think about this element of individual leadership even as we think about it as very large scale programs and problems."

Kurt: The other thing I would say is leadership is actually – is actionable. So, you could say, "If there's no leadership, there's nothing I can do about it." And that's kind of true, but you can also not invest behind it. So, if you don't see the leadership there, you may want really badly to fix this problem – if it's not there, it's not going to get fixed. So, you know, just go someplace else.

Harvey: And sometimes we put too much weight in our own leadership, in a way, right? 'Cause we're like, "Well, if we're leading it, we can make this change." But actually, generally, any one of us – especially if we're sitting somewhere other than where the change is happening – can't do that.

Joy Chen: Yeah. Please join me in thanking Harvey and Kurt.

[Applause]

[End of Audio]