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Overcoming Barriers to Scale to Reach the Poor

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Harvey Koh, Monitor Deloitte India





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Kurt Dassel

Monitor Deloitte

Kurt Dassel is a Director in Monitor Deloitte's Emerging Markets practice area and the co-lead for the Regional Economic Competitiveness (REC) practice. In this role, he has led hundreds of projects in over 30 countries. Dassel works closely with Professor Michael Porter of Harvard through the Institute for Strategy and Competitiveness (ISC). He has led major quantitative research and tools development efforts focused on economic development, competitiveness, policy and entrepreneurship. As a recognized expert in the field of economic development, Dassel has taught courses on economics and political economy of emerging markets as a Professor at Wellesley College and a Lecturer at Harvard University.



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Harvey Koh

Monitor Deloitte India

Harvey Koh is a Director with Monitor Deloitte India in Mumbai, where he co-leads the Monitor Inclusive Markets (MIM) unit dedicated to harnessing business models to serve the poor. In India, he has directed projects facilitating market development around specific business models in the low-income housing and safe drinking water sectors. Prior to joining Monitor Deloitte India, Koh was the founding head of programs at Private Equity Foundation, a venture philanthropy fund established by leading U.S. and European private equity firms to tackle the problem of the youth bulge. Previously, Koh worked with The One Foundation, a major foundation operating in Ireland and Vietnam, and with the London-based advisors New Philanthropy Capital.

Monitor **Deloitte.**

***Overcoming Barriers to Scale
to Reach the Poor***

USAID Seminar

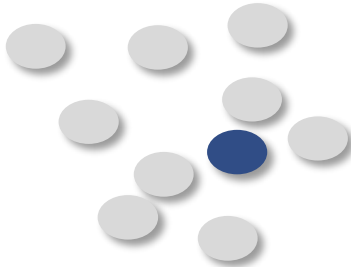
January 2014

MONITOR INCLUSIVE MARKETS

Introduction

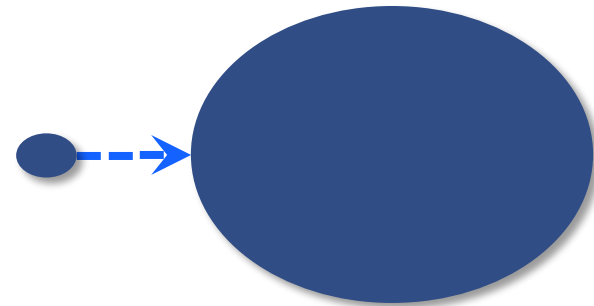
The challenge: not just creating models but getting them to scale

What business models are truly effective in serving the poor?



- Many business models fundamentally unsound from the outset
- Iterative refinement often needed as models are validated and prepared for scale

How do we scale these models to make a significant impact on the need?



- Typically multiple, tough barriers to scaling – both enterprise and market ecosystem - and these can evolve as models scale
- Few scaling efforts address both enterprise and ecosystem barriers

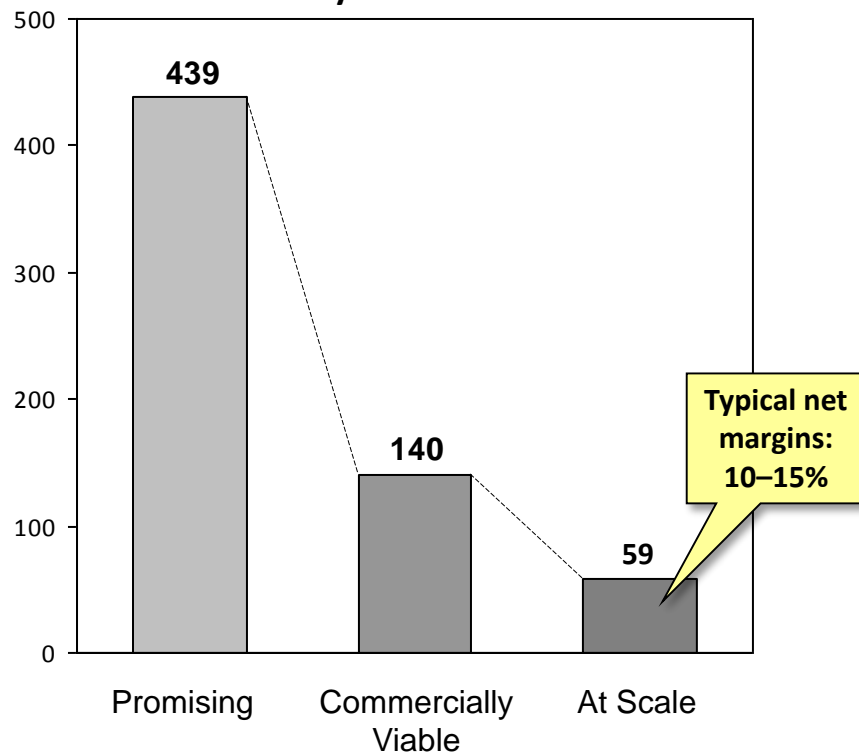
Introduction

The promise of inclusive business has yet to be delivered

Few inclusive businesses are viable and scaling...

...and impact investors are frustrated.

Number of Inclusive Businesses Studied by Monitor in Africa¹



J.P. Morgan Survey of Impact Investors (2011)²

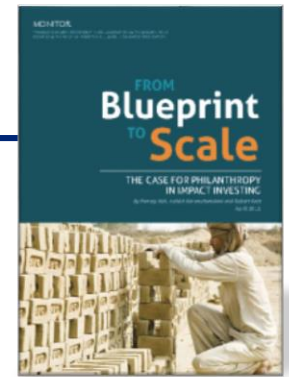
Rank	Challenges to industry growth
1	Lack of track record of successful investments
2	Shortage of quality investment opportunities
3	Inadequate impact measurement practice
4	Lack of innovative deal/fund structures to accommodate portfolio companies' needs

Source: ¹Kubzansky, M., Cooper, A. and Barbary V., (2011) *Promise and Progress, Market Based Solutions to Poverty in Africa*, Monitor Group, ²Saltuk, Y., Bouri, A. and Leung, G. (2011) *Insight into the Impact Investment Market*, J.P. Morgan and GIIN

Introduction

Part 1: The Pioneer Gap

With impact investor interest predominantly in the growth/late stage, pioneering inclusive businesses face a critical 'Pioneer Gap' in funding and support



Four Stages of Pioneer Firm Development



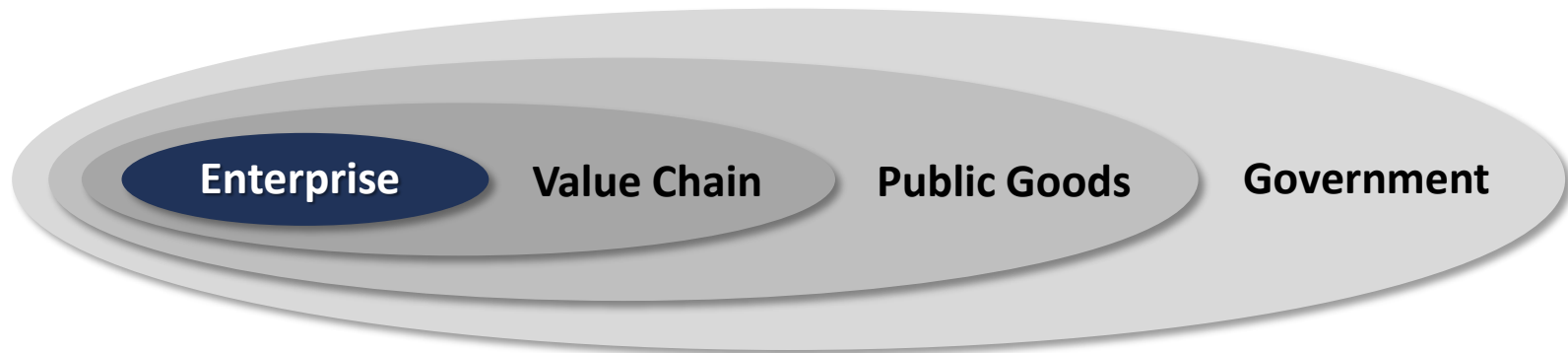
*The **Pioneer Gap** in Funding & Support*

Impact Investor Interest

Introduction

Part 2: Beyond the Pioneer – Ecosystem Barriers to Scaling

Potential Barriers to Scale for a Market-Based Solution





Mobile Money in Tanzania

Introduction

Initial Situation

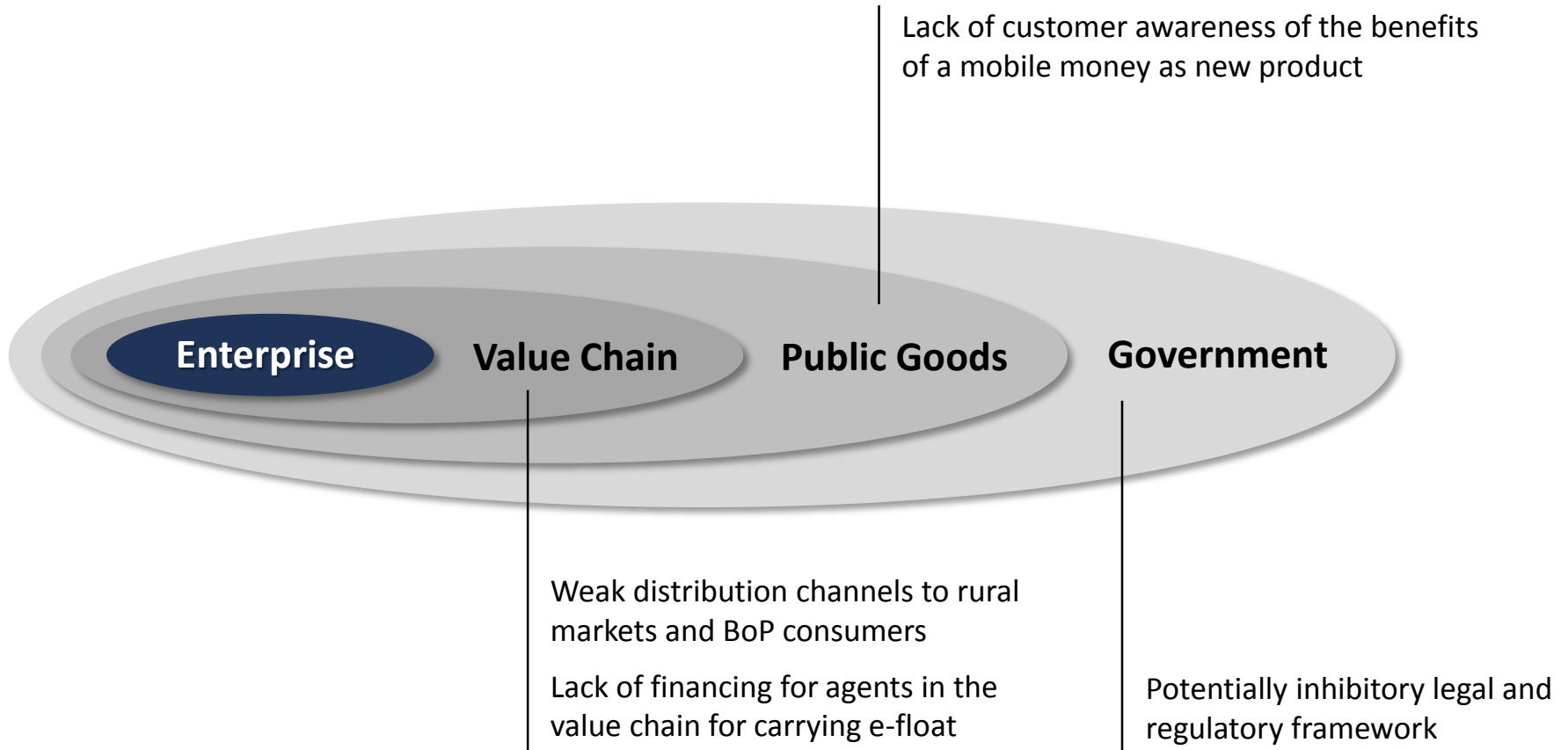
- **M-PESA in Kenya**, launched by Safaricom, widely hailed as a beneficial and easy-to-use product that quickly scaled across Kenya
- **Sister company Vodacom Tanzania** launched M-PESA in April 2008
 - Same technology platform
 - Same business model
 - Same *'Send Money Home'* marketing campaign
- **But M-PESA did not take off in the same way in Tanzania**
 - 0.28M registered users in Tanzania after 14 months compared to 2.7M for M-PESA in Kenya after the same period of time

Local Context

- **Two different countries**
 - More scattered population
 - Less knowledge of financial services
 - Lower mobile phone penetration
 - Lower density of bank branches
 - Weaker remittance culture
- **Two different mobile telco sectors**
 - Highly competitive mobile telco industry
 - Highly concentrated 'super agent' channel structure

Mobile Money in Tanzania

Identifying Barriers to Scale



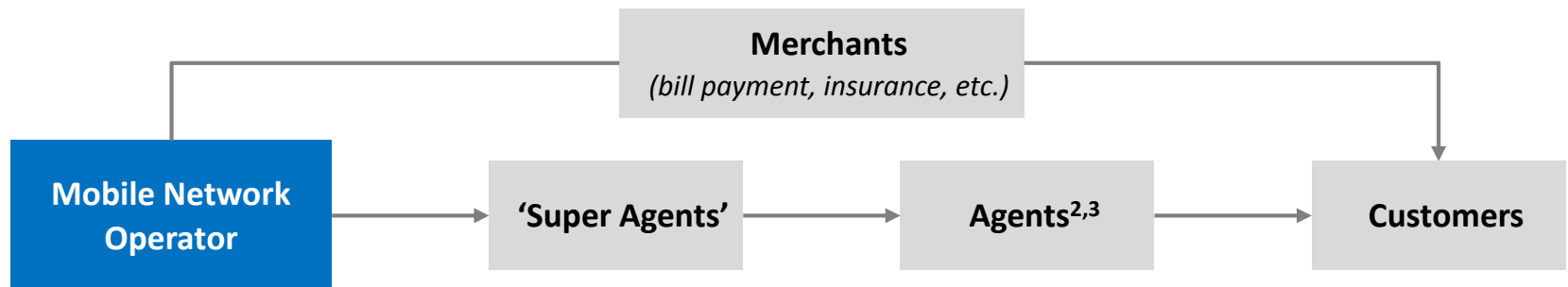
Source: Primary interviews; Monitor Deloitte analysis


Mobile Money in Tanzania

Market-Based Solution – Initial Model

In 2008, Vodacom launched mobile money through its six national airtime distributors – super agents

- Mobile money is an agent-assisted, mobile phone-based, secure, money transfer and payment system
- In the ‘operator centric’ model¹, the mobile operator acts as the business owner, partnering with one or more banks which provide e-float services
- Primarily used for person-to-person transfer and for making payments to businesses



 Core firm

Note: ¹Followed by M-PESA in Tanzania; ²Mobile money agents channel can be separate or be part of the existing talk-time network; ³M-PESA agents do both Enrollment as well as Cash In-Cash Out, but functions are often separated in case of other deployments

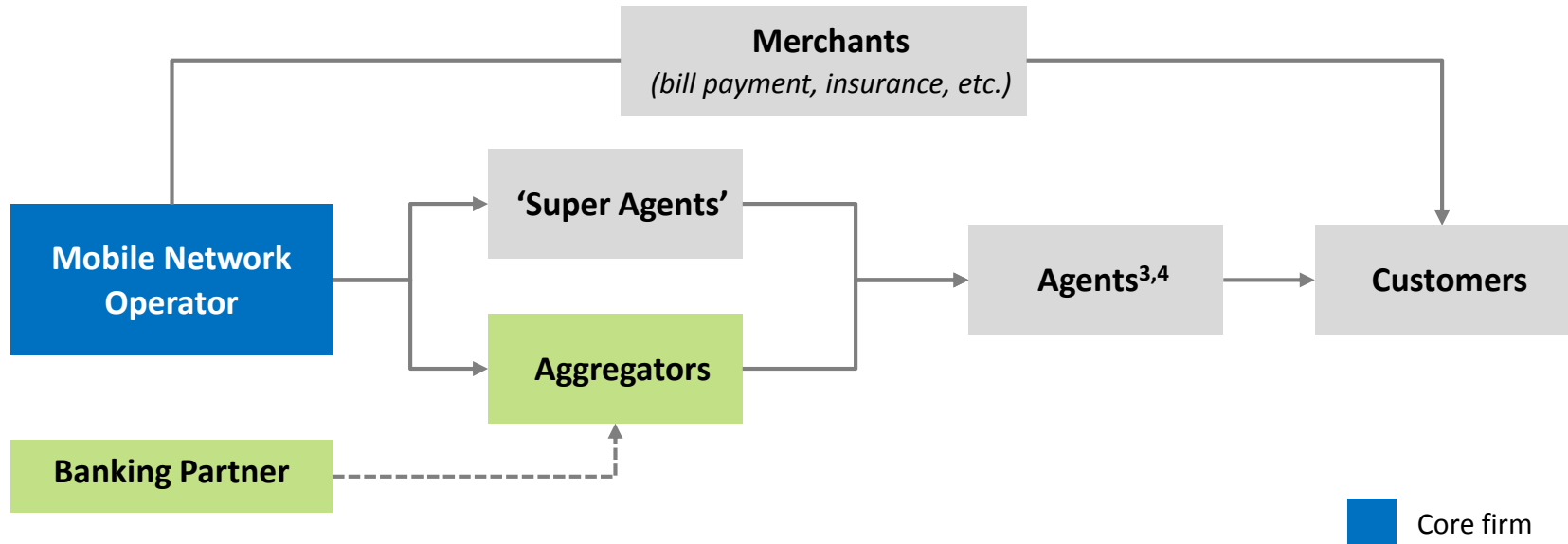
Source: Monitor Deloitte analysis; Primary interviews

Mobile Money in Tanzania

Market-Based Solution – Adapted Model

Existing super agents did not drive mobile money growth especially in rural markets

- The Aggregator model was introduced to accelerate the growth of the mobile money distribution channel
- Aggregators are responsible for the acquisition, training, monitoring, and location tracking of M-PESA agents

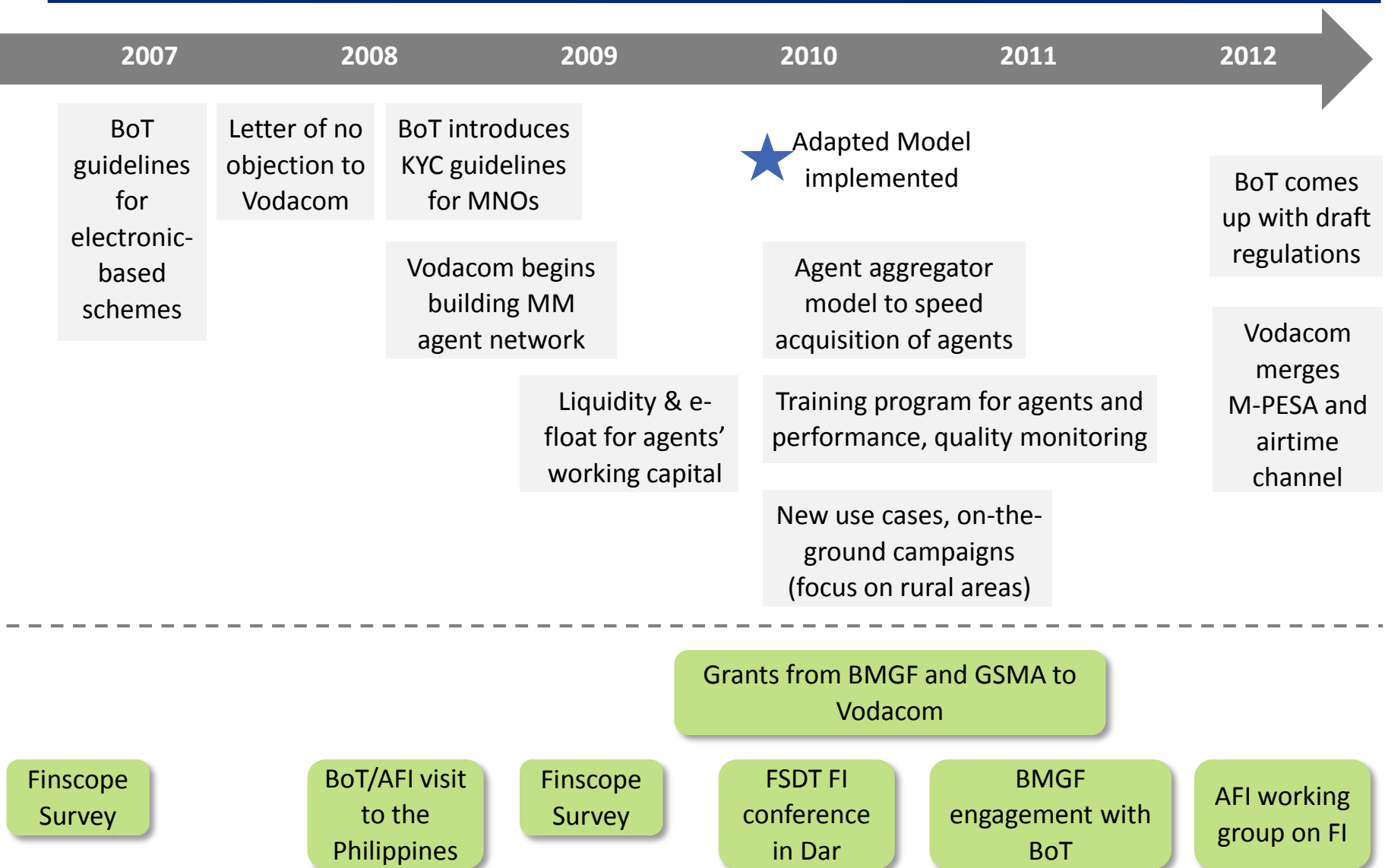


Note: ¹Followed by M-PESA in Tanzania; ²E-Float is measured in the same units as money but held in users' account operated and managed by the MNO; ³Mobile money agents channel can be separate or be part of the existing talk-time network; ⁴M-PESA agents do both Enrollment as well as Cash In-Cash Out, but functions are often separated in case of other deployments

Source: Monitor Deloitte analysis; Primary interviews

Mobile Money in Tanzania

Industry Timeline

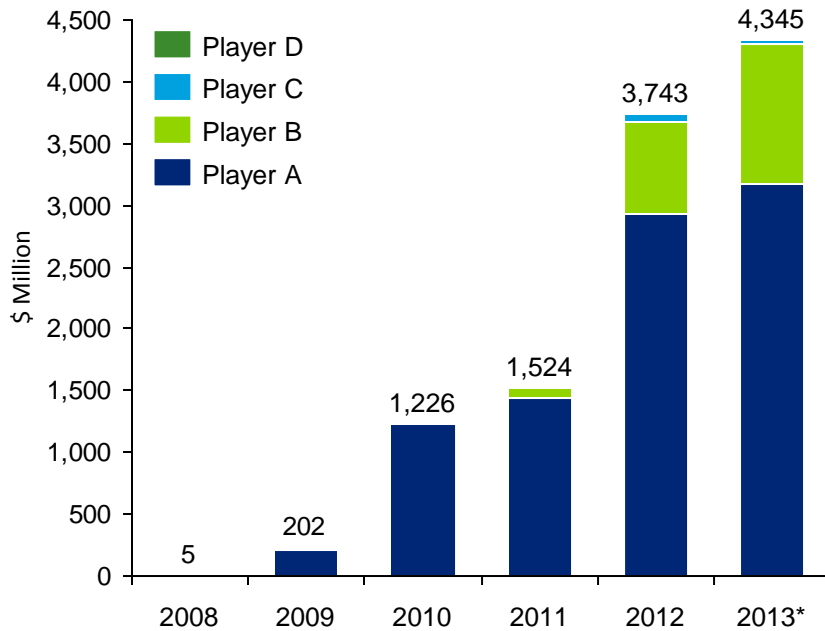


Source: Primary interviews; Monitor Deloitte analysis

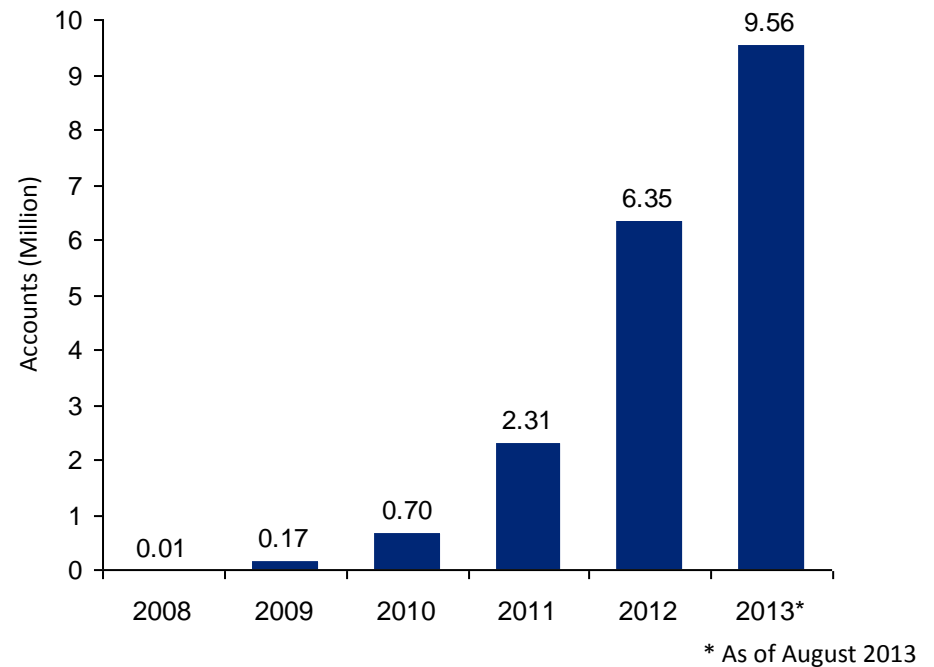
Mobile Money in Tanzania

Results – a competitive, large-scale industry

Value of Mobile Money Transactions
(2008 – 2013)



Number of Active Mobile Money Accounts
(2008 – 2013)



- **35% of households have at least one mobile money user and awareness is at 99%**
- **Competition has resulted in much lower tariffs for the end-user: a \$25 transfer is 65% cheaper in Tanzania compared with Kenya**

Source: Primary data from the Bank of Tanzania; Intermedia tracker study in Tanzania, 'Mobile Money: User barriers and opportunities'; World Bank blogs, "The mobile money revolution in Tanzania"; Monitor Deloitte analysis

Mobile Money in Tanzania

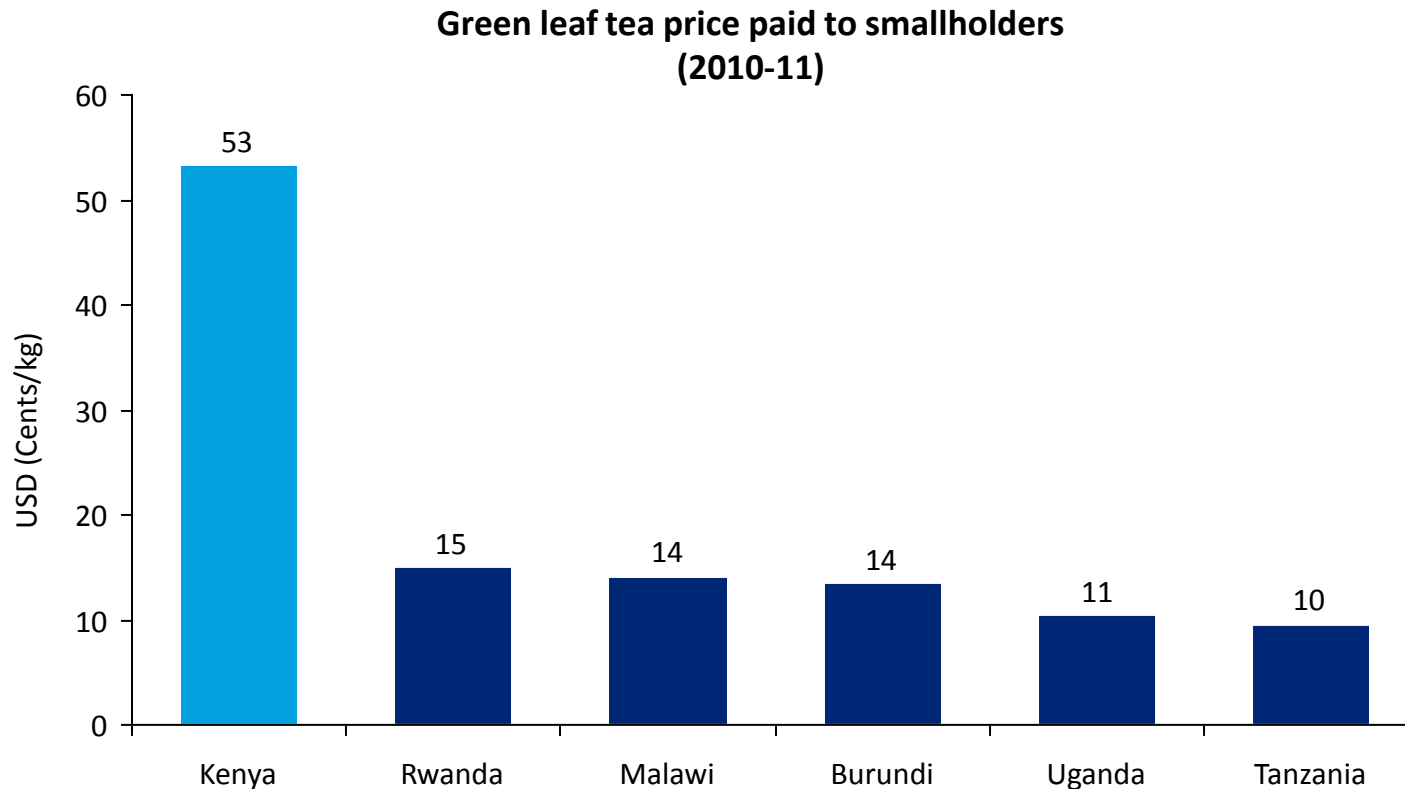
Key Findings





Smallholder Tea in Kenya

Smallholders in Kenya get paid more for their tea leaf – why?

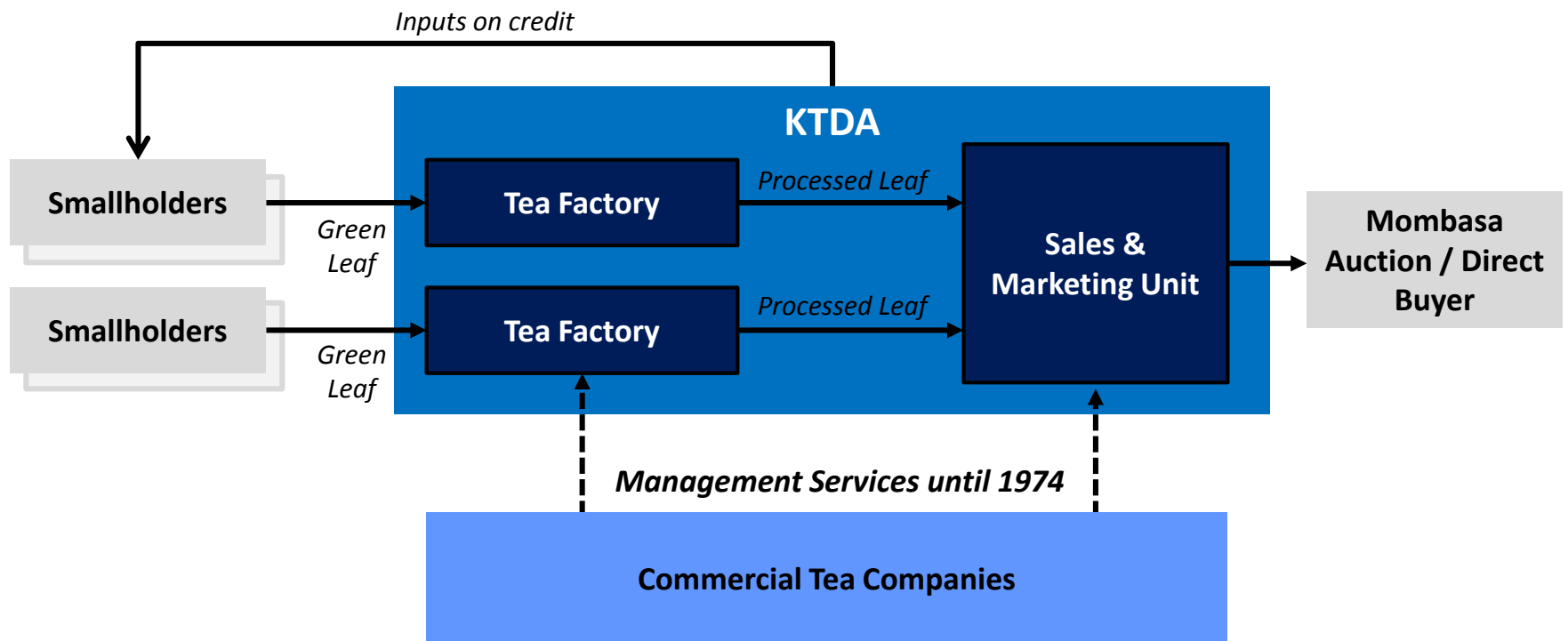


Source: FAO, Monitor Deloitte analysis

Smallholder Tea in Kenya

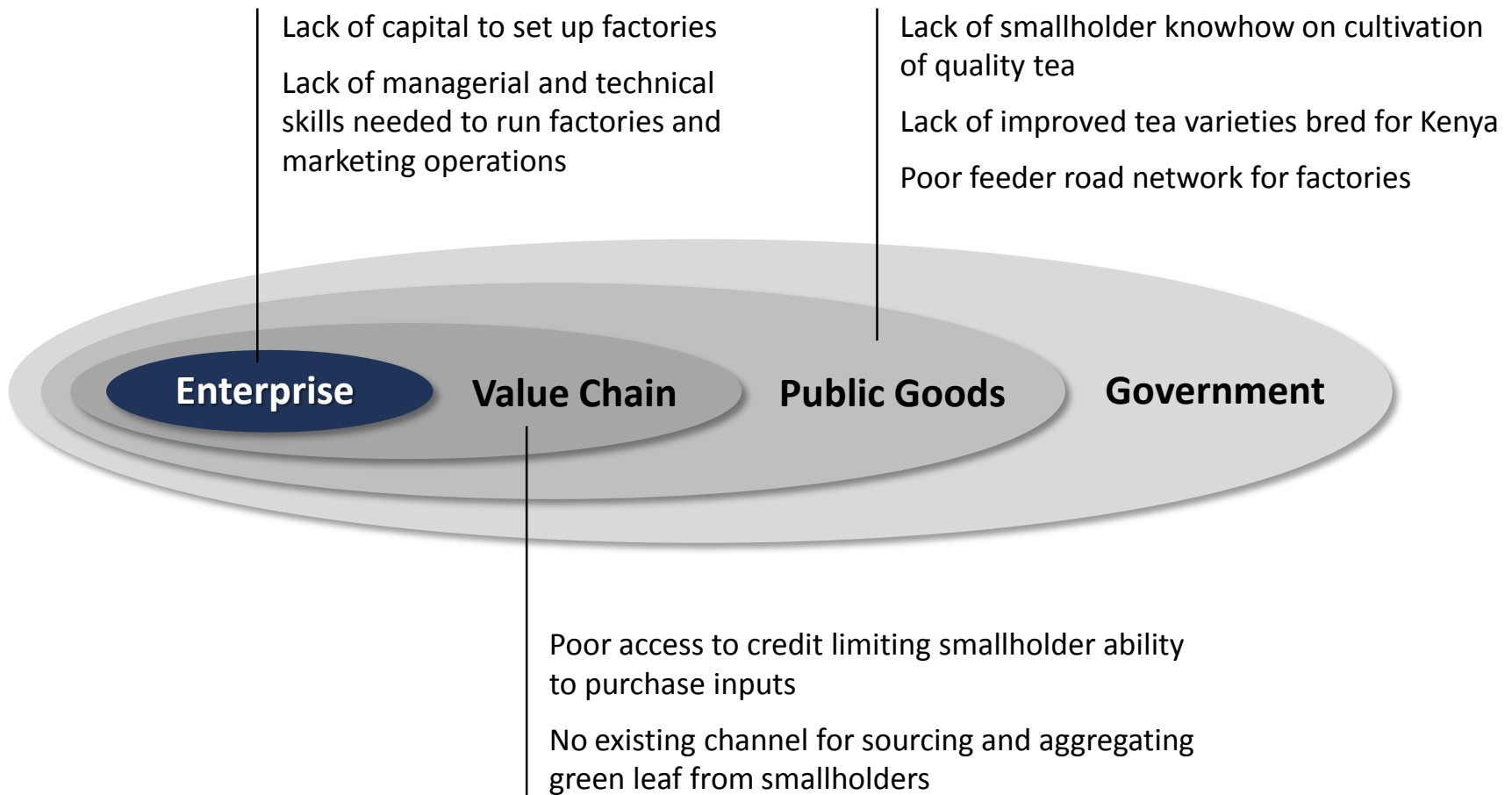
Market-Based Solution – Smallholder Contract Farming

- Government's **Swynnerton Plan in the 1950s** encouraged native African smallholder agriculture
- In **1964, Kenya Tea Development Authority (KTDA)** established as a parastatal tasked with developing the smallholder tea industry – it was **both enterprise and facilitator**
- The emphasis was then, as still is today, on producing **high-quality premium tea for export**
- In 2000, KTDA was privatized – it is **now owned by the 560,000 smallholders who supply it**



Smallholder Tea in Kenya

Barriers to Scale (1960s and 1970s)



Source: Primary interviews; Monitor Deloitte analysis

Smallholder Tea in Kenya

A strong enterprise grew on the back of wide-ranging facilitation

Kenyan Government Agencies & Parastatals (including KTDA)

- Conducting research to improve tea cultivation practice in Kenya
- Developing improved tea varieties adapted to local conditions in Kenya
- Providing extension services to smallholders to ensure cultivation and harvesting to high quality standards
- Building and upgrading feeder road networks around tea factories
- Standing guarantor for loans made by international investors to build new tea factories

KTDA Enterprise

- Aggregating green leaf from smallholders through a network of collection centers, buying to strict quality standards
- Establishing and operating factories to process tea grown by smallholders
- Providing inputs on credit for smallholders – collective purchasing to lower costs
- Marketing and selling tea to international buyers primarily at the Mombasa auction



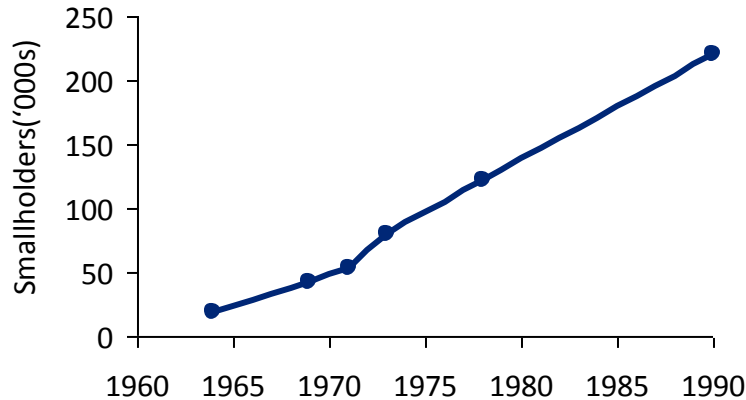
*“Two Leaves & a Bud”
Quality Green Leaf*

Source: Monitor Deloitte analysis; Primary interviews

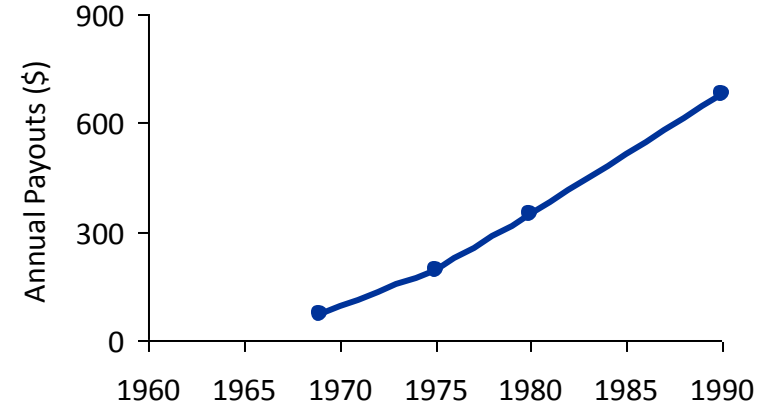
Smallholder Tea in Kenya

Results – better earnings for over 200,000 smallholders by 1990

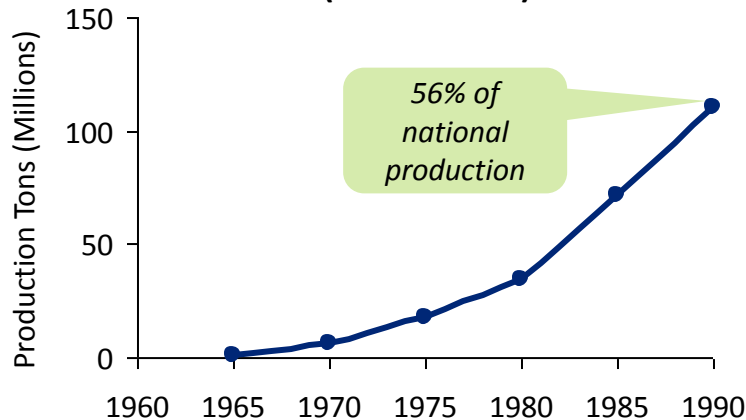
Number of smallholders engaged
(1960 – 1990)



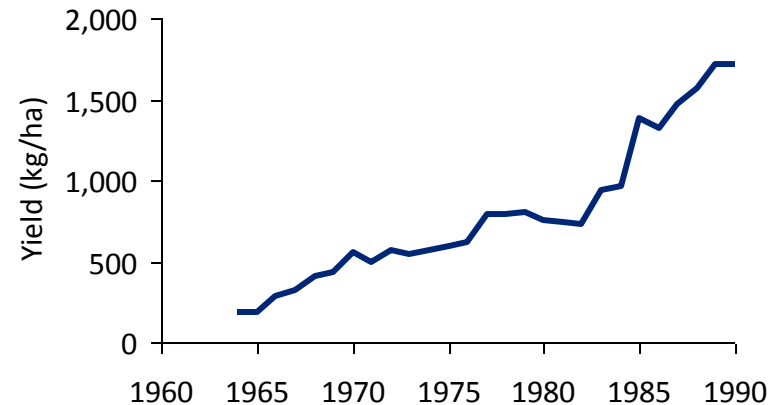
Annual smallholder payments
(1960 – 1990)



Smallholder production
(1960 – 1990)



Smallholder productivity
(1960 – 1990)

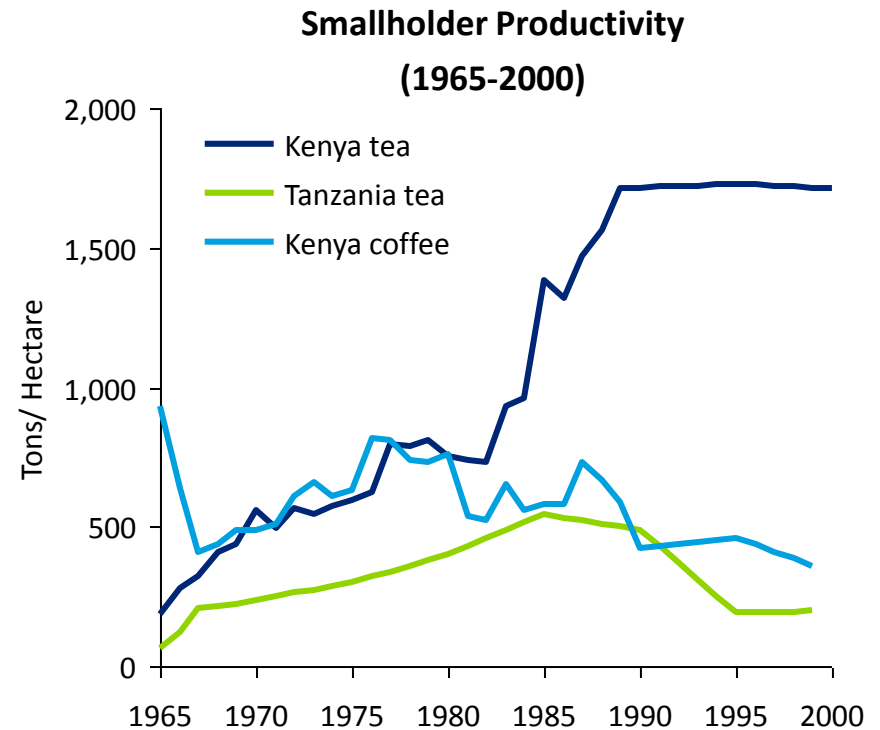
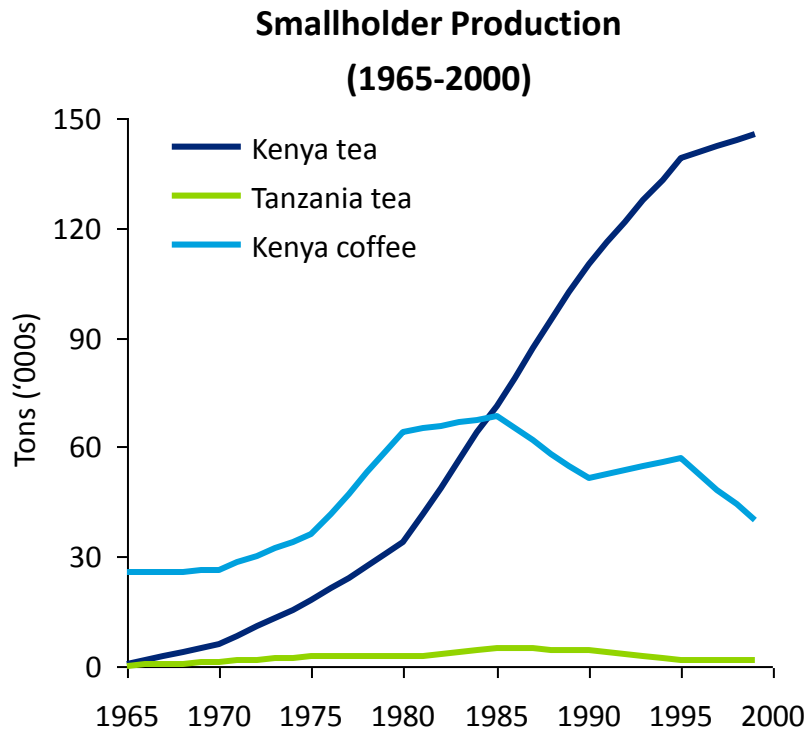


Note: Interpolation used for some years for number of smallholders, smallholder production and annual smallholder payments

Source: KTDA Annual Reports; A Success Story of Organizing Small Scale Farmers in Kenya, Mogens Buch-Hansen; Tea Board of Kenya; Report on Smallholder Tea Sector in Kenya, Christian Partners Development Agency; Monitor Deloitte analysis

Smallholder Tea in Kenya

Dramatic contrast with Tanzania s/h tea and Kenya s/h coffee



Source: Tea Board of Kenya; An International Tea Trade Policy for East Africa: An Exercise in Oligopolistic Reasoning; Tea Board of Kenya 2007; Coffee in Kenya: Some challenges for decent work, ILO; World Bank reports for lending to KTDA; Tanzania's Tea Sector: Constraints and Challenges; Monitor Deloitte analysis

Smallholder Tea in Kenya

Key findings





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