

Beyond the Pioneer

GETTING INCLUSIVE INDUSTRIES TO SCALE

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EXECUTIVE SUMMARY

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

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

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

The disappointing reality is that most of these businesses are still operating at small scale: our analysis of over 400 promising firms in Africa showed that only 13% of them had reached significant scale. Their lack of scale is a critical issue because the problems of global poverty are vast: billions of people around the world live in poverty and suffer its consequences. Wherever market-based solutions have impact and are commercially viable, we want to see them scale up so that they can change the lives of more of these people.



GOING BEYOND THE PIONEER

In order to accelerate market-based solutions to scale, we need to sharpen our focus on the real obstacles to scaling, and become more effective at removing them. In 2012, Monitor and Acumen described one part of this challenge by exposing the *pioneer gap* in early-stage support to firms pioneering new inclusive business models, and called for greater *enterprise philanthropy* to help close this gap.¹

But in order to see the full picture, we need to look beyond the pioneer firm.

Scaling barriers are often not at the level of the firm itself, but in the environment around it. For example, customer awareness may need to be created, or farmers taught how to plant new crops; last-mile distribution channels may need to be built from scratch, or onerous government regulations streamlined. In order to truly close the pioneer gap, we need to resolve all the barriers that are critically impeding growth.

And we need to expand our focus from just building inclusive firms, to building *inclusive industries*. We believe that a diversity of firms in an industry and healthy competition between them drives greater value for customers in the long run. So when we address key scaling barriers for a market-based solution, we need to resolve them for the benefit of all firms in the industry, and not just for one or two.



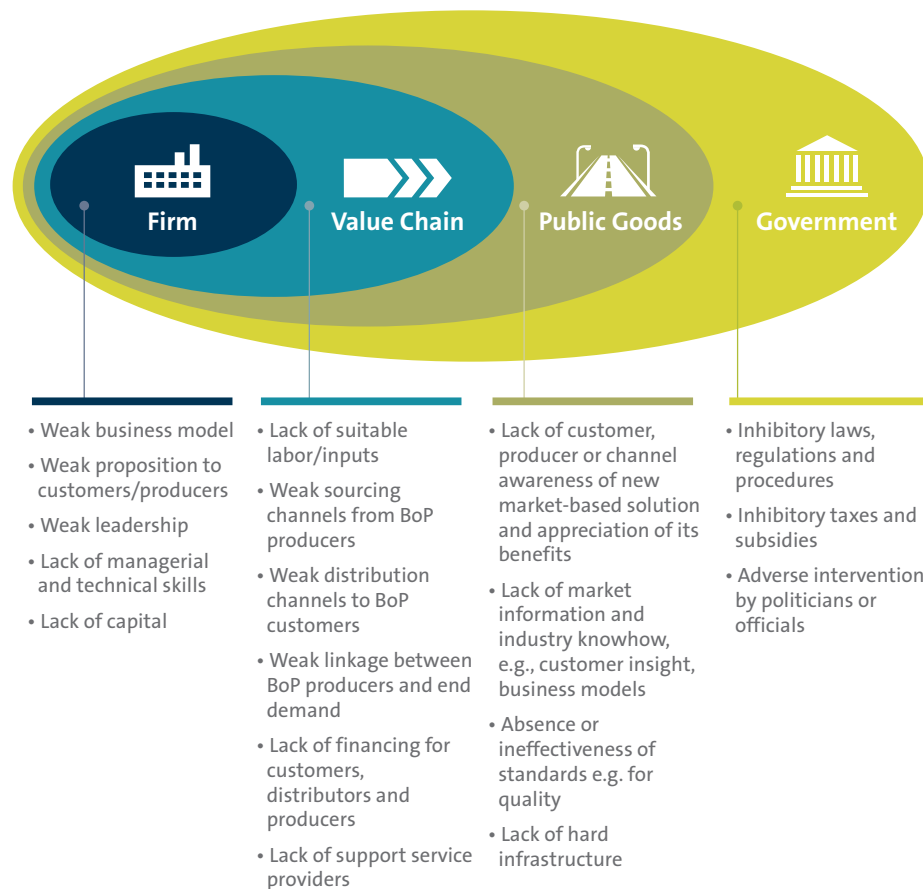
SCALING BARRIERS

These scaling barriers could lie within the firm itself. The firm might not have the managerial skills or capital required to drive growth, or might have a business model that is difficult to operate at larger scale.

However, many scaling barriers also lie beyond the firm, and hold back all firms in that particular industry. Think of the *value chain* barriers facing firms trying to deliver new pharmaceutical products to rural areas that lack cost-effective logistics providers and pharmacy outlets. Or consider the *public goods* barriers faced by firms offering clean cookstoves to customers who have little awareness of the health hazards of indoor smoke from cooking, much less the value of a product that reduces this smoke. There may also be *government* barriers that potentially inhibit the growth of these new industries, such as countries where solar lighting products bear a significant tax burden while kerosene benefits from a generous public subsidy.

¹ Koh, H., Karamchandani, A., and Katz, R., (2012) *From Blueprint to Scale: The Case for Philanthropy in Impact Investing*, Monitor Group.

These four levels of scaling barriers are summarized in the diagram below.



Source: Monitor Deloitte analysis



ENTER THE INDUSTRY FACILITATOR

In the vast majority of situations that we have observed, the range and difficulty of these scaling barriers is such that firms are unlikely to resolve them on their own. They may lack the resources or influence required to address these barriers effectively, or they may be disincentivized from taking the initiative to do so.

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

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

Industry facilitators act in a wide variety of ways in order to achieve these goals. They may provide financial resources, build capacity, seed new entities, generate knowledge, train producers, educate consumers, broker partnerships, advocate with public policymakers, or even create new institutions. Because of this wide range of potentially useful interventions, we see industry facilitation as a *role* rather than as a type of actor. Indeed, our research shows that different types of organizations can step into such roles, including **foundations, official aid donors, mission-driven intermediaries, multilateral development agencies, investors, industry associations, state agencies and parastatals.**

In our report, we take a close look at this interplay of firms and facilitators, through a range of historical and current case studies drawn from both Asia and Africa, across the energy, health, agribusiness and financial services sectors. We also look across these case studies to identify some early lessons on how to most effectively get market-based solutions to scale.

Large scale itself also presents new risks and challenges to industries. Serving the poor can be a politically charged issue, particularly when industries scale and gain prominence. Scale may also bring with it the demands and expectations of mainstream commercial investors. Therefore in our report, we also look at how industries can best prepare themselves to sustain scale in the long run, and what role industry facilitators can play in this context.



KEY RECOMMENDATIONS

- **Foundations, aid donors, mission-driven intermediaries and multilateral development agencies** should engage in or fund industry facilitation to address key scaling barriers for market-based solutions, and engage actively with impact investors working in the same areas.
- **Impact investors** should integrate a perspective on ecosystem scaling barriers, and engage with industry facilitators that may be in a position to help resolve key scaling barriers, or even consider moving into facilitation themselves.
- **Governments** should consider roles in industry facilitation, but be careful only to intervene directly where they are better placed to do so than others, and allow enough legal and regulatory freedom for new innovations to emerge.
- **Companies** should develop a complete perspective of both internal and ecosystem scaling barriers, and engage with industry facilitators and stakeholders (and sometimes their competitors) to help resolve key scaling barriers.

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Monitor Inclusive Markets is a social action unit within Monitor Deloitte. We were founded in Mumbai in 2006 with the conviction that engaging the poor in socially beneficial markets is a powerful and sustainable means of improving their lives. Our work leverages Monitor Deloitte's core consulting capabilities to catalyze these market-based solutions for the poor. Across India, we seek to establish and scale promising inclusive business solutions in a number of sectors, working actively with entrepreneurs, corporates, government, funders and investors.

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