Promise and Progress
MARKET-BASED SOLUTIONS TO POVERTY IN AFRICA
EXECUTIVE SUMMARY

Michael Kubzansky   Anulie Cooper   Victoria Barbary
May 2011

Monitor Group
Monitor works with the world’s leading corporations, governments and social sector organisations to drive transformative growth. The firm offers a portfolio of strategic advisory, capability building and capital services for clients seeking to grow top and bottom line performance, shareholder value, the skills of their people and organisations, and their social impact.

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EXECUTIVE SUMMARY
**DESpite enormous investment** to combat global poverty in recent years, more than two billion people worldwide still struggle to subsist on less than $2 per day. The continuance of poverty on such a massive scale and its stubborn resistance to the traditional solutions—government expenditure, foreign aid, and private philanthropy—indicate need for alternative ways to move masses of people up the income scale. During the past fifteen years, interest in private sector alternatives has increased, especially in “market-based solutions”, initiatives that use the market economy to engage low-income people as customers, offering them socially beneficial products at prices they can afford, or as business associates—suppliers, agents, or distributors—providing them with improved incomes.

Market-based solutions (MBSs) are still in their infancy, and there is much yet to learn about how they work and why many struggle and only some succeed. In 2009, Monitor Group reported on MBSs in India, concluding a year-long investigation of more than 270 initiatives and focusing on a critical factor in their effectiveness: a business model attuned to the exacting conditions of low-income markets.\(^1\) When the business model is sound, an MBS can achieve self-sufficiency, thus weaning it from dependence on investors and donors, and operate at or near scale, thereby reaching enough people to make an impact on poverty rates.

*Promise and Progress* extends and deepens research into MBSs, culminating a 16-month Monitor study of MBSs in sub-Saharan Africa (SSA).\(^2\) This investigation is particularly important because the poverty challenge in SSA is enormous. Half

**Farmers in Ghana**

Savanna Farmers Marketing Company aggregates the output of 12,000 smallholder farmers, broadening their access to markets and fetching them better prices.
Executive Summary

a billion people in the subcontinent struggle to survive on less than $2 a day, and despite the volume of aid and philanthropy and the scale of development efforts, the number continues to rise. Poverty persists partly because of the environment: Africa is more sparsely populated than most low- or middle-income regions in the world (63 per cent of its population lives in rural areas), and infrastructure is woefully inadequate, making many communities difficult to reach.

Despite the obstacles, MBSs are proliferating in Africa. The Monitor team identified 439 initiatives in nine SSA countries, active in 14 sectors and aiming at the $2-a-day segment. Most of these initiatives were struggling, but a significant number were making a difference in the campaign against poverty. These promising MBSs include:

• **Voltic Cool Pac.** In 2001, Voltic, Ghana’s leading producer of bottled water for middle-income consumers, launched a new water sachet product, Cool Pac, tailored specifically to low-income consumers in what the venture regarded as a move to secure future growth. This proved challenging: hundreds of informal competitors were already serving the market, and getting the small-size, branded water sachets to the intended market from centralized manufacturing plants via traditional channels was simply not economical. Voltic made radical changes to its business model, decentralising production through joint ventures, establishing a separate brand, and optimising sales by using informal street hawkers to peddle the $0.03 500ml sachets. Following Voltic’s success, private equity firm Aureos made two successful investments in Voltic beginning in 2004, and in 2009, Voltic was acquired by SABMiller. Today, an existing network of approximately 10,000 street hawkers sells nearly 480,000 Cool Pac sachets daily.

• **Jeppe College of Commerce and Computer Studies.** At least 700 private providers of vocational training in South Africa together serve
an estimated 700,000 students, typically unemployed high school graduates who want to enter the job market, but for whom access to high end academies or universities is out of reach. Jeppe achieves commercial success by offering a narrow, no-frills course portfolio across four cities focused on service industry subjects, builds in for payment default by serving a customer base that is broader than just the poorest segment, and competes by emphasising what their market demands: the business offers a range of job placement services, and claims that 90 per cent of students are placed with employers, with resulting income increases of more than 100 per cent.

• *Afro-Kai.* Incorporated in 1984, Afro-Kai engages more than 9,000 farmers across Uganda through the trade, aggregation, processing, and transport of sorghum, barley, cassava, groundnuts, and maize. The core business is commodity processing and trading, but Afro-Kai has also been contracted by Nile Breweries as its barley and sorghum handler, processor, and third-party extension service provider. This relationship, which guarantees a forward price and purchase of all outputs, enables Afro-Kai to contract with small farmers to increase productivity and volume of output by providing seeds at a subsidized rate, offering timely cash payment, and providing access to a guaranteed market. Afro-Kai has a significant impact on participating farmers, increasing their profit by an estimated 32 per cent.

• *Kilimo Salama.* Low-income farmers in Kenya typically don’t trust—or understand—agricultural insurance products, which in any case tend to be too expensive to access. Syngenta Foundation’s Kilimo Salama initiative overcomes these challenges by bundling agri-insurance with the sale of agri-inputs to farmers. The model is built on the use of mobile phones: there are no
forms, brokers, or eligibility criteria upon application, and there is an automatic claims and payment process, based on information transmitted from remote weather stations. The venture’s early success, however, is due to the fact that it leverages agro-dealers, who are trusted by the farmer, to act as the contact point for the intangible insurance offering, and bundles insurance into the purchase of a larger item like fertiliser. Kilimo Salama currently reaches approximately 11,000 poor farmers in Kenya, targeting another 50,000 by end of 2011.

Monitor’s study of African MBSs included field visits, with more than 500 customer, distributor, or farmer interviews, discussions with experts and other knowledgeable parties, and research in the public record. The investigation also included interviews with executives at 47 multinational and large national corporations on their engagement in low-income markets, and with 53 impact investors to understand the nature of their interests and involvements. The result is the most comprehensive study to date of MBSs and their role in combating poverty.

*Promise and Progress* affirms the conclusion of Monitor’s research in India that, for MBSs to succeed, they must operate with business models suited to the extreme conditions of low-income markets. Seven business models first identified in India are also evident in Africa, where hundreds of ventures are putting them to work. Four successful business models related to microfinance and well known in the development community — mobile money transfer, microcredit, microsavings, and microinsurance — are also present at large scale. And Monitor encountered three additional successful business models that we had not studied previously (see table beginning on page 8).

- Aggregators (like Afro-Kai) collecting cash crops and staples from smallholder farmers to supply large, top-of-the-supply-chain buyers. To help guarantee stable supply, many aggregators
offer premium and forward pricing and provide the farmers with services such as credit, storage, and transport, as well as with low-cost seeds and fertiliser to help improve their yields.

- Companies organising and upgrading informal retail operations and working with vendors to sell socially beneficial products such as clean water, healthcare goods, and agricultural inputs. The vendors benefit from training and demand stimulation, while the goods improve the lives of consumers.

- Vocational colleges (like Jeppe) that provide high-quality, no-frills training to a range of individuals, including the very poor. These institutions also enhance employability by helping students to obtain internships and work experience.

Additionally, the research identified three other business models operating in Africa that, while not yet successful, show promise of delivering social benefit at scale if key issues are addressed. These include:

- Provision of non-financial services through mobile devices, including medical and healthcare services, agricultural data, and other information services.

- “Last-mile infrastructure” that brings power or clean water to impoverished and often isolated communities that lack these affordably. Micro-grid technologies deliver electricity to rural low-income households, while water kiosks in peri-urban slums may make clean water available at lower cost than alternatives such as sachets or tanker supplies.

- Dedicated direct sales agent networks that distribute socially beneficial goods to isolated communities. These provide training and more stable incomes for agents and help consumers by educating them about the value and utility of such goods while improving their availability.
<table>
<thead>
<tr>
<th>BUSINESS MODEL</th>
<th>DESCRIPTION OF BUSINESS MODEL</th>
<th>AFRICAN EXAMPLES</th>
<th>INDIAN EXAMPLES</th>
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<tbody>
<tr>
<td>SMALLHOLDER FARMER AGGREGATORS</td>
<td>Aggregators collecting cash crops and staples from smallholder farmers to supply large, top-of-the-supply-chain buyers. To help guarantee stable supply, many aggregators provide the farmers with services such as credit, storage, and transport, as well as low-cost seeds and fertiliser to help improve their yields.</td>
<td>Savanna Farmers Marketing Company, Afro-Kai Ltd., Lesiolo Grain Handlers, Kilicafe, Lugari Cereal Farmers Growers’ Group, Export Trading Company</td>
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<tr>
<td>DISTRIBUTION AND SALES THROUGH IMPROVED INFORMAL SHOPS</td>
<td>Efforts by enterprises to develop a route to market that leverages (and upgrades) existing informal distribution and sales channels to sell socially beneficial products through multiple fragmented or unorganised shops.</td>
<td>Bayer Green World, Agroseed, Flash, Channel Life Ubuntu Service Points, Standard Bank Community Banking, Kickstart, CFV Shops, Blue Star Network</td>
<td>First Care Health, ITC, Medicine Shops, Janani</td>
</tr>
<tr>
<td>PRIVATE VOCATIONAL TRAINING AT THE “SEAM” IN SOUTH AFRICA</td>
<td>Vocational colleges that offer a highly standardised and limited set of typically service-industry qualifications to low-income school leavers or job seekers, leveraging paraskilled teachers. The offer is sometimes complemented by job placement services.</td>
<td>Jeppe College of Commerce and Computer Studies, Siltulo Ulutho Technologies, DT Nursing Institute, Edu-fix Training Institute</td>
<td>-</td>
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<tr>
<td>“LAST-MILE” INFRASTRUCTURE: RURAL MICRO-GRID ELECTRICITY GENERATION AND URBAN WATER KIOSKS</td>
<td>Community-level “last-mile” infrastructure directly addresses the infrastructure provision shortfall by providing end-users with access to a fixed utility asset. In the case of energy, low-income households in rural areas directly connect to a standalone local mini-grid powered by an independently generated power source. In the case of water, kiosks established in slum and peri-urban “off grid” areas provide poor customers with water from the mains at lower cost than alternatives such as sachets or tanker supplies. Also can include assets like pay toilets.</td>
<td>Energy: Kathamba Pico-Hydro, Project ERSEN, Ngoma Diesel Micro-grid Water: Ushirika wa Usafi, Nanyuki Water and Sewerage Company, Kafuhi Water and Sewerage, Nkana Water, WSP, Lusaka Water. Sanitation: WSP, Iktact, DMT Toilets</td>
<td>Poorvi, SPARC, Sulabh</td>
</tr>
<tr>
<td>MOBILE-ENABLED NON-FINANCIAL SERVICES</td>
<td>Mobile-enabled business models are those that aim to leverage low-income ownership or use of mobile devices to provide essential information or transactions to low-income customers in a range of sectors including agriculture, health, or even livelihoods.</td>
<td>Kilimo Salama, Pesinet, Esoko, Google Suite, KenCall, National Farmers’ Information Service, SMS for Life, Grameen’s Community Knowledge Worker Initiative, MoTech</td>
<td>Neurosynaptic, SIFF, Thomson Reuters</td>
</tr>
<tr>
<td>DISTRIBUTION THROUGH DEDICATED DIRECT SALES FORCE</td>
<td>Dedicated direct sales force models recruit and train local agents to reach deep into communities to sell and distribute (socially beneficial) goods, bypassing shops and other channels, to make it easy for the (often rural) poor to have access they may not otherwise get.</td>
<td>Living Goods, HealthKeepers Network, Toyota Etenrgy, SEF-ZAF, Grameen CKW initiative, Pesinet</td>
<td>Nest Solar Lanterns, Vision Spring, Tata-AIG Insurance Micro-agent Model, HUL Project Shakti, SKS, Spandana, other MFIs</td>
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See Chapter 3

See Chapter 4

See Emerging Markets, Emerging Models, 2009

Discussed elsewhere in the economic development literature
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<tr>
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<tr>
<td>PAY-PER-USE</td>
<td>An approach in which consumers pay lower costs for a single use product of a community-level facility, or individual product, or service, sometimes on a rental basis. This delivers better value than buying a household asset like a lantern or filtration device, and matches cash flows.</td>
<td>Omega Schools, Nanyuki Water and Sewerage Company, Iko Toilet, LUKU, Dissigno, NAAMSECO, Bara Jii, Aquasure</td>
<td>Byrraju Foundation, Naandi Foundation, Water Health International, Poorvi Enterprises, Piramal Foundation, Biogas Bank, S3IDE, Dristhee, n-Logue, Comat</td>
</tr>
<tr>
<td>NO FRILLS</td>
<td>A pared-down service that meets the basic needs of the poor at ultra-low prices and still generates positive cash flow and profits through high volume, high asset utilisation, and service specialisation.</td>
<td>Mzanzi (bank account), LiveWell Clinics, Bridge International Academies, Madulamboho Housing, Edu-Fix</td>
<td>LifeSpring Hospitals, Vaatsalya Hospitals, Dial 1298, Narayana Hrudayalaya Hospitals</td>
</tr>
<tr>
<td>PARASKILLING</td>
<td>Combines no frills services with a reengineering of complex services and processes into a set of disaggregated simple standardised tasks that can be undertaken by workers without specialised qualification.</td>
<td>D-Tree International, Unjani (RTT), Pesinet, LiveWell Clinics, Omega Schools, Silulu Ulutho Technologies</td>
<td>Gyan Shala Schools, Aravind Eye Care, Ambuja Cement Foundation, Spandana, Pratham</td>
</tr>
<tr>
<td>SHARED CHANNELS</td>
<td>Distribution networks that reach into remote markets via shared channels, piggybacking products and services through existing customer sales and distribution platforms, thus enabling poor people to afford and gain access to socially beneficial goods.</td>
<td>Hollard/ PEP Joint Venture, Ferlo, MicroEnsure, CIC</td>
<td>SERP (rice delivery), ITC e-Choupal insurance, Moksha Yug Access, PCOs, Access/ HUL water filters, Serval burners</td>
</tr>
<tr>
<td>CONTRACT PRODUCTION/ CONTRACT FARMING</td>
<td>A system of contract production that directly sources from large numbers of small-scale farmers or producers in (often rural) supply chains. The contractor organises the supply chain from the top, provides critical inputs, specifications, training, and credit to its suppliers, and the supplier provides assured quantities of specialty produce at fair and guaranteed prices.</td>
<td>GADCO, Frigoken, AAA Growers, Masara N’Arziki, SOCAS, La SOENA, Swahili Imports, Ugachick</td>
<td>Calypso Foods, KBRL, Mahagrapes, DFV, Agroucel, Suguna Poultry, Pradan, Shambhi, FabIndia, Frito Lay/Pepsi</td>
</tr>
<tr>
<td>DEEP PROCUREMENT</td>
<td>A variety of direct procurement setups that bypass traditional middlemen and reach into the base of the economic pyramid, enabling direct purchases from large networks of low-income producers and farmers in rural markets and often providing training for quality and other specifications.</td>
<td>Brookside Dairy, Homeveg Tanzania, La Pitoges Bliue, Ecom SMS, International Coffee Partners</td>
<td>Society for the Elimination of Poverty (SERP), Birla’s More, ITC Choupal Fresh, Reliance Fresh, Metro, AMUL, Glaxo SmithKline Beecham</td>
</tr>
<tr>
<td>DEMAND-LED TRAINING</td>
<td>Demand-led training that applies a formal-sector “temp agency” model to down market opportunities, with enterprises paying a third-party to identify, train, and place employees for job openings at the edges of the formal and informal sectors.</td>
<td>The Workforce Group</td>
<td>TeamLease Services, TOPS Security, STRIVE, DesiCrew, Byrraju Foundation, EGMM</td>
</tr>
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This review of MBSs in Africa is timely in three respects. First, in the wake of the global financial crisis, the ability of developed nations to provide overseas development assistance is constrained. As aid funding and the budgets of NGOs and philanthropists are squeezed, donors are looking for effective solutions that can deliver enduring positive impact and work with the flows of private funds. The experience of MBSs in Africa, as well as in India, illustrates they may be cost-effective and complementary to traditional aid in improving lives and livelihoods at the bottom of the economic pyramid.

Second, those directing flows of private investment capital toward reducing poverty may benefit from a more detailed understanding of promising market approaches. This report provides insight into investment opportunities in SSA and identifies the
kinds of enterprises that can expand inclusive markets while meeting the goals of impact investors looking to accelerate positive social change.

Finally, *Promise and Progress* provides insight into recent controversies surrounding private sector involvement and alleged profiteering in the campaign against poverty. Microfinance, for example, was once the poster child for using market mechanisms to help low-income people. Lately, however, the development impact of microfinance has been called into question. Noting the fortunes reaped from the initial public offerings of certain microfinance institutions, critics allege that such entities are doing more to help their owners than low-income people. Other critics point out that the benefit of microloans is often temporary, that funds are seldom invested in improving livelihoods, and that high interest rates may leave borrowers worse off. Like any other human activity, microfinance is subject to abuses that must be curtailed. However, *Promise and Progress* finds that MBSs—including those in microfinance—commonly can and do provide large and growing numbers of people with socially beneficial products and services and improved incomes. Based on the Monitor sample, the problem is not that entrepreneurs and business people are making too much money—but rather that they are engaged in a constant and difficult struggle to cover their costs.

**Our Findings**

In sub-Saharan Africa we found vibrant MBS activity, but the environment is complex and development uneven. The good news is that country and culture seem not to be critical variables—similar solutions succeed in countries of 13 million and 50 million, across Anglophone and Francophone Africa. Monitor also found some pioneering innovations, especially in mobile-enabled services. Kenya’s M-PESA, which facilitates money transfer, is the best-known example, but there are many others. The research also uncovered several very large-scale initiatives, particularly in agriculture, with some contract farming operations twice the size of comparable efforts in India, providing large income increases to participating small farmers.
Not all the news is good, however. Many MBSs struggle to break even or operate with razor-thin margins. Some initiatives, particularly in mobile-enabled services, are over-hyped, better illustrating what the technology can do than delivering tangible benefit to low-income people. “Microfranchising” suffers from a similar imbalance. Finally, while progress in sectors such as agriculture is encouraging, other sectors, including healthcare, are significantly underdeveloped.

Other observations and high-level findings from the research include the following:

- A third of the initiatives in the sample were “extreme SMEs” that face all the challenges of small businesses in Africa—difficulty in accessing finance, attracting and retaining human capital, achieving economies of scale, creating of recognisable and trusted brands. But they also take on a second set of challenges in selling to a customer base with severely limited resources, that is hard to reach, and about which too little is known. Or they engage suppliers with high volatility in production and—at times—low loyalty due to cash flow needs. These extreme SMEs offer goods and services that are often “push” categories like preventative healthcare, which require high levels of awareness building and education, as compared to “pull” categories like mobile phones that consumers at the bottom of the pyramid already know they want and are hoping to find at affordable prices. Meanwhile, the relative youth of many of these ventures means that the supporting ecosystem tends to be sparsely populated, while the competitive landscape may be hostile—many entities have to compete with informal or grey market operators, or with free or highly subsidised alternatives. Finally, these ventures operate in conditions—i.e. poor infrastructure, unfriendly and inefficient regulation, customers with tiny and volatile incomes, suppliers with limited capability—that
scare off many established players. Consequently, extreme SMEs tend to operate with low and volatile margins.

- *To serve the poor sustainably, it is often necessary to target a broader segment:* many enterprises achieved viability by adopting an expanded view of low-income consumers or business associates, engaging those both at the bottom of the pyramid, but also those in adjacent income groups. By so doing, MBSs can buffer the volatility and risk that enterprises have to assume when dealing with the very poor. Few ventures succeeded when selling to just the $1 per day and below segment.

- *MBSs can operate sustainably by selling “push” products and services.* Yet to do so, companies must engage in large-scale demand stimulation to educate their target customers about the benefits of their offerings. While this may be expensive, companies in sectors as diverse as mobile-enabled services and agriculture inputs successfully incorporate this cost into an economically viable business model, although it often requires higher gross margin to afford the “push”.

- *Government can and does play a strong supporting role in the success of market-based solutions,* contrary to some perceptions that state involvement in enterprise is typically negative (e.g. onerous regulatory and compliance frameworks, unfriendly and inconsistent policies, inappropriate interference in markets). By acting as an anchor buyer, coordinating activities end-to-end, or providing support as an implementation partner, governments can often promote the viability and scale of MBS initiatives.
• Market-based solutions can reach scale in at least three ways:

1. A traditional organic approach based on innovation, growth, and reinvestment, sometimes according to a “Silicon Valley” model in which outside parties make sustained investments in probable winners
2. Replication, dissemination, and transplantation of proven business models; and
3. Upgrading of ventures already at or near scale in the informal economy.

• Achieving scale occurs more rapidly for “market joiners” than for “market makers”. As in India, MBSs that pioneer new products and services for low-income customers typically take a decade or more to attain scale. However, MBSs that pursue proven business models and do not try to attempt market creation may scale in just three or four years — faster than Monitor observed anywhere in India.

• Corporations facilitate progress when they customise their approach to low-income markets. For example, Coca-Cola, Safaricom, Sanlam, and Bayer successfully built sophisticated sales and distribution chains that engage low-income consumers. For many big companies, however, serving low-income customers is a relatively low priority, which they often attend to through traditional “corporate social responsibility” (CSR) initiatives or, in the case of South Africa, nominal compliance with Black Economic Empowerment legislation.

• Impact investors are increasingly looking to deploy capital on behalf of the poor, but the need is evident for new vehicles, forms, and business models based on understanding of the risk profile of small, early-stage
companies competing in harsh economic environments. An abundance of capital is increasingly chasing too few good investments, with an overemphasis on private equity funding models.

**Implications and Recommendations**

The analysis presented here has important implications for the founders and leaders of MBSs in Africa and elsewhere, as well as for constituencies in the larger ecosystem in which they operate. Many recommendations are interrelated and may require multiple parties acting together. For instance, we point in several places to the need for technical assistance (TA)—which could be provided by investors, donors, or donors via investors. Here are the principal recommendations for each of these parties:

**Entrepreneurs and MBS Leaders**

The preponderance of Promise and Progress consists of information and advice for those seeking to organise and operate MBSs to serve low-income markets. These findings are particularly directed at SMEs and social enterprises.

- Continue the hard work already underway to develop and perfect scalable business models that will be effective when dealing with low-income markets: customers difficult to access, with little purchasing power and lumpy cash flows; business associates most probably with limited education and understanding of priorities in operating a business. Wait until the business model is proven before franchising it. Do not underestimate the costs of serving this market and the need to organise a solution end-end. And if attempting market creation rather than market entry, expect scale to take a long time.
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• Strive to balance social and business imperatives. Most proprietors of MBSs understandably tend to favour the former when the two come into conflict. However, the clash may originate in different time horizons as much as different objectives. Reaching scale and achieving an enduring positive impact on poverty reduction requires steady investment over a period of years. If an initiative is unable to generate funds to grow and increase its impact over the long term, then it will not provide a sustainable solution to the challenge of poverty.

• Pursuing a promising business model and operating an MBS successfully requires skill in management and finance—skill generally in short supply in low-income markets. Fortunately, many providers of TA are available on affordable terms across most of Africa. MBS leaders seeking seed money or capital for expansion may wish to include support for TA in their budgets.

Large and Multinational Corporations

C. K. Prahalad’s influential book, *The Fortune at the Bottom of the Pyramid* (2004), highlighted the potential of low-income markets for large corporations—the billions of people living in poverty, in aggregate representing $5 trillion in purchasing power. Since 2004, many big companies have investigated serving or engaging the bottom of the pyramid although relatively few actually participate in the market. The major obstacle is the imperative for organisations (built to serve relatively affluent customers in locations with superior infrastructure) to develop wholly new business models. Executives at companies engaging, or attempting to engage, low-income customers and/or business associates cite additional important obstacles: the rudimentary state of development of the business environment in SSA; high costs to educate customers and train and equip suppliers and manage supplier net-
works; and difficulties in collaborating with public agencies, NGOs, donors, and other partners willing to help, due to mismatched objectives and divergent standards for timeliness, quality, and operations.

Despite these obstacles, big companies including Coca-Cola, SABMiller, Bayer, Unilever, Olam, and Yara are actively engaged in low-income markets. They have made specific adjustments to accommodate the implications of serving these markets. In particular, these companies:

• Think hard before entry, to evaluate profit opportunities in extremely harsh conditions, determine the nature and extent of existing demand and customer willingness to pay, identify the full costs (e.g., upgrading and training of distributors) of participation, and evaluate local competitive alternatives, including counterfeiting and informal competition.

• Assess frankly their willingness and ability to manage a high volume of low-value transactions in rudimentary market conditions and their patience before generating returns.

• Protect operations from bearing legacy and overhead costs associated with more affluent markets. This may even entail setting up separate units operating with different economics and time frames than traditional corporate units.

• Find ways to share costs such as industry-standard products and services and investment in customer education and demand stimulation and supplier education. Partners in such initiatives include competitors, donors, and NGOs. To make such partnerships more effective, some companies assign personnel conversant with the different objectives and mindsets of commercial and social enterprises.
Impact Investors

In recent years, impact investors have been increasingly active in SSA. The Global Impact Investing Network estimates that about $50 billion of impact capital had been invested globally by 2010. And the Food and Agriculture Organization of the United Nations estimates that 18 new agriculture investment funds focused on Africa were announced between 2007 and 2009 alone, some of which were impact investment vehicles. Many of these funds are structured like private equity funds in mature markets, promising returns, albeit modest, to investors, as well as annual fees to the fund managers.

The sudden surge of capital available on such terms constitutes both a hopeful sign and a source of new concerns. If the money is well deployed, it can advance innovative solutions to the challenge of poverty. However, achieving this outcome requires overcoming several barriers. First, there may not yet be enough promising MBSs engaging very low-income people in SSA to absorb this money effectively. Second, opportunities are unusually expensive to find and difficult to evaluate, given the lack of a supporting ecosystem for commercial investment—securities markets, analysts, credit reporting, deal brokers, lawyers, and other parties that inform and facilitate investing elsewhere. Third, the capital needs of most MBSs are not well suited to the private equity model. Most opportunities involve early-stage enterprises with limited capital needs. Of the firms contacted, almost 60 per cent of the ventures sought less than $1 million in capital and even the larger enterprises needed little more than $3 million. In addition, the enterprises may benefit more from debt or royalty arrangements than equity stakes. Finally, the deals are unusually risky in light of the extremely demanding conditions of low-income markets and narrow margins available. The average net margin for agricultural MBSs Monitor analysed, for example, is approximately 10 per cent.
This poses additional questions for impact investing in both near and medium terms: Will interest in investing to help people at the bottom of the economic pyramid be sustained? Will new models and vehicles for investing capital for social impact be developed in time to provide returns and maintain investor interest? Or will the funds shift their focus from achieving impact for those living at the bottom of the economic pyramid to invest behind enterprises serving primarily wealthier segments of the population?

While answers to these questions are taking shape, Monitor’s research in SSA prompts the following implications and recommendations for impact investors:

- Increase availability of early-stage risk funding, with tempered expectations for returns (if any). The market need is for start-up capital and technical assistance for fledgling enterprises. Given the length of time required for successful MBSs to reach scale, investment risk will be unusually high, with payback slow to materialise.

- Offer more debt and less equity. The example of microfinance institutions is instructive: nearly 90 per cent of external investment into MFI funds consists of debt capital. The nature of the product offering in microfinance, of course, is consistent with debt financing. In the SSA research sample, more than 80 per cent of MBSs express capital needs better served by mixed funding or debt than equity financing. The level of return generated by successful MBSs also is better suited to debt financing.

- Enhance the investment-readiness of early-stage enterprises. Most extreme SMEs require technical assistance as much as they require capital, indeed, often before they can use capital effectively. Impact investors may wish to create pools of capital for TA or to work with suppliers of TA to increase its availability and impact.
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• Help build the ecosystem for impact investing. SSA needs better and more reliable mechanisms for sourcing deals and matching the requirements of MBSs with those of potential investors. Impact investors may wish to direct some funds toward building a more supportive ecosystem for deploying capital for social impact.

Donors

Donors—multilateral and bilateral agencies and philanthropic foundations—can play a significant role in promoting MBSs because of their convening power, interest in generating and disseminating relevant knowledge, flexible capital, and capacity to absorb risk. Indeed, some of these donors are among the best-placed to pull all of the actors together across the stakeholders considered here, and to integrate across these recommended activities. Embracing this role, however, may require modifying traditional approaches to helping low-income people via grants to governments or NGOs. Some donors have already embarked on change, offering challenge funds, supporting business networks, providing loan guarantees and TA, and participating in impact investment funds. Others remain sceptical that encouraging private sector initiatives can be consistent with their mission.

Traditional aid will always be important and necessary in impoverished countries but donors wishing also or primarily to support MBSs have much to contribute. Monitor’s research in SSA indicates ample opportunities:

• Tie funding to campaigns in which MBSs are participating. Rather than funding a general “clean water awareness” initiative, for example, consider partnering with MBSs that offer clean water.
Lower the costs of participating in low-income markets by supporting demand stimulation and underwriting provision of TA and training and development programmes and expenses.

Provide basic and shared physical, social, and knowledge infrastructure. Donors have traditionally supported improvements to physical infrastructure, such as roads, water systems, and power grids. They may wish to expand the definition of infrastructure to include cooperatives or other aggregation platforms and knowledge about business and markets. In the latter category, supporting knowledge creation about effective practices in contract farming or distributing to low-income people would be extremely helpful. Donor support in this area may also extend to encouraging the development of the ecosystem for private investment (see above).

Dampen volatility and risk. The conditions faced by extreme SMEs are themselves extreme: volatile food, energy, and commodity prices, financial shocks, droughts, and other crises and setbacks. Donors and aid agencies are well positioned to absorb and share risks by developing insurance and hedging capabilities for MBSs.

Provide patient investment capital to MBSs, perhaps via participation in impact investing funds, that is clear-eyed about risks, especially in the early stage, time to scale, and measuring social impact. Challenge Funds have proven to be another vehicle that can play this role, when deployed well, but aimed more at SMEs than major corporations. These can sometimes also serve a “shared sourcing” purpose.
Governments and Policy Makers

Although leaders in the public and private sector occasionally find themselves at odds, they share a common objective and play complementary roles in increasing the prosperity of communities and nations. Within its traditional role, government can do much to encourage the development of responsible MBSs, by facilitating ease of entry and providing appropriate and timely regulation. Beyond this, Monitor’s research has specific implications for governments wishing to support MBSs.

Some steps echo the recommendations to donors: support demand-stimulation initiatives for socially beneficial goods and services; help underwrite TA and training and development; upgrade and expand infrastructure and promote sharing. Governments are uniquely positioned to help in other specific ways:

• Develop regulatory frameworks that allow for both private and public provision of goods and services. Currently, most governments enact measures that have countervailing impacts—encouraging private initiatives in education and healthcare, for example, while also operating heavily subsidised state systems. The point is not to achieve complete consistency in approach but to recognise and moderate the costs and effects of supporting conflicting alternatives, and think about the system across both public and private provision.

• Invest in aggregation platforms that make groups of low-income suppliers or customers more economically viable trading partners. Facilitate the formation of cooperatives and other organizations to combine numerous small units into a larger aggregation that can capitalise on economies of scale.
• Use purchasing power to create anchor demand. Government can not only purchase from MBSs but also use its purchasing power to hasten the route to scale.

• Provide “smart subsidies” to users of MBS services and products, such as bursaries and scholarships for students at training academies or contributions to the capital costs of private providers of water and energy.

RESEARCH SPONSORS

Monitor Group wishes to recognise the generous support, both financial and intellectual, of the sponsors of this report, a group of entities interested in advancing knowledge of market-based solutions and the ecosystems in which they flourish. This group is comprised of: The Bill & Melinda Gates Foundation, which provided anchor funding and project design guidance; Business Trust of South Africa and the Swiss State Secretariat for Economic Affairs (SECO), which provided additional major contributions; and also includes Rockefeller Foundation, the Global Impact Investing Network (GIIN), Omidyar Network, USAID via its SHOPS Programme (Strengthening Health Outcomes through the Private Sector), IFC, World Bank, World Bank Institute, Actis, and FMO (Netherlands Development Finance Company), all of whom provided significant financial support.
Executive Summary
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