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Scaling Up Inclusive Markets
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Scaling Up Inclusive Markets

More poor households benefit when the private and social sectors work together to build better environments for inclusive business.

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Recently, more people have begun to expect the private sector to expand its efforts to improve the welfare of the poor—not only by creating jobs, but also by developing affordable and beneficial products for less fortunate populations in sectors such as financial services, health, education, energy, and housing. And in many ways, South Asia is at the forefront of such efforts. Working with social enterprises in the region, established corporations are creating business models that aim to achieve both social impact and financial return.

Donors, investors, and governments alike are increasingly interested in the potential of these “inclusive businesses” to improve lives and reduce poverty while driving economic growth. The reality, however, is that few of these new models have truly scaled up to meet the needs of the millions who need them. That’s because they often face a plethora of scaling barriers, both internally and in their surrounding ecosystems.

As Harvey Koh, one of the co-authors of this article, explained in a 2014 report: “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 cook stoves 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

As they grow, inclusive businesses already face the considerable challenges of developing their products and refining their strategies, building out their teams, and securing funding and investment capital. Expecting them also to assemble the missing pieces in the value chains around them, fill in for absent public goods, and influence policy and regulation is unrealistic.

Although ever-greater amounts of capital flow into impact investing funds, enterprise challenge funds, and accelerators—all of which are focused on the firms themselves—efforts to work systematically with and alongside these firms to overcome external scaling barriers are disappointingly thin on the ground. Where inclusive businesses have scaled up, they have done so because governments and NGOs worked with and alongside them to remove those barriers.

SCALING UP SOLAR HOME SYSTEMS

Consider the growth of the solar home systems (SHS) industry in Bangladesh. Solar home systems have great potential to bring clean electricity to rural, off-grid communities. Yet in such communities in Bangladesh before 2003, only an estimated 7,000 households out of a total of 27 million were using solar home systems.²

That year, however, the state-owned Infrastructure Development Company Limited (IDCOL) began a program to help scale up SHS solutions to reach off-grid rural populations, as part of the government’s vision of ensuring “Access to Electricity for All” by 2021. Backed by the World Bank, the Global Environment Facility, the US Agency for International Development, the UK Department for International Development (DFID), and others, IDCOL addressed criti-

cal scaling barriers faced by SHS companies by providing flexible refinancing, as well as grant support and technical assistance.³ As a result of IDCOL’s support, 58 SHS providers were able to extend appropriate credit to many more households at an affordable price point and to provide effective after-sales and maintenance support.

IDCOL’s efforts have resulted in more than a decade of exponential growth for SHS, which had installed more than 3.7 million systems by 2015, serving about 17 million people (about 11 percent of the total population of Bangladesh). By 2017, IDCOL aims to have facilitated 6 million installations, generating 220 megawatts of electricity for communities that were previously unserved.⁴

SCALING UP MICROFINANCE INSTITUTIONS

The microfinance industry in India provides another example. Microfinance institutions (MFIs) offer loans to micro-entrepreneurs who are not able to access mainstream bank financing. In 1999, MFIs were a nascent industry in India, with about 60,000 borrowers. By 2007, however, MFIs were serving nearly ten million borrowers, and leading lenders such as SKS and Bandhan became well known—and rightly—as the stars of the industry. Nevertheless, the importance of industry facilitators in this growth story has been much less well understood.

Central to this story is the seven-year-long partnership between SIDBI (a local development finance institution) and DFID. In addition to funding and building the capacity of the MFIs themselves, the partnership worked to create a growth-friendly market infrastructure. For example, SIDBI created a specialist MFI credit rating agency, Micro-Credit Ratings International Ltd. The agency provided independent ratings on MFIs, building banks’ confidence in lending to the fledgling industry.

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Another good example is Sa-Dhan, an industry association founded by MFI and other community development finance institution leaders. Sa-Dhan successfully advocated public policy changes such as the removal of interest rate caps, which jeopardized the sustainability of the microfinance model, and the inclusion of MFIs in the government's Priority Sector Lending policy. Without these efforts, it is unlikely that the industry ever would have become viable as a market-based model, much less have scaled up so dramatically.⁵

ROLE OF GOVERNMENT

Governments can also be a significant actor in facilitating the growth of these new business models, particularly when they recognize the potential for the models to help them achieve their public policy objectives.

In India, municipal governments in Delhi and Pondicherry, for example, have encouraged the development of decentralized water kiosks by issuing official tenders that give selected providers access to the land and water sources they require. These new kiosks provide affordable safe drinking water to low-income communities that previously had unreliable access to costly—and mostly contaminated—water sources. Meanwhile, state governments in Odisha and Madhya

Pradesh are working on policy changes that would make it easier for private developers to move into low-income housing projects without drawing on the public purse or compromising quality standards.

In Bangladesh, the Access to Information Program (a2i), operating under the aegis of the Prime Minister's office, has brought about a revolution in how government services are delivered to citizens in remote areas. The most revolutionary aspect of the program is its use of local for-profit businesses to bring government services to citizens. To do so, a2i has set up one-stop service outlets in all 4,547 Union Parishads (the lowest tier of local government) of Bangladesh. These centers, which are run by local entrepreneurs (whom the a2i program selects, trains, and supports), use ICT to bring government information and services as close as possible to the homes of citizens in rural areas. In the process, the program ensures that service providers and users save time, money, and visits to government offices.

LESSONS FOR CREATING INCLUSIVE MARKETS

The private sector, through market-based solutions, can make a huge difference in the fight against poverty. The challenge, however, clearly extends beyond the com-

panies and business models themselves into the ecosystem that surrounds the products and services they wish to offer. On the basis of our experiences and observations, we believe that those attempting to scale up inclusive markets should take three important lessons to heart:

- Take an ecosystem view from the outset. Before you jump into developing and implementing your particular inclusive market solution, think about all the stakeholders you will need to involve in order for the market to work.
- Identify ways in which you can bring essential stakeholders on board to create the environment that's needed to create and scale up the market. Forming these partnerships early on will be crucial to ensure the long-term sustainability of your efforts.
- Be proactive about supporting and managing the ecosystem of essential stakeholders and partners. Keeping all the partners engaged and happy with the performance of the ecosystem and the market will require regular and proactive communication, interaction and stakeholder management.

Understanding the importance of these ecosystems, and learning how to build them, will go a long way toward global efforts to scale up inclusive markets. Our focus in this short article has been on South Asia, but we believe that the lessons we offer here apply equally in other parts of the developing world, such as Southeast Asia, sub-Saharan Africa, and Latin America. We also believe that these lessons can be applied in principle by businesses and governments seeking to serve low-income communities in more developed contexts, such as Eastern and Southern Europe, and even potentially in parts of Western Europe and North America. ❖

Notes

- 1 Harvey Koh, Nidhi Hegde, and Ashish Karamchandani, "Beyond the Pioneer: Getting Inclusive Industries to Scale—Executive Summary," Deloitte India, 2014.
- 2 "Bangladesh, Lighting up Rural Communities," The World Bank, 2013.
- 3 J. R. Siegel and Atiq Rahman, "The Diffusion of Off-grid Solar Photovoltaic Technology in Rural Bangladesh," Tufts University, 2011.
- 4 "Solar Home System Program," Infrastructure Development Company Ltd., <http://idcol.org/home/solar>
- 5 Arguably, these industry facilitators could and should have gone further to help MFIs mitigate the financial and political risks that plunged the industry into crisis after 2007. For more, see Koh et al., "Beyond the Pioneer," chapter 5.