



INNOVATIONS AGAINST POVERTY 2013 KNOWLEDGE EXCHANGE REPORT

From Paper to Practice

Learning from the journeys of inclusive business start-ups

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Acronyms and Glossary

AACE	AACE Food Processing and Distribution	KE	Knowledge Exchange
BoP	Base of the pyramid	LG	Large grant
CSR	Corporate Social Responsibility	M&E	Monitoring and evaluation
DFID	UK Department for International Development	MFI	Microfinance institution
EFA	Eco-fuel Africa	NGO	Non-government organization
IAP	Innovations Against Poverty	ODI	Overseas Development Institute
ICT	Information and Communications Technology	SACCO	Savings and credit cooperative organisation
IB	Inclusive business	SG	Small grant
iDE	International Development Enterprises	Sida	Swedish International Development Cooperation Agency
G2P	Government to People	SME	Small and medium sized enterprise
GSS	Global Sourcing and Supply	UK	United Kingdom
IRDI	Imagine Rural Development Initiative	VE	Village entrepreneur
ICCO	Inter Church Organization for Development Cooperation		



PREFACE AND CAVEATS

This report explores findings from the portfolio of inclusive businesses supported by Innovations Against Poverty (IAP), a grant programme established by Sida in 2011. It draws particularly on the second Portfolio Review of IAP, done in October 2013, which summarises information about grantees based on information provided so far. See Section 2.1.1 for more detail on the data sources used in this report. The Portfolio Review provides more information on the nature of grantees and anticipated results, and will be made available at <http://www.inclusivebusinesshub.org>

IAP relies on information provided by grantees in application forms, baseline forms, progress updates, completion reports, and in their discussions with the IAP team. As the entrepreneurs are more active in implementing their business than in reporting back on their progress we realise that the data is not always robust. Further problems arise when drawing aggregations and comparisons, as projects are diverse. In order to identify trends and draw out insights, we add a large measure of interpretation by IAP team members. While based on the evidence we have, this adds further subjectivity. For all these reasons, this report should be interpreted as a provisional report on what has been learnt from IAP.

This report does not go into detail on any specific project. A Project Profile for each project contracted in the IAP portfolio can be found at <http://www.inclusivebusinesshub.org>

1. SETTING THE SCENE

1.1 THE PIONEER GAP

Can business help address global development challenges?

The answer to this is increasingly, yes. Market-based solutions are emerging with significant potential to address development challenges across the world. In the development industry, organisations that have been engaged with traditional aid approaches are now starting to look at the potential for inclusive business to achieve development results in a sustainable, empowering way. In the corporate world, the idea of socially and environmentally responsible practice has become relatively mainstream over the past five to ten years with more and more large and multinational companies looking at how they can create shared value through their core business in both developed and emerging markets. At the same time, a growing number of entrepreneurs are being attracted to social rather than commercial enterprise and it is particularly among new and young businesses that social innovation occurs¹. For investors, new approaches such as impact investing and socially responsible investment are seen as a way to achieve market rate or close to market rate returns whilst creating measurable social and environmental impact.

The potential is real, and there are cases of highly successful inclusive business initiatives that have transformed the lives of thousands or even millions of poor people. But it is still early days. Inclusive business remains relatively new both in theory and in practice. The entrepreneurs that are active today are shouldering the burden of learning about markets that comprise people living on just a few dollars a day. There is little guidance along the way; mostly it is about trying out new ideas in what are exceptionally challenging business environments. They have to invest heavily in educating consumers, developing supply and distribution networks, and navigating government regulations that are not always suited to an innovative business approach that targets the poor. Risks abound: the products and services are technically new, the business models are often untested, there is little if any market and consumer data, margins are low, the commercial viability is unknown, there are typically low levels of consumer demand, with weak market linkages and few established supply and distribution networks. It is no wonder that most investors shy away from inclusive businesses even if they hold the promise of both social good and financial gain. It is therefore difficult for these enterprises to find the capital necessary to turn ideas from concepts into viable, scalable initiatives.

Clarifying terms

The term *inclusive business* refers to a commercially-run core business activity that also tangibly expands opportunities for poor people. Such business ventures engage poor people as producers, suppliers, employees, distributors, consumers - or even as innovators.² We see this term as embracing social entrepreneurship and social enterprise.

Base of the pyramid is a term that refers to the poorest socio-economic group from a global perspective. This is typically people living on less than US\$2 a day, as over 70% of people living in Sub-Saharan Africa as well as South Asia fit this demographic. Others define it in higher income levels. The term 'base of the pyramid' or 'the BoP' for short, is used to refer to these low-income people. It can also be used to refer to the market generally (BoP market), or to refer to particular groups in the market (e.g. BoP producers, suppliers, consumers or customers).

The challenge of finding financial and advisory support is most acute at the early stages of the inclusive business' life where companies are striving to see how a new product, technology, service or business model could solve a need in BoP markets. In these stages, companies are conducting market research, finding partners, writing business plans, piloting activities, testing product and service prototypes and innovating based on what works and what doesn't 'in the field'.

This is the so-called 'Pioneer Gap'³, a rather paradoxical situation where inclusive businesses lack technical and financial resources just when they arguably need it most. Of the billions of dollars estimated to flow into inclusive businesses and socially beneficial sectors, very little is actually targeted at these early stages of a company's development.⁴

So where should these inclusive businesses go for help?

1.2 INNOVATIONS AGAINST POVERTY: HELPING BRIDGE THE PIONEER GAP

In the absence of investor capital, philanthropic and donor funding play a critical role in helping inclusive businesses bridge the Pioneer Gap. In 2011, the Swedish International Development Cooperation Agency (Sida) established the Innovations Against Poverty (IAP) programme to do just that. Designed as a risk sharing mechanism, IAP aims to catalyse innovative inclusive business models by providing early stage grant funding to ventures that are developing new products, services and business models with the potential to reduce poverty. By providing small

Market-based solutions are emerging with significant potential to address development challenges across the world.

Most investors shy away from these businesses even if they hold the promise of both social good and financial gain. It is therefore difficult for these enterprises to find the capital necessary to turn ideas from concepts into viable, scalable initiatives.

The benefits of grant funding at this early stage of an inclusive business often go beyond the individual firm.

So-called 'first movers' bear the costs and risks of the innovation process. IAP shares risk to encourage first movers to invest in innovative business ventures.

grants of up to €20 000 and large grants of up to €200 000, Sida is helping inclusive businesses with critical early stage efforts such as market research, prototype development and testing, trialling new distribution networks, building strategic partnerships, and initial capital investments. Grant funding can make up a maximum of half the project costs; grantees themselves must make a contribution that at least matches the value of the grant.

The benefits of grant funding at this stage often go beyond the individual firm. Many of these ventures are undertaking activities such as educating BoP customers, training producers, building supply chains and improving regulations. The individual company cannot usually capture these benefits exclusively. Instead, these activities typically benefit other companies as much as the individual firm and strengthen the broader ecosystem for inclusive business. This warrants the investment of public funds, as it creates a public good.

In addition, the company's innovation process leads to outcomes that will benefit other companies, who can, for example, find out what does or doesn't work, learn from new products, services and business models, and benefit from government regulations being adapted to spur new investments. So-called 'first movers' bear all the costs and risks of this innovation process. Second movers are able to learn from these mistakes without any of the costs or risks and are likely to reach commercial viability quicker. IAP thus shares risk to encourage first movers to invest in innovative business ventures.

The logic of IAP support below shows how IAP helps grantees move from those early stages into effective inclusive business models in practice. If and when the model is 'proven', donor support is no longer needed; commercial success then provides the driver for sustainability and growth and allows the company to attract commercial financing and/or impact investment funds.

Improving the lives of poor people is the ultimate reason for donor investment. This can come through support to an individual firm as shown in the figure below. But there are also other end benefits that can be realised, such as others replicating or adapting the business model or changes manifesting in the business environment.

1.3 LEARNING FROM GRANTEE'S EXPERIENCES

IAP provides a valuable opportunity to learn about the journeys of early stage inclusive businesses. What does the Pioneer Gap look like from the inside? What challenges do these businesses face as they conceptualise, develop, test and adapt their business models? It is a process of taking ideas from paper into practice, and it is rarely an easy journey or one that goes to plan. IAP explicitly focuses on sharing these lessons, knowledge and insights between companies and other stakeholders. The purpose of this is multi-fold:

For companies, understanding what has worked or not and why, can significantly reduce the learning curve for other entrepreneurs and help them develop their own ideas quicker and better. Entrepreneurs that have engaged in IAP knowledge sharing activities say that they benefit from

THE LOGIC OF IAP SUPPORT TO INCLUSIVE BUSINESS

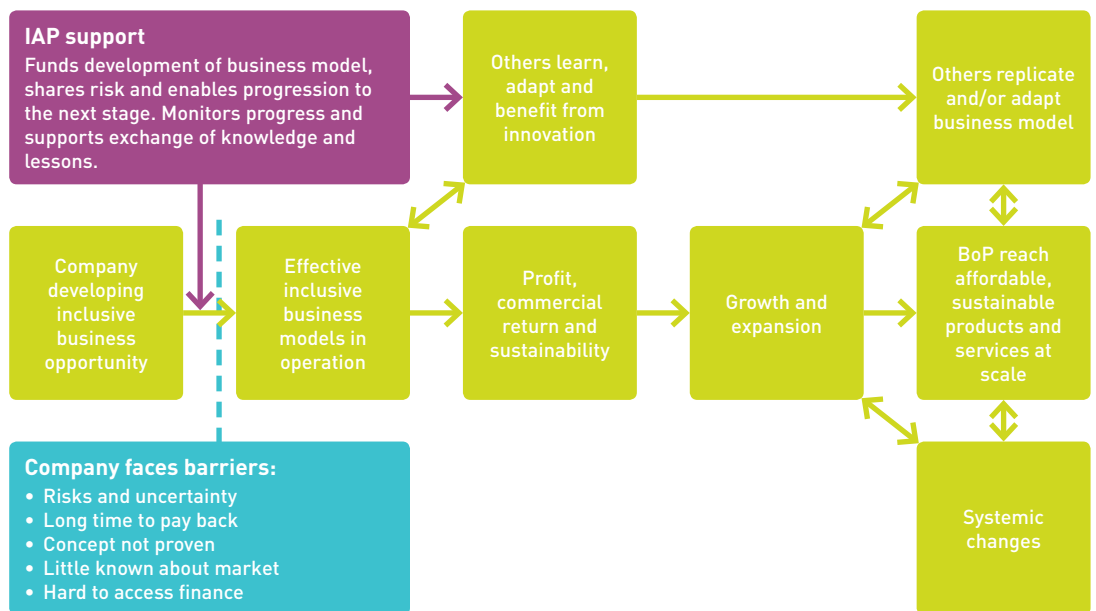




Photo from IAP grantee Mozambikes.

hearing about other companies' experiences. And in BoP markets, where so much is being tested for the first time, all new market knowledge and insight is valuable.

For supporting organisations, such as advisors, accelerators, incubators and funders, learning from inclusive business experiences can help them provide better support, target their activities more effectively, and make better decisions about how to act and when. It provides transparency for donors and taxpayers about how their money has been spent and to what effect.

For governments, understanding the challenges of early stage inclusive businesses can inform better policy making and shape public investments that can help the sector grow and develop.

The dissemination of lessons and findings from IAP increases the likelihood that inclusive businesses will succeed and scale, thus impacting on the lives of poor people around the world, which is of course the fundamental goal for funders such as Sida.

IAP supports exchange amongst inclusive business practitioners through a number of means including face-to-face events, online events and publications. The main channel for knowledge exchange is *the Practitioner Hub on Inclusive Business*, a website and online community at <http://www.inclusivebusinesshub.org>. The Practitioner Hub was developed by Innovations Against Poverty and the Business Innovation Facility (a programme funded by the UK De-

partment for International Development, DFID) to provide a space for practitioners to connect, share experiences and gain new insights to help their inclusive business ventures grow. The Practitioner Hub is an open resource and community for those who implement or support inclusive business, providing details of IAP initiatives as well as wider issues in inclusive business models. It has been visited by over 70 000 people to date, with the majority of visitors now coming from the target audience of private sector players in developing countries.

This report is part of IAP's knowledge exchange efforts. It is intended to draw out lessons from the journeys of inclusive business start-ups, based on the three-year pilot of the IAP programme. We hope that this report will be a useful insight for funders, impact investors, incubators, accelerators, advisors and other organisations that aim to help inclusive business thrive, as well as the thousands of entrepreneurs, innovators and business leaders that are also facing the very real challenges and opportunities of an early-stage inclusive business.

Clarifying terms

IAP grantees are those organisations that have received financial support through the Innovations Against Poverty programme. The organisations are a mix of commercial firms, non-government organisations and hybrid structures. In some cases we use the general term 'company' for ease of reference.

The dissemination of lessons and findings from IAP increases the likelihood that inclusive businesses will succeed and scale, thus impacting on the lives of poor people around the world.

Since the programme was launched in April 2011, IAP has held five funding cycles leading to a total of 66 organisations receiving grant support.

2. INCLUSIVE BUSINESS PROJECTS SUPPORTED BY IAP

2.1 THE OVERALL PORTFOLIO

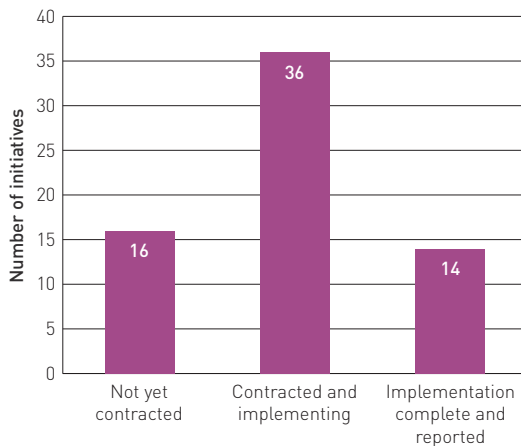
Since the programme was launched in April 2011, IAP has held five funding cycles leading to a total of 66⁵ organisations receiving grant support. A total of €5 420 265 has been awarded, divided between 32 small grants of up to €20 000 and 34 large grants of up to €200 000. The fifth funding cycle, which closed in April 2013, was the final funding cycle for the three-year IAP pilot phase.

Because of the staggered nature of the funding cycles (two per year) and the varying lengths of the initiatives that are funded, IAP grantees are in different stages of implementing their initiatives. As at October 2013, only 14 grantees had completed and reported on their IAP funded activities.

2.1.1 Data sources

Information on IAP geographies and sectors relates to the full portfolio of projects funded by IAP; that is, the 66 grants awarded. However, the majority of this report focuses on those projects that have received some or all of their grant funding and are now implementing or have completed implementation of their grant-funded initiatives. These 29 'operational' projects received funding in the first, second and third funding cycles⁶ and provided a progress update or completion report during the middle of 2013. Data typically relates to the grantee's overall inclusive business initiative, not only the specific activities that are funded by the IAP grant. In some instances, companies have not filled out all data in the reporting form, making the number of responses vary in some cases. This is indicated by "N". Grantees' self-reporting is complemented by data, ranking and opinions provided by the IAP team on three additional grantees, taking the total number in some cases to 32.

STATUS OF IAP GRANT-FUNDED INITIATIVES AS AT OCTOBER 2013

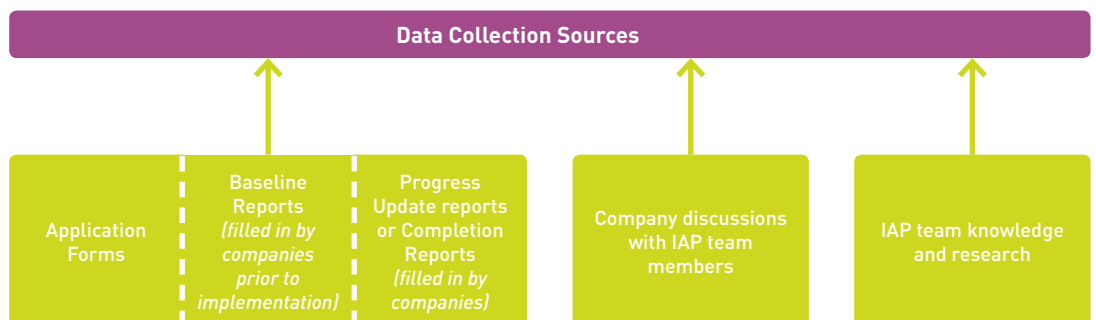


In this way, the data for the 2013 Knowledge Exchange report is based on a slightly different base from the 2012 Knowledge Exchange report. Last year's report relied primarily on data from grantees' applications and baseline surveys conducted prior to the implementation of activities. This year, the most important data comes either from progress update reports provided during mid-2013 or completion reports provided by grantees that have completed their grant-funded activities. Thus, the main data sets themselves reflect a shift from ideas on paper (applications and baseline surveys) to actual results and findings in practice (progress updates or completion reports). It is important to note that 'baseline' refers to the situation at the start of IAP-funded activities, not the commencement of the inclusive business initiative itself.

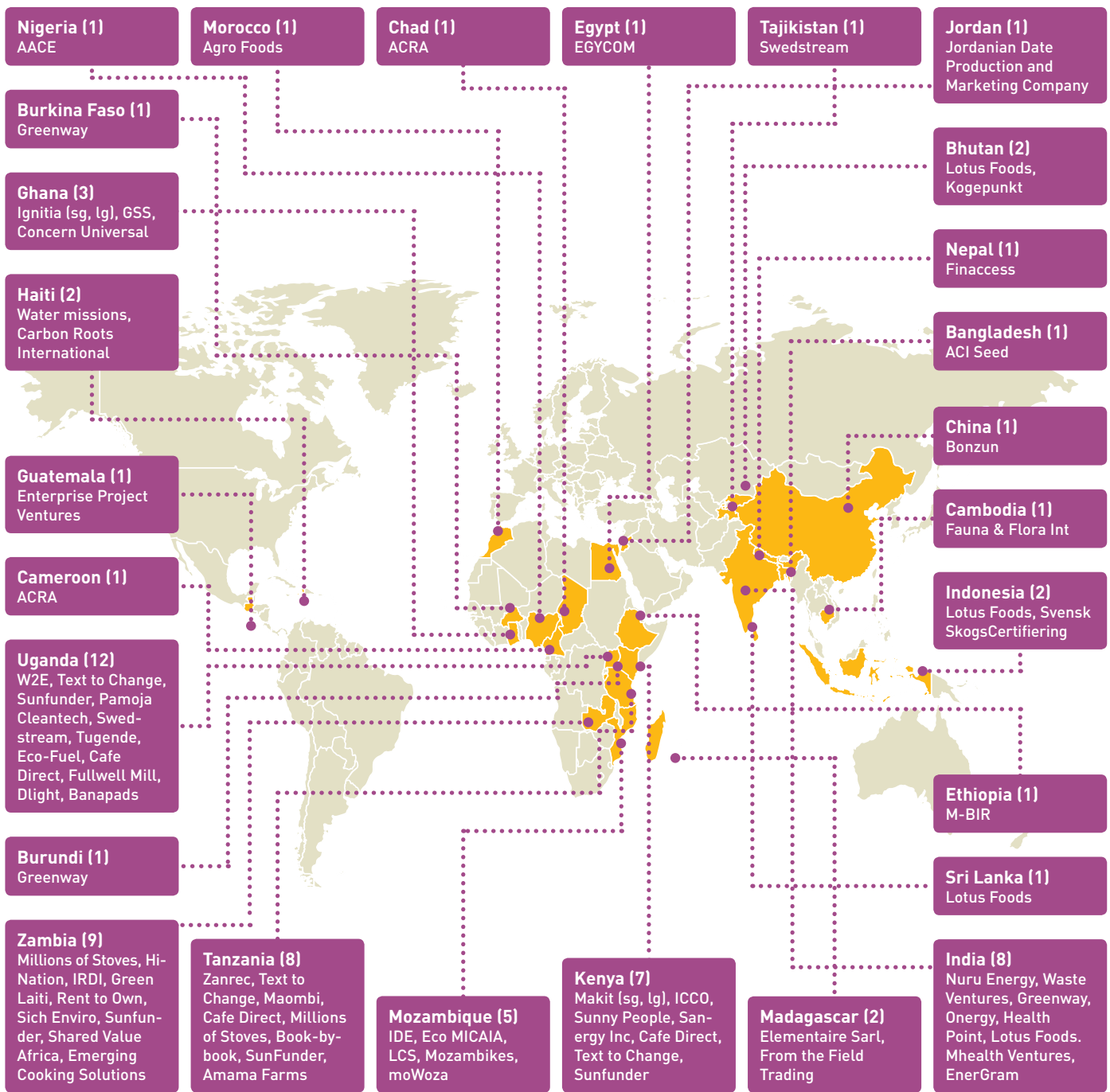
SOURCES OF DATA IN THIS REPORT

Data sources

Total number of approved applications over five cycles	69
Total number of grantees in the IAP portfolio in October 2013 (three grants cancelled post-approval)	66
Number of projects with up-to-date operational data and/or IAP rankings available (Progress update reports and Completion reports/IAP rankings)	29/32



PRIMARY COUNTRIES OF OPERATION



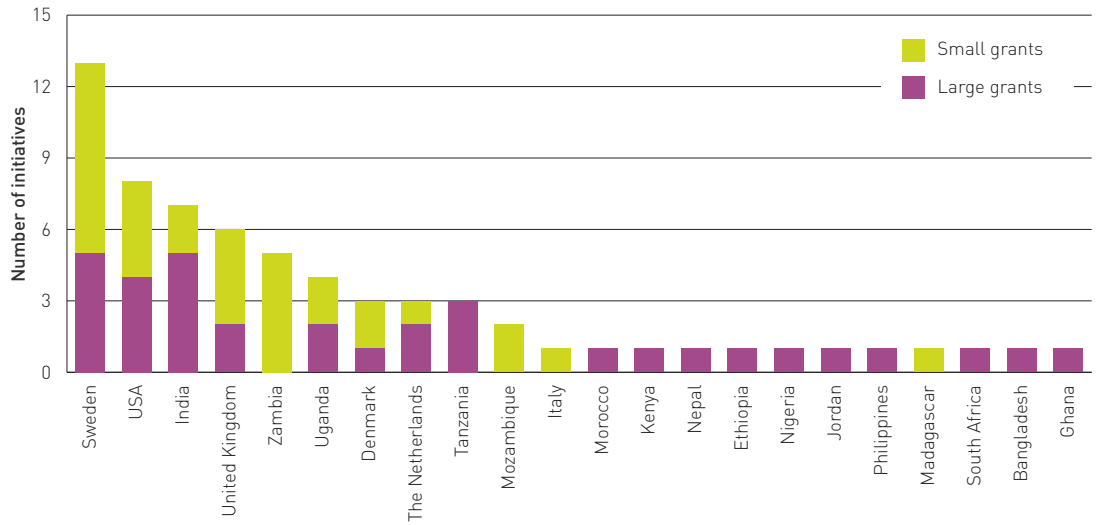
2.1.2 Geographic focus of the portfolio

IAP is a global programme providing grants to organisations that do business with, or operate in, low-income countries that are eligible for official development assistance.⁷ As of October 2013, the IAP portfolio covers initiatives that operate in 30 countries around the world.

Although all initiatives funded by IAP must operate in a low-income country, the grantees themselves can be headquartered anywhere around the world. A majority of the grantees are based

in high-income countries, particularly reflecting the high interest of Swedish companies very early in the programme. In recent funding cycles the proportion of IAP applications received from organisations based in low-income countries has increased, but in general these applications tend to be less successful as not so many fulfill the IAP selection criteria of commercial viability, development effects, cost sharing, innovation and additionality. This is partly a learning process in these geographies, as the idea of inclusive business is often new and not always well understood.

COUNTRY OF PRIMARY HEADQUARTERS



2.1.3 Sectoral focus of the portfolio

The top five sectors represented in the IAP portfolio are:

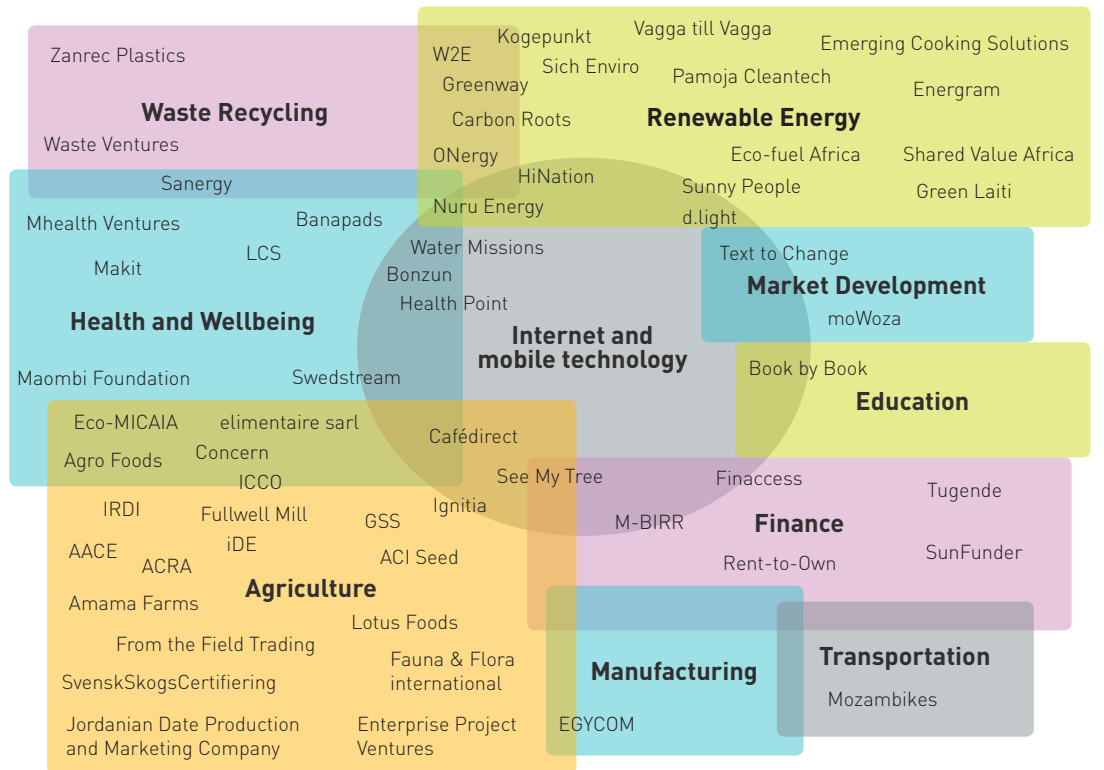
1. Agriculture & food
2. Energy & infrastructure
3. Health
4. Other (includes information and communication, education)
5. Water, sanitation and waste management

main sectors: Agriculture & food; and Energy & infrastructure.

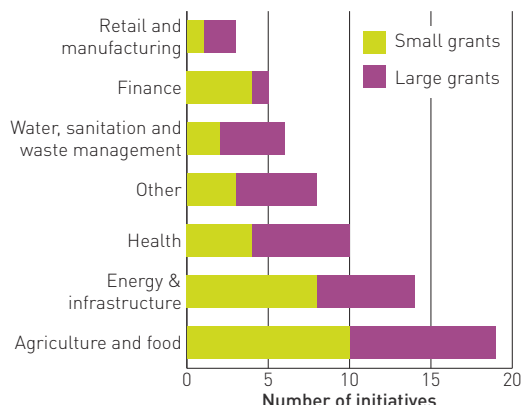
Many initiatives funded by IAP straddle more than one sector. This is often a reflection of the innovation in their business model. For example, W2E is converting organic waste from markets, breweries and other locations to produce biogas. This will generate electricity and create organic fertiliser that can be sold to local farmers. W2E can therefore be seen as both a waste management and a renewable energy initiative.

Large and small grants are concentrated into two

IAP-FUNDED INITIATIVES BY SECTOR



SECTORAL FOCUS OF IAP-FUNDED INITIATIVES, OCTOBER 2013



Information and communication technology (ICT) including mobile technology is often an enabler of innovation in other sectors, and there are many IAP-funded initiatives that reflect this overlap with the ICT sector.

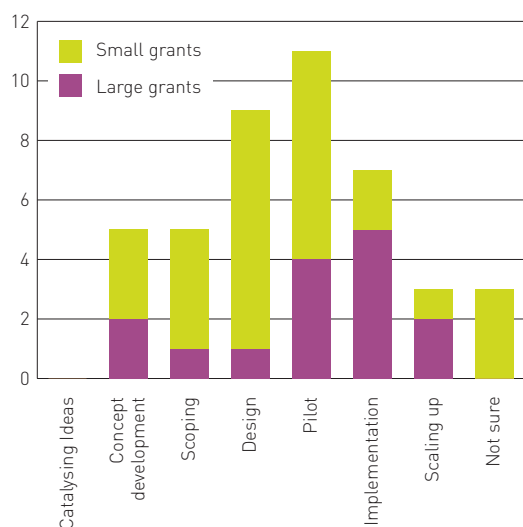
2.2 SCALE OF INCLUSIVE BUSINESS OPERATIONS TO DATE

2.2.1 Business maturity

Before starting their grant-funded activities, IAP grantees are asked to report on the maturity of their inclusive business initiatives. The IAP grantees that provided progress updates or completion reports during 2013 provided an update on their maturity at that point.

The two graphs show how maturity has evolved between baseline and the mid-2013 update, although the period covered varies widely for different initiatives in the portfolio. For some initiatives, the time between baseline reporting and progress update reporting is merely four months,

MATURITY OF INCLUSIVE BUSINESS INITIATIVES AT BASELINE



whereas other initiatives have been operational for more than 20 months. Multiple answers have also been allowed, meaning that the number of replies differs between the baseline and update reporting. Nevertheless, the comparative graphs clearly show that IAP projects are moving towards more mature stages of development.

2.2.2 Are IAP grantees thriving?

One of the key questions for IAP when monitoring and evaluating the progress of IAP grantees is whether they are thriving or not. IAP grantees were asked to describe the status of their inclusive business initiatives on a three-point scale:

- Thriving: In profit and expanding
- On track: Continuing to make progress
- Stalled/Failing: Unlikely to proceed in the current design

Of the 29 respondents, 26 described their initiatives as being on track and continuing to make progress. Only three grantees chosen to describe their projects as "Stalled/Failing". Two have found through their IAP funded research and market testing that their inclusive business models are not viable. The companies will continue to operate, but their inclusive business initiatives will not continue in their current form. The third expects that despite significant challenges to date, its initiative will be successful (and indeed break-even within a couple of years) as a result of learnings from, and changes in, the project.

2.2.3 Progress towards break-even

Commercial viability is first assessed as part of the IAP selection process. In this context, commercial viability implies that a project has the potential to be a profitable business that can operate at scale without grant funding support, promoted by a team and/or organisation with

Of the 29 grantees reporting in 2013, 26 described their initiatives as being on track and continuing to make progress.

MATURITY OF INCLUSIVE BUSINESS INITIATIVES AT MID-2013 UPDATE

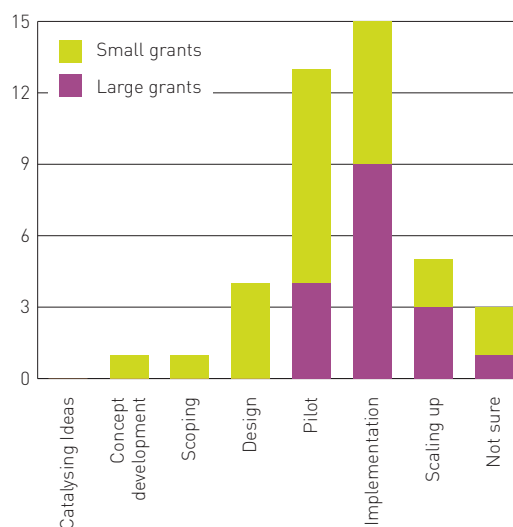


Photo from IAP grantee W2E.



As at October 2013, only two grantees report that they are operating at break-even point. For the remaining grantees, it is still a relatively long way to reach break-even.

Evidence that is available from the first year or so of operations indicates that grantees' predictions may be coloured by entrepreneurial enthusiasm. Nonetheless, significant gains have been achieved.

a strong commercial track record in a relevant sector and a demonstrated commitment to success. During implementation, commercial viability can be additionally assessed by how likely it is that the grantee will reach break-even and start generating profits. This is explored further in Section 4.

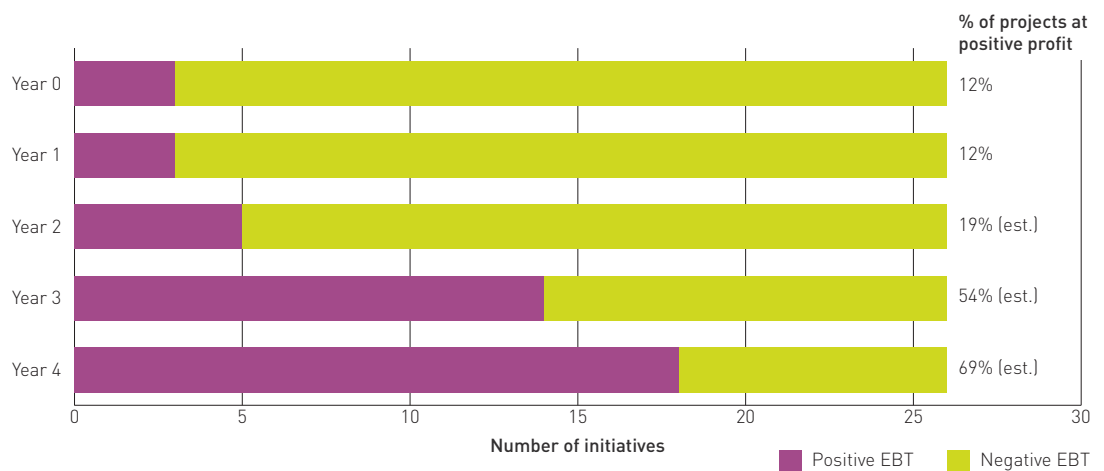
At the time of baseline reporting, total turnover across 27 grantees with available data was €540 000. Of these, 19 grantees had zero turnover, while for the others it ranged from a low of €520 to a high of €272 900. Based on their latest estimates and reports, aggregate turnover at the end of Year 1 was estimated to be €2280 000.

As at October 2013, only two grantees report that they are operating at break-even point. For the remaining grantees, it is still a relatively long way to reach break-even. Only 69% expect to be profitable even in their fourth year of operations.

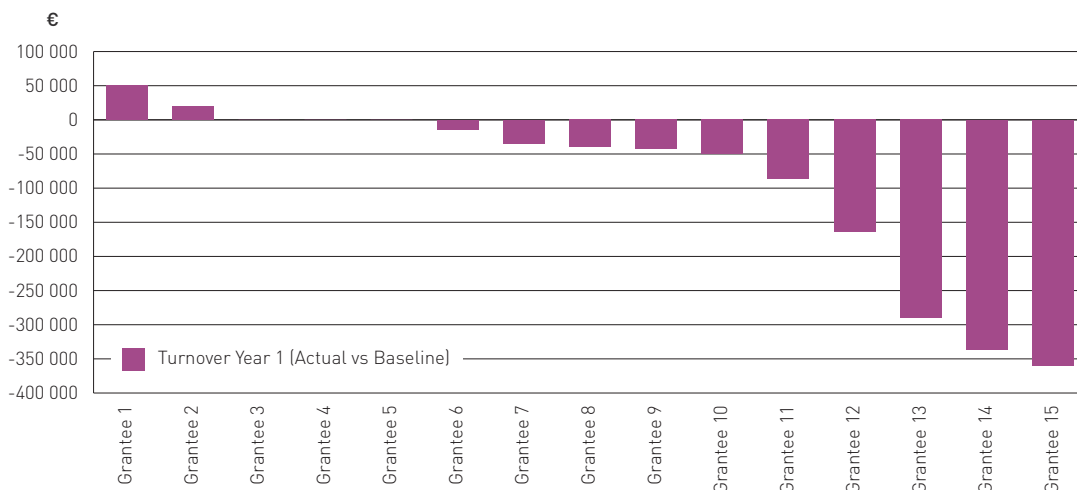
As mentioned, a small number of grantees have found early on that their inclusive business initiatives are not likely to reach commercial viability and will not continue in their current form following the IAP grant period. Nonetheless, many IAP grantees expect their projects to take off in year two and three of operations. In fact, the increase in turnover expected by many of the initiatives is quite dramatic.

Evidence that is available from the first year or so of operations indicates that these predictions may be coloured by entrepreneurial enthusiasm. The table below shows the difference in turnover predicted for the end of Year 1 before grantees started their IAP funded initiative, compared to what was actually reported at the end of Year 1. When the actual turnover at the end of Year 1 is compared to what entrepreneurs originally predicted, the results show that for most grantees their predictions are far from being realised.

NUMBER OF IAP COMPANIES ESTIMATING POSITIVE EARNINGS BEFORE TAX (EBT), BY YEAR (N=26)



DIFFERENCE IN ACTUAL TURNOVER YEAR 1 COMPARED TO PREDICTION AT BASELINE (N=15)



Note: Grantees 3, 4 and 5 above predicted nil turnover and achieved nil turnover. Some of those with the largest gap between predicted and turnover are those with the largest turnover in absolute terms.

At the end of their first year of reporting, there was a 36-fold increase in the number of BoP consumers reached (N=13), a 32% increase in BoP producers/suppliers (N=7) and a nine-fold increase in the number of BoP distributors/entrepreneurs engaged in grantees' initiatives (N=7).

However, some of those with the largest gap between actual and expected are also those with largest actual turnover achieved.

2.2.4 Reach to the base of the pyramid

All IAP funded initiatives benefit people living at the BoP in some way. Approximately two thirds of IAP initiatives primarily benefit poor people as consumers. The grantees sell goods and services that improve the quality of life for poor people in some way, such as by providing lighting and energy, cooking fuel and stoves, health care, sanitation, weather information, agricultural advice and financial services. The other third primarily benefit the BoP by providing opportunities for them to earn a living as producers/suppliers, entrepreneurs or employees.

In most cases, IAP initiatives reach the poor in more than one way; for example, they may engage poor people as distributors for goods and services that in turn reach BoP consumers. In those cases, grantees are asked to track their reach to the different BoP beneficiaries.

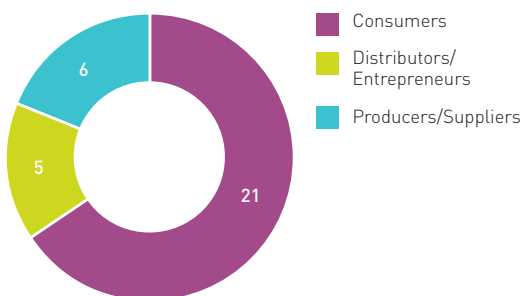
In terms of overall numbers, IAP reaches the greatest number of poor people as consumers.

This is partly due to the fact that the IAP portfolio includes companies providing fast moving consumer goods such as menstrual products and consumer durables such as solar lights and cook stoves which can reach relatively higher numbers of BoP people compared to initiatives that benefit poor people as producers or distributors.

At the end of their first year of reporting, 13 IAP grantees reported reaching just over 36 000 poor people as consumers for their products and services; a significant (36-fold) increase in relative terms compared to their reported figures prior to commencing IAP-funded activities (950 people). This is quite a dramatic increase that indicates IAP grantees could reach a significant number of BoP consumers over time, if such a trajectory was maintained.

As with their financial projections, IAP grantees are highly optimistic about their future prospects for growth in BoP markets, with the same 13 grantees expecting to reach around 200 000 consumers in total at the end of Year 2 of operations. On one hand this may seem like entrepreneurial enthusiasm; on the other hand, it would be consistent with the growth rate seen in the first year of operations.

MAIN BOP BENEFICIARIES BY TYPE (N=32)



In 2013, seven IAP grantees reported on their reach to poor people as producers or suppliers. They show a 32% increase based on their numbers prior to starting IAP-funded activities, increasing from around 2 700 to 3 500 BoP producers and suppliers engaged in their operations in a one year period. Their projections for Year 2 are in line with this growth rate.

Seven grantees also reported on how many poor people are engaged in their operations as entrepreneurs that sell or distribute goods and services.

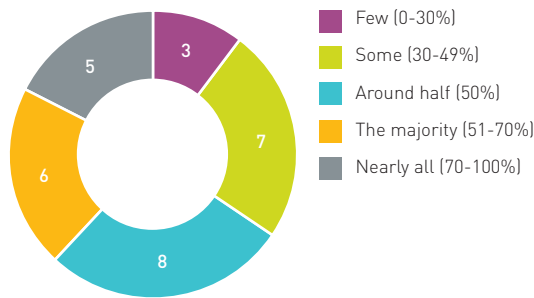
Women are, on the whole, expected to benefit the most from IAP-funded initiatives.

The numbers are still relatively small in absolute terms; only 83 people in total at the end of the first reporting year. However, this is a nine-fold increase from the baseline situation a year earlier.

2.2.5 Reach to women beneficiaries

Women are, on the whole, expected to benefit the most from IAP-funded initiatives, whether as consumers, producers/suppliers or distributors/entrepreneurs. Two thirds of the operational IAP grantees expect that women will constitute half or more of the people benefiting from their inclusive business initiative. Some initiatives have a benefit that is almost exclusively targeted to women, such as Swedstream's ultrasound services and Makit's menstrual products. Other initiatives are expected to directly impact on men more than women, particularly those that target the BoP as producers and suppliers.

PROPORTION OF BENEFICIARIES THAT ARE EXPECTED TO BE WOMEN



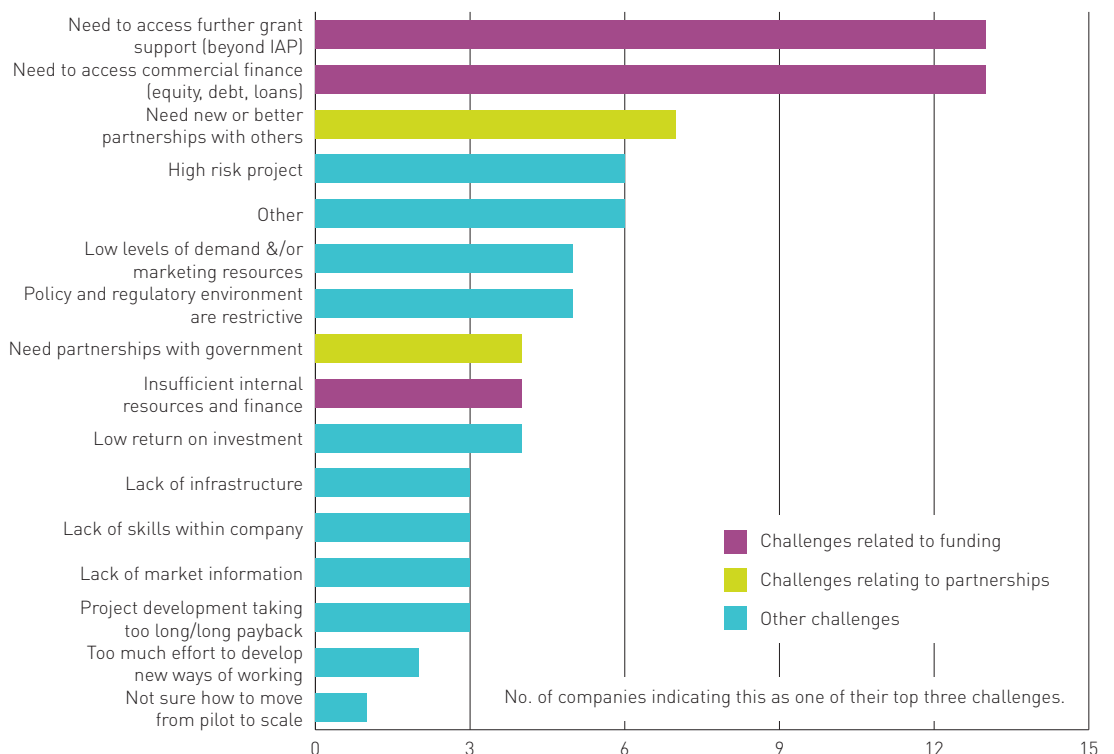
2.3 FINANCING, PARTNERSHIPS AND OTHER TOP CHALLENGES

In their progress updates and completion reports, IAP grantees reported on the top three challenges for their inclusive business. The aggregated numbers of responses, regardless of ranking, are shown in the following chart.

Consistent with last year's findings, funding remains the greatest challenge for IAP grantees, as highlighted in the purple bars. This is not surprising given that most grantees are still at an early stage of business, refining their concepts or establishing their presence in the market. Partnerships (indicated in the green bars) are also one of the top challenges, as was the case last year. Many inclusive business models are innovative because they combine resources from different sectors in a new way. This often creates a dependency on other public or private actors to deliver elements of the business model.

In their progress updates and completion reports, IAP grantees were asked to report on the source of funds they are using and seeking. As indicated in the figure on the following page, grants are by far the most commonly used form of early stage financing. The figures include IAP grant funds, but the majority of respondents report that they have accessed grant funding beyond IAP itself. Most notably, these early stage inclusive businesses depend on the inputs and investments of the owners/entrepreneurs themselves. Out of the 29 grantees included in the

TOP CHALLENGES IDENTIFIED BY OPERATIONAL IAP GRANTEEES



The good and bad of grant funding

Grant funding can give early stage inclusive businesses the time and space they need to develop and refine their ideas. However, it can have unintended disadvantages. For one thing, the time from applying for grant funding to receiving funds in the bank can be longer than expected. This has been a challenge in IAP, where the timeframes for assessment, decision, contracting and disbursement has at times impacted on initiatives' implementation. Additionally, grantees are often asked to commit to a fixed set of activities, budget lines and timeframes in order to receive funding. This provides the donor with clarity and transparency about how the funds will be used, and is particularly important for taxpayer-funded donors such as Sida. However, these activities and timeframes will invariably change due to unforeseeable circumstances during implementation. The subsequent approvals for changes in plans can be laborious and time consuming both for the grantees and for the donors.

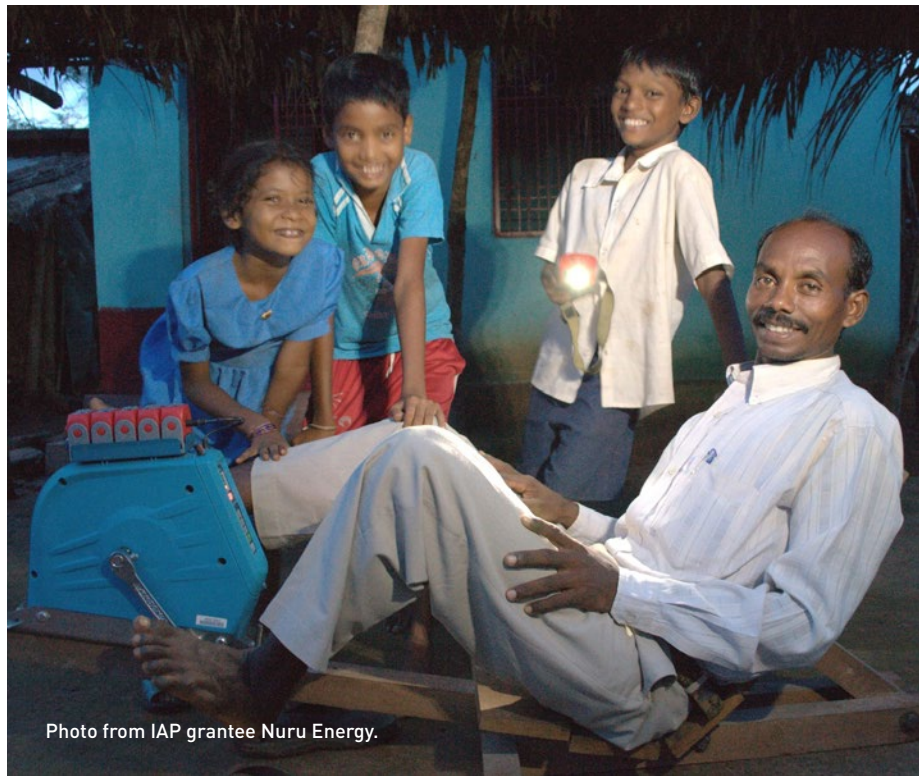
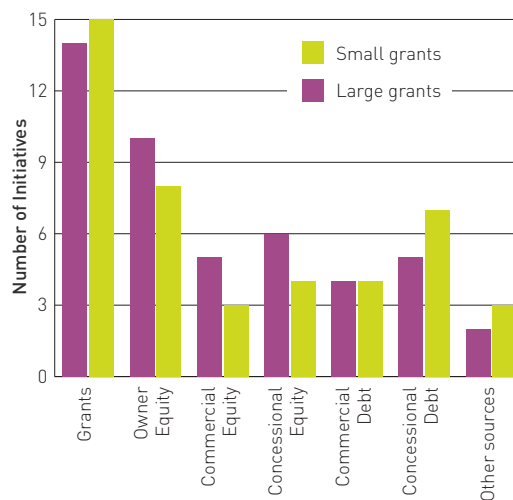


Photo from IAP grantee Nuru Energy.

analysis, only one grantee reported that IAP funding is the only source of financing outside their own investments. The other two most common sources of financing are concessional forms of debt (loans provided at lower than market rates and/or other beneficial terms, including loans from family and friends) and concessional equity (money invested from friends or family, angel investors or impact investors tolerating a higher risk and lower return than the market).

Only a few grantees reported significant levels of commercial investment. At the time of reporting, mobile financial services company Finaccess was poised to receive a significant injection of capital from an external investor group and slum sanitation franchise Sanergy closed their first private equity investment round in 2013.

FUNDING SOURCES REPORTEDLY USED BY IAP GRANTEES



Grants are by far the most commonly used form of early stage financing.

Only a few grantees reported significant levels of commercial investment.

Looking for funding?

The Practitioner Hub for Inclusive Business has developed a range of resources to help inclusive businesses access funding and business support. This includes a downloadable, searchable database containing details of over 200 organisations and funds from around the world that provide financial and technical support to inclusive business at <http://bit.ly/IBSupportDatabase>.

Applying for financing takes time though, so it's important to target the right sort of funding. A range of resources is available on the Practitioner

Hub for Inclusive Business' Know-How page on Access to Finance, <http://bit.ly/KnowHowFinance>. For example, the *Spotlight Inclusive business looking for finance? What's available and how to target your best solution* at <http://bit.ly/SpotlightIBFinance> provides a brief overview of what to consider when applying for different sorts of financing. For those seeking commercial funds, the Checklist *Are you investment ready?* at <http://bit.ly/ChecklistInvestorReady> outlines the criteria an investor may apply and what the business needs to have in place before approaching potential investors.

If there is one consistent lesson from the experience of IAP grantees to date, it's that things seldom go to plan.

Being a successful BoP entrepreneur requires patience, persistence and resilience. It also requires significant flexibility on the part of donors and funders.

3. KEY INSIGHTS FROM THE IAP PROGRAMME

3.1 THINGS RARELY GO TO PLAN

If there is one consistent lesson from the experience of IAP grantees to date, it's that things seldom go to plan. Commercial results are rarely achieved to the degree originally envisaged. In most cases this can be attributed to overly ambitious targets, with some grantees estimating 10–100 times increase in sales within only one year – clearly not a realistic projection for any company let alone one operating in BoP markets. Yet even the most logically sound, well thought through and reasonably calculated plans turn out quite different in practice; not necessarily worse, but certainly not as planned.

Following are some of the many ways that things have deviated from IAP grantees' original plans, some of which will be discussed in later parts of this section.

Delays across the board: Things take longer than expected due to unforeseen issues and challenges. The cause of delays can be everything from difficulties finding partners and negotiating deals, staff turnover, time to secure government approvals, delays in accessing financing, unanticipated results in the market, and even just things going wrong, such as faulty equipment being delivered.

Product too expensive or not appropriate for the BOP: After further developing their prototypes or conducting testing in the field, some IAP grantees have found that their products are simply not affordable for people living on only a few dollars a day. This has necessitated a re-design of the product or service. Some grantees have decided build a diversified portfolio that includes both BoP and non-BoP products.

Business model not right: In taking their ideas into the field, many grantees find that the business model is not right and needs to be re-designed or tweaked. A number of grantees have, for example, realised that they need to target a different market segment in order to be commercially viable. This may mean shifting from a business-to-consumer model to a business-to-business model, or vice versa. It can also mean finding a different route to market; for example, using retail distribution rather than a network of local entrepreneurs.

Finding suitable partners: Many IAP grantees rely on partners in their business model, particularly in consumer financing, sales and distribution. The need for better partnerships was identified as a key constraint in the 2012 Knowledge Exchange report and many grantees have struggled over the past 12 months to find

the right partners for their business. Often a partnership is trialled but over time it becomes apparent that the partner is not appropriate for the business.

Competition is superior: Some grantees have faced significant competitive pressures. This is particularly noticeable in the clean energy sector, which is developing at a very fast pace with support of global initiatives such as Lighting Africa and the Global Alliance for Clean Cookstoves.⁸ Strong market leaders are emerging that have been able to secure strategic marketing and distribution partnerships, build highly visible and recognised brands, and develop technically superior products.

Delays or changes due to regulatory or government related issues: A number of grantees have faced significant delays and setbacks due to regulatory issues, bureaucracy or lengthy government approval processes. This has particularly been an issue in sectors that tend to be highly regulated, including health, financial services, mobile communications, or in sectors where governments typically have a prominent role, such as waste management.

External economic circumstances: Some grantees have faced setbacks arising from external economic circumstances. This includes the credit crisis facing the microfinance industry in some countries, which has put pressure on grantees' payment and distribution systems. Other grantees have been impacted by inflation, which has undermined their efforts to improve local livelihoods.

Problematic customer acquisition: Service-oriented businesses often find that the process of signing up customers is slower than planned. The dominance of manual methods to sign up customers often gives plenty of room for incorrect information about people. Many businesses rely on partners to recruit end users and each 'middle man' increases the chance of errors. Geographical location of users is often unknown which can make delivery, as well as repeat purchases, difficult.

When things don't go to plan there seems to be only one way to respond: *persistence*. When asked what advice IAP-supported entrepreneurs would give to others, the almost universal response is "Don't give up". Faced with so many challenges, changes, delays and setbacks, it's easy to see why. Being a successful BoP

The drop does not hollow the stone by its strength but through falling persistently.
Adaptation of Latin proverb, quoted on an IAP grantee's progress update form.

entrepreneur requires patience, persistence and resilience. It also requires significant flexibility on the part of donors and funders. Donors need to relinquish a degree of control and adopt procedures and decision-making processes that allow for changes in the nature and timing of grant-funded activities.

3.2 INVESTING EARLY IN DEVELOPING AND ADAPTING THE BUSINESS MODEL

Developing and adapting the inclusive business model is an iterative process of trial and error. It can last months, or even years. Most IAP grant recipients are in this early stage. They are still testing which business model works, refining their product and service offerings, and finding ways to make their ideas work in practice. This process of developing and adapting the business model is a critical part of the journey for inclusive businesses. Grantees' success will depend to a great deal on their ability to develop and test their ideas with users, gather feedback, and adapt their offer based on customer demand. This is not always an easy process.

3.2.1 Get to know the market

As with any business, organisations working at the BoP need to learn about the market, the value chains they are entering and the customers they are selling to. Unlike most other markets, knowledge on the BoP is often hard to come by: there is little market data available and companies have to find ways to gather insights about what poor people want, believe, and will trust.

IAP entrepreneurs have used a range of approaches to gather insights on the BoP market. At the earliest stage, this has involved theoretical knowledge and data gathering to define the problem and scout possible solutions. The methods IAP-supported entrepreneurs have used in this investigative stage include desk-based research and making contact with subject experts. Many IAP entrepreneurs engaged local consulting firms to conduct market research on their behalf, whilst others used non-government organisations (NGOs) who have existing networks into the BoP target group. Microfinance institutions (MFIs) have been another channel for market research as they have an established network of BoP customers.

To really understand the problem, IAP grantees have had to conduct first-hand studies, observation and consultations. M-BIRR consulted with Ethiopian MFIs for six months to together define a mobile money service suited and adapted to the Ethiopian market. Nuru Energy, a renewable energy company, spent over one year in the field in India with their MFI partner, learning about the community they engage with in terms of household cash flows, available lighting solutions and the market for kerosene. Market research and feasibility assessment is an area of early-stage

development where IAP small grants in particular have provided essential support.

This early-stage research is essential as it often lays the assumptions on which the inclusive business is then based. Getting it right at this stage – or at least, as right as possible – can save considerable time and money cost later. Malagasy company *elimentaire sarl*, for example, used its IAP small grant for a combination of pre-feasibility studies, stakeholder needs assessments and pilots to assess consumer demand and the most suitable distribution channels for moringa-based fortified food products. Through this process, *elimentaire sarl* discovered information on pricing and regulation that challenged their original business model. Without this adequate early-stage research, the company may have invested significant resources into an unfeasible business model. The team is now exploring a different model that starts with integrating the moringa plant in community reforestation schemes first, as moringa is widely known as a nutrient-rich vegetable by the local population. This gives *elimentaire sarl* flexibility to develop new sales channels to BoP and other consumer markets at a later stage, and secure supply through partnerships with the respective local communities.

3.2.2 Test ideas in the market early, and often

Developing a prototype in conjunction with researching and engaging end-users in concrete discussions has proven to be a good way for IAP grantees to bridge potential knowledge, cultural and preference gaps. These are difficult to reveal when merely describing a product or a service conceptually. Again, this is an area where IAP has had a strong supporting role, giving grantees the funding they need to test their ideas in the market and learn about what works.

IAP grantees have invested time and money into testing and adapting product prototypes or, in the case of services, piloting different channels to market. Sanergy is one such grantee. At the time of applying for IAP funding, Sanergy had already begun to establish its franchise network of sanitation facilities in Kenyan slums. With two pilot sites in place, they were able to use these

Developing and adapting the inclusive business model is an iterative process of trial and error. It can last months, or even years.

Unlike most other markets, knowledge on the BoP is often hard to come by: there is little market data available and companies have to find ways to gather insights about what poor people want, believe, and will trust.

Top tips to boost innovation

IAP's *Spotlight on Innovation in Inclusive Business* provides simple strategies to boost innovation at the early stages of development. It recommends five steps that companies can adopt to kick start innovation including problem solving, gathering knowledge, developing the business model and prototyping new products. Download the *Spotlight* from the Practitioner Hub for Inclusive Business at <http://bit.ly/SpotlightInnovation>.



Photo from IAP grantee HiNation.

Developing a prototype in conjunction with researching and engaging end-users in concrete discussions has proven to be a good way for IAP grantees to bridge potential knowledge, cultural and preference gaps.

sites to gather a wealth of data on user experience, durability and ease of maintenance of its facilities. They were able to field-test equipment used in the sanitation centres, such as hygienic squat plates and waste collection containers, and see how well they worked. These field tests found that two factors impacted profitability for their franchisees: user preference for the toilet design, and the daily cleaning costs. The toilet was not designed in a way that was comfortable for women, and led to additional cleaning costs because of spillage. Likewise, the waste collection containers were designed in such a way that they couldn't be easily lifted or transported, adding time to the collection process and reducing potential income for the waste collectors. Sanergy thus applied for IAP funding to help re-design these components. The process of prototyping, field-testing and gathering user feedback is expected to lead to benefits across the board, including increased customer demand for hygienic sanitation services, increased revenue for franchisees and waste collectors, and therefore quicker profitability for Sanergy as the franchisor.

IAP grantees' experience on the whole has shown the importance of not getting locked into the first, original idea, but to be prepared (and humble) to do a number of iterations of the service or product that best service those end-users it is intended for.

Know your consumer, know your product

Field-testing and observation can reveal some unexpected insights. One grantee's business model was for village entrepreneurs to buy an electrical charging system and use it to provide charging services to customers for a small fee. In the field they found that rather than being purchased by a potential entrepreneur, the charging system was often bought directly by a customer and shared amongst their clan (a family group of 60-80 people). This raises some interesting questions about the business model. Is the mobile charging system a business opportunity for village entrepreneurs, or a consumer durable? Should it be marketed as a service, or sold as a product?

Another grantee was asked by a customer during field trials whether their solar-powered light could be used to illuminate the area where their chickens were kept. The farmer's idea was that if the chickens thought it was daylight longer, they would eat more and grow better. Upon returning home, the grantee investigated this idea further. Experts indicated that this idea had merit, and the grantee is now conducting further research to quantify the efficiency effects of its product on poultry farming.

3.3 BUILDING CUSTOMER DEMAND

By definition, people living at the BoP have a limited amount of money to spend. They have their own logic about what they want to spend it on and it's not always what companies expect. IAP grantees are finding that demand for products and services typically starts from a low base. Target customers may not yet know the benefit of products or services that have not been available to them before. They may not understand what the problem is with, say, non-nutritious food or poor sanitation practices and therefore lack motivation to purchase products with these benefits. Or they may have information about benefits but simply don't see the appeal.

To create consumer demand for new products or services, IAP grantees have had to develop an offer that is sufficiently compelling for people to part with their limited cash. This is in particular challenging when the benefits and value are not immediate but are realised over time, such as in the case of education or preventative healthcare.

Partnerships with development agencies can be beneficial in this respect. One company partnered with an international NGO who was conducting an awareness raising campaign about the harmful effects of kerosene in household lighting and cooking. The company was able to leverage the NGO's consumer awareness campaign when marketing its range of clean energy solutions. Without such partnerships, companies themselves have to invest upfront to stimulate awareness and demand for new product categories. It is difficult for the company to exclusively capture the benefit of such an investment.

The experience of IAP grantees highlights four aspects that are important to building customer demand: trust, dignity, aspiration and affordability.

NGOs: friend or foe of inclusive business?

IAP grantees report mixed experiences of NGOs in the field. Sometimes, NGOs can be useful allies. For example, a number of IAP grantees have partnered with NGOs to conduct market research, identify and train rural salespeople, provide credit, or improve the quality of local production and supply. However, NGOs can be seen as competitors if they provide similar goods and services either for free or on a subsidised basis. This can undercut the whole commercial strategy of an inclusive business. Just hearing that one of their neighbours got something similar for free, or significantly discounted, can create a strong disincentive for BoP customers to buy.

3.3.1 Building trust is essential when selling to the BoP

People living on a few dollars a day are very careful in how they spend their money. Investing in something that fails to deliver as promised can become a costly mistake. Because BoP consumers are so risk-averse, building trust is critical for any inclusive business. The experience of IAP grantees in the field has revealed some interesting insights that typically reflect the findings of broader research on inclusive business.

Seeing is believing! Demonstrations are important to show that the product or service works. Research by consulting firm Hystra⁹ found that the more visual and tangible those demonstrations are, the better. During its village demonstrations, solar energy company d.light throws its lanterns on the floor to show how durable they are.

Word-of-mouth is the most effective marketing tool. BoP consumers trust what their family, friends and respected community members say. Word-of-mouth is consistently shown to be the most influential factor in BoP customers' purchasing decisions, with some research suggesting that anywhere from 50–92% of BoP consumers make purchasing decisions based on what their relatives or neighbours say.¹⁰ Unfortunately many IAP grantees do not explicitly address word-of-mouth in their promotional strategies, nor have systems in place to track the effect of word-of-mouth referrals in their marketing efforts. There is often a temptation towards more visible approaches such as advertising through radio, billboards or brochures. But some research suggests that these approaches are only successful in raising awareness, not generating sales.¹¹

Because positive word-of-mouth referrals depend on satisfied customers, the most effective BoP marketing happens after the sale. This is when customers have had the chance to try the product and start to report back to their friends and family about the experience. A number of IAP grantees focus explicitly on after-sales service in their business model. For example, solar energy company ONergy found that customers perceived solar energy to be unreliable due to generally poor levels of after-sales service on solar equipment. When equipment was not used correctly, or broke down, customers were left with the impression that solar energy doesn't work. ONergy tackled this misperception by focusing on after-sales service as part of its offer. ONergy recognise that by providing this reliability in their products, they will not only increase their own market share but also increase overall demand and grow the size of the solar energy market. Similarly, IAP grantee Rent-to-Own also invests in after-sales service in its business model. The grantee offers a comprehensive package where productive equipment such as irrigation pumps

To create consumer demand for new products or services, IAP grantees have had to develop an offer that is sufficiently compelling for people to part with their limited cash.

Word-of-mouth is consistently shown to be the most influential factor in BoP customers' purchasing decisions.

Successful BoP initiatives provide solutions that give people dignity and boost self-esteem.

is provided to farmers on a rental repayment basis, along with delivery, installation, training, and maintenance to ensure the equipment stays in good shape or is fixed in the event it breaks down. This reduces the risk for their customers and increases the likelihood of new and repeat business. Many consumer durables sold through IAP grantees, such as d.light's solar systems, come with warranties in order to reduce risk and increase customer satisfaction.

Trusted individuals and organisations are powerful advocates. Community leaders, savings and credit cooperative organisations (SACCOs) and microfinance institutions have been shown in some IAP case studies to be highly credible and influential sources of information in the BoP consumer purchasing decision. These organisations can be built into the business model, often receiving a commission on sales that result from their endorsements. Some IAP grantees, such as Sunny People, have coupled their sales force with product promoters; trusted members of the community that endorse or promote the product without being involved in the actual sales process.

3.3.2 Dignity: an intangible but powerful benefit
Like trust, IAP grantees have found that dignity is an intangible yet important success factor at the BoP. Successful BoP initiatives provide solutions that give people dignity and boost self-esteem.

Nowhere is this more evident than in the area of personal sanitation. Sanitation company Makit has found that dignity is a key factor in consumer demand for users of their 'Ruby Cup' menstrual cup. Faced with a lack of appropriate sanitation supplies to use during menstruation, women and girls were forced to adopt makeshift solutions that reduced their sense of self-esteem and kept many women and girls at home for fear of an embarrassing leakage. One of the key perceived benefits of Makit's menstrual cups is the dignity and confidence it brings.

Sanergy has also explicitly focused on dignity in its slum sanitation franchising business. Firstly, Sanergy brings dignity to its customers by providing clean, hygienic and safe sanitation facilities. The company recognised that sanitation facilities generally do not provide an ideal customer experience: often smelly, dirty, shabby and poorly maintained. They invested time and effort to ensure that the customer experience in their facilities was pleasant, leaving customers with a sense of dignity. This has created desirability and demand for Sanergy's services. Secondly, Sanergy addresses dignity for the toilet operators. Traditionally, sanitation service providers are marginalised in their communities. Sanergy provides sanitation workers with proper equipment and training, well-presented facilities, and professional marketing support as part of an increasingly recognised and reputable brand. This makes the toilet operators more respected in their community and draws newfound esteem to the sanitation sector – something that will benefit other inclusive businesses and help broader development efforts in the sector.

Another project that focuses on dignity for BoP producers and suppliers is Waste Ventures. Waste Ventures is an Indian company that organises waste pickers into companies and gives them the training and capital they need to handle, process and recycle municipal waste in a safe and effective way. Like Sanergy, they are building respect for workers that were previously marginalised by giving them training, uniforms, higher pay and a professionalised system to work within. Waste Ventures state that they are helping their workers "shift from being 'rag-pickers' to waste management professionals."¹²

GSS, an established company providing sub-contracted services to oil and mining companies, is another example. The Government of Ghana, as well as GSS' clients, have a goal to increase their locally purchased products and services as a way to benefit the communities living



Photo from IAP grantee Cafédirect Producers' Foundation.

near the oil wells and mines. In partnership with iDE, an international NGO in Ghana, GSS are establishing an initiative to empower rural farmers by building their capacity to supply fruit and vegetables to the oil and mining companies. One of the key drivers of the initiative is to empower local communities. In this initiative, farmers are seen not as passive beneficiaries but rather as business partners who can add value to the overall business environment and actively contribute to the community's development. This creates a sense of dignity and pride that could arguably be considered absent from other forms of charitable support, helping spur farmers' involvement in the initiative as well as increasing their sense of empowerment.

3.3.3 BoP customers are driven by aspiration

Related to the issues of trust and dignity, aspiration has emerged as another important success factor in BoP markets. Like any consumer group, BoP customers want to be respected and admired by their peers. They want to have social status, own the latest or fashionable things, and be like their aspirational role models.

In researching the market for menstrual products, Makit spent a number of months exploring the needs and wants of young women living in Kenyan slums and impoverished rural areas. The market is particularly brand-conscious with strong role models both in popular culture and also societally. Young women living in the slums aspire to be like the wealthier girls living in the city and when opinion leaders in schools and communities adopt a new product, the rest are quick to follow. The market for sanitation products is dominated by one brand, which is associated with rich, educated city women. It is seen as such a sign of status (even given the private consumption nature of the product) that some women would rather save up the extra money for this premium brand – using makeshift sanitary solutions in the meantime – instead of using a less prestigious brand on a regular basis. Makit have realised that aspirational factors are key to creating demand in this market, impacting everything from packaging to distribution channel.

Waste Ventures has also seen the effect of aspiration in the customer demand in another, very different sector – garbage collection services. The company was pleasantly surprised to find many low-income citizens were willing to pay for Waste Ventures' waste management services. The reason why? Customers saw doorstep garbage collection as a 'big city' service and this aspirational factor was cited as a strong driver in their purchasing decision.

Find the right segment

Some IAP grantees face the challenge of competing indirectly with substitutes that are freely available to consumers. How do you convince someone to spend three days' income on a bag of cooking briquettes when they can collect firewood for free? The experience of some IAP grantees is to focus on a slightly different customer segment, such as those that already purchase charcoal or have higher and more secure incomes, where briquettes can be accepted as an economically attractive alternative. Some inclusive business experts recommend that entrepreneurs start in an income segment that is somewhat (but not excessively) lower than the mainstream market before trying to tackle the most impoverished customers in hard-to-reach areas.¹³

Like any consumer group, BoP customers want to be respected and admired by their peers.

Affordability and pricing is important in any market, but in BoP markets affordability becomes a critical issue.

3.3.4 Affordability needs to be built into the business model

Affordability and pricing is important in any market, but in BoP markets affordability becomes a critical issue. Affordability is something that needs to be considered at an early stage of an inclusive business, during the design of products and services. In the market, it's important to consider not only how much customers pay, but also when and how they pay. Affordability can thus be considered in terms of design, pricing and payment.

Affordability in design: Designing a product for someone living on US\$2 a day requires a relentless focus on affordability and cost. In refining their product designs, many IAP grantees find it a challenge to keep to the strict affordability needs of BoP consumers. This is particularly an issue for grantees that manufacture their products overseas and then have to incorporate transport and import costs into the product cost. Local production, manufacturing and packaging can reduce these costs in the long term, but for some grantees it has been a challenge to find local suppliers that can meet their quality and technical requirements.

One grantee that exemplifies how to design a super-affordable product for the BoP is Swedstream. With IAP support, Swedstream is developing affordable ultrasound equipment and services that can provide early detection and management of pregnancy complications. The cost and complexity of ultrasound equipment is one of the major barriers to women in poor and rural areas receiving appropriate pre-natal check-ups, leading to thousands of deaths every year due to complications during pregnancy.

To drastically reduce the cost of ultrasound equipment, Swedstream identified key contributors to cost and developed innovative solutions

For most people living on US\$2 a day, the idea of spending more now to save money in the future does not make economic sense.

Designing for the other 90 percent

In his book "Out of Poverty", Paul Polak gives a number of recommendations on how to design radically affordable products and services for "the other 90 percent" – meaning those at the BoP, the 90% of the world's population that are not currently targeted by product designers or engineers.

- Look at how to miniaturise the product, such as into smaller pieces, components or size. Micro-finance, microcredit and micro-insurance are all services that have been miniaturised.
- Then consider how that model can become infinitely expandable, allowing BoP customers to buy or invest into upgrades or expansions over time. For example, IAP grantee d.light has adopted a modular design in its solar energy systems that allows them to be continually upgraded.
- Cutting the weight of the product often forces designers to take away non-essential components

and find lighter, lower-cost materials.

- Take away redundancy. Many products made for affluent markets have built-in redundancy to improve product life or allow for additional wear-and-tear. This can be taken away to make it super-affordable.
- Look back in time to see how the product was historically designed. This can give hints on how it could be re-designed for the resource-constrained BoP market. New cost-effective materials can replace what was used in the past.
- Identify the key contributors to cost, then look at what trade-offs can be made that are acceptable to customers. For example, can labour be used instead of capital? Can quality be reduced within acceptable standards?
- Above all, listen to and understand the needs of the customer!

that could transform these cost factors. For example, they found that most ultrasound equipment combines three complementary technologies – an ultrasound probe, a monitor to visualise the fetus and a communications channel. By unbundling the three technologies, Swedstream was able to re-design the equipment around just one of the technologies (ultrasound probes). They were also able to replace the existing communications component, with one that uses everyday mobile telephone infrastructure. This has drastically reduced the cost of communicating the results back to the healthcare professionals and made the technology much more affordable.

Pricing and payment: When it comes to pricing and payment, the question of 'when' customers can pay is often as important as 'how much' they pay. For most people living on US\$2 a day, the idea of spending more now to save money in the future does not make economic sense. Despite the massive rates of return that come from investing in devices like cook stoves, water purifiers and solar lanterns, BoP families simply – and quite understandably – do not want to forgo the cash they have today to potentially save money in the future, especially when those returns are as-yet unknown and therefore highly risky.

The experience of IAP grantees shows that

A SIMPLE STRATEGY TO BOOST DEMAND AND PROFITABILITY

The publication *Inside Inclusive Business: Needs or Wants? Creating Demand in BOP Markets* provides a simple strategy for inclusive businesses to move into a high demand, profitable business as shown in the diagram below. The full document is available to download from the Practitioner Hub for Inclusive Business at <http://bit.ly/NeedsOrWants>.

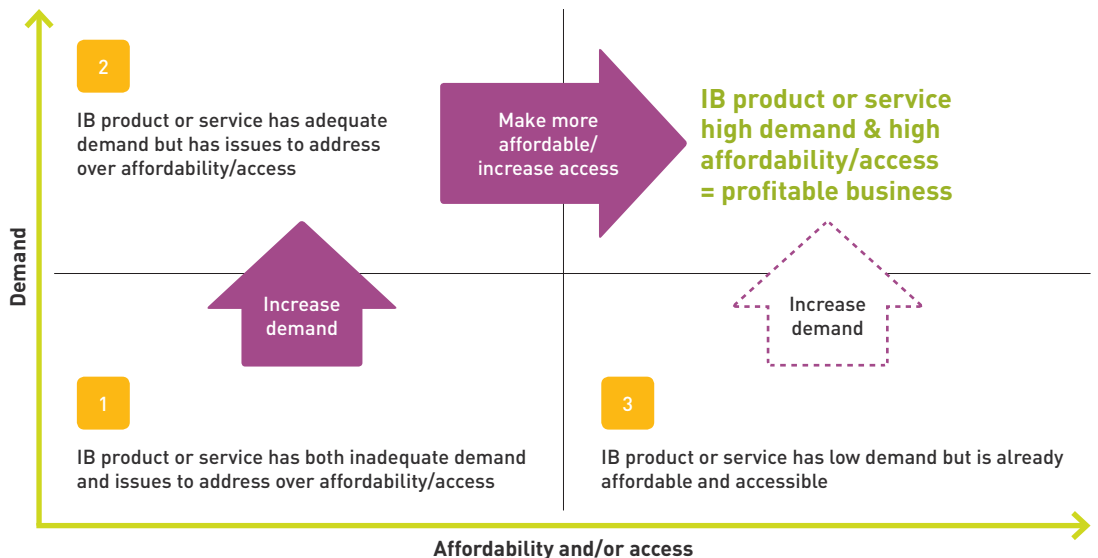




Photo from IAP grantee Vagga till Vagga.

flexible payment systems can help overcome this barrier. Rent-to-Own is a company that finances productive assets, such as small-scale farming equipment, to approved entrepreneurs. With IAP support, Rent-to-Own has spent time understanding the seasonal cash flow streams of its customers. For example, purchasers of irrigation pumps typically do not start generating an income from the pumps until a number of months later. Providing an initial grace period can make this product much more accessible and affordable to BoP customers who cannot afford to make repayments in the meantime. Similarly, purchasers of milling equipment find that there is little demand for milling in the off-seasons. It is difficult for those customers to make repayments in those months, but they have capacity to make larger repayments during busy months. As a result of this research, Rent-to-Own now offers repayment schedules that are matched to its customers' erratic income streams, rather than expecting a single, constant repayment stream.

The question of 'how' customers pay is also important. The development of mobile money has revolutionised the market in this area and a range of payment methods are now available that make products and services more accessible to the poor. Most IAP grantees currently use mobile money as a key part of their business model or are considering shifting to this approach. For example, Pamoja Cleantech is an IAP grantee that supplies electricity to houses in rural villages in Uganda. Pamoja plans to operate a pre-paid pricing model and their initial idea was to

manually collect payments by sending someone to visit each customer's house. The problems with this approach are multiple: there is a security risk in manually collecting and transporting cash; it causes a delay in payment to the company that impacts on cash flow and can become a risk if there is high inflation; it creates an inconvenient delay for customers between payment and connection to the electricity services; and the approach adds to the company's administrative costs. They are now considering a mobile solution instead.

Done well, a payment system can become a strong competitive advantage. With IAP support, solar power company d.light has developed an innovative payment system called Pay-GO, which integrates pay-as-you-go consumer-financing technology into its solar power system. The Pay-GO system eliminates the high initial purchase

Most IAP grantees currently use mobile money in their business model or are considering shifting to this approach.

Done well, a payment system can become a strong competitive advantage.

Considering mobile money?

For a more detailed discussion and practical tips on how mobile money can help an inclusive business, check out IAP's Spotlight *Getting Paid: how using mobile payment systems can increase your revenue and help you keep track of sales* available on the Practitioner Hub for Inclusive Business at <http://bit.ly/SpotlightGettingPaid>. To help entrepreneurs assess whether their business would benefit from mobile money, there is an associated Checklist at <http://bit.ly/ChecklistMobileMoney>.

Photo from IAP grantee Pamoja Cleantech.



As with payment systems, a good distribution network can 'make or break' a great inclusive business idea.

price for solar systems. After an initial down payment, users take the solar system home and can use it unlimited for one month. After that, the unit will lock – through an encrypted hardware/software system – until reactivated by an activation code obtained by buying a scratch card much like a mobile phone top-up. This approach allows customers to choose when and how much to pay without defaulting on a loan or losing their product. It also creates an incentive for payment, since the product will not work unless it is topped up with credit. This payment approach, which d.light is trialing in the Ugandan market, has already proven to be highly successful for d.light in Kenya.

3.4 FINDING THE RIGHT DISTRIBUTION MODEL

One of the distinctive challenges of BoP markets is the logistics of reaching customers in remote and hard-to-reach areas. Typically cut off from the main transport infrastructure, getting goods and services to these communities takes creative solutions. As with payment systems, a good distribution network can 'make or break' a great inclusive business idea. IAP grantees have tested different distribution models with various degrees of success, and some IAP initiatives have specifically focused on distribution networks as one of the main innovations in their business model.

3.4.1 Village entrepreneur networks: A tale of two IAP grantees

One model often considered or trialed by IAP grantees is that of the village entrepreneur. Also known as a rural or micro entrepreneur, a village entrepreneur (VE) is an individual selected from within a village who acts as a 'touch point' between a business and local customers. The company supplies the product or service equipment to the VE upfront and provides additional support to help the VE succeed, such as training and branded promotional materials. The VE sells the company's product or service, provides customer support, invests capital, earns commission, and takes risks. While the model stands in theory, the experience of some IAP grantees suggests it is not that simple.

Two IAP grantees in the energy sector tested the village entrepreneur model with the support of IAP: Sunny People in Kenya and Nuru Energy in India. Both had a business model that was based on village entrepreneurs purchasing charging systems that could be used to charge mobile phones or lights. The idea was that village entrepreneurs would buy these systems on credit and then provide charging services to customers in rural and remote locations. This would enable the entrepreneur to earn an income while at the same time providing mobile charging services to communities that were cut off from the electricity grid. The money earned by the entrepreneur could be used to pay off the capital investment and after the initial repayment period, would provide a sustainable income source.

Both grantees had entered into early partnerships with MFIs with the view that this would enable them to quickly establish a village entrepreneur network. It was hoped that the prospect of gaining new clients would provide a financial incentive for the MFI to drive marketing, sales and distribution and provide credit to village entrepreneurs. But both ran into difficulties. Sunny People found it difficult to motivate its MFI partner to recruit and train village entrepreneurs and there was a weak capacity in sales and marketing within the MFI. Eventually, Sunny People hired its own staff to recruit, train and manage

Distribution models: The results of one company's pilot

One inclusive business in Kenya researched by IAP focuses its business on sales and distribution of consumer durables such as cook stoves, solar energy solutions and mobile phones. The company spent a year piloting different models for sales, distribution and payment with the following results:

Direct sales: This involved a commission-based sales force selling the products door-to-door. This model proved to be the most expensive and slow to deliver returns. It relied heavily on the sales competence of the sales staff, who had limited product knowledge, required formal training, and were not successful in building trust with consumers. The company did not pursue this model.

Kiosk sales: In this model, agreements were made with kiosk owners in rural areas to stock and sell solar lanterns. The company offered them credit upfront to enable them to order and keep this inventory. However, this model led to difficulties due to the high upfront costs and rate of default against the credit, even where products had already been sold. The company did not pursue this model.

Business to business: This involved marketing products through cooperative societies and companies employing at least 100 workers. These were typically large firms that the company had an existing relationship with, such as agribusinesses. This took some time to establish, but has proven to be a workable model.

Savings and Credit Cooperative Organisations (SACCOs): The company also trialled marketing, payment and distribution through SACCOs. This model proved to have a number of benefits. The SACCOs were highly respected and influential organisations and their opinion on products and purchases carried significant weight with BoP consumers. Given their administrative capacity and reach into the communities, the SACCOs were also able to act as regional hubs in a 'hub and spoke' distribution system. Their structures of savings and credit allowed for innovative payment methods such as a 'layaway' approach where customers pay off products in instalments, receiving them when they are fully paid off. The company's use of SACCOs is considered one of the keys to its success, providing payment and distribution in a flexible, scalable way. However, establishing relationships with the SACCOs took time, patience and persistence.

One popular model amongst IAP grantees is that of the village entrepreneur. Also known as a rural or micro entrepreneur, a village entrepreneur is an individual selected from within a village who acts as a 'touch point' between a business and local customers.

rural entrepreneurs and undertake marketing and sales. In some cases Sunny People even took on the role of financier, providing credit to rural entrepreneurs directly. This led to higher overheads, required more time investment than originally expected, and created a much heavier organisational structure as the company took on responsibility for almost the entire value chain.

Nuru Energy's model was also jeopardised early in implementation as MFIs in India were hit with a credit crisis around that time. Its initial MFI partner pulled out and the company struggled to find another suitable partner that could provide financing to VEs. Eventually an NGO partner took on the role of providing credit, financed through the corporate social responsibility (CSR) programme of a large corporate foundation. To quickly establish village entrepreneur networks, Nuru Energy explored a range of other partnerships including with mobile telecoms companies, consumer durable companies, women's savings cooperatives and NGOs. After a lengthy process of negotiations, trial and error, the company has since chosen to focus on rural women's cooperatives and self-help groups as a way to recruit and fund village entrepreneurs and support marketing efforts. This has taken significant time and effort. Nuru Energy has also begun to work with existing traders of electronics and lighting products. These distributors supply rural retailers, who are also village entrepreneurs, with electronics for sale in larger villages or small towns.

In addition to the problems of finding suitable partners in their distribution model, both Sunny People and Nuru Energy faced lower-than-expected levels of consumer demand for charging services. It seemed that customers preferred to buy their own chargers outright, giving them the convenience of charging in their own home as well as added social status of owning their own system. As the earning potential became more uncertain, it became more difficult for the village entrepreneurs to justify the high upfront costs of the charging equipment, despite the fact there was credit available to finance the remainder.

Better business through partnerships

Distribution networks to the BoP: Harnessing existing networks and creating unusual partnerships analyses the experiences of several inclusive businesses that have used partners' existing networks as the solution to their distribution challenge. It is available on the Practitioner Hub for Inclusive Business at <http://bit.ly/DistributionNetworksToBOP>.

Finding the right partners is also one of the main challenges faced by IAP grantees. Recognising this fact, the Practitioner Hub for Inclusive Business has developed a range of materials to help entrepreneurs develop effective partnerships. See <http://bit.ly/News-Partnerships> for links to some of the main resources.

Photo from IAP grantee Sunny People.



Potentially one of the most interesting, if not ironic, lessons to come from this was that Nuru Energy's business model had proven highly successful in African markets. In its Rwandan pilot, Nuru Energy had set up a network of 70 entrepreneurs and sold 10 000 lights benefiting an estimated 50 000 people¹⁴ and as at October 2013, had a network of over 1 200 entrepreneurs and over 70 000 lights sold. This shows the critical importance of testing business model assumptions whenever moving to a new market. Testing viability in the Indian market was indeed the purpose of Nuru Energy's IAP grant funding.

Reaching rural consumers

Inside Inclusive Business: Last Mile Distribution suggests that the two main factors for a village entrepreneur network to be successful are strong consumer demand for the product or service, and manageable level of risk for the village entrepreneur. This can relate to the degree of upfront investment or working capital the VE is expected to give. If these two factors are not there or insufficient, the company may need to take on some risk, subsidise capital costs or undertake promotional activities itself. One way to do this is by paying wages as well as commissions or by taking on the upfront investment costs. The *Inside Inclusive Business* publication and associated *Checklist on Reaching the Rural Consumer* are available for download on the Practitioner Hub for Inclusive Business at <http://bit.ly/VillageEntrepreneurs>.

LESSONS FROM IAP GRANTEES' EXPERIENCES WITH VILLAGE ENTREPRENEUR MODELS

Idea on Paper	Reality in Practice
Being a part time VE will be an attractive way for BoP distributors to earn extra cash	Sunny People and Nuru Energy found it difficult to effectively motivate and commit VEs when working on a part time basis. This supports research by Hystra, ¹⁵ which recommended that the sales force be engaged on a full time basis for best effect. Other IAP grantees have distributed successfully through village entrepreneurs who are already selling similar products and can complement their range of products with the IAP grantee's offer.
The potential return will justify the high upfront investment for the VE	VEs evaluate the risk of an upfront investment based on a range of factors, including customer demand, likely sales level, margin, and the effort required to achieve the necessary sales level. If the proposition isn't compelling – such as when customer demand is low – they will not be motivated to invest in the business opportunity.
It will be easy to find a partner that has a ready-made network of VEs	Finding partners with established VE networks that are willing to market the product or service is not easy or straightforward especially if the value proposition is not strong compared to competitors. The process of finding and negotiating with partners, training them in the product or service, providing adequate support and ensuring that they are delivering as agreed takes significant time and effort. Entrepreneurs must be active 'on the ground' to forge these partnerships and maintain adequate oversight.
Customers will want to buy from VEs	VEs need the right training and sales support to be an effective route to market. They are effectively the brand ambassadors and need to know how to build 'buzz' and trust. The level of trust from consumers to VE varies. Sunny People had some success when using respected community leaders as product promoters, as the leaders' credibility was unquestioned.
VEs will be a scalable model	When the right partnerships are in place, VEs can be a scalable model. But getting there is a process of trial and error. Both Sunny People and Nuru Energy had to find alternative ways to deliver marketing, distribution and sales in the meantime, either by doing this in-house or by trialling a large number of partnerships at once.

4. LOOKING FORWARD

4.1 POTENTIAL FOR SCALE

Faced with the uncertainty of new markets and new approaches, inclusive businesses' road to scale is unfortunately long and fraught with peril. Monitor-Deloitte's research in India indicates that inclusive businesses take more than a decade to reach a reasonable level of scale.¹⁶

But what exactly is scale? In traditional economic terms, scalability usually refers to the potential for 'economies of scale', where costs of production are spread out over more units, meaning that the cost per unit goes down. In inclusive business, scalability comes when there is a virtuous cycle in the business model – meaning the more it grows, the more it is able to grow.

One useful definition in the context of inclusive business is "something large or pervasive and relevant to the problem at hand."¹⁷ To see what this definition might look like in practice, one can take the example of IAP grantee M-BIRR. M-BIRR is developing a mobile service that will bring financial services to the unbanked population of Ethiopia. Access to banking and financial services helps to overcome poverty, reduce income disparities, engage poor people in markets

Constraints to scale

Why do some seemingly 'successful' inclusive business pilots fail to reach scale? In addition to any constraints in the business environment, *Inside Inclusive Business: Scaling inclusive business* suggests seven broad reasons:

1. The business models are not sufficiently commercial
2. Other external factors limit the commercial proposition and ability to scale commercially
3. Market demand turns out to be very limited
4. The business cannot access growth capital
5. There are structural or capacity constraints to growing the business
6. There is a lack of ambition or incentive to go to scale
7. There are no, or very limited, economies of scale for the business model

These constraints should be considered early on in terms of how pilots are carried out, analysed and adapted for scale. Download the full publication from the Practitioner Hub for Inclusive Business at <http://bit.ly/InsiderScalingIB>

Research in India indicates that inclusive businesses take more than a decade to reach a reasonable level of scale.

IAP has tried to tackle the question of how to measure success – and scalability – by developing indices for commercial viability, development impact and innovation.

and increase economic growth. At the time of application in 2011, there were 15 million mobile phone subscribers in Ethiopia and an estimated

IAP'S COMMERCIAL VIABILITY AND DEVELOPMENT INDICES

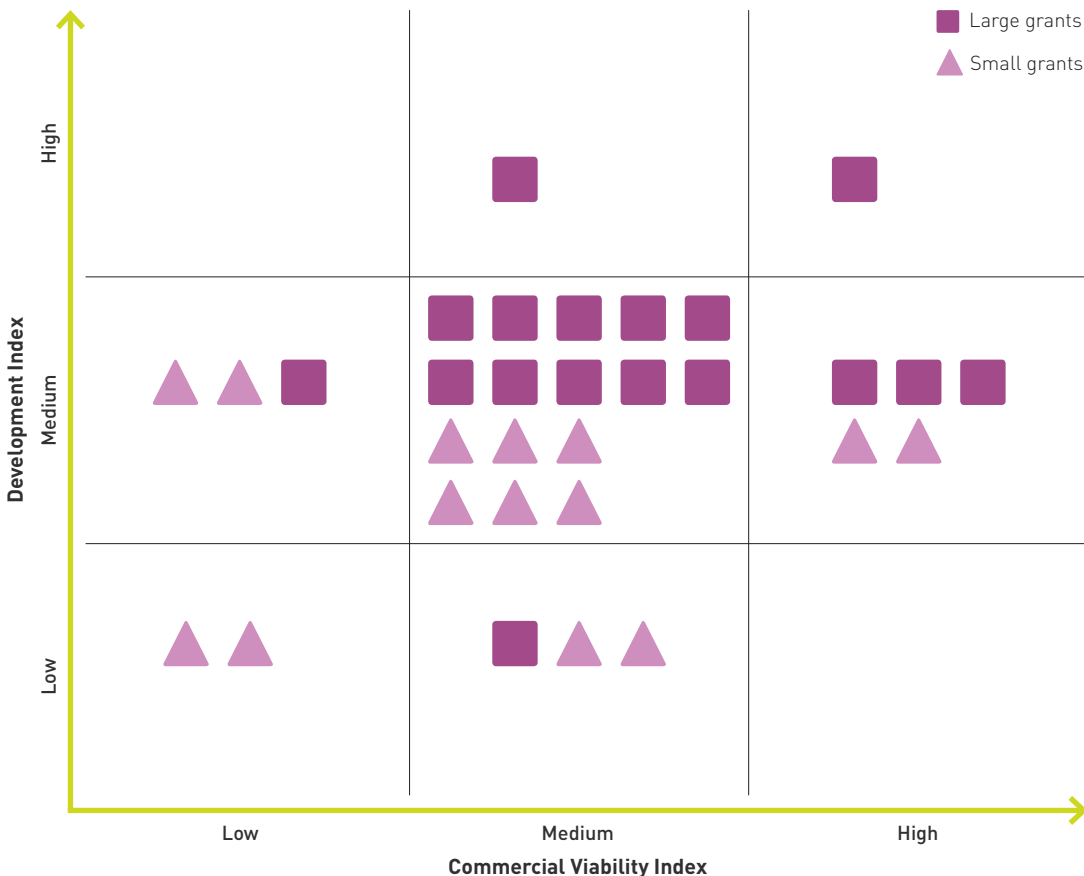




Photo from IAP grantee Fullwell Mill

A large majority of IAP grantees believe that commercial viability is 'very likely' or 'likely' to be achieved within the coming five years.

The time between the start of grantees' inclusive business initiatives and the point at which positive profits are generated is generally expected by grantees to be fairly long: 38 months on average from the time of baseline reporting.

90% of Ethiopia's 90 million people were unbanked. Through its partnerships with microfinance institutions, M-BIRR is poised to reach 4 million of the MFIs' existing customers and access a network of 800 points of sale covering a population of 70 million. If M-BIRR is successful in bringing its model to market, it has the potential reach scale: large, pervasive and relevant to the problem at hand.

Information and communications technology (ICT) is typically an enabler of scale, as it allows companies to reach high numbers of users with a small (and diminishing) unit cost. In consumer models, scale may be limited by the size of the market, whilst in producer models, the limiting factor will often be the size or physical processing capacity of a business operation.

IAP has tried to tackle the question of how to measure success – and scalability – by developing indices for commercial viability, development impact and innovation. The figure on the previous page maps the commercial and development ratings of 32 operational grantees as described in more detail in the following sections.

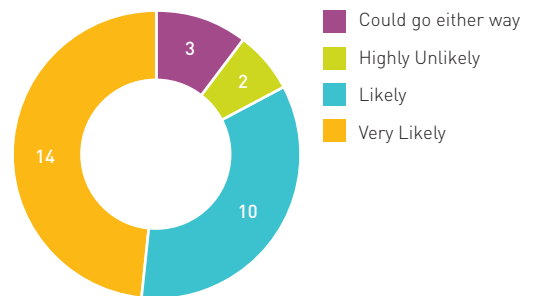
4.2 POTENTIAL FOR COMMERCIAL VIABILITY

Only if an inclusive business reaches commercial viability is it able to achieve its other development impacts in the longer term. Commercial

viability therefore underpins the scalability and sustainability of IAP initiatives.

In their progress update or completion reports, the 29 operational IAP grantees were asked to provide their own opinion on where their initiatives are heading in terms of future commercial viability. As is shown below, a large majority believes that commercial viability is 'very likely' or 'likely' to be achieved within the coming five years.

LIKELIHOOD OF REACHING PROFITABILITY WITHIN FIVE YEARS: IAP GRANTEES' OWN PERCEPTION



As indicated in Section 2, IAP grantees generally expect the time between the start of their inclusive business initiatives and the point at which positive profits are generated to be fairly long: 38 months on average. This point in particular illustrates the high need for external financial support for these types of business ventures in their early stages.

Beyond the self-reported perceptions and projections of grantees, IAP also conducted its own assessment of initiatives' likelihood to reach commercial viability. This analysis assessed a number of indicators including:

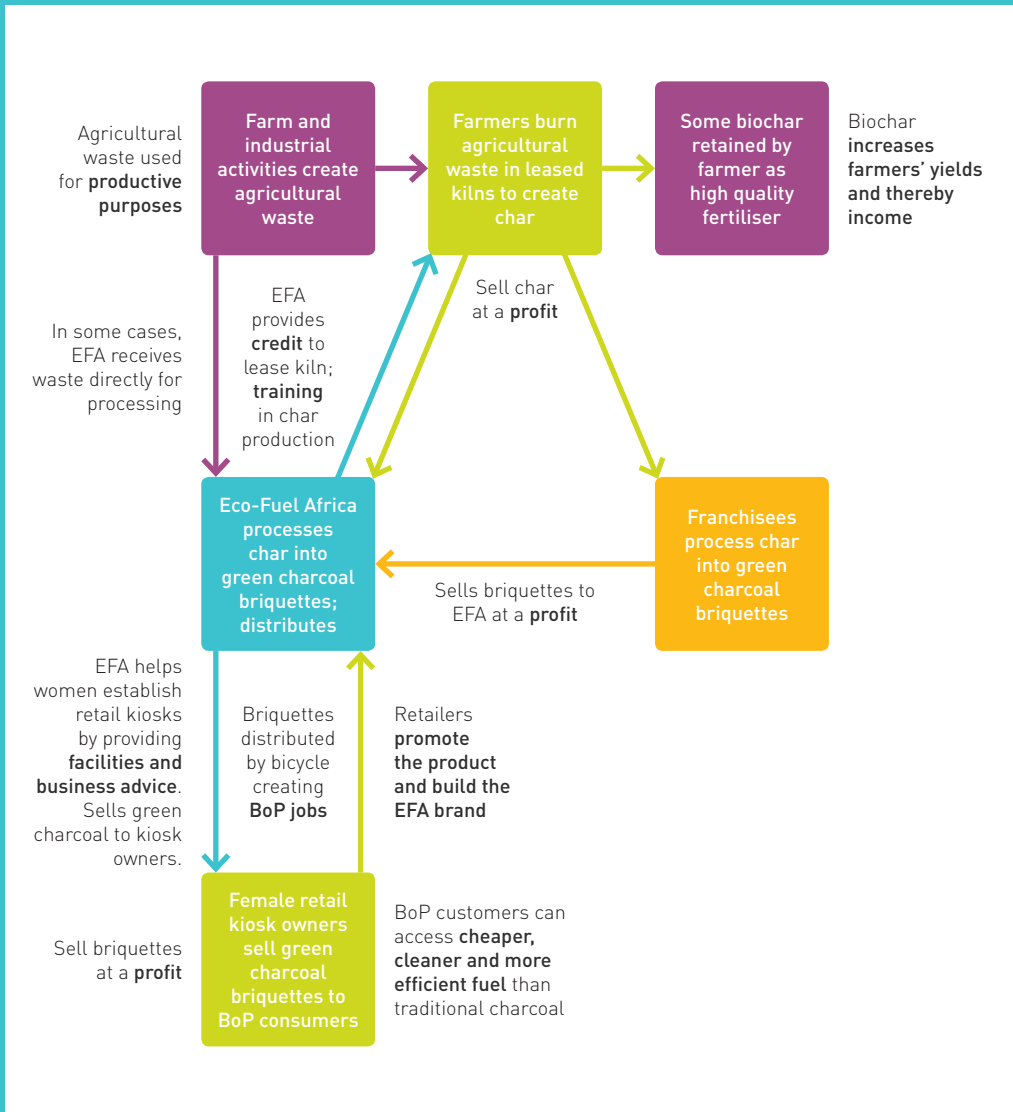
- Has breakeven already been reached?
- What is the likelihood of breakeven being reached in 2013 and in 2016?
- Does the business have a business plan?
- Is there evidence of strong leadership?
- Is the business on track against identified targets?
- Does the business have access to the external deals, finance and partnerships that will be necessary?

Of the 32 grantees assessed, the majority (65%) was seen by IAP to have 'medium' likelihood to reach commercial viability, with an even distribution between those of 'high' likelihood (19%) and 'low' likelihood (16%). Among the highest-scoring projects were two projects that have already reached break-even and one that is well on its way. Two of the lowest-scoring projects had already indicated that operations would not be continued in their current form.

Eco-fuel Africa: An example of a commercially viable IAP grantee

Eco-fuel Africa is a Ugandan company started by African entrepreneur and TED Fellow Sanga Moses. Eco-fuel Africa produces and distributes 'green charcoal'; a cooking fuel made from agricultural bio-waste that is up to 20% cheaper than charcoal, emits less smoke, can be burnt in traditional cooking stoves and does not contribute to deforestation.

Eco-fuel Africa creates value for poor people at many points in its business model.



The company leases low-cost, locally made kilns to farmers in Uganda and teaches them to convert their agricultural waste into char. Eco-fuel Africa then buys most of this char from farmers; some is retained by farmers and used as organic fertilisers (biochar). Biochar is considered to be an effective fertiliser that not only increases yields but also may contribute to carbon sequestration.

At its local processing facilities, Eco-fuel Africa compresses the biochar bought from farmers into green charcoal briquettes. The briquettes are then distributed through retail kiosks, which Eco-fuel helps to establish. These retail kiosks are owned and run by female entrepreneurs, who would often not have any alternative source of income. Eco-fuel Africa provides the building for them to use as well as advice and support on how to run their business. The women kiosk owners are able to sell the green charcoal for a profit. Over time many of the women add to the products and services that are sold at their retail kiosks.

Eco-fuel Africa is looking to scale its operations through a franchising model, where franchisees (rather than Eco-fuel Africa) buy char from farmers and produce green charcoal briquettes. This processing creates further value in the value chain and creates a scalable model that can expand into new markets. So far, four franchisees are in operation with plans for growth over the coming years.

Eco-fuel Africa is an example of a commercially viable IAP grantee that creates value for poor people at many points in its business model.

Photo from Waste Ventures.



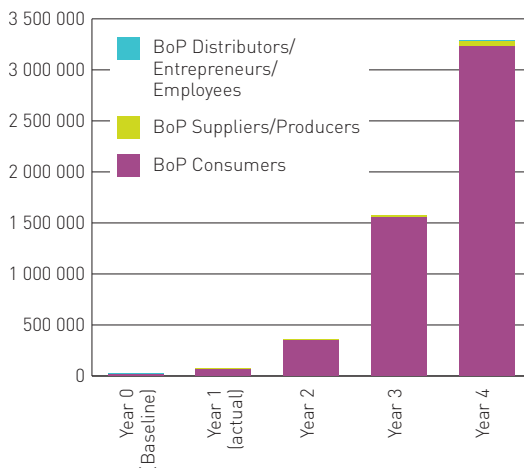
For the vast majority of initiatives (78%), the potential development impact and its significance to poverty reduction is seen to be 'medium'. 15% were seen as having 'low' level of likely development impact, and only 6% were expected to have a 'high' development impact.

4.3 POTENTIAL FOR DEVELOPMENT IMPACT

4.3.1 Direct impacts

The 29 operational IAP grantees were also asked to provide their own opinion about their expected reach to BoP groups in future. Most grantees are in the first year of implementation, but expect a substantial growth in the reach to BoP from the second year onwards. It's likely that this reflects some of the entrepreneurial enthusiasm that was reflected in the ambitious financial projections discussed in Section 2.4. Nonetheless, BoP reach has increased quite dramatically in the first year of operation.

REACH TO BOP GROUPS EXPECTED BY OPERATIONAL IAP GRANTEEES



IAP conducted its own analysis of the development impact that is likely from these projects, based on:

- Number of BoP beneficiaries estimated to be reached at the time of IAP project completion
- The likely scale of the business' reach to the BoP by 2016
- Likelihood of others replicating the business model leading to indirect impact at scale
- Significance of impact to each person that benefits, and
- Significance of positive knock-on /systemic impacts that are likely to be created by the project.

The overall results of this analysis indicate that for the vast majority of initiatives (78%), the potential development impact and its significance to poverty reduction is seen to be 'medium'. 15% were seen as having 'low' level of likely development impact, and only 6% were expected to have a 'high' development impact.

4.3.2 Systemic impacts

In providing public funding to companies, the IAP programme is aiming to create changes that go beyond a single company and impact on the sector as a whole. If realised, these knock-on, systemic impacts can be one of the biggest ways that IAP initiatives can create value for the poor. Examples of potential systemic impacts are changes in other companies' business practices, increased investment by others in BoP markets,

EXAMPLES OF SYSTEMIC IMPACTS REPORTED BY IAP GRANTEES

Systemic impact	Examples of early signs reported by IAP grantees
Uptake of good business practice by other companies	An NGO in Haiti was impressed by Eco-fuel Africa's success so much that it started its own green charcoal project in Haiti using their technology and business model. The organisation was awarded IAP funding in the fifth funding cycle support its operations in Haiti. Eco-fuel Africa reports that it has also motivated a number of Ugandan entrepreneurs to start similar projects, and is seeing increased competition from similar businesses in its home country of Uganda.
Increased investment by others in low-income client groups or low-income areas	Finaccess reports that a Class A commercial bank has now entered into providing micro loans to small borrowers, which was not possible before Finaccess introduced its mobile financial services in Nepal. More importantly, these loans are given at much better interest rates than standard microfinance institution rates. As loans to small and medium enterprises require insurance coverage, the insurance sector is also now gearing up to complement the entry of commercial banks into this segment.
The direction or speed with which the sector develops	Sanergy's success in the field has attracted other sanitation organisations to setup in Kenya, accelerating the development and testing of new models to increase access to sanitation in slums.
Impact on the development of other sectors	M-BIRR is set to impact on small businesses, farmers and small producers through its provision of basic financial services at local level. Farmers can now be paid directly into their account upon delivery of produce to the buyer. This is expected to stimulate better business practice, better buyer/supplier relationships and ultimately business growth.
Regulation, local/national government policies	Waste Ventures helped modify waste management practices at a municipal level to incentivise recycling and environmentally friendly waste processing.

the way the sector grows and develops (for example, creating a competitive market for goods and services that were not there before), and changes to government policies and regulations.

While it is difficult to objectively collect data on systemic impacts, some more mature initiatives in the IAP portfolio are already noting some changes in their operating environment that have come about because of their inclusive business initiatives. A selection of these is above. More systemic impacts are expected to become noticeable over time.

4.4 INNOVATION IN IAP INITIATIVES

One of the key purposes of IAP is to spur innovation in products, services and business models that can help reduce poverty on a commercially viable basis. IAP has analysed the extent that IAP initiatives are contributing to innovation in inclusive business by analysing several indicators:

- What is the overall innovation rating of project? Is it a strong example of innovation?
- Innovation in business model components: is there high innovation in at least one of: product/service, production, marketing/distribution?
- How 'new' and 'significant' is it: is the innovation classified as transformational, radical or incremental?
- Innovation rating of the company: is it specifically seeking and developing innovation?

This resulted in a similar distribution to the other IAP indices, with 63% of grantees ranked as

'medium', 18% ranked as 'high' and another 18% ranked as 'low'. The highest-ranking projects were considered to have the potential to significantly transform current practices in particular industries. For example, Book by Book's model for ordering and distributing textbooks can transform the way governments procure educational materials, resulting in operational efficiencies, greater transparency and accountability, and ultimately better educational outcomes. Swedstream's innovation in ultrasound technologies could be considered transformational in the area of maternal healthcare, particularly in terms of reaching underserved markets in rural and remote areas.

The fast pace of innovation

A factor that is interesting to note in the context of a programme such as IAP is the fast pace of innovation that seems to be happening in sectors such as clean energy. IAP applications that seem highly innovative on award can, three years later, become less innovative as similar initiatives start up elsewhere in the market. This could be considered a positive sign of 'crowding in', where others see successful inclusive businesses in practice and are inspired to start a similar venture. It is one of the impacts that IAP hopes to achieve with its grant funding. It does, however, mean that some grantees' innovation ranking may be revised downwards during the course of IAP support.

While it is difficult to objectively collect data on systemic impacts, some more mature initiatives in the IAP portfolio are already noting some changes in their operating environment that have come about because of their inclusive business initiatives.

Those projects ranked highest in terms of innovation were considered to have the potential to significantly transform current practices in particular industries.

4.5 HAS IAP HELPED GRANTEES MOVE TOWARDS SUSTAINABILITY AND SCALE?

Given the significant funding challenges that early stage inclusive businesses face, one clear way that IAP has helped them on their journey is by providing grant financing. Many IAP grantees highlight the 'Pioneer Gap' problem of not being able to secure financial support at the early stages of inclusive business development, where the models are not proven and where market data is unreliable. Greenway, an Indian company prototyping thermoelectric generators that convert waste heat to electricity, noted that "*commercial funding is not provided for undertaking market research and testing prototypes for such social ventures, as such projects carry huge commercial risk. So it is through foundations and other organisational funding and grants that the project can be executed and progress.*" Even grantees that have secured financing from numerous other sources noted that IAP funding is unique in that it funds new product development and early stage market testing rather than only implementation.

Because of lack of early stage funding, some ideas terminate before they even take off. See My Tree, a company exploring the use of internet technologies to promote tree planting and forest stewardship in a number of African countries, summarised the challenge well when they noted that "*continually seeking external funding at such an early stage of our project would consume most of the time and energy available, so that actual development of the core business would proceed very slowly. This increases the risk of losing team members to alternative activities, and of encountering competition in our concept type.*"

The additionality of IAP funding is reflected in the response of 27 IAP grantees to the question "What, if any, has been the value of IAP support for your organisation?" Almost two thirds said that their inclusive business is better designed, proceeding more quickly, or bigger than it would

have been otherwise. A third said that without IAP support the project would not have progressed at all. Only one grantee said that IAP support was useful but has not resulted in an identifiable change from what would have happened anyway.

The benefits of IAP funding are more than just financial. A number of grantees report that simply being supported by IAP and Sida has given them credibility when approaching other funders, investors and partners.

Additionality is always hard to measure in empirical terms, but it can certainly be said that IAP has had high additionality by filling one rung on the ladder of support for IAP grantees. While IAP has helped grantees take that next step, the journey from here to scale will require the concerted efforts of a range of actors, partners and funders as well as the grantees themselves.

4.6 IMPLICATIONS FOR FUNDERS AND OTHER SUPPORTERS OF INCLUSIVE BUSINESS

Grant funding is clearly one important factor that can help early stage inclusive businesses make it to the next stage of their development. But based on the lessons from IAP, there are some trade-offs that funders need to be aware of when providing grants to early stage businesses.

- Releasing the creativity of small innovative entrepreneurs is likely to generate solutions that would not have been born in a more traditional donor setting, but it requires the donors to relinquish a degree of control.
- The adage "change is the only constant" applies in the case of early stage inclusive businesses. Grantees must have the freedom to learn and adapt in the field and cannot always stick to a pre-agreed plan. Funders need to be flexible during implementation and expect that grantees will change course along the way. This means that usual donor funding procedures and decision-making processes need

Governments and scale

Governments can have a huge influence on inclusive business' ability to reach scale. Regulatory issues seem to be a major factor impacting on the viability and scalability of companies working in highly regulated sectors, such as health, finance and mobile telephony. As two grantees working with mobile financial services, M-BIRR in Ethiopia and Finaccess in Nepal have faced regulatory challenges on both fronts.

For M-BIRR, the novelty of their mobile finance service meant the financial regulator had to internally work out a policy needed to get approval for the M-BIRR commercial service. This took longer than expected and consequently delayed M-BIRR's pilot moving into commercial phase.

In Finaccess' case, the central bank's introduction of rigorous customer identification processes created a significant barrier for Finaccess' entry to BoP markets, as poor communities often lack the relevant personal identification to open a new account. After 11 months of negotiating with government and regulators, Finaccess was able to modify this requirement and reach agreement with the government to include Government-to-People (G2P) payments in their offering. The G2P payments will be piloted in two of the poorest areas in Nepal, allowing 26 000 women to receive a social benefit for their children to stay in school. Finaccess is thereby also one of the first in the world to enable government payments through a mobile payment system.



Photo from IAP grantee Ignitia.

to be adapted to provide greater flexibility.

- Funders must be willing to accept risks and very long timeframes before there is significant reach into the BoP and/or commercial viability is achieved. These longer timeframes need to be considered when designing programmes that have a limited time period, such as the three-year IAP pilot.
- The approaches traditionally used by donors to monitor and evaluate development results are not feasible, but need to be adapted both to become manageable for the grantees and to truly capture the inclusive businesses' results over time.

Beyond grant funding, there are also other ways that donors and other supporters can help inclusive businesses to thrive. IAP grantees say they would benefit if donors like Sida could play a stronger role in helping forge connections, networks and building the (international) profile of grantees. Donors can release written materials about the programme and grantees' products to corporations, associations or government bodies.

Donors can also leverage their relationships and programmes with governments to help improve the environment for inclusive business. As indicated in the preceding box on Finaccess and M-BIRR, regulatory issues can impact on the viability and scalability of companies working in certain sectors. Donor agencies can engage in dialogue with governments to ease regulations that hinder the potential for businesses to become viable and reach scale. They can also help facilitate multi-stakeholder dialogue between public and private sectors. A few IAP grantees report being part of donor-led working groups

that tackle sector-specific issues.

Many IAP grantees express a desire for, and would benefit from, technical assistance. During an exchange seminar that IAP arranged in September 2013 with incubators and other supporting organisations of social enterprises, it was agreed that the most common critical gaps in inclusive business start-ups are business planning skills, financial literacy, and attracting top talent. Incubator organisations are helping entrepreneurs by providing advice, training and mentoring in these areas. IAP has also provided limited technical support to IAP grantees through the IAP team and Challenges Worldwide and this has been welcomed and reportedly valuable. Tailored advice provided by mentors that understand the business and what it takes to succeed is a valuable intervention that can complement the growing number of online business management tools.

Knowledge exchange is a key part of getting value from public investment, and should be included and emphasised in these sorts of initiatives. As mentioned in Section 1, knowledge exchange is an integral part of the IAP programme that is designed to increase the impact of donor funds. The Practitioner Hub for Inclusive Business at <http://www.inclusivebusinesshub.org>, co-hosted by IAP and DFID's Business Innovation Facility, has reached over 70 000 people in 120 countries to date with project information and lessons from the portfolios of both programmes. The majority of visitors are now from developing countries and include entrepreneurs that are keen to learn from the experience of other companies.

Linked to these two points, funders can also support incubators and accelerators that have a mandate to support inclusive business. Incubators and accelerators can help in establishing a solid pipeline of projects for programmes such as IAP and also be a useful partner for communicating and sharing knowledge. IAP has used its relationships with incubators and accelerators to publicise its funding cycles, events, publications and resources, and has received a number of applications from companies supported by these organisations. Donors can provide funding to incubators and accelerators as well as facilitate coordination between different organisations. The exchange seminar that IAP arranged in September 2013 with incubators and other supporting organisations was a welcome step in this direction.

Donors can also support market-building activities. Anecdotal evidence gathered during IAP research indicates that public private partnerships such as Lighting Africa and Global Alliance for Clean Cookstoves have accelerated the development of sustainable and competitive markets for clean energy devices through consumer education, open source market intelligence, product quality assurance and public sector engagement. Programmes that are aimed at making markets work for the poor can improve the operating environment for inclusive business initiatives.

4.7 FINAL REFLECTIONS

It is still early days for the inclusive business initiatives supported by IAP. Many are still mid-way through their grant funding and some are yet to even start. The results at this early stage are mixed; about as many have broken even as have found that their business models are not viable in their current form. Most are somewhere in the middle, with the likelihood of commercial viability and development impact still hard to assess.

Nonetheless, the journeys of those grantees that have been operational over the past year have already shown a number of lessons of interest to other companies and the broader community of supporting organisations. Their insights into improving and adapting business models, creating consumer demand, building trust, appealing to people's aspirations and sense of dignity, developing affordable products and services and finding the right distribution channels are relevant to other social entrepreneurs that are following this path.

IAP grant funding seems to have clear additivity by helping companies undertake activities that would not have gone ahead, or not in the same way or to the same degree, without IAP involvement. IAP has helped them take a small step across the Pioneer Gap and hopefully, one that will help them move closer to sustainability and scale.

ENDNOTES

- 1 "Social enterprises seen as driver for growth" <http://www.ft.com/intl/cms/s/0/8b2c00ac-e59a-11e2-ad1a-00144feabdc0.html#axz-z2iLE4Lxov>.
- 2 For more on 'What is Inclusive Business?' see the Starter Pack available on the Practitioners Hub for Inclusive Business at <http://businessinnovationfacility.org/page/starter-pack-what-is-ib>.
- 3 Koh, H., Karamchandani, A., Katz, R. [2012] From Blueprint to Scale: The Case for Philanthropy in Impact Investing, Monitor Group, <http://www.mim.monitor.com/blueprinttoscale.html>.
- 4 In its 2012 report From Blueprint to Scale (ibid), Monitor found that only six of the 84 impact investment funds found in Africa at the time invested at early stage. A similar study in 2013 by Village Capital [Bridging the "Pioneer Gap": The Role of Accelerators in Launching High-Impact Enterprises] found that less than 10 of the 300 impact investment funds in its study invested at less than US\$250 000 per company. In 2013 the Overseas Development Institute (ODI) conducted a pilot study mapping support to social enterprises in emerging markets [see <http://www.odi.org.uk/publications/7623-impact-investing-social-enterprise-emerging-market>]. ODI found that of the US\$500 million made available during 2010–2012 by the 10 investors sampled, a meagre US\$15 million (3%) was made available at the initial research and development stage and US\$69 million (14%) at the proof of concept stage.
- 5 A total of 69 projects were awarded grants, however three of these were cancelled post-approval.
- 6 Five large grants from Cycle 3 have been excluded due to being too early stage. Of the 29 projects that are the focus of the main report findings, three are 'double grantees' that had received both small and large grants and data is therefore included for only one of their initiatives. In many cases extreme outliers have been excluded or separated, i.e. where companies report results that significantly differ from other comparable companies.
- 7 IAP uses the OECD Development Assistance Committee's list of countries eligible for official development assistance, as provided at <http://www.sida.se/Global/Innovations%20Against%20Poverty/DAC%20list.pdf>.
- 8 Lighting Africa is a joint IFC and World Bank program that works towards improving access to better lighting in areas not yet connected to the electricity grid. For more information see <http://www.lightingafrica.org>. The Global Alliance for Clean Cookstoves is a public-private initiative aiming to create a thriving global market for clean and efficient household cooking solutions. For more information see <http://www.cleancookstoves.org>.
- 9 Hystra [2013] Marketing Innovative Devices for the Base of the Pyramid, Hystra, http://hystra.com/s/Full_report_Marketing_for_the_BOP.pdf.
- 10 Ibid.
- 11 Ibid.
- 12 Howard, S. [2013] Waste Ventures features in The Solution Revolution, blog posted on the Practitioner Hub for Inclusive Business, 10 October 2013, http://businessinnovationfacility.org/profiles/blogs/waste-ventures-feature-in-the-solution-revolution?xg_source=activity.
- 13 Gradl, C. & Knobloch, D. [2010] Inclusive Business Guide – How to Develop Business and Fight Poverty, endeva, Berlin.
- 14 <http://www.businesscalltoaction.org/members/2011/09/nuru-energy/>.
- 15 Hystra, Op Cit.
- 16 Koh, H., Karamchandani, A., Katz, R., Op Cit.
- 17 Trelstad, B. and Katz, R. [2011] Mission, Margin, Mandate: Multiple Paths to Scale, innovations, Special Edition for SOCAP11, MIT Press Journals, http://acumen.org/wp-content/uploads/2013/03/INNOVATIONS-SOCAP11_Mission-Margin-Mandate_trelstad-katz.pdf.

SWEDISH INTERNATIONAL DEVELOPMENT COOPERATION AGENCY

Address: S-105 25 Stockholm, Sweden

Office: Valhallavägen 199, Stockholm

Telephone: +46 (0)8-698 50 00 Telefax: +46 (0)8-20 88 64

E-mail: info@sida.se Homepage: www.sida.se

