

Corporate/MFI Partnerships that are Profitable for the Corporation, the MFI, and the Clients

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Introduction

The causes of global poverty can be broadly linked to barriers to access for health, education, employment, information, housing, human rights, clean and safe environment, and ecological stability, among others. Faced with the struggle about which issues to tackle, development agencies often take a “siloe” approach to providing aid and development resources. Too often these “siloe” approaches, whether among separate organizations or even within the same organization, do not effectively leverage operational cost structures to maximize impact, streamline processes, and reduce wasteful investment. Competing aid agencies have even been known to “carve up” the developing world which results in organizations with good intent, working against each other to the detriment of those in need. These approaches to development have created serious inefficiencies in the delivery of development services and limited success in alleviating poverty.

In recent decades, private sector strategies to alleviating poverty have emerged to tackle issues of inefficiency and a need for truly sustainable solutions while providing market opportunities for business. These strategies include microcredit/microfinance, multi-national corporations targeting emerging markets, and social entrepreneurs utilizing practices to create replicable and scalable models. Many of the private sector strategies to poverty alleviation have generated great hope and, in many circumstances, measurable improvement in the alleviation of poverty. As a result, many partnerships between corporations and microfinance institutions have been developed to leverage these successes.

The purpose of this paper is to present examples of how microfinance institutions, corporations, and private sector strategies can be applied to overcome the challenges of poverty alleviation. Examples from

corporate/MFI relationships will be provided as well as an in-depth analysis of how microfranchising, as a solution to poverty alleviation, can work and should work in concert with existing service and product platforms. These platforms include: microfinance institutions, consumer products providers, information services providers, among others. Examples will be drawn primarily from the experiences of Scojo Foundation, a leading social enterprise which utilizes a microfranchise approach to product and service distribution.

I. Microfinance and Corporate Partnerships-Leveraging Each Other

Microfinance institutions provide a natural platform for business opportunities. Their knowledge of and reach within emerging markets is unrivaled. With more than 100 million borrowers and growing worldwide, the power of microfinance institutions and their networks is significant. As a result many corporations are partnering with microfinance institutions. Some reasons include: the opportunity to commercialize micro-lending and grow new financial markets, leverage existing financing to introduce micro-insurance schemes, finance purchases of capital items for SMEs, and leverage platforms for delivery of goods and services. From a purist's perspective, partnerships between commercial banks and microfinance institutions are natural. As the demand for capital grows in terms of both volume and amount, commercial banks like Citigroup, ABN-AMRO, and ICICI are well-suited to provide the systems and resources to meet the demand. However, commercial banks are not the only corporate entities forming partnerships with microfinance institutions. Insurance companies like Allianz recognize that microfinance borrowers are an enormous potential market. IT companies like Microsoft and HP see that microfinance borrowers can be new customers. Consumer products companies like Unilever know that microfinance networks represent a pre-positioned platform for distribution and consumption.

“Large commercial financial institutions, including Citigroup and Deutsche Bank, are now showing interest in microfinance, which could increase access to credit for the poor.”¹ According to University of Pennsylvania Economics Professor, Tayyeb Shabbir, microfinance is formalizing which, in turn, will mean that market forces will start to play a larger role. This is where commercial banks are playing a role. However, microfinance arose out of the public sector because there was a market failure. MFIs and other public organizations will always continue to rely on non-market financing mechanisms because of the difficulty working with these populations. Nonetheless, commercial banks do recognize the potential to provide capital to four billion people at the base of the economic pyramid. With repayment rates at 90% and higher along with such a large growth opportunity, commercial banks recognize the potential.

ABN-AMRO is providing a strong example of a corporate partnership with ACCION in Brazil. In the last two years, 8,000 micro-entrepreneurs have taken out loans to support various businesses. ABN-AMRO also is working in India with 180,000 women borrowers through a network of microfinance institutions.²

An example of an insurance corporation working with microfinance institutions can be found with ICICI/Lombard Insurance in India. In partnership with BASIX, a leading Indian microfinance institution, ICICI/Lombard created a rainfall insurance program in 2003.³ ICICI/Lombard also has partnered with Microcredit Foundation of India through a series of rural kiosks to provide death and disability insurance. ICICI/Lombard is working with at least seven different public sector and microfinance institutions.

¹ Microcredit Is Becoming Profitable, Which Means New Players and New Problems,” *Public Policy and Management*, Wharton School of Business.

<http://knowledge.wharton.upenn.edu/index.cfm?fa=viewarticle&id=1177>. April 20, 2005.

² http://www.abnamro.com/com/about/sd/sd_microfin.jsp.

³ <http://www.icicilombard.com/app/Custom-er-segments/Rural-Insurance/Partner/basix.asp>.

Unilever through its Indian subsidiary Hindustan Lever is leveraging the power of microfinance to empower tens of thousands of women entrepreneurs in India. Utilizing the structure of self-help groups throughout India, Hindustan Lever (HLL) has developed the Project Shakti program to provide business opportunities selling HLL consumer products in rural villages. Over 20,000 women have taken out loans to create a stock of inventory which is sold from their homes.⁴

In recent years, a tool for effective, market-based development has emerged to complement the existing private sector strategies to development and partnerships with microfinance institutions. This tool is microfranchising. Microfranchises are broadly defined as small businesses that can easily be replicated by following proven marketing and operational concepts.⁵ In general, the cost of a microfranchise does not exceed \$300.⁶ Simply put, microfranchises utilize distribution and marketing systems to maximize impact—both social and financial.

II. Microfranchising—A Single Tool Among Many

Microfranchising is not “the tool” to eradicate poverty. As a stand-alone solution, microfranchising would be hard-pressed to deliver better results than other practices.⁷ However, microfranchising, when bundled with existing platforms, can deliver tremendous social and economic returns throughout the value chain--the customer, individual

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<http://www.unilever.com/ourvalues/environmentandsociety/casestudies/economicDev/indiacreatingruralentrepreneurs.asp>.

⁵ As defined by the MicroFranchise Development Initiative at Brigham Young University’s Marriott School of Management; <http://marriottschool.byu.edu/selfreliance/microfranchise/about.cfm>. It is important to note that there are varying definitions of microfranchising and uses of the term. Other examples include social franchising. For purposes of this paper, the BYU definition will be used.

⁶ The cost of a microfranchise varies. Some argue that a microfranchise can cost up to \$5,000 or less than \$100. For the purpose of this paper, a microfranchise is valued at \$300 or less.

⁷ The impact evaluation of microfranchising is in its infancy. Much more needs to be done to measure its impact through rigorous, academic analysis.

entrepreneur, supporting organization or company, and general community. The benefits of microfranchising are many and include⁸:

- Generally identifiable local markets
- Requirements of franchisors tend to produce quality franchise owners
- Significant start-up costs have been borne by franchisor thereby defraying the cost for franchisees
- Market-competitive price points
- Control site selection
- Economies of scale allow for intelligent and efficient procurement
- Vendors are screened and selected for quality and price
- Product standardization and uniformity
- Foster dissemination of best practices
- Easily branded and recognizable
- Offer professionally-packaged products
- Provide uniform data sets for evaluation

The potential for a powerful value-added relationship between microfranchises and microfinance institutions is beginning to be recognized by leaders in the field of international development including John Hatch, founder of FINCA. “The fact is I’m absolutely not attracted to microfranchise by itself, and certainly not as an alternative to microfinance. Rather, what do attract me are the potential synergies between the two concepts. Both have strengths and deficiencies, but the strengths of one balance the deficiencies of the other. Only microfinance has the proven service outreach capacity to reach *all* of the world’s poorest households, but the micro-businesses it finances generally have modest growth potential and create few additional jobs. In contrast, microfranchise targets only 1-in-10 or 1-in-20 of the world’s poorest households—the most entrepreneurial—but it has the capacity to develop businesses strong enough to generate continuous growth in

⁸ List includes selections from Kirk Magleby’s recent book. This is not an exhaustive list. pgs. 48-49, MicroFranchises as a Solution to Global Poverty, Kirk Magleby, MicroFranchises.org. 2006.

sales, jobs, and profits.”⁹ The previous quote offers a fine example of the recognition of the potential synergy between a microfinance institution and a microfranchise but does miss one critical point. Microfranchises, if designed properly and for the right audience, can and do target a non-entrepreneurial person which increases the breadth of potential franchise owners. An illustrative example of this will be provided later, but it is necessary to note that microfranchises for the developing world can and should be designed for those with limited entrepreneurial spirit and education.

It is well-known that finding a truly successful entrepreneur is like finding a needle in a haystack. How many Bill Gates’ and Steve Jobs’ are there in the world? Despite these exaggerated examples, one could agree that a successful entrepreneur is hard to find. Many academics and authors have defined the traits and characteristics of a successful entrepreneur, but if you just read their books the likelihood that you will start a successful business is limited. Microfranchising reduces, if not eliminates, the need to be a truly creative entrepreneur with a singular idea that will change the world or at least the neighborhood. Microfranchises are designed to be clear, easy-to-follow instruction for how to run a successful business. In other words, if one wants to make money, don’t re-invent the wheel, pay for the license.

Formal education in the developing world is done by rote learning. Teachers and education systems are designed to teach children how to recite problems and solutions to those problems. In fact, developing countries like India and China are so successful at following rules they are leading the world in manufacturing of goods and services now. Microfranchising falls elegantly into the system of rote education. By providing a simple set of instructions for business planning, operations

⁹ pg. 2, “Slogging Toward a Poverty-Free World: The Need for Microfinance-Microfranchise Partnership,” John Hatch. January, 2006.

management, product sourcing, branding, marketing, and sales strategies, microfranchisors are increasing the likelihood of success for the franchise owner. So, to counter the opinion that microfranchises only target 10-20% of people, all one has to do is design the microfranchise in the simplest manner with clear and concise operating instructions.

III. The Power of the Platform

Microfinance, consumer goods, healthcare, education, and information technology organizations represent an under-utilized platform for delivery. Worldwide there are hundreds, if not thousands, of organizations and companies which have people based at the village level delivering a variety of products and services financed through loans and/or other financial vehicles. Often, these organizations and companies only provide a limited selection of goods and services that consumers can purchase and entrepreneurs can sell. This under-utilization can be easily overcome by bundling services and products. Because microfranchises are efficient systems of distribution, they would be a logical “tool” to be added to the kit of services.

Some countries have larger delivery infrastructures than others with India being a leading example. According to Sukhwinder Singh of the Department for International Development there are over 1.2 million Self-Help Groups (SHGs) in India which alone account for nearly 20 million members.¹⁰ These members are supported by hundreds of large and small microfinance institutions. Each institution represents a potential platform for delivery of a macrofranchise while each SHG represents a platform for delivery of a microfranchise.

There are other examples of large existing platforms through which emerging microfranchises can be integrated and add value. As

¹⁰ “The Future of Microfinance in India: The Microfinance India Conference and a Look at an Expanding Market,” Sukhwinder Singh, *Microfinance Matters*. Issue 13, June 2005.

mentioned, these networks are not exclusively microfinance institutions but can include consumer goods companies such as Hindustan Lever in India and Unilever in East Africa. Hindustan Lever's (HLL) Project Shakti program has been well-documented in recent literature including C.K. Prahalad's Fortune at the Bottom of the Pyramid. Shakti Amma's are village-based, women entrepreneurs trained by Hindustan Lever's sales force to expand their consumer goods product offerings. These goods include soaps, shampoos, and other products. The current infrastructure of 7,018 Shakti Amma's operates in 11 states throughout India and covers 300,000 households. Clearly, this infrastructure of a trained sales force presents a tremendous opportunity for distribution. There are already examples, including Scojo Foundation, of microfranchises leveraging HL's platform to deliver goods and services.

IV. Products and Services of Social Benefit

In the early discussions on microfranchising, there has been much emphasis on the need to simply create as much wealth as possible for the microfranchise owner that the ultimate value lies in the individual earnings. While there is certainly a lot to be said about generating wealth for individuals who are low-income, microfranchises can be a vehicle for beneficial products and services which provide a double-bottom line return. There are myriad examples of franchises that sell products and services that many in the development sector would argue add limited value to low-income communities beyond creating wealth for the owners of the franchise and distributors. An example of this might include a McDonald's franchise. The purpose of this statement is not to disparage McDonald's but rather make the point that microfranchising, in reference to its value as a tool to poverty alleviation in development, has the opportunity, at this early stage, to stake its claim that it will be a vehicle for value throughout the value chain. That the franchisor, distributor, franchisee, and consumer will benefit, in a socially

meaningful way, from the product or service that is being offered is important and should be core to future discussions on microfranchising.

There are some proven examples of socially beneficial products being sold. One example is of the BRAC IGVDG program which utilizes women community health workers or Shastho Shebika¹¹. The Shastho Shebika currently sell basic health products such as ORT (oral re-hydration salts), sanitary napkins, condoms, and aspirin, among other health products. With these sales, the women earn a reasonable living, can work on a part-time basis, pay off loans, and benefit their communities by improving health and reducing productivity loss.

Another wonderful example of an innovative microfranchise approach with a double bottom line is The HealthStore Foundation.¹² HealthStore helps people start microfranchise pharmacies in Kenya. These pharmacies provide a good living wage to their owners while concurrently benefiting the local population through the distribution of medications for treatment of malaria, worms, and respiratory infections.

V. Microconsignment and Microfranchising—Perfect Together

Unlike microfinance, microfranchises do not have to rely on credit or financing mechanisms to enable entrepreneurs to start their own businesses. Because franchisees are not necessarily accessing capital but rather license to a good or service, they can obtain franchises on a microconsignment basis. While many would argue that this does not create a sense of ownership, this does not prevent a franchisee, or enterprise owner, from making a considerable amount of money while delivering a product or service of great social value. The use of microconsignment makes a business opportunity available to one who cannot afford the risk of a loan. While the loan repayment rates of

¹¹ <http://www.brac.net/cfpr.htm>.

¹² <http://www.cfwshops.org/>.

microfinance organizations are well-documented and often exceed 97%, there are clearly times when borrowers are unable to make payments on time. The reasons for failure to make payment are many but can include: natural disasters, conflict, family emergencies, etc. All of these events are common the world over, but when one is working in the developing world it is necessary to recognize how fragile the lives of these individuals and their support structures can be. Instead of having savings accounts or a herd of animals to cover missed loan payments, people have to miss payments. Certainly microfinance institutions are intimately familiar with the life challenges faced by their borrowers, however, microconsignment can provide a solution to this challenge and is directly applicable to microfranchising.

Microconsignment takes the simple principle that products can be distributed through a network of sales people. Often known as multi-level marketing, microconsignment relies on a manufacturer, a distributor, an areas sales manager, and the sales agent to distribute a product or service. Margins throughout this value chain enable everyone to earn a profit thereby keeping everyone motivated to sell. Multi-level marketing and sales chains are often poorly perceived for a variety of reasons. However, as this paper suggests, if the product or service adds social value, causes no harm, and adds values throughout the value-chain, then multi-level marketing can be tremendously beneficial.

Microconsignment through multi-level marketing takes the risk away from the entrepreneur. By enabling entrepreneurs to take ownership of microfranchises through microconsignment, one is potentially able to open access to even more people than the lowest cost microloans.

VI. Micro- & Macrofranchising --“The Scojo Foundation Example”

A solid, illustrative example of the microfranchise model coupled with microconsignment while utilizing existing delivery platforms comes from Scojo Foundation. Scojo Foundation provides a clear and effective demonstration of a microfranchise model that is having a dramatic impact in four countries.

Founded in 2001, Scojo Foundation¹³ is a non-profit organization dedicated to improving the economic condition of families in the developing world by broadening the availability of reading glasses and other eye care products and services. Scojo Foundation trains and equips low-income men and women as “Vision Entrepreneurs” to start their own microfranchises selling affordable reading glasses and other eye care products. These Vision Entrepreneurs screen for blurry up-close vision (presbyopia), sell affordable reading glasses to those in need and refer those requiring more advanced eye care to reputable eye clinics. Through a simple pair of affordable reading glasses, Scojo Foundation doubles the productive life of those whose livelihoods depend on up-close vision, such as weavers, tailors, goldsmiths, and mechanics, while raising the standard of living for local entrepreneurs and their families.

Presbyopia affects 95% of the population aged 35 or older.¹⁴ Nearly 1.6 billion people living in the developing world need reading glasses. Yet less than 5% of people in those countries currently have access to reading glasses they can afford. Presbyopia occurs naturally in all people and progressively worsens with age. The condition can easily be corrected with simple magnifying “reading” glasses. Left untreated, presbyopia can impede economic productivity and diminish quality of life. Individuals whose livelihoods depend on clear up-close vision such

¹³ www.scojofoundation.org.

¹⁴ In addition, 40% of people age 35-40 and 75% of people age 41-50 are presbyopic. These statistics are for people without other refractive errors like myopia, hyperopia and astigmatism.

as tailors, bookkeepers, or mechanics become unable to work after they reach a certain age and they lose their ability to earn an income. People's quality of life suffers too as they become unable to sew, cook, or read newspapers, literature or religious texts.

In the West, low-cost reading glasses are conveniently sold in pharmacies and supermarkets without a prescription. In the developing world, however, readymade reading glasses are neither accessible nor affordable to the majority of the population. People living in rural areas are rarely able to access urban optical shops and hospitals where glasses are available. Even when they can access them, the price of the exam, frames, and lenses is often prohibitive to the poorest citizens. To create a market for reading glasses to tackle the burden of presbyopia, Scojo Foundation developed its microfranchise and macrofranchise distribution model.

Scojo Foundation's microfranchise kit consists of all the tools and training necessary to start a business selling reading glasses and referring people in need of advanced eye care to reputable partner eye clinics. Equipment in this kit includes 20-30 pairs of reading glasses and UV-protected sunglasses (prescription powers range from +1.00 to +3.00; come in four different styles and in four different price points), eye drops, cases, cords, a mirror, vision screening charts, uniform, data collection materials, and banners. These tools enable Scojo Vision Entrepreneurs, or microfranchise owners, to sell reading glasses directly within their communities at price points that are affordable to local customers. Through the microconsignment model, the Scojo Vision Entrepreneurs makes a 30% margin on each pair of reading glasses sold (an average of \$1-3 depending on the country) while Scojo Foundation earns 20% to recover costs for sustainability. What makes the model so beneficial for the Vision Entrepreneur is that they can sell up to 20 pairs of reading glasses in less than three hours. The potential earnings

revenue far exceeds that of other entrepreneurial ventures in rural communities for the time committed. Furthermore, working a partial day enables Vision Entrepreneurs to manage other businesses they might have.¹⁵ Beyond the business perspective, it enables women Scojo Vision Entrepreneurs to address family matters. **To date, Scojo Foundation has sold over 34,000 pairs of reading glasses, trained more than 550 Vision Entrepreneurs, and referred nearly 35,000 people for advanced eye care at partner eye hospitals.** While these figures only make a small dent in the global need for reading glasses, it is important to note that 80% of these sales have occurred in the last six months.

How does a small social enterprise working in four countries utilizing a microfranchise model scale up to meet the needs of one billion people with presbyopia? How does this same organization manage to sell more than 24,000 pairs of reading glasses in six months? The answers are large markets, existing platforms, and macrofranchising.

Macrofranchising is a concept that Scojo Foundation embraced after three and a half years of struggling to build its own network of entrepreneurs. As previously mentioned, identifying a true entrepreneur is not an easy task. Keeping an entrepreneur active is even more difficult. So, for three and a half years Scojo Foundation worked diligently to cultivate and train Vision Entrepreneurs identified through local contacts including religious organizations, mayor's offices, Peace Corps volunteers, and word of mouth. Success was not easily realized, yet, Scojo Foundation staff knew it had large goals to accomplish. The solution emerged when an organization known as Byrraju Foundation¹⁶ approached Scojo Foundation in late October 2006.

¹⁵ Also known as patching. Patching is frequently practiced in the developing world where entrepreneurs run multiple businesses offering a variety of products and services.

¹⁶ www.byrrajufoundation.org

Byrraju Foundation has 140 Community Health Workers who operate in two districts of Andhra Pradesh, India. Byrraju Foundation's programming takes a holistic approach where they provide a full continuum of services including health, education, water, sanitation, etc. Scojo Foundation was invited to implement a macrofranchise strategy where Scojo Foundation staff would train the trainers of Byrraju Foundation. Byrraju Foundation Community Health Workers would then receive the microfranchise kits and begin selling. As a result of this partnership, nearly 10,000 reading glasses have been sold through Community Health Workers who, in turn, earned generous profit. The benefit for Scojo Foundation was that it was able to reach a large market through Community Health Workers that it did not have to identify and cultivate, draining valuable resources, as is the case for its own Scojo Vision Entrepreneurs. Furthermore, Scojo Foundation and Byrraju Foundation agreed on this partnership on a contract basis whereby Byrraju Foundation paid, on a cash and carry basis, the costs of launching this program. This provided a whole new revenue stream for Scojo Foundation.

The partnership with Byrraju Foundation represents just one of 23 partnerships in the pipeline for the Scojo Foundation's program in India. Other examples of partnerships in India include Hindustan Lever's Project Shakti program, Drishtee, ITC, among others. Potential new partnerships are currently being negotiated to help Scojo Foundation expand to eight new states throughout India, identify nearly 100,000 potential entrepreneurs, and sell more than 200,000 pairs of reading glasses. If Scojo Foundation were to do this on its own, it would take years of planning and raising the necessary financial resources.

Scojo Foundation has other examples of macrofranchises in operation including in Guatemala through Community Enterprise Solutions¹⁷ and in

¹⁷ www.cesolutions.org.

Bangladesh through BRAC. Both examples represent situations where Scojo Foundation has no staff but relies on the infrastructure of both organizations. As a result of leveraging these infrastructures, Scojo Foundation dramatically reduces its own costs of operation while instilling a sense of ownership. Furthermore, these two organizations have significantly better knowledge of the local environment and therefore are more capable and effective in implementation.

VII. **Conclusion**

Microfinance Institutions (MFIs) have revolutionized low-income peoples' access to affordable capital. It has been well-documented that with access to affordable capital, low-income people are capable of utilizing their entrepreneurial traits to not only earn a living to support their families but, in some cases, thrive to become successful business-women and men. It has been proven that, with increased earnings, low-income people are more likely to fight off starvation, combat disease, gain access to information, and live in safe housing. With millions and millions of borrowers worldwide, MFIs have a reach into the remotest locations and provide a robust platform for delivery.

In addition to MFIs, there are other networks of providers including consumer goods company, health providers, education systems, etc., which have an equally strong network. These infrastructures reach far into remote communities worldwide. They also add value by have in-depth knowledge of the local environment.

Microfranchising and macrofranchising represent a new way of thinking in development. While franchising has been in practice for many years, there are a limited number of cases where franchising on a grand scale has been applied for a social good. This paper has argued that microfranchising and macrofranchising have the potential, and in some cases have proven that they are capable of adding tremendous value to

development efforts. Through streamlined delivery mechanisms, bundled products and services, and new forms of financing, microfranchising and macrofranchising should be considered as a valuable tool in the fight against poverty which microfinance institutions, their clients, and other partners should consider.