

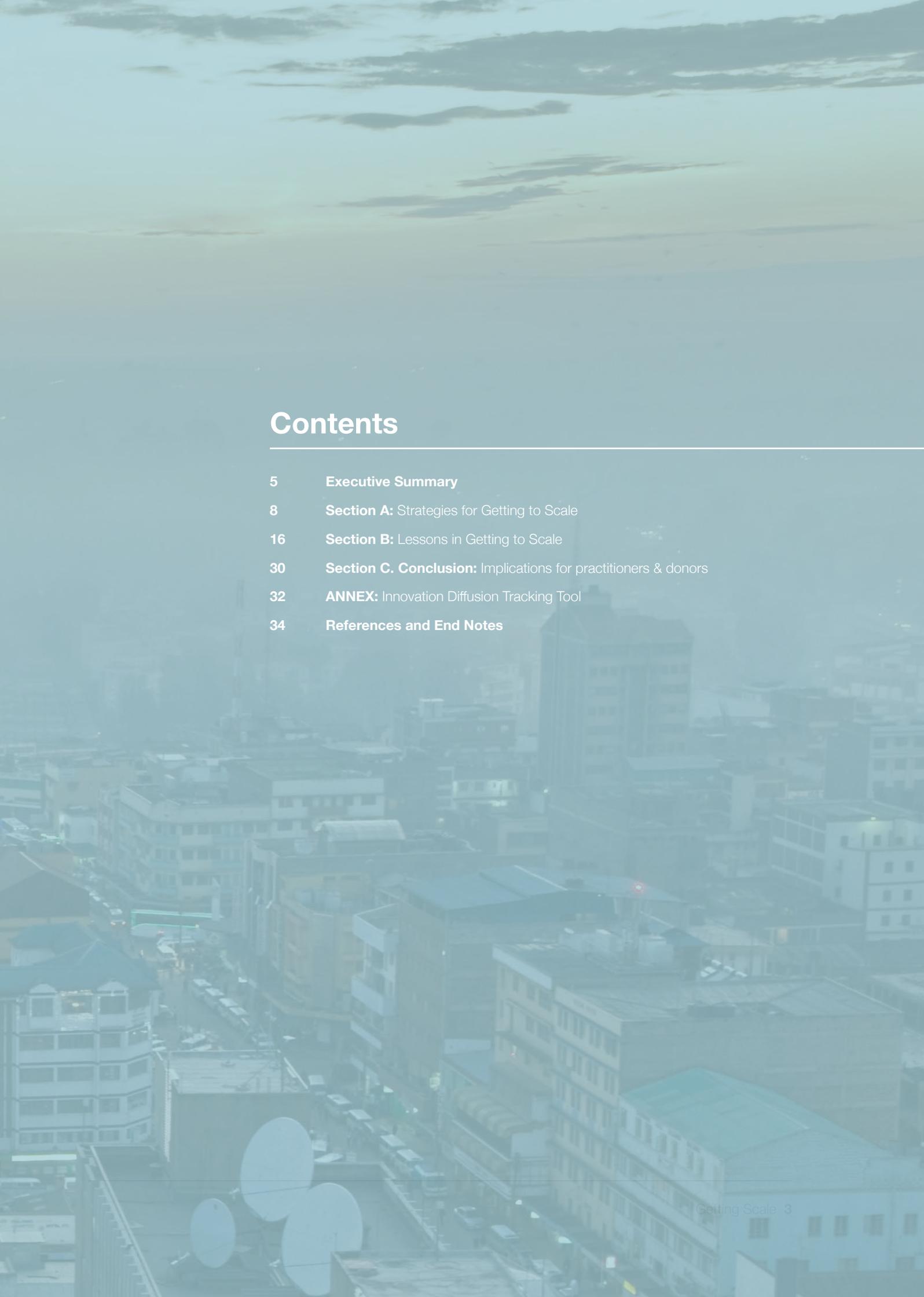
Getting to **Scale**

**Lessons in reaching scale in Private Sector
Development programmes**

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Executive Summary

All development programmes and donors wish to impact as many poor men and women as possible with the resources available. This paper looks at the experience of getting to scale in Private Sector Development (PSD) programmes. In the PSD space, over the last two decades much thinking has been done about how best to reach scale. There has been a clear shift from ‘direct delivery’ models, whereby programmes directly provide products and services to the poor, to working with local actors, both public and private, to improve their ability and willingness to provide products and services to the poor themselves (or through intermediaries). For example, instead of a programme providing agricultural inputs and agronomy training direct to smallholder farmers, a programme might instead try to work with an agro-inputs company to help them to develop a commercial strategy for reaching smallholder farmers with appropriately sized and priced products and providing agronomy information as an embedded service (as a sales and customer retention strategy). The hope is that this approach will be both sustainable – if the commercial strategy is successful, the agro-inputs company will continue to provide the product and service even after donor support has been withdrawn – and scalable as the agro-inputs company expands the successful model to new customers and regions, and other fertiliser companies copy the model.

Many PSD programmes aim to achieve scale in this catalytic way: Market Systems Development (MSD) or Making Markets Work for the Poor (M4P) programmes, challenge funds, and impact investment vehicles. Although getting to scale is an explicit aim of nearly all such programmes, surprisingly little has been written about the different scaling strategies available, or the experiences of programmes (positive and negative) in getting to scale. Some good single-programme case studies exist, but there are relatively few papers that look across programmes to draw out lessons and contrast experiences from different sectors and country-contexts.

The aim of this paper is to contribute to filling this evidence gap. In particular, it looks at the successes and failures of programmes in scaling pro-poor ‘innovations’. In the context of PSD an ‘innovation’ might be a new or improved product or service, such as mobile money, or a new or improved business practice, such as a new village-level distribution model that allows an agro-inputs supplier to better reach and serve customers at the Bottom of the Pyramid (BoP). The paper does not explore the challenges in analysing sectors,

systems, and value chains in order to determine which ‘innovations’ are most relevant or needed in a given context; nor does it look at the difficult task of developing and piloting the ‘innovation’ in the first place. This paper skips these steps, assuming they have been completed satisfactorily, and focuses instead on the next step: taking the initial ‘innovation’ to scale.¹

The rest of the paper is structured as follows. In Section A, a variety of different strategies and tactics for getting to scale are summarised and discussed. In Section B, ten lessons in getting to scale are presented, drawing on a variety of programmes and contexts. Section C concludes by discussing the implications for donors and practitioners. The Annex presents a new tool to track progress in getting to scale. The key findings of the paper are summarised below:

- **Getting to scale takes time.** It typically takes five years or more for interventions to reach scale, particularly in agricultural markets with long business cycles. Donors need to consider this in designing programmes and setting milestones.
- **Only a few interventions are likely to get to scale.** In a typical programme, only a small proportion of interventions reach scale. Programmes therefore need to experiment with a wide variety of innovations early on, then double-down on those showing most promise. Donors and practitioners also need a high tolerance for risk and failure.
- **Programmes need to check the business case early on.** Programmes need to think through carefully at the start whether the business case underlying the innovation makes commercial sense (for both first movers and second movers), otherwise programmes can waste resources promoting models that are not sustainable or scalable without donor support, or that are viable but not for Bottom of the Pyramid segments.
- **The quickest route to scale is through one big actor, but...** The three examples we found of innovations reaching over 1 million people did so initially through just one big actor. The ‘big actor’ strategy appears to be the quickest route to scale, but is obviously not an option in countries with thin markets and a paucity of such actors. The big actor strategy also comes with the risk of putting all your eggs in one basket, and in some circumstances may lead to anti-competitive outcomes.

- **Programmes should not take the demonstration effect for granted.** A commonly cited strategy for getting to scale is through the demonstration effect. However, the conditions under which the demonstration effect works are quite stringent. Consequently we could find relatively few examples of it working in practice. Programmes cannot therefore lazily assume that the demonstration effect will automatically hold.
- **Second movers can require as much, or more support, than first movers.** Some practitioners hold the view that having achieved 'proof of concept' with one or more first movers, any support to second movers need not (or should not as a matter of principle) be as intensive as the support provided to first movers. However, almost by definition second movers have lower capacity and higher risk aversion than first movers, meaning there is no a priori reason why they should require less support (especially if the demonstration effect is weak). We found plenty of programme examples where second movers required the same or higher levels of support.
- **The barriers to scale often lie outside the firm.** Whilst some barriers to scale are internal to the innovator (such as managerial capacity or distribution channels), others can be external (such as rules and regulations). Programmes that are able to work beyond the firm therefore stand a better chance of getting to scale.
- **Getting to scale requires flexibility and adaptability.** To get to scale, programmes need to use a variety of different tools and tactics, which can vary by partner, by first versus second movers, and over time. Programmes that have maximum flexibility in choice of tools and tactics, and that are adaptive in response to what is and is not working, are therefore more likely to succeed in getting to scale.
- **Industry structure and country context is important.** The industry and country context has a significant influence on the ability of programmes to get to scale, and the timeframes required. Getting to scale is easier in countries with 'thick' markets, big actors, and higher population densities. It is also easier to get to scale in industries that are tightly networked, geographically concentrated, and have high market concentration (a large number of small actors), such as banking and media. Donors need to take these factors into account when designing programmes and setting milestones; practitioners should consider these factors when selecting target sectors.

This paper draws on the experience of Adam Smith International in implementing a large number of PSD (particularly MSD) programmes across the developing world. It also draws on a number of external programme case studies, in particular those written by The Springfield Centre. However, there are a large number of programmes whose experiences are not captured here, and as such some of the findings and conclusions may be partial or incomplete. The hope is that this paper will contribute to a wider debate on what works and what does not work in getting to scale.

What does it mean to reach 'scale'?

Despite 'scale' being a commonly used term in development, there is no agreed definition of what it means to get to scale. This is not surprising given the greatly different contexts in which development programmes operate: from Vanuatu (population 253,000) to India (population 1.2bn). Two programmes referred to in this paper, KATALYST in Bangladesh (population 156mn) and PrOpCom in Nigeria (population 173mn) have reached over a million people with a single intervention: this is obviously much harder to achieve in a country like Liberia with a population of only 4.3 million (2% of the population of Nigeria) and 'thinner' markets, not to mention impossible in Vanuatu. The size of the programme budget also has an influence on the scale and outreach achievable.

For the purpose of this paper, what constitutes getting to scale has therefore been left deliberately vague: getting to 'scale' means reaching a large number of poor men and women (either as producers, consumers, or workers), with 'large' being dependent on the country context. As a rule of thumb, with the exception of very small countries, this means reaching people in the hundreds of thousands, rather than the thousands or tens of thousands.

Section A: Strategies for Getting to Scale

Section A summarises different strategies for getting to scale. The starting point for all these strategies is that an 'innovation' (either a product / service innovation or a process innovation) has been adopted and piloted by at least one market actor that is:

- **Pro-poor:** the innovation delivers value and benefits for poor men and women. For a commercial product or service, this means the product or service must be desirable, accessible, and affordable to people at the Bottom of the Pyramid. The innovation could benefit poor people as consumers (such as improved cook stoves delivering health benefits) or as entrepreneurs (such as improved seeds delivering yield improvements to smallholder farmers).
- **Sustainable:** the innovation delivers sufficient returns to the market actor such that it is in the interest of the market actor to sustain and expand provision (absent continued donor subsidy). For commercial actors, this means the innovation earns a sufficient return, at an acceptable level of risk, relative to alternative options. For public-sector and not-for-profit actors, the innovation will need to meet other, non-commercial, objectives. Market actors also need the capacity to continue to deliver the innovation (again in the absence of continued donor support).
- **Scalable:** the innovation and underlying business model can be delivered to large numbers of people at the Bottom of the Pyramid, at a price that the poor can afford and a return that continues to make sense for the provider. Scalability is shaped by the nature of the technology, the ability of actors to manage and finance the scale-up process, the distribution channels available, and the replicability of the innovation by outsiders.

The rest of this section looks at the different strategies programmes can deploy in maximising the uptake and expansion of the innovation by market actors. Note that these strategies are not mutually exclusive: programmes can deploy multiple strategies at the same time. The optimal scale-up strategy may also change over the lifetime of the intervention.

The section ends by summarising the different tactics, both financial and non-financial, that programmes can use in executing these different strategies.

Strategy 1: Achieve scale through 'big' actors

The simplest strategy for getting to scale is to work with one or two market actors that by themselves have the ability to reach large numbers of poor men and women. At the start of the intervention, this means identifying and partnering with 'big actors' with deep pockets who are able to mobilise significant financial and human resources to develop and roll-out the innovation. These big actors may also already have extensive distribution or sales channels. Beyond helping these firms develop and test the initial innovation at the pilot stage, at the scale-up stage programmes may provide additional support to help these firms overcome internal scaling barriers (such as technical advice on how to recruit and train new stockists or agents, or providing additional finance). Through Strategy 1 programmes can get to scale even without any further competitive response or crowding-in by other market actors. Strategy 1 is typically how impact investors and challenge funds try to reach scale, with 'scale' often meaning helping the investee or grantee to scale-up its own business operations.

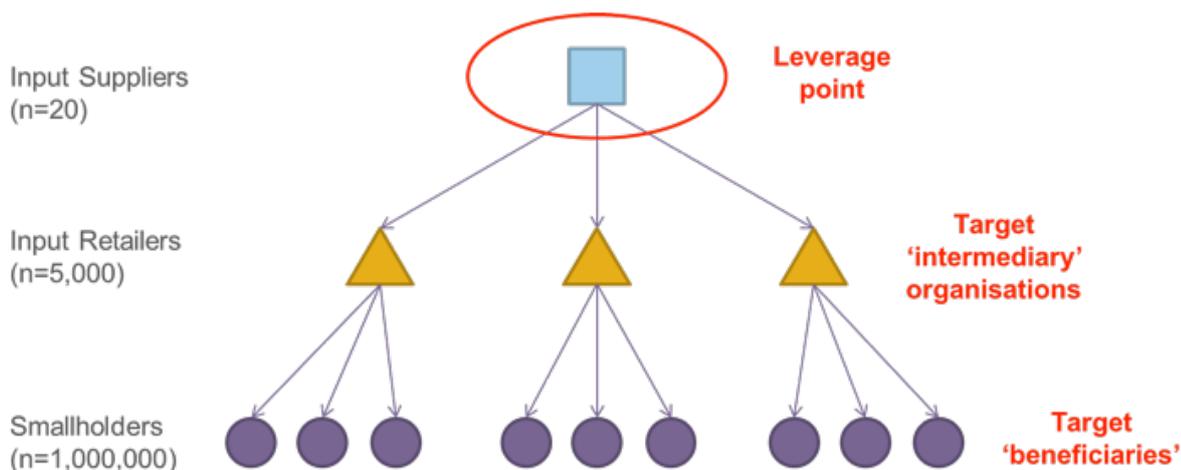
Many of the well-known cases of getting to scale in MSD programmes broke the one million mark through a single big actor: PrOpCom with Notore (Nigeria), KATALYST with Syngenta (Bangladesh), and FSDK with CBA (Kenya). However, the big actor strategy is obviously not an option in countries with thin markets and fragmented economies, where actors with sizable, country-wide reach and deep pockets may be thin on the ground. Achieving scale through just one or two actors also comes with its own risks (see Section B).

Project Example: FSDK support to CBA to develop M-Shwari

Financial Sector Deepening Kenya (FSDK) is an independent trust that aims to promote more inclusive financial markets using the M4P approach. FSDK partnered with Commercial Bank of Africa (CBA), the largest privately owned bank in East Africa, to develop a new mobile savings and loans product that would run on the M-PESA rails. Over the course of the project, CBA invested significant resources in the innovation: \$12mn to FSDK's \$650,000 in Technical Assistance. On the first day of the launch, CBA received over 1 million enquires; within 24 months M-Shwari had reached 7.2 million consumers (with an estimated 30% of users below the poverty line). Even without any further crowding-in FSDK was therefore able to catalyse the provision of new financial services for a large number of poor people.

Source: *Financial Sector Deepening Africa / The Springfield Centre (forthcoming)*

In promoting the uptake of a particular innovation, programmes often have a choice of where to intervene in the supply chain (or value chain). By moving up or down stream, programmes can sometimes identify big actors, or 'leverage points', which offer greater possibilities for getting to scale. For example, instead of partnering with small and medium agro-dealers to promote the uptake of more customer-focused business practices (such as the provision of embedded information to farmers), the programme might instead partner with a small number of large input wholesalers or importers. In this way, by working with just two or three larger upstream firms, the programme might be able to promote business practice change in hundreds of agro-dealers and stockists in their sales networks. Programmes can also move downstream, for example by partnering with large buyers or exporters (see LEO 2015 for examples).



To work, upstream or downstream actors (e.g. agro-input importers) need to have the capacity and incentives to effectively engage with and support the target 'intermediary' organisations (e.g. agro-dealers and stockists). For example, in terms of incentives, upstream input suppliers may be motivated by the desire to strengthen their distribution networks and build loyalty, while downstream large buyers may be interested in securing access to high-quality, reliable producers.

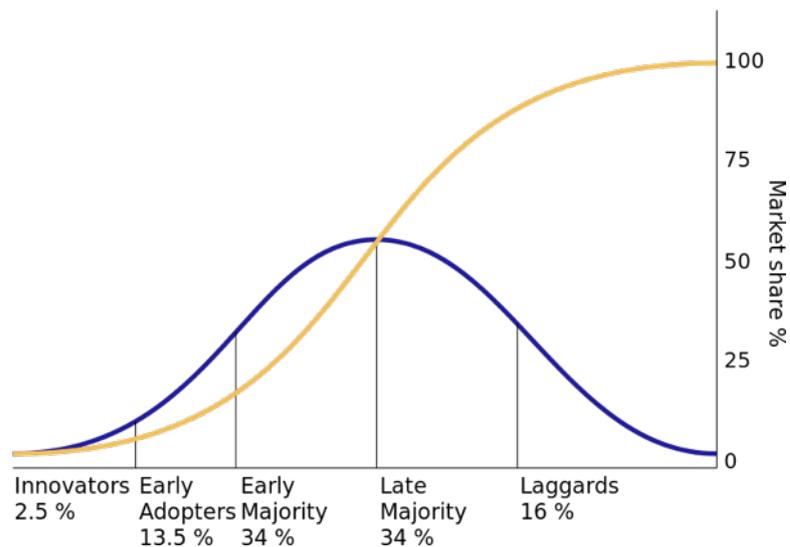
Existing networks, distribution channels, and infrastructure all provide potential leverage points. In the M-Shwari example presented above, the massive scale offered by M-PESA provided a powerful leverage point. Network mapping tools also offer the potential for programmes to identify particularly well connected actors that can serve as leverage points.

Strategy 2: Work with ‘first movers’ to create a demonstration effect

Another commonly deployed strategy for getting to scale is to work with a small number of ‘first movers’ in order to demonstrate the viability of the innovation to other market actors. The hope is that this demonstration effect will then lead to spontaneous or organic ‘crowding-in’ by other market actors (‘second movers’).

This strategy builds on the Diffusion of Innovation theory developed by Everett Rogers in the sixties, who sought to explain how new ideas and technology spread. Rogers postulated that the spread of an innovation follows an S-curve²: a small number of ‘innovators’ first adopt an innovation, who are then joined by a larger group of early adopters; next come the early majority and late majority (the two largest groups), leading to an acceleration of up-take; finally a smaller group of laggards bring up the rear³.

Figure 1: Diffusion of Innovation



Based on Rogers (1962)

Under Strategy 2 programmes first identify and support one or more ‘first movers’ or ‘innovators’ to pilot and launch the innovation. Rogers suggested that ‘innovators’ display certain (rare) characteristics that set them apart, in particular a willingness to take risks, close contact to sources of ideas and repeated interaction with other innovators, and sufficient financial resources to allow them to absorb failures. If successful, the innovation will then be adopted by ‘second movers’ (‘early adopters’ followed by the ‘early majority’ in the schematic of Rogers), before spreading to the rest of the system. This also fits with the idea of a ‘tipping point’ popularised by Malcolm Gladwell, whereby an idea or innovation reaches a critical mass then spreads rapidly throughout the system (the steepest part of the S-curve). Uptake may be driven by a desire to emulate success, competitive pressure, or fear of being left behind or becoming outdated.

For the demonstration effect to work, three assumptions need to hold:

1. Success for the first movers is visible to the second movers, and second movers attribute this success to the adoption of the ‘innovation’ by the first movers;
2. Second movers have the incentives, capacity, and resources to copy the innovation, and barriers to entry are low (or not insurmountable);
3. Second movers are able to access the know-how in order to replicate and adapt the innovation (via a knowledge ‘transition mechanism’ or reverse engineering)

Note that all three assumptions need to hold for Strategy 2 to work. Whether these assumptions do indeed hold cannot be taken for granted, and will vary by innovation type, industry, and country (see Section B).

Thinking about replication as a spatial phenomenon can be useful. For example, programmes might try to create multiple demonstration effects in different regions with the aim of speeding up the diffusion process and overcoming spatial barriers to diffusion (for example, highly fragmented economies or sectors).

Incentives for second movers to crowd-in come in two forms: pull factors, whereby the second mover is attracted by the superior returns available from adopting the innovation (but is otherwise free to adopt the innovation or not), and push factors, whereby competitive dynamics or social norms are such that second movers feel like they have no real option but to adopt the innovation. This would be the case, for example, if the first mover is capturing significant market share from others in the market.

If the desired spontaneous crowding-in does not happen, programmes might undertake a number of light-touch activities designed to strengthen the demonstration effect. For example, the programme might develop a case study highlighting the success of the pilot and disseminate the study to the rest of the industry. To be effective, these case studies need to be couched in terms that will be compelling to the interests and motivations of market actors. For commercial actors, this might include evidence of increased sales, improved customer loyalty, reduced costs, and ultimately greater profitability.

Although programmes may wish to see as much crowding-in as possible, it is typically not in the interests of a commercial actor to support crowding-in by competitors. This tension often manifests itself in partnership negotiations, with programmes having to balance their quest for scale with the wishes of the partner for exclusivity and non-disclosure. There is also a limit to how much programmes can expect partner firms to contribute to and participate in efforts to trumpet their success to the wider industry. Having said that, there are examples where individual champions have been willing to do just that (for example, the editor of the Daily Trust media group, a star partner of the ENABLE programme in Nigeria); the incentive often appears to be peer recognition for the individual champion (rather than the commercial interests of the wider organisation). It may also be possible to find non-competing players to lead the promotion of new models, such as industry associations.

Of course, unless the programme is intervening in a monopoly or duopoly industry, Strategy 1 can be combined with Strategy 2 (as was the case with the PrOpCom, KATALYST, and FSDK examples cited above). For programmes where Strategy 1 is not an option, Strategy 2 is a very commonly deployed strategy for getting to scale.

Project Example: spontaneous replication in the media industry in Uganda and Nigeria

The FIT-SEMA programme in Uganda and the ENABLE programme in Nigeria both worked with media organisations, mostly commercial radio stations, to develop issue-based, investigative, audience-led small business and livelihood programming. As well as providing product development support, both programmes also helped partner media houses to change and upgrade their marketing practices to ensure that the new products would earn sufficient return (sponsorship and advertising revenue) to justify the higher cost of production – a prerequisite for both sustainability and scale.

New products were launched with a number of first movers. For the most successful first movers, these new products became very popular, with high audience numbers and good audience feedback, which in turn led to lucrative sponsorship deals and increased advertising revenue.

In Uganda in particular, programme success with the first movers led to a large wave of crowding-in. By the end of the programme, around 55 small business and livelihoods radio shows were on air, reaching 7 million regular listeners, 60% of which were copycat programmes whose formats were directly copied from project-supported stations (The Springfield Centre, 2007).

Upon reflection, the conditions for a strong response by second movers were propitious. The Uganda media industry had recently been liberalised, resulting in a large influx of new entrants all jostling for commercial advantage. Success for the first movers was clearly visible to others in the industry, through both audience ratings and the quality of sponsorship and advertising (the most successful first movers attracted sponsorship from MTN and other high profile advertisers). The formats could also be easily observed and emulated by aspiring copycats. Another transition mechanism was the high level of staff rotation and poaching in the media industry, which was also a driver of replication in Nigeria.

Strategy 3: Actively support ‘second movers’

If Strategy 2 fails to promote the desired crowding-in, the programme can provide more direct support to second movers. The aim is to either reach scale through a combination of the first and second batch of programme-supported actors, or to create a further demonstration effect or reach a tipping point that will lead to scale through the spontaneous crowding-in of a third wave of actors.

Strategy 3 may be necessary if any of the three assumptions underpinning Strategy 2 fail to hold. For example, the demonstration effect may not be compelling or visible enough to convince second movers to act, or the knowledge transition mechanism may be too weak to provide the second movers with the necessary know-how.

There is a common belief among MSD / M4P programmes that having achieved ‘proof of concept’ with first movers, any support to second movers need not (or should not as a matter of principle) be as intensive as the support provided to the first movers. Whilst it is obviously desirable to do the least possible to catalyse the desired response, there is no a priori reason why second movers should require less intensive support than first movers. In fact, if second movers have lower capacity, are less innovative, have shallower pockets, and are more risk averse than first movers (which is plausible given they are second movers and not first movers), they may require more intensive support, not less.

Context also matters: in thin markets or sectors, it is more likely that second movers will require active programme support (see Section B).

Strategy 4: Create or strengthen supporting functions

Rather than the programme directly providing support to second movers to promote the uptake of an innovation (Strategy 3), it may be possible to create or strengthen a set of service providers to do the job for you. For example, rather than the programme attempting to provide technical support to dozens or potentially hundreds of agro-dealers to adopt a particular innovation, the programme could instead partner with a small number of service providers to develop training or consultancy services that will then be provided to agro-dealers. As with moving up or down the supply chain in Strategy 1, this strategy holds the promise of reaching a large number of intermediary target organisations (such as agro-dealers, Micro-Finance Institutions (MFIs), or Business Member Organisations (BMOs)) on a sustainable basis, by working with just a few partner organisations.

Service providers can be commercial, for-profit providers, or public sector or not-for-profit providers. Examples of the latter include government extension agencies and BMOs (who provide services to members on a fee-for-service basis or as part of the membership dues).

For Strategy 4 to work, a number of assumptions need to hold:

- Potential service providers exist, with the incentives and capacity to serve the target 'intermediary' organisations on a sustainable basis (without on-going donor support or inducements);
- For commercial services, target intermediary organisations have the ability and willingness to pay for services, at a price which provides sufficient return to service providers relative to alternative options and market segments;
- Accessing the service leads to uptake of the desired pro-poor innovation by target intermediary organisations (e.g. agro-dealers switch to a more consumer-centric sales model).

Project Example: Catalysing the provision of services to BMOs in Nigeria

ENABLE, a DFID-funded business advocacy programme, works with government, BMOs, media houses, and research institutions to promote inclusive, evidence-based advocacy and dialogue on key business environment issues.

Under the BMO Component, ENABLE partnered directly with a number of BMOs to build their incentives and capacity to undertake effective advocacy on behalf of their members. Recognising that the programme would not be able to work with all BMOs in Nigeria, in Year 3 ENABLE began to work with a variety of service providers to catalyse the provision of commercial services to BMOs, including policy research, advocacy training, and media relations services. ENABLE worked on both the supply-side – making the business case for targeting BMOs as a viable customer segment, and providing product development support and marketing advice to providers – and the demand-side – raising awareness among BMOs and building their capacity to articulate their needs and evaluate proposals from service providers. To kick-start the market, ENABLE also provided time-limited cost-sharing in order to encourage initial uptake among BMOs and to incentivise suppliers to invest in product development, and brokered linkages between BMOs and suppliers.

Strategy 5: Strengthen or reform rules and regulations

A final option for getting to scale is to seek to change the rules and regulations in the wider system in a way that supports or incentivises the uptake of a given innovation. Similar to Strategy 4, this strategy recognises that the barriers (and opportunities) to scale may lie outside of the innovators themselves.

Strategy 5 might involve targeting barriers to entry that prevent new entrants from offering or expanding a given product innovation, or putting in place regulations that provide greater certainty to firms. For example, the development of mobile money in Kenya provided a challenge to regulators who were uncertain how to regulate the new product, and who should be responsible given that mobile money cuts across the jurisdiction of a number of different regulatory bodies. FSDK worked closely with regulators to develop an appropriate regulatory regime, thereby giving Safaricom and others in the market the confidence to invest in and expand new mobile money products.

New rules and regulations can also be used to put pressure on organisations to change their business practices and adopt pro-poor ‘innovations’, such as improved policing of the sale of counterfeit or sub-standard agro-inputs, or putting in place minimum quality standards. Programmes might also try to influence informal rules and norms, for example through encouraging the naming-and-shaming of sub-standard agro-input suppliers. The strategy here involves an attempt to re-shape incentives to adopt pro-poor changes in situations where the incentives are currently not strong enough for more than a small number of innovators. By improving the enforcement of rules against poor quality or counterfeit agro-inputs, it can become more risky and more difficult for businesses to engage in those practices, whereas in an unregulated environment it may actually be more profitable to sell bad products. The incentive for change is the “stick” rather than the “carrot”.

Strategy 5 offers the promise of influencing a whole sector or industry. However, this cannot be achieved merely by the stroke of a pen: rules and regulations are often highly contested and political, and programmes need to be skilled in political economy to navigate these competing interests. Also, it is not enough to get reform-on-paper: to deliver industry-wide change any rules and regulations need to be effectively and evenly enforced on the ground.

Project Example: Combining strategies to get to scale in the seed sector in Kenya

The Markets Assistance Programme (MAP) is a market development programme funded by DFID and The Gatsby Charitable Trust, implemented by the Kenya Markets Trust (KMT) with support from various organisations including Adam Smith International.

A key pillar of MAP’s vision for the agro-inputs and seed sectors in Kenya is for agro-dealers to adopt more customer-centric business practices, including stocking a wider variety of appropriate and good quality products, provision of advice and product information, and improved marketing and customer care. In an effort to achieve this vision at scale MAP has tried a wide variety of different strategies:

- Work with small to mid-sized agro-dealers, typically with a network of 10 to 20 village stockists, to introduce more customer-focused strategies. To get to scale, the programme hoped that success with a handful of first movers would lead to spontaneous crowding-in by other agro-dealers through a combination of push and pull factors (Strategy 2).
- Work with larger players in the supply chain, such as large agro-distributors (e.g. Paxons, with a network of around 400 stockists) and large agro manufacturers and importers (e.g. Orbit Agro-Chemicals and Afri River Mining), in an attempt to find big actors and leverage points (Strategy 1).
- Support BDS providers to develop and deliver services such as ICT and marketing advisory services to a large number of agro-dealers (Strategy 4).
- Strengthen system-level rules and regulations in an attempt to reduce barriers to entry and expansion by market actors (Strategy 5). For example, MAP worked with policy-makers to try to reduce the dominance of the quasi-parastatal seed company which many market actors felt was crowding-out other players. MAP has also been working with the seed association and local governments to develop and implement a customer hotline which allows farmers to check the providence of seed packets and report counterfeit products.

These different strategies were partially developed in response to what was and was not working in getting to scale (for example, K-MAP saw very little crowding-in from its work with mid-sized agro-dealers – see Section B), and partially as an effort to diversify risk in the portfolio.

Strategies and Tactics

Within each of the strategies outlined above, different tools and tactics for catalysing change can be used.

Financial tools and tactics include:

- **Grants or loans** – e.g. providing upfront finance to innovators wishing to develop a new product or service;
- **Cost-sharing** – e.g. paying 50% of the cost of a new piece of capital equipment;
- **Risk-guarantees** – e.g. creating a fund to cover losses from non-performing loans from a new credit product (up to an agreed maximum);
- **Hidden subsidies** – e.g. paying providers 50% of the price of each new product sold, to allow providers to offer discounts to consumers to kick-start the market;
- **Cash prizes** – e.g. offering cash prizes to partner input suppliers for achieving certain results, such as the number of farmers provided embedded training who correctly apply at least two good practices from the training.

Non-financial tools and tactics include:

- **Technical Assistance** – e.g. providing technical support to providers during the product development process;
- **Market Research** – e.g. conducting market research to demonstrate the market potential at the Bottom of the Pyramid of a new product;
- **Seeding ideas and disseminating successes** – e.g. hosting an industry conference to share and promote business models that have worked well in other countries, or from successful pilots;
- **Brokering linkages** – e.g. introducing a large input supplier to potential new agro-dealers;
- **Exchange visits and study tours** – e.g. taking a delegation of business leaders to see an example of a successful BoP business model in a neighbouring country
- **Facilitating the coordination of actors** – e.g. convening stakeholders and officials from across a range of ministries and agencies to improve implementation and enforcement of key rules and regulations

Different tactics may be required for different partners. In general, there are two types of partner-level constraints that programmes need to address to get to scale:

capacity problems, whereby actors lack the resources and technical know-how to develop and roll-out the innovation, and **incentive problems**, whereby actors are not sufficiently convinced of the potential returns from an innovation, or are too risk averse, to undertake the required investment.

Even having launched a successful product, firms may require further inducements to incentivise them to test poorer market segments and to push out the access frontier. For example, 12 months after the highly successful launch of M-Shwari, FSDK setup a time limited risk guarantee fund to encourage CBA to test default rates among consumers with lower credit scores. Default rates from the pilot were much lower than CBA expected (less than \$5,000 of the risk guarantee fund was used), leading CBA to revise its credit scoring methodology and significantly expand coverage to noticeably poorer segments.

Some programmes are more limited in the strategies and tactics open to them. Challenge funds, for example, are often limited to providing grants and cost-sharing, typically only support first movers, and are unable to tackle beyond-the-firm barriers to scale, thereby relying on Strategy 1 or 2 to reach scale. For MSD / M4P programmes, the whole suite of strategies and tactics are typically available.



Section B: Lessons in Getting to Scale

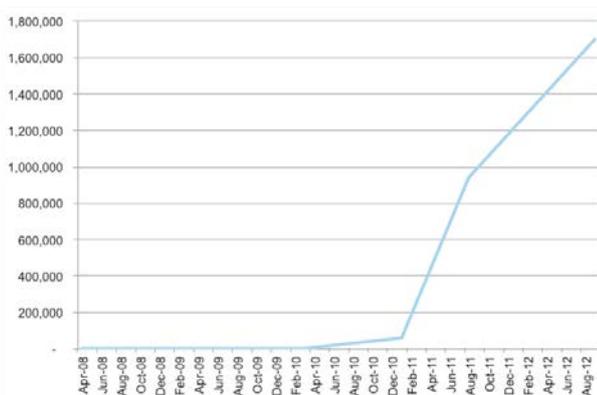
Although all PSD programmes aspire to reach scale, not all are successful. Section B sets out ten key lessons in getting to scale, drawing on successes and failures from both ASI's PSD portfolio and publicly available examples.

Lesson 1: Getting to Scale takes time

Unlike direct delivery programmes it can take several years before programmes based on a facilitative approach deliver any impact for poor men and women. To reach scale, evidence suggests that it often takes four or five years before programmes record significant outreach numbers. It simply takes a long time to conduct the diagnostics, develop initial ideas for the pro-poor innovation, identify potential first movers, demonstrate the commercial case through market research (if required), negotiate the partnership, provide the necessary technical and financial support to partners to refine the innovation and launch the pilot, assess the success of the pilot and support partners to make the necessary adjustments, and finally to support partners to roll-out the innovation. It can then take another couple of years for crowding-in to occur.

In the case of PrOpCom's partnership with Notore to develop mini-fertiliser packets and an associated village-level distribution model, it took four years from the start of the partnership before the number of customers reached the one million mark (PrOpCom Mai-Karfi / The Springfield Centre, 2014). In years five and six, only small pilots with second movers had been launched: a wider market response had yet to materialise. Similarly, in the case of KATALYST's work on agro-inputs, it took six years for the partnership with Syngenta to reach one million farmers. By year seven, KATALYST had reached another one million farmers through second wave firms.

Figure 3: Notore Sales of Mini-fertiliser Packets



Source: PrOpCom Mai-Karfi / The Springfield Centre, 2014

These long time horizons also tally with the findings of Koh et al (2014) in their survey of scaling inclusive industries. For example, it took 15 years for the micro-finance industry in India to reach scale and maturity:

“Industries take time to scale, which suggests that facilitators should prepare to remain committed over long periods of time. Even with a product with strong pull characteristics like microloans, the industry took 15 years to go from its humble beginnings in community organizations to becoming a scaled industry attracting mainstream commercial capital” (Koh et al, 2014).

Many contextual factors influence the speed at which interventions will scale (see Lesson 10). For example, in countries with thin markets and weaker actors, who require more intensive support, interventions typically take longer to reach scale. The type of industry also matters: in agricultural sectors with one or two harvests per season it can take longer to test, refine, and roll-out innovations compared to sectors such as financial services with much shorter business cycles. For example, M-Shwari received 1 million enquiries on the first day, and reached 5 million accounts within 12 months of launch. But even here, FSDK spent two years working with CBA to develop and launch the product.

This suggests that programmes need to be given a realistic time horizon if they are to get to scale; agricultural programmes and programmes operating in thinner markets may require even longer timeframes.

Lesson 2: Only a few interventions are likely to get to scale

The second lesson is that within a typical programme, only a handful of interventions will ever reach scale. In PrOpCom, for example, ‘over 1 million’ of the 1.2 million beneficiaries came from the small-packet fertiliser intervention with Notore (PrOpCom Project Completion Report). In the Malawi Oilseed Sector Transformation (MOST) programme, a significant proportion of the outreach numbers to date have come from the inoculant intervention. In CAVAC in Cambodia, only three of the twelve sectors delivered sizable outreach numbers.

This is perhaps not surprising given the inherent riskiness involved in getting pro-poor innovations to scale. Perhaps coincidentally, programme experiences seem to conform to the 80-20 ‘rule’ which says that 80% of your outcomes will come from 20% of your inputs.

This suggests that in the early years of implementation programmes should experiment with a wide variety of different innovations. Once it becomes clearer which innovations have real scale potential, programmes should double-down on these interventions and drop those showing less promise. Sometimes programmes do the opposite, spending lots of time and effort trying to salvage ‘failing’ interventions at the expense of interventions with real potential, or limiting the pilot phase to a single solution (rather than testing a variety of different models). In getting to scale, programmes and donors therefore need to be comfortable with taking calculated risks and accepting failure.

Lesson 3: Early on, check the business case

Early on, programmes need to check the business case underlying the ‘innovation’:

- How big is the potential market? Is there demonstrated demand among BoP consumers?
- What will it cost for market actors to develop and roll-out the ‘innovation’ to BoP consumers? This needs to include both fixed and variable costs.
- What prices will be charged? Is this affordable to BoP consumers, and sufficiently attractive to the market actors given the outside options?
- What is the break-even point? Is it realistic for the market actors in question to reach this level of output?
- Are there other potential commercial and non-commercial benefits? For example, many MNOs were initially attracted to mobile-money as a strategy for improving customer retention and reducing churn, not necessarily because of the returns from mobile-money in its own right.
- How risky is the innovation perceived to be? Is this within the risk tolerance of market actors?
- How do the projected returns from the BoP innovation compare to other business opportunities or other target segments (‘outside option’)?

Programmes may try to answer these questions themselves initially, then refine the business model with a number of interested actors, or develop the model from scratch with partners – either way, programmes (and partners) need to get a sense as quickly as possible as to whether the business case makes sense. Otherwise programmes can waste time and resources testing and piloting a model that is either never going to be

sustainable and scalable without continued donor support, or that is viable but not pro-poor (because the economics of targeting BoP consumers doesn’t stack up). For example, one of our programmes launched an extension model with coffee producers that relied on cost-intensive on-site field visits by agronomists. The producers were happy to go along with model because the programme was picking up a high share of the costs for the pilot, but at the end of the pilot they balked at taking on and expanding the model by themselves. With more due diligence at the start, the programme would have realised that the model was too costly, and could instead have piloted a variety of lower-cost models for getting information to farmers.

For interventions relying on Strategy 2 to get to scale, it is important to consider whether the business case also makes sense for likely second movers. For example, a common tactic is for programmes to buy-down risk for first movers by cost-sharing for various sunk costs. For organic replication to occur, second movers have to be able to cover these sunk costs themselves. Even if the economics make sense, second movers may not be able to access the capital required to finance the investment. In this case, programmes will need to be prepared to more actively support second movers (Strategy 3), or should explore less capital-intensive business models.

Although experimentation and learning from failure are integral to facilitative approaches, some failures can be avoided through doing your homework better at the start. And once implementation begins, it is important to get quick feedback on critical elements of the business case to identify any issues early and take corrective action.

Lesson 4: The quickest route to scale is through just one ‘big actor’, but it’s risky

As noted above, several of the interventions that reached over one million people within five years did so through just one big actor: PrOpCom with Notore, KATALYST with Syngenta, and FSDK with CBA. Emerging programme experience suggests that in countries where it is feasible, the ‘big actor’ strategy is the quickest route to scale. This also tallies with the conclusion of the LEO review of agro-input delivery interventions, which found that larger actors are better able to sustain and scale innovations (LEO 2015):

“Large firms appear most capable of autonomously expanding their outreach. Although a resilient system will typically include a diversity of firm sizes, a comparison

of the performance of project partners in the selected cases shows larger firms (e.g. input manufacturers or wholesalers, exporters) have proven better able to continue growing their outreach post-project compared with smaller entities... Larger firms... tend to be more sophisticated and have stronger management capacity than the smaller entities that are located physically close to farmers (e.g. retail shops, micro-entrepreneurs, producer collectives)... In contrast, the micro-entrepreneurs and producer collectives in the selected cases were drawn from the existing base of smallholder farmers. They had much weaker managerial and strategic capacity. Consequently, they were less likely to expand and more likely to discontinue operations in the face of difficulties.”

For example, only three of the 212 Village Based Agricultural Advisors (micro-entrepreneurs providing a range of inputs and services to farmers) supported by NAFKA in Tanzania hired additional employees, and many stopped operating altogether because of limited financial and managerial capacity or the ability to respond to shocks or troubleshoot problems (LEO 2015).

For programmes operating in environments where the big actor strategy is not an option, this suggests the task of getting to scale is both harder and can take longer to achieve – something that donors need to recognise in designing programmes and setting milestones.

Where Strategy 1 is an option, programmes need to recognise that the strategy also comes with risks. One obvious risk is that of putting all your eggs in one basket: if the partnership stalls the whole intervention may be jeopardised, as nearly happened with PrOpCom and Notore:

“Notore faced long delays at Lagos port when importing NPK, and a plant failure affected urea production. The government’s GESS voucher scheme tied up most available stock and working capital, leaving little for small packs... A key lesson of Notore’s 2013 performance is that even successful business models are vulnerable to external shocks – especially when they depend on one business. For development programmes that are serious about sustainability, this highlights the importance of working with more than one market player, and favouring innovations that are attractive enough to withstand shocks” (PrOpCom Makarfi / The Springfield Centre, 2014; emphasis added).

By supporting just one actor initially, even if the intention is to support a wider number of second movers later on, there is also the risk of creating a dominant market position. This can happen when there are strong network effects, or the first mover is able to erect barriers to entry

(for example through exclusivity deals with agro-dealers, or through political machinations). For example, although it may seem churlish to question the huge success of M-PESA, a legitimate question can be asked as to whether the development support given to Safaricom to develop M-PESA should also have been offered to other MNOs quicker than it was in order to create a more level playing field.

Often programmes do not have the luxury of partnering with a variety of first movers – sometimes only one market actor is initially willing to take the plunge. Current wisdom dictates that programmes should only start working with second movers once the innovation has been perfected with the first mover, possibly through several iterations. Whilst it is obviously important to learn the lessons from the pilots, given the time it can take to design, test, and tweak a model (Lesson 1), programmes should consider taking-on second movers sooner (or working with a larger number of first movers), even whilst the business model is still being refined (assuming the initial pilots showed promising early signs). This will help programmes diversify risk and allow sufficient time to work with second movers (see Lesson 6).

Sometimes market actors will only partner with a programme if the programme agrees not to work with other market actors on the same innovation, meaning programmes can be stuck with just one partner. For example, FSDK signed a non-disclosure agreement with CBA which effectively meant they could not actively work with another player to develop a competitor to M-Shwari. Programmes should only agree to such agreements if they are confident that there are no competition concerns and that an organic replication effect is highly likely (in the case of CBA FSDK was on safe ground because they knew that if M-Shwari was successful, Safaricom would work with other banks to develop other products to run on the M-PESA rails, which is indeed what happened). In its agro-inputs work, MAP managed to negotiate a non-compete clause with partners that lasted for just one year and only related to actors in direct local competition with the partner, allowing MAP the freedom to work with actors in other locations, and direct competitors after one year.

Lesson 5: Do not take the demonstration effect for granted

As noted in Section A, many programmes cite the demonstration effect as their strategy for getting to scale. However, we could find relatively few examples of the demonstration effect actually driving large scale spontaneous crowding-in. Looking again at the three assumptions – success for the first movers is visible to the second movers; second movers have the incentive, capacity and resources to copy the innovation; and second movers are able to access the know-how (via a knowledge ‘transition mechanism’) – this is perhaps not surprising. There are many reasons why one or more of these assumptions may fail to hold in practice.

One reason may be that the innovation, and the success derived by the first mover, is not clearly visible to outsiders. This is especially likely for ‘process’ innovations, or innovations that generate secondary benefits (such as reducing customer churn or increasing agent loyalty). This was cited by PrOpCom as one of the reasons for disappointing levels of replication around the Notore model:

“When company executives see rival firms innovating, but have little information on how the innovation affects the rival firm’s performance, they may be reluctant to emulate it... One challenge in encouraging more firms to invest in marketing fertiliser to poorer farmers is that the cause of Notore’s success remains partly hidden. Industry-wide and even within Notore, small packs remain a small percentage of total fertiliser sales. Yet small packs, by allowing new customers to test Notore’s product, often lead to sales of 50kg bags in future years... unless a fertiliser company executive understands both small pack sales and their effect on 50kg bag sales, they might underestimate the attractiveness of investing in small packs.” (PrOpCom Mai-Karfi / The Springfield Centre, 2014)

Even proactive communicating of the Notore success to the rest of the market failed to spark the desired spontaneous crowding-in, requiring PrOpCom Mai-Karfi to work intensively with second-movers to promote replication (see Lesson 6).

Experience from across our portfolio suggests that programme activities designed to showcase an innovation and improve visibility to the market rarely succeed in their primary objective of promoting organic replication. However, these events can still be a useful way of identifying and engaging potential second movers to partner with. By showing up at the event, asking questions, and engaging actively, potential second movers can signal their interest in adopting the innovation (even if by themselves they are unable to adopt without further help). For example, Samarth NMDP in Nepal and the Feed The Future programme in Uganda both identified second wave partners in this way.

Another reason may be that second movers lack the incentive and capacity to replicate the success of the first mover(s), even if that success is clearly visible. Rogers suggested that the distribution of different types in any population follows a uniform bell-curve. However, there is no reason why this should be so in practice: in many contexts in which development programmes work, the distribution may be heavily skewed to the right (as seemed to be the case with SACCOs in Kenya – see box). The knowledge transition mechanism between first and second movers may also be weak. This will be in the case in industries that are loosely networked and have weak associations or professional bodies, low levels of staff churn, and high geographic dispersion (again the case with SACCOs in Kenya).

In the case of MAP’s work with mid-sized agro-dealers, despite successes with several firms very little crowding-in was observed. Although the reasons behind this were never fully explored, it seems that both the push and pull factors were insufficient to drive crowding-in. In rural areas, farmers often have limited options in terms of agro-dealers, meaning that effective competition between agro-dealers is limited. And although the MAP star partners were enjoying good returns and reasonable sales growth, it was not enough to entice typically unadventurous and conservative agro-dealers to shift from the status quo.

Programmes cannot lazily assume, therefore, that the demonstration effect will work automatically.

If programmes wish to follow Strategy 2, they need to think through carefully at the start of the intervention whether the three assumptions are likely to hold. This means not just looking at whether there are sufficient first movers to partner with, but also who the second movers are likely to be, the capacity and incentives of these second movers, how visible the demonstration effect will be, and whether a knowledge transition mechanism exists. Although there will always be a high degree of learning-by-doing, thinking this through more carefully at the start of the intervention can help to avoid costly mistakes.

Programmes also need to think about the message that is being communicated to the market. The demonstration effect will only work if second movers feel capable of following in the first mover's footsteps. But if the programme has worked very intensively with the first mover, the lesson that second movers draw may not be "I can do this too" but "this model only works if you have extensive donor backing and free money". Programmes therefore need to be careful to right-size their support, and try to hide the extent of their support from the wider market as much as possible

Project Example: Demonstration effect successes and failures in FSDK

It is interesting to contrast a success and a failure in getting to scale through the demonstration effect from FSDK's work in the financial sector in Kenya: the partnership with Equity Bank, and the work with Savings And Credit Cooperative societies (SACCOs).

Equity Bank had been a building society which, from the 1990s, had started on a process of change aimed at the underserved Bottom of the Pyramid. It was the first bank in Kenya to recognise the potential value of being more customer-driven (rather than product-led). Equity Bank received concentrated technical support from 2002 to 2008. The shift in strategy at Equity, supported by FSDK and others, led to a significant improvement in performance, and Equity quickly grew in terms of customers, revenues, profitability, and market share. This success led to a response in the rest of the sector (some organic, some donor-supported), with a sizable number of local and regional banks jumping on the Equity bandwagon. "We have taken financial inclusion on board because of Equity. It was they who saw the importance of the bottom of the pyramid", according to the CEO of one competitor. Rival banks emulated Equity by investing in their own technical capacity; several directly poached Equity staff (The Springfield Centre, forthcoming).

SACCOs are membership-based, not-for-profit organisations strongly embedded in Kenyan society. In 2005, when FSDK started working with SACCOs, there were an estimated 3,200 SACCOs with approximately 1.6 million members. SACCOs were seen by FSDK to be an important financial service provider for the poor, but their performance was highly variable and they were often poorly managed. In Phase 1, FSDK provided direct capacity-building for eight of the best-run SACCOs. FSDK invested \$2.3 million in SACCO capacity-building but by 2010 recognised that this hadn't worked. Working with individual SACCOs "at best produced isolated pockets of excellence but there was no spread beyond these" (The Springfield Centre, forthcoming).

What explains the difference? In both cases FSDK succeeded in supporting first movers to adopt new pro-poor innovations and improve their performance, but only in the case of banks did the demonstration effect drive wider crowding-in. There are a number of factors which supported crowding-in in the banking sector, which were absent in the SACCO sector:

- The **industry structure** was conducive to crowding-in: a small number of large, well-resourced banks, concentrated in the capital Nairobi (as opposed to a large number of small, generally poorly-resourced SACCOs scattered across Kenya).
- The **high visibility** of the Equity demonstration effect: through the bank's reported profits, rapid expansion of branches, BoP marketing campaigns, and conversations in tightly-knit industry networks, the success of Equity was clearly visible to other banks in the industry (as opposed to SACCOs, which were more dispersed, less visible, and less densely networked).
- Competitive pressure among banks, driven by the profit motive and the desire to maintain or win market share, created a **strong incentive** for other banks to copy the Equity model (in contrast to SACCOs, which typically lacked any strong incentives to improve performance or compete for market share; the traditions and values around SACCOs also diluted any external pressure for change).
- There was a clear **transition mechanism** for second movers: high staff turnover in the banking industry and the poaching of Equity staff, and the dissemination of lessons and insights through industry networks and forums (in contrast to SACCOs, with low staff turnover, a weak association, and limited networks).

Lesson 6: If the demonstration effect fails, to get to scale programmes may need to directly support second movers (often as or more intensively as the first movers)

If Strategy 2 (the demonstration effect) fails to produce the desired crowding-in, programmes may need to move to Strategy 3 (working intensively with second movers). In many M4P or facilitative programmes there is often a hesitancy in working as or more intensively with second movers to get to scale. There is often a belief that doing so is not ‘facilitative’ or ‘systemic’, and that having proved the concept with first movers the market should respond by itself (or with only light-touch intervention). However, as shown in Lesson 5, spontaneous replication seems to be rare, with most cases falling in sectors which meet quite strict criteria (like media and banking). Where the demonstration effect fails, programmes will need to try something else to get to scale (if not Strategy 3, then one of the other strategies, although these also have their pitfalls – see below).

As discussed in Section A, there is no *a priori* reason why second movers should require less support than first movers. This seems to be backed up by programme experience: we found plenty of examples where second movers required the same or more intensive support, not less. Several examples are discussed below.

KATALYST. Following the successful pilot with Syngenta, KATALYST entered into partnerships with other input suppliers interested in replicating the model. Syngenta was chosen in the first place partly because it already had some experience in delivering training to stockists, and the innovation fit within its overall strategy and ethos. There were no second movers with a comparable level of existing capacity or strategic alignment, requiring KATALYST to offer a similar intensity of support: “KATALYST have initiated new projects – *on a similar basis* – with two other input suppliers who are (to some degree) competitive with Syngenta; Bayer Crop Science and East-West Seeds... This is a major strategic change in approach for both firms. Neither has any previous experience of retailer training” (KATALYST / The Springfield Centre, 2005; emphasis added).

PrOpCom. When the success of the Notore mini-fertiliser innovation failed to spread organically to the rest of the sector, the successor programme (PrOpCom Mai-Karfi) developed partnerships with two other fertiliser companies, TAK and Springfield Agro. Springfield Agro required similar levels of support to Notore. The pilot phase was bumpy, but as of 2014 Springfield Agro had increased investment and commitment. With intensive programme support TAK launched a pilot, but the pilot failed to take-off and was later abandoned (PrOpCom Mai-Karfi / The Springfield Centre, 2014).

The early experiences of **MOST** also follow this pattern, with support to second movers as intensive as the support to first movers.

Whether this more intensive level of support to second movers is justified from a Value For Money perspective obviously depends on the specifics of the case. If a large number of actors require a high level of programme support, and if success rates are low, then Strategy 3 may not deliver the outreach to justify the programme investment. As far as possible, programmes therefore need to think these issues through at the start of an intervention, in particular by thinking whether the demonstration effect is likely to hold, and what the capacities and incentives of second movers are (not just first movers).

Lesson 7: Creating a viable fee-based service market is harder than it sounds

An alternative to working directly with second movers (Strategy 3) is to try to support or develop service providers who can do the job for you (Strategy 4). Where programmes are intervening in sectors with a large number of smaller players, creating a service market sounds like a nice solution to getting to scale: rather than providing direct support to agro-dealers (Kenya MAP), SACCOs (FSDK) or BMOs (ENABLE1), programmes can instead work with a small number of service providers who then become scale-agents, delivering training or advisory services to a large number of target intermediary organisations on a sustainable basis.

Unfortunately, we could find more examples of where this strategy failed than where it succeeded. There are a number of conditions that need to hold for Strategy 4 to work, and programmes need to think these through before starting:

- On the demand-side:
- Sufficient ability and willingness to pay for services exists among target intermediary organisations;
- Accessing the support service will catalyse the adoption of the pro-poor innovation

On the supply-side:

- There is sufficient interest among potential service providers to develop a service offering;
- Service providers have sufficient capacity to provide a 'good enough' service offering;
- The service and target market is lucrative enough (relative to alternative options and segments) for service providers to sustain and expand the service offering

Programmes often encounter difficulties on both the demand and the supply side. Halfway through **ENABLE1** the programme started work with a variety of service providers to pilot a number of different fee-for-service offerings for BMOs, such as media relations and advocacy training. Although it was possible to catalyse initial transactions through a combination of facilitating linkages and providing cost-sharing to incentivise take-up, a sustainable service market targeting BMOs never emerged. On the demand-side, the vast majority of BMOs did not have sufficient interest in the service offering to pay for the service. In the case of advocacy training, the service offering also did not lead to the desired practice change, which cannot be achieved

through a standardised one-day training of the type offered by service providers. On the supply-side, the BMO market was simply not lucrative enough for service providers to invest sufficient effort or resources in developing new and improved service offerings or winning new work. For example, it proved much easier to provide media relations services to large corporate and government clients than cash-strapped BMOs.

Similar experiences have been recorded in MAP and FSDK. In the case of **MAP**, despite a handful of project-brokered transactions, marketing service providers found rural and peri-urban agro-dealers an insufficiently lucrative market segment to justify the effort of targeting these out-of-the-way consumers. **KATALYST** did record successes in fostering the sustainable provision of training to agro-dealers, but it is interesting to note that while agro-dealers paid a small fee to book their place, this training was delivered at a loss by Syngenta: the company was motivated by wider concerns, such as using the training to increase brand loyalty among retailers; the training also fit within their wider Corporate Social Responsibility and Public Relations strategies.

In the case of **FSDK**, the programme worked with the Cooperative College of Kenya and individual providers to develop practical SACCO training programmes and other services; on the demand-side, a SACCO Fund was launched to support the up-take of these offerings by SACCOs. However, as with the **ENABLE1** example, a 2015 review found that despite a high subsidy, demand from SACCOs was weak, with no signs of a sustainable market for services emerging. The review also found that SACCOs that had received training or capacity-building were just as likely to be non-compliant with regulations as SACCOs that had not (Financial Sector Deepening Africa / The Springfield Centre, forthcoming).

As in Lesson 3, it is important that programmes thinking through the business case for any new service offering before embarking on this scaling strategy. Programmes also need to think carefully about whether access to the service will lead to the desired practice change in target intermediary organisations.

Lesson 8: Barriers to scale often lie outside the firm, but reform to rules and regulations does not always lead to scale

A central insight of institutional economics and M4P / market systems development is that rules and regulations, both formal and informal, have a strong influence on the performance of market systems. Whether innovations reach scale can therefore depend as much on changing external rules and regulation as what goes on inside the innovating firms (or market actors). A good example is M-PESA, the success of which is often attributed solely to the initial grant provided by the DFID Financial Deepening Challenge Fund (see for example Koh et al 2014). However, this narrative ignores the important behind the scenes work of FSDK in creating the regulatory conditions in which mobile money could expand and flourish (Financial Sector Deepening Africa / The Springfield Centre, forthcoming).

Reform to rules and regulations can lead to scale in two different ways. One is removing external barriers to scale, as in the M-PESA example. Whether or not such intervention is required depends of course on the context: some innovations are able to reach scale without any wider reforms. Innovative products and services in regulated industries, such as finance, or with a public good or consumer protection element, such as water and education, are more likely to require complementary reforms. The nature of the regulatory challenge can also change over time. In the case of M-PESA, the need now is to put in place a strong competition regime to check the market dominance of Safaricom and create a level playing field for new entrants and competitors to expand and innovate.

Another way is by catalysing reforms to rules and regulations that prod or compel actors to adopt certain practices. For example, several programmes have tried to re-shape incentives in agro-inputs by putting in place rules to make it more difficult or less attractive to continue with current practices, especially around quality issues. Many ag-input businesses face perverse short-term incentives to cut corners on quality as a short-term cost-saving measure, usually at the expense of long-term sales growth and farmer satisfaction. One way to change these incentives is to work through government bodies to enforce minimum quality standards, and increase punishments for those who flout them.

A key lesson from programmes is that reforming rules and regulations can be very challenging. There are often vested interests that benefit from the status quo, requiring programmes to have a good grasp of the political economy dynamics. The regulatory process in many developing countries can also be very slow. To get to scale, it is also not enough to achieve reform-on-paper: changes need to be implemented and enforced on the ground. In its work with SACCOs, FSDK worked with the regulator to put in place tighter regulations that would compel SACCOs to upgrade their systems and processes and hence adopt some of the innovations being promoted by FSDK. However, it became apparent that the regulator lacked teeth, with limited political will to enforce tougher standards. The impact of regulatory reform was therefore minimal (Financial Sector Deepening Africa / The Springfield Centre, forthcoming). In sectors with weak regulatory or standard setting bodies, and high levels of informality in practices, it will generally be difficult to promote wide-spread uptake of innovations through reform. There is also a risk that enforcement agencies use new standards to extract rent from firms rather than drive up standards in a fair and even-handed manner.

Before trying to promote scale through reforms to rules and regulations, programmes therefore need to ask a number of questions:

- What are the potential barriers to scale in the wider rules and regulations? Can the innovation reach scale without reform? Would reform improve the resilience of the innovation?
- What are actors' current incentives, and how exactly will the regulatory change impact incentives to make pro-poor changes? Will the incentives be strong enough to make a difference?
- What is the nature of the reform required? Are new laws or regulations required, or would incremental improvements to coordination and enforcement be sufficient?
- What is the feasibility of reform given the political economy dynamics? Who are the key actors that require influencing, and does the programme (or its partners) have the ability to do so effectively?
- Once passed, what is the capacity of the relevant bodies to enact and enforce the new rules or regulations? What is the culture of compliance in the sector – will actors take notice of the reforms?

Lesson 9: Getting to Scale requires different facilitation tactics at different times

To be effective, programmes need to match their tactics to the current barriers preventing the innovation from getting to scale at the current time: tactics designed to address incentive constraints (such as cost-sharing and market research) will not be effective if the real issue is capacity and technical know-how, and vice-versa. Constraints within a given partner can also change over time as partners move from testing and piloting innovations to scaling-up and rolling-out innovations. Constraints may also differ between partners, particularly first movers and second movers. For example, with first movers the programme may need to address incentive constraints preventing firms from making the first move, such as conducting market research or providing cost-sharing for sunk costs in order to buy-down risk. If the first mover demonstration effect is successful in achieving proof of concept, this may remove the incentive constraint for second movers, meaning support can focus on any capacity constraints that may exist (although as noted above, second movers may be naturally more risk averse than first movers, meaning some incentive constraints may remain).

In all the cases of getting to scale we identified, the facilitators were highly adaptive and flexible in their choice of tools and tactics. For example, in the case of M-Shwari, FSDK switched from technical assistance in phase 1 to the risk guarantee fund in phase 2 as the needs of the partner and the market context changed. PrOpCom used a wide variety of tactics, from technical assistance to cash prizes, at different stages of their partnership with Notore. Koh et al (2014) make a similar observation:

“... facilitation is necessarily adaptive, because markets are complex, dynamic systems that will evolve in unpredictable ways over these long timeframes. In the case of the Indian MFI industry, while DFID and SFMC were unwavering in their pursuit of greater scale for the model, they were able to adapt their approach on the ground over time in response to new needs and challenges, and new opportunities. In order to do this, industry facilitators need to closely track developments on the ground and review their approach, revisiting their initial analyses and plans if necessary.”

Programmes therefore need to be highly intelligent, with a real-time understanding of opportunities and constraints, and highly adaptive to what is and is not working on the ground and to changes in context, whilst donors should avoid artificially limiting the choice of tactics available to programmes.

Lesson 10: Industry structure and country-context is important

A common thread to many of the lessons presented above is that the industry structure and country-context has a significant bearing on the ability of innovations to reach scale. As we have already seen, the big actor strategy is simply not viable in many of the countries in which programmes operate. Even within countries, differences in industry structure can have a significant bearing on scale outcomes, as the example of Equity Bank versus SACCOs in Kenya illustrates.

In terms of country-level factors that support scale, the following seem to be important:

- **‘Thicker markets’, with a range of large, well-resourced players.** This increases the choice of first movers, makes crowding-in by second-movers more likely, and reduces the internal barriers to scale.
- **High population and population density.** This reduces the cost of reaching large numbers of BoP consumers, improving the commercial viability of BoP innovations and associated distribution models.
- **A more developed financial sector.** Improved access to finance makes it easier for first movers to finance investments in developing and rolling-out innovations, and makes organic replication more likely by second movers (who cannot rely on soft financing from donors).
- **A supportive business environment.** This minimises the potential external barriers to scale.

Looking at the first two factors in particular, it is perhaps not surprising that many of the examples of getting to scale come from Bangladesh and Nigeria (including those cited in Koh et al 2014). Where these factors are absent, getting to scale can be challenging. For example, the BOSS project in Timor-Leste cites the importance of contextual factors in their ability to reach scale:

“Operating in thin markets, shaped by a history of conflict, colonisation and occupation, it proved difficult for BOSS to move beyond small-scale pilots towards a credible strategy for large-scale change” (ILO, 2015).

There can also be considerable differences in the conditions for getting to scale within countries, potentially creating geographic barriers to scale. For example, KATALYST encountered regional limits to the organic replication of the maize ‘super-contracting’ model:

“Systemic change programmes often expect that expansion of benefits will occur ‘organically’ as a result of the incentives of the partners, since these should be aligned to increasing the number of beneficiaries, and information regarding those incentives encourages competitors to crowd in. Yet in many cases this does not happen, especially where, as in this case, marked regional markets for maize meant either the capacity or the incentives of the initial implementing partners are lacking in new areas” (KATALYST / The Springfield Centre, 2016).

In terms of sector level factors that support getting to scale, three seem particularly important:

- **Market concentration.** It seems easier to reach scale in sectors with a small number of large players: programmes can get to scale through working with a handful of players directly, and the demonstration effect is more likely to hold.
- **Intensity of competition.** In highly competitive markets, competitive pressures are more likely to compel firms to innovate and copy successful innovations. Note that what matters is less the number of firms, but the degree of overlap in customer segments and geographic reach. For example, competition between three national mobile operators may be more intense than between hundreds of agro-dealers if those agro-dealers effectively enjoy local monopolies.

- **Density of networks.** Where actors and individuals are tightly networked, ideas and innovations flow more readily. Geographic concentration helps (for example, the tendency of banks to all locate their headquarters in the same district of the commercial capital). Effective associations and business networks also play a role. Similarly, although it can be painful for programmes when a key champion leaves a partner organisation, staff churn also seems to support the spread of innovations.

Looking at this list, it is not surprising that many of the examples of getting to scale come from the financial sector, which is marked by high market concentration, relatively strong competition, and high density of networks.

Although programmes can do little about the country-context, they typically do have a choice of which sectors to intervene in. When selecting sectors, programmes should think about whether the nature of the sector is likely to support or hinder getting to scale. This means paying attention to factors such as market concentration and density of networks. As mentioned above, programmes also need to look not just at whether there are first movers to partner with, but should also ask themselves where the second movers will come from, and what level of support they are likely to need.

For donors, it is important to recognise the importance of context. In thin markets it will be harder for programmes to reach scale within a five year time horizon, and actors (both first and second movers) are likely to require much more intensive support. Market development in these countries, which is still preferable to direct delivery (which will crowd-out the needed development and growth of local actors), should be seen as a foundational investment which is more likely to break-even than generate the returns of 4:1 or 6:1 seen by programmes in Nigeria and Bangladesh.

Contrasting experiences: mobile money in Kenya and Tanzania

To illustrate the importance of country context, it is interesting to contrast the fortunes of rolling-out M-PESA in two seemingly similar countries: Tanzania and Kenya. Having achieved huge success with M-PESA in Kenya, Safaricom was excited to launch the product in Tanzania which has a similar market size to Kenya. Within the first 14 months of the launch of M-PESA in Kenya, Safaricom had reached 2.7 million users through 3,000 agents. However, in the case of Tanzania, after 14 months the results were significantly lower: only 280,000 users and 930 agents. There are a number of contextual factors that explain the difference:

- **Market structure.** Safaricom was far less dominant in airtime in Tanzania than Kenya (41% market share and 5 super agents versus 79% market share and 1,000 super agents). This made it harder for Safaricom to build-out the distribution network. The more competitive landscape, with non-exclusive agents, also reduced the incentive of any single company to invest in building and training an agent network (which has a public good element).
- **Financial infrastructure.** Kenya's rural financial infrastructure was significantly more developed: 4.4 branches per 100,000 people versus 1.8 in Tanzania. This made it harder for Safaricom to manage the liquidity of cash-in cash-out agents.
- **Population density.** Lower population density in rural areas in Tanzania reduced the commercial viability for agents, making it harder for operators to build a vibrant distribution network.
- **Culture, migration, and financial literacy.** Uptake of mobile money services in Tanzania was hampered by a number of demand-side factors. A greater cultural emphasis on face-to-face cash and gift exchange made mobile money less attractive as a service, as did lower levels of rural-urban migration. Generally lower financial literacy also made people more wary of mobile money services than in Kenya.

Source: Koh et al (2014)

Section C. Conclusion: Implications for practitioners & donors

This section concludes with some implications and recommendations for practitioners and donors.

Practitioners

- **When undertaking the initial sector selection,** programmes need to factor in the potential to get to scale. Different sectors have different opportunities to get to scale: factors like industry concentration and density of networks are important.
- **When designing interventions and developing innovation ideas,** programmes need to carefully think through the business case. Unless the innovation makes commercial sense for the actors involved, it will never reach sustainability or scale. Although a significant level of refinement will happen during the piloting process, this should not be used as an excuse for programmes not doing their homework first.
- **Before proceeding with an innovation,** programmes need a good understanding of the structure of the sector: not just whether there are one or two actors interested in piloting and testing a new innovation, but who the second movers might be and their capacity and incentives to adopt the innovation.
- **Before proceeding with an innovation,** programmes need to carefully develop and articulate a strategy for getting to scale, informed by the sector and country context. Is it possible to reach scale through one or two big actors? What are the risks involved? Will the innovation create a powerful demonstration effect? If not, how much support might second movers require? Could a viable service market emerge? Are changes in rules and regulations needed to drive scale? What is the feasibility of reform?
- **In the early stages of an intervention,** programmes should experiment with a variety of different innovations (or variations on the innovation). Only a small fraction will succeed, so programmes should be prepared to drop unsuccessful innovations and double-down on those showing promise.

- **During an intervention,** programmes need to recognise that very rarely is it enough to simply undertake a few successful pilots and expect these to scale by themselves. First movers often need considerable on-going support to develop and implement a scale-up strategy, and organic replication by second movers is relatively rare, requiring active facilitation by programmes to promote wider take-up.
- **During an intervention,** programmes need to be highly adaptive and flexible. Often a range of different strategies and tactics are required to get to scale. Programmes should not be dogmatic about what they can and cannot do: for example, programmes should not hesitate to support second movers as intensively as first movers if the demonstration effect has failed and strategies such as creating a service market do not seem viable. Programmes should monitor progress closely, taking corrective action when the chosen scaling strategies do not work as expected.

Donors

- **When designing programmes,** donors should avoid artificially limiting the flexibility of programmes. To reach scale requires a range of different strategies and tactics. Creating challenge funds, for example, that are limited to providing grants to first movers, are less likely to get to scale than M4P / MSD programmes.⁴
- **When designing programmes and setting milestones,** donors should recognise that getting to scale takes time. This is especially true in thin markets. Five years appears to be the minimum length of time: for a full competitive response to emerge seven or eight years may be required. If donors are unable to commit to this length of programming in one go they should be prepared to commission successor programmes to fully consolidate the scaling process (contingent on good performance in the first phase).
- Finally, both donors and practitioners should commit to generating more evidence about what works and what does not work in getting to scale.



ANNEX: Innovation Diffusion Tracking Tool

This Annex presents a new tool for programmes wishing to track the diffusion of an innovation. There are currently no good tools for tracking innovation diffusion.

A commonly used tool for conceptualising and recording systemic change is the Adopt-Adapt-Expand-Respond (AAER) framework (The Springfield Centre 2014). Whilst this is a useful tool for thinking through the different phases of systemic change, for the purposes of tracking the uptake of an innovation it has a number of limitations:

- **AAER presents a snapshot in time.** Consequently it is not useful for monitoring and recording diffusion dynamics (for example, whether uptake is accelerating, plateauing, or declining).
- **AAER does not report the extent of uptake by consumers or providers.** Consequently it is difficult to interpret the results reported. For example, if one agro-processor has adopted an innovation and two more have crowded-in, that is impressive if there are a total of five agro-processors but less so if there are 100. Results therefore need to be considered relative to the wider industry context.

Innovation Diffusion Tracking Tool

There are two dimensions to innovation diffusion:

1. The number of consumers currently accessing the innovation (e.g. the number of smallholder farmers buying mini-seed packets in the last planting season);
2. The number of market actors currently adopting the innovation (e.g. the number of agro-dealers supplying mini-seed packets in the last planting season)

The diffusion of innovation tool simply plots diffusion against these two dimensions (see figure 3 and 4 below). For a brand new innovation programmes will start in the bottom left corner, with zero market actors adopting the innovation and consequently no consumers accessing the innovation. The aim is to move as far as possible to the top right corner, with the innovation reaching 100% of market actors and consumers in the market (note that as more market actors and consumers enter a market this target may shift outwards over time). The tool therefore allows programmes and donors to consider uptake against the overall size of the market. Note that the tool is still useful even if programmes only have a rough estimate of the overall number of consumers and suppliers.

If observations are taken at regular intervals (e.g. every planting season) the tool can be used to track both the current extent of diffusion and also diffusion dynamics. For example, if observations are very close together this indicates that diffusion is relatively static, perhaps because current market actors have reached internal scaling barriers or because uptake among consumers has plateaued. If observations are far apart (and moving in the up-right direction) this suggests diffusion is accelerating, perhaps indicating a tipping point has been reached. The tool also illustrates resilience: if observations start moving down and left this indicates falling sales and market actors dropping the innovation.



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(Endnotes)

1. For readers familiar with the Adopt-Adapt-Expand-Respond framework, this paper is focused on the Expand box (assuming an innovation has been successfully adopted by one or more system actors). For more information about the AAER framework, see The Springfield Centre 2014.
2. It is interesting to note that the outreach milestones in many programme Logframes also follow an S-curve.
3. The diffusion of innovation idea can be used to explain the uptake of a new product innovation by ultimate consumers, or the adoption of a new innovation by producers. This paper use the diffusion of innovation schematic to explore adoption by producers: an ‘innovator’ therefore refers to the first set of producers to adopt an innovation rather than the first set of consumers to take-up the innovation, and so on.
4. M-PESA is often cited as an example of a challenge fund achieving scale, but this ignores the important complementary work of FSDK in setting a supportive regulatory landscape.



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