Susan Davis

Enabling Entrepreneurial Ecosystems

An aspiring entrepreneur in Uganda has an uphill climb. A landlocked country, Uganda is hemmed in by areas where conflicts break out sporadically, including South Sudan and the Nord-Kivu province of the Democratic Republic of the Congo. Moreover, the country still lives under the shadow of former president Idi Amin, whose policies included not only torture and hundreds of thousands of extra-judicial killings, but also, in 1972, the wholesale expulsion of tens of thousands of ethnic South Asians. Locally born and raised, this group had constituted much of the country's merchant and entrepreneurial class.

When a team of Bangladeshis led by Ariful Islam arrived in 2005 to set up a local operation for BRAC, a global development organization based in Dhaka, they had a long and difficult road ahead of them. The organization had already pioneered speedy scale-ups in difficult terrain, including in Afghanistan in 2002, where it began its first operation outside Bangladesh, providing development assistance with programs in health care, microfinance, rural livelihood development, and girls' education. Nevertheless, Uganda's historical legacy with people of South Asian origin working within its borders would present unavoidable cultural hurdles.

Six years later, BRAC Uganda's success has been remarkable. By most measurable standards the largest nongovernmental organization in the world, BRAC is also the largest in Uganda. As of March 2012, it has over 110,000 microfinance borrowers and a cumulative loan disbursement of $116 million in Uganda, thanks largely to a partnership with The MasterCard Foundation, a private, Toronto-based foundation launched in 2006 with a gift from MasterCard Worldwide at the time of its initial public offering. The partnership with BRAC was one of the first major projects of the foundation, which was created to test and scale innovative poverty solutions with a focus on youth learning and microfinance. Begun in 2008, the partnership with The MasterCard Foundation has helped BRAC increase its reach from 60,000 Ugandans in 2006 to 2.8 million today, a number projected to reach 4.2 million, or 12 percent of the country's population, by 2016.

The obvious question is how the partnership accomplished this growth. It is due in part to a strategy to multiply the impact of microfinance by combining it with livelihood development and youth empowerment. The result of the program

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is a job-creation machine that relies not only on wage employment—although, with 1,960 employees, that in itself is substantial—but also on fostering entrepreneurship. The goal is to lower the barriers to entrepreneurship by touching multiple points in the respective value chains of the agriculture, poultry, livestock, and health-care sectors. The education and empowerment of adolescent girls are also key aims, as is the economic empowerment of women, who constitute the vast majority of BRAC-trained entrepreneurs. The interventions include BRAC's own social enterprise, a nonprofit business that mirrors the organization's success in Bangladesh, where it runs 18 social enterprises

In short, BRAC Uganda has created an entrepreneurial ecosystem in which employment for the poor is created from the bottom up. This has proven to be a more viable strategy than waiting for jobs that may never come from large enterprises, factories, and direct foreign investment. Working with The MasterCard Foundation, BRAC has created this ecosystem by building on and adapting practices developed over four decades in Bangladesh. The results so far suggest that, given a chance to do so, the poor in developing countries—a group that is disproportionately either young, female, or both—will not hesitate to seize the advantages provided by an environment that is conducive to entrepreneurship.

As the examples below will show, BRAC's experience is that free markets often exclude the poor and marginalized from economic systems. Ultimately, when the poor lack so much as the opportunity to take control of their lives, society as a whole is worse off. We cannot afford to wait and see whether or not free markets left to their own devices will ultimately create these opportunities. Upfront investment is needed due to the urgency of the global poverty problem. BRAC's approach to creating entrepreneurship shows how nonprofits can catalyze change at the local level by using a complex set of measures that ultimately smooth the inefficiencies that work against the poor. In short, where free markets conspire against the poor and raise barriers to their success, BRAC tweaks the knobs with interventions that help the poor—a convergence of lower costs, better options, and a greater understanding of rights that offer a fairer deal to society's most vulnerable.

RISE OF THE MICROFRANCHISES

Sarah Mukama is a smallholder farmer from the village of Mawuba in eastern Uganda, close to the shore of Lake Victoria. She supports a family of seven by rearing livestock and growing beans and vegetables on a small plot of land. Sarah's experience provides an example of how BRAC and The MasterCard Foundation are replicating 40 years of success fighting poverty in Bangladesh by adapting BRAC's job-creation tactics to the Ugandan context. Thanks to BRAC, Sarah now earns part of her income by distributing high-yield seed varieties for maize, beans, and vegetables to other farmers in her village and the surrounding areas. She gets a regular supply of high-quality seeds for her own use, but she also fills a gap in the market by offering her neighbors doorstep access to much needed, high-quality agricultural inputs and other affordable goods and services. BRAC's assistance includes both livelihood training and microloans to help Sarah start a business, but the hard work, and the fruits of it, are hers alone. Instead of charging a fee for her training, BRAC only insists that she offer her own neighbors free advice on more efficient farming techniques.

Sarah's story is remarkable, not only because of the changes in her life—although she talks excitedly about being able educate her daughter in the best school in the district—but for the example she sets for other farmers in her village. With a small amount of help from BRAC, she saw her farm yield increase threefold. Amazed at this success, other farmers in the village soon came to Sarah for training and to buy seeds. In villages like Mawuba, the transformation is visible. Farmers in areas where BRAC has intervened have reported that their yields are doubling and sometimes even tripling as a result of the inputs and advice provided by these entrepreneurs. Furthermore, boosting agricultural yields has a ripple effect on poor communities, as it creates increased wealth that catalyzes demand and increases purchasing power in a way that benefits everybody, from tomato vendors to seamstresses, beauticians, and shopkeepers.

Sarah is part of a larger ecosystem, a network of likeminded people from poor communities who are driven to help both their neighbors and themselves. About 5,000 BRAC-trained microentrepreneurs like Sarah currently work in Uganda. Each is an independent enterprise; BRAC does not pay them wages or salaries, but it does give them the opportunity to make money on their own by reselling goods at a small markup. These entrepreneurs are, essentially, one-person social enterprises whose activities serve a dual purpose: they generate income, and they also reduce the barriers others face on the path out of poverty.

Sarah's customers are rural farmers who have not been served by existing distribution systems. Similar networks provide cattle insemination and distribute chicken vaccines. The latter has been a critical improvement, for at the time BRAC entered Uganda, chicken mortality stood out as one of the biggest problems facing local poultry farmers. About 35 percent of Uganda's chickens succumbed to disease before laying a single egg, which hobbles the sector and limits the effectiveness of the microloans made to these farmers. BRAC responded by creating and then scaling up a network of microfranchised chicken inoculators. So far, these self-employed inoculators have delivered 13 million doses of vaccine in a bid to bring the chicken mortality rate down to the level achieved in Bangladesh, currently about 10 percent, thanks in part to the efforts of BRAC and other private, NGO, and state actors. The vaccinations not only raised the yields of chicken farmers but led to higher repayment rates for microborrowers working with poultry, which allowed BRAC to redeploy capital that much faster.

Of course, it is not enough to train Sarah and others like her to buy and sell goods. They already know how to do that. For this model to work, Sarah has to be able to buy her seeds at a price low enough to earn a profit on resale margins. Furthermore, if the system is to avoid dependence on external subsidies that might not be there for the long haul, the producer at least has to break even. That is why

BRAC's end-to-end value chain approach includes, in addition to Sarah's doorstep seed distribution, a system of mass production. BRAC Uganda, for instance, set up its own seed production and processing enterprise early in 2011. The seed production unit reduces the unit cost of high-yield seeds by engaging a network of contract growers and leveraging a low-cost, community-based distribution network built on top of BRAC's microfinance network. The production facility is expected to break even in mid-2013.

BRAC's approach uses economies of scale to its advantage, establishing prices that allow these systems to pay for themselves. The organization's businesslike approach has allowed it to hit a sweet spot that makes prices fair for everybody in the value chain, from producer to end user—something that market mechanisms driven purely by profit have failed to do. This impetus for scale also explains the dual reasoning behind BRAC Uganda's rapid growth plan for the 10-year period that started in 2006. There is the obvious imperative for the organization to grow quickly so it can allay the urgent needs of the poor by reaching as many people as possible, but easily overlooked, at least in the nonprofit sector, is the cost benefit of operating at scale. Doing so passes savings onto other actors in the value chain, who are mainly poor and disadvantaged women.

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BRAC has to operate like any large business that is expanding rapidly and competing on price. It streamlines its operations; it routinizes its processes by removing unnecessary steps or "trimming the fat" where possible; and it minimizes waste and inefficiency—for example, by taking a zero-tolerance stance on corruption in its ranks. All of this works in the service of a bottom line that is not financial return but social good. The agricultural services BRAC provides now reach 75,000 Ugandan farmers, a number expected to double by 2014. It is rare that agricultural interventions in sub-Saharan Africa are able to bridge the last mile to poor communities so effectively. BRAC is now working in 10 countries, often in remote, hard-to-reach areas that have barely functioning economies, using a practical low-tech approach to serving a clientele long neglected by profit-driven enterprises.

The grassroots distribution model described above has its origins in Bangladesh's system of community health promoters, or *shasthya shebikas* in Bengali, which is the core of BRAC's approach to providing low-cost health care. The shasthya shebika is a self-employed woman who, after receiving training from BRAC, goes door to door in the villages and slums of Bangladesh—much like direct sales models for Tupperware and cosmetics in the U.S.—with a basket of simple but vital goods and services, such as vitamins, sanitary napkins, anti-malarial pills, sterile bandages, and condoms, all offered at affordable prices. She also inquires about her neighbors' health needs—for instance, about a persistent cough and fever that may suggest a case of tuberculosis. The media have dubbed the shasthya shebikas an "army of housewives," for they now number 91,000 in Bangladesh alone. They are able to generate extra income from the sale of the items described due to BRAC's training and provision of low-cost supplies, some of which, like the Ugandan seeds, are manufactured by BRAC.

The academic literature has dubbed BRAC's approach "microfranchising" in recent years. It cites such examples such as Fan Milk in Ghana, which has become the second-largest consumer goods company traded on the country's stock exchange, thanks largely to the efforts of its bicycle-based retailers who are ubiquitous in Ghana, pedaling the streets with their own mobile freezers; Ruma in Indonesia, which was established to put poor woman into business as retailers of mobile phone air time, offering business start-up kits to those living on less than $2.50 a day; VisionSpring, founded by optometrist Jordan Kassalow, which uses a microfranchised network to distribute glasses to the poor in India, Bangladesh (in partnership with BRAC), El Salvador, and South Africa; and LivingGoods, which got its start through a partnership with BRAC Uganda's community health promoter program and now aims to offer others a microfranchised system of health care distribution in Africa.

Some have called this a "business in a box" approach to job creation. Although BRAC did not call its efforts either microfranchising or business in a box when it began to experiment with this distribution model in the 1980s, all of these enterprises are following a path pioneered by BRAC in Bangladesh. BRAC's microfranchising is now at work in multiple countries in an array of areas, and its efforts are always geared toward providing a vital social benefit not provided by existing market solutions. It is part of a larger set of interventions that reaches across entire values chains in diverse sectors, such as poultry, silk manufacture, and handicrafts, creating an estimated nine million jobs in Bangladesh alone.

ENTREPRENEURS IN THE CLASSROOM

Creating entrepreneurial ecosystems begins at a much more basic level than chicken inoculations and seed distribution. When BRAC first arrived in Uganda, it found much of the country, especially in the north, still recovering from the 20-year conflict between the government and Joseph Kony's rebel Lord's Resistance Army, which displaced an estimated 1.5 million people. Using rented houses in remote areas, BRAC partnered with the government to create a Ugandan version of the nonformal primary education model it established in Bangladesh—essentially a "second chance" learning center for disadvantaged children who had been denied an opportunity for formal education in a government school, whether due to poverty, violence, or both.

The BRAC education model acts as a bridge to formal state schooling. Using government-approved curricula, the model emphasizes life-skills training to help build self-esteem in children who dropped out of school or who might never have set foot in a classroom before, with the aim of awakening their curiosity and inculcating in them a joy of learning—all of which are the building blocks of entrepreneurship. In countries like Uganda, financial education and life skills, which include social and emotional learning, are the keys to successfully navigating the transition from adolescence to adulthood.

These learning centers effectively provide a feeder system for entrepreneurship among the poor. In post-colonial Africa and much of the developing world, traditional models of education have proven to be an inadequate tool for fostering change, partly because poor people find too much of what schools teach to be irrelevant. Schoolwork becomes drudgery, not joy, and education ends up alienating the poor from their environment rather than encouraging people to create new opportunities for themselves. BRAC's nonformal primary education model takes a different philosophical approach. It treats the children of day laborers and rickshaw drivers as assets, not liabilities; not just as future job seekers but as potential job creators.

Uganda is faced with the challenge of being the country with the lowest median age of any nation on earth. Its bulging youth population, especially girls, is burdened with multiple vulnerabilities. Some research suggests that a majority of adolescent girls in Uganda have engaged in sexual intercourse in exchange for money or gifts at least once in their lives.[1] In 2008, BRAC responded to a perceived need for "safe spaces" for this group by setting up a chain of girls' clubs under the name Empowerment and Livelihood for Adolescents (ELA), which has already had a statistically significant impact on rates of teen pregnancy and condom use by teenage girls. An unpublished random control trial shows that, over a two-year period among a group of girls where pregnancy rates are in the range of 10 to 12 percent, pregnancy rates were about 2.5 percentage points lower in villages with an ELA program than for a control sample from another village that did not have a program. The intervention sample included girls in the village who did not even take part in the program, suggesting a significant spillover effect of healthy learning.

Encouraging condom use and creating safe spaces for girls may seem a long way from creating entrepreneurship, but according to BRAC's holistic approach to reducing poverty, all these elements are part of the same package. Staying in school and seizing control of one's reproductive health are the starting points for building a class of entrepreneurs at the base of the economic pyramid. In fact, BRAC's ELA program makes the link explicit: in addition to frank discussions of topics such as sex and contraception, the clubs offer financial literacy and livelihood training as part of the empowerment package, including training to develop the skills needed to spot business opportunities when they arise. As the girls grow older, they may receive livelihood training for their chosen profession, take out a microloan, or start a microfranchise.

BRINGING DOWN BARRIERS

It is worth taking a step back to examine from a more philosophical perspective just what brings these diverse activities together under the umbrella of entrepreneurship creation. The answer is that each of them, in various ways, deals with barriers to what, for lack of a better word, might be deemed "success" in one's life—that is, the freedom to lead the life one wants. This includes the freedom to be a self-employed and self-empowered economic actor, which is especially important in places where wage employment is scarce. In *Development as Freedom,* Amartya Sen writes of "poverty as capability deprivation," arguing that

> there is a strong case for judging individual advantage in terms of the capabilities that a person has, that is, the substantive freedoms he or she enjoys to lead the kind of life he or she has reason to value. In this perspective, poverty must be seen as the deprivation of basic capabilities rather than merely as lowness of incomes, which is the standard criterion of identification of poverty.[2]

BRAC sees the poor, and disadvantaged youth in particular, in terms of the capabilities and freedoms their circumstances have deprived them of. They are considered diamonds in the rough, potential entrepreneurs with untapped talents and latent capabilities that are only waiting to break through the many barriers that keep them from achieving their potential.

Traditionally, education has been seen as a way of giving people the capabilities they need to survive. In the traditional view, students' minds are seen as reservoirs to be filled with the knowledge and skills necessary to allow their true potential to flow. Development practitioners should instead view "the reservoir" as already full and focus instead on the many barriers that stand in the way of success. Young people dealing with violence, displacement, and poverty have innate capabilities that can be tapped, not taught; we need to view them as assets on the social balance sheet rather than liabilities. Tapping this potential can happen in many ways, but as we have seen, they are by no means limited to a classroom education.

One can view microfinance, microfranchising, pro-poor value-chain interventions, health care, education, social enterprises, and girls' empowerment through a single lens: one of bringing down barriers to entrepreneurship. This lens can also reframe the ongoing debate about the efficacy of microfinance as a way to fight poverty.[3] One should not view microfinance as a stand-alone tactic to fight poverty—which, as Sen points out, has already been too narrowly defined as "lowness of income"—but as an essential tool for providing opportunities and reducing the barriers that prevent the poor from exercising their capabilities.

And these barriers are many. One is lack of capital; another, less obvious, is exposure to risk. In normal market environments, the poor do not make ideal entrepreneurs because they cannot afford to take the same risks as those with cash in the bank or other means of sustaining themselves. Getting food on the table takes priority over gambling on a venture that may or may not succeed. Microfranchising, a "business in a box," is a developmental tool that lowers the risk barrier by using business models that others in similar circumstances have already tested.

A lack of adequate health care is another barrier, as frequent illness reduces people's ability to work and keeps children out of the classroom, thus continuing the cycle of poverty. Even for those who remain healthy, lack of access to schooling—or, as we have seen, a lack of access to the kind of schooling that inculcates a joy of learning—is often an obstacle to an individual's economic and social growth, which includes the potential for becoming an entrepreneur. Another still is the anti-poor bias of free markets in places with poor infrastructure. In village environments, monopolistic practices by the sellers hold sway when the poor lack the means to compare goods, services, and prices from multiple vendors, due to a lack of cost-effective transport options.

Each one of BRAC's interventions seeks to break down a barrier but, taken as a whole, they represent a powerful combination that fosters a culture of entrepreneurship at the base of the economic pyramid. These tools are often viewed as ways to amplify or multiply the effectiveness of microloans, which is why BRAC and The MasterCard Foundation have called their rapid scale-up in Uganda "microfinance multiplied."

We often read and speak of interventions that "distort" free markets, but these examples show how, left to their own devices, markets can often distort themselves in ways that work against poor and otherwise marginalized populations, thus creating barriers to entrepreneurship. It is the task of the poor themselves to step over these barriers, but development organizations, working at scale, can at least make them surmountable.

Finally, these barriers can make it difficult to weave the fabric of a society that allows all people, regardless of the circumstances of their birth, the opportunity to climb the economic ladder through hard work. The core of the BRAC philosophy is that talent is scattered evenly at birth; opportunity is not. Violence and poverty have long deprived too many Ugandans of opportunity, keeping them waiting in vain for jobs that may never arrive, the barriers to building their own livelihoods too high and too numerous to surmount. But for the next generation of the world's youngest nation, the wait may be over, if the right type of market interventions can bring out their latent talent and foster bottom-up entrepreneurship.

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