MicroFranchises as a Solution to Global Poverty
Kirk Magleby, December 2005

“I must create a system, or be enslaved by another man’s.” William Blake, English artist and poet.

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Executive Summary

Extreme poverty is generally considered the most serious problem on earth, because it is the root of so many other problems. Vast resources have been expended in the fight against world poverty, with generally mediocre results. Singapore, South Korea and Taiwan are among the few countries that have managed to lift themselves up out of poverty in the last 40 years. Because globalization favors the rich, the connected, the educated and the strong, dozens of countries are sinking further into the mire of poverty. World peace and prosperity depend on finding urgent solutions to global poverty.

It helps to know the nature of a problem in order to solve it. Poverty is slavery caused by exploitation, enforced through corrupt institutions. A parable: The president of a
dysfunctional state skims cash from national enterprises and stashes the money in a Swiss
bank account. Ministers extort kickbacks to approve government contracts. Bureaucrats
entangle every transaction in mountains of red tape, requiring payoffs to expedite
paperwork. Doctors and nurses steal drugs and sell them on the black market to
supplement meager incomes. Postal employees steal mail. Policemen impound vehicles
if hapless drivers fail to bribe them. After graduating from college, prospective educators
pay exorbitant sums if they want a precious teaching certificate. Tax evasion is a national
pastime. Domestic help and common laborers are routinely ill-treated because they have
no effective recourse, legal or otherwise. Parents send their children into the streets to
peddle or beg, abusing them if the youngsters return home without their daily quota of
money. Property crime is so rampant that people padlock spare tires to their cars and
surround their homes with high walls topped by broken glass and razor wire.

Under such sordid conditions, debt relief, development aid and favorable trade rules do
not solve poverty. They only strengthen the hand of the oligarchs and slum lords who are
the root cause of poverty in the first place. Environmental improvements through
transparency, anti-corruption, property protection, and rule of law initiatives are tough to
implement without major social upheaval if not bloodshed. Enterprise is the only
effective, humane way to solve poverty in a contaminated social environment largely
bereft of public trust and cooperation.

The problem with enterprise is that it too favors the rich, the connected, the educated, and
the strong. Only a small percentage of people in any given demographic have native
entrepreneurial talent. In successful societies, natural entrepreneurs build businesses that
provide employment for the non-entreprisers in their community. In the developing
world, formal jobs are so scarce that the vast majority of people are forced into self-
employment in the informal sector whether they like it or not. These reluctant micro
entrepreneurs operate hundreds of millions of tiny, low-productivity, copycat businesses
that seldom generate profits, build little wealth, and create few jobs.

Microfinance is a brilliant enterprise solution to poverty that provides barefoot capitalists
one rung on the development ladder. Small and medium-sized enterprises, SMEs, create
rungs two, three and four. The developing world suffers an acute paucity of strong
SMEs, dooming far too many countries to low economic growth rates, high
unemployment, social unrest, and all the other pathologies that breed in poverty. These
incendiary conditions are exacerbated by one of the major global successes in recent
decades: near universal education. Education fuels expectations. And what happens
when a society does a better job educating its youth than employing them? One need
look no further than Saudi Arabia, Rwanda, and recently, France. Young people,
particularly males, with high expectations and dismal prospects get very angry.

Our planet desperately needs millions of successful, locally-owned SMEs helping to
develop low income communities. The franchise business model is the most effective
tool currently available to create large numbers of successful, locally-owned SMEs. The
emergent social movement called MicroFranchising is quickly learning how to adapt the
powerful franchise business model to the stark reality on the ground in developing
countries. This paper is an invitation to come join a noble cause and help save the world.

**Endorsements**

“I have found only your ideas to be the most practical and realistic.” Vincent Ricasio,
New York, retired former economist and investment banker

“Well written and compelling.” Dan Sieben, California, former Peace Corps volunteer,
franchisor, founder, E-Bridge International

“Most interesting paper. I agreed with much of it and admired its approach to the
problem of poverty.” Niall Ferguson, Massachusetts, Professor, Harvard
Business School

“This paper will be very useful to us.” Jorge Mendez, Paraguay, United Nations
Development Programme

“I really enjoyed this paper. I sent it to several colleagues within my company as well as
external partners who are engaged in various MicroFranchises in India.”
Karishma Kiri, Washington, emerging markets, Microsoft

“This is precisely what we need in this country.” Maximo San Roman, Peru, former Vice
President of Peru, founder, Nova Industries

“Excellent, as well as inspiring piece of work.” Dean Urmston, California, VP, Seed
Programs International

“Quite interesting.” Rob Solem, Washington, D.C., International Program Officer, East
Africa Region, World Vision

“A very interesting read.” Shona Grant, Switzerland, World Business Council for
Sustainable Development

“I am hugely impressed. This is exactly the kind of foreign aid in which I myself deeply
believe.” Jay Ambrose, Colorado, Chief Editorial Writer, Scripps Howard News
Service

“I think the concept is right to push now.” Al Hammond, Washington, D.C., VP, World
Resources Institute

“Your paper is one of the inspiring sources that helped us conceptualise this initiative.
Franchising in Microfinance is a new experiment. SKS is going to be the pioneer
institution trying to replicate its tried and tested business model in India and
abroad.” Byomkesh Mishra, India, Franchise Division, SKS Microfinance

“Excellent paper. Your proposals hit the nail on the head. Concrete solutions to vexing
problems.” Ernesto Pele, Mexico, professional translator
“I am very impressed with your paper and your ideas. Here in Ecuador, we are promoting MicroFranchises.” Leonidas Villagran, Ecuador, Executive Director, Ecuadorian Franchise Association

“Articulate, stimulating. One of the best papers in years.” John Hatch, Washington, D.C., Founder, FINCA, MicroFinance pioneer

“Widely influential paper.” W. Scott Stornetta, Utah, Manager, L’eau LLC

“Language which is sure to illuminate for many what is possible in terms of doing business with and improving life for some of the poorest people on the planet.” Barbara Weber, Washington, Grameen Foundation, USA

“This is a truly remarkable contribution to our present understanding of ways for solving the problem of poverty.” K.L. Srivastava, India, agri-business consultant

“MicroFranchises are definitely part of the solution.” Don Terry, Washington, D.C., Manager, The Multilateral Investment Fund, Inter American Development Bank

“Congratulations on your paper. I like it very much. The diagnosis of the problem is excellent.” George Lodge, Massachusetts, Professor Emeritus, Harvard Business School

“Wonderful paper.” Yogi Patel, Texas, Pratham USA Ambassador

“First rate piece of work. The footnotes are almost better than the paper itself.” Dwight Wilson, California, former Peace Corps volunteer, CEO, OneRoof

“Thank you very much for sharing your innovative ideas.” Carlos Pacheco, Mexico, emerging markets, General Electric

“I very much appreciate your thinking.” Jim Stevens, Utah, retired international business consultant

“Clearly articulated. I fundamentally agree. A way for MNCs to leverage their technology and their brand.” Cameron Rennie, UK, emerging markets, British Petroleum

Prospectus
Fast food restaurant chains, icons of profligate American consumer culture, may actually represent a key solution to one of the world’s most daunting challenges.

Global poverty is generally regarded as the most serious problem on the planet. Poverty is best understood as slavery enforced through institutionalized, hierarchical exploitation. Three schools of thought exist today about how best to solve poverty:
1) Macro economic structural adjustments such as debt relief, increased development aid and trade rules that favor developing nations.

2) Improved governance and business climates through transparency, reduced corruption, respect for the rule of law, property titles and formal business registration.

3) Micro economic enterprise solutions such as Microfinance, engaging people at the base of the income pyramid as business partners and customers, and building sustainable enterprises by introducing appropriate disruptive technologies, innovative business models and cross-sector partnerships.

Macro economic structural adjustments have not worked for decades and are not likely to work in the immediate future because they fundamentally misconstrue the underlying causes of poverty. Governance solutions require revolutionary social and political change. Enterprise solutions to poverty are achieving notable results around the world. Most flourishing pro-poor enterprises use network business models that are quite different from traditional corporate command and control hierarchies. The most successful network business model on earth is franchising which demonstrates remarkable strengths as a poverty intervention. Proliferating very small businesses and social enterprises as MicroFranchises will help dramatically reduce global poverty.

**Poverty is Global Menace #1**

Poverty is the worst malignancy on earth. Many of the *causes célèbres* in the world today – AIDS and other infectious diseases, terrorism, environmental degradation, illiteracy, malnutrition, human rights abuses, human trafficking, narcotics trafficking, illegal immigration, ideological intolerance, tyranny, genocide, debt slavery – have their roots in this seminal evil, the brutal daily indignities of mind-numbing poverty. Billions of our fellow brothers and sisters barely survive on the equivalent of 1, 2 or 3 dollars per day. Tens of thousands die every day from the preventable effects of this environmental, social and economic pathology that Gordon B. Hinckley labels “the greatest pandemic of the world”. Gandhi called poverty “the worst form of violence.”

In an encouraging show of solidarity in January 2005, the world’s glitterati ensconced at the World Economic Forum in Davos and the world’s advocates assembled at the World Social Forum in Porto Alegre agreed on a common cause: poverty is our greatest problem. Jeffrey Sachs’ moving articulation of the poverty scourge was on the cover of

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2 Thomas L. Friedman, one of the most astute contemporary observers of the global condition, says in a number of articles that terrorist extremism results from a “poverty of dignity.” In the aftermath of the September 11th tragedy, Gary Hamel said “we must bring a greater proportion of humanity into the orbit of economic development” through business solutions to poverty. Gary Hamel, “Leadership in Turbulent Times, Keynote Address.” *Fortune Magazine* Conference on Leadership, November 7, 2001.


4 Gordon B. Hinckley, remarks at the Enterprise Mentors International 15th anniversary banquet, Salt Lake City, October 2005.
Time. Buoyed by the vocal “Make Poverty History” campaign coming from the EU, Tony Blair gave the issue prime billing at the 2005 G8 Summit. Kofi Annan chose Mark Malloch Brown, formerly head of the United Nations Development Programme, as his new chief of staff in part because global poverty has been such a large issue at the 2005 UN General Assembly. Poverty topped the agenda at the WTO 2005 Ministerial Round in Hong Kong. And the 2005 Time People of the Year? Global poverty activists Bill and Melinda Gates and Bono. Opinion polls around the world show the issue rising to the top of public consciousness. A whole global chorus echoes the words of Peter J. Robertson that poverty is “the single most important issue” on earth in the 21st century.

Poverty is Slavery

The recent issue of National Geographic that elicited the most response from readers featured a cover story on “21st Century Slaves.” The photos in that article showing untouchables in Indian brick pits reminded many of Cecil B. DeMille’s epic portrayal of the Biblical account of the Israelites in Egypt. John Roach commented, “An estimated 27 million people around the world are enslaved: people trapped, controlled by violence, paid nothing, and exploited for labor.”

These 27 million physically enslaved people are the most extreme victims of global poverty, but the 4 billion people on earth who live on less than $4 per day are:

- People trapped
- controlled by local despots and malevolent institutions
- paid very little
- exploited for labor

Human beings do not wish to be poor anymore than they wish to be crippled, senile or malnourished. Large scale poverty does not exist because people are stupid, lazy or incompetent. Factors like religion, a history of colonialism or the so-called “work ethic” do not explain the vast imbalance in access to resources. Billions of people languish in poverty and hopelessness because social, cultural and economic forces beyond their control marginalize and oppress them. This chronic, systemic deprivation is called

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6 www.makepovertyhistory.org This is the white band campaign being promoted by Oxfam and others who advocate a dubious “debt, aid, trade” agenda. US equivalents are www.onecampaign.org and www.one.org.
7 Peter J. Robertson, Vice President, Chevron Texaco. Presentation at the WRI Conference “Eradicating Poverty through Profit: Making Business Work for the Poor”, San Francisco, December 2004. This is the conference Scott Shuster christened “BOP I.” Assessing the importance of this gathering as a defining moment for our generation, Shuster said, “We have been to Woodstock.” Most commentators agree that a new paradigm for international economic development is imperative since past policies and approaches have generally “failed to significantly reduce poverty or expand the middle class.” Colin McMahon, Chicago Tribune, October 31, 2005.
10 “[Poverty] is like being in jail, living under bondage waiting to be free.” Cited in Deepa Narayan, Robert Chambers, Meera Kaul Shah, Patti Petesch, Voices of the Poor: Crying Out for Change (New York: Oxford University Press, 2000)
“institutional” or “structural poverty.” Amartya Sen calls it “unfreedom.” Muhammad Yunus calls it slavery. Pablo Farias and Frank DeGiovanni from the Ford Foundation believe that a broad array of development resources must be deployed so disenfranchised people and communities can “exert control over their lives” and “participate in society in meaningful and effective ways.” Unconscionably, the impoverished masses on our planet are slaves to a system that exploits human beings as chattel and denies people the opportunity to realize aspirations or achieve potential.

Exploitation Causes Poverty

A young Brazilian, Marco Figueiredo, recently visited his native country after living for many years in the US. His comment upon returning from Brazil was telling. “I was aghast at the corruption and exploitation that exist at every level of Brazilian society. Even very poor people try to take advantage of those less fortunate.” Nations with a large impoverished underclass tolerate and encourage a pernicious hierarchical pecking order of exploitation that is institutionalized in the very fabric of society. WBCSD explains that “institutional corruption feeds through into personal corruption.” Poverty perpetuates itself across generations since it is in the short term self-interest of the ruling or empowered class at all levels to preserve the status quo. In the absence of effective democratic or egalitarian institutions, the law of the jungle dictates that the strong will exploit the weak. LDS Scripture explains succinctly the root of this vast social malaise:

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12 Muhammad Yunus, Banker to the Poor: Micro-Lending and the Battle against World Poverty (New York: Public Affairs, 1999).
14 Nelson Mandela, speaking to the G7 in London in February 2005, compared the fight against poverty to the fight against slavery and apartheid.
16 Personal communication with Marco Figueiredo, March 2005.
17 Many poor kids peddling candy or trinkets in the streets are being “managed” by parents or grandparents who exploit their own children in a system that Dickens’ Fagin and the Artful Dodger would recognize.
18 Paul Lyman went to Ukraine in June 2005 as part of an ABA exchange team to consult with Ukrainian judges. “How do you work with a system where poorly paid judges expect bribes?” he wisely questions.
20 Washington Post columnist George F. Will describes one entrenched group as “a political class that has treated public office as private property.” He is describing legislators in California, but his observation applies worldwide. George F. Will, syndicated column, February 2005.
21 Stuart Hart mentions a poignant example of this in his important new book Capitalism at the Crossroads: The Unlimited Business Opportunities in Solving the World’s Most Difficult Problems (Upper Saddle River, NJ: Wharton School Publishing, 2005). Conversing with Muhammad Yunus, Hart learned that the famous Grameen phone ladies in rural Bangladesh were price gouging customers. They exploited a “shantytown monopoly” (C.K. Prahalad’s terminology) because they owned the only telephone in their village. So, Grameen Village Phone, acting as the democratizing egalitarian institution, immediately introduced a second telephone in each village to assure price competition. This is typical franchisor (…continued)
“We have learned by sad experience that it is the nature and disposition of almost all men, as soon as they get a little authority as they suppose, they will immediately begin to exercise unrighteous dominion.”

Stuart Hart calls the poor “victims of corruption and active exploitation by predatory suppliers and intermediaries.” Slavery, feudalism, colonialism, totalitarianism and underdeveloped nations are the inevitable result.

Eritrean Gebreselassie Tesfamichael says the modern African state is “extractive in its design” with a mission not to serve people, but to “dominate and exploit them.” He continues that despite independence and incipient democracy, “the nature of that state remains intact” and the fundamental African problem is “not lack of resources, but the failure of political leadership.” As evidence, he points out that African economic migrants, part of the continent’s vast diaspora, thrive in healthier societies and send $30 billion of family remittances back to their relatives in Africa each year. Peter Bauer calls these exploitative bureaucracies “dirigiste states” which stifle the private sector. The former LSE economist denounces traditional Western aid because it enables predacious, parasitic institutions to continue their destructive policies indefinitely.

**Vicious Cycles**

Poverty is a cyclical, intergenerational black hole with a strong gravitational pull that is difficult to escape. For example, very poor people often lack access to quality health care which causes disease, disability and premature death, all of which increase poverty. Semi-literate parents struggling on the brink of survival tend to undervalue their children’s education, limiting future social mobility. Children without adequate interior lighting in the home tend to read poorly and infrequently. The middle-aged and elderly poor, suffering from common presbyopia but unable to afford reading glasses, are often forced to give up livelihoods prematurely as their close up vision blurs with age.

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23 Stuart L. Hart, *Capitalism at the Crossroads*.
Characteristics of the Poor
Middle and upper income people often mistakenly assume that the poor are not like them. They see unsanitary hygiene or unrefined manners and conclude that people in a lower socio-economic status must think differently or at least be apathetic. On the contrary, very poor people are just people in acutely constrained circumstances who are often dispirited because they know a better life exists but they feel powerless to progress toward it. The poor are survivors. They are adaptive. They are fashion, brand and value conscious. Given the chance, they learn readily and adopt modern technology enthusiastically. The poor can be tenacious when they sense an opportunity. Given a favorable environment, they quickly become informed consumers and efficient producers in the global economy. C. K. Prahalad calls the poor victims of a “huge asymmetry” of information, choice, access to resources, capacity to enforce contracts, dignity and self-esteem. The lives of the poor may be different from ours, but their innate abilities, needs and aspirations are not.

OnSat, an Internet connectivity firm best known for wiring the Navajo Nation, installed solar power and a satellite based Internet connection in a remote village in Honduras that had never even had electricity before. An interactive computer lab in the local school became an instant hit. A few months later, an educational psychologist visited the village to do an impact assessment. Administering a standard IQ test, she discovered 2 geniuses among the village youth. Latent talent abounds in every community.

Some Historical Perspective
Following Bretton Woods and World War II, individual “care packages” alleviated some suffering and the massive Marshall Plan helped rebuild war torn nations. Successful economic development in Europe and Japan gave impetus to ambitious attempts to solve world poverty. Donor nations built massive infrastructure, supplied

28 Dr. Craig Marsden, a veteran of many medical and service missions with Chasqui Humanitarian (now Ascend, A Humanitarian Alliance), tells a delightful story from the high Andes. A team of humanitarian volunteers worked with local villagers to install a municipal water system. They had carefully purchased supplies because the village was rather remote. Near the end of the project, they discovered that they were short one PVC union joint. The North Americans all stood around distraught. The project was on hold until someone went back to town and purchased the right part. A local Peruvian, though, grabbed a small length of PVC pipe with a pair of pliers and lit a llama dung fire. By simultaneously heating and rotating the small length of pipe around another pipe end, the clever fellow in about 15 minutes produced a crude but entirely serviceable union joint.

29 C. K. Prahalad, The Fortune at the Bottom of the Pyramid.
30 “The poor do not want charity. They want to be active players in the market economy. They want jobs; they want bills – a welcome sign of legitimacy; they want choices and even leisure products that some outside observers would consider luxuries.” WBCSD, Business for Development: Business Solutions in Support of the Millennium Development Goals, September 2005.
32 It’s assumed that Africa has a huge capacity deficit; indeed, it’s often depicted as a blank slate. Nothing could be further from the truth. Even in the worst circumstances, the people of Africa retain precious social, cultural, economic and human assets.” Gebreselasie Tesfamichael, “In Africa, Just Help Us to Help Ourselves,” Washington Post, July 24, 2005.
33 Bretton Woods, NH was the site of a 1944 conclave that created the World Bank, the IMF, and other important international economic management institutions.
materials, equipment and services, “adopted” children for $25 per month, and sent legions of Peace Corps volunteers followed by waves of eco-tourists. Development projects set up schools, health care facilities and innovative grassroots financial institutions. Numerous policy initiatives attempted to improve local business climates through governance reforms. The Cold War ended and market oriented societies demonstrated their unequivocal superiority over command economies. A global economy developed for the first time in history. The ubiquitous profit motive unleashed globalization and technological revolution, twin forces so powerful we are still trying to comprehend their impact.  

Meanwhile, poverty persists. “54 countries are poorer now than they were 15 years ago,” was Carly Fiorina’s recent assessment. James A. Harmon acknowledges that we had a “very simplistic view” of the developing world throughout the 60’s, 70’s and 80’s. Richard Sandbrook rues the fact that most development aid is administered through large foreign contractors who come into a country and leave behind only “decaying infrastructure” after their contracts expire. Beautifully paved roads have rotted back to dirt and once new hospitals are crumbling. Few sponsored children achieve self-reliant prosperity once donor fatigue sets in and their sponsorship inevitably ends. The dependency created by relief aid does not alter the underlying institutional basis of poverty. In fact, it generally exacerbates the problem.

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34 See Andrew Bernstein’s provocative article Capitalism is the Cure for Africa’s Problems, The Ayn Rand Institute, Irvine, CA, 2003.
36 Carly Fiorina, Former CEO, Hewlett Packard. Presentation at WRI Eradicating Poverty through Profit, San Francisco, December 2004. David Rothkopf calls these countries the “foiled aspirant class of states,” and notes that “more than 90 percent ended up regressing deeper into poverty,” David Rothkopf, “Pain in the Middle,” Newsweek, November 21, 2005. Most Africans were better off 40 years ago.
39 An orphanage is an extreme example of child sponsorship. Many orphanages around the world are radically changing their mission. Rather than warehouse children in institutions, they facilitate foster care in private homes. A disproportionate number of children raised in the hothouse environment of a traditional orphanage quickly fall prey to violence, drugs or the sex trade when they reach the age to be released onto the mean streets of real life.
Malevolent and Benevolent Institutions

Q. Why have Western economic development strategies failed so conspicuously in most parts of the globe? A. Western governments, NGOs, donors and aid agencies have not understood the pervasive, suffocating influence of endemic hierarchical exploitation in the developing world. When most institutions in a society lacking virtue at the center are repressive rather than egalitarian, the human spirit simply fails to reach full flower.

The key here is the word “institution.” Malevolent institutions (corrupt governments, commercial monopolies, mafias, exploitative slum lords) enslave the poor and foment poverty. Infrastructure enhancements (schools, bridges, hydro-electric plants) in Western democracies improve the business climate and create a rising tide that lifts all boats. Those same infrastructure investments in the developing world often end up simply strengthening the hand of the local oligarchs who are the root cause of institutional poverty in the first place. Individualistic interventions (temporary relief aid, small personal loans) level the playing field enough to give a few strong people some of the tools they need to escape poverty. It is hard, though, for even resolute individuals armed with a few tools to liberate themselves from the overpowering influence of the oppressive institutions around them.

Poverty is slavery and slaves seldom free themselves. The poor need benevolent, nurturing, liberating institutions so they can begin achieving their potential in a favorable environment. In the developed world where the poor feel beleaguered by landlords and credit bureaus, this hand up is often provided by educational institutions, employers, the government, churches, charities, etc. In emerging nations, effective institutional allies for the billions of disenfranchised and dispossessed have been few and far between.

What are We Really Trying to Accomplish?

To echo Thomas Jefferson, we hold these truths to be self-evident that stifling individual human progress by enslavement through institutional poverty is an ultimate social evil.

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41 “Institutions, not resources matter most.” “U.S. Foreign Aid: Meeting the Challenges of the Twenty-first Century,” USAID White Paper, Bureau for Policy and Program Coordination, January 2004.
42 “Good banking is, in the end, no match for bad government.” “Bankable banks,” The Economist, November 5, 2005. This article explains why the Latin American Profund, managed by Alex Silva, did not renew its charter in 2005 after a decade in operation.
43 In the late 19th century US, these rapacious, omnivorous capitalists were called “robber barons.” They go by the name “New Russians” in contemporary Russia. In Kenya, they are called the “Wabenzi,” literally “the tribe of the Mercedes Benz.” You’ll hear the term “cacique” in Latin America which carries the connotation of tribal chief. Development professionals in Washington, D.C. talk about the HPVE or “high priest vulture elite.” Robert Guest decries Africa’s “thugocracy” in The Shackled Continent.
44 “People can do miracles for themselves when they have the support of an institution behind them.” Personal communication with Muhammad Yunus, July 2005. David Wheeler talks about “good will and trust-based relations” that must be “reciprocated and nurtured” in institutional networks if confidence between people is going to grow. Wheeler, David, et. al., “Creating Sustainable Local Enterprise Networks,” MIT Sloan Management Review, Fall 2005.
45 “Institutions Westerners take for granted are entirely absent in most of Africa.” John Blundell, “Africa’s Plight Will Not End with Aid,” The Scotsman, June 14, 2004
46 A rogue’s gallery of ultimate evils according to the author’s value system: On June 6, 1944, more human beings lost their lives in Auschwitz gas chambers than on Normandy beaches. In 2004, American medics (…continued)
It is a fair question, then, to ask what are the ultimate social goods to which we aspire? The goal cannot be to turn every citizen of sub-Saharan Africa into a prodigal American consumer. The carrying capacity of our small planet simply precludes that level of global resource utilization. Solving poverty, I propose, means an increase in:

- Freedom, as measured by Freedom House rankings of countries from 1.0 (Free) to 7.0 (Not Free).  
- Transparency, as measured by Transparency International rankings of countries from 10.0 (highly clean) to 0.0 (highly corrupt).  
- Human Development, as measured by the UNDP Human Development Index that tracks life expectancy, adult literacy, school enrollment and GDP per capita.  
- Equality, as measured by a nation’s Gini coefficient, a metric of income distribution inequality between quintiles in a population. Gini ratios are calculated by the World Bank and others.  
- Ecological Sustainability, as measured by a country’s Environmental Sustainability Index, calculated by a joint project between Yale and Columbia Universities. Projects and enterprises often use the ISO 14001 standard.  
- Enterprise Sustainability, adherence to Triple Bottom Line principles as expressed in Cornell University’s BOP Protocol (economic profitability, environmental sensitivity, social responsibility). Another tool gradually coming into greater favor around the world is the comprehensive GRI.

There is a strong positive correlation between all five global indices. Finland and the other Scandinavian countries, for example, are at or near the top of all five metrics, while many of the poorest, least developed countries cluster conspicuously at the bottom of the scale.

**Enterprise is the Solution to World Poverty**

“Some people regard private enterprise as a predatory tiger to be shot. Others look on it as a cow they can milk. Not enough people see it as a healthy horse, pulling a sturdy wagon.” Winston Churchill

came upon a critically ill girl in a remote Afghan village. They explained to the father that if he would take his daughter to a medical post about two hours away, the doctors there could save the girl’s life. Reminding them that the trail from his house to the medical post passed over rocky ledges that could be dangerous for his donkey to traverse, the father declined the American’s offer explaining, “girls are free, but donkeys cost money.” On January 30, 2005, one of the 9 suicide bombers dispatched to disrupt Iraqi elections was a Down Syndrome child.

47 [www.freedomhouse.org](http://www.freedomhouse.org) - The Heritage Foundation/Wall Street Journal Index of Economic Freedom

48 [www.heritage.org/research/features/index](http://www.heritage.org/research/features/index)

49 [www.transparency.org](http://www.transparency.org)


51 [www.yale.edu/esi](http://www.yale.edu/esi)


53 [www.globalreporting.org](http://www.globalreporting.org)
Every nation that has lifted itself out of poverty in the current generation (Singapore, South Korea, Taiwan) has done it in precisely the same way: economic growth and job creation through successful enterprises. The same pattern holds true in the high growth emerging economies of recent years (Chile, China, India). Developing nations can’t medicate their way out of poverty, even though access to health care is a necessary condition. Cubans enjoy excellent health care by world standards, but they are desperately poor. People in the developing world can’t educate their way out of poverty, even though access to knowledge is a necessary condition. Developing countries can’t borrow their way out of poverty, even though access to capital is a necessary condition. Bolivia’s Microcredit industry is approaching market saturation, yet it remains the poorest country in South America. And, nations can’t legislate their way out of poverty, even though property protection through law and order is a necessary condition. India enjoys a good legal code as part of its British legacy, but corrupt and overly bureaucratic enforcement dooms millions to lives of squalor. Families, communities and countries must earn their way out of poverty. Although income can be redistributed in many different ways, there is only one way to create

54 In his penetrating analysis of international development aid failure, William Easterly finds little correlation between education investment in a country and economic growth. William Easterly, The Elusive Quest for Growth: Economists’ Adventures and Misadventures in the Tropics (Cambridge, MA: MIT Press, 2001). The lack of formal employment opportunities in their home economies is a major reason why so many highly educated people from the developing world migrate to wealthy OECD countries, even though their educational credentials are seldom recognized in their new home.

55 In developed or transitional economies, education is generally a reliable facilitator of upward social and economic mobility. In many underdeveloped countries, though, there simply are no jobs, even for the highly skilled. The administrator of a vocational education program in Bolivia explained: “There is work, there just aren’t any jobs.” This situation forces most people in the economy toward self-employment as micro enterprisers.

56 “We will see an industry shakeout. Markets are saturated. Expect mergers and acquisitions.” María Otero, President & CEO, Acción International. Presentation at the BYU Economic Self-Reliance Conference, March 2005.

57 Eduardo Bazoberry Otero, General Manager, Prodem. Presentation at WRI Eradicating Poverty through Profit, San Francisco, December 2004. One of the reasons Microcredit has not moved the dial in Bolivia is that many Microcredit-enabled enterprises are engaged in retail trade. In many low income micro economies, the retail sector is a zero sum game. Microfinance by itself, individual anecdotal success stories notwithstanding, is inherently incapable of eradicating institutionalized, structural poverty within a community. Most of the businesses it facilitates are simply too small and weak to generate significant full-time employment opportunities. Microfinance plus MicroFranchising, on the other hand, can be a potent combination to drive small enterprise growth. See Kirk Magleby, “10 Reasons Why Microcredit Will Never Solve World Poverty” available at www.omidyar.net/group/poverty/file/3.40.11309869403.

58 “One common mistake in philanthropy is treating symptoms rather than causes. If people are hungry, buy them food. If they are sick, provide medical care. For the uneducated, start schools. In most cases, a much better solution is this: offer a means for people to work their way out of poverty…Lifting a family out of poverty solves a host of other problems.” This is Geneva Global’s laudable concept of “performance philanthropy” to solve world poverty. www.genevaglobal.com.

wealth: a successful business has to make a profit.\textsuperscript{60} Even the UNDP, which Richard Sandbrook calls “commercially illiterate,”\textsuperscript{61} has in the words of Mark Malloch Brown, “firmly embraced” the idea that the private sector is the primary way to promote economic development.\textsuperscript{62} Traditional relief and infrastructure approaches to economic development “now appear to be all but bankrupt” in Stuart Hart’s view.\textsuperscript{63} The “Washington Consensus” is increasingly irrelevant.\textsuperscript{64} Export led growth strategies resulted in a worldwide race to the bottom where China supplies Wal-Mart and two thirds of humanity sees little or no benefit from global capitalism.\textsuperscript{65} The solution is “massive entrepreneurship”\textsuperscript{66} driving “domestic demand led growth.”\textsuperscript{67} In other words, to solve global poverty the world needs tens of millions of profitable, locally-owned small businesses creating employment and providing goods and services tailored to emerging markets in the developing world.\textsuperscript{68} \textit{The Economist} argues that the only effective way to deal with global poverty “is to use the solution that worked in the past in America, western Europe and Japan: open, trading economies, exploiting the full infrastructure of

\textsuperscript{60} Joel Madsen helped me understand this primal point: all wealth springs from successful enterprise. John D. Rockefeller’s famous refrain that there are only two ways to make money: get money working for you or get people working for you, is germane.


\textsuperscript{62} Mark Malloch Brown, former Administrator, United Nations Development Programme, now Chief of Staff, UN Secretary General. Presentation at WRI Eradicating Poverty through Profit, San Francisco, December 2004. A good example is the “Growing Sustainable Business” initiative of the UN Global Compact. \url{www.undp.org/business/gsb}. An environmental perspective concurs: “It is clear commerce is the engine of change.” William McDonough, Michael Braungart, \textit{Cradle to Cradle: Remaking the Way We Make Things} (New York: North Point Press, 2002).

\textsuperscript{63} Stuart L. Hart, \textit{Capitalism at the Crossroads}.

\textsuperscript{64} The term “Washington Consensus” was coined in 1990 by John Williamson. It is generally synonymous with “neo liberalism” and “globalization.” It connotes fiscal discipline, emphasis on high economic returns, income equality, primary health care, primary education, infrastructure, tax reform for lower rates and a broader tax base, interest rate liberalization, competitive currency exchange rates, trade liberalization, liberalization of FDI, privatization, deregulation and secure property rights. The “Augmented Washington Consensus” associated with Dani Rodrik implies corporate governance, anti-corruption, flexible labor markets, WTO agreements, financial codes and standards, prudent capital account opening, non intermediate exchange rate regimens, independent central banks, inflation targeting, social safety nets, and targeted poverty reduction. The fact that Argentina recently unilaterally repudiated much of its foreign debt with minimal repercussion shows how irrelevant the Washington Consensus has become.

\textsuperscript{65} A few years ago, I had an animated discussion with a small group of workers employed at the sprawling Volkswagen Plant in Puebla, Mexico. They were considering a strike. I asked if they were aware of all the “maquiladora” plants in northern Mexico that had recently shut down and moved to China in search of lower wages and more integrated supply chains. The fact that Mexicans would have to compete with Chinese workers for manufacturing jobs seemed preposterous to them.

\textsuperscript{66} C.K. Prahalad, Professor, University of Michigan. Presentation at WRI Eradicating Poverty through Profit, San Francisco, December 2004.


\textsuperscript{68} “Aid distorted the development process. Donor organizations emphasize the social sectors – health and education – while almost entirely ignoring the commercial and business sector. Africa’s cities are full of educated, enterprising people. We need health care and education, yes, but we also need a productive sector for the healthy and the educated to work in.” Gebreselassie Tesfamichael, “In Africa, Just Help Us to Help Ourselves,” \textit{Washington Post}, July 24, 2005.
capitalism.” The UN stresses the need for a much greater role for private enterprise in sustainable economic development that will “make business work for the poor.”

In ages past, religion was paramount and the most impressive public structures were cathedrals, mosques and temples. More recently, the state assumed prominence in an era marked by capitols, monuments and palaces. Today one only has to scan the urban skyline to realize that business is the dominant change agent in society. There are now more than 63,000 multinational companies on earth and of the world’s one hundred largest “economies,” fifty-one are global corporations. If we are to solve world poverty in the current generation, business will do most of the heavy lifting.

A Note on Corporate Social Responsibility
Markets inherently favor the strong. Firms, left to their own devices, strive to corner markets and become unregulated monopolies. Business executives, many raised on a steady diet of Milton and Rose Friedman, chafe at each new burden placed on them either by legislative fiat or societal expectation. So why are we now asking business to step up to the plate and help solve world poverty, the most vexing social issue of our time? There are three main reasons:

- The private sector has the talent and capacity to do the job
- As consummate learning organizations, businesses will solve poverty efficiently, at least cost to society
- In the end, poverty solutions will prove profitable

In the early 1990’s, I was in the lovely West Virginia Capitol attending a seminar on ADA (Americans with Disabilities Act) compliance. I turned to a colleague and vented frustration at the onerous new burdens being placed on American businesses. She brought me up short with two wise questions:

- Are you in favor of accommodating people with disabilities?
- Who can build wheelchair ramps more efficiently, the government or business?

Now, over a decade later, most people realize that accommodating people with disabilities is not only good public policy, it is also good for business.

71 I am indebted to Stuart Hart for this fertile insight.
73 An example of business primacy in development initiatives is the Investment Climate Facility for Africa launched in November 2005 by Shell and Anglo American. DFID and various NGOs are collaborating.
75 In 1995, five years after the law was enacted, the business press reported, “Most people in the business community understand that the ADA has been good for business; it has expanded the markets served by most establishments and opened the doors to productive people with disabilities, all at a minimal cost.” “ADA – Not a Disabling Mandate,” The Wall Street Journal, July 26, 1995. The fact that one in five Americans now has some form of disabling impairment underscores the relevance of access initiatives.
A similar scenario played out with the CRA (Community Re-Investment Act) of 1977. Banks that had been redlining neighborhoods with shifting demographics were brought kicking and screaming to the inner city table, only to discover that they could make good money targeting diverse niche markets by tailoring products and services to underserved populations. Rural electrification, rural telephony, and environmental stewardship are other examples of social goods that businesses initially opposed, eventually embraced, and now champion with profitable results.

The same pattern will hold with global poverty. Many firms throw money at poverty to score PR points as part of CSR initiatives. A few enlightened firms are tackling the problems of sustainable economic development in low income emerging markets head on by leveraging their core competencies in mainstream business units. A generation from now, MBA students will take for granted that pro-poor business development strategies are integral to global enterprise success.

**Relief versus Sustainability**

Those blessed to live and earn in wealthy nations generally ignore global poverty. It is seemingly intractable and supremely unpleasant to contemplate. When Westerners do think about the plight of their impoverished brothers and sisters in faraway lands, their normal reaction is to:

- send money
- send stuff
- send people to provide services

A little temporary relief placates activist consciences and helps relatively wealthy donors feel good. What would a typical American, Japanese or European think, though, if they

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76 Shorebank in Chicago and a handful of other activist institutions were notable exceptions.
77 Storied CEO Jack Welch sold his “Green Initiative” internally to GE managers as the right thing to do, but also as a profitable business proposition. Jack Welch with Suzy Welch, *Winning* (New York: HarperCollins, 2005).
78 A plethora of terms describe the notion that business should pursue a pro-active social and environmental agenda: CSR corporate social responsibility, CR corporate responsibility, CI corporate involvement, CC corporate citizenship, CE corporate engagement, double bottom line accounting, and TBLI triple bottom line investing are all in common use. The CSR movement is generally more advanced in Europe than it is in the US.
79 *Beyond Grey Pinstripes* is a biennial ranking of business schools and faculty, rating them on the degree to which they have incorporated social and environmental management topics into their curriculum. These are becoming major issues at most B schools. Aspen Institute, Business and Society Program and WRI, *Beyond Grey Pinstripes 2003: Preparing MBAs for Social and Environmental Stewardship*, 2003.
80 Allen Hammond told this story at Cornell’s BOP Learning Lab in February 2005: Al was in a session at Davos when the subject of bednets to prevent malaria in sub Saharan Africa came up. Sharon Stone spontaneously offered $10,000 to purchase bednets and challenged others in the room to do the same. In just minutes, they raised $1 million to purchase bednets for Africans. Al, meanwhile, was shaking his head. He knew how hard many companies and NGOs have worked for years to make bednets into a viable, sustainable business, and how $1 million of free bednets dumped into the economy would poison the commercial bednet market. Many poverty interventions done primarily to appease activist consciences have unintended long term negative consequences that result in more harm than good. One is reminded of the famous T.S. Eliot quote “Half the harm that is done in this world is due to people who want to feel important. They don’t mean to do harm – but the harm does not interest them. Or they do not see it, or (…continued)
were that impoverished aid recipient? Would they be satisfied with a little cash, a care package or a group of adventure travelers on a service project? Of course not. They would want a job. They would want sustainability. And sustainability comes only through profitable private or social enterprises with viable value propositions in the indigenous economy.

I was in a village located beside a river in Peru’s Sacred Valley. The villagers had irrigated fields on a plateau a few dozen feet above the river. A large pump was installed near the river with a four inch pipe running up to the crops. A steady procession of villagers was hauling water in buckets up a well worn track to their fields. “Where did that pump come from?” I asked. “Some Koreans installed it a few years ago,” they reported. “So why are you hauling water in buckets?” I continued. “The pump is broken,” they answered. “Why don’t you fix the pump?” I pressed. “The Koreans have never come back,” was their telling reply.

Emergency donations are essential to preserve life in catastrophes like famines in Ethiopia or tsunamis in Indonesia. The only way to solve poverty, though, is through sustainable development. Carly Fiorina believes “A solution that is not sustainable is not a solution – it is short term relief aid that can and often does more harm than good.”

The Spectrum of Development

Stephen W. Gibson and Jason Fairbourne have created a seven step list that ranks potential poverty interventions in order by long term economic development effectiveness:

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they justify it because they are absorbed in the endless struggle to think well of themselves.” T.S. Eliot The Cocktail Party (London: Faber and Faber, 1974). Stanford’s Thomas Sowell describes the mindset well: “It was not really about which policy would produce what results. It was about personal identification with lofty goals and kindred souls.” Thomas Sowell, syndicated column, October 2005.

81 The Shell Foundation concurs that “jobs are often at the top of poor people’s lists of priorities.” Marc Lopatin, et al, Enterprise Solutions to Poverty. The World Bank’s Voices of the Poor survey shows low income people longing for jobs that will provide livelihoods for themselves and their families.

82 One of the wisest men I know, Arturo de Hoyos, taught me this invaluable lesson many years ago: “If I solve your problem, I grow, but you shrink, and the relative distance between us increases.” A native of Mexico, de Hoyos holds a PhD from Michigan State and founded La Universidad Hispana in Utah. He has developed a number of self-sustaining post secondary schools in Mexico.

83 Carly Fiorina. Presentation at WRI Eradicating Poverty through Profit, San Francisco, December 2004. “Whatever damage European colonialism did to Africa during its relatively brief reign, that was probably less than the damage done later by well-meaning Western would-be saviors of Africa. Africans do not need to be treated as mascots but as people whose own efforts, skills and initiatives need to be freed from the tyranny of their leaders and the paternalism of Western busybodies.” Thomas Sowell, “The Tragedy of Africa: Local Tyranny Subsidized by Western Paternalism,” syndicated column, July 2005. James Shikwati, Kenyan economist, is even more direct: “For God’s sake, please just stop…such intentions have been damaging our continent for the past 40 years. If the industrial countries really want to help the Africans, they should finally terminate this awful aid…huge bureaucracies are financed with the aid money, corruption and complacency are promoted. Africans are taught to be beggars and not to be independent. In addition, development aid weakens the local markets everywhere and dampens the spirit of entrepreneurship that we so desperately need…development aid is one of the reasons for Africa’s problems. Interview, Der Spiegel Online, July 2005. “What can the West do to help? The worst thing is more foreign aid.” Walter Williams, “An Explanation for Third World Poverty,” Capitalism Magazine, June 30, 2004.
• Disaster Aid, Taking Things to the Poor, (least long term effect)
• Poverty Relief, Taking Services to the Poor
• Excursions, Taking People to the Poor
• Microcredit, Lending Money to the Poor
• Microfinance, Providing Financial Services to the Poor
• Micro enterprise Development, Teaching People to Grow Businesses
• MicroFranchising, Providing Business Models and Formats to the Poor (greatest long term development impact)

As this spectrum of development relationships illustrates, MicroFranchising may be a superior way to create and replicate successful private and social enterprises in developing economies.

Roots of MicroFranchising

About fifteen years ago, the concept of “sustainable development” became firmly entrenched in the public psyche following events like the 1992 Earth Summit in Rio de Janeiro. This notion that private businesses should pursue the triple bottom line of profitability, environmental stewardship and social responsibility is gaining strength worldwide as evidenced by the recently adopted Equator Principles framework for international project finance. The Microcredit movement begun by Acción in Brazil, Opportunity International in Colombia, and Muhammad Yunus in Bangladesh in the 70’s and John Hatch in Bolivia in the 80’s is a good example of this enlightened view of economic development. Poverty yields to growth when local enterprises succeed. In the words of Jonathan Lash, “empowering solutions” work better than “imposed or donated solutions.” The World Business Council for Sustainable Development’s “Sustainable Livelihoods” project is one among many who are now pursuing this laudable goal. The recent Base of the Pyramid BOP phenomenon is the latest expression of this sustainability movement.

84 “We began to sense that a school or a water system didn’t necessarily have long-term impact.” www.accion.org on the reason Accion International evolved from a humanitarian aid group into an MFI.
85 Stephen W. Gibson calls MicroFranchises “ready-made” businesses that can “provide an income stream for life,” and a “gift that keeps on giving.” A MicroFranchise can be a “business in a box or a backpack” that uses the same operational, marketing and management tools as a traditional franchise, but is “cheaper and a whole lot simpler.” Stephen W. Gibson, “Gift of MicroFranchise Affordable, Far sighted,” Deseret Morning News, December 25, 2005.
89 www.wbcsd.ch.
90 BOP means “bottom of the (income) pyramid” in Prof. C.K. Prahalad’s work. Prof. Stuart Hart prefers “base of the pyramid” as somewhat less pejorative toward the poor. WRI has helped these two establish the concept firmly in global discourse. The basic idea is that businesses ignore the 4 billion BOP customers at their peril because that is where the most dynamic future markets will be found. Other terms in contemporary use include “inclusive,” “pro-poor” and “sustainable livelihoods” business.
To solve poverty we must:

- Identify high potential private or social enterprisers.
- Train these future owners/managers in environmental and social ethics in addition to sound management principles.
- Help these nascent entrepreneurs found successful enterprises.
- Help these aspiring capitalists and social entrepreneurs grow their organizations and create jobs.
- Help these successful managers protect their property, leverage assets and found new enterprises.\(^91\)

The most efficient way to ignite and fuel this virtuous entrepreneurial cycle on a scale large enough to move the dial in a poor country may be through MicroFranchises.\(^92\) Stephen W. Gibson sees MicroFranchises as an effective way to accelerate successful local enterprise creation, and that, ultimately, is the solution to global poverty.\(^93\)

### Virtuous Enterprise Cycles

Once a businessman or woman makes a profit, even a very small profit, they have created wealth and own property. The challenge then becomes protecting that property and, if they are enterprising, eventually leveraging their assets to launch a new venture. A friend of mine made money printing software user’s manuals. He sold his printing business and is now in real estate development and automobile dealerships. The jobs he created as a successful printer are still paying living wages to the employees of that original firm, but he has now created new jobs in other industries and the US economy has grown commensurately.

This virtuous enterprise cycle does not happen nearly often enough in the developing world.\(^94\) Emerging countries are capable of impressive economic growth as Chile, India and China have recently demonstrated, but only when their entrepreneurs are empowered

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92 C.K. Prahalad laments the fact that most development projects never become anything more than a “contained experiment.” C.K. Prahalad, presentation at WRI Eradicating Poverty through Profit, San Francisco, December 2004. The franchise business model, on the other hand, is all about controlled growth through highly replicable business formats.

93 Stephen W. Gibson and Jason Fairbourne, Where There Are No Jobs, Volume 4: The MicroFranchise Handbook, (Provo, UT: The Academy for Creating Enterprise, 2005). A particularly effective poverty intervention may be to link a production facility (shop, mill, plant, service center, factory, farm, etc.) with a network of MicroFranchised support enterprises. When the yuan floats, which Tim Layton and others think is inevitable, the price of Chinese goods will rise overnight, and it will become more feasible to locate manufacturing production facilities in many other parts of the world. A second concept that shows enormous promise is to link production overruns, model obsolescence and slow moving inventory clearance with MicroFranchised distribution networks in the developing world. Seed Programs Inc. and Globus Relief are two organizations that currently employ this overstock distribution model.

94 William Easterly calls this virtuous enterprise cycle the “increasing returns model” of economic growth and argues that since macroeconomic development aid and debt relief programs have failed utterly, the developing world needs small business strategies rooted in the fundamental verity that “people respond to incentives.” William Easterly, The Elusive Quest for Growth.
to make a profit, protect their property, and leverage assets to create new enterprises.\footnote{Indeed, innovation and entrepreneurship may be the only long term competitive advantages an economy really has. John Hagel III and John Seely Brown, The Only Sustainable Edge: Why Business Strategy Depends on Productive Friction and Dynamic Specialization (Boston: Harvard Business School Publishing, 2005).} Profitability, property protection and asset leverage are all things franchise networks tend to do very well.

**Entrepreneurs are a Subset of the Population**

Few people have the aptitude and temperament to successfully own and run a business or social enterprise. To be a successful enterpriser, one must be able to manage vision, risk, capital, marketing, production, people, personal life and change simultaneously. Approximately one person in ten is a natural entrepreneur with the drive and ability to juggle that many balls in the air simultaneously, and some fraction of that group actually succeed in creating successful enterprises. Two people out of ten are capable of effectively managing an enterprise with adequate structure around them. To be optimally productive, most people (seven out of ten in my experience) should be teachers, production workers, clerks or some other form of employee. In the developing world, though, there simply are so few jobs available that virtually everyone is a de facto small time entrepreneur whether they like it or not. Hundreds of millions of tiny businesses almost never turn a profit and their impoverished owners eke out a subsistence livelihood that perpetuates intergenerational poverty.

My brother-in-law recently returned from a business trip to West Africa.\footnote{John Savage, personal communication, November 2004. John works for Savage Industries which does business in Mali and Senegal.} He was appalled to see rows and rows of virtually identical produce shops where everyone was selling and hardly anyone was buying.\footnote{I was driving around Lima, Peru years ago and happened upon an area of town where dozens of muffler mechanics were plying their trade on the side of a road. Each muffler technician had a pit they had dug and a few hand tools. Muffler pits stretched almost as far as the eye could see. A customer would drive up, haggle over the price, and pull their vehicle over one of the pits. Suddenly, a parts runner would appear with the appropriate replacement muffler, rental equipment would arrive on the scene, and sparks would begin to fly. Visiting with the mechanics, I learned that each one worked approximately 30 minutes every day and sat idle the rest of the time. No one earned very much because everyone competed solely on price. And the only barrier for a new entrant into this market was a set of tools and a hole in the ground. This copycat mentality that produces concentrations of similar businesses without significant differentiation is rampant in the developing world and is a major contributor to enterprise under performance.} Somewhere among those underutilized produce merchants is an enterpriser capable of breaking out, growing their business, and creating jobs for their neighbors. In the current social, economic and political climate in Africa, though, most of that potential for enterprise will go unrealized. When everyone is doing exactly the same thing on a small scale, everyone competes on price alone and

\footnote{Scott Graham, FINCA’s former country director in Malawi, contrasts the torpidity of the listless Malawian economy with the entrepreneurial energy evident among all socio-economic classes in South Africa. One key difference he notes: the franchise business model, thriving in South Africa, is practically non-existent in Malawi. Scott Graham, personal communication, November 2005.}
Adam Smith’s vaunted productivity through specialization never happens. Geoff Davis estimates that perhaps one or two out of every forty women Microcredit clients is a “real entrepreneur who can really grow an enterprise.” The others will seldom progress beyond a subsistence level and would be much better off as employees if decent jobs existed. John Hatch indicates more or less the same thing, observing that nine out of ten Microcredit-enabled women “plateau their businesses” at a minimal level and invest in their children rather than grow their enterprise.

It seems that nature endowed a small percentage of humans with the “enterprise gene.” Successful societies are those where natural entrepreneurs flourish and create employment for their friends and neighbors. MicroFranchises facilitate this because they tend to be larger enterprises than individually owned businesses and they tend to create local employment beyond the proprietor’s immediate family. MicroFranchises also expand the pool of potential enterprisers from the few naturally gifted to the larger group of people who can successfully follow a well-designed operating system.

Wisdom Literature
Among the dozens of books and articles devoted to poverty alleviation in our era, five titles stand out for the compelling nature of the solutions they posit:

- 1998, Banker to the Poor: Micro-Lending and the Battle Against World Poverty by Muhammad Yunus.

102 One is reminded of the statement attributed to the 12th century Hispano Arab philosopher Averroës that a just society is one that allows every woman, child and man to develop the possibilities God gave them.
103 The government of the Philippines is actively promoting indigenous franchises because franchised businesses are generally more successful and employ more people than independent enterprises.” Personal communication with Samie Lim, Chairman, Philippine Franchise Association, March 2005. Private English academies abound in Latin America. Most are quite small. The franchised Wizard schools founded by Carlos Martins in Brazil, though, teach 500,000 students with 15,000 employees in their 1,200 locations. Each Wizard school averages 12.5 employees. In 2004, Martins was honored as one of the top 10 enterprisers in Brazil and his franchise has expanded to the US and Japan. www.wizard.com.br.
104 Many franchise psychologists and consultants insist that “intrapreneurs,” not “entrepreneurs” are more suitable franchisees. “Entrepreneurs tend to be highly independent, take a lot of risks and don’t need anyone to manage or get them fired up. Intrapreneurs are self-managers, but they like to work within guidelines in concert with other people. Intrapreneurs can be creative within a structure. The entrepreneur needs to define his own structure.” Fred Berni, President, Dynamic Performance Systems, in The Globe and Mail, Toronto, July 9, 1999.


These works clearly outline what causes poverty (exploitation), the results of poverty (enslavement), and the solution (liberating institutions that enable innovative, sustainable enterprise). This paper argues that the franchise business model is probably the most effective way to provide the uplifting and nurturing institutional support that oppressed people need in order to earn their way out of poverty. It may be the best way to efficiently deliver the solutions described in these path-breaking treatises.

- The Grameen family of enterprises includes over two dozen different entities, most of them offering franchises with financing packages to small business owners or cooperatives. Examples include the handloom enterprises of Grameen Uddog and the fisheries pond management of Grameen Motsho. Muhammad Yunus is again ahead of his time, moving beyond Microfinance into networks of replicable businesses. Don Terry thinks MicroFranchises are the “next generation” of Microfinance.

- De Soto clearly demonstrates that assets in the informal or underground economy do not form the basis for large scale capital formation like documented assets in the formal economy can. Much of his work with the ILD involves titling real property and registering businesses. MicroFranchises may greatly accelerate this process because hundreds or thousands of small, local businesses can enjoy the benefit of the franchisor’s official registered legal status.

- “The Great Leap” is an important adaptation of Clayton Christensen’s insightful work on “disruptive technology”. Disruptive innovations generally address new or marginalized niche markets in the early stages of their life cycle because they are not yet on par with established mainstream products. Christensen and Hart show in their article why underserved BOP markets are ideal environments to launch new disruptive innovations. MicroFranchises may be an effective way to deliver new disrupting technology to global BOP markets.

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105 Muhammad Yunus, *Banker to the Poor*.

106 [www.grameen-info.org](http://www.grameen-info.org)

107 Personal communication with Don Terry, Manager, The Multilateral Investment Fund, February 2005.

For an articulate overview of the reasons MicroFranchising is vital to Microfinance, see John Hatch, *Why is MicroFranchising Important to MFIs?*, November 2005.


109 [www.ild.org.pe](http://www.ild.org.pe)


• Prahalad’s message is unmistakable: China and India are economic powerhouses with relatively low domestic cost structures who are beginning to address the needs of the poor. Multinational corporations who wish to remain viable and competitive in the future must address the needs of the four billion people living at the bottom of the income pyramid or risk losing market share to highly efficient Chinese and Indian innovators.\textsuperscript{113} The franchise business model seems to be a very effective way for MNCs to engage the BOP.\textsuperscript{114}

• Much in contemporary capitalism is not sustainable when environmental and social considerations are taken into account. Hart deftly articulates the case for sustainable global development that honors triple bottom line principles. He shows how leading edge technology and new business models can help achieve the balanced equilibrium our planet needs so desperately.\textsuperscript{115} MicroFranchises may be an excellent implementation of the mutually beneficial egalitarian capitalism Professor Hart describes.

In summary, MicroFranchising may be an effective delivery mechanism for some of the most compelling contemporary solutions to global poverty. The business model pioneered by Isaac Singer, expanded by Henry Ford and perfected by the food service and hospitality industries has a proven track record of lifting humans to ever higher levels of productivity through cooperation.

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<th>Contemporary Solution to Poverty</th>
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<td>Microfinance as pioneered by Muhammad Yunus, Grameen Bank; John Hatch, FINCA; Maria Otero, Acción International; and many others.</td>
<td>Many micro entrepreneurs struggle to effectively utilize the proceeds from a micro loan. MFIs should consider offering proven MicroFranchise business formats to their clients along with a financing package.</td>
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<td>Asset titling and business registration as pioneered by Hernando de Soto through his Institute for Liberty and Democracy in an attempt to foment “property revolutions.”</td>
<td>MicroFranchise networks almost always operate as legally registered entities within the formal economy. Small local franchisees benefit from this legal status which allows them to create new capital by leveraging their assets.</td>
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<td>Disruptive technology deployed at the BOP as articulated by Clayton M. Christensen and Stuart L. Hart.</td>
<td>The franchise business model may be the best way to rapidly deploy disruptive innovations like wireless communication, Internet connectivity, smart cards, solar</td>
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\textsuperscript{113} C. K. Prahalad, \textit{The Fortune at the Bottom of the Pyramid}.

\textsuperscript{114} Several of Prahalad’s star exhibits utilize some variation of the franchise business model, e.g. Hindustan Lever’s Shakti Amma local sales consultants and Cemex’ Parimonio Hoy local promoters. “MicroFranchises are an appropriate vehicle for many MNCs to engage the BOP.” Personal communication with Al Hammond, February 2005. Cameron Rennie agrees that MicroFranchises can be a very effective method for MNCs to engage underserved populations and create wealth in low income communities by “leveraging their brands through local entrepreneurs.” Personal communication with Cameron Rennie, December 2005.

\textsuperscript{115} Stuart L. Hart, \textit{Capitalism at the Crossroads}. 
Contemporary Solution to Poverty | MicroFranchises as the Delivery Vehicle
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Multinational Corporations tailoring products and services to fit the needs and consumptive capacities of the 4 billion people at the base of the income pyramid as propounded by C. K. Prahalad. | MNCs struggle to engage customers and business partners at the BOP. Many conspicuous success stories utilize a form of the franchise business model. Prahalad’s critics argue that selling to the poor is not the same as serving them, and that clever marketing can create demand for “little dreams instead of useful products.” MicroFranchises offer significant employment and ownership opportunities in addition to goods and services.

Sustainable development that honors the triple bottom line principles of environmental stewardship, social responsibility, and economic profitability as advocated by Stuart L. Hart. | Franchises offer control over best practices, distributed ownership and local governance. They may be a premiere mechanism to deliver on Hart’s vision of sustainable mutual value created through indigenous, inclusive capitalism.

Variations on the Franchise Theme
For many in the industrialized world, the term “franchise” conjures up a mental image of hundreds or thousands of nearly identical fast food restaurants, but the franchise business model is much broader and more flexible than that. There are at least sixteen different kinds of business relationships that are variations on franchising. In each case, there is a symbiotic relationship between a local entrepreneur and a supportive institution that creates the environment and enables the framework for successful enterprise.

Franchising includes agency, co-op, distributor and representative business models. In some cases the local entrepreneur is a commissioned sales person. In others the local person is a consultant offering pre and post sales support. Storefront business models are often capital intensive, but also potentially lucrative for the owner(s). Most of the successful enterprises on earth could conceivably utilize one or more of these standards-driven, well documented franchise relationships to extend their market reach into the developing world. For franchisor and franchisee alike, a well designed and artfully administered franchise concept can be a consummate win-win.

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Characteristics of Franchise Relationships
In each of these 17 situations, a relatively autonomous local entrepreneur owns means of production or an independent business that is closely affiliated with a larger and more powerful local, regional, national or global enterprise. The large enterprise benefits because the entrepreneur provides some of the start-up capital, most of the manpower, and local knowledge and contacts. The entrepreneur has a strong incentive to be profitable. The entrepreneur benefits because the large enterprise provides institutional infrastructure that would be difficult for an individual to build or acquire on their own.

For micro business people in the developing world as for small business people in the industrialized world, franchises tend to be less risky and more profitable than totally independent enterprises. And in many forms of franchise relationships, local owners can build up equity in their businesses through asset acquisition or customer goodwill while they are earning wages. The franchise relationship tends to insulate the entrepreneur from many of the shocks of the open market by providing a micro business person a degree of stability, security and predictability that they could rarely achieve on their own. At its heart, a franchise is a symbiotic relationship between local entrepreneurs and an enabling institution. Franchises generally promote and support a mutually beneficial product or service brand. Franchising is a proven method of replicating successful small enterprises on a local, national, regional or global scale.

More Franchise Characteristics
Franchises are inclusive, democratic capitalism. They distribute ownership and wealth widely throughout a target population. They are cooperative entrepreneurship, a system where costs, risks, financing and profits are shared between an enabling franchisor or parent company and an implementing franchisee or local business partner based on a mutually profitable contractual relationship of shared ownership. Franchising is a way to effectively clone successful businesses based on a proven operating system. Stephen W. Gibson calls franchises a “business in a box.” You don’t need to be a business genius to run a profitable franchise. “Anyone who can make an ice cream cone

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117 A version of this paper was first presented publicly at a dialogue hosted by the Center for Economic Self-Reliance at BYU on November 5, 2004. After the presentation, Prof. Don Adolphson challenged me to define a franchise in ten words or less. My ten words: “a symbiotic relationship between local entrepreneurs and an enabling institution.”

118 Traditional hierarchical businesses concentrate wealth in the hands of a few privileged elites. Franchise systems distribute ownership and wealth throughout their network. The difference is obvious when one analyzes the annual Forbes list of the world’s billionaires. Some of the top franchisors on earth (the Marriotts, Fred DeLuca of Subway) look positively modest among their billionaire colleagues because they have shared their wealth directly with thousands of local owners. This wealth sharing can be quite dramatic. “The rule of thumb in Brazil is that the US franchisor receives about 20% of what the Brazilian master franchisee receives.” Personal communication with Paulo Cesar Mauro, Director of International Relations, ABF (Brazilian Franchising Association), March 2005.


can run a Dairy Queen,” the people in Minneapolis say. Kevin Miller, head of the North American Subway Owners Council, likes to joke that “Fred DeLuca made thousands of dumb people millionaires.”

Franchise organizations are potentially highly scalable as 7 Eleven demonstrates with 27,000 stores in 18 countries. The concept works in almost every country and culture on earth. When governments and most other societal institutions are weak and corrupt (that describes most of the developing world), a parent company, franchisor or master franchisee can be a kind of surrogate government, providing important goods and services that the franchisee would never have access to absent this institutional support. At the same time, well-managed apex franchise organizations generate cash flow and earn a profit. The humanitarian NGO pattern – solicit donations in wealthy countries to fund perpetual deficits in emerging markets – becomes much more self-sustaining using the franchise business model. The ultimate in sustainability is a locally-owned profitable business enterprise with a viable indigenous value proposition that practices social and environmental responsibility.

Social Franchises
Typical MicroFranchises are very small businesses that seek to maximize profit and return on investment. A social franchise, on the other hand, will likely never be profitable for both the franchisee and the franchisor concurrently. A social franchise seeks to accomplish the most good for the greatest number of people and almost always requires a third party funding source to underwrite at least a portion of its operating costs.

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121 This endearing expression comes from Scott Hillstrom, founder, Health Stores Foundation and a resident of the greater Minneapolis area. Scott is one of the founders and leading proponents of the incipient MicroFranchising movement.

122 Personal communication with Kevin Miller, March 2005. Kevin implies no pejorative slander. His colloquialism is simply another way of saying that you don’t need to be a business genius to own and manage a successful franchise location.


124 Australia has more franchisors per capita than the United States. A large global franchisor with Asian roots is Japan’s Kumon Institute of Education which has 23,000 locations in 43 countries. www.kumon.com. Even these unit numbers pale in comparison, though, to the potential that MicroFranchise networks have in the developing world. For example, there are currently 130,000 Grameen telephone ladies in Bangladesh, with 200,000 expected by the end of 2005. Personal communication with Muhammad Yunus, July 2005. Successful replications of Grameen Village Phone now operate in Uganda and Rwanda. Personal communication with Barbara Weber, July 2005.


126 In public-private partnerships, for-profit business partners often complain that civil society organizations suffer from the “pathology of begging.”
In most societies, health care, education and the arts are social goods that are nearly impossible to distribute via open markets using laissez faire laws of supply and demand. A primary school student, for example, can seldom pay the total cost of his or her own education, nor can parents. If society wants that child educated, a social entity (usually the government) must step in to pay at least a portion of the expense.

**Advantages of the Franchise Business Model**

Forty years ago, few franchises existed in the US. Today they dominate most main streets and strip malls, just as futurist John Naisbitt predicted. At the International Franchise Expo held in the Washington, D.C. Convention Center in May 2004, thousands of unique franchise business opportunities in dozens of industries were on display or represented. In the developed world, relatively few new independent enterprise start-ups are still in business after five years. On the other hand, a significantly higher percentage of new franchise locations are still viable five years out. Franchising generally works well relative to small independent businesses because:

- Franchisors generally service viable local markets.
- Franchisors typically employ skilled professionals in key positions.
- Franchisor requirements tend to produce quality applicants.
- Franchisors expend significant resources to perfect their operating systems.
- Franchisors generally inspect and internally audit their operations.
- Franchisors tend to promote truth in advertising and packaging.
- Franchisors generally price their products rationally across regions or nations.
- Franchisors tend to control site selection which prevents market saturation.
- Franchisors generally innovate to stay abreast of changing market conditions.
- Franchisors can terminate underperforming units quickly.
- Franchisors generally take a long term view of their business.

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127 As I was fueling my car recently in Lehi, Utah, I turned and counted every business that was visible in a 360 degree arc. I counted a total of 20 businesses in my field of vision. 18 of them are franchises.


130 The importance of a franchise operating system can hardly be overstated. This highly refined and continuously improving set of standards and procedures codified for replication is what sets a franchise concept apart from a traditional small business. Sun Microsystems Chairman Scott McNealy is fond of saying “the network is the computer.” In a franchise, “the system is the business.” Fanatical attention to detail on the part of Ray Kroc allowed thousands of owners in dozens of countries to run successful businesses by focusing simply on McDonalds’ famous three metrics: quality, service and cleanliness. A franchise operating system is essentially the same thing as a quality plan that allows a company to achieve ISO 9001 certification: plan precisely, document rigorously, and measure continuously which enables a feedback loop that results in TQM Total Quality Management. “We deliver peace of mind and repeatable success” is the way Varsity Contractors expresses this idea. Michael Gerber in his excellent *E Myth* series stresses this bottom line for a small business owner: If you want to be successful and grow your business, think and act like a franchisor. Michael Gerber, *The E Myth Revisited: Why Most Small Businesses Don’t Work and What to Do About It* (New York: Harper Collins, 2001).

131 “Franchising is all about investing resources up front that pay off in 5 – 10 years.” Bachir Mihoubi. Presentation at the IFA Convention, Hollywood, FL, March 2005.
• Economies of scale allow for intelligent and efficient procurement.
• Franchise networks can often afford access to current technology & equipment.
• Franchise networks tend to foster rapid dissemination of best practices.
• Franchises tend to enforce productive standardization and uniformity.
• Franchises strike an appropriate balance between centralization, decentralization.
• Franchises allow for productive local adaptation and pooled creativity.
• Franchises thrive on intensive bi-directional information transfer.
• Franchises distribute ownership which promotes collaborative methodologies.
• Franchises tend to be housed in specialized facilities rather than on the street.
• Franchises tend to distribute professionally & hygienically packaged products.
• Franchises tend to distribute branded products and disparage piracy.
• Franchises are readily fungible if they are successful.
• Franchises are often viewed as collateralized assets by local financial institutions.
• Franchise networks can quickly scale up regionally, nationally, or globally.\(^{132}\)
• Franchises often create jobs for people beyond the owner’s immediate family.
• Franchises are often viewed as relatively low risk business ventures.
• Franchises can penetrate rural areas based on strength from an urban core.\(^{133}\)
• Franchises can help obscure communities develop civic pride.\(^{134}\)
• Franchisees self-select so they tend to be highly motivated.
• Franchisees have time and money invested so they tend to manage attentively.
• Franchisees usually bank with formal financial institutions.
• Franchisee education tends to be highly relevant and therefore effective.\(^{135}\)
• Franchisees are generally required to keep accurate accounting records.
• Franchisees who are successful with one line of business can often add a second.
• Consumers generally appreciate the quality and consistency of standard brands.

The Rule of Law

Even more significant, there is one feature of the franchisor/franchisee relationship that is of paramount importance in developing nations. The franchisor develops a franchise

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\(^{132}\) Gary Heavin’s Curves for Women fitness centers, the fastest growing franchise in history, have expanded to 9,400 locations in several countries since 1995. www.entrepreneur.com, Franchise Zone.

\(^{133}\) MicroFranchises may be “particularly suited for penetrating rural underserved areas.” John Paul, Private Sector Strategies for Providing Healthcare at the Base of the Pyramid, WRI, A Development Through Enterprise Report, November 2005.

\(^{134}\) Growing up in the 60’s, I remember the excitement young people felt to finally get a McDonalds in their town. Iconic franchises with national cachet can improve a small community’s collective self-esteem. In the developing world, building key MicroFranchises in outlying areas could help stem the tide of rural to urban economic migration by providing alternatives to small town ennui.

\(^{135}\) Martin Frey believes that in countries where there is work but no jobs, old-fashioned apprenticeships could empower young people. The franchise business model seems well-suited to apprentice-like on the job training systems that eventually lead to management and then ownership opportunities.
operating system and requires compliance to protect the brand. A franchisee who does not follow that operating system may lose their franchise. In other words, franchisees must play by the rules or risk forfeiting their investments. It is in the franchisee’s own self-interest to be a law-abiding citizen within the franchise community and the franchisor can enforce the rules with both a carrot and a stick.

Margaret Thatcher is prescient in her comments praising Hernando de Soto’s imperative book *The Mystery of Capital.* “… It addresses the single greatest source of failure in the Third World and ex-communist countries – the lack of a rule of law that upholds private property and provides a framework for enterprise.” It is a daunting, Herculean task to contemplate the effort required to transform a country with endemic corruption where the informal sector dominates the economy into a law-abiding society that protects private property and allows entrepreneurs to leverage assets. In many countries, a violent *coup d’état* may be required (Pinochet in Chile comes to mind). It is much easier to select high potential enterprisers, train them in a franchise operating system, and then let their own self-interest guide them to take advantage of the franchise network’s built-in property protections. With a franchise system providing some of the services that ambient social institutions do not offer the poor, it is not too difficult to envision large numbers of successful MicroFranchisees in developing countries selling their businesses, acquiring a second franchise, or getting a loan against their assets to finance a new venture. MicroFranchising can incite a stealthy commercial revolution that eventually brings an underperforming society to a tipping point.

**Franchise Networks as a Surrogate Rule of Law**
In 1973, I was in the home of a college professor in Arequipa, Peru. After a lively conversation about the global economy, this academic opined, “*Ojalá nos hubieron conquistado los Ingleses.*” “I wish the English had conquered us.” What he meant was that Peru would be much more advanced economically if Peruvians generally respected the rule of law. (When Latin American immigrants come to the US, they are often surprised to find that most drivers obey traffic rules and most citizens pay taxes.) Despite diverse cultural mores, franchise operating systems can serve many of the same functions as a rule of law while franchise networks can be wonderfully supportive social institutions.

**Franchises and Intellectual Property Protection**
Many multinational corporations employ business models that depend on the kind of intellectual property protection common in the developed world. Those companies are

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136 Subway currently has 23,000 locations in 77 countries owned by 10,000 franchisees. Personal communication with Fred DeLuca, Co-Founder, Subway, March 2005. This means that the average Subway Franchisee owns 2.3 locations. Total system revenues are $8 billion, so global average unit volume is about $345,000. Many MicroFranchise networks will have similar multi unit franchisee dynamics, albeit with much smaller AUV numbers.


138 “There are cultural differences between countries, but in franchising there are more similarities than differences.” Donald Dwyer, Jr. Presentation at the IFA Convention, Hollywood, FL, March 2005.
often disappointed when they try to do business in emerging markets like China or Brazil where endemic piracy and counterfeiting are ways of life. Public policy in those countries often aids and abets this widespread flagrant disregard for intellectual property rights.

The franchise business model is all about brand protection. International franchise consultants are quick to point out that entrepreneurs abroad do not strictly “buy and sell franchises”. They “license a brand”. It is in the self-interest of everyone associated with a franchise network – the franchisor, master franchisee and local franchisee – to protect the brand which delivers ongoing mutual value. Proliferating MicroFranchises throughout an economy will be an effective way to educate large numbers of people about the benefits of IPP as local owners work to protect and strengthen their co-owned brands.

**Franchise Networks as Social Liberators**

One other aspect of the franchise business relationship is very important to international economic development. In Latin America, for example, the *patron* is the boss, the owner, while most employees are a *peon*, an underling, a have-not. Franchisees are not nearly as deferential to their parent companies as employees tend to be to their bosses. After all, a franchisee is an owner. Franchises empower their many owners financially, but also emotionally and socially. In fact, it is commonplace for franchisors to maintain a certain percentage of “company stores” among their locations to prevent their franchisees from becoming too powerful and dictating terms back to the home office. Many franchisees band together in owner’s councils or associations to promote their common interest. Franchisees are a rich source of productive innovation in many franchise networks. The social empowerment that franchise networks offer is one reason the SBA recommends franchises as a good first venture for women and minority entrepreneurs.

**Networks versus Hierarchies**

The Internet is a global distributed peer to peer network largely self-governed by rules, standards and protocols. A mainframe computer system is a hierarchical platform with command and control exercised by privileged elites at the top of a power pyramid. The EU is an increasingly centralized network of independent states who share some common infrastructure. The US is a centralized federal republic with hierarchical control emanating from the capital and 50 subsidiary capitals one level down on the org chart. Rotary International is a global network of largely self-governing clubs bound together

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139 Burger King, for example, currently operates in 61 countries, but they have legally protected their brand in many additional countries where they expect to do business in the future. The strategic plan at Burger King calls for protecting their brand 5 – 10 years before they actually begin operations in a new country. Presentation by Marlene Gordon, IFA Convention, March 2005.


141 Conventional wisdom in the industry is that a franchisor should own 20 – 30% company stores. This builds credibility with the franchisees. It provides a platform for pilot tests and new roll outs. It prevents a lot of poor ideas from being implemented. Excerpted from a presentation by Donald Dwyer, Jr., Director, International Operations, The Dwyer Group, IFA Convention, Hollywood, FL, March 2005.

142 [www.sba.gov](http://www.sba.gov)
by a common value set and similar operating procedures. The US Army is a global force with a clear chain of command stretching from the Commander in Chief to the newest recruit in boot camp. Franchise systems are largely self-governing peer to peer networks. A typical franchisor has 1 support staff person at HQ for every 35 international franchisee locations.

Both organizational structures have advantages and disadvantages. Hierarchies can be very efficient. They can focus massive force quickly. With enlightened leadership, hierarchies can be liberating, transparent, nurturing, egalitarian and sustainable. With ego-centric leadership, though, hierarchies often become repressive, corrupt, exploitative, elitist and fragile. Malevolent ego centricity fomenting a hierarchical pecking order of exploitation at all levels of society is what creates and perpetuates the global tragedy of institutional poverty. Networks, on the other hand, enjoy intrinsic advantages that make them superior vehicles to help people lift themselves out of poverty:

- Networks are democratic – nodes enjoy a peer to peer relationship.
- Networks tend to self-govern through consensus rather than fiat.
- Networks tend to empower participants by broadening their horizons and giving them a voice.
- Networks can be adapted readily to accommodate local diversity.
- Networks are resilient because they spring from a grassroots folk base.
- Networks are robust because decision points are widely distributed.
- Networks are often transparent – they generally foster an environment of full and open disclosure.
- Networks tend to limit spectacular failures because poor ideas or ineffective practices are not likely to proliferate.
- Well designed and competently managed networks can be partially self-propagating. In fact, once they reach critical mass, networks can be virtually unstoppable because their power base is so widely diffused.
- Very small network nodes can still function effectively.
- Networks often bring together diverse viewpoints from people who would not be likely to interact with each other in a hierarchical structure. In other words, networks are generally more heterogeneous than command and control platforms.

A typical franchisor has 1 support staff person at HQ for every 35 international franchisee locations. Donald Dwyer, Jr., Director, International Operations, The Dwyer Group. Presentation at the IFA Convention, Hollywood, FL, March 2005.

I recommend Tom Munnecke’s “Networked Theory of a Better World”.

www.omidyar.net/group/netchange Jeffrey S. Nielsen argues that rank based hierarchies foster secrecy and miscommunication while peer-based groups “harvest the full intelligence of the organization” because “genuine communication only occurs between equals.” Jeffrey S. Nielsen, The Myth of Leadership: Creating Leaderless Organizations (Mountain View, CA: Consulting Psychologists Press, Inc. 2004). The US presence in Iraq illustrates this point. A hierarchical military force can topple a standing army, but nation building requires widely diffused networks that gradually win hearts and minds.

Hierarchies have an advantage when centralized force is important, but in many situations decentralized influence is even more powerful.\textsuperscript{146}

After analyzing fifty cases of successful pro poor enterprises in developing countries, David Wheeler and his team from York University in Toronto determined that “sustainable local enterprise networks” provide the human, social, financial and ecological capital low income communities need to create virtuous cycles of economic growth.\textsuperscript{147}

Access to the Market for Risk

Latin Americans frequently hear the phrase “\textit{Si Dios quiere},” “God willing.” Impoverished people have so little control over their own destinies that they often become fatalistic. Cultural legacies contribute to this lack of empowerment. When Spanish entrepreneurs sent ships abroad, they formed mutual stock companies and shared the risk of the voyage. If their ship came in laden with gold and silver, the owners rejoiced. If their ship foundered or was captured by English pirates, the owners often went bankrupt. Their fate was in God’s hands. English entrepreneurs also sent ships abroad through mutual stock companies, but they had Lloyds of London. If their ship came in laden with spices and tobacco, the owners rejoiced. If their ship suffered misfortune, at least the owners were not completely wiped out.

Because they employed superior forms of business organization that protected property through shared risk vehicles like insurance, the English had more control over their own fortunes. This gave them greater confidence in the future and confidence is the fuel that feeds the virtuous cycle of enterprise growth. Typical micro enterprisers in the developing world survive on such slim margins for error that the slightest problem can be devastating. If they don’t work today, they may not eat tomorrow. Hence, the extreme fatalism of \textit{Si Dios quiere}. Having a franchise network to support and indemnify them through access to the market for risk empowers these tiny business owners and gives them the confidence they need to save, invest and grow their enterprises.\textsuperscript{148}

Discipline and Compliance

The discipline franchisors can enforce up and down their franchise network makes this form of business organization an effective solution for some very difficult problems. For example, billions of dollars are being spent right now trying to find efficient methods of essential drug distribution in the less developed world. The Gates Foundation,\textsuperscript{149} the Clinton Foundation,\textsuperscript{150} President Bush’s PEPFAR fund\textsuperscript{151} and others struggle to discover

\textsuperscript{146} The EU, for example, often outvotes the US at the WTO because the EU brings 25 independent votes.
\textsuperscript{148} I am indebted to Prof. Don Adolphson of the George W. Romney Institute of Public Management, Marriott School, BYU for helping me understand the crucial role the market for risk plays in facilitating virtuous cycles of economic growth in both public and private enterprises.
\textsuperscript{149} www.gatesfoundation.org
\textsuperscript{150} www.clintonpresidentialcenter.org
\textsuperscript{151} www.usaid.gov/our_work/global_health
ways to get appropriate pharmaceuticals in the hands of those who desperately need them. Health care delivery systems in much of the world are riddled with corruption at all levels. Doctors and nurses who are paid very poorly by Western standards steal drugs from hospital stocks and sell them on the black market to supplement their incomes. Helpless consumers are often unable to distinguish between authentic medicines and cunning counterfeits. Drug faking has been called “the greatest evil of our time.”152

Franchised pharmacies are much more likely to self-regulate and enforce rational dispensing practices with quality medicines because the inspectors/auditors who come out from headquarters on a regular basis can revoke a franchisee’s license if they find a pattern of irregularities. Peer pressure from other franchisees also helps keep local unit owners in conformity.153 It is in the self-interest of franchisees to obey the rules since compliance protects their investments and strengthens their co-owned brand.154

**Franchise Networks as Savings Vehicles**

Many governments try desperately to get their citizens to save more money. Capital formation happens when surplus value gets stored as endogenous savings so it is available for future investment. The Banco del Ahorro Nacional in Mexico for instance, works to foment a “savings culture” among the working class in that nation.155 Forced savings are not unusual. Social security in many countries is simply government mandated retirement savings. Many highly regarded Microfinance institutions like ProMujer156 and Freedom from Hunger157 deliver education, health and legal services to their clients in addition to micro banking. These additional services are generally funded through automatic withdrawals from compulsory savings accounts. Because franchisees pay regular royalties, rents or fees back to the franchisor and/or work largely on commission, the franchise business model lends itself well to a system of forced savings for retirement, health insurance premiums, or even a rainy day fund.

**Transparent Franchises versus Corruption**

C.K. Prahalad in his seminal book, *The Fortune at the Bottom of the Pyramid*, eloquently describes the “poverty penalty.” It is cruelly ironic that the poor in most nations actually pay much more for the same goods and services than their more affluent counterparts in richer neighborhoods.158 Much of the problem stems from petty profiteering slumlords

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152 Dora Akunyili, Director of Nigeria’s Food and Drug Administration, *Time*, November 7, 2005. When Dr. Akunyili assumed her post in 2001, 80% of the drugs sold in Nigeria were adulterated or counterfeit. 
153 Humans have an innate sense of fairness and an affinity for punishing cheaters. Ernst Fehr says that “altruistic punishment is the glue that holds society together.” Ernst Fehr, et. al., “Neurobiology of Altruistic Punishment,” *Science*, August 27, 2004. Self-interest magnifies this tendency to discipline errant behavior as owners interact within franchise networks.
154 Scott Hillstrom shared this powerful insight. His Health Store pharmacies in Kenya revoke a franchisee’s license for clinical or documentary non-compliance. Franchise networks deliver quality products and services in environments where command and control hierarchies routinely fail.
155 [www.condusef.gob.mx/informacion_sobre/patronato/patronato.htm](http://www.condusef.gob.mx/informacion_sobre/patronato/patronato.htm)
156 [www.promujer.org](http://www.promujer.org)
157 [www.freedomfromhunger.org](http://www.freedomfromhunger.org)
158 Clean water and credit are two commonly cited examples of goods and services where the poverty penalty can increase prices in poor neighborhoods by a factor of 10 or more.
who exploit their neighbors by protecting “shantytown monopolies.” MicroFranchises can address this problem in two ways. First, franchise systems tend to enforce transparent, rational and often regional or national pricing, so MicroFranchises could provide the poor with affordable options for the goods and services they purchase.

Second, just as England progressed when the small businessmen of that “nation of shopkeepers” acquired political power, poor nations will develop when marginalized business owners stand up to societally-sanctioned corruption and demand transparency. The MicroFranchise concept has the potential of politically empowering large numbers of small entrepreneurs who tend to be opinion leaders in their communities. It is no accident that one of the most powerful franchise organizations in Mexico (Laboratorios Best/Farmacias Similares) also leads the fight against corruption in that country through their MNA initiative.

Christopher Rodrigues says that underperforming economies are characterized by “money under the table, under the bed, and under the water line.” Informal shadow economies (the black market) range from an average of 14% in the OECD states to 70% in the very worst economies. Corruption and informal economies go hand in hand. MicroFranchises mitigate both perverse influences. The very nature of the franchisor franchisee relationship tends to promote a culture of full and open disclosure.

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159 I was in Mexico City many years ago and took a Grey Line tour of the metropolitan area. As the tour bus drove through one of the most affluent neighborhoods in town, the guide mentioned that the largest house in the zone belonged to the Mexico City Police Chief. Many years later, I was in a remote part of Mexico talking with an older gentleman about his son who had recently graduated from the police academy. “Por fin le dieron su esquina” the man said. “My son finally got his corner.” In other words, his son would be OK financially because he could now take home all the bribes he could extort from his assigned intersection. When politicians lack the will to clean up this kind of blatant corruption, it will only happen through pressure from business leaders because the average person on the street feels powerless to affect deeply rooted institutional extortion. In India it is called “speed money.” In Peru they call it a “coima.” In Mexico it is a “mordida” or “bite.” Venezuelans say “matraca.” Bribes and corrupt payoffs lie at the very heart of poverty in any language.

160 Large numbers of people with “economic stakes in their society” will “demand decent public services,” which in turn will “promote growth.” “Micro no more,” The Economist, November 5, 2005.

161 Kapur and McHale call these “feisty people with the spark and the ability to resist corruption and incompetent governance” “institution builders”. Devesh Kapur and John McHale, Give Us Your Best and Brightest (Washington, D.C.: Center for Global Development, 2005).

162 www.porunpaismejor.com.mx/EmpresasComerciales.htm
165 Corruption “raises the cost” of every transaction and allows “undesirable transactions” to take place, undermining consumer confidence. “The Hidden Wealth of the Poor,” The Economist, November 5, 2005
Modern Payment Systems
In 2004, 19% of world consumer expenditure was processed through electronic payment systems (VISA, Mastercard, etc.). That figure is expected to rise to 40% by the year 2015. This is significant because E payments have major beneficial economic multiplier effects:

- They lower transaction costs. Cash handling is expensive.
- They stimulate consumption which increases GDP.
- They increase governmental efficiency by reducing bureaucracy. (2/3 of all government employees in most countries could be replaced by well-written computer programs with far better service to the constituents.)
- E payments also increase the level of financial intermediation in a country since cash reserves reside inside the formal financial system where every dollar contributes to the bank multiplier effect.
- E payment systems increase overall financial transparency in an economy.
- They also tend to promote rational tax structures and force merchants to comply with local tax laws.

Christopher Rodrigues uses the analogy: Cash is like walking to the market. Electronic payments are like riding a bicycle. Credit is like a bicycle with gears.\textsuperscript{167} For development to be truly effective, countries need credit bureaus with standardized scoring, modern payment systems and effective communication infrastructures. Proliferating MicroFranchises throughout an economy will speed adoption of all these good things.

Note: VISA will soon have a wireless POS device. Theoretically, any merchant who can afford a cell phone will be able to accept plastic.

Case Brief: Street Vendor Beatriz Lagos in Cuzco, Peru
Beatriz Lagos sells snack foods from a tricycle cart a few blocks from the main plaza in Cuzco, Peru. She gets up at 5:45 a.m. and retires at 11:00 p.m. six days a week. Her tiny house is far from the center of town, so she must rent a parking space in a secured lot to store her tricycle overnight. She rents her tricycle from her supplier. Her inventory is worth about $150 at replacement cost, but she does not own it. It is on loan from her supplier and she pays interest on it at the rate of 10% per month. Her supplier requires that she make daily interest payments. Since she operates her cart 14 hours per day, a lantern is required for light. Lantern fuel costs $1.80 per week.

Pilferage is a serious problem because all inventory shrinkage reduces her bottom line by the cost of goods plus the carrying cost of her flooring loan. A band of street urchins once overturned her cart and helped themselves to about one third of the scattered snacks before she and a passer-by scared them away. It took Beatriz several months to recover from that financial reverse. She pleaded with her supplier to at least forgive the interest on that distressed inventory, but he refused. Her son now helps her guard the cart during certain hours of the day, even though he is bright and would much rather stay in school.

\textsuperscript{167}Christopher Rodrigues, Presentation at WRI, San Francisco, December 2004.
Outdated inventory is a constant concern because her supplier does not rotate stock or manage shelf lives. Once she takes product through her supplier’s door, she cannot return it. She can sell it, consume it, give it away, or dispose of it, but she has to pay for it with interest in any event. Once she was sold a box of D’Onofrio Sublime chocolate bars that were old and full of worms. The box looked fine on the outside. It was only after her customers opened the individual candy bars that the problem became apparent. She tried to return the defective box to her supplier, but he refused to help her.

Itinerant beggars stop by her cart frequently asking for a handout and occasionally she gives something away to a particularly disadvantaged person. Irate customers often berate her because of her high prices. Large food processors like Nestlé run TV commercials advertising products at a certain price. Beatriz’ cost from her supplier is often 10-15% higher than the advertised price on TV, so after she adds her markup, many customers complain. About once a week, a police officer comes along, expecting a bribe. Beatriz runs an informal, unregistered business that is technically illegal. If she did not pay off the policeman, he could make trouble for her, so she gives him a little money.

On a good day, she takes home $4. Most days it is $2 for an effective pay rate of 14 cents per hour. Beatriz Lagos, for all practical purposes, is a slave. She has been marginalized and is being oppressed by forces beyond her control. She bears most of the risk and realizes little of the benefit in an exploitative relationship. There are hundreds of Beatrizes in Cuzco, Peru, and millions all over the developing world. Any of several institutionalized MicroFranchise systems could liberate Beatriz Lagos as surely as John Mitchell and John L. Lewis liberated Appalachian coal miners by organizing them in the early part of the 20th century.168

Case Brief: Vodacom Telecom Kiosks in South Africa
With $60 billion in annual revenues, Vodafone is the world’s largest wireless phone company. They own 35% of Vodacom in South Africa. Much of Vodacom’s business with lower income customers comes from prepaid phone cards which are serviced from retail storefronts. Vodacom maintains a network of 5,000 franchised telecom kiosks called “phone centers” throughout the country. Vodacom owns the structures and some fixed equipment. Local franchisees own their equipment, inventory and customer relationships. This symbiosis between a huge multinational corporation and small local entrepreneurs is both enlightening and encouraging:

- Franchisees are given a great deal of business training which they value highly.
- Each kiosk provides jobs for an average of 5 employees.
- Vodacom franchises are very profitable relative to other business opportunities.
- Many franchisees have become quite successful, leveraging assets to found new enterprises in other industries.169

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168 Personal communication with Beatriz Lagos and members of her family, November 2001.
Case Brief: ICICI’s Local Community Banks in India

ICICI Bank is the second largest bank in India with a 30% market share. They are also one of the largest insurers in the country. They were the first Indian firm to be listed on the New York Stock Exchange. Through an acquisition in southern India, ICICI inherited an existing Microfinance business. Although loan default rates were near zero, operating costs were high so ICICI concluded that traditional Microfinance where they dealt directly with large numbers of low income customers does not work because it is not profitable.\(^{170}\) So, the bank changed their business model and began to develop locally franchised partners. These small, semi-independent Microfinance institutions adapt their products to the diverse Indian marketplace, backed up by a menu of options that are available to them through the formidable power of a major world bank. Local MFI’s provide ICICI with profound local reach. ICICI in turn provides their partner franchisees with new products, sophisticated services and unprecedented global access.

- 30 local MFI’s are now engaged in the network.
- These 30 local institutions collectively service 1 million households.\(^ {171}\)
- ICICI provides their MFI partners with capital at world market rates.
- ICICI also provides the local firms with state of the art technology.
- Using this new franchise model, ICICI’s Microfinance business is very profitable.
- Each local partner is capable of 15X to 30X projected growth by using credit franchisees and other hybrid channels.
- ICICI expects to increase the number of local MFI’s in their network from 30 to 200–300 in the next 3 years.
- ICICI also sells their various insurance products through this MFI network. One of their most popular offerings: rainfall insurance for small farmers.
- ICICI expects to reach at least 50 million households in 3 years using their scalable franchise network model.
- Gradually, the MFI’s are evolving into local community banks. This franchise model of pairing a local financial institution with a major national bank lets both entities do what they do best in concert while productively leveraging shared infrastructure.\(^ {172}\)

Franchise Vendibility

Few successful business owners do the very same thing during their entire career. Most build up a business, grow it into something larger and more diverse, sell it, or stabilize it with professional management which frees them up to start something new. Selling a business can be tricky because the universe of potential buyers is small and privately held firms are notoriously hard to value. For most micro enterprise owners in developing nations, selling their business is practically impossible for a variety of reasons:

- The enterprise is usually informal, not legally registered.

\(^{170}\) In a widely quoted statistic, ICICI calculates that it requires 40 times more manpower to provide $1.3 million in loans to Microfinance clients than to extend that same amount of credit to a large corporation.

\(^{171}\) Less than one year later, ICICI Bank reported 1.5 million Microfinance customers served through a network of 53 small local banks. “A survey of Microfinance,” \textit{The Economist}, November 5, 2005

\(^{172}\) Nachiket Mor, Executive Director, ICICI Bank. Presentation at WRI Eradicating Poverty through Profit, San Francisco, December 2004.
• The enterprise is probably highly personality dependent.
• With no barrier to entry, potential buyers can simply start something identical.
• Added value through advanced skill sets is typically low.
• Marginal capitalization has often created an enterprise with few fixed assets.
• Adequate accounting records probably don’t exist so value is indeterminate.

The franchise business model by its very nature solves all of these problems so the owners of MicroFranchises can build up their asset values with confidence, knowing that they can access that capital in the future when a compelling new venture comes along. This built in exit strategy is one reason why banks in the developed and developing worlds are more willing to loan money for a franchise start-up than for a new independent enterprise.\(^1\)

**Market Penetration**

The franchise business model is thriving worldwide. Franchises account for 10-20% of GDP in most developed countries, and that number increases annually. Franchises globally are generally growing at least twice as fast as their host national economies.\(^2\) They are also proving to be excellent vehicles for developing export earnings.\(^3\) Many Singaporean franchise systems currently operate in and repatriate profits from Thailand, for example.

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\(^{1}\) If a US firm wants to expand abroad, the Overseas Private Investment Corporation, OPIC, has historically required the firm to put up 30% of the financing themselves. During the Clinton administration, OPIC changed the rules for franchisors. If a US franchisor wants to expand abroad, OPIC will finance 100% of the investment. Personal communication with Ann Tull, Director of International Development, Maui Wowi, and former Director of the US Export Assistance Centers, US Department of Commerce, March 2005. Some Banks are so enamored with the predictable performance of franchises that they will finance up to 120% of a franchisee’s start up costs. This causes a problem because most franchisors require potential franchisees to put up a certain percentage of the initial investment from their own private equity. Randy Clifton, Senior VP, Franchising, Pizzeria Uno Corporation. Presentation at the IFA Convention, Hollywood, FL, March 2005. Many franchisors line up financing ahead of time and offer potential franchisees a package deal that includes one or more financing options. The fast growing Big O tire franchise, for example, offers a new owner pre-arranged financing from Wachovia, CIT or GE Franchise Finance. This greatly reduces the time required to bring a new Big O location online. John Hyduke, Vice President, Franchise Development, Big O Tires. Presentation at the IFA Convention, Hollywood, FL, March 2005. For a comprehensive look at MicroFranchise finance options, see Kirk Magleby, “Financing MicroFranchise Networks,” in the forthcoming MicroFranchise Toolkit to be published by the MicroFranchise Development Initiative, Marriott School of Management, BYU.

\(^{2}\) In Mexico, for example, while the economy grew by 4.4% in 2004, the franchise sector grew by 19%. “Franchise businesses have grown at an average annual rate of 20-30% since the late 1990’s, compared to an economic growth rate of 6-8%.” Dhawal Shah, “The Enormous Potential of International Franchising in India,” India Infoline, September 4, 2004. In Spain in recent years, franchising has grown by 40% per year. In Japan, it has averaged 6-8% even in years when overall economic growth was flat. New Zealand has seen “exponential” recent growth in franchising. See Diane H.B. Welsh and Ilan Alon, editors, *International Franchising in Industrialized Markets: North America, the Pacific Rim, and Other Countries* (Riverwoods, IL:: CCH, Inc., 2002). The franchise sector is growing much faster than the underlying economy in most countries on earth. The trend is decades old and still appears vigorous.

Mexico is a Model

Mexico is an instructive model because as one of the strongest economies in the region, it tends to be a bellwether for the rest of Latin America. Franchises were relatively unknown in that society 20 years ago. Today there are hundreds of franchise networks in operation in Mexico and the concept is growing fast. Víctor González Torres’ Farmacias de Similares have become the largest network of corner drugstores in the country and have expanded throughout Central and South America. Some Mexican franchises such as the informally managed Patéterias La Michoacana with over 15,000 outlets are ubiquitous and have profoundly penetrated the US market. In 20 more years, franchises will dominate Mexican main streets and strip malls just like they do today in the US. (Market studies in both countries indicate that Hispanic consumers tend to be highly brand loyal.) Even the world’s largest retailer, Wal-Mart, operates its VIPS restaurant chain in Mexico as a franchise. It is time to unleash the power of the franchise business model to unlock some of the latent potential for sustainable development that lies dormant throughout the developing world.

Appropriate Enterprise Size

MicroFranchises can be very small operations. The 80 Health Stores operated by Scott Hillstrom’s Health Stores Foundation (formerly SHEF and CFW) in Kenya are one example. The 30 Cellular City storefronts franchised to alumni of Stephen W. and Bette Gibson’s ACE in the Philippines are a second example. Tiny equipment businesses rent bicycles and wheelbarrows. Muhammad Yunus’ MicroFranchised Grameen village phone ladies in Bangladesh have a very small business footprint. Direct distribution models like Unilever’s kiosk based Shakti Amma dealers in India and Brazil’s nearly ubiquitous Avon ladies generally employ a single person. In most cases, though, that single person earns much more and has more security than they would have on their own without the nurturing support of the large enterprise around them.

Most MicroFranchises will be created in the developing world rather than exported from industrialized nations. A great deal of creative social entrepreneurship will be required. The unit economic numbers are simply too small to allow systems to be merely adapted from developed countries. McDonalds has suspended operations in most of Bolivia and KFC can’t compete with the indigenous Pollo Campero franchise in Guatemala and

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176 www.farmaciasdesimilares.com.mx The franchise network has over 3,200 locations in Mexico, Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica, Ecuador, Peru, Chile and Argentina.
177 www.paleterialamichoacana.com
179 www.creatingenterprise.com
180 www.grameenphone.com Each lady owns a cell phone and a solar battery charger.
181 Tex Gunning, head of Unilever’s global BOP business strategies, told Scott Hillstrom that there are 15,000 Shakti Amma ladies in India presently. Tex expects that number to increase soon to 100,000. Scott Hillstrom, personal communication, November 2005.
182 Unilever Vietnam sells through a network of 100,000 independent representatives, each averaging $3,000 in sales per year, which allows Unilever Vietnam to gross $300 million per year.
El Salvador. Pollo Campero, on the other hand, has franchised locations throughout California and is beginning to expand into Texas and New York.  

In less developed countries, small really can be beautiful as long as there is growth. In Bolivia for example, per capita income is about $2,500 per year so a MicroFranchise that allowed its owner to take home $250 per month would give that enterpriser an income above the national average.

The MicroFranchise Development Initiative, MFDI, of the BYU Center for Economic Self-Reliance defines a “MicroFranchise” as a franchised business concept that is available to and within reach of people at the base of the income pyramid in a developing country. It is understood that most potential MicroFranchisees will require financing to pay their franchise fee and other start up costs. The cost threshold for a business to qualify as a MicroFranchise could be as high as $25,000 in countries like Mexico or Brazil where annual per capita GDP adjusted for purchasing power parity ranges from $8,000 to $9,500. That same acquisition threshold may be as low as $3,000 in a nation like Kenya where annual per capita GDP adjusted for PPP is only $1,000.

Future Trends
Commercial realities such as market demographics, land values and transportation infrastructure dictate the scale of commerce in any given community. In my city of American Fork, Utah, for example, the local Wal-Mart recently vacated its original store and moved to a Super Center across town, adding 300 new jobs in the process. What had been big box retail is now mega box retail.

A similar phenomenon will happen with certain MicroFranchise locations under favorable conditions. Some will be “mini franchises,” generating more wealth and creating more jobs than their smaller counterparts. The MicroFranchise industry worldwide will trace a trajectory similar to the one that Microfinance has followed where

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183 www.campero.com
184 E.F. Schumacher, Small is Beautiful: Economics as if People Mattered (New York: Harper & Row, 1973). Amul’s global empire, for example, is based on over eight million tiny Indian dairy herds.
185 Meeting of the Steering Committee, MicroFranchise Development Initiative, Center for Economic Self-Reliance, Marriott School of Management, BYU, April 2005. It is important to note that the term “micro franchise” is commonly used in Europe to denote a small franchised business opportunity available to entrepreneurs in the developed world. The term “MicroFranchise” in this paper refers to a very small franchised business or social enterprise opportunity available to entrepreneurs in the developing world. 186 Grameen Bank makes loans as high as $15,000 without collateral in Bangladesh. Personal communication with Muhammad Yunus, July 2005. Local financing is available in most developing countries for amounts up to 3X per capita GDP if an aspiring enterpriser presents a solid business plan. The presence of a franchise network supporting a business plan will be viewed favorably by most lenders and in some markets, franchise loans will be considered collateralized, just as they are in the US.
187 There are several different formats available for a Farmacias de Similares franchise in Mexico. “Chirris” locations are designed for small towns. They cost about $16,000 to start up, so they fit the definition of a MicroFranchise. “Pueblerinas” locations, designed for larger markets, have many more SKUs and require a more sophisticated facility. “Citadinas” locations, designed for cities with a population above 50,000, have a pharmacy and a medical clinic side by side. “Mega” locations, designed for big cities, have a pharmacy, a medical clinic and a medical lab in their much larger facilities.
initially, philanthropic support or socially responsible corporations will be needed to create the operating systems, adapt them to local conditions, and implement the pioneering networks. Some franchise organizations will become self-sufficient fairly quickly, while others will be at least partially donor dependent over long periods. Incubators, facilitators, replicators, holding companies and accelerators will arise as the industry matures. Securitization through syndication will attract some interest from mainstream franchise industry players, financial institutions and investors. Some multinationals and large domestic corporations will seize the concept as an opportunity to cost effectively open vast new markets of heretofore underserved consumers. Multinational corporations will forge creative joint ventures with NGOs. Informed people generally will come to realize that large numbers of very small enterprises can be efficiently and profitably run so they create jobs and contribute significantly to national economies. MicroFranchising which has begun as a fledgling social movement will soon go mainstream.

Coalescing World Opinion
Institutions worldwide have begun to direct resources and political will toward sustainable development through private sector initiatives. The IDB created The MIF in 1993 to pursue enterprise based solutions to poverty in the Americas. The World Bank through IFC created a “Grassroots Business” initiative to support private enterprises. The exciting new Millennium Challenge Account aims to change historical foreign aid paradigms in favor of real economic growth through private initiatives in countries who create favorable market conditions. “Sustainable” is the new development mantra and sooner or later that means large numbers of profitable businesses. Jonathan Lash sees a “significant overlap in the interests of the private sector and the interests of the poor, such that win-win solutions are not just possible, but likely.” A franchise network represents one of the best win-win scenarios yet developed.

The Grameen Experience
A few years ago, my oldest son spent a summer as an intern with the Grameen Bank in Bangladesh. Upon his return, I asked him for his impression of this revered institution. He said with a bit of disdain in his voice, “Grameen is more of a business conglomerate than a Microfinance institution.” He was referring, of course, to the fabric manufacturing, agri-business, telecommunications, Internet and other for profit commercial and industrial enterprises in the Grameen family. In my son’s mind, it was as if Microcredit was an altruistic and pure little jewel off to the side while large scale business was somehow greedy and dirty.

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188 Kick Start, for instance, claims to have moved the GDP dial in both Kenya and Tanzania with their Moneymaker treadle pump for improved irrigation. www.approtec.org

189 www.iadb.org

190 www.ifc.org

191 www.mca.gov

192 Jonathan Lash, President, World Resources Institute, in his welcome to the WRI “Eradicating Poverty through Profit” Conference Program Book, San Francisco, December 2004.
I asked him to put himself in the shoes of a typical Grameen borrower. Would he rather have a loan and a pat on the back as he went off to do battle with the cold, cruel world and seek his fortune? Or would he prefer a loan and a proven business opportunity that came with considerable institutional support built in? If only one person in ten is destined to be a true entrepreneur as many have suggested, then various kinds of franchise relationships can expand that pool to include enterprisers who do not have to manage innovation if they just follow well established business policies and procedures.  

On June 27, 2004, for instance, the Grameen Bank – Village Phone MicroFranchise won the first Petersburg Prize: 100,000 euros given by the Development Gateway Foundation to recognize the outstanding use of information and communication technology to improve people’s lives in the developing world.

Grameen’s successful fish farms have been characterized as an “agribusiness franchise” where up to 40 people jointly own an aquaculture facility.

The Microfinance Experience

Grameen pioneered it. FINCA adapted it. Acción institutionalized it. Thousands replicated it. The 1997 Microcredit Summit in Washington DC legitimized it. And now in 2005, more than 7,000 Microfinance institutions worldwide are granting small loans to poor people. Between 70 and 100 million households currently benefit from this innovative financial service and the UN has designated 2005 as the International Year of Microcredit. Major international banks like Citigroup, ABN Amro, and ICICI are beginning to compete for market share and some markets, particularly in Latin America, are approaching saturation. There is a growing realization that MFI’s will gradually evolve into credit unions and local community banks and that the current fragmented market will consolidate as the industry matures and becomes mainstream. Amid these dynamic developments, the franchise business model has quietly become prominent as a preferred way to deliver quality financial services to the world’s underserved poor.

- Citigroup collaborates with local MFI’s as partners in about 20 countries.
- ICICI works with 53 local MFI institutions and has aggressive plans to scale up.
- ABN Amro works with local MFI partners in India and Brazil.
- Janine Firpo who ran HP’s Remote Transaction System project in Uganda determined that Acción’s UMU model using local merchants (often pharmacists) as credit franchisees holds the most promise among the various MFI systems she worked with.

The inherent benefits of this win-win between local enterprises and regional, national or global institutions are obvious: both benefit from intense neighborhood knowledge and shared infrastructure.

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194 Muhammad Yunus’ comment after I explained that many industries in the Grameen family of enterprises are classic MicroFranchises: “Yes, that is what we are doing. It works. Just go do it.” Personal communication with Muhammad Yunus, July 2005.
196 Kenya-based Pride Africa, for example, using the franchise business model, has grown to become the largest MFI in East Africa. They have franchised operations in five countries managed from their Nairobi headquarters.
Questions and Answers

“How do you create massive entrepreneurship?” C. K. Prahalad
“How can multinational corporations be more fair in distributing wealth?” Eduardo Bazoberry
“How can multinational corporations become the driver of a more inclusive capitalism?” Stuart Hart
“Are there solutions in terms of wiring? Network models? An X Prize to solve poverty perhaps?” Holly Wise
“How do you build SME’s? Microfinance is at the base. Large companies are at the top. But most of the real economic development takes place in the middle.” Mark Malloch Brown

The franchise business model reasonably answers all of these questions.

“Internal savings makes a country free. The local private sector is the key, not foreign social investors telling us what to do. The secret is to look for local entrepreneurs.” Eduardo Bazoberry
“In emerging markets, conglomerates are very important because there are so many voids in the value chain. You need tremendous horizontal and vertical integration to overcome the huge gaps in the external economy.” Yogesh C. Deveshwar
“Agency models make sense in Microfinance, rather than trying to invent all new infrastructure.” James Dailey
“Savings flows exist in developing countries. Finding productive ways to deploy those savings is the key to development.” Alan Larson
“The goal is enterprise co-creation that builds value for multinational corporations and for the local community.” Stuart Hart

The franchise business model reasonably meets all of these expectations.

Contrary Examples

A few examples of well-intentioned development programs gone awry:

1. Every cow in Europe currently receives a subsidy of $2 per day, on average. This amount is greater than or equal to the daily income of nearly half the world’s population.

2. Economic migrants leave their homeland, work in an industrialized country and send money home. “Lots of children benefiting from remittances have drinking and drug problems with far too much leisure time. You have a lot of kids with money in their pocket, but no mother or father and no education.” Monica Hernandez. “Cash remittances are extremely socially corrosive. Large flows of remittances create external

197 All five questions are from presentations at WRI, San Francisco, December 2004.
198 All five expectations are from presentations at WRI, San Francisco, December 2004.
dependency and huge distortions in asset markets. There are many half-built houses that no one will ever live in. Formerly productive agricultural and small workshop properties lie fallow.” Raul Hinojosa. Don Terry thinks this remittance money should reside in formal financial institutions that can leverage it through the bank multiplier effect and fund local enterprise creation. Many migrants would be willing to invest in hometown MicroFranchised business opportunities if such systems were widely available.

3. A US based religious organization pays janitors in Cuzco, Peru $500 per month plus lavish benefits in a market where professional people often struggle to make half that amount. This organization also offers student loans to young people for vocational training, but few youth avail themselves of the opportunity to study. Like inner city kids in the US who dream of growing up to be professional athletes, these young Peruvians hope for a high paying job with a foreign firm and almost all end up disillusioned and frustrated. How much better would it be for this multinational organization to contract out its custodial services to a local MicroFranchised cleaning contractor?

4. I was in Cochabamba, Bolivia speaking with the owner of a small clothing store. “Where does your clothing come from?” “My family makes it in a small sewing shop behind our house.” “How many sewing machines do you have?” “Five.” “How many people do you employ?” “Two. The business only provides enough for my wife and me, and she can only work part-time.” “What happened that your business fell off from five active sewing machines to one that only works part-time?” “Used clothing started coming down from the US. We can’t compete.”

Thrift stores like Goodwill, St. Vincent de Paul and Deseret Industries send large bales of used clothing to developing countries in Latin America. US donors think their castoffs end up benefitting the needy in those countries. In reality, local strongmen (the root cause of poverty) take control of these donated goods and dump them on the black market for a quick profit. Local markets are flooded with cheap used clothing and indigenous garment workers go hungry. Ironically, most of this used clothing is too big to fit the smaller Latin American physiques. How much better would it be if a MicroFranchised apparel remanufacturing firm purchased these bales of used clothing in the US and kept local sewing machine operators busy remaking them to fit smaller sizes?

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202 Innovative work linking Mexican migrants with businesses in their hometowns is being done by Raul Hinojosa’s No Borders (Sin Fronteras) organization. See John Paul, What Works: Thamel.Com, Diaspora-enabled development, WRI, December 2005 for a case study about Nepalese emigrants helping build local businesses back home in Kathmandu and environs.
203 Personal communication with Ruben Andia and family, November 2004.
204 Many governments are aware of the market poisoning and distortion that come with used clothing. Bolivia, for example, now specifically prohibits used clothing in humanitarian shipments.
The Grand Convergence
The most significant event I have attended in the 30+ years I have wandered the planet searching for the solution to global poverty happened in San Francisco in December 2004. WRI and about a dozen MNCs sponsored the conference “Eradicating Poverty through Profit: Making Business Work for the Poor.” Based on the work of C.K. Prahalad, Stuart Hart and their associates, the moderator, Scott Shuster, christened it BOP (Bottom or Base of the Pyramid) I. BOP II convened in August 2005 in Sao Paulo and in September 2005 in Mexico City with equally electric atmospheres.

1,000+ attendees from many nations could sense real progress and envision real solutions. Among others, this conference theme was prominent: “Former adversaries and combatants are now collaborating.” Mark Malloch Brown. “The grand convergence between governments, civil society and businesses is an urgent imperative.” Herman Mulder. “We need a more joined up world with effective relationships between NGOs, governments, and the private sector,” Richard Sandbrook. “There is a grand convergence taking place between the private sector, civil society organizations, governments, international aid organizations and local civil servants.” C.K. Prahalad. “We need organizations that are more integrated.” Louis C. Boorstin. Fortunately, franchising is a highly effective form of integration, collaboration and convergence.

James A. Harmon summarized it well: “Transparent, fair and consistently applied law is what we need from government.” Paying attention to the BOP is what we need from the private sector. Innovation and creativity is what we need from NGOs.” Ashoka calls this business/social model “hybrid value chains” or “cross-sector partnerships.” In an extreme example of this spirit of convergence, George Lodge and Craig Wilson are proposing an audacious, provocative plan for unprecedented coordination between a consortium of MNCs, NGOs and major development institutions.

Some MicroFranchise Networks Currently Operating
- Scojo Foundation’s vision through entrepreneurship offers affordable reading glasses in many countries through a network of women MicroFranchisees.
- The Reyes family has done well enough with their 200+ MicroFranchised barber shops in the Philippines that they have expanded their operations into California.
- Over 300 Julie’s Bakeshops dot the Philippines, with expansion into Singapore.
- Casa por Casa is a MicroFranchised advertising flyer business in Mexico.

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205 An excellent source for details on a given country’s regulatory environment as it relates to starting and running an enterprise is “Doing Business” published by the World Bank, www.doingbusiness.org.
207 The citations in this section all come from the WRI Conference “Eradicating Poverty through Profit,” San Francisco, December 2004.
209 George Lodge and Craig Wilson, A Corporate Solution to Global Poverty: How Multinationals Can Help the Poor and Invigorate Their Own Legitimacy (Princeton: Princeton University Press, 2006)
• Over 4,000 MicroFranchised tailors stitch and sell Ruff n Tuff jeans from kits, helping India’s Arvind Mills dominate the domestic denim market.
• DTDC courier service has more than 3,000 tiny franchised outlets across India.
• Holanda franchises several hundred tiny restaurants throughout Mexico.
And, there are dozens of other MicroFranchise networks quietly transforming India, Mexico, Brazil, the Philippines, South Africa, etc.  Many of the most successful international economic development projects in recent years utilize some form of the franchise business model. Many egregious failures ignore or overtly contravene proven MicroFranchise principles.

Toward a MicroFranchise Heuristic
As hundreds of MicroFranchise networks begin to revolutionize economies in the developing world, a number of common characteristics will become apparent:
• Many products and services will be basic compared with their counterparts in the developed world (bicycles rather than automobiles, drug store reading glasses rather than prescription lenses, cell phones rather than computers).
• Collective access will usually be more common than individual ownership (Pay per use Internet kiosks).
• Most business concepts will be labor rather than capital intensive.
• Units packaged for individual sale will often be very small (tiny jars of lotion that sell for 1 or 2 cents).
• 5,000 people in reasonable proximity will be a typical market or catchments area.
• Prepaid services will generally be more cost effective than extending credit.
• Many delivery systems will be multi-tiered when high skill levels are in short supply (nurses, community health workers or pharmacists attend the masses, referring more serious cases to local clinics who in turn refer the most serious cases to a hospital).
• Product delivery systems will often be direct from the manufacturer to the consumer because the unit economic numbers will not justify a traditional wholesale distribution supply chain.
• Shared infrastructure will be common (several enterprises will use a single delivery vehicle or warehouse).
• Political issues will be more important than they are in the developed world.
• Innovative technologies and business models will be widespread.
• Many businesses will be mobile rather than storefront based.
• MicroFranchises will generally deliver products and services with superior, even world class price performance.
• Rental business models will proliferate.

210 Over half of the 700 franchise concepts operating in the Philippines, for example, are indigenous, and many of those fit the profile to be classified as MicroFranchises. One interesting example: Oriental acupuncture foot massage. Personal communication with Samie Lim, March 2005.
211 Honey Care Africa is an award-winning IFC project from Kenya. See www.honeycareafrica.com.
212 For a list of conspicuous debacles, see James Bovard, The Continuing Failure of Foreign Aid, Policy Analysis No. 65, (Washington D.C.: Cato Institute, 1986). In its defense, I must add that the professional development community has improved its track record in the last fifteen years.
Market intermediation will aggregate demand by pooling customers.
Barter will be common in some rural areas.
Compound franchises will allow a single owner or multiple owners to operate two or more concepts within a single shared facility.
Creative fractional equity ownership models will develop.
Multi unit franchisees will develop over time. This is a healthy sign that the system is working and owners are leveraging assets to found new enterprises.
Many deals will involve creative bundling (a phone company that rents an AMD PIC as part of their monthly service).
Equipment will tend to be digital rather than analog, electronic rather than electro-mechanical to take advantage of what WRI calls the “digital dividend”.
The MicroFranchise market will respond better to cost effective, state of the art solutions than to recycled or obsolete products or equipment.
Conversions between company stores and franchised locations (and vice versa) will be common.
MicroFranchises will proliferate in the manufacturing and construction sectors in addition to the more traditional retail trade, professional service, business service and retail service sectors.
Franchisors will often provide a comprehensive service bureau environment to their MicroFranchisees to compensate for their partners’ lack of administrative capacity.
Information from money transfer systems will allow past remittances to serve as “credit history” for potential franchisees and future remittances to serve as “collateral.”
Successful MicroFranchisors will develop relationships with financial institutions allowing most franchisee start up capital to be sourced locally.
Creative financial engineering will allow franchise networks to aggregate investment opportunities and mitigate risks through syndication eventually leading to securitization.
Successful MicroFranchises will spawn competitors, a highly desirable outcome that will help unleash a welcome torrent of entrepreneurship in the developing world.

In the US, for instance, it is commonplace to see a fast food restaurant/gas station combination. This modularity of locating a franchise within a franchise increases the likelihood of a business unit achieving viability.

“Mail Boxes, Etc. does not yield enough profit from a single location to allow a person in the US to live comfortably. So, most MBE franchisees own at least 2 or 3 locations.” Personal communication from Linda L. Burzynski, CEO, CM IT Solutions, March 2005.


New York Subs blatantly copies Subway, complete with a yellow and white logo design. Contours for Women is a knockoff of the more established Curves for Women. There are hundreds of other examples.
MicroFranchise Development Costs
Too few MicroFranchise business opportunities have been developed to accurately judge costs which will vary by country and industry. $1 million may be a ballpark cost to develop and deploy a typical MicroFranchise business opportunity. Most of the development work will take place in emerging nations with technical assistance and capital from wealthy countries. A typical deployment will involve up to 100 franchisee locations in the pilot phase of the project and networks with tens of thousands of locations will not be uncommon as enterprises scale up around the world.

Sources of Funds
In order to solve global poverty, we need hundreds of MicroFranchise business opportunities available so high potential entrepreneurs have a smorgasbord of options to choose from based on their experience, interest or skill level. Remember the nursery rhyme about the butcher, the baker, the candlestick maker? Every low income community of 5,000 people needs a bicycle repair shop, a pharmacy, and hundreds of other local businesses. So where will all this money come from to develop hundreds of MicroFranchise systems? The answer is: the money is available if the concept proves compelling enough that political will develops. Alan Larson of the US State Department estimates the following annual resource flows currently reach the developing world:

- $70 Billion in ODA
- $93 Billion (MIF’s Don Terry says $175 Billion is the better estimate) from migrant remittances
- $200 Billion in FDI
- $2 Trillion in endogenous savings

I estimate that $500 million will get more than 200 MicroFranchise networks operational and beginning to grow around the world. Based on the same powerful business model that allowed Subway to grow from one store in 1965 to more than 23,000 stores in 77 countries 40 years later, MicroFranchises should be able to help the world’s poor get access to clean water, renewable energy and a host of other life enhancing goods and services while providing employment and ownership opportunities on a large scale.

$500 million to help solve the world’s most pressing problem using the same basic formula that enterprises from Starbucks to Marriott have employed to conquer the globe. That is a BHAG (big hairy audacious goal) that even Jim Collins would be proud of.

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217 This $1 million number comes from several conversations with Scott Hillstrom and is based on his experience building out the Health Stores MicroFranchised pharmacy network in Kenya. Recent personal communication from Chuck Slaughter in June 2005 indicates this number may be low.

218 Afribike, for example, uses the MicroFranchise business model. [www.afribike.org](http://www.afribike.org).


220 $250 million should get 500 MicroFranchise networks researched and built out to 20 locations, at which point they are ready for commercialization. $250 million should then facilitate 225 commercial pilots, (...continued)
Reality Check
Livelihoods ultimately stem from successful business enterprises. Most of us understand that implicitly. So why do governments, NGOs and socially responsible corporations still deal with global poverty by sending money, stuff or people? Because administering relief aid is quick, easy, and gratifying. Photo ops and anecdotes temporarily satisfy activist ardor. I presented a version of this paper in the 2004 CESR conversation series at BYU. I suggested that it is ten times harder to build a successful business enterprise in a developing nation than it is to simply dispense charity or build infrastructure. A savvy veteran of the poverty wars raised his hand at that point and enlightened me. “It’s not ten times harder,” he retorted. “It’s a hundred times harder.” I stand corrected.

The franchise business model is no panacea, either. When franchisors get greedy and put their own growth ahead of individual unit profitability, the results can be disastrous and litigious. MicroFranchises must remain true to their social mission.

Gender Neutrality
Ever since Muhammad Yunus left his classroom at Chittagong University to understand the micro economics of Jobra Village, the Microcredit movement has had a profound feminine bias, and for good reason. Males beat their wives to extort drinking money while females guard the household budget. Males sell the tin roof off their family hut to pay gambling debts while females work to put shoes on the kids. After 30 years of feminized Microcredit, though, people are now rethinking the paradigm. Sustainable development across generations, it turns out, requires the best efforts of everyone in the household. John Hatch observes that far too many children of Microcredit-enabled mothers are wasting their time on unproductive leisure or delinquency. “Our single-minded focus on women has not created the culture of progress we had hoped.”

Elizabeth Littlefield adds, “In the MFI world, we have over promised. MF does not eliminate poverty. MF is not a panacea as some thought a few years ago.”

MicroFranchising is about scalable family businesses. Successful MicroFranchise locations employ Dad, Mom, the older kids and often one or two neighbors. Children helping select networks grow to 100 units, at which time they are ready to scale up. $2.5 billion should then get 200 of those networks growing rapidly around the world. It would be like 200 X Prizes to alleviate poverty. This, in my judgment, offers the world its best chance of achieving the Millennium Development Goals by 2015. See Kirk Magleby, A $3 Billion Solution to Global Poverty, 2005.


Anne Fisher, “Risk Reward,” Fortune Small Business, December 1, 2005

Personal communication with John Hatch, December 2004.


One audit of Microcredit-enabled households in Central America found that only 1 business out of the 400 studied had even one employee besides the owner. Another audit found only 1 business out of 700 with any employees. Todd Manwaring, Stephen W. Gibson, presentations, MicroFranchise Learning Lab, Park City, UT, September 2005.
growing up in an enterprising household regard their business as a precious family asset that can increase in value through ambition and applied intelligence. Sons and daughters both can prepare for the day when they too can own an outlet or location. MicroFranchises, like most successful businesses, will typically be gender neutral.

**Peculiar Institutions**

Poverty is slavery. In the context of the American Civil War, politicians in the antebellum South were fond of calling slavery their “peculiar institution.” It was a malevolent institution that enforced servitude through intimidation and violence on the one hand and dispensed a rude form of charity (often couched in the trappings of religiosity) on the other. (Interesting question: How much longer would institutional slavery have persisted in the US if the developed nations of that era, England and France, had provided massive charity to the American underclass in the name of humanitarian relief?)

It required the formidable institutions of the Union Army and the emergent federal government to free those slaves. We need a new breed of “peculiar institutions” to free the impoverished slaves who languish in oppression on the planet today.

Peculiar can mean corporations who exhibit as much ingenuity as an NGO and a willingness to work with non traditional partners. For example, an MNC may operate in the traditional manner in the developed world and adopt some form of the franchise business model in partnership with NGOs to penetrate markets at the BOP. Peculiar can also mean NGOs who form commercial business entities and encourage profitability.

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228 “Worldwide, men tend to create larger enterprises than women.” Kristie Seawright, presentation, MicroFranchise Learning Lab, Park City, UT, September 2005.
229 USAID says assistance can “mask underlying instability.” “U.S. Foreign Aid: Meeting the Challenges of the Twenty-first Century,” USAID White Paper, January 2004. Peter Bauer is less diplomatic in his argument that “aid increases the power, resources and patronage” of corrupt governments and other exploitative institutions, perpetuating their capacity to despoil their own constituencies. Peter Bauer, *Equality, the Third World and Economic Delusion*.
230 Muhammad Yunus says the world needs “changes in our institutions” which he defines as “businesses with a very special social purpose.” Personal communication with Muhammad Yunus, July 2005.
231 For corporations, “moving down market is a very unnatural act.” Personal communication with Clayton M. Christensen, November 2005. An excellent treatise on the cultural differences that can make public/private partnerships difficult is *Hidden Agendas: Stereotypes and Cultural Barriers to Corporate-Community Partnerships*, Laufer Green Isaac, February, 2004.
232 Corporate culture and even nomenclature is quite different in a typical hierarchical MNC than in a franchise network. When MNCs first begin to utilize the franchise business model with its egregious win-win orientation to engage customers and business partners at the BOP, the experience will indeed seem “peculiar” to many of their people. Franchise culture is like the communitarian European style while traditional MNC culture is more like American style rugged individualism. C.K. Prahalad points to Unilever and India’s Amul as examples of a new breed of multinationals who have “fundamentally rethought the nature of the large enterprise – as well as the small enterprise.” “Small is Profitable” in *Business Week Online* August 26, 2002.
as much as a corporation. Either way, the franchise business model in its search for local profits based on indigenous ownership will help liberate disenfranchised people.

MicroFranchise NGOs will generally be of two types: global vertical market specialists focused on a single business format (franchisors) and geographic generalists who own the rights to multiple franchise networks in their territory (master franchisees or area developers). A common expansion plan will be for a master franchisee to open a new location as a company store and then let the local manager acquire the franchise through an earn out.

**Leapfrog Opportunities**

It took the United States 200 years to develop from a primitive economy based on agriculture and extractive industries into an industrial and now knowledge-based market. Developing nations who intelligently implement what Clayton M. Christensen calls “disruptive technology” can leapfrog into the modern age in much less time and at far less cost than the US required.

Cell phones versus land lines are one commonly cited scenario. These statistics are worth noting:

- Uganda has 85% cell phone coverage.
- 1.2 billion VISA cards work at 22 million merchant locations in 150 countries.
- Nearly 2 billion people have a cell phone. 500 million of them are in China.
- By 2009, Mexico will have one ATM for every 250 people.
- The 36% of Filipinos with cell phones send 100 million SMS messages daily.
- 400 million people have Hotmail accounts.
- AMD’s Hector Ruiz hopes to connect 50% of humans to the Internet by 2015.
- Khan Bank in Mongolia serves 66% of the households in that rural country.
- Mongolia is already virtually a cashless society. Checks are obsolete there.
- In 2004, 450 million Indians voted in a 100% electronic election.
- Voting in Brazil is nearly 100% electronic.

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234 An interesting peculiar institution is megapastor Rick Warren’s PEACE plan to supply a “school in a box, clinic in a box and business in a box” to each Rwandan church. *Time*, August 22, 2005.

235 I am indebted to Michael H. Seid, Managing Director, Michael H. Seid & Associates for this brilliantly simple solution to a common conundrum: How to help a local entrepreneur acquire a franchise before the franchisee is fully ready for independence. Many MFIs do not grant credit until a client has developed capacity through either savings or training. This same kind of disciplined capacity building will be an important preparatory phase in the personal development of many successful MicroFranchisees. Stephen W. Gibson calls this approach “MicroEquity Financing.” Stephen W. Gibson, “First the Sweat, Then the Equity” in *Deseret Morning News* July 3, 2005.

236 Clayton M. Christensen, *The Innovator’s Dilemma*.

237 Allen Burnes, Vice President of High Growth Markets, Motorola, recently announced a $40 cell phone. After multiple redesigns, it has a 500 hour battery life and features an extra loud volume for use in noisy markets. Motorola expects 2 billion people on earth to purchase a cell phone in the next five to ten years.

238 AMD’s device is called a “Personal Internet Communicator” or PIC. It sells for about $185. Taiwan’s Quanta has teamed up with Nicholas Negroponte and the MIT Media Lab to build a $100 laptop.
The opportunities to implement profitable MicroFranchises in most countries on earth are almost endless. HP’s former CEO says it well: “Today we have the tools to make more things possible for more people in more places than at any time in history.” It is all a matter of identifying and empowering the “extraordinary entrepreneurs” that Jacqueline Novogratz believes “exist in every region of every country.”

An Historical Precedent
The most impressive economic development the world has witnessed in recent centuries began in 1847 is what is now the state of Utah. Brigham Young led an advance party of 147 hardy trailblazers into a trackless wilderness that was 800 miles from Yerba Buena (later San Francisco, California) to the west and 1,000 miles from St. Joseph, Missouri to the east. This advance party arrived late in the season (Utah celebrates 24 July as Pioneer Day) and immediately set themselves to building a civilization in the desert. Their task bore some urgency because thousands of men, women and children were on the trail headed to the Valley of the Great Salt Lake. Arriving throughout August and September, these pioneers had to provide food, clothing and shelter adequate for a small city to survive that first harsh winter. Tens of thousands more immigrants came in 1848 and 1849 as strings of settlements were founded north and south of Salt Lake. Within three years, Utah had a newspaper, a public theater and a university. Within ten years, per capita income in Utah was approaching the national average and local families were sending their children to good colleges in the East. With investment capital practically non-existent and manufactured goods extremely scarce, Utahns created a thriving economy in the arid Great Basin the same way the ancient Egyptians built the pyramids: through the miracle of cooperation.

In the emerging science of cooperation studies, study after study shows that humans achieve the highest levels of productivity, personal satisfaction and wealth creation when they work together cooperatively. The franchise business model is a proven, refined way to channel the tremendous power of humans working together in cooperation. Howard Rheingold, a perceptive observer of contemporary society, remarks that because

243 Sid Feltenstein, Chairman of the Board of the International Franchise Association, talks about “the synergies that are unique to franchising: the power of a plan, a network, a family, shared experience.” Presentation at the IFA Convention, Hollywood, FL, March 2005. One is reminded of the remarkably efficient network of 5,000 Dabbawallas delivering 175,000 lunch pails every day to office workers in Mumbai, India using a cooperative system that has been functioning smoothly for 100 years. Many Dabbawallas are illiterate, but their accuracy earned them a six sigma rating from Forbes.
“new forms of cooperation always create new forms of wealth,” franchising as a “highly developed form of cooperative enterprise” can “revolutionize low income economies by empowering micro entrepreneurs.”

**Franchisees as Social Evangelists**

Many of “the world’s most difficult problems” to borrow Stuart Hart’s phrase require education and training. Why do so many not understand these simple truths?

- Washing your hands with soap prevents diarrhea
- Sleeping under a pyrethrum impregnated bed net prevents malaria
- Drinking and cooking with clean water prevents cholera and dysentery
- Practicing safe sex prevents HIV/AIDS

These problems are as much about human attitudes and behavior as they are about supply and demand. You change behavior through education, but as Freedom from Hunger or Harvard University can tell you, education is very expensive and usually requires subsidies. The sustainable solution to this quandary is obvious. In Kevin McGovern’s words, we need “social marketing” where key opinion leaders in a community help educate consumers to adopt positive behavior through a “pyramid of influence”.

The question then becomes, who are these social marketers and how do they educate the masses? Do clerics preach fiery sermons from pulpits? Do medical doctors advise patients with an even more paternalistic bedside manner? Do activist moms go door to door in urgent altruism? One very effective way to change human behavior through education and training is to turn MicroFranchisees marketing beneficial wares into social evangelists who spread the word while pursuing profits. If the Assemblies of God can do it throughout Brazil with their version of entrepreneurial Christianity (larger congregation = bigger pastor’s paycheck), then medicine, water, agricultural input and connectivity merchants can do it throughout the world with the MicroFranchise business model.

Social advocacy requires evangelistic fervor. In my experience, the degree of ardor found in various kinds of organizations generally occurs in this order:

- Religions demonstrate the most fervor.
- NGOs follow.
- Small independent businesses, multi level marketing organizations and franchise organizations tie for third, the common denominator being local ownership.

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244 Howard Rheingold, personal communication, November 2005 after he gave the keynote address at the ninth annual Rocco C. and Marion S. Siciliano Forum: Considerations on the Status of the American Society, College of Social and Behavioral Science, University of Utah.

245 Stuart L. Hart, *Capitalism at the Crossroads*.

246 Kevin H. McGovern, Chairman, McGovern Capital. Presentation at Cornell University, Johnson School of Management, Center for Sustainable Global Enterprise, BOP Learning Lab, February 2005.

247 Church membership statistics are notoriously unreliable in South America, but most demographers place the number of Evangelical or Pentecostal Protestants in Brazil at 25 to 30 million. About half of those belong to the Assemblies of God, *Assembléias de Deus* in Portuguese. In temporal matters, most Protestant Christian organizations are franchise networks.

248 Diffusing values may be the most important impact MicroFranchises have on a society. Personal communication with Maximo San Roman, July 2005.
- Large domestic corporations come next.
- Multinational corporations rank last in their ability to incite passion.
This means that if an LDC or MNC wants to effect positive change through social marketing, they are well advised to partner with an NGO\textsuperscript{249} in a franchise network.\textsuperscript{250}

**Viability and Inevitability**

Enlightened capitalist Stephan Schmidheiny dispatched an associate to Latin America to engineer a program for philanthropic giving. The associate returned without a plan, telling Schmidheiny that there were simply too many poor people for his money to make any difference. At that point the Swiss industrialist wisely began to focus on sustainable development, i.e. profitable socially and environmentally responsible enterprises.
FUNDES,\textsuperscript{251} followed by the AVINA Foundation\textsuperscript{252} which enabled ORIGO\textsuperscript{253} and ENDEAVOR\textsuperscript{254} are the impressive results.\textsuperscript{255}

Developing nations are ready for similarly enlightened businesses and NGOs to build MicroFranchise business opportunities\textsuperscript{256} that create wealth through profitable enterprises, distribute that wealth widely throughout a target population, provide the framework franchisees need to grow their enterprises and create jobs, and help micro business owners protect their property so at some future time they can leverage their assets to fund new ventures.\textsuperscript{257} Auspiciously, well-financed MicroFranchise initiatives such as the exciting OneRoof in San Francisco\textsuperscript{258} are beginning to appear.\textsuperscript{259}

\textsuperscript{249} The non-profit sector, with 19 million employees, is “already equivalent to the eighth-largest economy in the world.” Valeria Budinich, *A Framework for Developing Market-Based Strategies*, August 2005.

\textsuperscript{250} Franchises are simply more successful on balance than small independent ventures. Stephen W. and Bette Gibson founded ACE in Cebu, Philippines in 1999. Over 800 students have graduated from their residential entrepreneurship program and most have founded enterprises. Their most successful alumni own franchises, so the Gibsons plan to transition their school from a general business curriculum into a pre-acquisition franchise boot camp. Personal communication with Stephen W. Gibson, August 2005.

\textsuperscript{251} www.fundes.org
\textsuperscript{252} www.avina.net
\textsuperscript{253} www.origoinc.com
\textsuperscript{254} www.endeavor.org

\textsuperscript{255} Schmidheiny also founded WBCSD, the World Business Council for Sustainable Development.

\textsuperscript{256} Nova of Lima, Peru, is preparing to launch a MicroFranchised bakery concept based on scaled down versions of their industrial equipment. Personal communication with Maximo San Roman, May 2005. Scott Hillstrom has created Franchise Labs to deliver healthcare services in the developing world, beginning in Ranchi, India. Personal communication with Scott Hillstrom, November 2005.

\textsuperscript{257} “Franchising creates jobs and then wealth wherever it goes around the world. This business model, based on cooperation between people, companies and nations, can help bring about world peace.” Don DeBolt, former President of the International Franchise Association. Presentation at the 45\textsuperscript{th} annual IFA Convention, Hollywood, FL, March 2005.

\textsuperscript{258} www.oneroof.com

\textsuperscript{259} OneRoof CEO Dwight Wilson has a bold and comprehensive vision of “humble Kinkos” community information centers evolving into franchised enterprises that supply clean water, essential medicines, etc. in underserved communities worldwide. Dwight Wilson, personal communication, November 2005.
MicroFranchises will accelerate development of the “ownership societies” Pres. George W. Bush envisioned in his second inaugural address. Responsible corporations who pursue the triple bottom line of financial, environmental and social return should actively consider employing some version of the franchise business model in their global operations, particularly in the developing world. Large numbers of MicroFranchises are capable of dramatically improving life for those at the bottom by creating jobs and by providing the poor with access to goods and services tailored to their needs and consumptive capacities.

Pyramidal economies will become diamonds as we create a strong middle class which should be the goal of every society on earth. As we in the industrialized world dine on franchised food, stay at franchised hotels, have our tax returns prepared by franchised accountants and get our cars serviced by franchised technicians, we owe our impoverished brothers and sisters in developing nations nothing less. I predict that MicroFranchises are the next “big thing” in international economic development.

Two Paths Divergent
“If goods cannot cross borders, soldiers will.” Frédéric Bastiat, French economist.

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260 Bush’s goal: “the dignity and security of economic independence, instead of laboring on the edge of subsistence.” George W. Bush, 2

261st inaugural address, January 2005. Denise Dresser thinks Mexico has “too few owners and too many laborers”. Denise Dresser, presentation at “Crecimiento de Negocios e Innovación dentro de la Base de la Pirámide (BOP II), Mexico City, September 2005. USAID is now emphasizing “partnership, ownership, and participation,” which is a good way of describing the franchise business model. “U.S. Foreign Aid: Meeting the Challenges of the Twenty-first Century,” USAID White Paper, January 2004.

262 Imagine The Home Depot and Lowes competing worldwide with small MicroFranchised hardware stores. The very idea is pregnant with possibilities.

263 Samie Lim believes franchising can reverse urban migration by providing employment opportunities in provincial areas of the Philippines. He thinks franchising will float the underground economy by enabling small informal businesses to become legal and scalable. He sees a natural economic evolution in the manufacturing sector from contract work to original designs and finally to indigenous Filipino brands. Personal communication with Samie Lim, March 2005.

264 Sibley International has done some compelling work using the franchise business model as a tool for economic development, particularly in Russia and the NIS. DAI believes the keys to improved MSE performance include a business enabling environment, horizontal and vertical inter-firm linkages, continual upgrading for competitiveness and supporting services for business finance, raw material inputs, etc. so businesses can scale up and move up the value chain from assembly of imported components to local sourcing, then to indigenous product design and finally to dealing with “branded merchandise”. Lara Goldmark and Ted Barber, “Trade, Micro and Small Enterprises, and Global Value Chains”, DAI under contract to USAID, February 2005. Franchising creates these favorable conditions and outcomes for small firms more effectively than any other extant business model.

Capitalism really is at a crossroads as Stuart Hart’s important new book declares. Will the world turn left or right? Democracy or totalitarianism? Peace or terror? Markets or social planning? Urban sprawl or biodiversity? Will economic and social empowerment bless every human or must egalitarian capitalism remain the exclusive domain of the privileged elite inside Hernando de Soto’s bell jar?

Ted Turner is right. In the next 50 years, we can create a paradise, or we can all be living in a hot, burning hell. We can live in Allen Hammond’s “fortress world” of poverty and conflict or a “transformed world” full of hope for fulfilling human aspirations. The genie is out of the bottle and there is no turning back. The world is becoming flat. Orange clad populists in Kiev and machete wielding campesinos in Chiapas will have their day in the sun as “smart mobs” change the dynamics of power in one nation after another. We are witnessing a paradigm shift as fundamental as the renaissance and the industrial revolution that created the modern Western world. The death of feudalism is inexorably transforming one society after another. The incipient BOP Protocol coming out of Michigan and Cornell to provide a framework for sustainable global development is an excellent road map for the path ahead. It stresses “mutual value creation” which is one way of describing the franchise business model.

The Power of a Name

MicroFranchising is beginning to happen in the developing world. It is time to recognize it for what it is, codify the nomenclature, disseminate best practices and turn this powerful business model loose to achieve the UN Millennium Development Goals. People worldwide are calling for local enterprise creation on a massive scale. Franchisors know how to build business and social enterprise networks that scale rapidly.

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265 Stuart Hart, *Capitalism at the Crossroads.*
266 Hernando de Soto, *The Mystery of Capital.*
268 “What will happen when youth does what is asked, gets educated, and still can’t find a job? Answer: They get very angry. I submit that youth unemployment, if unchecked, will cause decades of global terrorism. France today is only the tip of the iceberg.” John Hatch, *Why is MicroFranchising Important to MFIs?*, November 2005.
272 I am indebted to Prof. Joan Dixon, Marriott School, BYU for helping me understand how profoundly information, communication and entertainment technologies have changed societies worldwide. Much of her recent fieldwork has been in village development in rural Indonesia.
The art and science of franchising is well developed. Adapt ing it to meet the needs of the world’s poor will trigger a revolutionary new approach to international development as the principal actors realize how quickly viable, sustainable enterprises can bring growth and hope to stagnant or receding micro economies.

In a remarkable document, The Shell Foundation articulates a number of best practices gleaned from five years of innovative work in global pro-poor energy initiatives:

- Shell, with a core competency in energy, focuses on energy related enterprises.
- These enterprises sell products to, employ, and are owned by poor people.
- Each local enterprise is or expects to soon become profitable.
- Each local enterprise gets most of its funding from local capital.
- Initial investments by “barefoot entrepreneurs” can be as low as $1,000.
- The enterprises Shell is creating are designed to be highly scalable.
- These enterprises are blended from the “poverty” and “business” worlds.
- Dozens or even hundreds of micro enterprises are networked in a decentralized business model.
- Shell offers both financing help in conjunction with local banks and business development assistance.
- Emphasis is placed on sound and robust business plans.
- NGOs are involved with Shell in some of these enterprises.

So far, so good. The Shell Foundation is describing a classic MicroFranchise. The word “franchise,” though, never appears in their document and they describe their enterprises as “financially viable, hybrid ‘network business models’ capable of delivering pro-poor services on a large scale.”

Why not create a brand, write a UFOC functional equivalent, engineer not just a business plan but a franchise operating system, call it a MicroFranchise and then scale it up to tens of thousands of network nodes? Shell Oil already belongs to the IFA. Like many other global energy companies, they use the franchise business model extensively in their petroleum retailing operations.

**Five MicroFranchise Networks That Can Change the World**

30,000 people, many of them children, die every day from preventable diseases. More than 2 billion people on earth suffer from water-born diseases. Myriad problems stem from malnutrition in all of its insidious forms. Access to modern information,

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274 For example, Cheryl Babcock heads the International Institute for Franchise Education in the H. Wayne Huizenga School of Business and Entrepreneurship at Nova Southeastern University in Ft. Lauderdale, FL.  
275 Shell Foundation, Marc Lopatin, et al, Enterprise Solutions to Poverty. Similar examples are found in the article “Small is Profitable” by Manjeet Kripalani and Pete Engardio in Business Week Online August 26, 2002 where they describe businesses with the “benefits of scale, but the uniqueness of small size.”  
276 When biologists come across a life form in the wild, they attempt to quickly identify its taxonomy which allows them to take advantage of the scientific literature accumulated for that genus and species. Identifying MicroFranchises by name will help development actors understand the “nature of the beast.”  
276 At the IFA Convention in Florida in March 2005, I enjoyed getting to know Todd Campi, a native New Zealander based in Australia who is Shell Oil’s Global Retail Franchise Channel Strategy Manager.
communication and entertainment technology has demonstrated its ability to lift entire communities quickly to new levels of prosperity. Education is a key driver of continued productivity in an increasingly competitive global economy.

The World Health Organization resolutely maintains that disease is the #1 drag on the world economy. Affordable access to high quality essential medicines is the key to curing infectious diseases. The Health Stores in Kenya are a good early stage example of a MicroFranchised network with pharmacies and clinics that dispense essential medicines, health supplies and routine ambulatory health care.\textsuperscript{277} The Farmacias de Similares network in Mexico is somewhat more advanced with several thousand MicroFranchised and company owned locations in nine countries.\textsuperscript{278}

Clean water distributed by tiny local plants or point of use purifiers have huge MicroFranchised potential in most parts of the world. Procter & Gamble’s PUR, KX Industries’ World Filter and L’Eau’s agua station are all viable candidates for the foundational technology. Strong markets exist in urban, peri-urban and rural settings.

Technology exists today for small scale integrated agriculture, aviculture and aquaculture food production facilities that can provide employment while improving the diets of millions.\textsuperscript{279} Greenhouses with inexpensive drip irrigation systems, poultry and fish farms can be located in most inhabited parts of the planet. Advanced nutritional products like Plumpy’nut\textsuperscript{280} or Procter & Gamble’s micronutrient enriched NutriStar\textsuperscript{281} can greatly reduce the incidence and severity of malnutrition in vulnerable populations.

People in villages, towns and peri-urban slums everywhere are clamoring for cell phones, computers and electronic media, the modern tools of the information, communications and entertainment technology revolution. Whoever solves the puzzle of widespread educational broadband connectivity access subsidized by nearby commercial access will have found one of the holy grails of scalable, sustainable global development. Information and connectivity offer fundamental power in today’s wired world, and empowered humans can earn their way out of poverty’s stifling clutch.

Primary education, almost ubiquitous in the world today, is beset with problems. The quality of education available in many communities is marginal at best. A thriving complementary education business exists in many parts of the world. India’s Aptech, for example, offers computer based training for as low as $7 per course at 2,500 MicroFranchised locations in 30 countries.\textsuperscript{282} The Pratham organization in India is demonstrating a remarkable ability to improve local educational outcomes at very modest

\hfill

\textsuperscript{277} www.cfwshops.org \textsuperscript{278} www.farmaciasdesimilares.com.mx. This organization also offers micro health insurance. \textsuperscript{279} One integrated system, refined since the early 1980’s, is the Benson Institute’s model that has proven successful in Africa and Latin America. Allen C. Christensen, et. al., \textit{The Benson Institute Small-Scale Agriculture Model}, Benson Agriculture and Food Institute, BYU, Provo, UT, March 2003. \textsuperscript{280} “The Wonders of Plumpy’nut,” \textit{The Economist}, November 5, 2005. \textsuperscript{281} See \textit{Procter & Gamble: Combating “Hidden Hunger”} WBCSD Case Study, 2004. \textsuperscript{282} www.aptech-education.com. CDI is a similar organization based in Brazil.
cost, and in some communities their private, complementary educational institutions are self-sustaining.  

**Economic Building Blocks**

The following list of potential MicroFranchised private or social enterprises could provide a solid foundation for economic development in many parts of the world:

- Accounting services, agricultural inputs, apparel
- Bakeries, barber shops, beauty parlors, bicycles, building materials, butcher shops
- Construction, cooking oil, cosmetics, courier services
- Electrical contracting, equipment rental (wheelbarrows, bicycles, etc.)
- Financial services, food, fuel, furniture
- Hardware, house wares and other specialty retailers
- Movie theaters
- Plumbing contracting
- Renewable energy, repair shops
- Transportation for commodities, transportation for people

In Clayton M. Christensen’s compelling world view, innovation begins with highly trained specialists experimenting through trial and error, who then gradually discern patterns in their results. This pattern recognition leads to general laws, and finally to rules-based technology that many people worldwide can access and successfully implement. This “commoditization of expertise” makes it possible for non-specialists to achieve good outcomes by competently manipulating proven technology. In many cases, successful MicroFranchises will be built around proven technology that effectively encapsulates commoditized expertise. First movers will enjoy a competitive advantage as they deploy new technology in the developing world as soon as the price point becomes viable in a shared access business model.

**Eco-Systems, Clusters and Value Chains**

If it takes a village to raise a child, it should be obvious that no business operates in a vacuum. Economic activity takes place in an eco-system with anchor industries, lead firms, support industries, and a dizzying variety of micro, small, medium and large enterprises all contributing. Some of these enterprises are B to C, business to consumer. The more interesting enterprises from an economic development perspective are B to B, business to business, because they tend to increase productivity and the amount of value added at various stages of production and distribution processes. Significant

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284 Appropriate technology solutions to enable many of these businesses are available at [www.thesustainablevillage.com](http://www.thesustainablevillage.com). Steve Troy’s eclectic collection of development resources. Al Hammond and John Paul catalog dozens of intriguing possibilities in their “Technology Innovations at the Edge,” WRI, A Development Through Enterprise Report, October 2005.

285 Clayton M. Christensen, personal communication, November 2005. Howard Rheingold suggests that in a wired world, innovation can also originate with the grass roots and flow the other direction. “Ten thousand literates can equal the power of one genius.” Howard Rheingold, personal communication, November 2005.
development happens when lead firms (often exporters) locally source an increasingly sophisticated array of products and services from integrated suppliers vertically linked in a value chain.  

Complementary enterprises can cluster to form a critical mass.

The reality in the Bolivias and Burkina Fasos of the world, though, is grinding poverty because contaminated, near toxic business eco-systems restrict most economic activity to agriculture, extractive industries, and low productivity B to C enterprises. Given that La Paz and Ouagadougou are not likely to emulate Shanghai or Bangalore in the short term, developing countries should create at least some economic growth by facilitating large numbers of MicroFranchises. Whether they cobble shoes or peddle trinkets on the street corner, micro and small entrepreneurs will be more productive and add more value to the local economy when they are horizontally linked in franchise networks. Franchises can supply small businesses with much of the nurturing eco-system inherent in an effective B to B value chain. Clustering is intrinsic to the franchise model.

Modern Luddites
At the dawn of the industrial age, Luddite gangs roamed Nottinghamshire, Yorkshire and Lancashire, destroying textile equipment as a form of protest against economic changes that threatened their livelihoods. The working class uprising in England’s industrial heartland was so profoundly disruptive that at one time, there were more British troops deployed against the Luddites than against Napoleon Bonaparte on the Iberian Peninsula. Social unrest is a blunt instrument being shrewdly manipulated by disadvantaged groups all over the world. Whether they burn cars, decree work stoppages or barricade roads, modern social activists can and do bring economies to a screeching halt while focusing intense public attention on their cause.

In most cases, modern activists demand the same thing the Luddites wanted: steady jobs. As MicroFranchise networks begin to transform under performing economies, it will be important to employ labor intensive rather than capital intensive production and distribution processes whenever possible to maximize local employment opportunities. Human, social and financial capital are so precious in developing countries that it makes no sense to squander blood, trust or treasure on internecine confrontation.

286 China’s vaunted “supply chain cities” are outstanding contemporary examples of vertical integration driving economic growth. Dale Gledhill’s impressive Grandway Honduras wood products manufacturing complex in Cholulteca is a more modest example, well within reach for many developing nations.


288 Tim Stay offers this sage parable: The developing world is like a freeway with three lanes of traffic and barricades so motorists cannot change lanes. Cars are whizzing by in the fast lane. The middle lane is more sluggish, but cars are still moving. The slow lane, though, is one big traffic jam. People are out of their cars, looking down the road, trying to figure out why nobody is moving. Eventually, the people in the slow lane become so angry that they forget about trying to get their lane moving again and focus on throwing rocks to slow down the other two lanes. Tim Stay, personal communication, September 2005.
The Development Ladder, Two Seasoned Perspectives

John Hatch has spent 40 years assisting the world’s poor. A Development Alternatives, Inc. co-founder in the ‘70’s, he went on to pioneer the village banking method of Microcredit. He founded FINCA, a global Microfinance leader operating in 23 countries. John likens the development process to a ladder. For most people on the planet, the ladder has just one or two top rungs, accessible only to the elites. Microcredit attempts to provide the first rung on the ladder, as close to the ground as possible. MicroFranchising builds the second, third and fourth rungs to provide the all-important “missing middle” where most economic growth and development actually occur.

The government of the Philippines has determined that only 13% of low income households in that country are viable candidates for Microcredit. Experience shows that very few of those households will establish businesses strong enough to provide full-time employment to even one other person besides the owner operator. Jovy Guanzon, who has helped over 10,000 Filipino micro business owners achieve some degree of success, thinks MicroFranchising is “exactly what we need” to create small enterprise growth and broad-based employment opportunities in metro Manila.

What Are We Really Trying to Accomplish Again?

“I have the audacity to believe that people everywhere can have three meals a day for their bodies, education and culture for their minds, and dignity, equality and freedom for their spirits.” Martin Luther King, Jr.

If a poor person is happy, are they better off than a wealthy individual who is depressed? If a country increases per capita GDP at the expense of species extinction, has society gained or lost? If SMEs are the engines of economic growth, how do the poorest of the poor benefit? Global development through local enterprise creation seeks: sustainability - economic profitability, social responsibility, environmental stewardship; equality – flatter income distribution within a society; liberty - freedom so human development happens naturally; fraternity - tolerance, diversity, transparency and an environment of personal safety and security. You can almost hear La Marseillaise in the background. Self actualization through community nurture is the goal.

290 Personal communication with John Hatch, October 2005.
291 22% of households have entrepreneurial potential, but only 60% of those will risk a business loan.
292 Personal communication with Jovy Guanzon, October 2005.
294 In the US, the median income is approximately 90% of the mean. In Brazil with much higher inequality, the median income is only about 30% of the mean. Nancy Birdsall, cited in David Rothkopf, “Pain in the Middle,” Newsweek, November 21, 2005.
295 Pierre Omidyar describes the goal as reprogramming certain key lines in the “source code of humanity.” www.omidyar.net/group/humansourcecode. The net effect will be to move from exploitation to cooperation, to change attitudes from an acquisitive, hoarding, ego-centric scarcity mentality to an...
Humans, empowered with expanding choices, can begin to approach their potential. Every person on the planet deserves the opportunity to improve their talents. Human dignity eradicates global poverty. Can anyone conceive of a better cause-related marketing campaign?

At the same time, companies who expressly serve low income communities can do very well by doing good. Vincent Ricasio says that alleviating poverty through socially responsible enterprise represents “the biggest opportunity for wealth creation” in world history. Companies including Cemex and Unilever with overtly pro poor cultures are global profit leaders in their market segments. MicroFranchises will become important to at least five different constituencies:

- Multinational corporations
- Large domestic corporations
- Humanitarian NGOs
- Microfinance Institutions
- Domestic franchisors

Sherle Schwenninger believes that only by “extending the system of mass affluence found in the United States and Europe to the developing world” can we enjoy prosperity and peace in the future. That sounds like a job for the franchise business model.

Recap

World poverty causes untold suffering and squandered human potential. Profitable private and social enterprises help families and nations lift themselves out of misery. Large numbers of successful small, locally-owned enterprises in the developing world will dramatically reduce global poverty. The franchise business model is uniquely adept

abundance mentality. One of the finest examples of this altruistic mentality is memorialized in the famous John Trumbull painting of Washington resigning his commission that hangs in the rotunda of the US Capitol in Washington, D.C. After his Revolutionary War triumph, George Washington could have been king, but he returned to Mount Vernon to be a farmer, thus helping form the character of a new nation.

The real business of the franchisor is “putting people into business and providing them with the systems and support that enable them to achieve their personal and financial aspirations.” Greg Nathan, Profitable Partnerships, (Toowong, Queensland, Australia: Franchise Relationships Institute, 2002)

“Being human and being poor are incompatible.” Personal communication with Muhammad Yunus, July 2005.


Eliot Jamison, emerging markets consultant, intelligently asks how the 180 WBCSD companies can be “catalysts to create MicroFranchise networks?” Eliot Jamison, personal communication, November 2005.

at creating large numbers of successful small, locally-owned enterprises. Organizations in the future will be more networked and less hierarchical.

Microfinance institutions can improve their portfolio performance and impact by offering their clients MicroFranchised business formats bundled with financing packages. Humanitarian NGOs can become partially sustainable by deploying the MicroFranchise business model throughout their operations in the developing world. Civil society institutions can accelerate governance reform, increase transparency, expand business formality and strengthen private property protection throughout their economies by proliferating MicroFranchise networks. Organizations trying to introduce appropriate, disruptive products and services in the developing world should consider using MicroFranchises as their delivery vehicle. Multinational corporations who want to engage the BOP as customers and business partners should consider incorporating the MicroFranchise business model into their emerging market strategy. MicroFranchises can help create widespread indigenous, inclusive capitalism.

Billions of marginalized humans can improve their quality of life by adopting sustainable, environmentally friendly technologies. The innovative MicroFranchise business model can help deliver the products and services these people need in a way that is socially responsible and economically viable. The MicroFranchise movement is building momentum worldwide. Increased mindshare and political will can accelerate its progress. All humanity will benefit.


304 “We’re going from a world where value is largely created in vertical silos of command and control to a world where value will be increasingly created by who you connect and collaborate with horizontally.” Thomas L. Friedman, presentation at TIECON 2005, Santa Clara, CA, May 2005.

305 India’s SKS Microfinance just created a franchise division. Personal communication with Byomkesh Mishra, December 2005.


307 John Hatch sees “the imminent convergence of free enterprise from top-down, multinational corporations with free enterprise from the bottom up, the world’s 100 million micro entrepreneurs, a strategic partnership that I believe has the potential to end poverty on our planet forever.” FINCA International Annual Report 2003, Founder’s Message. Most successful MNC BOP initiatives in recent years utilize some form of MicroFranchising as their operative business model.

308 Jane Jacobs describes effective development agents as “large symbiotic collections of small enterprises” indigenous to a city or its surrounding regions linked together in “swiftly emerging, logical chains” forming a “web of symbiotic relationships”. Jane Jacobs, Cities and the Wealth of Nations.

309 Franchising has had an “increasingly visible international presence, especially in developing economies where it has contributed to poverty reduction and wealth creation by stimulating new firm creation.” John E. Clarkin and Howard F. Rudd, Jr., Franchising as a State Economic Development Tool: Some Preliminary Analysis and Suggestions for Further Research, Tate Center for Entrepreneurship, College of Charleston, 2005.

**Acronym Index**

ABA American Bar Association  
ABF Brazilian Franchising Association  
ACCION Acción Internacional – MFI holding company  
ACE Academy for Creating Enterprise, Cebu, Philippines  
ADA Americans with Disabilities Act of 1990  
AFDB African Development Bank  
AIDS acquired immune deficiency syndrome  
AMD Advanced Micro Devices  
AUV average unit volume  
BHAG big, hairy, audacious goal  
BOP base of the pyramid – the world’s poor  
BP British Petroleum  
BYU Brigham Young University  
CC corporate citizenship  
CD compact disk  
CDI Committee for the Democratization of Information Resources, Brazil  
CE corporate engagement  
CEO chief executive officer  
CESR Center for Economic Self Reliance, Marriott School of Management, BYU  
CFW Child and Family Wellness – MicroFranchised pharmacies in East Africa  
CGAP Consultative Group to Assist the Poor, World Bank  
CI corporate involvement  
CR corporate responsibility  
CRA Community Re-Investment Act of 1977  
CSR corporate social responsibility  
CSO citizen sector organization  
DAI Development Alternatives, Inc.  
DFID Department for International Development, UK  
DNA deoxyribonucleic acid  
DTDC Door to Door Courier, a MicroFranchise network in India  
EMI Enterprise Mentors International  
EU European Union  
FDI foreign direct investment  
FEC Full Economic Citizenship, Ashoka initiative  
FINCA Foundation for International Community Assistance  
FUNDES Fundación del Desarrollo  
GDP gross domestic product  
GE General Electric  
GRI Global Reporting Initiative  
HQ headquarters or home office  
HIV human immunodeficiency virus  
HP Hewlett Packard  
IDB Inter American Development Bank
<table>
<thead>
<tr>
<th>Acronym</th>
<th>Full Form</th>
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</thead>
<tbody>
<tr>
<td>IEA</td>
<td>Institute of Economic Affairs, UK</td>
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<tr>
<td>IFA</td>
<td>International Franchise Association</td>
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<tr>
<td>IFC</td>
<td>International Finance Corporation, World Bank</td>
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<tr>
<td>IIE</td>
<td>Institute for International Economics</td>
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<td>ILD</td>
<td>Institute for Liberty and Democracy, Peru</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<tr>
<td>IPP</td>
<td>Intellectual property protection</td>
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<tr>
<td>IREM</td>
<td>Inter Region Economic Network, Kenyan think tank</td>
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<tr>
<td>IQ</td>
<td>Intelligence quotient</td>
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<tr>
<td>ISO</td>
<td>International Standards Organization</td>
</tr>
<tr>
<td>ITI</td>
<td>Imperial Tobacco Company, India</td>
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<tr>
<td>KFC</td>
<td>Kentucky Fried Chicken</td>
</tr>
<tr>
<td>LDC</td>
<td>Large domestic corporation (also less developed countries)</td>
</tr>
<tr>
<td>LDS</td>
<td>Latter-day Saints (Mormons)</td>
</tr>
<tr>
<td>LED</td>
<td>Light emitting diode</td>
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<tr>
<td>LSE</td>
<td>London School of Economics (UK)</td>
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<td>MCA</td>
<td>Millennium Challenge Account</td>
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<tr>
<td>MCC</td>
<td>Millennium Challenge Corporation</td>
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<tr>
<td>MD</td>
<td>Doctor of Medicine</td>
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<tr>
<td>MDB</td>
<td>Multilateral Development Bank, i.e. World Bank, AFDB, IDB, etc.</td>
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<tr>
<td>MF</td>
<td>Microfinance</td>
</tr>
<tr>
<td>MFI</td>
<td>Microfinance institution</td>
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<tr>
<td>MFDI</td>
<td>MicroFranchise Development Initiative, BYU Marriott School of Management</td>
</tr>
<tr>
<td>MIF</td>
<td>Multilateral Investment Fund, IDB</td>
</tr>
<tr>
<td>MNA</td>
<td>Movimiento Nacional Anticorrupción, Mexico</td>
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<tr>
<td>MNC</td>
<td>Multinational corporation</td>
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<tr>
<td>MSE</td>
<td>Micro and small enterprise</td>
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<tr>
<td>NGO</td>
<td>Non governmental organization -- non profit</td>
</tr>
<tr>
<td>NIS</td>
<td>Newly independent states, formerly part of the Soviet Union</td>
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<tr>
<td>NSU</td>
<td>Nova Southeastern University</td>
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<tr>
<td>ODA</td>
<td>Overseas development aid -- foreign aid</td>
</tr>
<tr>
<td>OECD</td>
<td>Organization for Economic Co-operation and Development</td>
</tr>
<tr>
<td>OPIC</td>
<td>Overseas Private Investment Corporation (US Department of Commerce)</td>
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<tr>
<td>PEPFAR</td>
<td>President’s Emergency Plan for AIDS Relief</td>
</tr>
<tr>
<td>PhD</td>
<td>Doctor of Philosophy</td>
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<tr>
<td>PIC</td>
<td>Personal Internet Communicator from AMD</td>
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<tr>
<td>PMDF</td>
<td>Philippine Microenterprise Development Foundation</td>
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<tr>
<td>POS</td>
<td>Point of Sale - cash registers, merchant card terminals</td>
</tr>
<tr>
<td>PPP</td>
<td>Purchasing power parity</td>
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<tr>
<td>PR</td>
<td>Public relations</td>
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<tr>
<td>SBA</td>
<td>Small Business Administration</td>
</tr>
<tr>
<td>SHEF</td>
<td>Sustainable Healthcare Enterprise Foundation (now Health Stores Foundation)</td>
</tr>
<tr>
<td>SKU</td>
<td>Stocking unit or inventory line item</td>
</tr>
<tr>
<td>SME</td>
<td>Small and medium-sized enterprises</td>
</tr>
<tr>
<td>SMS</td>
<td>Short message service -- text messages on cell phones</td>
</tr>
<tr>
<td>SLEN</td>
<td>Sustainable local enterprise networks</td>
</tr>
</tbody>
</table>
TBLI triple bottom line investing
TQM total quality management
UFOC Uniform Franchise Offering Circular
UK United Kingdom
UMU Uganda Microfinance Union, Acción
UMWA United Mine Workers of America
UNDP United Nations Development Programme
US United States of America
USAID US Agency for International Development
VP Vice President
WBCSD World Business Council for Sustainable Development, Switzerland
WRI World Resources Institute
WTO World Trade Organization

People Index
Adolphson, Don, Professor, BYU
Annan, Kofi, Secretary General, United Nations
Arrington, Leonard J., economic historian
Babcock, Cheryl, Director, International Institute for Franchise Education, NSU
Bauer, Peter Thomas, development economist, former professor, LSE (UK)
Bazoberry, Eduardo, General Manager, Prodem (Bolivia)
Bernstein, Andrew, Senior Writer, Ayn Rand Institute
Birdsall, Nancy, economist and President, Center for Global Development
Blair, Tony, Prime Minister of the UK
Blundell, John, Director, Institute of Economic Affairs (UK)
Boorstin, Louis C., Manager, Grassroots Business Organizations, IFC
Brown, Mark Malloch, former Administrator, UNDP, now chief of staff to Kofi Annan
Budinich, Valeria, VP for Full Economic Citizenship (FEC), Ashoka
Burnes, Allen, VP of High Growth Markets, Motorola
Bush, George W., President of the US
Christensen, Clayton M., Professor, Harvard Business School
Clifton, Randy, Sr. VP, Franchising, Pizzeria Uno
Collins, Jim, business author
Dailey, James, Technical Project Manager, Grameen Foundation USA
Davis, Geoff, CEO, Unitus, a Microfinance accelerator
De Soto, Hernando, Founder, Institute of Liberty and Democracy (Peru)
DeBolt, Don, former President, International Franchise Association
DeGiovanini, Frank, Director, Economic Development Unit, Ford Foundation
DeLuca, Fred, President and Co-Founder, Subway
Deveshwar, Yogesh C., Chairman, Imperial Tobacco Company (India)
Dichter, Thomas W., consultant to USAID, UNDP, and the World Bank
Dixon, Joan, Professor, BYU
Dwyer, Jr., Donald, Director, International Operations, The Dwyer Group
Easterly, William, Senior Fellow, Center for Global Development, IIE
Fairbourne, Jason, Director, MicroFranchise Development Initiative, BYU
Farias, Pablo, VP, Asset Building and Community Development, Ford Foundation
Fehr, Ernst, Director, Institute for Empirical Research in Economics (Switzerland)
Feltstein, Sid, Chairman, International Franchise Association
Fiorina, Carly, former CEO, HP
Firpo, Janine, Director, Global Multisector Initiatives, HP
Frey, Martin, Director, Division of Business and Economic Development, State of Utah
Friedman, Milton, Nobel prize winning economist
Friedman, Thomas L., foreign affairs columnist, New York Times
Gandhi, Mahatma, father of modern India
Gerber, Michael, entrepreneur, business author
Gibson, Stephen W., Founder, ACE (Philippines)
Glassman, James, Resident Fellow, American Enterprise Institute
Godfrey, Paul C., Professor, BYU
González Torres, Victor, President, Farmacias de Similares (Mexico)
Gordon, Marlene, intellectual property attorney, Burger King
Graham, Scott, Strategic Alliances Manager, FINCA
Grezo, Charlotte, Director of Corporate Responsibility, Vodafone
Grunhagen, Marko, Professor, Clemson University
Guanzon, Jovy, Executive Director, PMDF (Philippines)
Hamel, Gary, management consultant
Hammond, Allen, VP Innovation & Special Projects, WRI
Harmon, James A., Chairman, WRI
Hart, Stuart, Professor, Cornell
Hatch, John, Founder, FINCA
Hernandez, Monica, Executive Director, Banco Solidario (Ecuador)
Hillstrom, Scott, Founder, The Health Stores (Kenya) and Franchise Labs
Hinckley, Gordon B., President, The Church of Jesus Christ of Latter-day Saints
Hinojosa, Raul, Professor, UCLA
Hyduke, John, VP, Franchise Development, Big O Tires
Jamison, Eliot, Partner, Origo
Jefferson, Thomas, 3rd President, US, author of the Declaration of Independence
Kroc, Ray, Founder, McDonald’s Corporation
Lagos, Beatriz, street vendor, Cuzco (Peru)
Landes, David S., Professor Emeritus, Harvard
Larson, Alan, Under Secretary of State, US State Department
Lash, Jonathan, President, WRI
Layton, Tim, Managing Partner, Sorenson Capital
Lewis, John L., President, UMWA (1920-1959)
Lim, Samie, Chairman, Philippine Franchise Association
Littlefield, Elizabeth, CEO, CGAP, World Bank
Lodge, George, Professor Emeritus, Harvard Business School
Lopatin, Marc, Communications Advisor, The Shell Foundation
Lyman, Paul, Juvenile Judge, Utah State Courts
Macmillan, Graham, Director, Scojo Foundation
Madsen, Joel, Co-Chairman, Ascend, A Humanitarian Alliance
Mandela, Nelson, former President of South Africa
Manwaring, Todd, Director, CESR
Maren, Michael, Peace Corps volunteer, journalist, author
Marsden, Craig, emergency physician
Martins, Carlos, Founder, Wizard Schools (Brazil)
Mauro, Paulo Cesar, Director of International Relations, ABF
McGovern, Kevin, Chairman, McGovern Capital
McNealy, Scott, Chairman, Sun Microsystems
Mihoubi, Bachir, VP, Global Franchising, Caribou Coffee
Milanovic, Branko, Sr. Associate, Carnegie Endowment for International Peace
Miller, Kevin, head of North American Subway Owner’s Council
Mishra, Byomkesh, Director, Franchise Division, SKS Microfinance (India)
Mitchell, John, President, UMWA (1898-1920)
Mor, Nachiket, Executive Director, ICICI Bank (India)
Mulder, Herman, Senior Executive VP, ABN Amro Bank
Munnecke, Tom, Founder, Giving Space and Uplift Academy
Novogratz, Jacqueline, CEO, Acumen Fund
Omidyar, Pierre, Founder, eBay
Otero, María, President and CEO, Acción International
Patel, Yogi, President, Pratham USA
Pinochet, Augusto, former President of Chile
Prahalad, C. K., Professor, University of Michigan
Roach, John, journalist, National Geographic
Ricasio, Vincent R., retired economist and investment banker
Robertson, Peter J., Vice Chairman, Chevron Texaco
Rodrigues, Christopher, President and CEO, VISA International
Rodrik, Dani, Professor, Harvard University
Rothkopf, David, international correspondent, Newsweek
Ruiz, Hector, President and CEO, AMD Worldwide
Sachs, Jeffrey, Director, The Earth Institute, Colombia and The UN Millennium Project
San Roman, Maximo, Former Vice President of Peru; Owner, Nova Industries (Peru)
Sandbrook, Richard, Senior Advisor, UNDP
Sanghavi, Nitin, Professor, Manchester Business School (UK)
Sarin, Arun, CEO, Vodafone
Savage, John, VP, Savage Industries
Schmidheiny, Stephan, Founder, WBCSD
Schwenninger, Sherle R., Director, Global Middle Class Program, New America Fdn.
Seawright, Kristie, Professor, BYU
Seid, Michael H., Managing Director, Michael H. Seid & Associates
Sen, Amartya, Nobel prize winning economist
Shikwati, James, founder, IREN (Kenya)
Shuster, Scott, President, The Shuster Group
Slaughter, Chuck, former CEO, SHEF
Smith, Adam, father of modern economics
Sowell, Thomas, Senior Fellow, Hoover Institution, Stanford University
Stanforth, John, Professor, University of Westminster (UK)
Stay, Tim, Co-founder, Unitus Global Microfinance Accelerator
Stephens, David, CEO, OnSat
Stone, Sharon, actress, model and producer
Terry, Donald, Manager, The MIF
Tesfamichael, Gebreselassie Y., economist, former Finance Minister, Eritrea
Thatcher, Margaret, former Prime Minister, UK
Tull, Ann, Director of International Development, Maui Wowi
Turner, Ted, media entrepreneur, social and environmental activist
Vala, Lee, Sr., VP, The Quizno’s Corporation
Weber, Barbara, Development Specialist, Grameen Technology Center
Welch, Jack, former CEO, GE
Wheeler, David, Professor, York University (Canada)
Will, George F., columnist, Washington Post
Williams, Walter, Professor, George Mason University
Williamson, John, Senior Fellow, Institute of International Economics
Wilson, Craig, economist, IFC
Wise, Holly, Director, Global Development Alliance, USAID
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Kirk Magleby – Autobiographical, Historiographical & Contact Info
I am married to Shannon Savage Magleby. We have four children, a daughter-in-law and son-in-law, and an “adopted” Ukrainian son. I founded Nuvek www.nuvek.com, a technology firm with offices in Idaho, Utah and Mexico. I serve on the board of Ascend, A Humanitarian Alliance www.ascendalliance.org and on the steering committee for the MicroFranchise Development Initiative, Center for Economic Self-Reliance www.marriottschool.byu.edu/selfreliance, Marriott School of Management, BYU. I have an undergraduate degree in Economics with a minor in Latin American Studies from BYU. I served a mission for the LDS Church in Peru from 1972 – 1974. I have empathy for the oppressed and impoverished in our world. I have traveled extensively throughout the Americas for many years and consider myself a well-informed student of poverty and international development. My personal quest to end world poverty began in Bolivia in 1974. For decades I despaired that the issue was so complex as to be intractable. Thankfully, the last few years have seen such a flurry of encouraging developments that I now think poverty is a problem we can solve in our lifetime with appropriate technology and effective business models. I moderate the poverty group on Omidyar.net where this paper is available: www.omidyar.net/group/poverty/file/7.35.11055472357. The Spanish version is at: www.omidyar.net/group/poverty/file/3.15.11188136153.

During November 2004, an earlier version of this paper was presented at colloquia in Provo, Utah and in La Paz, Santa Cruz, and Cochabamba, Bolivia. In December 2004, a version of this paper was included on the resource CD for the World Resources Institute San Francisco Conference “Eradicating Poverty through Profit: Making Business Work for the Poor.” In March 2005, Fred DeLuca read the paper and commented that it “wasn’t very scientific.” Since that time, the piece has gradually become suffused with greater academic rigor. In June 2005 links to the paper were posted in several topic areas on www.developmentgateway.org and www.nextbillion.net. In July 2005 the Spanish version of the paper was featured on the Ecuadorian Franchise Association website www.aefran.org which led to a flurry of media attention within Ecuador. Links to the paper are also found on the Bangladeshi Microfinance portal www.bangladeshgateway.org. In July 2005, Michael Sauvante, CEO of Rolltronics, offered some constructive criticism that resulted in a more fluid presentation and better readability. In October 2005, thanks to a Google grant, sponsored links to the paper
began appearing on certain Google searches in both English and Spanish. This publicity resulted in more than 25,000 downloads during the last 3 months of 2005. In November 2005, the paper was cited in the USAID sponsored case study “What Works: Healthstore’s Franchise Approach to Healthcare,” published by WRI. In December 2005, in India, the paper was cited in the conceptual document underlying SKS Microfinance’s new Franchise Division.

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Other Relevant Resources
I maintain an archive of MicroFranchise resources, all available for download from: www.omidyar.net/group/poverty/file
These include:

- A concise catalog of MicroFranchise business opportunities aimed at BOP enterprisers, 8 pages
- A recap of worldwide MicroFranchising activities, 3 pages
- 10 Reasons why Microcredit will never solve world poverty, 1 page
- A 3 Billion dollar solution to global poverty. This plan, in my judgment, offers the world the best chance to achieve the Millennium Development Goals by 2015. 11 pages
- Notes of a global MicroFranchise strategy session held in San Francisco, California, November 21, 2005, 9 pages
- Notes of the first MicroFranchise Learning Lab held in Park City, Utah, September 15-16, 2005, 13 pages
- Notes of the WRI BOP Conference in Mexico City, September 1, 2005, 16 pages