

Microfranchising & Meso-Lending in India

According to a report from the Acumen Fund (www.acumenfund.org), a pioneer and leader in the impact investing world, microfranchising is “a development tool that leverages the basic concepts of traditional franchising, but it is especially focused on creating opportunities for the world’s poorest people to own and manage their own businesses.” In this way, microfranchising harnesses the ability of the traditional franchising model to easily replicate a proven business model in order to provide sustainable income generating opportunities through self-employment for people living at the base of the economic pyramid. Companies in India like Eco-Mithra (ecomithra.tradeindia.com) & Orb Energy (www.orbenergy.com) have both had success using the microfranchising model in order to grow their respective businesses while providing opportunity for aspiring entrepreneurs as well.

Eco-Mithra is a manufacturer of eco-friendly and biodegradable plates made out of areca plant bark. Local to South India, the bark of the areca plant was generally seen as a waste product and discarded as such. Yogesh, Founder of Eco-Mithra, saw this as an opportunity and created a business around the manufacture of these eco-friendly plates from the cheap and bountiful areca bark. In addition to manufacturing the plates, Eco-Mithra provides microfranchising opportunities by selling Areca Plate Machines to franchisees, providing basic training and even buying back finished product. Meenakshi, an Eco-Mithra franchisee with no formal education, was able to start her own business manufacturing the eco-friendly plates with the help of a 3 day training period provided by Eco-Mithra and a guaranteed contract to purchase plates for her first year of business.

Orb Energy is a provider of solar energy solutions from household solar power systems to solar water heaters and solar lighting accessories. Orb Energy’s solar products provide access to clean, reliable electricity for off grid households which have previously relied on costly kerosene lanterns which provide poor quality of light, emit harmful fumes and run the risk of in home fires. Access to electricity allows for increased productivity, as the day’s work can continue longer and children are able to study later into the night, increased connectivity, as mobile phones can be charged at home, cost savings and health benefits from reduced use of kerosene. Orb Energy is able to access a large customer base through its branch network of more than 100 stores, each owned and operated as a franchise by a local entrepreneur. Through these retail outlets spanning 5 south Indian states, Orb Energy is able to provide products, installation and maintenance support locally all with a focus on customer satisfaction.

In India, one of the biggest challenges for these micro, small & medium enterprises (MSME) is access to financing. In the current funding ecosystem for MSMEs this need has not been satisfied by the small loan sizes of the microfinance industry or by the restrictive demands of the traditional lending sector, which generally perceives lending to these businesses as too risky. Using innovative lending models, lending companies like IntelleGrow, a Mumbai based venture debt financing company, & Kinara Capital, a Bangalore based MSME lender, have been able to fill a vital need for these enterprises by providing growth financing and working capital loans which effectively fill the “missing middle” between microfinance and traditional lending. IntelleGrow (www.intellegrow.com) provides early stage, flexible debt financing and skills support for growing impact focused businesses across India, such as Orb Energy, and to date has disbursed 20 loans totaling \$3 million with an average loan size of \$150K and

zero defaults. Intellegrow recently raised \$2 million in Series A funding from the Michael & Susan Dell Foundation in order to expand their successful lending practice. Kinara Capital (www.kinaracapital.com) provides working capital loans in the range of \$2K-\$20K to micro and small businesses in South India, such as Eco-Mithra & Orb Energy Franchisees, and to date has disbursed more than 100 loans totaling \$550K with a 100% repayment rate. Kinara Capital also recently raised \$1 million in Series A funding led by an investment from the Sorenson Impact Foundation in order to grow their field lending operations. By partnering with and lending to growing companies like Orb Energy & Eco-Mithra, lenders like Intellegrow & Kinara Capital are able to support job creation in addition to supporting the social missions of the respective organizations all while simultaneously growing successful enterprises of their own. As Thomas Friedman once wrote in the New York Times, "People grow out of poverty when they create small businesses that employ their neighbors. Nothing else lasts."

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