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Entrepreneurs and franchisors tackle issues of the developing world while turning a profit

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Entrepreneurs around the globe are expanding beyond traditional markets and into the developing world. What makes recent developments unique is the number of businesses investing in enterprises that not only produce monetary gains for investors, but also provide societal gains for the regions in which they invest. Private equity firms, medium-sized firms, and franchisors alike have expanded throughout the African continent to tackle societal needs while also generating profits by using various business models, including micro-franchising.

What is micro-franchising?

Micro-franchising is a business model and development tool that applies tested concepts and methods of conventional franchising to small and medium enterprises in the developing world. Micro-franchising usually targets the delivery of development-related services such as water, sanitation, health care, energy, and transportation.

Micro-franchises generally require minimal initial costs and provide franchisees with a significant portion of the required start-up capital. Because micro-franchising often addresses an urgent societal need, and provides new economic opportunities in economically depressed communities, micro-franchises can generate significant revenue. For franchisors, micro-franchise competitive advantages include a large population of motivated franchisees, an even larger population of potential consumers, and a critical mass of branches that can share best practices and leverage economies of scale. For franchisees, micro-franchise competitive advantages include reasonable start-up costs; the ability to source low-cost, high-quality inventory; and centralized management of political and regulatory issues. Further, franchisees enjoy training; marketing support; technical counsel; and a reputable, trusted brand name. To run a successful micro-franchise, several critical elements are required including: uniform branding, systems and training; careful location screening; and rigorous quality controls.

Micro-franchise models are gaining popularity in African markets because they enable local entrepreneurs to own and operate sustainable, lucrative businesses. Micro-franchising discourages corruption because noncompliance with the franchisor can result in the franchisee losing its franchise. By aligning the incentives of clients, government regulators and franchisees, micro-franchises can deliver high quality service to underserved communities, while maintaining a profitable return on investment, particularly in complicated and unprofitable endeavors such as public health and health care distribution.

Fertilizer, energy, public health and profit in Kenya

One unique micro-franchising venture is one taken by Sanergy, Inc. Sanergy tackles sanitation issues in the urban slums of Kenya. With an estimated eight million Kenyans living in these densely populated and informal settlements, the lack of physical space, infrastructure and resources has created a sanitation crisis when it comes to the disposal of human waste. Residents are forced to rely on unsanitary options such as “flying toilets”—a local Kenyan euphemism referring to defecating into plastic bags that are then tossed onto the streets. There is also the problematic use of pit latrines that release untreated human waste into the environment.

These sanitation solutions cause immense environmental damage. Pit latrines are emptied every few months by service employees. These “frogmen” jump into the pits of human waste, manually empty the pit latrines using buckets, and haul overflowing buckets of waste through the community to the nearest waterway or field, where the buckets’ contents are released into the environment.

Approximately, four million tons or 90% of fecal sludge from Kenya’s slums are discharged into waterways and fields every year. Sanergy takes a systems-based approach to solve the sanitation crisis by designing and manufacturing portable toilets. Developed by Sanergy engineers, Sanergy’s “Fresh Life Toilets” are pre-fabricated at local workshops, have a small footprint that enables installation close to homes and are cost-effective. They also include hand-washing features.

Sanergy connects with local residents who purchase and operate its hygienic sanitation facilities. These operators become franchise partners. Sanergy provides the operators with its Fresh Life Toilets, training, access to financing, ongoing operational and marketing support, and a daily waste collection service. In turn, the operators generate local demand and ensure that the facilities are kept clean. Sanergy then collects the waste-filled cartridges from the toilets and replaces them with clean empty cartridges on a daily basis. The human waste is removed from the community by wheelbarrow, handcarts and/or truck. Next, Sanergy converts the waste at a centralized facility into useful by-products such as organic fertilizer. The fertilizer is transported to agricultural regions where it is used for farming. Fertilizer is a valuable commodity in East Africa and is scarce relative to its need. Sanergy also re-uses the urine and captures the biogas released by the waste.

The future: business and legal considerations

The model chosen by Sanergy represents an innovative approach that requires a balance of considerations. Similarly situated corporations—those operating in a developing nation while addressing a societal need—must consider the cultural, economic and legal contours of the country of operation. Micro-franchising provides a unique opportunity to strike the right balance and launch a successful and profitable business venture that addresses a societal need.

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Additional information about micro-franchising on the African continent can be found in *Franchising in Africa 2014: Legal and Business Considerations*, a book edited by Kendal H. Tyre, Diana V. Vilmenay-Hammond, and Courtney L. Lindsay, II. The book, to be published by LexNoir Foundation in winter 2013, is a new edition of the previous book published in July 2012 and will be a reference tool for practitioners, business people and academics. It focuses on the drafting of the relevant documents, the financing of franchise transactions in the region and the local legal issues in selected African countries, including Kenya.

The chapter “Franchising in Kenya” is written by John Syekei and Joseph Githaiga of Coulson Harney.

Click *here* to view a video book trailer.