



Growing Inclusive Markets
Business Works for Development • Development Works for Business



CASE STUDY: CHINA

Tsinghua Tongfang: bridging a digital divide

Not all innovations use new technology. Many product adaptations successfully reach the poor through what seem like steps down on the technological ladder. But their accessibility to the intended beneficiaries allows businesses to make leaps in growth and profitability.

Tsinghua Tongfang (THTF) is a high-tech Beijing computer company that identified a rich new market in a low-tech sector: China's vast rural agriculture industry. China's 900 million farmers have been slow to benefit from technological advances that have boosted agricultural output elsewhere. Farming depends on timely and accurate information as much as any other industry, if not more. But personal computers and the Internet are still largely absent from rural China and remain unfamiliar to its inhabitants. In 2003 THTF saw this situation as an opportunity to seize a large untapped rural market while helping to bridge the 'digital divide'.

THTF conducted three rounds of market research and identified several challenges. In 2005, a basic computer cost the equivalent of three months' income for a farmer—a prohibitive expense even before adding the monthly cost of Internet service (which was elusive, in any case, because of high startup costs for Internet providers). And farmers who could afford a personal computer usually did not know how to use one. Moreover, the quality of agricultural information available online was fairly low.

The solution for THTF was to tailor a product to farmers' needs and resources. Prospective customers made it clear that the most appealing product would offer what THTF called a 'systematic solution': a versatile, durable, easily repairable platform, with value not just for agriculture but also for children's education and for broader capacity building.

THTF needed a simplified, low-cost computer that could do many things and withstand the rigors of the rural environment. So it built one. Jun Li, vice-general Manager of THTF's computer department, says: '[The] computer comes from the minds of ... people in the agriculture industry. Putting our feet in the shoes of farmers is our basic principle. What we did is to turn their ideas into tangible computer products.'

Using the open-source Linux operating system, THTF fit its product to the new market by contracting local vendors to replicate more expensive, brand-name programmes. To help its product work well in a difficult environment, THTF embedded electricity cables with rat-repellent materials. It adapted a specialized package of programmes for rural users, including agriculture, distance education and vocational skills training.

THTF adapted its product in ways that cater to the poor, and its customers are now seeing the difference that information technology can make to their jobs and lives. Before the rural computing initiative can become wholly self-sustaining, it must mature and grow. Yet THTF's innovation and skillful product adaptation showcase a strategy that can be used by other high-tech businesses looking to engineer a way into the markets of the poor.



Growing Inclusive Markets
Business Works for Development • Development Works for Business



CASE STUDY: KENYA

The HealthStore Foundation: providing health care in remote areas

Malaria affects about 300 million people worldwide. It is one of several infectious diseases that, together, account for 70 percent–90 percent of childhood illness and death in developing countries—and that are treatable with inexpensive generic drugs. Every day, for lack of those drugs, more than 25,000 children die.¹

When Scott Hillstrom, founder of the The HealthStore Foundation, observed the market for medicine in Kenya, he saw a broken system with inadequate and low-quality drug supplies. At the same time, he saw an opportunity to ‘prevent needless death and illness in the developing world by sustainably improving access to essential drugs and basic health services.’² If people were selling bad drugs to make money, Scott reasoned, selling good drugs might also be profitable.

Scott’s major challenge was to distribute drugs in remote parts of Kenya. While 80 percent of Kenya’s doctors live in cities, 70 percent of its people live in rural areas. The need for medicine was greatest in rural areas, but few clinics or pharmacies existed there, and inadequate roads made many villages difficult to reach. Scott aimed to provide these areas with affordable, quality, in-stock medicine and to establish clinics located no more than an hour’s walk from the people they served.

To achieve those ends, Scott’s business would need to build its own market, raising awareness in Kenya’s rural communities and finding innovative ways to make contracts effective. With no trusted media or functioning law enforcement systems, the only way to establish a market for his medicines—raising health awareness, ensuring effective treatment and guaranteeing profitability for the HealthStore Foundation’s shops—would be to build trust with communities.

Scott’s solution was to engage community members as micro-franchisees, creating local drug distribution networks. Owned by nurses or community health workers who know their clients’ needs, the for-profit franchises enable the HealthStore Foundation to distribute enough affordable drugs and to provide basic health care services to many remote communities.

Using recommendations from church organizations, the HealthStore Foundation recruits franchisees with business sense, strong personalities and good community connections. The Foundation provides startup loans and ongoing support, including training, logistics, financing and marketing. In return, they agree to contribute a fee, maintain company standards and reach out to their communities.

The model has proven very successful. In 2005 alone, more than 400,000 low-income patients were treated in 11 Kenyan districts through 63 outlets. Millicent Odhiambo, the first to open a CFW clinic in the Kibera slums in 2004, gained her community’s trust and now makes \$1,000–\$1,280 a month. Her business is successful enough that she took her family on vacation for the first time, has educated her son in a private school and is planning to buy a house.



Growing Inclusive Markets
Business Works for Development • Development Works for Business



Dora Nyanja, another nurse franchisee, is also making a real difference in her community while earning a decent income and gaining self-confidence. During the recent violence in Kenya the value of Dora's business—and Scott's—to poor Kenyans was dramatically revealed: 'They persuaded the mob to spare my clinic. They said they needed the medical services and that I was there to assist them. Ultimately they would all suffer from not having a pharmacy and a small health facility.'

1. WHO 2007.

2. HealthStore Foundation mission statement.

For further reading on Dora and her HealthStore franchise, go to

<http://care.ca/main/?DorahNyanja&PHPSESSID=1f2579339f2ed1e30abf97be24a0bfeb>



Growing Inclusive Markets
Business Works for Development • Development Works for Business



CASE STUDY: MEXICO

Construmex: ‘Hazla, Paisano!’

Many poor people cannot afford to plan for the future. In Mexico, however, Construmex is empowering thousands of poor people and their extended families to own permanent homes.

Construmex helps Mexican migrants living in the United States use cross-border income to buy, build or repair homes in their native land. In 2006, when the business was developed, billions of dollars in remittances were flowing into Mexico from expatriate Mexicans. Yet an estimated 25 million people in Mexico were living without adequate shelter. The shortage signaled a clear deficit in the country’s housing market. CEMEX—one of the top three global cement producers, and by far Mexico’s largest construction company—saw an opportunity.

CEMEX had a long-established market of low-income Mexican consumers. It had already succeeded with its construction microloan project, Patrimonio Hoy. As its social solutions director, Hector Ureta, observed: ‘Thanks to these initiatives we engage with [low-income customers], creating value for the community, for our value chain, [and for] small and medium-sized distributors, as well as for the company.’

But meeting the demand of migrants in the United States presented complex challenges. Those migrants turned out to have much less liquid cash than the company initially believed—and a history of abuse, fraud and violent threats had made them wary of all housing remittance plans. CEMEX needed to gain the migrants’ trust, in addition to learning about their needs and aspirations.

So CEMEX, in putting together a business model for Construmex, obtained help by collaborating with existing organizations. Construmex engaged Mexican consulates in several US cities to learn more about customers’ priorities and their satisfaction with its products. Partnering with migrant clubs in several Mexican states, it implemented community-improvement initiatives to build trust—and its brand—with its core market. It also benefited from a matching-funds initiative from the country’s Ministry for Social Development for donations in support of community infrastructure. These win-win collaborations, in equipping the firm to effectively deal with its target market and meet its needs, helped make Construmex viable as an enterprise and enabled a host of accompanying benefits to development.

Construmex’s slogan, ‘Hazla, paisano!’ translates to ‘You can do it, compatriot!’ The company has followed through on that assurance. Through the simple act of allowing poor people fair access to stable and safe homes, Construmex is building not only houses but also self-esteem, security and hope for the future. By the end of 2006 Construmex had received more than 18,000 orders for the delivery of construction materials. Women made up 23 percent of its clientele.

Construmex clients will be better able to save money in the future because their houses will not need as much work. And the initiative’s community-development efforts are strengthening the fibre of the places where it works.



Growing Inclusive Markets
Business Works for Development • Development Works for Business



Construmex is on the verge of becoming sustainably profitable. In its first four years, it saw \$12.2 million from sales of its construction materials, and that number is poised to rise as its reach spreads. ‘Our social initiatives allow us to establish a missing link: a direct relation with our low-income clients’, says Ureta.



Growing Inclusive Markets
Business Works for Development • Development Works for Business



CASE STUDY: SOUTH AFRICA

Amanz' abantu: Water for the People

In 1997, in response to the South African government's appeal to the private sector for help in providing water services for historically disadvantaged rural communities of the Eastern Cape, Amanz' abantu, which means '*water for the people*' in Xhosa, was created. Under the leadership of Oliver Ive, the company is guided by a strong social and environmentally sustainable mission to provide municipal services through government partnerships and community empowerment. Amanz' abantu is, 'not just about profit at any cost; it's got to be a shared objective, and from there one needs to be able to maintain a sustainable business,' according to Oliver. 'It's about responsibility and working within the frameworks that you have.'

In the mid 1990s, South Africa was finishing the dismantlement of apartheid and replacing it with policies and programmes focused on repair and equity. The new government recognized the importance of water and sanitation as keys to socio-economic development and poverty alleviation. In a bold move, the new constitution identified water as a human right, guaranteeing free access for all South Africans. Unfortunately, the government lacked the capacity to deliver basic water and sanitation services.

Amanz' abantu was formed as a consortium of private sector businesses and NGOs. The company brings in local rural communities of the Eastern Cape, which are often steeped in poverty and lacking basic services, not just as clients or consumers, but as partners with the company and the government.

Community residents are recruited to oversee and steer project implementation, including the actual building and construction, leading to ownership over the infrastructure and training for future employment. Truly engaging communities has been essential to Amanz' abantu's successes, as Oliver explains: 'You just simply cannot implement a project of any nature without working with the people. That's the 'abantu' side of Amanz' abantu!'

Although partnerships are at the core of the company's success, these were not easy to create or to maintain initially. There was suspicion on the part of the government and difficulty in understanding the role of the private sector. Non-payment of water tariffs was used as a political tool of the community against the apartheid government, and community members were expectantly waiting for the new government to follow through on their promises of service delivery. Overcoming these barriers required Amanz' abantu to create innovative technology, engage the community and build trust among all its partners.

The success of these partnerships with the government and local communities is evident. Areas that did not have access to clean water now have improved sanitation and hygiene. Women, who are typically responsible for water collection, now do not have to spend many hours fetching water. Rural residents, including women, have gained skills necessary for employment. And perhaps most importantly, Amanz' abantu has shown how the private sector can work with governments, organizations, and communities to achieve Millennium Development Goals. Through bringing water to the people, Amanz' abantu proved that business can be a powerful tool in fostering environmental and social sustainability, because, in Oliver's words, "*these things are just good sense.*"



Growing Inclusive Markets
Business Works for Development • Development Works for Business



CASE STUDY: MOROCCO

LYDEC: Bringing basic utilities to Casablanca's poorest

In 1998, Morocco's government granted Lyonnaise de Eaux de Casablanca (LYDEC), a subsidiary of the giant French water and waste company Suez Environment, a thirty year concession and a mandate to improve the city's basic services.

Eleven years ago, the water slowly escaping from pipes and the electricity being illegally diverted through Casablanca's slums weren't only hurting the bottom line of the private company that managed them. As revenues from water and electricity declined, the company operating those systems, which also ran the city's sanitation network, gradually scaled back on investments that would have improved the lives of millions of the city's urban poor. As a result, about 30 percent of Casablanca's 4.5 million residents remained mired in sub-standard living conditions.

These days, the situation has changed markedly. Illegal leaks rarely occur. Utilities have become cheap and reliable. Basic services have been extended to several hundred thousand more residents. These gains are also spurring many residents to launch their own businesses, lifting even more people out of poverty.

'[We were] prompted to bring electrical power to shanty towns and informal settlements, which previously had no regular service,' said Jean-Pierre Ermenault, Managing Director of LYDEC. The challenge was to simultaneously pursue two courses: reduce waste and increase access to basic services to more households.

One of LYDEC's innovations was to hire hundreds of so-called street representatives, local residents who would become de-facto agents of LYDEC. It was thought that if these street representatives were given technical and management training, they would be able to improve local services by overseeing neighborhood operations and collecting payments from twenty households each.

Challenges came from municipal authorities and local industries, whose priorities differed with those of LYDEC, but engagement led to compromise. 'Authorities wanted to relocate people residing in informal settlements, and LYDEC had to negotiate with authorities to supply these services,' said Mr. Ermenault.

At the same time, crucial support came from the King of Morocco, who in 2005 launched a national program to tackle poverty through urban planning. Called the National Initiative for Human Development, the plan pushed for shanty towns to be connected with public utilities.

Altogether LYDEC has invested about 220 million Euros on water, sanitation and electricity projects. There's also far less theft of water; the firm estimates its efforts are saving 25 million cubic meters of water each year. Moreover, LYDEC's improvements have created conditions in which micro-businesses are launching and flourishing.



Growing Inclusive Markets
Business Works for Development • Development Works for Business



The daily lives of the poor have improved with 30,000 new households now connected to Casablanca's electricity system. With more households receiving electricity, children are able to study in the evening. Finally, LYDEC has also indirectly put more money into the pockets of Casablanca's poorest—household budgets for energy among shanty-town dwellers in Casablanca has gone from \$17 a month to \$6 a month.



Growing Inclusive Markets
Business Works for Development • Development Works for Business



CASE STUDY: THE RUSSIAN FEDERATION FORUS: Taking Micro-financing to the next level

FORUS, a bank based in Nizhy Novgorod in the Russia Federation, was launched in 2000 as a nongovernmental organization with a grant from Opportunity International, a Christian NGO that supports micro-finance programs around the world. In 2005, FORA the NGO transformed into FORUS the bank. FORUS shows just how much micro-financing, over time, can generate hefty incomes and create economic momentum in previously poor communities.

FORA's vision was to eliminate poverty in the Russian Federation through enabling economically active people to have access to small loans to support their businesses. By providing financial services to people who were excluded from accessing commercial banks, FORA established opportunities for the poor (especially women) to take an active role in the Russian economy through entrepreneurship, income generation and social empowerment.

Economic growth in the Russia Federation was slow for nearly ten years after the fall of the Berlin Wall. Owing to regulatory and investment environments that discouraged small businesses, when the economy did take off in the Russian Federation, it was mainly fuelled by large conglomerates. Indeed, according to some surveys, less than 20 percent of Russia's work force is employed in small enterprises. Although there are more than 1,200 banks in the Russia Federation, micro- and small businesses often find it difficult to obtain affordable loans.

So to meet the needs of new entrepreneurs and to finance the expansions of successful small businesses, FORUS' capital continues to grow. Most of its loans support businesses in the retail and service sectors, and 82 percent of the bank's clients are women.

Initially, FORA made loans of between \$600 and \$700. Between 2000 and 2005 it made 115,000 loans worth \$132 million. These disbursements helped create 25,000 jobs. Yet as the businesses it supported grew, FORA recognized the need to expand its services to meet the demand for more and larger loans and more sophisticated financial services.

In July, 2005, FORUS became the first micro-finance organization to be awarded a commercial banking license. 'It's as if FORA passed the relay to the bank,' said Tatyana Yurina, the CEO of FORUS.

At the end of 2006, FORUS had 328 employees and 41 offices in 28 regions in the Russia Federation with net income over US\$1.7 million. It had a portfolio of over 16,500 loans with a total value of over US\$36 million with the average loan size being about US\$2,000. The bank calculates that in 2006 alone it helped create 4,258 jobs and helped sustain an additional 19,950 jobs. For 2007, the bank projects its loan portfolio to exceed \$60 million and net profits on those loans to be more than \$2 million.

At first glance, these figures may seem small for a bank. But giant international banks are taking notice. Recently HSBC and Société Générale made loans to FORUS so it could nurture more small businesses. As Yurina said: 'We believe it is important not only to increase the financial opportunities of our clients, but also to make the environment of small businesses more favorable.'