

CREATING VALUE FOR ALL: STRATEGIES FOR DOING BUSINESS WITH THE POOR



United Nations Millennium Development Goals



- Goal 1: Eradicate extreme poverty and hunger
- Goal 2: Achieve universal primary education
- Goal 3: Promote gender equality and empower women
- Goal 4: Reduce child mortality
- Goal 5: Improve maternal health
- Goal 6: Combat HIV/AIDS, malaria, and other diseases
- Goal 7: Ensure environmental sustainability
- Goal 8: Global partnership for development

CREATING VALUE FOR ALL: STRATEGIES FOR DOING BUSINESS WITH THE POOR

July 2008

The United Nations Development Programme (UNDP) would like to acknowledge the contributions of partner organizations to "Growing Inclusive Markets". Each partner organization is contributing in different ways and the views and recommendations expressed in this report are not necessarily shared by each of those partner organizations. Further, the views and recommendations expressed in this report do not necessarily represent those of the UN, UNDP or their Member States. The boundaries and names shown and the designations used on the heat maps do not imply official endorsement or acceptance by the United Nations.

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CREATING VALUE FOR ALL: STRATEGIES FOR DOING BUSINESS WITH THE POOR



Growing Inclusive Markets

Business Works for Development • Development Works for Business

FOREWORD FROM THE ADMINISTRATOR

The Growing Inclusive Markets Initiative, launched in 2006, embodies UNDP's strong conviction that the private sector is a great untapped resource for investment and innovation to achieve the Millennium Development Goals.

The initiative was inspired by 2004's *Unleashing Entrepreneurship: Making Business Work for the Poor*, a report prepared by the UN Commission on the Private Sector and Development at the request of then-UN Secretary-General Kofi Annan. The Commission suggested that UNDP issue further reports to clarify how businesses are creating value in the difficult market conditions that so often characterize poverty—and how, in the process, they can also create value for the poor.

This report, the first in a series, advances UNDP's efforts to turn the initiative's ideas and analysis into action through a dialogue with the private sector, government and civil society. It is the product of research based on 50 case studies, writing and reviews by a network of developing country academics and a diverse advisory group of institutions with expertise in the private sector's role in development.

Unleashing Entrepreneurship showed that, under the right market conditions, the private sector can alleviate poverty and contribute to human development in many ways. In a market economy, firms and households interact with each other and with the government. Taking risks, they earn profits and incomes that fuel economic growth. The economy's power to generate decent jobs depends largely on the private sector's vitality. And the private sector, by supplying consumer goods and services, brings more choices and opportunities to the poor.

The private sector's effectiveness in fostering development depends, however, on the strength of the state and on the quality of political, social and economic institutions. A strong state with enough human, financial and

institutional resources can ensure that a market economy gives private agents the incentives to expand their productive capacity and to use it well. The State must also be able to ensure fair competition as well as redistribution of income—market outcomes are not always politically or socially acceptable. There is also the critical need for providing social protection, supporting the most vulnerable and strengthening their capacity to sustain productive livelihoods. UNDP's approach is to emphasize developing the private sector while targeting the parts of it that promote pro-poor growth—augmenting the choices of the poor by providing them with goods and services or by offering them income generating opportunities and decent work.

Business and market approaches alone are no panacea for tackling poverty. The many dimensions of poverty require diverse, context-specific solutions. Many poor people can benefit from better access to markets if they have at least a few assets—land, health, education—or a small income to build on. But others, with virtually no assets, are ill-equipped for the marketplace. They need targeted support to help them build sustainable livelihoods and benefit from market interactions.

How does the private sector help markets include the poor? Partly by creating and diffusing innovations. Basic science and major technological enterprises may receive support from governments, but a competitive economy gives entrepreneurs and businesses strong incentives to create and apply innovative technologies and processes. And diffusing new models and business practices is central to productivity growth.

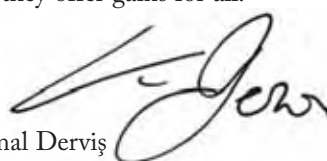
The power of poor people to benefit from market activity lies in their ability to participate in markets and take advantage of market opportunities. What can the state do to increase that ability? It can help poor people develop their human capital (health, education and skills). It can also provide infrastructure and basic utilities and ensure that the poor are legally empowered.

This report focuses on what the private sector can do to include the poor in business as consumers, employees and producers.

Building on UNDP's track record of advocating for change and connecting countries to knowledge, experience and resources to help people build a better life, the report starts with the markets of the poor. It shows the challenges of doing business where markets suffer from a lack of information, infrastructure and institutions. But it also shows how businesses deal with these challenges—by devising inclusive business models that join business and the poor to create value for all.

Much work in this area has so far focused on large multinational firms. This report puts the work of small, medium-sized and large enterprises in developing countries on an equal plane. Certainly multinationals can lead others by example. With their influence, global reach and resources, they can effectively scale up and replicate successful business models. But as *Unleashing Entrepreneurship* showed, smaller businesses also have much to teach us about strategies that work. And they create most of the jobs and wealth required to meet the Millennium Development Goals.

Business cannot stand alone, however. This report suggests that businesses—with governments, civil society and the poor—can build the foundations for new markets. Governments must unleash the power of business by improving market conditions where poor people live and removing barriers to their economic participation. Not-for-profit organizations, public service providers, microfinance institutions and others already working with the poor can collaborate and pool resources with businesses to help seize opportunities. Donors can facilitate dialogues between businesses and governments or other partners. Socially minded investors and philanthropists can supply the funds to make these time-intensive and uncertain ventures possible. Business models that include the poor require broad support, but they offer gains for all.



Kemal Derviş
UNDP Administrator

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ABOUT THE INITIATIVE AND ITS RESEARCH

Cape Verde: Local businesses—from small-scale fishers to large national companies—are the main focus of this initiative.

Photo: UNICEF/JuliePudlowski



The **Growing Inclusive Markets Initiative** responds to a need for better understanding of how the private sector can contribute to human development and to the Millennium Development Goals. Led by UNDP, the initiative was conceived in 2006 after the success of *Unleashing Entrepreneurship: Making Business Work for the Poor*—the 2004 report of the UN Commission on the Private Sector and Development, prepared at the request of then-UN Secretary-General Kofi Annan.

The initiative's broad aims are:

- Raising awareness by demonstrating how doing business with the poor can be good for poor people and good for business.
- Clarifying the ways that businesses, governments and civil society organizations can create value for all.
- Inspiring the private sector to action.

The Growing Inclusive Markets Initiative Advisory Board

The Advisory Board has formed the core of the Growing Inclusive Markets Initiative. Its guidance, insights and inputs have been invaluable to the initiative and to this report.

- Agence Française de Développement
- Business for Social Responsibility
- Dalhousie University, Faculty of Management
- ESSEC Business School, Institute for Research and Education on Negotiation in Europe
- European Foundation for Management Development
- Global Development Alliance, United States Agency for International Development
- Harvard Business School, Social Enterprise Initiative
- Harvard Kennedy School, Corporate Social Responsibility Initiative
- Institute of Business, University of West Indies, Trinidad and Tobago
- International Business Leaders Forum
- International Chamber of Commerce
- International Finance Corporation
- Johnson Graduate School of Management, Center for Sustainable Global Enterprise, Cornell University
- Overseas Development Institute, Programme on Business and Development Performance
- Special Unit for South-South Cooperation, United Nations Development Programme.
- United Nations Foundation
- United Nations Global Compact
- University of Michigan, Ross School of Business, William Davidson Institute
- World Business Council for Sustainable Development
- World Economic Forum
- World Resources Institute

UNDP resolved from the outset to create a multistakeholder, open process, involving as wide as possible a range of partners, which could constantly evolve with

the needs and interests of those partners. Thus, the initiative's advisory group comprises diverse institutions with an interest in the private sector's development role—including leading international development agencies, global business organizations representing hundreds of companies and experts from well-known research institutions operating at the interface of business and development.

By disseminating its research findings and analytical tools, the initiative helps business leaders, policymakers and other development practitioners—especially in developing countries—support business models that include the poor.

Five principles guide the initiative's work:

- **Core business emphasis.** The initiative promotes business models that create value by providing products and services to or sourcing from the poor, including the earned income strategies of non-governmental organizations. It does not consider activities that are purely philanthropic or that cannot prove to be or become commercially sustainable, even though they have their own business rationales and are important for development.
- **Developing world focus.** The initiative is particularly interested in developing country businesses as central actors in providing goods, services and job opportunities to the poor. To sharpen this focus, the Growing Inclusive Markets Initiative commissioned 50 case studies of companies from researchers and academics in countries from Peru to Kenya to the Philippines. This bottom-up process, anchored in local knowledge, is producing an ever-growing network of development practitioners, policymakers, business people and civil society actors.
- **Human development framework, guided by the Millennium Development Goals.** Human development expands people's choices to lead lives that they value. This understanding of poverty

guides the work of UNDP, which has explored and applied the concept of human development since 1990 in its annual *Human Development Report*. The initiative also applies a human development framework to doing business with the poor, concentrating on meeting basic needs and providing access to the goods, services and earning opportunities that foster economic empowerment. It shows how the private sector can contribute to achieving the Millennium Development Goals.

- **Local agenda.** The initiative is explicitly modeled on UNDP's success in localizing its *Human Development Reports* to shape national agendas and promote policy changes in countries around the world.

UNDP's Egypt Country Office has already published a national report on 'Business Solutions to Human Development' and fostered a multi-stakeholder dialogue at the local level.

- **Partnership and multistakeholder approach.** The initiative has a multi-sector, networked approach and a commitment to involve many partners from different backgrounds—from the academic world to the development community to business associations—who are leaders in business and development thought. In this spirit, the information, analysis and tools generated by the initiative will all be published online, to be discussed and supplemented by interested parties. ☉

RESEARCH TOOLS

Among the immediate objectives of the Growing Inclusive Markets Initiative is to create an initial set of data, information and analytical products that will increase understanding of the markets for the poor, including existing opportunities and challenges.

- Market heat maps identify opportunities by depicting access to water, credit, electricity or telephone service. Offering a visual overview of the landscape—and a first look at possible markets—data permitting, the maps are supported by information on the structure of those markets, such as the various kinds of providers.
- The Growing Inclusive Markets strategy matrix is an analytical framework that helps to identify market constraints and think through strategies for addressing them. It links five broad constraints in the markets of the poor with five strategies that can yield solutions.



Poland: PEC Luban uses straw as a renewable resource for heat generation. Photo: PEC Luban

- The case studies bank helps to find solutions by learning from the experiences of others. Fifty case studies, written for this report, describe successful business models that include the poor. Summarized in annex 1, the full cases are available online at www.growinginclusivemarkets.org. More cases will be added from the initiative and other sources to make the bank a rich repository of ideas. ☉

APPROACH

This research was strictly based on an empirical approach—to see and measure poor people’s access to markets, and to learn how businesses work successfully with the poor.

The case study research followed an inductive principle. The cases identify common patterns among the business

models described and do not confirm a preformed hypothesis about what patterns might exist.

With help from the institutions involved in the advisory group, 50 case studies were selected from 400 possible cases. The selected cases had to describe business models that included the poor in ways that could be profitable and that clearly promoted human development. In addition, they had to represent a broad range of countries, industries and business types.

Eighteen case study authors then described the selected cases based on a common protocol, focusing on the opportunities, constraints and solutions in each case. The protocol made it possible to analyse the case studies systematically and look for patterns. The result was the Growing Inclusive Markets strategy matrix, which summarizes the dominant constraints and the strategies used to address them. (Annexes 1 and 2 contain more detail on the research approach, with short descriptions of the 50 cases.)

The market heat maps were generated by experts from Latin America and southern Africa. Household and individual surveys measured access to markets that are particularly important for the poor, such as water, electricity, credit and telecommunications, and revealed the structure of those markets (expressed, for example, by source or provider type). Some of the data were transformed into spatial maps, creating a tool that can be used intuitively. (More detail on the methodology for creating market heat maps is in annex 3.)



Bangladesh: Microcredit loans provided by UNDP allow villagers of Kishoreganj District to start family businesses.
Photo: Shamsuz Zaman/UNDP

Case studies prepared for the Growing Inclusive Markets Initiative

Case	Description
A to Z Textiles (Tanzania)	Production of long-lasting insecticide-treated bed nets
Amanco (Mexico)	Integrated irrigation solutions for small-scale farmers
Amanz'abantu (South Africa)	Supplying water through smart card technology
ANZ Bank (Fiji)	Mobile financial products and services
Aspen Pharmacare (South Africa)	Manufacturing affordable generic antiretroviral drugs
Association of Private Water Operators (Uganda)	Public-private partnership to provide water in small towns
Barclays' Susu Collectors Initiative (Ghana)	Providing microfinance services through traditional Susu collection
Cashew Production (Guinea)	Partnership aimed at reviving the cashew industry
Celtel (Dem. Rep. Congo)	Mobile communication and mobile banking in a postwar economy
Coco Technologies (Philippines)	Production of geotextiles from coconut husk waste
Construmex (Mexico / United States)	Cash-to-asset remittance transfer services
Danone (Poland)	Affordable and highly nutritious milk porridge for malnourished children
Denmor Garments (Guyana)	Production of high quality garments for export
DTC Tyczyn (Poland)	District telephone cooperative
Edu-Loan (South Africa)	Loans for financing superior studies
Fair Trade Cotton (Mali)	Collaborative platform for sourcing fair trade cotton
Forus Bank (Russia)	Financial services for low-income entrepreneurs
Huatai (China)	Wood-pulp production for paper industry
Integrated Tamale Food Company (Ghana)	Outgrower scheme for sourcing organic mangoes
Juan Valdez (Colombia)	Coffee fair trade chain directly linking producers, businesses and consumers
K-Rep Bank (Kenya)	Microfinance products and services
Lafarge (Indonesia)	Rebuilding cement-based houses and businesses in post-tsunami areas
LYDEC (Morocco)	Supplying water and electricity to shanty towns
Manila Water Company (Philippines)	Connecting low-income households to the piped water system
Mibanco (Peru)	Microfinance products and services
Money Express (Senegal)	Remittance transfer services
M-PESA (Kenya)	Mobile banking services
Mt Plaisir Estate Hotel (Trinidad and Tobago)	Ecotourism-based self-sustaining community
Narayana Hrudayalaya (India)	Affordable cardiac health care
Natura (Brazil)	Production of perfume essences from local vegetal biodiversity
Nedbank and RMB/FirstRand (South Africa)	Financial products targeted at the low-income housing market
New Tirupur Area Development Corp. Ltd. (India)	Water supply to industries, households and slums
PEC Luban (Poland)	Straw-based heat generation
Pésinet (Mali / Senegal)	Early warning method for monitoring children's health
Petstar (Mexico)	Waste management services in poor rural communities
Procter & Gamble (Cross-regions)	Affordable purifier of water sachets
Rajawali (Indonesia)	Business partnership between taxi company and poor drivers
RiteMed (Philippines)	Generic drugs production and distribution
Rural Electrification (Mali)	Rural companies installing and managing electricity generating systems
Sadia (Brazil)	Sustainable swine production through biodigester technology
Sanofi-aventis (Sub-Saharan Africa)	Providing drugs in partnership to fight sleeping sickness
SEKEM (Egypt)	Organic agriculture production coupled with social and cultural activities
SIWA (Egypt)	Ecotourism business based on local community specificities
Smart (Philippines)	Mobile telecom products and services for low-income and overseas communities
Sulabh (India)	Low-cost, clean and innovative sanitation systems
The HealthStore Foundation (Kenya)	Health microfranchises
Tiviski Dairy (Mauritania)	Camel dairy sourcing from nomadic herders
Tsinghua Tongfang (THTF) (China)	Affordable computers for rural users
VidaGás (Mozambique)	Supply of liquefied petroleum gas
Votorantim Celulose e Papel (Brazil)	Eucalyptus plantation for pulp and paper industry

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Vietnam

Photo: Jim Holmes/UNCDF

ADVISORY BOARD MEMBERS

The very essence of the Growing Inclusive Markets initiative rests on its multi-stakeholder approach, illustrated by the number and diversity of its Advisory Board members. Their guidance, insights and inputs have been invaluable to the initiative and to this report. The Advisory Board comprised:

- Eduardo Aninat, Former Minister of Finance, Chile, and CEO, Anisal International Consultants Ltd.
- Rolph Balgobin, Director Institute of Business, University of West Indies
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We would like to pay tribute to Robert Davies, the CEO of the International Business Leaders Forum, and a member of the Growing Inclusive Markets Initiative Advisory Board, who passed away on August 18, 2007. Robert had been a valuable friend and champion of the UNDP's engagement with the private sector, and the initiative benefited greatly from his wisdom, support and collaboration.

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Following the March 2006 meeting, members of the Advisory Board divided into three work streams:

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- Supported by the UNDP Private Sector Division.

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- Supported by the UNDP Office of Development Studies.

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- Supported by the UNDP Office of Communications. ☉

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The first report of the Growing Inclusive Market Initiative has involved different divisions within UNDP under the overall management of UNDP's Private Sector Division of the Partnerships Bureau and represents an important component of the new Private Sector Strategy. ☉

UNDP SENIOR MANAGEMENT GROUP

The Senior Management Group of the Growing Inclusive Markets Initiative, which provided overall guidance, comprised Bruce Jenks, Christian Thommessen, Pedro Conceição, David Morrison, Sahba Sobhani and Afke Bootsman. Christian Thommessen, Director of the Private Sector Division, supervised the work of the Growing Inclusive Markets Secretariat, established to lead the programme management and implementation of the initiative and manage the case study work stream. Pedro Conceição, Director of the Office of Development Studies, managed the work stream on Data and Statistics. David Morrison, Director of the Office of Communications, was responsible for the Communications and Outreach work stream.

The initiative also benefited from a partnership with the Special Unit for South-South Cooperation, an autonomous UN unit housed within UNDP, which provided financial support to the initiative under the leadership of its director, Yiping Zhou. ☉

GROWING INCLUSIVE MARKETS TEAM

This report was carried out by a dedicated core team from UNDP, including members of the Private Sector Division, the Office of Development Studies and the Office of Communications.

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OVERVIEW

BUSINESS WITH THE POOR—CREATING VALUE FOR ALL

Mali: Poor cotton farmers involved in Fair Trade are earning higher incomes and the companies sourcing from them are earning a competitive advantage, while protecting the environment.

Photo: Armor-Lux



The extreme prevalence of poverty in today's world calls us urgently to action. Of the world's 6.4 billion people, about 2.6 billion live on less than US\$2 a day.¹ More than a billion lack clean water, 1.6 billion lack electricity,² and 5.4 billion lack access to the Internet.³ Yet the poor harbour a potential for consumption, production, innovation and entrepreneurial activity that is largely untapped. This report shows how entrepreneurs can serve the poor as clients and customers and can also include the poor as producers, employees and business owners. It gives many examples of firms that—by doing business with the poor—are generating profits, creating new growth potential and improving poor people's lives. The report's main message: Business with the poor can create value for all.

The opportunities are vast, and so are the obstacles. Rural villages and urban slums are challenging environments for doing business. Systems rarely exist for collecting and delivering goods and providing services. Essential market infrastructure is limited or nonexistent. Without working financial systems, the

Box 1. What are inclusive business models?

Inclusive business models include the poor on the demand side as clients and customers, and on the supply side as employees, producers and business owners at various points in the value chain. They build bridges between business and the poor for mutual benefit.

The benefits from inclusive business models go beyond immediate profits and higher incomes. For business, they include driving innovations, building markets and strengthening supply chains. And for the poor, they include higher productivity, sustainable earnings and greater empowerment.

This report's conception of inclusive business models builds on and reinforces the work of the World Business Council for Sustainable Development and others with an interest in inclusive business.

poor inhabit a cash economy. Without reliable police and legal systems, all market actors can find it difficult or impossible to enforce contracts. For most firms, business with the poor will not be business as usual.

Perhaps the greatest obstacle is the lack of information about the poor. What goods and services do they need? How much can they pay? What goods could they produce and what services could they provide? The aim of this report is to help entrepreneurs and companies begin to answer such questions.

The report draws on 50 specially commissioned case studies of businesses that have successfully included the poor, despite the constraints, and created value for all. The cases afford a wealth of ideas for inclusive business models (box 3). ☉

OPPORTUNITIES TO CREATE VALUE FOR ALL

Doing business with poor people brings them into the marketplace—a critical step on the path out of poverty—and for entrepreneurs and firms it drives innovation, builds markets and creates new spaces for growth. Inclusive business models both produce and reap the benefits of human development.

The poor participate in the private sector. All are consumers. Most are employees or self-employed. Yet fragmented and informal markets prevent too many of them from obtaining the resources they need, and from using their resources productively. Among the poor, much business is informal. Friends and family often provide credit. Small and unregulated businesses often deliver bottled water in trucks. As a consequence, competition is stunted and goods and services can be expensive.

Market heat maps reveal the fragmentation of these markets. They show how widely access to goods, services or infrastructure can vary in a country. For example, in Guatemala's western regions more than 13% of people living on less than \$2 a day have access to credit, but in its eastern regions fewer than 8% do (figure 1). That contrast reflects other differences between market conditions in the two areas, such as differences in road access. (In poor markets such constraints often overlap, compounding the challenges for business.) ☉

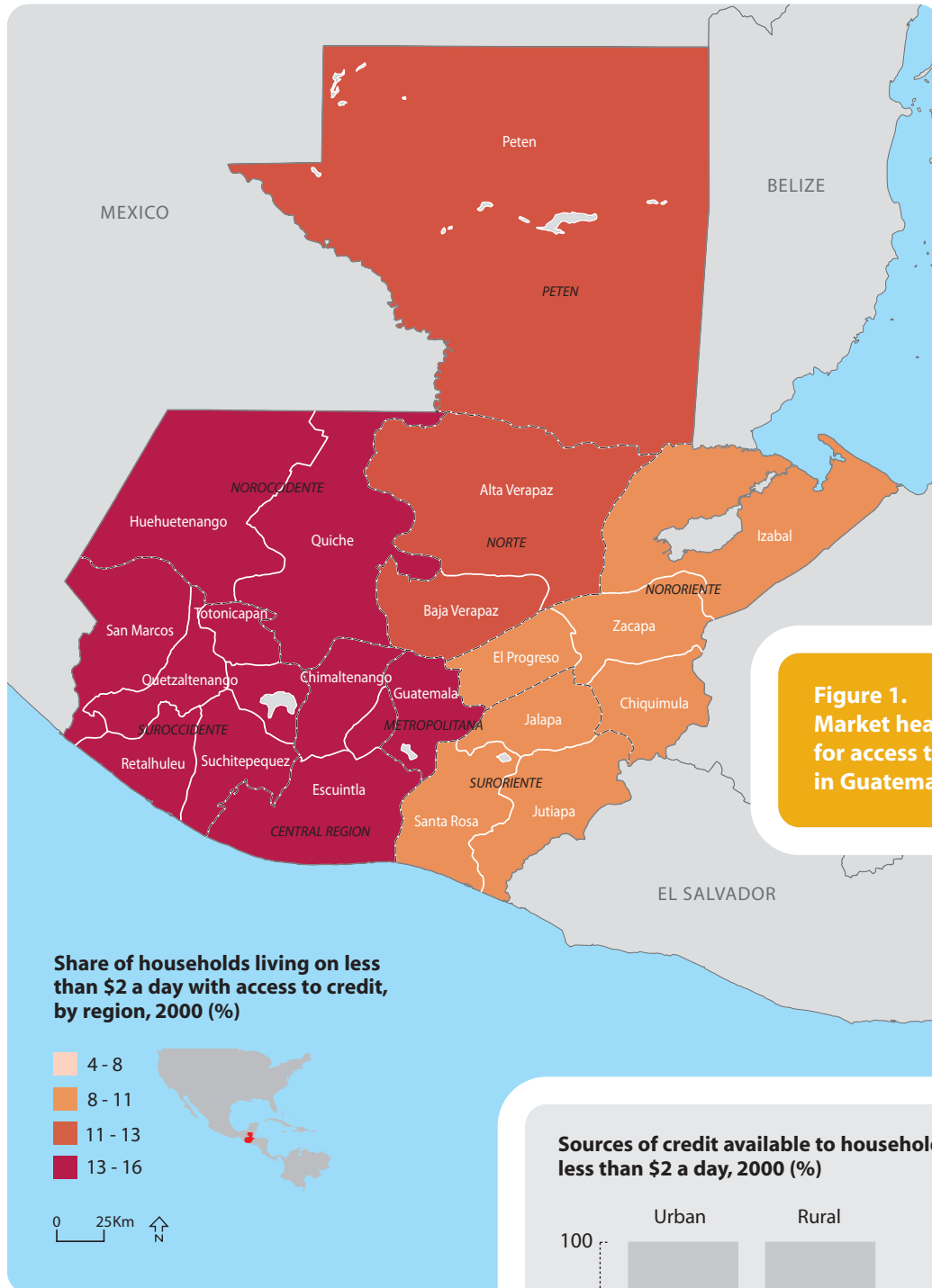
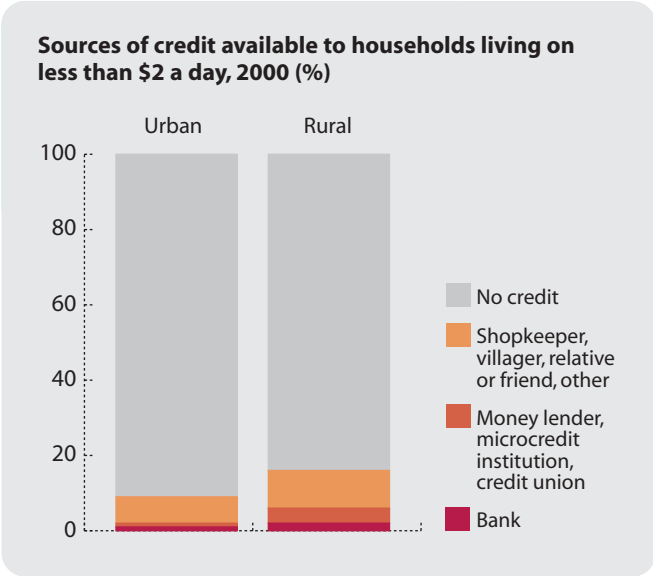


Figure 1.
 Market heat map
 for access to credit
 in Guatemala



OPPORTUNITIES FOR BUSINESS: PROFITS AND GROWTH

Business with the poor can be profitable. It can also lay the foundations for long-term growth by developing new markets, driving innovation, expanding the labour pool and strengthening value chains.

Generating profits. Business with the poor can sometimes yield higher rates of return than ventures in developed markets. Some microcredit institutions have earned more than a 23% return on equity.⁴ Smart Communications, a company providing prepaid phone services mainly to low-income consumers in the Philippines, became the most profitable of the country's 5,000 largest corporations. Sulabh, a low-cost sanitation facilities provider in India, had a \$5 million economic surplus in 2005.

Developing new markets. The 4 billion people at the bottom of the income pyramid (defined as people living on less than \$8 a day) have a combined income of about \$5 trillion, similar to the gross national income of Japan.⁵ They are willing and able to pay for goods and services, but too often they suffer from a 'poverty penalty'. Sometimes they pay more than rich consumers for essential products and services. People in the slums of Jakarta, Manila and Nairobi pay 5–10 times more for water than people in high-income areas of those cities—and more than consumers in London or New York. The 'poverty penalty' is similar in credit, electricity and health care.⁶ Business models that offer better value for money—or entirely new products and

services to improve the lives of the poor—can reap pioneer profits in return.

Driving innovation. The challenge of developing inclusive business models can lead to innovations that contribute to a company's competitiveness. For example, to meet the poor's preferences and needs, firms must offer new combinations of price and performance. And the pervasive constraints that businesses encounter when doing business with the poor—from transportation difficulties to the inability to enforce contracts—require creative responses. These forces drive the development of new products, services and business models that can catch on in other markets, giving innovative companies a competitive advantage in poor markets.

Expanding the labour pool. The poor are a large source of labour. The advantages of hiring them as employees go beyond cost savings. With adequate training and well-targeted marketing, the poor can deliver high-quality products and services. Or their local knowledge and connections may place them well to serve other poor consumers in their communities.

Strengthening value chains. For firms that procure locally, incorporating the poor in business value chains—as producers, suppliers, distributors, retailers and franchisees—can expand supply and lower risk. That allows them to reduce costs and increase flexibility, especially as the local businesses move into more specialized or higher-skill activities such as component production and business services. ☉

OPPORTUNITIES FOR THE POOR: ADVANCING HUMAN DEVELOPMENT

Businesses can also improve the lives of poor people, contributing broadly to what the UN terms 'human development'—expanding people's opportunities to lead lives they value.

Meeting basic needs. Food, clean water, sanitation, electricity and health-related services all meet people's basic needs. In the Philippines, RiteMed sells generic drugs to more than 20 million low-income clients at prices 20%–75% less than leading brands.

Guinea: Improving transportation infrastructure will enable the poor to become more productive. Photo: Adam Rogers/UNCDF



In South Africa Amanz'abantu provides clean water and sanitation to periurban and rural populations in the Eastern Cape, where a quarter of people lack potable water.

Enabling the poor to become more productive. Access to products and services—from electricity to mobile telephony, from agricultural equipment to credit and insurance—improves people's productivity. In Mexico, Amanco provides small-scale lemon farmers with water-efficient drip irrigation systems that allow for continuous production 8–10 months a year. The systems are expected to increase the farmers' annual yields from 9 to 25 tons a hectare. In Morocco, Lydec provides water and electricity to Casablanca's shantytowns, increasing the share of people with electricity and water services by 20%.

Increasing incomes. Including poor people in value chains as customers, employees, producers and small-business owners can increase their incomes. In the Amanco case in Mexico, productivity increases are expected to nearly triple the farm incomes. In China, Huatai provides alternative income sources for local tree farmers and significantly adds to the incomes of about 6,000 rural households. In Tanzania, A to Z Textiles employs 3,200

people (90% of them women) producing insecticide-treated bednets and pays them 20%–30% more than competitors.

Empowering the poor. All these contributions support the empowerment of poor people, individually and communally, to gain more control over their lives. By raising awareness, by providing information and training, by including marginalized groups, by offering new opportunities and by conferring hope and pride, inclusive business models can give people confidence and new sources of strength to escape poverty using their own means. ☺

CONSTRAINTS STANDING IN THE WAY

With the opportunities so great, why haven't more businesses taken advantage of them? Simply put, market conditions surrounding the poor can make doing business difficult, risky and expensive. Where poverty prevails, the foundations for functional markets are often lacking, excluding the poor from meaningful participation and deterring companies from doing business with them.

The case studies in this report identify five broad constraints:

Limited market information.

Businesses know too little about the poor—what poor consumers prefer, what they can afford and what products and capabilities they have to offer as employees, producers and business owners. This was a significant constraint when Barclays Bank started to offer financial products to the poor in Ghana.

Ineffective regulatory environments.

The markets of the poor lack regulatory frameworks that allow business to work. Rules and contracts are not enforced. People and enterprises lack access to the opportunities and protections afforded by a functioning legal system. For example, Sadia, a food processing company, faced undeveloped domestic carbon credit regulations when it began using improved environmental methods to dispose of pig waste.

Inadequate physical infrastructure.

Transportation is constrained by the lack of roads and supporting infrastructure. Water, electricity, sanitation and telecommunications

networks are lacking. For example, Tsinghua Tongfang, a computer manufacturer seeking to distribute its products in rural China, had to overcome the lack of telecommunications infrastructure and internet service providers in those areas.

Missing knowledge and skills.

Poor consumers may not know the use and benefits of particular products, or may lack the skills to use them effectively. Poor suppliers, distributors and retailers may lack the knowledge and skills to deliver quality products and services consistently, on time and at a set cost. For example, because rural farmers in Brazil did not know how to grow *priproca*—a plant used for perfume essence—Natura had to train them.

Restricted access to financial products and services. Lacking credit, poor producers and consumers cannot finance investments or large purchases. Lacking insurance, they cannot protect their meagre assets and income against shocks such as illness, drought or theft. And in the absence of transactional banking services, their financing is insecure and expensive. ☉

FIVE STRATEGIES AT WORK

Despite these challenges, a growing number of businesses are operating successfully in poor markets. The examples in this report span a wide range of countries and industries. Each featured business developed a specialized solution set, allowing it to succeed in its local context according to its unique objectives. Yet the case studies reveal common patterns. Entrepreneurs respond to constraints by working around them or by removing them. To do that, they use five core strategies: adapting products and processes, investing to remove market constraints, leveraging the strengths of the poor, combining resources and capabilities with other organizations and engaging in policy dialogue with government.

These strategies are consistent with the local context and objectives of each

business. The critical added ingredient: the entrepreneur's ingenuity. The report presents tools and examples to stimulate and guide that ingenuity, highlighting constraints, strategies and specific solutions for developing inclusive business models.

The Growing Inclusive Markets strategy matrix relates the five broad constraints to the five core strategies (figure 2), showing how these strategies are most often applied: strategies highlighted in dark blue are used most often, those in light blue only rarely.

The strategy matrix can help entrepreneurs and analysts scan possible solutions to the constraints they face. It is crucial to note that successful inclusive business models typically combine several strategies to address several constraints. To get from broad strategies to

focused solutions, one must not only identify each local constraint, but also understand its dynamics in the market—information that allows a business model to build on a market’s specific strengths.

Adapt products and processes.

Many entrepreneurs work around market constraints by adapting business products and processes. Information and communications technologies have created the possibility for many such adaptations, including mobile banking (m-banking), smart cards (such as those used in Africa to buy water) and telemedicine, which brings quality health care to remote areas. M-banking has freed banking processes from relying on brick-and-mortar branches and automated teller machines, infrastructure that rarely exists where poor people live. Customers can now wire money, receive remittances, pay for purchases and service their credit, all through their mobile phones. But businesses are also using other technologies for water purification and off-grid electricity production, to address constraints in industries that meet basic needs. In addition, some innovative technological approaches are reducing the use of resources—tying the goal of human development to that of environmental sustainability.

Restructuring business processes can be as important as using new technologies. For example, the global spread of telephony is driven by wireless technology. But bringing mobile telephone service to poor people has depended partly on a change in the business process—the move to selling air time on prepaid cards. With ‘smart’ payment and pricing methods, an inclusive business model can accommodate the cash flow of its customers and suppliers, who are constrained by low and unreliable incomes and a lack of access to financial services. Similarly, providing infrastructure to a group saves individual household connection costs. And simplifying the requirements—by making products and services easier to use, or by asking for less documentation—responds to the lack of knowledge and skills among the poor and to their exclusion from formal registration.

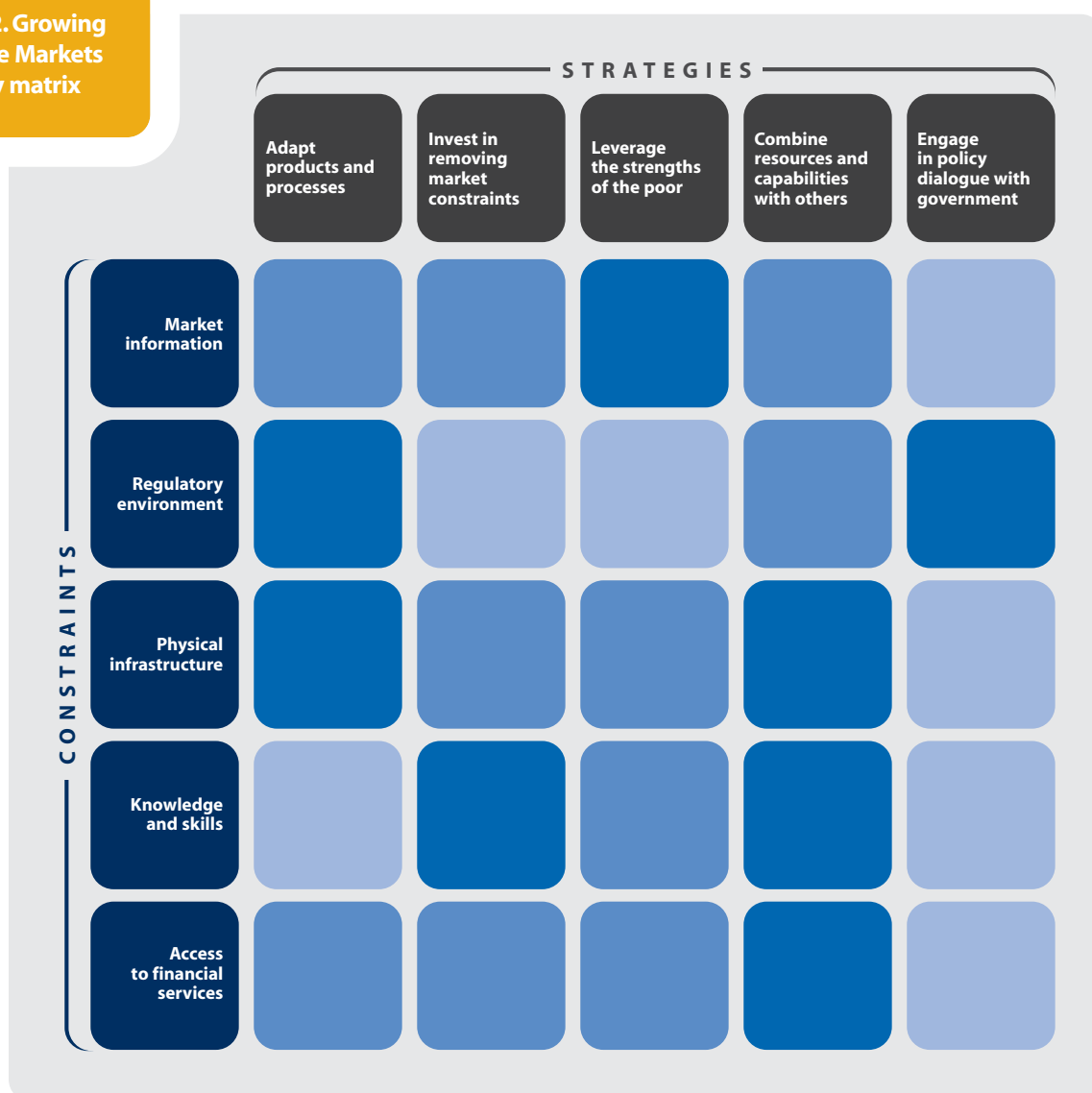
Invest to remove market constraints.

Although removing market constraints might ordinarily be thought the province of government, companies with inclusive business models often must take on this task themselves. Investing to remove constraints is cost-effective for business when it creates—or can be made to create—private value that is tangible and capturable, ensuring sufficient benefits to the company.

Denmor produces textiles in Guyana, mainly for export to the United States. Its key value proposition is flexibility: it can produce high-quality garments in small batches and deliver them fast. The company employs 1,000 people, virtually all of them women from poor rural communities. Many cannot read or write when they start working with the company. Denmor teaches them at least enough to write their names, count and read labels and garment specifications. All employees are cross-trained, so that each can perform every step in production and all can respond better to rushed orders and tight deadlines. Denmor also trains the women in health and hygiene and for personal empowerment. Beyond tangible and immediate value, removing constraints—in knowledge, skills, infrastructure or access to financial products and services—can create intangible and longer term value through building brand image, employee morale, corporate reputation and the power to develop new capabilities and strengthen competitiveness. Such investments can thus be cost-effective.

Investing to remove market constraints can create public as well as private value. For example, when a firm educates and trains its employees it creates a more skilled workforce—a shared resource as workers move on to other jobs and companies. This added social value opens up doors for cost-sharing with socially minded funding sources. Such sources—which can include international donors, individual philanthropists, nonprofit social investment funds and governments—enable the private sector to share the cost of creating social value in three ways: through grants and through reduced-cost and ‘patient capital’.⁷

Figure 2. Growing Inclusive Markets strategy matrix



Note: **Dark blue** indicates constraint-strategy combinations found in more than one in four cases where the constraint appears. **Medium blue** indicates combinations found in less than one in four, but more than 1 in 10 cases where the constraint appears. **Light blue** indicates combinations found in less than 1 in 10 cases where the constraint appears.

Source: Authors' analysis of data as described in text.

Leverage the strengths of the poor.

The poor are often an inclusive business model's most important partners. By engaging the poor as intermediaries and building on their social networks, a company can increase access, trust and accountability. Those qualities in turn help businesses to nurture their markets and expand participation in their value chains. One model for engaging the poor into one's sales operations is microfranchising; an example is CFW, a microfranchise system of drug shops and clinics in Kenya. Its franchisees are typically nurses or other health workers from the communities that the franchises serve. The franchise provider, Sustainable

Healthcare Foundation, supports the franchisees with quality drug supplies, start-up financing, ongoing professional development and other central services, while franchisees operate the shops on their own account.

Firms can leverage local knowledge and trust—two key assets for doing business in poor communities—by employing the poor to gather market information, to deliver, collect and service products and to train others. Furthermore, poor people often have the best ideas for creating new products and services that meet other poor consumers' needs. Generally, when the poor take over some tasks in a business model, the transaction

costs for the business fall—while the poor benefit from rising income, knowledge and skills and social standing.

Central to leveraging the strengths of the poor is building on their social networks. A community is more than the sum of its parts. Where poverty prevails, formal laws and regulations are often less effective than the informal rules that communities set and enforce. Such informal rules can make inclusive business models viable. And a community can help its members to help each other—for example, by sharing resources, by co-operating to provide common goods (such as wells, mills or schools) and by supplying an infrastructure for savings, credit or insurance mechanisms. Businesses can count on these communal processes to fill gaps in the markets of the poor.

Combine resources and capabilities with others. Like many business models, inclusive business models often succeed by engaging other businesses in mutually beneficial partnerships and collaborations. They also make use of collaborations with nontraditional partners, such as nongovernmental organizations and public service providers. Through such collaborations, businesses can gain access to complementary capabilities and pool resources to work around or remove constraints in the market environment.

By combining complementary capabilities with other organizations, inclusive business models can capture capabilities and resources that a business could not provide alone. Brazil's Votorantim Celulose e Papel (VCP), a pulp and paper company, wanted to provide its small-scale eucalyptus growers with access to credit under repayment terms that would match their cash flows (eucalyptus is harvested only after seven years). Since credit was not available on such terms, and since VCP had no interest in offering in-house credit services, the company established a partnership with a bank, ABN AMRO Real. The bank now provides credit to the growers, with the loan secured by a guarantee from VCP to buy the timber. The growers pay the loans back as the timber is harvested. In other examples,

partner organizations fulfill all kinds of functions along the value chain, from market research to providing services.

Collaboration can also mean pooling resources to achieve a common objective. In India, access to credit for small and medium-sized enterprises was complicated by the fact-finding process: each bank had to assess the risk of lending on its own. The high cost of assessing applicants meant that banks had no interest in dealing with loans below a certain size or interest rate. Then several banks, among them ICICI Bank and Standard Chartered, joined to create the Small and Medium Enterprises Rating Agency, which rates the creditworthiness of such enterprises and provides the information to all participating banks. By reducing the cost of due diligence to any one bank, the service makes it profitable for banks to lend to smaller businesses and at lower interest rates—increasing access to credit while expanding the market for credit providers.

Engage in policy dialogue with governments. Engaging in policy dialogue is an important part of doing business with the poor, where companies are typically first movers and much of the environment for doing business has yet to be built. All five market constraints identified in this report are more or less in the domain of public policy. In many of the case studies, businesses have found creative ways to work around or remove the constraints—say, by adapting products to run on solar power, by investing in education and training to increase skills among the workforce, by leveraging social networks to enforce contracts or by joining with other companies in self-regulation. For other businesses, though, it proves less feasible to work around or remove constraints through private initiatives. Their usual strategy is to engage in policy dialogue. Policymaking is complex and continual, and businesses can provide good information about the problems and their possible solutions.

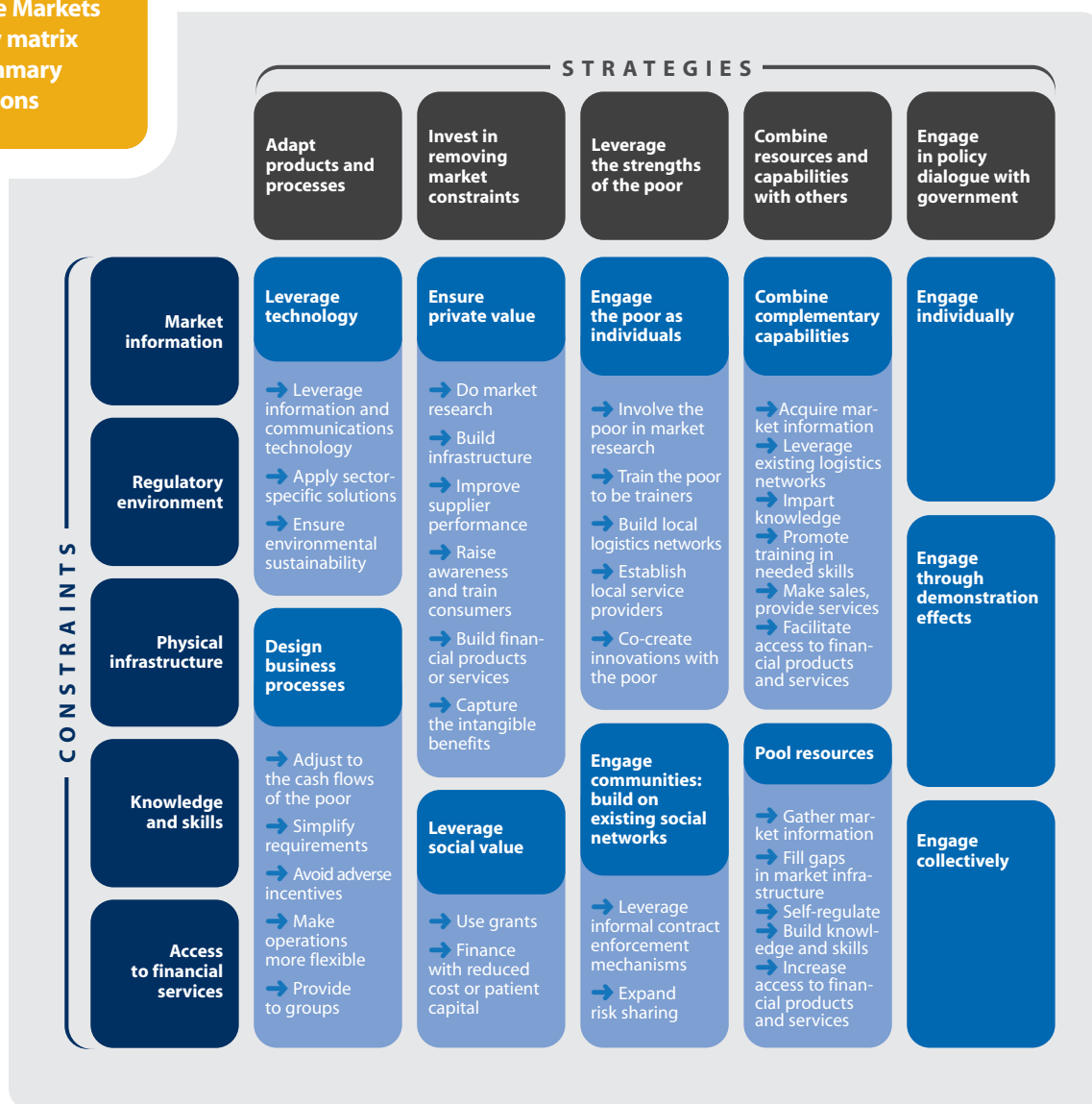
Inclusive businesses often have fairly limited goals, such as encouraging government to provide the public goods or services they

need to operate in a particular location. In such cases, engaging with governments individually can be effective. Sometimes the individual efforts of entrepreneurs and companies can have larger implications, such as changing market structures or even opening new markets. Tiviski, a camel dairy in Mauritania, is an example: through the individual efforts of Tiviski’s founder, the European Union is creating a market for camel dairy imports where none existed before.

Businesses can also rely on demonstration effects to promote the strengthening of regulations in developing countries that lack them, or where they are not effective. When the Rural Energy Services Companies started up in Mali, the country did not yet have a regulatory framework to cover private electricity provision. Through the companies’ actions—and with additional support from the World Bank—the Malian government established the required rules and procedures.

Collective engagement by businesses is another way to inform public policy. Since business engagement in policymaking can be controversial, companies and

Figure 3. Growing Inclusive Markets strategy matrix and summary of solutions



policymakers need a space to engage in frank yet transparent dialogue about how to improve the business environment. Collaborative efforts can open such a space. Companies operating in the same industry or region often share policy interests. And if they are doing business in ways that contribute to economic opportunity and human development, organizations outside the private sector may have complementary policy interests. Where business models are inclusive, collective action can give businesses a strong and legitimate voice in policymaking. ☉

TAKING ACTION

How can a business leader develop an inclusive business model? In a few words: by responding to local conditions. The entrepreneurs behind the case studies featured in this report acted in this spirit. They identified opportunities, understood the contexts and found solutions with open minds and much experimentation.

The report encourages people in the private sector to be the main agents of change for human development. But the private sector cannot succeed alone. As important as the entrepreneurial spirit is to business leaders, it is also important for donors, policymakers, philanthropists and leaders of public service and not-for-profit organizations. They can partner with the private sector to fund investments in better market conditions, to collaborate in operating

business models and to facilitate and lead dialogues for policy change.

Building business in the markets of the poor works best when all stakeholders contribute their strengths. When this happens, inclusive business models will proliferate and grow. Markets will include more poor people. And value will be created for all—through profits, through increased incomes and through concrete progress in human development.

The Growing Inclusive Markets strategy matrix and summary of solutions (figure 3) lists ways to apply the five over-arching strategies for mitigating the constraints faced by inclusive business models. More than one solution—and more than one strategy—are often used simultaneously to overcome a constraint. ☉

1 World Bank 2007d. 2.6 billion is the figure for 2004 and less than \$2 a day is in 1993 purchasing power parity dollars.

2 OECD and IEA 2006.

3 ITU World Telecommunication/ICT Indicators Database. Available at: <http://www.itu.int/ITU-D/ict/statistics/ict/>

4 Chu 2007.

5 World Development Indicators Database. April 2007.


6 See Mendoza, forthcoming.

7 'Patient capital' is a term used to describe an emerging set of investments that do not look for immediate financial return, but rather expect both financial and social returns over time.



OPPORTUNITIES TO
CREATE VALUE FOR ALL

Chapter 1 surveys the important opportunities in doing business with and for the poor. Businesses include the poor on the demand side, as clients and customers, and on the supply side, as employees, producers and business owners. Businesses can benefit from increased profitability, flexibility, innovation and long-term growth potential. The poor can benefit from the fulfilment of basic needs and from increased productivity, income and empowerment. We call such ways of doing business that build bridges between business and the poor for the benefit of both ‘inclusive business models’.

Chapter 2 explains why these opportunities remain largely unrealized because of the market constraints that characterize poverty: a lack of market information, spotty regulatory environments, underdeveloped infrastructure, scarce knowledge and skills and limited access to financial services. These constraints have long been identified as major causes of persistent poverty. The Growing Inclusive Markets cases reveal that they are also important challenges to the development of successful inclusive business models. 

1 OPPORTUNITIES FOR BUSINESS—AND FOR POOR PEOPLE

Egypt: The attractiveness of the SIWA oasis offers a great opportunity for both the local community and the ecotourism business.

Photo: SIWA



Many businesses are including poor people. That is good news for all.

It is good news for the poor because, with poverty still intractable and widespread, large-scale solutions are needed. Of the world's 6.4 billion people, 2.6 billion live on less than \$2 a day.¹ Billions lack access to even the most basic provisions of a good life. More than a billion lack clean water,² and 2.6 billion lack adequate sanitation.³ Too many people remain stuck in fragmented, inefficient markets that limit opportunities to use resources productively. With appropriate frameworks and support from governments, the private sector is well-positioned to provide these opportunities on the required scale.

That businesses can include the poor is also good news for business. Successful inclusive business models show that growth and innovation opportunities are emerging on both the demand and supply sides and that business can do much to capture—even create—those opportunities. By providing access to critical goods, services, jobs and incomes, businesses can help the poor become better

off; foster motivation and productivity among producers and employees; and build a base of loyal customers who move up the income ladder. Businesses that include the poor can both produce and reap the benefits of human development.

That inclusive business models can create value for business and the poor reflects the truth that the poor are not simply shut out of commerce and markets. The private sector is central to the lives of the poor because all poor people are consumers, and because most earn income in the private sector, whether by working for a business or by running one.⁴

The private sector is already meeting poor people's needs in many places, including areas governments do not reach. In some poor urban and periurban areas of India and Sub-Saharan Africa, most schoolchildren use private schools; in rural India half of children do. In the poor urban and periurban areas of Lagos State, Nigeria, 75% of schoolchildren are in private schools, in the periurban district of Ga, Ghana, 64% and in the slums of Hyderabad, India, 65%. These low-budget private schools are usually run by local entrepreneurs, employing local teachers.⁵ Similarly, the private sector is sometimes the only option for health care in rural regions and poor urban slums. Studies consistently

show that the private sector provides health care for people from a wide distribution of incomes, including poor and rural populations. In Ethiopia, Kenya, Nigeria and Uganda more than 40% of people in the lowest economic quintile receive health care from private for-profit providers.⁶

Most poor people work and earn income in the private sector, which generates more employment than the public sector. In Turkey, the private sector generated 1.5 million jobs from 1987 to 1992—16 times more than the public sector. In Mexico, it generated 12.5 million jobs from 1989 to 1998—87 times more than the public sector.⁷ Moreover, many poor people operate their own businesses. In Peru, 69% of urban households that live on less than \$2 a day per person operate a nonagricultural business. In Indonesia, Pakistan and Nicaragua, that figure is around 50%. In rural areas, many poor people operate a farm. In Pakistan, 75% of rural households were self-employed in agriculture, in Peru, 69% and in Indonesia, 55%.⁸

There is room for much more, and much better, inclusion of poor people in markets. Their use of markets can be very limited, with little competition and low efficiency and productivity. Businesses that open the markets of the poor with innovative models can realize pioneer benefits. ☺

OPPORTUNITIES FOR BUSINESS: PROFITABILITY AND GROWTH

Building inclusive business models requires entrepreneurship. Entrepreneurs perceive opportunity and take advantage of it. They come from all different backgrounds. Some start companies; others push for change and innovation in existing organizations. And many companies have business development processes or other special systems to capture opportunities.

The entrepreneurs in the case studies presented here include developing and developed country multinational corporations and large

national companies that venture into the markets of the poor. In Ghana, Barclays Bank worked with local money collectors to reach the poor who were not in the formal financial sector. And Brazilian food giant Sadia transformed the lives of its small swine suppliers by monetizing carbon emissions from swine. All these entrepreneurs also include small and medium-sized local companies and cooperatives, such as DTC Tyczyn, a cooperative offering telecommunications services in the poorest, most remote

areas of Poland; Tiviski Dairy, Africa's first camel dairy company in Mauritania; and Denmor, a textiles company employing 1,000 people in Guyana. They even include nonprofit organizations, such as the HealthStore Foundation, a microfranchise network of pharmacies in Kenya, and Pésinet, a child health delivery service in Mali. All these entrepreneurs pursue profit and social impact to varying degrees, but they also seek innovative solutions for financial sustainability and scale.

Generating profits and financial self-sustainability. Business with the poor can be profitable, sometimes even more profitable than business with the rich. The Narayana Hrudayalaya hospital group, a cardiac health care provider to the poor in India, earned a 20% profit in 2004⁹—almost 4 percentage points more than the country's largest private hospital—thanks to high patient volume and an innovative payment and financing scheme. Sulabh, a low-cost sanitation provider in India, posted a \$5 million surplus in 2005 from its earned income strategy of building and operating public toilets and installing private toilets; its facilities were used by an estimated 10 million people in India. Smart Communications in the Philippines, a mobile phone banking company enabling overseas remittances and other services, became that country's leading telecommunications provider with a business model based on the mission 'to make mobile phones as affordable and accessible to as many Filipinos as possible.'¹⁰ Of Smart's revenues, 99% came from prepaid cards in 2006. In 2003, with a net income of about \$288 million, Smart was the year's most profitable of the 5,000 largest corporations in the Philippines.¹¹ And microfinance institutions have already proved their high potential for above-market profitability, in some cases earning more than a 23% return on equity.¹²

At other times, profitability is a means rather the primary objective. Many inclusive business models, such as those formed by civil society organizations and social entrepreneurs,

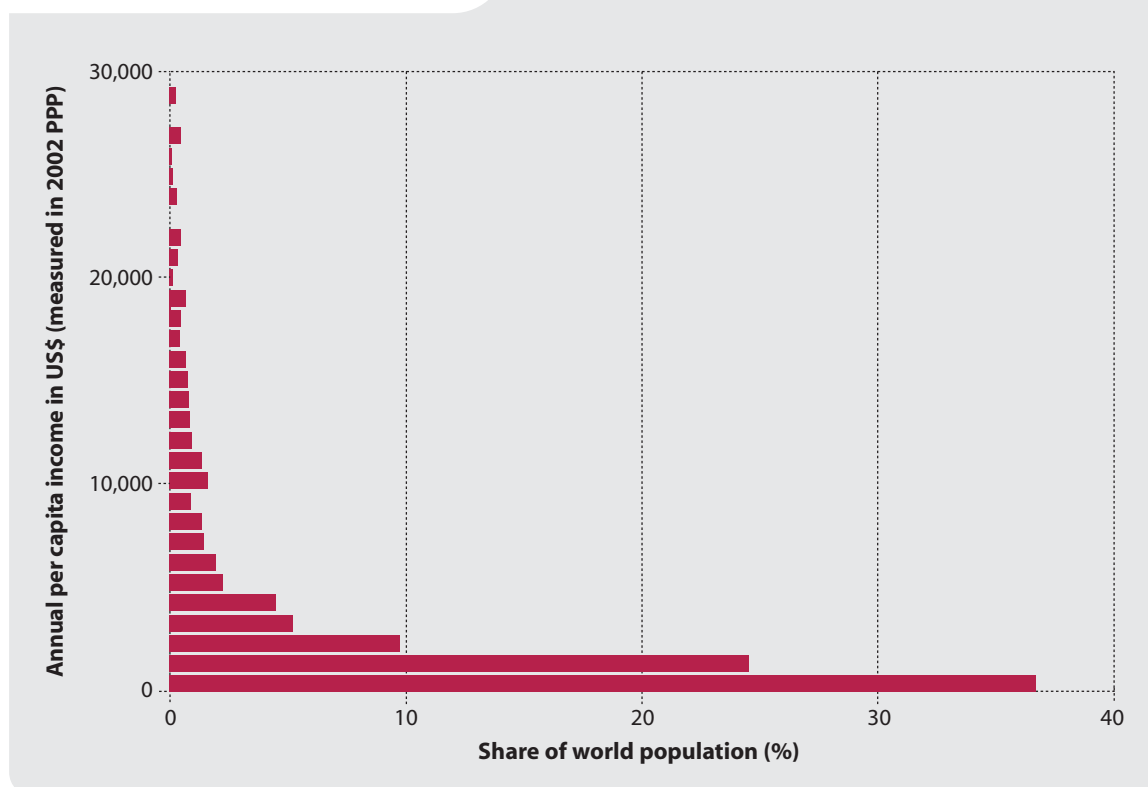
Mozambique: Women no longer spend hours fetching water from the river. Photo: Adam Rogers/UNCDF



are designed primarily to address social problems. Yet financial self-sustainability—achieved through entrepreneurial and earned-income strategies—allows them to increase their reach and impact. Take the HealthStore Foundation, an international nongovernmental organization, which has quickly expanded by establishing a microfranchising distribution business model. Its CFW shops combine established microenterprise principles with proven franchise business practices to provide essential drugs and basic health services to communities. Through its 64 outlets across Kenya, the HealthStore Foundation serves some 400,000 patients each year.¹³

Driving innovation. The motive for doing business with the poor is not always immediate profitability. Sometimes it is longer-term growth and competitiveness. That is particularly true for large firms, including foreign multinationals, for which doing business with the poor can foster innovation—a must for companies to compete and grow.

Figure 1.1. The global income pyramid



Source: Based on Milanovic 2002.

For large firms entering the unfamiliar markets of the poor—and sometimes engaging local actors—can spur innovation in two ways. First, to increase affordability and fit poor people’s preferences and needs, firms must develop new combinations of price and performance.¹⁴ Second, the deep and pervasive constraints that firms meet when doing business with the poor—from transportation difficulties to an inability to enforce contracts—require inventive responses. The products, services and business models that result can be successfully transferred to developed markets, attracting consumers there. For example, fingerprint-enabled automated teller machines developed for illiterate banking customers in India are being introduced in the United States, where they increase security and convenience.¹⁵ Large companies that do not compete for low-income customers risk ‘innovation blowback’ if they ignore how innovations can move from the markets of the poor into higher-income markets.¹⁶

Developing new markets. Pioneering work on the ‘bottom of the pyramid,’ by C.K. Prahalad and others,¹⁷ has shown that the poor can be a significant market for certain goods and services in many countries.¹⁸ The distribution of global income is heavily weighted towards low-income segments. What is often termed an income ‘pyramid’ actually looks more like an antenna with an overly broad base (figure 1.1). Within that base 4 billion people, roughly two-thirds of the world’s population, live on less than \$8 a day. Although their incomes are small, many small incomes together equal a large sum: about \$5 trillion, nearly the gross national income of Japan, the world’s second largest economy.¹⁹

Expanding into poor markets allows firms to capture market share in a growing economy. And it allows them to build brand recognition and loyalty with a growing customer base. Engaging poor markets can also provide a ‘license to operate’ from the local community or the country at large, and

engaging with local stakeholders can contribute to the long-term political and economic stability of the business environment.

Base-of-the-pyramid markets vary significantly across locations and sectors. *The Next 4 Billion*, a groundbreaking publication by the World Resources Institute and the International Finance Corporation, details the size of these markets across sectors (figure 1.2), regions and countries. However, all base-of-pyramid markets suffer from unmet needs for goods and services. Rich people have countless ways to spend their money, poor people very few; yet the poor are able and willing to pay for basic goods and services, often at a higher price. People in the slums of Jakarta, Manila and Nairobi pay 5–10 times more for water than people in high-income areas of those cities—and more than consumers in London or New York.²⁰ The ‘poverty penalty’ is similar in credit, health care and electricity supply.

Some inclusive business models serve longer-term strategic interests in generating demand and building new markets. Tsinghua Tongfang, a Chinese computer company expanding the rural computer market, is developing software and hardware solutions for 900 million Chinese farmers, offering targeted benefits such as information on weather and productive yield methods for farmers. Jun Li, vice-general manager of the computer department, explains: ‘From our market research, we believe that what farmers really need is not simply a cheap computer, but a set of solutions to problems that farmers face in their daily work and life. We really need to think how our computers can make their life easier, rather than simply trying to make them buy our computers.’

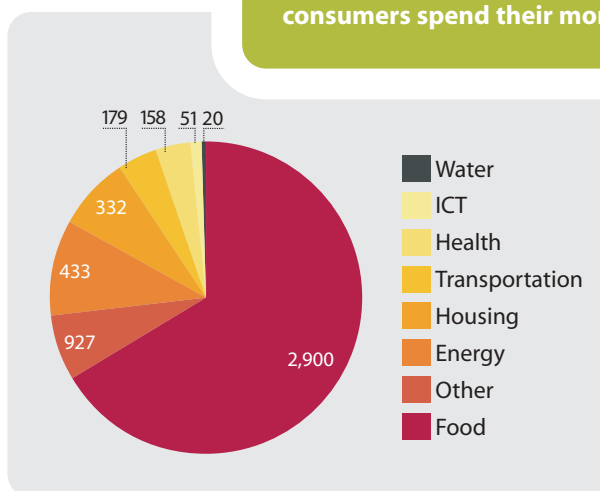
Enlarging the labour pool. Manufacturing companies are moving or outsourcing production to take advantage of lower labour costs in poor countries. China and other Asian countries have become the assembly lines of the world. With training, moreover, poor people can deliver high-quality products. Denmor Garment Manufacturers in Guyana employs mostly women from poor back-

grounds. Thoroughly training them led the company to a niche in high-quality, highly flexible production chains. Industries such as food, fashion and tourism can also draw on the cultural skills of the poor as employees, developing products with unique value propositions for higher-income consumers—both in home markets and through export channels abroad.²¹ And for businesses targeting poor consumers it can be smart to employ poor people as sales, maintenance or collection personnel—allowing the businesses to leverage their local knowledge and connections.

Strengthening supply chains. Many firms now buy significant shares of their inputs of both goods and services from other firms. Incorporating the poor into business value chains as agricultural producers or as goods and services suppliers widens the scope for firms in developing countries to reduce costs and improve flexibility through local procurement. And that scope widens as local businesses upgrade to more specialized or higher-skill activities, such as component production or business services.²²

With most of the world’s poor working in agriculture, businesses are exploring how to reduce the cost and increase the quality, diversity and consistency of agricultural product supplies by working with

Figure 1.2. How poor consumers spend their money



Note: Poor consumers are here defined as people living on less than \$8 a day. Source: Adapted from Hammond and others 2007.

small-scale farmers. Such businesses range from global giants to large national firms and to smaller local enterprises. The South African multinational SABMiller sources sorghum for its Eagle Lager from about 8,000 small-scale farmers in Uganda and 2,500 in Zambia, working through cooperatives, commodities brokers and nongovernmental organizations to transfer agricultural knowledge and business skills.²³

Working with farmers in developing

countries can also offer unique advantages, such as biodiversity, with rare, high-quality products awaiting discovery. The Brazilian cosmetic company Natura built its high-end product line, Ekos, around natural ingredients used by traditional communities. And some consumers are willing to pay more to support producers in developing countries. Though still small, the fair trade sector is growing quickly. Its total retail value was estimated at €1.6 billion in 2006—up 42% from 2005.²⁴ ☉

OPPORTUNITIES FOR THE POOR: IMPROVED HUMAN DEVELOPMENT

Doing business with the poor improves their lives. Poverty is best understood not simply as a lack of income, but more fundamentally as a lack of meaningful choices. Mahubul Haq, founder of UNDP's *Human Development Report*, a series issued annually since 1990, explains: 'The basic purpose of development is to enlarge people's choices. In principle, these choices can be infinite and can change over time. People often value achievements that do not show up at all, or not immediately, in income or growth figures: greater access to knowledge, better nutrition and health services, more secure livelihoods, security against crime and physical violence, satisfying leisure hours, political and cultural freedoms and sense of participation in community activities. The objective of development is to create an enabling environment for people to enjoy long, healthy and creative lives.'²⁵

The poor are not a homogeneous group. They live different lives in different places, with different goals and needs. The case studies show this diversity: the people living in the slums of Manila who get their water from leaking pipelines far away from their homes, the coffee growers in Colombia who must fear the volatility of world market prices, the young people in South Africa who cannot afford continued education to improve their job market positions, the people in India who have no access to sanitation

and thus suffer from diarrhoea and other preventable illnesses, the women in Guyana who cannot read and write and are unable to find formal employment. All these people are poor.

Poverty is multidimensional. At its core is the lack of opportunity—or, in the words of Indian economist Amartya Sen, the inability to choose a life 'one has reason to value'.²⁶ Causing this lack of opportunity are not only a lack of money or resources, but also a lack of the ability to use resources. Bad health, lack of knowledge and skills, social discrimination, exclusion and limited access to infrastructure can hinder people from converting resources into opportunities. Improving these can bolster both access to resources and the ability to transform resources into opportunities. Indeed, the case studies show that doing business with poor people can make them better off beyond merely generating added income.

To be sure, market-based approaches cannot help all poor people escape poverty. To transact in the marketplace, people need some resources and the ability to use them. The destitute need targeted support to help themselves through the market. Bangladesh's BRAC has long realized the difficulties in addressing the needs of the extreme poor using conventional microfinance. To give poor people the necessary security and ability to take advantage of loans, BRAC provides

Box 1.1. Inclusive business models and the Millennium Development Goals

The Millennium Development Goals, which translate the concept of human development as a multidimensional challenge into actionable objectives, give all UN agencies an overarching framework to measure progress in reducing global poverty. The Growing Inclusive Markets case studies show how inclusive business models are promoting progress towards the goals.



1

Millennium Development Goal 1: Eradicate extreme poverty and hunger

In Colombia, the Juan Valdez company is offering higher, more stable incomes to over 500,000 small-scale coffee growers. In the Philippines, where coconut farmers are among the poorest people, CocoTech involves more than 6,000 families in cocofibre net production.



2

Millennium Development Goal 2: Achieve universal primary education

Tsinghua Tongfang (THTF) markets computers to China's rural population that include distance education software, both for primary and middle school education and for minority language education. The minority language programme's online video classes, recorded in quality middle schools with minority students, allow THTF's rural customers to learn in their own language.



3

Millennium Development Goal 3: Promote gender equality and empower women

Financial institutions can promote gender equality and women's empowerment by increasing access to finance—an important need for the many women microentrepreneurs in developing countries. In Russia over 80% of Forus Bank's clients are women, most of them in retail businesses; in 2006 the bank helped create 4,250 direct and 19,950 indirect jobs. In the Democratic Republic of Congo, many women have gained financial autonomy by reselling Celtel mobile phone airtime.



4

Millennium Development Goal 4: Reduce child mortality

In Mali, where in 2000 more than 22% of infants died before their first birthday, Pésinet is making a difference in the communities where it operates by providing an early warning method for monitoring the health conditions of children under age five from low-income families. In Saint Louis, Senegal, where Pésinet started, the infant mortality rate fell by more than 90% between 2002 and 2005—from 120 per 1,000 live births to 8.



5

Millennium Development Goal 5: Improve maternal health

In Cabo Delgado, Mozambique, the liquefied petroleum gas provided by VidaGas improves the sterility of medical instruments used to deliver babies. Where most public clinics were once short of essential drugs, and most maternal deaths resulted from infection and haemorrhage caused by complications in pregnancy, today's reliable fuel supply, cold chain for medicines and better distribution of medicines all improve maternal health.



6

Millennium Development Goal 6: Combat HIV/AIDS, malaria and other diseases

In Tanzania, A to Z Textile Mills provides affordable, long-lasting insecticide-treated bed nets that prevent mosquitoes from spreading malaria, reducing deaths by 50%. In Kenya, in 2006, the 66 CFW Shops (drug shops and clinics) facilitated treatment of about 400,000 patients in rural areas and urban slums suffering from malaria and other diseases.



7

Millennium Development Goal 7: Ensure environmental sustainability

In 57 small towns across Uganda, the Association of Private Water Operators provides over 490,000 people with water and sewage services. In the shanty towns of Casablanca, Morocco, Lydec has dramatically increased the percentage of people with access to water and electricity.



8

Millennium Development Goal 8: Develop a global partnership for development

In the Philippines, Smart is reducing the 'digital divide' by providing low-cost, prepaid mobile phone airtime cards and is easing financial transactions through the option to send remittances using short messaging service (SMS) technology. With a network covering over 99% of the population, Smart's focus on the low-income market enables it to serve 24.2 million people.

Mexico: Amanco offers integrated irrigation systems to low-income small-scale lemon producers. Photo: Loretta Serrano



the poorest with food support and skill development training for a fixed period. With an average subsidy of \$135 per woman, three-quarters of programme participants became regular clients of BRAC's microfinance programme, graduating into a situation where they can benefit from formal financial markets.²⁷

Still, even the extremely poor can benefit from significant spillovers as market functioning improves. Take the study by Professor Robert Jensen from the University of Texas, looking at Kerala, India, where fishers can purchase mobile phones and benefit from real-time information on supply, demand and pricing. The phones improve their profits by about 8% and reduce prices by 4%, benefiting poor consumers. Even smaller-scale fishers who cannot afford the phones benefit indirectly, as Jensen explains: 'Rather than simply excluding the poor or less educated, the "digital provide" appears to be shared more widely throughout society.'²⁸

The businesses described in the case studies contribute to human development in four ways: by meeting poor people's basic needs, by helping them become more productive, by increasing their incomes and by empowering them.

Meeting basic needs. Some of the case studies here address basic needs, such as food,

health care, water, sanitation and housing. In the Philippines, RiteMed, the newly formed generics division of pharmaceutical provider Unilab, reached more than 20 million low-income clients in 2006 with 35 generic drugs, selling them at prices 20%–75% lower than those of name brands. Construmex, a housing and finance

provider, has helped more than 14,000 Mexican immigrants to the United States improve, build or buy houses for themselves or their families in Mexico, where an estimated 25 million people have inadequate shelter. And in Mali, rural energy companies set up by Électricité de France and its partners provide electricity to rural areas with diesel generators and solar home systems—eliminating kerosene lamps, improving indoor air and reducing respiratory disease.

Increasing productivity. Inclusive business models can increase the productivity of the poor through sales of production equipment, financial services and information and communications technology. Capacity building among employees, producers and small business owners also boosts their productivity. And improvements in the business environment, such as a better regulations and infrastructure, lift all boats. In Mexico, Amanco sells small-scale lemon farmers water-efficient drip irrigation systems that offer higher absorption and allow continuous production for 8–10 months a year. The company aims to raise farmers' annual yields from 9 tons per hectare to 25. Through social entrepreneurs and farmer cooperatives, Amanco also builds capacity through training and facilitating access to financing.

Increasing incomes. Doing business with poor people can allow them to increase their income—both through higher productivity and through new economic opportunities as employees, suppliers, distributors and the like. With Amanco, these productivity increases are expected to nearly triple farmer incomes. In China, Huatai provides alternative sources of income for local tree farmers and significantly increases the incomes of about 6,000 rural households.

Poor people's higher incomes can set off economic multipliers within the local community, indirectly increasing the incomes of many others. In Poland, apart from the jobs and information and communications technology services provided directly by DTC Tyczyn, the community benefited indirectly from economic spinoffs that established new businesses and boosted land values five-fold.

Empowering the poor. Doing business with poor people empowers them demonstrably, both as individuals and as communities. By raising awareness, by providing basic education, by including groups that have been discriminated against and by conferring new hope and pride, inclusive business models can give people the confidence and strength to escape poverty using their own means. In Kenya, the loans provided by K-REP Bank, a commercial microfinance provider, are not only sources of investment or working capital, but also of self-confidence and independence.

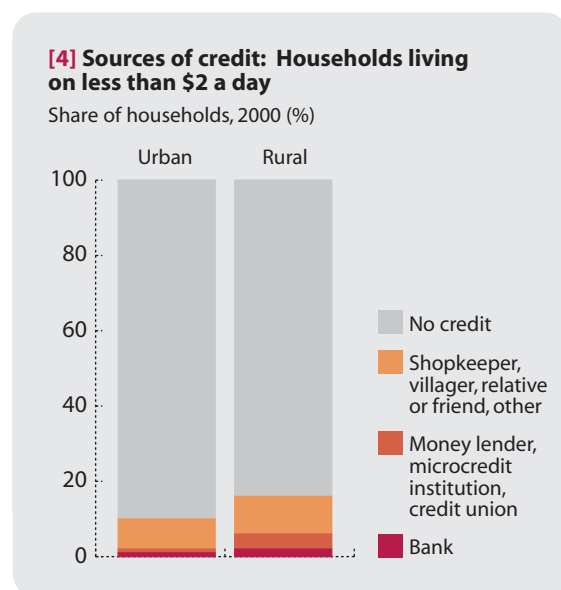
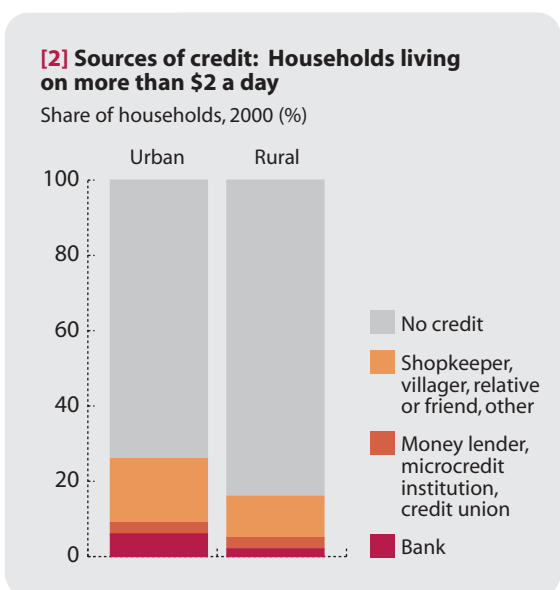
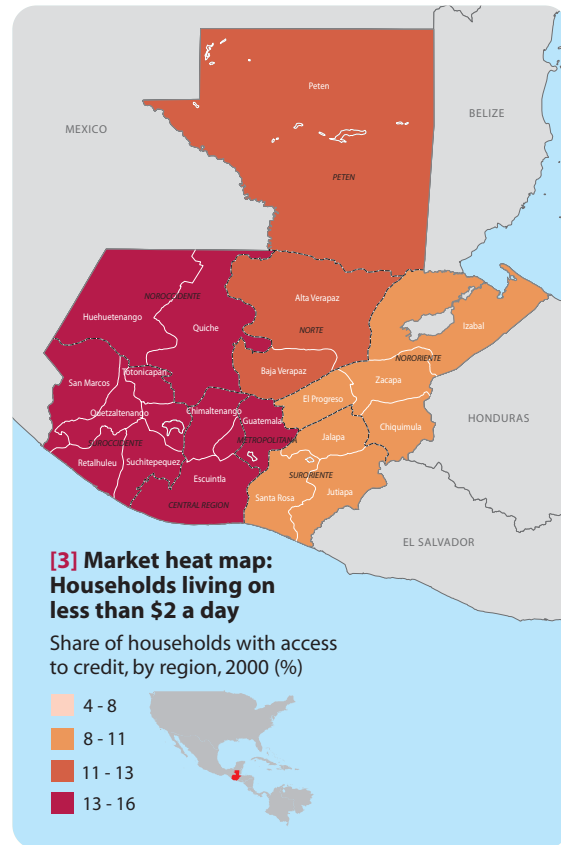
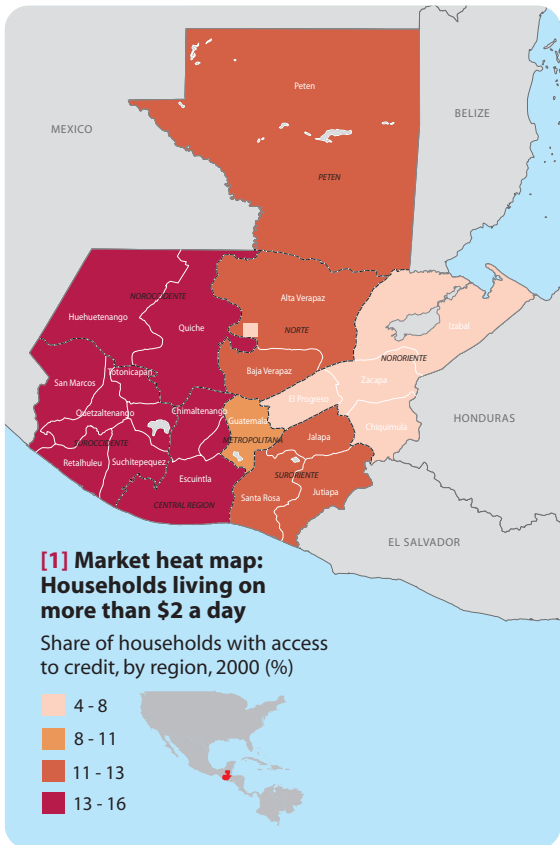
Some inclusive business models contribute to human development in all four ways. Amanz'abantu, a water and sanitation provider, is meeting basic needs in South Africa by providing clean water and sanitation to the rural poor. Becoming healthier helps the poor become more productive. Because women no longer spend hours fetching water from the river and can instead spend their time in productive activities, they are more able to increase their income. Amanz'abantu further contributes to empowerment through its ownership structure, with historically disadvantaged companies holding a significant portion of its shares.

Contributing to human development implies that the poor and, for that matter, society at large are not harmed by a business model. Unfortunately, some business models deplete a community's natural resources while meeting the needs of immediate beneficiaries. But business with the poor need not come at the environment's expense. The case studies, as well as the work of the United Nations Environment Programme and others in sustainable consumption and production, show how business models can promote environmental sustainability and human development simultaneously.²⁹

- In Mali, the solar home systems used by the rural energy services companies (set up by Electricité de France and its partners) emit 95% less carbon dioxide emissions than traditional energy sources do, while their diesel generators emit about 85% less.
- In Trinidad and Tobago, Mt. Plaisir Estate Hotel is transforming a poor, rural village into a vibrant self-sustaining community while protecting the environment and natural biodiversity (including the endangered leatherback turtle, a main local attraction). The hotel collects biodegradable kitchen waste for use on the hotel's farm, which yields fruits, vegetables and livestock for the resort.
- In Brazil, where food giant Sadia has provided biodigesters to its swine producers, pork breeding waste is transformed into a resource—producing biofertilizers and food for fish, providing a renewable source of energy and creating additional revenue for farmers from the sale of carbon credits. Environmental sustainability and poverty alleviation can go hand-in-hand.
- Cocotech, the Filipino company, transforms coconut husk waste into cocofibre nets that prevent soil erosion. Cocotech's suppliers (coconut farmers), processors, twiners and weavers (women in villages) and decorticator operators (men in villages) are overwhelmingly from the rural poor. Cocotech grew from its start-up in 1993 to a medium-sized enterprise with revenues greater than \$300,000 in 2006. ☉

Box 1.2. Access to credit in Guatemala

Consumer needs and business opportunities can be identified both nationally and locally. Access to credit in Guatemala tends to be highest in the southwest, nearest the Pacific coast and the country's political and economic centre, including Guatemala City [1]. Banks play a fairly minor role in providing credit to Guatemalans, whatever their income [2]. Most borrowers in all income groups obtain credit through informal sources such as friends, relatives and neighbours.



Such patterns can reveal opportunities to expand existing credit services or to provide new ones to people outside the market—though maps and figures are only a first step. To build a business case, more research is needed on what is behind these access patterns.

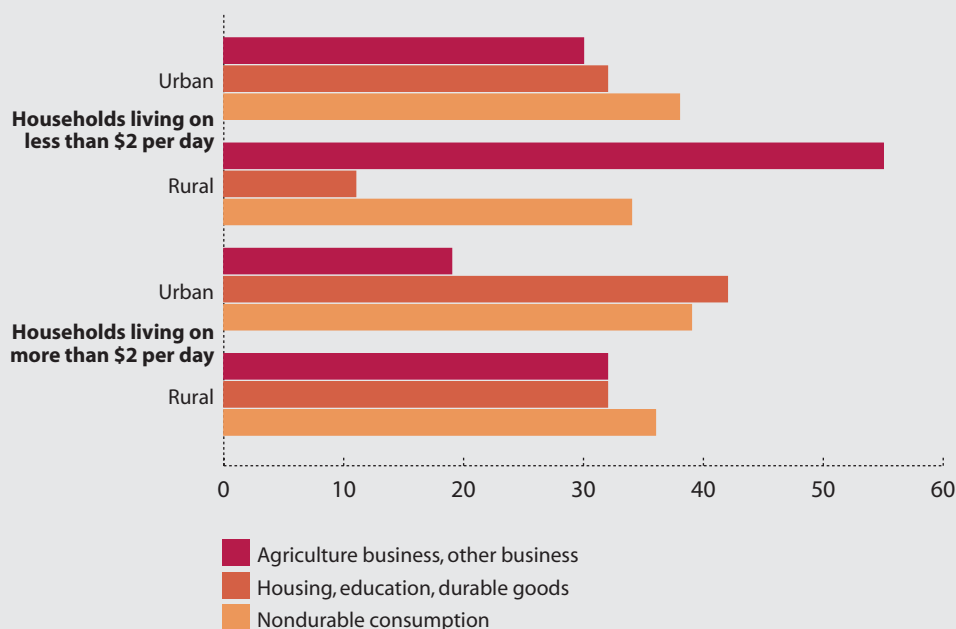
A closer look at the actual use of credit in Guatemala provides more information and might strengthen the case for a business opportunity [5]. Only 19% of urban borrowers living above \$2 a day use their loans for investment rather than consumption, 55% of rural borrowers living on less than \$2 a day invest their loans in agricultural and other business. If formal credit is expanded for the rural poor and the distribution of spending remains the same, the loans will most likely be invested rather than consumed.

Again, more detailed context-specific analyses are required to understand credit demand among the poor. But the market heat maps offer useful signposts towards a better knowledge of these markets.

CRACKING THE CODE: SUCCESSFUL EXAMPLES OF DOING BUSINESS WITH THE POOR

Two well-known examples of ‘cracking the code’ to do business with the poor are microfinance and mobile telephony. Both show how inclusive business models can set off a virtuous circle, improving people’s lives and incomes and benefiting from the growth that results. Both sectors, moreover, can still expand greatly by reaching out more broadly within countries and more deeply into low-income populations.

[5] Opportunity: Estimates of the use of credit in Guatemala among households living on less or more than \$2 a day (2000)



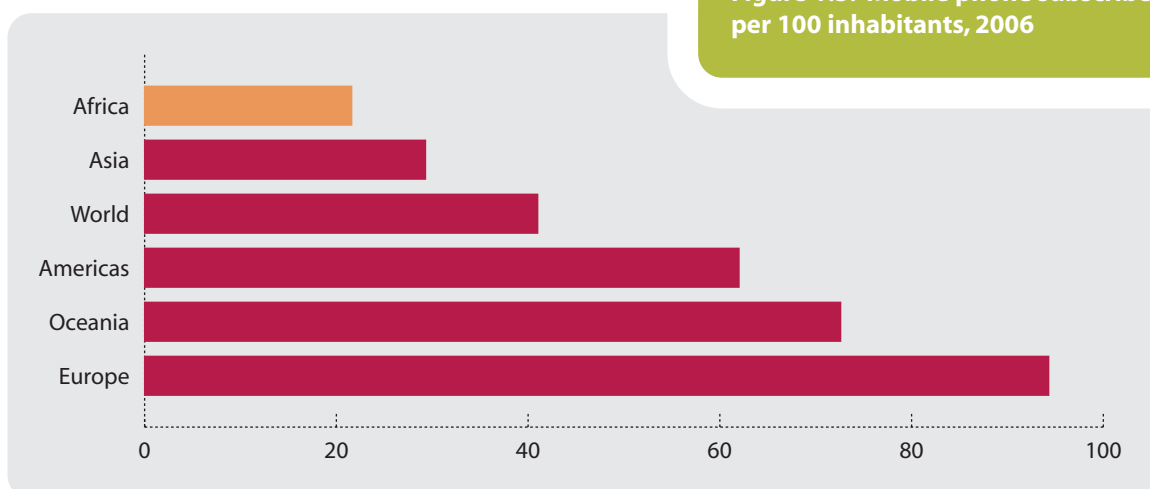
Sources: Instituto Nacional de Estadística de Guatemala.
Maps produced by OCHA ReliefWeb.

More borrowers waiting for microcredit. Microcredit was probably the first model to show that business with the poor can be profitable on a global scale. Not long ago, commercial banks considered lending to the poor unthinkable. Muhammad Yunus, the founder of Grameen Bank, recalls his first negotiations with banks in the early 1970s, ‘First thing I did was to try to connect the poor people with the bank located in the campus. It did not work. The bank said that the poor are not creditworthy.’³⁰ What began with Grameen Bank and others as a socially minded nonprofit business has grown into an attractive commercial business. Grameen Bank now has 2,499 branches and serves 7.45 million borrowers in more than 80,000 villages (more than 97% of all villages in Bangladesh).³¹

Providing microfinance services to the poor is increasingly seen as an opportunity for growth and profitability. In Latin America in 2004, the financial returns of microfinance were substantially higher than for conventional banking; microfinance’s return on equity was 31.2%, that of conventional banking 16.5%.³² And the poor benefit: one in five borrowers from Grameen Bank moved out of poverty within about four years.³³

Despite this progress, most poor people still lack access to credit. The growth of the microcredit industry was anything but slow—from 1997 to 2003 the total number of clients grew almost 500%³⁴—but even the industry’s new target for 2015, 175 million households,³⁵ is only a small fraction of the population of developing countries.³⁶

Figure 1.3. Mobile phone subscribers per 100 inhabitants, 2006



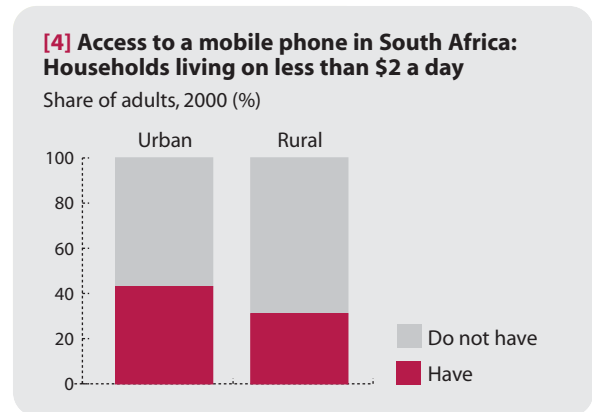
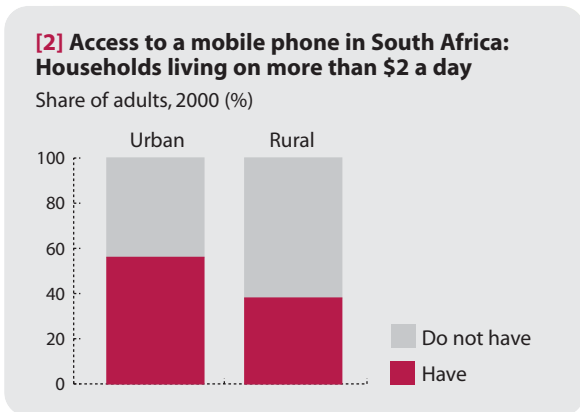
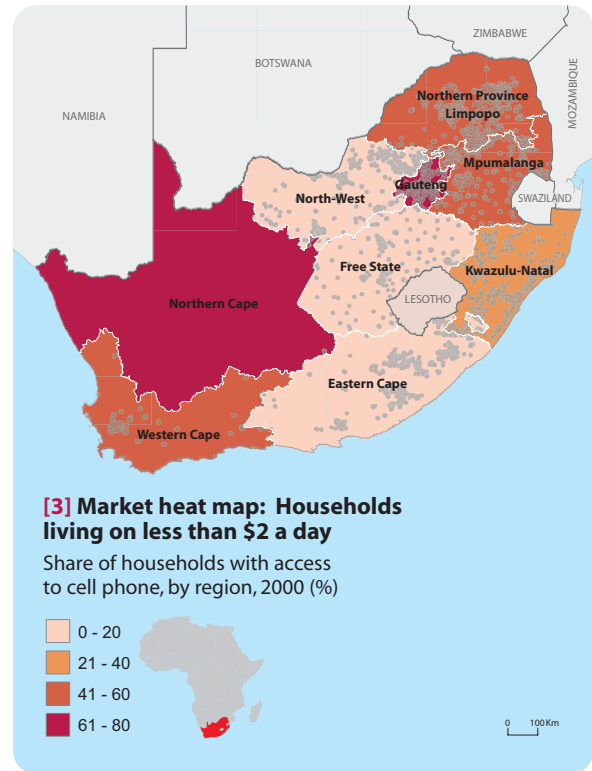
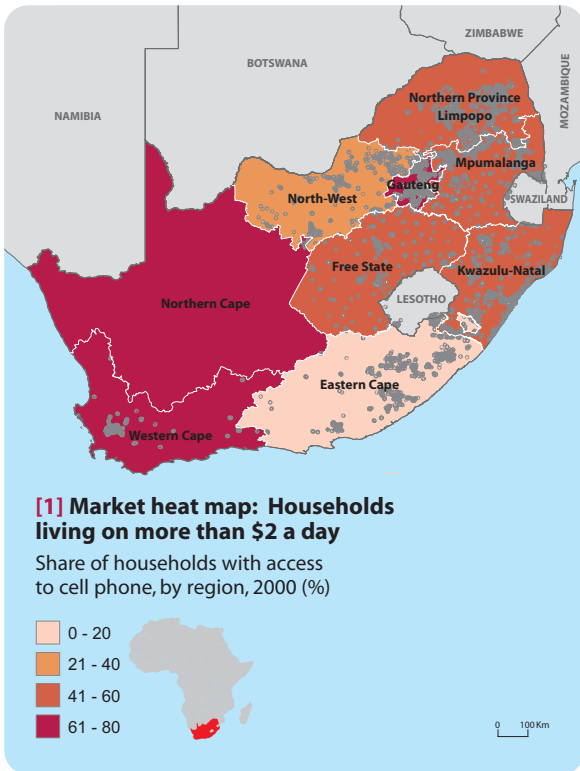
Source: ITU 2006

Mobile telephony can reach further. Mobile phone service is expanding with breathtaking speed in developing countries (figure 1.3), where the industry is adding subscribers at twice the rate seen in developed countries.³⁷ Africa’s market increased most rapidly over 2001–06, averaging about 50% annual growth. The continent had 198 million subscribers by 2006;³⁸ by 2010 that number is expected to climb to 250 million.³⁹

Despite the recent massive growth in mobile phone penetration, subscriber rates in Africa remain low. In 2006 there were 21.6 subscribers per 100 people, far fewer than the 41 per 100 people globally (box 1.3[1]). In Eritrea and Ethiopia fewer than 10 people per 1,000 subscribed to mobile phone service in 2005. ☉

Box 1.3. The booming market for mobile telephony in South Africa

Again, looking closely at the country level can reveal business opportunities. Even though South Africa has a fairly advanced mobile phone sector, large portions of the country's poor population lack access (see [1] and [2]). In urban areas, 43% of households living on less than \$2 a day have access to a mobile phone, but in rural areas, only 31% do. Households living on more than \$2 a day are only slightly better off: in urban areas 56% have phone access, in rural areas 38%. And access varies widely across regions. Cell phone penetration is generally strongest in the west and weakest in the central part of the country. Free State has the greatest disparities: at least 40% of people earning more than \$2 have mobile phone access, but fewer than 20% of those earning less than \$2 a day do. Studying why access varies so much among regions and among income groups could yield new opportunities to close access gaps.



Source: Based on FinScope 2006. Estimates for mobile phone access are taken from the survey category 'personally make use of...prepaid cell phone'. In South Africa as in many African countries, prepaid is often the only or most-used option. Maps produced by OCHA ReliefWeb.

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- 1 World Bank 2007d. 6.4 billion people is the figure for 2005, 2.6 billion the figure for 2004, and less than \$2 a day is in 1993 purchasing power parity dollars.
 - 2 World Bank's World Development Indicators database (<http://devdata.worldbank.org/external/CPProfile.asp?CCODE=JPN&PTYPE=CP>).
 - 3 World Bank's World Development Indicators database.
 - 4 See, for example, Banerjee and Duflo 2007.
 - 5 Tooley 2007.
 - 6 IFC 2007.
 - 7 Klein and Hadjimichael 2003.
 - 8 Banerjee and Duflo 2007.
 - 9 Profit in this example is noted as earnings before interest, depreciation and taxes.
 - 10 See Gancho, Elvie Grace. 2007. *Smart Communications: Lowcost Money Transfers for Overseas Filipino Workers*. UNDP
 - 11 Loyola 2007.
 - 12 Chu 2007.
 - 13 Christensen and Hart 2002; Christensen, Craig, and Hart 2002.
 - 14 Prahalad 2004.
 - 15 Kahn 2008.
 - 16 Brown and Hagel 2005.
 - 17 The distribution of wealth and the capacity to generate incomes in the world can be captured in the form of an economic pyramid. At the top of the pyramid are the wealthy, with numerous opportunities for generating high levels of income, and at the bottom people living on less than \$2 a day (Prahalad 2004).
 - 18 Hammond and others 2007; Prahalad 2004; Prahalad and Hart 2001 ; Prahalad and Hammond 2002; Hart 2004.
 - 19 World Bank's World Development Indicators database (<http://devdata.worldbank.org/external/CPProfile.asp?CCODE=JPN&PTYPE=CP>).
 - 20 UNDP 2006.
 - 21 Much work has been done—and is being done—on direct employment by businesses in developing countries. The literature covers public sector strategies for incentivising investment and job creation, short- and long-term approaches to building the labour force's capacity to fill those jobs, the need for mechanisms to help workers move up the ladder into more skilled, better-paid jobs and the debate over fair wages and labour standards. While this report does not attempt an exhaustive treatment of this broad area, several of the case studies address these issues.
 - 22 Jenkins 2007, p. 15.
 - 23 Jenkins and others 2007.
 - 24 Fairtrade Labelling Organizations International 2007.
 - 25 UNDP Website "The Human Development Concept" (<http://hdr.undp.org/en/humandev/>)
 - 26 Sen 2001.
 - 27 Fazle and Matin 2007.
 - 28 Jensen 2007.
 - 29 UNEP 2001. See also initiatives such as SEED (www.seedinit.org) or AREED (www.areed.org).
 - 30 Yunus 2003b.
 - 31 Grameen Bank Website (www.grameen-info.org).
 - 32 Chu 2007.
 - 33 Khander 1998.
 - 34 Australian Bureau of Statistics n.d.
 - 35 Associated Press 2006. See also The Microcredit Summit Campaign Phase II Goals (www.microcreditsummit.org).
 - 36 The sector is severely constrained by a lack of capital. As some microcredit organizations evolve from nonprofit organizations into commercial banks, their access to capital markets and complex financing instruments grows. Commercial investors in search of market-equivalent returns may initially adversely affect financial inclusiveness through high interest rates, but the increased investment capital allows an expansion of essential infrastructure and increases access. Additionally, the prospects of competition in these markets may also drive interest rates down for the poor eventually.
 - 37 Ivatury and Pickens 2006.
 - 38 ITU statistics n.d.
 - 39 Ivatury and Pickens 2006.

2 CONSTRAINTS STANDING IN THE WAY

The Philippines:

By taking over water operations from the Filipino government, Manila Water faced challenging hurdles due to poor law enforcement.

Photo: Manila Water



Market conditions in poor areas can often look bad

for business. Functioning, well-developed markets have adequate infrastructure, steady flows of information and a regulatory environment that is friendly to business while limiting downsides. Market participants have skills, knowledge and access to financial products and services. But where poverty prevails, most of these factors are lacking—excluding poor people from meaningful participation in markets, and excluding businesses from the markets of the poor.

The case studies in this report show how these limitations can affect businesses trying to engage the poor. They illustrate five general constraints:

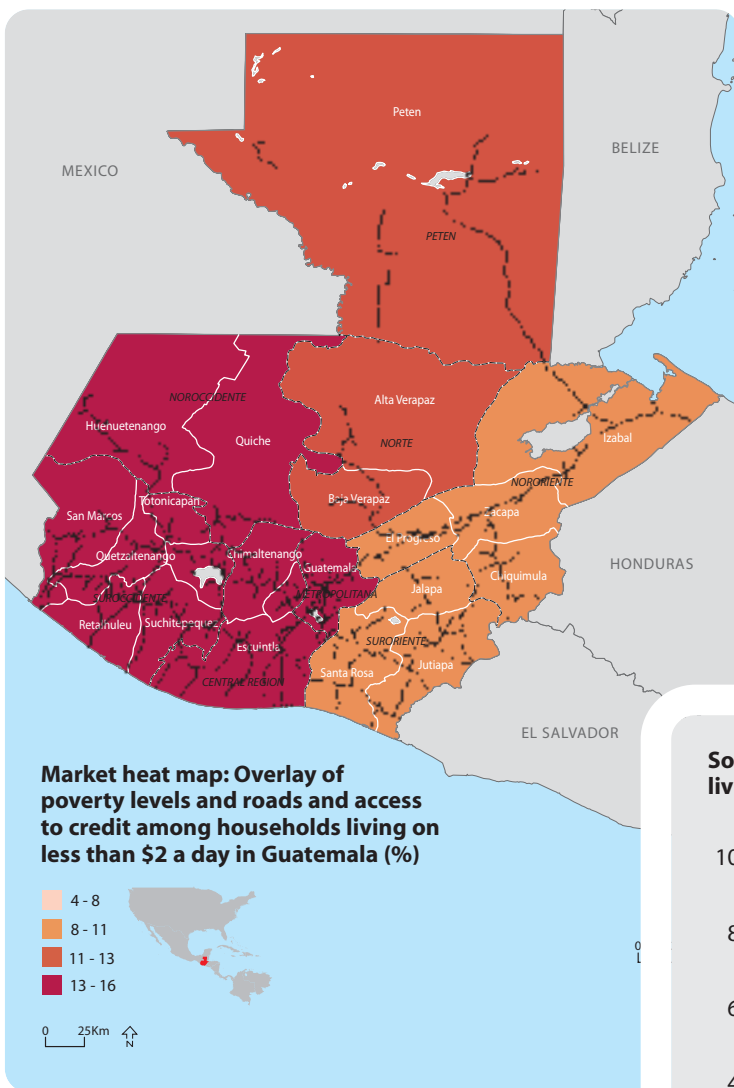
- **Limited market information.** Businesses know too little about poor people—what they prefer, what they can afford and what products and capabilities they have to offer as employees, producers and business owners.
- **Ineffective regulatory environments.** The markets of the poor lack regulatory frameworks that allow business to work. Rules are not enforced. People lack

Box 2.1. Overlapping market constraints in Guatemala

Given geography's importance in wealth disparities, inclusive business models must analyse the poor's access to goods and services geospatially. A closer look at access to credit in Guatemala shows how regional constraints in market environments might affect market access (see box 1.2). Because the country's road network remains largely underdeveloped, with only about 1.2 kilometres of paved road per 1,000 people, many of Guatemala's poor rural villages are fairly isolated. (By comparison, Costa Rica, with a population about half of Guatemala's, has about 11.1 kilometres of road per 1,000 people.) Overall, 13% of Guatemalan households lack access to motorable roads. But this figure rises to almost 20% for households in the north, northwest and northeast, among the poorest in the country.¹

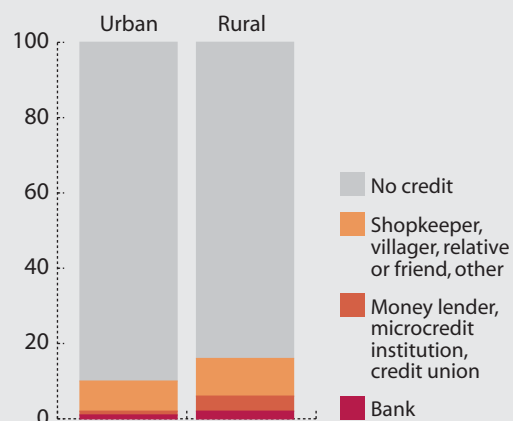
In this example two constraints seem to overlap: physical infrastructure and access to credit. The same patterns will likely appear for other constraints, such as market information. In the markets of the poor, the constraints can accompany and reinforce each other: roads reach out to areas with more economic activity, and where roads exist, the economy grows. Other areas are left out. These interlocking constraints can create severe challenges for the poor and for businesses alike.

1. World Bank 2003.



Note: Black lines in the map represent asphalt roads. Source: Based on Instituto Nacional de Estadística de Guatemala 2000 and Henninger and Snel 2002. Map produced by OCHA ReliefWeb, 5 February 2008.

Sources of credit available to households living on less than \$2 a day, 2000 (%)



access to the opportunities and protections afforded by a functioning legal system.

- **Inadequate physical infrastructure.** Transportation is complicated by the lack of roads and supporting infrastructure. Water, electricity, sanitation and telecommunications networks are lacking.
- **Missing knowledge and skills.** Consumers may not know the uses and benefits of particular products or may lack the skills to use them effectively. Suppliers, distributors and retailers may lack the knowledge and skills to deliver quality products and services consistently, on time and at a set cost.
- **Restricted access to financial products and services.** Lacking credit, poor producers and consumers cannot finance investments or large purchases. Lacking insurance, they cannot protect what meagre assets and income they may have against shocks, such as illness, drought and theft. And lacking transactional banking services, they face insecure and expensive financial management.

Long identified as major causes of persistent poverty, these constraints have been discussed extensively in the development literature.¹ But how do they appear to

businesses? And how might each constraint affect the development of inclusive business models? *Unleashing Entrepreneurship* showed that ‘building a sound private sector requires a strong foundation in the global and domestic macro-environments, physical and social infrastructure and rule of law’.² It identified access to finance, skills and knowledge and a level playing field for business as the pillars of entrepreneurship. The case studies discussed here confirm those findings: entrepreneurship is severely hampered when the conditions for functioning markets are missing.

Rural villages and urban slums are the primary market environments of the poor. Globally, rural poverty accounts for nearly 75% of extreme poverty (a per capita income of less than \$1 a day). But poverty also exists in cities, where it is concentrated in slums. One city dweller in three, or 1 billion people, lives in a slum.³

In these contexts, structural challenges keep the poor and businesses from realizing their mutual opportunities. The constraints typically coexist, often reinforcing one another. For example, market information depends on existing physical infrastructure for its flow and on knowledge and skills for its interpretation. Similarly, financial services require that rules and regulations be enforced. 🕒



Moldova

Photo: UNICEF/
Julie Pudlowski

MARKET INFORMATION

Entrepreneurs often lack detailed information about markets in poor areas, especially rural ones. These areas frequently lack intermediaries—such as market research or rating services—to consolidate or distribute such information, making it difficult to assess the viability of business ventures.

For example, when Tsinghua Tongfang sought to build a computer for rural households, it did not know the specific agricultural software that would be most useful to consumers. It developed a website with batch capability, for an online community of open-source coders, farmers and agricultural experts. Similarly, when Barclays Bank started its business line for low-income clients in Ghana, the bank had difficulty finding information on the banking services those clients demanded, the volume of their savings and credit needs and the prices they would be willing to pay. Now, with more information about the customers’ banking needs, Barclays is better able to develop marketable products—and to price-in premiums and manage risk more effectively. Only by overcoming information asymmetries about pricing, quality and sizing needs of the poor will businesses succeed in these markets. 🕒

Box 2.2. Market heat maps

A lack of accessible information about the poor and the places where they live is one of the main constraints on inclusive business models. National statistical offices, development banks and donors have information from household surveys and market studies—but it remains buried in databases. Making such information more readily accessible can reduce the uncertainty of entering these markets.

Market heat maps illustrate how much the poor participate in markets. They show access to goods and services in selected sectors and countries, and they show how the goods and services are provided. Behind the maps lies a rich literature and extensive practice in poverty mapping. The maps also complement ongoing efforts to obtain detailed data on low-income consumers—for example, an Inter-American Development Bank initiative to compile country-specific information on income groups in Latin America and the Caribbean, and a report by the International Finance Corporation and the World Resources Institute that highlights the market opportunity represented by the poor and near-poor. (Hammond and others 2007.)

An analytical tool, the heat maps provide detailed information on the nature and composition of markets pertinent to human development. Their visually compelling combination of information allows for a quick read of market inclusiveness and helps to:

→ **Reveal unmet demand for the poor as consumers and unrealized opportunities for the poor as producers.**

Market heat maps show how much the potential consumers for a good or service have (or have not) been reached. They indicate how inclusive markets are for different consumer groups, poor and nonpoor. That information can be translated into unrealized opportunities for expansion and innovation in product and service delivery. In addition, the maps show how the poor are marginalized on the supply side of markets, reflecting unrealized opportunities both for poor people and for society as a whole.

→ **Assess market inclusiveness.** Market heat maps can shed light on market inclusiveness along spatial dimensions, such as geographic regions, urban versus rural and the like—pinpointing unrealized opportunities.

→ **Clarify the supply structure.** Market heat maps can also illustrate supply structure, showing the presence and relative market shares of different suppliers. Suppliers can be differentiated by ownership (public, nongovernmental organizations, private), size (multi-national corporations, micro, small and medium-sized enterprises) or any other relevant criterion.

REGULATORY ENVIRONMENT

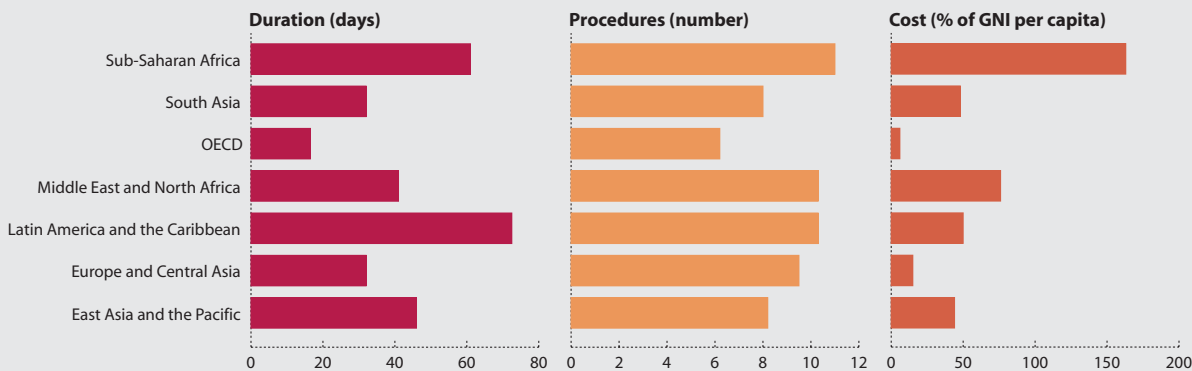
Regulatory systems in poor areas are often not developed enough to support business entry, growth or development. In Poland, the utility company Luban struggles with the absence of a coherent policy framework to support bioenergy development, including better integration of energy and agricultural policies. VidaGas, an energy company in Mozambique, needs a regulatory framework to ensure consumer safety and quality control—a change that would send important signals to investors and other companies—in order to fully establish liquefied petroleum gas as an alternative fuel in its market.

Regulations in developing countries often contain too much red tape. Complying with them takes time and money, imposing excessive opportunity costs, while payments—such as registration and licensing fees—impose significant direct costs. In Senegal, bureaucratic barriers and an unsupportive business environment required Chaka Money Express and its affiliates to go through cumbersome legal procedures to acquire money-transfer licenses.

It can be much more time-consuming and expensive to open a business in regions with higher proportions of developing countries (figure 2.1). In Latin America and the Caribbean, opening a business takes an average of 73 days and costs about 48% of per capita income, while in Organisation for Economic Co-operation and Development countries, it takes on average just 17 days and about 5% of per capita income.

Many developing country businesses operate informally because they cannot afford to comply with regulations. As UNDP's Legal Empowerment of the Poor Initiative has pointed out, economic policies and commercial law in most developing countries usually have been geared to large enterprises, excluding vast numbers of poor

Figure 2.1. Average time and cost to open a business, by region



Source: World Bank Doing Business database.

business owners. Poorer business owners rarely benefit from formal legal structures.⁴ Informality, however, creates problems for business links. Formal companies find it difficult to procure products and services from informal organizations without binding contracts. And banks and financial services find it difficult to work with poor people who cannot document their identity.

Even more challenging than inadequate regulatory environments are situations in

which laws are habitually broken and not enforced. In such situations, even large enterprises can find it difficult to handle major undertakings. When Manila Water took over water operations from the Philippine government, it incurred substantial losses initially because water from the pipelines was regularly stolen and sold. Environments of insecurity and crisis are certainly among the most challenging for business. ☹

PHYSICAL INFRASTRUCTURE

A lack of physical infrastructure adds substantially to the high transaction costs of doing business with the poor. Especially in rural areas, but also in urban slums, poor people often lack connections to important transportation or data transfer networks. Other missing infrastructure includes logistics, dams and irrigation, water and electricity supply and sanitation and waste collection.⁵



Democratic Republic of Congo: Rural areas often lack infrastructure that provides poor people with access to water and sanitation. Photo: UNICEF/Julie Pudlowski

Vietnam

Photo: Adam Rogers/UNCDF



Many people in developing countries are not connected to functioning roads. The 53 countries classified as low-income by the World Bank have 239,000 kilometres of roads, while the 60 high-income countries 3.6 million kilometres.⁶ When Celtel deployed its telecommunications network in the Democratic Republic of Congo, only one of the country's ten provincial capitals was accessible by road, three by river and six by air. When EQI founded the Siwa Sustainable Development Initiative in Egypt's western desert, it faced higher costs and logistics complicated by the isolation and inaccessibility of the oasis. In Mauritania, where the camel dairy Tiviski was founded, roads were missing, as was the logistics infrastructure for dairy production in a hot desert climate (such as collection hubs with refrigeration).


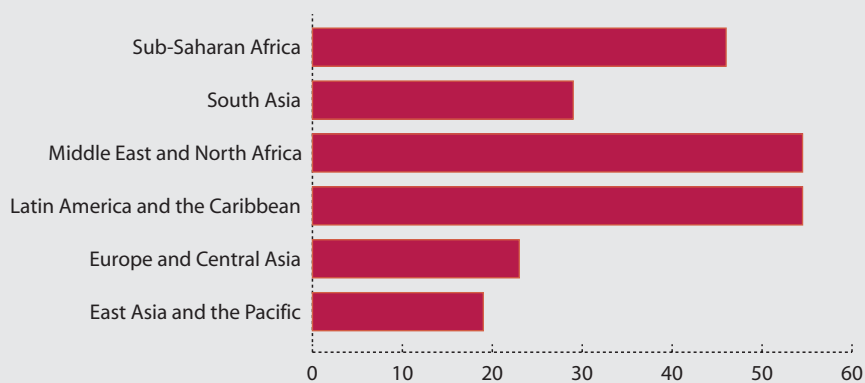
According to the World Bank's Investment Climate Assessments, physical infrastructure is a major obstacle to business operation and growth in regions with higher proportions of developing countries (figure 2.2).⁷ 

Figure 2.2. Businesses see infrastructure as a serious constraint



Note: Figure shows the share of firms that report the use of electricity, telecommunications or transportation as 'major' or 'severe' obstacles to the operation and growth of their business. Source: Based on The World Bank 2004 Investment Climate Surveys.

Box 2.3. Market constraints affect market structure: Haiti's water market

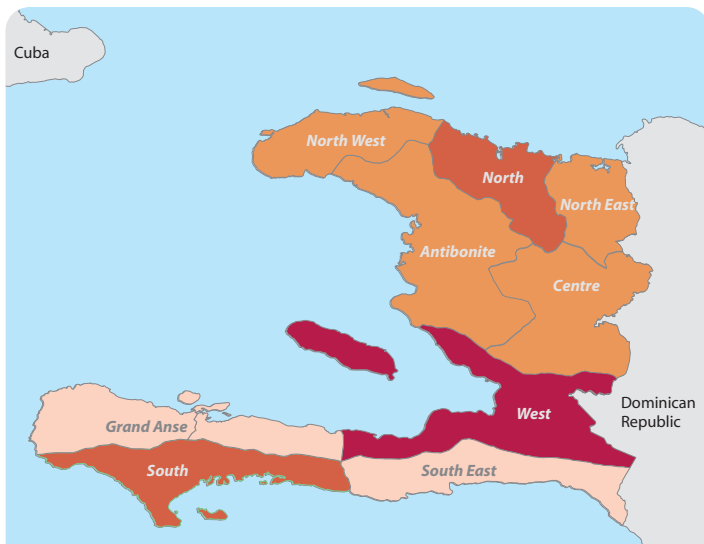
Constraints in the market environment affect market structure. Small and informal providers often serve areas

where larger, formal enterprises will not operate because of high costs. Take Haiti's water market. Water distribution depends heavily on a functioning infrastructure, but building an extensive network of pipelines is expensive. Haiti is one of the world's 50 least developed countries, ranking 146 of 177 countries on UNDP's human development index.¹ In 2001, 78% of Haiti's total population—and about 86% of its rural population—lived on less than \$2 a day.² Low economic growth, natural disasters, political instability and poor governance have eroded basic public services.³ As the heat map shows, access to piped water networks is generally very limited: only about a third of Haiti's urban poor and fewer than a third of its rural poor have access.⁴

The lack of functional infrastructure and piped water delivery has resulted in a vibrant 'other' water market, at least in urban areas. There the 45% of the population living on less than \$2 a day has access to water from trucks, bottled water and water by bucket—services typically provided by small, informal vendors.

The same trend appears in many other countries where water provision through pipelines is lacking or nonexistent. Recent estimates suggest that more than 1 billion people, or about a sixth of the world's population, lack access to improved water sources. Tapping the 'other' private sector could be a practical way to increase access to safe drinking water.

1. UNDP 2007. 2. World Bank 2006, 2007a. 3. World Bank 1998. 4. These figures may differ from those quoted in other literature, mainly because of the different units of analysis and methodology. 5. UNDP 2006; World Bank 2007a. Data on access to an improved water source refer to the percentage of the population with reasonable access (availability of at least 20 litres per person per day within 1 kilometre of dwelling) to an adequate amount of water from a source such as a household connection, public standpipe, borehole, protected well or spring and rainwater collection. Unimproved water sources include vendors, tanker trucks and unprotected wells and springs.



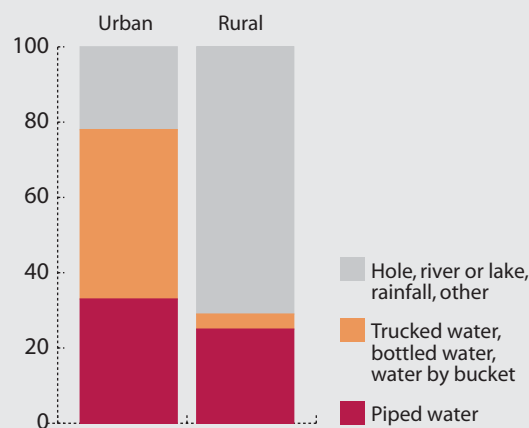
Market heat map: Access to water in Haiti (%)

Households with a per capita income of less than \$2 a day, 2001

- 1 - 5
- 6 - 10
- 11 - 15
- 16 - 20

Note: Access to water includes access both to private piped water (inside and outside the house) and to public piped water. Darker shades represent greater access. Source: Based on Institut Haïtien de Statistique et d'Informatique 2001. Map produced by OCHA ReliefWeb.

Sources of water available to households living on less than \$2 a day, 2001 (%)



KNOWLEDGE AND SKILLS

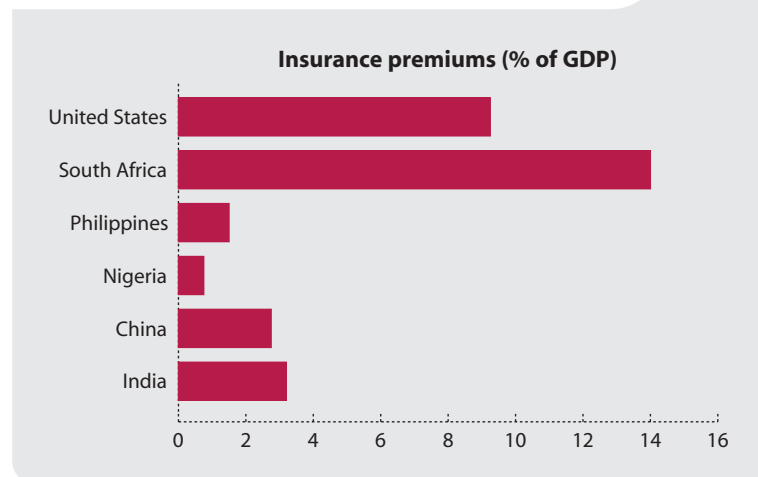
Knowledge and skills are essential for the poor to be included in markets as consumers, employees and producers. But poor people often have limited education or access to information. Formal education among the poor, especially the rural poor, is extremely low. In the least developed countries, only 53% of those over age 15 are literate.⁸ Years of schooling vary widely, but the quantity and quality of education are generally significantly lower among the poor. Moreover, the 'digital divide' is wide: only 4% of Africans had access to the Internet in 2005, while many do not even have a radio.⁹

As consumers, poor people may not recognize or be able to leverage a product's use or value. In the example of Tsinghua Tongfang, people in rural China are not accustomed to using and benefiting from computers and other technological tools, so

their demand for such products is low—until they learn how to benefit from them. As Jun Li, vice-general manager of the Tsinghua Tongfang computer department, said, 'The first thing we have to do is to let farmers know that computers are useful, and the second thing is to teach them how to use a computer.'

Gaps in human capital and skills can also limit poor people's productivity as employees, preventing them from becoming successful producers in their own right. When people lack basic skills and knowledge, businesses have difficulty ensuring good production standards. The Integrated Tamale Fruit Company produces certified organic mangoes with outgrowers in Ghana, but when the business started, farmers were not familiar with organic farming standards and could not consistently meet high quality standards. 🌱

Figure 2.3. Insurance penetration is low in most developing countries



Source: Swiss Re 2007 for the United States, Sigma Insurance for emerging markets.

ACCESS TO FINANCIAL SERVICES

Financial products and services reduce risk and transaction costs and create stability. Credit and insurance reduce vulnerability and allow businesses to seize opportunities. Savings and transactional banking services help manage resources more efficiently. Improved access to basic financial services is especially critical for emerging and potential entrepreneurs—and, by extension, for larger or better-established businesses to buy from or sell to those entrepreneurs.

Credit enables small and medium-sized enterprises to enter the marketplace, scale up production, upgrade technology and change or improve their products and services.¹⁰ For example, without easy access to credit it is difficult for farmers to buy the small-scale, high-efficiency drip irrigation equipment Amanco offers in Mexico, even though it would nearly triple their yields. According to the United Nations Conference on Trade and Development, 'Finance has been identified in many business surveys as the most important factor determining the survival and growth of [small and medium-sized enterprises] in both developing and developed countries.'¹¹

Access to credit in developing countries is still much lower than in developed countries. Private credit as a percentage of gross domestic product is 85% in high-income countries, 30% in upper-middle-income countries, 25% in lower-middle-income countries and just 12% in low-income countries.¹² Microcredit, despite its rapid growth, reached only 82 million households at the end of 2006.¹³

Insurance penetration rates are even lower among the poor. Premiums as a share of gross domestic product exceed 9% in the United States but are less than 3% in the Philippines, Nigeria and China (figure 2.3).

Box 2.4. Microinsurance in India

Overcoming constraints can be a business opportunity. Poor people's lack of access to insurance, for example, can mean a huge market for businesses that find ways to surmount obstacles. A recent study by UNDP's Human Development Report Unit found that about 5 million people in India—just 2% of the country's poor—have insurance. The study estimated the market's potential size at \$1.4–\$1.9 billion (for life and nonlife services). Innovative business models are emerging to capture this large market. In India, Innovative Rainfall-Indexed Insurance is a pilot funded by the World Bank and initiated by Krishna Bhima Samruddi Bank. Its insurance payments depend solely on weather conditions, without any required loss assessments.

Source: UNDP 2007.

Insurance is a business that facilitates other businesses. People who can buy insurance, and thus control the risk of losses, are freer to make long-term investments. In addition, banks are more willing to provide credit to customers with insurance. A lack of insurance is one reason why producers find it hard to enter contracts with long-term paybacks. In Brazil, VCP sought to include poor farmers in the production of timber for paper production. But the trees could be harvested only after seven years. Without insurance against natural disasters, the farmers would risk losing their whole investment.

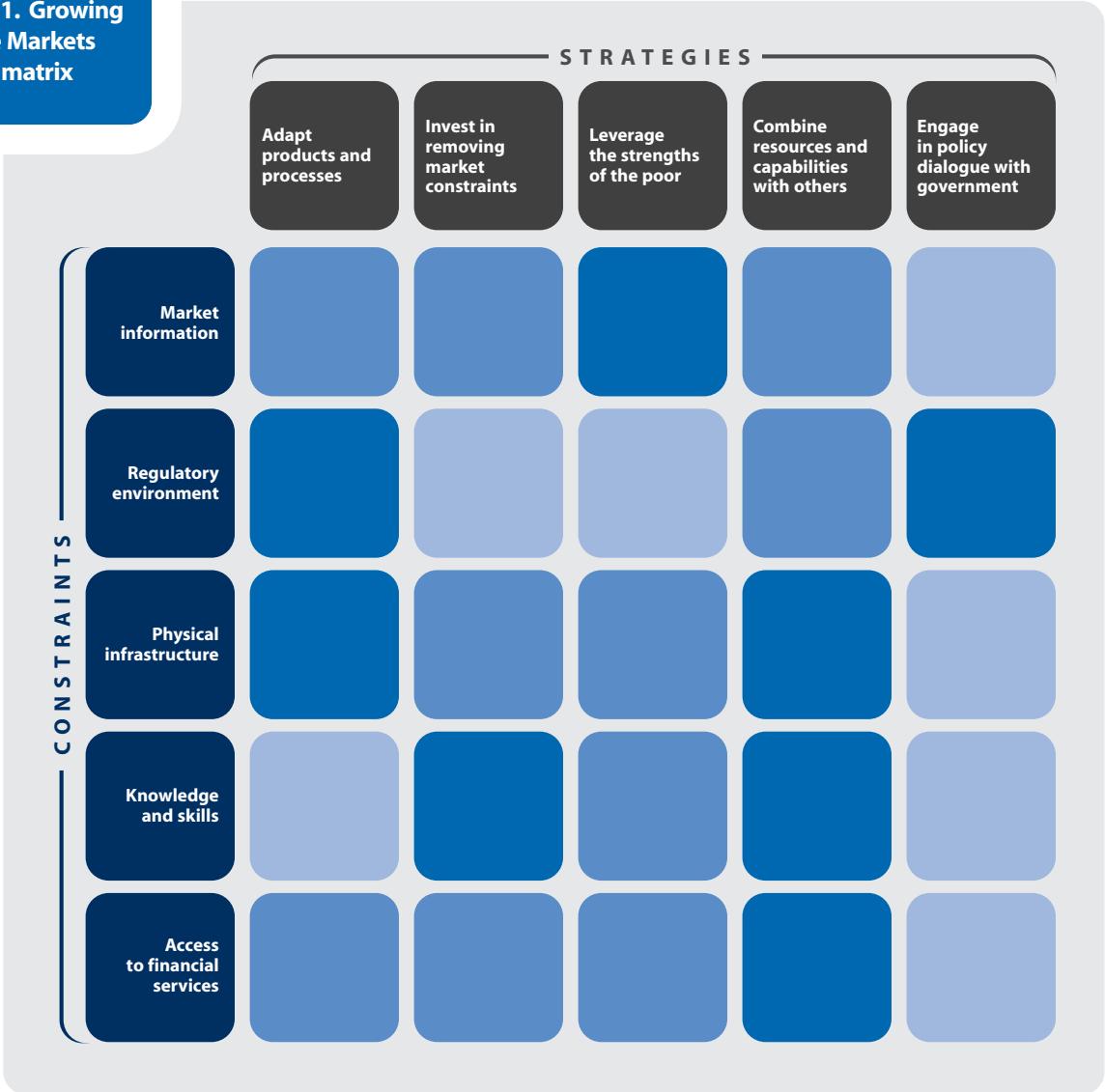
Savings and transactional banking reduce costs and expand markets over time by allowing people to make credible commitments. Without accessible banking, trading with the poor becomes very costly. The significant volatility in poor people's incomes becomes a risk to businesses. And poorly developed financial services reduce demand, because the poor cannot finance purchases without savings or credit—even if they could afford those purchases over the long term. In Uganda, only 15% of households save in formal institutions. In Zambia, fees are so high that most people would have to accept a negative return on savings to save formally.¹⁴ 🌱

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- 1 See, for example, the joint UK Department for International Development–Asian Development Bank workshop on *Making Markets Work Better for the Poor* in Manila in 2005 (www.dfid.gov.uk/news/files/trade_news/adb-workshop.asp).
 - 2 UNDP 2004.
 - 3 UNFPA 2007.
 - 4 UNDP 2008.
 - 5 World Bank Report on Infrastructure.
 - 6 Low-income countries have per capita gross national income of \$905 or less in 2004; high-income countries have per capita gross national income of \$11,116 or more (World Bank 2005).
 - 7 Escribano and others 2005.
 - 8 UNDP 2007. Refers to 1995–2005.
 - 9 International Telecommunication Union's World Telecommunications Indicators database.
 - 10 Jenkins and others 2007.
 - 11 Ruffing 2006.
 - 12 UNDP 2004.
 - 13 Associated Press 2006.
 - 14 CGAP 2007.



FIVE STRATEGIES
AT WORK

Figure II.1. Growing Inclusive Markets strategy matrix



Note: **Dark blue** indicates constraint-strategy combinations found in more than one in four cases where the constraint appears. **Medium blue** indicates combinations found in less than one in four, but more than 1 in 10 cases where the constraint appears. **Light blue** indicates combinations found in less than 1 in 10 cases where the constraint appears.

Source: Authors' analysis of data as described in text.

As part I shows, ample opportunities exist for doing business with poor people in ways that can empower them to improve their lives while generating business profits and long-term growth. Capitalizing on those opportunities, however, poses complex challenges. Five broad constraints stand in the way: limited market information, ineffective regulatory environments, inadequate infrastructure, missing knowledge and skills and restricted access to financial services.

Despite these constraints, many inclusive business models are succeeding. Examples from the case studies include businesses that employ poor people in the textile and tourism industries; businesses that source coffee, cotton, cashews, cocofibre nets and other crops and products from poor producers; businesses that deliver basic services—such as water, sanitation and health care—to poor people; and businesses that provide services such as electricity, credit and telecommunications services, enhancing the productivity of the poor.

The solutions that make these successes possible are as diverse as the environments in which they operate. Nevertheless, analysing the solutions across cases reveals several patterns. The inclusive business models profiled here succeed, in the face of significant market constraints, by working around or removing the constraints using one or more of five broad strategies:

- **Adapting products and processes.** For example, using wireless technology to avoid the constraint posed by the absence of land lines.
- **Investing in removing constraints.** For example, conducting market research, training and informing people and incorporating financing into product or service offers.

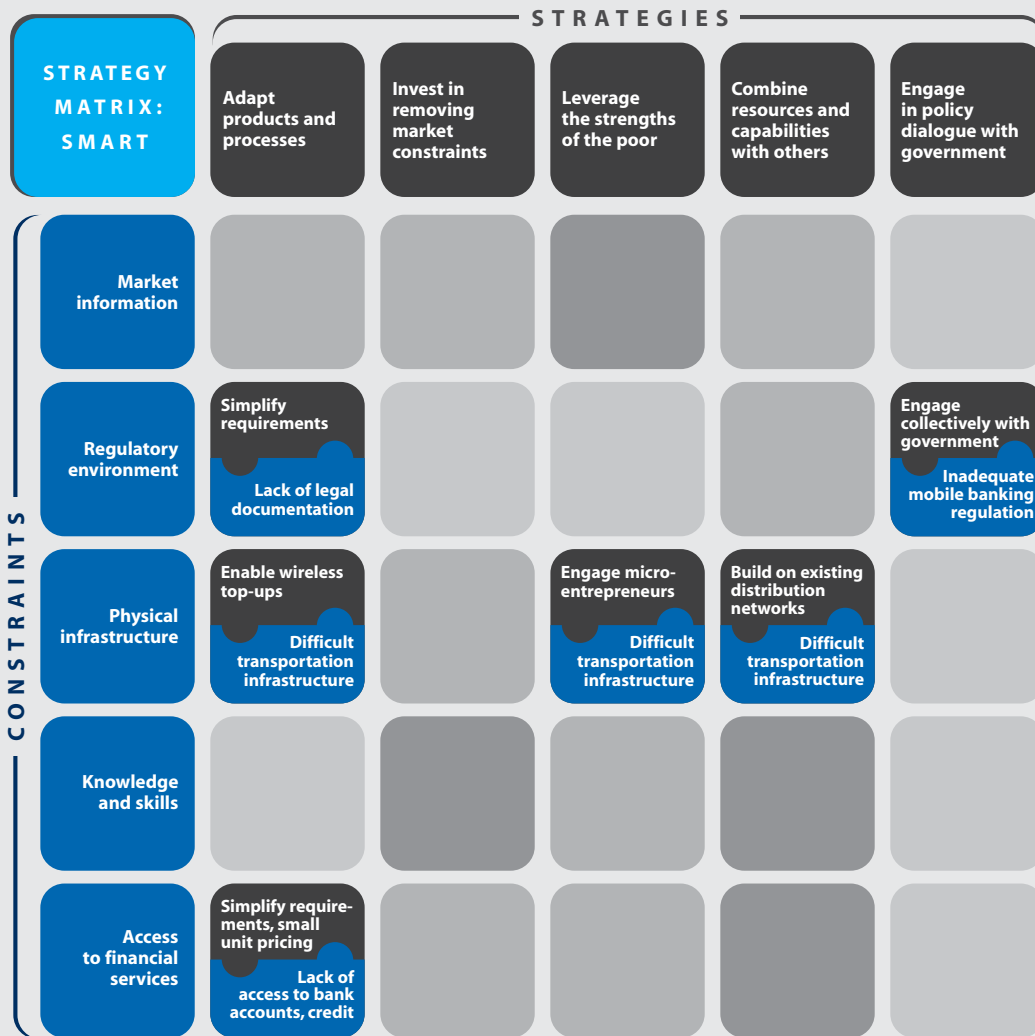
- **Leveraging poor people's strengths.** For example, hiring poor people as distributors or retailers in their communities, co-developing products and services with them and building on their social networks to develop informal contract enforcement systems.
- **Combining capabilities and resources with other organizations.** For example, working with government extension agents to train farmers in quality management; partnering with a non-governmental organization to raise awareness of the need behind a product or service offer; and building a coalition of banks to establish a rating agency.
- **Engaging in policy dialogue with governments.** For example, establishing a dialogue with policymakers to identify and address particular constraints—whether by working individually or collectively with other companies for targeted advocacy, or by participating in state-sponsored private sector advisory committees.

Other authors have already discussed some of these strategies in this context. In particular, avoiding constraints through smart business models and engaging partner organizations and poor people have been repeatedly stressed.¹ Relying on investments in market conditions and engaging in policy dialogue, by contrast, are new contributions. Table II.1 systematically links constraints in the market environment to strategies that can yield effective solutions.

Any or all of the five strategies can be applied to each constraint—but the case studies featured in this report suggest that today's successful inclusive business models are applying each strategy more frequently to some constraints than to others. 🕒

Box II.1. Smart Communications: international remittances through wireless phones in the Philippines

Smart Communications is a leading wireless telephone services provider in the Philippines. By changing ‘the old mindset that mobile phones were only for affluent people on the go’,¹ the company saw a significant business opportunity in targeting the untapped potential of the low-income population, including the overseas Filipino worker community (the Philippines is the third largest recipient of remittances). Smart launched a number of flexible and affordable services adapted to the poor’s specific needs, including the sale of miniaturized prepaid airtime packages and the first international remittance system based on short message service (SMS) technology.



Smart confronted three main challenges, which they overcame with successful strategies.

→ **The first challenge was poor people’s inability to comply with the requirements needed to enter a mobile phone service contract: many of them had no official identity card and no bank account.**



Smart introduced the first prepaid wireless service in the country that did not require any documentation and the first mobile money transfer service that did not require the beneficiary to have a bank account. The very small denominations of the prepaid cards also did not require beneficiaries to finance future expenses, so no access to credit was necessary.

The Philippines: Smart introduced wireless services that made banking easier for poor customers. Photo: Smart

→ **The second challenge was how to sell and distribute airtime to millions of poor Filipinos across the Philippines, an archipelago of 7,100 islands where some places are hardly accessible by road.** Smart began by building on existing distribution networks—small shops and other businesses. It also leveraged the strengths of the poor by offering micro-entrepreneurs the opportunity to resell airtime. In this way, Smart built a nationwide distribution network of more than 800,000 entrepreneurs who benefit from a 15% company commission. Finally, Smart adapted its sales process: instead of buying air time on prepaid cards, users could top up their cards using SMS technology.

→ **The third challenge for Smart was to deal with the inadequate legislation on mobile banking,** a service that had not existed before. Together with other operators and banks, Smart engaged in policy dialogue with the government to amend the mobile banking regulation.

Smart's services have had a positive impact on the Filipino economy, as the convenience, affordability, security and timely service encourage more overseas Filipino workers to use formal channels to remit funds. And Smart's focus on the low-income market has brought the company rapid growth: from 191,000 subscribers in 1999 to about 24.2 million in 2006, with 99% of the company's revenue coming from prepaid cards.

¹ Interview with Ramon Isberto, Public Affairs Group Head, PLDT and Smart, Makati, Philippines, November 2007.

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1. London and Hart 2004. In an exploratory study of 24 successful and unsuccessful business ventures to include the poor, London and Hart identified three strategies successful companies used that could all be summarized under the overarching capability of social embeddedness: collaborating with nontraditional partners, co-inventing custom solutions and building local capacity. Collaboration with nontraditional and local partners, and adapting products to local conditions and preferences, have been mentioned in many studies on strategies for doing business with the poor (for example, Prahalad 2004; Mair and Seelos 2006). Based on a detailed analysis of 50 cases, Wheeler and others (2005) have shown that self-reliant sustainable enterprises in developing countries often involve informal networks that include businesses, not-for-profit organizations, local communities and other actors.

3 ADAPT PRODUCTS AND PROCESSES

Kenya: M-PESA has developed a mobile phone money transfer service aimed at making financial transactions faster, cheaper and more secure. Photo: Vodafone



Tsinghua Tongfang (THTF) brought computing to farmers in China who had never used or even seen a computer. To accommodate their lack of computer literacy, the company created software that was intuitive to use (box 3.1). Through such innovations, THTF and many other companies have shown how inclusive business models can avoid constraints by adapting products or processes.

While other innovation strategies entail filling market gaps or engaging other stakeholders, adapting products or processes can allow a business to circumvent constraints by acting on its own. So, this strategy is often used to deal with constraints that are very difficult to remove, an ineffective regulatory environment or inadequate physical infrastructure. Filling the gaps can be unfeasibly costly and time-consuming. Designing products and processes that get around them is sometimes the only option for an inclusive business model. Adaptations are rarely used to fill gaps in knowledge and skills. That is partly because communication and training are easier than adapting products or processes

Box 3.1. Case study – 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':

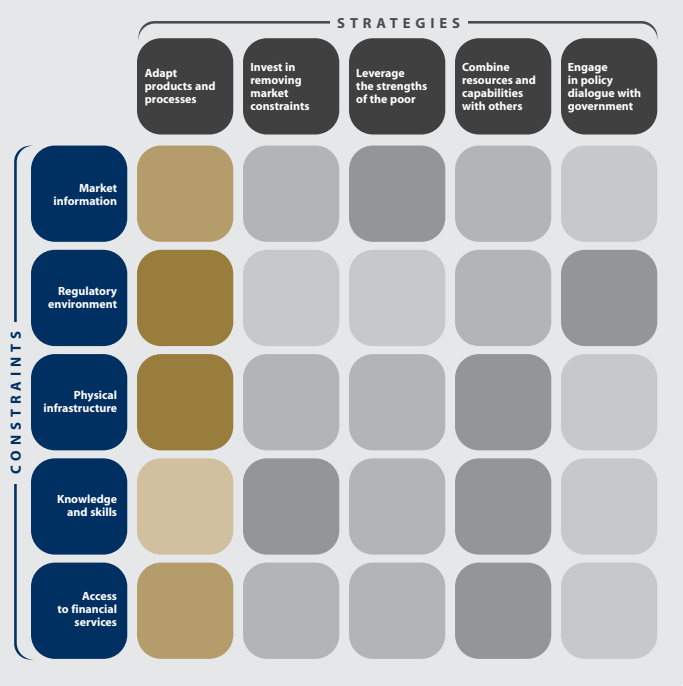
and promise more immediate payoffs. Another reason, however, is that certain basic skills can be indispensable for working with customers, employees or producers.

Two types of adaptation can be distinguished: technological adaptation and business process design. The two often go hand-in-hand, but distinguishing between

them is important. The spread of mobile telephony in developing countries, for example, is technology-driven. Wireless networks free data transmission from reliance on landline networks or transportation. But the widespread adoption of mobile phones itself was attributable in part to a change in business processes—the move to selling air time on prepaid cards, which made it unnecessary for customers to have bank accounts and freed providers from having to follow up on payments.¹

Business leaders can develop effective adaptations by observing and understanding target markets. Napoleon Nazareno, chief executive officer of Smart Communications in the Philippines, recalls how the idea of prepaid cards in small denominations occurred to him: 'One of our field salesmen asked what turned out to be the right question: Why can't we sell phone credits in very small amounts—like sachets for soap or shampoo? Our lowest price phone card at the time was 300 pesos—roughly \$6. Affordable, yes. But it was too high for many Filipinos.'²

Smart took an existing innovation it observed in the market, the sachet model, and translated it to its own business.



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.

The new model liberated Smart from a constraint—its poor customers' lack of access to financial services—that had prevented many from paying even \$6 for a phone card.

Business models that free themselves from the most seemingly formidable constraints in their target markets can quickly increase in scale. From 2000 to 2005 the number of mobile phone subscribers in developing countries grew more than five-fold, to almost 1.4 billion.³ In the Philippines alone, mobile banking counted about 4 million users in 2006—and the industry was still in its early stages.⁴ ☉



China: The cost of a basic computer equals three months of a farmer's income. Photo: UNDP

LEVERAGING TECHNOLOGY

Business in poor people's markets can benefit from technological 'leapfrogging'—skipping intermediate steps to rapidly bring an area with poor technology up to the state of the art and thus to greater productivity.

Today, information and communications technology is supplying inclusive business models with strikingly successful product and process adaptations. But other technologies are also being used to address constraints in industries that meet basic needs, such as utilities or health care. And technologies that reduce the use of resources offer ways to tie the goal of human development to that of environmental sustainability.

Leverage information and communications technology. Technologies used to process and transmit information—telephony, computers, the Internet and new data processing tools—have been the key to success for many inclusive business models. In addition, the adaptations that allow companies to do business with the poor sometimes lead them to an improved long-term position in higher-income markets.

One successful information and communications technology adaptation is mobile banking (m-banking), which allows millions of people living far from any bank branch to access financial services—saving money,

Box 3.2. Mobile banking: branchless and wireless

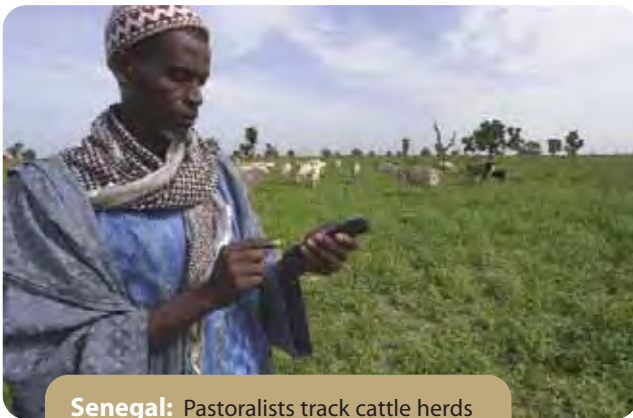
Mobile banking, or m-banking, offers financial services through mobile telephones or similar devices to millions of people who previously lacked access to banks. It allows customers to spend mobile telephone credits for such services as remittances, retail purchases and bill payments and use them as quasi-deposit accounts. With m-banking, people no longer need a bank branch or access to a wired network. Freed from these infrastructure constraints, m-banking is spreading across developing countries.

Celtel showed how m-banking can work in the difficult circumstances of postconflict insecurity. In the Democratic Republic of Congo, Celtel began offering m-banking shortly after the peace treaty was signed in 2003, when security was still poor and banking infrastructure debilitated. The service, called Celpay, uses encrypted short message service technology to allow its customers to wire funds across the country. An effective way to make payments in a war-torn country, Celpay proved so efficient that now the government is using it to pay its soldiers.

Users are finding their own ways to spread the benefits of m-banking further. Sente is the informal practice of sending and receiving money that leverages public phone kiosks and trusted networks in Uganda. Instead of sending money directly from phone to phone, someone with access to a phone can send airtime credit to a phone kiosk operator over the cellular network. Converting the airtime credit into cash, the kiosk operator gives the cash to a familiar person who lacks access to a phone or a bank account. In effect, the trusted kiosk operator and his or her phone take the place of an automated teller machine.¹ The final recipient may save

as much as the opportunity cost of a day's labour plus travel costs to a mobile banking centre. And the system eliminates the need to carry cash—an invaluable boon in insecure areas. Sente is an example of how business and grassroots innovation can build on each another. Soon there may be responses from technology providers to make the practice more secure and convenient.

1. Chipchase 2006.



Senegal: Pastoralists track cattle herds using cell phones and global positioning system devices. Photo: IDRC/Sy, Djibril

making payments,

managing loans and receiving remittances, all without entering a bank (box 3.2).

More generally, mobile telephony provides the infrastructure for delivering other data-based services. The data highway can often replace poor roads and missing logistics networks. For example, telemedicine is giving people in remote areas better access to quality health care: in rural India, Narayana Hrudalayanaya has established 'telehealth' centres linked to centralized facilities by satellite, allowing doctors to help patients at a distance.

Innovative software and voice recognition systems facilitate business with illiterate persons. In India, ICICI Bank and Citibank developed biometric automated teller machines with fingerprint identification and voice-enabled navigation, reaching users who lacked access to banking systems. And in South Africa and elsewhere, simple recognition systems based on smart cards are facilitating payment processes for vendors and consumers (box 3.3).

The examples discussed in this section show information and communications technology being used to address four of the five constraints in the Growing Inclusive Markets strategy matrix:

- Biometrics allow businesses to avoid problems with security, legal

documentation and contract enforcement in challenging regulatory environments.

- Wireless networks take the place of missing physical infrastructure and logistics networks.
- User-friendly software bridges gaps in customers' knowledge and skills.
- M-banking and smart cards make up for restricted access to financial services.

In addition, information and communications technology can be used to gather market information—for example, through electronic surveys. The applications in use today will surely be followed by many more technologies that will enable future inclusive business models.

Apply sector-specific solutions.

Do other technologies exist with as much enabling potential as information and communications technology? Though nothing rivals information and communications technology's ability to address a broad variety of challenges, several other types of technology are enabling inclusive business models in particular sectors, for example:

- New energy technologies overcome the limitations of grid-based utility services. In many areas, the cost of building a grid has deprived the poor of access to electricity. Off-grid energy solutions generate energy at the site of use, for households or for whole communities, without large investments in interurban infrastructure. Renewable resources—such as sunlight, wind, water or biomass—can be used. In Southern Mali, Électricité de France collaborated with local and international partners to establish two rural energy services companies that produce energy through photovoltaic facilities and diesel generators for 24 villages and 40,000 people. Access to energy, in turn, allows for more efficient production methods and the ability to use other products and services, preparing the ground for more inclusive business models.

- Water purification systems allow water that is locally available but unsafe to be made usable for drinking and cooking. Thus, no pipelines are needed for delivery. Across developing countries—from Haiti to Viet Nam to Pakistan—and in collaboration with nonprofit organizations, Procter & Gamble is selling sachets of a point-of-use purification powder called PUR. Nonprofit organizations buy sachets for \$0.04 per unit (the cost of production) and sell them for \$0.05 to local entrepreneurs, who, in turn, sell them to villagers for less than \$0.10. By the end of 2006 Procter & Gamble had sold 57 million sachets and provided 260 million litres of safe, clean water worldwide. The company is now selling the product in the United States for \$2.50 per unit.
- Sanitation technologies can treat sewage on site. In India, Sulabh uses a water toilet that dries sewage rather than removes it. Two pits are installed, and each is used in turn while the

Box 3.3. Smart cards: high-tech payments allow Amanz'abantu to bring water to South Africa's poor

To enforce South Africa's constitutional recognition of

water as a human right, the country's government contracted Amanz'abantu to supply water to rural and peri-urban populations. Before the company's arrival, villagers—mainly rural women—would walk up to several hours to fetch water from rivers or other sources. Now, they are issued smart cards with microprocessors that hold data and give them access to clean water from shared taps. They load money onto the cards using card readers in village shops.

Amanz'abantu's smart card system lets the government ensure free, equitable access to 25 litres of water a day for each person, and access to extra water at a low cost. (In Uganda, the Association of Private Water Operators achieved the same result with a less technologically advanced solution: coin-operated shared taps.)

other dries. Water that seeps out through the pit walls is naturally filtered and does not pollute ground water. Solid waste dries to form lumps, which users can then remove. Again, there is no need for a grid-based sewage system.

- Medical technology and biotechnology offer new ways to overcome infrastructure and logistics constraints. The 1980s saw a major breakthrough in the adaptation of vaccines for killer communicable diseases—measles, rubella, whooping cough, diphtheria, tetanus, tuberculosis—to developing country conditions. Older vaccines had required transportation along an uninterrupted cold chain to the point of use. The newly developed, freeze-dried vaccines are more heat-stable. Together with other adaptations, such as single-shot vaccine cocktails, these innovations boosted vaccination rates.⁵

Achieve environmental sustainability.

Technology helps companies do business in difficult conditions. It also helps them do

business in a more environmentally sustainable way. For example, renewable energy sources provide new electricity without putting new stresses on the world's climate.

Brazilian food processing company Sadia has built environmental sustainability into its revenue design. Its Programme for Sustainable Swine Production provides more than 3,500 swine producers with biodigesters, which use bacteria to ferment swine waste in closed reservoirs. By converting the resultant methane gas to carbon dioxide, the biodigesters reduce greenhouse gas emissions. Under the Kyoto Protocol Clean Development Mechanism, such sequestration of greenhouse gases earns carbon credits that can be traded with other companies. Selling the credits is estimated to cover the cost of the biodigesters. In addition, gases produced in the process can be used as energy—reducing operating costs for the producers. And a by-product from the fermentation process can be used as crop fertilizer or as food for fish breeding. ☉

DESIGN BUSINESS PROCESSES

Although technology promises to create new ways to deal with daunting challenges and facilitate scalable business models, it is not a silver bullet. Similar effects can often be achieved through business process design that leverages existing resources and capabilities to get around constraints.

Adjust to the cash flows of the poor.

Smart payment and pricing procedures allow inclusive business models to reflect the cash flows of their customers and suppliers, which are constrained by low and unreliable incomes and a lack of access to financial services. Low and unreliable incomes do not mean that people cannot afford to consume or invest—only that they cannot afford large expenditures for future consumption.

Without access to savings, credit or insurance, the poor have limited options for managing their financial resources. Many poor workers receive their income by the day and buy only what they need for each day. Farmers realize their income after harvests, which depend on crop cycles and may occur just once a year. Inclusive business models need payment procedures that reflect such cash flow patterns.

To make product offers match the purchasing behaviour of poor consumers, one solution that has been applied across the board—from soap to cell phones—is small-unit pricing.⁶ All kinds of consumer goods from shampoo to spices are now sold in tiny packages or 'sachets'. Apart from the example of mobile telephony, the model has been used for providing water (with smart

India: Sulabh's coin-operated toilet facilities provide low-cost sanitation to poor consumers. Photo: Sulabh



card-operated or coin-operated shared taps) and sanitation (Sulabh's coin-operated toilets). Since such business models work through prepayment, they free providers from the risk of nonpayment for services.

For bulky purchases that cannot be easily divided into sachet-sized packages, solutions resembling leasing and installment payments are being developed. Mexico's cement producer CEMEX offers a payment system, Patrimonio Hoy, that allows low-income families to purchase houses in installments—giving them incremental access to services, cement and other building materials through a group savings programme. And in Brazil, Microsoft offers a microleasing scheme, FlexGo, for computers that run its Windows operating system.⁷ Consumers pay a portion of the upfront cost to bring home a computer. They pay the balance by purchasing prepaid cards from local vendors that activate the computer for a limited time, putting it in a limited-access state when time runs out. When the computer is fully paid for the metering technology is deactivated.

Flexible payment gives consumers the option to pay at different times. In Électricité de France's rural electrification scheme in Mali, customers could pay a fixed price for their electricity supply on either a monthly or a yearly basis. The yearly option can

facilitate payment for farmers who receive income annually.

Credit arrangements should also match expected cash flows. Low-income producers find it difficult to make production investments that will pay for themselves only over the longer term. Rather than make large outlays with insecure payoffs, producers prefer to invest in shorter-term options—even if they are less profitable. Inclusive business models have met this challenge by matching credit service methods to cash flows. In Ghana, the Integrated Tamale Fruit Company offers mango outgrowers loans for their initial investments. The loans are not due until three to six years after planting, when the trees bear fruit. In Brazil, Votorantim Celulose e Papel (VCP) acts as a form of guarantor for loans to its outgrowers of eucalyptus, a crop that takes seven years to grow to harvest. The loans are provided by ABN Amro without collateral. VCP guarantees that it will buy the harvest for least at the price of the loan plus interest.

Simplify requirements. The lack of knowledge and skills is another pervasive constraint facing inclusive business models. A common solution is 'de-skilling'—simplifying processes or making products easier to use. One example is the microfinance

company Edu-Loan, a provider of post-secondary education loans, which emphasized accessibility and made all documents easy for its South African clients to understand by clearly explaining the loan process. Another is the Chinese computer firm Tsinghua Tongfang (see box 3.1), which adapted its software to the skills of farmers—for example, by preinstalling agriculture programmes to spare users the complexities of installing them.

Businesses can address the lack of title among the poor by simplifying documentation requirements.⁹ Long-term service relationships—in utilities, banking or telecommunications, for example—have typically required much documentation. But poor people often cannot even document their own identity, much less their employment or their ownership of a house. Unlike traditional credit institutions, microcredit providers such as Mibanco in Peru do not require documentation to guarantee loans. Potential clients need only have official identification, prove a permanent address and show a significant cash flow. Onsite business advisers assess their reliability and ultimately approve the loan. So far, the model has provided credit to more than 300,000 clients, representing a portfolio that exceeds \$1.63 billion.

Avoid adverse incentives. Some micro-finance models do entirely without documentation or collateral, relying instead on incentives created through group lending, as does Forus Bank in Russia, for instance. Defaulting borrowers do not merely lose the opportunity to borrow more for themselves; they also prevent other members of their groups from obtaining future loans. Since failure to repay carries the cost of shame and social exclusion, the incentive to repay is high. Currently payback rates for group loans at the Grameen Bank exceed 98%.⁹ (Chapter 5 discusses other ways businesses can apply community engagement as a ‘tweak’ to avoid constraints.)

The weather index insurance offered in India by MFI BASIX is another example of adaptation to deal with adverse incentives.

Traditional crop insurance, in which insurers pay out claims based on loss evaluations, has failed in many countries mainly because of the high cost of monitoring and farm-level inspections. Such inspections are needed because the traditional system gives claimants an incentive to over-report or invent crop losses. The index insurance offered by BASIX circumvents these adverse incentives by basing payouts on widely available information about rainfall.¹⁰ The index insurance entails significantly less underwriting and administration.

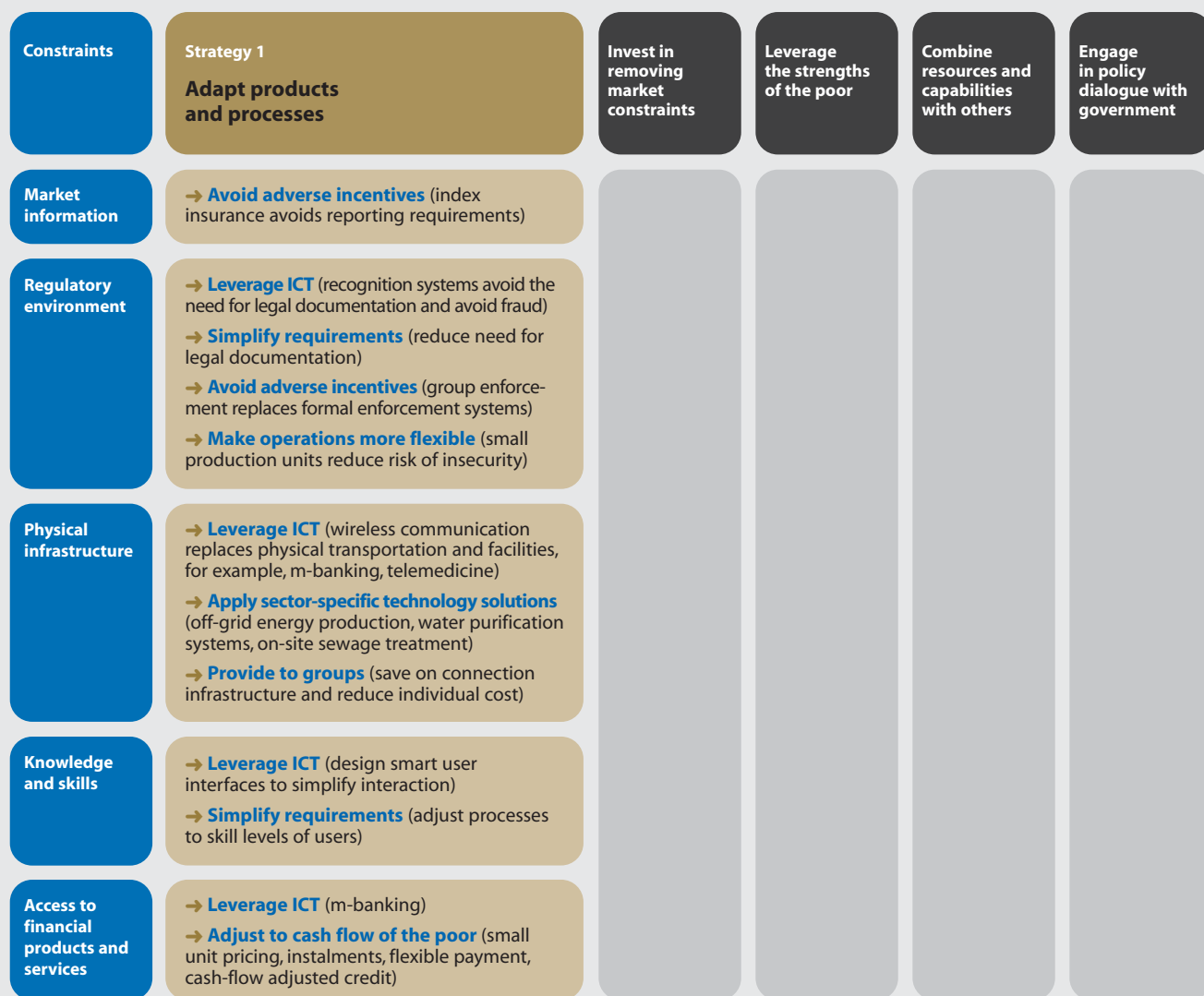
Make operations more flexible. ‘Smart tweaks’ can enable inclusive business models even in the most apparently discouraging circumstances, including conditions of lasting political instability and insecurity. In Guinea, an association of cashew producers sought to prevent the business failures that neighbouring countries, such as Côte d’Ivoire, had suffered from a combination of political instability and capital-intensive units. Using efficient, inexpensive technology, the cashew association established small-scale processing units close to the villages of producers. That move avoided the initial cost of investing in a large central processing facility, and it made production processes more independent from the effects of political turmoil (such as road blockages). In addition, it made disinvestment easier in a worst-case scenario.

Provide to groups. Communities often access resources through joint investments, especially for such large expenses as durable goods and infrastructure-based services. From tractors and water taps to telephone and television networks, shared use can spread costs and make purchases more affordable. And providing infrastructure to a group saves individual household connection costs.

Shared access can be organized in two ways:

- One community member makes the purchase and charges others a fee for

Figure 3.1. Summary: Approaches to adapting products and processes




access. In this widely used model, the entrepreneur is the company's only client. The 'Mamans GSM' in the Democratic Republic of Congo are a good example, purchasing mobile telephones and airtime and renting them to others. In South Africa, SharedPhone developed a SIM application that lets the reseller set a minimum charge and limit call length (which the system accurately displays).¹¹

- Users are billed individually for what they consume. This model requires a

transparent and efficient method for accounting and billing. Technical solutions were developed by Uganda's Association of Private Water Operators, with its coin-operated water kiosks in small towns, and India's Sulabh, with its pay toilets in public areas. In the Philippines, Manila Water combines a technical adaptation with community engagement, making user groups responsible for payments while providing them with information about individual use through submeters.

India's e-Choupals, or Internet kiosks, are a model for providing shared resources to producers. To make weighing and paying for soybeans more efficient, Indian agriproducts company ITC Limited installed the kiosks in suppliers' villages. A kiosk serves an average of 600 farmers in 10 villages within a radius of about five kilometres. By eliminating the need to carry beans to a market and the middlemen, the kiosks improve the farmers' bargaining power while allowing ITC to source soybeans at more favourable prices—so much so that it is profitable for ITC to provide them for free. ITC intends to reach 100,000 villages with the network in the next decade.¹²

Not surprising, the creative solutions featured in this chapter have received the most attention from the business community in the search for business models that include the poor. However, adaptation is not the only strategy for dealing with difficult market environments. Indeed, it is not even the most common strategy among the 50 case studies that inform this report. At least as important to inclusive business models are the other four strategies: investing in removing constraints, leveraging the strengths of the poor, combining resources and capabilities with others and engaging in policy dialogue with governments (figure 3.1). 

1 An example: "The introduction of prepaid services has been one of the main contributing factors for the explosive expansion of the mobile sector in [least developed countries], where more than half of the population lives on less than one dollar a day. Prepaid cards allow subscribers more control over their mobile telephone expenditure, releasing operators from performing time-consuming credit checks that are essential under the subscription option" (ITU 2006).

2 Quoted in Gancho 2007.

3 Hammond and others 2007, p. 22.

4 Porteous and Wishart 2006.

5 UNDP 2001, p. 27.

6 Small unit pricing does not necessarily make the product cheaper. On the contrary, it often leads to a price increase when comparing the price-quantity relationship of small unit and larger unit products. But this pricing model increases affordability by adjusting the required expense of the purchase to the buyer's cash flow.

7 For more information on Microsoft's FlexGo prepaid scheme, see www.microsoft.com/presspass/press/2006/may06/05-21EmergingMarketConsumersPR.mspx.

8 Subject to central bank requirements regarding know your customer, anti-money laundering, combating financial terrorism regulations.

9 Grameen Bank website (www.grameeninfo.org/bank/ataglance/GBGlance.htm).

10 However, where such infrastructure as reliable weather stations are not in place, this information may not be available. Index insurance has its own issues, such as with respect to the reliability of the information. Damage due to weather may vary greatly due to topographical differences, which are not reported in the weather data.

11 SharedPhone website (www.sharedphone.co.za).

12 Annamalai and Rao 2003, pp. 1–2 (www.echoupal.com).

4 INVEST IN REMOVING MARKET CONSTRAINTS

Mauritania: In a desert environment, Tiviski invested in infrastructure and training by building entire dairy facilities and developing programmes for herders. Photo: Tiviski



Nancy Abeiderrahmane made unusual investments in her Mauritanian business environment. Every dairy business needs a cold chain and storage facilities. But not every dairy business needs to offer skills training or insurance to its suppliers. By training the herders in management and effectively establishing an insurance system against production volatility and livestock loss, Nancy removed constraints on knowledge and skills, infrastructure and access to finance in her market—providing conditions that her business needed to succeed, and that companies in developed markets usually take for granted (box 4.1).

As chapter 2 discusses, the markets of the poor are characterized by five broad constraints that deter business entry and hinder growth: limited market information, ineffective regulatory environments, inadequate infrastructure, missing local knowledge and skills and restricted access to financial products and services among potential suppliers and customers. To succeed, many inclusive business models must invest to remove these constraints.

Box 4.1. Case study – Tiviski: money well spent

Most of the three million people who live in arid Mauritania are nomadic herders. The idea of launching a dairy business there took shape when local entrepreneur Nancy Abeiderrahmane visited a small

milk production facility in Europe. She immediately saw the business potential for processing milk in Nouakchott, Mauritania, a city where camel milk was sold door-to-door in primitive and unsanitary conditions. She described her opportunity to build Africa’s first camel milk dairy, an opportunity that no one had pursued: ‘NGOs [nongovernmental organizations] won’t do it [dairy business], governments won’t do it, you do have to have somebody who somehow believes that it’s going to make a profit.’

Nancy faced significant challenges. Selling milk requires a large market and economies of scale in collection, processing and packaging. Mauritania’s milk sources were widely dispersed, its dairy industry unregulated and infrastructure for storing or processing milk nonexistent. Herders and milk producers were scattered and lacked formal veterinary support or other animal husbandry support services. And in the desert environment, land transportation facilities were scarce.

Nancy addressed these challenges by filling gaps in Mauritania’s infrastructure and by engaging the poor. Her plan for collecting and selling camel milk found a backer, La Caisse Centrale de Coopération Economique (now known as Agence Française de Développement), which loaned her one million French francs to get started. That initial investment allowed Nancy to build collection, processing and storage facilities, enabling Tiviski Dairy to operate across a diverse field of supply while getting its

Many inclusive business models invest in the knowledge and skills of their target customers, producers, employees or micro-entrepreneurs through training, marketing and education. As the matrix shows, investing is used least frequently to make regulatory environments more effective, since businesses have neither the mandate nor the ability to

make or enforce regulation. They could only enforce existing regulations within an organization, or make rules to bind themselves.

Investing to remove constraints in poor people’s markets can create both private and social value. On the private side, investment can increase firm-level quality and productivity and stimulate market demand. It can drive development of new capabilities, enhance corporate reputation and improve the competitive context for business.¹ On the public side, removing market constraints creates benefits that are shared outside the business. For example, a firm that provides education and training for its employees helps create a more highly skilled workforce, a resource that is shared as its employees move on to other jobs and business opportunities. Similarly, a firm that gathers and analyses market information might begin as the sole beneficiary of its efforts. But as it begins to succeed, others will learn from and imitate its approach, increasing choice and driving down prices—benefiting even more low-income consumers.

From a traditional business planning perspective, the question is whether investing to remove constraints in the existing market can create enough private value to be cost-



milk to market safely. Tiviski also invested in support programmes for the herders—the company’s lifeblood—providing them with training, veterinary care and fairly priced animal feed. Through loans from Proparco, the International Finance Corporation and a local bank, as well as through the company’s own cash flow, Tiviski was soon able to invest the 4 million needed to build an ultra-high temperature processing plant. The company now exports camel cheese to New York City.

Nancy’s willingness to risk a large initial investment brought rewards to her and to many other Mauritians. Tiviski is profitable. It directly employs 200 people and indirectly supports 1,000 families. Animal herding is becoming more accepted as a chosen occupation. Safer, more widely available camel milk is making many people healthier. A traditional way of life is being preserved. And the business is environmentally sustainable. ‘Our experience is very simple, very reproducible’, Nancy says. In addition, ‘you do have the satisfaction that you are making a big difference for a lot of people.’



Mauritania: Tiviski provides herders with training, veterinary care and fairly priced animal feed. Photo: Tiviski

effective. But within the perspective of inclusive business models, a second question arises: Can the investment’s social value proposition be leveraged to access alternative sources of funding, reducing capital costs for the firm?

This chapter addresses both questions in turn. 🕒

ENSURE PRIVATE VALUE

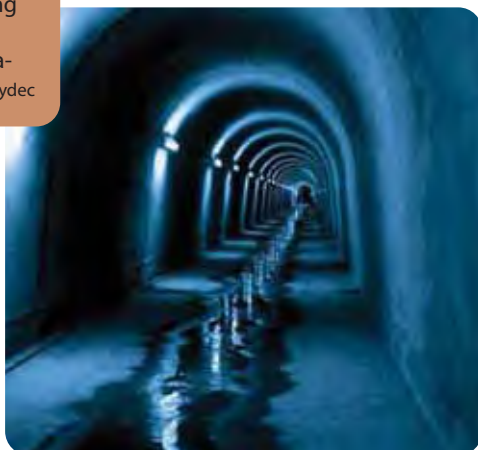
Removing constraints in poor people’s markets is cost-effective when it creates private value that is tangible (through increased productivity, quality or market demand) and capturable (ensuring sufficient benefits to the company). But removing constraints can also be cost-

effective by creating or being made to create intangible, or longer term, private value.

Conduct market research. Amassing market information creates tangible value. Construmex, a venture of the Mexican

Morocco:

Lydec is providing Casablanca with appropriate infrastructure. Photo: Lydec



construction giant CEMEX, was conceived as an ‘in-kind remittance’ product, enabling Mexican migrants living in the United States to purchase home building materials for relatives in Mexico. Despite CEMEX’s knowledge of low-income consumers in Mexico, it initially knew little about the migrants who were the target market for Construmex. Construmex partnered with Mexican consulates in major US cities to do market research, including surveys, interviews and focus groups. In exchange, it provided the consulates with material donations to restore and improve consulate facilities. The investment paid off: since 2001 Construmex has served more than 14,000 Mexican immigrants and generated \$12.2 million in sales of construction materials, with a view to break even in the years to come.



Guyana: Low-income employees of Denmor are given paid time to attend company-provided training sessions, where they learn basic skills needed, for example, to count garments and read labels. Photo: Inter-American Development Bank

The value of an investment in market information is not only tangible but fairly capturable, since a company can keep the information proprietary—at least initially. Later, when the company has succeeded, others can observe and benefit by replicating its initiatives.

Build infrastructure. Businesses that depend on delivery infrastructure may have to invest in filling infrastructure gaps. Such investments are less common for roads than for infrastructure that is usually proprietary, such as pipelines, landlines or electricity grids.

After Manila Water won the concession to serve the east zone of metropolitan Manila, the company had to invest heavily to improve and expand pipeline infrastructure. By 2005, it had added almost 1,300 kilometres of pipelines and invested the equivalent of more \$340 million. These investments have paid off: its customer base has doubled, nonrevenue water use has fallen, service is consistently available and water quality is excellent.

Improve supplier performance. Building employee and supplier knowledge, skills and access to finance creates tangible and capturable private value. By increasing productivity, quality and reliability, their value to the business increases.

Many inclusive business models in the Growing Inclusive Markets database reflect such investments by firms. Guyana’s Denmor, a clothing manufacturer, spends over \$250,000 a year training low-income employees in basic literacy and life skills. The employees must learn to write their

names, count and read labels and garment specifications. They are given paid time to participate in sessions with invited representatives from the Ministry of Social Services and other agencies, such as the Pan American Health Organization. The result: Denmor's workforce is highly motivated, and retention rates and productivity are high.

In Ghana, Barclays Bank has engaged traditional money collectors, known as Susu collectors, to offer a wider, safer range of savings and loan products to low-income citizens. Barclays offers the Susu collectors in its network training in delinquency management, financial credit and risk management. Barclays also offers its end users education on financial management and insurance. In the long run, this education will benefit Barclays, because more end users will appreciate the value of savings and channel theirs to the bank through the Susu collectors.

When investing to remove knowledge and skills constraints, some businesses share the cost

with their employees or suppliers through programme fees. Such fees may be nominal and largely symbolic, intended chiefly to enhance participants' commitment to the programme. Or they may be financially significant, directly recouping some programme costs. Other businesses recoup them indirectly through increased quality or productivity, perhaps using contracts to ensure that they reap the benefits. It is fairly common to offer employees education and training programmes if they will commit to work for the company for a specified amount of time. Contracts with suppliers are often designed to help capture as much value as possible from any assistance a company gives them. To reap the benefits of the interest-free loans it provides to farmers in its outgrower network, Ghana's Integrated Tamale Fruit Company requires farmers to sell all their mangoes through the company until their loans are repaid (box 4.2).

Box 4.2. The Integrated Tamale Fruit Company: investing to remove market constraints and ensure quality crops

The Integrated Tamale Fruit Company, an exporter based in Ghana, has made substantial investments to remove constraints in its suppliers' knowledge, skills and access to finance.

The company loans farm inputs—cutlasses, seedlings, fertilizer, water tanks and water service and technical assistance—to mango farmers in its outgrower network, who would otherwise need to invest about \$7,000 over five years before seeing real returns from their crops. The cost of the loaned inputs is repaid, without interest, starting in the fifth year. About 30% of sales go towards repayment.

The company also provides education to the outgrowers, whose ability to repay the loans depends on their ability to produce good crops. Since illiteracy makes it difficult for the farmers to meet international standards, the company began training the farmers in best practices.

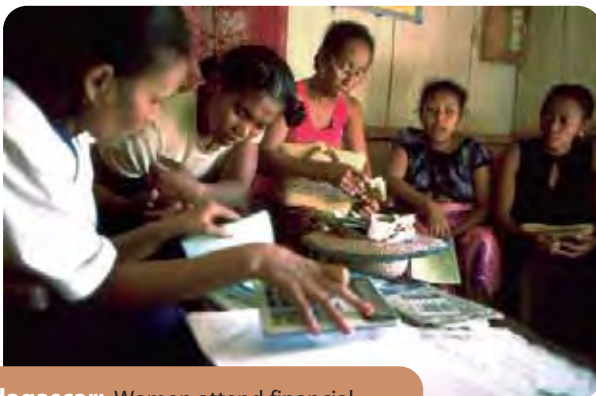
Another skill important to the success of the outgrower scheme was the farmers' capacity for self-representation. The company organized farmers into an Organic Mango Outgrowers Association, which acts as an intermediary between the farmers and the company, serving as the farmers' voice and advocate and allowing a more efficient dialogue with the company. A transition is planned to a financing structure based on membership fees.



Raise awareness and train consumers.

Investing in consumer knowledge and skills can also create highly tangible, capturable value for a company, depending on the company-consumer relationship and the presence of competitors. This is a common strategy for stimulating market demand among the inclusive business models in the Growing Inclusive Markets database. Sometimes the investments are simply marketing intended to generate brand awareness; other times they help customers understand a basic value proposition. To stimulate demand for its toilet facilities in India's low-income communities, Sulabh conducted sanitation and hygiene awareness campaigns. About 10 million people have used the facilities; Sulabh's revenues in 2005 were \$32 million, with a 15% profit margin. Similarly, Unilever raised awareness about the health benefits of handwashing to stimulate demand for its Lifebuoy soap. Some 70 million people in rural India have benefited from Unilever's Health Education Program—the single largest private hygiene education programme in the world—and today Lifebuoy leads in every Asian market where it operates.²

Consumer education can enhance a company's reputation by establishing trust in a brand. And in a market with few or no competitors it can help solidify the company's first-mover advantage. However, the more competitors present in a market, the less likely that a business will be able to reap all the benefits of its investments in consumer education. That drawback can be countered



Madagascar: Women attend financial management training. Photo: Adam Rogers/UNCDF

in industries with longer-term relationships between businesses and their clients. In such industries, a firm can restrict access to knowledge- and skill-building services to its own customers. For example, a financial services company might provide financial literacy programmes to its consumer credit clients or basic accounting and even business management skills to its small business borrowers.

Kenya's K-REP Bank trains its loan clients in financial literacy, business skills and responsible use of credit. While increasing the value of the loan to the client, training also increases the likelihood of repayment. Similarly, Barclays offers training not only to the Susu collectors through which it provides microfinance services, but also to the collectors' end clients. Other industries, too, can use consumer education and training to help low-income consumers use products and services more effectively. Patrimonio Hoy, a programme from Mexican cement giant CEMEX, supplies home design and construction assistance along with the building materials that it sells to low-income consumers in Mexico. By ensuring that the results of the programme are safe, durable and attractive, CEMEX prevents liability, enhances its brand image and fuels word-of-mouth advertising.

Build financial products or services.

In some industries, removing constraints to consumer access to financial services can create tangible, capturable value for inclusive business models by enabling poor consumers to patronise them. Offering consumer credit is especially useful for expanding a customer base if competitors do not offer such loans. Examples include Casas Bahia in Brazil, CEMEX's Patrimonio Hoy microloan system for home builders and Mexican retail giant Elektra's Banco Azteca (which Wal-Mart is now replicating in Mexico). In Indonesia, taxi drivers are not considered creditworthy, making it nearly impossible for them to get credit to start a taxi business. As a result, taxi company Rajawali designed a taxicab ownership scheme, under which the company guarantees individual loans to

taxi drivers from a local leasing company, repaid daily over five years. With a default rate of zero and increased accountability from the drivers, the company benefits and the 2,257 participating drivers earn an increased net income, along with a deep sense of security and opportunity.³

Capture the intangible benefits.

Besides creating tangible value, removing constraints in knowledge, skills, infrastructure and access to financial products and services can create intangible or longer-term value—for example, brand image, employee morale, corporate reputation and the potential to develop new capabilities and strengthen the competitive context for business. Capturing this value increases the cost-effectiveness of investing in removing market constraints. The Indian firm Tata Sons Limited has invested heavily in market conditions in the cities where it operates for all these intangible and longer-term reasons, providing road maintenance, water and electricity, street lighting, health care, sanitation, education and more. Jamshed Irani, director of Tata, argues: ‘[India is] far away from reaching that phase of economic development where government is solely responsible for the basic needs of the public. We don’t have a social security, adequate health and education services. So till then, corporate houses should fill the gaps.’⁴

By providing such services, Tata also acquires experience that will enable it to engage in new core business activities. An example is the Jamshedpur Utilities & Services Company, a wholly owned subsidiary of Tata Steel, preparing to exploit commercial opportunities in untapped municipal services business, especially water and sanitation. As Managing Director Sanjiv Paul explains: ‘If India has to move forward, these services, some day or the other, will have to be privatized in the rest of the country also, and we will then be in a position to broad-base our services.’ Haldia Development Authority has awarded Jamshedpur a contract to provide water infrastructure, and the company has partnered with Veolia Water India to jointly bid for projects

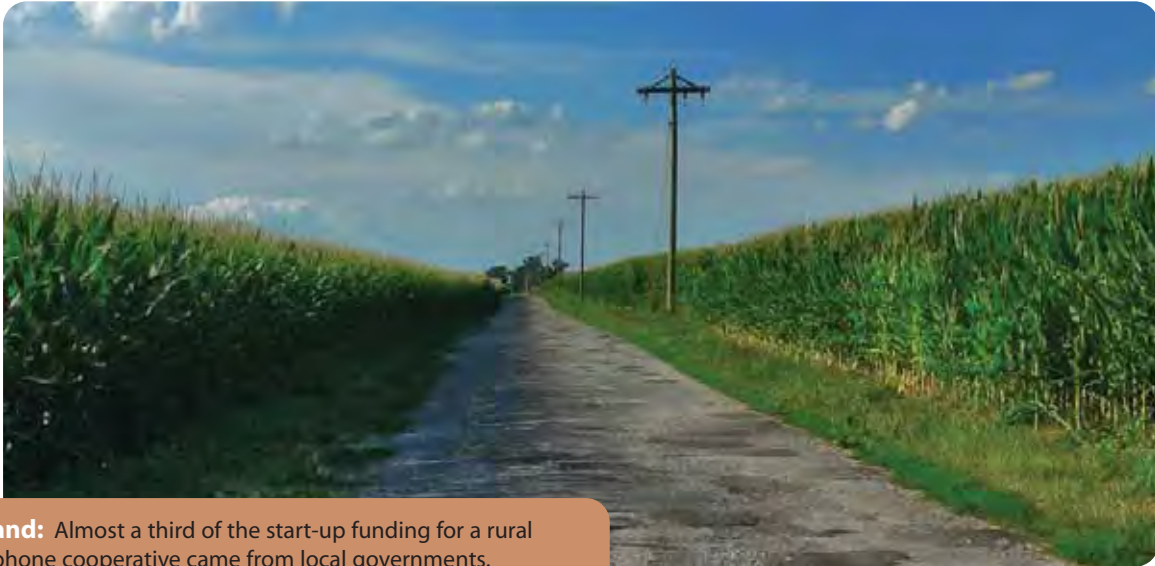


Nicaragua

Photo: Inter-American Development Bank

launched by government and private organizations. For the near future, the company is targeting cities including Bengaluru, Delhi, Kolkata and Mumbai.⁵

Another example comes from South Africa’s mining industry. The post-apartheid government realized that the country’s prospects for political stability and economic growth depended on giving economic opportunities to historically disadvantaged groups, primarily blacks. An aggressive Black Economic Empowerment agenda required companies to meet targets for ownership, employment and procurement by blacks to qualify for government contracts. A mining company, Anglo American, increased its Black Economic Empowerment procurement by building the knowledge and skills of small Black Economic Empowerment businesses and improving their access to finance. The company set up an internal venture fund, Anglo Zimele, to offer these services on a commercial basis. The fund is now highly profitable.⁶ ○



Poland: Almost a third of the start-up funding for a rural telephone cooperative came from local governments.

LEVERAGE SOCIAL VALUE

As discussed above, investing to remove market information, knowledge, skills, infrastructure and access to financing constraints creates public and private value. Denmor and the Integrated Tamale Fruit Company are not only increasing their employees' and suppliers' effectiveness on the job, but they are also developing human capital that will open other economic doors for them. Sulabh and Unilever are not only drumming up demand for their toilets and soap, but they are also raising awareness about key public health issues, reducing the incidence of disease. Construmex is demonstrating a business model that other firms—in the construction materials sector and beyond—can emulate, providing even more options for migrants who want to help their families in their home countries.

The social value these investments create opens doors for cost-sharing with socially minded funding sources. That can be extremely important in building the confidence of entrepreneurs and larger firms to invest, and in making an investment potentially cost-effective for those who doubt they can extract enough private value from it otherwise.

Socially minded funding sources include international donors, individual philanthropists

and nonprofit social investment funds, as well as governments. They enable the private sector to create social value by sharing costs in two ways: through grants and through reduced-cost and 'patient' capital.

Use grants, subsidies and donations.

Grants, subsidies and donations are allocations of capital that are not expected to be repaid. Grants can be available externally and, in large firms at least, internally through corporate social responsibility and philanthropy departments. Common external sources of grants are national, state and local governments and bilateral donors such as Agence Française de Développement and the US Agency for International Development. Multilateral donors such as the World Bank sometimes offer grants.

Government grants and subsidies are common in many business contexts, covering basic research and development to export promotion. Now they are being offered to businesses investing to remove constraints in poor people's markets—and for other aspects of inclusive business model development, such as feasibility studies, pilots and training programmes. Some aim to create incentives for one-time investments in shared resources, such as roads or electrical grids. Others aim

to promote business models that will make people's lives better on an ongoing basis, increasing their income, improving their health and so on. Some aim to do both. Both types of grants are investments in social value creation.

In Mozambique, the governor of Cabo Delgado province provided state funding to two nongovernmental organizations to form a for-profit subsidiary called VidaGas, which provides poor households in rural, urban and peri-urban areas with liquefied petroleum gas as a substitute for kerosene, an efficient, clean and cost-efficient alternative that promotes improved health conditions. In Poland local governments in rural areas contributed 30% of the startup funding for DTC Tyczyn, a rural telephone cooperative, with the remainder of the investment coming from the sale of shares, connection charges for subscribers and bank loans at preferential rates.

An example of bilateral donor funding for inclusive business models is the public-private partnership programme of Gesellschaft für Technische Zusammenarbeit, the German government's development agency. The programme funds investments that go beyond core business activities, including investments to remove constraints in poor people's markets. Success stories include a startup to provide medical equipment to Tanzania's public hospitals, capacity building to help Ghanaian tomato farmers do business with Unilever and research and training in Viet Nam to promote sustainable cocoa farming in Mars' value chain. Another organization that offers such grants is the UK Department for International Development (box 4.3).

As DFID and the United Nations Capital Development Fund (UNCDF) mention, best practice in grant funding is generally considered to 'serve the purpose of institutional and market development without unduly distorting the market or lowering the incentives for strong institutional performance.'⁷ According to the Development Finance Forum, 'costs that are "smart" to subsidize are, for example, startup costs, research and development, costs of high-risk/

significant impact products, costs for capacity building, costs for building customer capacity and costs of building capital access.'⁸

To the list of costs that are smart to subsidize, Harvard economist Dani Rodrik adds training costs for technical, vocational and language skills.⁹ In South Africa's Rand Merchant Bank 20% of a grant from Agence Française de Développement supported education of home loan candidates about their prospective rights and duties as homeowners. Such education helps poor clients get the most out of investments, makes on-time repayment more likely and—when home purchases are successful—can encourage more clients to buy homes.

Rodrik cautions that direct transaction subsidies are not always smart—they can easily '[invade] the heart of market processes [and] run the risk of distorting prices and incentives'—but he affirms that with careful attention to design such subsidies can create welcome demonstration effects.¹⁰ An example of such

Box 4.3. Offering grants for inclusive business model development: the challenge funds of the UK Department for International Development

The challenge funds of the UK Department for International Development, including the Business Linkage Challenge Fund and the Financial Deepening Challenge Fund, offer grants for preparatory phases and for investments, including investments to remove constraints in poor people's markets. Successes include:

→ **Vodafone's M-PESA mobile transactions service in Kenya**, which is signing up more than 6,000 people a day.¹

→ **Standard Chartered's agricultural credit card in Pakistan**, which enables farmers to obtain seeds and other inputs at the beginning of the season and pay for them at harvest.

→ **TATA-AIG's network of microinsurance agents in India**, which during its first three years sold more than 34,000 policies.²

1. *Business Week* 2007. 2. Roth and Athreye 2005.

careful design: a subsidy, supported by international donor money, from the Malian Agency for the Development of Household Energy and Rural Electrification to expand the Rural Energy Services Companies that will pay for up to 70% of the expansion, allowing the companies to roughly halve tariffs and increase Malians' access to energy. If the companies' profit margins exceed 20%, the subsidy will be reduced.

Bilateral and multilateral donors can have complex application and social impact reporting requirements. Entrepreneurs and companies seeking donors' help must evaluate the transaction costs of these requirements. But donor funding often carries perks such as technical assistance, contacts and credibility. Both small and large companies have taken advantage of donor funding.

In investing to remove constraints in poor people's markets, or for inclusive business model development more generally, large companies can also leverage internal budgets for philanthropy, public affairs and corporate social responsibility. In the Banda Aceh region of Indonesia, where housing, factories and basic infrastructure were totally devastated by the 2004 tsunami, French building company Lafarge chose to invest in local infrastructure while rebuilding and reopening its cement plant. It constructed 500 homes, schools and mosques that benefited local inhabitants as well as Lafarge employees. While enhancing Lafarge's local image, the initiative also showcased the

virtues of cement-based materials in housing construction.

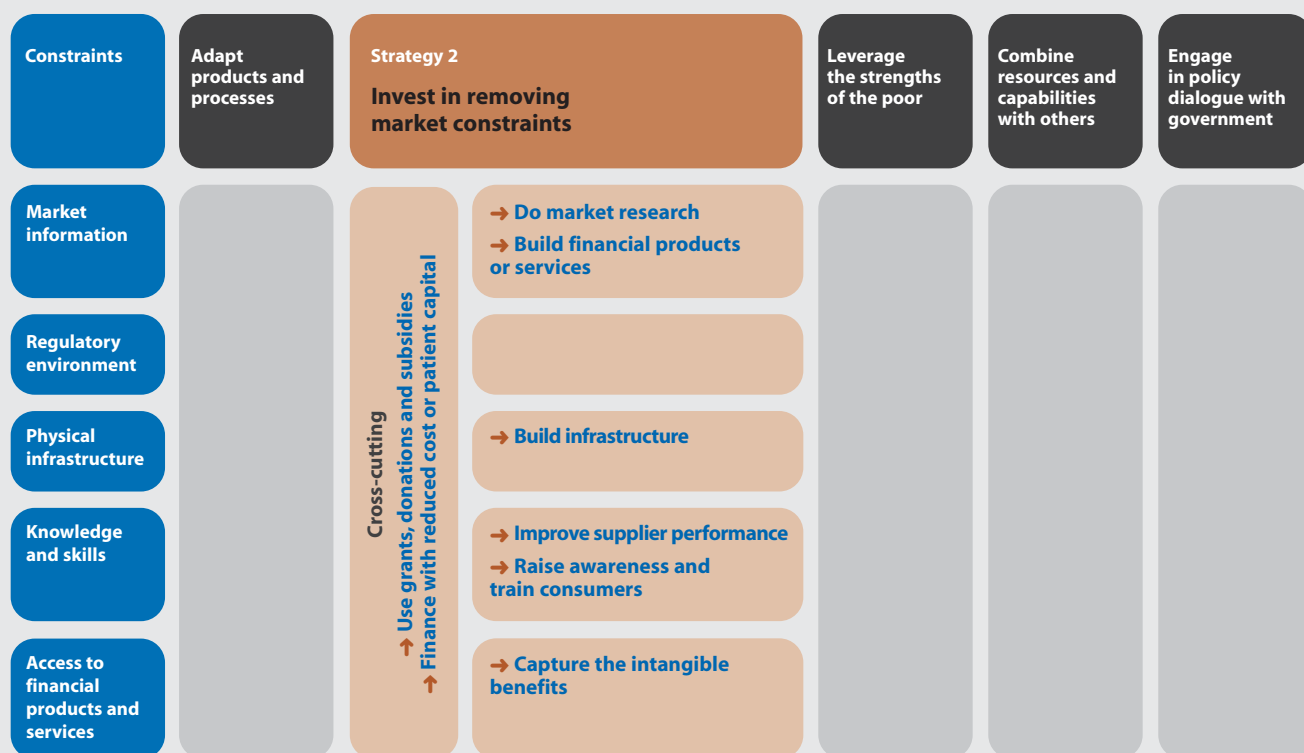
People who oversee company budgets for philanthropy, public affairs and corporate social responsibility can often help develop inclusive business models. Indeed, some are expressly charged with investing to remove market constraints. For example, poor public health lowers productivity and increases employee turnover costs. Companies such as mining firms Lonmin¹¹ and Anglo American¹² that operate in Sub-Saharan Africa, where HIV/AIDS is prevalent, have built robust corporate social responsibility programmes to provide counselling, testing and treatment for their employees.

Tax relief is also a key enabler for businesses. The South African government's Strategic Investment Programme (with tax relief) induced companies such as Aspen Pharmacare to invest in manufacturing facilities for generic antiretroviral medicines for HIV-affected people. Aspen Pharmacare now supplies South Africa's national antiretroviral treatment programme with approximately 60% of its current medicine requirements.

Finance with reduced cost or patient capital. In contrast with grant funders, reduced cost or 'patient capital' investors expect returns—however large or small—from their investments in inclusive business models. In Ecuador, Hogar de Cristo, a housing nonprofit organization that constructs houses and provides mortgage products to the poor, received a large block of patient loans from the Inter-American Development Bank to expand its steel frame house and microcredit product lines and to strengthen financial management to reduce bad loans.¹³ Investors are willing to bear the opportunity cost associated with the below-market or longer-term returns that inclusive business models may yield because of economics, uncertainty or the need to invest in removing market constraints. They seek to generate social value in addition to financial value. They invest in businesses because they believe profitable



Figure 4.1. Summary: Approaches for investing in markets to remove constraints



models can generate social value most effectively and sustainably.

Reduced cost and patient capital have several sources, including corporations, foundations, nongovernmental organizations, government agencies, and ‘blended value’ investment funds, which may incorporate capital from all those sources.¹⁴

Different sources can set different requirements for the magnitude of the expected financial and social returns and for the balance between them. Typically, the lower the expected financial return, the greater the expected social return—and the more stringent the requirements for social impact or performance reporting.

Different sources also set different expectations for when financial and social returns must start materializing. Some sources of patient capital are more patient than others. As with traditional commercial investment, socially minded investors have

various preferences about the size, industry, home or host country or other characteristics of the businesses in which they invest.

Examples of how inclusive business models have profited from ‘blended value’ financing include:

- **A public-private partnership for producing insecticide-treated bed nets to prevent malaria.** Through a patient capital loan from Acumen Fund, Sumitomo transfers technology and chemicals to A to Z Textile Mills, which buys resin for the nets from ExxonMobil, which has donated funds to the United Nations Children’s Fund to buy long-lasting nets for the most vulnerable children. A to Z now produces 8 million nets a year and employs about 5,000 people (up from 1,000 before its ‘discovery’ by Acumen Fund), 90% of them unskilled women. Besides making the enterprise possible, patient capital



Egypt: Sekem's workforce totals 2,850 employees and small farmers, and about 25,000 people benefit from its development initiatives.

Photo: Sekem

also allowed the company to experiment and improve until its assessments of costs and pricing were accurate for markets in local communities.

- **A private holding company in Kenya that is primarily involved in the production of low-cost, pharmaceutical grade artemisinin and artemisinin-based derivatives—one of the main ingredients used to treat malaria.**

Advanced Bio Extracts Ltd. was started with patient capital from Novartis, which also provided management and strategic assistance while accepting below-market returns.¹⁵ Patient capital further sustained the enterprise through a cash crop crisis and helped the factory establish world quality classification. The result: a successful enterprise with positive externalities for health and for the local

economy—the company purchases from 7,500 local farmers, who earn more from the crop than they would from maize.¹⁶

- **An Egyptian company focusing on biodynamic agriculture.** Sekem, collaborating with business partners in Germany and the Netherlands, has obtained financial assistance from the European Commission, the Ford Foundation, the US Agency for International Development, Acumen Fund and the German Development Finance Organization. The International Finance Corporation provided a \$5 million loan and technical assistance to help strengthen supply chain links with farmers. Sekem has grown, with revenue of \$19 million in 2005 and a workforce of 2,850 employees and small farmers. About 25,000 people benefit from its development initiatives.¹⁷

Reduced cost and patient capital have so far targeted mostly smaller, early-stage companies and financially sustainable social enterprises rather than entrepreneurial projects within larger and better-established multinational companies. They often come with technical assistance: for example, in management, in business planning or with introductions to business contacts or next-stage financiers. ☉

1 Porter 1998.

2 IRC 2007.

3 Gancho, Elvie Grace and Chrysanti Hasibuan-Sedyono. 2007. *Rajawali's Express Taxi: Working with Taxi Drivers as Business Partners in Indonesia*. UNDP, p. 9

4 The Indian Express 2005.

5 Tata website (www.tata.com) and Madhukar 2006.

6 Wise and Shytlla 2007.

7 UN Department of Economic and Social Affairs and UN Capital Development Fund 2006, p. 109.

8 UN Department of Economic and Social Affairs and UN Capital Development Fund 2006, pp. 49–51.

9 Rodrik 2004.

10 Gibson, Scott, and Ferrand 2004, p. 20.

11 Lonmin website (www.lonmin.com/main.aspx?pagelid=111).

12 Arnst 2004.

13 Constance 2007.

14 WEF and Global Foundation Leaders Advisory Group 2005, p. 3.

15 Novogratz 2007.

16 Advanced Bio-Extracts Limited 2007.

17 For more Egyptian examples, see Iskandar 2007.

5 LEVERAGE THE STRENGTHS OF THE POOR

Kenya: In slums, The HealthStore Foundation engaged local nurses and community health workers as micro-franchisees of for-profit pharmaceutical outlets and clinics.

Photo courtesy of Acumen Fund



Building inclusive business models can be daunting, especially for companies that lack experience doing business with the poor. Some of the greatest resources for conquering that challenge are found among the poor themselves.

To leverage poor people's strengths—working with them and building on their social networks—is to reach deep into communities. When the poor take over some tasks in a business model, transaction costs for the business decrease while the poor receive new income opportunities. Moreover, poor people are efficient and reliable at linking their communities to the broader market. They have the knowledge and incentives to establish such links. And their strong social networks can often bridge market gaps and make up for missing enabling conditions (box 5.1).

As the strategy matrix shows, leveraging the strengths of the poor is used frequently to deal with most of the five broad constraints discussed in chapter 2—but most frequently of all, this strategy is used to address limited market information.

Box 5.1. Case Study – 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%–90% 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% of Kenya’s doctors live in cities, 70% 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.

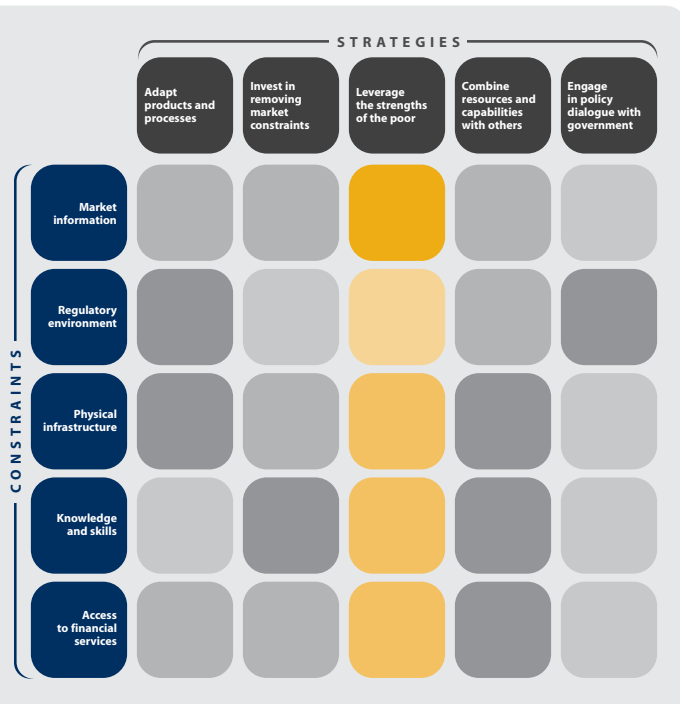
Scott’s solution was to engage community members as microfranchisees, creating local drug distribution networks. Owned by nurses or community health workers who know their clients’ needs, the for-profit franchises enable the HealthStore Foundation to distribute enough affordable drugs and to provide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

Engaging with poor communities is a mutual learning process. Companies learn about local preferences, needs and capabilities. They learn to design processes that function

in the market and to make collaborations work. Poor people receive new information, upgrade their skills, take on new roles and gain confidence.¹

Development practice has produced a rich set of methods and approaches to engage the poor, primarily because development experts have long understood the need for two ingredients for work in poor communities to succeed: local embeddedness and trust. Local embeddedness offers access to local networks, resources and fine-grained information, making operations efficient and building trust. And trust is a core asset where poverty prevails, and where the formal systems common in developed countries—such as those for enforcing contracts—are largely absent.

Local embeddedness and trust are equally important to the success of inclusive business models.² Personal experience and relationships are central to the decisions that poor people make. They will greet new entrants to their markets with suspicion until they are persuaded that they can be relied on.



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, the first to open a child and family wellness 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.

Dora, 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. The HealthStore Foundation mission statement.
3. CARE Newsletter, January 2008.



In poor people's markets, local individuals and organizations have knowledge and established relationships that give them advantages over external entrants. Local people do not need to cultivate trust and rapport, immerse themselves in the environment to understand it or research local needs and practices. From participatory rural appraisal methods, which use local knowledge for situation assessments, to community organizing and community-based decisionmaking, inclusive business models can build on methods already proven in development practice to understand their target markets and build relationships with suppliers and customers. ☺

ENGAGE THE POOR AS INDIVIDUALS

Companies that include poor people in business value chains benefit from their unique assets: local knowledge and trusted relationships. The poor, in turn, benefit from new sources of income and new skills.

Inclusive business models can:

- Involve the poor in market research.
- Train the poor to be trainers.
- Build local logistics networks.

- Establish local service providers.
- Co-create innovations with the poor.

Involve the poor in market research.

Since the 1980s many tools and techniques have been devised for gathering information from poor people. One example is participatory rural appraisals, which use oral rather than written communication and reduce the



China: Information about rural farmers' planned production is available on the website of the Beijing Rural Information Centre, allowing other farmers to adjust their own plans.

distance between them and their interviewers.

These appraisals have shown that village inhabitants can describe the assets and characteristics of local families with surprising precision, yielding estimates that are as accurate as formal appraisals and much less time-consuming and costly.³

Similarly, slum housing surveys can efficiently capture information about unfamiliar market environments. In 2005, the Centre for Urban Studies of Bangladesh, working with the US Agency for International Development, conducted a large slum survey in 2005 to identify the main slums (by population size and number of households) and to record such facts as their water source, means of sanitation and power supply. A team of trained field investigators entered the slums and identified key informants—community leaders, teachers, shop keepers and nongovernmental organization workers—who shared their knowledge about each slum's inhabitants and characteristics.⁴

Information and communications technology can sometimes be used to make

obtaining market information through community involvement more efficient. In agribusiness, timely information about who produces what is important for both buyers and sellers. Prices can be highly volatile without a mechanism to balance local variations in production. At the rural information centres of Chinese computer provider Tsinghua Tongfang, service agents collect information from the farmers, who go there to obtain such information as weather forecasts or supplier contacts. Asking the farmers about their current and planned production, the agents post the answers on the Beijing Rural Information Centre website, which then helps other farmers to adjust their production and thereby increase their revenue. The website can also help buyers of agricultural products—retailers or food and animal feed producers—find out where to buy them.

Train the poor to be trainers.

Investments in training and education are often required for inclusive business models to succeed—and these investments can be quite costly. Training people from the community to be trainers and educators, however, can 'snowball' the benefits of the instruction far beyond an initial circle of trainees. Local trainers speak the local language and enjoy the community's trust. In addition, enabling poor people to be trainers empowers them, giving them a special status in their community.

Farmer-to-farmer trainings have successfully extended agricultural practices. New farming or husbandry methods are spread through group learning, with one farmer guiding the rest. This approach has proven effective, not only because farmers take their peers' advice seriously, but also because practices are adapted to local conditions. The training process thus has an inherently innovative component, as farmers are encouraged to experiment with and compare alternatives.

Community-led training is also being applied successfully in banking. South African commercial banks Nedbank and

Rand Merchant Bank have community mentorship programmes to educate customers from low-income areas about their products. In a collaboration with Agence Française de Développement, the two banks offer innovative financial products targeted at the low-income housing market. Nedbank and Rand Mercantile Bank train community mentors on their services, and the mentors pass this knowledge on to potential clients. The programme educates target customers while building trust, helping to bridge the gap that apartheid created between white financiers and black customers.

Build local logistics networks.

Engaging poor people can help businesses collect, distribute and sell in markets with inadequate physical infrastructure and logistics systems. For example, businesses can approach small vendors or other providers to offer a new product. In the Philippines, RiteMed engaged pharmaceutical outlets and persuaded them of the business opportunity in selling generic drugs at higher volumes, albeit with a lower profit margin. RiteMed sales topped \$20 million in 2006. And CEMEX's distribution network for construction materials in Mexico includes more than 2,000 small and medium-sized local retailers from urban and rural areas.

Microfranchising is another way to scale up local distribution networks. The principle of microfranchising is identical to that of its bigger brother: a streamlined business model, easily replicated. To make franchising work at the micro scale, the model must succeed with a low initial investment (perhaps supported by a microcredit system that avoids burdening franchisees with early debt servicing). The benefit for franchisees is a proven, turnkey business model that requires less risk and experiment than a startup. But microfranchising also offers backbone services from product development

to supply chain management and training. The HealthStore Foundation's profitable microfranchises in Kenya are one example (see box 5.1).

Establish local service providers.

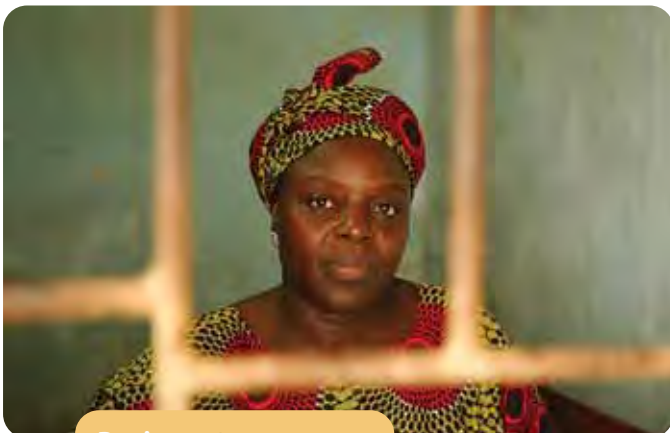
Service and maintenance providers in poor people's markets must respond to clients' needs quickly, but they often cover dispersed populations in areas with inadequate physical infrastructure and logistics networks. Only local providers can successfully do that.

Lydec works with 'street representatives' to manage its water and electricity operations in Casablanca's shantytowns. Members of the local community, the representatives are charged with co-ordinating the work daily and with providing technical support to an average of 20 households each. In addition, they collect payments from the households they serve.

More than other services, health care depends on regular and reliable provision. High child mortality rates in many developing countries are caused mostly by a lack of medical attention and limited access to health care. Mali's Pésinet has an early warning system for monitoring children's health and detecting potentially fatal diseases such as malaria and measles early. Combining technical innovation with community engagement, the company offers a powerful model of efficient health monitoring. Pésinet identifies and trains local representatives—mostly women—in the outskirts of Bamako. Parents enroll in



Madagascar: Farmer-to-farmer trainings can successfully extend agricultural practices. Photo: Adam Rogers/UNCDF



Benin: A pharmacist greets visitors at a health clinic.

Photo: UNICEF/Julie Pudlowski

the programme and have their children weighed twice a week by 'Pésinet ladies', who send the data electronically to an associated doctor. When a weight reading is anomalously low, the doctor requests a visit with the child. One doctor can care for about 2,000 children. The project is financially sustainable with at least 1,200 children and a monthly subscription fee of just \$1.05.

Co-create innovations with the poor.

Poor people can contribute at every stage of the value chain—and they can become innovators, developing new business models.

Integrating poor consumers into the innovation process helps to:

- Capture information about consumers and their ways of using a product.
- Uncover 'sticky' knowledge—information that consumers have, but will not bring forward because they are unaware of it or its importance or unsure how to express it.
- Identify needs and solutions.

In the words of Ted London—Director of the Base of the Pyramid Initiative at the University of Michigan's William Davidson Institute—an integrative business development approach can 'combine the knowledge developed at the top of the pyramid with the wisdom and the experience at the bottom in a way that best fits the local environment and enables co-discovery of new opportunities to serve [the poor].'⁵ Three tools in particular

hold promise: the lead user method, immersion and innovation workshops.

The lead user concept developed by Professor Eric von Hippel, Head of the Innovation and Entrepreneurship Group at the Massachusetts Institute of Technology's Sloan School of Management, is widely applied in consumer-led innovation today. Lead users have a need that will become relevant to other users, and—because they perceive significant benefits to themselves from meeting that need—they develop ideas about how to meet the need by using or adapting existing products.⁶ For example, Haier, the Chinese home appliance company, discovered its customers were using Haier washing machines not just to wash clothes but also to clean vegetables. So, Haier adapted its washing machines to make them better at cleaning vegetables.

Originating in anthropological research and development practice, immersion entails lengthy integration into poor communities as a participant rather than a mere observer. Company representatives and project facilitators visit a slum or rural village for two to three months, establish relationships and use those relationships to develop a business model with the networks to support it.⁷ Intel, Motorola and Nokia employ 'user anthropologists' or 'human-behaviour researchers' who both immerse themselves and conduct various sample interviews with potential users to map possible functions for a product. According to the *New York Times*, 'influenced by [an anthropologist's] study on the practice of sharing cellphones inside of families or neighbourhoods, Nokia has started producing phones with multiple address books for as many as seven users per phone.'⁸ Immersion has been included in the Base of the Pyramid Protocol, led by Professor Stuart Hart of the Johnson School at Cornell University, to understand target market conditions and 'co-create' inclusive business models.⁹

Innovation workshops can be an efficient way to engage poor consumers in further developing a business that already has local relationships and good community

networks. A well-designed workshop will generate a creative interaction between the business and consumers, who thereby contribute their knowledge about the uses of a product (or related products). Such knowledge, combined with the company's technical expertise, can lead to new solutions.¹⁰ For example, K-REP Bank, a Kenyan microcredit provider, uses meetings with its clients to request feedback and develop improvements to customer services. Some of K-REP's most promising innovations, including flexible loan sizes and more

frequent group meetings, first surfaced through such interactions with clients.

Necessity is the mother of invention, goes the proverb. With few resources and little access to goods and services, poor people must invent to get by. Including them in the development of a business—in a way that encourages and values their input—can enable their ideas to greatly enhance design. For poor people, this means not only that they can benefit from better products but also that their voice is heard. ☺

BUILD ON EXISTING SOCIAL NETWORKS

A community is more than its parts. Where poverty prevails, the informal rules that communities establish and enforce are often more effective than formal rules. In addition, a community can enable its members to help each other and share resources, facilitate co-operation to provide common goods (such as wells, mills or schools) or supply an infrastructure for savings, credit or insurance mechanisms.

Inclusive business models can benefit by collaborating with poor communities to:

- Leverage informal contract enforcement mechanisms.
- Expand risk-sharing arrangements.
- Co-ordinate investments into common goods.

Bangladesh: A local women's group provides instruction on nutrition, health and basic mathematics to help develop basic business skills. Photo: Shehzad Noorani/The World Bank



Leverage informal contract enforcement mechanisms. Social networks facilitate individual and collective activity by establishing trust, reciprocity and common rules. They can help enforce contracts where the regulatory environment is not supportive. The design of a business model can create incentives for all participants to ‘play by the rules’.

Microcredit owes much of its success to the incentives it creates through group lending. Since all borrowers in a credit group know that their access to credit will depend on the compliance of other members, only people known to be reliable are allowed to join the group—and the group ensures that members repay their loans on time. The credit group thereby takes over the tasks of screening, monitoring and enforcement. By providing credit to groups rather than individuals, the microcredit system has created alternative incentives that have made its compliance rates better than those achieved through traditional, collateral-based lending.¹¹

The group enforcement system has been translated to a number of other business

models. Manila Water, for example, has used it to facilitate its billing process and stop theft from its pipelines. The company formed co-operatives in poor communities to take responsibility for water connections. It installed ‘mother metres’ to measure consumption by the community and ‘submetres’ to measure the consumption of each family. While the community as a whole must pay for the amount shown on the mother metre, each family settles its own bill with a community representative based on its submetre reading. The result: no one in the community has an interest in allowing theft. An additional benefit is that some administrative costs are transferred to the community, allowing the company to charge less. With this system, Manila Water supplies water to 140,000 low-income households—more than 10 times as many as when it took over the license—and has achieved a profit of \$37 million on revenue of \$108 million.

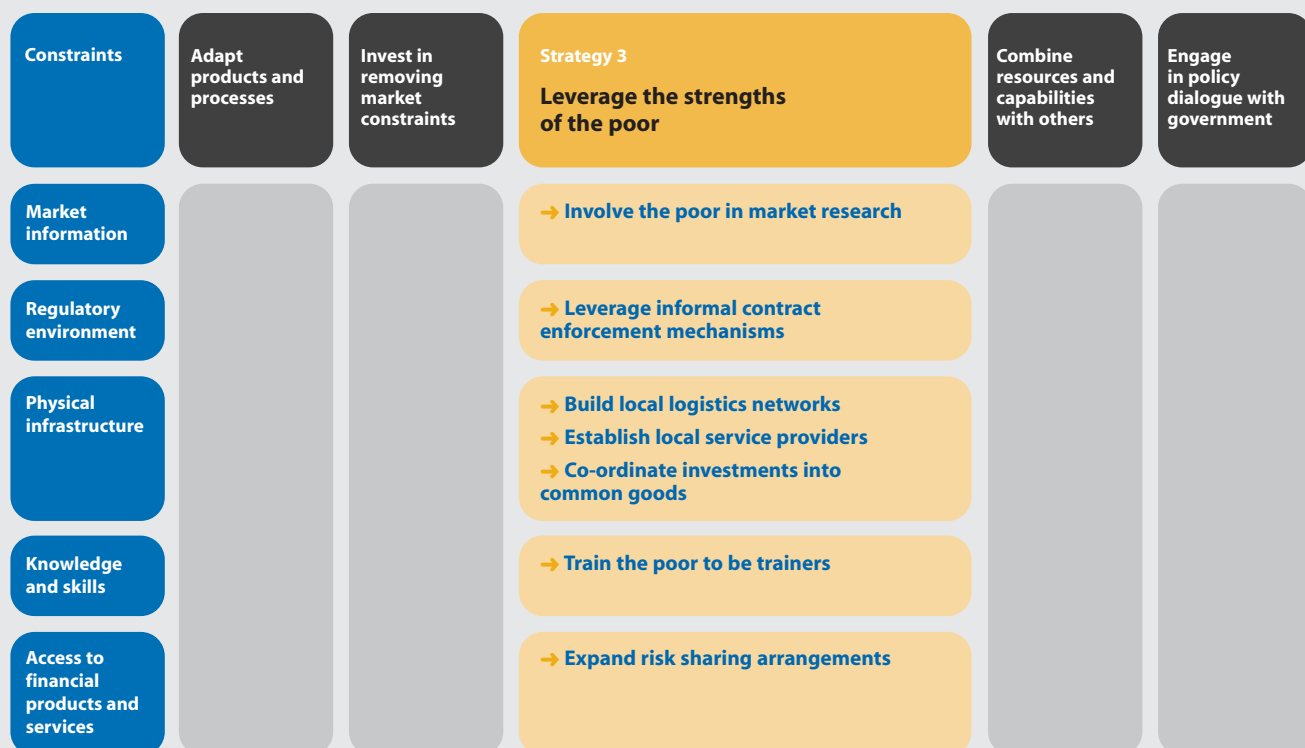
Expand risk-sharing arrangements.

Communities typically develop some form of risk sharing, either through common savings or through an agreement to support each

Colombia: The National Federation of Coffee Growers counts more than 566,000 members, most of whom are small-scale producers. Photo: Luis Felipe Avella



Figure 5.1. Summary: Approaches to leveraging the strengths of the poor



other in time of need. Businesses that include the poor as producers can expand these risk-sharing mechanisms and make them more effective. For example, they can help spread such mechanisms beyond single communities, protecting participants even in case of a community-wide loss. In this way, a company can help producers invest, improving their production and, in turn, improving the company's supply.

Juan Valdez is a chain of coffee shops in Colombia and other countries, owned by the National Federation of Coffee Growers of Colombia. The shops are a premium-price outlet for Colombian coffee from the Federation. Thanks to the premium price and the elimination of intermediaries, producers get 25% more than the standard Colombian price for the same coffee. To guarantee its members a minimum price, the Federation holds some Juan Valdez revenue from periods of high coffee prices

as a reserve against dips in the volatile coffee market. During the 'coffee crisis' of the early 1990s, this insurance mechanism compensated for the farmers' \$1.5 billion shortfall.

Co-ordinate investments into common goods. Without co-ordination, common goods will be insufficiently provided because of the 'tragedy of the commons'—when the community as a whole uses common goods but no member is willing to bear their cost. An inclusive business model can invest part of its revenue from product sales in common goods. Or it can require a community to make such investments (as in the Juan Valdez risk-sharing model). The fair trade system for example, as illustrated by the fair trade cotton model in Mali, requires each co-operative to spend a part of the additional income gained through the fair trade label on projects that benefit the community.

In Pakistan, Saiban gives poor people access to plots of land at affordable rates. Services are initially limited to the basics: a communal water supply and public transport to the city centre. Later, when enough monthly instalments have accumulated, they are used to finance more services (house-to-house water connections, sewerage, electricity, road paving). The self-financing project creates an incentive for inhabitants to organize themselves and quickly amass enough funds to obtain needed facilities.¹²

Another example of co-ordinating investments into common goods—with results that benefit the business while helping poor community members—is the nongovernmental organization set up by Tiviski, the Mauritanian dairy company. Financed through revenues from the company's milk sales, the organization offers animal feed, credit and veterinary care to camel herders who formerly lacked such services, which in turn limited the company's growth. ☉

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- 1 The World Bank Participation Sourcebook 1996, p. 8.
 - 2 Hart and London 2005, pp. 28–33.
 - 3 Chambers 1994.
 - 4 Centre for Urban Studies 2006.
 - 5 London 2007.
 - 6 Von Hippel 1986.
 - 7 Corbett 2008.
 - 8 Corbett 2008.
 - 9 Simanis and others 2008.
 - 10 Gruner and Homburg 2000.
 - 11 Mendoza and Thelen, forthcoming.
 - 12 Siddiqui 2005.

6

COMBINE RESOURCES AND CAPABILITIES WITH OTHERS

Mexico: In collaboration with consulates and migrants' clubs, Construmex helps families in Mexico build or buy decent homes through cash-to-asset transfers from their US-based relatives.

Photo: Cemex



Like all business models, inclusive business models often succeed by engaging other businesses in mutually beneficial partnerships and collaborations. For example, CEMEX works closely with a network of more than 2,000 small and medium-sized local retailers to distribute construction materials purchased through Construmex by Mexican migrants in the United States to their families in more than 1,200 locations in Mexico. It also has an agreement with DOLEX, one of the largest remittances transfer operators in the United States, to facilitate its clients' payments at more than 800 points of sale.

For inclusive business models, a strategy as important as engaging other businesses is creating partnerships with nonbusiness partners. These partners can include churches, farmer co-operatives, microfinance institutions, nongovernmental organizations with a human development mission and public services organizations such as schools, hospitals, local municipalities and national government agencies.

Collaboration is applied frequently to tackle almost all constraints. Not visible in the matrix is that collaboration is often used in conjunction with or as an

Box 6.1. Case Study – 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 signalled 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.'

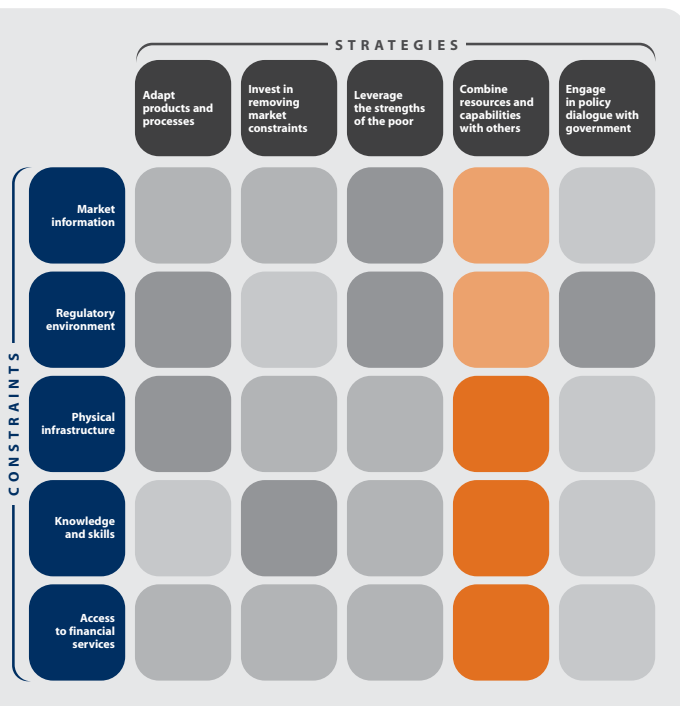
But meeting the demand of migrants in the United States presented complex challenges. Those migrants turned out to have much less liquid cash than the company initially believed—and a history of abuse, fraud and violent threats had made them wary of all housing remittance plans. CEMEX needed to gain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

enabler for other strategies, such as when businesses work with community development organizations to engage the poor or organize collective action to engage in policy dialogue.

Inclusive business models engage organizations in two ways. The first is to combine complementary capabilities. Every business seeks to configure a set of capabilities into a 'core competency' that will enable it to compete profitably, while other necessary capabilities can be sourced externally.¹ Such engagements range from the loose links between suppliers and vendors to the deep involvement of strategic business partnerships.

A second way to engage other businesses or organizations is to pool resources. Intended to gain scale or to promote common goals, this practice is less common, because businesses risk losing competitive advantage to 'free riders'. Still, successful examples exist—from smaller collective initiatives that achieve specific goals (regional companies joining to provide training programmes or employee services) to much larger collaborations (pharmaceuticals firms pooling resources for research and development).



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% 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.

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.



COMBINE COMPLEMENTARY CAPABILITIES

The York Institute for Research and Innovation in Sustainability's case studies show that in developing countries sustainable enterprises thrive in a dense network of organizations—including for-profit businesses and not-for-profit organizations and development agencies.² Inclusive business models can succeed by engaging all these organizations and benefiting from their capabilities, in particular to:

- Acquire market information.
- Leverage existing logistics networks.
- Impart knowledge.
- Promote training in needed skills.
- Make sales and provide services.
- Facilitate access to financial products and services.

Acquire market information. Where no data are published to help a business understand its target market and evaluate its potential, organizations already working with the target group will have qualitative knowledge about its skills, preferences and other characteristics. They may also have valuable quantitative data. Public administrations, development banks and other donor organizations can sometimes provide relevant statistical information or industry studies. CEMEX partnered with Mexican consulates in major US cities to carry out market research among Mexican migrants (box 6.1).

Businesses and civil society organizations can provide information about the competitive landscape, in particular about potential partners and allies. In 1997, Bangladeshi

Box 6.2. How to find a partner—without a partner?

Below is a brief overview of some existing brokering initiatives and institutions. This list is not nearly exhaustive, and many more partnership brokers exist, especially on the national, regional and local levels.

Multilateral development agencies

- IFC's Business Linkages programme and Grassroots Business Initiative
- Local Global Compact networks
- UNCTAD's Business Linkages programme
- UNDP's Growing Sustainable Business Initiative
- UNIDO's Industrial Subcontracting & Partnership eXchange Programme (SPX)

Bilateral development agencies

- DFID's Business Linkages Challenge Fund
- GTZ's Public-Private Partnership programme
- Netherlands Development Organization (SNV) and WBCSD's Inclusive Business Alliance
- USAID's Global Development Alliance

Nongovernmental organizations

- Ashoka
- Enablis
- Endeavor
- Strategic Business Partnerships for Growth in Africa
- Thailand Business Initiative in Rural Development
- TechnoServe
- Youth Business International

Business associations or networks

- IBLF and Overseas Development Institute's Partnership Brokers Accreditation Scheme (PBAS)
- Global, regional and national chambers of commerce (such as the Confederation of Indian Industry, Trade Information Network)
- National Business Initiative in South Africa
- Philippines Business for Social Progress (PBSP)
- WBCSD's regional Business Councils for Sustainable Development
- World Economic Forum's Business Alliance Against Chronic Hunger

National public entities and public-private partnerships

- Business Trust (South Africa)
- National initiatives for economic and sustainable development (such as the South Africa National Economic Development and Labour Council)
- Water & Sanitation for the Urban Poor (WSUP)

microfinance institution Grameen Bank and Norwegian telecommunications firm Telenor entered a joint venture—GrameenPhone—to provide people in Bangladesh with telecommunications and new income sources. Grameen had the local infrastructure, operations and reputation; Telenor brought technical expertise and investment capacity. Their idea was to build a microfranchise system whereby Grameen customers could buy telephones and then rent them out to neighbours. Among its microcredit clients, Grameen identified 100,000 'village phone ladies', who as microfranchisees now account for 10% of GrameenPhone's revenue.³ As Nicholas Sullivan writes, mobile phones became the 'new cows', rivalling the productive asset in which most women had invested their loans.⁴

It is not always easy to find a good partner for a new business model, especially in markets where information is scarce. 'Partnership brokers' can perform an important intermediary role: they pool information about organizations from different sectors that are open for collaboration, help find the right partner for specific projects and provide guidance on how to design and manage collaborations (box 6.2).

Leverage existing logistics networks.

Where physical infrastructure is inadequate, collecting and distributing products require logistics solutions. An inclusive business model can leverage other organizations' existing logistics networks. Where the for-profit sector is largely absent, nongovernmental organizations and public services often have such networks.

More than logistics challenges can be met, for example, through the health sector. Doctors Without Borders is a nongovernmental organization with an extensive network in Sub-Saharan Africa that brings emergency aid to people affected by epidemics, armed conflict and other natural or human-caused disasters. Pharmaceutical firm Sanofi-aventis collaborated with Doctors Without Borders to distribute its drugs against sleeping sickness.

Source: Adapted from Nelson 2007.



Mexico

Photo: Inter-American Development Bank

Their capabilities were complementary: Sanofi-aventis provided drugs and financial backing, and Doctors Without Borders used its medical and logistics capabilities to administer the drugs in remote locations. The collaboration has helped 14 million patients in 36 countries.

Impart knowledge. Collaborating with other organizations opens communication channels, especially where media density and literacy rates are low. Organizations with this capability include schools and universities, health services and public administration.

In Madagascar, Bionexx cultivates *artemisia annua*, a medicinal plant used in malaria treatments. The company finds it difficult to increase production because farmers see no value in growing the plant. To raise awareness of the plant's benefits and to overcome farmers' reluctance, Bionexx has partnered with a local religious radio station to spread information.⁵

Engaging governments through collaborative public awareness-raising campaigns not only provides information but can also increase the credibility of a business. In

Poland, Danone built on the government's unique capability to communicate the benefits to children's nutrition from its product Milk Start, which targets low-income families. It launched social activities to raise awareness about child health with partners, including media, schools and government representatives, who drafted 12 clear and simple principles for healthy nutrition. In one initiative, the 12 principles were adopted for the 'We Are Growing Up Healthy' programme of the Office of the Governor of Swietokrzyskie region. Teachers in the region used special educational packs, including a sample of Milk Start, during meetings with parents and children.

Promote training in needed skills.

Organizations able to provide training to people in rural villages or urban slums are typically nongovernmental organizations or public programmes, with missions such as rural development, health and hygiene, family planning, or literacy and other capacity building. Collaborating with established organizations can help to build trust in trainees.

Box 6.3. Microfinance institutions—the rural retail agents?



Madagascar

Photo: Adam Rogers/UNCDF

In many countries, microfinance institutions

are among the organizations with the most extensive networks. Credit and savings groups assemble even in remote villages. This capability has not gone unnoticed by other businesses.

In India, for example, microfinance institution BASIX offers not only credit and savings services, but also crop, health and livestock insurance; other financial services such as remittances transfers and agricultural and business development services; and institutional development services such as facilitating policy

dialogue. Among its clients are the rural and urban poor, including many women.¹

Working with a microfinance institution as a logistics channel has the advantage that financial services can be provided together with the collection or delivery of other products or services. An example is the collaboration between BASIX and Pepsico for Frito Lay's chip-grade potato farming. In 2006–07, more than 1,100 farmers participated in this venture, which brought significant increases in crop yields, access to credit and crop insurance and quality planting material to fields. BASIX is expected to manage Frito Lay's procurement process of 4,000 tons of potatoes in 2008.

1. BASIX 2007.

Amanco, for example, works with local nongovernmental organizations in Guatemala and Mexico to teach farmers about its irrigation systems. The organizations demonstrate the use and benefits of the systems. Farmers who adopt the systems are then trained in using them. Since the farmers are already familiar with the nongovernmental organizations' extension services, they welcome the demonstration and accept the information provided. The model has helped Amanco succeed—with net Latin American and Caribbean sales reaching \$688 million in 2005—while benefiting farmers, local microenterprises and the environment.

In Fiji, which has a large population that lacks access to formal banking, ANZ Bank and UNDP are collaborating to improve access to finance. ANZ Bank is establishing a rural banking service, with six mobile banks that travel regularly to 250 villages. UNDP provides the necessary training services: it has developed a Financial Literacy Programme for rural communities; trained key intermediary organizations, including local authorities, nongovernmental

organizations and community representatives; and provided training and technical advice to ANZ staff. The partnership is a success, with 54,000 rural accounts opened in the first 18 months and 400 microloans approved within a year. It is currently being replicated in other Pacific Island countries.⁶

Make sales and provide services.

The quality of sales and service provision depends largely on availability. Building on other organizations' existing networks is often more efficient than building a new one (box 6.3).

In Ghana, Barclays Bank found a way to work with the Ghana Susu Collectors Association that benefited both partners. Susu is a traditional system in many African countries whereby collectors regularly pick up savings from households, which pay a small fee. They also offer small, short-term loans. Ghana has about 4,000 Susu collectors who serve between 200 and 850 clients a day. The collectors can now store money safely at Barclays branches, where it benefits them and their clients by earning interest. The bank trains them in financial manage-

ment, enabling them to provide this service to their customers. Barclays in turn receives access to the collectors' existing clients. The bank benefits from collectors' good relationships with clients and knowledge about them. The programme increases the bank's cash flow without having to expand its own network. And the bank sells other services, such as small business credit, through the collectors.

One of India's largest private sector banks, ICICI, has engaged nongovernmental microfinance organizations as service agents to build the bank's microfinance portfolio. The organizations identify potential microfinance borrowers, make credit decisions, disburse loans on the bank's behalf and monitor and service the loans. In return, they are permitted to charge borrowers a service fee. Two years after pioneering the model, ICICI now has more retail microfinance clients than the largest microfinance institution in India, which began operating 12 years ago.⁷

Facilitate access to financial products and services. In markets where access to finance still eludes the poor, businesses that require credit or insurance must facilitate access. Most rely on the capabilities of existing financial service providers to offer integrated financial solutions. Existing providers can include microfinance institutions, commercial banks and government agencies.

Brazil's Votorantim Celulose e Papel (VCP) engaged existing credit providers to give eucalyptus growers a credit option that fit the cash flow of their business. Eucalyptus can be harvested after seven years. Having financed the planting of the trees through a collaboration with ABN AMRO Real, the initial loan and interest is collected when VCP buys the lumber from the farmers—who can thus plant without prior financial reserves and without needing to use their property as collateral. Maurik Jehee, ABN AMRO Real credit analyst, explains the bank's objectives: 'Besides its environmental concerns, [the project] has an inter-

esting social aspect and regional development potential. Moreover, it brings the potential of new clients in a region where the bank has little penetration.' By 2012, seven years into the programme, it is expected to reach a financing volume of \$30 million and to have benefited 20,000–25,000 producers.

The Indian hospital group Narayana Hrudayalaya created an insurance scheme to cater to low-income patients in partnership with Biocon Foundation and financial services provider ICICI Lombard Ltd. Each month an individual must pay 15 rupees (about \$3). The insurance includes three days of inpatient care for free, and outpatient services at half the standard price. Patients can receive the services in rural hospitals run by charitable organizations and by the government.

Colombia offers an interesting example of how local governments—in collaboration with the private sector—can facilitate access to financial products and services and remove constraints such as lack of information and skills. 'Cultura E' is a programme led by the city government of Medellin that develops *cedezos*, or local centres for enterprise development. Located in the poorest neighbourhoods, *cedezos* host a microcredit network comprising the government-funded Banco de las Oportunidades as well as 14 private microfinance institutions. This network directs entrepreneurs to the best-suited institution based on their needs and resources, while credit fairs provide information about the financial and nonfinancial services offered by the different institutions.



Costa Rica: Organizations provide training in such areas as literacy and computer skills. Photo: Inter-American Development Bank

Cedezos also promote an entrepreneurial culture through innovative initiatives, such as a seed capital contest. Every year, entrepreneurs from all over the city are invited to submit business plans and apply for government-funded seed capital to launch new enterprises. Entrepreneurs who lack the

skills needed to complete a business plan can receive help from *cedezo* staff, alongside participating nongovernmental organizations, to fill out the user-friendly forms. New entrepreneurs also receive mentoring to incubate their business ideas in a physical space until they become independent.⁸

POOL RESOURCES

If an inclusive business model faces challenges that have been met by other businesses or by civil society or governmental organizations, collaboration can be an efficient way to acquire those actors' capabilities. But what if nobody in the space has the needed capabilities yet? What if constraints cannot simply be dealt with but need to be removed? In these cases, success hinges on filling gaps and building the required market conditions. Sometimes a company can invest privately to fill gaps in knowledge, skills, infrastructure or access to financial products and services (as discussed in chapter 4). At other times, though, the investment is too big to be shouldered by a single company, and only a number of partners, pooling their resources, can meet the challenge.

Organizing collective action to remove constraints is often challenging, since there is an incentive to 'free ride' on the investments of others. Therefore, resource pools need a governance structure to ensure that each member contributes its agreed share. That can be done through established intermediaries, such as business associations, or by creating a dedicated body.

This section discusses how inclusive business models can partner with other businesses or civil society organizations to:

- Gather market information.
- Fill gaps in market infrastructure.
- Self-regulate.
- Build knowledge and skills.
- Increase access to financial products and services.

Gather market information. Rating agencies provide information about clients that is available to all credit institutions, reducing the cost of providing credit and enabling banks to make smaller loans and offer lower interest rates. This service, however, is rarely available for small and medium-sized enterprises in developing countries—one reason why these target groups often lack sufficient credit. To fill the gap, ICICI Bank, Standard Chartered and other national banks in India have created the Small and Medium Enterprises Rating Agency as a joint venture.⁹ The agency streamlines credit institutions' requirements for small and medium-sized enterprises, offering the credit institutions reliable assessments of the creditworthiness of such enterprises.

Pooling resources can also be a successful strategy when trying to fill gaps in market information. The World Economic Forum's Business Alliance Against Chronic Hunger seeks to improve value chains—and thus increase food supplies, nutrition and incomes in hungry regions—through global-to-local, cross-industry private sector engagement with local communities and partners. The alliance pools information on potential products from the district (gathered at community level), with broader studies of local, national and regional market demand (assessed by a local expert think tank), to identify commercially viable products for investment and development in a specific pilot district. In Siaya District, Kenya, alliance partners are leading 14 pilot initiatives, several in partnership with the

Millennium Villages Project, to expand the production capacity and market opportunities for local farmers and small-scale retailers. These projects are led by local and global companies working with nongovernmental organizations, community members and local and national governments. Too often, interventions fail because they happen in isolation. By engaging multiple partners along the value chain, the alliance seeks to remove constraints and expand opportunities, increasing the likelihood of making a lasting difference.

Fill gaps in market infrastructure. Since basic physical infrastructure typically lies in the domain of government, companies often collaborate with governments to build such necessities as roads, ports or electricity networks. But businesses in the same region or industry may share a need for more specialized infrastructure: for example, cold chains, sewage treatment plants or processing and packaging facilities. To fill the gaps, they can pool resources through collective action or by guaranteeing a provider an agreed amount in sales.

In the southern Indian state of Tamil Nadu, the local government entered into a joint venture with the local export association,

Tirupur Exporters Association, and a private sector financing organization, IL & FS, to create a water company—the New Tirupur Area Development Corporation—to tackle the water and sewage problems of a town with a textile-based economy and about 80,000 slum-dwellers. The programme was initiated through a multistakeholder dialogue, where local industry was represented, to identify infrastructure weaknesses and declare priorities. The government assumed a coordinating role, helping all stakeholders pool their resources. The stakeholders focused on a reliable water supply as a priority for improvement. So, the partnership included in its scope the implementation of a consistent, high-quality water supply; a sewage system with sewage treatment; and low-cost sanitation for both the industry, which paid high user fees, and the slums, which paid much smaller user fees. To carry out this infrastructure upgrade, the corporation installed (and now operates) the water and sewage system, which is financed exclusively with commercial returns. The textiles companies benefited from improved water services, and private households—particularly the rural poor—from increased coverage.

The Philippines: Manila Water provides safe water to previously unserved areas. Photo: Manila Water



Before the programme there were 43,000 household connections. The programme has now installed 8,000 new connections, with the capacity to add 17,000 more.

Self-regulate. Self-regulation can improve the regulatory environment without requiring action by policymakers. It can be effective where governments cannot help—across countries, for example, or in conflict situations.

In Sierra Leone, DeBeers and Rapaport joined international development organizations and governments to form the Peace Diamonds Alliance, which devises schemes for purchasing diamonds fairly and competitively from small-scale miners. The alliance helped make legal diamond exports grow from \$1.5 million in 1999 to \$70 million in 2003, allowing substantial revenues to flow back into Sierra Leone.¹⁰ Funds were allocated to build schools, markets and other public structures. For the first time, the country's diamond fees and royalties were monitored, miners were informed of the value of stones, environmental degradation was addressed, and the exploitation of miners—especially children—was reduced.¹¹

Self-regulation can be effective across national borders, making it particularly useful where poor people are contributing to a global value chain as producers or employees. Common standards can help an industry avoid a 'race to the bottom' in social and environmental responsibility—which might otherwise be hard to avoid, especially where pricing is fiercely competitive. The apparel industry has developed an international code and an independent control mechanism to manage social standards in the supply chain. The Worldwide Responsible Apparel Production system certifies compliance with a code of conduct that covers labour practices and customs legislation. Similarly, garment export manufacturers associations have developed codes of conduct and educational programmes for member companies in Bangladesh, El Salvador, Guatemala, Honduras and Malaysia.¹²

Build knowledge and skills. Wherever companies do similar business and do not have exclusive relationships with contributors

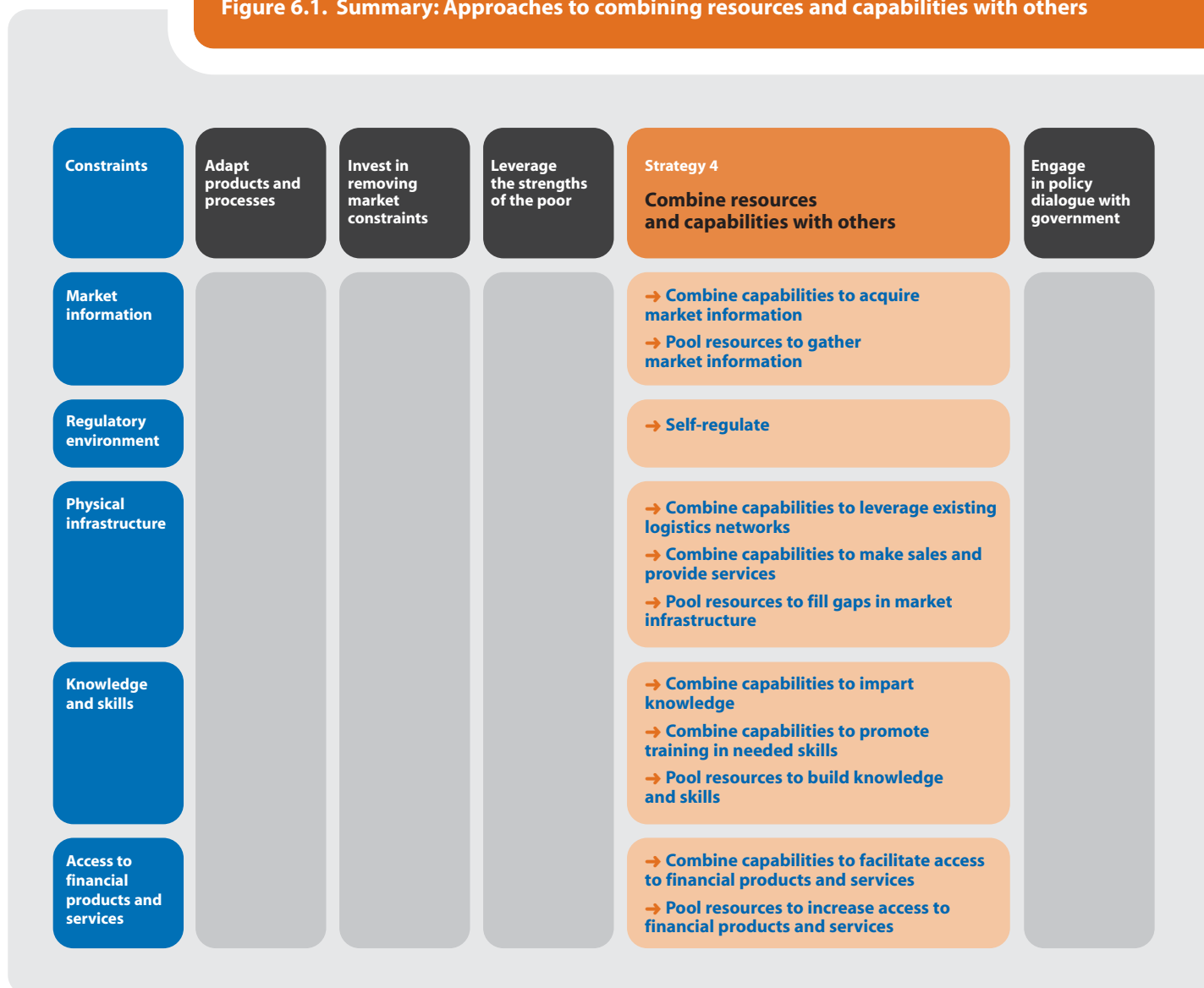
to their value chains, they have a common interest in adding to those contributors' skills. Such shared interests are common in commodity markets with several players. In these markets, moreover, it can be against the interest of purchasers to train suppliers at their sole cost: a supplier who benefits from training provided by one purchaser can still sell to another purchaser who offers a better price. A solution for purchasers is to pool their knowledge and skills with each other—often through engaging civil society organizations.

The World Cocoa Foundation is an example. Comprising more than 50 companies including ADM, Cargill, ECOM, Hershey, Kraft, Nestlé and Starbucks, the Foundation has worked with the US Agency for International Development to help African cocoa farmers in a number of countries including Cameroon, Côte d'Ivoire, Ghana, Liberia and Nigeria through its Sustainable Tree Crops Program. The organizations are important intermediaries for their members, bringing their cocoa to market and supporting them with training, sourcing and credit. But they often suffer from a lack of trained staff. The World Cocoa Foundation is making the cocoa farmer organizations more effective and the farmers' trade relationships more profitable. The companies in the Foundation benefit from improved product quality and reliability of supply.

Increase access to financial products and services. Companies can share the cost of extending access to financial products and services in hard-to-reach areas.

South Africa's four major banks—Absa, First National Bank, Nedbank and Standard Bank—partnered with each other and with the government-owned Postbank to locate low-cost, easy-to-use banking services within 15 kilometres of all South Africans. The services include automated teller machines and savings accounts called 'Mzansi'. Although the banks now market the accounts competitively, they shared brand development costs estimated at about 15 million rand—or about \$2 million.¹³ The partnership served 3.3 million people from 2004 to 2006.¹⁴

Figure 6.1. Summary: Approaches to combining resources and capabilities with others



1 Core competency is 'an area of specialized expertise that is the result of harmonizing complex streams of technology and work activity' (Prahalad and Hamel 1990).

2 Wheeler and others 2005.

3 Mair and Seelos 2005.

4 Sullivan 2007.

5 UNDP Madagascar 2007.

6 Liew 2005.

7 Ivatury and Abrams 2005, p. 14, cited in UNDESA/UNCDF 2006, p. 86.

8 Noguera 2008.

9 Jenkins 2007.

10 USAID 2006.

11 Lartigue and Koenen-Grant 2003.

12 Business for Social Responsibility 2004.

13 *Business Day* 2005.

14 The Banking Association, South Africa, website (www.banking.org.za).

7 ENGAGE IN POLICY DIALOGUE WITH GOVERNMENTS

The Philippines:
Smart and the Filipino authorities are engaged in a dialogue to adapt the regulation on mobile banking for the benefit of millions of Filipinos.
Photo: Smart



The story of CocoTech shows that public policy support, whatever form it takes—here research and a presidential order—can make a big difference to the success of inclusive business models (box 7.1). In other case studies, policy development, reform and support are still critically needed. In Mexico, for example, Amanco's pilot project selling small-scale irrigation equipment to smallholder farmers has relied on the farmers' ability to obtain public subsidies; Amanco has relied on social entrepreneurs to negotiate the subsidies on the farmers' behalf, case by case. In Ghana, it is difficult and risky for Barclays Bank to increase the number of collectors it works with to offer microcredit services, since today's regulations cover only Susu collectors who belong to the official Ghanaian Susu Collectors Association.

Regulatory constraints are clearly within the purview of government. Although all the market constraints described in chapter 2 might be considered government responsibilities, many businesses profiled in this report have found creative ways to work around and remove the constraints through private

Box 7.1. Case study - CocoTech: reviving an ailing coconut industry

Dr. Justino Arboleda (in the Philippines, everyone knows him as “Bo”) is the founder and president of CocoTech, a company that produces geotextiles from waste coconut

husks. Bo embodies the local entrepreneur who designs from scratch and, by force of conviction, a successful inclusive business model.

After completing doctoral studies in science and agricultural engineering abroad, Bo returned to his native region, Bicol, where coconut farming is the main industry. He was struck by the worsening plight of the coconut farmers there. Regular flooding and landslides posed recurrent threats to crops and farmland. Bo also saw that the 6 billion kilograms of coconut husks produced each year in the Philippines—the world’s second largest coconut producer—were a major source of waste and greenhouse gas emissions.

As an agriculturist, Bo knew that farming and the environment go hand-in-hand. And he thought that he saw an opportunity to increase the farmers’ income, while reducing natural disaster risks, by finding a use for the coconut husks—though he did not yet know just what could be done to add value to them.

Challenges stood in the way to developing productive uses for the coconut waste. Government research and development activities focused mainly on rice and corn, with little attention to other agricultural products. The government’s failure to provide initial capital or help identify markets left farming co-operatives less than enthusiastic about Bo’s project.

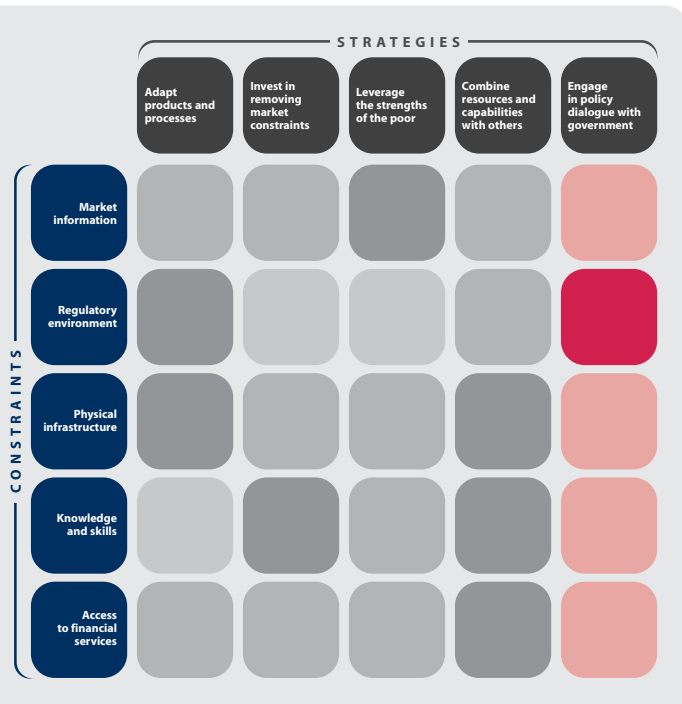
Bo’s solution was to persuade the government’s principal research and development arm (after several months of efforts) to conduct a study on the husks’ possible uses. The study revealed that cocofibre

initiatives—for example, by adapting products to run on solar power, by investing in education and training to raise the skill level of the workforce, by leveraging social networks to enforce contracts and by joining with other companies in self-regulation. But

for some businesses, it is possible to work around and remove market constraints only on a small scale. For others, it is not possible at all. The best strategy for these businesses is to engage in a policy dialogue to overcome the constraints they face.

Empowered to use policy tools such as legislation, regulation and taxation, governments exert unique authority across market systems. They have the mandate to use tax revenues to provide public goods, organizing the provision of collective services such as education and health care. And to eliminate market constraints over the long term—so that system-wide inclusive business models can proliferate on a large scale—public policy innovation and government action are needed.

But government policymakers are not always aware of the market dynamics and constraints that inclusive business models face, especially when dealing with new market actors (such as indigenous women) or new products and services (such as coconut husk nets or mobile transactions). In addition, complexity and uncertainty make it extremely difficult to get policy



could be made into nets, and, moreover, that it was biodegradable, helped vegetation settle in the soil to prevent soil erosion, and was much cheaper than the imported synthetic materials commonly used in public works. Bo introduced these benefits of cocofibre nets to local government units, which eventually helped to organize community partners and became Bo's first clients.

Once CocoTech was able to produce the cocofibre nets, another challenge was to create a market for them. Although a large and unmet international demand for cocofibre nets existed, low prices and high transportation costs limited their profitability. A domestic market was needed. Thinking that a solution would be government endorsement of products from coconut husks (based on the positive results of its study), Bo wrote and advocated for a presidential memorandum, which was eventually signed, mandating the use of cocofibre products in all government infrastructure projects.

CocoTech grew from a small community-based project, with an initial capitalization of \$7,000 and 5 employees in 1993, into a medium-sized enterprise with 25 employees and revenues of more than \$300,000 in 2006. Members of more than 6,000 families, mostly women, were then involved in manufacturing the products. In 2005, Bo won the World Challenge competition. Bo says: 'What was more meaningful to me was the idea that through the award, it will be much easier to promote cocofibre products throughout the world, which will

help reduce poverty in coconut-producing countries because more jobs would be created.'



The Philippines: CocoTech is transforming waste coconut husks into biodegradable nets that are able to prevent soil erosion.

involvement in policymaking can be fraught with perceptions of corruption and

responses right. And those responses remain right only until they stop working, or until the market undergoes some change. Policymakers continually depend on good information: specific, contextual, comprehensive, real-time information that suggests a decision's likely results and inevitable tradeoffs. Harvard economist Dani Rodrik has called for 'strategic cooperation between the private and public sectors, which, on the one hand, serves to elicit information on business opportunities and constraints and, on the other hand, generates policy initiatives in response.'¹ Good policymaking, in Rodrik's words, is a process of discovery.²

Businesses can play a role in this discovery, helping governments to identify bottlenecks and improve the market context for inclusive business models. Business

rent-seeking—and, in some cases, with more than just the perception of those negative externalities. Nevertheless, even at the risk of creating controversy, business must join in policy debates along with all other relevant stakeholders. That is because the entrepreneurs and managers who develop inclusive business models are arguably the most effective sources of information about which policies or policy tools will help or harm.

The entrepreneurs and managers who develop inclusive business models are best placed to see the constraints their businesses face in the markets of the poor. The same entrepreneurs and managers have compelling incentives to provide policymakers with detailed information on the dynamics and effects of the constraints. Although businesses can sometimes act on their own to remove market constraints in the short term,

Peru: Legislators and policymakers have a role to play in reducing market constraints. Photo: Inter-American Development Bank



improvements in policy are needed to complement, scale up and even replace such investments in the longer term. Finally, the entrepreneurs and managers who develop inclusive business models can also suggest specific changes that would facilitate those models—and they can calculate the positive effects of such changes on their customers, employees, suppliers and other business partners.

The Growing Inclusive Markets case studies reveal many entrepreneurs and managers engaging in a policy dialogue with governments, chiefly on the regulatory environment, but at times discussing other

areas. The case studies show inclusive business models engaging in policy dialogue mostly individually, through an entrepreneur's personal government contacts, or through a company's business contacts within government—and mostly on issues that are fairly specific to the business model's short-term interests. But some have influenced policy through demonstration effects, simply by doing business and succeeding at it. And some inclusive business models have collaborated with others to engage governments on both specific and systemic constraints. 🕒

ENGAGE INDIVIDUALLY

Individually engaging government can be an effective strategy for an entrepreneur or company to influence policy on an occasional basis and in response to specific concerns.

Often the goal is relatively limited—for example, to encourage government to provide public goods or public services the business needs to operate in particular

locations. In Madagascar, the lychee and tropical fruits company Faly Export advocated with local and regional authorities to involve them in road maintenance, because poor road quality complicates its product distribution. In the meantime, Faly engages local communities in the maintenance: the company provides community members

with the necessary equipment and remunerates them with corn seeds.³

Governments can also support businesses by gathering and providing market information, for example, by doing household surveys or setting research priorities. And companies can inform the government's research priorities by showing the social value that can arise from market information—through better provision of goods and services or through new market opportunities. Dr. Justino Arboleda of CocoTech made a convincing case to the Philippines government that using coconut husk productively could significantly improve the livelihoods of poor coconut farmers (see box 7.1). On that basis, the government decided to research commercialization opportunities for the husks being discarded as waste. This research resulted in the development of cocofibre nets, the production of which employs dozens of families as part of CocoTech's supply chain; other cocofibre companies are in development.

Sometimes individual public policy engagement by entrepreneurs and companies can have far-reaching implications, changing market structures and in some cases opening entirely new markets. The Mauritanian camel dairy producer Tiviski has been so successful at selling its products domestically that founder Nancy Abeiderrahmane now wants to expand the business to the EU. Tiviski's camel cheese, in particular, would fetch a high price with gourmet customers in this high-income market. Today, Tiviski cannot access the EU market, even though agricultural products from least-developed countries such as Mauritania can enter duty-free. Because there is no camel dairy industry in Europe, there are no standards and quality assurance mechanisms in place for these products. As a result of Abeiderrahmane's requests, an EU delegation is now working to establish the necessary regulatory institutions, which

will open a lucrative new export market for Tiviski and other producers.

In the Democratic Republic of Congo, political instability and a general absence of laws and regulations—in the police, the judiciary, the financial sector and telecommunications—have created discouraging risks for investors. With the Lusaka Accord in 1999, Joseph Kabila's ascent to power in 2001 and the Inter-Congolese Dialogue in 2002, telecommunications company Celtel identified some signs of hope and a window for engaging the government about its policy frameworks. Celtel's corporate agenda coincided with the Kabila government's agenda to promote peace, reunification and post-war investment and growth. Celtel invested in building strong relationships with political and regulatory authorities. In 2003, a new telecommunications law was passed. Whereas under the previous law a fixed-line operator had claimed monopoly rights, the new law created a clearer framework for state concessions and for telecommunications development, fostering the competition needed to increase access and affordability. In addition, the Post, Telephones and Telecommunications Regulatory Agency was established. 📍




Niger: Community members collaborate to engage the government in a dialogue about issues that affect them. Photo: Adam Rogers/UNCDF

ENGAGE THROUGH DEMONSTRATION EFFECTS

Demonstration effects can also influence policy when regulatory frameworks or public goods and services are absent or inadequate. Such effects depend on channels that enable the government to hear about and learn from a business's experience, whether the communication is direct or mediated by a third party such as a development agency.

When Électricité de France created the Rural Energy Services Companies in Mali, the country did not regulate energy provision. The companies' success, together with the support of the World Bank, convinced the government to set up new regulations. The new legal framework enables private operators to provide electricity, either through large rural concessions, where the private operator has a monopoly of energy distribution, or through spontaneous candidacy, where an operator interested in providing electricity to a small rural area can apply for authorization from the Malian Agency for the Development of Household Energy and Rural Electrification. In 2006, when the new legal framework became operational, Mali's energy agency signed more than 50 contracts with small operators. Two or three are already operating.

Demonstration effects have also led government to take action and improve access to financial services for the poor. As part of the Angola Partnership Initiative, Chevron, ProCredit Holding, the US Agency for International Development and several other donors partnered to establish NovoBanco, a commercial bank to lend to micro and small entrepreneurs and promote savings among poor people in Angola. In about three years of operation, it has issued more than \$27 million in loans to approximately 5,000 micro and small entrepreneurs in the country's two main cities. NovoBanco is already profitable and expanding in other parts of the country. According to a recent evaluation of the Angola Partnership Initiative, NovoBanco's 'success has demonstrated the potential of the micro and small enterprise sector in Angola and spurred the government and other banks to accelerate their own plans to set up small credit funds.'⁴ The increased availability of small business finance will make it easier for Angolan businesses to develop into qualified partners for Chevron and other larger firms. 

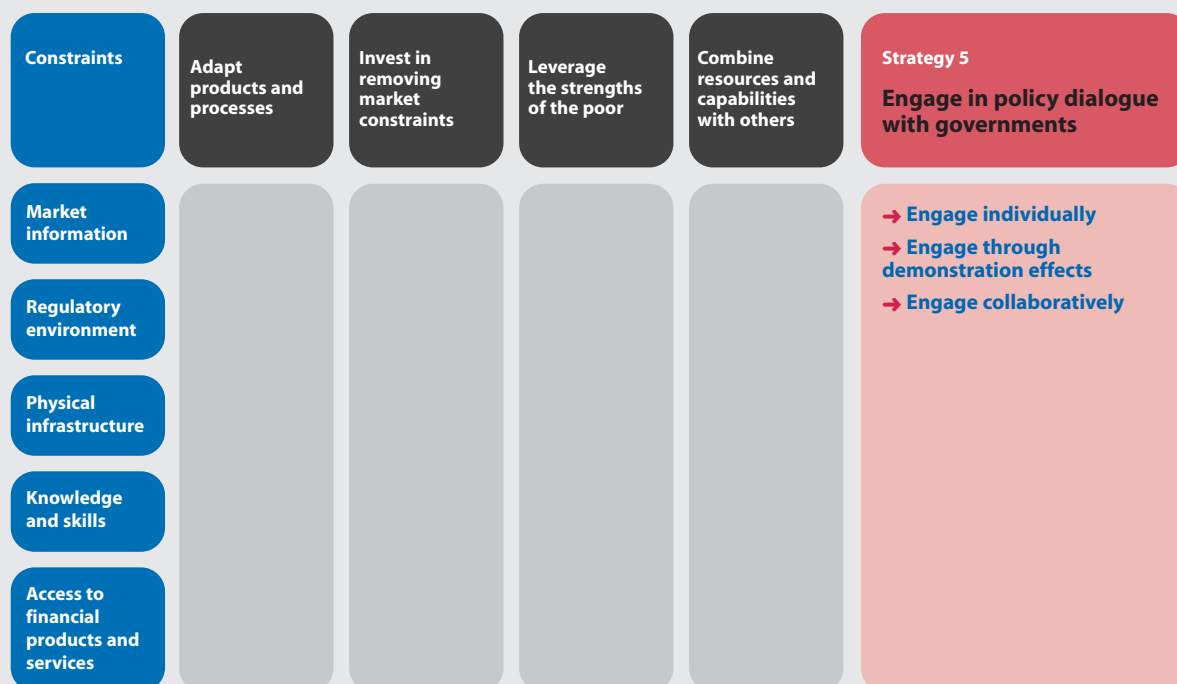
ENGAGE COLLABORATIVELY

In addition to the strategies of individual engagement and demonstration effects, firms are increasingly engaging governments collectively, or in collaboration with other stakeholder groups, on specific and systemic constraints that affect the success of inclusive business models. According to the World Economic Forum, the 'sensitive nature' of engagements to influence government policy is 'particularly well suited to progress through collaboration. Companies should look for opportunities to leverage their influence alongside that of industry colleagues, those with common interests in particular issues

and others working in geographic clusters.'⁵ The UN Department of Economic and Social Affairs and the UN Capital Development Fund add that 'policy change is most likely to occur when there is a critical mass of institutions and interests with the same concerns that are willing to act together.'⁶

A structure that facilitates such co-operation is the Big Business Working Group of South Africa's Business Trust, which brings business leaders in an advisory capacity together with government ministers for discussions chaired by the President, Thabo Mbeki. The structure is meant to foster

Figure 7.1. Summary: Approaches to engaging in policy dialogue with governments



relationships of trust and frank dialogue on issues facing the country and appropriate responses by both sides. Topics covered range from fiscal discipline to small and medium-sized enterprises to jobs and skills gaps.

An example of an inclusive business alliance is the WBCSD-SNV Alliance, which engaged the government of Ecuador in 2007 and created a powerful advocacy network with presidential advisers to put economic inclusion on the social development agenda. The national implementation strategy revolved around four sorts of inclusive business models: inclusive trade fairs, a nutrition development programme, a threading development programme and models that made agricultural value chains a priority. Overall the government set aside credit lines totalling \$87 million for four years, with the aim to create some 250,000 direct and indirect jobs.⁷


An example of a collaborative effort driven by the private sector is the Development Strategy Group of India's ICICI Bank. Recognizing the close links between its

market development and the economic development of the Indian people, ICICI complements its inclusive business models with a dedicated approach to informing public policy and action. In each of its districts, the group places one skilled professional who is charged with identifying gaps in large-scale market infrastructure. To fill those gaps, the professional convenes partnerships among local self-governments, district and state governments and other companies.

The Small Enterprise Assistance Fund in Colombia and Peru, together with the US Agency for International Development and international financial institutions, engaged the governments of Colombia and Peru to amend regulations prohibiting public pension funds and insurance companies from investing in private equity. Collaborating with pension funds and regulators, the alliance identified regulatory barriers and pressed for various modifications. Small and medium-sized enterprises can now access formerly unavailable sources of regulated capital.⁸

In the Philippines, public and private actors are innovatively collaborating to adapt the regulations that now govern mobile banking. Questions of telecommunications regulation, competition, payment systems, customer due diligence, consumer protection, deposit taking, electronic commerce, anti-money laundering and combating the financing of terrorism demand complex trade-offs between access and rule. As *The Economist* reports, 'Rather than trying to work out the best rules in advance ... the regulator is working closely with the banks and operators behind the country's two m-banking schemes.'⁹ That allows policymakers to see what is going on and feed the experience into the evolving regulatory regime.¹⁰ So far, policymakers have expanded regulation and enforcement to combat money laundering and the financing of terrorism, enabled customer due diligence to be conducted by retail agents and allowed

banks to regard prepaid card accounts as accounts payable (rather than deposits).¹¹ These measures have created a more effective, lower-cost regulatory regime, increasing the ability of operators such as Smart and Globe to expand access to the poor.

In the global arena, Visa International helped convene financial services firms, regulators and international donors to discuss global credit scoring and mobile banking. Participants pooled their research, expertise and voice to clarify policy and regulatory needs for this rapidly evolving space.¹² Mobile telecommunications operators and equipment providers have a similar interest: Vodafone, Nokia and Nokia Siemens Networks are conducting research and public dialogues with policymakers about how policies and regulations could enable innovative ways of providing financial transactions through mobile telephony. 

1 Rodrik 2004, p. 38.

2 Rodrik 2004, p. 38.

3 UNDP Madagascar 2007.

4 Chevron's Angola Partnership Initiative: A Case Study. p. 9.

5 World Economic Forum 2008, p. 16.

6 United Nations Department of Economic and Social Affairs and UN Capital Development Fund 2006, p. 158.

7 World Business Council for Sustainable Development and SNV Netherlands Development Alliance 2007.

8 Hoff and Hussels 2007.

9 *The Economist* 2007.

10 *The Economist* 2007.

11 Lyman and Porteous 2008.

12 Jenkins 2007.

8 TAKING ACTION

India: By establishing a network of Internet kiosks, a large agribusiness has taken action to provide local farmers with access to market information that can help them improve incomes.

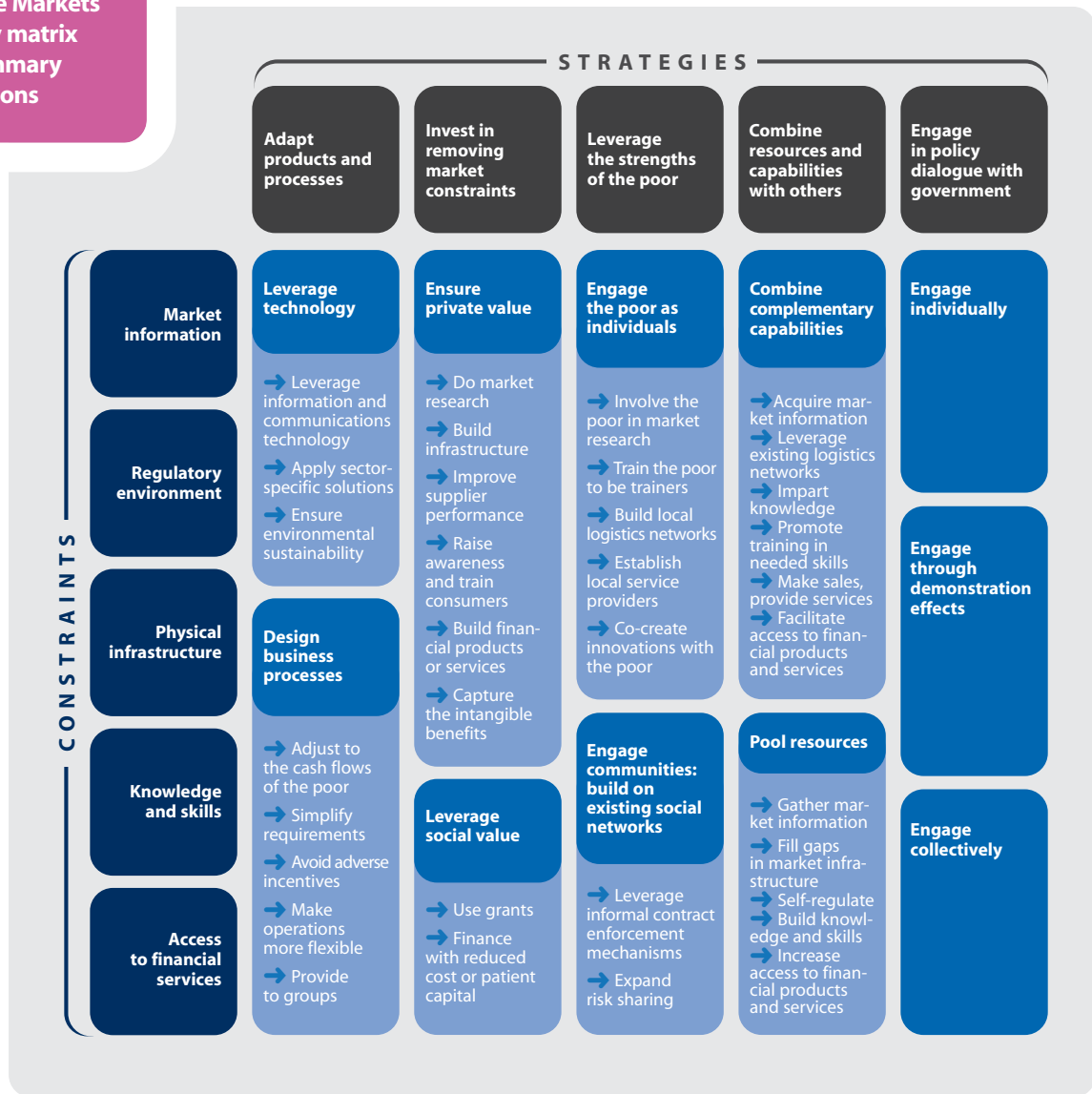
Photo: ITC Limited



The value of including in functioning markets the billions of people that are now shut out of them can hardly be overestimated. Such value will accrue to business, to the poor and to society at large. Businesses can generate profits and create the potential for long-term growth by developing new markets; innovating with new technologies, products, services and processes; expanding the labour pool; and strengthening the supply chain. Poor people can enter value chains at various points, from producing the raw materials to consuming the end products. They benefit from better access to goods and services that meet basic needs and increase productivity. They can also improve their incomes and escape poverty using their own means.

Opportunities for creating mutual value exist in many sectors, from agriculture to manufacturing, from telecommunications to finance. Some inclusive business models have already achieved large-scale growth. Many more opportunities remain to be discovered.

Figure 8.1. Growing Inclusive Markets strategy matrix and summary of solutions



As this report shows, the environments in which poor people find themselves contribute to their lack of opportunities. Missing market information makes it difficult for many businesses to consider dealing with them. They face a regulatory environment where rules are not effective, not supportive or not even accessible to them. They lack adequate infrastructure, including roads and networks for electricity, water and telecommunications. They lack many kinds of education, skills, training and other knowledge. And their access to credit and insurance is restricted. These conditions also constrain opportunities for entrepreneurship. Local people find it difficult to grow their businesses. And business people

from outside find it hard to deal with the challenges, especially when they are accustomed to well-functioning markets in their home regions.

And yet, as this report has shown, there are strategies that can work. The entrepreneurs featured in the Growing Inclusive Markets Initiative case studies have discovered solutions and established successful businesses with the poor. They have used their own capabilities and resources to overcome constraints, often in collaboration with public, private and not-for-profit organizations—not to mention with the poor themselves.

The entrepreneurs in this report exemplify what is possible. Their businesses contribute to achieving the Millennium

Development Goals in ways that can be magnified if others follow their example:

- Nancy Abeiderrahmane changed the face of the dairy industry in Mauritania and set up a profitable business. By providing higher incomes to her 1,200 local employees and suppliers, most of them nomadic herders, she is contributing to Millennium Development Goal 1—to eradicate extreme poverty and hunger—while preserving the nomads' way of life.
- In Brazil, Antônio Luiz da Cunha Seabra's cosmetics company is sourcing natural ingredients from local communities, contributing to their incomes and promoting Millennium Development Goal 1.
- Bindheshwar Pathak, an Indian entrepreneur, offers clean and cheap sanitation systems to 1.2 million households and operates 6,500 public pay-per-use restroom facilities. By 2006, Pathak's company had liberated 60,000 people from lives as scavengers, 95% of them women and girls. The company contributes to Millennium Development Goal 3—to promote gender equality and empower women, and to part of Millennium Development Goal 7—to reduce the proportion of people without access to basic sanitation.
- Dora Nyanja, a nurse franchisee in Kibera, Kenya, runs a Child and Family Wellness clinic to provide better and more affordable healthcare to slum dwellers. In 2006 alone, Kenya's 66 Child and Family Wellness shops and clinics benefited almost 400,000 low-income patients, contributing to Millennium Development Goal 6—to combat HIV/AIDS, malaria and other diseases.
- A pharmaceutical entrepreneur, Stephen Saad is doing his part to achieve Millennium Development Goal 6 in South Africa. Over 2001–06, Saad reduced the monthly cost of antiretroviral HIV medicines for each patient from about \$428 to \$13. His firm is building the capacity to supply

South Africa's national antiretroviral treatment program with roughly 60% of what it now requires.

- Joshua and Winifred Kalebu have designed, developed and managed innovative, affordable community water supply schemes in Uganda. Their business earns a profit while advancing part of Millennium Development Goal 7—to increase the proportion of people with sustainable access to safe drinking water.
- In the Philippines, Napoleon Nazareno runs a company that provides low-cost, prepaid airtime cards and the option to send remittances using short message service technology. With a network covering more than 99% of the population, Nazareno's firm serves 24.2 million people, reducing the 'digital divide' and advancing part of Millennium Development Goal 8—to make available the benefits of new technologies.

The solutions these entrepreneurs have found, and the inclusive business models they make possible, can inspire others. There is room for many more inclusive business models. There is room for more inclusive markets. And there is room for much greater value creation. In the words of Mahatma Gandhi: 'The difference between what we do and what we are capable of doing would suffice to solve most of the world's problems.'

The strategy matrix and summary of solutions (figure 8.1) lists ways to apply the five overarching strategies for mitigating the five broad constraints often faced by inclusive business models. More than one solution—and more than one strategy—are often used simultaneously to overcome a constraint.

This report calls businesses to action. It says: Do as the businesses in these examples did. They found and realized a wealth of opportunities for themselves and for the poor. But the report also calls the rest of us to action. To governments, communities and business associations—to international organizations, nongovernmental organizations and other development organizations—it says: All of us can help to generate more inclusive business models.

What business can do—reaching the poor as consumers, producers, employees and entrepreneurs

- **Create capacity and space for innovation inside the organization.** For example, expose staff and management to new experiences through field trips, volunteer assignments or innovation workshops with local communities. Surface ideas through competitions or incentive schemes. Design business development processes that encourage risk-taking and experimentation, and that leverage knowledge from all functional units—particularly those that already engage with the poor.
- **Develop investment tools**—such as specialized funds, ratings or investment procedures—that allow companies and commercial investors to identify and finance inclusive business models that promise the highest return for the poor, for investors and for society at large.
- **Deepen community engagement** to better understand the needs of poor suppliers and customers, to create innovative distribution channels, to share costs and to leverage local knowledge and social networks. Build links with local small and medium-sized firms. Engage in dialogue with community organizations, local nongovernmental organizations and individuals.
- **Build capacity for effective collaboration,** even with nontraditional partners and for novel purposes. For example, hire staff from other sectors. Establish cross-sectoral secondment programmes. Engage in collaborative initiatives.
- **Engage in policy dialogue** to improve the playing field. Provide information about market constraints to governments transparently and accountably, individually or collectively as part of a business association, policy initiative or stakeholder dialogue. Use influence to lobby for improvements in education, other basic services and legal empowerment of the poor, as well as for safeguarding human rights and environmental quality.

What governments can do—building capacity and conditions for functioning markets

- **Remove constraints in the market environment.** For example, generate regulation that facilitates competitive business, reduces red tape, ensures a functional and inclusive financial market and provides access to the legal system for the poor. Upgrade transportation, electricity, water and data transmission infrastructure. Improve general and professional education.
- **Establish information hubs** that gather and share market information and act as brokers between local and regional businesses, nongovernmental organizations and other relevant organizations and initiatives.
 - Strengthen entrepreneurship capacity through training, organizing, capacity building and technical advising.
 - Strengthen human capital to engage in productive economic activity through effective education and health care.
- **Improve consumer awareness and education** to strengthen demand for pro-poor products.
- **Support and finance inclusive business models** through carefully calibrated incentives.
- **Strengthen government's institutional capacity to collaborate with the private sector.** For example, initiate secondment programmes. Hire staff from the private sector. Engage in collaborative initiatives. Enable government entities to engage in collaborations with the private sector and facilitate cross-sectoral partnerships.
- **Establish platforms to engage business as a partner in economic development.** Through regional, sectoral and national development plans, engage business and economic development associations and multistakeholder groups to address concrete issues, such as water or waste.

What communities can do—business development from the ground up

- **Identify opportunities that business can seize.** For example, collect and share information about the community and its members through community surveys.
- **Identify products that the community can produce competitively.** Develop producer and marketing associations to share costs, aggregate production and leverage bargaining power.
- **Develop networks of small enterprises** (such as retailers) to aggregate and strengthen distribution networks, diversify inventory and link to larger corporate suppliers.
- **Build transparent community organizations,** such as village representation or producer and consumer cooperatives, that facilitate the dialogue between community and business.

What nongovernmental organizations and other development organizations can do—facilitating links and best practice exchange

- **Partner with businesses to facilitate community engagement** that is fair and equitable, that is sensitive to local values and that contributes to human development. Act as a ‘trusted broker’ in engaging business to meet opportunities at the community level.
- **Act as a platform for business collaboration and best-practice dialogue.**
- **Cultivate an openness to collaborations with the private sector.**
- **Facilitate effective, legitimate and transparent public-private dialogue** by providing guidance, tools and processes—and act as a watchdog within this dialogue.

What donors and international organizations can do—catalysing and expanding new approaches

- **Raise awareness among business and development practitioners** about the opportunity of including the poor in business.

- **Provide ‘patient capital’ and other appropriate forms of financing** to develop inclusive business models.
- **Create innovative, impact-oriented grant-giving models,** such as challenge funds or prizes for innovations that will break critical barriers to human development. Make the rewards large enough to create incentives for serious effort and experimentation. Establish effective and efficient ways to evaluate winning models and share learning.
- **Facilitate cross-sectoral dialogue.** Provide common platforms for learning, exchange and decision-making. Offer capacity building and brokering services. Work to establish a common language.

What others can do—target learning, awareness and consumption to expand inclusive business practices

- **Academia and other research institutions can work to improve our understanding** of the size and structure of the markets where the poor live, how inclusive business models work, what effective investments mechanisms look like and how dialogue processes between business and government can be made accountable, legitimate and effective. They can also identify new technologies to catalyse inclusive business models.
- **Business and public policy schools, together with other teaching institutions, can impart knowledge** about inclusive business models and the opportunities they can create, motivating students to enter the field. They can offer opportunities for cross-sectoral learning and enable and encourage students to pursue study projects with inclusive business models.
- **Business associations and partnership brokers can pool information about inclusive models from different sectors** that are open for collaboration, help find the right partner for specific projects and provide guidance on how to design and manage collaborations.

- **Business associations can coordinate collective private-sector action to remove constraints.** For example, industry associations can build joint training programmes or conduct joint market research.
- **The media can raise awareness about the opportunities for business in development.** By featuring successful initiatives they can help raise awareness, foster mutual understanding and remove barriers between stakeholders.
- **Individuals can support pro-poor business models** by purchasing from companies who source from the poor, or by contributing money and skills to nongovernmental organizations that facilitate inclusive business models.

The Growing Inclusive Markets Initiative is a platform to facilitate the engagement of all actors for more inclusive business models. It gathers relevant information, highlights good examples, develops practical operational strategies and creates space for dialogue. This report and the collaborative process that led to it are only first steps towards the initiative's goals. The initiative's online platform, www.growinginclusivemarkets.org, provides access to all the existing data and case studies gathered by the initiative. It will be continually enriched and expanded with up-to-date information and tools.

In 2007, the UN Secretary-General Ban Ki-Moon issued a Call to Action on the Millennium Development Goals, urging an international effort to accelerate progress and help make 2008 a turning point in the fight against poverty. The private sector has been encouraged to join vigorously in this effort. The Growing Inclusive Markets Initiative is a complementary invitation to adopt a business approach whose scale and replicability can bridge the gap between the constraints of today and the promise of tomorrow.

Please join us in this endeavour! 



ANNEXES

ANNEX 1. CASE STUDIES BANK

OVERVIEW

COMPANY	LOCATION	TYPE OF COMPANY				SECTOR									PAGE		
		Multinational corporation	Large national company	Local SME ¹	Nonprofit organization	Agriculture and/or food	Housing	Energy	Health	ICT ²	Financial services	Water and sanitation	Textiles	Tourism		Other (waste, transportation)	
A to Z Textiles	Tanzania		✓						✓								107
Amanco	Mexico	✓										✓					107
Amanz' Abantu	South Africa			✓								✓					108
ANZ Bank	Fiji		✓								✓						108
Aspen Pharmacare	South Africa	✓							✓								109
Association of Private Water Operators	Uganda			✓								✓					109
Barclays' Susu Collectors Initiative	Ghana	✓									✓						110
Cashew Production	Guinea			✓		✓											110
Celtel and Celplay	Democratic Republic of Congo			✓						✓	✓						111
Coco Technologies	Philippines			✓		✓											111
Construmex	Mexico	✓					✓										112
Danone	Poland	✓				✓											112
Denmor Garments	Guyana			✓									✓				113
DTC Tyczyn	Poland			✓						✓							113
Edu-Loan	South Africa			✓							✓						114
Fair Trade Cotton	Mali		✓			✓											114
Forus Bank	Russia			✓							✓						115
Huatai	China		✓			✓											115
Integrated Tamale Fruit Company	Ghana			✓		✓											116
Juan Valdez	Colombia		✓			✓											116
K-REP Bank	Kenya			✓							✓						117
Lafarge	Indonesia	✓					✓										117
LYDEC	Morocco	✓						✓				✓					118
Manila Water Company	Philippines		✓									✓					118

1. Small and medium-sized enterprises. 2. Information and communications technology

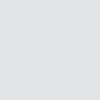
COMPANY	LOCATION	TYPE OF COMPANY				SECTOR										PAGE	
		Multinational corporation	Large national company	Local SME	Nonprofit organization	Agriculture and/or food	Housing	Energy	Health	ICT	Financial services	Water and sanitation	Textiles	Tourism	Other (waste, transportation)		
Mibanco	Peru		✓								✓						119
Money Express	Senegal			✓							✓						119
M-PESA	Kenya	✓								✓	✓						120
Mt. Plaisir Estate Hotel	Trinidad and Tobago			✓										✓			120
Narayana Hrudayalaya	India			✓													121
Natura	Brazil	✓				✓											121
Nedbank and RMB/FirstRand	South Africa	✓									✓						122
NTADCL	India		✓									✓					122
PEC Luban	Poland			✓					✓								123
Pésinet	Mali and Senegal				✓					✓							123
Petstar	Mexico		✓													✓	124
Procter & Gamble	Cross-regions	✓										✓					124
Rajawali	Indonesia			✓												✓	125
RiteMed	Philippines	✓								✓							125
Rural Electrification	Mali			✓					✓								126
Sadia	Brazil	✓				✓											126
Sanofi-aventis	Sub-Saharan Africa	✓								✓							127
SEKEM	Egypt			✓		✓											127
SIWA	Egypt			✓											✓		128
Smart Communications	Philippines	✓								✓	✓						128
Sulabh	India				✓							✓					129
The HealthStore Foundation	Kenya				✓					✓							129
Tiviski Dairy	Mauritania			✓		✓											130
Tsinghua Tongfang (THTF)	China		✓							✓							130
VidaGás	Mozambique			✓					✓								131
Votorantim Celulose e Papel	Brazil	✓				✓											131

Type of company

Local small or medium-sized enterprise

Sector

Health / Textile

Author(s)Winifred Karugu
Triza Mwendwa**Millennium Development Goals addressed**

Malaria, transmitted through mosquito bites, kills a million people worldwide each year. In 2004, A to Z Textile Mills of Tanzania became the sole African producer of long-lasting insecticide treated bed nets, able to kill mosquitoes on contact for five years without retreatment and resistant to tears. The venture's success relies on a broad public-private partnership. Sumitomo, a Japanese company, transfers technology and chemicals to A to Z through a loan from Acumen Fund. Exxon Mobil sells resin for the nets to A to Z and donates funds to UNICEF to buy the treated nets for the most vulnerable children. UNICEF and the Global Fund to Fight AIDS, Tuberculosis and Malaria act as buyers of last resort, guaranteeing to buy all the nets that do not clear normal market channels. A to Z makes nets available through direct and mobile marketing. The government promotes via social marketing through a national voucher scheme that brings subsidized treated nets to pregnant mothers and children under five. In addition to the impact on public health, A to Z employs about 3,400 low-skilled people, 90% of them women.

Type of company

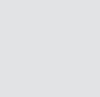
Large national company

Sector

Agriculture

Author(s)

Loretta Serrano

Millennium Development Goals addressed

For decades, small farmers in Latin America have faced a grim outlook: low productivity and inefficiency. That was the background for the decision of Amanco, a subsidiary of the conglomerate GrupoNueva, to develop a hybrid value chain model for serving low-income markets. As part of that plan, the company shifted from selling water conveyance supplies to offering integrated irrigation solutions, priced per hectare of land. The solutions included services to increase farm productivity and to maximize water efficiency. The company partnered with unconventional civil society organizations—closer to low-income clients—and with others providing microcredit and access to alternative channels for commercialization. Better irrigation methods raised productivity for Amanco customers up to 22%, cut labour costs 33% and brought significant water efficiencies.

Type of company

Local small or medium-sized enterprise

Sector

Water / Sanitation

Author(s)

Courtenay Sprague

Millennium Development Goals addressed



Amanz' abantu means 'water for the people' in Xhosa, Ndebele and Zulu. Amanz' Abantu Services, Ltd., established as a private South African company in 1997, aimed to provide water supply and sanitation for peri-urban and rural communities in the Eastern Cape, where a quarter of the population lacked potable water. The company pipes water meeting international quality standards to sites where individuals can access standpipes using smartcard technology. Before the arrival of Amanz' Abantu, villagers—mainly rural women—had to walk up to several hours to obtain water from the nearest river. And they were still vulnerable to waterborne diseases. Bringing a safe water supply within 200 metres of homes transformed the lives of rural residents, equipping villagers with skills in building and construction and making them employable in a country with 25% unemployment. The case details the contentious reception for private-sector involvement in water provision and how the company overcame the obstacles to address a social problem and earn a profit—\$67,000 in 2006.

Type of company

Multinational corporation

Sector

Financial Services

Author(s)

Millennium Development Goals addressed



In Fiji, close to 340,000 people living in rural villages and settlements do not have access to banking services. UNDP and ANZ Bank partnered to devise viable and innovative commercial banking services, supported by a financial literacy training programme. The investment comprises a fleet of 6 mobile banks that travel on a regular schedule to 150 designated rural villages and settlements. The ability to change the mandated proof of identify required to open a bank account enabled ANZ Bank to offer products such as loans and savings accounts to those communities who lacked official documentation. In the first 5 months of operation, 17,000 women, men and school children are beginning to save regularly and over 1,500 villagers have acquired valuable money management skills. The bank is currently expanding its operations to reach 140,000 clients.

Type of company

Large national company

Sector

Health

Author(s)Courtenay Sprague
Stu Woolman**Millennium Development Goals addressed**

The need for antiretroviral treatment in South Africa is acute. Without significant changes, current projections indicate that 3.5 million South Africans will die of AIDS-related infections by 2010. In 1997, Stephen Saad sold his shares in the Covan Zurich pharmaceutical company and, along with two others, founded Aspen Pharmacare with \$7 million. Its goal: to build a major pharmaceutical manufacturer capable of supplying the South African market with brand name, generic and over-the-counter medicines at affordable prices. Aspen is now the largest producer of tablets and capsules in Africa, recording a net profit of \$75 million in 2005. The case describes how Aspen's business model and innovations have responded to a challenging environment, complicated by humanitarian, governmental and legal demands.

Type of company

Local small or medium-sized enterprises

Sector

Water

Author(s)Winifred N. Karugu
Diane Nduta Kanyagia**Millennium Development Goals addressed**

Of Uganda's 21 million people, more than 2 million live in small towns with poor water supplies. Most people in these towns are low income, and their lack of water aggravates poverty and encourages diseases. Initially, reforms in water and sanitation came through government-sponsored boreholes in villages across the country. In 2003, however, Uganda developed a new model to address the water needs of low-income residents in small towns, based on a private-public partnership among government, development partners, local councils and private water operators. The government finds sites, drills boreholes, facilitates community land purchase and subsidizes installments. The private operator distributes water, checks safety and captures the profits. The community water board owns assets and sets tariffs and policies. The model brought access to water to 490,000 people in 57 small towns through such innovative systems as coin-operated water kiosks. In 2006 there were 18,944 connections, with annual turnover of 2 billion Ugandan shillings (\$1.2 million) a year. The operators also employ more than 800 people.

Type of company
Multinational corporation

Sector
Financial services

Author(s)
Robert Darko Osei

Millennium Development Goals addressed



Susu collection, practiced for more three centuries in Africa, is an informal arrangement for mobilizing savings deposits from clients. Operators collect a predetermined installment of money from their client, daily or weekly. With about 4,000 active Susu collectors in Ghana and each serving 200–850 clients a day, Susu collection has become an established (albeit informal) system that meets an important need.

In November 2005 Barclays Bank Ghana embarked on an initiative at the intersection of traditional banking and modern finance, leveraging Susu collection to extend microfinance to some of Ghana's poorest people—the small trader at the market or the microentrepreneur selling from roadside stalls. The case looks at how the Barclays Ghana initiative augments the Susu collection scheme and the project's impact on advancing Barclay's corporate objectives.

Type of company
Local small or medium-sized enterprise

Sector
Agriculture

Author(s)
Mamadou Gaye
Ousmane Moreau

Millennium Development Goals addressed



Guinea grows about 5,000 tons of raw cashew nuts a year. Meanwhile, its much smaller neighbour Guinea-Bissau, with similar soil and climate, produces 80,000 tons. Encouraged by the growing consumer demand for cashews, Guinea has begun to focus on expanding cashew production—a good candidate for expansion, with 80% of Guineans dependent upon subsistence agriculture for their livelihoods. Guinea's climatic conditions, fertile soil and long rainy season are all favourable for growing large, high-quality cashews. International agencies have lent technical and financial support to help Guinean producers enhance their competitiveness in world markets.

Over the last three years, the Global Development Alliance Partnership, encompassing several Guinean cashew cooperatives, the government, the US Agency for International Development and Kraft Foods, has helped Guinean farmers produce and sell cashews. The goal is to reduce poverty and secure a better economic future for the country. The partners have collaborated to provide technical support to community-based organizations. The case describes the ambitious plans: 1,600 hectares of old cashew plantations rehabilitated, 12,000 hectares of new plantations made ready, improved seeds supplied and 1,600 farmers' associations trained.

Celstel and Celplay

Sub-Saharan Africa > Democratic Republic of Congo

Type of company
Multinational corporation

Sector
Information and communications technology / Financial services

Author(s)
Juana de Catheu

Millennium Development Goals addressed



Celstel International—the leading pan-African mobile communications group, with operations in 15 countries—entered the Democratic Republic of Congo in 2000, when the civil war was still raging. It faced a market with widespread insecurity, poverty, depleted human capacity and political and regulatory uncertainty. There was little or no infrastructure and no banking network. The potential customer base seemed very small, with few ways to reach out to them. Despite those obstacles, Celstel has gained more than 2 million customers in the country, allowing communities previously isolated by war and poor infrastructure to exchange information. Celstel also established Celplay—previously part of Celstel and now owned by FirstRand Banking Group—as a mobile banking system to compensate for the lack of a national banking network. The case outlines each obstacle and details how the company addressed them.

Coco Technologies

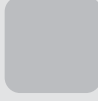
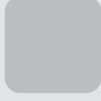
Asia and the Pacific > Philippines

Type of company
Local small or medium-sized enterprise

Sector
Agriculture

Author(s)
Elvie Grace Gancho
Perla Manapol

Millennium Development Goals addressed



In the Philippines, the coconut tree is called the tree of life because of its wide-ranging uses. The traditional focus on dried coconut flesh and oil, however, makes farmers vulnerable to market fluctuations. This has made them disproportionately poor: coconut farmers make up 4% of the Philippines' 89 million people but 20% of its poor.

Coco Technologies (CocoTech), a privately held enterprise, has pioneered bio-engineering applications of cocofibre nets made from waste coconut husks since 1993. Today, its collaborative business model involves more than 6,000 families in weaving and manufacturing nets for slope stabilization and erosion control. CocoTech provides supplementary income to coconut farmers, livelihood opportunities for traditionally nonproductive family members and a low-cost, environment-friendly solution to its clients.

Type of company
Developing country
multinational corporation

Sector
Construction / Housing

Author(s)
Loretta Serrano

Millennium Development Goals addressed



Construmex, an initiative of Mexican construction and building giant CEMEX, was launched after the company's success with Patrimonio Hoy, a socially minded business initiative targeted at low-income consumers. Since its inception in 2001, Construmex has helped more than 14,000 Mexican migrants in the United States build, buy or improve a house in Mexico—for themselves or their families. By becoming an intermediary between Mexican migrants in the United States and their designated contacts or beneficiaries in Mexico, Construmex increases the efficiency and effectiveness of housing investments.

The case examines Construmex's challenges serving low-income markets and the innovations required to solve them, including the variety of partnerships necessary for executing a commercial transaction initiated in one country and closed in another. From 2002 to 2006, Construmex generated \$12.2 million from construction material sales. Since late 2005, 200 houses have been sold, and 23% of Construmex clients are women.

Type of company
Multinational corporation

Sector
Agriculture / Food

Author(s)
Boleslaw Rok

Millennium Development Goals addressed



Three years ago Danone Poland—established in 1992, part of Groupe Danone, a leader in the global food industry—developed a breakfast product that has high nutritional value for children and is affordable for low-income consumers. A milk porridge product based on semolina and milk, Milk Start is enriched with vitamins and minerals. To make the initiative financially sustainable, Danone knew that the products had to be profitable, or at least cover the costs of product development, manufacturing and distribution. The project team established partnerships with a state child health and nutrition organization, Poland's largest manufacturer of instant products and the country's largest food retailer. The partners committed to offering the lowest price possible with the highest nutritional quality. The collaboration brought many innovations, including economical packaging for single-serve sachets to drive down production costs and increase accessibility. Milk Start launched in September 2006 and reached sales of more than 1.5 million sachets by the end of 2006, including about 33,000 households with children under the age of 15.

Type of company

Local small or medium-sized enterprise

Sector

Textile

Author(s)

Melanie Richards

Millennium Development Goals addressed

Since July 1997, Denmor Garments, Inc.—a privately owned garment manufacturer in Coldingen, Guyana—has grown from 250 employees to more than 1,000, 98% of them women from poor rural communities. Aside from employment, Denmor also provides training and empowerment to lift the women out of poverty. With innovative solutions, Denmor has overcome many challenges to employing women from poor rural Guyanese communities, especially illiteracy and transportation difficulties. Today, the organization manufactures garments for top global brand names and has won a prestigious industry-wide award for quality standards. The case details the company history, interwoven with the inspirational personal story of its founder, Dennis Morgan.

Type of company

Local small or medium-sized enterprise

Sector

Information and communications technology

Author(s)

Boleslaw Rok

Millennium Development Goals addressed

Well-developed telecommunications infrastructure is critical for local economic development. In a rural valley region close to the Ukrainian border, District Telephone Cooperative Tyczyn began by uniting village telephone committees and local governments. One of the first independent operators in Poland, Tyczyn broke the state monopoly on providing telecommunications services. The enterprise is a cooperative that offers a variety of services—better and cheaper than those of competitors—to its mostly village-based clients. The case shows the challenges Tyczyn overcame in helping establish a more inclusive society in one of Central and Eastern Europe's poorest regions. Information and communications technology became a vehicle for changing living conditions for the poor and establishing new social infrastructure.

Type of company

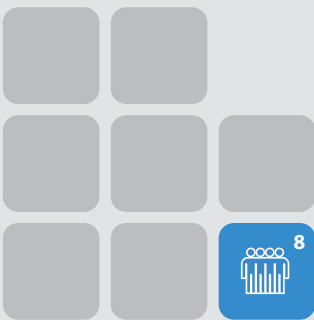
Local small or medium-sized enterprise

Sector

Financial services

Author(s)

Farid Baddache

Millennium Development Goals addressed

For decades during apartheid, South Africa's public authorities neglected the education of the vast majority of the country's people—now referred to as the historically disadvantaged. In the new South African economy, there are big needs for skilled and educated workers to sustain development. But post-secondary education is not free, and most historically disadvantaged people do not have money to pay. Nor do they qualify for traditional modes of financing.

Edu-Loan, a for-profit company focused exclusively on loans for post-secondary education, offers simple repayment options—at affordable rates—to historically disadvantaged applicants interested in advancing their skills. Since its inception in 1996, Edu-Loan has financed close to 400,000 students with loans totalling more than \$140 million. Edu-Loan's commercial success mirrors its social impact: the company offers shareholders a return on capital employed of 30%. The case examines how two social entrepreneurs saw an opportunity for a profitable business venture in a niche market that would also have an impact on human development.

Type of company

Local small or medium-sized enterprise

Sector

Agriculture

Author(s)

Mamadou Gaye

Millennium Development Goals addressed

Cotton is one of the world's oldest commercial crops, harvested in Africa for more than 5,000 years. Today, it is the main source of income for 20 million people and accounts for up to 60% of national export earnings in West and Central Africa. Since 1999, however, African producers have suffered from successive price falls—with no guarantee for farmers that the selling price will allow them to earn a return on investment and recoup the production costs. African producers are disproportionately vulnerable, often working with old-fashioned tools on family plots but competing with highly subsidized producers from rich countries. African cotton farmers thus often see no benefits from international trade.

This case discusses fair-trade cotton initiatives that help poor Malian farmers sustain their production and earn meaningful revenues. The work of the Fair-trade Labeling Organization (an international fair-trade organization), its French member Max Havelaar France, and European clothing retailers such as France's Armor-Lux highlights the value of fair trade for both producers and end-consumers. Thanks to a guaranteed minimum price implemented as part of the fair-trade process, Mali's producers increased their income by 70% during the 2005/06 harvest.

Type of company

Local small or medium-sized enterprise

Sector

Financial services

Author(s)

Boleslaw Rok

Millennium Development Goals addressed



The Fund for Support of Microentrepreneurship (FORA), created in 2000 by the microfinance-support organization Opportunity International, sought to eliminate poverty in the Russian Federation by giving economically active people access to small loans to support their businesses. Providing financial services to people excluded from commercial banks, FORA created opportunities for the poor, especially women, to become active in the economy through entrepreneurship, income generation and social empowerment. As businesses grew, FORA, together with Opportunity International and other partners, established FORUS Bank in 2005 to access commercial capital and reach more clients. The case shows the challenges in transitioning from a not-for-profit organization to a commercial microfinance bank—some specific to Russia, others with worldwide relevance.

Type of company

Large national company

Sector

Other

Author(s)

Donghui Shi

Millennium Development Goals addressed



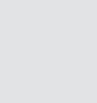
In 2000, Huatai Paper Company, Ltd., the biggest newsprint manufacturer in China, launched a new strategy to substitute wood pulp for straw pulp. The key was mobilizing local farmers to plant fast-growing trees. Farmers get support from Huatai and the local government through technology, education and irrigation. About 6,000 households have participated, planting 40,000 hectares of fast-growing trees and generating a significant new source of income. Meanwhile, Huatai has grown its newsprint business while decreasing its environmental impact and minimizing the risk from volatile import prices for pulp.

Type of company
Local small or medium-sized enterprise

Sector
Agriculture

Author(s)
Robert Darko Osei

Millennium Development Goals addressed



The Integrated Tamale Fruit Company—operating in the Savelugu-Nanton District in Ghana’s Northern Region, an area of widespread poverty—cultivates certified organic mangoes for local and export markets. To boost its power in the export market with higher production volumes, the company established a scalable business model that includes local farmers. Instead of acquiring a very large piece of land—physically and financially impractical—the company produces high volumes through an outgrower scheme, which started in 2001 and today includes 1,300 outgrower farmers. Each has a farm of about an acre, with 100 mango trees that supplement the nucleus farm of 160 acres. The company provides an interest-free loan to the outgrowers through farm inputs and technical services, and farmers start paying for the loan from selling mangos only after the trees yield fruit. This arrangement allows the company to reliably source a large volume of quality organic mangoes, and the farmers can enter mango production with long-term income prospects. The nucleus farm’s profits are on track to reach \$1 million a year by 2010. The case examines the key challenges of the outgrower scheme and its implications for the company’s business.

Type of company
Large national company

Sector
Agriculture

Author(s)
Luis Felipe Avella Villegas
Loretta Serrano

Millennium Development Goals addressed



Coffee is a way of life for the more than 566,000 Colombian farmers associated with the National Federation of Coffee Growers of Colombia (NFC). About 95% of NFC coffee growers are small-scale, with coffee plantations of less than 5 hectares. An estimated 2 million Colombians depend directly on coffee production. For decades the coffee market has confronted crises from international price instability, with significant repercussions on the quality of life for small producers and their families. The Juan Valdez character—created in 1959 to position Colombian coffee globally, particularly in the United States—was relaunched in 2002 with the inauguration of the Juan Valdez Coffee Shops, part of an NFC initiative to increase coffee producers’ profits by incorporating direct sales into its commercial model. In 2006, the company operated 57 coffee shops in Colombia, the United States and Spain, with sales reaching \$20 million.

The case explores Juan Valdez Coffee Shops’ inclusive and sustainable business model—a fair trade value chain linking communities of producers, businesses, consumers and catalyst organizations. It analyses the main challenges, innovations and results, along with the potential adaptations required to scale up and consolidate the business.

Type of company

Local small or medium-sized enterprise

Sector

Financial services

Author(s)Winifred N. Karugu
Diane Nduta Kanyagia**Millennium Development Goals addressed**

K-REP Bank, which started operations in 1999, is among the more successful microfinance institutions. It offers diverse products and services, including microcredit facilities to low-income people, individual loans, wholesale loans to microfinance providers, deposit facilities, letters of credit and bank guarantees. The microcredit loans, based on the Grameen Bank's group-lending model, fall into three categories. A group progresses through the categories, towards readiness for commercial bank loans. K-REP disbursed 69,000 loans in 2005, reporting healthy financial performance and a return on equity between 4% and 12%. The case highlights the challenges of this model and K-REP Bank's innovations to respond. It also spotlights some typical K-REP customers.

Type of company

Multinational corporation

Sector

Construction / Housing

Author(s)

Farid Baddache

Millennium Development Goals addressed

Lafarge, a world leader in building and construction materials, employs 80,000 people in 76 countries and posted sales of over \$18 billion in 2005. Lafarge has long been present in Indonesia. But the December 2004 tsunami devastated the Banda Aceh region, where Lafarge operates a cement plant. Cement, a low value-added commodity, is profitable only if sold close to where it is extracted—and thus inseparable from local socioeconomic realities. When 12,000 people were killed in the community around Lafarge's plant, the company lost 193 of 635 employees. The plant appeared ruined. This case analyses the innovations needed for the firm to restructure operations while helping rebuild the community. It is a story about pursuing short- and long-term strategic business interests.

Type of company
Multinational corporation

Sector
Energy, water and sanitation

Author(s)
Tarek Hatem

Millennium Development Goals addressed



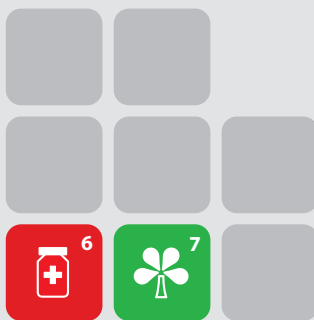
In 1997, the Moroccan authorities picked LYDEC, a private-sector consortium managed as a subsidiary of SUEZ Environment, to manage Casablanca’s electricity, water and sewage networks under the National Initiative for Human Development. The goal of the 30-year management contract was to provide access to essential services—electricity, water and sanitation—to the residents of Casablanca, including the poor living in shantytowns or illegal settlements. LYDEC has significantly increased the number of people with access to electricity and water services by partnering with the government and working closely with local users through a network of street representatives.

Type of company
Developing country multinational corporation

Sector
Water / Sanitation

Author(s)
Jane Comeault

Millennium Development Goals addressed



Since beginning operations in 1997, Manila Water Company Incorporated—a water and wastewater concessionaire in the east service zone of Metro Manila—has connected more than 140,000 low-income households to the piped water system and provided access to clean water to more than 860,000 low-income individuals. Meanwhile, Manila Water has improved water and wastewater services throughout its service area, boosting coverage, reliability, customer service and water quality. The case examines the special challenges and opportunities of delivering water and wastewater services to the urban poor and Manila Water’s innovative approaches to expanding coverage.

Type of company

Local small or medium-sized enterprise

Sector

Financial services

Author(s)

Pedro Franco

Millennium Development Goals addressed

Mibanco, a microfinance institution with 74 offices nationwide, was the first commercial bank in Peru and the second in Latin America focused on providing financial services to lower-income households and their micro and small enterprises. Since launching operations in 1998, Mibanco has loaned more than \$1.6 billion, in amounts ranging from \$100 to \$1,500. Starting from a base in Lima, Mibanco spread nationwide, including to rural areas. Responding to growing competition in the lower-income market, Mibanco continues to offer new credit products. The company reports a healthy bottom line, with a 23.2% return on equity and earnings of more than \$5 million in 2002. The case examines the challenges Mibanco faced in offering credit to people who had never had access to the formal banking system—and the innovations contributing to success.

Type of company

Local small or medium-sized enterprise

Sector

Financial services

Author(s)Mamadou Gaye
Ousmane Moreau**Millennium Development Goals addressed**

The Chaka Group, created in 1994 by the Senegalese entrepreneur Meissa Deguene Ngom, is comprised of three units: Chaka Computer, Call Me and Money Express. The case focuses on Money Express and its benefits for the poor. From the outset, Money Express's goal was to be the market leader in transfer and remittance services for West African immigrants in Europe and the United States. To send money from abroad, Money Express clients need only a Senegalese or West African passport. The company, spread through rural and urban areas, works in partnership with networks of smaller banks in West African villages. Money Express helps recipients get their money, with agents sometimes going door-to-door to give remittances to elderly people who cannot easily leave their houses. For the many clients who lack the identification necessary for formal banks, this is a worthy value proposition. Many banks also lack the infrastructure to deliver funds in rural areas. The case describes how Money Express rapidly expanded across West Africa because of its low-cost business model, knowledge of the African market and emphasis on customer service and on developing and training employees.

Type of company

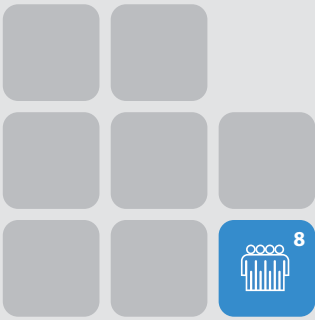
Developing country
multinational corporation

Sector

Financial services / Information
and communications technology

Author(s)

Winifred N. Karugu
Triza Mwendwa

Millennium Development Goals addressed

Kenya has fewer than 2 million bank accounts serving 32 million people. To bridge the gap, Safaricom Kenya, one of two mobile service providers in Kenya, developed a technological solution in partnership with Vodafone. The result was M-PESA, an electronic money transfer product to make financial transactions faster, cheaper and more secure. M-PESA allows individuals and businesses to transfer money through the mobile phone's short message service. Cash withdrawal and deposit are available at registered retail outlets to pay for goods and services. After the successful launch in 2005, Safaricom plans to recruit more financial institutions and retail outlets into the system and to expand it to other developing countries.

Type of company

Local small or
medium-sized enterprise

Sector

Ecotourism

Author(s)

Melanie Richards

Millennium Development Goals addressed

Mt. Plaisir Estate Hotel is an idyllic retreat for the eco-tourist, the first of its kind in Grand Rivière on Trinidad's North Coast. In its 14 years of operation, the hotel has helped transform a poor rural village into a vibrant, self-sustaining community. Meanwhile, the hotel enjoyed steadily increasing revenues from 1995–2001, earning \$238,000 by 2001. The case outlines the background of the organization and the challenges and opportunities it faced in building a viable business while developing, empowering and training a community to become self-sufficient and sustainable. It also highlights the inspiring human narrative of the founder, Piero Guerrini.

Type of company

Local small or medium-sized enterprise

Sector

Health

Author(s)Prabakar Kothandaraman
Sunita Mookerjee**Millennium Development Goals addressed**

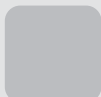
Large sections of Indian society, unable to pay health care costs, are denied even the most basic health care services. Health insurance, especially for the poor, is virtually nonexistent. In 2001, Devi Shetty founded Narayana Hrudayalaya, a cardiac hospital on the outskirts of Bengaluru. Its mission, driven by Shetty's belief that a country's poor people need to become healthy if the country is to become wealthy, is to deliver state-of-the-art cardiac care to poor people—leveraging technology, streamlining caregiving and extending innovative health insurance to the poor. The hospital never denies patients unable to pay. Even so, its profits are an impressive 20% before interest depreciation and tax, higher than the leading comparable traditional hospital.

Type of company

Large national company

Sector

Agriculture

Author(s)Cláudio Boechat
Roberta Mokrejs Paro**Millennium Development Goals addressed**

In 2000 Natura, a Brazilian cosmetics company, launched a strategy to use raw material extracted from nature as a platform for its products. To scale local production and guarantee sustainable extraction, the company built a new business model, involving small communities, nongovernmental organizations and governments in promoting sustainable local development. All the parties agreed, transparently, on a reasonable profit margin: 15%–30%. Natura leveraged the programme to differentiate its brand in the marketplace.

Natura's philosophy is to maximize the benefits simultaneously for nature, for communities and for the company. As a part of Natura's commitment to social responsibility, it established supplier relationships with rural communities that extract raw material from Brazilian vegetal biodiversity. In Pará, it contacted three communities—Campo Limpo, Boa Vista and Cotijuba—in 2003 to produce pripioca, a grass whose roots yield a rare, delicate fragrance. Business has grown so much that in 2006 Natura built a new industrial plant to produce soap in the region.

Type of company

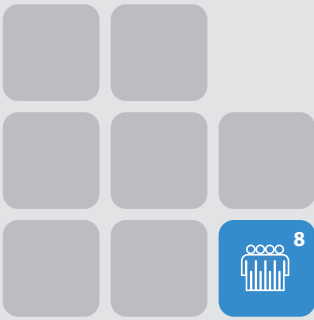
Large national company

Sector

Financial services

Author(s)

Farid Baddache

Millennium Development Goals addressed

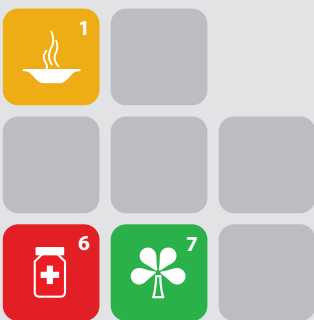
After decades of violence, segregation and inequality during apartheid, South Africa has made significant efforts to bring equality and stability through structural shifts in its economy. Two South African banks, Rand Merchant Bank and Nedbank, are developing innovative financial products targeted at South Africa's low-income housing market. Both projects, planned for public rollout in 2007, are in line with the Voluntary Financial Services Charter, a black economic empowerment strategy designed by the private sector with government support. Rand Merchant Bank finances affordable housing programmes that favour social diversity in township areas. Nedbank makes mortgages available to low-income people. They are pursuing a market previously left out— people too poor to qualify for traditional housing loans but above the government's qualification for receiving public housing support. The case examines the development of the two financial products, including the barriers encountered and the innovations to overcome them, along with the expected outcomes, the lessons learned and future opportunities for growth in the low-income housing market.

Type of company

Large national company

Sector

Water / Sanitation

Author(s)Prabakar Kothandaraman
K. Kumar**Millennium Development Goals addressed**

In Tirupur, a small town in southwestern Tamil Nadu, effluent discharge from the textile industry has polluted the ground water. Water is now scarce for both industry and local inhabitants. Realizing the old state-funded water schemes were not enough to meet burgeoning demand, the government of Tamil Nadu looked for private partnerships to help meet the investment, engineering and operational challenges. With the support of experienced financing, engineering, procurement and construction companies, the government formed a special purpose vehicle, The New Tirupur Area Development Corporation, Ltd. The new company then signed a 30-year concession agreement with the government, with an expected return on investment of 20%. The case highlights the company's sophisticated multistakeholder deal structure and details its innovative tariff layering, using industrial revenues to cross-subsidize costs for low-income domestic consumers.

Type of company

Local small or medium-sized enterprise

Sector

Energy

Author(s)

Boleslaw Rok

Millennium Development Goals addressed



PEC Luban, a company providing district heating in Luban, Poland, began using straw for heat generation in the late 1990s. This brought significant reductions in harmful emissions from burning traditional fuels, mostly coal. Using straw—a locally produced, renewable source of biomass energy—also spurred demand from local farmers. Biomass energy, relatively labour intensive, generates at least 20 times more local employment than any other form of energy. The competitive results are also encouraging: in 2004/05 the price of heat for PEC Luban consumers was around 5% less than the average at other district heating companies using only coal. The case details the changes in management and cost-analysis methods needed as a company transitions to more sustainable and inclusive operations, offering an example of overcoming technical challenges to meet energy needs sustainably while supporting the local community.

Type of company

Nonprofit organization

Sector

Health / Information and communications technology

Author(s)

Mamadou Gaye

Millennium Development Goals addressed



Pésinet, devised in 2002 by Brussels-based Afrique Initiatives, is an early warning method for monitoring the health conditions of children from low-income families. Its concept is simple: mothers subscribe to Pésinet’s services for a nominal fee, and in return a local Pésinet representative weighs her children twice a week. Results are communicated through information and communications technologies to a local doctor, who reviews the weight chart and requests that the mother and child visit if the weight readings are anomalously low and medical treatment might be required. Originally implemented in Saint Louis, Senegal, the project failed to achieve the financial sustainability needed. But the lessons learned and its innovative solutions—including strategic partnerships and technical and financial improvements—helped Pésinet successfully relaunch in Mali in 2007, benefiting hundreds of children.

Type of company
Large national company

Sector
Waste

Author(s)

Millennium Development Goals addressed



In Toluca, Mexico, Mexican environmental services firm Promotora Ambiental's Petstar unit will construct and operate a bottle-to-bottle plastic recycling facility that will convert post-consumer polyethylene terephthalate (PET) bottles into food-grade using a technology so far mainly used in developed countries. The discarded PET bottles that the plant recycles will reduce the volume of municipal solid waste generated in Mexico and the output will reduce the consumption of virgin PET by bottle manufacturers. The plant is expected to increase Petstar's sales by 50%, generate 63 local direct jobs and provide an income to about 25,000 people along the supply chain. At waste disposal sites, where individual garbage sorting and recycling workers labour in poor working conditions, Petstar is developing a programmatic social engagement plan directly targeted at addressing this systemic issue, thereby reducing the incidence of harmful informal child labour within its supply chain. By converting waste drinking bottles into a usable, valuable manufacturing input, the project will support improved waste management in Mexico.

Type of company
Multinational corporation

Sector
Water

Author(s)
Farid Baddache

Millennium Development Goals addressed



According to the World Health Organization, safe drinking water is one of the world's greatest needs. More than 1 billion people lack safe water, and an estimated 1.8 million children die every year because of diarrhoeal diseases linked to contaminated water. Procter & Gamble Health Sciences Institute, in collaboration with the US Centers for Disease Control and Prevention, developed an affordable, easy-to-use home water purification product, Purifier of Water (PUR). Launched in 2000, this innovative powder, sold in individual sachets, reduces pathogenic bacteria. The result: drinking water that meets World Health Organization standards.

After vain efforts to turn this innovation into a for-profit venture in various developing countries, P&G is now promoting it as a corporate social responsibility initiative. By 2007 it had sold, at cost, 57 million sachets to humanitarian organizations, with local entrepreneurs distributing them for profit. The initiative also brings P&G a strong public profile and experience that will help it sell products for profit in high-income markets.

Type of company

Local small or medium-sized enterprise

Sector

Transportation

Author(s)Elvie Grace A. Ganchoero
Chrysanti Hasibuan-Sedyono**Millennium Development Goals addressed**

The 1997 Asian financial crisis created a job vacuum in Indonesia, with companies forced to lay off 1.4 million workers. A decade later, unemployment rates continue to rise and poverty defines the context for Indonesia's economy, social relations and security. Express Taxi, a subsidiary of the diversified conglomerate Rajawali and the second-largest taxi operator in Indonesia, launched a new Taxicab Ownership Scheme where drivers lease their taxis and build toward ownership. Express Taxi uses the company reputation and assets to back the loans. The drivers gain by earning more take-home income. The company profits from drivers who treat vehicles responsibly and bring more stable cash flows. The community benefits from drivers who drive more safely with their own cars, with added support from company-provided safety courses. The case highlights how a company can help fight poverty by forging a mutually beneficial partnership with employees from poor urban and rural communities.

Type of company

Developing country multinational corporation

Sector

Health

Author(s)Elvie Grace A. Ganchoero
Cristina V. Pavia**Millennium Development Goals addressed**

The market price of medicines in the Philippines is among the highest in the world—40%–70% more than in neighbouring countries, according to the Philippine Department of Health. Some drugs cost 10 times more in the Philippines than in neighbouring countries. In business since 1945, United Laboratories, Inc., (UniLab) is the oldest pharmaceutical company in the Philippines and still one of the largest. Seizing an opportunity to support the government's campaign to make lower price drugs available, UniLab set up RiteMed in 2002, a subsidiary with the mission of marketing and distributing quality, generic medicines to the poor. The company sells generic products for 20%–75% less than their branded counterparts cost, meeting revenue targets of \$20 million within five years—profitably. The case explores the social, legal and strategic tensions that accompanied the initiative and solutions that address them.

Type of company

Local small or medium-sized enterprise

Sector

Energy

Author(s)

Mamadou Gaye

Millennium Development Goals addressed

In Mali, only 10% of the country's 12 million inhabitants have access to electricity. Access is even lower—just 2%–3%—in rural areas, where appliances are powered with car batteries and kerosene lamps. Candles are used for daily lighting. Koraye Kurumba and Yeelen Kura are two rural energy services companies operated in rural Mali by Électricité de France—in partnership with the Dutch energy company NUON and the French TOTAL, with support from the French Agency for the Environment and Energy Efficiency. Their low-cost electricity, based on solar home systems or small low-voltage village micronetworks supplied by diesel generators, made big development impacts. They enhanced standards of living. They also developed new income-generating activities. And they improved the quality of health care and education. Backed by a new institutional framework and international donors, the model—designed to ensure profitability, sustainability, scalability and local ownership—is to be expanded beyond the 24 villages and 40,000 people it serves today.

Type of company

Developing country multinational corporation

Sector

Agriculture

Author(s)

Cláudio Boechat
Nísia Werneck
Letícia Miraglia

Millennium Development Goals addressed

Sadia, one of the world's leading producers of chilled and frozen foods, is a market leader in Brazil, with more than 600 products in meat, pasta, margarine and dessert segments. It is also the country's main exporter of meat products. The Program for Sustainable Swine Production was designed to reduce greenhouse gas emissions from the more than 3,500 swine producers in Sadia's supply chain and to qualify the reductions as a Kyoto Protocol Clean Development Mechanism project in order to sell carbon credits. The programme seeks to bring sustainability to the company's supply chain by providing supplementary revenue from carbon credits and better working conditions for swine producers. The case details the innovative use of technology and forward-thinking project structure to capitalize on trading credits in new market exchanges.

Type of company

Multinational corporation

Sector

Health

Author(s)

Robert Darko Osei

Millennium Development Goals addressed

Sanofi-aventis, the largest pharmaceutical company in Europe and the fourth-largest in the world, began a partnership with the World Health Organization in 2001 to fight sleeping sickness and other neglected diseases affecting the world's poorest people. Initial discussions with the World Health Organization showed that a simple drug donation was not enough. Only combined action—drug donation, subsidies to fund distribution programmes and new research and development to improve treatments and diagnostics—could create a reasonable chance to bring sleeping sickness back under control. Over the first five years, 36 African countries benefited from the partnership. Nearly 110,000 lives have been saved. The case examines the special challenges and opportunities facing the partnership and the innovative ways that it has remained viable. Above all, it demonstrates the unique leadership role that a private firm like Sanofi-aventis can play by applying its talents and resources.

Type of company

Local small or medium-sized enterprise

Sector

Agriculture

Author(s)

Tarek Hatem

Millennium Development Goals addressed

After living in Austria for 21 years, Ibrahim Abouleish returned home to Egypt to do something about the difficulties he observed during visits. In 1977, he founded the Sekem initiative to promote social and environmental development through economic and cultural activities. Sekem's group includes eight companies: Libra for farming, Mizan for organic seedlings, Hator for fresh fruits and vegetables, Lotus for herbs and spices, Isis for organic foods and beverages (bread, dairy products, oils, spices and tea), Conytex for organic cotton and textile fabrics, Atos for pharmaceuticals and Ecoprofit (still under establishment) for sustainable management. Sekem's efforts have contributed to the Egyptian community—economically, socially and culturally. With 2,000 employees and 850 small-scale farmers to source product, Sekem organically cultivated 3,500 hectares in 2005, directly benefiting 25,000 people. The case outlines each operating unit and its impact, in the context of the initiative's overarching philosophy.

Type of company

Local small or medium-sized enterprise

Sector

Ecotourism

Author(s)

Tarek Hatem

Millennium Development Goals addressed

In 1998, the Cairo-based environmental consulting firm EQI began investing in the Egyptian oasis of Siwa through a series of community-based initiatives. The Siwa Sustainable Development Initiative, led by the private sector, emphasizes employing local workers, applying traditional systems of building and environmental management and using local materials. In Siwa, EQI's portfolio of enterprises includes three lodges, a female artisanship initiative, organic farming and production and community art projects. Today, 75 Siwans are employed full-time in EQI enterprises in Siwa, and there are typically 310 income-generating opportunities each month. The case highlights the challenges and opportunities from various programmes to alleviate poverty, improve living conditions and advance the Millennium Development Goals.

Type of company

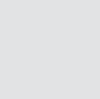
Developing country multinational corporation

Sector

Information and communications technology / Financial services

Author(s)

Elvie Grace Gancho

Millennium Development Goals addressed

A leading wireless telephone services provider in the Philippines, Smart Communications, Inc. recognized that at least 8 million Filipinos work and live abroad—about a quarter of the domestic labour force. In 2005, Filipino workers overseas sent \$10.7 billion in remittances, with at least as much sent through informal channels, according to estimates. In response, Smart pioneered a cheaper, faster and more convenient way to send remittances using short messaging service technology. This and other innovations allow Smart to serve poor overseas workers and their families, lowering the cost of money transfers to 1%–8%, compared with 10%–35% for standard bank rates. Overseas workers get more net income, maximizing the value of their hard-earned income to feed, clothe, educate and provide shelter for millions of families in the Philippines. For Smart, the \$6 million in revenue in 2006 has spurred a broader strategy of serving low-income populations, fuelling its remarkable growth from 191,000 subscribers in 1999 to more than 2.6 million in 2000 to about 24.2 million by the end of 2006.

Type of company

Nonprofit organization

Sector

Water / Sanitation

Author(s)Prabakar Kothandaraman
Vidya Vishwanathan**Millennium Development Goals addressed**

1



3



6



8

Most toilets built in 20th century India were dry latrines with a water-fed flushing system, due to the expense of pour-flush systems and the scarcity of water. In addition, many did not have formal sanitation. In 2003, the Indian Ministry for Social Justice and Empowerment recorded 676,000 scavengers in the country—people, mainly women, who lift human excreta for a living.

Since 1970, Bindheshwar Pathak's Sulabh International has worked to liberate India's scavengers by employing low-cost, safe sanitation technology. Over the course of three decades Sulabh has built a commercially viable business model—with a significant development impact. Sulabh has developed 26 toilet designs for varying budgets and locations, training 19,000 masons to build low-cost twin-pit toilets using locally available material. It has also installed more than 1.4 million household toilets, and it maintains more than 6,500 public pay-per-use facilities. Its technology has freed 60,000 people from life as a scavenger, offering programmes to reintegrate them into society.

Type of company

Nonprofit organization

Sector

Health

Author(s)

Winifred Karugu

Millennium Development Goals addressed

1



3



4



6



To prevent needless deaths and illnesses such as malaria and diarrhoea by sustainably improving access to essential medicines, an American lawyer and a Kenyan pharmacist founded The HealthStore Foundation, a franchiser of for-profit child and family wellness (CFW) microdrugstores and clinics located in underserved rural areas and urban slums in Kenya. The Foundation operates similarly to a typical franchisor, selecting franchise owners (nurses and community health workers), providing a common brand and logistics network, offering professional development and training and enforcing compliance with rules and regulations through regular monitoring. CFW shops and clinics provide access to much needed and affordable health care, while generating enough revenue to pay their nurse-owners and staff competitive annual salaries.

Tiviski Dairy

Sub-Saharan Africa > Mauritania

Type of company

Local small or medium-sized enterprise

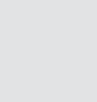
Sector

Agriculture / Food

Author(s)

Mamadou Gaye

Millennium Development Goals addressed



Tiviski is Africa's first camel milk dairy, founded by Nancy Abeiderrahmane in 1987 in Mauritania—an arid desert nation, where most of the 3 million inhabitants live as nomadic livestock herders, keeping camels, sheep, goats and cows. It now also processes cow and goat milk for domestic consumption. Tiviski sources all of its milk from semi-nomadic subsistence herders, enabling them to earn incomes while still maintaining a traditional lifestyle. Fresh camel milk and other milk products have replaced dairy products imported from Europe, bolstering the Mauritania's economy. Indeed, recent successes have brought an unexpected challenge: lobbying Europe to import Tiviski's camel products. The case spotlights the inspiring story of a female entrepreneur who overcame logistical and cultural obstacles to establish an innovative value chain that supports a viable enterprise.

Tsinghua Tongfang (THTF)

Asia and the Pacific > China

Type of company

Large national company

Sector

Information and communications technology

Author(s)

Ronglin Li
Tracy Zhou

Millennium Development Goals addressed



China has the largest agricultural population in the world—900 million people. But rural Chinese have far less access to and knowledge of computers than do their urban counterparts. This digital divide inhibits human development in rural areas, impeding the country's economic development. Tsinghua Tongfang, a high-technology computer company based in Beijing, partnered in 2005 with Beijing's municipal government to develop the Changfeng computer, designed for rural users. Key features made these systems more accessible to rural people than standard personal computers: a low-cost operating system, customized software and hardware based on thorough research on rural users' needs and innovative rural training centres for farmers. That software includes agricultural software to provide farmers business guidance and specialized knowledge. The case examines how the private sector and the public partnered for mutual benefit: Tsinghua Tongfang entered the untapped rural computer market and the government promoted its rural digital development goals.

Type of company

Local small or medium-sized enterprise

Sector

Health

Author(s)

Courtenay Sprague

Millennium Development Goals addressed



In a country with 500 doctors for almost 20 million people, initiatives that can expand the reach of health services to rural people are in critical demand but in short supply. In northern Mozambique, the big challenge for health clinics is the lack of reliable fuel to light medical operations and to guarantee regular refrigeration for vaccines. And with less than 2% of households connected to electricity, many depend on wood or charcoal for cooking. This increases respiratory infections, pregnancy complications and forest degradation.

In this context, partners gathered in 2002 to launch a pilot project to bring fuel services to northern Mozambique. These included a former minister of education dedicated to children’s health, a Seattle-based non-governmental organization delivering health supplies, philanthropists willing to back the startup financially, Mozambique’s Ministry of Health, the governor of the pilot province and Fundação para o Desenvolvimento da Comunidade (FDC), a community foundation intimately familiar with Mozambicans’ complex development needs. As a result of the partnership, VillageReach and FDC introduced an improved cold chain and replaced decrepit kerosene refrigerators in remote health facilities with liquefied petroleum gas-powered refrigerators. The case focuses on the supply of liquefied petroleum gas to businesses and households by VidaGás, a for-profit company owned and controlled by the two nongovernmental organizations, now trying to develop a viable business model.

Type of company

Large national company

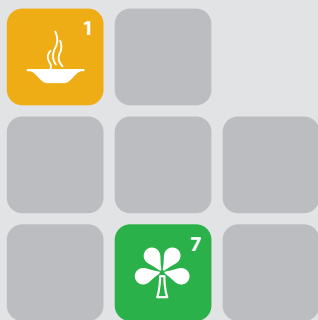
Sector

Agriculture

Author(s)

Cláudio Boechat
Roberta Mokrejs Paro

Millennium Development Goals addressed



Brazil suffers from high income inequality and widespread poverty, especially in rural areas. Despite recent policies to support rural settlements through land reform, a mismatch remains between the rural population’s social demands and the state’s capacity to respond. Votorantim Celulose e Papel (VCP), a major pulp and paper company embarking on a large forestry expansion in Rio Grande do Sul, devised a business model that included the local community as partners in eucalyptus production. Through VCP’s Forest Savings Account programme, ABN AMRO Real provided farmers the financial resources (backed by a guarantee of purchase of timber by VCP) to plant eucalyptus. VCP provided seedlings and technical assistance, committing to buy the timber after seven years, at a fair price. The case looks at VCP’s business model—to achieve aggressive growth targets to triple revenues while contributing to the socioeconomic inclusion of a poor rural community.

ANNEX 2. CASE STUDY RESEARCH METHODOLOGY

This report is based on the analysis of 50 case studies. The development of the analytical framework and messages of the report followed an inductive approach. The guiding question for the report was how to make business work with the poor and for the benefit of business and the poor alike. To identify business strategies that work, the approach was to learn from businesses that already include the poor successfully. The goal was to identify patterns and insights beyond the individual case study without relying on any preconceived hypotheses.

The research methodology can be described as a multiple case study research design, following the four stages as defined by Yin (1994):

- Design the case studies.
- Conduct the case studies.
- Analyse the evidence.
- Interpret findings to develop conclusions, recommendations and implications.

The research was guided by the overall principles of the Growing Inclusive Markets Initiative: a developing country focus, a core business emphasis, a human development approach guided by the Millennium Development Goals and a partnership/multistakeholder approach. The research also adopted a private sector perspective, by looking at opportunities, challenges and solutions for doing business with the poor from the perspective of small, medium-sized and large companies operating locally, nationally and internationally. Although microenterprises are not a primary focus, many of the business models showcased in this report include the poor as microentrepreneurs. Civil society and governments have important roles to play—but they are featured here only as they affect the private sector.

Designing the case studies. The research was designed as a broad-based multiple case study. The study protocol was developed in a collaborative process with the research team and the case study

authors. All but 3 of the 18 case study authors are from the country or region of the case they studied, thus maintaining a developing country perspective. The research group as a whole defined the research questions and the case studies.

The research questions were defined based on the guiding principles and drawing on input from all participants of the research project (box A2.1).

The 50 case studies were selected from 400 possible cases. The selected cases had to describe business models that included the poor in ways that could be profitable and that clearly promoted human development. In addition, they had to represent a broad range of countries, industries and business types. The selected cases represent more than 9 industries and 13 countries from Africa, Asia and the Pacific, Eastern Europe and the CIS as well as Latin America and the Caribbean (figure A2.1).

Conducting the case studies. Case study authors conducted their research based on the common protocol. For almost all the cases, the authors carried out primary research including fieldwork. Triangulation was achieved through interviews with a variety of stakeholders and use of quantitative data. The case studies went through an iterative review process with a team of research coordinators to ensure consistent structure and quality across all 50 studies.

Analysing the evidence. The common protocol made it possible to analyse the case studies systematically and look for patterns. Each case study was carefully analysed, noting information on the benefits for business and human development as well as the constraints and solutions in the business model. Findings were inventoried in a database by means of short descriptions.

Based on these descriptions, common categories were developed. Constraints and solutions were clustered according to common themes. Since the focus of the research was to

Box A2.1. Case study research questions

Type 1. Innovations, challenges and opportunities

- Question 1. What were the most important innovations (private or public sector) that allowed for a 'win-win' scenario between the enterprise model and the interests of the poor? (These innovations could be social, financial, technological, legal, regulatory and the like.)
- Question 2. What were the challenges that needed to be overcome in order to achieve this 'win-win' scenario? (These challenges could be social, financial, technological, legal or regulatory, or cultural or psychological factors such as mindsets, beliefs and the like.)
- Question 3. Thinking about the impact of the innovation, how were the development outcomes for the poor and the gains for the business optimized? (The innovation may be related to an enterprise or a phenomenon outside the business such as a supply chain.)
- Question 4. What opportunities are the entrepreneur, the enterprise and its stakeholders pursuing? (The motivations of the entrepreneur may be social, psychological, financial and the like.)

Type 2. Innovations, adaptation and scaling

- Question 5. What were or could be the most important innovations (private or public sector) that allowed or would allow for scaling up of the enterprise model to produce significant 'win-win' benefits to the poor and the enterprise? (These innovations could be social, financial, technological, legal or regulatory, or cultural or psychological factors such as mindsets, beliefs and the like.)
- Question 6. What were or are the adaptations, replications or scaling options tried or available to this enterprise model? (These could be social, financial, technological, legal or regulatory, or cultural or psychological factors such as mindsets, beliefs and the like.)

Type 3. Business and development model

- Question 7. What business model is employed in this case? (The description of the business model should include value propositions for all stakeholders, including customers, workers, investors and poor people, whatever role they play.)
- Question 8. What is the development model? (This should address how the poor are involved in the enterprise—as employees, entrepreneurs, consumers and the like—and how the impacts are focused—on unmet needs, economic empowerment or enablement or as part of business to consumer or business-to-business marketplaces, with links to the Millennium Development Goals where relevant.)
- Question 9. Were partnerships or networks an important element in bridging the business and development models? (These may include formal or informal associations of the poor, local communities and the like, bilateral or multilateral development agencies, national and local governments, nongovernmental organizations, small and medium-sized enterprises, customers, academic institutions and so on.)
- Question 10. What are the direct impacts of the business operation on the poor and on the achievement of the Millennium Development Goals? (We need quantitative and qualitative data where possible but also qualitative descriptions of intangibles such as empowerment, equity, self-reliance and the like. List direct benefits for the poor, such as jobs, income, investment, increased access, availability and affordability. Note any wider development impacts such as gender impact, environmental sustainability and relevance to specific Millennium Development Goals.)

identify ways of doing business with the poor, only those constraints that are particular to the context of poverty were considered. Those are referred to as 'structural constraints', because they arise from the particular structural conditions of rural villages and urban slums where the poor live. Typical business constraints, such as those involved in targeting a new group of consumers or in starting up a business in a competitive environment, were filtered out. (The 50 case

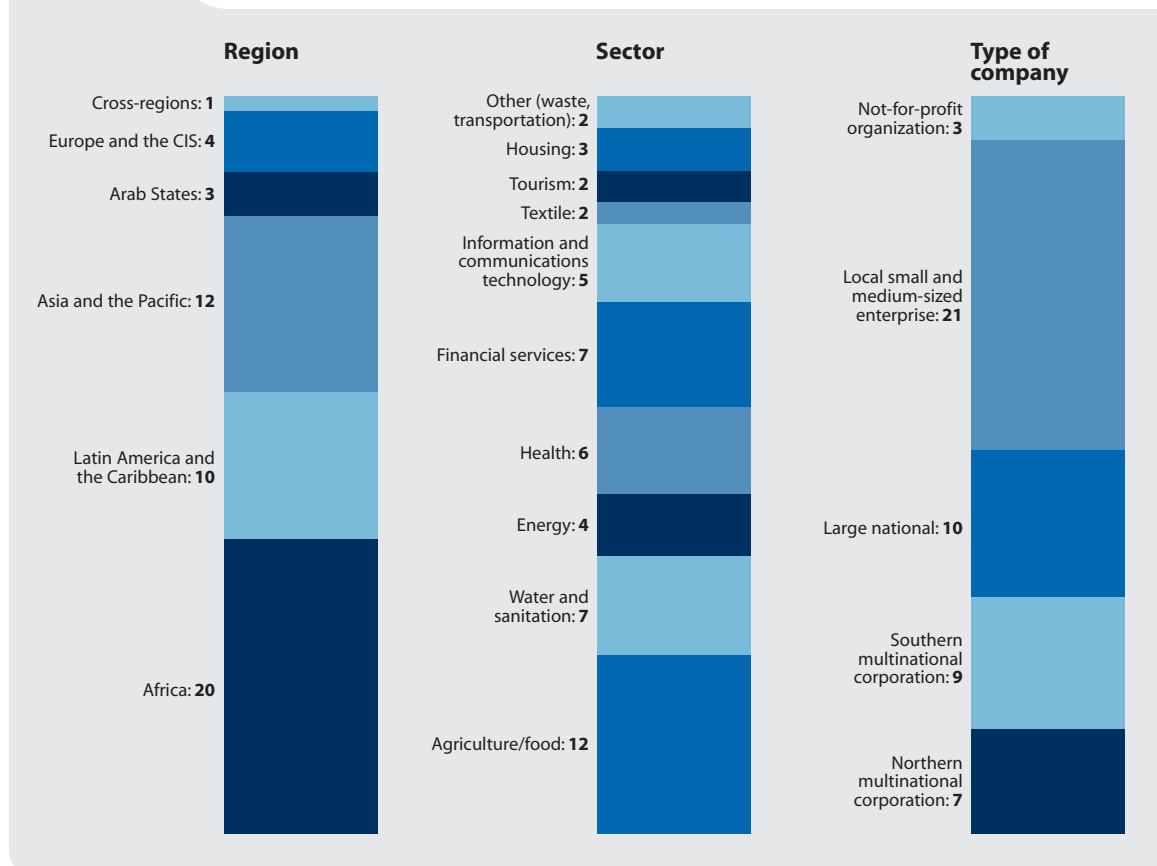
studies present a valuable source of information on typical business constraints in doing business with the poor; the cases are all available online for further analysis.) In this way, a pattern emerged where all the observed structural challenges could be subsumed under five areas of constraints and all the innovations could be subsumed under five solution strategies. Furthermore, the case inventory includes examples for each combination of one of the five areas of constraints with one of the five

solution strategies. These relationships can be illustrated in a matrix of constraints and strategies. This matrix is the analytical framework of the report.

Interpreting findings to develop conclusions, recommendations and implications. For the interpretation of the findings, the case studies were considered in a broader context of development theory and business strategy with a focus on poor consumers and producers. Reviews of the research on the interrelation between markets and poverty (key words are ‘pro-poor growth’, ‘pro-poor markets’ and ‘making markets work for the poor’) supported

the identified areas of constraints as important barriers to making markets more inclusive for the poor. A review of current writings and news articles on business strategies and activities to include the poor showed a tendency to take market imperfections into account to understand and develop inclusive business models. The analysis ties together two streams of research by highlighting the importance of enabling market conditions and describing strategies businesses can apply to deal with them. In that sense, the analysis presented here both builds on and feeds into ongoing research on how to include more people into the global marketplace and, thus, contribute to human development and economic growth. ⦿


Figure A2.1. Distribution of cases studies by region, sector and type of company



ANNEX 3. ABOUT MARKET HEAT MAPS

Market heat maps are simple illustrations of the extent to which the poor engage with markets or how inclusive of the poor the markets are.

Heat maps provide graphic representations of poor people's access to goods and services in selected sectors—education, water, microfinance and the like—together with information on how these goods and services are being provided. In each heat map, a greater share of poor consumers being served produces more 'heat' (more colour in the figure); less heat (lack of colour) shows that greater shares of the poor are excluded from the market.

When focused on demand, market heat maps show the nature and extent of consumer access to goods and services that are key to human development across spatial dimensions in a particular country, as well as the presence (or lack thereof) of various actors on the supply side. When focused on production, market heat maps also illustrate how inclusive markets are for the poor as producers (entrepreneurs or providers of labour inputs).¹ 

WHAT DO MARKET HEAT MAPS ADD?

Geographic poverty mapping has been used mostly by actors from the public and not-for-profit spheres to:


- Highlight geographic variations in poverty.
- Design and target interventions.
- Pinpoint and coordinate priority areas for operational programmes and activities.
- Determine where to best allocate resources.
- Monitor and evaluate operations.
- Increase transparency and social accountability.

The tool is applied for poverty reduction operations, for infrastructure provision and for coordination in humanitarian crises (box A3.1).

The Growing Inclusive Markets Initiative is providing its market heat maps as a tool to complement geographic poverty mapping.

Researchers constructing the heat maps use the same databases on which poverty maps are based (surveys of households, the labour force and so forth).

This creative use of poverty mapping tools should interest private, for-profit actors, because the heat maps can offer useful insights into the economic activities of the poor—especially those living in remote areas where information is often not available. In particular, the heat maps can add value for businesses in four ways:

- By assessing market inclusiveness.
- By clarifying supply structures.
- By revealing unmet demand for the poor as consumers.
- By revealing unrealized opportunities to include the poor as producers. 

Box A3.1. Examples of geographic poverty mapping initiatives

WaterAid's water supply and sanitation mapping initiative

The UK-based international charity WaterAid uses geographic mapping to illustrate the spatial dimension of water supply and sanitation. The maps present information on the availability and quality of water resources, as well as access to, demand for and use of water and sanitation services. While helping to increase public accountability for basic service delivery, the maps can also facilitate the local implementation of aid instruments. WaterAid has used several forms of water supply and sanitation mapping in Asia and sub-Saharan Africa (ODI 2007 and www.wateraid.org).

Peace and Equity Foundation's poverty mapping exercise

The Peace and Equity Foundation in the Philippines uses poverty-scanning exercises to pinpoint priority areas for its poverty reduction programme. A 2003 exercise—based on data on development indicators such as income, health and education—helped identify 28 priority provinces in the Philippines. In some cases the foundation also conducts city poverty mapping exercises to further specify the geographic as well as the thematic focus of its operations (www.peacefdn.org/poverty.php).

The outreach programme of Google Earth and the Office of the United Nations High Commissioner for Refugees (UNHCR)

The Office of the United Nations High Commissioner for Refugees (UNHCR) uses Google Earth's virtual mapping to illuminate some of the world's major displacement crises and to illustrate the agency's humanitarian work helping refugees. The outreach programme takes Internet users on a virtual reality journey in remote areas of Chad, Colombia, Iraq and the Darfur region of Sudan. Satellite maps, photos and videos inform users about the daily life of refugees and displaced people in those areas, the impact of the crises on neighbouring countries and UNHCR's operations. The programme might also serve as a logistical planning tool for UNHCR to better coordinate operations on the ground (Batty 2008 and www.unhcr.org/events/47f48dc92.html).

HOW ARE MARKET HEAT MAPS CONSTRUCTED?

There are three key steps in constructing a market heat map: measuring the total number of possible poor consumers, measuring the total number of poor consumers with access to a good or service and identifying and measuring the contributions of different actors on the supply side.

- **Step 1. Measure possible demand for a good or service within a market.** There are a number of ways to approach this, since different metrics are appropriate depending on the market examined. As a starting point to reflect demand by the poor, one takes the total number of potential poor consumers in the market.
- **Step 2. Measure how much access possible poor consumers have to the good or service.** Access can be interpreted in several different ways with reference to different issues (such as affordability or geographic proximity). For the heat maps, the measure of access used is the number of poor individuals or households now consuming or using a good or service.
- **Step 3. Provide additional information.** This last step disaggregates the information in step 2. It provides additional information on the relative shares of the different agents that together constitute total current supply.

Market heat maps could be further specified along exact population groups and along particular markets. Several measurements of the size of a poor population could be used, depending on what expenditure threshold is used to define that population. For the Growing Inclusive Markets Initiative heat maps, 'poor people' are defined as people earning less than \$2 a day in purchasing power parity terms (a widely used international poverty line).

From a human development perspective, it is important to focus in particular on two types of markets:

- Markets for goods and services that could be considered to help satisfy basic human needs, thereby directly improving poor people's welfare and underpinning their broader human capabilities (for example, water, housing or health care).
- Markets for goods and services that could be crucial to opening opportunities for the poor

to enhance their standard of living, increase their income and further expand their choices (for example, labour markets, credit markets, insurance markets or markets for information and communication technologies applications).

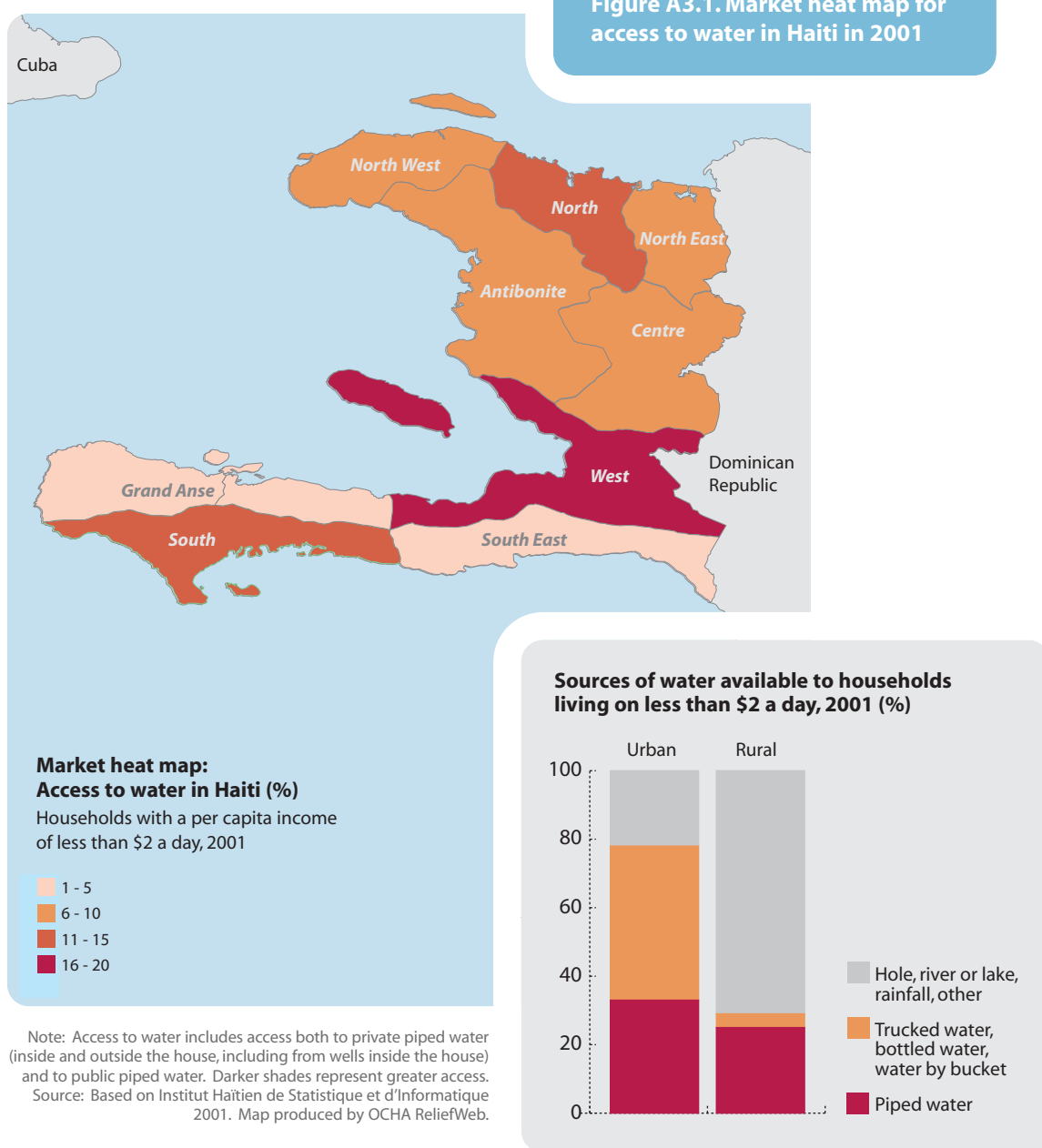
Improving access to safe drinking water in Haiti

Access to safe drinking water in some countries is highly unevenly distributed. That unevenness partly reflects stark inequalities in access between the poor and the nonpoor. But it also reflects other factors. For example, rural areas tend to

lag behind urban areas in water access. Two years ago, a study reported that in developing countries 8% of the urban population and 30% of the rural population lacked access to improved drinking water sources.²

A market heat map (figure A3.1) illustrates data on access to water among Haiti's poor population in different regions of the country. Access to water here includes access to private piped water (inside and outside the house and wells inside the house) and public piped water. Darker shades represent greater access.

Figure A3.1. Market heat map for access to water in Haiti in 2001



Presenting data on the providers of water services, the market heat map also reveals some insights into the provision of drinking water in Haiti. It shows that access to piped water networks in Haiti is generally very limited: about a third of the urban poor, and less than a third of the rural poor, have access to such networks.

Interestingly, the heat map suggests that there may be a business opportunity in the water market even in Haiti's richest region, the West, home to its capital city Port-au-Prince. Recent estimates concerning Haiti's regional poverty patterns reveal that poverty rates are lowest in the West (60.8%) and highest in the Northeast (94.2%). Nevertheless, even in the less poor West, poverty is high by international standards. The less than \$2 a day poverty rate for the West exceeds that of any country in Latin America and the Caribbean.³ In addition, estimates of the distribution of the poor population within Haiti reveal that it is mostly concentrated in the West: almost 30% of the national poor live there. (By contrast, although the Northeast is Haiti's poorest region, it is home to just 4.7% of the national poor.)

In the West of Haiti, where nearly one third of the country's total poor population lives (and piped water access rates are higher than in other regions), only 18% of the poor have access to piped water.

However, the market heat map also shows that 45% of people in Haiti's urban areas have access to water from trucks, bottled water and water by bucket. In other words, 45% of the country's total urban population is willing to pay for safe water. Might a business capture part of that existing market by introducing more efficient, less costly water delivery services? Other opportunities might exist in other regions of Haiti with even lower access rates, especially rural areas.

The market heat map illustrates an interesting aspect of Haiti's water market: despite the lack of adequate public water provision and the lack of large private investment, small water providers have stepped in to fill the gap and have been doing a thriving business. Some consumers have invested in their own water sources—for example, by drawing water from wells in association with community-based organizations.⁴ But small-scale private service providers also play a major role in extending access to water, mostly in peri-urban

areas, where they deliver water on trucks (in bottles or by the bucket). Critical services are thus provided to the poor, in urban areas particularly.

Where country capacity is very weak, and where large investors may be reluctant to engage for a variety of reasons—as in Haiti—tapping this 'other' private sector could be a pragmatic way of increasing access to safe drinking water. Market heat maps can help to reveal such opportunities.

Banking on mobile phones in South Africa

Mobile phones can improve access to information and communication technology services in developing countries. According to recent estimates, the number of mobile phone subscribers in low- and middle-income countries is already far higher than in high-income countries.

Mobile phone access could help to reduce poverty and inequality by helping poor users to engage more effectively in market exchanges. For example, farmers, fishers and other rural entrepreneurs with mobile phones could increase their access to market information, earning the best possible price for their goods—while also saving the higher costs that they would incur acquiring such information without mobile telephony.

The development of mobile banking (m-banking), which involves the use of a mobile phone or another mobile device to undertake financial transactions linked to a client's account, appears promising here. The widespread, growing use of mobile phones in developing countries—and the power of the various actors involved in providing financial services through this channel, mainly network operators and banks—could help to 'bank' the 'unbanked'.

Market heat maps shed further light on access to mobile phones among the poor. For South Africa, figures A3.2 and A3.3 illustrate the access to mobile phones among the nonpoor and poor in rural and urban areas and in different provinces. Darker shades indicate higher access rates within the specified income group.

As the market heat map shows, mobile phone access rates are higher for both the poor and the nonpoor in South Africa's west (Northern Cape, Western Cape) and east (Northern Province, Limpopo, Mpumalanga and Kwazulu Natal)—ranging from 41% to 80% for nearly all provinces in those regions.

Figure A3.2. Market heat map for access to mobile phones in South Africa, 2006



Source: Based on FinScope 2006. Estimates for mobile phone access are taken from the survey category 'personally make use of...prepaid cell phone'. In South Africa, as in many African countries, prepaid is often the only or most-used option. Map produced by OCHA ReliefWeb.

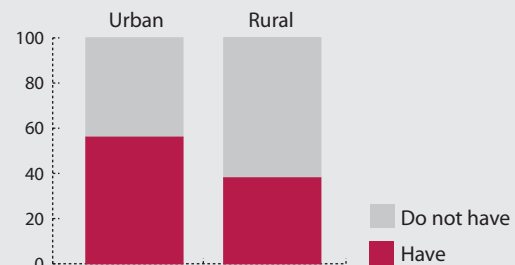
Market heat map: Households living on more than \$2 a day

Share of households with access to cell phone, by region, 2000 (%)



Access to a mobile phone in South Africa: Households living on more than \$2 a day

Share of adults, 2000 (%)



By contrast, mobile phone access in the Eastern Cape—a province with a fairly high poverty rate⁵—is low for both the nonpoor and the poor, ranging from 0% to 20%. Yet the higher density of population centres and built-up areas in the provinces with lower mobile phone access rates for both the poor and the nonpoor (Eastern Cape, Free State and North-West) could point to a business opportunity for mobile phone service providers.

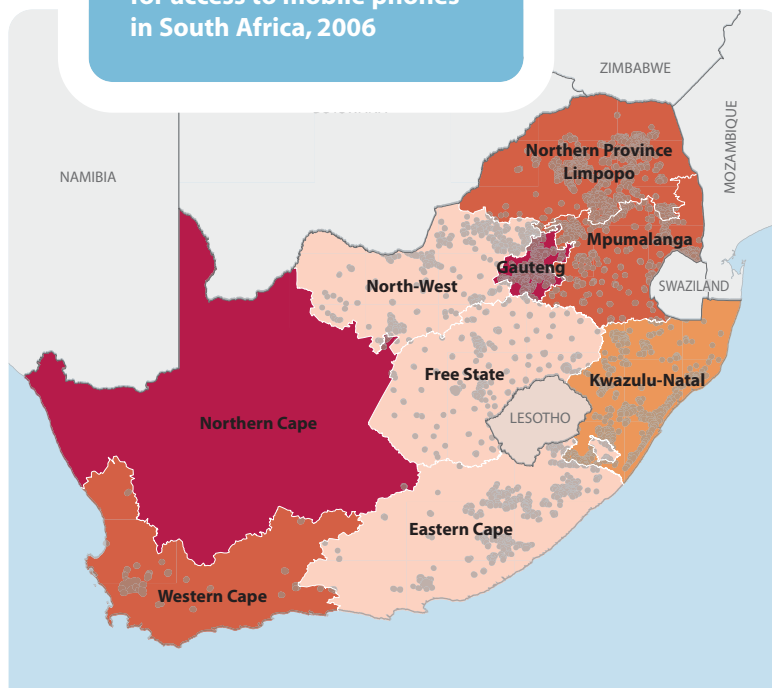
For financial services providers, too, the market heat maps could offer valuable information about key business opportunities. The heat maps reveal potential overlaps between people with mobile phone access, but without banking services. Such overlaps in turn may indicate opportunities for leveraging mobile phones to provide mobile banking services.

Estimates indicate that in South Africa more

urban and rural poor people have mobile phones than have access to banking services. In urban areas 43% of the poor adult population has access to a mobile phone (see figure A2.2), but only 32% has access to banking services. In rural areas 31% of the poor have a mobile phone, but only 19% have access to banking services.

Those differences suggest a possible opportunity to provide banking services cost-effectively to South African mobile phone users. They show, too, that such an opportunity might be greater for the poorer part of the market. By using poverty mapping data to calculate the total size of the of the South African poor population that has mobile phones, but not bank accounts, a business

Figure A3.3. Market heat map for access to mobile phones in South Africa, 2006



Source: Based on FinScope 2006. Estimates for mobile phone access are taken from the survey category 'personally make use of...prepaid cell phone'. In South Africa, as in many African countries, prepaid is often the only or most-used option. Map produced by OCHA ReliefWeb.

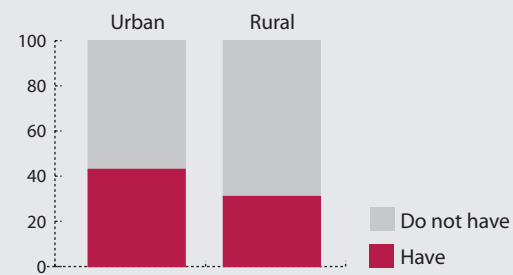
Market heat map: Households living on less than \$2 a day

Share of households with access to cell phone, by region, 2000 (%)



Access to a mobile phone in South Africa: Households living on less than \$2 a day

Share of adults, 2000 (%)



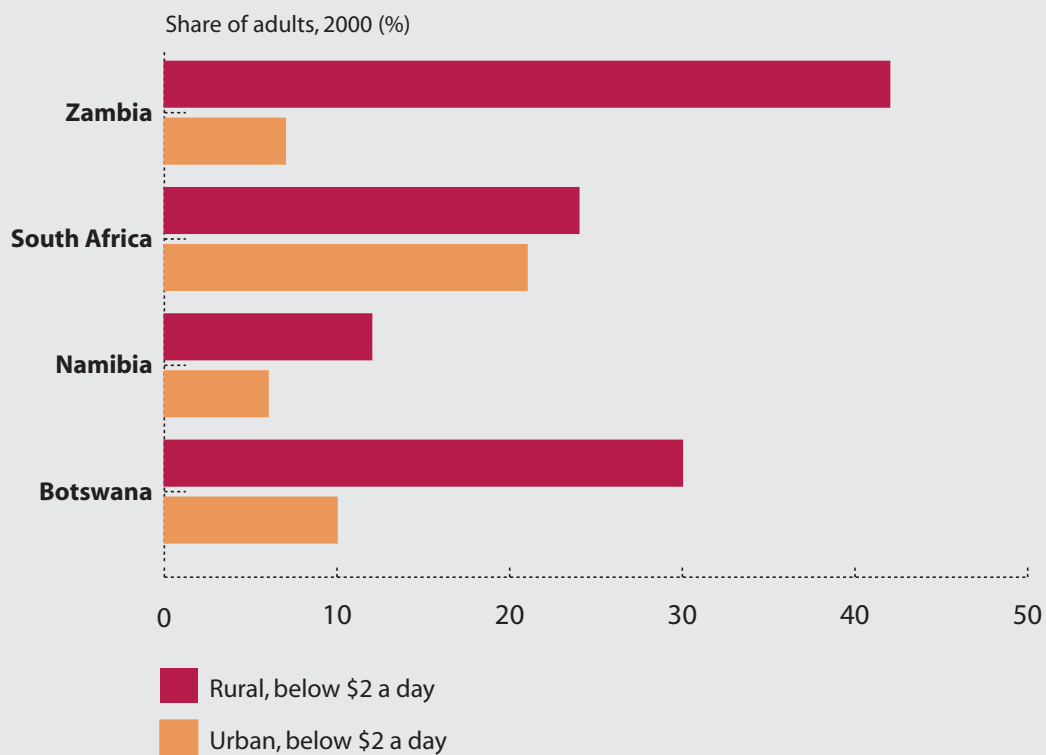
can estimate the size of the opportunity to leverage mobile phone access for banking the unbanked in South Africa: about 24% of the urban poor and 21% of the rural poor.

Estimates of this precise intersection in Botswana, Namibia and Zambia reveal that this market could be large in those countries as well (see figure A3.4).

Mobile banking services are already being introduced in several countries, including South Africa. Furthermore, with the expected increase

in mobile phone penetration rates, as prices of handsets and services decline further and as secondary markets for handsets develop (as they have in countries with high mobile phone penetration rates, such as the Philippines), opportunities for the poor to access banking services through mobile phones could emerge in even more countries. ☺

Figure A3.4. Intersection of poor people with mobile phones who lack access to a bank, selected countries



Source: Based on FinScope 2004a, 2004b, 2005, 2006.

- 1 The analysis here draws on Acosta and others 2008 as well as UNDP's Market Heat Map Database [www.growinginclusivemarkets.org].
- 2 UNICEF 2006, p. 32.
- 3 CEDLAS and World Bank 2008.
- 4 IDB 2005.
- 5 Schwabe 2004.



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