



Inclusive Business Guide

How to Develop Business and Fight Poverty

Christina Gradl
and
Claudia Knobloch



Acknowledgements

To begin with, we would like to thank everyone who contributed to this publication.

Partners

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Preface



Photo: Susanne Ullrich

Imagine this: You see a \$100 bill lying on the street. Would you keep walking and think to yourself: “That’s impossible—someone would have picked it up already”. No? You would pick it up? Then you’re exactly the right person to read this publication.

Developing business and fighting poverty offers you real opportunities for sustainable growth—if you know how to capitalize on them. This know-how is augmented with every business model that is developed at the base of the economic pyramid. While many questions remain to be answered, we already have substantial information and experience at our disposal for how to integrate people living in poverty into value chains. Every company and entrepreneur has to learn their own lessons through trial and error to some extent. Thus, the learning journey continues.

This publication is the first comprehensive guide on “inclusive business”, or business that includes people living in poverty as producers and consumers. It brings together existing knowledge, presents several practical examples and provides information about contacts and further reading. We would like to thank everyone who helped compile this knowledge including the entrepreneurs, innovators and experimenters, the financiers, investors and brokers, the observers and academics.

Inclusive business provides answers to the great challenges of our time—making poverty a thing of the past and preserving ecosystems for the future. We hope that the words that follow help you discover and act on new opportunities.

Christina Gradl und Claudia Knobloch

endeva

Write to us!

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Photo: BMZ

For many years, German development organizations have been working hand-in-hand with the private sector. Within the framework of the Federal Ministry for Economic Cooperation and Development (BMZ) program “develoPPP.de”, more than 3,000 development partnerships in over 70 partner countries have helped make business ideas stemming from private companies a reality and, at the same time, employment and income have risen in our partner countries and poverty has been reduced. But in many countries, the poorest of the poor are still excluded from economic development.

Under the catchphrase “base of the pyramid”, business models that begin at the intersection between the private sector and development organizations have started to emerge over the years. They can bundle the interests of the private sector and development organizations: new markets for companies—new products and services and new sources of income for poor sections of the population.

There is a lot of potential here from the company perspective. Together with partners from civil society and development organizations, projects can often be carried out faster and the risks of failure can be easier to overcome.

I hope you learn a lot from this publication and that it sparks lots of new innovative business ideas that form the basis for new development partnerships.

Susanne Dorasil

Head of Department for Economic Policy; Finance Sector
Federal Ministry for Economic Cooperation and Development (BMZ)



Photo: ICC

The eight Millennium Development Goals (MDGs) are the most comprehensive and universally agreed development goals, embodying the international community’s pledge to create a better and healthier future for billions of people in developing countries by 2015. The goals strive to substantially reduce poverty and hunger, empower women, increase access to education, health-care, clean water and sanitation, reduce the incidence of a number of deadly diseases, protect the environment and forge strong global partnerships for development.

Over the last decade considerable progress has been made in achieving the MDGs but significant challenges remain. Reaching the MDGs calls for collaboration among all stakeholders. When the 2015 targets for the MDGs were set in 2000, the private sector’s contribution to meeting these targets was not as well-understood and accepted as it is today. In that same year, the International Chamber of Commerce launched the World Business and Development Awards to showcase creative initiatives by corporations who apply their core business expertise to achieve the MDGs. Today, the role of the private sector as an engine of growth and development is widely recognized, as are benefits that business can bring: creating jobs, building skills, developing technologies.

One of the most important innovations in this arena has been the emergence of inclusive business models which are conceived as sustainable business solutions that increase access to goods and services and create new sources of income for low-income communities. These models involve doing business with low-income populations anywhere along a company’s value chain: they are incorporated into the supply, production, distribution and/or marketing of goods and services. This generates new jobs, incomes, technical skills and local capacity. Likewise, poorer consumers can benefit from products and services that are not only more in line with their needs but are also affordable. By focusing on business viability, these new models have the capacity to be increased in scale, thus including thousands of people living in poverty. The emphasis is on “core business” rather than on philanthropy.

I am certain that both the newcomer and the experienced practitioner in this field will find this guide invaluable to their work.

Jean-Guy Carrier

ICC Secretary General

In brief

Inclusive business brings added value for companies and people living in poverty alike. Broken down into three sections, this publication provides answers to three basic questions about this new type of approach to business and social development: The “What”, the “How” and the “Where”.

Companies and entrepreneurs can capitalize on their technologies, processes and management know-how to develop new business opportunities at the base of the economic pyramid. Activity in these markets is only going to increase. On the one hand, pressure to tap into new markets for procurement and sales is increasing. On the other, it is getting easier to conduct business because overall conditions in many developing countries have improved and there are more financing options and expertise available.

The “What”

Both companies and people living in poverty can benefit from inclusive business. Trade often gives poor people better access to products and services that fulfill their basic needs, it increases their productivity, creates better opportunities for them to earn income and, last but not least, it boosts their self-confidence and feeling of security. Companies can establish themselves early on in growth markets, strengthen the supply chain, benefit from innovation and enhance their ability to innovate, their reputation and appeal as an employer.

The market at the base of the global pyramid is large and growing fast. 4 billion people in the world—two-thirds of all human beings—live on less than \$3,000* per year. Together they spend \$5 trillion (measured in terms of local purchasing power) a year. By 2050, there will be 3 billion more people on the planet, almost all of them in developing countries. And their willingness to pay can be high because people living in villages and slums often pay more and get less than elsewhere—a phenomenon known as the poverty penalty.

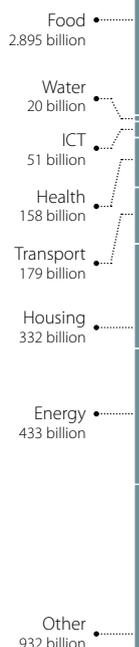
As suppliers, people living in poverty offer companies opportunities in agricultural raw materials and handicrafts in particular but in other areas such as tourism as well. Tight-knit cooperations can improve the reliability of supply, increase quality and make unique selling propositions possible when designing products.

Environmental protection is also an important issue. On the one hand, people living in poverty are often more affected by pollution, for example, because their livelihoods depend on farming or they cannot adequately protect themselves from extreme climate events. On the other hand, developing countries now have more and more legal incentives for environmentally-friendly activities. Resource-saving technologies, products and processes thus offer long-term opportunities for growth.

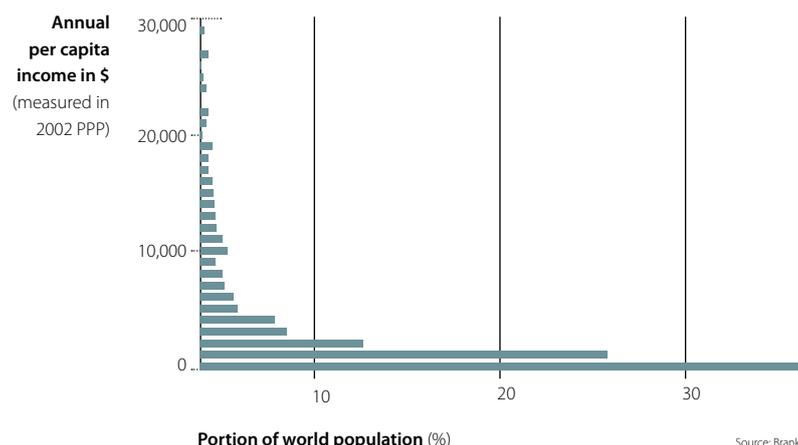
Difficult market conditions are the greatest challenge to making inclusive business ventures a success. The transaction costs and risks increase because the necessary structures like roads, a stable legal system or information about market participants are often insufficient in slums and villages.

* \$ always means US dollars in this publication

→ Market size worldwide in the segment under \$3,000 a year by industry (in \$ measured in terms of local purchasing power)
Total volume 5 trillion



→ Global income pyramid



The “How”

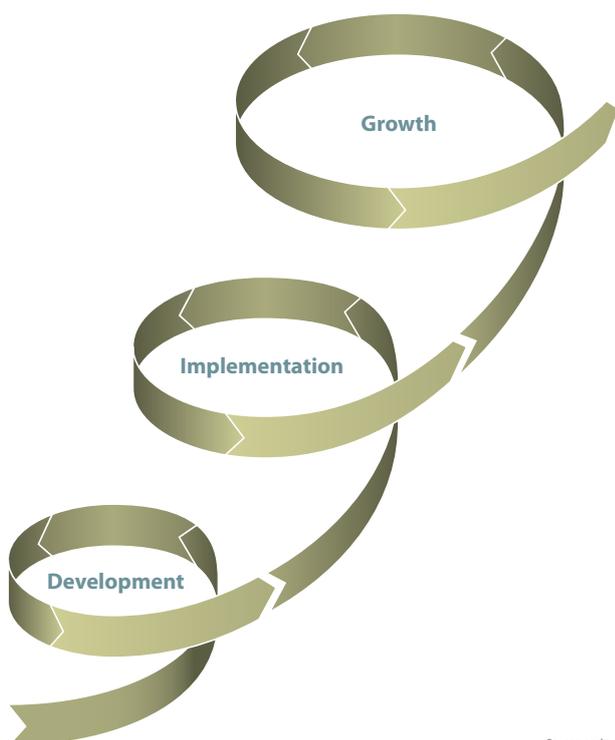
Innovative business models find ways to overcome these challenges. The first promising approaches in tackling these obstacles have emerged along the entire → business development process, starting with development through to implementation all the way to growth.

For the **development** of new business ventures, the right market expertise is often lacking. There is no information available and no experience to speak of. Companies are well-advised to work closely with the target group and involve people who know the ins and outs of the local context to help identify opportunities, analyze the market, find solutions and develop products.

During the **implementation** phase, the necessary resources—financing, partners, local skills—are brought together and the model is tested. But because inclusive business projects often require a number of changes to the existing business, companies have to plan in longer time frames and more flexibility for financing and project organization. And, companies have to learn to work together with non-traditional partners.

During the **growth** phase, inclusive business projects frequently pursue several equally important goals of an economic, social and environmental nature, all at the same time. This requires more extensive measuring of success and more clear-sighted alignment. To expand the venture within a country or beyond, the business models have to function as independently of local conditions as possible. These models have to be highly standardized and clear-cut.

→ Business development process:
3 phases × 4 steps to inclusive business



Source: endeava

The “Where”

Some regions and sectors are particularly interesting in terms of inclusive business. That said, each company has to select its target market individually in line with its competencies. The profiles in this publication can provide only an initial impression of the structures and existing activities on the respective markets.

Countries with large low-income sections of the population offer the opportunity for a significant market. Many companies from within and abroad are already active in these countries. The following countries are profiled: Brazil, China, India, Mexico, Russia and South Africa.

Sectors where the low-income target group is already a consumer include products and services to meet basic needs and those that increase productivity. As producers, people living in poverty can primarily be found in agriculture. Competitive advantages for companies exist in sectors where they increase efficiency through technology and expertise, thus being able to offer added value. The following sectors are profiled: energy, financial services, food and agriculture, health, housing and construction, information and communication technology, and water.

And beyond

Evidence shows that inclusive business can truly make a significant contribution to fighting poverty. Aravind Eye Care System gave two million people in India their sight back over the last 30 years, Manila Waters connected 1.5 million poor households to the central water supply in the capital of the Philippines in ten years, 155 million people have been extended microloans. According to a study of the World Bank, almost every other borrower in Bangladesh has been able to escape poverty. How people living in poverty benefit from freedom of choice and the ability to participate is not to be underestimated. Being able to make their own decisions about what they buy and sell also gives them the opportunity to articulate their needs.

Private-sector institutions and especially governments play an important role in inclusive business. They are responsible for protecting the interests of both consumers and producers. They can also improve the overall conditions for business at the macro level. Companies have incentives to change the overall playing field which benefits other players on the market. Whether inclusive business will play a positive role in general is first and foremost a question of design—this will be the mission of companies, governments and development organizations in the years to come.

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Intro- duction

Fighting poverty through business—is it possible? The answer is yes because inclusive business brings together business and social development. When companies do business with people living in poverty, both sides stand to benefit. Access to markets enables these people to make productive use of their capital and improve the quality of their lives with the money they earn. Vast opportunities for innovative business models exist where companies make this possible.

Companies and entrepreneurs can make a significant contribution to human development. They have the technologies that can help boost productivity and improve the quality of life in developing countries and leapfrog to more sustainable ways of consumption and production. Relevant domains include renewable energies and energy efficiency, water treatment and emissions prevention but also medical and pharmaceutical technology or food chemistry. They have the product development and production processes to create products that meet the abilities and needs of producers and consumers living in poverty. And they have the management know-how to grow successful models and expand their reach. Fairtrade is but one example where process and management innovations have benefited millions of people living in poverty.

Developing countries and people living in poverty will play an increasingly significant role in future business development. There are a number of reasons why:

- The markets at the top of the income pyramid are largely saturated. It makes sense for companies to think about the business opportunities open to them in lower income segments. It is also important for companies to position themselves at an early stage in these markets to secure competitive advantage.
- Raw materials for the manufacturing and food industry are becoming ever more scarce and expensive. Safety and quality in the supply chain are becoming increasingly important as factors critical to success. Developing countries offer alternative supply sources.
- More and more developing countries offer a stable environment for investment and trade. Many governments are working on reforms to reduce the time and cost of trade processes and improve reliability for business.
- Business models that improve the opportunities for people living in poverty are meeting with more support. Donor countries, foundations and “social investors”, who want to encourage social change with their capital, support business people not only with specially tailored financing programs but also with local contacts and expertise about business models of this kind, thus removing barriers to implementation.

This farmer in Guinea has every reason to be proud of his plants. Whether or not he can sell them for a profit depends on his market access.



Photo: Adam Rogers / UNCDF

In fact, doing business to combat poverty isn't exactly business as usual. Even though companies won't have to change everything from one day to the next just because they are doing business on a new market, most will still be confronted with a few challenges they may be unaccustomed to:

- The market structures they need to do business are lacking. The ideal basis for efficient trade is a good infrastructure, readily available information and enforceable rules. Even though market conditions in many developing countries have improved, they are still relatively poor in most slums and villages. This increases transaction costs and risks.
- To date, only a few success stories have been reported for inclusive business in a handful of industries, meaning a lot of experimentation is necessary before arriving at a working model for each specific company.
- As a result of the difficult conditions and lack of experience, developing businesses to fight poverty is often a time-consuming process and fraught with more costs, risks and uncertainties than normal.
- Many companies find solutions with non-traditional partners. These often include public or civil development organizations or in-country aid organizations (hereinafter referred to as "development organizations") or cooperatives and government institutions. These new kinds of partnerships need to be tested and fine-tuned.
- Despite these challenges, inclusive business can make good business sense, particularly considering the other positive effects for the company such as employee retention, reputation and government ties, organizational learning and the capacity for innovation. Pursuing this wide range of goals all at the same time and simultaneously focusing on creating social and ecological value can also mean a higher degree of complexity.

How companies can take better advantage of inclusive business and tackle the specific challenges they face is explained in this publication in three parts:

- **The "What"** describes the concept and target market and discusses its unique structural features.
- **The "How"** explains the process that starts with identifying opportunities through to implementing a successful model in other countries; it describes how inclusive business is different from business on developed markets and provides several real-world examples of implementation for each step.
- **The "Where"** describes the most important countries and sectors with potential for inclusive business.

This introductory publication covers a wide range of issues. A list of literature for further reading is provided at the end of each chapter*. The "Inclusive Business Guide" is by no means a general guideline for foreign trade. Issues that come up in day-to-day business with foreign markets or new target groups, such as customs duties or legal requirements, are not discussed here. Our hope is that the content will inspire many new business ideas.

Let's get started!

* Literature references to books and magazine articles state the full reference information. Online publications are cited only with the author(s), year and title and are indicated by a [www](#). To find these publications, the name of the source document just has to be entered in a standard search engine.

1 The “What”

1. When people living in poverty are included in business either as producers or consumers, opportunities can emerge on both sides. Inclusive business thus helps fight poverty on the one hand and increases competitiveness on the other.
2. The consumer market at the bottom of the global income pyramid is made up of four billion people. Not only is this market enormous, there is great willingness to pay for more productivity and a better standard of living and it harbors considerable potential for innovation.
3. The supply chain can be strengthened by teaming up with the producers of natural raw materials and handcrafted products as well as local service providers: not only because the supplier base is broadened, but also because it leads to product diversification, better quality and unique selling propositions such as fair production conditions or traditional ethnic handicrafts.
4. Environmental protection is also of particular importance for people living in poverty. Innovative technologies and solutions can make sustainable business possible in every respect – and create opportunities for the long-term growth of companies that have the necessary expertise.
5. For inclusive business to be successful, solutions have to be found for dealing with difficult market conditions. The transaction costs increase because the structures that enable efficient trade, such as roads or a stable legal framework, are simply lacking. Consequently, innovative business models are needed. The development, implementation and growth of these models is explained in part 2.

The idea behind inclusive business is that developing business and fighting poverty can go hand in hand. In other words, doing business with the poor to combat poverty.

Inclusive business integrates people living in poverty into the value chain as consumers or producers, thus making a positive contribution to the development of companies, the local population and the environment.

This strategy can be successful because people living in the slums and villages of developing countries have difficulty accessing the market. By giving them access, new opportunities often emerge for both sides.



Photo: Adam Rogers / UNCDF

Trading in Guinea

Further reading:

Caroline Ashley (2009), *Harnessing Core Business for Development Impact* [www](#)

Fighting poverty through business

Key messages

- People living in poverty have a lot of untapped potential as producers and consumers – this shift in perspective can be mutually beneficial.
- The benefits companies reap from inclusive business include the establishment of new, growth-intensive supply and sales markets, enhanced reputation, employee retention and further training as well as capacity for innovation.
- People are better able to satisfy their basic needs and increase their productivity, income, self-confidence and feeling of security.

M-PESA is a mobile money solution. In the spring of 2010, 9.5 million Kenyans were already using their cell phones to pay for their groceries in supermarkets or to transfer money to their families. Even Vodafone who owns the M-PESA provider, Safaricom, has been surprised by the rapid growth since the service was launched in 2006. In Kenya, however, bank transactions are expensive and many people don't have bank accounts. Fast, easy, no account required and, most importantly, cheap – it's no wonder that demand for M-PESA was so high.

Until now, development work and business development were two completely separate worlds. Innovations and profits belonged to the realm of the company. In development work, money was spent to improve the lives of those living in extreme poverty. There is rationale for both. But there is also a place where the two overlap, where business development and social development intersect. The business models located at this interface are called "inclusive" business models.



Photo: Adam Rogers / UNCDF

A store owner in Madagascar

It is the absence of broad-based business activity, not its presence, that condemns much of humanity to suffering.

Kofi Annan, former UN Secretary-General¹

M-PESA is not a charity project. It is good for business and it is good for society. We can help improve quality of life for millions of people – there is no better thing a company like Vodafone can do.

Arun Sarin, CEO Vodafone²

Changing perceptions: from helpless victims to capable actors

Inclusive business requires us to rethink our perceptions of people living in poverty: from seeing them, not as needy victims, but as empowered and capable actors. People in developing countries are often portrayed as helpless, waiting with big, round eyes and hands outstretched for our handouts of food and water. Nothing could be further from our minds than to consider these people customers and business partners. From this perspective, it would seem downright unethical to want to sell them something, stripping them of the last shirt off their backs, so to speak. Characterizing them as needy is useful to win financial and political support for development measures. But this perception reveals only a fraction of the reality of people living in poverty.

The flip side of this reality is typified by dynamic economic activity, by buying and selling, by producing and consuming. Yet despite all of their hard work and creativity, many people are still trapped in poverty. They lack not only income and capital but also, and more importantly, real opportunities for growth and development. This lack of opportunity is to a great extent due to a lack of markets.

Structures that facilitate efficient trade simply do not exist, making it difficult for farmers to sell their harvest or for artisans to find markets for their goods. Many products and services are either not available or are of poor quality and too expensive.

Many names – one idea

Nowadays, there are a number of terms that characterize the concept of inclusive business. Some focus more on including consumers, others on producers. Some are favored more by business people and others by people working in development. Here are the most important terms:

Base (or Bottom) of the Pyramid (BoP) – refers to the idea of acquiring people living in poverty as consumers, thus fighting poverty and tapping into a huge market. The focus is usually on the marketing aspect. The Inter American Development Bank (IADB) calls this “**opportunities for the majority**”.

Business linkages – refers to possibilities for establishing business ties with small companies and microenterprises in developing countries. The International Business Leaders Forum (IBLF) organizes dialog forums on this topic together with the International Finance Corporation (IFC) and the Harvard Kennedy School.

Inclusive business – refers to the inclusion of people living in poverty into business processes along the value chain. This term is used by the alliance between the World Business Council for Sustainable Development (WBCSD) and the Dutch development organization, SNV, as well as by the United Nations Development Programme (UNDP) within the “Growing Inclusive Markets Initiative”. The non-profit organization, Ashoka, uses the term **Full Economic Citizenship (FEC)** for this concept.

Making markets work for the poor/MMW4P/M4P – a development strategy that aims to make markets work more effectively and thus increase the income and improve the quality of life of those living in poverty. At the forefront of this effort are the development organizations DFID, SDC and SIDA.

Pro-poor value chain development – a method used by development organizations to integrate producers, especially small farmers, more effectively into value chains.

Responsible supply chain management – summarizes management methods for sustainable supply chain organization. One focus is on the fair inclusion of microproducers, for example, for agricultural products.



Herders in Senegal use cell phones and GPS systems to track their herds.



M-PESA turns cell phones into a mobile money solution.

Case study 1 Vodafone Group, Kenya

Communication for a developed Kenya

In 1980, there were only four landline connections for every 100 inhabitants in Africa. Vodafone identified this opportunity and invested in the mobile network infrastructure on the African continent. Nowadays, one in four people in Africa has a cell phone. Both the phone companies and the users have benefited enormously.

Thanks to mobile networks, both entrepreneurs and farmers can conduct their business more productively: they have access to information about prices and demand, allowing them to sell their goods at better terms and

saving them unnecessary trips to markets. Skilled workers can be contacted directly by customers, even from different regions. And, it is certainly useful to have a phone when looking for a job.

In the private sphere, having a phone saves time and improves the quality of life. Cell phone owners can stay in touch with family members who live far away and have better access to information. Remote diagnoses improve healthcare and emergency numbers protect against crime. Together with its partner, Safaricom, Vodafone offers additional

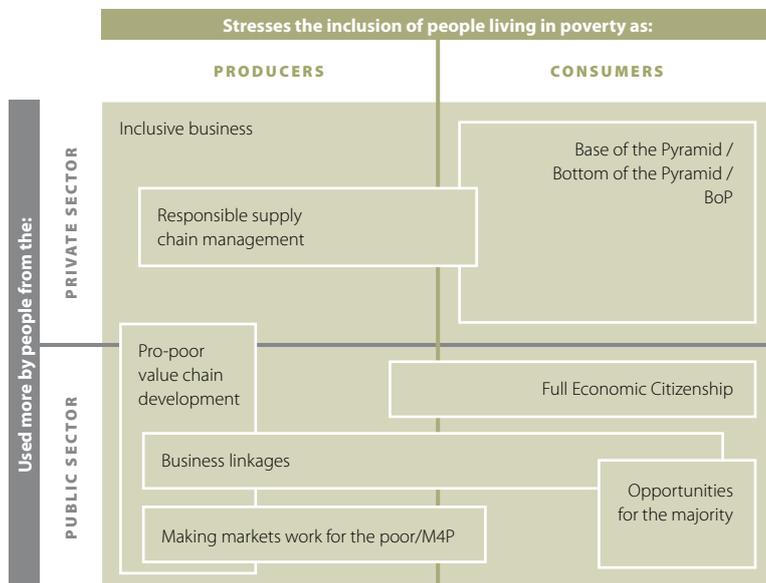
services in Kenya. M-PESA, the mobile banking service, makes monetary transactions possible for people who don't have bank accounts. This saves them time and money. Vodafone's success was immediate: in March 2010, M-PESA had 9.5 million customers and 10,000 new users sign up every day.

Sources:
 • The Vodafone Policy Paper Series (03/2005), Africa: The Impact of Mobile Phones www.vodafone.com
 • Safaricom (www.safaricom.co.ke)

The inclusive business model also frequently appears in connection with the following two concepts:

Social enterprise/social business – refers to companies that pursue social objectives as part of their business model, among them fighting poverty. Social enterprises apply business logic to at least cover their costs.

Corporate social responsibility – refers to the responsibility of companies to make a contribution to society and prevent damage. Many companies strive to integrate CSR activities into their core business. Inclusive business pursued by companies also falls into this category. In fact, these types of initiatives also often originate in the CSR department in larger companies.



As herders, we have to travel long distances in search of greener pasture. M-PESA has made our lives easier because we don't have to travel to give our relatives and friends money.

Emmanuel Sironga, herder and M-PESA customer³

Potential as producers and customers

Once this shift in perspective has taken place, opportunities suddenly emerge when the poor are incorporated in the value chain:

- As customers, they buy goods and services to take care of their basic needs and boost their productivity and quality of life.
- As suppliers, they produce agricultural products and handicrafts and provide services, for instance, in the tourism industry.

Business models that open up these kinds of possibilities also create income and business opportunities for third parties: employees, business partners and micro-entrepreneurs are needed to keep a business running. By working together with the local population, companies can take advantage of local expertise and social networks.

If a company is successful in combating poverty through business, this can give rise to other positive social and economic effects. The company or its partners can only buy and sell other products if functioning logistics and sales channels are in place which in turn help develop other markets and lower the costs per product. Producer cooperatives gain knowledge and can invest in quality assurance, processing and marketing, thus attracting more demand. Market structures improve when one or more companies invest in infrastructure or the government adapts the legal framework. These initial business activities trigger new ideas and the market base broadens. Development takes place.

Added value for companies

Companies can boost their competitiveness in a variety of ways:

New markets: Establishing growth-intensive sales and supply markets expands the supplier and customer base, thus creating prospects for cheaper and higher-quality production, increased revenues and more profits. These markets are expected to grow rapidly because of strong population growth and increasing income in many developing countries.

Enhanced reputation and PR: The contribution that inclusive business makes to society as a whole improves the image of the company and the trust placed in it by customers, suppliers, governments, investors and the general public. This underscores the company's CSR activities.

Employee retention and training: For many employees, their employer's commitment to pursuing social goals is important and strengthens their identification with the company. Having employees work in an inclusive business environment can also be beneficial for job and management training purposes and for the employees' own personal development.

Innovations and the capacity for innovation: Innovation is the key when it comes to new market environments with completely different expectations and challenges. Creative solutions for products, processes and business models are always the engine for company growth and a prerequisite for long-term market survival. As a result, a company's overall capacity for innovation is enhanced by pursuing projects that follow an unusual logic, that ask new questions and that seek new organizational solutions.



Photo: Adam Rogers / UNCDF

Ban Phot, a farmer in Issan, Northern Thailand, can now harvest crops two to three times a year with a solar-powered pump.

Added value for people in poverty

The local population also stands to benefit from participating in inclusive business in several areas:

Basic needs: Many basic needs are still not met today. One billion people live without access to clean water, 1.6 billion are without electricity and five billion have no Internet access. Examples of inclusive business models that provide food, water, wastewater disposal, medical supplies, housing construction and even education already exist.

Productivity: Access to electricity, telephone and Internet as well as financial services, such as loans and insurance, make day-to-day life more efficient and open up new business opportunities for individuals and microenterprises.

Income: Farmers, artisans and other producers find new sales channels, services are in demand and jobs are created. Lower-priced products increase real income.

Empowerment and confidence: New possibilities for consumption and income and new forms of market participation or creation give people the feeling that they have more control over their lives.

Who is poor?

Despite the simplicity of this word, it is not always easy to define who is poor and who is not. Poverty has many causes and many forms.

Income is usually used as an indicator for poverty. As an international standard, the World Bank established thresholds of \$1.25 per day for extreme poverty and \$2 for moderate poverty (measured in local purchasing power). Based on these figures, 1.4 billion people were living in extreme poverty and 2.6 billion in moderate poverty in 2005⁴.

The problem of poverty, however, can be better described using the “capability” concept developed by the economist, Amartya Sen. Sen sees poverty as a lack of valuable opportunities. This view shapes development work today to a large extent. The people in poverty don’t have the freedom to choose to live fulfilling lives. This includes simple basic needs such as food, education and career choice but

also opportunities to shape and participate in society. Income allows access to these opportunities but is also one result of realizing one’s potential.

Inclusive business does not necessarily have to start with the extremely impoverished, i.e. people who earn \$1 a day, but with those who get by on \$3 or \$4 per day. It is often easier to concentrate on groups that have capital, be it knowledge, land or social inclusion, but are unable to benefit from it because of inadequate market access. Business models that incorporate these sections of the population offer both sides considerable opportunities to make things better. Often, those living in extreme poverty have no capital to speak of. They are dependent on humanitarian aid. The funding available for development aid can be concentrated on supporting these people if markets and business create opportunities for those who have capital to put it to good use.

In this publication, we generally talk about “people living in poverty” and not “poor people” to make it clear that it is the living environment of those affected that leads to poverty. Poverty in developing countries is largely a structural problem rather than an individual problem. The frequent references to slums and villages, i.e. the typical environment for poverty, underscore this view. The constraints that hinder markets and perpetuate poverty are explained on page 26.

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Partnerships between German development organizations and the private sector

by Jonas Naguib (GTZ) and Fritz Jung (BMZ)



Partnerships between the private and public sectors can play a decisive role for sustainable development. In the last 10 years, German development policy has established new forms of partnerships with the private sector leading to activities in more than 70 developing and transition countries. Our programme for development partnerships with the private sector (www.develoPPP.de) has been commended as innovative in this field. Indeed, we have many success stories to demonstrate the value of those partnerships. Business and development objectives often complement one another and can be achieved more effectively in a joint effort.

Whether the issue is environmental protection, education, healthcare, poverty eradication, agriculture, water or energy supply, the primary fields of action in development policy overlap with the business objectives of the private sector. Consequently, involvement in shaping the economic, political, legal and social framework in developing countries is mutually beneficial for private and public partners. The partnerships incorporate the shared interests and capitalize on the respective strengths of each partner. Companies rely on the many years of experience of the development organizations to safeguard their investments, participate in growth markets and establish stable, long-term structures. The development organization benefits from the business activities of the private sector in the partner countries which help achieve development goals and cut costs. This also improves the living conditions of people in developing countries over the long run and improves the economic, environmental and social conditions for doing business.

The public and private sector work together to bring an idea to life, an idea that is increasingly seen as the basis for sustainable corporate management: voluntary assumption of responsibility by companies for social, environmental and governance issues, otherwise known as Corporate Social Responsibility (CSR).

Nowadays, many firms consider CSR a fixed component of their corporate strategy. Multinational corporations can no longer afford to have their business activities subject to serious criticism in the public eye because, for instance, working conditions in the supply chain are inhumane. CSR is therefore a strategic investment that aims to strengthen the general public's approval of the company and inspire the confidence of customers, investors and other stakeholders. Corporate social responsibility also has a positive impact on employee motivation and product quality.

We have many success stories to demonstrate the value of development partnerships with the private sector.

The primary fields of action in development policy overlap with the business objectives of the private sector.

The PPP partnering model is also further developed in this context: involvement is not limited to actors from the public and the private sector; other key actors from civil society, be they trade unions, non-governmental organizations (NGOs) or academic institutions, are integrated into initiatives and projects. New platforms for dialog have been created, like the United Nations' "Global Compact", which is supported by the BMZ. So far, 6,000 companies from around the world have

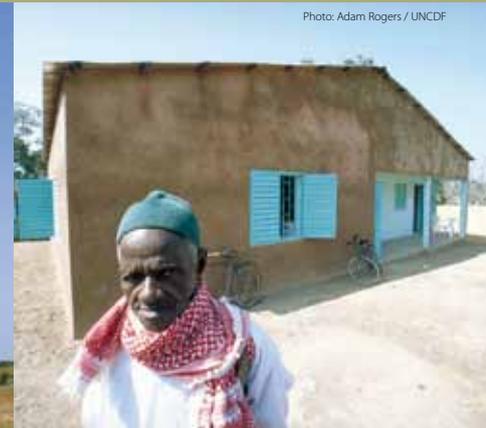
joined the "Global Compact" and voluntarily pledged to adopt ten principles in the areas of human rights, labor standards, environmental protection and anti-corruption. Partnerships are initiated and practical models developed in dialog with governmental and non-governmental representatives.

Photos: Jakob Schmidt-Reindahl



Helpers from the local community putting up the wind monitors. The measurements were very promising for INENSUS.

Photo: Adam Rogers / UNCDF



A house in Senegal. Most houses there are not connected to the grid.

Case study 2 INENSUS, Senegal

A journey to a new enterprise

The start-up company INENSUS GmbH, based in Goslar, Germany, specializes in small wind turbines and decentralized energy systems. In 2007, one of the company founders, Jakob Schmidt-Reindahl, traveled to Senegal with a delegation of the German Federal Ministry of Economics and Technology (Bundesministerium für Wirtschaft und Technologie – BMWi) on a trip organized by the GTZ. He found that the coastal regions, where only approximately 20% of the rural inhabitants are connected to the electricity grid, offer excellent conditions for cost-effective operation of wind turbines for a decentralized energy supply.

INENSUS performed an in-depth market analysis for an entire year. Market studies were conducted and wind measurements

were taken with financial support from the German electricity supplier EWE AG and in cooperation with the GTZ. INENSUS then used this information as a basis for adapting its business model "Micro Power Economy" to local conditions and joined forces with MATFORCE, a local company from Senegal. To finalize this phase of the project, the Senegalese company INENSUS West Africa S.A.R.L. was formed as a joint venture between INENSUS GmbH and MATFORCE.

Since then, the company has been working on a pilot project of its business model with financial support from EWE AG. These activities also receive funding from the GTZ as a PPP project. Since January 2010, INENSUS West Africa operates a hybrid system (con-

sisting of a small wind turbine, solar panels and a diesel aggregate) in Senegal and sells electricity to the inhabitants of a village. Many other similar projects are in the planning stages.

The business model of Micro Power Economy assumes that demand for electricity will increase as the energy provided stimulates more productivity. The model thus relies on healthy economic development of the villages. To encourage investment in income-generating activities, a partnering microfinance institution (MFI) is making microloans available to customers.

Sources: Inensus (www.inensus.com), EWE AG (www.ewe.de), MATFORCE (www.matforce.com)

Building growth markets

Key messages

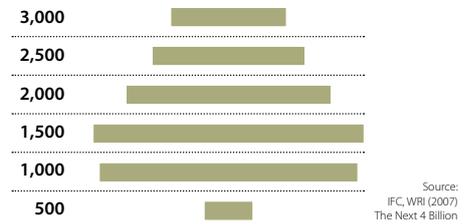
- Four billion people live on less than \$3,000 per year.
- Taken together, their combined local purchasing power is equivalent to \$5 trillion.
- By 2050, there will be three billion more people on the planet, almost all of them in developing countries.
- Interest among these consumers in low-priced and good quality products is high.

A total of 1.2 billion people live in India, two-thirds earn less than \$2 per day. They are the target group of SKS Microfinance. The goal of this microfinance institution is to serve eight million customers by 2010, a figure that represents only one percent of the target group. Already today, the company's market value is roughly \$130 million.

Companies that strive for long-term growth can ill afford to ignore the bottom of the global income pyramid: it is currently made up of two-thirds of the world's population and is growing rapidly.

→ Four billion people around the world live on less than \$3,000 per year, measured in terms of local purchasing power. Per day, this is equivalent to \$3.32 in Brazil, \$2.11 in China or \$1.56 in India.⁵ Based on the international standard, 2.6 of these 4 billion people are considered "poor" because they have less than \$2 to live on.⁶ However, definitions of "poor" or "rich" are certainly not set in stone and are a question of perspective. In some countries, even people who earn less than \$8 a day belong to the middle class. Even so, their access to healthcare or financial services can still be lacking. Overall, there is a lot of potential for improvement at the bottom of the pyramid.

→ Global low-income market by income segment (total spending in \$ PPP)



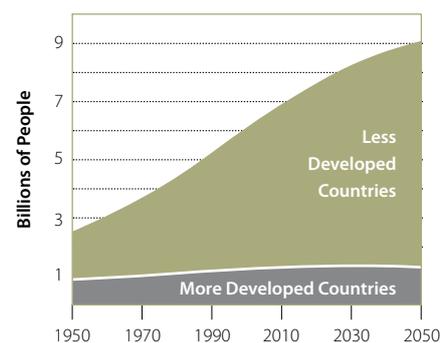
Substantial purchasing power

Even though individual income in this segment (under \$3,000) is low, when the incomes of the "Next 4 Billion", as they are referred to by the International Financial Corporation (IFC) and the World Resources Institute (WRI), are combined, their purchasing power is immense. In a report of the same name, this → market is estimated to be worth around \$5 trillion. The smallest part is made up of the poorest segment that lives on less than \$500 a year. The largest part is accounted for by the segment that earns between \$1,000 and \$1,500 per year.

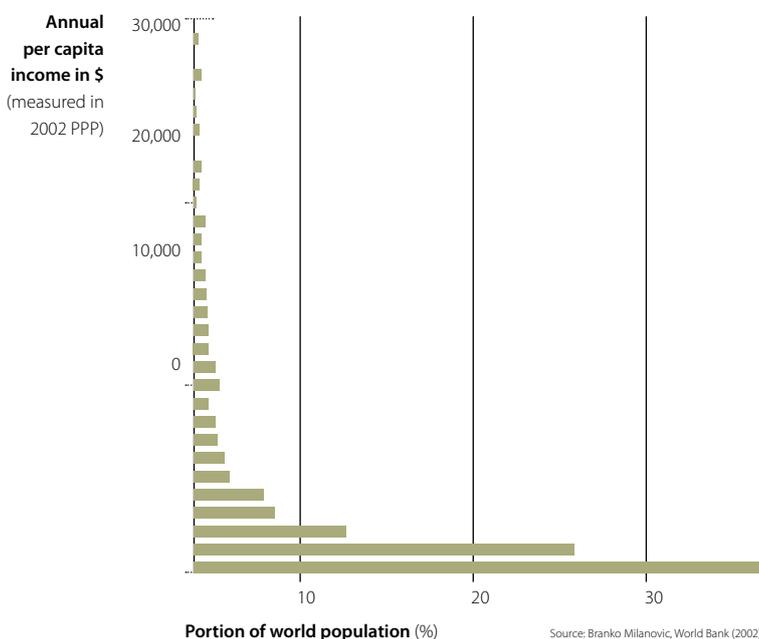
People in the low-income market spend most of their money meeting basic needs. Food topped the list at 60% of the market or \$2,895 billion in 2006. The market for information and communication technology made up only a small percentage at \$51 billion. The amount of money spent here, however, rose rapidly as income increased.

These market figures are expressed in terms of local purchasing power. International purchasing power, however, is also an important indicator for international companies. Regardless of the exact volume of the total market, it is clear that people labeled "poor" also spend money to satisfy their needs.

→ Changes in world population



→ Global income pyramid



Growing population

The market is growing rapidly: according to projections from the United Nations Population Fund (UNFPA), the planet will have approximately → three billion more people in 2050 than it does today. The great majority will live in developing countries.

For companies who find a largely saturated and highly competitive market at the top of the pyramid, it will be particularly important to take a closer look at lower income segments. This doesn't just apply to companies that target consumers but also to business-to-business solutions. Most people at the bottom of the pyramid earn their income as microbusiness owners in agriculture, handicrafts, services or trade. As entrepreneurs, they are by all means willing to invest in increasing productivity and competitiveness either through new technologies or materials. But the range of products and services open to them has to be consistent with their needs and financing has to be available.

Poverty penalty

It may sound like a paradox but people with little market access frequently have to spend more money than their rich neighbors or more than consumers in industrialized countries and they have to settle for lower quality. This phenomenon is known as the "poverty penalty". It represents the opportunity to develop a better range of products and services by increasing efficiency. In Bangladesh, 1 kWh of electricity costs approximately \$1.95 in rural regions while in Germany, the price is only one-tenth of this amount.⁷ In the slums of Jakarta, Nairobi and Manila, clean water is five to ten times more expensive than in higher-income areas of these cities. Similar price differences exist in the financial system, in healthcare and even in simple consumer goods.

Further reading

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Women in Madagascar take part in a training on financial management.



A micro-credit group in India meets to collect installments.

Photos: Adam Rogers / UNCDF

Case study 3 Grameen Bank, Bangladesh, SKS Microfinance, India

Microcredit – A model travels around the world growing as it goes

When it comes to inclusive business, the financial sector has been leading the charge. For more than 30 years, the Grameen Bank has been granting microloans to the poor in Bangladesh. Its founder, Muhammad Yunus, was awarded the Nobel Peace Prize in 2006 and thus made microcredit the most widely known example of fighting poverty through business.

The model used by the Grameen Bank can be traced back to the principle of cooperative banks in the 19th century. The bank does not require collateral for the loan. Instead, borrowers belong to a group that bears collective responsibility. If one of the group members misses an installment, the entire group is no longer eligible for a loan. The peer pressure exercised in the group has resulted in repayment rates of over 95%.

Almost all of the borrowers are women. The loans range from \$1 to \$1,000 and interest rates fall between 20% and 50% per year. They are thus much more affordable than the rates offered by traditional lenders who ask for up to 700% interest. Microloans are usually invested in a microenterprise to buy a few chickens or install a village telephone, for example.

This model of microloans has inspired similar programs around the world. In 2007, the "Microcredit Summit Campaign" reported a total of more than 3,500 microfinancing organizations on all five continents. These institutions granted loans to around 155 million people.⁸ But the market potential is still far from being exhausted: according to estimates, at least one billion people are potential microloan borrowers.⁹

Nowadays, even profit-oriented banks offer microloans and are working hard to improve the efficiency of the model. In September 2009, SKS Microfinance had 5.3 million customers, making it the largest microcredit lender in India. The company relies on standardized products, universal customer and sales partner training and on state-of-the-art computer and mobile technology to manage and repay the loans. SKS has been able to grow rapidly and generate high profits thanks to its cookie-cutter model.

Sources: IFC & WRI (2008) *The Next 4 Billion* [www](#), SKS India ([www.sksindia.com](#)), Grameen Foundation ([www.grameenfoundation.org](#))

Strengthening supply chains

Key messages

- The wealth and diversity of natural raw materials makes it possible to safeguard, broaden and improve the supply chain and make use of new and unusual materials, also satisfying the quality criteria for “organic” or “fair” in many cases.
- Tradespeople and artisans offer skills, traditional ethnic handicrafts and techniques.
- Services ranging from tourism to business process outsourcing can be provided by microenterprises.

Priprioca is a fragrant plant found in the heart of the Brazilian rainforest. Natura discovered the plant and used it as the basis of its Ekos cosmetics line. The company worked together with village communities in the north of the country to create a new supply chain for this ingredient. Ekos became the most successful line of this rapidly growing company.

Regions with little market access are also interesting as potential sources of supply. By integrating people living in poverty into the supply chain, production volumes, delivery reliability and quality can be improved, the flexibility of the supply chain strengthened and the unique selling propositions enhanced by rare, high-quality and “ethical” products.

Natural ingredients

Developing countries have large capacities for the production of agricultural products. Seventy-two percent of all agricultural land can be found in developing countries.¹⁰ This potential for production is not only important for meeting rising demand for more and higher-quality food products, but also for the growing need for renewable energy sources. The quality of the end products and the production process is gaining in importance. Demand for products certified as “organic” or “fair” is steadily rising.

Some valuable raw materials can only be produced or extracted in certain regions. The pharmaceutical industry is constantly on the lookout for new plant-based active ingredients. In this context, cooperation with people who live in regions with a high level of biodiversity like rainforests makes sense for both sides. These partnerships enable new sources of supply to be developed and, at the same time, biodiversity is safeguarded. The course of action pursued by Natura is exemplary in this area.

Local traditions and skills

Skilled workers in developing countries also provide valuable services. Opportunities exist particularly in the case of labor-intensive and handcrafted products, such as those in demand for interior design. IKEA works with cooperatives and family-run companies in Vietnam to produce textiles and ceramics. The company concludes long-term contracts with the suppliers that have fixed payment terms, a mutually beneficial model.

Services from tourism to translation

The service sector is very underdeveloped but this is starting to change thanks to the widespread availability of data networks. Digital Dividend in Cambodia and TxtEagle in Rwanda are start-up companies that rely on mobile technology to provide services like translation in local languages—a kind of microbusiness process outsourcing. Interest is also growing in tourism that is committed to making a positive impact on the local culture and the natural environment, and in the process creating unique experiences for tourists. The company Hospitality Kyrgyzstan is an ecotourism operator in Kyrgyzstan that offers homestays with local nomad families. The local population is essential as a service provider here.

Further reading

- Andrew W. Shepherd (2007), *Approaches to Linking Producers to Markets* [www](#)
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Photo: Natura

Photo: Thomas Heinze - Fotolia.com



The roots of the priprioca plant contain essential oils.

The astounding diversity of the plant world hidden in the Brazilian rain forest could serve as the foundation for sustainable business models.

I believe the concept was there before the line was. First we got to what we sought to achieve, what we wanted to say with the product. After defining this, we looked for raw materials, communities and companies to set up our supply chain.

Ricardo Martello, project manager, Natura¹¹

Case study 4 Natura, Brazil

Beauty from the Brazilian rainforest

The cosmetics manufacturer Natura has positioned itself in Brazil as a holistic and sustainable company. The use of ingredients extracted from species of plants found only in Brazil plays an important role in cultivating this image. These types of ingredients also form the basis for Ekos, Natura's extremely successful product line.

Pripricoa, a plant that only grows in the Brazilian rainforest, is the primary ingredient of this line. Its oil has a strong fragrance and has long been used as a perfume by people living in the rainforest. The ingredient was suitable for a new product line but there was not enough of the plant available. So, Natura went to work building a supply chain together with village communities in the north of Brazil.

In 2003, the company successfully persuaded three villages to become producers of pripricoa. Natura provided the seeds and trained participants in the growing method. Pricing was also not clearly defined because a market for this plant had not previously existed. Natura initially negotiated payment with project participants based on the amount of land used in the cultivation of the plant, which resulted in a drop in production volume the first year. Agreements were then reached on specific supply volumes and prices.

To satisfy sustainability criteria, Natura also established a certification program. This program was designed to ensure that ingredients from Brazilian plant species were extracted sustainably and ecologically.

The consumers hold this holistic and authentic approach in high regard. In 2004, Natura's market value was 133% of its annual revenues compared to 33% for L'Oréal.¹²

The potential for other sustainable perfume ingredients from the Brazilian rainforest is enormous: thousands of plant species are not even being used yet.

Source: Cláudio Boechat (2007), Ekos: Perfume Essences Produce Sustainable Development www.ekos.com.br

Essential oils are an important ingredient in the cosmetics industry. Natura's Ekos product line is based on the pripricoa fragrance.



Photos: Natura

Protecting the environment, securing the future

Key messages:

- Quality of life can only be improved as long as there are enough natural resources.
- Environmental protection is particularly relevant for people living in poverty.
- Companies with expertise in environmentally friendly technologies and processes have an advantage in inclusive business.
- Sustainable models will be in greater demand in the future and encouraged by policy-makers.

Cocoa is the basis for chocolate production and hence the business of Alfred Ritter GmbH & Co. KG. But cocoa production is in a downward spiral: prices are falling, quality is suffering and environmental destruction is increasing. Ritter has created a model in Nicaragua to reverse this spiral: a sustainable agricultural model protects the existing forest, increases quality, guarantees good prices for farmers and safeguards the long-term supply of cocoa for Ritter.

Decoupling improvements in quality of life and resource consumption

At the turn of the millennium, the Millennium Ecosystem Assessment conducted an extensive analysis of the world's ecosystems and arrived at a disturbing conclusion. Over the past 50 years, human beings have changed these ecosystems more rapidly and extensively than ever before, largely to meet rapidly growing demands for food, fresh water, timber, fiber, and fuel. Sixty percent of the ecosystems around the world are debilitated or used in a way that puts their existence in jeopardy over the long run.¹³ Up to now, economic growth and improved quality of life have been based on the increased use of resources, evidenced by the strong correlation between CO₂ emissions and per capita income. The goal is to eliminate this interdependency. Quality of life has to be improved for more people with

fewer natural resources, using environmentally friendly technologies, products and processes.

People living in poverty are particularly affected by resource consumption

Low-income communities are often particularly impacted by environmental damage. Basic houses and shacks are less protected against extreme weather conditions as a result of climate change. There is no alternative for contaminated drinking water. Soil erosion and drought can lead to the loss of a small farmer's livelihood. However, the people who live in poverty often have no other choice but to overuse the natural resources around them. Industrialized nations also often outsource resource-intensive and "dirty" production steps to developing countries.

Leapfrogging

Scientists and companies all over the world have developed a range of environmentally friendly technologies and resource-saving products and processes in many areas. They can help encourage "leapfrogging", i.e. accelerating development by moving directly to more advanced environmentally friendly processes such as renewable energies. In some cases, these technologies are much easier to put into practice in developing countries because standards have not yet been established there, production capacities and networks don't exist and there are fewer conflicting interests. Investing in environmental protection, e.g. renewable energies and energy efficiency can also be worthwhile financially in light of rising prices for oil and gas.

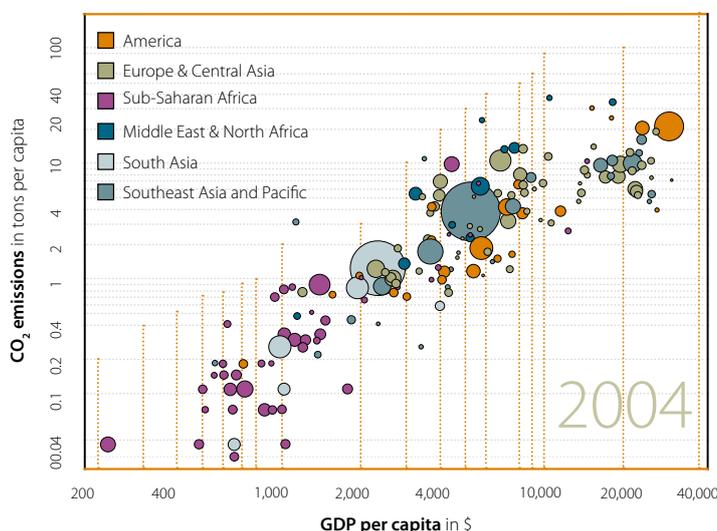
Sustainable processes in the supply chain are becoming increasingly important for companies to minimize risk for product quality, reliability of supply and reputation. Leapfrogging can also take place here. Sustainable agricultural methods can be used from the outset instead of the cost-intensive and environmentally unfriendly methods common in industrial agriculture. Ritter has established a successful model in Nicaragua.

The models of the future

The advantages sustainable models have to offer will become even more evident in the future:

- Political incentive systems at the national and international level will drive the costs of using natural resources even higher and make it more worthwhile to help protect ecosystems. Already

→ Income and CO₂ emissions per capita and country



Source: Gapminder, 2008

47 nations, including China and Brazil, have defined a payment system for feeding electricity from renewable energy sources into the grid.

- At a societal level, sustainability is increasingly in demand and more attention is paid to harmful behavior. According to the Organic Monitor research institute, global demand for organic food rose in 2007 by \$5 billion to a total of \$46 billion.
- Competition for natural resources is driving prices up and adversely affects quality and reliability of supply. Resource-saving, sustainable processes can offer a significant competitive advantage here.

Environmental protection is thus also a key component of economic sustainability.

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A cocoa farmer in Nicaragua with his product. Growing organic cocoa is labor-intensive.

Cutting open a cocoa bean for quality control.

The dried bean is the basic ingredient in chocolate production.

Case study 5 Alfred Ritter GmbH & Co. KG, Nicaragua

Ritter: ally of the rainforest

When Ritter can't get its hands on any cocoa, there is no chocolate to be had. Global demand for this raw material has increased drastically over the last few years. Ritter has to worry more and more about the reliability of supply on a market dominated by major corporations. Competition is particularly fierce for the small harvests of organic cocoa.

Cocoa farming requires a lot of time and ideal climate conditions. The extremely labor-intensive and sensitive cocoa trees only bear fruit after around five years. Organic cocoa requires a number of different steps in the farming process. Overall yield is approx. 30% less than with conventional farming methods. This kind of sustainable farming necessitates a special kind of support.

For the producers of Ritter, the solution is a closely-knit and long-term partnership to secure access to high-quality cocoa and be

able to offer an organic product line. Ritter launched the CACAONICA project in Nicaragua in 1990 with this goal in mind. Cocoa growers felt forced to constantly expand their fields and destroy the rainforest as prices fell and soil fertility decreased. Weather catastrophes and soil erosion made the situation even worse for small farmers.

CACAONICA encourages sustainable cocoa farming based on organic standards with an integrated approach:

- Environmentally friendly farming methods: Cocoa is grown on plantations in crop combinations with other trees. This protects the soil and the rainforest.
- Knowledge building: Farmers receive advice and training not just about farming methods but also about topics such as cooperative organization, quality control and marketing.

- Funding: The cooperative makes advance payments for cocoa deliveries and transport costs. It also assumes the cost of organic certification.

- Premium prices: The farmers receive a guarantee from Ritter to buy the cocoa beans that meet the company's high quality standards at a price higher than the global market price.

More and more farmers and cooperatives sell their cocoa to Ritter Sport, especially their organic cocoa. Ritter can be sure that its supply will be replenished. And the rainforest can keep growing.

Sources: CSR WeltWeit (www.csr-weltweit.de), Alfred Ritter GmbH & Co. KG (www.ritter-sport.de)

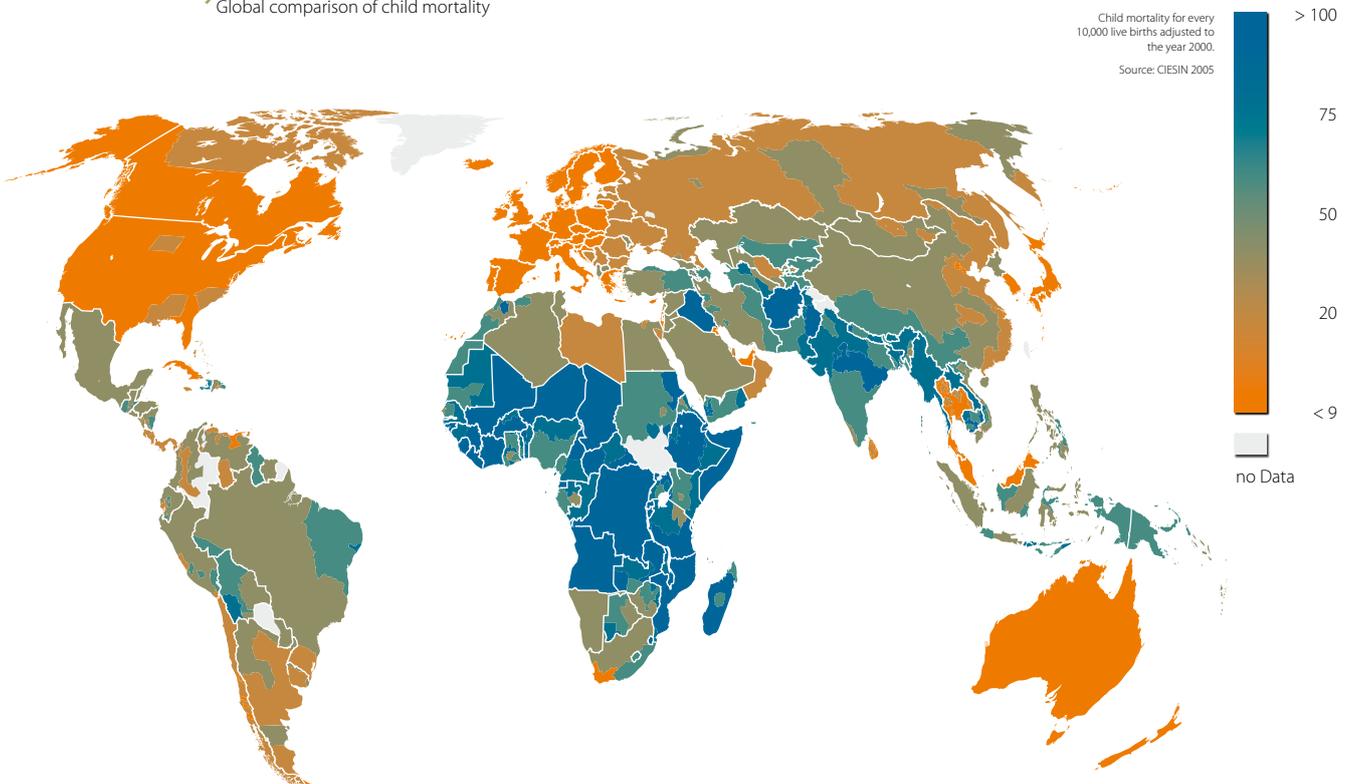
Overcoming challenges

Key messages

- Market conditions that facilitate trade are often lacking in the slums and villages of developing countries.
- Constraints exist in five areas: market information, regulatory environment, physical infrastructure, knowledge and skills of the market participants and access to financial services.
- Innovative business models are needed to keep transaction costs low. How these models are developed is described in chapter 2 "The How".

Tiviski is a camel milk dairy in Mauritania, a country situated in the Sahel region of Africa. The majority of the population of 3.4 million still depends on agriculture and livestock for their livelihood. The extreme conditions that Tiviski has been confronted with since its formation in 1989 are a good example of the structural challenges posed by inclusive business projects. Companies will face similar hurdles in every developing country, though usually they won't be quite as formidable

→ Global comparison of child mortality



Slums and villages are the market environment

The people at the bottom of the global income pyramid are not dispersed equally throughout the globe, they mainly live in the slums and villages of developing countries. The differences between the various countries and regions can be clearly seen on a  world map that uses child mortality as an indicator for poverty: poverty is most widespread in Africa and Asia. There can also be huge discrepancies within a single country. In China, for example, the coastal regions are very well developed while poverty is still prevalent in the interior.

Today, the overwhelming majority of people who have to get by on less than \$2 per day live in rural areas. But this is rapidly changing. By 2050, the planet will have three billion more people than it does today. Most of them will live in the urban slums of developing countries.

The conditions for efficient trade are lacking

Market development in slums and villages doesn't just mean introducing a new product to stores or signing a supply contract with a producer cooperative. Companies have to overcome challenges that they are unaccustomed to, to this extent at least, in developed markets. One fundamental problem is inadequate market conditions. Information is unavailable, the infrastructure doesn't work, the legal system is ineffective and other conditions for doing business are simply non-existent. Support systems, such as logistics services, financial services or media that companies could otherwise rely on, are also lacking because these regions are not sufficiently developed as markets. An analysis conducted by the United Nations Development Programme (UNDP) identified constraints in five areas.¹⁴

Photo: Christina Gradl



In Madagascar, farmers sell sugar cane and vegetables at the village market.

Photo: UN-HABITAT



Around one million people live in Kibera, the largest slum in Nairobi, Kenya.

Photo: UN-HABITAT



Children stand in line for water in Kathmandu, Nepal.

Photo: Christina Gradl



In a village in Uthra Pradesh, India, women embroider saris to then sell them.

1. Market information

It is often not easy to access reliable market information. Standard market research data such as socioeconomic data, consumer habits and user profiles is rarely recorded for people living in the slums and villages in developing countries. Nor is much known about existing production capacities and skills. If this type of data does exist, it has usually been gathered by government agencies or development banks. Generally they don't publish this data or, if they do, it is not in a user-friendly format. Third-party intermediaries such as market research institutes, rating agencies or corporate consultants are rare in these markets. When Nancy Abdeirrahmane began to set up Tiviski, no market for camel milk had previously existed, meaning, of course, that there was also no information about the quantity produced or price.

2. Regulatory environment

Laws and their enforcement are often inadequate in developing countries. In 1989, a legal framework did not exist for the dairy industry in Mauritania. Without a police force, functioning courts of law and other government organizational systems, businesses have no guarantee that contracts will be honored and that they will be protected against crime. Nor do legal processes afford the people living in slums and villages any protection. They often don't have any form of official identification or proof of permanent residence. Companies and individuals frequently encounter lots of red tape trying to obtain permits and licenses. In Latin America, it takes 73 days to register a business on average and costs around 48% of the annual per capita income. In OECD countries, in contrast, it takes only 17 days and costs 5%.¹⁵ Many small businesses thus operate on an informal basis. However, this makes it more difficult for them to do business with established companies who need a solid legal basis for business relationships.

3. Physical infrastructure

Poor infrastructure hinders the exchange of goods and services as well as information. In Mauritania, there is no real system of roads to speak of, which would have made collecting milk a lot easier. Transport networks are also lacking elsewhere: 60% of all paved roads in the world are found in the few number of high-income countries.¹⁶ Networks for electricity, water or even data are either non-existent or in poor condition.

4. Knowledge and skills

Knowledge and skills are required to produce and use products and services. Eighty percent of Mauritania's population is illiterate. The nomads lacked knowledge on how to prevent animal diseases, boost productivity or organize business. Many people, particularly those who live in rural areas, have inadequate access to education. Furthermore, media networks are also insufficient. In 2005, only 4% of Africans had Internet access.¹⁷

5. Access to financial services

Poor households almost never have a savings or checking account, making it more difficult to buy expensive products. And, when people don't have bank accounts, they can't make use of affordable and reliable payment methods like bank transfers. Loans for larger investments and purchases are not granted to many people because they have no legal documents, no secure income or property to serve as collateral. Insurance companies are generally unwilling to conclude insurance policies with people living in poverty. Insurance coverage would reduce their vulnerability and allow them to take a longer-term view of their business. Households and companies are thus not able to control their financial situation with any measure of predictability. During periods of drought, many nomads were forced to give up their herds because no credit was available to buy feed. Very few nomads have bank accounts to organize money transfers with Tiviski.

Innovative business models sought

These structural problems put special demands on the entire business development process which will be explained in chapter 2. The idea is to meet these particular demands with the right solutions, from identifying business opportunities through to applying models that have already been successful in other countries. If these unique features are kept in mind, successful models can also be developed in difficult conditions as is evidenced by the growing number of positive examples.

Further reading

- UNDP (2008), *Creating Value for All – Strategies for Doing Business with the Poor* [www](#)
- World Bank (2008), *World Development Report 2009: Reshaping Economic Geography* [www](#)



Many families still make their livelihoods from camel herding in Mauritania.



Milk, not just from camels, but from cows and goats, is used for production.

Now that the dairy is a successful venture and less of an adventure, it may seem less exciting. Even so there is never a dull moment. We are always developing something new, building something, converting old things, mending, painting or finding solutions to our growth problems.

Nancy Abdeirrahmane, founder and owner, Tiviski camel dairy, Mauritania¹⁸

Case study 6 Tiviski camel milk dairy, Mauritania

As stubborn as a camel – and successful

Tiviski has successfully set up Africa's very first camel dairy in Mauritania despite all of the challenges it faced. Today, the company sells 20 products – in addition to camel milk, it also sells yoghurt and "Camelbert" cheese, a soft French-type cheese made from camel milk. These products are sold in many small stores in the country and they enrich what is available to eat locally. In the past, milk could only be obtained directly from the camel or was imported at high prices from abroad.

More than 1,000 families supply camel milk. The dairy now also processes milk from goats

and cows. Nancy Abdeirrahmane says: "The dairy had a much larger impact on people here than I ever could have imagined."

Success was driven by many investments and innovations: Tiviski set up a refrigeration and collection system which relies in part on donkey carts to pick up the milk from collection stations. A separate cooperative organization supports the herders, makes credit available for feed during drought seasons, offers veterinary services and provides advice about livestock breeding and herding. The producers are paid with vouchers that can be submitted

to Tiviski for payment. According to Nancy Abdeirrahmane, the success of the dairy also led Mauritians to look at animal husbandry "as an economic activity, not merely as a way of life passed on from father to son."

Sources:

- Mamadou Gaye (2007), Tiviski Dairy: Africa's First Camel Milk Dairy Improves Livelihoods of Semi-Nomadic Herders in Mauritania [www](#)
- Namitha Dipak (2008), Tiviski Dairy: Innovative Milk Marketing in the Desert [www](#)

Photo: Tiviski



Tiviski produces a whole range of dairy products ranging from fresh milk to its "Camelbert" cheese.

The Role of Business in Achieving the MDGs

By Louise Kantrow
ICC Permanent Representative to the United Nations



In September 2000 world leaders came together at the United Nations Headquarters in New York to adopt the United Nations Millennium Declaration, committing their nations to a new global partnership to reduce extreme poverty and establishing a number of objectives to be reached by 2015. They have become known as the Millennium Development Goals (MDGs). Over the last five years, the rise of corporate social responsibility and the growing recognition that business and development objectives often coincide, has placed the private sector at the heart of the struggle to raise living standards in emerging economies.

Over the past few years, business, as represented by the International Chamber of Commerce, has had extensive involvement in the many UN and other international meetings and conferences that have identified the crucial components of a global partnership for development and its interlinked priorities. Together, these conferences reflect a global consensus on the challenges facing humanity and set out a roadmap for cooperative action by governments, business and other groups in society. The focus should continue to be on implementing these objectives. Poverty eradication has emerged as the foremost unifying priority we face.

In this regard, business has consistently emphasized the importance of mobilizing domestic resources and encouraging local entrepreneurship, foreign direct investment and other private capital flows, overseas development assistance and integrating the informal economy into the formal economy. Creating an environment conducive to enterprises of all sizes and in all sectors to develop, create jobs and pursue technological innovation and cooperation – coupled with sound governance and policies to reduce barriers to international trade and foreign direct investment – is the best model for helping people to get out of poverty and paves the way to reaching the MDGs.

Creating an environment conducive to enterprises to develop, create jobs and pursue technological innovation and cooperation is the best model for helping people to get out of poverty and paves the way to reaching the MDGs.



Fairtrade cotton is produced in Mali. The women benefit from better conditions and the buyers from a mark of quality that has become increasingly important

Tackling the challenges of achieving the MDGs will require concerted effort and partnership by all actors in society.

Healthy and dynamic societies create new business opportunities and new markets. At the same time, companies can help make possible a healthy and educated workforce, prospering consumers, well-functioning infrastructure, respect for the individual and property and transparency, democracy and freedom.

To capture the benefits of increased private sector investment, governments and development agencies need to work much more directly with the private sector to identify investment obstacles and ways to eliminate them, to enhance the government's capacity to create environments that stimulate business and to develop small and medium-sized businesses.

Tackling the challenges of achieving the MDGs will require concerted effort and partnership by all actors in society. ICC encourages the UN, other intergovernmental organizations and national governments to seek out the involvement of the private sector in these vital efforts, and include business representatives in discussions on how to take them to the next level. In the past decade, the private sector has indirectly influenced all of the MDGs by providing the backbone for economic growth, and more directly through their core business operations and value chains as well as with social investment and philanthropy. For example, in a wave of innovation, multinational corporations and local companies in developing countries are creating new product lines for rural and low-income populations. In addition, lack of finance and liquidity is a constant problem in many developing countries. The private sec-

tor has tried to solve this problem with models including mobile phone banking as well as new financial products for business. Green business is becoming mainstream and companies are increasingly making their core business environmentally sustainable. Companies will consistently pursue pro-development activities that overlap with their core business because these activities are more likely to be sustainable in the long term.

As mentioned above, the contribution of business, as committed and significant as it is, to the millennium development process can only complement the primary role of governments. Ultimately, success will depend on the willingness and capacity of local and national governments to create and implement the appropriate policy frameworks, and to pursue partnerships with business and other stakeholder groups. In turn, these efforts will need to be supported by the international community.

Most in business view the millennium development process as integral to their business interests and to their global citizenship. Business will continue to engage respectfully and openly with communities, governments and other stakeholders around the world in pursuit of the millennium development objectives.



Photo: Shamsuz Zaman / UNDP

UNDP microloans make it possible for families in Kishoreganj, Bangladesh, to form family-run businesses.

2 The "How"

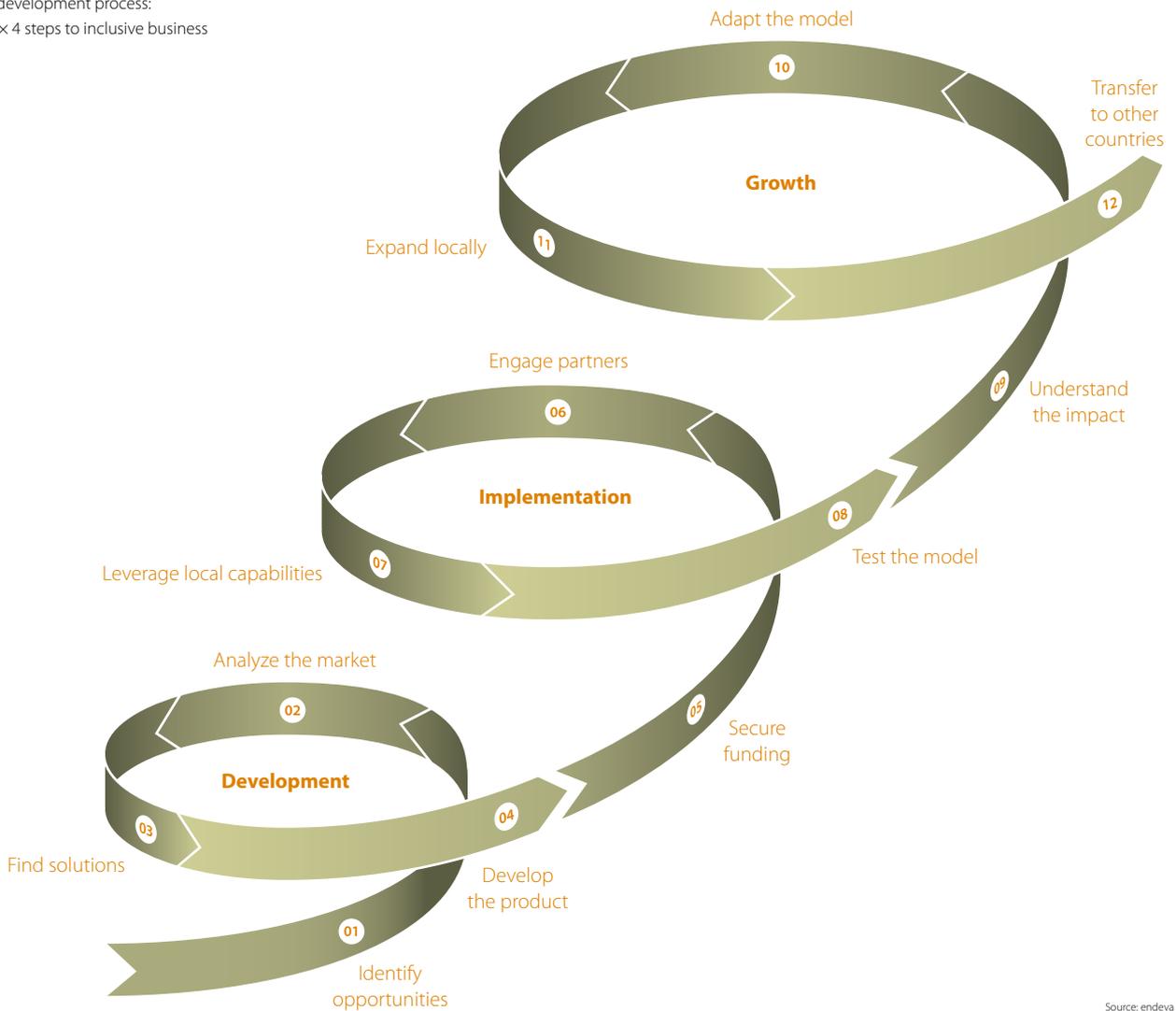
1. New businesses should be developed in close consultation with the target group and other local experts to overcome inadequate market knowledge and experience.
2. The entire implementation process, including a successful pilot test, often requires a much longer time frame and more flexibility in terms of financing and project planning because so many new factors are involved. Cooperation with non-traditional partners like development organizations or the target group itself is usually necessary. Specific skills are thus required of the company.
3. As inclusive business projects grow, they frequently pursue several equally important goals of an economic, social and environmental nature, all at the same time. This requires more extensive performance monitoring and more clear-sighted alignment. If business models are to be replicated somewhere else within a country or even internationally, they have to be as independent as possible of the local context. These models have to be highly standardized and straightforward.

Inclusive business is almost the same as business on established markets and is yet completely different. It is similar because it strives to gain competitive advantage through a clear and attractive value proposition, efficient processes and top-class partners. It is different because tough market conditions and lack of experience hinder business processes and because the partners are unfamiliar. This section describes the conventional business development process in companies and gives a step-by-step overview of what companies need to pay special attention to in inclusive business projects.

*Whenever I see a problem,
I immediately go and
create a company.*

Muhammad Yunus, Founder, Grameen Bank ¹⁹

→ Business development process:
3 phases × 4 steps to inclusive business



3 phases × 4 steps = 12 topics

The → business development process is broken down here into three phases: development, implementation and, ultimately, growth. These phases are further subdivided into four individual steps that become clear in the 3×4 model.

This model aims to structure the existing knowledge on how inclusive business works. In practice, however, business development almost never takes place exactly as outlined in this linear 3-phase scheme, and certainly not when applied to ambitious new development projects in a foreign context. It is often necessary to go back a step when assumptions prove misguided and efforts fail. The steps within each phase don't usually happen in succession but in parallel. And, throughout the various phases, many things happen at the same time or in a different order. For instance, many successful inclusive business projects began when two partners who shared a common interest came together and recognized the opportunity this represented.

The information provided in the following chapters can only reflect the current level of knowledge. Even though many experiments have already been carried out, we are still far from knowing what the best practices are. The focus of practical efforts and theoretical discussions has also been primarily on the development and implementation stages. With very few exceptions, mainly in the area of telecommunications and financial services, there is little experience with and knowledge of the growth stage.

The content below is thus designed more to stimulate reflection than to serve as a blueprint for implementation.



Men planning in Vietnam. Every inclusive business venture starts with a planning phase. This plan results in the development of the business model.

Photo: Adam Rogers / UNCDF

Critical success factors in the company structure

For inclusive business to become a reality, the company has to have the right internal framework because it is often here, within the organizational structure itself, that the largest barriers exist: in many instances, inclusive business projects don't fit into the usual workflows, they require lots of explanation and more time and resources than traditional projects. The following factors are critical to making inclusive business successful despite these obstacles:

Support from the executive management

Without management support there is not enough backing and resources to survive unanticipated problems and delays in the project. To win over executive management, an in-depth analysis that gives a clear picture of

the added value and risks for the company has to be performed. The justification should also clearly outline the added non-monetary value for the company in terms of staff retention, PR, government ties or research and development.

Collaboration with those responsible for corporate citizenship, CSR and sustainability

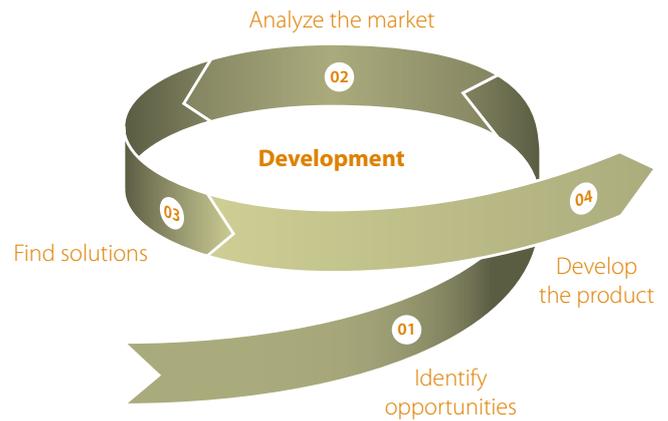
These departments are often home to inclusive business projects until they have reached the point where they can be incorporated into the standard business workflows. They thus serve as "test labs" for business solutions to social challenges. However, even when inclusive business projects are based somewhere else in the organization – e.g. in the Business Development department or in in-

country business units – close cooperation with the departments responsible for CSR, corporate citizenship and sustainability is recommended. This allows goals and successes to be effectively communicated, synergies to be exploited and even existing project experiences to be put to good use.

Employee backing

Employees want to be informed about the project and, in some cases, they even want to get involved, e.g. in idea competitions, on-site volunteering and training or just by participating in discussions on the intranet. Business development that creates added social value has great potential to enhance employee identification with the company.

Development



The following is a brief summary of the do's and don'ts for business model development:

01. Identify opportunities

DO → Collect a lot of ideas, then systematically evaluate them and decide which ones to pursue.

DON'T → Leave things to chance and tackle just any project without performing a critical assessment.

02. Analyze the market

DO → Maintain close contact with the target groups, understand their needs and the reality they live in.

DON'T → Make assumptions about the target group without first verifying them.

03. Find solutions

DO → Stick close to well-known business models and core competencies: target the income segment just below existing customers, hone in on concentrated urban centers or existing regional markets, integrate functioning producer cooperatives, make use of established or adapted products, etc.

DON'T → Try to do everything differently or do the hardest thing first: the most impoverished customers in rural regions, lots of unorganized microproducers, new products, etc.

04. Develop the product

DO → Develop products on the basis of a clear business model and in close cooperation with the target group.

DON'T → Start product development without a business model or design products from behind a desk.

Strong local partners Strong partners in the country and region where the development project is to be carried out are critical. Ideally, companies should also be able to rely on their own local structures, be they subsidiaries or branch offices, and count on their full support.

Interdisciplinary team On the one hand, inclusive business builds on core skills and established business processes. On the other hand, it requires an open mind for unusual solutions and sensitivity to other cultures and countries. This collection of skills is best assembled in an interdisciplinary team that includes experts in marketing and supply chain management, in product and business development and in local conditions. It

may even include external experts such as anthropologists or staff from development organizations.

Internal leeway Inclusive business projects often clash with established workflows in companies. There is simply not enough leeway in research and development or business development for "learning by doing". The CSR department may be responsible for individual initiatives but these projects usually lack resources. Internal incubators can provide the necessary structures more effectively. These organizational units then have financial and human resources at their disposal to generate a certain number of growth-intensive business mod-

els over the medium term. How this goal is reached is left up to the people involved. Some companies have also created special "social business" divisions. Some of these divisions have even been spun off into non-profit organizations so that profit expectations no longer hinder the development of these projects. Learning experiences and dealing with stakeholders are the focus instead.

01 Identify opportunities

Key messages

To identify opportunities for inclusive business, it helps to:

- Track market innovations through conferences, competitions, blogs and publications!
- Ask context experts, particularly company employees and development workers!
- Get acquainted with the context!

These opportunities then have to be evaluated and the most promising pursued further.

Siemens has an enormous product portfolio that spans many different sectors and countries. With so much diversity, how can the best opportunities for inclusive business be identified? Siemens asked its employees by holding an ideas competition. Among the many proposals submitted was an idea for innovative water filters which are now already being tested in pilot projects.

Identifying opportunities in the core business

In the search for inclusive business opportunities, the following questions are relevant: “Where and how can products and skills be put to use to create added value for people living in poverty as consumers? Where and how can they be integrated as producers?”

The → ‘Sustainable Ventures Crosshairs’ by UNEP helps to systematically answer these questions. It maps out the value creation process: resources are transformed into products and services that meet needs. This creates added value, some for the consumer and some for the producer. This process can be improved by leveraging innovation and by eliminating inefficiencies. To the Siemens team, the Sustainable Ventures Crosshairs might have looked as follow:

Needs: One billion people don’t have access to clean drinking water. The problem is usually the quality, contamination makes the water undrinkable or can lead to illnesses.

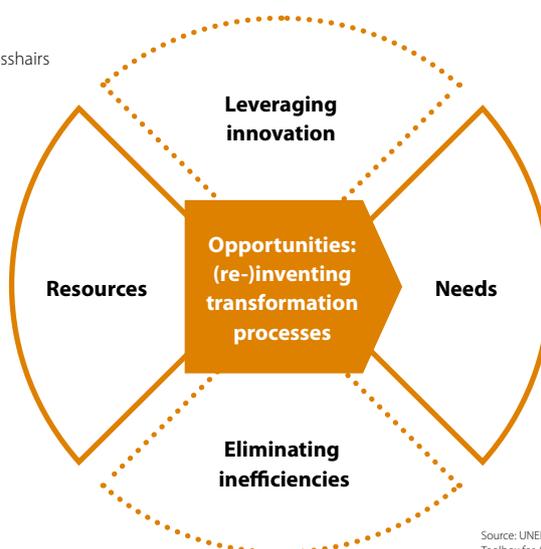
Resources: Siemens has the expertise to produce water filters and adapt them to local conditions. Siemens has offices with motivated experts and trained staff in many developing countries.

Eliminating inefficiencies: Until now, many people had to buy expensive bottled water or journey great distances to reach a clean water source. Clean water can be made available on the spot by filtering the existing contaminated water. Users save time and money.

Leveraging innovation: The Siemens technology can be integrated into a water kiosk system. Responsibility for managing the kiosks can then be assumed by the community of users or microenterprises. Payment is made by inserting money. This keeps operating costs low.

This example shows how opportunities can be uncovered in the core business for the target group to participate as consumers, producers and in other roles. Since those seeking out projects may not know everything about the inclusive business context, gathering additional information is useful.

→ Sustainable Ventures Crosshairs



In the future, we intend to focus even more intensely on the opportunities provided by sustainable business. Peter Löscher, President and CEO of Siemens AG ²⁰

Tracking market innovations

Business development that integrates people living in poverty is gaining momentum and has resulted in a number of innovations in all sectors and regions. The following media and events are good places to find ideas for these kinds of innovations:

Reports: There are several publications and blogs report on inclusive business projects that have already proven themselves successful on the market. The most comprehensive and current reports can be found on the blog www.nextbillion.net.

Meetings with experts: Experts from companies, development organizations, academia, financing and intermediaries come together at general "inclusive business" conferences and workshops but also meet in specialized workshops to discuss sub-topics, sectors and countries. Information about these events is provided by the WBCSD and its mailing list on the issue of "development" and by specialized mailing lists and social networks such as "Business Fights Poverty".

Competitions: Competitions call for the presentation of ideas, case studies and business plans. Investment opportunities can also be identified on the basis of these business plans. Well-known business plan competitions are the World Bank Development Marketplace, Ashoka's Changemakers, the Business in Development (BiD) Challenge and the UN SEED Initiative.



The "Safe Water Kiosk" brings clean drinking water to rural Kenya.

The winner of the Siemens ideas competition 2008 "Umeme Kwa Wote" means "Light for everyone".



The fishermen on Lake Victoria (Kenya) test the lamps charged with solar power.

Photos: Siemens AG

Case study 7 Siemens AG

Employees donate their ideas

Siemens AG has 430,000 employees around the world who are confronted with social and ecological problems in their day-to-day lives. The corporate responsibility department made use of this local knowledge to identify projects designed to benefit both society and the company.

In 2007, all employees were asked to submit their projects in a competition. The wide range of ideas submitted clearly showed that employees are a valuable resource when it comes to tackling social problems with their technical expertise and creativity. The "Safe Water Kiosk", which was awarded first prize, uses a filter solution to provide clean drinking water in remote areas with little infrastructure. The kiosks are being successfully used in Kenya.

The internal idea competition was so successful that it was held again in 2008, this time with a focus on developing countries and the UN Millennium Development Goals. A light solution from OSRAM came in first this time around: portable, battery-driven lamps that can be charged at solar energy kiosks. The concept is currently being tested with, among others, fishermen on Lake Victoria.

Source: Siemens AG (www.siemens.com)

How many people benefit from the potential venture?

Asking context experts

People who are experts on the local situation can supply valuable suggestions. Company employees are also familiar with the company’s competencies whereas development organizations know the resources and needs of the target group.

Employees and business partners: Company employees in developing countries who come into close contact with the supplier and sales markets, i.e. particularly those working in procurement, sales or delivery, are aware of many of the challenges and opportunities the market presents. Existing mechanisms for employee suggestions can be used to capture these ideas. Special idea competitions like the one Siemens held send the message that fighting poverty is one of the corporate objectives. This stimulates thought and discussion about the issue and generates ideas across all company divisions and locations.

Development organizations: For them, people living in poverty are one of their core target groups. They have been acquainted with the markets for a long time and they understand people’s needs and resources. They are also aware of the challenges and constraints these markets pose. UNDP, the World Bank, the regional development banks and national donor organizations are other good places to start.

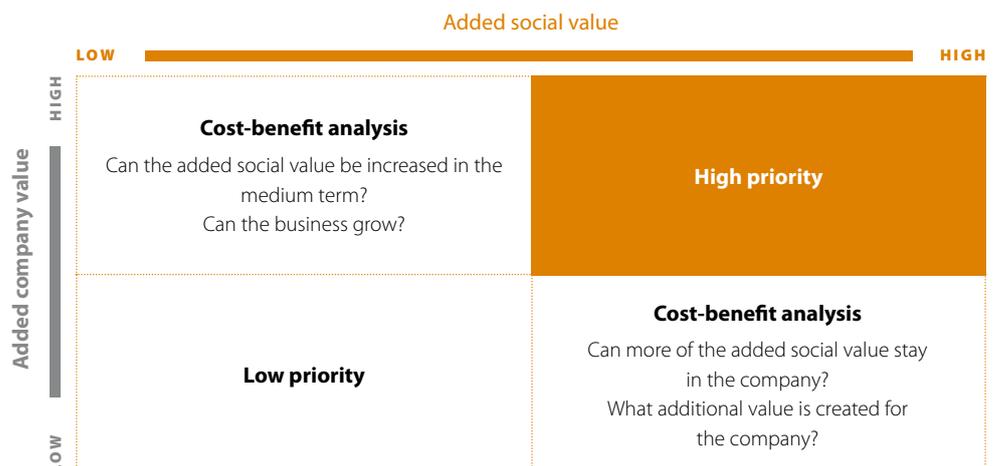
Getting acquainted with the context

Direct exposure to the context can also bring opportunities to light. Experiencing the market firsthand is an excellent way to enhance facts and figures and makes it possible to ask critical questions. The following activities facilitate market “immersion”:

Delegation trips: Chambers of commerce typically offer business delegation trips to developing and emerging economies. Their programs are not usually designed to develop markets in slums and villages but the trips are still suitable for making key contacts and getting a foot in the door.

Exchange programs: As part of an exchange program, company employees can work in development organizations and/or invite representatives of the partner organization to work in their company. The Dutch development organization ICCO, for example, has a program called “Share-People” for young managers.

→ Strategic assessment of opportunities



Who will pay how much for the resulting benefits?

Systematically deciding which opportunities are most promising

When lots of different ideas are brought together this way, it is important to choose and pursue the most promising ones. Two criteria play a role in the strategic assessment and selection process:

Added social value: How many people benefit from the potential business and to what extent? How will the model develop? Are there opportunities for creating even more added value by expanding products and services? Can the business grow locally and in other countries as well?

Added company value: How much of the added value created will the company gain? Who will pay how much for the resulting benefits? To what extent will public goods such as knowledge or environmental protection, which are difficult to put into business terms, be generated? What additional value such as an enhanced reputation or expertise will be generated for the company?

Opportunities with a lot of value for society that can also generate added value for the company are given high priority. In cases that are less clear-cut, the costs and benefits have to be weighed and the ratio between the two possibly improved by adapting the idea.

Further reading:

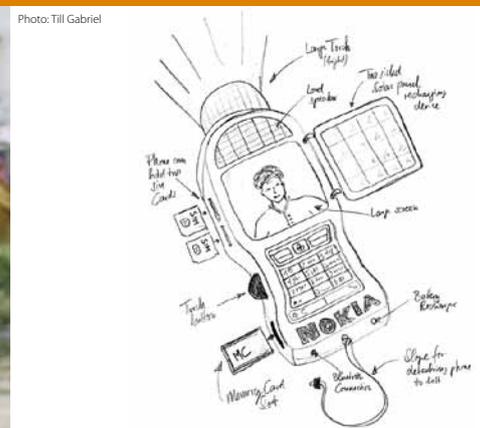
- Micheal E. Porter and Mark R. Kramer (2006), *Strategy & Society: The Link between Competitive Advantage and Corporate Social Responsibility* (Harvard Business Review, 84, p. 78–92)
- Stuart Hart and Erik Simanis (2008), *Base of the Pyramid Protocol*, 2nd Edition www.bpp.org
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Photo: Shuan Sadre Ghazi



Cell phones have to meet different needs in slums than they do in industrial countries.

Photo: Till Gabriel



Sketch of how a design for a Nokia ideas competition could look.

Case study 8 Nokia Open Studios

Nokia Open Studios – Learning from customers

Nokia likes to learn from people outside of the company. Nokia designers wanted to know how cell phones would look if they were designed by people living in low-income communities. To find out, Nokia held four design competitions – including one in the slums of Rio de Janeiro (Brazil) and one in a refugee camp in Accra (Ghana).

Everyone living in these slums was invited to participate in the “Nokia Open Studios”. Local Nokia employees collected ideas and conducted short interviews with the entrants. An awards ceremony was organized after

each competition. According to first-hand comments from Nokia, everyone who participated, and not just the winners, felt a sense of pride because it was a rare opportunity to express their ideas to a company.

The designs generated in the competition were certainly innovative: the winner in Accra came up with an idea to allow simultaneous use of multiple SIM cards. In Ghana, people use different providers to take advantage of the cheapest rate for voice calls at any one time. The winner in Rio de Janeiro suggested a phone that measures air pollution and

ozone concentrations to raise people’s environmental awareness. His idea for a design also included a sensor for detecting safe drinking water.

With this design competition, Nokia was able to make the best possible use of the short time it spent in the field. The information collected during the competition was sent back to the developers in Finland and some of it was pursued further.

02 Analyze the market

Key messages

The target market can be analyzed by:

- Relying on traditional data research methods, expert interviews and market observation
- Obtaining information from the target group itself using suitable methods

The energy specialists at MicroEnergy International are working hard to identify the needs of their target group. To achieve the greatest possible benefit, the energy solution ultimately has to be integrated into people's day-to-day lives. Spending one day with a family is often much more informative than performing extensive Internet research.

Information about the target market is needed to assess the feasibility of a business idea. Do the products and services meet the needs of the target group? What alternative products and services does this group currently use? How willing is this group to pay for these products and services? How effective are producers? What is the anticipated quality? What barriers are there to implementation? Unlike on established markets, this type of information is often not possible to research from behind a desk or on the phone. This is compounded by the fact that intermediaries like market research institutes or business consultants that would be otherwise available do not scrutinize these markets. Even in cases when this data exists, it is frequently not readily accessible because of the way it is organized or distributed. It is much easier to research data on location. However, it is often necessary to conduct one's own market analysis or to collaborate with partners to collect and organize data.

Using standard methods

Standard market analysis methods can answer some of the questions.

Data research: General data such as the size of the market or the existing production of agricultural goods is frequently available on the Internet. Researching non-digital data on location is also extremely valuable. Statistical offices, economic and agricultural ministries and development banks collect data on economic activity such as the amount of cropland planted, industry revenues and exports. Household surveys on socioeconomic status are conducted regularly in most countries. Development organizations conduct evaluations of their own programs. This process provides information about the target group's needs and structural market challenges.

Conversations with experts bring background understanding more sharply into focus. Development experts can be particularly good sources of information in terms of the needs, skills and difficulties of the target group. Chambers of commerce and business consultants know what is required of foreign companies and are aware of barriers and solutions. Representatives of ministries and government agencies are well-versed in the legal environment and legislation. Experts can also sometimes provide access to sources of information that had previously not been available.

Observing the market situation on location can help to understand the competitive environment as well as risks and opportunities. Lots of new questions and observations arise simply by consciously looking at the market environment—and it is easier to find the answers locally, than it is with a remote analysis. Moods and trends that are difficult to sense from a distance can also be perceived.

Obtaining information from the target group

The target group itself is in the best position to provide information about its own needs, preferences, knowledge and resources. However, there are three difficulties when collecting data within low-income communities:

Culture and language: The person asking the questions not only has to know the language but also understand and be able to deal with cultural idiosyncrasies. For example, in some cultures, it is considered impolite to answer questions with a "no".

Experience and educational background: In some cases, people lack the knowledge and experience to answer questions. How should someone who never owned solar panels before be able to say which functions they need?

Trust: The relationship between the person asking the questions and the person answering them affects the information. People are often ashamed of poverty, e.g. when they are asked about their consumer habits, or they feel obligated to respond even if they don't know the answer.

Using appropriate methods

A number of different methods help overcome these challenges and obtain “implicit” information. This is information not explicitly formulated by respondents because they lack distance to their own lives.

Visualization: Visual and sensory instruments can provide support for interviews and focus groups. For example, play money can help deal with the sensitive issue of money. Models and drawings can uncover information not mentioned in a written or oral survey.

Self-observation: Here, the target group documents its own habits, for example, in a journal or through photos of its environment and favorite products.

Idea and design competitions: A design competition like the one initiated by Nokia gives participants the opportunity to propose their own solutions. Language barriers can be overcome by working with pictures and drawings. The competitive character and the possible prizes provide additional incentive to take part.

A traditional market environment analysis that gives in-depth information about market opportunities and constraints can be created on the basis of this information.

Further reading:

- Guillermo D’Andrea, E. Alejandro Stengel and Anne Goebel-Krstelj (2004), *Six Truths About Emerging-Market Consumers* (strategy+business 34, p. 2–12)
- Robert Chambers (2002), *Participatory Workshops: A Sourcebook of 21 Sets of Ideas and Activities* (London: Earthscan)

Photos: MicroEnergy International



Anthropologist Eva Paul observing a meeting of a microcredit group in Uganda.



Overnight stay with a family in Uganda to study their energy situation.



Transport of a solar home system to a customer of Grameen Shakti in Bangladesh.

Case study 9 MicroEnergy International

Tracking energy needs

MicroEnergy International brings together microloans and energy solutions. Since 2002, the company has been working together with various microfinancing institutions and energy suppliers in countries including Bangladesh, India, Tanzania and Uganda.

MicroEnergy initially relied on its in-country partners to provide market research, primarily using methods such as interviews and focus groups. Sometimes, microfinancing institutions simply included several evaluation surveys about “energy” in their customer evaluation surveys. Noara Kebir, co-founder of MicroEnergy, describes the drawbacks of this approach: “People living in poverty are only rarely familiar with the interview method and often misunderstand it. The result is that they

frequently do not give objective answers. Those who live in authoritarian societies in particular are accustomed to giving the answers that the interviewer wants to hear. Consequently, I have become much less inclined to use interviews for contact with the end user. The more intense the contact, the better the information is that can be obtained. Time is a very important factor in establishing trust.”

As a result, MicroEnergy increasingly favors the method of participatory observation. Anthropologists who are willing and able to spend a full day or even longer on the target market can help with this approach. When discussing energy issues, this is important because, for example, light is primarily used in

the evening and early morning. This method can also bring unanticipated and unpleasant findings to light. Noara Kebir says: “In Uganda, field research showed that the product on the market did not satisfy needs. This was very difficult for our partner to swallow because he wanted to finance solar products there no matter what. This unfortunately turned out to be counterproductive for his customers.” Still or perhaps even precisely for this reason, Noara Kebir thinks: “We learned more from conducting the little field research we did than from 20 surveys.”

Source: Interview with Noara Kebir, MicroEnergy International, by Aline Krämer

03 Find solutions

Key messages

Successful inclusive business models use five strategies to deal with market challenges. They:

- Adapt products and processes to prevent constraints
- Invest in removing market constraints
- Leverage the strengths of the poor
- Combine resources and capabilities with others
- Engage in policy dialog with governments

Individual solutions can be identified using the strategy matrix.

Smart, the mobile network provider, targets low-income customers with its products. This strategy has made it one of the most profitable companies in the Philippines. The fact that the profit margin is so high despite the low prices is a result of a clever business model that combines a number of innovative solutions.

Tough market conditions mean that the costs for transport, communication and training, quality control and contract enforcement can easily eat up profits in inclusive business models. These models thus have to find solutions to keep transaction costs low. The UNDP report “Creating Value for All” describes five basic strategies for finding solutions to market constraints and create a sustainable business model.²¹

Adapting products and processes

Constraints can be bypassed by adapting products. Mobile data transmission, for example, makes cable networks unnecessary and makes it easier to provide information-based services ranging from mobile banking to telemedicine. New technologies allow electricity and water to be supplied off-grid. In some cases, new identification systems such as smart cards or biometric information can replace official documents as proof of

identity. Process innovations can also be helpful. Access barriers are lowered by simplifying requirements. At the core of the Smart model are prepaid cards available for as little as \$0.60. This means that people without bank accounts or a verifiable address can now use a cell phone which can also be used for financial transactions.

Investing in removing market constraints

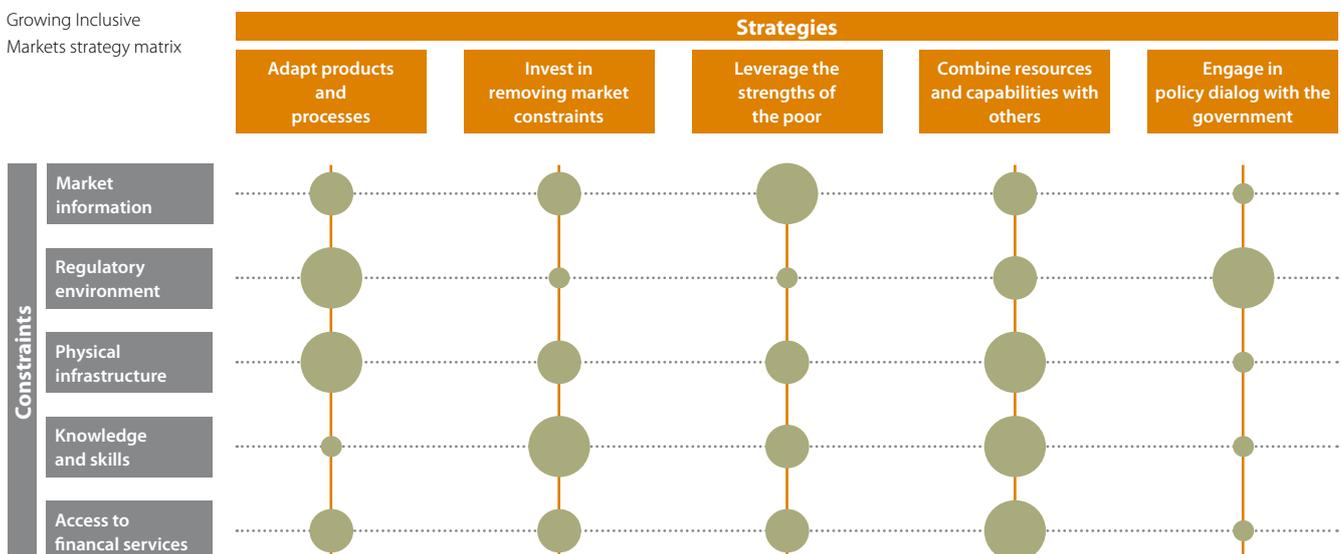
In places where it is necessary to remove constraints, companies can shape the market environment themselves. This frequently occurs in the area of information. Companies invest in advertising, customer information and training. In some cases, companies also offer financial solutions or build infrastructure.

Leveraging the strengths of the poor

Almost all successful business models take advantage of the market knowledge and social cohesion of people from the target group to gather information, supply products, offer services and information or convey capabilities.

At Smart, credit for talk time can be bought in bulk and resold with a surcharge. Around 800,000 microenterprises make use of this option, with the 15% commission contributing to their family’s income. Users can also transfer credit to others by SMS which brings the sales system down to virtually the household level.

→ Growing Inclusive Markets strategy matrix



Source: UNDP (2008) Creating Value for All – Strategies for Doing Business with the Poor

Smart developed its business model around the corporate mantra: to make mobile phones as affordable and accessible to as many Filipinos as possible. **Mon Isberto**, PLDT and Smart's Public Affairs Group Head²²

Combining resources and capabilities with others

In addition to other companies, public service providers and development organizations can also offer skills and knowledge that round out the business model. In many cases, they have been active on the target market for quite some time and have market knowledge, distribution systems, communication channels and solid relationships. For its mobile banking business, Smart has built a network of 10,000 stores and partner banks where the recipient can pick up the money.

It also sometimes makes sense to bundle an industry's resources to share the investment in removing market constraints. In India, for instance, several banks got together to form a rating agency for small and medium-sized companies (SMEs) to lower the costs of credit checks.

Engaging in policy dialog with governments

Companies are often reliant on collaboration with governments. The government has the sole authority to define and enforce generally binding laws. Governments can also help improve market structures in the areas of education, information and infrastructure. Companies can be important sources of information for shaping legislation because they are aware of the challenges and have a reason to confront them. What this means is that individual dialog with governments doesn't necessarily have to be the same thing as socially detrimental lobbying. The demands are infused with legitimacy through the collective activities of stakeholders, e.g. through chambers of commerce, industry or expert dialogs. Because there was no legal basis for mobile banking in the heavily regulated banking sys-

tem, Smart entered into dialog with the government together with its primary competitor, Globe, and with other companies. The exchange of information resulted in legislation that made innovation possible and simultaneously protected the interests of consumers and the common good.

Identifying solutions with the strategy matrix

The five strategies, together with the constraints introduced on page 26, produce a strategy matrix. Companies can use this matrix to develop or improve their own business models. Every strategy can, in principle, be applied to every challenge. The strategy matrix can thus help identify a number of concrete potential solutions that should be evaluated for feasibility and effectiveness.

Further reading:

- Jamie Anderson and Niels Billou (2007), *Serving the World's Poor: Innovation At the Base of the Economic Pyramid* (Journal of Business Strategy 28, p. 14–21)
- Monitor Institute (2009), *Emerging Markets, Emerging Models* [www](#)
- Stuart L. Hart and Ted London (2004), *Reinventing Strategies* (Journal of International Business Studies 35, p. 350–370)
- UNDP (2008), *Creating Value for All – Strategies for Doing Business with the Poor* [www](#)

Case study 10 Smart Communications, Philippines

Smart solutions for low-income cellular customers

Smart Communications, Inc. is the largest cellular provider in the Philippines with more than 43 million customers. The company targeted its product range to meet the needs of the approximately 33 million Filipinos who live below the poverty line. This strategy generated revenues of more than \$2 billion and a EBITD of more than \$0.5 billion in 2008.

Smart telephone customers can also carry out financial transactions with their cell phones. This type of mobile banking lets people who don't have bank accounts receive and send money easily and reliably. The service even functions internationally. Eight million Filipinos work abroad. In 2008, they officially sent home \$16.4 billion but the figure is probably higher if informal channels are included. Money can be transferred affordably by SMS with Smart. This represents

an enormous saving for people working abroad who would otherwise have to pay around 45% of their hard-earned money for service fees.

Sources:

- Elvie Grace Gancharo (2007), *Smart Communications: Low-Cost Money Transfers for Overseas Filipino Workers* [www](#)
- Smart Communications, Inc. (www.smart.com.ph)

The develoPPP.de program

by Jonas Naguib (GTZ) and Fritz Jung (BMZ)



Private companies come up with business ideas that successfully take hold at the base of the global income pyramid, especially when the overall conditions in these countries are conducive to innovation and private sector involvement. Development policy helps create the right conditions with its focus on sustainable economic development programs in cooperation with its partner countries.

There are many private sector ideas for inclusive business projects that, despite their market potential over the long run, hardly stand a chance of implementation in the short and medium term. The reasons for this can be complex: in addition to inadequate framework conditions, there is inadequate access to information about the relevant markets as well as about the culture, language and needs of the people living in developing countries. A company that decides to develop products and business models for sections of the population living in poverty will face a complex innovation process. Development agencies may be able to help companies overcome these kinds of challenges.

For inclusive business models to be successful, they need not only creative ideas and entrepreneurial stamina, but a well-honed network of cooperation partners: non-governmental organizations have often won the trust of the local population and can thus play a key role. Local partner companies know the market and its consumers inside and out. Political institutions and local government agencies can help drive a project forward with their support or hinder it with their skepticism.

Development agencies can put their country-specific expertise to work helping to establish the necessary networks and contacts. Actors in development cooperation are familiar with local conditions and highly experienced in integrating poor sections of the population into the development process and initiating and facilitating multi-stakeholder dialog.

Because German development policy strategically aims at cooperating with the private sector, the Federal Ministry for Economic Cooperation and Development (BMZ) created a program for development partnerships with the private sector (develoPPP.de). develoPPP.de is a public-private partnership program that was brought to life in 1999 and developed further by the BMZ in 2009. It is aimed at European companies and subsidiaries of European companies in partner countries. The program is comprised of three concrete components:

- develoPPP.topic provides targeted support to specific sectors where there is a particular need for development
- develoPPP.impulse holds ideas competitions for implementation of extraordinarily promising measures not bound to any particular sector
- develoPPP.alliance encourages strategic alliances, i.e. large-scale projects usually involving several companies that focus on the impact of structural improvements beyond a single country's reach.

Projects have to meet specific criteria to obtain development support, including:

- Relevance for development (particularly the anticipated impact on poverty)
- Economic, ecological and social sustainability
- Complementarity, i.e. public and private contributions must complement each other
- Competitive neutrality
- Cost-benefit ratio

SAFO offers us and the local network the support we need to give the poor and severely undernourished sections of the population access to fortified food products.

"develoPPP.de" has been extremely well-received by the private sector.

"develoPPP.de" has been extremely well-received by the private sector. This is shown not just by the numerous proposals received by the implementing agencies of the BMZ, it has become clear in conversations with partner companies that PPP projects also create opportunities because private and public partners can each leverage the specific strengths of the other. Many companies continue projects that started off as PPPs, thus supplying further

proof of their effectiveness and sustainability. Both partners also keep long-term political developments in mind: eliminating poverty and hunger, improving education and healthcare and protecting natural habitats.

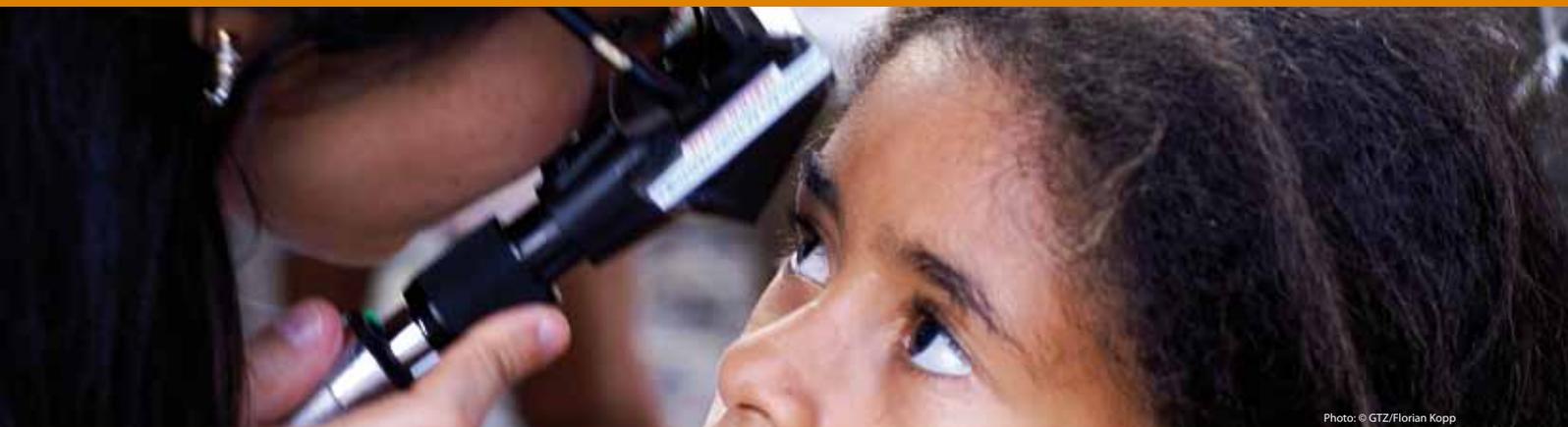


Photo: © GTZ/Florian Kopp

Malnutrition often leads to vision loss especially in children.

Case study 11 SAFO / BASF SE

Combining forces to fight malnutrition

Roughly two billion people around the world suffer from malnutrition because they don't get enough micronutrients such as vitamins and minerals. Low-income consumers can often only afford to buy staple foods that don't contain adequate amounts of micronutrients. Malnutrition hinders physical and mental development and weakens the immune system.

Fortifying basic staples with micronutrients is an easy and cost-effective way to fight malnutrition. This is the focus of SAFO, the "Strategic Alliance for the Fortification of Oil and Other Staple Foods". GTZ is collaborating with BASF SE on this project within the framework of the "develoPPP.de" program. BASF produces various micronutrients including vitamin A, which is critical for good vision and a strong immune system. BASF's efforts to combat malnutrition are part of its strategic goal of sustainability.

GTZ's role is mainly to advise the public sector based on its development expertise and to facilitate multi-stakeholder dialog in the countries themselves.

To kick-off introduction of SAFO to a country, local decision-makers from the business, political and social spheres are brought together to come up with a plan of action. The goal is to fortify staple foods such as flour or oil. To achieve this goal, SAFO works closely with companies that produce and sell these products. They receive help drafting business plans and are supported with technical expertise. At the same time, the programs are given a legal framework by creating voluntary or binding standards including logos for labeling fortified food products. Everyone involved in SAFO benefits and the effects are multiplied. Local companies can offer products already established in the market at a higher value. For consumers (the target figure is several million), the increase in price

is minimal – 0.2–0.3% on average – but the health benefits are considerable. Development goals are achieved effectively and efficiently. And finally, BASF taps into new markets without having to go through the time-consuming process of acquiring market knowledge for every country from afar. Reports of successful projects in Bangladesh, Bolivia, Brazil, Indonesia, Cambodia, Tanzania and Uzbekistan underscore the future potential of this model. The first operational projects were started in the middle of 2009, the midway point of the PPP project.

Source: GTZ

04 Develop the product

Key messages:

- **Typical characteristics of products for low-income consumers are: small unit pricing, shared use, cost-optimized design, multifunctionality, flexible use, focus on service rather than product and ease-of-use.**
- **By integrating producers, unusual raw materials and skills can be used to create unique selling propositions.**

D.light designs LED lamps for low-income consumers in India. While some of the product expectations these users have are similar to other target groups— aesthetics, durability, brightness, affordability, long battery lives, etc.— they also have requirements that are quite out of the ordinary. Because some households only have a single lamp, it must be possible to use it everywhere: inside the house, on the go or in the fields. And the battery should be able to recharge cell phones. Multifunctionality is key.

Typical product attributes

Products have to be consistent with the needs of the target group and take their living environment into account. Products that are environmentally friendly in their production, consumption and disposal take precedence. Certain patterns of successful products for people who live in poverty are already starting to emerge:

Small-unit pricing: Many day-to-day consumer products such as shampoo, spices or medicine are sold in single-serve packages for a few cents. Single-serve “sachets” may be more expensive compared to a larger size package but they are more affordable in this form for customers who spend their money as they earn it. This idea was also put into practice for prepaid cell phone cards available in very small denominations.

Shared use: A lot of products that require a larger investment can be used jointly by several consumers. This lowers the costs for the individual. Under the Grameen business model, cell phones are rented out by “phone ladies”. Sulabh International offers coin-operated toilet facilities.

Cost-optimized design: Products are developed with a certain price in mind that the target group can afford. D.light worked to design a lamp that could be sold for as little as \$10.

Multifunctionality: The target group usually has very few possessions, making multifunctional devices extremely useful, such as D.light’s feature for charging cell phones with the lamp battery. In some cases, it is the customers themselves who find creative uses for the products: when handling complaints from rural China, the appliance manufacturer Haier discovered that customers were using their washing machines not only to clean their laundry but also to clean potatoes and other vegetables.

Flexible use: While customers may often find idiosyncratic uses for the products they buy, they also use them in all kinds of locations. For instance, a solar-powered lamp that doesn’t have to be installed in a single location but can be used anywhere is quite handy.

Focus on service rather than product: It is often easier to sell services than products because payments are distributed over a period of time and the risk of product repairs remains with the service provider. In Brazil, IDEAAS charges a monthly rental fee for solar panels installed in households. The fee includes maintenance, repair and service.

Ease-of-use: Products can be designed for intuitive operation to cater to users’ limited ability to read or their limited experience. In Peru, ATM’s can be operated by voice recognition, even in languages spoken by minority groups. Design can also improve product safety. Many farmers die every year in India due to poisoning from pesticides. A safe lid and controlled dosage could remedy this problem.

Our products bring the latest developments in design and technology to markets at the base of the pyramid. Through best practices and ongoing solicitation of feedback, we continually improve and offer better products to our customers.

D.Light Design²³

New products made with local resources and skills

Working together with people living in poverty can also give rise to new products. Products with new features could potentially be developed from special local materials. In the case of Natura in Brazil, the pripiroca plant is the basic ingredient for a new cosmetics line (see case study 4). Local skills, for example, with handicrafts, can also serve as the basis for new products. The way these types of products are developed is no different than conventional business practice as long as they are sold to known target groups.

Further reading:

- IDEO (2008), *Design for Social Impact* [www](#)
- UNEP and TU Delft (2002), *Design for Sustainability – A Practical Approach for Developing Economies* [www](#)

Photos: D.Light



The solar lamps from D.light make it possible to read and work even at night.

Case study 12 D.Light Design, India

D.light snuffs out kerosene lanterns

D.light began back in 2006 as a student project. Today, it has already sold several hundred thousand LED lamps and has more than 80 employees. Its recipe for success: a convincing product.

For one in five people in the world today, kerosene lanterns are the only option for household lighting. But unfortunately, they are not the best solution: the light produced by kerosene lanterns is dim, usually not enough to work or read by, kerosene is expensive, emits unhealthy fumes and is a significant fire hazard.

D.light set out on a mission to come up with a better solution. The project was inspired by a course at Stanford University entitled “Entre-

preneurial Design for Extreme Affordability”. Sam Goldman and his colleagues originally set out to design LED lamps for use on stalls of night vendors in Burma.

It didn’t take long for them to realize that many households were in desperate need of their product. In studying the homes of the target group, they identified other requirements not immediately obvious to outsiders: lights needed to be hung easily from the ceiling and the walls and still be able to be carried comfortably outside. They experimented with the size of the battery, opting for the lowest-price LEDs that provided enough light to read and work with at night.

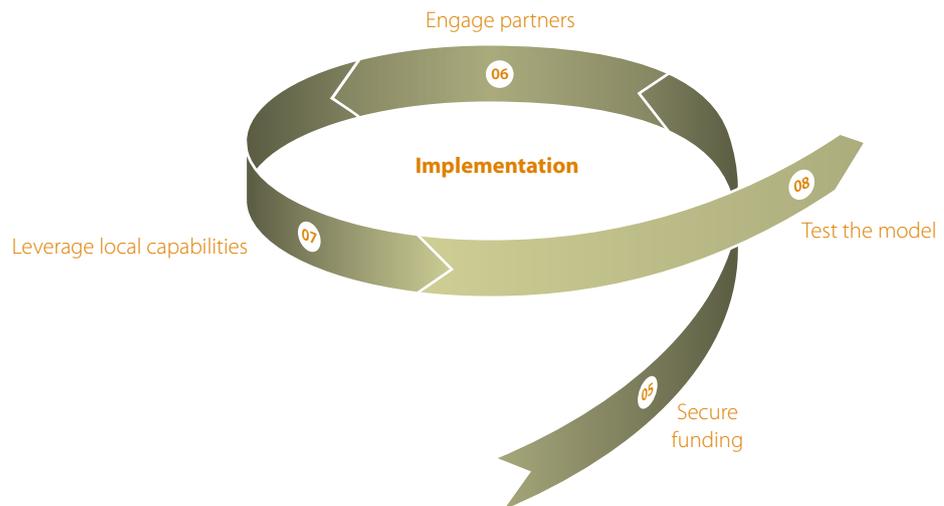
The team entered the finished product in several business plan competitions. And won. They formed the for-profit company, D.light, in 2007 with the prize money from the competition. Nova, their first product, is an LED lamp that gives off 10 to 20 times more light than a kerosene lantern. A solar-charged battery provides up to 200 hours of light. Cell phones can also be charged from the battery. The lamp costs between \$10 and \$25. Other lamp models have already been unveiled and more are currently in development.

Sources: D.Light (www.dlightdesign.com), Stanford Institute of Design (http://extreme.stanford.edu/success_stories/dlight_design.html)



During implementation, one stone has to be laid at a time until the finished business model can finally be tested.

Implementation



Business model implementation can be broken down into four steps. The following do's and don'ts are generally recommended for the individual steps:

05. Secure funding

DO → Structure funding flexibly to accommodate delays and additional costs. Incorporate uncertainties and risks into the business plan from the outset.

DON'T → Start off with limited resources that could jeopardize the project in the event of unexpected expenditure. Calculate the budget without taking into account uncertainties and risks.

06. Engage partners

DO → Engage a small number of partners who are a perfect fit (ideally an organization with complementary skills, a clear self-interest and a broad reach).

DON'T → Engage a number of partners who are only partially suitable. This increases the costs of coordination and the risks of failure and makes growth more difficult.

07. Leverage local capabilities

DO → Leverage the knowledge and contacts of the local people by integrating them with clear tasks and standardized processes—with considerable added value for the target group and clear incentives for cooperation.

DON'T → Define relationships with local staff or business partners informally or individually without clearly thinking through incentive structures.

08. Test the model

DO → Test the business model components step-by-step. Schedule testing cycles. Be open to failure.

DON'T → Conduct a pilot test without taking into account possible obstacles and stakeholder interests. Insist on keeping a tight schedule. Continue with a project that clearly is going to fail.

05 Secure funding

Key messages

There are three primary sources of capital to finance inclusive business projects:

- The company's own resources
- Government funding
- Social investors

The founding partners of the pharmaceutical company ATOS were able to rely on various funding mechanisms from the Deutsche Investitions- und Entwicklungsgesellschaft (DEG). During the launch phase of its marketing activities, DEG invested share capital in the company, thus assuming part of the risk. It received funding from the BMZ to sustainably grow and process medicinal plants. As a long-standing financing partner, the DEG thus did its part to make this German-Egyptian joint venture a success.

The sooner that profits can be expected, the easier it is to get financing for the project. However, inclusive business projects rarely fit into this logic. Risks are often high, uncertainties considerable and, even in the best-case scenario, profits only materialize in the medium or long term. Financing thus has to be able to handle these challenges. It has to be flexible in terms of outgoing and incoming payments and have considerable reserves to be able to cope with delays and unanticipated expenditure.

Multi-level added value with internal resources

Larger companies often fund inclusive business projects from their own internal resources. Justifying these budgets can be tricky so it is useful to look at the total added value generated for the company.

→ BASF value driver tree



Source: BASF SE

The positive impact on employee motivation and training, the company's capacity for innovation and its reputation can be considerable. This added value can help persuade decision-makers to start or continue projects particularly when start-up difficulties require additional financial resources.

BASF took a look at the total added value generated for its joint business with the Grameen Foundation using a → value driver tree. BASF works together with Grameen to offer dietary supplements in sachets in Bangladesh to fight malnutrition. In addition to the monetary revenues and access to a new market, BASF reported that this initiative contributed to responsible corporate governance, to forming partnerships and to establishing itself in local communities. The project was used to communicate both internally and externally and enhanced the perception of BASF as an attractive employer. The various value drivers were quantified by comparing them with the costs for alternative activities within each individual goal. Seen from this point of view, the investment was highly profitable.

Co-financing with government funding

Public funding is also available for projects that help fight poverty or protect natural resources and can serve as models for other companies. Institutions that provide financing include:

National development organizations of the donor countries: DFID in Great Britain, USAID in the U.S., ADA in Austria and others offer programs similar to the German develoPPP.de program (see pages 42–43).

Development banks: These include the IFC and the regional institutions ADB, AfDB, IADB and EBRD as well as national development banks.

Governments of the target countries: Subsidies encourage companies to do their part in helping to attain goals beneficial to society such as creating infrastructure or providing education.

Justifying these budgets can be tricky so it is useful to look at the total added value generated for the company.

Social investors for entrepreneurs

Traditional venture capital investors are not the only investors out there. Inclusive business start-ups also have access to a number of “social investors” who specialize in funding business models with added social value, particularly to fight poverty. Acumen Fund is a pioneer in the US. The BiD Challenge or Ashoka’s Changemakers, and other business plan competitions with a social focus, offer a platform for social entrepreneurs to present themselves to investors.

Further reading:

- NCDO and GEXSI (2008), *Venture Capital Guide for Development* [www](#)
- Monitor Institute (2009), *Investing for Social and Environmental Impact* [www](#)
- WBCSD (2004), *Finding Capital for Sustainable Livelihoods Businesses* [www](#)

New markets for public goods

In principle, the added social value generated by an inclusive business project in terms of environment, health, etc. can also be sold as a separate component. Until now, functioning markets for these services have been largely non-existent. Emissions trading, however, has shown that a market can be created for climate protection, a global public good. Certificates turn greenhouse gas reductions into hard cash.

The appliance manufacturer, Bosch und Siemens Haushaltsgeräte (BSH), for example, laid the groundwork for selling energy reductions as certificates by applying to the UN to have its refrigerator replacement scheme recognized under the Clean Development Mechanism (CDM). These energy savings are achieved by exchanging old, obsolete refrigerators for more energy-efficient models in Brazilian favelas.



Photos: ATOS



SEKEM processes raw materials locally for pharmaceutical production. Scientific tests help to ensure the quality of the products.

Case study 13 ATOS Company for Biological Pharmaceuticals S.A.E., Egypt

All-natural medicine from the desert

Since 1977, the Egyptian company SEKEM has pursued a sustainable business strategy that includes, among other things, organic agriculture and the integration of local farmers. These types of business models need funding partners who are aware of the risks posed by inclusive business projects and who can respond with flexible instruments.

As a result, the DEG was selected to finance a German-Egyptian joint venture: in 1986, SEKEM, together with the German company, Dr. Schaette KG, founded the subsidiary ATOS Company for Biological Pharmaceuticals S.A.E. (ATOS) to manufacture natural pharmaceuticals and herbal teas. During the start-up

phase, the DEG, which is one of the largest European providers of development finance, held a 20% stake in the company, later selling its share to Dr. Schaette in 1995 after the project proved financially sound.

In 1999, the DEG became a long-term financing and advisory partner at ATOS for upcoming expansion investments. For a long time, ATOS used imported extracts to produce medicine. These extracts were taken from plants that could also be grown in Egypt. To establish local production capacity, a PPP project was planned and successfully implemented together with the DEG. The focus of the pilot project was to grow Echinacea and

artichokes and operate a facility to extract and process these medicinal plants. The DEG helped structure this project and provided extensive advice during all phases of implementation. It provided an equivalent of \$245,000 from the BMZ’s PPP program funds. The private partners contributed the equivalent of \$260,000 to the project.

Source: DEG

06 Engage partners

Key messages:

- **Successful partnerships pool core competencies that complement one another.**
- **When working with non-traditional partners, different interests and organizational cultures have to be kept in mind.**
- **Clear objectives and responsibilities are the basis for successful collaboration.**
- **Intermediaries can help identify partners.**

Allianz and CARE were able to bundle their skills in India and successfully offer microinsurance to low-income customers. To develop this market and generate clear added value, insurance expertise had to be combined with knowledge about and access to the target group.

Most companies source services externally. This is more efficient than doing everything in-house because other companies can be faster and cheaper due to their expertise and size. Inclusive business is no different from regular business meaning that companies should always focus on their core competencies. But service providers are not as widespread in developing countries as they are in developed markets. In addition, the partners need special skills to tackle the challenges they face in low-income markets, e.g. with respect to the skills of the target group and unreliable legal systems that often have to be replaced by trust. Therefore, companies frequently work together with non-traditional partners such as development organizations, cooperatives or government organizations.

Bundling core competencies

There are many examples of cross-sector partnerships. Several models already exist for specific tasks that are based on the core competencies of the actors.

- Thanks to their well-organized and far-reaching networks of borrower groups, **microfinance institutions** can, in addition to selling financing solutions, take on responsibility for sourcing and training of producers, for marketing communication and consumer sales.
- **Local development organizations** usually have trusted relationships with the target group. Development organizations thus often assume responsibility for tasks that require direct contact with the target group such as training and information, organization and quality control, distribution and customer service.

- **Public facilities** such as universities, schools, training centers, hospitals and medical facilities or agricultural information centers can help convey knowledge and skills for new products, services or production methods. Communication through these institutions lends the necessary credibility.

Taking different interests into account

These atypical partners usually don't just offer a service in return for money. Their focus is more commonly on achieving social objectives. The business model has to help accomplish their mission, e.g. improving the quality of life or the income of the target group in question. As a result, these partnerships are often more similar to joint ventures: both partners define their goals and roles and are responsible for carrying out the tasks assigned to them. Payment does not usually change hands for services or, if it does, it is usually a small amount. Whether or not the partnership lasts depends to a great extent on whether all of the partners play their part and the set goals are achieved. A transparent and ongoing impact analysis is thus needed.

The organizational cultures can also vary significantly from those of private-sector companies:

- Government development organizations and institutions use public monies and are subject to strict rules. Project time frames are limited and binding agreements can only be made within the project framework.
- Civil society organizations give greater priority to participation and dialog over efficiency and rapid growth.
- Cooperative organizations are based on voluntary participation. Decisions cannot be enforced from the top down but have to have the support of all members. The partners have to work together intensively to coordinate processes and project planning so that differences in decision-making and implementation processes are accounted for.

Further reading:

- Global Compact, Dalberg Global Development Advisors and the Financial Times (2007), *Business Guide to Partnering With NGOs and the UN* [www](#)
- Johanna Mair and Christian Seelos (2007), *Profitable Business Models and Market Creation in the Context of Extreme Poverty: A Strategic View* (Academy of Management Perspectives 21, Vol. 21, Nr. 4, p. 49–63)
- Ros Tennyson (2003), *The Partnering Toolkit* [www](#)
- WBCSD, IBLF (2003), *A Business Guide to Development Actors – Introducing Company Managers to the Development Community* [www](#)

Together with our partners, we have been able to sell our insurance policies to 3.8 million customers.

Michael Diekmann, Chairmann of the Board of Management, Allianz SE²⁴

Clearly defining processes

A written partnership agreement helps to clearly define expectations. It documents:

- which goals are to be reached by when and with what means,
- which tasks and responsibilities are assigned to each individual partner for implementation,
- whether profits are to be distributed and if so, how,
- how and when the partnership will or can end.

When developing a business model, it is not uncommon that widely varying ideas exist about these fundamental questions. Arriving at a consensus at the beginning is an

important basis for a successful partnership and can help solve conflicts. A clear division of duties also makes implementation more efficient because unnecessary decision-making cycles can be avoided.

Identifying partners

But how does one go about finding local partners and establishing a working relationship? Intermediaries who know both sides and can assess the potential for collaboration are helpful here. Development organizations, embassies or foreign chambers of commerce often act as intermediaries; local Global Compact networks or the WBCSD can also give advice.



Photos: Allianz

Women hold their first insurance policies in their hands. Many are skeptical about whether promises will be kept at the beginning. As a result, the advantages and function are explained at large events like the one shown here in Kerala, India.

Case study 14 Allianz SE und Care International, India

Insurance giant and humanitarian aid join forces

When Allianz took stock of the damage after the tsunami in December 2004, this German insurance company discovered that there were hardly any damage claims after the largest natural disaster in recent history. Why? Because almost no one in the tsunami region was insured. The company decided to come up with a microinsurance scheme to change this situation.

Allianz entered into a partnership with CARE International, an aid organization, to develop and distribute products to people living in poverty. CARE has been working for a long time with the "self-help groups" found throughout India. Women form these

groups to help cope with the problems they face in their day-to-day lives. These structures are now being leveraged to offer people in southern India general insurance, including life and accident components. A policy costs around \$2.50 per year.

The roles are clearly defined: Allianz develops and supplies the products and handles claims, CARE is responsible for local knowledge and contact with the target group. CARE employees educate people about the concept of insurance and its benefits using puppet theater and Bollywood-style skits. Working together with local microfinance organizations and self-help groups, they are

involved in the sale of insurance policies and provide some support in handling claims.

This mutually beneficial partnership allows Allianz to access a new market and position its brand. And, for the first time ever, CARE International can offer people living in poverty protection against risks. Insurance helps people to plan for the long term and creates a safety net.

Source: Allianz SE and Emergia Institute (2010)
Learning to Insure the Poor – Microinsurance Report [www](#)

07 Leverage local capabilities

Key messages:

- Local people can effectively take over tasks that require contact with the target group and benefit from additional income.
- Training local staff and business partners is important.
- Partners can help integrate local people.

The financial needs of small traders in Ghana are served by money collectors known as “Susu”. Typically, the collector makes his daily rounds, collecting a fixed amount of money from each customer. He pays out the deposits at a later time, acting as a human savings account. Barclays stood to gain from the close contact between the Susu and their customers. And the bank’s services (accounts, loans and skill development) were attractive to the Susu and improved their range of services.

Anyone who wants to do business in the slums and villages of developing countries stands little chance of success without the support of local people. They know their neighbors and their neighbors’ needs and skills. They are familiar with common, everyday obstacles, speak the same language, trust one another and are part of the social network. This makes them an indispensable resource for inclusive business projects.

Establishing contact with the target group

Local people can help, particularly when it comes to dealing with the target group. As employees or business partners, they can, for example, assume responsibility for sales and customer service. The Susu visit their customers every day, manage their savings, extend loans and help solve problems.

Local staff can contribute added value throughout the entire business development process if companies:

- include them in market research,
- involve them in the innovation process,
- train and engage them as trainers and team leaders,
- deploy them in sales and establish logistics networks,
- train and establish them as local service providers.

Additional income is generated when the local population is integrated. The Susu, for example, can now offer more services, like loans, which they also profit from financially. A role in an inclusive business project as a service provider, trainer or salesperson can also boost an individual’s standing. And finally, the skills and knowledge acquired in this role create additional opportunities for both the company and the employee.

Training local staff

When local employees and business partners are integrated, the most important thing is making sure that they have the right knowledge and expertise. In their role as sales or service representatives, local staff has to be able to talk about products and provide services. If they are working in purchasing, they have to be able to explain and monitor processes. The necessary skills, such as sales pitches, financial management, group coordination, business communication, etc. can be



Susús offer financial services to microentrepreneurs in Ghana.

There are perhaps 4,000 Susu collectors in Ghana, each serving between 400 and 1,500 customers daily. We believe that there is a real opportunity for Barclays to learn from them so that we can know how best to help and complement their services.

picked up in training sessions or “on-the-job”. It is only when this knowledge and these skills are provided that the success of projects can be assured.

Structuring collaboration

Local employees and business partners are often integrated through partner organizations. Companies can leverage the core competencies of these organizations for training, organizing and motivating local staff. For example, it is not Danone itself that organizes yogurt sales in Bangladesh but its local partner, the Grameen Foundation, which can rely on its well-organized network of women known as the “Grameen Ladies” who are part of the bank’s borrower groups.

Barclays, in contrast, works directly with the Susu. Local inhabitants are most effectively integrated into a company’s business when tasks can be standardized and work does not have to be monitored because strong incentives exist to turn in the best possible performance. This is the basis of “microfranchise” models such as VisionSpring (see case study 20). Status gains are also key. In India, for example, 6,500 farmers coordinate and administer publicly accessible Internet kiosks that ITC uses to purchase goods from the farmers (see case study 19). Not only does this role provide them with an Internet connection and IT equipment, their standing within the community is also enhanced.

Further reading

- Beth Jenkins et al. (2007), *Business Linkages – Lessons, Opportunities and Challenges* [www](#)
- Jason S. Fairbourne and Stephen W. Gibson (Ed., 2007), *MicroFranchising : Creating Wealth at the Bottom of the Pyramid* (Cheltenham: Edward Elgar Publishing)



Photos: Barclays

Susu money collectors at the market in Ghana. Their customers make regular deposits into the “human bank account”.

A Susu customer with an informational brochure from the Barclays Initiative.

Case study 15 Barclays Bank of Ghana Limited, Ghana

A modern bank at the service of traditional money collectors

Only around 26% of the population of Ghana has a bank account. This means that the majority of the population has no access to formal financial services such as loans or savings accounts even though small traders in particular are in desperate need of these services. To cover demand, a network of informal money collectors and lenders, called the “Susu”, has developed over the last 300 years in West Africa. These service providers visit their 400 to 1,500 customers daily, collecting a fixed amount of money from each customer or paying out deposits. The Susu serve as banks for the poor. However, they don’t have much leeway to extend credit and they always run the risk of being robbed.

Barclays Bank has been operating in Ghana since 1917. Most of the bank’s customers come from the upper middle class. In the past, the bank had made several unsuccessful attempts to target low-income customers. As a result, Barclays decided to work together with the Susu who know the local traders and their financial situation and make daily rounds of their customers.

Barclays and the Susu worked together to develop a program with the following components:

- Nationwide information campaigns about the advantages of financial services, insurance and financial management

- Bank services specially tailored to the Susu including access to loans that can be passed on to customers
- Training for the Susu and their customers

Around 1,500 Susu can now offer their customers better services through the collaboration with Barclays and Barclays has access to small traders. Access to loans will make it easier for these traders to grow in the future, turning them into larger customers.

Source: Robert Darko Osei (2007), *Linking Traditional Banking with Modern Finance: The Barclays Microbanking – Susu Collectors Initiative in Ghana* [www](#)

08 Test the model

Key messages

The following approaches have proven useful for testing the model:

- Schedule time and resources for several cycles of adaptation
- Test individual components of the model step-by-step
- Keep an open mind about results

Protos, the plant oil-powered cooker from BSH for poor households in developing countries, went into large-scale production in the spring of 2010. Developing the technology, product and business model until they were ready for the market was an arduous journey. Experiments were conducted in several pilot tests on design, production, oil supply and financing until all of the different pieces fit together.

During the testing phase, problems were fixed and the model adapted until a degree of efficiency and standardization was reached that would make it possible to achieve widespread implementation.

Flexibility for adaptation cycles

Pilot projects for inclusive business should be planned with more flexibility and time than standard business projects. Inclusive business projects often require a number of changes to the existing business: a new market, a new product, new partners, etc. This makes the pilot test more complex and increases the probability that several adaptation cycles will be necessary. The test phase can only be completed and implementation started when all components have been brought into alignment and the business model is resilient enough to successfully survive over the long run. As the Protos cooker showed, this phase can take several years.

Jordan Kassalow, founder of VisionSpring, the eyeglasses microfranchise (featured in case study 20), had a similar experience: “You have to go out and test your assumptions—you should test as soon as you can, as quickly as you can and as efficiently as you can. Expect that for every 10 assumptions, 8 will be wrong and 2 will be right. Then study the two that were right and figure out why. Turn those two into ten new assumptions, and repeat the process. This is all about iterations—figure it out one step at a time, hit your head against the wall. It will take longer than you expect it to take. (...) Why we’re successful is because we’re very transparent with our mistakes as well as our successes.”²⁶

Testing the individual components

A good way to reduce the complexity of the pilot test is by testing the individual components of the business model. BSH, for example, worked together with focus groups to find out whether the product met user needs. BSH then collaborated with a cooperative to test the availability of plant oil and to test use of the cooker in the village. This was followed by experiments with pricing to understand the willingness of users to spend money. Alternative financing models such as emissions certificates were also tested as compensation for the environmental and health benefits of Protos. This kind of step-by-step process also made it possible to gradually win over skeptical partners by providing evidence of the feasibility of the project.

Keeping an open mind about results

Sometimes, pilot tests show that would-be business opportunities cannot be successfully implemented. It is therefore essential that the model should be subject to critical review after every pilot test. By the time the test is completed, it must be possible to abandon the project if it does not look like it is going to be feasible.

Just because a pilot test fails, however, doesn’t necessarily mean that the work was in vain. The findings can be incorporated into other developments. If the market proves to be completely insurmountable, parts of the model can often be used elsewhere. In one such case during a pilot test of Procter & Gamble’s PUR water purification sachets, it was discovered that the willingness of the target group to pay for the product that had originally been assumed did not and would not exist. Today, PUR is distributed by aid organizations free of charge to poor households as part of the company’s philanthropy program. It is also sold in the US for profit as a product for outdoor enthusiasts.

Photos: BSH



Protos cooker in a material test at the University of Hohenheim, Germany.



The cooker can be used indoors and outdoors, here in use in the Philippines.



The customer is visibly satisfied at an introduction to how to use the Protos in Jambi, Indonesia.

The Protos technology and the corresponding business model prove that it is possible to serve some of the poorest families with high quality, affordable and environmentally friendly products.

Samuel N. Shiroff, PROTOS project manager, Bosch und Siemens Hausgeräte GmbH ²⁷

Case study 16 Bosch und Siemens Hausgeräte GmbH, Indonesia and the Philippines

BSH Protos – a successful product comes into being over a low flame

The added value offered by the Protos cooker from Bosch und Siemens Hausgeräte GmbH (BSH) for rural households in developing countries is clear: it costs only around \$50, is durable, is powered by plant oil rather than expensive kerosene, emits no smoke and doesn't smell bad. Still, it took several years for a functioning business model to emerge. Development of Protos got underway at the University of Hohenheim in 1998. It went into large-scale production in Indonesia in the spring of 2010.

Product development and implementation were extremely complex: Dr. Elmar Stumpf had experimented with the technology while working on his PhD. It caught BSH's attention in 2003 and they hired Stumpf to develop a product for the low-income market. Prototypes were designed, tested with the target group and modifications made until finally, in 2009, the Protos technology proved ready for market.

Protos underwent a pilot test from 2003 to 2006 on Leyte, an island in the Philippines. Project manager Samuel N. Shiroff explains: "Visayas State University turned out to be the ideal partner for us. It is one of the leading institutions in the Philippines for plant oil research. Testing conditions were also ideal because the island has agricultural, village and urban structures. And there is a large supply of coconut oil available."

A number of challenges had to be overcome in the testing phase: in addition to continuously adapting the product to meet customer needs, it was also important to ensure a reliable supply of plant oil. This goal was achieved by involving a coconut cooperative. The farmers were able to sell the oil directly to BSH, thus giving them better margins. The company also wanted to manufacture the cookers locally. To make this happen, BSH had to identify and train producers.

BSH received support during the pilot test from the DEG through the BMZ's PPP program. In addition to providing funding, the DEG also helped with local contacts and through its experience working with local actors. Although the field test proved successful, BSH eventually decided that the market conditions for mass introduction were riper elsewhere.

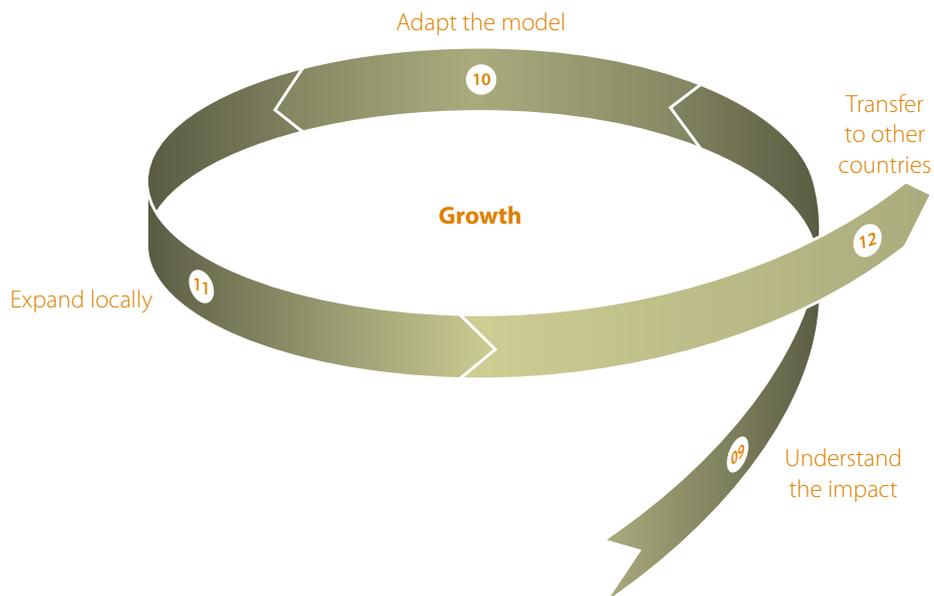
Following tests in other countries, Protos went into production in the spring of 2010 in Indonesia. Around 3,000 units are planned to be produced in 2010 with a total capacity of 50,000 per annum in the coming years. The Protos will be sold initially only in Indonesia but other countries will follow. Protos' development is certainly far from over.

Sources:

- BSH (www.plantoilcooker.com),
- Hedon – Housework Energy Network (www.hedon.info/BP56:ProtosPlantOilStove),
- BioEnergy Lists (www.bioenergylists.org/bshprotosupdate),
- GTZ (08/2008), PPPReport, p. 4–5 www.pppreport.de



Growth



The following do's and don'ts are recommended for the four steps of growth:

09. Understand the impact

DO → Incorporate the impact analysis into the management process and clearly structure it with a view to goals and expectations.

DON'T → Fail to systematically monitor business objectives.

10. Adapt the model

DO → Be on the lookout at all times for options to overcome obstacles and risks.

DON'T → Overlook impacts that harbor potential opportunities and risks.
Accept obstacles and risks as a given.

11. Expand locally

DO → Simplify and standardize processes.

DON'T → Constantly adapt the model to the unique conditions in a city or region.

12. Transfer to other countries

DO → Work with international partners.

DON'T → Put the model into practice without having in-depth knowledge of the market beforehand.

Photo on previous page:

With a microloan, Alphonsine Rasoampamonjy and Marie Thérèse have set up a small farm where they are carefully watering the young vegetable plants. Inclusive business ventures also need this kind of care so that they can grow.

09 Understand the impact

Key messages

Inclusive business models usually pursue various economic, social and environmental goals. To achieve these goals more effectively, a solid understanding of the impacts is necessary. Depending on the goal of the analysis, three steps are necessary:

- Mapping the impacts
- Measuring the impacts
- Comparing the impacts

When Manila Waters took over responsibility for managing Manila's water system, it also had to commit to pursuing social and environmental goals. Assessing these goals on an ongoing basis is thus essential to the company. But even beyond these requirements, the company measures its accomplishments to ensure that its own standards for sustainable corporate governance have been met.

Inclusive business projects, in addition to setting purely profit-based targets, frequently also pursue important social, environmental or business objectives such as reputation or employee motivation. These goals are defined, on the one hand, by internal needs and expectations and, on the other, by the expectations of investors, regulators and interested members of the general public. The impact analysis, because it strives to monitor multiple objectives, has special requirements for each step as the framework in UNEP's "Towards Triple Impact" shows.

Mapping the impacts

It is important to have a solid understanding of how a business can impact others so that risks and opportunities can be mapped early on. If third parties are negatively impacted by the business—for example, by pollution—it can meet with resistance that can affect whether or not the business is successful. If, on the other hand, the effects are positive, they can be included in the added value, thus improving the result. If the assessment shows, for instance, that the business improves the company's reputation, this effect can be included in the analysis as a criterion.

To create a comprehensive picture of the various effects of the business, the analysis should be conducted with the following → three perspectives in mind:

Stakeholder groups: What impact do the business processes have on the various stakeholders, from employees, suppliers and customers through to local communities and finally on society as a whole? Manila Water improves the water supply of thousands of households and creates income for microenterprises and employees. These improvements, however, represent losses for people who sell bottled water.

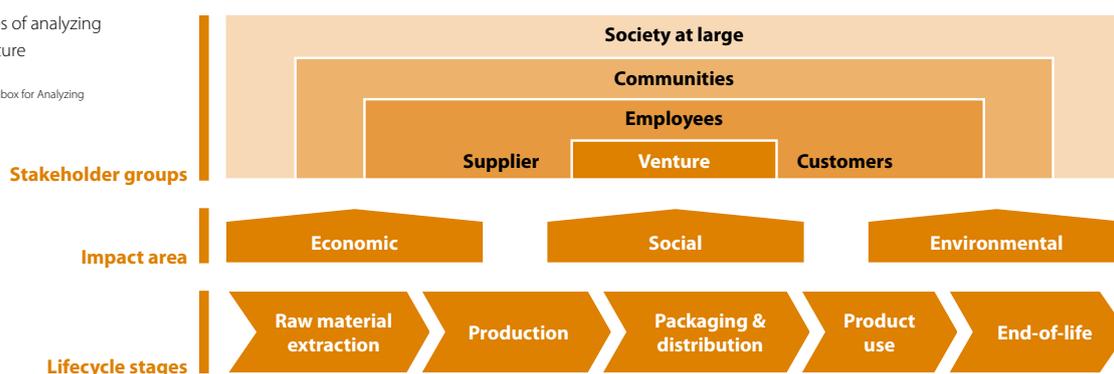
Impact area: What are the social, environmental and economic effects? Manila Waters' activities positively affect its customers' health and quality of life and their expenses and income. Its activities also reduce water losses. Having to relocate families because new pipes are being built has been a negative impact.

Life cycle stages: What is the impact of the business in the individual phases of its life cycle—from acquiring raw materials through to the impact caused by the use of such materials? When acquiring water as a raw material, there is a risk that reservoirs are overused and the environment damaged. If there is no sewage system, waste water can have a negative impact on the environment and hygiene.

The impacts can be documented and characterized systematically in a table. The result is an extensive overview that also includes indirect and undesirable effects not often identified without this kind of systematic analysis.

→ Three perspectives of analyzing a sustainable venture

Source: UNEP (2008)
Towards Triple Impact – Toolbox for Analyzing Sustainable Ventures



Measuring the impacts

Measuring indicators is useful for internal monitoring and controlling whether the project is successful or not. These measurements are also helpful for external communication with investors, regulators and the general public.

For internal project management, the parameters and intervals have to be closely linked to the needs of project management. In line with this, the explicit project goals and the key indicators that provide insight into the success of the project are tracked. Some of these indicators are only monitored to keep an eye on the risks and opportunities associated with them. Others are linked to specific goals.

The requirements stipulated by investors or regulators and the interests of the general public determine the indicators needed for external communication.

It is advisable to use established indicators for measurement so that the project can be compared to other projects. There are several methods used to measure the multi-layered social, economic and environmental effects of inclusive business projects. The Impact Reporting and Investment Standards (IRIS) project, which is comprised of several large social investors, has developed a list of reference indicators designed to serve as a general standard in the medium term. Companies whose reporting is based on the requirements set by the Global Reporting Initiative (GRI) can also find relevant indicators here.

Comparing the impacts

Sometimes, it is essential to compare the actual and planned impact of various inclusive business projects. If, for example, investors or executive managers are trying to decide which projects they want to fund, they need a quantitative basis.

Just as in normal business practice, projects are easiest to compare on the basis of their financial performance. Frequently, however, the non-financial goals take priority over financial ones in inclusive business projects. How these goals are weighted in relation to one another has to be clear for the results to be conclusive. The effects can also be assigned a monetary value, for example, by comparing them to the costs of potential alternatives, e.g. the costs of an advertising campaign or employee training. Even though this method doesn't differentiate between the different priorities given to the goals, an overview of the return on investment calculated in these terms can be useful for effective communication within the company.

Further reading:

- Global Reporting Initiative – Reporting Framework: www.globalreporting.org/ReportingFramework
- Impact Reporting and Investment Standards: www.iris-standards.org
- Olsen and Brett Galimidi (2008), Catalogue of Approaches to Impact Measurement [www](#)
- Ted London (2009), Making Better Investments at the Base of the Pyramid (Harvard Business Review, Mai 2009)
- UNEP (2008), Towards Triple Impact – Toolbox for Analysing Sustainable Ventures in Developing Countries [www](#)
- WBCSD (2009), Measuring Impact – Framework Methodology [www](#)

Case study 17 Manila Water Company, Philippines

Water for all of Manila

Manila, the capital of the Philippines, has one of the oldest water supply systems in Asia. The ailing system lost two-thirds of its water through leaks or illegal diversions in 1997. Only 60% of households were connected to the water system and fewer than 3% were connected to the sewage system. Most of the people living in the slums bought water in canisters at high prices. No system existed for wastewater disposal in the poor districts.

When the Manila Water Company, Inc. won the concession for the water supply of eastern Manila in a public tender process, the Filipino company was required to commit to improving conditions in the slums. And it has been successful: by 2008, Manila Water had connected roughly 1.5 million low-income in-

dividuals to the central water supply system. Manila Water is working with the municipalities on wastewater disposal in the slums. They plan to have all households connected to the sewage system by 2018. In addition, 700 families from the slums were integrated into the value chain as employees or sellers.

Their success is reflected in the balance sheet: in the third year of operation, Manila Water was already in the black. In 2008, the company generated net income of \$68.9 million.

But Manila Waters doesn't just have to keep track of its financial indicators, it also has to monitor the parameters for supplying the population with water as stipulated in the concession. The impact analysis is also useful in terms of the ongoing improvement of

the operational workflows. Over the years, the company has replaced 86% of the pipes. Water losses today are at only 19.6%. Even when compared internationally, this value is low. Other plans include expanding sanitation services and wastewater treatment capacities. Manila Waters also measures its accomplishments in this area and is continuously working to improve.

Sources:

- Manila Water Company, Inc. (www.manilawater.com),
- Jane Corneault (2006), Manila Water Company: Improving Water and Wastewater Service for the Poor [www](#)

10 Adapt the model

Key messages:

- Experience and reference models are often lacking when it comes to adapting models for inclusive business.
- It is thus useful to assess the current enablers and constraints as well as future opportunities and risks to identify different courses of action.

For many years, Aravind continuously adapted its business model to get closer to its goal of restoring vision for 9 million people. Its greatest asset—its well-trained and motivated staff—always formed the basis for the model, lending it increased efficiency and scope. Where skills were lacking internally, for example, in the production of the lenses, the company formed partnerships with other companies. This strategy has already made it possible for Aravind to perform 2 million operations free of charge for people who are extremely impoverished.

Growth usually entails continuous adaptation of the model to reach the goals more effectively. However, it can be more difficult to identify courses of action in inclusive business because there is a shortage of experience, reference models and established “best practices”.

Systematic assessment of the determinants of success

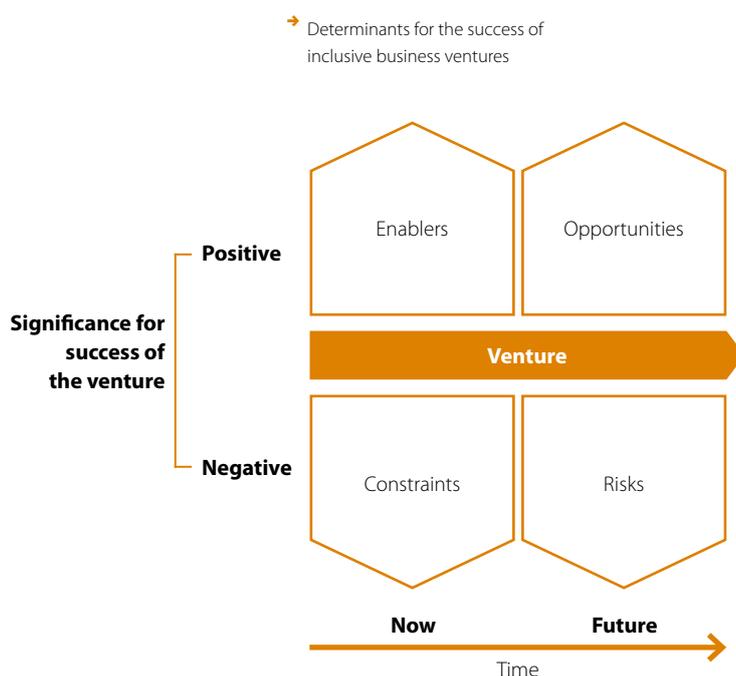
A systematic assessment of the → factors that will determine the success of a venture is helpful when identifying courses of action. Following UNEP’s “Towards Triple Impact”, a distinction can be made in this assessment between the factors that are currently affecting the success of the venture and those that will affect it in the future and between positive and negative factors. Factors can also be other actors and financial, non-material or material resources or processes.

Constraints: Who adversely affects the venture? What resources are lacking? Which processes within the value chain don’t work well? For Aravind, the constraints preventing it from treating the greatest number of people with vision problems were: the length of the operation, ignorance on the part of those affected and the costs of medical materials.

Enablers: Who supports the venture? What resources are available? Which processes within the value chain work well? Aravind relies on the high level of professionalism of its staff and the efficiency of its processes.

Opportunities: Who can contribute to the success of the venture in the future? Under which circumstances? Which resources could potentially be available? Are there changes to processes planned that could strengthen the business? Aravind saw an opportunity to partner with a lens manufacturer who could produce the lenses at a lower price. Other opportunities lie in remote diagnostics and treatment using computers, video conferencing and the Internet.

Risks: Who could negatively impact the venture in the future? Under which circumstances? Which resources are threatening to dry up? Are there changes to processes planned that could make the venture more difficult? One risk would be the loss of tax breaks from the government—even though Aravind is profitable, higher taxes would directly impact the cost to the end customers.



We have to do more to generate demand. Most of this blindness is needless and curable. We have to eradicate all needless blindness.

Dr. V., former CEO, Aravind Eye Care System ²⁸

Defining concrete measures

The alternative courses of action can be identified based on an analysis of this kind that looks at the factors that make a venture successful. They can be assessed based on their anticipated contribution to the success of the venture and their feasibility, ultimately giving rise to concrete measures for adapting the model.

Further reading:

- UNEP (2008), *Towards Triple Impact – Toolbox for Analyzing Sustainable Ventures* [www](#)
- Muhammad Yunus (1997), *Banker to the Poor – Micro-Lending and the Battle against World Poverty* (New York: PublicAffairs)



Photo: Christina Gradi

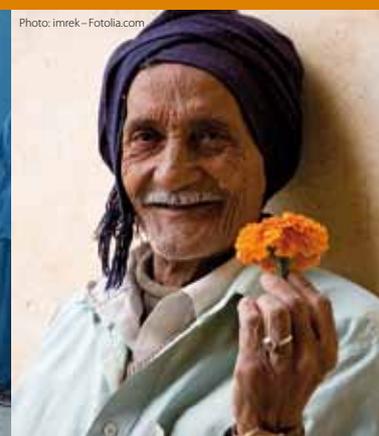


Photo: imrek - Fotolia.com

While one patient is being operated on, the next patient is being readied on the next table. Aravind is a master of efficiency - an operation lasts only 10 minutes. The result? More than 300,000 people regain their sight every year.

Case study 18 Aravind Eye Care System, India

Vision at a discount price

In India, there are roughly 9 million people suffering from blindness who could get back their sight with a simple operation. Aravind Eye Care System has been pursuing the goal of helping these people for 30 years. It has been doing this with ever growing success thanks to ongoing and systematic improvements. Today, the foundation performs 300,000 eye operations every year and treats 2.5 million patients.

The first "Aravind Eye Hospital" was built in 1976. At that time, a cataract operation took 30 minutes. To boost efficiency, the steps in the process were reorganized: now, the doctors concentrate solely on the operation, all of the pre-op and post-op work is taken care of by medical staff. This reduces the time a doctor needs for the operation to just 10 minutes. The savings are passed on to particularly poverty-stricken patients: Aravind performs

three-quarters of the operations at no cost to the patient. Today, there are five Aravind clinics that all have the same system in place. In 1996, an Aravind training center was set up for medical staff.

Another constraint identified was the ignorance of those affected: many people in rural areas aren't even aware that their condition can be treated. Again, Aravind's most valuable asset was brought into play: its trained staff. Aravind organizes "eye camps" where patients are examined and, if necessary, brought to the hospital the same day. During the year 2006, a total of 1,793 camps were conducted, at which 2,313,398 patients were examined and 270,444 sight restoration surgeries were performed. Since 2004, straightforward cases can also be treated on-site in "Vision Centers" through telemedicine services.

For a long time, one cost driver was expensive consumable materials. This led Aravind to start manufacturing these materials itself together with a partner. Today, "Aurolab" manufactures lenses that cost \$2 instead of up to \$100.

The continuous improvements have proved rewarding - a cataract operation at Aravind costs under \$20. In comparison: in the US, the same operation costs around \$3,000. These improvements took place over decades. In its first decade on the job, Aravind performed 125,000 operations, in the second 375,000 and in the third 1.5 million.

Sources:

- Janat Shah und L S Murty (09/2004), *Compassionate, High Quality Health Care at Low Cost: The Aravind Model* (IIMB Management Review, p. 31-43)
- Aravind Eye Care System (www.aravind.org)

11 Expand locally

Key messages:

- Inclusive business can expand in three directions: through broadening its regional presence, through widening its portfolio, and through deeper target group penetration.
- Standardized processes make it easier to expand quickly.

Within just 10 years, ITC has successfully integrated 40,000 villages and roughly 4 million farmers into its supply chain through 6,500 Internet kiosks. The project was able to reach this scale thanks to a very structured and standardized growth process.

The → total volume of an inclusive business venture is determined by its expansion in three dimensions:

Breadth: implementation of the project in other regions. For ITC, this meant establishing kiosks in more and more villages.

Width: purchase or sale of other products and services. The e-kiosks can be used by farmers for more than selling crops, they can also buy seeds, pesticides and a host of other products.

Depth: further penetration of the target group or targeting of other groups. Using the same example, integrating all of the farmers in the vicinity of an e-kiosk and integrating other people who could also order products using the Internet kiosk.

Broadening regional presence requires standardization

A high degree of standardization is helpful in successfully scaling up a venture. Simplification facilitates transferability. Collaborating with a single development organization that covers the entire target market of a country is much easier than working together with lots of local organizations. Outsourcing the same set of tasks to external partners is easier than negotiating a new allocation of responsibilities time and time again. The less dependent on specific partners or local conditions the business model is, the easier it is to expand. ITC has a clearly defined process for setting up its e-kiosks in new regions.

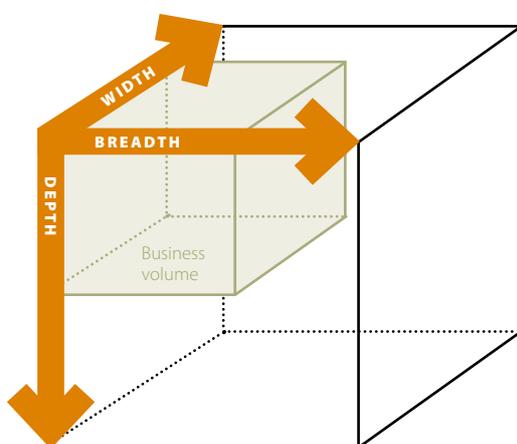
It is therefore no surprise that the greatest successes in scaling up ventures have been in mobile telephony. Smart Communications reaches approx. 80% of the population of the Philippines with its pre-paid telephone service (see case study 10). In the three years up to March 2010, M-PESA, the mobile money solution that Safaricom offers customers in Kenya, had signed up almost 9.5 million customers; around 10,000 new users are currently added every day (see case study 1). Mobile data transmission doesn't depend on local infrastructure; much of the sales and services can even be digitized and standardized.

Other examples of successfully scaled ventures exist in the area of microfranchising: here, the core business is completely standardized and it is up to the individual franchisee to adapt it to local conditions. The rules of collaboration between the franchisor and the franchisee are clearly defined and there is no room for negotiation (see case study 20 for VisionSpring).

Widening the portfolio

Widening occurs through the purchase or sale of additional products and services. Established structures and processes can be used more efficiently as a result and the added value for producers and consumers is increased. When it started off, ITC only provided trading-related information for the farmers' products like information about prices, weather, etc. Now, e-Choupals have become true online marketplaces where farmers can buy everything from savings accounts to healthcare advice.

→ Dimensions of business expansion



Source: adapted from Michel Bachmann and Patrick Vermeulen (2008), Scaling at the Base of the Pyramid (Working Paper)

Over the next decade, the e-Choupal network will cover more than 100,000 villages, representing one-sixth of rural India, and create more than 10 million e-farmers.

S. Sivakumar, CEO of ITC's agri-business division²⁹

Deepening penetration of the target group

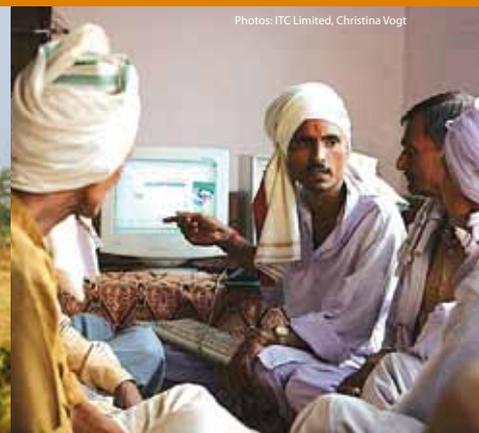
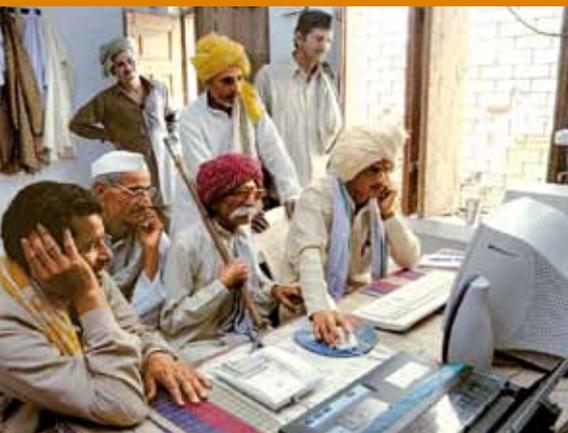
The target group can be more deeply penetrated over the course of a project as a result of several different effects:

- The efficiency of the venture increases through the effects of scale and learning. These increases in efficiency can be used to further lower the price of products, making them attractive to an even wider range of customers.
- With time, the company becomes more familiar with the target group's needs. And, the target group becomes more familiar with the products and services. They can be adapted to more effectively meet the needs of the target group, enhancing the benefits and further expanding demand.

The usual approach used when targeting customers is to go down the income pyramid, i.e. start with customers who have low average income and work down to those with very low income. This same logic can be applied on the production side: start by integrating a few medium-sized producers and then integrate many small producers.

Further reading:

- Michel Bachmann and Patrick Vermeulen (2008), *Scaling at the Bottom of the Pyramid* (Working Paper)
- Josefina Bruni Celli, Rosa Amelia González, and Gerardo Lozano (2010) *Market Initiatives of Large Companies Serving Low-Income Sectors* in: SEKN (2010) *Socially Inclusive Business – Engaging the Poor through Market Initiatives in Iberoamerica*
- David Lehr (2008), *Microfranchising at the Base of the Pyramid* [www](#)



Photos: ITC Limited, Christina Vogt

Farmers look at market prices together in the "e-Choupal". This helps them sell their crops more efficiently.

Case study 19 ITC Limited, India

e-Choupals take India by storm

Around 800 million people in India live in rural areas, most make their livelihood as small farmers. Until now, they had no control over the price when selling their products and were dependent on middlemen or auction prices. The Internet kiosks called "e-Choupals" from ITC solved this problem for well over 4 million farmers.

ITC Limited is an Indian commercial enterprise, trading, among other things, in food products. In 1999, the company started buying agricultural products directly from farmers to save costs and time. The company equipped farmers with Internet access which allowed them to research prices, sell goods to ITC and order seeds or fertilizer. This gives

them price control, higher sales prices and quantity discounts. This direct sales channel was mutually beneficial for the company and the farmers.

Following successful implementation, the focus shifted to expanding the system. In new regions, ITC selects one farm where a computer is installed with Internet access. The owner of this farm is ITC's contact person and must take a public oath to uphold his duties. The stations are the point of contact for farmers within a 5 km radius. An "ITC hub", a physical marketplace for sales and purchases, is also set up for every 40 e-Choupals.

By the beginning of 2008, ITC had put 6,500 e-Choupals into operation using this strategy and had reached 40,000 villages. The network now serves as a channel for trading all sorts of products and services ranging from savings accounts to healthcare services. The goal is to integrate 100,000 villages by the year 2012 and to conduct 20% to 30% of village business over this platform.

Sources:

- ITC (www.itcportal.com),
- World Bank – Agriculture & Rural Development Department, (www.worldbank.org/rural)

12 Transfer to other countries

Key messages:

- **Standardization and simplification are essential.**
- **All markets must be selected as carefully as the first one. It is possible that the model will need to be adapted.**
- **International partners can be helpful.**

VisionSpring has accomplished what only a few inclusive business ventures have been able to do: make the leap to other countries. This could be due in part to the fact that eyeglasses look pretty much the same everywhere in the world and have the same function. However, this is also certainly a result of the model's clear system which can be easily implemented by other organizations.

Standardized processes

The principles for regional expansion also apply to transferring the business model to other countries: the more standardized and straightforward a model is, the easier it is to implement it in other environments. VisionSpring is the ideal model with its "Business in a Bag".

Exhaustive selection of the target country

Before the target country is selected, the basic conditions for successful implementation must be in place. These include favorable market conditions, particularly the political and legal environments. Analyses like the "Doing Business" studies published by the World Bank or sector-based country comparisons help assess these factors. However, it can be more effective to talk to experts like staff working in in-country subsidiaries, intermediaries, export consultants or development organizations. And, it goes without saying that basic information about the new market, like demand and competitive environment, has to be gathered. The business model is thus adapted to the new market by means of market research, model development and pilot tests.

Where can it work?

Some markets are particularly suited to inclusive business ventures. This is evidenced by the large number of existing examples in a small number of countries including Brazil, India, Mexico and South Africa. The authors of the study "Emerging Markets, Emerging Models" conducted by the Monitor Group maintain that countries with the following three attributes are particularly suitable:

Large domestic markets: India is the largest market population-wise with almost 1 billion people who live on less than \$3,000 per year. Generally speaking, countries with a large low-income population offer more opportunities for growth than those with a small, widely dispersed population.

A decent private economy: good conditions to experiment with new models may exist in places with a conducive legal system and a solid landscape of small and medium-sized companies. An active informal sector is also a good sign: it shows that people living in poverty already produce goods and services and are also able to pay for them.

A robust civil society: development organizations, cooperatives and other civil society groups are important as partners and experts when setting up inclusive business ventures. It is also not uncommon for them to drive innovations and find new business models.

International partners

An international partner can make it easier to transfer the model to other countries. If designed from the outset to be an international partnership, the business model can be developed with a view to possible expansion to other countries and the expertise of local branch offices incorporated.

Further reading

- World Bank Doing Business: www.doingbusiness.org
- CSR Weltweit: www.csr-weltweit.de (English version available)
- Monitor Institute (2009) Emerging Markets, Emerging Models – Market Based Solutions to Challenges of Global Poverty www.monitorinstitute.org



Photos: John-Michael Mass/Darby Films
VisionSpring works together with BRAC in Bangladesh.



Their almost 70,000 healthcare workers will also distribute glasses soon.



A patient at a vision check in Ghana.

Case study 20 VisionSpring

Global distribution thanks to local microentrepreneurs

VisionSpring supplies eyeglasses for those living in poverty – and with their help. This social enterprise developed a microfranchise model that puts microentrepreneurs to work selling basic eyeglasses. The market for these products is large: 400 million people around the world could improve their vision with basic eyeglasses. VisionSpring's goal is to capture this market – and the company is already working to achieve this goal in six countries.

Productivity and income are negatively affected when a person's vision deteriorates: weavers can't use their looms properly anymore, farmers can't plant seeds, artisans can't produce their complex designs. This often drags the entire family into poverty.

But the solution can be simple: reading glasses. Reading glasses can be found in any drugstore for just a few dollars in industrialized countries. In developing countries, however, there is no distribution system that makes eyeglasses available in rural regions.

VisionSpring developed a system that not only makes it possible to distribute eyeglasses quickly, it also generates income for the target group. With the "Business in a Bag", microentrepreneurs get everything they need to market and sell eyeglasses. In a three-day training session, they also learn how to conduct "vision campaigns" in villages, adjust and sell eyeglasses and refer patients with more complex vision problems to clinics. The franchisees receive the equipment they need and pay for the eyeglasses once they are sold.

The model is standardized in such a way that it can be applied anywhere in the world. The model was developed in India in 2001. It was implemented in El Salvador as early as 2002. This was followed by Guatemala (2004), Bangladesh (2006) Ghana, Ethiopia, Kenya, Nigeria, and Zambia (2007). Other pilot tests are underway in Paraguay and Nicaragua. By July 2010, VisionSpring had 6,200 active entrepreneurs and had sold more than 360,000 eyeglasses. A pair of glasses costs \$3, of which \$1 goes to the franchisee, \$1 to VisionSpring and \$1 to the manufacturer.

Two models are used for the transfer to other countries:

- In India and El Salvador, VisionSpring maintains its own network of franchisees.
- The company cooperates with partners in the other countries. They are usually local development organizations. They are given practically the entire business model, from the sales sets to the management systems and ongoing support.

BRAC is the franchise partner in Bangladesh. The largest NGO in the world is represented in 80% of all villages in the country and thus reaches 100 million people. In January 2009, both organizations agreed to train all 69,000 BRAC healthcare workers with the VisionSpring system. The goal is to sell 13.8 million eyeglasses in rural Bangladesh by 2012.

Sources:

- VisionSpring (www.visionspring.org)
- Nico Clemminck and Sachin Kadakia (2007) What Works: Scojo India Foundation Restoring Eyesight in Rural India Through the Direct Selling of Reading Glasses www.wws.in

Publicity for the visit from VisionSpring in a village in India - it is important to get people's attention!



This seamstress in Nicaragua can do her work again better with glasses.



Photos: John-Michael Mass/Darby Films

Countries with potential

3 The “Where”

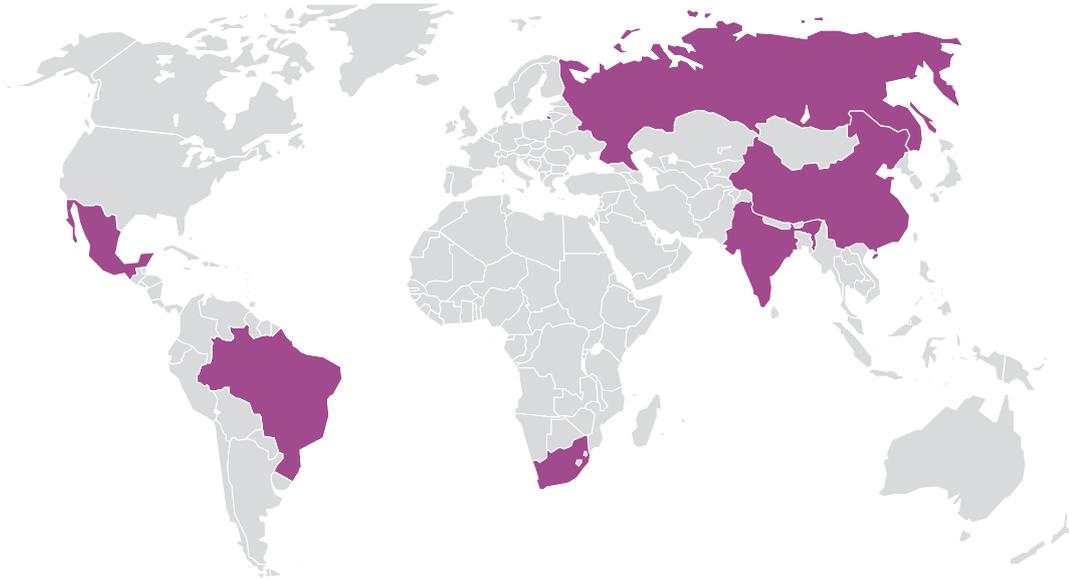
1. The countries presented here are national economies with a large low-income population. In addition, many companies from within and abroad are already active in these countries. Many companies from abroad have sales partners, sales offices or even their own production sites and subsidiaries in these countries.
2. The showcased sectors offer sales and sourcing opportunities in the context of poverty. For people living in poverty, these opportunities are important with respect to satisfying basic needs, increasing productivity and generating income.

The following country profiles provide an initial look at potential opportunities and challenges for inclusive business ventures and identify local contacts. There is also an upper and middle class in each of the countries selected but the profiles relate to the target group at the lower end of the income pyramid.

There is no universal recipe for selecting a country as a market for an inclusive business venture. Just as is standard business practice, all of the key factors have to be reviewed: market size, target groups, competitors, legal system, etc. General foreign trade recommendations apply here just as they do for all international business and can be found, for example, in the information provided by the foreign chambers of commerce.

The following countries are described:

- Brazil
- China
- India
- Mexico
- Russia
- South Africa



The country profiles all have the same structure:

Market data:

Overview of key macroeconomic figures.

- The total population, the nominal and per capita gross domestic product (GDP) and the unemployment rate are taken from the CIA's 2010 World Factbook.
- The percentage of the population that earns less than \$3,000 per capita and year and the percentage their incomes make up of total income are taken from the study "The Next 4 Billion" published by IFC and WRI in 2007.
- The average GDP growth between 1997 and 2007 comes from the World Bank's database.
- The Gini coefficient indicates the degree of inequality in income distribution (1= complete inequality, 0 = complete equality).
- The Human Development Index (HDI) is a global ranking of social development based on data for per capita income, life expectancy and literacy (the lower the ranking, the more developed the country is). The Gini coefficient and HDI ranking are from the UNDP Human Development Report 2009/10.
- Finally, the Corruption Perception Index (CPI) evaluates the perceived level of corruption worldwide (the higher the ranking, the more corrupt the country is perceived to be). The data can be found in the Transparency International Index 2009.

Overview:

Brief description of the country as a whole and the situation of people living in poverty.

Market size:

Size of the market segment with an income of less than \$3,000 per year, broken down by sector and with segments covering annual incomes of \$500, \$1,000, \$1,500, \$2,000, \$2,500 and \$3,000. These figures are taken from the WRI and IFC study "The Next 4 Billion", published in 2007.

Examples:

Successful examples of inclusive business ventures in the respective country.

Contacts:

Contacts who can help develop business to fight poverty.

More in-depth information and support for inclusive business projects in many countries can be obtained from the following institutions:

Bertelsmann Foundation, Bertelsmann Transformations Index project 2010 – ranking with information about the development level of democracy, market economy and management in 125 countries
www.bertelsmann-transformation-index.de

CSR WorldWide (online portal), information on areas of activity, legal systems, contacts and case studies in 28 countries | www.csr-weltweit.de

UN Global Compact, local networks of companies and other actors seeking to implement the Compact's principles in over 80 countries
www.unglobalcompact.org

UNDP Growing Inclusive Markets
 Case studies database by country and sector
www.growinginclusivemarkets.org

WBCSD, local networks offering seminars and workshops in many countries
www.wbcds.org

World Bank, "Doing Business Reports" information on the market environment in 181 countries
www.doingbusiness.org

Brazil



Market data

Population:
201.1 million (2010 estimate)

Percentage of the population with an income < \$3,000 (in purchasing power parity):
70.7% (2005)

GDP (nominal):
\$1.499 trillion (2009 estimate)

Average GDP growth per year, 1997–2007:
2.8%

GDP / per capita (by purchasing power parity):
\$10,200 (2009 estimate)

Percentage of income < \$3,000 (in purchasing power parity) of total income:
22.6% (2005)

Unemployment rate:
7.4% (2009 estimate)

Gini coefficient 2009:
0.55

HDI ranking 2009:
75 / 182

CPI ranking 2008:
75 / 180

Overview

Brazil is the largest country in Latin America and it has an efficient market economy. The social policies of the Lula administration have already lowered the unemployment rate and reduced poverty over the last few years through programs such as “Fome Zero” to fight hunger or the youth employment program “Primeiro Emprego”.

Most of the people living in poverty (78.2%) are based in cities. The desert-like regions in the northeast of the country are extremely poor. Many Brazilians have inadequate access to basic services: 10% do not have access to clean drinking water, 25% don't have sanitary facilities. Bank services are very expensive and only 43% of Brazilians have access to financial services.

On the other hand, Brazil has a great abundance of natural resources that could be used as a source of procurement. One-third of the country is covered by rain forest. Working with local communities can open up access to valuable raw materials and, at the same time, protect the forest. The country is also the world's largest producer of biofuel, the production of which is often associated with poor conditions for harvest workers. On the highly competitive energy market, integrating small farmers and treating employees well can serve as a unique selling proposition.

Examples

The example of the cosmetics company Natura is described on page 21.

Casas Bahia is the largest retailer in Brazil. It offers low-income customers consumer credit and installment purchases with little red tape but charges high interest rates and the products are often of mediocre quality. Customers usually accept this because it is the only way they can make purchases of expensive items like furniture or electrical appliances. The success of Casas Bahia exposes a need—and a large market niche.

Sadia, one of the world's leading producers of food, supports more than 3,500 swine producers in reducing greenhouse emissions through the use of biogas systems within the framework of its “Sustainable Swine Production Program”. The emission reductions can be sold as carbon credits.

Contacts

Avina Foundation Networking and financing for sustainable development projects in Latin America | www.avina.net

BoP Learning Lab Brazil Networking and information exchange about BoP (particularly distribution) | www.ces.fgvsp.br

New Ventures Brazil Part of the “New Ventures” program of the WRI, incubator and consultancy for inclusive business | www.new-ventures.org.br

Plano CDE Market research company specializing in low-income households | www.planocde.com.br

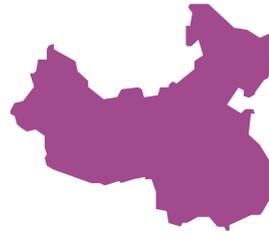
Market size

Annual expenditure in the income segment below \$3,000 per year (2002)

Income segment	Expenditure in \$ billion	Of which in cities
3,000	36.8	87.6%
2,500	37.0	86.3%
2,000	39.3	85.1%
1,500	36.1	79.8%
1,000	26.7	73.7%
500	6.0	64.3%
Total	181.9	82.4%

Household expenditure by sector (2002)

Sector	Total expenditure in \$ billion	Of which in the income segment below \$3,000 per year
Food	113.7	48.6%
Housing	26.7	35.7%
Water	3.2	50.6%
Energy	21.0	57.8%
Health	34.2	35.0%
ICT	20.3	27.2%



China

Examples

To date, most examples can be found in Chinese corporations. In 1998, **Haier** developed washing machines that made it possible for farmers to wash their potatoes or other harvested crops in the machine without clogging the drain. Goat cheese can be made with a newer model.

The state-run company **China Mobile** set up an "Information Network Platform" in rural areas in 2006 to give farmers access to market information. And it has been successful: in 2006 alone, the customer base of China Mobile doubled in rural regions from 26 million to 53 million.

The largest newsprint manufacturer in China, **Huatai**, has been producing paper from renewable raw materials since 2000. It engaged 6,000 households to plant the rapidly growing trees and thus increase their household income.

Contacts

BoP Learning Lab China Networking and information exchange at the Tsinghua University | www.johnson.cornell.edu/sge/programs/sgeichina.html

International Poverty Reduction Center China Partnership of the Chinese government with UNDP, World Bank, ADB and DFID | www.iprcc.org.cn

New Ventures China Part of the "New Ventures" program of the WRI, incubator and consultancy for inclusive business | www.new-ventures.org.cn

Overview

More than 30 years of market economic reforms have changed China drastically. The rapid pace of industrialization has meant a better standard of living and excellent road networks have improved the infrastructure. Despite these economic successes, four out of five people in China still live on less than \$3,000 per year.

The government has launched various state-backed measures to fight poverty: domestic economic growth is stimulated through regional assistance programs, and consumer assistance programs guarantee farmers a 10% to 50% discount on cars and electrical appliances. The income of farmers improved after the agricultural tax was eliminated in 2006.

The gap that exists between cities and rural regions is one of the greatest obstacles to achieving balanced development of the national economy. 560 million Chinese live in cities and 750 million live in rural areas. Three times as many children attend higher-level schools in cities than in the country and this figure is even higher for universities, reaching 68 times as many. 300 million Chinese in rural areas don't have clean drinking water; the cooperative healthcare system only reaches around 25% of a rural areas.

Pollution and the demand for energy are steadily on the rise as a result of the rapid industrialization and the improvement in individual standards of living. China is the second-largest producer of greenhouse gases, the water in many rivers is undrinkable and the soil is depleted. Small farmers in particular have to deal with the consequences.

Several hundred million small farmers could act as suppliers for food producers. All services and products that increase the productivity of farmers, for example, providing information services or resilient seeds, would find a huge market.

Market data

- Population: **1.33 billion** (July 2010 estimate)
- Percentage of the population with an income < \$3,000 (in purchasing power parity): **80.8 %** (2005)
- GDP (nominal): **\$4.814 trillion** (2009 estimate)
- Average GDP growth per year, 1997–2007: **9.5 %**
- GDP / per capita (by purchasing power parity): **\$6,600** (2009 estimate)
- Percentage of income < \$3,000 (in purchasing power parity) of total income: **55.2 %** (2005)
- Unemployment rate: **4.3%** (2009 estimate)
- Gini coefficient 2009: **0.415**
- HDI ranking 2009: **92 / 182**
- CPI ranking 2009: **79 / 180**

Market size

Around 1.1 billion people in China make do with less than \$3,000 per year. China, along with India, is the largest market for inclusive business ventures. Poverty is most widespread in the northwest provinces and in the countryside. The study "The Next 4 Billion" unfortunately does not contain any data about China.

India



Market data

Population:

1.173 billion (2010 estimate)

Percentage of the population with an income < \$3,000 (in purchasing power parity):

95 % (2005)

GDP (nominal):

\$1.095 trillion (2009 estimate)

Average GDP growth per year, 1997–2007:

6.9 %

GDP / per capita

(by purchasing power parity):

\$3,100 (2009 estimate)

Percentage of income

< \$3,000

(in purchasing power parity) of total income:

92.7 % (2005)

Unemployment rate:

10.7% (2009 estimate)

Gini coefficient 2009:

0.368

HDI ranking 2009:

134 / 182

CPI ranking 2009:

84 / 180

Overview

The Indian economy has grown rapidly since the markets were deregulated in 1991. By 2050, India will not only be the most populous country in the world, it will also be the third-largest national economy after the US and China. India is a stable democracy with a highly qualified elite.

Still, around 95% of the Indian population lives on less than \$8 a day. Poverty in India is primarily a rural problem. 78% of those living in poverty are in the countryside.

There are many indications for poverty: 85% of Indians living in rural regions have no access to sanitary facilities, 45% of children are underweight and an estimated 44% of the workforce can barely read and write.

Currently, around half of all value creation in India takes place in the informal sector which is characterized by low productivity. Integrating microentrepreneurs into markets by granting microloans and insurance or providing infrastructure could benefit the national economy greatly and the market is huge.

On the supply side, rural poverty could be reduced primarily by integrating small farmers into value chains.

Examples

In India, there are many good examples of inclusive business ventures that are frequently driven by Indian companies or local social entrepreneurs. Several of them were already presented as case studies: microfinance providers Grameen and SKS Microfinance (p. 19), D.light with its LED lamps (p. 45), the Allianz microinsurance program (p. 51), Aravind eye clinics (p. 61), ITC and the “e-Choupals” Internet kiosks (p. 63) as well as the microfranchise VisionSpring selling eyeglasses (p. 65).

The goal that **Sulabh** has set for itself is to improve the poor hygiene conditions in India. This social enterprise provides coin-operated toilets in urban slums. It also provides affordable sanitary facilities for homes.

Reuters Market Light offers farmers information services via mobile-based text messaging. Localized weather forecasts, advice about crops, market data and crop prices and relevant policy and national and international news allow farmers to make informed decisions about their agricultural practices and sales, thus increasing their productivity and incomes.

Contacts

Centre for Emerging Markets Solutions, Indian School of Business
Research and exchange on inclusive business solutions | www.isb.edu/cems

New Ventures India

Part of the “New Ventures” program of the WRI, incubator and consultancy for sustainable business ideas in India | www.newventuresindia.org

Market size

Annual expenditure in the income segment below \$3,000 per year (2004)

Income segment	Expenditure in \$ billion	Of which in cities
3,000	89.8	72.4%
2,500	159.0	62.4%
2,000	264.3	45.4%
1,500	394.9	28.2%
1,000	289.0	13.8%
500	8.6	8.8%
Total	1205.6	31.1%

Household expenditure by sector (2004)

	Total expenditure in \$ billion	Of which in the income segment below \$3,000 per year
Food	965.1	88.1%
Housing	62.1	48.5%
Water	1.7	70.4%
Energy	162.9	87.2%
Health	41.2	85.3%
ICT	14.8	52.6%



Mexico

Examples

Mexico has a number of large companies, some of which even operate internationally such as the cement producer CEMEX or the food corporation Bimbo. Innovations thus often originate with existing or newly established Mexican companies.

CEMEX's "Patrimonio Hoy" model provides not only the financing of homes for low-income families but also building material and advice on construction. The "Construmex" program makes it possible for migrants living in the US to invest their remittances directly into housing construction (it has not, however, accepted any new clients since 2009).

The company **Amanco** offers small farmers irrigation systems adapted specifically to their needs. Thanks to the availability of credit, the purchase can be financed from higher crop volumes.

The microfinance bank **Compartamos** stands out as the most profitable bank in Mexico, a success that has not only earned praise but also criticism for its high interest rates.

Contacts

Avina Foundation

Networking and project financing | www.avina.net

Movimiento BDP – Empresas contra la Pobreza

Information exchange and support for specific projects | www.movimientobdp.org/

New Ventures Mexico

Part of the "New Ventures" program of the WRI, incubator and consultancy for inclusive business | www.nvm.org.mx/

Overview

Mexico has one of the fastest growing middle classes in the world living side-by-side with people in widespread poverty. As a country with a strong national economy and good overall conditions for companies, Mexico has always had good examples of inclusive business ventures mostly aimed at the urban population. Goods and services that promise a better standard of living for the low-income population are particularly in demand.

As a member of the OECD, Mexico has a comparatively high level of development but there are huge discrepancies between cities and the country and great variations in income and living situation within the cities. Despite the relatively strong economic performance, three out of four people in Mexico still live on less than \$3,000 per year.

Mexico is a country with significant environmental problems, an area that offers a lot of business opportunities for foreign companies. There is also great need for solutions in healthcare and nutrition particularly in rural regions.

Market data

Population:	112.5 million (2010 estimate)
Percentage of the population with an income < \$3,000 (in purchasing power parity):	69.6 % (2005)
GDP (nominal):	\$1.017 trillion (2009 estimate)
Average GDP growth per year, 1997–2007:	2.9 %
GDP / per capita (by purchasing power parity):	\$13,500 (2009 estimate)
Percentage of income < \$3,000 (in purchasing power parity) of total income:	39.8 % (2005)
Unemployment rate:	5.6% (2008 estimate)
Gini coefficient 2009:	0.481
HDI ranking 2009:	53 / 182
CPI ranking 2009:	89 / 180

Market size

Household expenditure by sector (2004)

Sector	Total expenditure in \$ billion	Of which in the income segment below \$3,000 per year
Food	74.8	56.0 %
Housing	45.6	43.8 %
Water	2.2	48.3 %
Energy	14.5	48.3 %
Health	10.6	38.4 %
ICT	12.9	29.5 %

Annual expenditure in the income segment below \$3,000 per year (2004)

Income segment	Expenditure in \$ billion	Of which in cities
3,000	28.9	85.0 %
2,500	32.2	83.4 %
2,000	32.8	75.2 %
1,500	23.0	66.0 %
1,000	10.4	49.1 %
500	1.2	14.8 %
Total	128.5	75.1 %

Russian Federation



Market data

Population:
139.4 million (2010 estimate)

Percentage of the population with an income < \$3,000 (in purchasing power parity):
61.4 % (2005)

GDP (nominal):
\$1.232 trillion (2009 estimate)

Average GDP growth per year, 1997–2007:
6.2 %

GDP / per capita (by purchasing power parity):
\$15,100 (2009 estimate)

Percentage of income < \$3,000 (in purchasing power parity) of total income:
33.4 % (2005)

Unemployment rate:
8.9% (2009 estimate)

Gini coefficient 2009:
0.375

HDI ranking 2009:
71 / 182

CPI ranking 2009:
146 / 180

Overview

As the biggest country in the world, Russia is a country of polar extremes: it has a trade show for millionaires but 61.4% of its inhabitants live on less than \$3,000 per year. The economy is dominated by large corporations but many Russians form small businesses as an alternative to unemployment. Even though the rapid economic growth of the last few years has improved the standard of living of many Russians, the increased prosperity has largely bypassed far-flung provinces like Ingushetia or Kalmykia. The situation of groups who depend on social benefits, such as retirees, is also particularly critical because retirement benefits are not keeping up with price increases.

Russian households are well-equipped with electrical appliances. Cell phone ownership is as high as 114.9%. The market, however, is well undersupplied for other services and products: only 21.5% of Russians have Internet access and only 69% have access to financial services. There is also great demand in affordable housing, healthcare and education.

There are roughly 6 million microentrepreneurs in Russia. To grow their businesses, they primarily need access to financing that, to date, has not been readily available. The current value of microloans is approximately \$1 billion; the market is estimated at up to \$7 billion.

Examples

Commercial banks and the credit card company **VISA** work together with microfinance institutions to offer mobile banking in rural areas where the banks have no branch offices.

In 2000, Opportunity International (OI), the international alliance of microfinance institutions, founded FORA (Fund for Support of Microentrepreneurship). Up until 2005, **FORA** granted 115,000 microloans and became the largest non-commercial provider of microloans in Russia. In 2005, FORA merged with the FORUS bank and can now also offer its customers other products like savings accounts.

Microsoft equips the Cafemax Internet cafés, which offer e-learning facilities, with software, e-learning schedules and marketing resources. This allows the cafés to offer their customers true added value over their competitors.

With its Microenterprise Acceleration program, the hardware manufacturer **HP** gives microentrepreneurs the skills they need to effectively use IT. HP offers training through its own programs and in partnership with small agencies not only in how to use computers but also in successful business management. The company acquires new customers with this strategy and simultaneously makes an active contribution to their development.

Contacts

European Bank for Reconstruction and Development
Promotes the transition to an open market economy and private and entrepreneurial activities in the countries of Central and Eastern Europe and the Community of Independent States (CIS). | www.ebrd.com

The Russian Microfinance Center
Association for microfinance organizations | www.mcenter.ru/en

Market size

Annual expenditure in the income segment below \$3,000 per year (2003)

Income segment	Expenditure in \$ billion	Of which in cities
3,000	40.2	81.5 %
2,500	38.0	75.3 %
2,000	29.5	63.1 %
1,500	18.4	46.6 %
1,000	7.4	27.2 %
500	0.7	12.3 %
Total	134.2	67.6 %

Household expenditure by sector (2003)

	Total expenditure in \$ billion	Of which in the income segment below \$3,000 per year
Food	135.2	41.4 %
Housing	94.7	34.0 %
Water	2.5	38.9 %
Energy	14.5	44.0 %
Health	20.2	45.2 %
ICT	3.9	34.9 %



South Africa

Examples

Amanz' abantu installs water and sewage pipes in slums. The customers get drinking water from a central location (max. 200 meters from home) and pay with a cashless smart card.

Aspen Pharmacare produces affordable medicine including a drug that fights HIV/AIDS, the most prevalent illness in the country. The company has become the largest manufacturer of medicine in southern Africa.

Eduloan extends credit with favorable terms so that mostly "historically underprivileged sections of the population" can finance a higher education. Since its formation in 1996, Eduloan has served 500,000 customers.

SABMiller is the largest brewery in South Africa and operates globally. It buys its raw materials from 16,800 small farmers, mainly in South Africa, but also in Uganda and Zambia. In addition to giving pledges to buy certain volumes, the company, in cooperation with seed suppliers, NGOs and cooperatives, offers training and advice for the farmers.

Mondi is the largest paper recycler in South Africa. The company has overhauled its business model: instead of only working with its own employees, the company also supports local small and microentrepreneurs. It buys waste paper from 3,000 suppliers via 117 offices.

Overview

South Africa has the strongest national economy in Sub-Saharan Africa. Since the first general elections in 1994 marking the end of apartheid, the country has become a flourishing part of the global economy. South Africans proudly demonstrated their openness to the world during the soccer world cup in 2010. The government, which passed a law for "black economic empowerment", has laid the foundation for an assistance program designed to include "historically underprivileged sections of the population", largely excluded during apartheid, in the economy.

Still, three out of four South Africans live on less than \$3,000 a year. For historical reasons, the percentage of those living in poverty who are black is considerably higher than those who are white. Approximately half live in rural regions and the other half in cities. The slums close to cities have developed out of the townships, the places where blacks lived during apartheid. Supplying the townships with adequate housing, electricity and water is an enormous challenge. Other basic services are also lacking. Only 46% of the population has access to financial services.

Market data

Population:	49.1 million (2010 estimate)
Percentage of the population with an income < \$3,000 (in purchasing power parity):	74.4 % (2005)
GDP (nominal):	\$280.6 billion (2009 estimate)
Average GDP growth per year, 1997–2007:	3.7 %
GDP / per capita (by purchasing power parity):	\$10,100 (2009 estimate)
Percentage of income < \$3,000 (in purchasing power parity) of total income:	30.9 % (2005)
Unemployment rate:	24% (2009 estimate)
Gini coefficient 2009:	0.578
HDI ranking 2009:	129 / 182
CPI ranking 2009:	54 / 180

Contacts

B4D Pathfinder An initiative of the Southern Africa Trust providing tools for inclusive business development | www.b4dpathfinder.org

BoP Learning Lab South Africa Institute of the University of Stellenbosch Business School that encourages knowledge and information exchange about inclusive business in South Africa. | www.bop.org.za

Centre for Development and Enterprise (CDE) Independent research and consultancy organization. It looks at national development issues and their relationship to economic growth and democratic development | www.cde.org.za

National Business Initiative (NBI) Most well-known business initiative for CSR in South Africa. It coordinates projects and encourages voluntary business commitments in relation to sustainable development. | www.nbi.org.za

Market size

Household expenditure by sector (2000)

Sector	Total expenditure in \$ billion	Of which in the income segment below \$3,000 per year
Food	37.9	45.8 %
Housing	14.4	30.9 %
Water	1.8	29.4 %
Energy	6.4	40.6 %
Health	6.7	8.5 %
ICT	5.4	13.8 %

Annual expenditure in the income segment below \$3,000 per year (2000)

Income segment	Expenditure in \$ billion	Of which in cities
3,000	6.2	77.7 %
2,500	7.0	70.8 %
2,000	7.9	66.3 %
1,500	8.7	54.6 %
1,000	8.1	38.9 %
500	2.4	20.6 %
Total	40.3	58.1 %

Sectors with potential

The sector profiles show the various opportunities and potential solutions for inclusive business ventures broken down by sector.

Profiles of the following sectors are provided:

- Energy
- Financial services
- Food and agriculture
- Health
- Housing and construction
- Information and communications technology (ICT)
- Water

The sector profiles are structured as follows:

Overview: Characterization of the sector in relation to the market at the base of the pyramid.

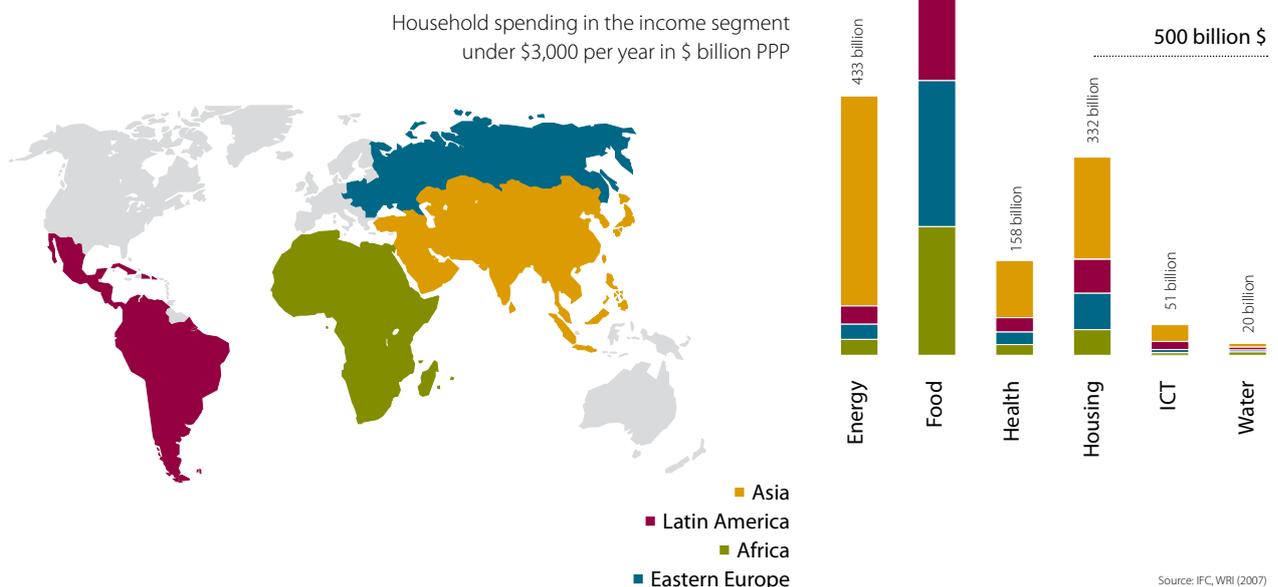
Market size: Total size of the consumer segment in the sector with an income of less than \$3,000 per year and the size in the regions. The estimates are taken from the study "The Next 4 Billion", published by WRI and IFC in 2007.

Poverty penalty: Describes where people living in poverty have to spend more time or money for access to products and services in the sector, where only lower quality is available or where they don't have any access at all.

Solutions: The existing examples provide some initial models for how the sector can be "unlocked" as a market. These are summarized here in brief.

Examples: Provides a list of published case studies.

Additional information: References publications, websites and other additional sources of information.



Energy

Market size

Spending for energy
in \$ billion

- Asia 350.9
- Latin America 30.5
- Africa 26.6
- Eastern Europe 25.4

Total 433.4

**Overview**

1.6 billion people around the world do not have access to electricity. The energy they need for cooking, heating, powering machines and generating light comes from gasoline, gas, wood or batteries. Fuels like kerosene are not only inefficient and expensive, they also cause health problems and are harmful to the environment. When it comes to energy supply, Africa has the most serious problems. In Rwanda or Uganda, for example, the percentage of households with access to electricity is under 10% in rural regions.

Poverty penalty

For the 1.6 billion people without electricity, machines and modern means of communication are useless. Time that would otherwise be available for work or school is spent on the laborious task of collecting firewood.

The fumes emitted when kerosene or wood is burned indoors pose serious threats to human health. According to the WHO, 1.6 million people die every year as a result. The risk of fire or injury is also high. Moreover, the CO₂ emissions are harmful to the environment.

The energy solutions available are much more expensive than electricity supplied from the grid. In Bangladesh, the cost of energy (kerosene, batteries, etc.) in off-grid areas is equivalent to \$1.95 per kilowatt hour, i.e. 10 times the price a private consumer in most Western countries pays for electricity. Many households spend up to 50% of their monetary income on energy.

Solutions

- Energy-efficient products such as better stoves or compact fluorescent lamps or LED lamps benefit the environment and save money.
- Decentralized mini-grid solutions on household or community level with electricity generated from wind, water, sun or biomass can guarantee a decentralized energy supply. Linking projects to financing solutions can facilitate the necessary investments.
- Solutions such as collective electricity meters and smart cards can be used to bill for electricity supply in urban slums.
- The growth of the market for biofuels means that opportunities are emerging for people in rural regions to earn income from selling sugar, starch and oil plants. Farmers who use biomass to generate energy have fewer costs.
- Reductions in CO₂ achieved by using energy-efficient products and producing energy from renewable raw materials can be sold via certificates in emissions trading.

Examples

Four examples have already been presented: INENSUS (p. 17), MicroEnergy International (p. 39), D.light Design (p. 45) and BSH Protos (p. 55).

- The **Aprovecho Research Center** (USA) teamed up with Shengzhou Stove Manufacturer (China), to design a stove that reduces the amount of wood or coal needed by up to 40% to 50% and reduces emissions by up to 70%. As a mass-produced product, it is sold at a very affordable price by the spin-off company Stovetec.
- **OSRAM** has opened solar-powered electricity kiosks in Kenya. OSRAM's battery-powered, energy-saving lamps can be inexpensively recharged at the OSRAM O-HUBs along with cell phones and radios.
- The Bengali company, **Grameen Shakti**, has shown how to successfully sell high-tech products in rural regions with its solar home system. More than 220,000 systems were manufactured and sold with the help of microfinancing.

Further reading:

- endeava (2011) Energize the BoP! - Inclusive Energy Business Model Generator [www](#)
- GTZ (2002), Producing Electricity from Renewable Energy Sources: Energy Sector in Asia, Africa and Latin America [www](#)
- Hystra / Ashoka (2009), Access to Energy for the Base of the Pyramid [www](#)
- International Energy Agency (2010), Comparative Study on Rural Electrification Policies in Emerging Economies-Keys to Successful Policies [www](#)

Financial services

Overview

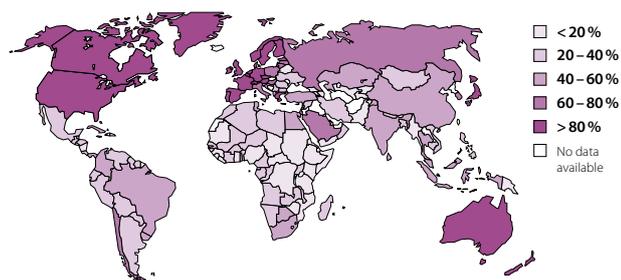
Lack of access to capital, insurance and bank accounts hinders the growth of millions of microenterprises in developing countries. Microcredit was a ground-breaking concept in inclusive business ventures. Today, the sector offers not only microloans, it also includes microinsurance and solutions for money transfer and savings accounts.

Market size

Estimates on the size of the microcredit market vary drastically. Some estimates claim there are 1 billion potential customers while others put this figure closer to 3 billion. The huge potential of this market has spurred commercial banks and insurance companies to adapt their products to the needs of low-income households over the last few years. "The Next 4 Billion" contains no data about the size of the market for this sector.

Access to financial services

Percentage of households with a banking account



Source: P. Honohan, July 2007

Poverty penalty

Access to financial services continues to be limited. Despite the strong growth of microloans, they only reach around 155 million customers. Bank accounts and insurance are scarce. Conventional banks usually do not extend credit without some sort of material collateral. People with low incomes have had to rely on the services of traditional moneylenders who charge annual interest rates of up to 700% per year. Other financial services are also expensive. Fees for money transfers from abroad can be as high as 45% of the total amount transferred.

Additional information

- Allianz SE (2010), [Learning to Insure the Poor – Microinsurance Report](#) [www](#)
- Boston Consulting Group (2007), [The Next Billion Banking Consumers](#) [www](#)
- Christopher N. Sutton / Beth Jenkins (2007), [The Role of the Financial Services Sector in Expanding Economic Opportunity](#) [www](#)
- International Labour Office and Munich RE Foundation (Ed., 2008), [Protecting the Poor. A Microinsurance Compendium](#) [www](#)
- Microinsurance Network, [www.microinsurancenet.org](#)
- MixMarket, [www.mixmarket.org](#)
- Micro Credit Summit, [www.microcreditsummit.org](#)
- Consultative Group to Assist the Poor, [www.cgap.org](#)

Solutions

- Microfinance institutions and insurance companies have adapted products to their customers' needs: loan amounts range between \$1 and \$1,000 and insurance policies for life, health or accident are available below \$10 per year.
- Credit is guaranteed through collective responsibility: the loans are granted to a group of poor people who are jointly liable for repayment. 95% to 99% of these loans are paid back.
- To sell their products or assess claims, insurance companies rely on collaboration with local development organizations, cooperatives or self-help groups.
- Every microfinance program includes a financial literacy campaign.
- Modern technology like mobile billing systems and standardized processes for performing credit checks help keep transaction costs low.
- Mobile banking services allow bills to be paid and money to be transferred across international borders quickly and inexpensively using text messages.

Examples

Several examples have already been described in detail: M-PESA (p. 13), Grameen Bank and SKS Microfinance (p. 19), Smart Mobile Banking (p. 41), Allianz microinsurance (p. 51) and Barclays Bank (p. 53).

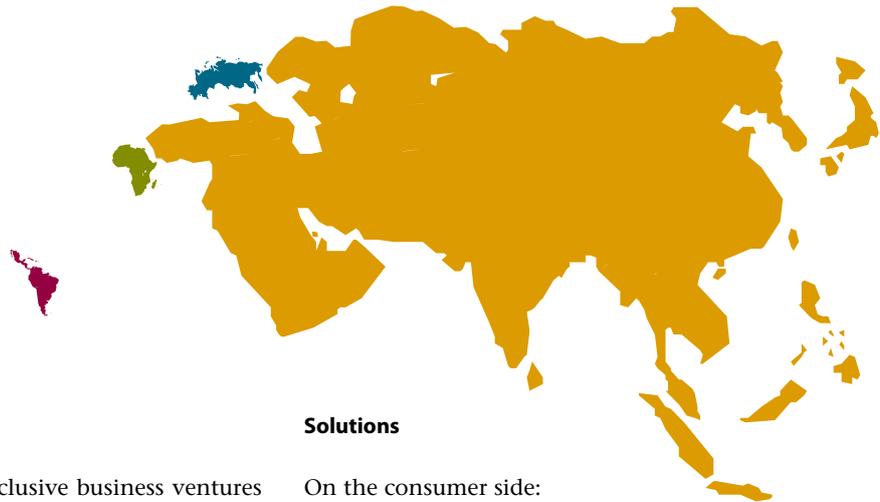
- **Compartamos**, the commercial Mexican bank, charges relatively high interest rates of up to 50% per year. In 2007, the company put 30% of its shares on the stock market and generated the equivalent of \$450 million.
- **BASIX** is one of the first MFIs to offer crop insurance in India. Instead of assessing claims on-site, the premium is paid out on the basis of a weather index which drastically reduces administrative costs.
- In Fiji, the **ANZ bank** has joined forces with the UNDP to offer banking services to customers in rural regions. Mobile "bank branches" in small trucks drive to where the customers are and tell them about the different services available to them.

Market size

Spending for food and agriculture
in \$ billion

- Asia 2.236
- Eastern Europe 244
- Africa 215
- Latin America 199

Total 2.894



Food and agriculture

Overview

The food sector is interesting for inclusive business ventures on two levels: individuals on low incomes can be integrated into value chains both as consumers and as producers.

Poverty penalty

In poor households, people eat a lot of inexpensive carbohydrates like grain and sugar. A balanced diet consisting of fruit and vegetables, dairy products and fish or meat is rare. The resulting malnourishment adversely affects the development and growth of children which frequently solidifies poverty.

The producer side is characterized by low productivity and poor risk management. Small farmers rarely have access to high-quality seeds, interim loans or irrigation systems and sell their products to middlemen at poor prices because they have no overview of the market. Risks such as crop failure or inability to work cannot be absorbed without outside help and thus threaten the existence of families.

Examples

Examples in previous sections include: Natura (p. 21), Ritter (p. 23), Tiviski (p. 27), SAFO (p. 43), ATOS (p. 49) and ITC e-Choupal (p. 63).

- **Fair trade** uses tools such as premium prices, organization into cooperatives, access to financing and training. This opens up access to export markets for small farmers with good terms. 1 million farmers and workers are already benefiting from participating in fair trade. The total revenue generated with certified products amounted to \$4 billion in 2008.
- In Bangladesh, the **Grameen Foundation** and **Danone** developed a yogurt fortified with nutrients. The product is sold door-to-door by a network of women vendors.

Solutions

On the consumer side:

- Developing affordable food products fortified with vitamins and minerals eliminates malnourishment.
- Food is often sold in single-portion packages (sachets) so that income in poor households is not tied up in stockpiling goods.

On the producer side:

- Developing better production factors such as resistant seeds or robust irrigation systems. Access to these materials can be guaranteed by setting up regional sales and distribution networks and providing microloans.
- Training on the effective use of productive methods and products.
- To improve marketing opportunities for small farmers, it can be useful to set up cooperatives, give access to credit, provide Internet or mobile-based information services and establish direct trade relationships. Fair trade, in particular, uses these elements effectively.
- Crop and property insurance makes it easier for small farmers to manage risk.

Further reading:

- World Economic Forum and Boston Consulting Group (2009), **The Next Billions: Business Strategies to Enhance Food Value Chains and Empower the Poor** [www](#)
- Harvard University John Kennedy School's CSR Initiative and FSG Social Impact Advisors (2008), **The Role of The Food & Beverage Sector in Expanding Economic Opportunity** [www](#)
- Regoverning Markets (2008) **Inclusive Business in the Agrifood Markets: Evidence and Action** [www](#)

Health



Market size
Spending for healthcare
in \$ billion

- Asia 95.5
- Latin America 24
- Eastern Europe 20.9
- Africa 18

Total 158.4

Overview

Medical services are inadequate in many emerging nations and developing countries and the poor can often not afford effective medicine and medical treatment. The poor rarely consult doctors: self-treatment is typical.

The most common illnesses and causes of death among people living in poverty are infections like diarrhea or malaria, complications during pregnancy and, particularly in Africa, HIV/AIDS. Major challenges in healthcare include insufficient hygiene, poor housing conditions and ignorance about the causes and transmission of disease.

People in rural regions in particular could act as suppliers of raw materials for pharmaceuticals.

Poverty penalty

Illnesses often go untreated, preventing people from working or even resulting in death. One example is cataracts, which can lead to blindness if left untreated, or HIV/AIDS, the onset of which can be delayed by drugs.

Doctors and pharmacies are particularly hard to find in rural areas. Government healthcare facilities are often poorly staffed. Many families cannot afford the journey to the next hospital, which may take days to reach, or pay for an in-patient stay in a place far from their home. But if this is unavoidable, the high costs drive families all too often into bitter poverty.

Solutions

- Microfranchise systems can spread services for basic medical care and advice quickly and create opportunities for earning income.
- Access to medical care is improved by producing affordable medication and granting licenses to generic manufacturers.
- Integrating local, medically trained staff or local development organizations for preliminary examinations helps to expand the coverage. Solutions involving telemedicine can also improve the quality of on-site advice.
- Mobile care provided by clinic buses reaches people in isolated areas.
- Micro-health insurance provides access to healthcare and prevents poverty.

Examples

The following examples are provided elsewhere in this report: SAFO (p. 43), ATOS (p. 49), Aravind (p. 61) and VisionSpring (p. 65).

- In Kenya, **CFW** has created a network of franchise shops operated by local nurses. It sells low-priced medicine and products such as malaria nets.
- Insurer **Allianz** provides health insurance in Tamil Nadu, South India. CARE International helps to set up mutual health insurance groups that organize most of the administration and claims. Local subsidiary Bajaj Allianz steps in for larger claims like surgeries and hospital stays.
- **Siemens India** sets up mobile clinics to supply healthcare. People are examined and treated locally in “medical camps”. Since 2002, more than 800 “medical camps” have been set up and a total of 60,000 patients have received care.

Additional information

- Adeeb Mahmud and Marcie Parkhurs (2008), *The Role of the Health Care Sector in Expanding Economic Opportunity* [www](#)
- IFC (2007), *The Business of Health in Africa* [www](#)
- John Paul (2005), *Private Sector Strategies for Providing Healthcare at the Base of the Pyramid* [www](#)

Market size

Spending for housing and construction
in \$ billion

- Asia 171.4
- Eastern Europe 60.8
- Latin America 56.7
- Africa 42.9

Total 331.8



Housing and construction

Overview

The market for “housing” at the base of the global pyramid is concentrated in cities. The number of slums in the rapidly growing metropolises in the southern hemisphere is on the rise. People usually build their own houses, which means that construction progress is dependent on the (irregular) family income. Investments are not made in quality when constructing homes as a result of the ill-defined legal status—if the authorities “clear out” a slum, the house can be torn down from one day to the next. The poor quality of construction, however, increases the risk of property loss in extreme weather conditions. This risk is increasing as the climate changes.

Many people at the bottom of the income pyramid work in the construction sector. Informal construction companies face the same issues of supply and financing outlined above.

Poverty penalty

People who live in poverty frequently do not have any official proof of ownership for their house or land. As a result, they can’t sell their property or they operate in a gray market where sale prices are poor. Property is thus “dead capital”. It is also often impossible to access municipal services such as electricity or water because the providers require formal proof of the existence of the house.

Solutions

- Microfinance institutions grant affordable loans with long repayment periods to construct homes.
- Solutions for home construction are sold instead of building materials. This includes, in addition to a microloan, the regular supply of building materials, training for housing construction and advice from architects and construction workers.
- Affordable pre-fabricated houses improve the quality of housing. In some cases, recycled building materials are used. Energy-efficient solutions ensure good insulation and ventilation.

Examples

- **Cemex**, a company that manufactures building materials, provides low-income customers in Mexico with financing, architectural advice and affordable building materials as part of its “Patrimonio Hoy” program. The “Construmex” program makes it possible for immigrants living in the US to invest directly in home construction for their families.
- In Egypt, local architecture consultancy **ADAPT** builds on local materials and manpower to supply low-income families with sustainable housing solutions. ADAPT collaborates with entrepreneurial master builders from the informal sector and trains young people to build ecological and inexpensive homes in their own communities.
- **Nedbank** in South Africa provides funding for large-scale affordable housing development projects.
- The start-up company **Saraman** in central Iran designs, fabricates and erects affordable, earthquake-proof prefabricated steel structures for houses, schools and hospitals.

Additional information:

- Stephanie Schmidt and Valeria Budinich (2006), Housing Solutions Serving Low-Income Populations: A Framework for Action [www](#)
- UN-HABITAT (2007), Business for Sustainable Urbanisation – Challenges and Opportunities [www](#)
- United Nations Human Settlements Programme (2003), The Challenge of Slums. Global Report on Human Settlements [www](#)

Information and communications technology (ICT)



Overview

Many households in developing countries do not have access to modern information and communications technology (ICT): Internet, telephone lines and hardware and software to meet local requirements are usually scarce, expensive and of poor quality. Information and communication services are often not adapted to the needs of poor households.

Poverty penalty

Access to information technology is particularly limited in the countryside. This is true for both network coverage as well as the sale of equipment and services. The lack of access to telecommunications can have a significant indirect impact on the poor. It can mean additional cost and effort trying to access information as well as lost income because the market is inaccessible.

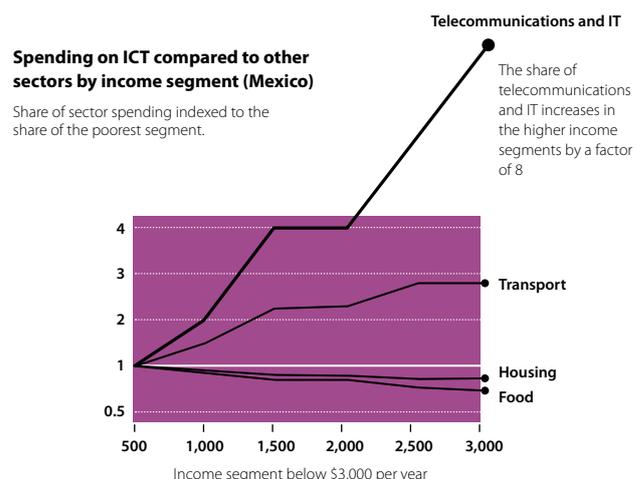
Solutions

- Mobile technologies have gained widespread acceptance in many countries due to the low installation costs compared to landlines and the great distances they cover. Mobile telephony is also increasingly used for Internet access.
- Prepaid access has become widely established as a payment method.
- Microfinance solutions make it possible for new customer groups to buy equipment.
- Community computer centers don't just offer affordable Internet access, they also offer training, networking and local information exchange between users.
- Additional services can make mobile telephony particularly attractive for poor households: cross-border mobile banking or market information, weather forecasts and teleshopping, etc. create additional value, help fight poverty and can also be sources of income for companies.

Examples

Several examples were presented in the previous section including Vodafone (p. 13), SMART (p. 41) and ITC e-Choupal (p. 63).

- **Grameen** and **Telenor** came up with a model for telephone rental from "village phone ladies" in the rural market in Bangladesh. Telenor then put the model into practice in Pakistan and has since entered the Indian market.
- **Zain's "One World Network"** in Africa and the Middle East has created a cross-border mobile network with no roaming charges that also offers access to banking and data services.
- **Google SMS** offers poor households in Uganda access to all kinds of different information through text messages (for example, information about health or agriculture) and to the local "Google Trader" marketplace where households can buy and sell goods and services.



Spending for ICT increases disproportionately with increasing income which leads to expectations of strong market growth in the future

Source: IFC, WRI (2007),
The Next 4 Billion

Additional information

- Beth Jenkins, Bill Kramer and Rob Katz (2007), *The Role of the Information and Communications Technology Sector in Expanding Economic Opportunity* [www](#)
- Boston Consulting Group (2007), *The Next Billion Consumers: A Road Map for Accelerating Telecommunications Growth in Brazil* [www](#)

Water

Market size

Spending for water
in \$ billion

- Asia 6.4
- Africa 5.7
- Latin America 4.8
- Eastern Europe 3.2

Total 20.1

**Overview**

The infrastructure for water supply and wastewater removal is often poor in developing countries. As a result, there are many microentrepreneurs that provide water using wheelbarrows, kiosks or trucks, particularly in urban areas. While quantity is the primary problem when it comes to agriculture, quality is the problem for drinking water. The water often contains germs that can spread illnesses or it is contaminated with heavy metals.

Poverty penalty

Most slums do not have a central water supply system because, even though household connections are not expensive to maintain, investment costs are high. Many people living in poverty thus have to rely on buying expensive water from microentrepreneurs or walking long distances to get water themselves. Diarrhea is common because the water taken from rivers and lakes is not treated.

Solutions

- Forming cooperatives to invest in infrastructure
- Local water companies can contract microentrepreneurs to maintain infrastructure, collect payments and provide customer service
- Prepaid solutions at water kiosks
- Billing groups instead of individuals
- Marketing technologies such as filters or chemical purification for decentralized treatment of drinking water

Examples

Examples are provided in the previous sections including the Siemens Safe Water Kiosk (p. 35) and the Manila Water Company (p. 59).

- *Amanz' abantu* installs water kiosks in slums and rural areas of South Africa. The customers get drinking water from a central location (max. 200 meters from home) and pay with a cashless smart card.
- *IAWDCO* supplies more than 3,000 households in the slums on the outskirts of Manila with water through a well-developed network of sub-contractors. More than 200 "aguadores" supply end customers with water to their homes using hoses. These aguadores purchase the water themselves from the IAWDCO central water tower. Water meters in this system are not installed in the buyer's home or on the buyer's premises, as is usually the case, but at the beginning of the line on the supplier's premises. This creates an incentive for the customers to check their supply hose for illegal water removal.

Additional information

• Al Hammond et al. (2008), *Safe Drinking Water for All – A Sector Review of the Opportunity for Community-Scale Social Enterprises* [www](#)

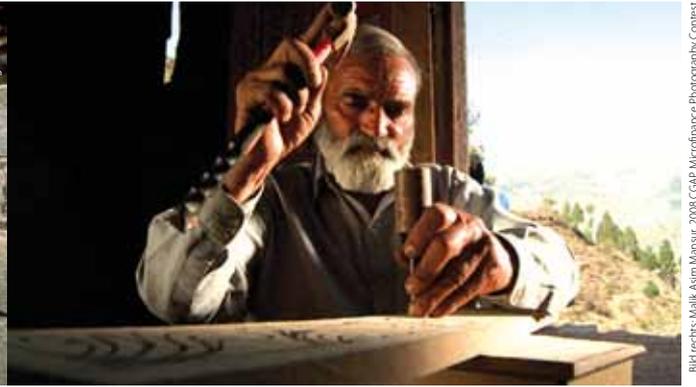
Outlook

The “Inclusive Business Guide” is primarily intended as a guide for companies. This publication therefore brings to light the added value that inclusive business can offer this target group and shows the courses of action open to it. It’s important, though, not to lose sight of the critical questions when focusing on these practical ones. Instead of wrapping up with a summary of the findings, this publication concludes with a broad outlook that puts the spotlight on the interests and roles of other actors, particularly government institutions and the people who suffer from poverty.

The most important question is: Do inclusive business ventures truly make a measurable contribution to fighting poverty? Or, are they merely a clever marketing strategy? There is evidence of a direct positive impact for many ventures: Aravind has given 2 million customers their sight back over the last 30 years, Manila Waters has connected 1.5 million households to the water supply in a 10-year period, Tiviski has generated income for more than 1,000 families in Mauritania by buying and processing camel milk. To date, there have been few studies on the indirect effect of these results on people’s quality of life. A study conducted by the World Bank in Bangladesh found that 48% of microloan recipients managed to rise above the poverty line within the 8-year period of the study.



Imelda Bangsail formed a small weavery on the Philippines with a microloan. She also sells products to wholesalers.



In a village in the mountains of Kashmir, Pakistan, Masoom Ali carves wood that he sells at the market.

It is not easy to measure the contribution that inclusive business makes to giving people in poverty freedom of choice. Development aid is a charitable gift—and gifts are not refused. Charity is important in times of crisis and is an indication that people are valued. But charity can also take away people's voice if it diminishes their freedom to make decisions. According to the survey "Voices of the Poor" conducted by the World Bank, the poor themselves see lack of say and participation in society as one of the key characteristics of poverty. Inclusive business ventures, however, offer choice and thus a channel to express needs. If people in poverty are not satisfied with the quality of the products or services they buy, there are, ideally, other people they can do business with. Freedom of choice gives people room to make their own decisions.

However, information is required to make choices. The examples found in this report are positive business ventures with the poor where both sides benefit and the company takes its responsibility seriously to provide its customers or partners with extensive information and to give them the ability to make independent decisions. In the context of poverty, however, there are many less positive examples where the poor have had to pay too much for too little or have even been harmed. Sometimes they lack choice but it is often the case that they also lack good information. Consequently, it is important that consumers are protected and a legal framework that guarantees security and reliability is put in place in developing countries. Government institutions have a vital role to play here.

It would also be conceivable for inclusive business ventures to play a positive role in structuring the overall legal conditions even if there is only anecdotal evidence for this up to now. The interests of investors are often given more weight by government officials than those of voters in the slums and villages. If a company wants to improve the housing offered in slums, this could give enough impetus to legalize ownership and give homeowners the ability to invest. A positive example of this can be found in Mali: when the French electricity provider EDF set about creating local companies for rural power supply, there was no corresponding legal framework for private electricity supply. With the support of the World Bank, the company was able to persuade the government of the need for this regulatory foundation. In 2006, the same year the law went into effect, the authorities awarded 50 contracts to small suppliers.

The approach of "fighting poverty through business" is still in the fledgling stages. It is important to continue observing the impact inclusive business ventures have on people's opportunities and to create political and financial incentives to steer in the right direction. The concept shows great promise. Companies, governments, development organizations, investors and other actors will have the opportunity to shape this approach over the next few years.

Let's keep pushing forward!

Reference materials

Literature tips and Internet links

Literature references to books and magazine articles state the full reference information. Online publications are cited only with the author(s), year and title and are indicated by a [www](#). To find these publications, the name of the source document just has to be entered in a standard search engine.

Literature tips

Stuart Hart (2010)

Capitalism At the Crossroads: Next Generation Business Strategies for a Post-Crisis World

Wharton School Publishing. Upper Saddle River, New Jersey

Strategic considerations for aligning the fight against poverty, environmental protection and profits

Beth Jenkins et al. (2007)

Business Linkages: Lessons, Opportunities, and Challenges [www](#)

Discusses ways of integrating small and medium-sized companies in developing countries

Beth Jenkins (2007)

Expanding Economic

Opportunity: The Role of Large Firms [www](#)

Outlines the potential contribution large companies can make to fighting poverty

IBLF (2008)

Business and the Millennium Development Goals: A Framework for Action (2nd edition) [www](#)

Discusses how companies can contribute to achieving the Millennium Development Goals

IFC und WRI (2007)

The Next 4 Billion: Market Size and Business Strategy at the Base of the Pyramid [www](#)

Estimates the size of the global low-income market by sector and country on the basis of household surveys

Prabhu Kandachar und Minna Halme (Ed., 2008)

Sustainability Challenges and Solutions at the Base-of-the-Pyramid: Business, Technology and the Poor

Greenleaf. Sheffield

Collection of essays on strategic approaches and examples of inclusive business ventures

Aneel Karnani (2006)

The Fortune at the Bottom of the Pyramid – A Mirage [www](#)

Takes a critical look at the BoP approach

Monitor Institute (2009)

Emerging Markets, Emerging Models – Market-Based Solutions to the Challenges of Global Poverty [www](#)

Identifies promising models for successful inclusive business ventures

C. K. Prahalad (2004)

The Fortune at the Bottom of the Pyramid: Eradicating Poverty Through Profits

Wharton School Publishing
Upper Saddle River, New Jersey

Argues in favor of a business and profit-oriented approach to fighting poverty

K. V. Rangan, G. Herrero und B. Barton (Ed.) (2007)

Business Solutions for the Global Poor: Creating Social and Economic Value

Jossey-Bass. San Francisco

Collection of essays on strategic approaches and examples of inclusive business ventures

Christian Seelos und Johanna Mair (2007)

Profitable Business Models and Market Creation in the Context of Deep Poverty: A Strategic View

Academy of Management Perspectives 21(4), p. 49–63

Looks at partnerships with socially-oriented entrepreneurs as a strategic model for inclusive business

UNDP (2008)

Creating Value for All – Strategies for Doing Business with the Poor [www](#)

Identifies constraints and potential solutions for inclusive business ventures on the basis of 50 case studies

UNDP (2010)

The MDGs – Everyone’s Business [www](#)

Provides a guide to institutions that support inclusive business through policymaking, research and advocacy, financing and complementary capabilities by MDG

WBCSD (2004)

Doing Business with the Poor – A Field Guide [www](#)

Implementation recommendations for inclusive business ventures on the basis of case studies

WBCSD (2007)

Doing Business with the World – The New Role of Corporate Leadership in Global Development [www](#)

Discusses obstacles to and opportunities for inclusive business in 10 sectors

World Economic Forum (2009)

The Next Billions: Unleashing Business Potential in Untapped Markets [www](#)

Recommendations for developing business to fight poverty

Other literature tips on topics, sectors and industries are provided in the individual chapters.

Websites with current information

Business Fights Poverty

Social network for inclusive business

<http://businessfightspovetry.ning.com>

Inclusive Business

Blog

www.inclusivebusiness.org

Next Billion

Blog

www.nextbillion.net

WBCSD Webseite

Section and newsletter on “development”

www.wbcسد.org

List of abbreviations

ADA	Austrian Development Agency
ADB	Asian Development Bank
AfDB	African Development Bank
GDP	Gross Domestic Product
BMZ	Federal Ministry for Economic Cooperation and Development (BMZ)
BoP	Base of the Pyramid
B2B	Business-to-Business
B2C	Business-to-Consumer
CDM	Clean Development Mechanism
CPI	Corruption Perception Index
DEG	Deutsche Investitions- und Entwicklungsgesellschaft (German investment and development organization)
DFID	Department for International Development (Ministry of Development, Great Britain)
EBRD	European Bank for Reconstruction and Development
GRI	Global Reporting Initiative
GTZ	Gesellschaft für Technische Zusammenarbeit (German organization for technical cooperation)
HDI	Human Development Index
IADB	Inter-American Development Bank
IBLF	International Business Leaders Foundation
IFC	International Finance Corporation
IRIS	Impact Reporting and Investment Standards
ICT	Information and Communications Technologies
IT	Information Technology
ICC	International Chamber of Commerce
MDGs	Millennium Development Goals
MFI	Microfinance institutions
OECD	Organization of Economic Co-Operation and Development
PPP	Public-Private Partnership
SDC	Swiss Agency for Development and Cooperation
SIDA	Swedish International Development Cooperation Agency
SNV	Netherlands Development Organization
UN	United Nations
UNDP	United Nations Development Programme
UNEP	United Nations Environmental Programme
WBCSD	World Business Council for Sustainable Development
WRI	World Resources Institute

List of supporting organizations

Local implementation

UNDP United Nations Development Program; networks and development expertise in 166 countries. "Growing Sustainable Business" program with brokers in currently 15 countries.
→ www.undp.org & → www.undp.org/gsb

Many government-led development organizations (such as DFID for the UK or USAID for the US) work with the private sector to establish inclusive business models. So do many not-for-profit organizations such as CARE International or OXFAM.

Financing

ADB Asian Development Bank; finances private sector projects in Asia → www.adb.org

Acumen Fund invests in businesses to end global poverty → www.acumenfund.org

AfDB African Development Bank; finances projects in Africa → www.afdb.org

EBRD European Bank for Reconstruction and Development; finances private-sector projects in Eastern Europe and the CIS → www.ebrd.com

IADB Inter-American Development Bank; finances projects in Latin America. Its initiative "Opportunities for the Majority" supports inclusive business ventures → www.iadb.org

IFC International Finance Corporation; finances inclusive business ventures with the "Sustainability Business Innovator" program → www.ifc.org

UNFCCC United Nations Framework Convention on Climate Change; provides information on emissions trading within the scope of the "Clean Development Mechanism" → <http://cdm.unfccc.int>

In many countries, the national development banks offer specialized financial support for inclusive business ventures.

Contacts and networking

Ashoka Supports social entrepreneurs with programs in over 60 countries and 25 regional offices → www.ashoka.org

BoP Learning Labs Information exchange and knowledge building about inclusive business ventures → www.bopnetwork.org

IBLF International Business Leaders Forum; brokering and training for partnerships through the "Partnering Initiative" → www.iblf.org

Schwab Foundation for Social Entrepreneurship Supports and connects social entrepreneurs → www.schwabfoundation.org

UN Global Compact Initiative for corporate citizenship with networks in many countries → www.unglobalcompact.org

WBCSD World Business Council for Sustainable Development; global network of companies that focuses on the issue of sustainability, with local networks in many countries → www.wbcscd.org

Competitions

BID Challenge Business plan competition for companies from developing countries, focuses on contribution to development → www.bidnetwork.org

Changemakers Platform and competition for socially-oriented entrepreneurs sponsored by Ashoka → www.changemakers.com

Echoing Green Grants for socially-oriented entrepreneurs → www.echoinggreen.org

New Ventures Program of the World Resource Institute to support companies from developing countries (particularly Brazil, China, India, Indonesia, Colombia, Mexico) focusing on environmental sustainability → www.new-ventures.org

Rio Tinto Prize for Sustainability Competition for sustainable projects (not necessarily business models) with \$1 million in prize money → www.alcanprizeforsustainability.com

SEED Initiative Competition and support for social and environmental entrepreneurs → www.seedinit.org

Experts and academic institutions

Cornell University – Johnson School – Center for Sustainable Global Enterprise

Development of the "BoP Protocol" to generate inclusive business ventures
Stuart Hart (Samuel C. Johnson Chair in Sustainable Global Enterprise and Professor of Management)
→ www.johnson.cornell.edu/sge

IESE Platform for Strategy and Sustainability

Strategic management of socially-oriented companies
Christian Seelos (Director of the IESE Platform for Strategy and Sustainability) and Johanna Mair (Associate Professor of Strategic Management)
→ www.iese.edu > Knowledge > Centers and Chairs > ESE Platform for Strategy and Sustainability

Harvard Kennedy School CSR Initiative

Role of businesses in fighting poverty
Jane Nelson (Director)
→ www.hks.harvard.edu/m-rcbg/CSRI/

Massachusetts Institute of Technology D. Lab

Design for people in poverty
Amy B. Smith (Design lab instructor)
→ <http://web.mit.edu/d-lab>

TU Delft BoP Initiative

Design for people in poverty
Prabhu Kandachar (Associate Professor of Industrial Design Engineering) and Jan-Carel Diehl (Assistant Professor for Design for Sustainability)
→ <http://home.tudelft.nl/en> > Faculty for "Industrial Design Engineering" > Research > Projects

William Davidson Institute, University of Michigan, BoP Initiative

Strategic management of inclusive business ventures
Ted London (Director)
→ www.wdi.umich.edu > Research Initiatives > Base of the Pyramid

Endnotes

Literature references to books and magazine articles state the full reference information.

Online publications are cited only with the author, year and title and are indicated by a [www](#).

To find these publications, the name of the source document just has to be entered in a standard search engine.

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- 21 The study **Creating Value for All** is based on 50 case studies of successful inclusive business ventures. These were analyzed with a view to strategic solutions. [www](#)
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About endeava

endeava's mission is to inspire and enable enterprise solutions to development challenges.

As an independent institute, we work closely with partners from all sectors, including development agencies, foundations, large and small companies, and universities. With them, we build, share and apply knowledge about how to develop, implement and grow inclusive business models.

We rely on a global network of experts to carry out our projects. endeava also organizes the BoP Learning Lab Germany.

endeava was founded in November 2010 as a successor to the "Emergia Institute" whose work in inclusive business it will continue. Between 2008 and 2010, we carried out numerous projects with partners from the public, private and non-profit sector. The results of these efforts have been incorporated into, among other things, the publications "Creating Value for All – Strategies for Doing Business with the Poor" with the UNDP, "Towards Triple Impact – Toolbox for Analyzing Sustainable Ventures in Developing Countries" with the UNEP and "Learning to Insure the Poor – Microinsurance Report" with Allianz SE.

You can find more information about our work on our website at → www.endeava.org.

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