Shared Prosperity through Inclusive Business:

HOW SUCCESSFUL COMPANIES REACH THE BASE OF THE PYRAMID

IN PARTNERSHIP WITH:

International Finance Corporation
WORLD BANK GROUP

ABOUT IFC

IFC, a member of the World Bank Group, is the largest global development institution focused exclusively on leveraging the power of the private sector to create jobs and tackle the world's most pressing development challenges. Working with private enterprises in more than 100 countries, IFC uses its capital, expertise, and influence to help eliminate extreme poverty and promote shared prosperity.

WRITTEN BY

The writing team included Kathy Gaertner and Eriko Ishikawa, with guidance from Toshi Masuoka and input from Beth Jenkins. Groff Creative provided the design.

ACKNOWLEDGEMENTS

This report is based on the inclusive business models that resulted from the pioneering efforts of IFC's clients. A special thanks to all of those clients who agreed to be profiled in it.

Foreword

Many IFC clients, including those highlighted in this report, are directly impacting low income people. These clients have incorporated the 'base of the economic pyramid' into their value chains in a variety of ways. IFC has committed over $11 billion to more than 400 such companies in just the past ten years and is proud to help them grow.

What our inclusive business clients have achieved is even more remarkable given that the world is increasingly being shaped by demographic dynamics and slow growth. Overall economic and income growth sharply decelerated following the global financial crisis of 2008-9 and the pace of structural reform has since been uneven. Rising inequality in many countries is now a serious concern, while the unprecedented pace of poverty reduction over the last three decades may be losing momentum.

Against this macroeconomic backdrop, however, there remain plenty of untapped growth opportunities, especially given current technological advances. These advances could enable billions of people at the base of the economic pyramid to join the modern global economy. At IFC, we believe in the critical role that the private sector can play to realize people's dreams by creating jobs and markets where these did not previously exist and by making goods and services accessible to low-income customers, often for the first time.

More work is needed. Our mission will not be complete until people everywhere have the opportunity to achieve the same levels of productivity and life satisfaction. Narrowing the gap in economic conditions between the most advanced countries and emerging markets is critical to achieving the goals that we have laid out as the World Bank Group — ending poverty and boosting shared prosperity. IFC is committed to achieving these goals and to accelerating the spread of inclusive, commercially viable business models.

Ted Chu
Chief Economist
IFC

Shared Prosperity through Inclusive Business:

HOW SUCCESSFUL COMPANIES REACH THE BASE OF THE PYRAMID

International Finance Corporation
WORLD BANK GROUP

Contents

SHARED PROSPERITY THROUGH INCLUSIVE BUSINESS: HOW SUCCESSFUL COMPANIES REACH THE BASE OF THE PYRAMID

LIST OF CASES STUDIES

The following companies are profiled in the report to highlight a particular aspect of their inclusive business model. We would like to thank each of these clients for agreeing to be a part of this report and for the work they do to reach the base of the pyramid.

Engaging the BOP

An Overview of Challenges and Solutions

	Suppliers	Customers		
	Procurement	**Product and Service Development**	**Distribution and Retail**	**Marketing and Sales**
The Challenge	Sourcing from small farmers	Appealing to value-conscious customers	Maximizing access while minimizing cost	Unlocking willingness and ability to pay
The Solutions	Aggregating suppliers Providing capacity-building Facilitating access to finance	Reducing costs Offering value for money Matching customer cash flows	Leveraging retailers Leveraging technology	Communicating value Alternative pricing Facilitating access to financing Facilitating payment

Introduction

Companies in emerging markets do business with people who live at the "base of the economic pyramid" (BOP) at various points along the value chain for strategic reasons. IFC has invested in hundreds of such companies, which we call "inclusive businesses." These companies have achieved commercial sustainability and growth while benefiting the poor.

COMPANIES ENGAGE THE BOP BECAUSE IT IS GOOD FOR BUSINESS

On the supply side, companies might look to supplement and diversify their supply bases to meet volume targets and reduce risk, or position themselves for long-term cost savings. Some want to ensure security of supply by engaging, what are today, small suppliers, while others might cater to customer preferences for specific supply sources.

On the demand side, companies are aware that **the BOP comprises over 4.5 billion people with a combined spending power of $5 trillion.**[1] Companies, therefore, look for innovative solutions to bring these people into their customer bases, gain market share, and increase revenues and profitability. Some see an opportunity to establish first mover advantage and customer loyalty in segments that will become the future middle class.

WHILE INCLUSIVE BUSINESS BENEFITS A COMPANY'S BOTTOM LINE, IT ALSO BENEFITS PEOPLE AT THE BOP

Inclusive businesses provide BOP suppliers with reliable markets that may not have existed previously. Inclusive businesses offer their BOP customers better access to the goods and services they need at a better value for their money. These businesses may also engage BOP distributors and retailers to reach its customers. BOP populations capitalize on these opportunities to increase earnings, improve quality of life, and fulfill their potential.

IFC CLIENTS PROVIDE INSIGHTS INTO WHAT WORKS

In 2011, we identified seven common business models in our inclusive business portfolio. This new report goes into greater detail on specific tactics that successful companies in our portfolio use time and again to reach the BOP. These are local companies, or those with significant investments locally. Before IFC invested in these companies, we conducted due diligence on each of them to ensure that their business models are commercially viable and that they meet IFC's environmental, social, and governance standards. IFC regularly monitors these companies for the duration of the investment.

We believe that this report will add to the existing knowledge base on inclusive business, to which many different stakeholders have contributed over the years. This report has two sections that reflect the **two principal ways companies reach the BOP — as suppliers and as customers —** although companies may also engage BOP distributors and retailers in the process. The solutions presented are not sector-specific and can be tailored and used across industries. We hope that businesses in emerging markets will find these solutions relevant to the challenges they face.

[1] Figure is in 2005 purchasing power parity terms (PPP)

The BOP in the Value Chain

The BOP earns $8/day or less (PPP) and/or lacks access to basic goods and services.

The BOP capitalizes on value-chain opportunities to increase earnings and improve quality of life

Engaging BOP Suppliers

INCREASING INCOMES AND STANDARDS OF LIVING AT THE BOP

CASES STUDIES IN THIS SECTION

Engaging BOP Suppliers

The Opportunity

Companies procure products or services from BOP suppliers for a variety of reasons. These include:

SUPPLEMENT SUPPLY:
Companies may need to expand beyond the existing supply base to meet volume requirements.

DIVERSIFY:
Incorporating a range of suppliers enables the company to diversify the supply base and reduce risk.

MARKET PREFERENCES:
To reach certain markets, companies must cater to market preferences for products that benefit low-income suppliers.

LOCAL REQUIREMENTS:
Depending on the country, companies may purchase from small farmers to meet requirements to purchase locally or to be eligible for tax incentives.

Buying from BOP suppliers make business sense and also benefits farmers

In developing countries, procuring from **BOP suppliers is more widespread in agriculture than in any other sector, as large numbers of farmers with very small land holdings dominate production of many commodities.** Not only can procuring from these farmers make business sense for companies, it also benefits farmers. Companies help farmers improve their production practices, which increases productivity and quality. Companies then purchase farmers' crops come harvest time, offering markets to which they might not otherwise have access. As farmers' incomes rise, their families become more food secure and can afford better healthcare, education, and other services that improve their standards of living.

Engaging BOP Suppliers:

Procurement

The Challenge

Sourcing from small farmers

Companies that source from small farmers face a unique set of challenges. These include:

High transaction costs:
Physically collecting small volumes of commodities from large numbers of farmers, often in areas with poor transportation infrastructure, is logistically difficult and expensive.

Inconsistent quality:
Farmers often lack access to the production techniques and business skills needed to run farms efficiently. In addition, critical inputs, such as fertilizers, pesticides, and improved seed varieties, may be unavailable or unaffordable.

Unreliable production volume:
Limited training and lack of access to appropriate inputs make farmers' crops more vulnerable to pests, diseases, and unfavorable weather conditions, resulting in lower yields than expected. Lack of access to financing means farmers are often unable to invest in modern equipment, pay laborers, and transport their produce safely to market. Moreover, without enforceable procurement contracts, companies can struggle to maintain farmers' loyalties and secure the necessary volumes of supply at harvest time.

The Solutions

Companies large and small, including buyers, processors, and food and beverage manufacturers, implement a range of solutions to overcome critical barriers and procure from farmers in commercially viable ways.

These solutions include:

Aggregating suppliers:
Working with farmers in groups, rather than individually, to reduce costs and simplify logistics.

Providing capacity-building:
Providing training and learning opportunities to improve quantity and quality of production.

Facilitating access to finance:
Making it possible for farmers to access credit to cover operating costs and make investments.

> Companies, large and small, implement a range of solutions to overcome critical barriers and procure from farmers in commercially viable ways

Solution: Aggregating Suppliers

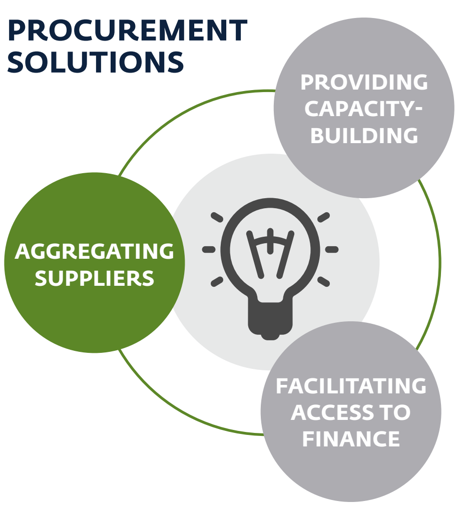
Working with small farmers aggregated into groups, rather than individually, reduces costs and simplifies activities ranging from transportation to payment. Companies can work with groups of farmers in a variety of ways, such as:

LINKAGES WITH EXISTING PRODUCERS' GROUPS:

Build relationships with producers' groups, such as cooperatives, which can pool resources and procure inputs in bulk. These groups can also organize transport, run collection centers, and even process raw commodities on behalf of their members, depending on their resources and capacity.

COLLECTION CENTERS:

Use facilities located in or near farm areas where farmers can easily and inexpensively deliver produce and receive payment. Companies often use collection centers to provide farmers with information, inputs, and services. These central locations can also serve as hubs for "hub-and-spoke" models that use traveling agents to collect products from farmers located further away. Collection centers can be established and run by the companies, their contractors, producers' groups, or local communities.



> Aggregation reduces the difficulty of negotiating with and sourcing from individual farmers

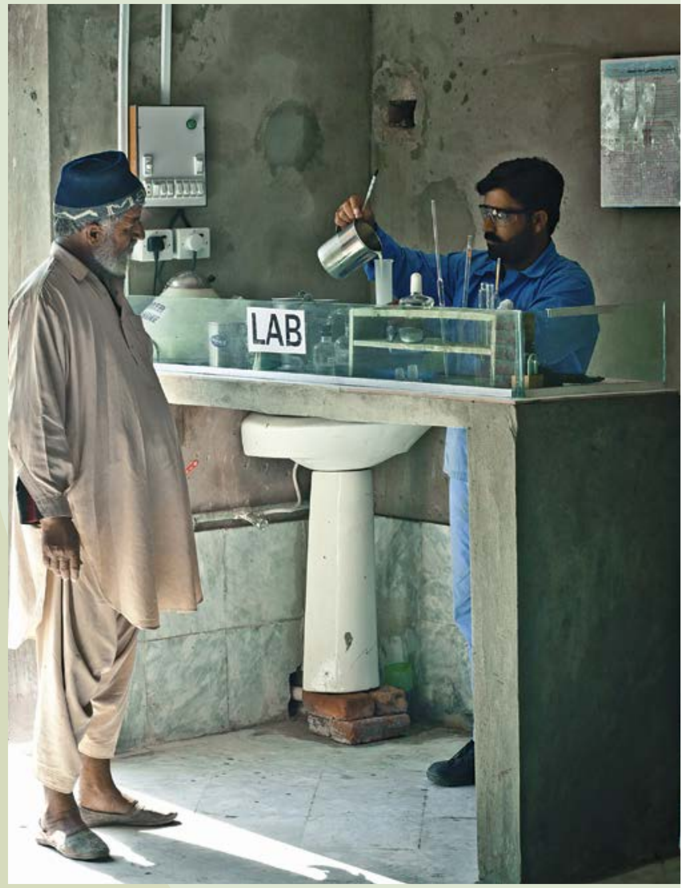
Aggregating Suppliers:
Collection Centers

ENGRO FOODS LTD., PAKISTAN

Dairy farming is a fragmented, home-based industry in Pakistan. Approximately eight million families, spread across hundreds of thousands of square kilometers, earn their livelihoods through dairy farming. Each farm has an average of 2 to 5 cows or buffalo.

Engro Foods Limited (EFL), Pakistan's second-largest producer of processed milk, has **brought 300,000 of these farmers into its supply chain** by creating a vast village-level direct procurement infrastructure. EFL aggregates 85 percent of its suppliers through 1,800 milk collection centers (MCCs). The MCCs are situated within an average of 2 kilometers from farmers' homes, so that they can be reached by foot or by local transport. Around 300 square feet in size, the MCCs contain chilling tanks, basic laboratories, and geysers. Each MCC collects approximately 400 liters of milk every day.

EFL tests and measures milk at the time of delivery to the MCC. A unique magnetic card assigned to each farmer is swiped at a point-of-sale terminal, and transaction data are uploaded into EFL's



management information system. The magnetic cards enable efficient collection and payment. The MIS provides EFL with complete traceability of milk purchases, payments, quality parameters, and agri-services requirements for individual suppliers. More than 360 trucks with insulated tanks then transport the milk from the MCCs to EFL regional hubs and from there to milk processing plants.

When farmers visit the MCCs, EFL provides them with training and guidance through EFL's agri-service units, which each serves a cluster of MCCs. Topics include vaccination, hygiene, and feeding practices.

Farmers located too far away from the MCCs hand over the milk to 1,700 village milk collectors trained in milk testing, handling, and hygiene and are equipped with collection tools, testing kits, and record books.

Read the full case study at:
www.ifc.org/inclusivebusiness/casestudies

Solution: Providing Capacity-building

Small farms need to be run like profitable businesses. Building farmer capacity to use the latest cultivation techniques, apply inputs like fertilizers and pesticides correctly, and manage finances can help farmers improve productivity and quality. Capacity-building can also help farmers implement environmental, health, safety, and labor practices and obtain certifications that buyers may require.

By improving productivity, quality, and, in some cases, eligibility for price premiums, capacity-building services can also improve farmers' credit risk profiles, giving prospective lenders greater confidence in their ability to repay loans. As these services begin to lead to higher incomes, **they can also enhance farmers' loyalty to the companies that provide them.**

Adoption of certification standards can help farmers obtain price premiums for some crops, as well as open up new markets. Certification schemes are an important avenue for farmers to adopt good agriculture practices and improve productivity, while incorporating business process improvements.

Some companies offer capacity-building support directly, while others hire contractors or partner with non-governmental organizations, foundations, or donors to provide these services.

Common capacity-building tactics include:

EXTENSION AGENTS:

Specialists who visit farmers to provide agronomic advice. Some agents may also offer business or financial management skills coaching. To further increase their reach, agents may use a training-of-trainers approach to establish a network of sub-agents or volunteer farmers who can in turn train others.

FARMER TRAINING CENTERS:

Group training sessions that can cover a wide range of topics from agronomy to farm management to financial skills. These sessions are often held in community facilities or at a participant's farm.

DEMONSTRATION PLOTS:

Sites where companies, their contractors, or partners grow crops using inputs and/or techniques they are teaching to farmers. These allow farmers to observe the results before investing time and resources to implement them.

Providing Capacity-building:

Extension Agents and Farmer Training Centers

KENYA TEA DEVELOPMENT AGENCY (KTDA), KENYA

Kenya Tea Development Agency Ltd. (KTDA) is one of the largest tea companies in the world. It is made up of over 550,000 tea farmers, typically working on less than half-acre plots. Established in 2000, KTDA procures tea from the farmers, processes it, and supplies it to Europe, Asia, North Africa, and the Middle East.

KTDA offers comprehensive services for its tea farmers including training, provision of inputs, transportation, processing, marketing, and access to finance. KTDA's training activities are designed to enhance the sustainability of farmers' production practices and contribute to the sustainability of the overall value chain. KTDA uses two training methods: farmer field schools (FFSs) and a lead farmer approach.

KTDA introduced the FFS model following a pilot on good agriculture practices conducted in cooperation with Unilever's Lipton company in 2006. FFSs offer hands-on learning through bi-monthly two-hour sessions held over the course of a year. They include field experiments and observations, study tours, and training sessions. Farmers gain knowledge on how to increase productivity and crop quality through sessions on planting, fine plucking, and preparing for certification. In 2013, 820 FFSs were being managed by KTDA extension staff.

In addition to the FFSs, KTDA also uses lead farmers to provide capacity-building using a training-of-trainers approach. High-performing tea farmers volunteer to be trained as lead farmers and to

conduct farm-level inspections prior to farm audits. Lead farmers train fellow farmers in agricultural practices that comply with the ecological, social, and economic requirements of Rainforest Alliance certification. Training topics include agronomic practices, climate-change adaptation (for example, crop diversification) and mitigation (for example, planting indigenous trees), soil conservation, and water management. Lead farmers are trained by Partner Africa and the Rainforest Alliance, supported by KTDA staff. Training is conducted at KTDA's buying centers and factories.

Read the full case study at:
www.ifc.org/inclusivebusiness/casestudies

Solution: Facilitating Access to Finance

Farmers may need short-term loans or cash advances to pay for inputs, labor, or transportation, and longer-term financing for capital improvements to enhance productivity and quality. Loans can be made to individuals or to groups. In areas where social ties are strong, producer groups may guarantee individual loans. Companies can facilitate access to finance through the following mechanisms:

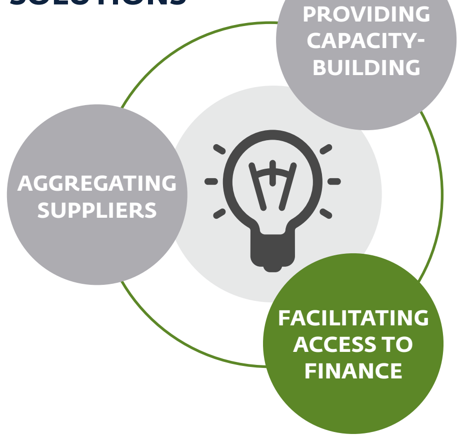
DIRECT LENDING:

Providing credit directly or through a subsidiary established for this purpose. The company's close relationship with its small-scale suppliers makes it more familiar with their production potentials and better able to evaluate their credit risks than an outside financial institution. In some cases, the maximum loan amounts are based on a percentage of what the company expects to receive from the farmers. Repayment can then be deducted from the amount the farmer is paid at harvest. For example, companies can provide inputs, such as high-quality and improved-variety seeds and other planting material, fertilizers, pesticides, and equipment on credit at the appropriate time in the production cycle, and later deduct the cost from the amount paid at harvest.

THIRD-PARTY FINANCING:

Referring farmers to other lenders such as microfinance institutions, other non-bank financial institutions, leasing companies, and local banks. Loans can be disbursed in cash to the farmer, or paid directly to the company that is selling inputs the farmer needs. If a farmer has a procurement contract with a company, a lender could potentially use the contract as collateral. The lender may ask the company buying from the farmers to provide information or recommendations that would help it assess the farmer's credit risk. The lender may require that the buyer set aside part of its payment to farmers at harvest time and use those funds to directly repay the lender up to the farmer's outstanding loan amount. The lender may also ask the buyer to guarantee a percentage of losses, if any.

PROCUREMENT SOLUTIONS



> Financing is critical to improve productivity and growth

Facilitating Access to Finance:

Direct Lending turned Third-party

BANKAOOL, MEXICO

Bankaool was created in 2005 when Agroindustrias Unidas de Mexico (SA AMSA), the Mexican subsidiary of ECOM, an international commodity trading company, decided to spin off its supplier financing division. Before this, SA AMSA had financed suppliers directly for more than 50 years.

Bankaool offers farmers short-term working capital loans and medium-term loans for capital expenditure. Bankaool's rates are lower than those offered by traders and processors who finance their suppliers directly, and much lower than those of most microfinance institutions. **Almost 99 percent of its clients have monthly incomes of less than $1,200, and 80 percent have not previously had access to formal financial services.**

Bankaool works with a trusted network of traders and processors to identify farmers who are potentially good credit risks. These buyers help Bankaool compile information and documentation for farmers' credit files. The buyers retain the money owed to Bankaool when they pay farmers at harvest and guarantee a percentage of Bankaool's losses. In return, Bankaool pays the buyers a small success fee. This model allows Bankaool to finance a large number of farmers who are otherwise difficult to reach. Bankaool's ability to aggregate farmers reduces the administrative requirements of dealing with many small clients and enhances the credit quality of Bankaool's portfolio.

Initially, after being spun off from SA AMSA, Bankaool's only buyer relationship was with its former parent company, whose loan portfolio it inherited. Today,

Bankaool has relationships with 15 buyers, enabling more than 25,000 loans totaling over MXN 500 million ($37.73 million). The company serves a wide range of Mexican farmers, including producers of coffee, cocoa, cotton, sugar, rice, grains, vegetables, fruits, pork, and shrimp. A recent Mexican government study found that Bankaool issued nearly 50 percent of the country's loans to the agriculture sector.

Bankaool has since expanded into other sectors with similar needs. It complements its offerings to farmers and other customers with deposit and savings services. It uses online and mobile banking and banking agents as service channels and offers human-centered products, such as commitment savings.

Read the full case study at:
www.ifc.org/inclusivebusiness/casestudies

Insight: Finding the Right Mix of Solutions

Companies working with BOP suppliers must understand differences across their supplier bases and develop the right mix of solutions to optimize their supply chains. Developing a deeper understanding of the company's suppliers boosts business efficiency, improves decision-making, reduces risk, promotes loyalty, and enhances a firm's overall ability to compete and innovate. To do this, companies use surveys, focus groups, and other methods to gather insights and improve operations, tailor supplier services, identify new service areas, and test delivery approaches — and then start the process all over again in ongoing feedback loops. In agriculture, these feedback loops can help companies identify farmers who are ready to adopt new agricultural techniques or leverage financing, design relevant offerings, and continuously improve them over time. These insights include:

SUPPLIER PORTRAITS:
Analysis of socio-demographic information and other data on the needs, motivations, requirements, and capacity of suppliers.

MARKET SEGMENTATION:
Identification of the needs and aspirations of key market segments in order to tailor product or service offerings or adapt models of engagement.

SATISFACTION MEASURES:
Measure satisfaction with and perceptions of a company's activities vis-à-vis its stakeholders across the value chain.

Understanding suppliers can improve company performance

Using Market Insights to Understand BOP Suppliers

ECOM, COTE D'IVOIRE

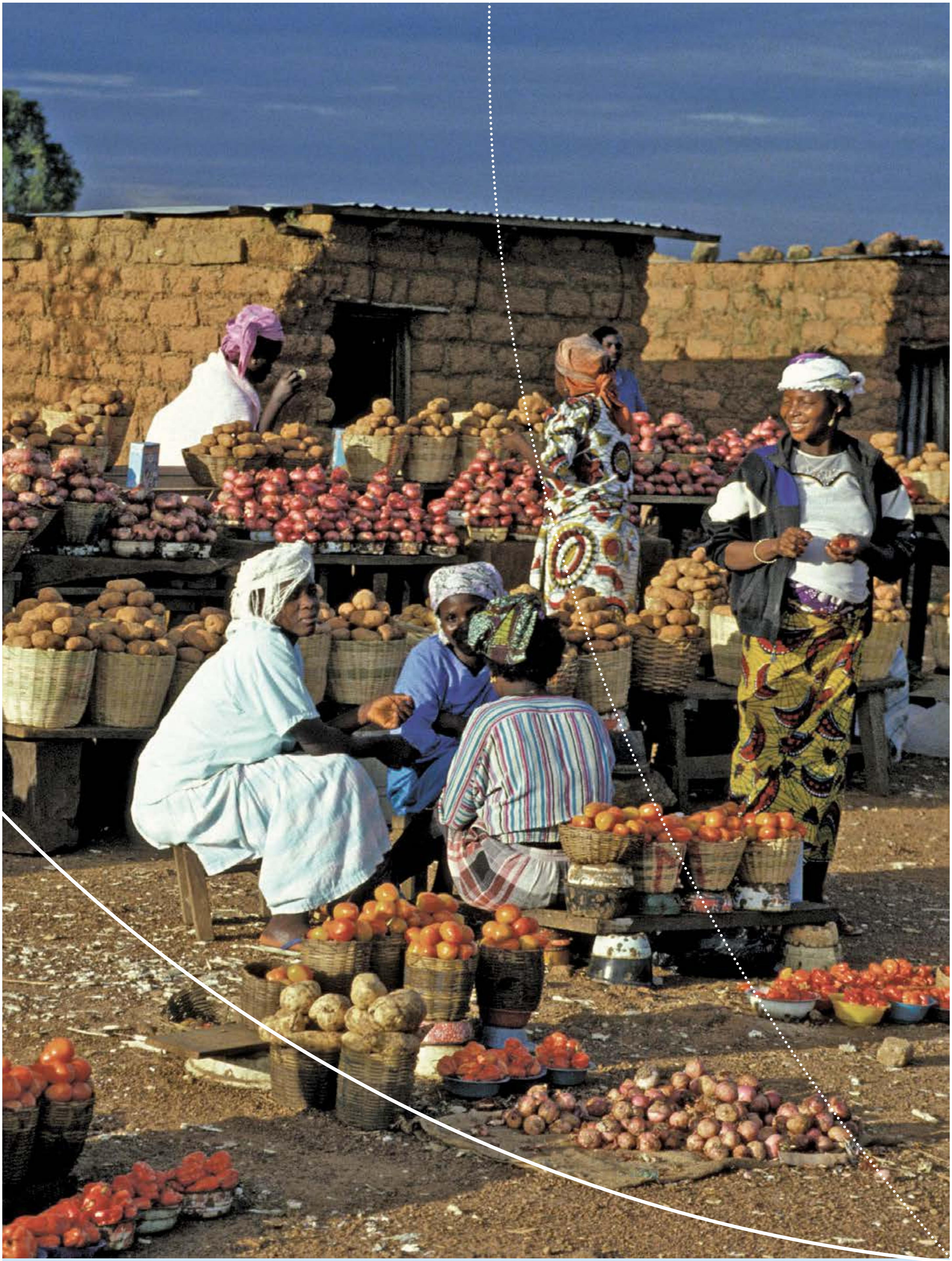
ECOM is a global commodity trading company specializing in coffee, cocoa, and cotton in 30 countries around the world. In Côte d'Ivoire, ECOM sources cocoa directly from 15,000 farmers and provides them with inputs, capacity-building programs, and access to finance. ECOM worked with IFC to conduct a detailed survey of over 2,000 of its suppliers as ECOM wanted to better understand its supplier base and increase supplier productivity, enhance loyalty, and improve efficiency of its operations. The survey collected individual profiles of the farmers to answer: **How do BOP farmers manage their farms? How productive are they? What are the perceived and actual benefits of the training programs in which ECOM was investing? Do some farmer groups do better or worse than others?**

ECOM and IFC analyzed the survey results to determine what they meant for the services that ECOM offered. They identified opportunities to tailor the services to better address key production issues, such as aging trees or lower productivity,

and determined if ECOM could better target its services based on suppliers' performances, attitudes, aptitudes, and service gaps or needs.

The results of the survey provided ECOM with detailed profiles of its suppliers. The results suggested that certified farmers were doing better than non-certified farmers, that they had higher yields, were more satisfied, and devoted more of their land to cocoa and other cash crops. However, ECOM also found that productivity levels varied widely even among certified farmers. Access to financing and capacity building on tree grafting were identified as key service gaps, as was gender-specific training on activities with higher women's participation, such as cocoa fermentation and drying. It also identified some key long-term risks to the supply chain, such as lower levels of interest in farming among younger farmers. Lastly, the surveys indicated that mobile banking could expand farmers' access to financial services.

ECOM is using this feedback to tailor its services and address strategic concerns identified by the surveys. The feedback also helped formulate key messages around food security, community needs, and the benefits of certification that ECOM is conveying to partners—including buyers, nongovernmental organizations, and other technical assistance partners.



VILLAGE PRODUCE MARKET, NIGERIA
PHOTO: CURT CARNEMARK / WORLD BANK PHOTO ID: NG013S18 WORLD BANK

Engaging BOP Customers

EXPANDING ACCESS TO GOODS AND SERVICES

CASES STUDIES IN THIS SECTION

Engaging BOP Customers

The Opportunity

There are a number of reasons why people at the BOP make an increasingly interesting target market for many companies. They provide companies with opportunities to:

EXPAND THEIR CUSTOMER BASE:

There are approximately 4.5 billion people at the BOP in developing countries and emerging markets, more than half the global population.

GAIN MARKET SHARE AND BRAND LOYALTY:

As incomes continue to increase, many who currently live at the BOP will transition to middle class and have more disposable income. The BOP is also younger, on average, than its richer counterparts, and as such, will continue to comprise a large portion of the market for years to come.

INNOVATE:

Targeting the BOP market can drive product, service, and business model innovation and possibly trigger a competitive advantage in higher-income markets as well — a phenomenon called "reverse innovation."

Companies offer BOP customers clean water, foods, housing, electricity, mobile phones, healthcare, education, and financial services. Millions of people at the BOP are able to access levels of quality and affordability they have never experienced before.

The BOP spends more than $5 trillion every year[1]

Sometimes, companies that serve BOP customers also create income-generating opportunities for BOP distributors and retailers, whose physical proximity, local knowledge, and relationships make them the best channels to reach BOP customers. Companies have realized the potential of many of these small businesses and their ability to grow along with them.

Companies that have successfully reached BOP customers typically focus on at least one of the following three key areas:

- **> Product and Service Development**
- **> Distribution and Retail**
- **> Marketing and Sales.**

[1] Figure is in 2005 purchasing power parity terms (PPP)

Engaging BOP Customers:

Product and Service Development

The Challenge

Appealing to value-conscious customers

Companies that develop products and services for BOP customers face a number of challenges:

Limited individual purchasing power:
While their aggregate purchasing power is impressive, individually, BOP customers have limited money to spend.

Risk aversion:
With little flexibility or margin for error in their purchasing decisions, BOP customers tend to be highly value-conscious and resistant to new products.

Inconsistent cash flows:
Besides being low, BOP customers' cash flows can be unpredictable. Financial services such as savings, credit, and insurance which could help BOP customers make both regular everyday purchases and large once-in-a-lifetime investments are limited.

The Solutions

Companies of all sizes, across industries including agribusiness, education, energy, healthcare, housing, water and sanitation, and more, have several considerations when developing products and services that can compete successfully in BOP markets.

These include:

Reducing costs:
Making products and providing services that are affordable.

Offering value for money:
Creating a relevant, good-quality product and service.

Matching customer cash flows:
Making products and services accessible to customers with fluctuating incomes.

> BOP customers' incomes vary in size and stability, as do their abilities and willingness to make purchases

Solution: Reducing Costs

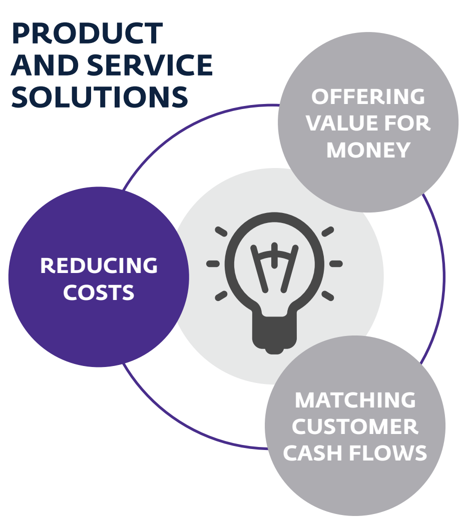
Affordability is the most important issue for BOP customers; the price of a product or service is a critical hurdle for customers with limited incomes. However, reducing the cost of a product or service must be done while maintaining a strong value proposition. Companies can develop lower-cost products and services through:

DESIGN:

Using innovative materials that deliver high performance at reduced costs, eliminating functionality that does not add value, and selecting features that reduce the customer's cost of ownership and maintenance. **Lower-cost designs often leverage existing e-platforms or make use of hardware that the customer already owns, such as a cellphone.** In addition, the company may develop an array of additional related products or services, such as course offerings or e-platform applications, which leverage synergies.

STANDARDIZATION:

Developing a consistent set of procedures and tools without compromising quality. Standardization enables companies to scale at an accelerated pace, thus recouping any upfront investments. Codifying business processes also helps the client maintain a consistent level of quality across multiple locations. **Often, standardization can reduce the time and skill levels workers need to build a product or deliver a service.** It thus holds great potential in service sectors such as education and healthcare where cost and availability of specialized professionals is a barrier to reaching the BOP.



Reducing Costs:

Design

BRIDGE INTERNATIONAL ACADEMIES, AFRICA REGION

Bridge International Academies is the world's largest chain of nursery and primary schools, working to realize the dreams of every child living below $2 a day. Bridge's academies are purpose-built around the developmental needs of children living in resource-poor environments. Eight hours of lessons and physical activities are fully programmed each day, including design and creation of textbooks and workbooks along with hands-on learning toys and tools. Teachers are recruited from the local community and are trained to engage children inside the classroom and within the community. **Bridge pupils score higher on average than their peers in neighboring schools.**

Thanks to proprietary, centrally-managed, and data-enabled systems, Bridge maintains focus on a child's development and learning outcomes while scaling rapidly within communities and across countries. These systems leverage Wi-Fi-enabled smart phone and tablet technologies for community engagement, parent and teacher communication, instructional delivery, pupil and teacher attendance and learning assessments, and operational cash management and procurement. Parents' total average costs are less than $6 per month. As of September 2014, more than 100,000 children are enrolled at over 350 Bridge International Academies, with plans to reach 10 million children by 2025.

Reducing Costs:

Standardization

SALAUNO, MEXICO

salauno offers specialized eye care and is, by volume, a top cataract surgery provider in Mexico City. The company uses the same advanced techniques used in higher-income countries, but **targets lower-income patients with prices that are 40 percent lower than competitors.** salauno reaches low-income communities by using a hub-and-spoke model which reduces the geographic and information barriers that can prevent low-income people from seeking treatment.

salauno's model is based on best practices pioneered by Aravind Eye Care in India through which it imports low-cost, good quality consumables. It relies on procedures, including screening, pre-operative care, and surgery, designed to optimize efficiency and then standardized. In the case of cataract surgeries, salauno pioneered the use of small-incision cataract surgery in Mexico to reduce costs for low-income patients. Surgical instruments were selected with efficiency in mind and the facility is designed to create optimal patient flow. Tasks that do not require trained ophthalmologists are assigned to other medical staff, enabling surgeons to focus exclusively on surgery and final diagnosis. These measures have brought operating time down to a mere 10 to 15 minutes per patient, increasing productivity up to 10 times compared to government hospitals.

Solution: Offering Value for Money

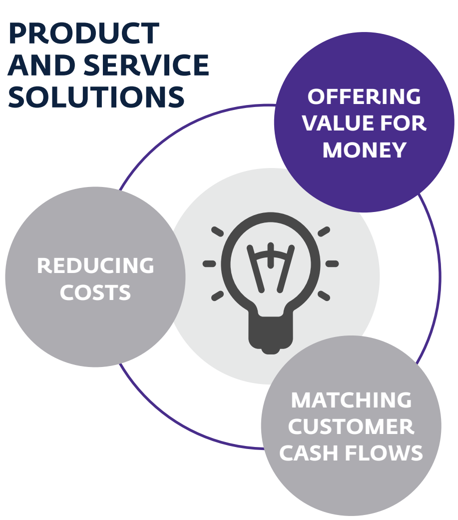
BOP customers need a strong value proposition to justify purchases, large and small. Successful products and services might help customers generate more income, save time and money, and cultivate social ties. Companies that develop products and services can create value for BOP customers by focusing on:

QUALITY:

Delivering quality products and services that are effective, durable, and safe. Obtaining external quality accreditation, in privately-provided education for instance, can help lower perceived risk to the customer.

VALUE-ADDED FEATURES:

Adding features to the product or service that increase the value proposition to BOP customers, while still remaining affordable. Ensuring that the offering is relevant in the local context can make it more attractive and easier for BOP customers to understand. Value-added features include biometric readers or voice technology for illiterate users or community spaces or Internet access in housing developments. Companies can combine the base product or service with additional services to add value to the customer. For example, by including tailored career services in a certificate program or free insurance with a home loan.



> Companies need to demonstrate value while maintaining affordability

Offering Value for Money:

Value-Added Features

ROSHAN, AFGHANISTAN

Since its launch in 2003, Roshan has become Afghanistan's leading mobile telecommunications company. The company realized that the needs of its customers go beyond mobile telephony: 95 percent of the population is unbanked, 75 percent works in agriculture, and 70 percent is illiterate. As a result, Roshan leverages its platform to offer value-added services such as mobile payments and agricultural market information, among others.

Mobile payments: Roshan's M-Paisa, launched in 2008, is Afghanistan's first mobile financial service. It now registers more than 8,000 users per month. Originally focused on loan disbursements and repayments, M-Paisa offers a range of payments from salaries to bills to remittances to humanitarian aid disbursements.

Agricultural market information: Roshan's Malomat service provides farmers unprecedented access to real-time prices of over 40 commodities as well as farming tips and access to buyers. Malomat is available via SMS and interactive voice response (IVR) technology, making it accessible to illiterate customers.

See full case study:
www.ifc.org/inclusivebusiness/casestudies

Offering Value for Money:

Quality and Value-added Features

VINTE, MEXICO

Vinte is a Mexican housing developer that focuses on low and middle-income customers. Vinte prides itself on **balancing affordability with quality products that fulfill customer dreams of home ownership.**

Vinte emphasizes location, attractive designs, and special features like a computer, Internet access, and security cameras. Vinte provides shared courtyards, playgrounds, and community rooms, which give homeowners space to cultivate ties with their neighbors, families, and friends—critical sources of social support.

Vinte further differentiates its homes by using innovative technologies that reduce the costs of owning the home. Vinte's homes are designed to reduce gas bills by 75 percent, and have the option of rooftop solar cells to generate energy, which significantly reduces electricity bills. Homeowners can monitor their electricity, gas, and water consumption with individual meters and adjust habits to save money.

See full case study:
www.ifc.org/inclusivebusiness/casestudies

Solution: Matching Customer Cash Flows

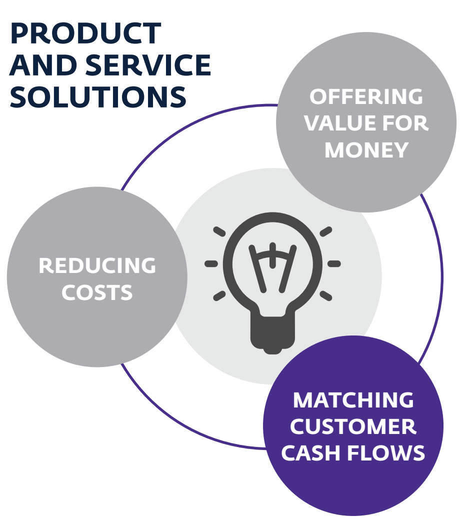
In addition to value and cost, a third consideration for companies that develop products and services for BOP markets is customer cash flow. BOP customer incomes are relatively low, and also fluctuate, sometimes in unpredictable ways. This can make large purchases and long-term commitments especially hard. Companies can design products and services that account for cash flow fluctuations.[1] They can do this in two primary ways:

AFFORDABLE SIZES:

Offering products and services, ranging from mobile phone airtime to food and beverages, in smaller amounts. Selling products and services in small quantities makes them accessible to customers who cannot defer purchases long enough to save, who have trouble saving, or who lack the storage space in their small homes to buy in bulk.

INCREMENTAL ITEMS:

Offering higher-priced products or services in parts that build on one another and can be purchased in increments as time and cash flows permit. This can help make products and services more accessible for customers whose incomes and schedules fluctuate. This tactic is particularly important for traditionally big-ticket items. For example, pursuing a degree, one certificate course at a time, or purchasing a home, one room at a time. In the financial sector, small, successive loans for incremental items can reduce risks for both the company and BOP borrowers.



1 Some companies offer or facilitate access to financing. This is discussed in the Marketing and Sales section of this report.

Matching Cash Flows:

Smaller Increments

UNIMINUTO, COLOMBIA

Uniminuto offers affordable, high-quality technical, technological, and university education in Colombia. More than half of its programs are vocationally oriented, designed to prepare graduates for work in key sectors, including engineering, social services, communications and visual design, agribusiness, education, and technology. Its programs range from two to five years.

Unpredictable family incomes can make it difficult for low-income students to commit to two to five-year programs. So **Uniminuto makes its programs accessible in part through a progressive, level-based structure;** students earn qualifications for each level they complete along the way. This encourages low-income students to enroll since they know they will derive value even if they cannot complete the entire program. According to circumstances, they can exit at any level with qualifications recognized in the job market. And they can return later to complete additional levels.

See full case study:
www.ifc.org/inclusivebusiness/casestudies

Matching Cash Flows:

Affordable Sizes

BAKHRESA MALAWI LIMITED, MALAWI

Bakhresa Malawi Limited is the leader in flour milling in Malawi, with an 80 percent market share. BOP customers previously bought flour in small quantities from disorganized sources, often in scoops from informal market traders. This exposed them to frequent stock-outs, price fluctuations, and unreliable quality.

In response, **Bakhresa introduced small packs of flour; good quality, fresh wheat flour was made consistently available to BOP customers for the first time.** Bakhresa now sells flour to artisanal and home bakers, small retailers, and large commercial bakeries under a variety of brands in package sizes ranging from 2 to 50 kg. Most relevant for the artisanal and home bakers are the small packs; they typically buy one or two bags a day. Small retailers typically buy 10 kg bags, picking up approximately 14 to 35 bags a week.

Bakhresa also encourages and provides capacity-building to help BOP customers use flour to start micro-size baking businesses. The start-up costs are low — less than $2 for 2 kg of flour from Bakhresa, 500 ml of cooking oil, and a few other ingredients — while the return on investment can be over 40 percent.

See full case study:
www.ifc.org/inclusivebusiness/casestudies

TOUSSAINT YANICK A SMALL SHOP KEEPER AND BENEFICIARY OF THE PRODEPUR- HABITAT PROJECT, IN DELMAS 32, HAITI. TOUSSAINT ALSO HAS ELECTRICITY UNTIL 11PM IN HER NEIGHBORHOOD AND IS ABLE TO STAY OPEN MUCH LATER. PHOTO:DOMINIC CHAVEZ / WORLD BANK PHOTO ID: HAITI_ELECTRICITY_STORY_EDIT_0018

Engaging BOP Customers:

Distribution and Retail

The Challenge

Maximizing access while minimizing cost

Product and service innovation is just one piece of the inclusive business puzzle; just as important is business model innovation, of which distribution and retail are key components. Companies must maximize access to their products and services in ways that do not add prohibitively to costs — either directly through higher prices or indirectly through financial costs associated with traveling to a retail outlet that is far from home.

The challenges include:

Logistics:
BOP customers are often located in villages or crowded and geographically segregated urban slums where it can be difficult for companies to deliver products and services. Issues include sheer distance, transportation infrastructure that is inadequate or in poor condition, limited access to energy needed to keep telecommunications running and products like food, beverages, and pharmaceuticals cool. Because so many transactions happen in cash, crime can be a complicating factor.

Customer habits:
Because of limitations on their time and transportation budgets, BOP customers often have well-established routines, visiting specific neighborhood shops to access particular products and services. These routines can be important sources of social connections and the relationships involved can make them especially hard to change.

The Solutions

Companies across industries implement a range of distribution and retail solutions to maximize access to their products and services while minimizing costs.

Two common themes are:

Leveraging retailers:
Selling through local retailers, rather than building dedicated new stores.

Leveraging technology:
Using different combinations of hardware, software, and telecommunications innovations to increase efficiency.

> BOP customers are located both in rural and urban areas and have varying levels of access to complementary or competing products

Engaging BOP Customers:
Distribution and Retail

Solution: Leveraging Retailers

BOP customers need access to products and services in their own communities as they lack the time and money to travel long distances. Building dedicated new storefronts and hiring sales staff can be prohibitively costly for a company, and it is common for companies to instead leverage existing retailers, sometimes retailers who are at the BOP themselves.

Existing retailers have the advantage of proximity and also have existing relationships with end customers. In some cases, they even allow customers to purchase on credit. Such retailers, especially BOP retailers, tend to be small, have little space to store inventory, little business training, and no access to finance.

Companies leveraging retailers use several tactics to help grow sales and cement customer loyalty. These tactics benefit retailers as well as the companies whose products they sell. Retailers tend to see increases in overall sales, not just sales related to the product of any one company. As a result, there is room to shares costs with development donors and other companies.

The tactics include:

MICRO-DISTRIBUTION:

Making frequent deliveries of small amounts of product, sometimes dividing bulk packs of various products to assemble custom assortments based on specific retailer needs. Companies often contract a layer of independent local distributors with relationships that enable easier or safer access to particular communities, or use small vans, motorcycles, or even pushcarts that are well-suited to their territories.

CAPACITY BUILDING:

Providing basic business skills training on topics such as sales and marketing, inventory management, or financial management, as well as industry or product-specific knowledge. Capacity-building may be delivered through in-store coaching, classroom training, or e-learning modules. This training helps retailers grow their businesses, and also encourages loyalty and strengthens the company's relationship with them. Some companies deliver capacity-building support themselves, while others contract training companies or civil society organizations.

FACILITATING ACCESS TO FINANCING:

Offering retailers the option to purchase on credit, whether directly or through company subsidiaries, or by referring them to third-party financial institutions such as microfinance institutions, specialized lenders, and banks. Some companies actively support retailers to obtain financing, for example by providing financial institutions with purchase histories to help assess credit risks.

Leveraging Retailers:

Micro-distribution

ALQUERÍA S.A., COLOMBIA

Alquería is Colombia's third-largest dairy company engaged in production and marketing of a wide range of ultra-high temperature (UHT) dairy products. **Alquería uses more than 140,000 small mom-and-pop retailers to reach BOP customers.** Because UHT lasts longer than pasteurized milk and does not rely on refrigerated systems, storage is easy and affordable for these small shops and their customers.

Every morning, company staff visit small retailers nationwide, taking orders to be delivered the following day. Depending on location, deliveries are made anywhere from three times a week to once a day by third-party transporters using trucks, carriages pulled by motorcycles, and small trolleys that support canteens and very small shops. This distribution and sales strategy accounts for more than half of Alquería's revenues.

In 2009, Alquería introduced a new distribution strategy targeting very small towns and remote areas. In this model, Alquería selects one person in a specific locality to serve as an independent distributor to small retail outlets in that area. Each person must meet screening criteria such as being married or be recommended by a local priest. Because UHT milk does not require refrigeration, his or her home serves as a warehouse, and, in some instances, Alquería may provide financing for a motorcycle or small truck for deliveries.

See full case study:
www.ifc.org/inclusivebusiness/casestudies

Leveraging Retailers:

Capacity Building

MILLICOM, AFRICA AND LATIN AMERICA

Operating under the Tigo brand name, Millicom offers telecommunications and digital services to customers at all income levels in 14 Latin American and African countries. Millicom also offers mobile payments, and most recently, life insurance.

A strong retail network has been critical to Millicom's success. The company reaches customers through 700,000 existing retail outlets, mostly small mom-and-pop shops that sell an array of products including competitors' mobile phones and SIM cards, as well as 40,000 "freelance" promoters who exclusively sell Tigo phones and SIM cards. Millicom has found that knowledgeable agents are essential to the customer experience. As a result, **Millicom launched the Tigo Sales School Program to train agents to register new customers in compliance with regulatory requirements.** The program empowers the sales force to become small, professional entrepreneurs, while educating them about the entire basket of Tigo offerings, so they can help customers choose the right plans and understand new and unfamiliar services, such as insurance.

See full case study:
www.ifc.org/inclusivebusiness/casestudies

Solution: Leveraging Technology

Companies use technology to improve access to their products while minimizing physical distribution costs and maximizing efficiency. In addition, as access to technology continues to spread throughout BOP communities, companies are able to deliver products and services virtually.

EFFICIENT PHYSICAL DISTRIBUTION:

Using technology to reduce labor and logistics costs, increase speed, and minimize losses. Companies use tablets, cell and smart phone applications, mapping/geo-referencing programs, and e-platforms to improve efficiency of physical distribution to the BOP. Companies also obtain and transmit data points from various locations back to the central office for analysis, often allowing companies to view data specific to a particular retailer or customer through geo-referencing applications. When working with small retailers, real-time, mobile phone-based ordering and payment from small retailers can significantly cut costs, increase response time, reduce the need for company staff to visit retailers in person, and eliminate the perils of dealing in cash. This can lead to better customer targeting and faster and more efficient distribution to BOP customers.

VIRTUAL DISTRIBUTION:

Using technology to distribute a product or service in virtual, rather than physical, form. Increasingly being seen in distance learning and telemedicine, virtual distribution enables companies to reach an almost unlimited number of remote customers at very little extra cost. It also reduces transaction costs for the customer, who otherwise would have to allot time and money to travel to the company's physical location. In the case of healthcare, travel might also pose a health risk. Using technology, companies virtually monitor their customers' performances in real-time and provide feedback and service adjustments if necessary. Companies can leverage existing retailers or common spaces in the community if customers require computer access.

Leveraging Technology:
Virtual Distribution

FUNDACIÓN CARDIOVASCULAR, COLOMBIA

Colombia's Fundación Cardiovascular (FCV) is the largest private sector healthcare network in the country. It focuses on small cities with limited access to specialty care. Approximately 45 percent of its patients are in the low-income group.

FCV uses telemedicine to expand its reach to low-income patients in the more remote areas. General practitioners and nurses outside of FCV's network gain access to FCV specialists for consultation, interpretation of data and imaging, and even remote monitoring of patients in intensive care through a range of proprietary hardware and software solutions designed and assembled in-house. These solutions include mobile diagnostic and monitoring units, handsets to scan x-rays and other images, digital patient records, a web portal, and a communications center.

Virtual distribution dramatically reduces the cost of FCV's services and increases the likelihood of low-income patients seeking specialty care. Fees are paid by patients' insurance plans. There is a government-subsidized insurance plan for the unemployed and informally employed, which covers more than half of the country's population.

See full case study:
www.ifc.org/inclusivebusiness/casestudies

Leveraging Technology:
Virtual Distribution

SUVIDHAA, INDIA

Suvidhaa Infoserve Private Limited enables Indian consumers, who transact primarily in cash, to pay online for a wide variety of products and services — many of which are virtual and do not require physical distribution, including train tickets, insurance premiums, mobile airtime, and more. **This expands the marketplace for consumers who would otherwise have had to travel long distances and forego wages to make these purchases, and for companies wishing to reach these consumers.** More recently, the company has become one of the leading players in India providing domestic remittance services.

Suvidhaa reaches consumers through a network of Suvidhaa Points where purchases and payments are made. Suvidhaa Points are small-scale retailers whose primary business may be to sell groceries or fast-moving consumer goods. The owners of the points must own a computer, a printer, and broadband internet service to make online transactions for their customers. Suvidhaa Points are selected by Suvidhaa distributors, somewhat larger and financially stronger retailers, who manage an average of 200 Suvidhaa Points each. The distributors advise Suvidhaa Points on day-to-day operations, managing cash and credit, and other topics.

See full case study:
www.ifc.org/inclusivebusiness/casestudies

OVERLOOKING THE CENTRAL KUMASI MARKET AT CLOSING TIME IN KUMASI, GHANA, JUNE 22, 2006.
PHOTO: JONATHAN ERNST / WORLD BANK PHOTO ID: JE-GH060622_33527 WORLD BANK

Engaging BOP Customers:

Marketing and Sales

The Challenge

Unlocking willingness and ability to pay

Even the most promising products and services do not sell themselves. This is particularly true in BOP markets.

Risk perception
BOP customers have limited choices and the perceived risk of unfamiliar product and service categories is high — categories ranging from insurance to natural gas to fortified foods to technical and vocational education. BOP customers may even be reluctant to try new products and services in familiar categories, such as a new brand or an existing brand they have not used before. This is especially true when doing so would threaten existing routines or upset relationships with providers of alternate products or services. Change can feel risky, and BOP customers need to be convinced it is worthwhile.

Financing
BOP customers also need financial help to make purchases. Despite companies' best efforts to maximize affordability through product and service development and distribution innovations, BOP customers with low, fluctuating incomes and limited savings struggle to purchase big-ticket products and services, such as education and housing, and even small everyday items like groceries.

The Solutions

Companies implement a range of marketing and sales solutions to unlock BOP customers' willingness and ability to pay.

These include:

Communicating value:
Reducing the perceived risk of the companies' products and services.

Alternative pricing:
Finding ways to reduce prices for BOP customers.

Facilitating access to financing:
Providing or brokering access to financing.

Facilitating payment:
Making it easy for BOP customers to pay for products and services.

> BOP customers around the world come from dramatically different backgrounds and have different cultural norms, values, and tastes

Solution: Communicating Value

Before BOP customers spend on a new product or service, they need to understand its value, how it works, and also have any perceived risk associated with it reduced. This hurdle is especially high for product and service categories that they never used before, they previously received for free, or were previously provided by the government. Inclusive businesses communicate the value of their products and services to BOP customers through:

PROMOTIONAL CAMPAIGNS:

Raising awareness about a product or service category, how it adds value and can benefit the customer (especially in areas such as health), and why it is worth paying for, as well as specific product or service attributes. Promotional material should be relevant in the local context; for example, it might relate the product or service to traditional solutions. Typical promotional channels include radio, television, celebrity endorsements, and signage at retailers and other frequented locations like train stations.

DIRECT ENGAGEMENT:

Interactive sessions to answer questions, appease concerns, and help potential customers sign up for the service. Companies go out into communities to answer questions and demonstrate how their products and services work, conduct workshops, and establish information exchange centers or training sites. This direct interaction also provides companies with insight into customer needs and expectations. Some companies also train their networks of retailers to answer questions that relate to BOP customers or engage social workers due to their strong ties to the community.

CUSTOMER EDUCATION PARTNERSHIPS:

Combining customer education efforts with other interested parties. Companies may conduct workshops and expositions with other related businesses in similar fields, service providers, or government agencies. If the product or service supports the goals of NGOs, the company can partner with the NGO to conduct educational campaigns. Some companies piggyback on government promotional initiatives related to their businesses.

Communicating Value:

Promotional Campaigns, Direct Engagement, Partnerships

AADHAR HOUSING FINANCE, INDIA

Aadhar Housing Finance (AHFL) enables home ownership opportunities for low and lower middle-income households in India by extending housing loans. More than half of its borrowers have average monthly household incomes between $100 and $400.

Customer interaction and education are AHFL's preferred means to engage low-income customers. Mortgages are relatively complex products, so the company works hard to simplify and localize information and deliver it in the vernacular through high-touch, high-impact awareness drives. These awareness drives include periodic events at affordable housing developments, workplaces, and village markets, and partnerships with lawyers and architects to discuss technical and legal issues. AHFL also joins forces with banks, construction materials companies, government housing agencies, and affordable housing developers to promote home loans.

Since March 2011, AHFL has extended loans to more than 12,000 low and middle-income households.

See full case study:
www.ifc.org/inclusivebusiness/casestudies

Communicating Value:

Direct Engagement

JAIN IRRIGATION SYSTEMS LTD., INDIA

Jain Irrigation Systems (JISL) is the largest manufacturer of micro-irrigation systems in the world. JISL's systems enable small farmers to switch to water and energy-efficient irrigation systems such as drip and sprinkler which yield water savings of 30 to 65 percent over traditional, once-per-year, surface irrigation systems. Beyond micro-irrigation, JISL is also the world's largest tissue culture company, producing approximately 60 million plants, including banana and pomegranate plants, and supplying them to farmers throughout the country. JISL has recently introduced solar pumps and other solar products for use in irrigation and supply of drinking water.

The traditional mindset of many small farmers in India, their lack of knowledge about micro-irrigation systems, and the relatively high cost of the product made marketing a challenge for JISL. The company overcame this challenge by using **approximately 1000 of its own agronomists and engineers to engage directly with small farmers in their communities to explain the value of the systems. In addition, each year over 50,000 farmers visit the Jain Hills Research and Development facility** to learn the basics of irrigation and agronomy. The company also trains its 4,500 distributors and dealers to teach farmers to use the systems.

To date, JISL has trained an estimated 30 to 32 million farmers on the value of micro-irrigation systems and on various production techniques. In addition to serving BOP customers, JISL also engages small farmers as suppliers, purchasing fruits and vegetables from them for processing and sale in international and domestic markets.

See full case study:
www.ifc.org/inclusivebusiness/casestudies

Solution: Alternative Pricing

Alternative pricing options can help companies reach lower-income customers, who otherwise would be commercially unviable to serve. Companies make alternative pricing viable in two primary ways:

COST SHARING:

Distributing responsibility for payment to multiple parties, beyond the customer. In cases where the product or service increases the BOP customers' patronage of another business, companies can charge the business full or partial cost of the service, for instance, by charging them a monthly service fee or a portion of the overall cost. Other companies, especially those in the technology sector, develop business-to-business models that enable businesses to more effectively reach BOP customers. In sectors deemed a priority by the government, public funding may be available to cover all or a portion of costs. Donor funding may also be available to reduce the final price to the customer.

TIERED PRICING:

Charging different customer segments different prices according to their ability to pay. In some sectors, such as utilities, tiered pricing may be mandated by the government.

Different pricing structures can deflect part of the cost away from the BOP

Alternative Pricing:

Cost Sharing

IDEAL INVEST, BRAZIL

Ideal Invest is Brazil's largest private student loan provider expanding access to tertiary education, having benefited over 40,000 students since 2006. Ideal developed a signature lending product, the Pravaler loan, which is available to students enrolled in any one of the 8,000 approved courses at Ideal's 175 partner universities throughout the country.

Pravaler borrowers can join Ideal's zero interest program, **where students pay only the principal amount of the loan and the participating university pays 100 percent of the interest.** The universities' willingness to participate in the zero interest program and, in effect, pay Ideal a commission reflects the value universities place on Ideal's student financing. Ideal thus expands access to their partners' programs for students who would otherwise not be able to afford it.

In 2013, Ideal marked an important milestone with the signing of an exclusive partnership with Banco Itaú for the distribution of private student loans in Brazil.

See full case study:
www.ifc.org/inclusivebusiness/casestudies

Alternative Pricing:

Tiered Pricing

AEGEA SANEAMENTO E PARTICIPAÇÕES S.A. (AEGEA), BRAZIL

AEGEA is the third largest private sector provider of water and sanitation services in Brazil with concessions in six states. The company's tariff rates are negotiated with municipalities and stipulated in its concession agreements. Its "social tariff" program grants a 50 percent discount to qualified customers, with qualification requirements determined by the municipalities that grant the concessions. In some areas, requirements include a combination of a maximum income level and maximum use of electricity and water. If consumption goes above the maximum, the household is billed at regular rates for the overage amount. Multiple overages result in a loss of eligibility.

Social tariffs are not mandatory, but some municipalities consider them when awarding concessions. AEGEA can negotiate limits on the number of social tariffs it offers with municipalities and regulatory agencies to ensure financial sustainability.

See full case study:
www.ifc.org/inclusivebusiness/casestudies

Solution: Facilitating Access to Financing

Facilitating access to financing is necessary to help BOP customers make significant investments, as well as small purchases that need to be made daily or weekly, regardless of cash flows. BOP customers typically do not qualify for loans or credit cards from commercial banks, because they lack formal credit histories or proofs of income. Companies facilitate access to financing for BOP customers in two primary ways:

DIRECT CUSTOMER CREDIT:

Offering customers time to pay for their purchases in full, especially in cases where an up-front investment is needed. Some companies provide financing directly, while others establish subsidiaries for this. Some deliver the product or service up front and collect payment over time, while others require a down payment.

THIRD-PARTY FINANCING:

Referring BOP customers to third-party financial institutions, such as microfinance institutions, specialized lenders, banks, and government agencies. Sometimes companies actively support customers to obtain financing, for example by helping understand the costs and benefits of borrowing, assessing eligibility, and filling out forms.

> Financing is key to broadening access for BOP customers

Facilitating Financing:

Direct Credit

TRIBANCO, BRAZIL

Tribanco is a Brazilian financial institution established by Latin America's largest wholesaler and distributor, Grupo Martins. Grupo Martins has been in business for over 60 years and is one of the top 100 companies in Brazil. Tribanco serves Martins' more than 465,000 micro, small, and medium-sized retailers with credit to purchase inventory and make store improvements.

Tribanco also enables retailers to offer customer credit cards to their shoppers, **more than 70 percent of whom earn less than $450 per month and often need help to sustain regular, everyday purchases like groceries when cash flows are tight.** After receiving customer creditworthiness training from Tribanco, retailers decide which of their customers are eligible to receive the cards. Although Tribanco assumes non-payment risk, stores with higher repayment rates receive lower transaction fees.

Repayment is high — over 95 percent — for two reasons. First, store owners often have first-hand knowledge of their customers' creditworthiness. Second, store owners often have good relationships with their customers. Customers do not want to jeopardize the relationship or their ability to continue shopping at their local stores, as it would mean having to travel farther away to buy everyday staples.

See full case study:
www.ifc.org/inclusivebusiness/casestudies

Facilitating Financing:

Direct Credit

TRUSTCO FINANCE, NAMIBIA

When Trustco Group Holding acquired Namibia's Institute for Open Learning (IOL) in 2005, it saw a business opportunity in providing students enrolled in tertiary education courses with direct access to affordable tuition financing. Today, **approximately 98 percent of IOL students receive loans from Trustco Finance, a subsidiary of Trustco Bank Namibia Limited.**

IOL's extensive customer outreach supports Trustco Finance in reaching new borrowers. IOL's marketing team regularly visits government agencies, secondary schools, and corporations to provide potential students with information, both on academic programs at IOL and on student loan options from Trustco Finance, and to assist potential students with their course and loan application forms. Trustco Finance's close relationship with IOL provides students with an added incentive to repay their loans, as students want to maintain their standing with IOL.

See full case study:
www.ifc.org/inclusivebusiness/casestudies

Solution: Facilitating Payment

Payments for BOP customers should be made easy. They cannot afford to spend much time or travel great distances to make payments. Added incentives can help, given the many demands on their limited budgets. Facilitating and incentivizing payment is particularly relevant for companies offering products or services on credit or on a recurring basis, where payments need to be made regularly over time. Such companies use a variety of tactics:

MOBILE PAYMENTS:

Taking advantage of the low cost and great convenience of paying by mobile phone. Companies may develop their own mobile payment platforms or use platforms offered by mobile network operators, banks, and third-party providers.

LEVERAGING EXISTING RETAILERS:

Allowing customers to pay their bills at local shops, with balances physically collected or, in markets where mobile payment services are available, transferred to the company by mobile phone.

USING SOCIAL CONNECTIONS:

Linking payments to valued customer relationships, for example via group lending or hiring community members to manage billing and collection. This provides customers with a social incentive to pay.

Facilitating Payment:
Mobile Payments

SHANGHAI F-ROAD COMMERCIAL SERVICES, CHINA

Shanghai F-Road Commercial Services developed a business-to-business solution for mobile banking in China. F-Road created a technology platform which allows an institution's customers to access mobile banking services and other services including bill payments. **The platform itself is free; financial institutions pay a monthly fee per active user.**

F-Road made its technology compatible with low-end feature phones as well as smart phones, as only 5 percent of China's rural population use smart phones. Also, users transact with the platform via text messaging—a familiar medium—and do not need data plans. Pre-programmed SIM-overlay cards, distributed to users via their financial institutions, are inserted in phones to encrypt their texts.

F-Road has served 4.3 million rural customers through its partnerships with over 1,100 financial institutions. The company processes more than 32 million mobile banking transactions each month.

Facilitating Payment:
Using Social Connections

MANILA WATER COMPANY, PHILIPPINES

Manila Water Company provides water and wastewater services to more than 6 million residents in the Philippines. Through Manila Water's social tariff program, low-income customers who use less water pay less per cubic meter of water than customers who consume more, such as higher income and commercial customers.

Manila Water reaches low-income communities by working with local government units and community-based organizations. This establishes positive incentives for all stakeholders, helping make operations successful and sustainable. In informal settlements and other very low-income areas, the company uses local social connections to improve payment rates. Water meters are placed side-by-side in public areas where all community members can view usage levels and calculate corresponding fees. Where individual connections are not yet possible, bulk connections are used to provide access to communities. Community members assign or elect individuals to administer collections, monitoring, and maintenance. This helps build a sense of local ownership and responsibility that helps keep the system in good repair, promotes on-time payment, and discourages water pilfering. In turn, this results in job creation, superior service, and high water quality for the community.

See full case study:
www.ifc.org/inclusivebusiness/casestudies

Conclusion

It is IFC's business to invest in inclusive businesses. In just the past ten years, IFC committed over $11 billion to more than 400 companies with inclusive business models. These companies are active in 90 emerging markets and operate in many different industries.

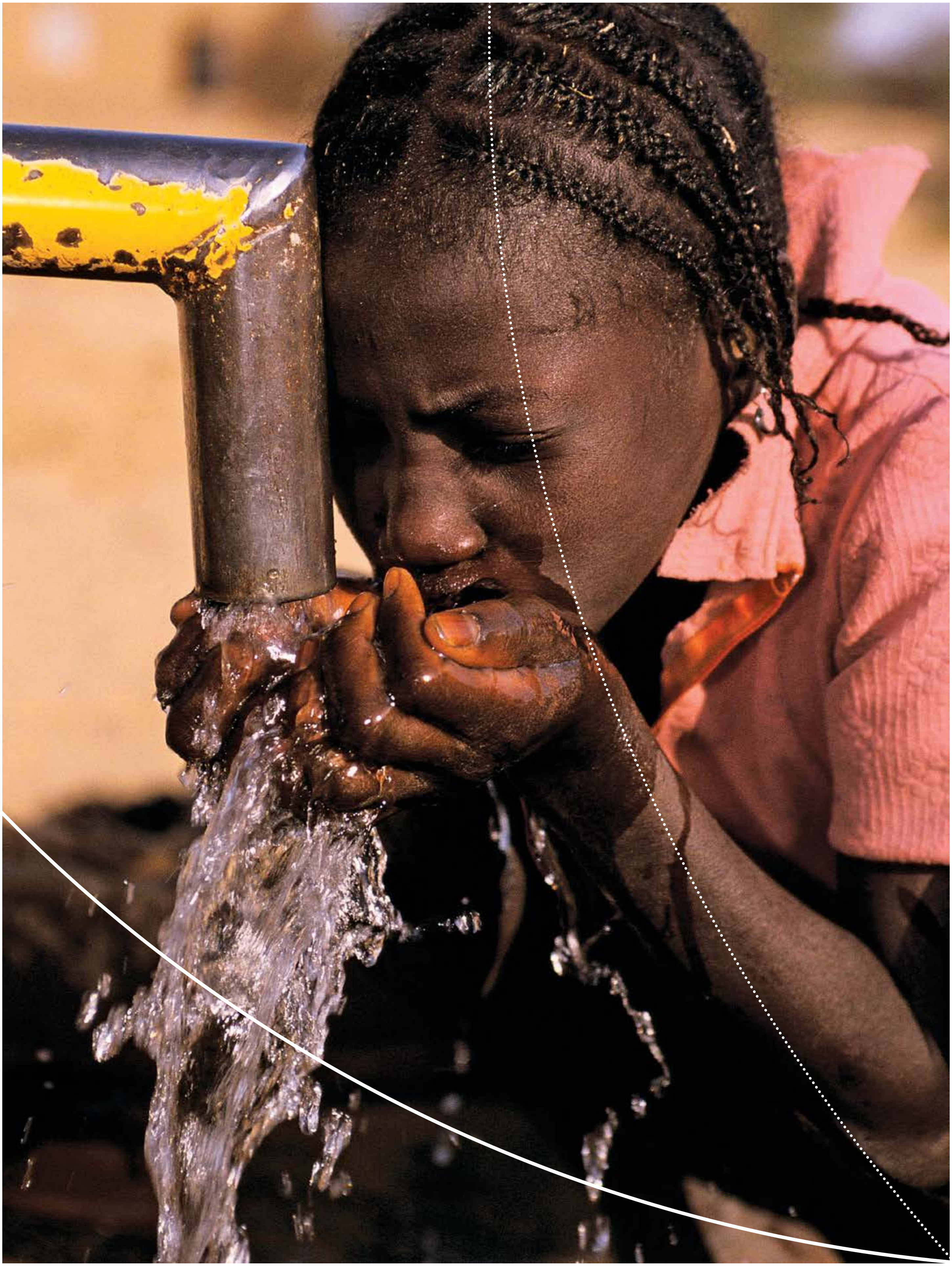
And these inclusive business models work.

IFC sees the same financial returns from its inclusive business clients as from its overall portfolio. Inclusive business leaders have shown, that with strong business acumen, they can successfully engage BOP suppliers and BOP customers. These IFC clients reach millions of low-income people — farmers, patients, students, utility customers, first-time home owners, and mobile phone subscribers. People who comprise the BOP. Each client teaches us a unique lesson. IFC is committed to learning from these clients and to sharing these lessons with the global business and development community.

Working with the BOP takes more than a good business idea. It requires ingenuity, creativity, and perseverance to overcome the many obstacles inherent in developing countries. Companies often need to create and invest in their own value chain, upstream or downstream. IFC's clients succeed despite their challenging business environments. They have shown that it is possible for companies to create value, both for the business and for BOP suppliers and customers, even in the most difficult situations. Improved business environments will enable even more companies to follow their lead and adopt inclusive business models.

Looking to the future, the private sector will play an important role in improving people's lives. We already see them incorporating the BOP into their value chains. The core challenge is how to accelerate the spread of these inclusive business models. This challenge — and the opportunity — is bigger than any one organization, government, or business. **But the reward — reducing poverty and boosting prosperity — is big.** While we see that inclusive business models have a key role to play, they must be supported by collaborative efforts to have the maximum impact at the BOP.

Building upon its existing knowledge base, IFC seeks to team up with key actors to do just that. Together, we can support the more than 4.5 billion people who live at the base of the economic pyramid with the products, services, and economic opportunities they need to forge their paths to prosperity.



DRINKING WATER FROM A PUMP. MALI. PHOTO: © CURT CARNEMARK / WORLD BANK
PHOTO ID: ML119S17

Inclusive Business Models
International Finance Corporation

2121 Pennsylvania Ave, NW
Washington, DC 20433
inclusivebusiness@ifc.org
ifc.org/inclusivebusiness

November 2014

International Finance Corporation
WORLD BANK GROUP