



2010
INCLUSIVE BUSINESS

Telling Our Story: Base of the Pyramid Investments



International
Finance Corporation
World Bank Group



Message from the Executive Vice President and CEO The Private Sector and Inclusive Business Models

IFC's vision is that people should have the opportunity to escape poverty and improve their lives.

Increasingly, we do this by supporting clients who are investing in inclusive business models—offering critical goods, services, and livelihoods to the poor in financially sustainable, scalable ways. The private sector can play a pivotal role in meeting the needs of those at the base of the global economic pyramid.

Landmark research by the World Resources Institute and IFC has shown that approximately 4 billion people, or roughly two thirds of the world's population, live at the base of the pyramid. Each of these hard-working people makes ends meet on less than the equivalent of \$3,000 per year in local purchasing power. Beyond low incomes, they have significant unmet needs, depend on informal or subsistence livelihoods, and pay what we call a “poverty penalty”—higher prices for basic goods and services, often of lower quality, than wealthier people pay.

At the same time, the working poor are creative and resourceful economic agents with an appetite for change. Pioneering companies are finding ways to tap into this potential, integrating low-income producers and consumers into their value chains. By using inclusive business models, local companies are investing in supply and distribution chains that provide better income opportunities and more goods and services for the poor. These are core activities for these companies. They are designed to scale up and reach

commercial viability within a determined time frame. This is an important role for the private sector: to be able to invest in business models that include the poor as full economic partners.

IFC's clients are at the forefront of this movement. And you'll read about their experiences in this issue of *Telling Our Story*.

Building on these pioneering efforts—and the development imperative—our challenge now is to greatly increase the number of financially sustainable inclusive business models operating at scale.

IFC is approaching this challenge with integrated investment and advisory services, as well as a proactive effort to document and share what we learn. Recognizing that our vision will require the combined effort of many partners, IFC is also working to foster a network of corporates, financial institutions, donors, service providers, and others interested in making the process of starting and scaling inclusive business models easier.

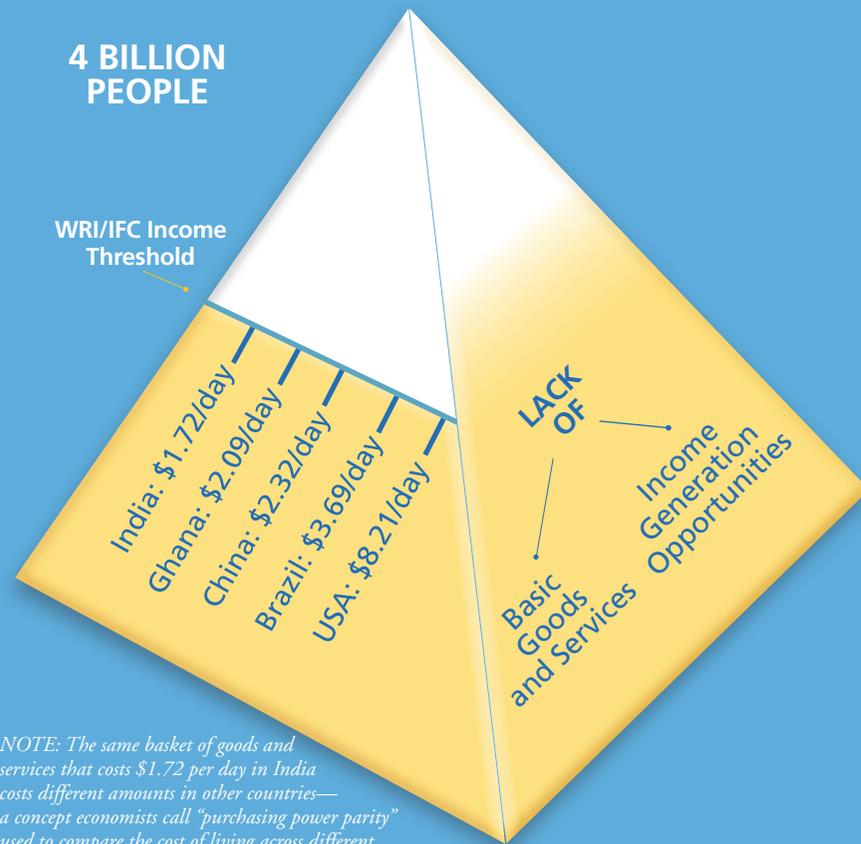
With world-class investment and advisory services, a global/local presence, the ability to shape industry norms and standards, and convening power spanning business, government, and civil society, IFC will continue to drive action toward a world in which millions of people have improved access to goods, services, and livelihoods through inclusive business.

A handwritten signature in black ink, appearing to read 'Lars Thunell'. The signature is fluid and cursive.

Lars H. Thunell
Executive Vice President and CEO

Cover Photo: IFC is helping bring the mobile phone revolution to remote parts of rural India, targeting village entrepreneurs to become sales reps for client Idea Cellular (p. 4).

Defining the Base of the Pyramid



NOTE: The same basket of goods and services that costs \$1.72 per day in India costs different amounts in other countries—a concept economists call “purchasing power parity” used to compare the cost of living across different countries using a common currency.

What is the base of the global economic pyramid? How many people make up this demographic?

The “base of the pyramid” concept has become a popular shorthand for describing individuals living below a given income or spending threshold. But many people debate where these income or spending lines are best drawn, and consequently the size of this population and its purchasing power. Some suggest below \$1 or \$2 a day for the poverty line. Others say below \$5 or \$8 a day for the working poor. But how do you compare across countries?

The World Resources Institute (WRI) and IFC used the purchasing power parity methodology to account for differences in costs of living and inflation between countries (see diagram at left). Using a cutoff of \$3,000 per person per year in purchasing power parity, the estimate is that there are 4 billion people at the base of the pyramid.

The question, however, is not where exactly this income line falls, but what it really captures.

Income is just one parameter for poverty, and an imperfect one at that. The seminal World Bank study *Voices of the Poor*, based on interviews with 20,000 people living in poverty around the world, found that the poor themselves define their situation in a far more multidimensional way:

- “There is nowhere to work.” (Ecuadoran woman)
- “We need water as badly as we need air.” (Kyrgyz woman)
- “Whoever goes to the health clinic healthy comes out sick.” (Egyptian villager)

Their definition focuses not just on lack of income, but on lack of access—to basic goods, services, and economic opportunities. Too often, poor people cannot get key products at the prices and quality that others rely on. Whether they are informal settlers, urban dwellers, small-scale farmers, villagers, or others, they are often denied clean water, electrical power, good roads, modern communications, health care, education, financial services, and—perhaps most important—steady sources of income. These are things others take for granted, but that those living in poverty struggle to attain.

IFC uses the term “base of the pyramid” in the broader sense of poverty that the poor themselves understand and experience: not just as lack of money, but also as lack of access to basic goods, services, and income generation opportunities. And if we were to estimate the number of people living without such access, it would likely be much higher than the 4 billion people identified by the income threshold.

With its rigorous, results-based approach, the private sector can develop sound business models at the base of the pyramid with measurable development impact in addressing these needs. IFC is there to support clients with such projects, absorb the lessons learned, and then bring them to significant scale.

INCREASING ACCESS: *Breakthroughs in Inclusive Business*

Who are the people at the base of the pyramid that IFC is reaching? Their stories are in the pages that follow. They are people like:

- **Manny Libico:** One of the 1.6 million poor people that our client Manila Water now serves in the Philippine capital, most of whom formerly lacked access to clean water (*p. 7*).
- **Zaine:** A small-scale independent distributor for Coca-Cola SABCO in Ethiopia, part of a system that has created more than 12,000 jobs in East Africa (*p. 14*).
- **Chan Sreang:** A Cambodian woman who feels she does not have enough money to interest any bank, yet can now save \$2.50 a week on her cell phone with our client WING's service (*p. 18*).



By investing in local distribution firm Mi Tienda (*p. 16*), IFC is creating opportunity for low-income women in rural Mexico. The small shops they own are often their families' economic lifeline.

- **Bibi Sediqa Musawi:** An Afghan woman whose family now has improved housing, thanks to a small home improvement loan she received from First MicroFinance Bank-Afghanistan (*p. 22*).
- **Saodat Karaeva:** One of many small-scale cotton farmers in Tajikistan who can now obtain financing from Tojiksodirot Bank and First Microfinance Bank, making their operations more profitable and productive (*p. 26*).
- **Amabelino Chavarría:** One of more than 12,000 small-scale farmers in Central America now selling premium-grade coffee, thanks to financing and training that IFC, Ecom Agroindustrial Corporation Ltd., and other partners provided—a model now being offered in Vietnam as well (*p. 28*).

A member of the World Bank Group, IFC is the world's largest development finance institution focused on the private sector, committed to creating opportunity to help people escape poverty and improve their lives. Our investment and advisory services help clients pursue commercially viable business opportunities at the base of the pyramid, engaging the poor as producers, consumers, and workers.

The past decade has seen major breakthroughs in mobile phones and microfinance, industries that now reach large numbers of the poor on a commercial basis. Other advances may soon lie ahead.

Contents

	■ ACCESS TO INFRASTRUCTURE	
India	■ Mobile Phones Breakthrough in Bihar	4
Philippines	■ Clean Water Private Sector Delivery	6
	■ ACCESS TO HEALTH AND EDUCATION	
Rwanda	■ Mobile Health A Hand-Held Solution	8
India	■ Hospital Care Available, Affordable	10
Colombia	■ Private Education Extending the Reach	12
	■ ACCESS TO INCOME	
Ethiopia	■ Distribution Reaching Hidden Markets	14
Mexico	■ Small-Scale Retailers Anchors of the Local Economy	16
	■ ACCESS TO FINANCE	
Global	■ Banking by Phone Reaching Customers, Fighting Poverty	18
Global	■ Microinsurance The Time Is Now	20
Afghanistan	■ Housing Small Loans, Big Results	22
Peru	■ Microfinance Big Bank, Small Loans	24
	■ ACCESS TO MARKETS	
Tajikistan	■ Cotton Tajikistan's 'White Gold'	26
Vietnam	■ Coffee Local Farms, Global Markets	28
China	■ Productivity Gains Critical for Chinese Farmers	30
	■ ANNEX	
	■ Working Together IFC's Collaboration with Other Organizations	32



MOBILE PHONES

Breakthrough in Bihar

Bihar is India's poorest state: 90 million people in a vast underdeveloped area.

Fixed-line telecom service is weak, and only 2 percent of the people have access to one of today's most transformative forces, a mobile phone.

Bringing low-cost modern communications to Bihar at a large scale would be a development breakthrough. With the right pricing and distribution strategy, it could be a business win as well.

This has been IFC's goal since 2008, when we financed Idea Cellular's entry into Bihar. A rising local firm, Idea was committed to this challenging, wide-open market that as recently as 2006 was receiving only \$314 million in total annual private investment, by far the lowest of any Indian state.



IFC is helping Idea find independent sales agents in the villages of Bihar. Rooted in their communities, they can open access to the state's vast rural market.

The risk paid off. Today Idea has 2.4 million paying subscribers in Bihar.

Its profitable business model there includes per-second billing, inexpensive prepaid calling cards, and other customer-friendly products. With nearly 60 million subscribers nationwide, Idea has won Emerging Company of the Year honors from India's top business newspaper, *The Economic Times*.

IFC advisory services are taking Idea deeper, targeting remote areas well beyond its usual distributors' reach. Supported by Dutch donor funds, we have helped it find 1,200 villagers in Gujarat state who buy handsets bundled with Idea SIM cards for no more than \$35, then sell airtime on commission to others who cannot afford to buy their own. This "win-win" model raises the village sellers' incomes by 25 percent, increases rural telecom access, and builds our client's market share.

Inspired by the IFC-financed Grameen Village Phone program in Bangladesh and its recent replications in Africa, this approach will now be rolled out on a much larger scale in Bihar and other states. It is one of the first projects in a larger IFC initiative for all of India's low-income states, who together have almost as many as poor people as all of Africa.



In Gujarat (above) and many other Indian states, IFC client Idea Cellular is making mobile phones affordable to a large-scale market. In the last two years, Idea's innovative pricing and distribution strategies have attracted 2.4 million paying subscribers in India's poorest state, Bihar.

CLEAN WATER

Private Sector Delivery

Good business can be good for the poor.

Manila Water Company is a case in point: a successful, respected company that provides clean water to 1.6 million poor people.

In the late 1990s, Manila's water came from a failing government enterprise. Three-quarters of the homes in its eastern half lacked 24-hour service, and shoddy infrastructure and theft meant most of what was pumped never reached a paying customer.

Area residents, many of them impoverished, had two bad choices: collect contaminated water from public taps and shallow wells and risk the health consequences, or wait in long lines and pay exorbitant prices to buy the safer kind from private vendors. No more.



Manila Water: Selling clean water at prices the poor can afford.

Privatized with IFC's help in 1997, Manila Water now serves the East Zone, selling 99 percent of households in its area 24-hour clean, affordable water. Only 15 percent is lost.

IFC has invested \$75 million in the firm, financing that spurred additional private capital for a large-scale network upgrade. In time, the company's number of customers has grown from 3 million to nearly 6 million, of whom 1.6 million are poor—and a key to Manila Water's business model.

When operations began, water losses were highest in the poorest neighborhoods. So the company began enrolling those residents as paying customers in the discounted Water for the Poor program. Many now pay just P70 (\$1.50) per month—well within their reach, and a tiny fraction of the amount they once paid. The new service has led to a dramatic drop in waterborne diseases such as diarrhea.

While not a profit center itself, Water for the Poor reduces far costlier illegal tapping and increases the company's overall customer base while providing clean water to those who need it most. IFC has helped it reach more of the most marginalized communities with a \$2.8 million grant from the Global Partnership on Output-Based Aid.



"Water is much more affordable now," says Manila Water customer Manny Libico. "We used to take baths only twice a week. Now we can take them daily, sometimes even twice a day." He is one of 1.6 million low-income customers who buy the company's affordably priced water.

MOBILE HEALTH CARE

A Hand-Held Solution

When it comes to making pro-business reforms, Rwanda is number one in the world.

It holds that title in the latest IFC/World Bank *Doing Business* rankings, having taken several steps that helped it increase private investment by 31 percent and maintain 11 percent economic growth last year. IFC has worked closely with the Rwandan government throughout this process.

But how deep into the economy do these reforms reach? Do they have any direct impacts on the poorest?

Ask the people in its most remote villages, far from hospitals and beyond the Internet's reach. For them, serious illnesses can quickly become life-threatening.

But Rwanda's improved investment climate has led to



Making free, instant communication possible in remote areas, mobile health care solutions support the fight against HIV/AIDS in Africa.

a thriving mobile phone market, creating an all-new platform for development, including low-cost health information services from IFC client Voxiva. They allow isolated rural clinics to text-message daily reports for free to national health authorities, who can now monitor the outbreak of malaria, diarrhea, yellow fever, and other infectious diseases months earlier than before. The clinics can also order new shipments of essential medicine this way, receiving them well before existing supplies run out.

Applying a model it first developed in the Peruvian Amazon in 2001 with \$250,000 of support from our infoDev grant program, Voxiva sells its TrackNet software to the Rwandan government, which then installs it on all three national carriers as a public service. When Voxiva first entered the market five years ago, the mobile phone revolution was just beginning. Today Rwanda has 90 percent mobile coverage, allowing Voxiva to serve almost all of the country's 450 rural health clinics.

Although small at the time, Voxiva was highlighted in C.K. Prahalad's landmark 2004 book *The Fortune at the Bottom of the Pyramid*, singled out as "a business truly interested in solving public health problems." IFC's \$5 million equity investment is helping it grow—in Rwanda, and worldwide.



A hand-held mobile phone can save lives in Rwanda. If they have no computers for Internet access, local health care workers can send and receive detailed text messages and data reports via IFC client Voxiva's information system—opening the door to treatments that wouldn't have been possible in rural areas until recently.

HOSPITAL CARE

Available, Affordable

Severe illness or injury can be financially devastating to the poor in countries with underdeveloped health care systems.

In many countries, a single case of hospitalization can consume the majority of a person's annual expenditures. Those hospitalized often either must borrow money or sell their belongings to pay medical bills.

India is one of a growing number of emerging markets providing public health insurance for the poor while using private delivery systems. In some states, those with incomes low enough to qualify can receive 100 percent coverage for hospitalization. To help serve this largely untapped market, we are helping our client Apollo Hospitals—the country's private health care pioneer—build low-cost hospitals in small cities where



Karim Nagar: Site of the first Apollo Reach hospital.

effective options are otherwise very limited.

Called Apollo Reach, this hospital chain offers specialized services such as cardiac care, cancer treatment, radiology, neurosurgery, and others for which users would otherwise have to travel long distances to large cities at considerable expense. Typically costing up to 30 percent less than their larger counterparts, these hospitals bring highly trained doctors and nurses in to underserved local communities. Prime Minister Manmohan Singh launched the first one in Karim Nagar, Andhra Pradesh in 2008.

A \$50 million IFC loan will help Apollo build 15 more of these hospitals, serving 400,000 patients a year—of whom 120,000 are expected to be very poor. The higher fees paid by more affluent patients help make this business model commercially viable for the parent company.

A visionary cardiologist, Dr. Prathap Reddy, started Apollo despite great obstacles to private sector medicine in 1983, and has since built it into the national leader, with IFC on board as an equity investor. The Apollo Reach chain is fully in keeping with the ultimate aim he has had all along: providing “quality health care to all those who need it.”



The low-cost Apollo Reach hospital chain is saving lives across India. An innovative business model allows it to offer the poor much higher quality treatment than had been available before. Its highly trained doctors provide first-class care at affordable prices.

PRIVATE EDUCATION

Extending the Reach

It is true almost everywhere: more education can lead to higher earning power.

But in Colombia, only a select few have access to higher education. For many interested students it has simply been out of the question, blocking a clear path out of poverty. Until recently, that is.

An innovative Bogotá-based educational institution called Uniminuto is turning things around with a business model that has attracted 35,000 paying students of all ages, nearly half from the country's lowest income groups. The model combines low-cost tuition and high-value programs in computer science, business, engineering, and other fields that open doors in the job market. The product is in high demand, sending the company to IFC to finance a major expansion. Uniminuto's schools frequently target students in informal settlements, smaller cities, and



Uniminuto's leader, Father Camilo Bernal Hadad, outlines his expansion plans for the school.

rural areas that until now have had no such option. Many draw on the country's World Bank-supported student loan program to finance their tuition.

A commitment to a low-cost structure enables it to grow while keeping tuition prices down. Uniminuto often rents or shares its school buildings, and does not spend money on expensive infrastructure.

Sponsored by a respected Roman Catholic group, it is part of a network of anti-poverty organizations that also includes microfinance and low-income housing arms.

"We believe that education is critical to promoting growth, social mobility, and stability in Colombia," says Father Camilo Bernal Hadad, the school's rector-general. "We are committed to providing both high-quality and affordable education and to serving areas that have no access to services."

An \$8 million, peso-linked IFC loan will help the school reach an additional 10,000 students by 2011. Our funding will support the expansion of three important campus sites and the technology infrastructure required to expand distance learning offerings for students in more remote areas.

In the process, more poor students will earn degrees, receive professional certification, and change their mindsets about the future.



Graduation day at Uniminuto, an innovative private education provider in Colombia. Its practical, job skills-based curriculum opens up new employment opportunities for its students, many of whom are from the country's lowest income groups.

DISTRIBUTION

Reaching Hidden Markets

With just a fourth-grade education and no experience in Ethiopia's mainstream economy, Zaine seems an unlikely asset for a multinational corporation. But to Coca-Cola's local bottler, he is invaluable.

He may not have much formal schooling. But what he knows is his part of Addis Ababa, especially the crowded, crooked streets where people gather regularly, eager to buy soft drinks. The neighborhood's small bars, shops, and kiosks are beyond the reach of large delivery trucks. Small, hand-pushed carts are a better way in.

Zaine has signed on to bring Coke products to these local vendors reliably each week. A small but important marketer for the world's largest non-alcoholic beverage company, he now earns enough to escape poverty, boosting local bottler Coca-Cola SABCO's market share in the informal sector that comprises so much of Ethiopia's economy.

He is one of a burgeoning group of independent distributors in East Africa. Supported by \$37 million in IFC financing, Coca-Cola SABCO's innovative delivery scheme integrates low-income entrepreneurs like Zaine into its core business operations. Launched in 1999, it is now the South African-owned firm's dominant distribution model in East Africa. There are roughly 650 privately operated distribution businesses in Ethiopia (many operated by first-time entrepreneurs like Zaine)

that account for 83 percent of Sabco's sales nationwide. In Tanzania, just over 400 such businesses account for 93 percent of sales.

Coca-Cola SABCO's system creates more than 12,000 jobs and \$500 million in revenue annually. Roughly 50,000 dependents rely on distributor income.

This success provides valuable lessons. Integrating local businesses into the supply chain can increase profits for large multinational corporations, particularly in markets where traditional distribution practices are not viable. For the poor, such schemes are pivotal: with access to cheap credit, local entrepreneurs can move out of the informal sector, gain skills, and increase their incomes.

**Coca-Cola's Distribution Chain:
A business opportunity for small
business owners in East Africa.**



Working as small-scale distributors for a major Coca-Cola bottler, East African workers can own their own businesses and earn considerable income. IFC has worked closely with South African-owned Coca-Cola SABCO to develop the model, which has created more than 12,000 jobs.

SMALL-SCALE RETAILERS

Anchors of the Local Economy

In Mexico's villages, small shops are big players.

Many are one-woman microenterprises, selling food and household goods from just four square meters of floor space. The income they provide their owners is essential in these hard-to-reach rural areas.

But they are cut off from the larger-scale retail industry's efficient distribution chains. To manage their inventory, the owners must travel to distant cities, repeatedly buying small amounts of goods. This slow, costly process cuts profits and drives up the prices they charge their low-income clientele.

In this problem, our client José Ignacio Avalos saw opportunity. He set up a distribution company to



José Ignacio Avalos: Founder of Mi Tienda.

supply these small shops, using a modern logistics network that delivers goods directly to their doors. Called Mi Tienda ("My Store"), it offers retailers an inexpensive package of volume-discounted goods in individual unit size, customized financing, store modernization, and training. This

model has increased revenues of modernized stores by 35 percent while enabling them to offer lower prices to customers.

IFC has just taken a \$2.5 million equity stake in Mi Tienda. This helped Mr. Avalos attract another \$10 million from other investors to scale up his innovative firm, which aims to raise the incomes of 25,000 rural shop-owners.

Mr. Avalos, a founder of successful local microfinance institution Banco Compartamos, has long understood the economic value in meeting the needs of the poor and underserved.

He says that the stores are a lifeline, both for their owners and for the customers they serve: "Eighty percent of the store owners are women whose other employment options are limited to agriculture or domestic help."

And customers—typically farm workers or rural people without steady incomes who have no transportation—now have easier access to a wider selection of fresher goods, at more affordable prices.

To those who might suggest that clients like these shop owners are too big of a business risk, Avalos says simply: "Our loan repayment rate is 98 percent."



IFC client Mi Tienda helps small shop-owners in rural Mexico grow more productive, allowing them to increase their sales and provide better customer service.

BANKING BY PHONE

Reaching Customers, Fighting Poverty

The research is clear: bringing the poor into the banking system in large numbers is essential to poverty reduction. But how is it done with those in the most remote, underserved areas?

In the poorest countries, it may happen best through phones, not financial institutions.

In Cambodia, 90 percent of the people never use banks. Yet half the population has access to a mobile phone. Using one as a bridge to the other makes good business sense and can transform poor people's lives.

This is the goal of WING, a new ANZ Bank venture in Cambodia supported by IFC advisory services. Launched in January 2009, it cut the costs of local money transfers by 50 percent, allowing workers in Phnom Penh to send money back to rural relatives by phone for a small fee. Once transactions go through, money can be quickly obtained from authorized agents in villages, and the service can also be used to build savings. Far faster and safer than other options, it gives customers confidence and control over their money, and simultaneously introduces them to banking services.

WING already has 100,000 clients—most of whom had no previous banking experience. The overwhelming majority of these “unbanked” users are women.

Chan Sreang lives in a poor neighborhood of Phnom Penh with her brother and mother. Her modest earnings as a waitress go almost entirely to

household expenses, and she feels she does not have enough money to open a conventional bank account. But she does have a mobile phone. WING has turned it into her personal banking device, keeping her money safe from loss or theft. “I just want to put the little I have in my account daily,” she says. “I know it will be safe.”

IFC advisory services helped WING develop its sales network and tech support call centers and measure its socio-economic impacts, while also helping government officials grow comfortable with the approach amid the country's legal and regulatory climate.

Sensing similar opportunities in Pakistan, Norwegian mobile operator Telenor recently bought control of IFC's local microfinance client Tameer Bank and introduced a similar money transfer service that has found 50,000 subscribers in its first three months. The acquisition followed value-building advice on mobile banking that IFC provided Tameer. We then helped it obtain more from a Bill & Melinda Gates Foundation-funded program at global microfinance center CGAP.

As in Cambodia, the new access means much to Pakistan's rural population, offering “significant potential to support the incomes of poor and vulnerable groups,” says Tameer Bank's CEO Nadeem Hussain.



IFC client WING makes banking by phone a reality for 100,000 Cambodians like Chan Sreang (above), a waitress in Phnom Penh who uses its convenient technology to save \$2.50 a week. Inexpensive, accessible, and safe, it makes financial transactions possible for people who would otherwise never use a bank.

MICROINSURANCE

The Time Is Now

The poor are more resilient when they have insurance.

With insurance, a breadwinner's death no longer means financial devastation for the family. People are also more likely to invest in expanding their farms, establishing new businesses, or sending their children to school. In Uganda, studies show, the seriously ill take nine days to go to the hospital if they have no insurance; with insurance, they take just two and a half.

Microinsurance—the provision of affordable insurance to the poor—is now one of the world's most demanded financial services. It is one that low-income people will pay for when it is commercially available, making up a 1.5 billion-person market that is only 5 percent penetrated at present, according to a recent study by one of the world's largest private insurers, Lloyds of London.

To help build this much-needed industry, IFC has just invested \$20 million in LeapFrog Financial Inclusion Fund, the world's first commercial microinsurance investment fund. Our stake helps LeapFrog reach its target size of \$100 million, capital it will use to enable 25 million people to access insurance in the coming years.

"We cannot ignore the fact that 83 percent of the population in Asia and 95 percent in Africa are low-income or poor," says LeapFrog President Andrew Kuper. "The industry has a historic opportunity to

develop profitable businesses that serve this immense customer base. We can generate strong returns for investors while helping millions of people with their daily struggle to get out and stay out of poverty."

The fund's first investment is in AllLife, a South African firm targeting HIV-positive and diabetic people that others consider uninsurable. Ensuring that clients undergo testing and actively manage their health reduces the risk AllLife covers, underpinning a profitable, high-impact business model.

LeapFrog is pursuing similarly innovative investments in Ghana, Kenya, India, Indonesia, and the Philippines, with IFC a close partner at every stage, helping the firm combine social impact with strong financial results.

**LeapFrog Financial Inclusion Fund:
The world's first commercial
microinsurance investment fund.**



Affordably priced insurance can mean everything to lower-income people in Africa and Asia. They comprise a vast untapped market that the IFC-backed LeapFrog Financial Inclusion Fund is now targeting, using a business model that seeks strong social impact as well as return on investment.

HOUSING

Small Loans, Big Results

Bibi Sediqa Musawi lives in Afghanistan's Mazar-e-Sharif province. Until her local bank began offering home loans, there was no way she could afford to improve the dire conditions of her family's house.

It had no doors—just an open passageway—and also no windows or kitchen. The income from her tailor's business and her husband's army career was too small to support repairs, making life cramped and difficult for the couple and their three children.

Then Bibi Sediqa learned that the First MicroFinance Bank-Afghanistan (FMFB) had begun offering home improvement loans. She borrowed \$2,000 to purchase steel doors and windows, plus plaster and paint for the inside of the house. She went to work, and now is thinking of borrowing more money to plaster the outside, too.



First-time homeowner Syed Haider's First Microfinance Bank-Afghanistan mortgage costs just a \$64 a month.

"The home improvement loan program really supports the poor," she says. "It allows us to complete or repair our houses."

IFC helped found FMFB in 2004, providing its sponsors at the Aga Khan Agency for Microfinance with the capital and advisory services needed to get started. Today it is the country's most successful commercial microlender, bringing modern banking to more than 85,000 low-income people nationwide.

To widen the impact, IFC last year began advising FMFB on the development of housing finance products, providing a resident adviser and other specialist services. This has enabled the bank to make small home loans to nearly 2,000 people like Bibi Sediqa. It has built a well-performing \$3.1 million housing finance portfolio that is currently offered at 12 branches across Afghanistan, and is expected to grow considerably in the future.

Monthly payments are less than \$100, allowing typical Afghans to improve their living conditions considerably—adding space, installing wells or hand-pumps that provide access to clean water, or installing latrines to improve sanitation. It is a profitable new business for the bank, and a life-changer for Afghan families.



Bibi Sediqa Musawi's home in Afghanistan is much better today than it was a year ago. New home loans that IFC helped the First MicroFinance Bank-Afghanistan start offering will allow thousands of other Afghans like her to improve their housing conditions in the coming years—renovations they could otherwise never have afforded without this new access to finance.

MICROFINANCE

Big Bank, Small Loans

For Peru's largest bank, the base of the pyramid is big business.

In September 2009 Banco de Crédito del Perú (BCP) paid \$79 million to acquire a controlling interest in an IFC client microfinance institution, **Financiera Edyficar**.

With the transaction, the country's financial leader signaled the growth prospects it saw in the business of bringing the poor into the financial mainstream. "We firmly believe Edyficar is a success story in its market segment, and we want to provide the capital, funding, and technology for it to continue growing beyond its current capabilities," said BCP's CEO, Walter Bayly.

A prestigious 120-year-old institution that is Peru's market leader in credit as well as savings, BCP is now actively targeting low-income clients. "We want to learn



Financiera Edyficar: Fueling entrepreneurship at the base of Peru's pyramid.

from the best in microfinance, and the best are all those who are part of Edyficar's team," Bayly said.

When IFC first met Edyficar in 2004, it was a small finance company with 33,000 borrowers, still dependent on financing from CARE, the poverty-fighting NGO that had founded it several years earlier. IFC provided a \$5 million debt and equity package to help it grow, followed by partial guarantees that enabled it to issue bonds in the Lima capital markets, raising its profile with local investors. Our advisory services then helped sharpen Edyficar's business focus, reducing its operating costs and making it more attractive to potential new investors that CARE was seeking.

Today Edyficar has more than 200,000 borrowers. Most live in the provinces, where average incomes are far lower than in capital city Lima. Many have never before had bank accounts. With one of the lowest average loan sizes of any local microlender, it is keenly focused on helping low-income entrepreneurs climb out of poverty. New owner BCP is making the right decisions to keep Edyficar's management, culture, and essence intact while providing new resources that will help it grow even further in the coming years.



In the six years it has worked with IFC, Peruvian microfinance bank Financiera Edyficar has grown from having 33,000 to more than 200,000 clients. It is now owned by the country's largest bank.

COTTON

Tajikistan's 'White Gold'

Tajikistan's economy depends heavily on cotton.

In many rural areas of this poorest and most fragile of the former Soviet states, a large majority of people earn their living from the crop they call “white gold.”

But the sector has undergone steady decline, leaving it indebted and inefficient today. A lack of competition in marketing and limited access to finance from local banks have left cotton farming barely viable for many smallholders. Partly for this reason, a million Tajik men—almost a third of the working population—have moved to Russia, hoping to earn money to send back to their families.

With support from the Canadian International Development Agency, IFC has responded by crafting a cotton advisory services project in southern Tajikistan.



Cotton: The key source of income for Saodat Karaeva (left) and thousands of other Tajik farmers.

It has helped our clients Tojiksodirot Bank and First Microfinance Bank introduce a new form of cotton lending, and between them lend nearly \$5 million to local small-scale farmers. More than 96 percent of the loans have been repaid—much higher than average repayment rates for the industry—raising confidence in this new commercial product that does much to increase rural incomes.

The project has also provided training for farmers to increase their understanding of productivity and gender issues. Analysis shows that yields at participating cotton farms are 37 percent higher than yields at farms that did not take part, leading to increased profitability. Nearly 6,000 women farm workers benefited from better working conditions and improved hygiene and sanitation. This has resulted in healthier and more productive workers reaping the benefits of more profitable farms.

“Previously we received cotton stalks instead of salaries per hectare of cotton-producing land,” recalls Saodat Karaeva, a Dekhan farm worker and mother of five. “But two years ago the farm bought a tractor with a loan from Tojiksodirot Bank. We started to receive a regular salary during cotton collection season. Our family is grateful to IFC for creating these opportunities for farmers to take loans, which have made our lives better.”



Now able to access loans from local banks and increase their output, Tajikistan's small-scale cotton farmers are taking new pride in their work.

COFFEE

Local Farms, Global Markets

Coffee: the world's second most-traded commodity after oil, and a source of income for small-scale farmers in more than 50 countries.

Many earn far less than they could, held back by low productivity and quality. Given the right tools for learning, they can improve both enough to start selling to demanding global buyers who will pay them a better price.

IFC helps fill this knowledge gap in several countries through an ongoing partnership with one of the world's biggest coffee traders, Ecom Agroindustrial Corporation Ltd. The collaboration recently led to the launch of Vietnam's first training center for coffee farmers. Over the next three years, it will build 4,000 small-scale farmers' skills in sustainable agriculture, helping them meet international certification standards, improve



Amabelino Chavarría: IFC/Ecom client in Costa Rica, one of the first markets in a growing global partnership.

the sustainability and productivity of their crops, and increase their earnings.

Support for the training center came alongside a \$55 million 2008 IFC loan to Ecom in Vietnam and five other countries. It helps local coffee producers qualify for organic status and other forms of sustainability certification required by top global buyers.

Seeking a new way to link small-scale farmers to global supply chains, IFC began working with Ecom in Central America in 2007. Nestlé's sophisticated Nespresso brand, the Rainforest Alliance, and others were closely involved from the outset. Also providing local farmers with both training and financing, the initiative has since enabled more than 12,000 Central American farmers to sell to Nespresso, earning \$3.7 million in sales premiums for the independently verified, high-quality coffee they now grow.

Amabelino Chavarría owns a small coffee farm in Costa Rica with his brother. Thanks to the training he received through the project, he has sold premium coffee to foreign buyers for the last two years, using high environmental and productivity standards. His new counterparts in Vietnam should soon be able to say the same.



By teaming with one of the world's largest coffee traders, Ecom, IFC helps thousands of small-scale producers in Vietnam raise their standards and command better prices.

PRODUCTIVITY GAINS

Critical for Chinese Farmers

Even in fast-growing China, local small-scale farmers frequently still use unsophisticated methods of fertilizer application, limiting their crop yields, sales, and incomes. By financing a local fertilizer company's expansion, IFC is helping improve prospects for 850,000 of these farmers.

Koyo Ecological Agrotech Group Ltd. is one of China's leading fertilizer producers. It is using \$30 million in IFC financing to build a new urea and ammonia plant in Sichuan province, addressing a fertilizer shortage in one of China's key agricultural centers.

The firm's business model involves producing top-quality fertilizer from low-cost local urea, then selling it to small-scale farmers along with valuable training. Its university-trained agricultural specialists have helped grain and cowpea growers improve their fertilizer use through soil analysis, correct blending, and timing of application, leading to significantly enhanced crop yields. Rapeseed farmers, for example, have been shown to experience a 7 percent increase in yields after applying Koyo's fertilizer, allowing them to earn significantly higher incomes.

Government support helps make the product more affordable to the end users. Local farmers can draw on annual government subsidies of up to RMB100 (\$15) per hectare they cultivate, with additional funding available to defray the costs of seed and agricultural equipment.

IFC's \$20 million loan and \$10 million equity investment is financing the construction and operation of Koyo's ammonia/urea complex in Dazhou City, a poor region of Sichuan 400 kilometers from the provincial capital, Chengdu. The company is part of the larger Koyo Group, which was established in November 1996 and is principally engaged in the research and development, manufacture, marketing, and distribution of chemical products and chemical fertilizers. The group's commitment to quality control and quality assurance is demonstrated by its proven success in attaining international standards, such as ISO 9001:2000 Quality Management System Certification and ISO 14001:1996 Environmental Management System Certification.



Sichuan province's Fuyuan Zeng (*left*) and Tianlin An (*right*) share experiences with their representative from Koyo, an IFC client that works closely with China's small-scale farmers. "Thanks to Koyo's teaching me to mix and spray pesticide to prevent the diseases and pests, my cowpeas are good this year, and I plan to grow more next year." Fuyuan Zeng says.



Working Together

IFC's Collaboration with Other Organizations

Sharing Knowledge and Promoting
Base of the Pyramid Investments

WORKING TOGETHER

Base of the Pyramid Investments



Pioneering companies like the IFC clients featured in this collection are showing it is possible to meet poor people's needs for goods, services, and livelihood opportunities through commercially viable, scalable business models.

Their stories are impressive and inspiring—especially since inclusive business isn't always easy. Companies face real obstacles in designing, piloting, refining, and building inclusive business models. These obstacles include overcoming hurdle rates for internal investment, finding clear paths for growth in scope and scale, managing high expectations, and addressing low tolerance for failure.

Many more companies need to succeed in the world of inclusive business to serve the four billion people now living at the base of the pyramid. IFC can fill critical gaps—for example, IFC has a strong balance sheet and the ability to deploy results-oriented investment integrated with advisory services. But IFC recognizes that no single organization can address all the needs. A wide range of actors are working at the base of the pyramid, and all have important roles to play.

This is why IFC is partnering with leading companies, donors, foundations, and civil society organizations active in this space. For example, we are working with the Grassroots Business Fund to help social entrepreneurial ventures grow and reach commercial viability. We collaborate with Technoserve to build small businesses' capacity to join the value chains of larger companies, such as IFC investment clients. We are partnering with the Harvard Kennedy School to bring such companies and donors together to share what they've learned about doing business with the base of the pyramid (see adjacent box).

Our goal in partnering is to learn how, together, we can make the process of starting and scaling inclusive business models easier—less costly and more likely to succeed. From global knowledge-sharing to sector-specific collaboration on the ground, we believe concerted action is what is required to drive inclusive business beyond its tipping point.

Networking for Inclusive Business

IFC and the Harvard Kennedy School

Many firms worldwide are in the early stages of learning to do business with the poor as producers and consumers.

In a way, the inclusive business models they are building can be considered R&D—with the ultimate objective of being rolled out at significant scale. These innovative firms and the organizations that support them have a lot to learn from one another.

Since 2007, IFC and the Harvard Kennedy School have been creating opportunities for leading companies to share the opportunities and challenges they face in starting and scaling inclusive business models. Through roundtable dialogues in Washington D.C., Johannesburg, Rio de Janeiro, and Jaipur, a network of practitioners has begun to coalesce and a richness of solutions has been captured.

Most recently, IFC and the Harvard Kennedy School have begun to expand the network, bringing corporate practitioners together with members of the donor community to better understand what donors and development finance institutions can do to help the private sector start and scale inclusive business models more effectively. Together, the two institutions have also published the following reports:

- *Developing Inclusive Business Models: A Review of Coca-Cola's Manual Distribution Centers in Ethiopia and Tanzania (2009)*
- *Business Linkages: Enabling Access to Markets at the Base of the Pyramid (2009)*
- *Supporting Entrepreneurship at the Base of the Pyramid through Business Linkages (2008)*
- *Business Linkages: Lessons, Opportunities, and Challenges (2007)*



2007: Roundtable in Jaipur

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Our vision is

That people should have the opportunity to escape poverty and improve their lives.

Our core corporate values are

- Excellence
- Commitment
- Integrity
- Teamwork

Our purpose is

To create opportunity for people to escape poverty and improve their lives by:

- Promoting open and competitive markets in developing countries
- Supporting companies and other private sector partners where there is a gap
- Helping to generate productive jobs and deliver essential services to the underserved
- Catalyzing and mobilizing other sources of finance for private enterprise development

In order to achieve its purpose, IFC offers development impact solutions through: firm-level interventions (direct investments, advisory services and the Asset Management Company); standard-setting; and business enabling environment work.

