



# Inclusive Business Solutions:

**EXPANDING OPPORTUNITY AND ACCESS  
AT THE BASE OF THE PYRAMID**

Report of a Conference held October 7–8, 2010  
in Washington, DC

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**IFC**

**International  
Finance Corporation**  
World Bank Group

# Acknowledgements

This report would not have been possible without the contributions of a wide range of colleagues. The authors owe a debt of thanks first and foremost to the IFC clients who traveled great distances to come and share their experiences at the October 7-8 event. Experts Jane Nelson (Harvard Kennedy School), Mike Kubzansky (Monitor Group), Nancy Barry (Enterprise Solutions to Poverty), and Erik Simanis (Cornell University) provided invaluable insight from their research and consulting work. Peter Tynan (Dalberg) skillfully facilitated the discussion, drawing on the wisdom of several projects with IFC in the inclusive business space.

The event and this report have been a joint effort of IFC's Inclusive Business Team and colleagues across Investment and Advisory Services (please see Annex D). Among them, the authors give special thanks to their teammates Toshi Masuoka, Sujata Lamba, Farzin Mirmotahari, Piya Baptista, Jonathan Dolan, Daniel Coutinho, and Marcela Sabino. Along with the authors, Daniel, Jonathan, Marcela, and Piya conducted a number of the interviews. Jonathan, Piya, IFC Advisory Services colleagues Soren Heitmann and Sabine Durier, and the Harvard Kennedy School's Sam Phillips Lee were also involved in writing the case studies featured in Annex A, which are reprinted from the April 2010 report *Scaling Up Inclusive Business: Advancing the Knowledge and Action Agenda*, published jointly with the Harvard Kennedy School.

Finally, the authors would like to thank IFC Senior Management, including Executive Vice President and CEO Lars Thunell, Vice President of Advisory Services Rachel Kyte, and Vice President of Global Industry Jyrki Koskela, for creating time for this event in their busy Annual Meeting schedules. Their unwavering support for inclusive business sends a strong message that IFC is committed to playing a key role in this emerging and maturing space.

## COVER PHOTOS

Jaipur Rugs, India (Eriko Ishikawa)

Mi Tienda, Mexico (José Raúl Pérez)



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*Jenkins, B., E. Ishikawa, A. Geaneotes, and J. Paul (2010). "Inclusive Business: Expanding Opportunity and Access at the Base of the Pyramid." Report of a Conference held October 7-8, 2010 in Washington, DC. Washington, DC: IFC.*

Mi Tienda, Mexico  
(José Raúl Pérez)

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# Introduction



Companhia Energética do Maranhão  
(CEMAR), Brazil

Around the world, the twin goals of growth and inclusion are central to the development agenda. Inclusive growth will not happen without inclusive business models: financially sustainable, scalable business models that expand access to goods, services, and livelihoods for those living at the base of the pyramid.

IFC uses the term “base of the pyramid” to describe people living in poverty in the broad sense in which the poor themselves understand and experience it. In 20,000 interviews conducted for the seminal World Bank study *Voices of the Poor*, the poor describe not only a lack of income, but more fundamentally, a lack of access—to goods, services, and economic opportunities.

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

Too often, people living at the base of the pyramid (or BOP) cannot get key products at the levels of quality and affordability that others rely on. They may lack steady jobs, business opportunities, clean water, electrical power, good roads, modern communications, healthcare, education, or financial services. Or, in the absence of efficient, formal markets, they pay more for such services than those living at the top of the pyramid—a phenomenon known as the “poverty penalty.”

Many people view those at the BOP as responsibilities of the state or subjects of charity. But “if we stop thinking of the poor as victims or as a burden and start recognizing them as resilient and creative entrepreneurs and value-conscious consumers, a whole new world of opportunity will open up.”<sup>1</sup>

This is something many IFC clients have recognized for a long time. Around the world, IFC clients are offering goods, services, and livelihoods to the BOP as consumers, producers, distributors, and retailers. And they are doing it in commercially viable ways, through inclusive business models.

“Inclusive business is interesting for companies because it can offer new opportunities for innovation, growth, and competitiveness at the same time as positive social and development impact. It is interesting for bilateral and multilateral donors, foundations, governments, and civil society organizations because it has the potential to drive development impact in self-sustaining, self-multiplying ways that do not require continuous infusions of grant funding. And it is interesting for the poor because it brings greater access, choice, and opportunity in their lives and futures.”<sup>2</sup>

IFC has embarked on a journey of engagement and learning with its clients and with partners in the development community. The October 7-8, 2010 event *Inclusive Business Solutions: Expanding Opportunity and Access at the Base of the Pyramid* was one step along the way, bringing more than 120 experienced professionals from different sectors together to learn from one another’s successes. The event is part of a broader effort to stimulate the flows of information and inspiration our clients need to start and scale inclusive business models faster and with even better results—for the business, and for the BOP.

# Inclusive Business Solutions

In fiscal year 2009 alone, IFC committed \$780 million to more than 35 clients with inclusive business models. There are more than 150 active clients with inclusive business models in IFC's portfolio.

Based on client experience and a growing body of research in this area, IFC has found that companies developing inclusive business models must address five core challenges that cut across the industries they are in. Patterns in the tactics they use for each challenge are emerging. In addition, partnerships and technology commonly act as enablers.

These challenges, tactics, and enablers are depicted below.

CHALLENGE	ENABLERS		TACTIC	TACTIC DESCRIPTION	TACTIC EXAMPLE
EXPANDING REACH	Technology	Partnerships	Distribution channel-sharing	Partnering with organizations with existing channels to quickly expand reach	Healthcare company sells health products or services through rural agribusiness hubs
			Informal channels	Using small and micro enterprises operating in the informal economy as channels	Telecom company sells prepaid airtime cards through mom-and-pop shops and roadside kiosks
			Business-in-a-box	Standardized “franchise” opportunity for micro-entrepreneurs	Village phone operators purchase “kits” and sell airtime by the minute on commission
			Field agents	Decentralized network of individuals hired to provide sales or services to dispersed populations	Agents with handheld devices perform financial transactions for customers at their doorsteps
			Hub and spoke	Centralized hub supports and shares costs with satellite centers	Hospitals in smaller cities use specialists at hospitals in larger cities via telemedicine
FACILITATING ACCESS TO FINANCE		Cash loan	Providing cash financing or facilitating access to it through a subsidiary or third party	Agricultural commodities buyer lends directly or refers its suppliers to partner financial institutions	
		In-kind working capital loan	Provision of inputs or inventory on credit	Wholesale distributor gives small-scale retailers two weeks to pay for deliveries	
		Micro-leasing	Productive assets sold up front with repayment in periodic installments	Dealer or financial institution permits customer to pay for sewing machine in 12 monthly installments	

*table continued on next page*

CHALLENGE	ENABLERS		TACTIC	TACTIC DESCRIPTION	TACTIC EXAMPLE
CHANGING MINDSETS AND BEHAVIORS	Technology	Partnerships	Aspirational marketing	Framing the value proposition around prevailing social and cultural ideals	Water or purification company markets clean water based on appearance, not health benefits
			Value demonstration	Enabling individuals to see or experience the value proposition	Agri input dealer sows plot to show crop heights of different seed varieties
			Community networks	Triggering word-of-mouth endorsement through relationships of trust	Insurer markets health coverage through women’s self-help groups
			Training	Building necessary knowledge and skills	Financial literacy training
			Sense of ownership	Giving financial, operational, or emotional stakes in the business to incentivize or motivate	Making neighbors responsible for monitoring water usage to increase users’ incentives to pay
DESIGNING APPROPRIATE PRODUCTS & SERVICES			Sachet	Small (even single use) packaging	Baking flour sold by the scoop
			Modular	Components, valuable alone or in combination with others, sold individually	Building materials for housing self-construction sold “one room at a time”
			Shared access	Asset used by multiple parties in order to share fixed cost	Village phone operators purchase phones and sell airtime by the minute
			No frills	Designed to meet a specific need at the lowest possible cost to consumer	Vocational education without required “enrichment” classes
			Process simplification (aka “paraskilling”)	Advanced tasks standardized and/or broken down to be performed at lower cost by workers with fewer formal qualifications	Community health workers use low-cost diagnostics and treat most common illnesses
DEVELOPING PRICING & PAYMENT POLICIES			Prepaid	Customers prepay (when they have cash) for goods and services they will use later	Household electricity prepaid via coin- or card-operated meters
			Pay-per-use	Customers pay only for the quantity used	Mobile phone airtime by the minute, rather than in bulk via service contracts
			Tiered pricing	Differential pricing based on ability to pay	Higher-income households pay higher energy rates to cross-subsidize lower-income ones
			Subsidy	Direct subsidy or assistance accessing subsidies available for relevant purchases	Utility uses government subsidies to reduce low-income households’ cost of water connection



Focusing on patterns in the tactics being used to do business with the BOP can help like-minded companies develop inclusive business models more quickly, with better results. It is important to understand when to use which tactics, and how to tailor them to particular market segments or operating environments.

Industry, country, and social, cultural, and political context affect the range of tactics a company can use. For example, **process simplification**—a tactic in which service provision is standardized and/or broken down into parts that can be performed by staff with fewer formal qualifications to reduce cost—works well in many contexts. However, this tactic falls short where regulations reserve broad areas of activity for licensed professionals. Several inclusive business models in the healthcare industry, for instance, use trained health workers armed with powerful diagnostic tools to identify and treat the most common ailments, bringing in physicians for more complicated cases. This approach is not possible in countries where regulation limits the prescribing and dispensing of drugs to licensed pharmacists.

Industry, country, and social, cultural, and political context also affect the way tactics are implemented—and we often see the same tactic manifest in different ways depending on the circumstances. For example, a **modular** product or service design in the housing industry might involve allowing customers to build one room at a time. In education, it might provide students with certificate courses that are valuable on their own or together add up to a degree. Alternatively, companies looking for **distribution channel-sharing** opportunities in rural areas might target farmers' cooperatives for micro-irrigation and women's self-help groups for micro-insurance.



Jain Irrigation Systems, India

Building an inclusive business model is a matter of selecting and adapting the right tactics. This can be a process of learning and experimentation as companies explore new operating environments and market segments. At the October 7-8, 2010 event, *Inclusive Business Solutions: Expanding Opportunity and Access at the Base of the Pyramid*, participants heard how several IFC clients have done it in three of the most complex inclusive business challenge areas:

- Extending reach through distribution networks
- Facilitating access to finance
- Changing mindsets and behaviors to unlock demand

Participants also heard how a new generation of donor programs are helping companies develop inclusive business models more effectively. Together, they shared practical insights they can apply in the day-to-day work of starting and scaling inclusive business models. Pages 7-12 summarize the key insights.



Zain Village Phone Operator,  
Madagascar



# Solutions in Focus



Coca-Cola Sabco Manual Distribution Center, Tanzania

## 1. Extending Reach through Distribution Networks

At the BOP, where operating margins tend to be low, profitability can require high volumes. High volumes call for distribution networks capable of bringing goods and services to BOP customers at scale. Building these networks can be particularly challenging because BOP customers are often located in harder-to-reach areas, like urban peripheries or rural villages, where infrastructure is poor or populations are dispersed. As a result, traditional channels can be weak.

While some companies have existing networks they can leverage, others are building new ones tailored for BOP markets, and still others are partnering to access the networks of third parties—including companies, civil society organizations, and even occasionally government agencies. In addition, technology is emerging as an important enabler, helping a number of companies cost-effectively manage and/or extend the reach of their distribution networks.

At the conference, panelists shared the solutions that Coca-Cola Sabco, CEMAR, Dialog Telekom and Anhanguera employ to extend their reach (see Boxes 1.1-1.4). Key themes that emerged in the discussion are summarized below.

### BOX 1.1: Companhia Energética do Maranhão (CEMAR), Energy, Brazil

CEMAR is a power distribution company that services one of Brazil's poorest states, Maranhão. Since 2004, the company has participated in a Brazilian government program called Light for All, which aims to bring universal access to electricity. CEMAR modernized and expanded its distribution network to increase reach, improve service quality, and reduce commercial loss. One key element of this program has been CEMAR's partnership with the government which offers subsidized loans and grants to enable the company to keep energy prices affordable and still cover the capital cost of the infrastructure required.

### BOX 1.2: Coca-Cola Sabco, Consumer Goods, East Africa

Around the world, Coca-Cola leverages informal distribution networks to reach customers in areas where classic distribution models are inefficient. In East Africa, Coca-Cola bottling company Sabco works with micro-entrepreneurs to deliver products to small-scale retailers such as corner stores, one-person kiosks, or neighborhood restaurants located in densely populated urban areas hard to reach by truck. Sabco helps these entrepreneurs establish low-cost manual distribution centers to deliver small volumes of beverages to stores on a daily basis using pushcarts or other manual delivery methods.

### BOX 1.3: Anhanguera, Education, Brazil

Anhanguera Educacional Participações S.A. is the largest post-secondary education institution in Brazil with over 755,000 students in 2009. Established in 2004, Anhanguera now educates more students than any other educational institution in the Western hemisphere. It has achieved this reach by building a three-tiered distribution model that uses campuses, vocational training centers, and distance learning to reach students in every state in the country.

### BOX 1.4: Dialog Telekom PLC, Mobile Telecommunications, Sri Lanka

Dialog, the leading mobile telecommunications service provider in Sri Lanka with 6.5 million subscribers as of 2009, leverages over 40,000 independent retailers—15% of them unregistered businesses—to reach even rural segments of the population. Eighty-one percent of Dialog's retailers had previously received no formal business training, which Dialog offers as a means of creating loyalty and enabling their businesses to grow, which in turn expands Dialog's own market penetration and competitiveness.

## IMPROVE COST-EFFECTIVENESS THROUGH MANAGEMENT AND PROCESS INNOVATIONS

As one company stated, “The whole idea [for our inclusive business model] was around cost-effective distribution.” Cost-effectiveness is critical to achieving and maintaining profitability.

This may require fundamental changes in a company’s management or operating model. For CEMAR, originally a public sector entity, it meant eliminating management layers; developing new systems for expenses, inspection, and auditing; investing in software for billing and payments; and instituting standard processes to increase efficiency within collection agencies.

For CEMAR and others, an important tactic has been to create standardized products and processes. Anhanguera has developed a standardized curriculum so that part-time teachers can be easily and economically trained without compromising course quality and content. Coca-Cola Sabco looked at the flows of information, product, and cash to create standardized processes and tools for each—establishing clear divisions of labor between those carrying different tasks. This led to a set of simple, visual management tools that enable the company’s Micro-Distribution Centers (MDCs) to track sales easily and improve productivity—while at the same time minimizing the time required of Sabco staff.

As some of these examples suggest, technology—whether to improve business processes or to distribute a product “virtually,” as Anhanguera has done via distance learning—can play a critical role in ensuring cost-effectiveness. However, technology may require significant up-front investment.

## DON’T JUST REACH YOUR CUSTOMERS—IT’S ABOUT TOUCHING THEIR LIVES

Truly reaching customers requires more than physical access. A company must develop more than a distribution network—it must build a customer base. This means developing relevant products, ensuring that customers have confidence in those products, that they understand how to use them, and that they actually incorporate them into their daily lives.

For this reason, a major focus for Dialog—beyond the distribution of mobile phones and pre-paid cards—has been to create relevant content and build connections between the company and the community. Through NGOs, community groups, and local entrepreneurs it calls “infomediaries,” Dialog is building the confidence and capacity needed to use mobile phones in ways that create real value in consumers’ lives. In the case of CEMAR, developing strong customer relationships at the BOP has meant changing last-mile billing practices so that rural customers—who must travel significant distances to reach the nearest payment center—can pay every 3–4 months, rather than every month. For Anhanguera, the key has been a market-driven curriculum that enables students to get better jobs when they graduate.

## EXPLORE CHANNEL-SHARING OPPORTUNITIES

When building a distribution network, it is important to look at existing channels and whether they can be harnessed—to save money and/or leverage existing relationships of trust. For companies reaching into more rural, geographically dispersed populations, it may not be cost-effective to distribute any other way. Especially where margins are low, establishing a channel for a single product may not be viable economically.

Channel-sharing will be easier in some industries than in others. For example, in the telecommunications sector, a mobile network is itself a distribution channel and can be leveraged to provide not only voice and text, but also information and services like banking, health, and education. Sometimes existing retail networks, like Tribanco’s, can be used to sell products or collect payments for services like electricity. But it may not always work the other way around—in highly regulated industries like electricity in Brazil, for example, there may be barriers to using company payment centers for other purposes.

## 2. Facilitating Access to Finance

Those living at the BOP have limited, irregular, and unpredictable cash flows and frequently need financing in order to participate in an inclusive business model. As suppliers, distributors, and retailers, those at the BOP need financing to make purchases as part of the normal business cycle—from agricultural inputs, to cellular phones, to inventory. As consumers, they need financing to pay for both big-ticket items (like a household water hook-up, a hospital visit, or an education) and small day-to-day purchases (like groceries).

Because those at the BOP have difficulty accessing the formal banking system on their own, companies targeting them often provide financing themselves, or facilitate it through relationships with governments, microfinance institutions, and banks that have closer knowledge or more appropriate competencies. Many companies also offer capacity-building geared to improve their borrowers' abilities to repay—like agricultural productivity and financial literacy training.

At the conference, panelists from Tribanco, ECOM, Apollo Hospitals, and Jain Irrigation Systems shared the solutions they are using to provide or facilitate access to finance for BOP suppliers, retailers, and consumers (see Boxes 2.1-2.4). Key themes that emerged in the discussion are summarized below.

### BOX 2.1: Tribanco, Financial Services, Brazil

Tribanco is the financial arm of Grupo Martins, the largest wholesaler and distributor in Latin America, which reaches over 300,000 micro, small and medium retailers in Brazil. Recognizing that Martins' growth depends on its customers' growth, it lends to 150,000 of its MSME customers for inventory purchases and store renovations through Tribanco. Tribanco determines which stores to finance by visiting those in Martins' network and identifying the most entrepreneurial. Tribanco has also issued 4.04 million credit cards to shoppers at stores in the Martins network, many of whom had no previous access to credit, based on store owners' recommendations.

### BOX 2.2: ECOM, Agribusiness, Central America

ECOM is a global soft commodity trading company. Throughout Central America, it provides seasonal and very selective medium term financing to help smallholder farmers finance the production cycle including purchasing inputs, maintaining crops, and harvesting. ECOM directly visits farmers to estimate production capacity and determine the size of loan required, typically less than \$1,000. ECOM then manages the financing process from credit approval to monitoring to servicing the loan.

### BOX 2.3: Apollo Hospitals, Health, India

Apollo Hospitals is one of the largest private healthcare groups in India. Apollo Reach hospitals serve India's smaller cities and their surrounding rural and semi-urban areas. To make healthcare affordable to low-income patients, Apollo Reach hospitals accept the Government of India's recently introduced national health insurance scheme for families below the poverty line. The scheme covers hospital expenses up to Rs. 30,000 (\$659) for a family of five. It costs beneficiaries Rs. 30 (\$0.66) at the time of enrollment, with premium payments shouldered by the central and state governments.

### BOX 2.4: Jain Irrigation Systems (JISL), Agribusiness, India

JISL, based in India, is the largest manufacturer of efficient irrigation systems in the world and a leading processor of fruits. JISL facilitates farmers' access to financing to purchase irrigation systems through relationships with banks, including Yes Bank, Central Bank of India, IDBI Bank, and others, which channel government subsidies for MIS in some states and often provide credit for the remaining amount. Farmers working less than five hectares of land receive a 50% subsidy. The average loan for a drip irrigation system is approximately \$817 per farming household.

## FINANCING A COMPANY'S VALUE CHAIN IS PART OF THE CORE BUSINESS AT THE BOP

Many companies articulated their vision as one of providing a service, not just buying or selling a product. Therefore, supplier, retailer or customer financing is an extension of their core business, and part of the end-to-end solution they offer. These companies recognize that in order to grow and remain competitive, they must help their suppliers and customers grow—and continue to demand their services. One company explained that financing is central to their business because “when we help small retailers grow, so do we.”

## LEVERAGING LOCAL MARKET KNOWLEDGE CAN REDUCE CREDIT RISK

Further, companies that offer financing do so based on local market knowledge and relationships. For example, ECOM visits farmers on a regular basis and issues credit based on knowledge of their production capacity to ensure they are able to repay. Tribanco offers credit to those retailers that are performing the best, and then uses these owners to determine which consumers should get credit cards. These retailers, who service their local neighborhoods, know their customers best—and thus are well-positioned to determine who will repay. In addition to generating business for Tribanco, these credit offerings have an additional benefit to its parent company, wholesale distributor Grupo Martins—they strengthen trust and loyalty to Martins. This is critical in a competitive market where retailers are free to purchase from any number of other distributors.

## EFFECTIVE FINANCING SHOULD BE PART OF A COMPLETE SOLUTION

Often, financing is complemented with education or capacity-building—like agricultural productivity or financial literacy training—to improve borrowers' abilities to repay. Tribanco educates store owners and employees on the responsible use of credit. ECOM provides technical assistance to farmers to ensure they are utilizing techniques that improve productivity and comply with quality standards. Jain Irrigation explained, “In order to do business with small farmers, we needed to give them a complete solution which included not only our product, but other agri-inputs, financing and knowledge. We are there every step of the way to ensure they know how to use our equipment and that it translates into higher yields. When their crop productivity increases, they become comfortable with our product, and that becomes the driving force behind our business.” Through this end-to-end solution, Jain has been able to increase smallholder farmers' gross income by US\$500-6,000 per hectare, depending on the crop.

## FURTHER INNOVATION IS NEEDED TO FILL VALUE CHAIN FINANCING GAPS AND ENABLE MORE COMPANIES TO EXTEND THEIR REACH AT THE BOP

It is important to point out that these companies developed approaches to financing because their suppliers, retailers and customers could not obtain credit from any other source. Grupo Martins went as far as to buy a bank—Tribanco—so it could offer a full suite of financial services to customers who might otherwise have remained un-banked. ECOM and Jain provide and facilitate financing to farmers because commercial banks consider them too risky. Jain, which facilitates bridge financing for farmers eligible for government irrigation subsidies, is now looking into establishing either a commercial bank or a non-banking financial institution in order to meet the financing needs of its smallholder farmers more effectively. Finally, Apollo Hospitals has become empanelled in several state health insurance schemes in India, and runs or participates in a number of charitable initiatives; however, until additional healthcare financing mechanisms are developed, the hospital will remain limited in the number of low-income individuals it can afford to treat.

These companies stand out as pioneers in their industries for their ability to fill market gaps in financing in order to do business with low-income populations. However, not all companies will be willing or able to follow their example. Some may wish to stick closer to core competencies; others may not have the capital. This highlights a broader need for innovation in value chain financing going forward, and for greater participation among commercial banks and other financial institutions—areas where IFC can play a critical role. The experiences of leaders like Grupo Martins and Tribanco, ECOM, Jain, and Apollo Hospitals can help to inform future strategies.



UNIMINUTO, Colombia

### 3. Changing Mindsets and Behaviors to Unlock Demand

Companies with inclusive business models often bring new value propositions to BOP populations, and have to change mindsets and behaviors in order to unlock demand for the products, services, and income-generating opportunities they are offering. Potential customers may be unfamiliar with product benefits. Distributors or retailers may lack the business skills to take on new lines. Producers may be hesitant to risk converting to new crops or production practices. With limited incomes and assets, new production and consumption decisions involve tradeoffs. With little financial room for error, individuals at the BOP may consider unfamiliar new offerings risky.

Companies with inclusive business models are working to change perceptions of risk and value among the BOP suppliers, distributors, retailers, and consumers they are targeting. They are also building the awareness, skills, and social feedback mechanisms necessary to change not only mindsets, but behaviors.

As Erik Simanis, professor at Cornell University's Johnson School of Management, stressed, "changing mindsets and behaviors is one of the least understood aspects of inclusive business—and the one that has made or broken a majority of inclusive business models." Panelists from Manila Water Company, Mi Tienda, FINO, and UNIMINUTO presented the solutions that they employ (see Boxes 3.1-3.4). Key themes that emerged in the discussion are summarized below.

#### BOX 3.1: Manila Water Company, Water, Philippines

Manila Water Company, which operates the water and wastewater system in eastern Manila, partners with local government units and community-based organizations to design and implement water supply systems in low-income neighborhoods. By putting community members in charge of collecting and remitting fees and maintaining systems, Manila Water has built a sense of local ownership which promotes on-time payment and discourages water theft, a major problem for infrastructure companies servicing communities with limited ability to pay.

#### BOX 3.2: Mi Tienda, Wholesale Distribution, Mexico

Mi Tienda is a rural distribution company that serves small-scale retailers in small, rural villages in central Mexico. Many of these retailers use traditional over-the-counter sales formats, which limit sales. With a growth strategy that includes increasing sales per retailer, Mi Tienda has invested time and money in a staff of trainers who typically spend one week per year conducting training and capacity-building at each store. Part of the capacity-building process involves convincing and enabling store owners to modernize their shops, moving to shelf displays that increase product visibility. Modernized stores experience an average 35% increase in sales.

#### BOX 3.3: FINO, Financial Services, India

Financial Information Network & Operations Ltd (FINO) builds and implements technologies that enable financial institutions to serve under-banked populations located primarily in semi-urban and rural regions in India. FINO deploys over 6,000 field agents to customers' doorsteps to raise awareness and understanding of the product, enroll customers, and conduct regular transactions. To date more than 14 million people have enrolled, many of whom had no prior experience with formal financial services. Increasing their financial literacy is a critical part of turning them from enrollees into active customers.

#### BOX 3.4: UNIMINUTO, Education, Colombia

Corporación Universitaria Minuto de Dios, or UNIMINUTO, is a non-profit tertiary education institution headquartered in Bogotá, Colombia. Although the value of education is universally understood, and UNIMINUTO has developed a very low-cost model, the lower-income students that UNIMINUTO targets must make difficult trade-offs to take advantage of its services—foregoing already scarce income in the short term to increase earning power in the long term. UNIMINUTO helps reduce prospective students' perception of risk by through community-based marketing and testimonials from current students just like them.



## REMEMBER THAT “IF THEY DON’T WANT IT, WE CAN’T GIVE IT TO THEM.”

As one participant put it, for their inclusive business model to work, “we need people to understand how these products will make their lives better.” This holds true for companies reaching the BOP as consumers—Jain Irrigation, for example, stressed the importance of showing farmers that drip irrigation could be more effective than flooding—and for companies reaching the BOP as suppliers and retailers. In Mexico, for instance, the small-scale retailers Mi Tienda serves are survival businesses passed down through generations. Owners don’t necessarily view their stores as enterprises that can grow and provide better qualities of life for their families. Tradition can also make them resistant to change. Mi Tienda has to invest significantly in changing their perspectives. Unlocking or “activating” demand, as the Monitor Group puts it, requires building trust, raising awareness, and building the capacity BOP populations need to act.

## LEVERAGE EXISTING RELATIONSHIPS AND NETWORKS TO BUILD TRUST, AWARENESS, AND CAPACITY

A company’s own actions are, of course, critical to building trust with those it does business with—regardless of where in the income pyramid they fall. Participants emphasized the need to manage expectations and deliver consistently on what they promise.

At the same time, many companies find it helpful to leverage existing relationships and networks to build trust and awareness of their value proposition at the BOP. Mi Tienda and UNIMINUTO use peer testimonial and mentoring to help demonstrate what can be achieved through store modernization and higher education. When FINO first started, new customers would deposit 100 rupees and withdraw 99 five minutes later, to see if they could get their money back. Now FINO establishes trust from the start by hiring local business correspondents with strong relationships in their communities. Similarly, Manila Water hires local water system administrators to monitor usage and collect payments from low-income households. The company also partners with local government units and community leaders to foster a sense of local “ownership” that helps prevent vandalism, encourage on-time payment, and reduce commercial losses.

As described in Section 1, Dialog works with local community groups and individual “infomediaries” not only to establish trust and raise awareness, but also to build the confidence and capacity users need to get the most out of their mobile phones. A number of companies echoed the role of NGOs and governments in capacity-building at the BOP.

Working with partners can be particularly useful where BOP populations are mistrustful of corporations. But it can also be an economic necessity. Changing mindsets and behaviors is a “high-touch” endeavor—it takes staff, time, and money, in addition to local knowledge and relationships of trust. It may be possible for some companies to cover the cost, for example where alternatives available on the market are very expensive, allowing the company to capture a fairly high margin. But where margins are low, companies may need partners to share the cost.

## FOCUS ON CREATING VALUE—HELP YOUR CLIENTS GROW, AND YOU WILL GROW TOO

One of the strongest messages coming out of the October 7-8, 2010 event was the importance of mutual value creation for the company and the BOP populations in its value chain. Many companies emphasized the importance of growing together with the BOP consumers, suppliers, distributors, or retailers in their value chains. One panelist described the task as “building a partnership.” As one company chairman put it, “a lot of companies behave like conquistadores. And I don’t think that’s a very good business model. In fact, that’s why we’ve been able to take away their market share.”

Companies are creating value for clients and business partners at the BOP through training, mentoring, access to financing, and market opportunities. Even companies engaging the BOP as consumers are paying attention to their consumers’ income generation strategies, as part of what the Manila Water Company calls a “full circle” approach. In addition to increasing efficiency, leveraging subsidies, and other measures to reduce cost, Manila Water has also taken steps to increase its customers’ ability to pay, for example through livelihood programs that create micro-business opportunities supplying materials like meter protectors and board-ups for company projects. Other companies are beginning to consider themselves service companies rather than product companies—as ECOM put it, “trying to understand the farmers’ needs, and our clients’ needs, and then fill the gap.”

## Collaborating with Development Partners

Development partners—including bilateral and multilateral donors, private foundations, governments, and civil society organizations—are increasingly interested in supporting companies developing inclusive business models. As one civil society participant put it, “Sustainable economic development at the base of the pyramid can only happen through the private sector.”

Research conducted by the Harvard Kennedy School’s Jane Nelson for the Bill & Melinda Gates Foundation has identified five primary forms of development partner support that can help companies address the organizational, market, and governance barriers they face doing inclusive business:<sup>3</sup>

1. Building the capacity of BOP producers and consumers, e.g. via public awareness, training, business development services, and access to financing.
2. Offering financing, risk-sharing, and technical assistance to companies targeting the BOP, e.g. via challenge funds, loan guarantees, grant and in-kind support for research and development, feasibility studies, and impact assessment.
3. Convening and supporting intermediaries and platforms, including institutions that offer aggregation and capacity-building support as well as associations, forums, and events for networking, matchmaking, and knowledge-sharing.
4. Improving the policy and regulatory environment for inclusive business, e.g. by encouraging governments to improve the overall investment climate, create incentives for inclusive business, and foster legal empowerment of the poor.
5. Endorsing market-based solutions to development challenges, making the case that profit-making and poverty alleviation can go hand-in-hand—overcoming skepticism and increasing public support for inclusive business.

Two conference panels illustrated what can be achieved through collaboration between companies and development partners.

### Creating a Market for Mobile Money Transfer Services in Kenya

In mid-2003, a CSR manager at Vodafone came up with the idea of using mobile phones for microfinance disbursements and repayments. Unable to promise high enough returns to win internal project financing on his own, he applied to the UK Department for International Development’s Financial Deepening Challenge Fund. He was awarded a matching grant of nearly £1 million for a pilot in Kenya, enough to bring the project within the realm of viability for the firm. The pilot showed mobile microfinance would be difficult to do at scale—but that customers had a huge demand to send money to each other by phone. A refined business model based on person-to-person transfer, launched in April 2007, reached 2.5 million users in its first year. Today, more than 13 million use Vodafone’s M-PESA service. The company has also begun to offer additional services—like savings (with Equity Bank) and crop insurance (with Syngenta). Vodafone has also replicated the model in Tanzania, South Africa, Afghanistan, and Fiji.

### Building Local Juice Supply Chains in Kenya and Uganda

In early 2009, the Bill & Melinda Gates Foundation approached The Coca-Cola Company with market assessments showing a clear business case for developing local supplies of mango and passionfruit in Kenya and Uganda, where the company had been struggling with a shortage of quality fruit for its growing juice business. After 10 months of negotiation—a “relatively quick” process—Gates, Coca-Cola, its East African bottler Coca-Cola Sabco, and TechnoServe entered a four-year partnership to develop the market. Gates is funding TechnoServe, which organizes farmers, provides them with agricultural extension services, and facilitates access to financing. Coca-Cola is contributing 50% of the total project cost, a market for some of the fruit produced, and an “anchor” effect that—combined with Gates’ convening power—helps attract additional companies. There are now 15 companies involved, including Jain Irrigation. Over the next five years, the project aims to double the incomes of 54,000 farmers. Rigorous yet flexible monitoring and evaluation are in place to track progress and enable real-time course corrections toward that goal.

While these examples demonstrate the potential, there is much more to be done. As Nelson pointed out, “to increase the number of inclusive business models out there, and the numbers of people they reach, we have to make entire systems work better.” This requires collaboration on a greater scale than we have seen to date, something IFC can help to catalyze. “Sometimes as a private company you feel excluded from development programs,” one company representative said. “There is a bridge to be built between the private sector and development organizations that want to accomplish similar goals.” Two vital components of that bridge, participants said, will be a more rigorous, hybrid “business and development” case and efficient platforms for mapping and matchmaking among potential partners.

# Conclusion

The October 7-8, 2010 event celebrated IFC clients that have developed innovative inclusive business models as part of the continuing quest to make a difference at the BOP. These companies are optimistic about the potential of inclusive business to meet the objectives of business growth. They highlighted that inclusive business is already central to many of their day-to-day jobs, and growing in importance. In order to implement new solutions, they identified a number of areas where they needed support, including networking with other leaders, help getting internal buy-in, access to scale-up financing, and grants or subsidies to pilot new business models. Beyond financing, they identified two areas in particular where IFC can help—disseminating knowledge about the business models of other companies in similar sectors and serving as a partnership broker between companies, funders, and other partners. Specific ideas included a “fund of funds” for donor challenge funds and a virtual network that would fulfill for real sector inclusive business many of the functions that have helped the microfinance sector grow.

The October 7-8, 2010 event was also part of a very practical, ongoing learning process. There is much more to discover about when to use different tactics, and how to adapt and implement them in different operating environments and market segments. We are all learning by doing in our daily work. We have much to gain from one another’s experience—and from one another’s success. One company’s consumer could be another’s borrower and yet another’s supplier. Together, we can help grow more inclusive markets, providing the access and opportunity billions of people need to emerge out of poverty.

“Inclusive business offers the chance to deliver products and services efficiently at a scale that has eluded the development community until now. For IFC, this means potential impact far beyond what we have been able to aspire to before.”

—Rachel Kyte, IFC Vice President for Business Advisory Services



Idea Cellular Pocket Public Call Office (PPCO) Operator, India

# Annex A. IFC Client Case Studies<sup>4</sup>

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# ANHANGUERA EDUCACIONAL PARTICIPAÇÕES S.A.



## COMPANY BACKGROUND

Anhanguera Educacional Participações S.A. (AESA) is Brazil's leading private, for-profit professional education company. Founded in 1994 as a single college, AESA is currently the largest post-secondary education institution in Brazil, with approximately 255,000 students distributed across 54 campuses and 450 distance learning centers, and an additional 500,000 students per year enrolled in its vocational and training programs. AESA educated over 755,000 Brazilian adults in 2009, more than any other educational institution in the western hemisphere. Through its network of campuses, distance learning and vocational training centers, AESA is present in every Brazilian state.

The company's primary shareholder (with an approximate 25% stake) is the Fundo de Educação para o Brasil, a dedicated investment vehicle established specifically to invest in AESA. The company's founders own approximately 2% of its shares with the balance (73%) held by institutional investors, including leading emerging market funds and asset managers who invested in AESA following its Initial Public Offering in 2007. AESA is the largest publicly-held education company in Brazil in terms of market value, with an estimated market capitalization of R\$3.05 billion based on official closing price on December 31, 2009.

## ANHANGUERA'S INCLUSIVE BUSINESS MODEL

AESA's target market consists of lower-income working adults aged 18-30 that generally attend evening classes. The average monthly salary of an incoming student is R\$660 (approximately US\$290) per month, which increases to R\$1,000 (approximately US\$450) upon graduation. Average tuition is R\$280.3 (US\$195) per month, 20% to 40% below AESA's main competitors.

The company's decision to focus on the lower-income segment has had a profound impact on its business model. Recognizing that low-income students have different educational needs throughout their lives, AESA has developed a comprehensive portfolio of offerings along three lines of business:

1. **54 Campuses** provide 148,000+ students with access to a wide variety of undergraduate, graduate and continuing education programs. Prices range from R\$199 to R\$699/month.
2. **650+ Vocational Training Centers** provide 500,000 students per year with industry-relevant technical and vocational education and training (TVET). By emphasizing TVET in its business mix, the company has helped to bridge the gap in education services between the secondary and college levels for low-income students that are unable to attend university. Prices range from R\$75 to R\$120/month.
3. **450+ Learning Centers and a Distance Learning Platform** have enabled AESA to reach 107,000+ students that are either far away from its campuses or seeking greater flexibility in where and when to study. This platform has also allowed the company to offer short-term courses to college graduates (e.g. preparatory courses and placement exams). Prices range from R\$159 to R\$400/month.

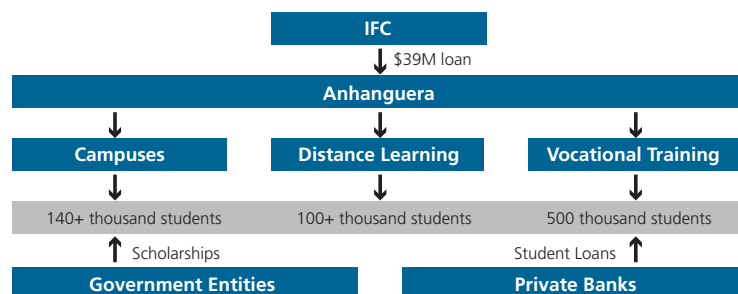
The challenge for AESA has been to balance the provision of affordable, high-quality education while achieving a reasonable return on equity. The

company's business model has proven to be both profitable and scalable due to four key factors:

- i) **National coverage** that offers easy access for working adults with busy schedules, in both urban and rural areas;
- ii) **Standardized curricula**, which minimize class preparation time for instructors, and reduce the number of administrative and support staff required by the company;
- iii) **High-quality faculty**, many of whom are practitioners rather than full-time instructors; and
- iv) **Rigorous monitoring and evaluation** to ensure strong educational outcomes across programs and sites, and to identify and eliminate low-demand courses that drain valuable resources.

Loans and scholarships have been critical success factors in acquiring and retaining low-income students. In 2008, the company provided scholarships to 108,735 students in partnership with federal, state, and local governments. On average, these scholarships covered 23% of student fees; 27,677 covered upwards of 50% of fees and 8,757 covered 100%. These scholarships are valued at R\$134.7 million. AESA students also have access to market rate loans offered by a private Brazilian bank.

AESA's innovative marketing initiatives have also helped the company acquire and retain low-income students. In addition to a variety of low-cost promotions, such as billboards and celebrity appearances, the company has garnered significant brand recognition and goodwill through its community outreach initiatives. In 2008, these initiatives allowed AESA students from a cross-section of programs to provide pro-bono services to more than 800,000 low to middle income people. For these and other programs, Brand Analytics/Millward Brown named the company a Top 100 Brand in Brazil in 2009.





## ANHANGUERA EDUCACIONAL PARTICIPAÇÕES S.A.

### DRIVERS FOR ANHANGUERA'S INCLUSIVE BUSINESS MODEL

- Growing demand for tertiary education
- Government policy created a market opportunity for the private sector
- Research showing that as incomes rise, a disproportionate amount is spent on education

Post-secondary education in Brazil has historically been the province of the public sector, with high-quality public universities offering highly regarded degrees free of charge. The commitment to free education created capacity constraints, however, with the result that only the best students—typically those from wealthy families who attended private high schools—could access the public system. Pent-up demand among low and middle income students grew, especially as education policy reforms increased by an order of magnitude the number of students going through primary and secondary school.

In the mid 1990s, the Ministry of Education began accrediting and licensing private sector providers to serve pent-up demand for post-secondary

education. This created a market opportunity for entrepreneurs like the founders of Anhanguera. As the number of private post-secondary schools grew from several hundred to several thousand, enrollment swelled from 2.4 million students in 1999 to an estimated 4.9 million in 2007.

Today approximately 75% of all post-secondary students in Brazil attend private schools. Much of this growth has taken place in the lower income segments. Until recently, only 5% of students from the two lowest economic quintiles were able to attend post-secondary school. Today, this segment represents the fastest growing demographic entering post-secondary schools in Brazil.



### IFC'S ROLE AND VALUE-ADD

One of the key pillars of IFC's global Health and Education Strategy is to invest in education projects with strategic clients. These are predominately larger, for-profit providers, which have the ability to grow and operate in several markets and to move down-market to serve lower income households. In recent years, IFC has also strengthened its pipeline of technical and vocational education and training investments, recognizing that this type of post-secondary education is frequently the most affordable and relevant to low-income working adults.

IFC's Health and Education Department has invested approximately US\$39.5 million in AESA through two consecutive projects. IFC has also helped AESA clearly articulate its business lines and to expand its network.

While AESA has accomplished a great deal in Brazil, one of its greatest contributions has been the demonstration of a profitable and scalable business model for serving low-income students. This is a model that IFC will continue to support in Brazil and that it will seek to replicate through future investment and advisory work in the region and across the globe.

### RESULTS OF ANHANGUERA'S INCLUSIVE BUSINESS MODEL

- Net revenues of R\$904.5 million in 2009
- EBITDA in excess of 20%
- Approximately 755,000 students educated in 2009
- Graduates' earning potential increased more than 50%

AESA has achieved impressive financial results through consistent execution. From 2006 to 2009, net revenues and EBITDA grew from R\$112.5 million and R\$21.6 million to R\$904.5 million and R\$188.6 million, respectively. During 2009, AESA preserved EBITDA margins in excess of 20%, which are likely to improve as new campuses and acquisitions expand the company's reach over the next 12 to 24 months.

In 2009, AESA educated over 755,000 Brazilian adults, of which more than 600,000 participated in vocational training and distance learning programs that allow low-income individuals to improve their skills and earning potential while continuing to work during the day. The company also strives to promote increased access to its programs

by offering students scholarships and loans in partnership with the Brazilian government and a private bank. In 2008, AESA provided scholarships to 108,735 students valued at R\$134.7 million.

Student surveys suggest that AESA graduates improve their earning potential by more than 50%. Whereas the average monthly wage of an incoming student is approximately US\$290, he or she will typically earn more than US\$450 after graduating. What is more, the wage differential over the working life of an AESA graduate is likely to be much higher. According to World Bank studies, the Brazilian economy displays a particularly large wage premium between university and high school of 339%, as compared to a 74% premium in the United States.



**IFC's Investment:**  
\$39 million in long-term debt financing

## APOLLO HOSPITALS ENTERPRISE LIMITED



### COMPANY BACKGROUND

Apollo Hospitals Enterprise Limited (Apollo) is among the largest private integrated healthcare groups in India and recognized as a leader in the management and delivery of high-quality tertiary care in Asia. In addition to hospitals, Apollo owns and operates clinics, diagnostic centers, pharmacies, and provides healthcare management consulting, education and training, and telemedicine services. The company is a forerunner in bringing state-of-the-art medical technologies to India for tertiary and quaternary care. Apollo also provides project consultancy services to hospitals in Africa, East Asia and the Middle East.

Apollo owns 30 hospitals and manages 15 in India and abroad with a total bed strength of 8,000. The company also has a network of 1,200 retail pharmacies. Apollo's shares are listed on the Mumbai Stock Exchange and the National Stock Exchange.

Dr. Prathap C. Reddy, a visionary cardiologist, started Apollo Hospitals in 1983 despite great obstacles to private sector health delivery. In keeping with his mission of "providing international quality healthcare to all who need it," Apollo launched Apollo Reach Hospitals for smaller cities and their surrounding rural and semi-urban areas in 2008.

### APOLLO HOSPITALS' INCLUSIVE BUSINESS MODEL

With over 25 years of experience in setting up hospitals across India and the world, Apollo is well placed to identify cities and towns that are in urgent need of healthcare facilities and the type of hospitals and services required. Accessibility is thus a key feature of Apollo Reach hospitals, which are located in less-developed population centers known as Tier II cities in India. Earlier, patients would have traveled considerable distances to large cities, often at great expense.

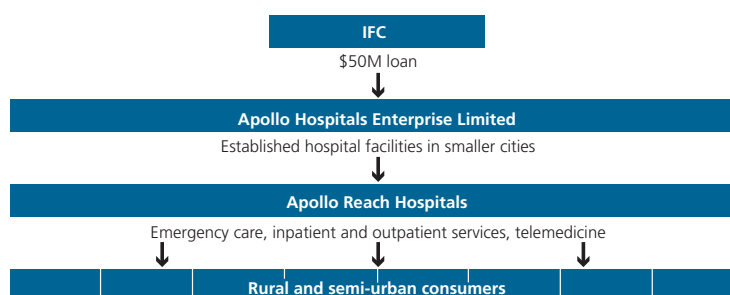
Low cost is another key feature of Apollo Reach hospitals. Treatments in the Apollo Reach model cost 20-30% less than at other hospitals in the Apollo network and other major hospitals. Apollo Reach hospitals are smaller, simpler facilities, offering more limited but robust services than other hospitals in Apollo's networks. Each Apollo Reach hospital is being built to house 150 beds, 40 intensive care unit beds, and five operation theaters. The range of tertiary care includes cardiac, oncology, radiology, neurosurgery, and other specializations. Other services and facilities include video endoscopy, blood bank, check-up, radiology, complete lab, dental, ear, nose and throat (ENT), and eye care services. Apart from traditional ambulance emergency services, Apollo Reach hospitals also offer emergency air ambulance services for life-threatening emergencies and remote areas.

Another measure to increase access to quality healthcare and reduce costs is telemedicine. With telemedicine available at all Apollo Reach hospitals, people no longer have to travel long distances for a second opinion or wait for weeks before they can meet a specialist doctor. According to Apollo, telemedicine will improve patient care, enhance medical training, standardize clinical practice, and stabilize costs.

These innovations, combined with a steady stream of high-quality physicians, put Apollo Reach hospitals on a strong footing in underserved communities. Hospitals located in semi-urban and rural areas have more difficulty attracting quality physicians. To mitigate recruitment problems, Apollo offers a fast-track career which gives doctors more responsibility and faster promotions if they work for a few years in a Reach hospital. Apollo's presence throughout India is an advantage to facilitate this recruitment strategy as employees are aware that there are opportunities elsewhere once they have completed a rotation in a Reach hospital.

To make healthcare affordable to low-income patients, Apollo Reach hospitals treat both low- and high-income patients. The higher fees paid by more affluent patients help make the hospitals profitable for the parent company—illustrating how cross-subsidization between high-income and low-income consumers can bring affordable health services to the poor.

The Rashtriya Swasthya Bima Yojana (RSBY), the Government of India's recently introduced national health insurance scheme for families below the poverty line, also enables Apollo Reach to serve low-income patients. RSBY covers hospital expenses up to Rs. 30,000 (\$659) for a family of five. Transport costs are also covered up to a maximum of Rs. 1000 (\$22) with Rs. 100 (\$2.19) per visit. Each beneficiary pays Rs. 30 (\$0.66) at the time of enrollment, while the central government pays 75% to 90% of the total premium depending on the state with the balance paid by the state government.



## APOLLO HOSPITALS ENTERPRISE LIMITED

### DRIVERS FOR APOLLO HOSPITALS' INCLUSIVE BUSINESS MODEL

- Demand for low-cost, high-quality healthcare
- Changing disease patterns resulting in need for specialized care
- Absence of quality hospitals providing specialized care outside of major urban centers
- Public health insurance creates a market opportunity to serve low-income patients

In countries with underdeveloped healthcare systems, severe illness or injury can be financially devastating for the poor. For millions of patients in India, a single episode of hospitalization can cost up to 58% of annual expenditures. Research shows that 40% of those hospitalized must either borrow money or sell personal belongings to pay medical bills. Advances in medical technology are also increasing the need for specialists, making healthcare expensive and inaccessible to the masses. Further, over 700 million people in India lack access to quality healthcare as over 80% of

hospitals are in urban India. In particular, smaller cities, semi-urban areas and rural areas do not have access to hospitals for specialized healthcare services. Demand for the latter is increasing as chronic adult diseases such as cardiovascular illnesses, diabetes and cancer are on the rise in India. These factors, combined with the government of India's health insurance scheme for families below the poverty line, create a significant market opportunity for Apollo to provide specialized healthcare to underserved low-income families via Apollo Reach.

### RESULTS OF APOLLO HOSPITALS' INCLUSIVE BUSINESS MODEL

- Revenue per bed at a Reach Hospital is Rs. 6,000 (\$132) to Rs.7,000 (\$154)
- Plans to establish 250 Apollo Reach hospitals over time
- Estimated to serve 120,000 patients per year who earn less than \$2 per day

Indian Prime Minister Dr. Manmohan Singh launched the first Apollo Reach hospital in Karimnagar, Andhra Pradesh in 2008. Karimnagar is 162 kilometers from the major city of Hyderabad. This hospital serves 16,800 outpatients and inpatients annually. Approximately 50% are low-income. A second Apollo Reach hospital has been established in Karur, Tamil Nadu and Apollo plans to set up an additional four hospitals in the near

future. Apollo expects to set up 15 Reach hospitals over the next three years and these hospitals are expected to serve about 400,000 people annually by 2015, of which about 30% or 120,000 people per year would be considered very poor, earning less than \$2 per day. Over time, Apollo Reach plans to establish hospitals in 250 of the 600-plus districts across India.



### IFC'S ROLE AND VALUE-ADD

IFC has supported Apollo since 2005 as an equity investor. In 2009, IFC signed a \$50 million loan to help finance the rollout of the Apollo Reach hospitals. IFC's value-add to Apollo lies in its ability to provide ongoing strategic advice and guidance based on its broad global and regional experience as well as knowledge of healthcare investments.

IFC's investment in Apollo helps bring much needed capital and provides a strong signal of support to the health sector in India. According to the World Health Organization and the Confederation of Indian Industries, the private sector is crucial to the provision of healthcare in India and already accounts for over 75% of total healthcare expenditures. Creating an adequate hospital infrastructure alone will require \$34 billion in private investment by 2012 in secondary and tertiary care hospitals, medical colleges, nursing, and hospital management schools.



**IFC's Investment:**  
\$50 million in long-term debt and  
\$5 million in equity

## CEMAR



## COMPANY BACKGROUND

Companhia Energética do Maranhão, or CEMAR, is the power distribution company servicing Brazil's northeastern state of Maranhão. Maranhão is one of the poorest states in Brazil, whose 6.2 million inhabitants earn a per capita income 29% below the national average. With increasing demand for power, and electrification a key element to both improving the quality of people's lives and fueling economic growth, CEMAR is working to bring power to the entire state, with a particular emphasis on rural and low-income segments. Since 2004, the company has participated in a Brazilian government program called Light for All (Programa Luz Para Todos) aiming to bring about universal access to electricity throughout the country. At the end of 2009, CEMAR's geographic coverage spanned 97% of the state, with approximately one million of its residential subscribers classified as low-income.

The company's primary shareholder is Equatorial Energia, a publicly listed holding company with 65.1% ownership, whose investments target power generation, distribution and transmission primarily in Brazil. The public power utility, ELETROBRAS, holds a 33.6% stake and minority shareholders, which include CEMAR's management, hold the remaining 1.3% of the company. CEMAR is a regulated utility company, with tariffs and contracting obligations set by Brazil's National Agency for Electrical Energy (ANEEL).

## CEMAR'S INCLUSIVE BUSINESS MODEL

CEMAR's concession mandates it to continuously invest in its distribution network, but reaching Maranhão's rural and low-income populations presented the company with a number of challenges. Expanding infrastructure into rural and sparsely populated areas represented significant capital expenditures. Moreover, the potential customer base was approximately 88% residential—of whom about 70% were low-income—meaning their power needs and tariff categories would be relatively low. Yet the needs for power were clear, and for CEMAR this represented a hugely untapped customer base. The challenge was therefore to develop the rural power market both profitably and inclusively.

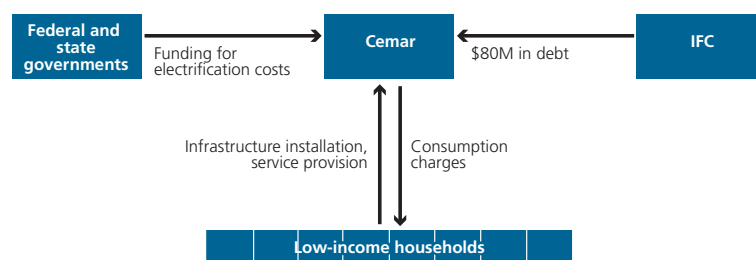
In 2004, GP Investimentos, a private equity firm and the former parent company of Equatorial, took control of CEMAR, which was left financially adrift in the wake of Brazil's 2001 energy crisis. Under the direction of GP Investimentos, CEMAR adopted a new strategy, focusing on building a strong, stable platform for future growth and rural electrification. At the same time, the government of Brazil launched the Light for All program providing the needed incentives to stimulate demand and develop these rural markets.

The company underwent major organizational and operational restructuring, which focused on efficiency improvements in three main areas. First, CEMAR invested heavily in modernizing and expanding its distribution network, including replacing obsolete equipment, installing new distribution lines and sub-stations and voltage regulating equipment. The modernization mitigated technical power losses, a particular concern given that Maranhão lacks any generation capacity and reaching rural areas requires transmission lines to traverse greater distances.

Reducing commercial losses was another key component, addressed by many operational improvements to the network, such as upgrading information systems, enabling precise GPS-based location for distribution poles and automating network operations. This enabled CEMAR to improve collection rates and combat electricity theft. The modernization also led to significant reductions in the frequency and duration of service disruptions and boosted service quality and customer satisfaction.

Finally, the management structure was dramatically overhauled, focusing on reducing costs and increasing productivity. Regional departments were eliminated, and the management structure was reduced from seven layers to three. Many operational aspects were outsourced, such as billing, customer service, and network maintenance. CEMAR focused on providing stronger incentives, including performance-based bonuses for all its employees and stock options for management.

CEMAR's enrollment as an implementing agency in the government's Light for All program obliged the company to electrify the entire state of Maranhão and to contribute 15% of the costs while government grants and subsidized loans comprised the rest. This was designed to reduce capital costs, as low-income and rural customers would have been unable to bear the initial connection costs. The government also provided incentives to promote demand in rural markets through a low-income consumer subsidy. This program allowed residential customers classified as low-income to receive a reduction of up to 65% off their energy bills, with the reduction depending on the amount of power consumed, such that the lowest users paid the lowest rates. In 2007, nearly 65% of CEMAR's customers were eligible for the low-income rebate.





## DRIVERS FOR CEMAR'S INCLUSIVE BUSINESS MODEL

- Reaching a new customer base
- Better service is more efficient and less costly
- The Brazilian government's Light for All program
- ANEEL's low-income tariff structure

The primary driver for CEMAR's inclusive business model was a federal government program, Light for All, that created new market segments for the company to reach. The objective of the program, launched in 2003, was to connect 1.7 million households and 12 million individuals by the end of 2010.

The northeast region of Brazil saw the highest need for rural electrification, nearly half of the total, and consequently received nearly 44% of overall federal funding, according to a report from the US Commercial Service. Total project cost was estimated at R\$9.5 billion (\$4.3 billion), with 71% to be funded by the federal government and the rest split among state governments and distribution companies.

Bringing power to over one million individuals under the Light for All Program fueled the state's demand for more power. Brazil's Institute of Geography and Statistics reports GDP growth rates for Maranhão averaging 10% per year between 2004 and 2007. Strong economic growth, supported by increased electricity access and coupled with low starting levels of consumption, has pushed electricity demand across all customer segments, increasing CEMAR's electricity load by 4.2% between 2007 and 2008, outpacing the national increase of 2.9%. In 2009, the company reached an increase of 1.4% in electricity load, outpacing the northeast region's increase of 0.2% and the national decrease of 1.0%.

## RESULTS OF CEMAR'S INCLUSIVE BUSINESS MODEL

- 1.69 million customers reached by the fourth quarter of 2009
- 230,000 new power connections under the Light for All program
- Costs fell as efficiency improved
- Large service quality and reliability gains
- Power demand grew as the market developed and stimulated the state's economic growth

CEMAR's emphasis on efficiency gains proved a winning strategy: since 2004, the company has seen consistent growth that's climbed into the double-digit levels. Net operating revenues and EBITDA have respectively climbed from R\$526.1 million and R\$85.24 million in 2004 to R\$1,148 million and R\$470.3 million in 2009, an average revenue growth rate close to 12% per year. Moreover, the reorganization quickly led to a drop in costs relative to revenues, stimulating a sharp improvement in EBITDA margins, which climbed from 16.2% in 2004 to 40.2% in 2006, remaining around 41.0% through 2009.

Strong increases in demand fueled this growth, with CEMAR seeing an average annual increase in total residential power consumption between 2007 and 2009 of 8.5%. Moreover, as demand rose, customers posted high repayment rates of 93.4%, suggesting that policies to stimulate both economic growth and power demand among low-income consumers were sustainable. At the same time, CEMAR achieved significant gains in

the quality and reliability of service, with measures of the length and frequency of interruptions dropping by 44.6% and 38.2% between 2006 and 2009.

Expanding distribution through the Light for All program has had the greatest development impacts: CEMAR has reached over 230,000 new customers to date in rural Maranhão, directly reaching over one million inhabitants under this program. And through expansions outside the program, CEMAR has increased its reach to over 300,000 additional customers, growing from a total of 1.161 million in 2004 to 1.688 in 2009. Over this time, nearly 50% of this increase targeted un-electrified rural and low-income segments. In 2010, CEMAR expects to reach a total 1.777 million customers. Access to electricity is a fundamental element to improving the quality of people's lives and driving economic growth, enabling both domestic and commercial refrigeration, use of appliances, machinery and artificial lighting.



## IFC'S ROLE AND VALUE-ADD

Brazil's power sector reform led to the privatization and purchase of CEMAR by Pennsylvania Power and Light (PPL) in August 2000. However, in 2001 low rainfalls caused the country's significant hydroelectric generation to plummet, creating an energy crisis that put distribution companies under severe financial pressure. As demand fell and customer delinquency increased, CEMAR faced mounting losses. PPL wrote off its entire investment and exited the Brazilian power sector in 2002. Although the energy crisis abated, investor confidence did not return quickly and local companies who previously had relied on foreign currency financing were left nervous about facing foreign exchange risks.

IFC provided CEMAR an \$80 million Reais-linked loan that helped address market failures stemming from the energy crisis by offering local currency financing at a longer maturity compared to the market. The transaction also assured the application of IFC's environmental and social performance standards as CEMAR expands its distribution network.



**IFC's Investment:**  
\$80 million in long-term debt financing



## COCA-COLA SABCO



## COMPANY BACKGROUND

The Coca-Cola Company (TCCC) is the largest non-alcoholic beverage company in the world, manufacturing nearly 500 brands and serving 1.6 billion consumers a day. In the 200 countries in which it operates, TCCC provides beverage syrup to more than 300 bottling partners, who then manufacture, distribute, and sell products for local consumption. Its bottling partners are local companies owned independently, or either partially or fully by TCCC.

Coca-Cola Sabco (CCS) is one of TCCC's largest bottlers in Africa, operating 18 bottling plants and employing more than 7,900 people in Eastern and Southern Africa. Headquartered in South Africa, it is 80% owned by a private investment group, Gutsche Family Investments, and 20% by TCCC.

## COCA-COLA SABCO'S INCLUSIVE BUSINESS MODEL

The Coca-Cola Company utilizes a wide range of distribution methods to ensure that consumers around the world have access to its products. In East Africa, CCS has adopted a manual delivery approach working with small-scale distributors to deliver products to small-scale retailers in densely populated urban areas. These distributors previously had limited economic opportunities and were un-employed or underemployed, working part-time or in the informal economy. As many as 75% distributors in Ethiopia and 30% in Tanzania never owned a business before. Most of the retailers they serve are kiosks or small stores serving neighborhood customers, and have enough funds and space to manage a few days' supply at most.

The Manual Distribution Center (MDC) approach was first developed as a pilot with 10 MDCs in Addis Ababa, Ethiopia, in 1999. By 2002, the company had implemented the successful model on a broad scale throughout its markets in East Africa. Sabco utilizes the following approach when establishing new MDCs:

- 1. Assess the need for MDCs:** First, CCS collects detailed data on every retail outlet in the target area. This information is used to develop a beverage demand forecast and determine whether a new MDC is needed, ensuring that MDCs are introduced in areas where they are likely to thrive.
- 2. Recruit MDC Owners:** Next, Sabco sales managers identify and recruit candidates they believe would be good MDC owners. Successful candidates must plan to be directly involved in the business on a full-time basis and have a strong work ethic, access to a suitable site, sufficient funds to support start-up costs, and good relationships with the surrounding community.
- 3. Define MDC Territory and Customer Base:** Once a new MDC has been identified, CCS gives that MDC exclusive access to the retail outlets in a defined geography based on a map that CCS provides. The exact size of the territory is based upon the terrain and anticipated volume of the

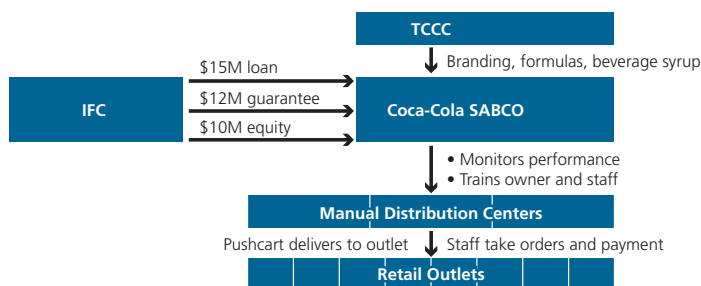
retail outlets it will service. Ideally, each MDC services an area 1 kilometer in circumference, reaching a maximum of 150 retail outlets.

- 4. Provide Limited Start-Up Guidance and Support:** MDC owners are responsible for financing the start-up costs of their MDC including business licenses, pushcarts, rent, initial stock of empty crates and bottles, and beverage supply. Occasionally, CCS offers credit for crates and empty bottles, which represent some of the biggest start-up costs, though this is less frequent today than when the model first started. Owners hire their own staff, though CCS guides them on staffing numbers and salaries.

Once new MDCs have been established, the most critical success factor in the model is regular training, monitoring, and communication. The level of interaction with CCS staff largely determines how well MDCs perform.

There are two regular points of contact for each MDC, which are the Area Sales Manager (ASM) and the Resident Account Developer (RAD). ASMs are full-time Coca-Cola Sabco employees who manage 10-20 MDCs each, which they visit daily or every other day to monitor supply and inventory, adherence to CCS standards, and overall business performance. The RAD, typically a part-time CCS staff member based in the same neighborhood, develops retail accounts, regularly monitors and manages in-store beverage placement and productivity, and generates orders as needed. They also visit their local MDCs daily to check stock and ensure routes are followed.

Through this interaction, MDCs are regularly coached and supervised on warehouse and distribution management, account development, merchandising and customer service, which is helpful since more formal training occurs less frequently. They and CCS staff have access to a set of management tools Sabco has developed to track inventory, sales, market competitiveness, and overall business performance.



## COCA-COLA SABCO

## DRIVERS FOR COCA-COLA SABCO'S INCLUSIVE BUSINESS MODEL

- Increase sales and facilitate delivery in areas hard to serve with conventional trucks
- Enable small but frequent deliveries to retail outlets

In many countries, Coca-Cola primarily uses traditional distribution models in which large quantities of product are delivered via trucks or other motorized vehicles to large retail outlets. Yet in much of the developing world, such as East Africa, where road infrastructure, retail markets, cost implications, and customer needs differ, other distribution methods have been developed—ranging from bicycles to boats.

Thus, Coca-Cola Sabco's MDC model was born out of this business need to adopt its delivery model to

local infrastructure, customer needs and market conditions. Through the MDC model, Sabco has been able to more effectively and efficiently reach small-scale retail outlets located in densely populated urban areas where truck delivery is challenging. It has been able to improve sales and customer service by providing outlets with access to smaller, more frequent deliveries of product.

## RESULTS OF COCA-COLA SABCO'S INCLUSIVE BUSINESS MODEL

- Generated company revenues of US\$420 million and improved customer service
- Created entrepreneurship opportunities for 2,200 new MDC owners and over 12,000 jobs
- Enable MDC owners and staff to support over 41,000 dependents and invest in health, education, and housing
- Built human capital through business and customer service training

The MDC model has helped CCS increase sales by improving customer service to small retailers compared to the traditional model of distribution. Providing retailers with regular interaction and constant access to products, the MDC model enables them to carry less inventory and purchase more on a demand-driven basis, addressing some of the financial and space limitations they face. In Ethiopia and Tanzania, more than 80% of the company's volume is now distributed through MDCs. MDCs are CCS' core distribution model in Kenya and Uganda, where they are responsible for 90% and 99% of total volume respectively. They account for 50% of volume in Mozambique and have been used to a lesser extent in Namibia and elsewhere.

The MDC model has had development impact in three broad areas. First, the MDC model creates new opportunities for entrepreneurship and employment in the formal sector. As of the end of 2008, Coca-Cola Sabco had created 2,200 MDCs in Africa, generating over 12,000 jobs. Three quarters of MDC owners in Ethiopia and one third in Tanzania reported that they were first-time business owners who previously held only

part-time jobs, or worked in the informal sector. MDC owners and employees support an estimated 41,000 dependents. With the income they receive from their MDCs, they are now able to invest in housing, health, and education for their families, as well as create job opportunities for relatives from the countryside.

Second, the MDC model has created new economic opportunities for women, both as MDC owners and employees and as Sabco managers and sales staff. Across East Africa, the MDCs have created entrepreneurship opportunities for close to 300 women. In Ethiopia and Tanzania, samples showed that 19% and 32% of MDCs, respectively, were owned by women. In addition, couples own a high proportion of MDCs jointly, many of which are managed by the women.

Finally, the MDC model has helped develop human capital. The training Sabco provides to ensure that the business is successful benefits the MDC owners and staff members who receive it even after they leave the Coca-Cola system, helping them qualify for higher-skilled jobs and more lucrative business opportunities.



## IFC'S ROLE AND VALUE-ADD

IFC investment has played an important role in enabling Coca-Cola Sabco to expand and modernize its operations in Ethiopia, Kenya, Mozambique, Tanzania, and Uganda—particularly in Ethiopia, where it was considered a pioneering investment in a country perceived to be highly risky. In 2002, IFC provided a \$15 million loan, equity of up to \$10 million, and \$12 million in bank guarantees in Ethiopia and Tanzania. IFC also helped address challenges associated with banking requirements in Ethiopia by facilitating dialogue with government officials.

With this initial investment, the IFC played an important role in discussions to scale up the MDC model at that time and helped to create an inclusive business model that would later become the core business model in East Africa. In 2007, on behalf of the Coca-Cola Company, IFC conducted research to assess the MDC model in Tanzania and Ethiopia and generate recommendations for improving the model's business and development impact moving forward. This research alerted Sabco to the ongoing opportunity and impact of training, financing and women's empowerment in inclusive business models such as the MDCs.



**IFC's Investment:**  
\$80 million in long-term debt financing  
across multiple projects

## DIALOG TELEKOM PLC



## COMPANY BACKGROUND

Dialog Telekom PLC is Sri Lanka's leading mobile telecommunications service provider with approximately 6.3 million subscribers and a market share of around 49% in 2009.

In 1993, Dialog was awarded a 20-year license to provide cellular telecommunications services by the government of Sri Lanka. The company is 83% owned by Axiata Group Berhad, the leading telecommunications company in Malaysia, and 17% owned by independent shareholders. It is listed on the Colombo Stock Exchange.

## DIALOG'S INCLUSIVE BUSINESS MODEL

In its expansion plans, Dialog has undertaken South Asia's first "quadruple play" strategy, offering mobile telephony, fixed wireless telephony, broadband internet, and satellite-based pay television services. Quadruple play is an important element in reaching underserved remote populations with wireless services, as it helps lower costs by leveraging synergies across all four product offerings.

Another important element in reaching underserved populations is Dialog's distribution network. Dialog has 32 primary distributors that work exclusively for the company servicing and supervising independent retailers. Close to 40,000 retailers spread throughout all provinces of Sri Lanka currently stock Dialog products. These include phone cards and SMS-based reloads in which a user purchases airtime electronically through a retailer. These retailers keep margins of 5-7% on the Dialog products they sell.

The typical Dialog retailer owns or operates a primary business and sells Dialog airtime as an additional source of income. Approximately 60% of these retailers run small grocery stores and 40% run shops that sell a range of communications products and services such as telephones and Internet access. On average, these shops are open 13 hours per day and have 1.8 employees. 95% are sole proprietorships, 50% have been operating for fewer than five years, and 15% are not formally registered. 81% of them have not had any formal business training.

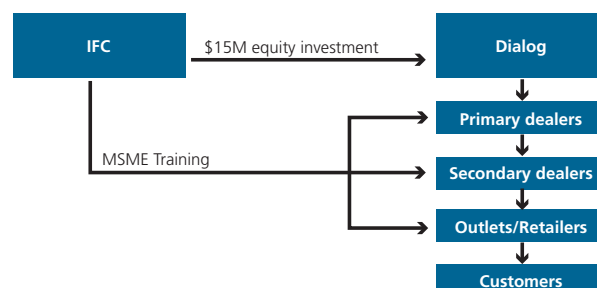
Because these are independent retailers without exclusive arrangements with Dialog, the company must compete with other mobile network operators for shelf space for its products. In part this is done by offering competitive margins on the Dialog products they sell. However, the company has also found that helping to facilitate business training and access to financing helps to build a loyal retail network—the key to promoting its brand and expanding its business.

To facilitate business training and access to financing for the retailers in its network, Dialog has worked with IFC on a capacity-building project called Dialog Viyapara Diriya (DVD) that leverages a local language version of IFC's SME Toolkit. So far 1,835 retailers have participated in the program.

Through this project, Dialog and IFC provide these retailers with training on business skills such as business planning and tax compliance. These sessions improve retailers' ability not only to manage and sell Dialog products but also to operate their primary businesses—grocery stores, communications kiosks, and other enterprises—a facility that has helped Dialog draw and maintain loyal retailers even while the Sri Lankan mobile sector has become increasingly competitive. This strong distribution network has provided a backbone for the company's efforts to expand further into rural markets and connect lower-income consumers.

In addition to business skills training, the DVD project aims to build loyalty and grow retailers' business by facilitating access to financing. For internal purposes, Dialog categorizes its retailers into three categories: Category A are super-grade dealers with monthly sales of Dialog products greater than \$500; Category B are average-size groceries that sell between \$250 and \$500 each month; and Category C are microenterprises that sell less than \$250 each month. The DVD training helps retailers graduate into higher categories. While the company does not provide or facilitate credit for retailers, this system is laying the foundation by tracking and grading retailer performance over time, showing the company—and prospectively banks—which ones are likely to be good credit risks.

Dialog is now coordinating with IFC to train a total of 5,000 retailers by the end of 2010, including retailers in the post-conflict northern and eastern regions of the country.



## DIALOG TELEKOM PLC

## DRIVERS FOR DIALOG'S INCLUSIVE BUSINESS MODEL

- Growth and brand awareness, including in lower-income, more remote regions
- To maintain market share and competitiveness as the Sri Lankan mobile market expands
- As part of achieving these objectives, to build a loyal, high-quality retail network

In 2007, Dialog's primary business area of mobile telephony was growing at 27%, a relatively low level when compared to the rest of Asia. In addition, growth was concentrated in wealthier urban regions of the country. Dialog identified the need to connect the unconnected—to extend the benefits of connectivity and communication to underserved rural segments—and thus embarked

on an aggressive program of expansion with the provision of coverage and affordable service options as key drivers. By 2009, penetration reached 66% and the market was growing at an annual rate of 40%. With the corresponding entry of new players into the market, Dialog identified the need for a strong and loyal distribution and retail network offering economies of scale.

## RESULTS OF DIALOG'S INCLUSIVE BUSINESS MODEL

- 6.3 million subscribers, an increase of three million since 2007
- 32% compound annual growth rate
- 49% market share
- \$16.3 million in sales income for retailers selling airtime in 2009, approximately \$408 per retailer
- 1,835 retailers trained

Since its expansion in 2007, Dialog has acquired more than three million new subscribers at a compound annual growth rate of 32%, reaching a 50% market share. Leveraging its quadruple play strategy to reduce prices, Dialog has remained the leader in the competitive Sri Lankan telecommunications market and has been able to expand its reach into previously underserved groups, tapping into significant unmet demand. Increased telecommunications penetration is typically associated with GDP growth and poverty reduction. It is estimated, for instance, that a 10% increase in mobile phone density leads to a 0.6% increase in per capita GDP.<sup>5</sup>

Dialog's inclusive business model is not only expanding access to telecommunications but also expanding economic opportunity for the micro- and small-scale retailers that sell its products. During 2006, Dialog's retailers earned \$16.3 million selling airtime. This translates to an average income of \$408 per retailer. Capacity-building efforts, which have reached 1,835 retailers so far, are expected to help them increase their incomes even further.



## IFC'S ROLE AND VALUE-ADD

As the Sri Lankan mobile market grew, Dialog needed large-scale, long-term financing to expand and remain competitive as well as technical assistance to strengthen its retail network.

In this context, IFC provided \$50 million in long-term debt financing (which the company prepaid in early 2009) and \$15 million in equity to finance the company's overall expansion and quadruple play strategy. IFC's involvement also reassured other lenders and helped Dialog mobilize additional financing. This was important given that Dialog's expansion efforts are amongst the largest-ever in Sri Lanka and involve communication and media business models that are new to local lenders.

IFC has also been involved in providing technical assistance to strengthen Dialog's retail network through the DVD project, delivering SME Toolkit-based training to improve their skills and business performance. A project of IFC, the SME Toolkit offers free business management information and training for SMEs on accounting and finance, business planning, human resources, marketing and sales, operations, and information technology. In collaboration with Dialog, IFC has been able to tailor SME Toolkit materials to the Sri Lankan context.



**International  
Finance Corporation**  
World Bank Group

**IFC's Investment:**

**\$50 million in long-term debt financing  
and \$15 million in equity**

## ECOM AGROINDUSTRIAL CORPORATION



### COMPANY BACKGROUND

ECOM is a soft commodity trading company founded in Barcelona in 1849. Originally a cotton trader, ECOM has expanded primarily into coffee and cocoa. The company is an integrated commodity originator, processor, and merchandiser, and it sells its products to branded product manufacturers, including Nestlé Group, Starbucks, Hershey, Mars, Sara Lee, Kraft, and Folgers. Now incorporated and headquartered in Switzerland, ECOM and its subsidiaries operate in 30 countries. The company employs approximately 6,000 people worldwide and has average annual sales of \$2.7 billion, positioning it as one of the world's leading traders of coffee, cocoa, and cotton.

ECOM's coffee business is global, with more than 20 offices on five continents. In recent years, 20% of ECOM's total coffee trade was in certified varieties and the company's long-term vision is to increase this percentage significantly.

### ECOM'S INCLUSIVE BUSINESS MODEL

In Central America, where coffee is predominantly grown by smallholder farmers at the base of the economic pyramid, ECOM engages with coffee growers to support farm productivity and promote certification. The model includes seasonal and very selective medium term financing to farmers for inputs and capital improvements, as well as technical assistance to increase yields, improve quality, and become certified under one of the labels ECOM markets (Rainforest Alliance, Starbucks 4C, or Nespresso AAA).

On the financing side, ECOM is providing seasonal credits to its coffee suppliers in Mexico, Guatemala, Nicaragua, Honduras, and Costa Rica. These pre-payments finance the farmer throughout the production cycle, supporting the purchase of inputs like fertilizer, the maintenance of the coffee plants, and harvesting. Before extending credit, ECOM visits farms to determine their production capacity for the coming year. Based upon this assessment, ECOM and its operating subsidiaries determine the size of the loan, typically under \$1,000, and manage the financing process—from credit approval to monitoring to servicing the loans.

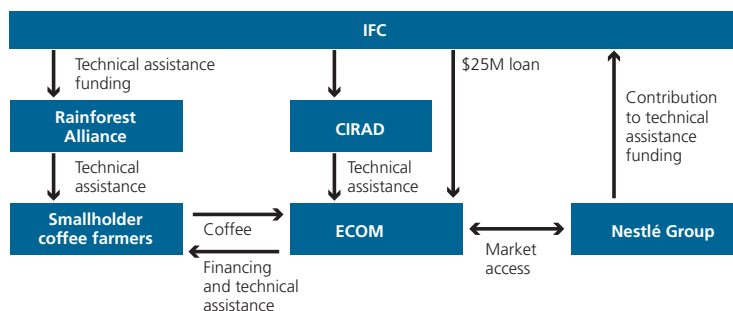
On the technical assistance side, ECOM works with Rainforest Alliance, a US-based NGO that promotes sustainable livelihoods, and CIRAD, a French agricultural research center, in a partnership facilitated by IFC to improve farmer productivity, sustainability, and eligibility for certification. Farmers are encouraged to improve their operations through better documentation of production processes, management of fertilizer,

improved labor conditions, and other measures. Improvement programs vary in duration depending on the nature of the problems encountered, with topics like soil conservation and biodiversity protection typically taking longer to address.

Rainforest Alliance and CIRAD contribute their expertise through training of trainers and farmer workshops. ECOM staff participate in both, and then follow up with further knowledge-sharing for farmers. They conduct follow-up visits to monitor progress and resolve the implementation issues that arise as farmers work toward their production and certification goals.

Successfully implemented, these improvement programs can enable farms to increase productivity or meet the eligibility requirements of certification programs.

In addition to the financing-technical assistance combination described above, the participation of a high-value coffee buyer like Nestlé Group's Nespresso is critical to ECOM's inclusive business model in Central America. Nespresso's participation includes money to co-finance, with IFC, the roles of Rainforest Alliance and CIRAD. This sends a strong signal to farmers about the company's intention to purchase high-quality, sustainable coffee at premium prices and allows ECOM to work with its farmers to plan in advance the quantities that are required. This signaling is important as farmers decide whether or not to invest in the improvement programs they need to meet Nespresso's strict quality and sustainability criteria.





## ECOM AGROINDUSTRIAL CORPORATION

### DRIVERS FOR ECOM'S INCLUSIVE BUSINESS MODEL

- Need to ensure stability and security of coffee supplies
- Market demand for high-quality, certified coffees and related sales premiums
- Company vision to scale up its certified coffee trade

Given the characteristics of coffee farming in Central America, ECOM must do business with smallholder farmers. The company must also invest proactively in their development: any loss of competitiveness would threaten the company's supply chain.

Farmer competitiveness is also critical to ECOM's access to premium coffee markets. Demand for high-quality, certified coffee is increasing, with roasters, retailers, and consumers looking for various combinations of high quality, environmental sustainability, traceability, and social standards.

Depending on market conditions, premiums paid for certified coffee can be significant to the growers. As of 2008, 20% of ECOM's coffee was sold as certified. The company aims to increase this figure to 50-80% over time. This will be possible only if the smallholder farmers in its supply chain can consistently produce certified varieties in the necessary quantities, making the availability of smallholder financing and technical assistance key to the company's long-term vision.



### IFC'S ROLE AND VALUE-ADD

IFC's value proposition to ECOM lies in its ability to provide both investment and advisory services, including \$25 million in debt financing and \$1.5 million in technical assistance, of which IFC is funding 50%. While investment and advisory services are each available separately from other partners, IFC's integrated offering has enabled ECOM to provide a package of financing and technical assistance helping farmers improve their productivity, sustainability, and livelihoods.

IFC's relationship with ECOM in Central America has led to an additional \$55 million in debt financing and \$8 million in advisory services to support the company across Africa (Kenya, Tanzania, and Uganda) and Asia (Indonesia, Papua New Guinea, and Vietnam). Together, these new programs are expected to reach 80,000 coffee farmers, of which 43,000 are expected to be certified.

### RESULTS OF ECOM'S INCLUSIVE BUSINESS MODEL

- Increased productivity for farmers reached, in some programs by more than 40%
- 481,606 bags of certified coffee purchased, representing \$3.7 million in additional income for coffee farmers
- Increased farmer loyalty to ECOM and more stable supply chain
- Increased trade volumes of certified coffee

The business and development results of ECOM's inclusive business model are intimately linked. As smallholder farmers are reached with financing and technical assistance, they enjoy greater productivity, security, and earning potential. Meanwhile, ECOM strengthens and secures its supply chain, expands its access to high-quality, certified coffees, and captures the premiums they bring.

By June 2009, ECOM had purchased 481,606 bags of certified coffee in the three years since the model was established, representing a premium of \$3,692,000 paid to smallholder farmers in Central America. This has been made possible through

\$17.4 million in seasonal financing to 14,149 smallholder farmers and technical assistance that has enabled 10,145 farmers to work toward the certification and quality standards of Nespresso AAA, FLO-Fairtrade, and Nestec 4C. An additional 3,282 farmers have improved their productivity through training in management, pruning techniques, and the benefits of hybrid plants.

These results are encouraging and point to a greater impact potential as ECOM estimates it works with about 125,000 growers in Central America.



**IFC's Investment:**  
\$80 million in long-term debt financing  
across various projects

## FINANCIAL INFORMATION NETWORK &amp; OPERATIONS LTD (FINO)



## COMPANY BACKGROUND

Mumbai-based Financial Information Network & Operations Ltd (FINO) builds and implements technologies that enable financial institutions to serve under-banked populations. FINO offers a suite of products to banking, microfinance, insurance and government clients serving primarily rural and semi-urban regions of India. As of November 30, 2009, the company's client base included 20 microfinance institutions (MFIs), 14 banks, seven government entities, and four insurance agencies with over 12 million individual customers combined. FINO reaches clients in 208 districts across 21 states in India.

FINO was incubated by ICICI Bank, India's largest private sector bank and second largest bank overall, before spinning off as a separate entity in April 2006. Currently public sector banks, including Corporation Bank, Indian Bank, Life Insurance Company of India, and Union Bank of India, account for 16% of investment financing. Private sector investors include HSBC (25%), ICICI Group (25%), and IFMR Trust (1%). International investors are IFC and Intel which own 17% and 16% respectively.

## FINO'S INCLUSIVE BUSINESS MODEL

FINO offers a banking and payments system that uses smart cards and agent-operated mobile point-of-transaction terminals to facilitate reliable, low-cost financial transactions between institutions and customers. With this system, FINO addresses a number of challenges that financial institutions face when serving low-income customers in particular, including illiteracy, information asymmetry, inadequate infrastructure, security, and—highly important—high cost relative to transaction size. The system enables users to overcome these barriers to achieve financial sustainability and scale in serving under-banked populations.

FINO's core product offerings comprise several components, including:

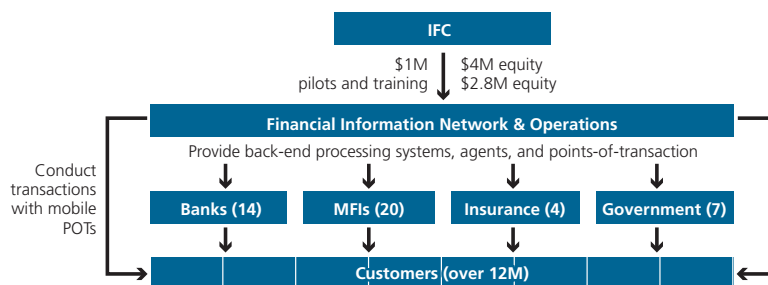
- **Accounting and MIS systems:** back-end processing systems that FINO builds and may maintain to facilitate and track transactions at the financial institution
- **Point-of-transaction terminals:** hand-held mobile devices that 6,000+ FINO agents and their customers use to conduct transactions such as deposits, loans, and payments
- **Biometric smart cards:** authentication devices carried by customers and agents alike to ensure transactions are secure on both ends; each card carries fingerprints, demographic and financial relationship information on a chip and a photograph with cardholder details on the face of the card

FINO's core system can be used for a variety of financial transaction types for which specific products have been developed. For example, in the savings account product, the smart card enables people to check balances, transfer funds, make deposits, and withdraw cash. The smart cards can also be used to access services such as

subsidies, payments, or credit as well as health, life, and weather insurance. Today, they are used by the government to transfer payments under the National Rural Employment Guarantee Act and to administer health insurance under the government's health insurance program for people below the poverty line. Other services include a remittance solution which enables individuals to send remittances from cash-to-smart card, card-to-bank, or card-to-card; a deposits management product that enables institutions to process recurring deposits or mutual funds; and a credit scoring solution for banks and MFIs with plans to extend to credit bureaus and financial risk management services. Finally, one of its newest offerings, FINO MITRA, utilizes a mobile platform to enable agents to enroll and conduct transactions and end users to conduct mobile banking and commerce.

Although the revenue model varies by product and by client, FINO generally charges the financial institution ongoing rental fees for space on their back-end system and for point-of-transaction terminals, annual maintenance fees for the terminals, and new card issuance fees. Some institutions may opt to buy point-of-transaction terminals as well. Customers do not have to pay for any services except for the remittance product—for which they pay 20 rupees, less than \$.50, directly to FINO in exchange for remitting up to 10,000 rupees in a single transaction.<sup>6</sup>

Currently, FINO's revenues are driven by one-time fees such as enrollment charges and sales of point-of-transaction terminals. It anticipates that by 2011, about 57% of its revenues will come from recurring revenue streams such as transaction fees and card and POT maintenance.



## FINANCIAL INFORMATION NETWORK & OPERATIONS LTD (FINO)

### DRIVERS FOR FINO'S INCLUSIVE BUSINESS MODEL

- Market opportunity for technology that enables financial institutions to serve more than 600 million under-banked Indians cost-effectively
- Mission to enable greater financial inclusion among under-banked populations

The primary driver for FINO's business model is a market opportunity for technology and services that enable financial institutions to realize the untapped potential to serve profitably the more than 600 million rural Indians who are currently underserved by or excluded from the formal financial system.

According to the Reserve Bank of India, 41% of the adult population in India today is unbanked and only 27% of farmers have access to formal credit sources. Informal money lenders control up to 75% of the market and charge interest rates as high as 90%. Non-credit related services are virtually non-existent in remote areas.

### RESULTS OF FINO'S INCLUSIVE BUSINESS MODEL

- Operating revenue growth of 140% since 2006 (34% CAGR from 2006-2009)
- Client base of 20 MFIs, 14 banks, seven government entities, and four insurance agencies
- Financial institutions can reduce costs, increase efficiency and productivity, improve transparency, and reach a larger population including those in more remote settings
- As of early 2010, over 12 million individuals in 21 states had access to credit and non-credit related services including loans, payments, remittances, savings, insurance and government subsidies

Operating revenues grew by 140% between 2006 and 2009, for a compound annual growth rate of 34%. Further, in just a few years, FINO has grown its customer base to 20 MFIs, 14 banks, seven government entities and four insurance agencies serving over 12 million individual customers who were previously un-banked. FINO has deployed over 7,000 point-of-transaction terminals to date, and currently reaches 26,000 different locations which are predominantly small villages or towns.

FINO's automated payments systems enable financial institutions to lower transaction costs, increase efficiency and productivity, and improve transparency. Institutions can allocate greater staff time to account acquisition and scale up operations. FINO's clients can offer customized products to their clients, provide cashless and paperless insurance, and ensure timely and full payment. Finally, with simple and reliable data systems, smaller institutions such as microfinance institutions can

attract more capital and in turn offer credit to more individuals.

This model serves to promote financial inclusion among people who currently lack access to financial services, particularly in rural regions where 90% of FINO's customers live. Financial inclusion is critical to enabling individuals to increase incomes, build savings, and manage uncertainties such as sickness or financial shortfalls. Without financial inclusion, individuals have to rely on themselves to invest in education or economic growth, greatly limiting their opportunities and perpetuating economic inequality and poverty.<sup>7</sup> Through FINO, even individuals in more remote regions of India can access formal loans as well as insurance, savings, remittances and government payments. FINO has also substantially contributed to employment generation, with more than 800 direct employees and 6,000 field agents, of which nearly 70% are women.



### IFC'S ROLE AND VALUE-ADD

IFC's role has been a combination of early-stage financing and technical assistance. IFC's investment included \$4 million in equity in the first round and another \$2.8 million in the second round. This filled an immediate financing gap that early-stage companies like FINO face, and enabled the company to reach a stage where funding options were more widely available.

Through its role as a trusted intermediary, IFC helped FINO to spin off successfully and to encourage banks and MFIs to adopt its technology.

IFC also agreed in December 2007 to provide a technical assistance grant of up to \$1 million to support pilot projects and training programs. With these funds, FINO worked with MFIs such as SEWA to develop and test its technologies, as well as conducted 872 training workshops for 8,002 participants across the country. FINO conducted several pilots including one for a mobile application in Andhra Pradesh, during which FINO enrolled 1.7 million families below the poverty line in a cashless health insurance coverage program.



**IFC's Investment:**  
\$6.8 million in equity

## IDEA CELLULAR



### COMPANY BACKGROUND

Idea Cellular Limited (Idea) is the fastest growing telecom service provider in India. The company's origins extend back to 1995, and it started its commercial operations in 1997 in Maharashtra and Gujarat states. Idea expanded into other service areas through a combination of organic growth and acquisitions.

In late 2006, the Aditya Birla Group consolidated majority ownership over Idea and assumed management control. In February 2007, Idea engaged in an initial public offering to raise the capital necessary to support a network expansion. The Aditya Birla Group (Birla) now owns 57% of Idea. Private equity investors Providence Equity Partners, Inc. and Citigroup Global Markets (Mauritius) hold a combined 17.7%. The remaining 24.6% is held by approximately 350,000 individual shareholders.

### IDEA CELLULAR'S INCLUSIVE BUSINESS MODEL

When Aditya Birla Group took over, Idea's new management reoriented the company's strategy to focus network expansion mostly in India's remote areas where demand is both high and underserved. The company also built a distribution network of 1,520 branded service centers and more than 700,000 multi-brand retail outlets around the country as of March, 2009. These investments have enabled Idea to serve customers at the base of the economic pyramid by bringing coverage to rural areas and achieving economies of scale that help keep prices low.

Idea's approach has also included a suite of products and services customized to meet the needs of rural and low-income consumers. For example, Idea has launched small recharge sachets in denominations as low as \$0.20. The company provides value-added services such as "music on demand," which has been particularly successful in rural areas where FM radio does not reach. Idea's media and advertisement campaigns are also conducted primarily in local languages, to reach out to rural users.

Most recently, Idea has been working to extend its reach specifically to consumers who cannot afford their own phones through a Pocket Public Calling Offices (PPCO) project. PPCO is at once a product of Idea's expansion efforts and a part of its strategy for further growth. The company considers PPCO a commercial project, and as such it was developed via Idea's standard business development process: concept documentation, management approval, product configuration, testing, and full commercial launch.

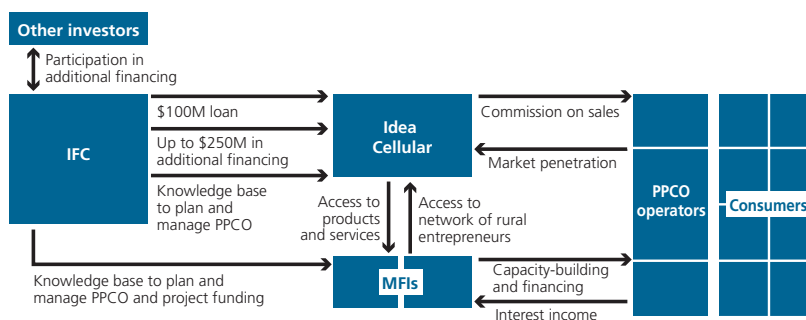
PPCO is a shared access model in which a mobile phone is used as a public phone operated by a micro-entrepreneur. To develop the model, Idea

partnered with IFC to leverage its experience with shared phone projects around the world. Central to the model is a grassroots-level partnership, originally brokered by IFC, with India's Self-Employed Women's Association (SEWA). With limited financial support from IFC, SEWA fulfills critical project functions, namely:

- Providing access to the information and relationships required to partner with rural micro-entrepreneurs
- Financing micro-entrepreneurs to purchase and operate PPCO equipment
- Training and building the capacity of PPCO operators

While Idea provides overall management for the project and ensures regulatory compliance, SEWA is responsible for identifying and screening PPCO operators and providing them with training in their local languages. SEWA gives PPCO operators the financing to purchase PPCO equipment—including a handset, shared phone software, SIM card, and airtime for about \$35, or just a SIM card for about \$11 for operators who already own their own phones. This, in turn, provides the organization with interest income. SEWA also provides PPCO operators with technical support and collects data for monitoring and evaluation purposes.

PPCO operators are responsible for maintaining PPCO equipment, promoting their businesses, and maintaining accurate call records. PPCO operators generate income by selling airtime to their communities, for which Idea pays a 20-47% commission depending on the volume of airtime an operator sells each month. Operators may also have additional revenue streams such as phone recharging and sales of prepaid cards to customers who own their own phones.



## IDEA CELLULAR

## DRIVERS FOR IDEA CELLULAR'S INCLUSIVE BUSINESS MODEL

- To increase the number of Idea customers
- To increase the number of transactions per consumer
- To increase brand awareness, remain competitive, and increase market share
- To maintain Aditya Birla Group's reputation as a socially responsible company by expanding access to telecommunications services and economic opportunities

The primary driver for Idea's inclusive business model was significant pent-up demand throughout India, especially in semi-urban and rural areas where 2008 telephone penetration or "teledensity" averaged approximately 6%. This compares with 40% teledensity for India as a whole, still less than half the average for Asia. The specific objectives of Idea's PPCO project were to extend the company's services to 50 million new rural customers via 300,000 operators within three years.

An additional driver was the Aditya Birla Group's commitment to commercially sustainable, pro-poor approaches. The company's efforts have been enabled by measures by the Government of India to liberalize the telecommunications sector and introduce pro-competitive policies.

## RESULTS OF IDEA CELLULAR'S INCLUSIVE BUSINESS MODEL

- 185% increase in subscribers to 60 million since 2007, approximately 40% of these in rural areas
- 2% increase in market share since 2007, from 9 to 11%
- 31% increase in revenues and 8% increase in EBITDA
- Increased access to telephony among rural and other previously underserved populations
- 1,228 PPCO operators in business in the pilot phase, earning 20-47% commissions
- Income and employment generation in the retail sector

Idea's overall inclusive business model, in which network expansion brings coverage to rural areas and economies of scale help keep prices low, has enabled the company to increase subscribers by 185% to 60 million since the network expansion began. Approximately 40% of these are in rural areas. During the same period, the company gained two percentage points of market share, reaching 11% percent. Its revenues increased by 31% from 2008 to 2009 to \$2.15 billion.

The PPCO project has helped facilitate customer acquisition in more rural, lower-income segments that previously had little access to mobile

telecommunications. PPCO has also created business opportunities for 1,228 PPCO operators in the pilot phase alone, each of whom earns between 20-47% on sales.

Idea's growth has also contributed to overall growth in the telecommunications sector, where increasing penetration has fueled competition and helped maintain affordability. Studies have shown that increasing penetration is also associated with GDP growth and poverty reduction. It is estimated, for instance, that a 10% increase in mobile phone density leads to a 0.6% increase in per capita GDP.<sup>8</sup>



## IFC'S ROLE AND VALUE-ADD

For Idea, IFC's value-add has been the combination of large-scale debt financing for network expansion and advisory services to help bring the benefits of network expansion even closer to the base of the pyramid through the PPCO project.

With respect to the PPCO project, IFC brought two distinct benefits. First, IFC offered expertise in the planning and management of shared phone models. Drawing on its experience with such models in multiple African countries, IFC was well-positioned to advise Idea and its implementing partner, SEWA, on appropriate business and operating models. Second, IFC's long-standing relationship with SEWA and its experience linking large corporations with micro, small, and medium enterprises allowed IFC to play a critical role brokering and facilitating the partnerships involved.



**IFC's Investment:**  
\$100 million in long-term debt financing



## JAIN IRRIGATION SYSTEMS



## COMPANY BACKGROUND

Jain Irrigation Systems Ltd. (JISL), based in India, is the largest manufacturer of efficient irrigation systems worldwide and a leading processor of fruits and vegetables—the world's largest in pureed mangos and third-largest in dehydrated onions. Over the years, JISL has expanded into banana, guava, pomegranate, aonla, papaya and tomato. The company has establishments in India, Middle East, Europe, Australia, Central and South America, and the United States. Within India, JISL is the largest provider of micro-irrigation systems—with a 55% share of the drip irrigation market and a 35% share of the sprinkler market.

JISL is listed on the Bombay Stock Exchange, but the Jain family has controlling ownership of the company. JISL currently employs 6,000 people in India and this number is expected to reach 8,000 by 2012.

## JAIN IRRIGATION SYSTEMS' INCLUSIVE BUSINESS MODEL

Centered around agriculture, JISL's business model makes almost a full circle through the value chain. The company provides farmers with micro-irrigation systems (MIS), seeds, and other inputs to produce more and better crops and then purchases fruits and vegetables through its food processing division, which processes them and sells them to export and domestic markets. In this way, Jain's inclusive business reaches farmers as both consumers and producers.

## Serving farmers as consumers

JISL's MIS are enabling farmers to switch from flood irrigation to more water- and energy-efficient systems such as drip and sprinkler. These products are supplied via a network of 1,750 distributors throughout India. JISL has also set up an institute to train distributors, government officials, and others on the skills to lay out and use MIS. All of JISL's dealers and distributors are trained by the company, including specialized training for engineers and fitters.

A key factor in the success of JISL's MIS business is a subsidy provided by the central and state governments in India. Farmers working less than five hectares of land receive a 50% subsidy on MIS equipment. The subsidy is routed through banks in some states and administered through special purpose vehicles set up by the government in other states. Farmers raise the balance of the funding from their own sources or from the banks responsible for routing the subsidy. JISL works with several banks to facilitate access to financing for MIS, including Yes Bank, Central Bank of India, IDBI Bank, and others. These banks have developed the necessary procedures as well as systems for monitoring and reporting. An average loan for purchasing a drip irrigation system is about \$817 per farming household.

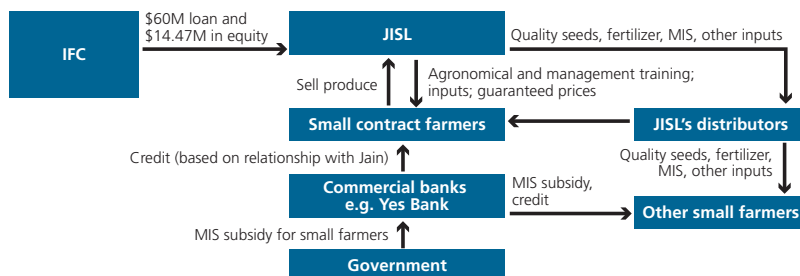
## Reaching farmers as producers

JISL procures fruits and vegetables directly from 4,150 contract farmer suppliers and indirectly through traders who source from over 25,000 farmer suppliers.

Launched in 2002, JISL's contract farming model is built on selecting progressive, receptive farmers and providing them with high-quality seeds; access to MIS, fertilizers, and other inputs; agronomical training and guidance on all aspects of planting, input application, and other farm functions via JISL's 60 extension associates. Additionally, farmers' relationships with JISL often allow them to obtain credit from commercial banks to fund MIS and other purchases, such as seeds, planting material, and packaging for certain crops. The company then buys the produce back—at a minimum price established at the beginning of the growing season or at approximately market price at harvest time, whichever is greater. Successful contract farms are used for demonstration to encourage others to adopt good agricultural practices.

In response to its major buyers' concerns about food safety and increased interest in farm-level practices and traceability, JISL is also helping farmers to meet international standards. JISL's own farms are GLOBALGAP-certified and the company is now working with IFC to develop and apply the Jain GAP standard to farmers in its supply chain. The Jain GAP standard will help the company meet its buyers' concerns without significantly increasing cost to low-income farmers. By 2011, around 1,000 farmer suppliers of onions and mangoes will be certified on Jain GAP, bringing 2,500 acres of farm land under sustainable management. In the long term, JISL hopes to expand Jain GAP to the larger number of farmers from whom it sources via traders.

For JISL, the advantages of contract farming include greater control over the quality and quantity of supply compared to traditional procurement channels. JISL has thus far applied the contract farming model to onion procurement, and is expanding the model to mango and tomato. Approximately 90% of JISL's onion contract farmers are small, with an average farm size of less than 2 hectares.





## JAIN IRRIGATION SYSTEMS

## DRIVERS FOR JAIN IRRIGATION SYSTEMS' INCLUSIVE BUSINESS MODEL

- Market opportunity for MIS which increases productivity and income for farmers, enabled by government subsidy
- Need to ensure consistent quality and quantity of produce for processed foods for export
- Buyer and consumer concerns regarding food safety and farm-level practices
- Water scarcity and low productivity of farmers in JISL's supply chain

**Driver for serving farmers as consumers**

JISL founder Mr. B.H. Jain's underlying vision to promote sustainable water management in agriculture, based on his own experiences with the challenges facing farmers in India, is a strong driver for the company's entry into and commitment to promoting MIS in India.

Another driver is the large and growing market for MIS, enabled by the government of India's subsidy and by the increased production and income that MIS make possible for the purchaser. The government's Task Force on Micro Irrigation recommended that 17 million hectares of cultivated land be brought under MIS between 2004 and 2012. This will eventually save the government money as it reduces the need for other subsidized farm inputs such as fertilizer and water.

Finally, as JISL's food processing business procures fruits and vegetables from farmers, it is in JISL's interest to ensure consistent supply quantities, and

the use of MIS is a key element in ensuring farm productivity especially in water-stressed regions.

**Driver for reaching farmers as producers**

Securing regular supplies of consistent quality and quantity for its food processing business is a strong driver for JISL's entry into contract farming. Contract farming is enabling the company to develop a cost-effective supply chain in a market characterized by fragmented supply chains with many intermediaries.

Further, compliance with food safety standards for export markets and growing interest from buyers regarding traceability and farm-level practices are leading JISL to introduce systems such as Jain GAP into its supply chain. Such measures are necessary to maintain and grow the company's customer base over time, and they are easier to introduce in a contract farming model given the level of monitoring required.



## IFC'S ROLE AND VALUE-ADD

Since 2007, IFC has invested \$60 million in debt and \$14.47 million in equity in JISL to promote water-use efficiency in agriculture via MIS. In addition to financing, IFC advisory services are helping JISL to develop and roll out the Jain GAP standard with specific support for project design and implementation, monitoring and evaluation, and knowledge-sharing of international good practices. IFC is also working with JISL on a water footprint assessment to document and disseminate the benefits of MIS.

## RESULTS OF JAIN IRRIGATION SYSTEMS' INCLUSIVE BUSINESS MODEL

- 35,000 tons of onions procured from 1,800 contract farmers in 2008, of which 90% are small farmers
- Ensured market and increased income by \$300-400 per acre for onion farmers
- Farmers using MIS are increasing net incomes by \$100 to \$1,000 per acre due to efficiency gains
- Estimated reduction of 500 million cubic meters of water per year through JISL drip and sprinkler irrigation, compared to flood irrigation

By working with JISL, onion contract farmers benefit from the availability of high-quality seeds, input finance, agronomic support, MIS and an assured market for a crop that yields an additional \$300-400 per acre compared with previous growing practices.

Farmers in general using JISL's MIS products alone have also increased their efficiency and reduced their dependence on rain for their livelihoods. As a result of these efficiency improvements, farmers are increasing their net incomes by \$100 to \$1,000 per acre depending upon the crop, meaning the investment pays for itself typically in less than

one year. Finally, going forward, farmers who eventually comply with GLOBALGAP will be able to sell their higher-grade fresh mangos to markets outside India at substantial premiums. Compliance with Jain GAP is a stepping stone to this end.

For its part, JISL benefits from its work with farmers both as a built-in market for its agricultural inputs and as a way to manage quality and security of supply. In 2008, JISL procured 35,000 tons of onions from 1,800 contract farmers cultivating 3,700 acres of land, of which 90% were small farmers. JISL expects to increase the area under contract farming to 6,000 acres by 2012.

**IFC's Investment:**

**\$60 million in long-term debt financing and \$14.47 million in equity**

# MANILA WATER COMPANY



## COMPANY BACKGROUND

Manila Water Company (MWCI) operates a 25-year concession for the water and wastewater system in Metro Manila's east service zone, a 1,400-square kilometer area encompassing the province of Rizal, with 23 municipalities and home to 6.1 million people. Following the 1995 Water Crisis Act, the floundering state-owned and operated Metropolitan Waterworks and Sewerage System (MWSS) was privatized in 1997 by partitioning its operations into two east-west concessions and offering them in an internationally competitive tender. The Manila Water Company was established by the consortium winning the tender with the lowest tariff bid of PHP2.32 per cubic-liter, 73.6% below the prevailing rate.

In 1997, the Ayala Group, one of the largest holding companies in the Philippines, took a controlling 52.7% interest in the newly-formed Manila Water Company, which immediately sought to address the system's chronic problems. Becoming profitable in 1999, the company continued to expand, and in 2005 was listed on the Philippine stock exchange. Today, Ayala retains a 43.3% stake, followed by Mitsubishi Corporation and IFC with 7 and 6.7% respectively, and the public and MWCI employees with the remaining 43%.

## MANILA WATER'S INCLUSIVE BUSINESS MODEL

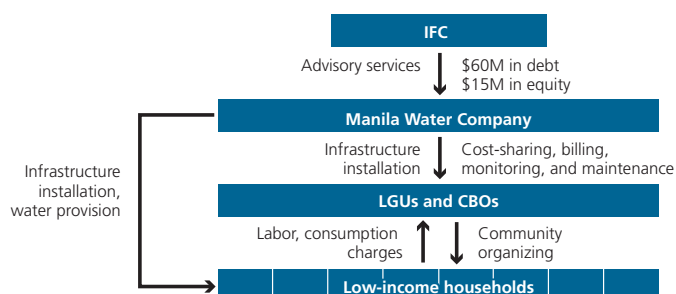
Manila Water's inclusive business model, Tubig Para Sa Barangay (TPSB), or Water for Poor Communities, is designed to reach low-income communities based on a clear business case: underserved, low-income households demonstrate a willingness to pay for safe, reliable water and connecting them means reaching new markets while reducing costs from inefficiencies and illegal connections.<sup>9</sup> The TPSB model creates partnerships with local government units (LGUs) and community-based organizations (CBOs) to actively include communities themselves in the design and implementation of water supply systems. This establishes positive incentives for all stakeholders and helps ensure the success and sustainability of the program.

These partnerships are formalized in Memoranda of Agreement (MoA) that legally define each party's financial and operational roles. Broadly, Manila Water takes responsibility for installing infrastructure, including pipes and meters, while local and municipal governments help reduce the cost, for example by waiving permit fees, providing small subsidies, or offering construction labor.<sup>10</sup> Communities may determine their own level of participation; this is typically high, especially in low-income neighborhoods, where CBOs or LGUs are responsible for collecting and remitting fees to Manila Water, monitoring and maintaining systems, and preventing pilfering. Exact obligations are negotiated for each community or municipality.

Program costs are typically shared between Manila Water, municipalities and communities, although

the communities typically remit payments post-completion, leaving MWCI to bear the bulk of initial capital expenditures. For the 2004-2009 period, the company allocated P19 billion (\$351.85 million) for TPSB capital expenditures, funded directly from operations and borrowing. The precise cost-sharing breakdown is decided per MoA, but the P1.3 million Quezon City project serves as an illustrative example: MWCI bore 46.2% of the cost, while the municipal government and community shared 38.4% and 15.4%, respectively.<sup>11</sup> The community component typically represents the cost of bringing water from central metering points to individual households, although both MWCI and LGUs offer financing mechanisms to reach as many homes as possible.

Communities themselves are central to the efficiency and cost-savings components of Manila Water's inclusive business model. By visibly placing water meters in side-by-side arrangements in public areas, meter monitoring becomes easier and the community can regulate itself as water use and fees become more transparent. In informal settlements or very low-income areas where land ownership is a problem, bulk metering and cost-sharing programs enforce self-monitoring through collective responsibility. The community also assigns or elects individuals to administer collections, monitoring and maintenance, which directly supports local employment. These methods help build a sense of local ownership and responsibility that enhances the system's good repair, promotes on-time payment, and discourages water pilfering. This results in superior service and water quality for the community and lower costs for Manila Water.



## MANILA WATER COMPANY

## DRIVERS FOR MANILA WATER'S INCLUSIVE BUSINESS MODEL

- MWCI's concession agreement and associated operational targets
- Reducing system inefficiency costs and increasing metering and payment
- Reducing water contamination from aging or illegal water lines

When Manila Water Company began operating the concession in 1997, only 58% of the population had water service and only 26% of the service area offered 24-hour access. With a mere 1,500 connections, Manila's low-income households were especially underserved, forcing people to meet their needs for drinking and cooking water by fetching it from public faucets, buying it at inflated prices from street vendors, or tapping illegally into nearby pipes. Combined with physical losses from leaky pipelines, non-revenue water levels were as high as 63%. Meanwhile individuals buying from street vendors faced prices up to 16 times above MWCI tariffs, not to mention the health risks of a nearly non-existent sewerage system that reached just 3% of the population.<sup>12</sup>

To remedy this situation, the service zone concession agreement set 23 operational targets, which formed the primary driver for Manila Water's inclusive business model. These targets included increasing water and sewer coverage, achieving 24-hour supply, meeting water quality and environmental standards, and decreasing non-revenue water. To enforce them, Manila Water was obliged to post a \$70 million performance bond that permitted the government to withdraw up to \$50 million from the bond for non-compliance.



## IFC'S ROLE AND VALUE-ADD

IFC acted as lead advisor for MWSS's privatization, designing the operating agreement and overseeing the bid. This marked the first large-scale water privatization initiative in Asia. However, to meet the concession targets, Manila Water required an estimated \$2.72 billion over the concession period. The privatization also coincided with the Asian financial crisis, leading to a near doubling of Manila Water's existing foreign-denominated debt burden, which included a concession obligation to take on 10% of MWSS's outstanding loans. MWCI thus required significant long-term financing during a time that markets were constrained and shaken.

IFC provided Manila Water a \$30 million loan in 2003, a \$15 million equity investment in 2004, and an additional \$30 million loan in 2005. Advisory services supported these, helping the company rewrite its corporate governance manual and develop a sustainability strategy, marking the first time a Philippine company publicly disclosed its environmental and social performance on an annual basis. IFC's involvement also served as a stamp of approval supporting the company's 2005 IPO, which raised an additional \$97.8 million.

## RESULTS OF MANILA WATER'S INCLUSIVE BUSINESS MODEL

- EBITDA increased from P277 million to P6,803 million between 1999 and 2008
- The TPSB program has reached 1.6 million people
- 99% of customers have 24-hour water availability
- Customers now pay 20 times below per cubic meter rates previously charged by water vendors

Manila Water turned a loss-making operation into a financial, social, and environmental success story. EBITDA grew from a P37 million loss in 1997 to P277 million in 1999 and reached P6,803 million in 2008, an average increase of 42% per year.<sup>13</sup> Manila Water has also successfully met its concession targets. By 2009, a total 3,155.86 kilometers of pipeline had been laid and MWCI served over one million households, reaching over six million people, with 1.6 million individuals benefiting under the TPSB program. These customers have 24-hour access in 99% of the distribution area, at water pressures high enough to conveniently use faucets and enable indoor plumbing.

System losses and non-revenue water have fallen dramatically, coming down from 63% in 1997 to 15.8% as of year end 2009, surpassing the

concession obligation.<sup>14</sup> This has reduced costs for the company and customers alike, and connected households now pay 20 times below per cubic meter rates previously charged by water vendors.

MWCI's efforts have achieved 100% compliance with national drinking water standards, with a direct, positive impact on people's health: the Department of Health reported a 300% reduction in diarrhea cases from 1997 to 2007.<sup>15</sup> Finally, by providing local communities the opportunity to collect fees, monitor meters, and service pipelines, Manila Water's inclusive business model has generated over P25 million in new jobs, benefiting 850 families over the last several years.<sup>16</sup>



**IFC's Investment:**  
\$60 million in long-term debt financing  
and \$15 million in equity

## MI TIENDA



## COMPANY BACKGROUND

Mexico's Sistema Integral de Abasto Rural S.A.P.I. de C.V., or Mi Tienda, is a privately held rural distribution company founded in 1999 by José Ignacio Avalos, one of the founders of Banco Compartamos, the country's leading microfinance bank. Mi Tienda began operations in Atlacomulco in central Mexico as a single distribution center offering non-perishable food and personal care products to stores in surrounding villages, typically with populations of less than 5,000 each. Mi Tienda focuses on the country's more than 600,000 small-scale retailers in rural markets—where large retailers do not reach.

## MI TIENDA'S WATER'S INCLUSIVE BUSINESS MODEL

Mi Tienda's customers are small-scale retailers in small, rural villages. These retailers face a number of challenges, including small markets and traditional over-the-counter sales formats which further limit sales. With low weekly store purchases, they are unable to take advantage of economies of scale. They tend to have low levels of business knowledge and very limited access to finance. Most of their shops are below ten square meters in size, often integrated into the owners' homes, where they are tended overwhelmingly—approximately 80%—by women. They serve customers with incomes averaging an estimated \$4 a day.

Mi Tienda offers these retailers a distinctive value proposition: affordable door-to-door delivery of individual items within 48 hours, extended payment terms, and business training and advice to improve sales. This is because its growth strategy includes increasing the volume of sales per customer, in addition to the numbers of distribution centers and of retail customers per center.

Mi Tienda's distribution centers are simple, approximately 1,000 square meter warehouses where products are stored. Once or twice a week, sales agents travel six or seven different routes, which typically cover between 620-740 rural stores, taking orders on laptops and synchronizing them at the warehouse at the end of the day. There orders are preassembled in boxes, by hand, for delivery drivers to take out the following day. There are approximately six trucks and six cars for every warehouse.

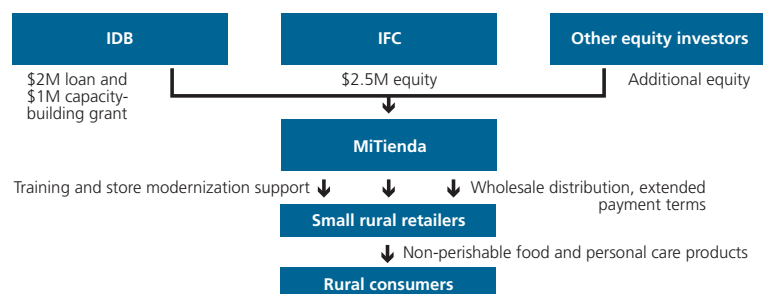
From a cost perspective, it is also important to note that villages in central Mexico are located fairly close together, which enables Mi Tienda to achieve operating efficiencies and economies of scale.

Mi Tienda also keeps costs down by stocking primarily non-perishable food and personal care products in a limited number of SKUs: roughly 1,000 compared with as many as 80,000 for a large retailer like Wal-Mart. Selection is highly customized to local demand and can vary from

warehouse to warehouse. Mi Tienda sales agents, who visit each retail outlet at least once a week, are well-positioned to gather information about what is selling and what is not. In addition, outlets that participate in the company's capacity-building program undergo more systematic demand assessments. As a general rule Mi Tienda has found that rural Mexican consumers are highly brand conscious, and would rather buy a smaller package of brand name detergent than a larger package of generic detergent. The company carries very few generic items as a result, for now.

Mi Tienda's single unit delivery helps retail outlets use their working capital more efficiently. The company helps further in this regard by offering extended payment terms of typically seven days to stores with proven track records. Approximately 60% of stores avail themselves of this option. Creditworthiness is assessed by sales agents based on personal knowledge and relationships developed during their weekly or twice-weekly visits. If stores are late in their payments, they cannot get more products—such a strong incentive to repay that the default rate has been less than 0.1%. The single unit delivery and extended payment options are both key differentiators for Mi Tienda in the rural distribution market, where store owners would otherwise have to travel long distances and pay in cash up front for large quantities of product.

Finally, Mi Tienda offers retail outlets free training and capacity-building intended to help increase their sales—and by extension their purchases from the company. The company has its own training unit staffed with trainers who typically visit and stay with each participating outlet for a week, helping with accounting, working capital management, inventory management, and product assortment. Trainers often help modernize store design as well, moving from traditional, over-the-counter sales set-ups to shelf displays that increase product visibility. Modernized stores have experienced, on average, 35% increases in sales.



## DRIVERS FOR MI TIENDA'S INCLUSIVE BUSINESS MODEL

- Market opportunity for efficient commercial distribution in rural Mexico
- Desire to improve the lives of rural families by improving rural supply chain efficiency

Mi Tienda aims to build a business and improve the lives of rural families by improving rural supply chain efficiency. Four factors create a market opportunity for more efficient commercial distribution in rural Mexico: layers of intermediaries, limited access to working capital financing for micro, small, and medium retailers, high transaction and transportation costs, and poor feedback on the needs of rural populations to food and consumer products companies.

Many small, rural retailers are not yet served by wholesalers. If they are served, it is with minimum

quantities of products and no working capital access. In Atlacomulco, for example, where Mi Tienda's original distribution center is located, 30% of stores are unserved. Mi Tienda's main competitors are Diconsa, a government entity with approximately 22,000 distribution centers across the country, and local wholesalers. However, these wholesalers do not deliver single units of product and their prices are higher—both of which increase retailers' working capital requirements.

## RESULTS OF MI TIENDA'S INCLUSIVE BUSINESS MODEL

- 2 distribution centers serving 1,300 stores
- Operational break-even achieved
- 200 stores trained, with an average 35% increase in sales for those undergoing modernization
- Improved product accessibility and affordability

Mi Tienda has two distribution centers in operation, reaching about 1,300 stores and generating enough revenue to cover operating costs. With \$2.5 million in equity from IFC, a \$2 million loan and \$1 million capacity-building grant from the Inter-American Development Bank, and additional equity from other investors, Mi Tienda is now rolling out an additional 34 distribution centers over the next six years. Together, these 36 centers are expected to reach 25,000 stores serving 4.7 million households.

For the small-scale retailers in its network, Mi Tienda's inclusive business model has reduced working capital requirements and, where modernization has taken place, increased sales by an average of 35%. Cumulatively, additional revenues

from modernization are expected to reach \$200 million by 2016.

At the consumer level, Mi Tienda's inclusive business model has improved product accessibility and affordability, and offers the possibility to pass on a portion of the efficiency gains to customers. Possible savings have not been measured but are estimated at 2-3%, which is not negligible for customers earning \$4 a day.

Finally, the company has begun to create a platform through which other services—such as micro-credit, insurance, and utility bill payment—can eventually be offered. As it develops, this platform is expected to become a major source of both revenue growth and development impact.



## IFC'S ROLE AND VALUE-ADD

With overall profitability predicted only in the medium term due to the cost of ramping up, IFC's \$2.5 million equity investment has helped Mi Tienda go ahead with its plans to expand. IFC's investment has also played an anchor role, enabling the company to attract additional investors.

In addition to investment capital, IFC has contributed global retail sector knowledge and helped Mi Tienda implement international environmental, social, and corporate governance standards.



**IFC's Investment:**  
\$2.5 million in equity



## TRIBANCO



### COMPANY BACKGROUND

Tribanco is a financial institution established by Grupo Martins in Brazil in 1990. Headquartered in the city of Uberlândia in the state of Minas Gerais, Tribanco maintains a full banking license and as such is monitored by the Central Bank of Brazil. It provides financial and management assistance to Grupo Martins' retail clients and does not service the general public.

Grupo Martins is the largest wholesaler and distributor in Latin America with more than 50 years of experience in the region. It distributes food, electronics, home improvement supplies and pet food to more than 300,000 micro, small and medium enterprises (MSMEs) in Brazil. Grupo Martins created Tribanco as part of a broader strategy to maintain market positioning against large foreign retailers entering the Brazilian market and to better service its own retail customers.

### TRIBANCO'S INCLUSIVE BUSINESS MODEL

Tribanco serves as a financial intermediary in the Grupo Martins distribution chain, offering financial and management solutions for retail clients that are predominantly family-owned micro, small, and medium-sized enterprises (MSMEs). Martins' philosophy is that its own growth will be driven by its customers' growth. Thus, it sees itself as a logistics company in the business of helping its customers become more competitive, rather than a traditional distribution company. Tribanco proactively visits more than 90% of Brazilian towns, identifies the most entrepreneurial of the small stores it services, and then partners with them to provide renovation loans, training, and other services to enable them to grow.

Tribanco offers several credit and non-credit services to retailers, including:

- Extending check-cashing services and loans to retailers for purchases or store renovations
- Issuing Tricard customer credit cards for retail outlet shoppers
- Offering capacity-building and business training to retailers

Tribanco has about 150,000 MSME clients borrowing in the short term for purchases made from Martins, borrowing on average \$312 each time. In addition, approximately 15,000 clients each year borrow for other needs, with an average loan size of \$8,600. Lending is offered as a way for stores to purchase inventory on credit and make store improvements such as lighting, displays, and technology. A small team of loan officers, who are full-time Tribanco employees trained in credit risk assessment and analysis, works directly with stores to help them access credit through Tribanco and to educate retailers and customers on financial services outside the Grupo Martins system.

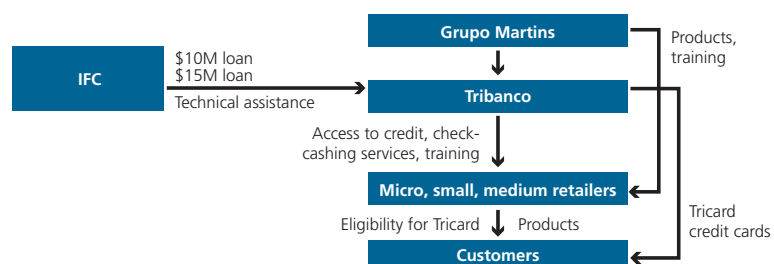
Additionally, 9,000 MSMEs participate in Tricard, Tribanco's branded credit card program. After receiving training from credit officers on customer creditworthiness, retailers decide which of their

customers are eligible to receive shopper cards. Although Tribanco assumes non-payment risk, those stores with higher repayment rates receive lower transaction fees. Thus, retailers are incentivized to choose wisely and help ensure shoppers repay.

Tricard has issued 4.04 million credit cards to shoppers, 40% of whom earn monthly incomes below \$280 and 71% below \$450, to provide them with short-term access to credit to buy needed food and products. The repayment rate is 96.5%, likely due to the fact that Tricard holders tend to be regular customers who live in the area. They recognize that if they do not pay, they will have their cards taken away and may also have to find new, less convenient stores to purchase groceries.

Retail owners and managers also benefit from capacity-building and training on store management and marketing practices such as creating displays and offering customer promotions. Training is predominantly offered through distance learning, although some retailers also have access to more formal, classroom training. In some instances this is tied to performance incentives; for example, retailers earn points based on their purchases which they can redeem for free classroom training through Martins Retail University. Further, Grupo Martins employs mixed training models to address the needs and geographic constraints of their customers. For example, Grupo Martins has used a bus that converts into a classroom to travel around to rural areas, providing online courses and in-person instruction.

In 2009 Tribanco started to work with insurance through Tribanco Seguros, issuing over 4,500 insurance policies to low-income customers. Tribanco also partners with financial and non-financial institutions to offer other services for its clients, for example collecting customer checks by the National Postal Service or issuing private label credit cards.





## DRIVERS FOR TRIBANCO'S INCLUSIVE BUSINESS MODEL

- Business opportunity to provide micro, small and medium retail clients with access to financing to maintain operations and improve profitability
- Competitive need for Martins to differentiate itself and maintain strong market presence against large, foreign retailers entering Brazilian market

Tribanco has enabled Grupo Martins to differentiate itself from large foreign retailers and maintain its market position as one of the largest distributors in Latin America. By offering credit services and training to retailers, it is helping them remain profitable and in many cases, expand. This in turn

helps Grupo Martins maintain its own growth and market presence as the distributor to these retailers. Further, Grupo Martins is offering customized, value-added services to its customers which serve to strengthen brand loyalty.

## RESULTS OF TRIBANCO'S INCLUSIVE BUSINESS MODEL

- Serves over 150,000 MSMEs nationwide with credit and financial services
- Issued over 4.04 million credit cards to consumers accessing 9,000 retail shops
- Greater financial inclusion among the two thirds of the Brazilian population without access to banking services today

Tribanco now serves about 150,000 MSMEs nationwide, offering credit and financial services. It has issued 4.04 million credit cards to consumers shopping at 9,000 outlets. This model has enabled small shops to enhance their profitability, long-term survival, and growth. In turn, it has enabled Grupo Martins to develop a competitive advantage versus large foreign retailers entering the Brazilian market, build customer loyalty, maintain a strong market presence.

Brazil is one of the least “banked” middle-income countries, and lack of access to finance negatively impacts the country's economic productivity and social inclusion.<sup>17</sup> Operating in the most remote and neglected urban and rural areas of Brazil where little to no access to financial services exists, Tribanco is therefore enabling people to save, manage risk, increase earnings, and pursue profitable business opportunities.

Tribanco's credit assessment approach addresses the market failures deriving from the current financial system, which perpetuates lack of access among the working poor. Specifically, regular banking credit assessment models give low scores to lower income people even if they have a steady source of income. With an alternative credit assessment model that relies upon the storeowner's input, Tribanco is able to address this asymmetry of information and provide credit to its customer base. In doing so, it provides the working poor with a way to smooth irregular cashflows over the short term and promotes greater financial inclusion in the long term. Finally, since Tricard is often an individual's first credit card ever, it enables consumers to build credit histories and access greater financial services in the future.



## IFC'S ROLE AND VALUE-ADD

IFC extended a credit line of \$10 million to Tribanco in 2004 and an additional \$15 million in 2009 to enable it to diversify debt sources and gain longer-term flexibility in financing. Additionally, Tribanco collaborated with IFC to strengthen its role as a financial intermediary to retailers.

IFC complemented its investment with a \$200,000 advisory services program to develop Tribanco's internal training capabilities. Investments have helped Tribanco introduce a “credit-centric” culture and hire and train more full-time credit agents; develop marketing, finance and credit assessment training modules for credit officers; incorporate sustainability training (social responsibility and environmental awareness) in the curriculum; and partner with a third party to carry out monitoring and evaluation programs.



**IFC's Investment:**  
\$25 million in long-term debt financing

## UNIMINUTO

## UNIMINUTO'S INCLUSIVE BUSINESS MODEL

UNIMINUTO's mission is to offer high-quality, easily reachable, complete and flexible higher education to support the development of highly competent and ethically responsible individuals in Colombia. UNIMINUTO offers undergraduate, technical, specialty and master's courses, targeting lower-income students with courses emphasizing employability, affordability, and accessibility through multiple sites around the country and a distance learning platform.

UNIMINUTO operates independently and through formal collaborations with other universities or government entities. It owns five teaching sites and leases several other sites. It also receives fees to administer 18 government-sponsored sites located in marginal urban or remote areas and works with two independent tertiary schools to provide education services through a management agreement. Its main source of revenues is tuition fees, although it also receives grants and government funding.

UNIMINUTO courses emphasize quality and flexibility through a modular structure with early, compulsory levels covering core material and later levels covering more advanced material, leading to higher qualifications. This enables individuals to move from level to level, and exit with qualifications at more than one point. UNIMINUTO maintains quality standards by meeting mandatory accreditation requirements and is working to achieve higher institutional accreditation by 2012, a rare achievement attained by fewer than 10% of tertiary schools in Colombia today.

Since the end goal is for students to find employment, UNIMINUTO's offerings emphasize technology and focus on providing students with the skills needed to find full-time employment after graduation. It works with business, government and non-governmental organizations to ensure that curricula meet potential employers' needs. In fact, more than half of UNIMINUTO's programs are vocationally-oriented. Course offerings represent key

productive sectors in Colombia, including agribusiness and construction, and are tailored to reflect regional industry mixes, with certain sites offering hotel management and agro-ecology. Short-term courses in skills demanded by prospective employers, such as web design and occupational health, are also offered. Finally, UNIMINUTO offers low staff-to-student ratios and programs such as pre-term workshops and basic skills tutoring to support students from lower socioeconomic groups.

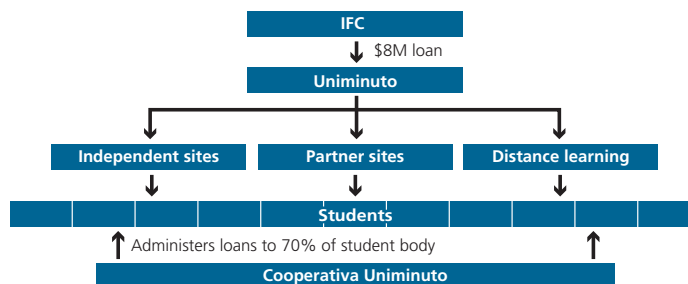
UNIMINUTO has been able to ensure geographic reach through a network of classroom facilities in different regions and through distance learning. Its Bogotá campus is housed in an urban part of the city close to the surrounding region and serviced by public transportation. In addition, UNIMINUTO works through 34 sites, each reaching from 107 to 2,920 students. In 2007, UNIMINUTO won a public tender to establish a "virtual campus" in partnership with other local institutions. Today, a quarter of courses are available through distance learning, reaching 500 students. The organization works with experienced universities, such as Mexico's Monterrey Tech, to develop distance learning materials—for example, for teacher training in rural regions.

Another important element of the UNIMINUTO model is its pricing. Through innovative cost-sharing arrangements and the use of technology, the organization is able to keep tuition rates affordable. For example, business undergraduate studies are priced at less than \$1,000 a semester compared to an industry average of \$1,450. Rates are also differentiated by site so that they align with ability to pay in different regions. Finally, UNIMINUTO offers financing through a subsidiary, Cooperativa UNIMINUTO. The cooperative manages longer-term loans provided through Colombia's public student loan agency ICETEX, allocates the organization's own funds to offer additional short- and medium-term financing, and helps students apply for external loans.

## COMPANY BACKGROUND

Corporación Universitaria Minuto de Dios, or UNIMINUTO, is a rapidly growing not-for-profit tertiary education institution established in 1990 in Bogotá, Colombia. UNIMINUTO offers affordable, high-quality technical, technological and university education. Its largest presence is at the principal Bogotá campus where 30% of its students attend school. Its national network reaches 35,000 students in 34 locations in 11 municipalities, as well as 500 students enrolled in distance learning programs.

UNIMINUTO is a subsidiary of Minuto de Dios, a Catholic organization founded by Father Rafael García Herreros in 1955 to help the neediest populations regardless of faith. Minuto de Dios implements low-income housing, health, small and medium enterprise finance, agribusiness, media and education programs in 1,000 municipalities in 17 out of 32 departments in Colombia.



## DRIVERS FOR UNIMINUTO'S INCLUSIVE BUSINESS MODEL

- Market need for accessible, affordable tertiary education, which aligns with the parent organization's mission to aid the neediest populations
- Insufficient public supply of higher educational institutions and expensive private supply
- Insufficient quality technical and technologically-oriented offerings among other providers to prepare students for employment after graduation

UNIMINUTO addresses a social need for increased access to tertiary educational services, particularly among lower-income and geographically isolated students. Today, tertiary education opportunities vary greatly based on students' socioeconomic status and proximity to major urban centers. Approximately 1.5 million students are enrolled in tertiary education in Colombia, which is a gross coverage ratio of 34%, lower than other middle-income countries in Latin America. Coverage ratios differ greatly by region and are close to 50% in the

capital district of Bogotá compared with 10% in less urban areas. Although there are 283 tertiary education providers in the country, private offerings are concentrated in major urban areas and are very expensive. Public offerings are insufficient to meet demand. In addition, whether public or private, tertiary education in Colombia today largely overlooks the technical and technological skills for which there is a clear need in the labor market—and which would give students an edge in finding full-time employment after graduation.



## IFC'S ROLE AND VALUE-ADD

In 2009, IFC disbursed \$4 million of a total commitment of up to \$8 million equivalent to support UNIMINUTO's five-year plan to expand in the tertiary education market in Colombia. With this investment, IFC is providing UNIMINUTO with the funds it needs to finance physical expansion with new classrooms, offices, and laboratories; information and communications technology improvements; and institutional strengthening. IFC's investment is also expected to strengthen UNIMINUTO's ability to secure long-term financing from other sources in the future.

With experience in the region and knowledge of the tertiary education industry, IFC is able to provide UNIMINUTO with expertise in university project implementation and help the organization build new university partnerships. Also, IFC guidance on insurance and environmental management supports the organization's planning and risk management processes.

## RESULTS OF UNIMINUTO'S INCLUSIVE BUSINESS MODEL

- Approximately 32,000 students educated in 2009, including 16,000 women and 18,000 students from the lowest two quintiles of the population by income
- 45% average annual growth rate in student enrollment from 2006 to 2009
- 41% revenue growth from 2006 to 2009, with double-digit growth expected through 2013

UNIMINUTO appears to be addressing a clear market need, with 45% average annual growth in student enrollment from 2006-2009—significantly greater than the average 5-7% growth rate for tertiary education in Colombia. In 2010, the student population reached 35,000 students, over 50% of whom were female. UNIMINUTO is currently expanding its physical and technological infrastructure and institutional capacity, planning to reach over 45,000 students in 2011.

UNIMINUTO's enrollment growth reflects the significant value it is creating for students. World Bank studies estimate that the average Colombian family spends just under 30% of GDP per capita per year on tuition for tertiary education, and 64% for total costs including expenses. This is significantly higher than in high-income countries, where families spend on average 10% for tuition and 19% for total costs<sup>18</sup>—highlighting both the role that affordability plays in limiting education

opportunities in the region and the market opportunity for a low-cost provider. UNIMINUTO competes well by keeping costs down and facilitating student loan financing. In fact, the financing subsidiary, which assists over 70% of students in accessing loans, managed the issuance of 14,249 loans valued at US\$7.7 million during the second semester of 2009. That same year, the organization was able to reach 18,000 students from the lowest two quintiles of the population by income, and it plans to grow this figure to 25,000 by 2011.

From 2006 to 2009, UNIMINUTO's net revenues grew from \$8.5 to \$27.6 million, with an EBITDA that represented an acceptable level given the organization's focus on affordability and its expansion into non-traditional regions. It experienced a net revenue growth of 41% between 2006 and 2009, with double-digit growth anticipated through 2013.



**IFC's Investment:**  
\$8 million in long-term debt financing

## ZAIN MADAGASCAR



### COMPANY BACKGROUND

Zain Group is a mobile network operator reaching more than 65 million customers in 25 countries in the Middle East and Africa. Founded in Kuwait in 1983 under the name Mobile Telecommunications Company (MTC), by 2005 the company had controlling stakes in operations in 14 African countries where it reached 18.5 million subscribers. In March of that year, MTC acquired 85% of Celtel, a leading pan-African mobile telecommunications company founded by Mohammed Ibrahim. Two years later, MTC acquired the remaining 15% of Celtel and rebranded itself as Zain.

In Madagascar, Zain reached more than 1.4 million customers by September 2009, a 60% increase on 2008. Zain Madagascar is 66% owned by Zain and 34% owned by Malagasy nationals, as per the requirements of its operating license and local legislation.

### ZAIN'S INCLUSIVE BUSINESS MODEL

In 2007, Zain Group announced a new growth strategy known aiming to reach more than 70 million customers by 2011 largely by tapping new, predominantly rural and underserved African markets. And while Zain did see new acquisitions as one channel for growth, it was also highly committed to expanding its existing operations.

In Madagascar, where the company essentially competed in a duopoly with Orange, Zain projected that its growth would come from the acquisition of customers brand-new to mobile telecommunications. The country was largely unserved, with a penetration rate of less than 5%. In this context, the company outlined a network expansion plan to bring coverage to areas with no prior access. As part of the plan, Zain developed 105 new towers, reaching 372 at the end of 2008. This gave Zain the widest geographic network coverage in the country.

Zain also worked to extend its reach to consumers who could not afford their own phones through a Village Phone Program (VPP). The VPP can be understood as part of a broader inclusive business model in which network expansion makes coverage possible in geographically remote areas and economies of scale help keep prices low enough for base of the pyramid customers to afford.

The VPP is designed as a cost-efficient addition to existing network infrastructure, effectively extending coverage beyond the point at which a conventional network rollout would be too expensive. The VPP is a shared access model in which a mobile phone is used as a public phone operated by a micro-entrepreneur. Each village phone comes with equipment that allows it to capture a Zain network signal remotely, significantly reducing initial capital expenditure and virtually eliminating the operational expenditure associated with standard network expansion. This is important in rural areas, where such costs are higher and where networks serve small numbers of low-paying subscribers.

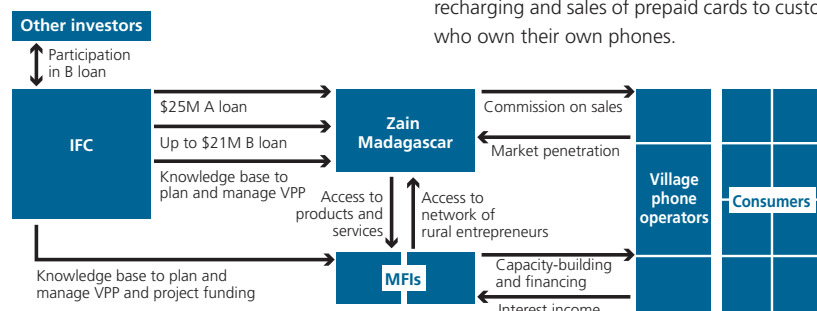
To develop the VPP model, Zain partnered with IFC to leverage its experience with shared phone programs around the world. It is based on a series of grassroots-level partnerships, originally brokered by IFC, with six local microfinance institutions (MFIs). The MFIs are involved to reach as many rural locations as possible. To be sustainable, the location must have a market sizable enough to support both Zain and the MFIs.

With limited financial support from IFC, these MFIs fulfill critical program functions, namely:

- Providing access to the information and relationships required to partner with rural micro-entrepreneurs
- Financing micro-entrepreneurs to purchase and operate VPP equipment
- Training and building the capacity of village phone operators

While ZAIN provides overall management for the program and ensures regulatory compliance, its MFI partners are responsible for identifying and screening village phone operators (VPOs). The MFIs give VPOs the financing to purchase a Village Phone Startup kit containing everything needed to start a Village Phone business, from handset to solar charger to SIM card, which provides the MFIs with interest income. The kits cost approximately \$150 after a subsidy of \$100 per kit from the Malagasy government—which has been instrumental in extending the opportunity for entrepreneurship to even lower-income entrepreneurs. Zain's MFI partners also provide VPOs with technical support and collect data for monitoring and evaluation purposes.

VPOs are responsible for maintaining VPP equipment, promoting their businesses, and maintaining accurate call records. VPOs generate income selling airtime to their communities—for which they keep about 25% of the price. Prices are set at the lowest possible point that allows both Zain and the VPOs to make money. VPOs may have additional revenue streams as well, such as phone recharging and sales of prepaid cards to customers who own their own phones.





## ZAIN MADAGASCAR

## DRIVERS FOR ZAIN'S INCLUSIVE BUSINESS MODEL

- To increase the number of Zain customers
- To remain competitive and increase market share as the Malagasy telecommunications market grows
- To fulfill the Zain Group's commitment to corporate social responsibility by expanding access to telecommunications services and economic opportunities

The primary drivers for Zain Madagascar's inclusive business model were to increase customer numbers and competitiveness in a liberalizing telecommunications market. In 2006, the market was characterized by significant pent-up demand, with mobile penetration at a mere 4.4%—but projections showed that the figure could reach 14.5% by 2016. At the same time, the Malagasy Telecommunications Law of 1997 had stipulated free competition as a basic principle, and the Madagascar Action Plan had prioritized the need to expand basic infrastructure including telecommunications throughout the country—making the telecommunications market more competitive over time. Until late 2006, the market was essentially a duopoly—Orange with 56% market share and Zain Madagascar with 43%. Telma, a privatized

provider, entered the market in December 2006. By June 30, 2007, Zain had added more than 70,000 subscribers, but lost almost 10% market share compared with the previous year.

In response to these trends, in order to maintain and improve its market share, Zain Madagascar developed an aggressive rollout of services into previously unserved markets. As part of this rollout, the Village Phone Program aimed to establish 7,000 Village Phone Operators reaching 2.5 million new rural customers within three years. In addition to the market drivers for VPP, the Zain Group is committed to corporate social responsibility, and the program offered an opportunity to increase its social and economic impact in a commercially viable way.

## RESULTS OF ZAIN'S INCLUSIVE BUSINESS MODEL

- 60% increase in subscribers, from 1.087 million to 1.425 million, between September 2008 and September 2009
- Increase in market share from 36% to 38% over the same period
- 6,600 village phone operators in business earning an average of \$16 a month
- 1,130,000 calls from village phone operators using 565,000 minutes per month

Zain Madagascar's overall inclusive business model, in which network expansion brings coverage to geographically remote areas and economies of scale help keep prices low, enabled the company to increase subscribers by 117% from 2007 to 2008, from 574,000 to more than 1.2 million. The company now has the widest geographic coverage of any mobile network operator in the country.

The Village Phone Program has helped facilitate customer acquisition in more rural, lower-income segments that previously had no access to mobile telecommunications. VPP has also created business opportunities for 6,600 village phone operators as of March, 2010. Operators buy airtime at a price of 4 Madagascar Ariary (MGA) per second and sell at a price of 300 MGA per minute—which translates into a margin of roughly 25% for the operator.

In US dollars, operators earn on average \$16 additional revenue a month. Operators are chosen among people who already have business activities such as groceries, agriculture, and hairdressing, so for them the Village Phone business comes as another source of income in addition to their existing business. Each operator serves on average five to six customers per day.

Zain Madagascar's growth has also contributed to overall growth in the telecommunications sector, where increasing penetration—at a rate of 9% in 2008—has fueled competition and helped maintain affordability. Studies have shown that increasing penetration is also associated with GDP growth and poverty reduction. It is estimated, for instance, that a 10% increase in mobile phone density leads to a 0.6% increase in per capita GDP.<sup>19</sup>



## IFC'S ROLE AND VALUE-ADD

IFC provided Zain Madagascar with long-term funding unavailable in local financial markets through a \$25 million loan. IFC also mobilized an additional \$21 million loan from international commercial banks and other development finance institutions. With its financial experience and comprehensive appraisal and monitoring processes, IFC's participation provided other potential lenders a degree of comfort that was critical given the risks associated with the Malagasy operating environment.

Beyond investment, IFC's experience in telecommunications markets in Africa provided Zain with access to key benchmarks and an external perspective on potential risks. IFC also brought important assets to the Village Phone Program, including experience linking large corporations with local entrepreneurs and a knowledge base on shared phone program planning and management built over successive engagements with similar models in other African countries. Through the VPP, IFC helped Zain develop a business model that grew its customer base in underserved rural and peri-urban areas, augmented the income of women and previously unemployed youth, achieved financial sustainability, and is now positioned to become a separate business unit.



**IFC's Investment:**  
\$25 million in long-term debt financing





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### GERARDO C. ABLAZA JR.

CHIEF EXECUTIVE OFFICER  
MANILA WATER COMPANY (PHILIPPINES)

#### Why is inclusive business so important to Manila Water?

We cannot fulfill our mission of providing universal access to water without including people at the base of the pyramid. In the Philippines, the base of the pyramid makes up 90% of the population. Serving this market is essential to our current level of 99% uninterrupted water service coverage in Manila's East Zone.

#### What are the most important challenges you face in doing inclusive business, and how have you addressed them?

Many consumers at the base of the pyramid had neither the credentials nor the means to obtain water service connections. A large number resorted to meter tampering and illegal connections—which led to water contamination, disease and system losses.

Manila Water has worked closely with the local government and the community to waive documentation requirements for water connection (such as proof of land ownership). We offered subsidies of up to two thirds of the one-time connection fee, and through the Global Partnership on Output-Based Aid (GPOBA), were able to reduce the cost even further—to 22%—for the most marginalized consumers.

With water connections established, consumers no longer have to stand in line for costly vended water, saving time which can now be dedicated to more productive activity. Their monthly spending on water has fallen from \$3.00 per cubic meter to \$0.30. Access to clean and affordable water has also considerably improved health and sanitation.

However, a large number of households had trouble paying on time once their connections were installed. So we have launched what we call a “Full Circle Approach” to unlocking water demand. This multi-pronged strategy includes a livelihood component that catalyzes micro-businesses which create materials used in company projects, such as meter protectors and board-ups. This supplements residents' incomes, helping them pay their monthly bills. Equally importantly, it makes them feel part of the water business, and now they take responsibility for protecting their meters and water service connections. They no longer turn a blind eye to illegal activities like tampering. The community has become our business partners, helping reduce our system losses.

#### What do you think are the biggest inclusive business opportunities for Manila Water in the next five years?

Looking ahead beyond water connections, the need for water sanitation and wastewater treatment has become

increasingly important in these congested communities. With so much household wastewater discharged into rivers, all of Metro Manila's major river systems are now biologically dead, and are major sources of water-borne diseases. In response, we are working on connecting all Manila East Zone households to a sewer line or to our combined sewer-drainage system.

Another opportunity is to expand the base of the pyramid initiative beyond Manila's East Zone. Very often, marginalized communities outside Manila spend more money for poorer quality water because they are beyond our distribution system's reach. Manila Water is currently testing a stand-alone water system which provides waterless communities with clean, affordable and sustainable water service.

As we test this system, we are quickly realizing that it is technically sound, environmentally friendly and financially viable. Most importantly, it is a sustainable business initiative that can be expanded and replicated.

#### What types of support do you need from other organizations for your inclusive business activities?

Research and development is always helpful to create insightful, consumer-focused programs and products in these dynamic times and markets. Financing is critical to inclusive business, as there are still many untapped opportunities in this market.

#### What role has IFC played in your inclusive business success?

As an investor and lender, IFC has consistently played a key role in providing Manila Water with the necessary resources to undertake our investment strategies—including enabling us to bring affordable, potable and reliable water to over 1.6 million low-income consumers.

#### What advice would you have for someone trying to start or grow an inclusive business model?

Before planning your business model, closely study your customers from the way they think to the way they live. This will help you understand their needs and create products and services that are truly relevant to them. Also, remember that innovation isn't purely technical. You have to consider social and political complexities to come up with the right solutions.

“Study your customers from the way they think to the way they live. Also, remember that innovation isn't purely technical. You have to consider social and political complexities to come up with the right solutions.”



### TARUN AGARWAL

VICE PRESIDENT, CHANNEL EMPOWERMENT AND MANAGEMENT GROUP, FINO  
AND PROMOTER DIRECTOR, FINO FINTECH FOUNDATION (INDIA)

“Financial literacy is the engine and financial inclusion or inclusive banking is the vehicle. Together, we need to fuel the engine to enable the vehicle to reach its final destination of 100% financial inclusion in India.”

#### How was FINO's inclusive business model started?

FINO, started in July 2006, was incubated by ICICI Bank. But as the idea began to formalize, we have developed FINO as an independent entity capable of serving all banks. Initially this created some challenges: since ICICI is the largest private sector bank, public sector banks were afraid to work with us. To address this, we worked very hard and succeeded in creating a partnership with one public sector bank, which paved the way for further partnerships with other public sector banks. It took about a year of demonstrating our value for others to realize that somebody needed to create FINO, and that we truly had become an independent entity. Demonstrating our value and building trust was a major factor in achieving industry buy-in.

#### What were some of the specific challenges FINO faced when developing its inclusive business model, and how did you address them?

FINO faced a number of issues. The first was high illiteracy within the populace. The second was a lack of fool-proof identity. In India, we don't have social security numbers or other forms of unique identification, so account security and preventing unauthorized access was a concern. Both of these problems were solved using biometric-enhanced smart cards, which utilize fingerprint authentication and give a unique identification number to each customer.

The third issue was a combination of accessibility, reach, and infrastructure. Many of India's villages remain unconnected to telecommunications networks, so we needed to devise a banking transaction system that had both offline and online capabilities. We utilize point-of-service (POS) devices that process transactions offline during the day, and are then brought online in the evenings. The transactions need not be “real-time” because the smart cards we issue have information on the amount sizes the customer is authorized to transact, preventing fraud or abuse. The other problem is the reach of the banks, which is low in rural areas. To address this issue we started a services organization, the FINO Fintech Foundation, which takes these POS devices to the masses, enabling transactions on their doorsteps.

#### What is the relationship between FINO and the FINO Fintech Foundation?

They are separate entities that work hand-in-hand. FINO is a for-profit technology organization, and Fintech is a not-for-profit, manpower-intensive service organization. FINO has built a technology that can help banks reach the masses, and Fintech is the vehicle to get us there. Fintech is registered with the central bank as a central, national-level business correspondent, which is allowed to do banking activities on behalf of other commercial financial institutions post agreements. The FINO Fintech Foundation is a platform to reach BOP consumers, so it can be used for other transaction-based services as well.

#### What role has IFC played in your inclusive business success, and is there anything more you wish IFC could do?

FINO is very happy that IFC has supported and continues to support us in our venture, in our mission, and in our vision of inclusive banking. The partnership has resulted in significant social impact in India. Undoubtedly, IFC is an organization whose role in all phases of our growth needs to be commended.

Going forward, it would be valuable if IFC could help us with capacity-building to develop the FINO Fintech Foundation as a branchless bank. There are huge gaps in terms of training individual business correspondents on aspects of functional, behavioral, and financial literacy. Financial literacy is the engine and financial inclusion or inclusive banking is the vehicle. Together, we need to fuel the engine to enable the vehicle reach its final destination of 100% financial inclusion in India.



## YARA ARGUETA

CHIEF EXECUTIVE OFFICER  
GRUPO SOLID (CENTRAL AMERICA)

“I would say, do not approach the model as you do with your standard business. If you simply replicate standard business models at the base of the pyramid, you will lose money.”

### Why is inclusive business so important to Grupo Solid?

For us, inclusive business has always been our business— it’s how we grew.

Grupo Solid manufactures paint and coatings and distributes them through small hardware stores serving lower-income families, craftspeople, and painters throughout the rural areas and small cities of Central America. These small hardware stores are mom-and-pop shops and micro-enterprises owned by indigenous and other low-income merchants who generally have limited levels of education. We provide them with working capital, training, and branding so they can grow their businesses—and buy more from us.

We are now the market leader in Central America, and the way we gained market share was by serving all these small hardware stores that the bigger companies ignored, because they didn’t think it could be profitable.

### What are the most important challenges you face in doing inclusive business?

Over the years, we grew to reach a large network of small hardware stores, helping them to grow—and they have become big hardware stores. They have become more profitable.

Now that our company and our customers have grown, the biggest challenge is to have a bipolar business model: one that allows us to serve small hardware stores, where we started and still dominate, and at the same time serve larger and more structured customers. These two segments require very different strategies, expense structures, supply chains, logistics, and so on.

An additional challenge is to justify supporting the smaller customers internally, since you are always questioned by the finance team on their profitability. It is obvious when you evaluate the financial figures that the big stores are more profitable, and that brings a temptation to stop serving the smaller ones. Thank goodness we grew through smaller customers, because our growth is the best proof of their profitability, and it helps us protect these customers.

We also have to face informal competitors. These are small companies with no-brand products, which operate with very low cost structures and cover only very small regions each.

### What do you believe are the biggest inclusive business opportunities for Grupo Solid in the next five years?

One opportunity is to replicate the model in additional geographical markets. Our company started in Guatemala and we have already replicated throughout Central America. We now plan to expand into the south of Mexico and the Dominican Republic, where the culture is similar.

Another opportunity is to reach further down the channel. We are vertically integrated; we manufacture and distribute products with our own fleet and operate our own store chain as well. But we haven’t reached the end consumer effectively—the painter, the artisan that is buying product from the hardware stores. We could start working directly with them. That would be the next step.

We also have important indigenous populations in the countries where we operate. We need to work through cultural programs to change their mindsets and behaviors, in order to bring them into our consumer base.

### What role has IFC played in your inclusive business—and is there more you wish IFC could do?

We need support to train hardware store owners, especially in rural areas, and to get access to financing for the types of customers we serve—which don’t have the kind of profile required to access formal, commercial banks. We could also use technological support to collect payments more efficiently. We would also like to work with IFC in our distillation plant, where we work with local communities that need infrastructure and long-term support.

### What advice would you have for someone trying to start or scale an inclusive business model?

The most interesting thing I have learned from other IFC clients involved in inclusive business is to focus on changing the behaviors of potential customers in order to stimulate, and then enable, them to demand your product. If I were to advise someone else, I would say, do not approach the model as you do with your standard business. If you simply replicate standard business models at the base of the pyramid, you will lose money. I would also recommend assigning completely different teams to base of the pyramid business, since bigger customers will always be more profitable and will distract you from growing these new markets.





### SERGIO ARTEAGA

DIRECTOR, FINANCE AND ADMINISTRATION  
DUOCUC (CHILE)

“We offer programs that are open — without selection processes — that represent a huge opportunity for a new generation of Chileans whose families have not historically had access to higher education.”

#### Why is inclusive business so important to DuocUC?

In Chile, the higher education system has grown a lot during the last two decades, but growth has been concentrated in high-income segments with access to more traditional university programs. Of the richest segment of the population, almost 70% has a higher education, compared with only 17% of the poorest segment.

DuocUC, as a non-profit organization linked to the Catholic Church, has the mission to generate well-being and create opportunities for everyone—with the objective of supporting our national development. We are one of the largest higher education providers in Chile. Currently, we have more than 56,000 full-time students across the three biggest regions of the country. We offer two-and-a-half to four-year programs that are open—that is, without selection processes—that represent a huge opportunity for a new generation of Chileans whose families have not historically had access to higher education.

Let's take as an example a student whose father earns US\$500 a month. This student, upon graduation from DuocUC, earns on average US\$900—almost double his father's salary. This is the social mobility we desire. This student is moving up the socio-economic ladder.

#### What role has IFC played in your inclusive business model?

With IFC, we have developed a student financing system that complements other public and private financing programs. This system includes a guarantee fund in which IFC takes first loss. This has changed our growth curve rapidly—enabling us to reach 12% annual growth.

#### What are the most important challenges that DuocUC faces in offering services to students at the base of the pyramid?

Our greatest concern is student retention. We not only want to provide low-income students with the possibility to come to our classrooms; we also want them to graduate. Students can drop out for various reasons, like a lack of resources (for example, for transportation); the need to work; a lack of family support; or such weak academic preparation that they just do not have the educational base required to succeed.

#### What are the biggest opportunities for DuocUC in the next few years?

As I mentioned, DuocUC is growing at a rate of 12% annually. This shows a growing demand for our services and for the types of programs we offer. Ultimately, we want to give everyone equal opportunity to enroll in higher education, and currently our biggest opportunity is to increase our enrollment by providing financing—scholarships and loans—through our relationship with IFC, government grants, internal scholarships, and other sources of funding.

Today 60% of our students receive financial assistance, compared with 8% five years ago. We set a goal for ourselves of 100% access to this type of assistance. We don't want to see anyone prevented from studying for financial reasons.

There are other markets we could enter too, like training and continuing education. In fact, starting next year, we are going to begin continuing education programs, offering refresher courses for our graduates.

#### What types of assistance does DuocUC need to capture these opportunities and grow even more?

First, we need to create new financing mechanisms for students. At the same time, we need financing for three things internally: infrastructure, technology, and teacher training.

We place a lot of importance on infrastructure. Our students come from very poor segments of the population and when they enter our institution, they need to feel comfortable and supported in a clean, secure environment. Equally, we need to educate using the best technology available. To make that happen, we invest in computers, wireless signals, and licenses from companies like Oracle and Microsoft, among other things. Finally, teacher training is important, given that teachers are critical to the quality of instruction.

Given the size of the investments required, it is important to reiterate that DuocUC is a non-profit organization. We don't pay dividends—we reinvest our profits. We rely on financing from IFC, as the local financial system still doesn't provide sufficient support, even though we are rated A+.



### JOSÉ IGNACIO AVALOS

FOUNDER

MI TIENDA AND COMPARTAMOS BANCO (MEXICO)

“Innovation is important in this business because you have to look for opportunities where others see only threats or risks.”

#### Why is inclusive business so important to you as a serial entrepreneur?

I've started around 30 institutions, 23 of which could be considered inclusive businesses. Two of those have been financed by IFC—first Compartamos Banco, a micro-finance institution, and now Mi Tienda, a distributor serving small and micro retailers in Mexico's rural villages.

Many years ago, I realized that if I wanted to do things in a not-for-profit manner, I would have to devote most of my time to raising money, rather than operating my organizations. I saw that asking for money with one hand and delivering money with the other hand would not solve the problem. People living at the base of the pyramid (BOP) have to participate in their own development, and the only way to achieve that is to include them in the business plan. It became clear that I had to go into inclusive business. Unlike philanthropy, inclusive business can have a life of its own, grow, and scale by itself as long as you have good management on board.

#### What are the most important challenges you face in doing inclusive business?

First of all, stable distribution networks don't usually exist at the BOP. You have to build them. That's a big challenge, because it requires not only deploying systems and tools, but also creating confidence and loyalty among participants.

Another challenge is innovating. Innovation is important in this business because you have to look for opportunities where others see only threats or risks. Partly for this reason, it is also a challenge to attract talent when you're starting up.

#### What do you think are the biggest inclusive business opportunities for Mi Tienda in the next five years?

There are many areas of opportunity—particularly in increasing capacity, expanding economic opportunity, and building infrastructure. So we're talking about things like providing healthcare and education, enabling trade and communication, offering financial services, and building clinics, distribution centers, water purification systems, and more.

At Mi Tienda, we're trying to build a market—a market that can access rural villages of less than 5,000 residents apiece efficiently. To serve small and micro general stores, we're creating a network for distribution, collection, and payment that can be used for many other services once they exist. In health, for example, it's rare to find a pharmacy that delivers quality care in these villages. There will be many opportunities for Mi Tienda because there is no alternative network.

#### What types of support do you need from other organizations for your inclusive business activities?

It is always dangerous to think that the only support entrepreneurs need is funding. We also need knowledge, expertise, and networking opportunities. We don't have all the answers. We need to be humble and learn. We also need support for good governance. Entrepreneurs may think they possess all knowledge and truth, but usually this isn't the case. You also need the right people on the board.

#### What role has IFC played in your inclusive business success, and is there anything more you wish IFC could do?

Negotiating with IFC is not easy, but the toughness ultimately benefits the project. The negotiation process makes us face up to challenges and risks, rethink what we're doing and strengthen our approach.

IFC's role on our board is also very welcome. IFC played an important role in making Compartamos Banco a professional institution, not least by helping us develop a mature board of directors. Now, with Mi Tienda, we need the same thing.

I have two new deals in the pipeline and will definitely be approaching IFC again. One of these is in rural healthcare, where we already have three hospitals each performing 65,000 services a year. The other is in education, where we are focusing on the teachers because they are the ones that deliver quality education.

#### What advice would you have for someone trying to start or grow an inclusive business model?

You cannot create an inclusive business model without putting the individual and his development at the center of everything. If your client grows as an individual—by having greater access to the things he needs, by becoming richer, developing stronger links within his family or becoming more influential in his community—your business outcome is also very positive. You have to grow with your clients. You cannot grow if your clients don't grow.



### FATHER CAMILO BERNAL

GENERAL RECTOR  
UNIMINUTO (COLOMBIA)

“The population at the base of the pyramid is not a problem, it is a business opportunity—and inclusive businesses focus on innovative solutions.”

#### Why is inclusive business so important to UNIMINUTO?

UNIMINUTO's mission is to provide higher education to the population at the base of the pyramid. This is important because lack of access to education is a barrier to achieving development and overcoming the structural factors of poverty in Colombia.

Through enhanced education and knowledge, individuals can access skilled and better-paid jobs which result in improved living conditions for their families and more education opportunities for their children, fostering a virtuous circle with long-term benefits. Moreover, they climb the ladder of consumption, acquiring goods and services of higher quality, which generates profits for firms and boosts the economy in general.

#### What are the most important challenges you face in doing inclusive business, and how have you addressed them?

One major challenge has been to overcome the myth that higher education is for high-income individuals. Another challenge has been to demonstrate that providing high-quality education at low cost is not only feasible but profitable and sustainable in the long term. A final challenge has been to seek financial support to fund supply and demand for services.

We created an education program that was short and relevant to the productive sectors of Colombia's economy, so that people can re-enter the job market quickly with skills that employers seek. We also extended coverage nation-wide to ensure access. Finally, we adopted stringent quality standards to ensure our curriculum is well-regarded.

To address cost constraints, we adjust fees based on income and have adopted different funding sources for student financing. We have also established partnerships with the productive sectors, financial institutions, other higher education institutions, and the Colombian government.

#### What do you think are the biggest inclusive business opportunities for UNIMINUTO in the next five years?

In Colombia, where low-income families represent 26% of annual spending, there are significant opportunities for the private sector to include them as distributors, providers, or customers. But while progress has been made, access to technical, technological, and professional education programs is still very low.

The biggest challenge will remain providing access to quality training programs to the vast low-income population. To

achieve this goal, besides affordable fees, it is necessary to develop medium-term financing tools that allow young students to invest in their education and pay later on. This is our biggest opportunity.

#### What types of support do you need from other organizations for your inclusive business activities?

We need to establish ties with governments, national and international educational institutions, suppliers, and civil society groups to get advice and discuss major global challenges such as poverty, inequality, and environmental conservation.

Moreover, we need vast support in terms of capital input so that students have access to medium and long-term financing tools, enabling them to pay for their education once they graduate and become productive members of society.

#### What role has IFC played in your inclusive business success?

In addition to being a source of funding for our strategic investments, we regard IFC as a strategic partner that has contributed to the administrative and financial structuring of UNIMINUTO—through its requirements during the due diligence stage and now through progress and compliance reports on all projects. For example, IFC has requested the adoption of quality policies concerning the management and implementation of information technologies.

Our relationship with IFC has created opportunities for new partnerships as well as helped us foster UNIMINUTO's international recognition and global business perspective.

#### What advice would you have for someone trying to start or grow an inclusive business model?

First, seek sustainable entrepreneurial models that “succeed by helping others,” where the core business generates positive social and environmental impact. The population at the base of the pyramid is not a problem, it is a business opportunity—and inclusive businesses focus on innovative solutions. Low-income populations are made up of productive individuals and consumers who may become integrated, in an efficient way, to the productive chains of our businesses.

Additionally, businesses involving low-income populations must be profitable or must be subsidized by government programs; this implies the presence of the State as a fundamental partner. It is important to develop relationships with the State and other organizations that can support business efforts to include vast numbers of people at the base of the pyramid in the productive sectors of their societies.



### TOM BRUNNER

GENERAL COUNSEL  
LEAPFROG INVESTMENTS

“If developing a microinsurance business were an easy thing to do, lots of people would have done it. But there are some successful business models – and institutions like LeapFrog and IFC are ready to invest in them.”

#### Why is inclusive business important for Leapfrog?

As the world's first microinsurance investment fund, LeapFrog pioneers a fast-growing part of the inclusive business space. In our priority geographies—South Africa, Kenya, Ghana, India, the Philippines, and more recently Indonesia and Nigeria—most people are low-income and underserved by essential financial services. We invest in and support businesses that provide affordable, quality insurance to poor communities and people excluded from conventional insurance—like those with disabilities or HIV/AIDS. Often, those selling insurance earn commissions and come directly from the communities they serve.

We invested in AllLife, a South African insurer serving people living with HIV, which has also developed an offering for those with diabetes. The company links insurance products to an adherence management program by routinely alerting patients to potential health concerns and mandating regular testing and compliance with medication regimes.

#### Do the companies you see focus solely on the base of the income pyramid or pursue a “whole pyramid” approach?

There are standalone microinsurers or mass-market insurers to whom we may provide growth capital and expertise. But today, the vast majority of insurers do not exclusively provide microinsurance. Typically, a broadly-engaged insurer has only a partial orientation towards the base of the pyramid. They may perceive microinsurance as a market opportunity or have a socially-oriented manager, however. We then invest to help the insurer to deepen its attention to, impact on, and returns from this income segment.

#### What are the most important challenges you and your portfolio companies will face in doing inclusive business, and how have you addressed them?

One major challenge is actuarial—for example, accurately predicting losses on new lines of business such as health or crop insurance. As an investment firm we seek out the right companies to invest in, with strong management teams, and then leverage our expertise to help them address such operational or actuarial challenges as part of their broader business strategy.

Another challenge is accessing suitable distribution channels, either those already used to sell insurance or those

expandable to include insurance. The right distribution mechanisms, facilitating high volumes and trust even while keeping costs low and margins reasonable, are essential. They may require creativity—for example, linking a company distributing household goods to microenterprises with an insurer. We can help connect them, and invest in both, ensuring that insurance is offered broadly at the base of the pyramid.

#### What do you think are the biggest inclusive business opportunities for LeapFrog in the next five years?

We aim to reach 25 million underserved and vulnerable people with insurance, providing safety nets that have long been lacking. Extending much-demanded life insurance to wide range of low-income people is a huge part of this opportunity and challenge.

The platforms being mobilized to reach low-income people are far wider than you might think—including for example not just microfinance institutions but retail operations, mobile phone operations, church groups, unions and utilities. Connecting up with these players is vital for LeapFrog and everyone in the industry.

In addition, we are evaluating opportunities in other kinds of microinsurance, such as livestock, health, and motor insurance for smaller or commercial vehicles. In the more distant future, we will look at weather indexed insurance as a surrogate for crop insurance—to help farmers manage uncertainty due to flood, droughts, or other weather conditions.

#### What role has IFC played in your inclusive business success, and is there anything more you wish IFC could do?

IFC is one of the largest and most engaged investors in LeapFrog. The global IFC team has been very helpful in opening doors to key players and making us aware of new opportunities. Country managers and sector experts have also provided us valuable pattern-recognition on the ground. We have been grateful for that and hope it continues!

IFC is also engaging with LeapFrog Labs, our technical assistance facility working with companies to expand the quality and reach of microinsurance, often providing catalytic grant capital—driving additional innovation and impact.

At the investment level, we may in due course see large deals that require co-investment. And we like working with IFC.



### ANTONIO CARBONARI NETTO

PRESIDENT  
ANHANGUERA (BRAZIL)

“The biggest opportunities are related to distance education. Distance education promotes greater access for the working classes, who have little time available for study, and should pave the way for a massive influx into higher education.”

#### Why is inclusive business so important to Anhanguera?

Some time ago, Anhanguera set itself up as an institution of higher education with a focus on students from the emerging social classes, classes C and D as they are called in Brazil. Over the past 10 years, class C alone has come to represent over 50% of Brazilian workers and consumers. So we have targeted a very important segment.

With this focus, according to our strategic vision, monthly payments are lower than those of competitors; the number of scholarships is larger; and we have implemented a tuition discount policy via partnerships with companies and trade unions. Together, these measures have brought a greater number of students to our courses.

Our institution has been an important force for social inclusion. The average monthly salary of an incoming student increases from R\$660 to R\$1,000 upon graduation.

#### What is the biggest challenge you have faced in doing inclusive business, and how did you address it?

The biggest challenge was to scale. We are now the largest post-secondary education institution in Brazil, educating more than 755,000 students in 2009. We owe this level of scale in large part to a curriculum model that is simpler and geared to the job market. The model involves courses that are standard across the country. We disseminated many of these courses to the entire business community, to industries and trade groups because employers are still very conservative in Brazil.

We have also trained teachers to teach in a more modern way. Many of our faculty are practitioners rather than full-time instructors. We have carried out a major program to train them in new disciplines, new content, and new techniques for teaching and learning.

#### What do you think are the biggest inclusive business opportunities for Anhanguera in the next five years?

The biggest opportunities for the coming years are those related to a change in modality from classroom teaching to distance education, with new technology and the new methods this makes possible. Distance education promotes greater access for the working classes, who have little time available for study, and should pave the way for a massive influx into higher education—especially as a means of improving jobs and wages.

#### What types of support do you need from IFC and other organizations for your inclusive business activities?

IFC was instrumental in starting, financing, and structuring Anhanguera's model to offer higher education in a more affordable way, with better performance and better quality. The cost / benefit of the courses we offer is reflected in the large numbers of students now enrolled. Anhanguera is now the largest provider in the country.

Going forward, funding for school fees will continue to be the biggest enabler of access and inclusion for the working classes C and D in higher education. Additional scholarships and other forms of funding, both public and private, will make a big difference.

#### What advice would you have for someone trying to start a new inclusive business model?

Think carefully about the scalability of the model from the beginning. Keep development costs low, and quality of service delivery high. It will be a success for sure!





### CARLOS FERNANDO FUENTES

SUPPLIER DEVELOPMENT MANAGER

PRODUCTOS NATURALES DE LA SABANA S.A. – ALQUERÍA (COLOMBIA)

“The small producers in our supply chains currently view their businesses as methods of survival, of covering their basic necessities—not as enterprises that can grow and provide better qualities of life for their families. We want to change that perspective.”

#### Why is inclusive business so important for Alquería?

Alquería is a family business in operation for over 50 years, and leads the market in high-temperature milk in Colombia. We work with more than 1,000 milk producers, many of whom are small in scale— with between two and 70 cows—and belong to cooperatives or associations with 50-100 other producers. Inclusive business is important for us because in our country, the majority of milk producers are in this category—and as a result they are the focus of our daily work. We have worked hard over the last two years to reach these producers effectively, though collection and payment logistics make it difficult.

#### What are the most important challenges and opportunities Alquería faces in working with small-scale producers?

Financing is one of the biggest challenges that faces our small producers. The majority of them lack access to banks and cannot obtain credit. In fact, at Alquería, we are now evaluating options to provide them with credit directly.

Another challenge is that small producers lack formal, secure methods of making and receiving payments. Today the majority of them get paid in cash, and we cannot operate that way. Problems of infrastructure—like roads and electricity—also stand out.

Training to improve the quality and productivity of small producers' farms would be extremely valuable, as would business skills training. The small producers in our supply chains currently view their businesses as methods of survival, of covering their basic necessities—they don't view them as enterprises that can grow and provide better qualities of life for their families. We want to change that perspective.

#### What kinds of support would help Alquería address these challenges?

We need help providing and/or facilitating financing for our producers, to transform their small, informal businesses into stable, growing ones. It would be valuable to create a fund Alquería could use to give credit to these producers. We currently have technical assistance programs focused on improving the quality of the milk they produce, and providing inputs like balanced feed and fertilizers. At the same time, we could develop and provide technical assistance to improve the productivity of their farms. Such programs would help them reduce their costs of production, use the savings to pay their loans, and still have money left over to improve their standards of living.

#### What is the most interesting thing you've learned from other IFC clients involved in inclusive business?

I've identified a number of very interesting marketing and sales models being used by other companies that work with small distributors to sell products. We work with retailers of all sizes and need to serve effectively even the smallest ones. We are now developing a pilot project in Colombia called Micro Aliados, a program established to reach more remote areas through low-income families who sell our products. We go to small towns and speak with trusted leaders, such as the police chief and local priest, to identify people who can serve as local distributors, often selling out of their homes. I think this pilot project could be improved utilizing the lessons other IFC clients are learning.



## MIGUEL GALLO

DIRECTOR OF MARKETING  
FINTERRA (MEXICO)

“We have been in this business for seven years, and have learned so much—but we have had no time to process it. It would be excellent to exchange learning with other companies trying to do the same.”

### Why is inclusive business so important to FinTerra?

The social structure of rural areas in Mexico is made up mostly of poor people. They sell all kinds of agricultural products to industry. They are the suppliers of large and medium-sized companies. So we need to be sure they have access to markets. This is the weakest link for them: to whom can they sell their products? The market access issue has to be addressed so we can do business with them, and also so we can achieve social improvement. We are working on this through financing and through linkages with industry, including grain producers and sugar mills.

### What are the most important challenges you face in doing inclusive business?

Scale is one of the most important issues. Agriculture in Mexico is complicated from a legal perspective. There is an *ejido* system in which the government owns the land and the people farm there—but because they don't own the land, it is almost impossible to use it as collateral for loans. Another problem is that growers are getting older. The children are moving from rural areas to the cities. Now you have fewer people with more land but the legal issues still exist, still make it difficult to get the credit they need to work the land. You need to create innovative ways to get credit to these growers.

### What do you think are the biggest inclusive business opportunities for FinTerra in the next five years?

We want to compete in the Mexican credit market and we want to grow. There are two ways: going to medium-sized growers with larger amounts of credit and expanding the base of the pyramid market. Larger companies are already well-served by the commercial banks.

One solution for small and medium-sized growers is group lending. Another one is to create linkages between growers and industry. Take sugar mills, wheat mills, and cotton exporters, for example. They don't integrate vertically because individuals can't have more than 100 hectares of irrigated

land—whereas you need around 20,000 hectares to supply a sugar mill. You end up having 5,000 suppliers with four hectares each. So we need to find a way to deliver credit to these 5,000 growers. We are now exploring different associations of small growers, medium growers, and industry buyers. For example, we are working with two sugar mills in the state of Tamaulipas and a cooperative of wheat growers in the state of Sonora. We are also working with buyers of wheat, sorghum, and corn. We make informal groups and supply 10 farmers at a time with *crédito solidario*, or group credit. The idea is to aggregate the supply and demand for credit, bringing them together to make a contract for more money that is less expensive for them.

We are different from microfinance because we finance the cycle from planting to harvesting, which takes eight months to a year. We also have credit cycles of up to five years for investments in infrastructure and equipment. This compares to microcredit schemes that can often go from week to week. Microcredit loans can also have rates above 60%; ours generally range from 10-16%.

### What types of support do you need from IFC and other organizations for your inclusive business activities?

We have been in this business for seven years, and have learned so much—but we have had no time to process it. It would be excellent to exchange learning with other companies trying to do the same. We are interested in the networking side of things. As ex-bankers, we have risk assessment in our veins. It is good to talk to others and get additional perspectives.

### What advice would you have for someone trying to start a new inclusive business model?

If you are going to start a new inclusive business, you have to start with a fair relationship. Big companies can abuse small participants in their value chains—suppliers, producers, and growers. But to succeed over time, you need to pay on time, and to pay the right prices. You need to charge fair interest rates, be consistent, and focus on long-term relationships.



### CRISTINE HANDEL

DIRECTOR OF MARKETING  
TRIBANCO, MEMBER OF GRUPO MARTINS (BRAZIL)

“[Our founder] knew what small shop owners needed most—a distributor that not only supplies quality goods on fair financing terms, but also has a vested interest in seeing his or her business grow.”

#### Why is inclusive business so important to Tribanco?

Inclusive business is not only important to my company, it is the essence of my company. We are part of the Sistema Integrado Martins—SIM—which in Portuguese means “YES.” The founder of Grupo Martins, Mr. Alair Martins, was himself a small retail shop owner. He saw many others like him who had good values and a strong work ethic. As his business grew and he became successful, Mr. Martins decided to bet on these entrepreneurs, and started what is today one of the largest distribution companies in Brazil. He knew what they needed most—a distributor that not only supplies quality goods on fair financing terms, but also has a vested interest in seeing their businesses grow. That is our mission—to help small shop owners grow. We distribute, we finance, and we provide capacity-building.

#### What are the most important challenges you face in doing inclusive business, and how have you addressed them?

The most important challenge is to give our clients adequate training. Grupo Martins has 150,000 retailers, and Tribanco provides working capital finance to most of them. Ten percent also receive longer-term financing for store renovation and training on how to improve their business—things like merchandising, store layout, special promotions—through distance learning and traditional in-person courses. This has had a huge impact on their businesses as well as ours—where we have seen an average 56% increase in invoicing from these retailers over the last ten years. Our latest challenge is how to reach our credit card customers, to make them conscious of financial options, their benefits and risks, so that they become responsible consumers of credit.

#### What do you think are the biggest inclusive business opportunities for Tribanco in the next five years?

One big opportunity is to get our retailers and end consumers more and more involved in our value chain, with financial options suited to their specific needs. For example, in Amazônia, people can pay electricity or water bills at some of our retailers. Another opportunity is evaluating new technologies and adapting them to the retail sector. For example, does it make sense to use new tools like mobile money? Will it help our retailers? Will it help our end consumers?

#### What types of support do you need from other organizations for your inclusive business activities?

We can use help with research and training programs. Having research about the base of the pyramid in Brazil, and consumer trends relevant to retail in this segment, would be extremely helpful. We need to understand the habits, needs, and aspirations of low-income consumers to really know how to do business with them. If you can recommend third parties to do the research, we can open up the Tribanco network to get it done and make the results public. We need to learn and others do too.

#### What role has IFC played in your inclusive business success, and is there anything more you wish IFC could do?

IFC has been very important, both in long-term strategy discussions and in specific actions to strengthen the model. Together we developed a training module for staff and clients on the responsible use of credit. In addition, IFC has disseminated the Tribanco model as a benchmark to a wider audience throughout the world—such recognition has been a great honor for Tribanco management. Finally, we really value the opportunity to share ideas with other IFC clients, donors, and foundations.

#### What advice would you have for someone trying to start or grow an inclusive business model?

Define inclusive business as the center of your model, and be patient. If we pick hardworking and honest small retailers, finance and train them, they will develop over time into medium retailers, buying and borrowing more from us. Growth and long-term relationship-building make it a “win-win” proposition. So, make sure you have inclusiveness as part of your mission and your values, bet on the right people, be patient while they grow, and your business will succeed.



### MAHESH JOSYABHATLA

CHIEF EXECUTIVE OFFICER

BAKHRESA GRAIN MILLING (MALAWI AND MOZAMBIQUE)

“Organizations today face very few options. If they are not already focusing on the base of the pyramid, they will have to do so because that’s where the future lies.”

#### Why is inclusive business so important to Bakhresa Grain Milling?

We are in the agro-food processing industry with high volumes but very low margins. Bakhresa operates in countries where the vast majority of people live at the base of the pyramid (BOP), and our objective is to cater to their basic needs. We endeavor to supply products of consistent quality at affordable prices and enjoy a loyal customer base across all income levels, including people at the BOP.

#### What are the most important challenges you face in doing inclusive business?

The key challenge is making our products physically accessible at or near our customers’ doorsteps, as well as affordable to a large number of them—particularly at the lower end of the pyramid.

We try to eliminate expenses that don’t add value to the end user, such as extensive marketing and elaborate packaging. We offer our customers a high-quality, no-frills product without ever compromising on quality. We also reach out to them by producing smaller packages which make our products more affordable. This goes back to the interconnected issues of affordability and accessibility.

#### What do you think are the biggest inclusive business opportunities for Bakhresa in the next five years?

Our focus has been two-fold. First, we are trying to physically reach the market to enable our customers to have access to our quality products. We have operations in Tanzania, Uganda and Malawi and are expanding to Rwanda, Mozambique, Burundi and DRC so that we continually reach more people at the BOP.

Second, we are trying to make our products even more affordable. Bakhresa is exploring ways to reduce freight and grain handling costs. With financial assistance from IFC, we have established a grain handling facility inside Mozambique’s port of Nacala to increase efficiency and capture economies of scale. At the same time, we are exploring the possibility of growing wheat locally, rather than importing. We have undertaken a pilot project in Malawi and are conducting another pilot in Rwanda. The process is very slow but our long-term vision is to achieve self-sufficiency.

#### What types of support do you need from others to ease your financing and product transportation challenges?

A burning issue for us is finding the huge amount of foreign exchange required to carry out our operations in various countries. Very little wheat is grown in these countries, so we have to import. We import 700,000 to 800,000 tons of wheat per year and expect this figure to grow to a million tons by 2012. This requires a massive amount of foreign exchange. We receive loans from IFC and other organizations at reasonable interest rates, but they are in US dollars—which exposes us to currency fluctuations and makes repayment more difficult. We need financial products that don’t expose us to foreign currency fluctuations.

I would also like to see IFC create financing packages that provide incentives to clients to spend on issues such as social and environmental sustainability. IFC encourages and promotes these types of issues, but acting on them requires financial support.

And finally, we need governments and others to strengthen infrastructure so that we can transport goods more efficiently. Specifically, the road and rail links from Nacala, Mozambique to Malawi need to be improved, and the project to extend the new rail line from Tanzania to Rwanda and Burundi should be implemented.

#### What advice would you have for someone starting a new inclusive business model?

Organizations today face very few options. If they are not already focusing on the base of the pyramid, they will have to do so because that’s where the future lies. The top of the pyramid is completely saturated and has been the focus of too many businesses for far too long. My advice for others is not to view their spending on the BOP in terms of potential short-term gains. They need to have a long-term perspective and recognize initial expenditures and outlays as investments for the future. Steps also need to be taken to improve infrastructure and reduce the cost of doing business.



### DR. DILIP KULKARNI

PRESIDENT

AGRI FOOD DIVISION, JAIN IRRIGATION SYSTEMS LTD. (INDIA)

“Developing relationships with small farmers is just the beginning. Sustaining those relationships is the key to long-term success.”

#### Why is inclusive business so important to Jain Irrigation?

Our core business areas—from manufacturing drip irrigation equipment to processing fruits and vegetables—rest on a strong farmer engagement strategy. And in India, the vast majority of farmers are small, with meager earnings. So we must build relationships with small farmers. As an example, we purchase 90,000 tons of onions from 4,000 farmers. Around 95% of them cultivate less than two hectares of land. We have worked on building trust-based, sustainable relationships with these farmers over 10 years. Farm output productivity has increased from 40% to 100% as a result of Jain’s agronomic support. These increases in farm output productivity and quality are crucial for Jain’s business success.

#### What are the most important challenges you face in doing inclusive business, and how have you addressed them?

Developing drip irrigation systems for small farmers was the original challenge. When Jain first entered this business in 1982, it had to spend significant resources on R&D to adapt available drip irrigation systems to the needs of small farms in developing countries. The next challenge was to educate farmers about the value of shifting from flood to drip irrigation. Changing farmers’ mindsets was an uphill battle as they believed that more water equated with higher productivity. Using education campaigns and demonstrations, Jain was able to increase farmers’ adoption of drip irrigation systems.

#### What do you believe are the biggest inclusive business opportunities for Jain in the next five years?

Rainwater harvesting will be a critical component of the complete water solution that we provide to farmers. Around 65-70% of India’s land is rain-fed. Jain is creating rain harvesting technology—including percolation wells, percolation dams, check dams and farm ponds—to capture and store rainwater during the wet season in order to irrigate second crops during the dry season. Jain also recently established a factory to manufacture solar panels and solar pumps. We would like to bring these products to small farmers in remote areas without electricity. Without energy solutions, farmers can’t use the rainwater harvesting solutions we are developing. A combined water and energy solution is necessary.

#### What types of support do you need from other organizations to succeed in inclusive business?

A poor farmer cannot increase output productivity through rain-fed agriculture alone. And without this increase, a farmer will find it difficult to increase his earnings. Subsidies for drip irrigation systems enable farmers to get over the affordability hurdle and put them on the path to increased productivity and earnings. In India, the central government provides a 40%-50% subsidy while state governments provide additional subsidies. These subsidies have been critical for product uptake.

Beyond subsidies, it’s important for the government, NGOs and other companies to join forces to disseminate information on new technologies. A single company alone cannot spread knowledge on a massive scale. Non-competitive agriculture companies can also pool resources to address sector-level challenges that plague agriculture in India.

#### What role has IFC played in your inclusive business?

In addition to IFC’s investment, IFC’s advisory services have enabled us to develop and introduce the Jain Good Agricultural Practices standard to farmers in our supply chain. To date, Jain has trained over 1,000 farmers in compliance with this standard. The pioneering work with IFC in measuring our water footprint will help us strengthen the case for drip irrigation. Finally, going forward, JISL would like to work with IFC on developing new, scalable agri-finance models for small farmers.

#### What advice would you have for someone trying to start or scale an inclusive business model?

Inclusive business models call for patient and focused efforts over a five to ten year period. Developing relationships with small farmers is just the beginning. Sustaining those relationships is the key to long-term success.





### GISOMAR MARINHO

CHIEF FINANCIAL OFFICER  
CEMAR (BRAZIL)

“We realized that through inclusive business, it was possible to increase the company’s efficiency, benefit the local population, and contribute to the overall development of the state.”

#### Why is inclusive business so important to CEMAR?

CEMAR is the only power distribution company in the state of Maranhão—one of the poorest states in Brazil. We realized that through inclusive business, it was possible to increase the company’s efficiency, benefit the local population, and contribute to the overall development of the state.

To become more efficient and address pent-up demand, we had to invest significant capital from 2005 to 2009. These investments created many job opportunities, and they also contributed to the development of local suppliers.

On the consumer side, with help from the Light for All Program—a Brazilian government project which aims to create universal access to electricity in rural areas—CEMAR has reached nearly 100% provision of electricity in Maranhão.

Through this inclusive model, we believe it is possible to bring electricity to those that were previously underserved or not served at all in a profitable, sustainable way.

#### What are the most important challenges CEMAR faced in doing inclusive business, and how have you addressed them?

We faced three major challenges. First was a large base of low-income customers, resulting in a low average ticket—which results in a longer time horizon for return on investment. Second, these low-income customers posed a high risk of delinquency. And third, we were experiencing a high level of energy losses.

To address these challenges, CEMAR carried out a robust restructuring process and leveraged government policies for the electricity distribution sector—primarily subsidies on tariffs for low-income customers and attractive financing lines for infrastructure.

#### What do you think are the biggest inclusive business opportunities for CEMAR in the next five years?

The state of Maranhão is growing at above the average rate for Brazil, which translates into strong electricity demand. At the same time, several different businesses intensive in power consumption are currently being established in the state. As a result, CEMAR is expecting to increase its energy sales at an average rate of 8% per year during the next five years.

We also know there is still a portion of the population without access to electricity, and we need to provide it to them. This will result in even more economic development and social inclusion.

#### What types of support do you need from other organizations for your inclusive business activities?

The power distribution business demands large amounts of investment and the return is in the long term—especially when you are trying to reach low-income, rural populations. So the Brazilian government plays a very important role by providing special financing lines through national and regional development banks, based on long-term financing and rates below the market average. The government’s Light for All Program also provides subsidized funds to power distribution companies for investments in electricity distribution networks in the rural areas. The federal government also provides a subsidy that enables power distribution companies to reduce low-income customers’ bills by 60% and offset the high risk of delinquency.

#### What role has IFC played in your inclusive business success?

In 2008, IFC provided CEMAR with an \$80 million loan to support our investments from 2007 through 2009. This loan was very important to our business due to its attractive interest rate and long-term maturity. It really helped us in the development of our business model in the state of Maranhão.

We believe that IFC will continue to be an important partner for CEMAR going forward, because we are planning to carry out significant investments in the next three years which represent a big demand for funding.

#### What advice would you have for someone trying to start or grow an inclusive business model?

To start and grow an inclusive business model, it is important to remember that a management focus on constant cost reduction and a financially-oriented approach are key elements of any successful and sustainable business. This will result in a profitable business for shareholders and gains in the quality of service for customers.



### TIELMAN NIEUWOUDT

FORMER MARKET DEVELOPMENT MANAGER,  
COCA-COLA SABCO (EAST AFRICA) AND  
PRINCIPAL, THE SUPPLY CHAIN LAB (VIETNAM)

“Another emerging opportunity is rural distribution. Because volumes and sales drop off, you need to partner with other companies to get the scale to operate cost-effectively.”

#### Why is inclusive business essential to Coca-Cola Sabco's success in East Africa?

When Sabco first entered Ethiopia, we visited a typical market, which was highly congested and where small retailers purchased less than a case of soda per week. It quickly became apparent that our typical way of doing business—through big wholesalers delivering large volumes by truck—would not be feasible or profitable.

So we created the micro-distribution center (MDC) system: local operators deliver small quantities to retailers on a regular basis through manual pushcarts that can navigate crowded urban areas with poor roads. Local shopkeepers were already doing this on an informal basis, paying pushcart operators per load.

#### What are the biggest opportunities for distribution in East Africa moving forward?

Retail is changing in Africa. We are seeing the growth of modern trade in Africa, similar to what's happened in Asia over the past 10 years, but not yet at the same rate. One emerging opportunity is developing new routes to service modern trade while ensuring the MDC model is not over-extended, but focused on the right channels. It is not a one-size-fits-all model.

Another emerging opportunity is rural distribution. There has been some progress in Asia where technology is involved and the distribution partner acts as a mini third-party logistics company servicing multiple products. You cannot run an exclusive Coca-Cola distribution model in rural markets. Because volumes and sales drop off, you need to partner with other companies to develop an organized distribution model in order to get the scale to operate cost-effectively.

#### Given the retail trends you identified in East Africa, what do you see as the future for the MDC model there—or in other regions?

The changes in the retail market in East Africa mean that Sabco will probably reduce its reliance on the MDC model to some extent, as the market evolves and other selling systems become viable. In Africa, the biggest growth will likely be in West Africa, particularly Nigeria. A team has already been put in place to implement the MDC model there. The model is also showing good results in Ghana and Egypt.

Outside of Africa, there has been strong interest in the Middle East, including Palestine. Laos would also be an ideal country to extend the MDC model, and Argentina and Brazil are looking into new models as well.

#### What types of support do you think would be valuable to Sabco and other Coca-Cola bottlers implementing the MDC model—whether from IFC, donor partners, or others?

One of the biggest needs is financing for MDC owners, particularly as MDCs grow and require new equipment—like motorbikes. Sabco provides some financial support, but no external finance has been employed yet at a large scale.

Another need is for technology: for example, capabilities to support mobile banking and sales force automation. We have started to consider this and are working with Zain (now Bharti) in Tanzania.

Finally, as we enter more rural markets, it would be extremely valuable to tap into the knowledge of NGOs and local self-help groups to understand how these markets operate and what drives them.

#### What advice do you have for others who are starting or scaling inclusive business models?

You need patience. You also need to try different models. When we started the Ethiopia model, we designed a pushcart that could carry 24 cases at a time based on what we saw in Kenya and Tanzania. When we handed it over to the pushcart operators, they collapsed because it was too heavy for that altitude. The MDC model has evolved in a couple of other ways as well. For example, the MDCs were initially company-owned, not operator-owned as they are today. We also tried outsourcing everything from sales to distribution to account development. Now Sabco performs many of these functions, such as sales and account development, itself.

Finally, you need to spend a lot of time on research. Right now I am working with organizations in the non-profit sector to use similar models, and this has really highlighted the importance of research to understand the value-adding and non value-adding activities in the supply chain.



### K. PADMANABHAN

GROUP PRESIDENT  
APOLLO HOSPITALS ENTERPRISE LIMITED (INDIA)

“Now we need to expand fairly rapidly—find new cities, get real estate, build out the hospitals. There is a lot of scaling up work to be done.”

#### How did Apollo Hospitals move into the inclusive business space?

Apollo Hospitals is among the largest private integrated healthcare groups in India, and we own 30 hospitals both in India and abroad. Setting up hospitals in larger towns became difficult due to real estate prices, so we found that we had to move into the smaller towns. We needed to look at the populations and the income segments in these towns. And we had to design our business model accordingly, in such a way as to cater to their requirements and still be profitable. We call this business model Apollo Reach.

Given that there aren't many public health facilities in smaller towns, the private sector will have to play a role. We have already set up two Apollo Reach hospitals. Now we need to expand fairly rapidly—find new cities, get real estate, build out the hospitals. There is a lot of scaling up work to be done.

#### What is the biggest challenge you have faced in implementing the Apollo Reach model?

The biggest challenge is finding doctors and nurses willing to move to smaller hospitals in smaller towns, because they prefer to be in large cities. We've overcome this challenge by recruiting from within the Apollo system. Doctors and nurses who have spent time in bigger hospitals are now in a position to work more independently in smaller hospitals in smaller towns. We also recruit external candidates, promising them career growth opportunities in larger cities after their tenure in the smaller towns—typically three to five years.

#### What is the Apollo Reach offering?

Initially, we will have a standard set of services such as higher secondary care and heart surgery. As towns develop and demand for advanced healthcare picks up, we will expand to provide oncology and other options.

At the same time, all of our hospitals will have telemedicine centers. If a patient goes to the center and the doctor cannot resolve the problem, he will connect with a doctor in the city who can guide him. The city doctor can advise if the patient needs to visit a bigger hospital or not. Sometimes people in smaller towns go to telemedicine centers with the specific purpose of obtaining a second opinion from the doctor in the city, rather than travelling to the city which can be prohibitively expensive.

#### What types of support do you need from other organizations?

To treat very low-income patients, we expect the government to provide a subsidized insurance scheme that enables them to seek treatment in high-quality facilities. Other organizations and initiatives could also play a role—for example, there are Rotary Clubs that have programs for heart surgery for poor children. We ourselves have a not-for-profit program called Save a Child's Heart, where we get donations from various sources to treat poor children who require heart surgery. I think this could expand significantly.

As far as our own financing requirements go, we are looking for long-term debt and equity given the large number of hospitals that we have to build.

#### What role has IFC played in Apollo Reach, and is there anything more you wish IFC could do?

IFC extended us a long-term loan, over 10 years, that's important for this business. IFC agreed with our approach of rolling the Reach hospitals out over a fairly long period of time. I still believe that, just as we cross-subsidize patients who have the ability to pay with those who don't, IFC should cross-subsidize some of its investments with those that have greater social development impact. This will enable other companies to come on board and provide services to the poor.

IFC can also reach out to other organizations that would like to participate financially in initiatives that enable healthcare services to reach the poor. Because healthcare goes beyond economics. It's about saving lives.

#### What advice would you have for someone starting a new inclusive business model?

There is a lot of demand and a lot of opportunity in smaller towns if you take a long-term approach. There are viable markets for a number of product and services. But you need patience. It's not money that comes overnight.



### JUAN CARLOS PITARQUE

CHIEF FINANCIAL OFFICER  
PRONACA (ECUADOR)

*“It’s critical to understand what people are demanding, but they may not tell you. You have to be aware of the market and ask the right questions.”*

#### Why is inclusive business so important to Pronaca?

We initially jumped into the base of the pyramid (BOP) market because it was the ethical thing to do. There is an important philosophical component to working at the BOP: you cannot have wealth surrounded by poverty or formality surrounded by informality. It’s not viable as a social, political, or economic model.

This was our motivation eight years ago when we started to think about entering the BOP market with high-quality food. We demand high standards in our products, and we always thought only upper economic echelons could pay for high-quality food. However, when we designed the right products and developed our inclusive business strategy, we found BOP consumers were also willing to pay for quality.

Along the way we found a way to make it profitable, and discovered tremendous growth potential in this market. Today about 5% of our group sales are in BOP markets, representing about \$40 million we didn’t have four years ago. In some of my business units, it accounts for about 40% of sales.

#### What are the most important challenges you face in doing inclusive business?

The fundamental challenge is designing the right product. As a formal company with high standards, we have high costs. Our competitors were making similar foods but with lower quality standards. We realized we were being forced to compete on quality when we should have been competing on product design and delivery.

It’s critical to understand what people are demanding, but they may not tell you. We are selling food products, like chicken and sausage, which many consumers have not purchased before. So often we don’t have an initial measurement of demand. You have to be aware of the market and ask the right questions.

Another challenge is scaling our distribution. This is essential for continued growth but requires investment in new distribution centers, new equipment, and greater product awareness. We know how to invest in producing, but the issue is investing in the distribution chain to reach new customers. We are still learning how to do this, and the number of potential consumers is so large that financing is going to be quite demanding.

#### What are the biggest inclusive business opportunities for Pronaca in the next five years?

Now that we have the right products—right size, right presentation, right pricing—demand is growing tremendously.

We need to properly manage our growth, but this is also our biggest opportunity. We’ve got a combination of factors working for us—population growth and a rising lower and middle class. As Latin America has stabilized with sound macroeconomic policies, these economic segments have started to grow, and they now have hard money in their pockets. The opportunity is there to capture this new and expanding market.

#### What types of support do you need from other organizations for your inclusive business activities?

The wonderful thing about the business world is the need for constant increases in efficiency and productivity. As we expand further into BOP markets, we remain committed to a business approach. To do this, we need two things: long-term financing that is unavailable in Ecuador, and access to know-how specific to BOP markets.

IFC has provided the financing, but it would be great if there was a complementary database of solution providers that specialized in BOP markets. Who has know-how in inclusive business distribution strategies? Who has know-how in environmental engineering in BOP markets? Having this type of information available would improve efficiency in developing and expanding inclusive businesses.

#### What role has IFC played in your inclusive business success and is there anything more you wish IFC could do?

IFC is critical in providing the financing needed to scale inclusive businesses. As I mentioned, Ecuador has a shallow financial sector. Therefore, it becomes our responsibility to finance our distribution chain *and* the working capital at the other end. This isn’t necessarily profitable. Over the medium-term I believe it can be, but in the short-term it is not. I think IFC has a dual role, and we’ve used them both. One is providing financing with reasonable terms and innovative schemes—not only for us but also for the rest of our supply chain. The other is providing advice on best practices.

#### What advice would you have for someone starting a new inclusive business model?

Design the right product. Once you have that, you have 90% of your inclusive business. If you have the right product, everything else will click.



### ERIC PONÇON

STRATEGY MANAGEMENT OFFICER  
ECOM AGROINDUSTRIAL CORPORATION (CENTRAL AMERICA)

“Inclusive business is central to our sustainability. We deal with large numbers of smallholder farmers. So, when we develop a strategy, it is essential to incorporate them in a productive and responsible way.”

#### Why is inclusive business so important to ECOM?

Inclusive business is central to our sustainability. It has become embedded in the company's DNA. We deal with large numbers of smallholder farmers—they are our primary suppliers. So, when we develop a strategy, it is essential to incorporate them in a productive and responsible way.

For us, one goal is to expand our market share of coffee produced under best practice programs—coffee that receives a certification. Our clients are large consumer goods companies. We facilitate their involvement in such programs, and in doing so, create positive impact in the countries where we operate. It's a complicated issue because of the large numbers of farmers, and without an inclusive business strategy we could not do it.

#### What are the most important challenges ECOM faces in scaling its inclusive business model?

Capacity-building and R&D.

We want the supply chain to become sustainable, but that takes significant investment in training—our employees, our suppliers, and other participants in the supply chain. We also provide medium-term financing to help our suppliers improve their productivity and working conditions. For instance, if a baseline assessment identifies that farmers do not have proper water treatment, then we have a question: Do we let them out of our supply chain or do we provide financing for improvements? Although there are risks, we see value in working with them to produce quality coffee. This is not simply a buyer-seller relationship that takes place over a few months. It is a three to five year investment—as coffee plants mature—and it requires building relationships.

Finally, R&D is a challenge. Coffee is an “orphan crop,” meaning there has been little biotechnology investment or research into growing practices, but it is difficult to do R&D on our own. R&D is essential but it is not our core business.

#### What are the biggest inclusive business opportunities for ECOM in the next five years?

A paradigm shift is occurring—moving from black box supply chains to supply chains that are transparent and give preference to farmers who are doing the right thing. This would be impossible without consumer demand. Consumers around the world are becoming more aware and conscientious. This trend represents our biggest opportunity. Consumers may not be willing to pay more, but they are willing to give preference to brands that show they are doing the right thing. That goes a long way in directing the supply chain.

#### What types of support do you need from other organizations for your inclusive business activities?

It will be important for us to link with other sectors—NGOs, foundations, or development institutions—that can contribute to capacity-building and R&D. Investment in these areas won't benefit ECOM alone; it will benefit the whole industry. These areas are generally non-competitive in nature. Historically, such investment has been done through extension programs and public research institutes in developing countries. But these are fading away, and private companies are stepping in. The difficulty is that pricing cannot remain competitive in the near term if these costs are factored in. The benefits will not cover the costs for five or ten years.

#### What role has IFC played in your inclusive business success, and is there anything more you wish IFC could do?

In addition to providing new credit lines, IFC can continue to support partnership opportunities and help raise awareness of what ECOM is doing. It is of great value to us for other companies to be aware of our business model. For instance, we have a great relationship with Nestlé, and this has helped us scale our inclusive business.

#### What advice would you have for someone starting a new inclusive business model?

Go for it! Inclusive business opens up a new world—new business opportunities and new ways of conducting business. It is motivating for people within companies to understand that they can make a difference. Our staff appreciates that they are involved in an inclusive business approach. This has changed the way they see their work—now they not only look at the coffee at the warehouse door but also at the farm and the treatment of farmers and other employees. In other words, there is an effort to make a difference in the overall picture.





### GEETHA THARMARATNAM

PRINCIPAL  
AUREOS

“If I talk to you about Apollo Hospitals or Aravind Eye Care in India, you recognize not only the name, but the model—something that is profitable, scalable, transferable. We want to find those gems in Africa.”

#### Why is inclusive business so important to Aureos?

Our Africa health fund is intended to help us understand a promising market that today is largely unknown. The health sector in Africa is suffering huge inefficiencies, pricing a large percentage of the population out of the market. We think reaching these people through inclusive business models makes good business sense and also contributes to the development of the economies we invest in.

#### What are the most important challenges you face investing in inclusive business models in the healthcare sector?

We have to find financially viable investees who need the capital: companies that have been around for a while, that have solid management teams, and that have the potential to grow. We have to be able to add value. For our Africa health fund, distortions in the health market make this especially hard. Common distortions include aid money and government programs that get cut when politics change.

A lot of the companies we are looking at are also much earlier stage than we're accustomed to—almost venture stage. The additional business risk is challenging for us as a private equity firm. To manage it, to help get these companies to the stage where they're ready to receive capital, we may need to assist them with business plan development.

#### What are the biggest opportunities you're hoping to capture through the Africa health fund?

The Africa health fund is a pilot in an extremely challenging space. If some of these portfolio companies do well and get to scale, we may back them again through some of our other funds, with higher return expectations.

Beyond the deals themselves, what we're really aiming to do is to find models that work. If I talk to you about Apollo Hospitals or Aravind Eye Care in India, you recognize not only the name, but the model—something that is profitable, scalable, transferable. We want to find those gems in Africa. We want to prove the healthcare market in Africa is investable. If we can prove that, the benefits go way beyond Aureos. And there's no reason Aureos wouldn't then consider replicating the fund in other countries or regions.

#### What types of support do you need from other organizations to make the Africa health fund a success?

We need business development services providers who can help our portfolio companies reach patients at the base of the pyramid better. This is very different to generic business capacity-building. Our companies could also use healthcare management training and exchanges with providers in other countries. We have a technical assistance facility set aside for purposes like these, roughly equivalent to 10% of the fund.

#### What more could IFC bring?

IFC has massive reach among emerging market companies, and that's something we'd love to tap into. We need to learn from others. There's a lot we can learn from Jain Irrigation's distribution system in India or Dialog Telekom's relationship with corner stores in Sri Lanka. Part of the technical assistance we need to provide our portfolio companies is the opportunity to interact with other inclusive businesses—including other healthcare companies—in other emerging markets. The CEO of a Kenyan hospital we've invested in went to India and came back with loads of ideas, including healthcare delivery via motorcycle. Nairobi has terrible traffic. If midwives on motorcycles can visit patients at home, you can lower the cost of care because patients no longer have to pay for transportation or a hospital stay.

#### What advice would you have for someone starting a new inclusive business model?

Be brave! Aim for something really new, not incremental change. And don't make assumptions about demand or ability to pay. If you spend too much time thinking about what lower-income populations need, or how much they can pay, you immediately start to constrain yourself and your ability to create value for your consumers. Take the time to understand what they want and what they aspire to.



### LANRE TUNJI-SANUSI

CHIEF FINANCIAL OFFICER  
HELIOS TOWERS (NIGERIA)

“While tapping into the rural market is a challenge, it’s also an opportunity. Not many people in those areas have mobile phones, and there’s a lot of latent market demand.”

#### Why is inclusive business so important to Helios Towers?

Telecommunications are now moving from urban to rural areas. Telecommunications services are critical to economic development in rural areas, and our business plays an important role in providing them. By building towers, we’re creating infrastructure for the community, as well as employment—for example, for security guards. At the same time, we’re increasing our market share.

#### What are the most important challenges you face doing inclusive business in the mobile telecommunications sector?

Getting the physical access required to tap into rural markets is a real challenge. There is a wider expanse of land compared to urban areas, where towers are more densely concentrated. So maintenance may be more expensive. In Nigeria, one of the major costs is diesel. Diesel has to be transported from urban to rural areas.

#### How is Helios approaching the challenges of accessing rural markets?

Helios just entered the business a couple of years ago. We started the company recently and are Nigeria’s first co-location company—we offer leases on cellular phone towers that can be shared by multiple mobile network providers. At this stage, the most important thing to recognize is that we don’t venture into new markets on our own—we go along with the mobile network operators. The mobile network operators essentially drive new business, and we play a supporting, enabling role.

#### In the next five years, what do you think are the biggest inclusive business opportunities for Helios Towers?

The Nigerian government has implemented a project to encourage operators and co-locator companies like us to build in rural areas and to provide services. So there is a potential revenue stream from rural consumers. A lot of work has been done in urban zones—it’s now time for us to move to rural districts.

While tapping into the rural market is a challenge, it’s also an opportunity. Not many people in those areas have mobile phones, and there’s a lot of latent market demand. From an operating perspective, you have a significant potential increase in revenues from the addition of rural subscribers.

#### What types of support do you need from others to ease your expansion into rural markets?

In terms of financing, IFC has already funded us, so we’re fine on that front. What we need now is government support—in the form of regulations, concessions, and other actions that would help us reduce our overhead. Government can also help by providing subsidies for land and utility power supply to reduce diesel expenditure which is a significant portion of our operating costs.

#### What advice would you have for someone starting a new inclusive business model in the mobile telecommunications sector?

The vast majority of the population in Nigeria is living at the base of the pyramid. So whatever services or solutions you provide must be cost-efficient.

In the mobile tower business, the most important thing is to ensure that your capital expenditure costs—your costs of deploying a site—are as low as possible. That is the greatest challenge. It’s extremely capital intensive. You need to find ways to keep those costs to a minimum so that you can serve the base of the pyramid and still be profitable. You may find that the margins are small, but because of the sheer number of people, there is a lot of opportunity.



### LI WEIRUO

CHAIRMAN AND FOUNDER  
KOYO ECOLOGICAL AGROTECH GROUP (CHINA)

“Many [smallholders] are unfamiliar with best practices for using high-quality chemical fertilizers. We not only have to reach them but also build their capacity to properly use our products. We have developed our inclusive business strategy around these needs.”

#### Why is inclusive business so important to Koyo?

We operate in a country of more than one billion people, a large percentage of whom still rely on rural markets and small-scale agriculture for their livelihoods. We see smallholder farmers as our target customers—they represent an enormous potential market for our fertilizers.

However, smallholder farmers are spread throughout China, and many are unfamiliar with best practices for using high-quality chemical fertilizers. We not only have to reach them but also build their capacity to properly use our products. To do so, we must have a strong distribution network and invest in capacity-building programs. We have developed our inclusive business strategy around these needs.

#### What are the most important challenges you face in doing inclusive business?

To ensure long-term growth, we must confront the related challenges of reaching new clients and building their capacity.

In a sense, there appears to be a contradiction in our business. On one hand, as a business, we want to sell more of our product. Yet, we are committed to training farmers to use chemical fertilizers properly, and we recognize that this will increase the efficiency with which they use our product—thereby reducing the amount they need to use at any given time.

In the long-run, however, this is not actually a contradiction. It is important to the long-run viability of our business that our product is distributed and used properly and that its value is recognized. This will help us to expand our client base and to sell more over time.

#### What are the biggest inclusive business opportunities for Koyo in the next five years?

There is a lot of room to grow our business within China by promoting high-quality, scientific fertilizers. There is widespread use of fertilizer within China, but it is often produced and used in ways that pollute. We can grow not only by reaching previously underserved areas but also through our commitment to environmentally friendly practices. As demand for “green” food increases, we can leverage our cleaner production practices to challenge some of our competitors in existing markets.

Of course, as we target smallholder farmers, we will also have to compete on price. There are more than 200 companies in

China that produce fertilizer, but we are one of only ten that are large in scale. This scale, along with our investments in new technology, allows us to be more cost-effective.

We see this combination of a large market, competitive pricing, and increasing demand for environmentally friendly food production as our biggest opportunity.

#### What types of support do you need from other organizations for your inclusive business activities?

I have been surprised to find out how universal some issues are within base of the pyramid (BOP) markets. In comparing our experiences in China with the experiences of companies elsewhere, I see great similarities in consumer behavior, in distribution challenges, and in many other areas. For instance, we have had to cultivate trust-based relationships with local distributors in much the same way as South African and Indian companies have done.

Given these shared experiences, we can absolutely learn from one another and adopt methodologies that have been used successfully elsewhere. This kind of exchange is very valuable.

#### What role has IFC played in your inclusive business success, and is there anything more you wish IFC could do?

IFC’s investment in our company allowed us to improve our technology, increase our efficiency, and reduce our emissions—allowing us to reduce our prices and make high-quality fertilizers more widely accessible.

Beyond financing, IFC can help promote the exchange of experiences that I mentioned earlier, drawing on its significant client network.

#### What advice would you have for someone starting a new inclusive business model?

Follow normal business practices. Inclusiveness and BOP market reach need not contradict normal business best practices or interfere with profitability. Indeed, to serve the BOP market, you have to be sustainable—you have to be commercially viable. If you want to make a difference at the BOP but you go bankrupt, you are not doing anything. In other words, it is very important to remember that an inclusive enterprise is still an enterprise, and accordingly, you must have proper enterprise management.

# Annex C. October 7-8, 2010

## Event Participants

### GUESTS BY ORGANIZATION NAME

**Alquería**, Carlos Fernando Fuentes, Supplier Development Manager

**Anhanguera**, Antonio Carbonari Netto, President

**Apollo Hospitals**, Krishnaswami Padmanabhan, Group President

**Ashoka**, Valeria Budinich, Vice President

**Aureos**, Geetha Tharmaratnam, Principal, Investments & ESG

**Aureos**, Nana Amoah, Investment Analyst

**Bakhresa Grain Milling** (Malawi and Mozambique), Mr. Mahesh Josyabhatla, Chief Executive Officer

**Canadian International Development Agency**, Bonaventure Bowe, Economic Policy Advisor

**Catalonia Competitiveness Agency**, Regina Campa, Director, Delegation for Multilateral Organization Affairs

**CEMAR**, Gisomar Marinho, Chief Financial Officer

**Centre d'Internacionalitzacio Empresarial ACC10**, Isidre Sala, Director, International Cooperation Division

**Coca-Cola Sabco**, Tielman Nieuwoudt, Former Market Development Manager (currently Principal, The Supply Chain Lab)

**The Coca-Cola Company**, Marika McCauley Sine, Director, International Public Affairs

**Cornell University**, Erik Simanis, Managing Director, Market Creation Strategies, Johnson School of Management

**Dalberg Global Development Advisors**, Peter Tynan, Partner

**Dalberg Global Development Advisors**, Paul Callan, Partner, Head of Strategy and Performance

**Dalberg Global Development Advisors**, Detelina Kalkandjieva, Consultant

**Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ)**, Jonas Naguib, Center for Cooperation with the Private Sector

**Dialog**, Michael De Soyza, Head Public Policy and Corporate Responsibility

**Digicel Group**, Denis O'Brien, Chairman

**DuocUC**, Sergio Arteaga, Director for Finance and Administration

**ECOM**, Eric Ponçon, Strategy Management Officer

**ECOM**, David Rosenberg, Group Sustainability Advisor

**Enterprise Solutions to Poverty**, Nancy Barry, President

E-Power, Daniel Gerard Rouzier, Chairman

FINO, Tarun Agarwal, VP and Head, Channel Empowerment and Management Group

FinTerra, Miguel Gallo, Director of Marketing

FSG Social Impact Advisors, Dane Smith, Managing Director

Gates Foundation, Richard Rogers, Senior Program Officer, Market Access, Global Development

Grassroots Business Fund, Agnes Dasewicz, Chief Operating Officer

Grupo Solid, Yara Argueta, Chief Executive Officer

Harvard Kennedy School, Jane Nelson, Director, CSR Initiative

Helios Towers, Lanre Tunji-Sanusi, Chief Financial Officer

Inter-American Development Bank, Francisco Mejia, Principal Specialist, Opportunities for the Majority Office

Inter-American Development Bank, Rahul Desai, Operations Coordinator, Opportunities for the Majority Office

Inter-American Development Bank, Luiz Ros, Manager, Opportunities for the Majority Office

Jain Irrigation, Dilip Kulkarni, President, Agri-Food Division

Jain Irrigation, Anil Jain, Managing Director

Japan International Cooperation Agency, Kensuke Miyagai, Assistant Director, Development Partnership Division, Operations Strategy Department

Japan International Cooperation Agency, Hiroto Arakawa, Senior Special Advisor

Japan Ministry of Economy, Trade and Industry, Kenji Goto, Minister of Economy, Trade, Industry, and Energy, Embassy of Japan

Koyo Ecological Agrotech Group, Li Weiruo, Chairman

Koyo Ecological Agrotech Group, Yang Lin, Manager, Investments Department

LeapFrog Financial Inclusion Fund, Tom Brunner, Partner

Manila Water, Gerardo C. Ablaza, President

Mi Tienda, Valentín Martínez, Chief Executive Officer

Mi Tienda, Luis Velasco, Chairman

Monitor Group, Mike Kubzansky, Partner

Nib International Bank S.C, Amerga Kassa, President

Nib International Bank S.C, Dembel Balcha, Chairman

Packages, Hyder Ali, Chief Executive Officer and Managing Director

PricewaterhouseCoopers, Jack Newnham, Assistant Director, Private Sector and Development



**PricewaterhouseCoopers**, Paul George, Assistant Director, Private Sector and Development

**Pronaca**, Juan Carlos Pitarque, Chief Financial Officer

**Swedish Ministry of Foreign Affairs**, Linda Portas

**Swiss State Secretariat for Economic Affairs**, Philippe Sas, Deputy Head, Multilateral Financial Institutions Division

**Technoserve**, Simon Winter, Senior Vice President, Development

**Technoserve**, David Browning, Head, Global Coffee Practice

**Technoserve**, Jane Abramovich, Project Manager

**Tribanco**, Cristine Handel, Director of Marketing

**UK Department for International Development**, Alan David Johnson, Senior Private Sector Development Advisor

**UNIMINUTO**, Father Camilo Bernal, General Rector

**UNIMINUTO**, Juan Emilio Hernández, General Manager

**United Nations Development Programme**, Natalie Africa, Program Manager, Business Call to Action

**United Nations Development Programme**, Henry Jackelen, Director, Private Sector Division, Partnerships Bureau

**United Nations Development Programme**, Tomas Sales, Partnerships

**US Agency for International Development**, Sandhya Rao

**US Agency for International Development**, Rob Schneider, Senior Alliance Advisor, Office of Development Partnerships and Private Sector Alliances

**US Agency for International Development**, Wendy Taylor

**Vodafone**, John Maynard, Lead Business Development Manager

**Wal-Mart**, Sarah Thorn, Senior Director, Federal Government Relations

**Water Health International**, Sanjay Bhatnagar, Chief Executive Officer

**World Bank Group**, Carolina Renteria, Executive Director for Brazil, Colombia, Dominican Republic, Ecuador, Haiti, Panama, Philippines, Suriname, and Trinidad and Tobago

**World Bank Group**, Mike Brendle, Advisor to the Executive Director from Germany

**World Bank Group**, Nobumitsu Hayashi, Executive Director for Japan

**World Bank Group**, Eisuke Inaka, Advisor to the Executive Director for Japan

**World Bank Group**, Cat Moody, Senior Advisor, Executive Director's Office for New Zealand

**World Business Council for Sustainable Development**, Jessica McGlyn, Director

# Annex D. IFC and World Bank Contributors

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# Annex E. October 7-8, 2010

## Event Agenda

### INCLUSIVE BUSINESS SOLUTIONS: EXPANDING OPPORTUNITY AND ACCESS AT THE BASE OF THE PYRAMID

#### WEDNESDAY, October 6

6:30-8:30 pm RECEPTION AND DINNER

#### THURSDAY, October 7

8:00-8:45 am REGISTRATION AND BREAKFAST

8:45-9:00 am IFC WELCOME

Jyrki Koskela, Vice President, Global Industry, IFC  
Toshiya Masuoka, Director, Inclusive Business Group, IFC

9:00-9:30 am FRAMING: INCLUSIVE BUSINESS MODELS, CHALLENGES AND SOLUTIONS

Eriko Ishikawa, Senior Investment Officer, Inclusive Business Group, IFC  
Peter Tynan, Partner, Dalberg Global Development Advisors

9:30-10:50 am SOLUTION IN FOCUS: BUILDING DISTRIBUTION NETWORKS

Tielman Nieuwoudt, Former Market Development Manager, Coca-Cola Sabco, East Africa; Principal, The Supply Chain Lab  
Gisomar Marinho, Chief Financial Officer, CEMAR, Brazil  
Michael De Soyza, Head Public Policy and Corporate Responsibility, Dialog, Sri Lanka  
Prof Antonio Carbonari Netto, President, Anhanguera, Brazil  
Mike Kubzansky, Monitor

10:50-11:10 am COFFEE BREAK

11:10-12:30 pm SOLUTION IN FOCUS: VALUE CHAIN FINANCING

Cristine Handel, Director of Marketing, Tribanco, Brazil  
Eric Ponçon, Strategy Management Officer, ECOM, Central America  
Dr. Dilip Kulkarni, President, Agri Food, Jain Irrigation Systems, India  
Mr. K. Padmanabhan, Group President, Apollo Hospitals Group, India  
Nancy Barry, Enterprise Solutions to Poverty

12:30-1:40 pm LUNCH AND NETWORKING

1:40-3:00 pm SOLUTION IN FOCUS: UNLOCKING DEMAND

Gerardo Ablaza, President & CEO, Manila Water Company, Philippines  
Luis Velasco, Chairman, Mi Tienda, Mexico  
Father Camilo Bernal, General Rector, UNIMINUTO, Colombia  
Tarun Agarwal, VP and Head, Channel Empowerment and Management Group, FINO, India  
Erik Simanis, Managing Director, Market Creation Strategies, Johnson School of Management, Cornell University

3:00-4:15 pm EXPERT FOCUS GROUPS AND SYNTHESIS

Sujata Lamba, Senior Manager, Inclusive Business Group, IFC

4:15-4:30 pm COFFEE BREAK

**THURSDAY, October 7** *(continued)*

**4:30- 5:30 pm**      **HIGH-LEVEL CLIENT DIALOGUE ON THE FUTURE OF INCLUSIVE BUSINESS**  
Denis O'Brien, Chairman, Digicel Group  
Anil Jain, Managing Director, Jain Irrigation Systems  
Yara Argueta, CEO, Grupo Solid  
Mahesh Josybhata, CEO, Bakhresa Grain Milling (Malawi and Mozambique)  
Rachel Kyte, Vice President, Advisory Services, IFC

**5:30-5:45 pm**      **CONCLUDING REMARKS**  
Rachel Kyte, Vice President, Advisory Services, IFC

**6:00-8:00 pm**      **EVP WELCOME AND NETWORKING RECEPTION AND DINNER**  
Lars Thunell, Executive Vice President, IFC

**FRIDAY, October 8**

**8:00-9:00 am**      **BREAKFAST**

**9:00-9:20 am**      **WELCOME**  
Toshiya Masuoka, Director, Inclusive Business Models Group, IFC  
Haleh Bridi, Director, Partnerships & Advisory Services Operations, IFC

**9:20-9:45 am**      **NEW WAYS OF WORKING WITH DEVELOPMENT DONORS**  
Jane Nelson, Director, Harvard Kennedy School CSR Initiative

**9:45-10:45 am**      **CREATING LOCAL SUPPLY CHAINS: FRUIT IN KENYA AND UGANDA**  
Richard Rogers, Senior Program Officer, Gates Foundation  
Marika McCauley Sine, Director, International Public Affairs and Communications, The Coca-Cola Company  
Simon Winter, Senior Vice President, TechnoServe  
Jane Nelson, Director, Harvard Kennedy School CSR Initiative (moderator)

**10:50-11:00 am**      **COFFEE BREAK**

**11:00-12:00 pm**      **SEEDING NEW CONSUMER SERVICES: MOBILE MONEY TRANSFER IN KENYA**  
Alan Johnson, Senior Private Sector Development Advisor, DFID  
John Maynard, Lead Business Development Manager, Mobile Payment Solutions, Vodafone  
Jane Nelson, Director, Harvard Kennedy School CSR Initiative (moderator)

**12:00-12:15 pm**      **TAKING IT FORWARD**  
Toshiya Masuoka, Director, Inclusive Business Models Group, IFC

**12:15-1:30 pm**      **LUNCH AND NETWORKING**

# Annex F. Inclusive Business Reading List

*Next Generation Business Strategies for the Base of the Pyramid: New Approaches for Building Mutual Value* (forthcoming)

Ted London and Stuart Hart et al. Upper Saddle River, NJ: FT Press.

*Scaling Up Inclusive Business* (2010)

Beth Jenkins, Eriko Ishikawa, Alexis Geaneotes, and John Paul. Washington, DC: IFC and the CSR Initiative at the Harvard Kennedy School.

*Emerging Markets, Emerging Models: Market-Based Solutions to the Challenges of Global Poverty* (2009)

Ashish Karamchandani, Michael Kubzansky, and Paul Frandano. Monitor Group.

*Stretching the Fabric of MFI Networks* (2009)

Nishant Lalwani and Michael Kubzansky. Monitor Group.

*The Next Billions: Unleashing Business Potential in Untapped Markets* (2009)

World Economic Forum. Geneva: World Economic Forum.

*Creating Value for All: Strategies for Doing Business with the Poor* (2008)

United Nations Development Programme. New York: UNDP.

*The Next 4 Billion: Market Size and Business Strategy at the Base of the Pyramid* (2007)

Allen L. Hammond, William J. Kramer, Robert S. Katz, Julia T. Tran, and Courtland Walker. Washington, DC: World Resources Institute and International Finance Corporation.



# Endnotes

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- 2 Jenkins, Beth, Eriko Ishikawa, Alexis Geaneotes, and John Paul (2010). "Scaling Up Inclusive Business: Advancing the Knowledge and Action Agenda." Washington, DC: IFC and the CSR Initiative at the Harvard Kennedy School.
- 3 Nelson, Jane (forthcoming). "Expanding Opportunity and Access: Approaches that harness markets and the private sector to create business value and development impact." Cambridge, MA: The CSR Initiative at the Harvard Kennedy School.
- 4 These case studies originally appeared in the following publication and are reprinted with permission: Jenkins, Beth, Eriko Ishikawa, Alexis Geaneotes, and John Paul (2010). "Scaling Up Inclusive Business: Advancing the Knowledge and Action Agenda." Washington, DC: IFC and the CSR Initiative at the Harvard Kennedy School.
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- 13 Manila Water (2008). "Manila Water Company Inc. 2008 Annual Report." Online at <http://www.manilawater.com/downloads/MWC-AR-2008.pdf> (accessed March 23, 2009).
- 14 Ibid.
- 15 Baclagon et al. (2004), page 43.
- 16 Manila Water (2008).
- 17 Kumar, Anjali (2004). "Access to Financial Services in Brazil." Washington, DC: The World Bank.
- 18 Murakami, Y. and A. Blom (2008). "Accessibility and Affordability of Tertiary Education in Brazil, Colombia, Mexico and Peru within a Global Context." World Bank Policy Research Working Paper 451. Washington, DC: The World Bank. Pages 4, 13, 16.
- 19 Waverman et al. (2005).

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2010