



# SCALING UP INCLUSIVE BUSINESS:

ADVANCING THE KNOWLEDGE AND ACTION AGENDA

Beth Jenkins and Eriko Ishikawa  
with Alexis Geaneotes and John H. Paul  
APRIL 2010

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From top to bottom:

- Idea Cellular (Subrata Barman)
- Zain Madagascar (Andriantsoa Ramanantsialonina)
- Anhanguera Educacional Participações S.A.
- Coca-Cola Sabco
- Zain Madagascar (Andriantsoa Ramanantsialonina)
- Apollo Hospitals Enterprise Limited
- MiTienda (José Raúl Pérez, Fotografitura)
- Cemar (Nuru Lama)

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The findings, interpretations, and conclusions expressed herein are those of the authors and do not necessarily reflect the views of IFC or the Harvard Kennedy School.



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## Introduction

**In the last ten years, interest and activity have grown around the concept of inclusive business – the idea that it is possible to expand access to goods, services, and livelihood opportunities for the poor in commercially viable ways.<sup>1</sup>**

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.

### BOX 1 DEFINITIONS OF INCLUSIVE BUSINESS

*“An inclusive business is one which seeks to contribute towards poverty alleviation by including lower-income communities within its value chain while not losing sight of the ultimate goal of business, which is to generate profits.”*

WORLD BUSINESS COUNCIL FOR SUSTAINABLE DEVELOPMENT

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

UNITED NATIONS DEVELOPMENT PROGRAMME

The conceptual win-win is clear, and momentum is growing. Innovative inclusive business models and high-profile efforts to document, publicize, and learn from them are attracting interest and inspiring action in this field. Business plan competitions and CEO commitments are getting more people involved. Capital, expertise, and other forms of support are emerging from a range of sources – from development finance institutions, multilateral and bilateral donors, foundations, and other impact investors to academics, NGOs, business associations, and consulting firms.

These early movers have begun to identify the challenges inherent in the practice of inclusive business. Companies doing business with the poor face a number of systemic constraints, ranging from lack of infrastructure to low levels of knowledge and skills, to limited access to finance for low-income consumers and producers.<sup>2</sup> These translate into operational and reputational difficulties like building the capacity of poor consumers and producers, facilitating their access to finance, managing community expectations, and reducing their dependence on the firm.<sup>3</sup> Indeed, as observers have begun to point out, large-scale success stories – reaching large numbers of poor people directly or via replication – are still the exception, not the rule.

Meeting the needs of the four billion people living at the base of the pyramid today will require a quantum leap in the number of commercially viable inclusive business models operating at scale. The barriers to starting and scaling inclusive business models must come down to open the field to a broader range of players, beyond the pioneering few. This report is intended to frame some of the key issue areas that need to be addressed to bring such a tipping point about.



## About this Report

**This report is intended to frame key issue areas that need to be addressed to move the field of inclusive business forward – toward greater scale and effectiveness – building on the considerable momentum that already exists.**

We have chosen to do this by documenting and analyzing 14 inclusive business models deemed to be commercially viable and scalable by the International Finance Corporation, having passed its investment due diligence process and received financing. We have compared our findings to key findings in the literature to date, and identified opportunities for more in-depth new research.

The 14 cases analyzed here were selected based on availability of information for a first look into the inclusive business models in IFC's portfolio, with the purpose of setting the stage for more in-depth research going forward. This first look provides a preliminary analysis of the drivers, results, and key elements these inclusive business models share, as well as a framing of key questions that should be asked as IFC digs deeper into its client experience for insight on how to develop commercially viable, scalable inclusive business models. It is important to note that the sample of 14 models analyzed here is neither large enough nor representative enough to be statistically significant. An initial scan of IFC's portfolio suggests that as many as 100 clients may be engaged in inclusive business (double that number if microfinance institutions are included).

### BOX 2 INCLUSIVE BUSINESS AT IFC

IFC, the private sector arm of the World Bank Group, is a multilateral development finance institution established in 1956 with the mission of creating opportunities for people to escape poverty and improve their lives by "promoting open and competitive markets in developing countries; supporting companies and other private sector partners where there is a

gap; and helping to generate productive jobs and deliver essential services to the underserved."<sup>4</sup>

To fulfill its mission, IFC offers commercial investment – debt and equity – and advisory services to companies that do business in developing countries, with a focus on companies whose business

activities expand access to goods, services, and income generating opportunities for underserved populations. As a result, IFC's client base offers a potentially rich vein of examples of companies that have succeeded in inclusive business despite the obstacles, achieving commercial viability, scale, and development impact.



## The 14 Inclusive Business Cases

The 14 companies studied here are mostly locally-grown, as opposed to multinational. Among them, they are engaging low-income or otherwise underserved segments as consumers, suppliers, distributors, and retailers. While they operate in a range of different countries and industry sectors, they have much in common – from the drivers they are addressing to the results they are achieving and the models they are using to get there. These common themes are summarized in this section.

**TABLE 1 CASES BY REGION, INDUSTRY SECTOR, AND GROUP(S) ENGAGED**

Company	Region (country)	Industry Sector	Group(s) Engaged
Anhanguera	Latin America (Brazil)	Education	Consumers
Apollo Reach	South Asia (India)	Healthcare	Consumers
Cemar	Latin America (Brazil)	Electricity	Consumers
Coca-Cola Sabco	Sub-Saharan Africa (Multiple)	Agribusiness (Beverages)	Distributors, Retailers, Consumers
Dialog	South Asia (Sri Lanka)	Telecommunications	Retailers, Consumers
ECOM	Latin America (Central America)	Agribusiness (Coffee)	Suppliers
FINO	South Asia (India)	Financial Services	Consumers
Idea Cellular	South Asia (India)	Telecommunications	Retailers, Consumers
Jain	South Asia (India)	Agribusiness (Fruit and Vegetables)	Suppliers
Manila Water	East Asia (Philippines)	Water	Consumers
MiTienda	Latin America (Mexico)	Wholesale Distribution	Retailers
Tribanco	Latin America (Brazil)	Financial Services	Retailers, Consumers
Uniminuto	Latin America (Colombia)	Education	Consumers
Zain	Sub-Saharan Africa (Madagascar)	Telecommunications	Retailers, Consumers

### **Growth was the primary driver for the companies studied here to develop inclusive business models.**

For many of these companies, the base of the pyramid is a growth frontier within a potential market spanning the “whole pyramid.” Others grew up to serve base of the pyramid markets more exclusively. Regardless of scope, these companies saw a market opportunity: an unmet need combined with a willingness and an ability to pay. In some cases, this ability to pay is a direct result of the inclusive business model’s ability to reduce the *poverty penalty* its customers used to pay – a phenomenon in which the poor pay more for basic goods and services than the rich because they are largely underserved by formal markets (Manila Water).

In other cases, the government boosted low-income customers' ability to pay through targeted subsidies – for household electricity access (Cemar), health insurance (Apollo Reach), and micro-irrigation systems (Jain).

**TABLE 2 DRIVERS FOR COMPANIES TO DEVELOP INCLUSIVE BUSINESS MODELS**

Case	Growth	Social Responsibility or Mission	Risk Mitigation	Regulation
Anhanguera	✓			
Apollo Reach	✓			
Cemar	✓			✓
Coca-Cola Sabco	✓			
Dialog	✓			
ECOM	✓		✓	
FINO	✓	✓		
Idea Cellular	✓	✓		
Jain	✓		✓	
Manila Water	✓	✓	✓	✓
MiTienda	✓	✓		
Tribanco	✓			
Uniminuto	✓	✓		
Zain	✓	✓		✓

**Revenue growth is the most common business result of inclusive business models for the companies studied here.**

For some of these companies, revenue growth is coming from increasing numbers of customers or transactions per customer, or increasing market share. For those building the capacity of low-income suppliers, it is coming from increasing access to premiums for higher-quality, certified products. And for two companies – the utilities – it is coming from converting illegal connections into bill-paying accounts by finding ways to reach the poor as formal customers. Other business results, like risk mitigation and social license to operate, feature less prominently.

**The most common development outcomes of the inclusive business models studied are expanded economic opportunity and access to goods and services for the poor.**

These models are offering opportunities for producers and entrepreneurs to start and grow businesses as agricultural suppliers, beverage distributors, and retailers of products and services ranging from groceries to airtime, often creating new jobs in the process. They are also offering affordable access to better quality goods and services, from healthcare to education to water and electricity.

**Networks and technology platforms are critical for companies that need to reach vast numbers of low-income customers for their inclusive business models to be viable.**

Low-income customers are often low-margin markets, which must be served in high volumes for a business model to be sustainable. The companies studied here are getting the necessary volumes through large networks at the consumer, retailer, and distributor levels. Some companies have existing networks that can be leveraged (Tribanco). Others are building new ones (MiTienda, Coca-Cola Sabco). Still others are partnering to access the networks of organizations that already aggregate large numbers of low-income people and can act as intermediaries (Idea Cellular and Zain Madagascar, working with microfinance institutions). Five companies are using technology to extend or manage their networks more efficiently, bringing education, healthcare, and financial services to underserved populations at higher quality and lower cost (Anhanguera, Apollo Reach, FINO, Tribanco, and Uniminuto).

**Consumer, distributor, and supplier financing is allowing low-income individuals and enterprises to do business with the companies studied here.**

Consumer financing is allowing individuals and households to pay for purchases on schedules that more closely match their cash flows – both big-ticket items like a household water hook-up (Manila Water), a hospital visit (Apollo Reach), or an education (Anhanguera and Uniminuto) and small but frequent, basic purchases like groceries (Tribanco). Supplier, distributor, and retailer financing is allowing individuals and enterprises to make purchases that are part of the normal business cycle, ranging from agricultural inputs (ECOM, Jain) to cellular phones (Idea, Zain) to inventory (MiTienda) and even building renovations (Tribanco).<sup>5</sup> Financing is being structured in a range of ways, from extended payment terms to harvest credits to longer-term loans, and it is being provided by the companies themselves and by external partners such as microfinance institutions and banks.

**TABLE 3 THE ROLE OF ACCESS TO FINANCE IN NINE CASES**

<b>Access to finance is allowing...</b>	<b>Consumers</b>	<b>to do business with:</b>	<b>Anhanguera</b>
	Consumers		Apollo Reach
	Suppliers		ECOM
	Consumers		FINO
	Distributors		Idea Cellular
	Suppliers and other Farmers		Jain
	Consumers		Manila Water
	Retailers		MiTienda
	Retailers, Consumers		Tribanco
	Consumers		Uniminuto
	Distributors		Zain

**Building the capacity of low-income suppliers, distributors, and retailers is intimately linked with their profitability – and by extension the overall viability of the inclusive business models documented here.**

The more skilled and efficient the suppliers, the greater the reliability, quality, and cost savings for the company in procurement. The more informed the consumers, the easier it is to build new markets. The more productive the distributors and retailers, the greater the sales. In the cases studied here, agricultural suppliers are being trained on productivity and quality as well as eco-efficiency, labor standards, and other requirements for the traceability and certification that buyers increasingly require. Distributors and retailers are being trained in marketing, accounting, managing their cash flows and their employees, and complying with the brand standards of the larger firm. Some companies are also beginning to provide financial literacy for their consumers. In building these types of capacity, inclusive business models often facilitate better access for the poor to formal markets.

**Virtually all of the companies studied here are collaborating in one way or another to operate their inclusive business models.**

Some companies are collaborating with organizations with existing networks, which can act as intermediaries, to get to scale more quickly (Idea Cellular, Zain Madagascar). Others are collaborating to access or build physical infrastructure so as to reduce the end cost to the consumer (Uniminuto, Manila Water). Still other companies are collaborating to provide access to finance for consumers, suppliers, distributors, and retailers (Anhanguera, Apollo Reach, Jain, Idea Cellular, Tribanco, Uniminuto, and Zain Madagascar). Finally, a number of the companies studied here are collaborating to build capacity within their supplier, distributor, and retailer networks (Dialog, Idea Cellular, MiTienda, Tribanco, and Zain Madagascar). These companies' collaboration partners range from other firms, to microfinance institutions, to government agencies, to development finance institutions.



## Advancing the Knowledge and Action Agenda

To a great extent, the common themes described above support the main findings in the inclusive business literature. For example:

- **Networks and technology are critical for companies that need to reach vast numbers of low-income consumers for their inclusive business models to be viable.** Research by the Inter-American Development Bank (IDB), United Nations Development Programme (UNDP), and Monitor Group has recognized the challenges in reaching large numbers of geographically dispersed individuals, ranging from infrastructure to information gaps. Aggregators with existing networks – what IDB calls “platforms” – are considered particularly important to gaining scale rapidly.<sup>6</sup>
- **Consumer, distributor, and supplier financing allows low-income individuals and enterprises to do business with larger firms.** The literature on access to finance for the poor is voluminous. As pertains to inclusive business specifically, UNDP and the World Economic Forum (WEF) have identified lack of access to finance as a key constraint.<sup>7</sup> In India, the Monitor Group has found that “cash flow is king” – and that “business models that ignore the irregularities of cash flows in low-income segments are unlikely to succeed.”<sup>8</sup> Solutions range from microfinance, to harvest credits, to consumer financing, to financing for small and medium enterprises.
- **Collaboration is key.** UNDP, WEF, the global social entrepreneurship organization Ashoka, and others have all documented the importance of collaboration in enabling companies to access assets, capabilities, and knowledge and to share cost and risk.<sup>9</sup> In its work on the role of large firms in expanding economic opportunity, the Harvard Kennedy School found that collaboration was a core component of over half of more than 50 inclusive business models examined.<sup>10</sup>

Inclusive business has reached a stage where it is critical to look not only at what the models are, but also at how those models have started, evolved, reached commercial viability, and scaled over time. Based on an analysis of the 14 case studies documented here – including their limitations, or what they did not cover – this section frames three priorities that need to be addressed to bring down the barriers to entry and ensure success in inclusive business. The first is a question of strategy; the second and third are questions of process. The report concludes with a discussion of the roles that other actors can play, engaging with companies to start and scale inclusive business models and strengthening the ecosystem needed to nurture and enable these models.

- The “whole pyramid” orientation
- Starting inclusive business models
- Scaling inclusive business models



## The “Whole Pyramid” Orientation

**One priority to address in making inclusive business easier and more likely to succeed at scale has to do with strategic focus. While many inclusive business models take a more or less exclusive focus on the base of the pyramid, most of the commercially viable, scalable examples studied here take more of a “whole pyramid” approach in which the poor are segments within a much broader overall market, supplier base, or distribution network.**

The “whole pyramid” orientation seems particularly prevalent in industry sectors where significant physical infrastructure is required, such as electricity (Cemar), water (Manila Water), and telecommunications (Dialog, Idea Cellular, and Zain Madagascar). Cemar, for example, was required by law to electrify the entire state of Maranhão in Brazil’s low-income northeast region. The company was permitted to charge higher-income, higher-usage customers higher tariffs – enabling it to cross-subsidize those with low requirements and abilities to pay, with the government providing additional subsidies. In the telecommunications cases, the companies started in markets at the top of the pyramid to develop steady revenue streams and recoup their infrastructure investments, which eventually put them in a position to develop products and distribution channels for lower-income clients, with lower average revenues per user.

One reason the “whole pyramid” orientation is so prevalent among the 14 cases in this report may simply be that most are well-established companies. Only a few began with a distinct focus on the poor, like MiTienda or Uniminuto. However, the “whole pyramid” orientation of so many of the companies studied here – as well as non-IFC clients like the celebrated Aravind Eye Care – may signal that new or more nuanced thinking is warranted on some of the assumptions that have become generally accepted knowledge in the inclusive business space – for instance, that “doing business with the world’s [poor] will require radical innovations in technology and business models.”<sup>11</sup> Certainly, “business models that function well when dealing with affluent and middle-income customers are unlikely to work as well for low-income markets.”<sup>12</sup> A more important question is, in different industries and geographies and policy environments, what are the right strategies for commercial viability and scale.

There are a number of possible knowledge questions associated with the “whole pyramid” strategic focus. For example:

- When is a more exclusive focus on the poor the right choice – for example because it encourages innovative and tailored products and processes?
- When is a more holistic focus the right choice, in which low-income segments are among many others – for example, because this enhances financial viability, enables scale, or promotes inclusion?
- How can other actors help companies with a whole pyramid focus deepen their engagement at the base – for instance, through financing, capacity-building, or knowledge-sharing?



## Starting Inclusive Business Models

**Creating and deploying a new business model in any market segment is difficult, but business models targeting the poor come with their own unique set of challenges.**

**A second priority, then, is to identify and systematize the approaches and processes that have been used successfully to reduce the barriers to entry for would-be inclusive business entrepreneurs and intrapreneurs within larger firms.**

It is well-documented that companies doing business with the poor face systemic constraints ranging from lack of infrastructure to low levels of knowledge and skills to limited access to finance among low-income consumers and producers.<sup>13</sup> These translate into operational challenges at the firm level (see Box 3), particularly when approached with a “business as usual” mindset.

### BOX 3 FIRM-LEVEL CHALLENGES TO STARTING INCLUSIVE BUSINESS MODELS

- Shortage of market information
- Lack of access to appropriate financing (especially long-term)
- Mispricing of risk
- Finding staff with the right mix of business and development expertise
- Unrealistic expectations of return, time to break-even, and time to generate development impact
- Low tolerance for failure

These systemic and operational challenges mean that starting an inclusive business model is truly an entrepreneurial (or within large firms, intrapreneurial) endeavor. But not everyone can secure the resources or take the risk involved in navigating uncharted waters. Learning from those who have would make it easier, cheaper, and more likely for others to follow in their footsteps – creating toolkits, advisory services, and databases of good practices, for example, to systematize approaches to developing and deploying inclusive business models within large firms.

In addition to understanding what the successful inclusive business models are, it is vital to understand how those models were created. For example, dialogue between private sector companies, development institutions, and others would both expand such knowledge and facilitate public-private partnerships to act upon it. Research relevant to this conversation could address questions such as:

- How should a new inclusive business model be framed, funded, and supported? What are the most effective structures within a large firm – e.g. internal venture funds, separate business units, cross-functional teams, and spin-offs?
- How can other actors best engage with companies in the start-up process – for instance, in sharing cost and risk and contributing other resources necessary to achieve commercial viability?
- Where are the key influence points that need to be leveraged to create internal buy-in, and when and how should they be employed?

- What is the process for setting appropriate expectations among key stakeholders, and how are these expectations best managed over time?
- Where market data is scarce, what approaches (e.g. community engagement, partnerships, proxies) have been used to develop and test successful products, services, and business models?
- What are the indicators that an inclusive business model is ready to scale, and what are the most common mistakes to avoid?



## Scaling Up Inclusive Business Models

**Many promising start-up inclusive business models fail to scale and realize their potential for financial and development impact. A third priority is to better understand when and how inclusive business models scale, identifying key enablers and critical success factors in this process.**

In inclusive business, scale is important for business reasons (to compensate for low margins and reach commercial viability) and development reasons (to match the scale of the need on a sustained basis). In many of the cases studied here, the potential for scale comes from features such as:

- a “whole pyramid” orientation, in which higher-paying customers enable the company to cross-subsidize or to recoup the cost of up-front investments and expand service to low-paying customers at a low marginal cost;
- networks that provide cost-effective access to large numbers of suppliers, distributors, retailers, and/or consumers; and
- collaboration and technology, which increase efficiency and expand reach.

### BOX 4 FIRM-LEVEL CHALLENGES OF SCALING INCLUSIVE BUSINESS MODELS

- Unrealistic expectations on time to reach scale (i.e. scaling too quickly or too soon)
- Lack of access to adequate financing
- Difficulty adapting the initial business model to new geographies and scales of operation
- Lack of appropriate partners in new geographies of operation
- Lack of internal buy-in within the firm

The cases documented here show that despite such features, inclusive business models can still take a long time to scale. While FINO has reached 12 million low-income customers in just four years, most of the other models have taken significantly longer to reach levels of scale appropriate to their countries and industries – and most have further room to grow. The case research indicated that the pathways they are taking to scale are often iterative, rather than linear. Some companies think of it as one long series of pilots, with the model adapting to circumstances and lessons learned. Seeing it through takes time, money, initiative and often senior executive buy-in and significant dedication from staff involved.

Virtually all of the companies studied for this report collaborate in one way or another. A key question is how to choose whether to collaborate, with whom, and how:

- When and for what purposes should companies deploying inclusive business models collaborate – for example, to gain access to networks and relationships; to remain focused on their core competencies; or to share the burden of extending public benefits?
- What kinds of collaboration lend themselves to scale?

- When isn't collaboration the right strategy from a commercial viability or scale perspective, for instance for reasons of competitive advantage?
- What are the various forms collaboration can take, from transactional (fee for service) to strategic (based on alignment of interests)? Under what circumstances, and for what purposes, is one more advantageous than another?
- What partnership models can be used to leverage inclusive business platforms like microfinance retail networks, mobile payment systems, and utility customer bases? Which work and which don't, and why?
- What can development institutions do in collaboration and partnership with companies to scale inclusive business models? What must be done at the level of the individual business model or value chain, and what must be done within the broader business ecosystem?



## Conclusion

**Inclusive business has reached a stage in its evolution as a field of practice where it is critical – and possible – to deepen practical knowledge about both the models that work and the process of starting and scaling them up.**

Functional lessons on starting and scaling commercially viable inclusive business models will help companies learn from each other's experience, accelerating their progress and increasing their chances of success as time goes on.

Such lessons would also help the wide range of partner organizations – bilateral and multilateral donors, foundations, governments, civil society organizations, and others – that are engaging with companies to build inclusive business models, providing insight on the kinds of engagement that would be most catalytic for what companies at what stages.

Companies and their inclusive business models vary greatly in terms of size, industry, how exclusively they focus on low-income populations, the financial and social returns they are expecting or targeting, whether they are local or international in origin, and where they operate. Different types of inclusive business models face different strengths, weaknesses, opportunities, and threats at different stages in their development. They follow different trajectories toward – and may have different capacities for – commercial success, scale, and development impact. An effective segmentation of these different companies and models, and a highly nuanced understanding of behaviors and needs within each segment, would enable partner organizations to provide the right services to the right businesses at the right time. It would also help such organizations determine where it is necessary to act collaboratively to address needs no single organization can address on its own.

Operating an inclusive business model means operating in the context of the complex, systemic challenges associated with poverty – on top of the usual uncertainty associated with any business endeavor. As such, many actors will have roles to play in that model's success. It is our hope that progress on the knowledge priorities framed here will help equip all actors to play their roles in starting and scaling inclusive business models more effectively – and, in doing so, greatly increase the number of commercially viable models operating at scale for the benefit of even more of the four billion people living at the base of the economic pyramid today.

## Appendix

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## 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 approximately 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:

- 54 Campuses** 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.
- 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.
- 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.

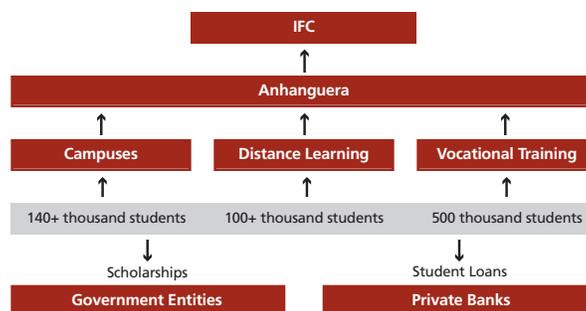
The challenge for AESA has been to balance the provision of affordable, high-quality education while achieving a reasonable return on equity. The company's

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

- National coverage** that offers easy access for working adults with busy schedules, in both urban and rural areas;
- Standardized curricula**, which minimize class preparation time for instructors, and reduce the number of administrative and support staff required by the company;
- High-quality faculty**, many of whom are practitioners rather than full-time instructors; and
- 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.



**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**

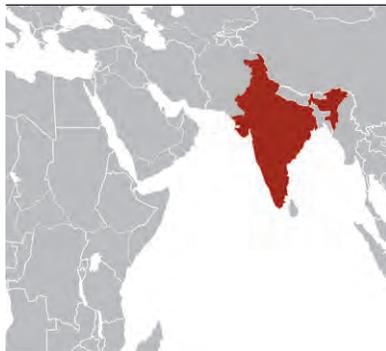
- Net revenues of R\$904.5 million in 2009
- EBITDA in excess of 20%
- Approximately 755,000 students educated in 2009
- Graduates' earning potential increased more than 50%

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**



**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.

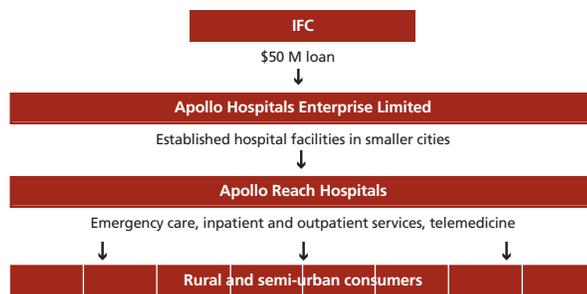
Low cost is another key feature of Apollo Reach hospitals. Treatments in the Apollo Reach model cost 20-30% less than at other hospitals in the Apollo network and other major hospitals. Apollo Reach hospitals are smaller, simpler facilities, offering more limited but robust services than other hospitals 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.



### 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**



### 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 fuel 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.

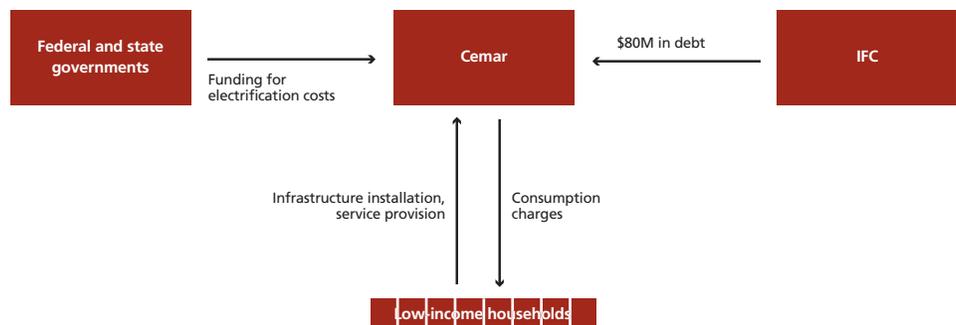
In 2004, GP Investimentos, a private equity firm and the former parent company of Equatorial, took control of CEMAR, which was left financially adrift in the wake of Brazil's 2001 energy crisis. Under the direction of GP Investimentos, CEMAR adopted a new strategy, focusing on building a strong, stable 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%.



## 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.

## 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 both policies to stimulate 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 Investment:**  
\$80 million in long-term debt financing



### 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 under-employed, 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:

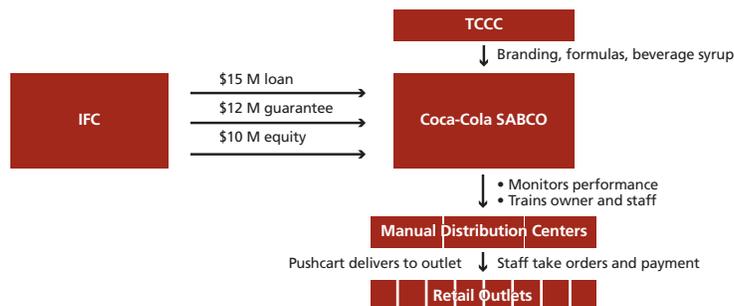
- 1. Assess the need for MDCs:** First, CCS collects detailed data on every retail outlet in the target area. This information is used to develop a beverage demand forecast and determine whether a new MDC is needed, ensuring that MDCs are introduced in areas where they are likely to thrive.
- 2. Recruit 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.



### 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.



### 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.



**International Finance Corporation**  
World Bank Group

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

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

- Generated company revenues of US\$420 M 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 and more than \$420 million in annual revenues. 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.



**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.

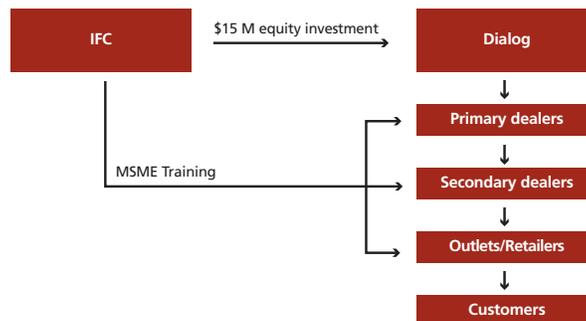
Because these are independent retailers without exclusive arrangements with Dialog, the company must compete with other mobile network operators for shelf space for its products. In part this is done by offering competitive margins on the Dialog products they sell. However, the company has also found 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.



**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.



**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.

**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>14</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 Investment:**  
**\$50 million in long-term debt financing and \$15 million in equity**



**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.

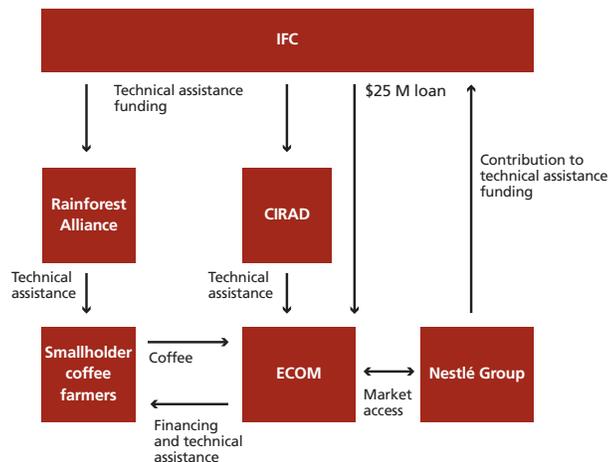
On the technical assistance side, ECOM works with Rainforest Alliance, a US-based NGO that promotes sustainable livelihoods, and CIRAD, a French agricultural research center, in a partnership facilitated by IFC to improve farmer productivity, sustainability, and eligibility for certification. Farmers 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.



### 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.



**International Finance Corporation**  
World Bank Group

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



**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:

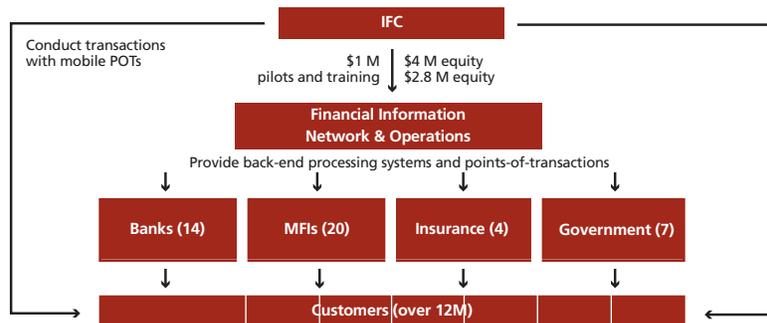
- **Accounting and MIS systems:** back-end processing systems that FINO builds and may maintain to facilitate and track transactions at the financial institution
- **Point-of-transaction terminals:** hand-held mobile devices that 6,000+ FINO agents and their customers use to conduct transactions such 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>15</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.



### 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 the 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 under-served 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.



### 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.

### 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>16</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 Investment:**  
\$6.8 million in equity



**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.

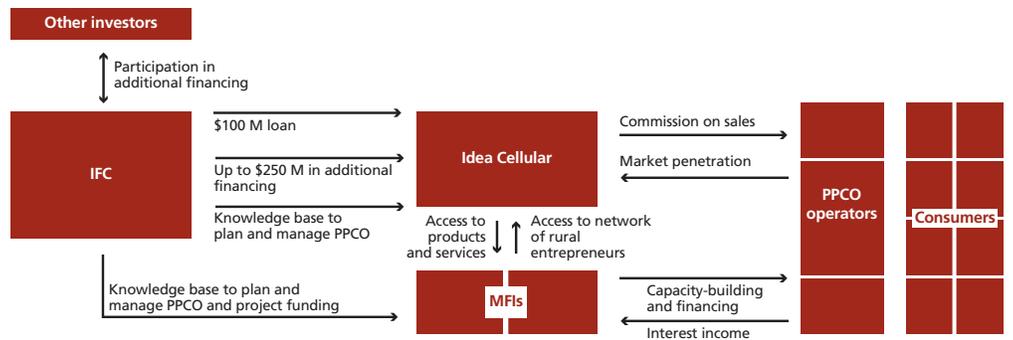
PPCO is a shared access model in which a mobile phone is used as a public phone operated by a micro-entrepreneur. To develop the model, Idea partnered with IFC to leverage its experience with

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.



**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.



**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.

**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.

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>17</sup>

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.

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



**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.

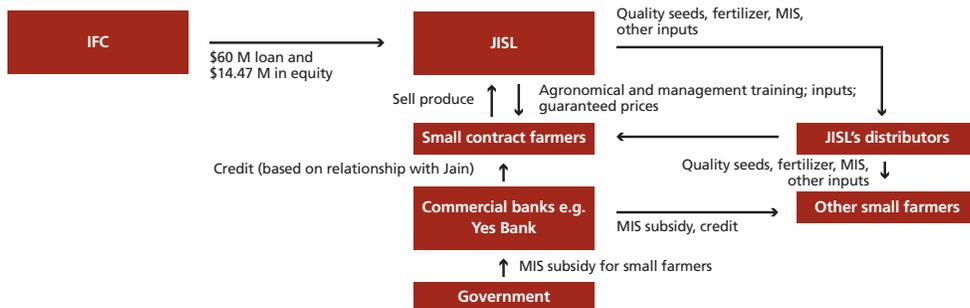
**Reaching farmers as producers**

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.



### 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**



**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**

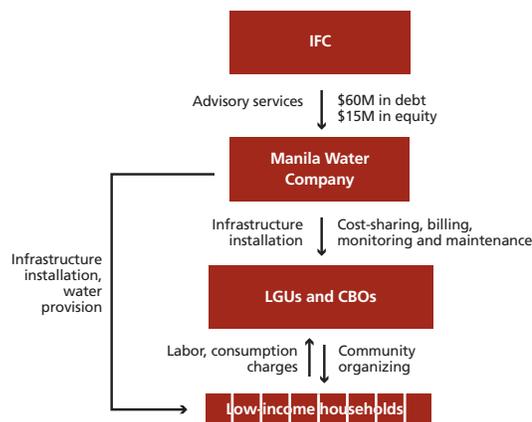
Manila Water’s inclusive business model, Tubig Para Sa Barangay (TPSB), or Water for Poor Communities, is designed to reach low-income communities based on a clear business case: underserved, low-income households demonstrate a willingness to pay for safe, reliable water and connecting them means reaching new markets while reducing costs from inefficiencies and illegal connections.<sup>18</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>19</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 ₱19 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 ₱1.3 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>20</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.



**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>21</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 ₱277 million to ₱6.803 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 ₱37 million loss in 1997 to ₱277 million in 1999 and reached ₱6,803 million in 2008, an average increase of 42% per year.<sup>22</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>23</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>24</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 ₱25 million in new jobs, benefiting 850 families over the last several years.<sup>25</sup>



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



**COMPANY BACKGROUND**

Mexico’s Sistema Integral de Abasto Rural S.A.P.I. de C.V., or MiTienda, 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. MiTienda 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. MiTienda focuses on the country’s more than 600,000 small-scale retailers in rural markets – where large retailers do not reach.

**MITIENDA’S INCLUSIVE BUSINESS MODEL**

MiTienda’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.

MiTienda 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.

MiTienda’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.

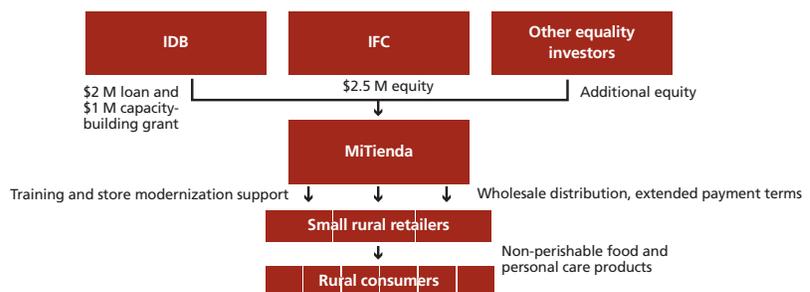
From a cost perspective, it is also important to note that villages in central Mexico are located fairly close together, which enables MiTienda to achieve operating efficiencies and economies of scale.

MiTienda 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. MiTienda 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 MiTienda 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.

MiTienda’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 MiTienda 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, MiTienda 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 MITIENDA'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

MiTienda 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 MiTienda's

original distribution center is located, 30% of stores are unserved. MiTienda'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 MITIENDA'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

MiTienda 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, MiTienda 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, MiTienda'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, MiTienda'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 MiTienda 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 MiTienda implement international environmental, social, and corporate governance standards.

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



## 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.

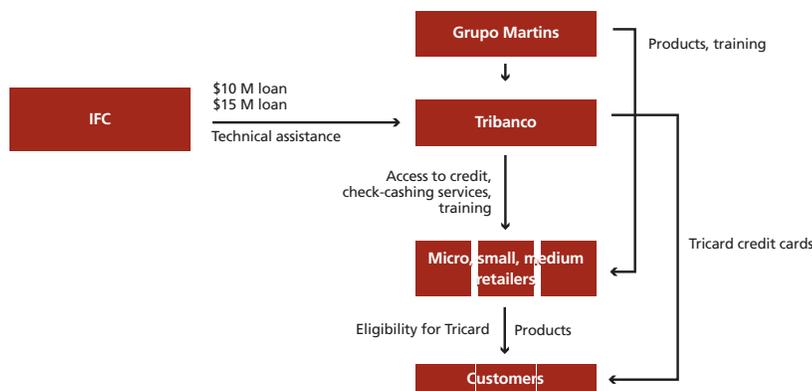
Additionally, 9,000 MSMEs participate in Tricard, Tribanco's branded credit card program. After receiving training from credit officers on customer

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, with only 60 out of 170 million Brazilians or one third of the population able to access banking services. Lack of access to finance negatively impacts the country’s economic productivity and social inclusion.<sup>26</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**



**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.

**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.

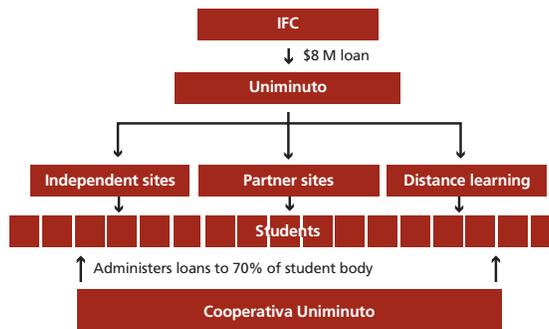
Uniminuto courses emphasize quality and flexibility through a modular structure with early, compulsory levels covering core material and later levels covering more advanced material, leading to higher qualifications. This enables individuals to move from level to level, and exit with qualifications at 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.



### 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.

### 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>27</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 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.



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



**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.

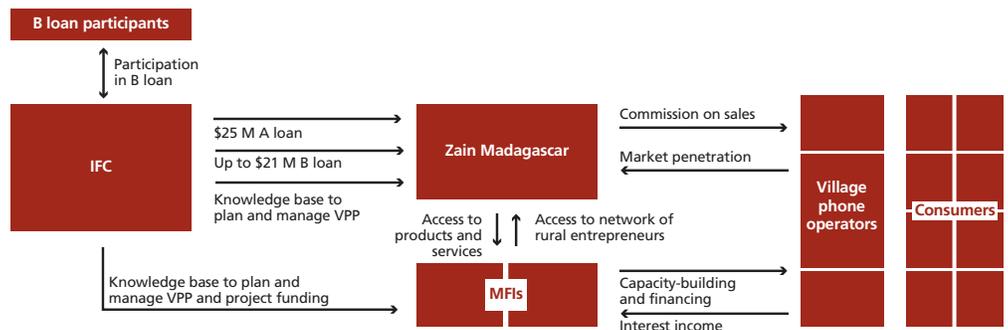
To develop the VPP model, Zain partnered with IFC to leverage its experience with shared phone programs around the world. It is based on a series of grassroots-level partnerships, originally brokered by IFC, with six local microfinance institutions (MFIs). The MFIs are involved to reach as many rural 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.



**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.



**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.

**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>28</sup>



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

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## INTERNATIONAL FINANCE CORPORATION

IFC, a member of the World Bank Group, is the world's largest development finance institution focused on the private sector, committed to creating opportunity to help people escape poverty and improve their lives. IFC's investment and advisory services help clients pursue commercially viable business opportunities at the base of the pyramid, engaging the poor as producers, consumers, and workers. [www.ifc.org](http://www.ifc.org)



## THE CSR INITIATIVE, HARVARD KENNEDY SCHOOL

Under the direction of John Ruggie (Faculty Chair) and Jane Nelson (Director), the CSR Initiative at Harvard's Kennedy School is a multi-disciplinary and multi-stakeholder program that seeks to study and enhance the public contributions of private enterprise. It explores the intersection of corporate responsibility, corporate governance, and public policy, with a focus on the role of business in addressing global development issues. The Initiative undertakes research, education, and outreach activities that aim to bridge theory and practice, build leadership skills, and support constructive dialogue and collaboration among different sectors. It was founded in 2004 with the support of Walter H. Shorenstein, Chevron Corporation, The Coca-Cola Company, and General Motors and is now also supported by Abbott Laboratories, Cisco Systems Inc., InterContinental Hotels Group, Microsoft Corporation, and SAP.

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