



Development Through Innovative Business Models

"Base of the Pyramid - (BoP)"

Conference at the German Federal Ministry for Economic Cooperation and Development (BMZ), Berlin

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gtz



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WELCOME AND INTRODUCTION

Susanne Dorasil, Director, Economic Policy: Financial Sector Division,
German Federal Ministry for Economic Cooperation and Development (BMZ)

Susanne Dorasil opened the conference by noting the growing importance of the discussion on innovative business models at the base of the global income pyramid. She said this was also reflected in the response to the conference. Such approaches, coming under the heading “Base of the Pyramid – BoP”, could give poor population groups better access to important products and services, and lead to new added value in the partner countries. She particularly welcomed the interest shown by the private sector, and looked forward to hearing more on the issue from the speakers and participants.

THE BASE OF THE PYRAMID (BOP), MARKETS AND VALUE CREATION FOR THE POOR

Prof. Ted London, Director of the Base of the Pyramid Initiative, William
Davidson Institute, University of Michigan



For Ted London, “The poor are poorly served.” Products and services are often for sale at much higher prices in markets in the South than in the North. Prof. London sees BoP business models as a way of overcoming the poverty trap.

He contrasted this with the effectiveness of international development cooperation in the last three decades.

Prof. London noted that BoP business models have evolved too. Initially concerned primarily with new distribution channels for existing products, they now focus on developing innovations in cooperation with poor population groups. This involves joint learning processes. The crucial question regarding BoP business models is whether they benefit all concerned, or simply represent PR at the expense of the poor. Prof. London argued that BoP business models are only credible if the competitive advantages of a product emerge through lasting cooperation with local partners, and the added value in the region involved can be sustainably increased.

MICROFINANCE – A CENTRAL ELEMENT OF MANY BOP BUSINESS MODELS

Christian Speckhardt, Member of the Management Board responsAbility -
Social Investments AG

responsAbility refinances microfinance institutes, and in the process indirectly supplies the necessary capital for many BoP business models. The company borrows funds for this on the international financial markets. According to Speckhardt, *responsAbility* is “one of the world’s top three” among private refinancers of microcredits.

It has long been demonstrated that microfinance is a sustainably profitable and hence commercially practical BoP business model. The huge need for microfinancing can only be met in future by private investors. By 2015, Speckhardt expects demand for financing to grow to USD 250 billion. However, he says available investment will only rise to USD 25 billion. This “massive shortfall in financing” cannot be met from current investors and forms of investment. Speckhardt added that experience with microcredits has shown that poor but economically active people are very reliable business associates. However, high transaction costs enforce standardisation of the lending process. Approaches have to be developed on a partnership basis between the private sector, development organisations and NGOs.



BOP BUSINESS MODELS

Dr Andreas Blüthner, Strategy Manager, BASF Micronutrient Initiatives

BASF experience with BoP activities in the fields of nutrition and vitamin/mineral deficiencies shows that business models are only successful if the products and services offered are affordable for people, offer them added value, and can be marketed profitably by the companies.

Dr Blüthner identified the central challenge as bundling the individually small purchasing power of a large number of poor people without forcing up distribution costs too much. He said companies and actors in development cooperation are facing

the same challenge in introducing successful BoP models on a wide scale. In a project promoted by BMZ, for example, GTZ and BASF are collaborating on strategies to enrich staple foods with vitamins.

Blüthner also sees further possibilities for BASF to become involved in the fields of agriculture, food and energy efficiency. He suggested looking at how the BMZ's Public-Private Partnership programme could be modified so that more BoP projects can be promoted in future.



WORKSHOPS ON THE BOP BUSINESS MODELS WITH REPRESENTATIVES FROM ITC INFOTECH, ● ALLIANZ SE AND UNILEVER

01 WORKSHOP ON BOP BUSINESS MODELS: AGRICULTURAL SECTOR – INFORMATION AND COMMUNICATION TECHNOLOGIES FOR MORE TRANSPARENCY

Company representative: V. Sreenivasan, Head of European Operations, ITC Infotech
Moderator: Dr Andreas Springer-Heinze, Senior Planner, GTZ

Participants in the workshop discussed a business model for market transparency. Over 40,000 villages in India, often not even connected to the public electricity grid, are serviced by some 6,500 E-Choupal internet kiosks, giving them an IT-based infrastructure increasingly run on solar energy.

Through online satellite links, *E-Choupal* provides farmers with information on ITC prices, giving them access to international grain exchanges. As V. Sreenivasan impressively showed, this knowledge breaks a vicious circle which has dominated the farmers' lives for centuries – low investment leads to low productivity, which in turn means that farmers can only earn small incomes and lack the necessary funds to invest. The main cause of this, he explained, is the non-transparent and unreliable pricing by middlemen. He thinks the new infrastructure will also attract businesses (ranging from supermarkets to cinemas) to the new types of marketplace near the internet kiosks. For ITC's traditional agricultural trading divisions, this means gaining access to farmers as sellers of raw materials and buyers of seed, fertiliser and equipment, thus bypassing inefficient structures.

Some participants saw the financing of a broad-based market launch in India as a challenge. Sreenivasan explained that the kiosks pay off for ITC in 3 - 5 years. Farmers' motivation is enhanced, product quality improved, and distribution channels become more transparent. Asked what role the formerly powerful middlemen would play in future, he emphasised that they also have their place in the business model – they become warehousing managers, benefiting from sales. Andreas Springer-Heinze, responsible for promoting value chains at GTZ, felt it was "very helpful to take a closer look at this context-based business model. It is at least a further indication that a market economy can function under other and much more cooperative assumptions, and that the West can possibly learn from another culture here."

ITC Infotech is a wholly-owned subsidiary of ITC (formerly Imperial Tobacco Company). With a market capitalisation of around USD 20 billion, ITC is one of the biggest listed companies in India. A growing presence in IT services and consumer goods, such as clothing, food and cosmetics, is supplementing the core businesses of cigarettes, hotels and agricultural trade.

02 WORKSHOP ON BOP BUSINESS MODELS FINANCIAL SECTOR / MICROINSURANCE

Company representative: Michael Anthony, Microinsurance Opportunities and Strategic Partnerships, Allianz SE

Moderator: Christina Gradl, Martin Luther University Halle-Wittenberg,
PhD candidate

Moderator Christina Gradl organised discussion of the Allianz initiative to offer microinsurance in developing countries along the lines of the *UNDP Growing Inclusive Markets Initiative* strategy matrix.

The matrix organises experience from 50 case studies worldwide. It is the core of the UNDP report *Creating Value for All: Strategies for Doing Business with the Poor*, describing obstacles to developing business models and strategies for solutions. According to this report, the primary shortages preventing market development are market information, functional regulatory institutions, infrastructure, knowledge and skills on the part of the poor, and access to financial services. Possible approaches for companies involve adapting

products and processes, and initiatives to improve the framework conditions. These can only succeed through cooperation with governments, NGOs and other actors.

Michael Anthony talked about customised insurance products for poor people which Allianz has developed in close collaboration with the humanitarian aid organisation Care International, local self-help groups, the UNDP and GTZ. These products are offered in India and Indonesia to insure against basic risks. Allianz, GTZ and Care are cooperating with local actors, e.g. trade unions, in a Public-Private Partnership (PPP) promoted by the BMZ. Contact with poor people has also been established through village headmen and women's self-help groups.

The discussion explored the challenges facing the new business models in the BoP market. First, an understanding of the new target group and their circumstances and needs must be developed in the companies. Potential customers must be provided with information in a way that develops trust – a fundamental requirement for people to accept such complicated products as insurance policies. Finally, the models must be invulnerable to runaway bureaucracy and regulation and corrupt networks. Questions still to be answered are how to collect insurance premiums other than in cash, and how to deal with customers who do not possess valid identification.



03 WORKSHOP ON BOP BUSINESS MODELS: CONSUMER GOODS (HYGIENE, NUTRITION AND HEALTH)

Company representative: Anita Kumar, Global Corporate Responsibility Manager, Unilever

Moderator: Heiko Schwiderowski, Head of Division , German Association of Chambers of Industry and Commerce (DIHK)

Hindustan Lever, the Indian subsidiary of Unilever, launched the Shakti business model in 2001. Women organised in self-help groups are trained to build up door-to-door trade. By selling in remote villages, they enable the Lever Group to reach markets which were previously virtually inaccessible. To date, some 42,000 women in 15 Indian States have set up their own trading microbusiness. The initial investment is made possible by a microcredit of around USD 200.

Cooperation with NGOs based on trust and confidence was the only way to reach the women's self-help groups. Conversely, cooperation with Hindustan Lever enabled the NGOs to create new income opportunities for the women, and so enhance their credibility.

The caste system complicated the project. It was necessary to support not only hard skills (like bookkeeping knowledge), but also the acquisition of soft skills (such as reinforcing self-confidence) through workshops.

The average monthly earnings of Shakti businesswomen are USD 12.50. This significantly boosts household income, which averages USD 21 in the region.

In parallel, Unilever is carrying out public education campaigns in the Shaktivani programme on hygiene in rural areas. The necessary changes in behaviour are frequently channelled through the children, as Anita Kumar emphasises. If they drink water which has been purified using the Unilever product "Pureit" at school, they often ask for water which has been treated the same way at home. "The key task of the private sector is to satisfy people's basic needs," comments DIHK moderator Heiko Schwiderowski. "Assisting small establishments is a promising approach here."

The wholly-owned Unilever subsidiary Hindustan Lever has been working in India for over a century. With sales of USD 2.3 billion, Hindustan Lever is one of the leading companies in India.



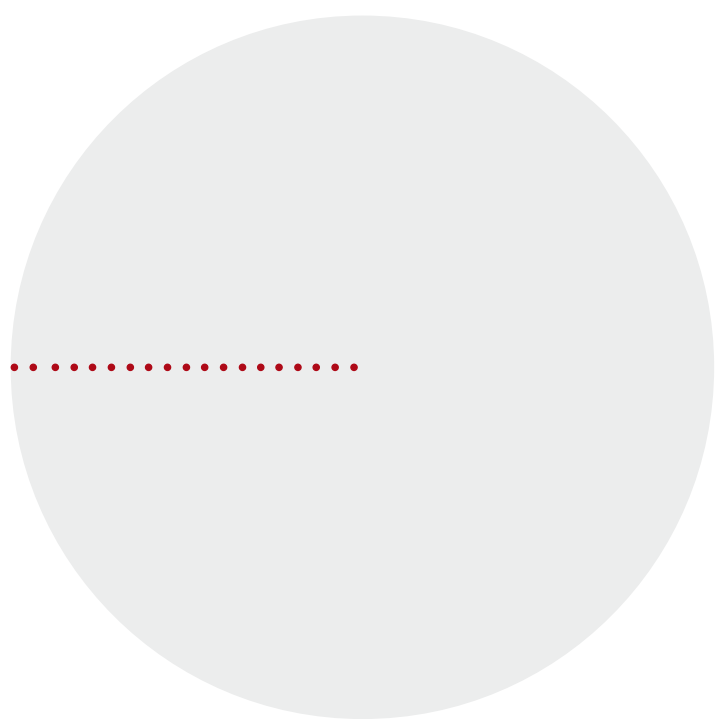
INNOVATIONS FOR THE POOR – HOW CAN THE DEVELOPMENT SECTOR CONTRIBUTE?

Dr Tilman Altenburg, Head of Department, Department of Competitiveness and Social Development, German Development Institute (DIE)



Tilman Altenburg criticised the overoptimistic expectations attached to first-generation BoP approaches. He pointed out that the International Finance Corporation (IFC) as part of the World Bank Group has adopted the approach and linked it to its deregulation policy. Dr Altenburg recommended caution if private BoP investments are presented as an alternative to government development cooperation (DC). Instead, he believes DC should play a supporting role, helping structure-forming effects and innovative solutions.

Dr Altenburg sees the advantages and an important role for the private sector in reducing poverty – particularly where products have widespread effectiveness, for example microcredits or cellphone systems. For consumers, there must be net effects, i.e. an increase in purchasing power or cheaper products, rather than a shift in patterns of consumption. More promising in Altenburg's view are BoP business models which include poor people in production – he describes these models as second-generation BoP approaches.



MARKET-LED POVERTY REDUCTION

Wolfgang Schmitt, Managing Director, GTZ

The interesting thing about the BoP perspective is that poor people are no longer perceived as “objects” to be helped, but rather as “subjects” to do business with. They are thus equals in cooperation, as Wolfgang Schmitt emphasised.

In many cases, development of innovative business models can draw on the experience of German development cooperation. With the help of private partners ready to invest, the know-how developed, for instance, in programmes to develop appropriate technologies can be applied in innovations to help the poor.

GTZ can help companies with its knowledge of political and economic structures. It has a great deal of experience in coordinating cooperation between companies, NGOs and government agencies. Value chain development schemes are particularly suitable for promoting BoP projects. Through BMZ programmes in the field of sustainable economic development, GTZ is improving the framework conditions for SMEs and the consulting infrastructure for such enterprises in many countries.

The Public-Private Partnership (PPP) programme, which is executed on behalf of BMZ by various implementing organisations including GTZ, is ideally suitable for promoting BoP projects and creating new and sustainable ways of production and marketing.

GTZ experience draws on over 700 PPP projects. For example, GTZ is involved in a joint measure to enrich basic foods with vitamins, assisting national authorities in various developing and emerging nations to develop local industrial standards, and ensure that food products are correspondingly labelled. It is also



advising the participating nations in legislative institutionalisation of the model, and developing a monitoring system to ensure compliance with standards. The contribution of the private partner in this project is to familiarise local companies with modern production processes and assist them with manufacturing and quality assurance.

The range of possible development partnerships between GTZ and the private sector is broad. It ranges from food and health projects, through education, energy and waste management projects, to technology development and management consultancy projects. GTZ is supported by many companies with business models which promote development. The contact is the Center for Cooperation with the Private Sector.

BE. – BUILDING ENTREPRENEURS.

**Eva Muraya, Managing Director,
Color Creations Ltd.**

Eva Muraya, a successful businesswoman from Kenya, presented her business model. Her first step was to build up an SME in the clothing sector. In the next step, she integrated unemployed young people in her business concept through a franchise system. For the equivalent of USD 12, Be. franchisees receive an entry package containing a catalogue and sample T-shirts. This enables the young entrepreneurs to order and sell pre-produced goods.

The key element in the distribution concept is possible because of the growing spread of the internet in Kenya and cooperation with a microfinance bank. An internet platform teaches young people the basics of entrepreneurial activity. They need these, because they are not simply taking on some set consignment of ready-made clothing. The young people can design T-shirts (and in future other items of clothing) themselves, or offer their customers the chance to make their own designs. The designs for printing are sent digitally to Muraya's production plant; the T-shirts are made and posted back. A microfinance bank which opens business accounts for small enterprises provides the enterprise with long-term backing. In this way, the bank gains new customers, increases its sales, and achieves national recognition.

Conference participants learned from this presentation how SMEs can also use BoP models to develop markets. Color Creations Ltd. was formed by Ms Muraya in Kenya in 2001. It is the first advertising and branding company in Eastern and Central Africa to be certified to ISO 2001:2000. The company has around 80 employees and sells advertising and campaign material, especially to NGOs and retail companies. Muraya gegründet. Es ist das erste Werbe- und Brandingunternehmen in Ost- und Zentralafrika, das ISO 2001:2000 zertifiziert wurde. Das Unternehmen beschäftigt rund 80 Mitarbeiterinnen und Mitarbeiter und verkauft Werbe- und Kampagnenmaterialien insbesondere an Nichtregierungsorganisationen (NGOs) und Einzelhandelsunternehmen.

OXFAM GB

**Nicola Day, Head of Private Sector
Strategy**

Nicola Day, from the British aid organisation Oxfam, emphasised the need to accompany BoP business models with effective consumer protection. She argued that it is the job of the state to ensure consumer protection. The effects of innovative models, while positive in principle, must not be allowed to lead to new monopolies, so that some regulatory framework for competition is also needed.

Ms Day also asked pointedly what would happen to the poorest people who could not be included in business models, and called on the private sector to give some thought to them as well. She noted that BoP often makes heavy demands on infrastructure and investment. Profits are often only possible in the long run. This makes it necessary to look at the consequences if a company abandons a business model. Here, DC programmes could provide specific assistance – for example, by assisting SMEs already in planning the structure and size of their BoP business model.

She believes the BoP concept has a great deal of potential, as it matches the language and thought of the entrepreneurs. Ms Day added that the growing interest of the private sector in the markets offered by poor people could be utilised by NGOs and DC organisations to establish new partnerships.



Eva Muraya (rechts)



IMPRESSUM

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