Nancy Abeiderrahmane made unusual investments in her Mauritanian business environment. Every dairy business needs a cold chain and storage facilities. But not every dairy business needs to offer skills training or insurance to its suppliers. By training the herders in management and effectively establishing an insurance system against production volatility and livestock loss, Nancy removed constraints on knowledge and skills, infrastructure and access to finance in her market—providing conditions that her business needed to succeed, and that companies in developed markets usually take for granted (box 4.1).

As chapter 2 discusses, the markets of the poor are characterized by five broad constraints that deter business entry and hinder growth: limited market information, ineffective regulatory environments, inadequate infrastructure, missing local knowledge and skills and restricted access to financial products and services among potential suppliers and customers. To succeed, many inclusive business models must invest to remove these constraints.
Many inclusive business models invest in the knowledge and skills of their target customers, producers, employees or micro-entrepreneurs through training, marketing and education. As the matrix shows, investing is used least frequently to make regulatory environments more effective, since businesses have neither the mandate nor the ability to make or enforce regulation. They could only enforce existing regulations within an organization, or make rules to bind themselves.

Investing to remove constraints in poor people’s markets can create both private and social value. On the private side, investment can increase firm-level quality and productivity and stimulate market demand. It can drive development of new capabilities, enhance corporate reputation and improve the competitive context for business. On the public side, removing market constraints creates benefits that are shared outside the business. For example, a firm that provides education and training for its employees helps create a more highly skilled workforce, a resource that is shared as its employees move on to other jobs and business opportunities. Similarly, a firm that gathers and analyses market information might begin as the sole beneficiary of its efforts. But as it begins to succeed, others will learn from and imitate its approach, increasing choice and driving down prices—benefiting even more low-income consumers.

From a traditional business planning perspective, the question is whether investing to remove constraints in the existing market can create enough private value to be cost-
milk to market safely. Tiviski also invested in support programmes for the herders—the company’s lifeblood—providing them with training, veterinary care and fairly priced animal feed. Through loans from Proparco, the International Finance Corporation and a local bank, as well as through the company’s own cash flow, Tiviski was soon able to invest the 4 million needed to build an ultra-high temperature processing plant. The company now exports camel cheese to New York City.

Nancy’s willingness to risk a large initial investment brought rewards to her and to many other Mauritanians. Tiviski is profitable. It directly employs 200 people and indirectly supports 1,000 families. Animal herding is becoming more accepted as a chosen occupation. Safer, more widely available camel milk is making many people healthier. A traditional way of life is being preserved. And the business is environmentally sustainable. ‘Our experience is very simple, very reproducible’, Nancy says. In addition, ‘you do have the satisfaction that you are making a big difference for a lot of people.’

ENSURE PRIVATE VALUE

Removing constraints in poor people’s markets is cost-effective when it creates private value that is tangible (through increased productivity, quality or market demand) and capturable (ensuring sufficient benefits to the company). But removing constraints can also be cost-effective by creating or being made to create intangible, or longer term, private value.

Conduct market research. Amassing market information creates tangible value. Construmex, a venture of the Mexican
construction giant CEMEX, was conceived as an ‘in-kind remittance’ product, enabling Mexican migrants living in the United States to purchase home building materials for relatives in Mexico. Despite CEMEX’s knowledge of low-income consumers in Mexico, it initially knew little about the migrants who were the target market for Construmex. Construmex partnered with Mexican consulates in major US cities to do market research, including surveys, interviews and focus groups. In exchange, it provided the consulates with material donations to restore and improve consulate facilities. The investment paid off: since 2001 Construmex has served more than 14,000 Mexican immigrants and generated $12.2 million in sales of construction materials, with a view to break even in the years to come.

The value of an investment in market information is not only tangible but fairly capturable, since a company can keep the information proprietary—at least initially. Later, when the company has succeeded, others can observe and benefit by replicating its initiatives.

Build infrastructure. Businesses that depend on delivery infrastructure may have to invest in filling infrastructure gaps. Such investments are less common for roads than for infrastructure that is usually proprietary, such as pipelines, landlines or electricity grids.

After Manila Water won the concession to serve the east zone of metropolitan Manila, the company had to invest heavily to improve and expand pipeline infrastructure. By 2005, it had added almost 1,300 kilometres of pipelines and invested the equivalent of more $340 million. These investments have paid off: its customer base has doubled, nonrevenue water use has fallen, service is consistently available and water quality is excellent.

Improve supplier performance.

Building employee and supplier knowledge, skills and access to finance creates tangible and capturable private value. By increasing productivity, quality and reliability, their value to the business increases.

Many inclusive business models in the Growing Inclusive Markets database reflect such investments by firms. Guyana’s Denmor, a clothing manufacturer, spends over $250,000 a year training low-income employees in basic literacy and life skills. The employees must learn to write their
names, count and read labels and garment specifications. They are given paid time to participate in sessions with invited representatives from the Ministry of Social Services and other agencies, such as the Pan American Health Organization. The result: Denmor’s workforce is highly motivated, and retention rates and productivity are high.

In Ghana, Barclays Bank has engaged traditional money collectors, known as Susu collectors, to offer a wider, safer range of savings and loan products to low-income citizens. Barclays offers the Susu collectors in its network training in delinquency management, financial credit and risk management. Barclays also offers its end users education on financial management and insurance. In the long run, this education will benefit Barclays, because more end users will appreciate the value of savings and channel theirs to the bank through the Susu collectors.

When investing to remove knowledge and skills constraints, some businesses share the cost with their employees or suppliers through programme fees. Such fees may be nominal and largely symbolic, intended chiefly to enhance participants’ commitment to the programme. Or they may be financially significant, directly recouping some programme costs. Other businesses recoup them indirectly through increased quality or productivity, perhaps using contracts to ensure that they reap the benefits. It is fairly common to offer employees education and training programmes if they will commit to work for the company for a specified amount of time. Contracts with suppliers are often designed to help capture as much value as possible from any assistance a company gives them. To reap the benefits of the interest-free loans it provides to farmers in its outgrower network, Ghana’s Integrated Tamale Fruit Company requires farmers to sell all their mangoes through the company until their loans are repaid (box 4.2).

Box 4.2. The Integrated Tamale Fruit Company: investing to remove market constraints and ensure quality crops

The Integrated Tamale Fruit Company, an exporter based in Ghana, has made substantial investments to remove constraints in its suppliers’ knowledge, skills and access to finance.

The company loans farm inputs—cutlasses, seedlings, fertilizer, water tanks and water service and technical assistance—to mango farmers in its outgrower network, who would otherwise need to invest about $7,000 over five years before seeing real returns from their crops. The cost of the loaned inputs is repaid, without interest, starting in the fifth year. About 30% of sales go towards repayment.

The company also provides education to the outgrowers, whose ability to repay the loans depends on their ability to produce good crops. Since illiteracy makes it difficult for the farmers to meet international standards, the company began training the farmers in best practices.

Another skill important to the success of the outgrower scheme was the farmers’ capacity for self-representation. The company organized farmers into an Organic Mango Outgrowers Association, which acts as an intermediary between the farmers and the company, serving as the farmers’ voice and advocate and allowing a more efficient dialogue with the company. A transition is planned to a financing structure based on membership fees.
Raise awareness and train consumers. Investing in consumer knowledge and skills can also create highly tangible, capturable value for a company, depending on the company-consumer relationship and the presence of competitors. This is a common strategy for stimulating market demand among the inclusive business models in the Growing Inclusive Markets database. Sometimes the investments are simply marketing intended to generate brand awareness; other times they help customers understand a basic value proposition. To stimulate demand for its toilet facilities in India’s low-income communities, Sulabh conducted sanitation and hygiene awareness campaigns. About 10 million people have used the facilities; Sulabh’s revenues in 2005 were $32 million, with a 15% profit margin. Similarly, Unilever raised awareness about the health benefits of handwashing to stimulate demand for its Lifebuoy soap. Some 70 million people in rural India have benefited from Unilever’s Health Education Program—the single largest private hygiene education programme in the world—and today Lifebuoy leads in every Asian market where it operates.

Consumer education can enhance a company’s reputation by establishing trust in a brand. And in a market with few or no competitors it can help solidify the company’s first-mover advantage. However, the more competitors present in a market, the less likely that a business will be able to reap all the benefits of its investments in consumer education. That drawback can be countered in industries with longer-term relationships between businesses and their clients. In such industries, a firm can restrict access to knowledge- and skill-building services to its own customers. For example, a financial services company might provide financial literacy programmes to its consumer credit clients or basic accounting and even business management skills to its small business borrowers.

Kenya’s K-REP Bank trains its loan clients in financial literacy, business skills and responsible use of credit. While increasing the value of the loan to the client, training also increases the likelihood of repayment. Similarly, Barclays offers training not only to the Susu collectors through which it provides microfinance services, but also to the collectors’ end clients. Other industries, too, can use consumer education and training to help low-income consumers use products and services more effectively. Patrimonio Hoy, a programme from Mexican cement giant CEMEX, supplies home design and construction assistance along with the building materials that it sells to low-income consumers in Mexico. By ensuring that the results of the programme are safe, durable and attractive, CEMEX prevents liability, enhances its brand image and fuels word-of-mouth advertising.

Build financial products or services. In some industries, removing constraints to consumer access to financial services can create tangible, capturable value for inclusive business models by enabling poor consumers to patronise them. Offering consumer credit is especially useful for expanding a customer base if competitors do not offer such loans. Examples include Casas Bahia in Brazil, CEMEX’s Patrimonio Hoy microloan system for home builders and Mexican retail giant Elektra’s Banco Azteca (which Wal-Mart is now replicating in Mexico). In Indonesia, taxi drivers are not considered creditworthy, making it nearly impossible for them to get credit to start a taxi business. As a result, taxi company Rajawali designed a taxicab ownership scheme, under which the company guarantees individual loans to
taxi drivers from a local leasing company, repaid daily over five years. With a default rate of zero and increased accountability from the drivers, the company benefits and the 2,257 participating drivers earn an increased net income, along with a deep sense of security and opportunity.³

Capture the intangible benefits.
Besides creating tangible value, removing constraints in knowledge, skills, infrastructure and access to financial products and services can create intangible or longer-term value—for example, brand image, employee morale, corporate reputation and the potential to develop new capabilities and strengthen the competitive context for business. Capturing this value increases the cost-effectiveness of investing in removing market constraints. The Indian firm Tata Sons Limited has invested heavily in market conditions in the cities where it operates for all these intangible and longer-term reasons, providing road maintenance, water and electricity, street lighting, health care, sanitation, education and more. Jamshed Irani, director of Tata, argues: ‘[India is] far away from reaching that phase of economic development where government is solely responsible for the basic needs of the public. We don’t have a social security, adequate health and education services. So till then, corporate houses should fill the gaps.’⁴

By providing such services, Tata also acquires experience that will enable it to engage in new core business activities. An example is the Jamshedpur Utilities & Services Company, a wholly owned subsidiary of Tata Steel, preparing to exploit commercial opportunities in untapped municipal services business, especially water and sanitation. As Managing Director Sanjiv Paul explains: ‘If India has to move forward, these services, some day or the other, will have to be privatized in the rest of the country also, and we will then be in a position to broaden our services.’ Haldia Development Authority has awarded Jamshedpur a contract to provide water infrastructure, and the company has partnered with Veolia Water India to jointly bid for projects launched by government and private organizations. For the near future, the company is targeting cities including Bengaluru, Delhi, Kolkata and Mumbai.⁵

Another example comes from South Africa’s mining industry. The post-apartheid government realized that the country’s prospects for political stability and economic growth depended on giving economic opportunities to historically disadvantaged groups, primarily blacks. An aggressive Black Economic Empowerment agenda required companies to meet targets for ownership, employment and procurement by blacks to qualify for government contracts. A mining company, Anglo American, increased its Black Economic Empowerment procurement by building the knowledge and skills of small Black Economic Empowerment businesses and improving their access to finance. The company set up an internal venture fund, Anglo Zimele, to offer these services on a commercial basis. The fund is now highly profitable.⁶
As discussed above, investing to remove market information, knowledge, skills, infrastructure and access to financing constraints creates public and private value. Denmor and the Integrated Tamale Fruit Company are not only increasing their employees’ and suppliers’ effectiveness on the job, but they are also developing human capital that will open other economic doors for them. Sulabh and Unilever are not only drumming up demand for their toilets and soap, but they are also raising awareness about key public health issues, reducing the incidence of disease. Construmex is demonstrating a business model that other firms—in the construction materials sector and beyond—can emulate, providing even more options for migrants who want to help their families in their home countries.

The social value these investments create opens doors for cost-sharing with socially minded funding sources. That can be extremely important in building the confidence of entrepreneurs and larger firms to invest, and in making an investment potentially cost-effective for those who doubt they can extract enough private value from it otherwise.

Socially minded funding sources include international donors, individual philanthropists and nonprofit social investment funds, as well as governments. They enable the private sector to create social value by sharing costs in two ways: through grants and through reduced-cost and ‘patient’ capital.

**Use grants, subsidies and donations.**

Grants, subsidies and donations are allocations of capital that are not expected to be repaid. Grants can be available externally and, in large firms at least, internally through corporate social responsibility and philanthropy departments. Common external sources of grants are national, state and local governments and bilateral donors such as Agence Française de Développement and the US Agency for International Development. Multilateral donors such as the World Bank sometimes offer grants.

Government grants and subsidies are common in many business contexts, covering basic research and development to export promotion. Now they are being offered to businesses investing to remove constraints in poor people’s markets—and for other aspects of inclusive business model development, such as feasibility studies, pilots and training programmes. Some aim to create incentives for one-time investments in shared resources, such as roads or electrical grids. Others aim
to promote business models that will make people’s lives better on an ongoing basis, increasing their income, improving their health and so on. Some aim to do both. Both types of grants are investments in social value creation.

In Mozambique, the governor of Cabo Delgado province provided state funding to two nongovernmental organizations to form a for-profit subsidiary called VidaGas, which provides poor households in rural, urban and peri-urban areas with liquefied petroleum gas as a substitute for kerosene, an efficient, clean and cost-efficient alternative that promotes improved health conditions. In Poland local governments in rural areas contributed 30% of the startup funding for DTC Tyczyn, a rural telephone cooperative, with the remainder of the investment coming from the sale of shares, connection charges for subscribers and bank loans at preferential rates.

An example of bilateral donor funding for inclusive business models is the public-private partnership programme of Gesellschaft für Technische Zusammenarbeit, the German government’s development agency. The programme funds investments that go beyond core business activities, including investments to remove constraints in poor people’s markets. Success stories include a startup to provide medical equipment to Tanzania’s public hospitals, capacity building to help Ghanaian tomato farmers do business with Unilever and research and training in Viet Nam to promote sustainable cocoa farming in Mars’ value chain. Another organization that offers such grants is the UK Department for International Development (box 4.3).

As DFID and the United Nations Capital Development Fund (UNCDF) mention, best practice in grant funding is generally considered to ‘serve the purpose of institutional and market development without unduly distorting the market or lowering the incentives for strong institutional performance.’ According to the Development Finance Forum, ‘costs that are “smart” to subsidize are, for example, startup costs, research and development, costs of high-risk/significant impact products, costs for capacity building, costs for building customer capacity and costs of building capital access.’

To the list of costs that are smart to subsidize, Harvard economist Dani Rodrik adds training costs for technical, vocational and language skills. In South Africa’s Rand Merchant Bank 20% of a grant from Agence Française de Développement supported education of home loan candidates about their prospective rights and duties as homeowners. Such education helps poor clients get the most out of investments, makes on-time repayment more likely and—when home purchases are successful—can encourage more clients to buy homes.

Rodrik cautions that direct transaction subsidies are not always smart—they can easily ‘[invade] the heart of market processes [and] run the risk of distorting prices and incentives’—but he affirms that with careful attention to design such subsidies can create welcome demonstration effects. An example of such

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**Box 4.3. Offering grants for inclusive business model development: the challenge funds of the UK Department for International Development**

The challenge funds of the UK Department for International Development, including the Business Linkage Challenge Fund and the Financial Deepening Challenge Fund, offer grants for preparatory phases and for investments, including investments to remove constraints in poor people’s markets. Successes include:

- **Vodafone’s M-PESA mobile transactions service in Kenya**, which is signing up more than 6,000 people a day.  
- **Standard Chartered’s agricultural credit card in Pakistan**, which enables farmers to obtain seeds and other inputs at the beginning of the season and pay for them at harvest.  
- **TATA-AIG’s network of microinsurance agents in India**, which during its first three years sold more than 34,000 policies.

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2. Roth and Athreye 2005.
careful design: a subsidy, supported by international donor money, from the Malian Agency for the Development of Household Energy and Rural Electrification to expand the Rural Energy Services Companies that will pay for up to 70% of the expansion, allowing the companies to roughly halve tariffs and increase Malians' access to energy. If the companies' profit margins exceed 20%, the subsidy will be reduced.

Bilateral and multilateral donors can have complex application and social impact reporting requirements. Entrepreneurs and companies seeking donors' help must evaluate the transaction costs of these requirements. But donor funding often carries perks such as technical assistance, contacts and credibility. Both small and large companies have taken advantage of donor funding.

In investing to remove constraints in poor people's markets, or for inclusive business model development more generally, large companies can also leverage internal budgets for philanthropy, public affairs and corporate social responsibility. In the Banda Aceh region of Indonesia, where housing, factories and basic infrastructure were totally devastated by the 2004 tsunami, French building company Lafarge chose to invest in local infrastructure while rebuilding and reopening its cement plant. It constructed 500 homes, schools and mosques that benefited local inhabitants as well as Lafarge employees. While enhancing Lafarge's local image, the initiative also showcased the virtues of cement-based materials in housing construction.

People who oversee company budgets for philanthropy, public affairs and corporate social responsibility can often help develop inclusive business models. Indeed, some are expressly charged with investing to remove market constraints. For example, poor public health lowers productivity and increases employee turnover costs. Companies such as mining firms Lonmin11 and Anglo American12 that operate in Sub-Saharan Africa, where HIV/AIDS is prevalent, have built robust corporate social responsibility programmes to provide counselling, testing and treatment for their employees.

Tax relief is also a key enabler for businesses. The South African government's Strategic Investment Programme (with tax relief) induced companies such as Aspen Pharmcare to invest in manufacturing facilities for generic antiretroviral medicines for HIV-affected people. Aspen Pharmcare now supplies South Africa's national antiretroviral treatment programme with approximately 60% of its current medicine requirements.

Finance with reduced cost or patient capital. In contrast with grant funders, reduced cost or ‘patient capital’ investors expect returns—however large or small—from their investments in inclusive business models. In Ecuador, Hogar de Cristo, a housing nonprofit organization that constructs houses and provides mortgage products to the poor, received a large block of patient loans from the Inter-American Development Bank to expand its steel frame house and microcredit product lines and to strengthen financial management to reduce bad loans.13 Investors are willing to bear the opportunity cost associated with the below-market or longer-term returns that inclusive business models may yield because of economics, uncertainty or the need to invest in removing market constraints. They seek to generate social value in addition to financial value. They invest in businesses because they believe profitable
models can generate social value most effectively and sustainably.

Reduced cost and patient capital have several sources, including corporations, foundations, nongovernmental organizations, government agencies, and ‘blended value’ investment funds, which may incorporate capital from all those sources.¹⁴

Different sources can set different requirements for the magnitude of the expected financial and social returns and for the balance between them. Typically, the lower the expected financial return, the greater the expected social return—and the more stringent the requirements for social impact or performance reporting.

Different sources also set different expectations for when financial and social returns must start materializing. Some sources of patient capital are more patient than others. As with traditional commercial investment, socially minded investors have various preferences about the size, industry, home or host country or other characteristics of the businesses in which they invest.

Examples of how inclusive business models have profited from ‘blended value’ financing include:

- **A public–private partnership for producing insecticide-treated bed nets to prevent malaria.** Through a patient capital loan from Acumen Fund, Sumitomo transfers technology and chemicals to A to Z Textile Mills, which buys resin for the nets from ExxonMobil, which has donated funds to the United Nations Children’s Fund to buy long-lasting nets for the most vulnerable children. A to Z now produces 8 million nets a year and employs about 5,000 people (up from 1,000 before its ‘discovery’ by Acumen Fund), 90% of them unskilled women. Besides making the enterprise possible, patient capital
also allowed the company to experiment and improve until its assessments of costs and pricing were accurate for markets in local communities.

- **A private holding company in Kenya that is primarily involved in the production of low-cost, pharmaceutical grade artemisinin and artemisinin-based derivatives—one of the main ingredients used to treat malaria.** Advanced Bio Extracts Ltd. was started with patient capital from Novartis, which also provided management and strategic assistance while accepting below-market returns. Patient capital further sustained the enterprise through a cash crop crisis and helped the factory establish world quality classification. The result: a successful enterprise with positive externalities for health and for the local economy—the company purchases from 7,500 local farmers, who earn more from the crop than they would from maize.16

- **An Egyptian company focusing on biodynamic agriculture.** Sekem, collaborating with business partners in Germany and the Netherlands, has obtained financial assistance from the European Commission, the Ford Foundation, the US Agency for International Development, Acumen Fund and the German Development Finance Organization. The International Finance Corporation provided a $5 million loan and technical assistance to help strengthen supply chain links with farmers. Sekem has grown, with revenue of $19 million in 2005 and a workforce of 2,850 employees and small farmers. About 25,000 people benefit from its development initiatives.17

Reduced cost and patient capital have so far targeted mostly smaller, early-stage companies and financially sustainable social enterprises rather than entrepreneurial projects within larger and better-established multinational companies. They often come with technical assistance: for example, in management, in business planning or with introductions to business contacts or next-stage financiers.  

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4 The Indian Express 2005.
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9 Rodrik 2004.
10 Gibson, Scott, and Ferrand 2004, p. 20.
12 Arnst 2004.
15 Novogratz 2007.
17 For more Egyptian examples, see Iskandar 2007.