

5 LEVERAGE THE STRENGTHS OF THE POOR

Kenya: In slums, The HealthStore Foundation engaged local nurses and community health workers as micro-franchisees of for-profit pharmaceutical outlets and clinics.

Photo courtesy of Acumen Fund



Building inclusive business models can be daunting, especially for companies that lack experience doing business with the poor. Some of the greatest resources for conquering that challenge are found among the poor themselves.

To leverage poor people's strengths—working with them and building on their social networks—is to reach deep into communities. When the poor take over some tasks in a business model, transaction costs for the business decrease while the poor receive new income opportunities. Moreover, poor people are efficient and reliable at linking their communities to the broader market. They have the knowledge and incentives to establish such links. And their strong social networks can often bridge market gaps and make up for missing enabling conditions (box 5.1).

As the strategy matrix shows, leveraging the strengths of the poor is used frequently to deal with most of the five broad constraints discussed in chapter 2—but most frequently of all, this strategy is used to address limited market information.

Box 5.1. Case Study – The HealthStore Foundation: providing health care in remote areas

Malaria affects about 300 million people worldwide. It is one of several infectious diseases that, together, account for

70%–90% of childhood illness and death in developing countries—and that are treatable with inexpensive generic drugs. Every day, for lack of those drugs, more than 25,000 children die.¹

When Scott Hillstrom, founder of the The HealthStore Foundation, observed the market for medicine in Kenya, he saw a broken system with inadequate and low-quality drug supplies. At the same time, he saw an opportunity to ‘prevent needless death and illness in the developing world by sustainably improving access to essential drugs and basic health services.’² If people were selling bad drugs to make money, Scott reasoned, selling good drugs might also be profitable.

Scott’s major challenge was to distribute drugs in remote parts of Kenya. While 80% of Kenya’s doctors live in cities, 70% of its people live in rural areas. The need for medicine was greatest in rural areas, but few clinics or pharmacies existed there, and inadequate roads made many villages difficult to reach. Scott aimed to provide these areas with affordable, quality, in-stock medicine and to establish clinics located no more than an hour’s walk from the people they served.

To achieve those ends, Scott’s business would need to build its own market, raising awareness in Kenya’s rural communities and finding innovative ways to make contracts effective. With no trusted media or functioning law enforcement systems, the only way to establish a market for his medicines—raising health awareness, ensuring effective treatment and guaranteeing profitability for the HealthStore Foundation’s shops—would be to build trust with communities.

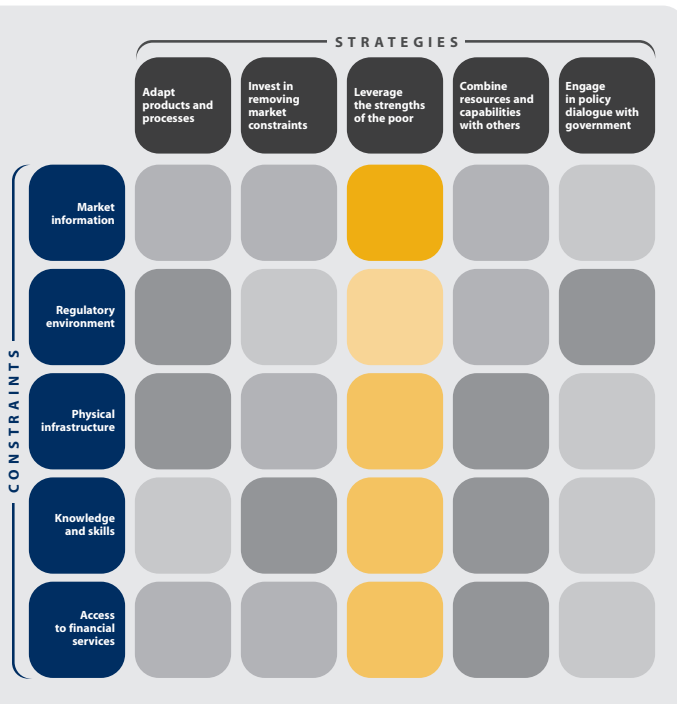
Scott’s solution was to engage community members as microfranchisees, creating local drug distribution networks. Owned by nurses or community health workers who know their clients’ needs, the for-profit franchises enable the HealthStore Foundation to distribute enough affordable drugs and to provide basic health care services to many remote communities.

Engaging with poor communities is a mutual learning process. Companies learn about local preferences, needs and capabilities. They learn to design processes that function

in the market and to make collaborations work. Poor people receive new information, upgrade their skills, take on new roles and gain confidence.¹

Development practice has produced a rich set of methods and approaches to engage the poor, primarily because development experts have long understood the need for two ingredients for work in poor communities to succeed: local embeddedness and trust. Local embeddedness offers access to local networks, resources and fine-grained information, making operations efficient and building trust. And trust is a core asset where poverty prevails, and where the formal systems common in developed countries—such as those for enforcing contracts—are largely absent.

Local embeddedness and trust are equally important to the success of inclusive business models.² Personal experience and relationships are central to the decisions that poor people make. They will greet new entrants to their markets with suspicion until they are persuaded that they can be relied on.



Using recommendations from church organizations, The HealthStore Foundation recruits franchisees with business sense, strong personalities and good community connections. The Foundation provides startup loans and ongoing support, including training, logistics, financing and marketing. In return, they agree to contribute a fee, maintain company standards and reach out to their communities.

The model has proven very successful. In 2005 alone, more than 400,000 low-income patients were treated in 11 Kenyan districts through 63 outlets. Millicent, the first to open a child and family wellness clinic in the Kibera slums in 2004, gained her community's trust and now makes \$1,000–\$1,280 a month. Her business is successful enough that she took her family on vacation for the first time, has educated her son in a private school and is planning to buy a house.

Dora, another nurse franchisee, is also making a real difference in her community while earning a decent income and gaining self-confidence. During the recent violence in Kenya the value of Dora's business—and Scott's—to poor Kenyans was dramatically revealed: 'They persuaded the mob to spare my clinic. They said they needed the medical services and that I was there to assist them. Ultimately they would all suffer from not having a pharmacy and a small health facility.'

1. WHO 2007.
2. The HealthStore Foundation mission statement.
3. CARE Newsletter, January 2008.



In poor people's markets, local individuals and organizations have knowledge and established relationships that give them advantages over external entrants. Local people do not need to cultivate trust and rapport, immerse themselves in the environment to understand it or research local needs and practices. From participatory rural appraisal methods, which use local knowledge for situation assessments, to community organizing and community-based decisionmaking, inclusive business models can build on methods already proven in development practice to understand their target markets and build relationships with suppliers and customers. ☺

ENGAGE THE POOR AS INDIVIDUALS

Companies that include poor people in business value chains benefit from their unique assets: local knowledge and trusted relationships. The poor, in turn, benefit from new sources of income and new skills.

Inclusive business models can:

- Involve the poor in market research.
- Train the poor to be trainers.
- Build local logistics networks.

- Establish local service providers.
- Co-create innovations with the poor.

Involve the poor in market research.

Since the 1980s many tools and techniques have been devised for gathering information from poor people. One example is participatory rural appraisals, which use oral rather than written communication and reduce the



China: Information about rural farmers' planned production is available on the website of the Beijing Rural Information Centre, allowing other farmers to adjust their own plans.

distance between them and their interviewers.

These appraisals have shown that village inhabitants can describe the assets and characteristics of local families with surprising precision, yielding estimates that are as accurate as formal appraisals and much less time-consuming and costly.³

Similarly, slum housing surveys can efficiently capture information about unfamiliar market environments. In 2005, the Centre for Urban Studies of Bangladesh, working with the US Agency for International Development, conducted a large slum survey in 2005 to identify the main slums (by population size and number of households) and to record such facts as their water source, means of sanitation and power supply. A team of trained field investigators entered the slums and identified key informants—community leaders, teachers, shop keepers and nongovernmental organization workers—who shared their knowledge about each slum's inhabitants and characteristics.⁴

Information and communications technology can sometimes be used to make

obtaining market information through community involvement more efficient. In agribusiness, timely information about who produces what is important for both buyers and sellers. Prices can be highly volatile without a mechanism to balance local variations in production. At the rural information centres of Chinese computer provider Tsinghua Tongfang, service agents collect information from the farmers, who go there to obtain such information as weather forecasts or supplier contacts. Asking the farmers about their current and planned production, the agents post the answers on the Beijing Rural Information Centre website, which then helps other farmers to adjust their production and thereby increase their revenue. The website can also help buyers of agricultural products—retailers or food and animal feed producers—find out where to buy them.

Train the poor to be trainers.

Investments in training and education are often required for inclusive business models to succeed—and these investments can be quite costly. Training people from the community to be trainers and educators, however, can 'snowball' the benefits of the instruction far beyond an initial circle of trainees. Local trainers speak the local language and enjoy the community's trust. In addition, enabling poor people to be trainers empowers them, giving them a special status in their community.

Farmer-to-farmer trainings have successfully extended agricultural practices. New farming or husbandry methods are spread through group learning, with one farmer guiding the rest. This approach has proven effective, not only because farmers take their peers' advice seriously, but also because practices are adapted to local conditions. The training process thus has an inherently innovative component, as farmers are encouraged to experiment with and compare alternatives.

Community-led training is also being applied successfully in banking. South African commercial banks Nedbank and

Rand Merchant Bank have community mentorship programmes to educate customers from low-income areas about their products. In a collaboration with Agence Française de Développement, the two banks offer innovative financial products targeted at the low-income housing market. Nedbank and Rand Merchant Bank train community mentors on their services, and the mentors pass this knowledge on to potential clients. The programme educates target customers while building trust, helping to bridge the gap that apartheid created between white financiers and black customers.

Build local logistics networks.

Engaging poor people can help businesses collect, distribute and sell in markets with inadequate physical infrastructure and logistics systems. For example, businesses can approach small vendors or other providers to offer a new product. In the Philippines, RiteMed engaged pharmaceutical outlets and persuaded them of the business opportunity in selling generic drugs at higher volumes, albeit with a lower profit margin. RiteMed sales topped \$20 million in 2006. And CEMEX's distribution network for construction materials in Mexico includes more than 2,000 small and medium-sized local retailers from urban and rural areas.

Microfranchising is another way to scale up local distribution networks. The principle of microfranchising is identical to that of its bigger brother: a streamlined business model, easily replicated. To make franchising work at the micro scale, the model must succeed with a low initial investment (perhaps supported by a microcredit system that avoids burdening franchisees with early debt servicing). The benefit for franchisees is a proven, turnkey business model that requires less risk and experiment than a startup. But microfranchising also offers backbone services from product development

to supply chain management and training. The HealthStore Foundation's profitable microfranchises in Kenya are one example (see box 5.1).

Establish local service providers.

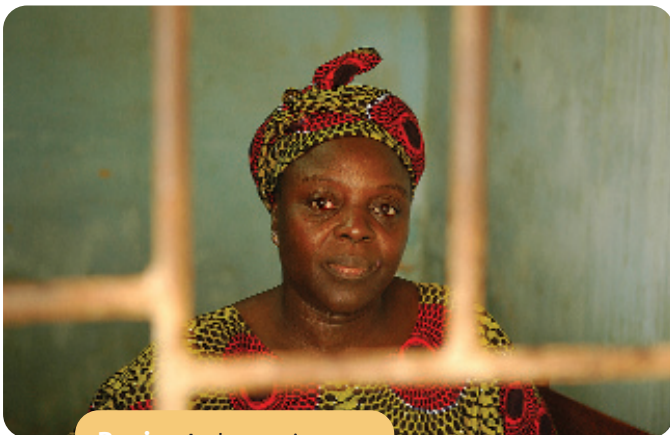
Service and maintenance providers in poor people's markets must respond to clients' needs quickly, but they often cover dispersed populations in areas with inadequate physical infrastructure and logistics networks. Only local providers can successfully do that.

Lydec works with 'street representatives' to manage its water and electricity operations in Casablanca's shantytowns. Members of the local community, the representatives are charged with co-ordinating the work daily and with providing technical support to an average of 20 households each. In addition, they collect payments from the households they serve.

More than other services, health care depends on regular and reliable provision. High child mortality rates in many developing countries are caused mostly by a lack of medical attention and limited access to health care. Mali's Pésinet has an early warning system for monitoring children's health and detecting potentially fatal diseases such as malaria and measles early. Combining technical innovation with community engagement, the company offers a powerful model of efficient health monitoring. Pésinet identifies and trains local representatives—mostly women—in the outskirts of Bamako. Parents enroll in



Madagascar: Farmer-to-farmer trainings can successfully extend agricultural practices. Photo: Adam Rogers/UNCDF



Benin: A pharmacist greets visitors at a health clinic.

Photo: UNICEF/Julie Pudlowski

the programme and have their children weighed twice a week by 'Pésinet ladies', who

send the data electronically to an associated doctor. When a weight reading is anomalously low, the doctor requests a visit with the child. One doctor can care for about 2,000 children. The project is financially sustainable with at least 1,200 children and a monthly subscription fee of just \$1.05.

Co-create innovations with the poor.

Poor people can contribute at every stage of the value chain—and they can become innovators, developing new business models.

Integrating poor consumers into the innovation process helps to:

- Capture information about consumers and their ways of using a product.
- Uncover 'sticky' knowledge—information that consumers have, but will not bring forward because they are unaware of it or its importance or unsure how to express it.
- Identify needs and solutions.

In the words of Ted London—Director of the Base of the Pyramid Initiative at the University of Michigan's William Davidson Institute—an integrative business development approach can 'combine the knowledge developed at the top of the pyramid with the wisdom and the experience at the bottom in a way that best fits the local environment and enables co-discovery of new opportunities to serve [the poor].'⁵ Three tools in particular

hold promise: the lead user method, immersion and innovation workshops.

The lead user concept developed by Professor Eric von Hippel, Head of the Innovation and Entrepreneurship Group at the Massachusetts Institute of Technology's Sloan School of Management, is widely applied in consumer-led innovation today. Lead users have a need that will become relevant to other users, and—because they perceive significant benefits to themselves from meeting that need—they develop ideas about how to meet the need by using or adapting existing products.⁶ For example, Haier, the Chinese home appliance company, discovered its customers were using Haier washing machines not just to wash clothes but also to clean vegetables. So, Haier adapted its washing machines to make them better at cleaning vegetables.

Originating in anthropological research and development practice, immersion entails lengthy integration into poor communities as a participant rather than a mere observer. Company representatives and project facilitators visit a slum or rural village for two to three months, establish relationships and use those relationships to develop a business model with the networks to support it.⁷ Intel, Motorola and Nokia employ 'user anthropologists' or 'human-behaviour researchers' who both immerse themselves and conduct various sample interviews with potential users to map possible functions for a product. According to the *New York Times*, 'influenced by [an anthropologist's] study on the practice of sharing cellphones inside of families or neighbourhoods, Nokia has started producing phones with multiple address books for as many as seven users per phone.'⁸ Immersion has been included in the Base of the Pyramid Protocol, led by Professor Stuart Hart of the Johnson School at Cornell University, to understand target market conditions and 'co-create' inclusive business models.⁹

Innovation workshops can be an efficient way to engage poor consumers in further developing a business that already has local relationships and good community

networks. A well-designed workshop will generate a creative interaction between the business and consumers, who thereby contribute their knowledge about the uses of a product (or related products). Such knowledge, combined with the company's technical expertise, can lead to new solutions.¹⁰ For example, K-REP Bank, a Kenyan microcredit provider, uses meetings with its clients to request feedback and develop improvements to customer services. Some of K-REP's most promising innovations, including flexible loan sizes and more

frequent group meetings, first surfaced through such interactions with clients.

Necessity is the mother of invention, goes the proverb. With few resources and little access to goods and services, poor people must invent to get by. Including them in the development of a business—in a way that encourages and values their input—can enable their ideas to greatly enhance design. For poor people, this means not only that they can benefit from better products but also that their voice is heard. ☺

BUILD ON EXISTING SOCIAL NETWORKS

A community is more than its parts. Where poverty prevails, the informal rules that communities establish and enforce are often more effective than formal rules. In addition, a community can enable its members to help each other and share resources, facilitate co-operation to provide common goods (such as wells, mills or schools) or supply an infrastructure for savings, credit or insurance mechanisms.

Inclusive business models can benefit by collaborating with poor communities to:

- Leverage informal contract enforcement mechanisms.
- Expand risk-sharing arrangements.
- Co-ordinate investments into common goods.

Bangladesh: A local women's group provides instruction on nutrition, health and basic mathematics to help develop basic business skills. Photo: Shehzad Noorani/The World Bank



Leverage informal contract enforcement mechanisms. Social networks facilitate individual and collective activity by establishing trust, reciprocity and common rules. They can help enforce contracts where the regulatory environment is not supportive. The design of a business model can create incentives for all participants to ‘play by the rules’.

Microcredit owes much of its success to the incentives it creates through group lending. Since all borrowers in a credit group know that their access to credit will depend on the compliance of other members, only people known to be reliable are allowed to join the group—and the group ensures that members repay their loans on time. The credit group thereby takes over the tasks of screening, monitoring and enforcement. By providing credit to groups rather than individuals, the microcredit system has created alternative incentives that have made its compliance rates better than those achieved through traditional, collateral-based lending.¹¹

The group enforcement system has been translated to a number of other business

models. Manila Water, for example, has used it to facilitate its billing process and stop theft from its pipelines. The company formed co-operatives in poor communities to take responsibility for water connections. It installed ‘mother metres’ to measure consumption by the community and ‘submetres’ to measure the consumption of each family. While the community as a whole must pay for the amount shown on the mother metre, each family settles its own bill with a community representative based on its submetre reading. The result: no one in the community has an interest in allowing theft. An additional benefit is that some administrative costs are transferred to the community, allowing the company to charge less. With this system, Manila Water supplies water to 140,000 low-income households—more than 10 times as many as when it took over the license—and has achieved a profit of \$37 million on revenue of \$108 million.

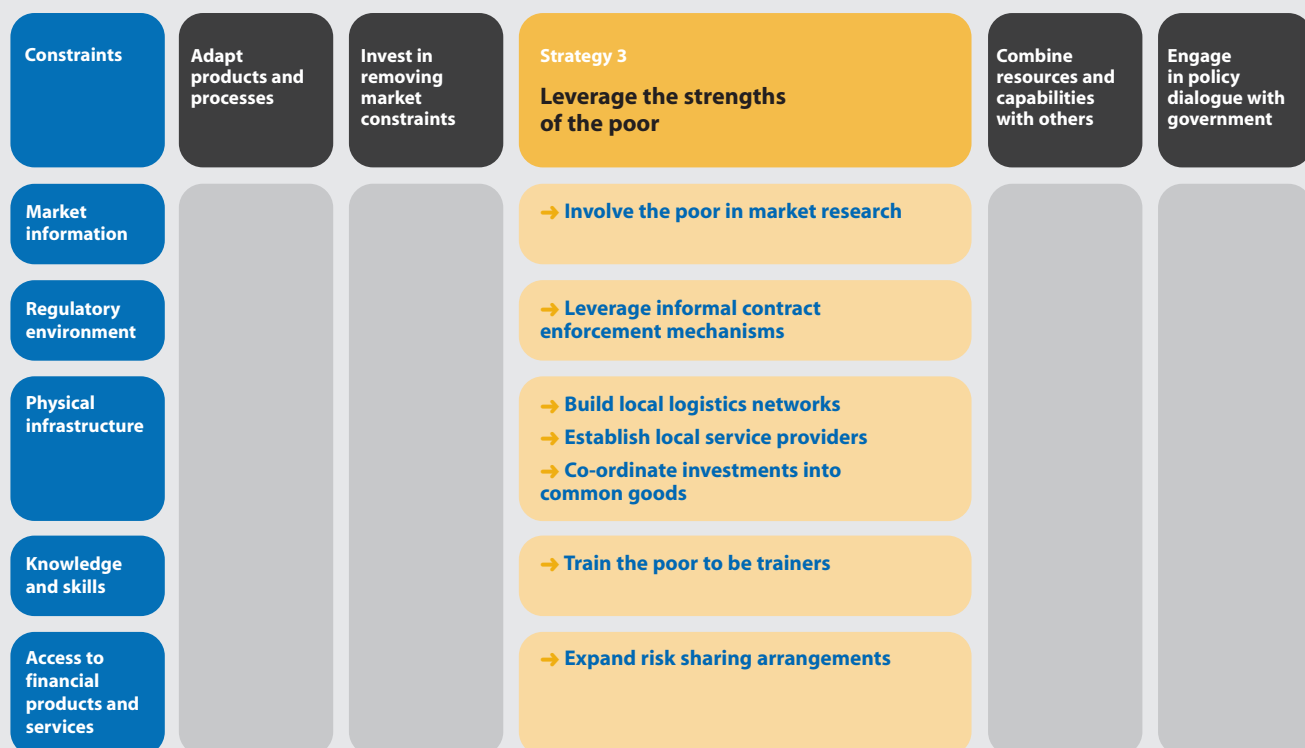
Expand risk-sharing arrangements.

Communities typically develop some form of risk sharing, either through common savings or through an agreement to support each

Colombia: The National Federation of Coffee Growers counts more than 566,000 members, most of whom are small-scale producers. Photo: Luis Felipe Avella



Figure 5.1. Summary: Approaches to leveraging the strengths of the poor



other in time of need. Businesses that include the poor as producers can expand these risk-sharing mechanisms and make them more effective. For example, they can help spread such mechanisms beyond single communities, protecting participants even in case of a community-wide loss. In this way, a company can help producers invest, improving their production and, in turn, improving the company's supply.

Juan Valdez is a chain of coffee shops in Colombia and other countries, owned by the National Federation of Coffee Growers of Colombia. The shops are a premium-price outlet for Colombian coffee from the Federation. Thanks to the premium price and the elimination of intermediaries, producers get 25% more than the standard Colombian price for the same coffee. To guarantee its members a minimum price, the Federation holds some Juan Valdez revenue from periods of high coffee prices

as a reserve against dips in the volatile coffee market. During the 'coffee crisis' of the early 1990s, this insurance mechanism compensated for the farmers' \$1.5 billion shortfall.

Co-ordinate investments into common goods.

Without co-ordination, common goods will be insufficiently provided because of the 'tragedy of the commons'—when the community as a whole uses common goods but no member is willing to bear their cost. An inclusive business model can invest part of its revenue from product sales in common goods. Or it can require a community to make such investments (as in the Juan Valdez risk-sharing model). The fair trade system for example, as illustrated by the fair trade cotton model in Mali, requires each co-operative to spend a part of the additional income gained through the fair trade label on projects that benefit the community.

In Pakistan, Saiban gives poor people access to plots of land at affordable rates. Services are initially limited to the basics: a communal water supply and public transport to the city centre. Later, when enough monthly instalments have accumulated, they are used to finance more services (house-to-house water connections, sewerage, electricity, road paving). The self-financing project creates an incentive for inhabitants to organize themselves and quickly amass enough funds to obtain needed facilities.¹²

Another example of co-ordinating investments into common goods—with results that benefit the business while helping poor community members—is the nongovernmental organization set up by Tiviski, the Mauritanian dairy company. Financed through revenues from the company's milk sales, the organization offers animal feed, credit and veterinary care to camel herders who formerly lacked such services, which in turn limited the company's growth. ☉

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- 1 The World Bank Participation Sourcebook 1996, p. 8.
 - 2 Hart and London 2005, pp. 28–33.
 - 3 Chambers 1994.
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 - 5 London 2007.
 - 6 Von Hippel 1986.
 - 7 Corbett 2008.
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 - 9 Simanis and others 2008.
 - 10 Gruner and Homburg 2000.
 - 11 Mendoza and Thelen, forthcoming.
 - 12 Siddiqui 2005.