



# Doing Business with the Base of the Pyramid

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# Outline

- BoP market
  - Potential market size
- Scoping the BoP space
  - BoP as consumers
  - BoP as producers
  - Market-based solutions
- Role of the World Bank Group
  - Catalyzing the private sector

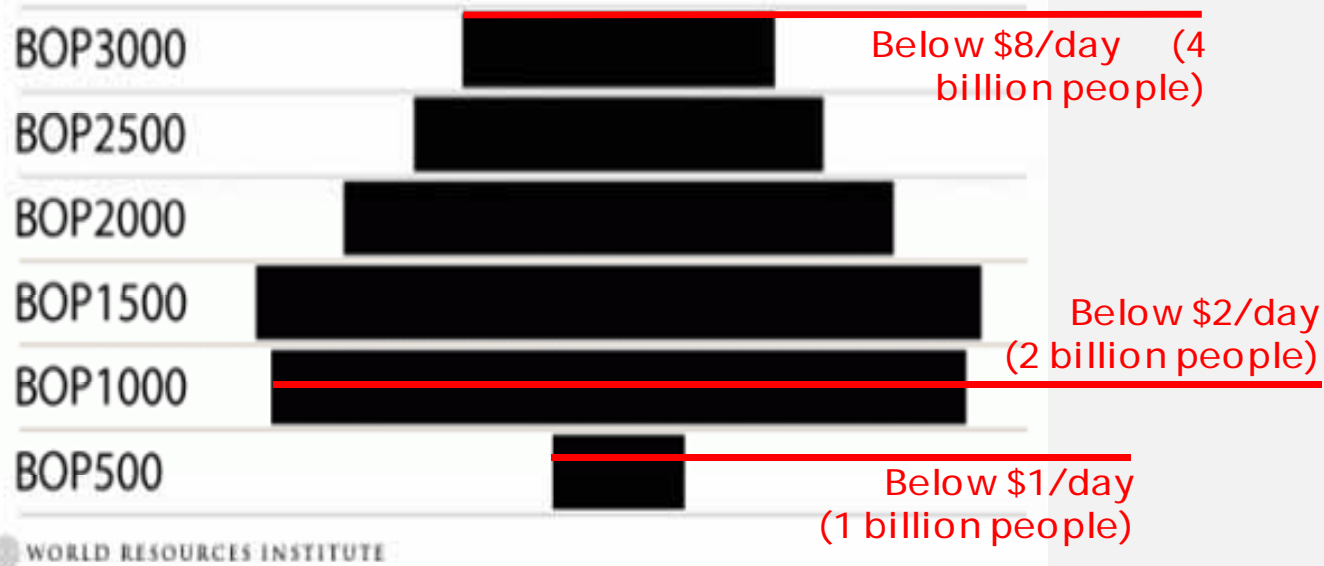
# BoP Market



# Market Potential

The IFC-WRI publication “The Next 4 Billion” defines the base of the pyramid (BOP) as the *4 billion people* worldwide living on less than \$8/day (\$3,000/year) PPP<sup>1</sup>. They make up a market of around \$5 trillion.

## SHARE OF TOTAL BOP PURCHASING POWER (\$5 trillion) BY INCOME SEGMENT



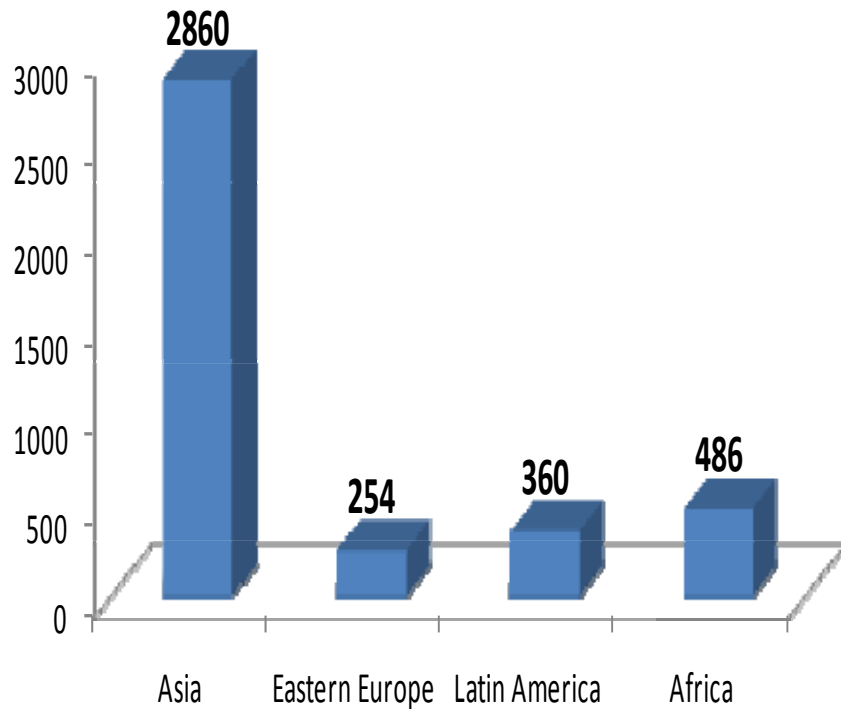
<sup>1</sup> This definition was also adopted by the World Economic Forum.

# Market Potential

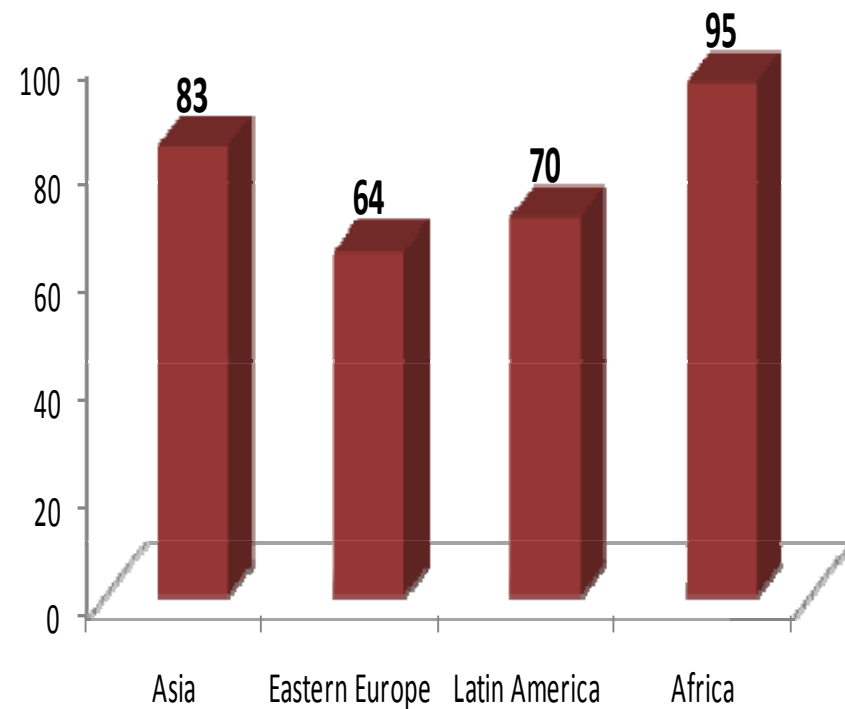
- Asia has the highest number of potential BoP consumers and the largest potential market
- In Africa the BoP market accounts for 71% of purchasing power and 95% of population
- We cannot ignore this segment in doing business with these regions

# Regional Dimensions of BoP Market

## Potential Consumers (Millions)

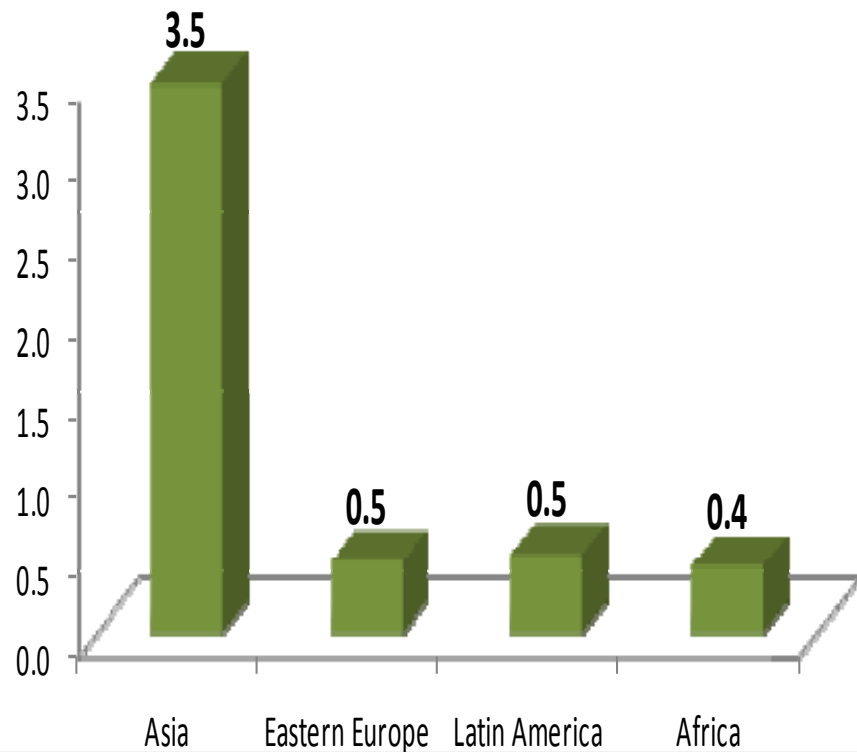


## Share of Regional Population (%)

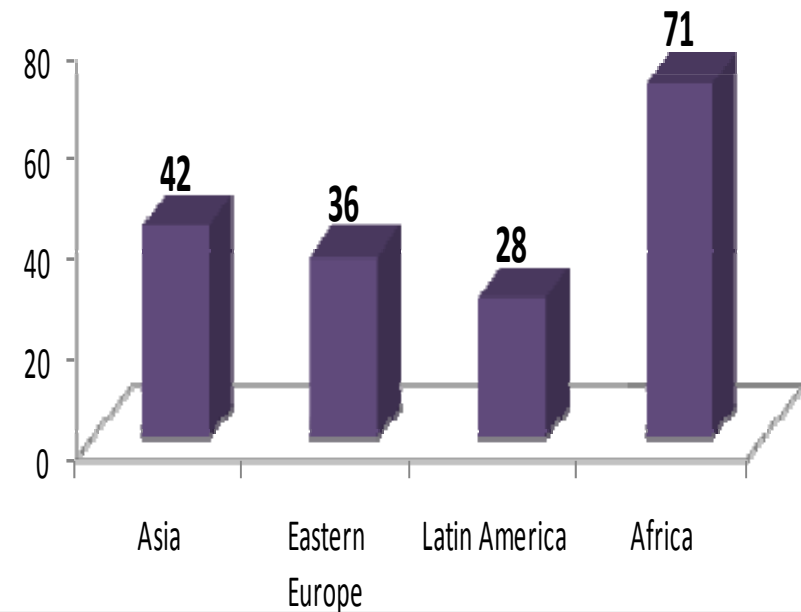


# Regional Dimensions of BoP Market

## Market Size (Trillions of PPP Dollars)



## Share of Regional Purchasing Power (%)



# Characteristics of BoP Market

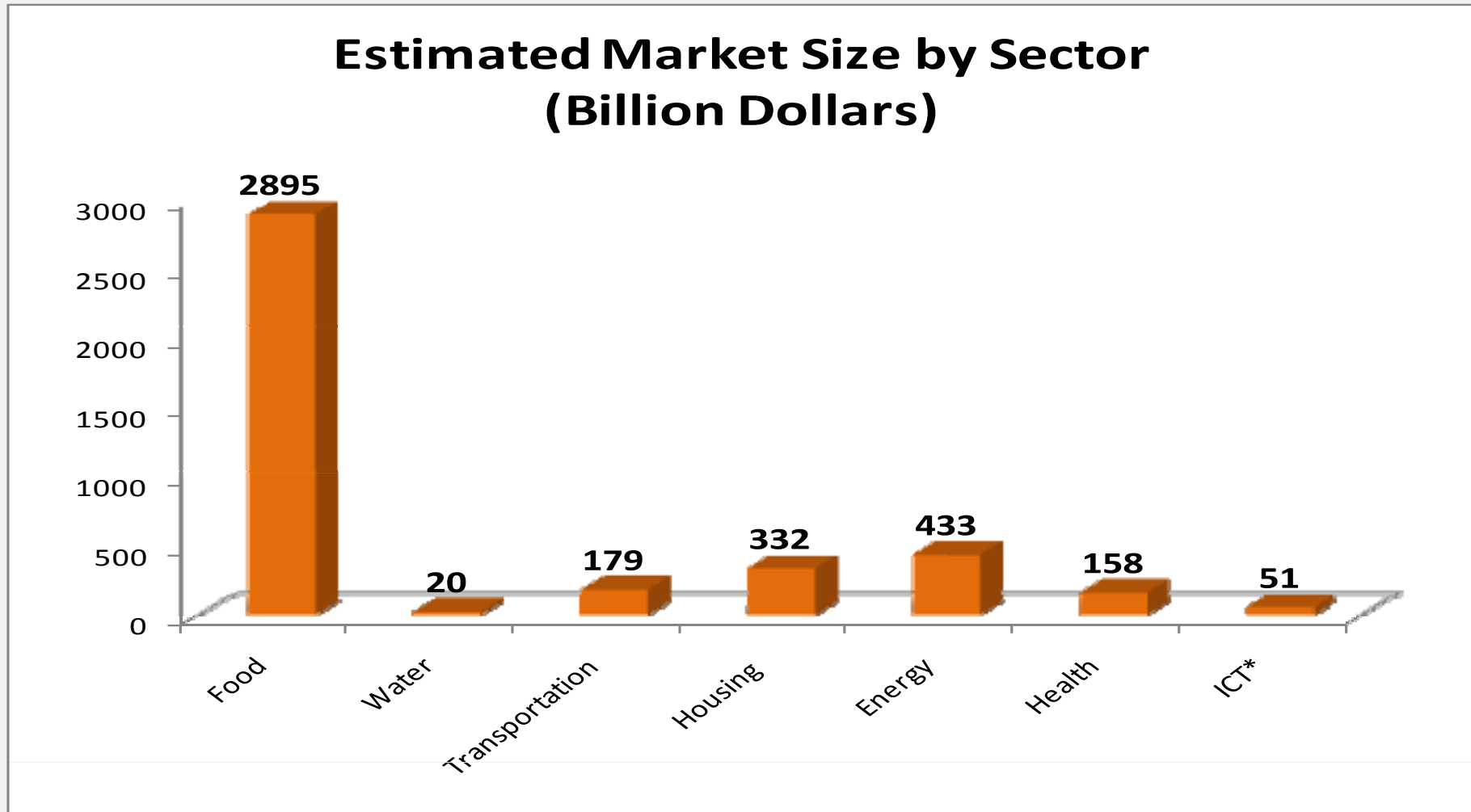
- Currently underserved
  - lack of access to basic services
  - revealed demand is likely to be significantly depressed at current market prices, choice, and access levels
- Largely informal
  - at the fringes of the market economy
  - fragmented
- So that poor often pay more for services
  - either in cash or effort expended
  - the so-called BoP penalty



# BoP as Consumers: Demand for Services



# Sectoral Demand in BoP Markets



Source: The Next 4 Billion, IFC and WRI, 2007

# BoP Demand for Services

- BoP market is overwhelmingly a market for food
- Demand in rural areas more likely suppressed due to lack of access

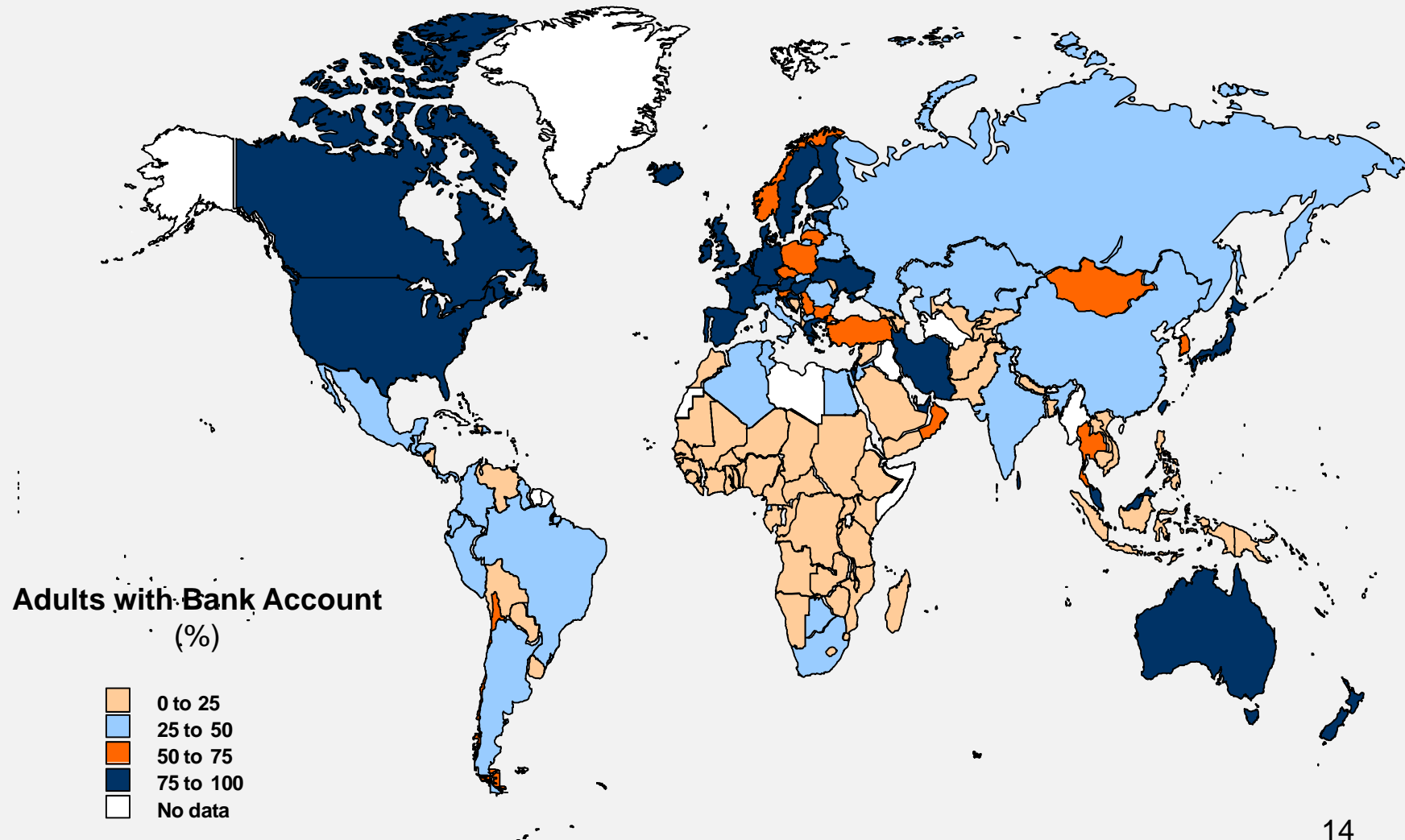
# Financial Services

- Difficult to conceptualize a demand for financial products/services from people living on around \$2 a day
- Incomes of poor not just low but also irregular, and they do have some tools for consumption smoothing
- Budget management techniques of poor households (saving, dissaving, borrowing, and repaying) more closely resemble small enterprises than those of the relatively better off (predominantly saving)

# Financial Services

- BoP penalty in this case is not just higher interest rates on credit but also higher risk of theft or fraud
- Access to reliable financial instruments tailored to their specific needs would help BoP manage their other needs
- But BoP households are widely shut out from formal financial markets in developing countries

# Financial Access



# Financial Access

## Remittance Flows to Developing Countries

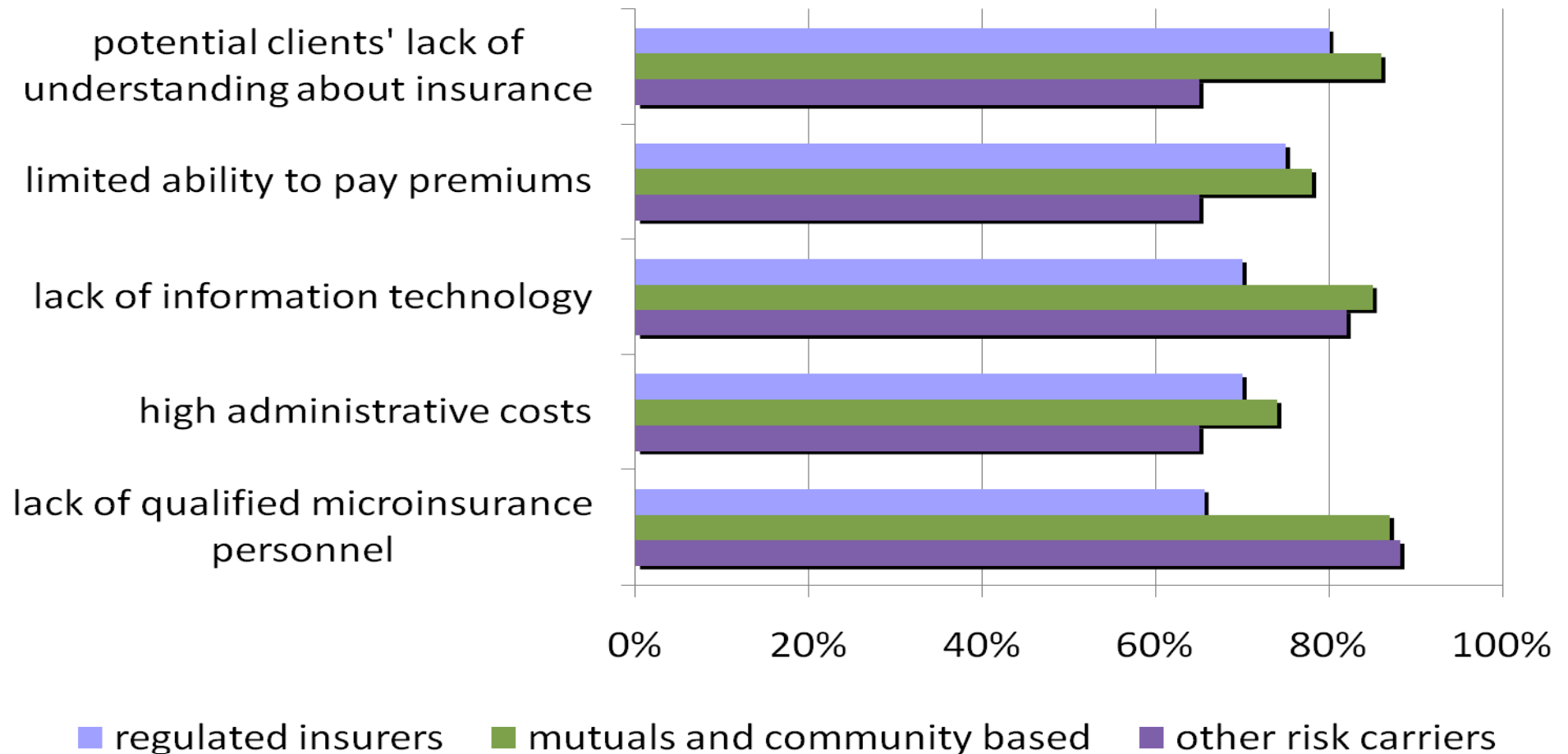
| \$ billion                   | 2007         | 2008         | 2009e        |
|------------------------------|--------------|--------------|--------------|
| <b>Developing countries</b>  | <b>289.4</b> | <b>337.8</b> | <b>317.2</b> |
| East Asia and Pacific        | 71.3         | 86.1         | 84.8         |
| Europe and Central Asia      | 50.8         | 57.8         | 49.3         |
| Latin America and Caribbean  | 63.2         | 64.7         | 58.5         |
| Middle-East and North Africa | 31.4         | 34.7         | 32.2         |
| South Asia                   | 54.0         | 73.3         | 72.0         |
| Sub-Saharan Africa           | 18.6         | 21.1         | 20.5         |
| <u>Growth rates</u>          |              |              |              |
| <b>Developing countries</b>  | <b>22.9%</b> | <b>16.7%</b> | <b>-6.1%</b> |
| East Asia and Pacific        | 23.8%        | 20.8%        | -1.5%        |
| Europe and Central Asia      | 36.0%        | 13.8%        | -14.7%       |
| Latin America and Caribbean  | 6.8%         | 2.3%         | -9.6%        |
| Middle-East and North Africa | 20.1%        | 10.6%        | -7.2%        |
| South Asia                   | 27.1%        | 35.6%        | -1.8%        |
| <b>Sub-Saharan Africa</b>    | <b>47.6%</b> | <b>13.4%</b> | <b>-2.9%</b> |

# Insurance

- Savings as a form of consumption smoothing
- But customized insurance products can also lower vulnerability of BoP
- In Africa 14.7 million people covered by microinsurance, i.e., only 2.6 % of the population living under \$2 per day



# Challenges in Africa's Largely BoP Insurance Market



**Source:** Landscape of Microinsurance in AFRICA (Nov, 2009) by Microinsurance Innovation Facility, ILO (Geneva)

# BoP as Producers



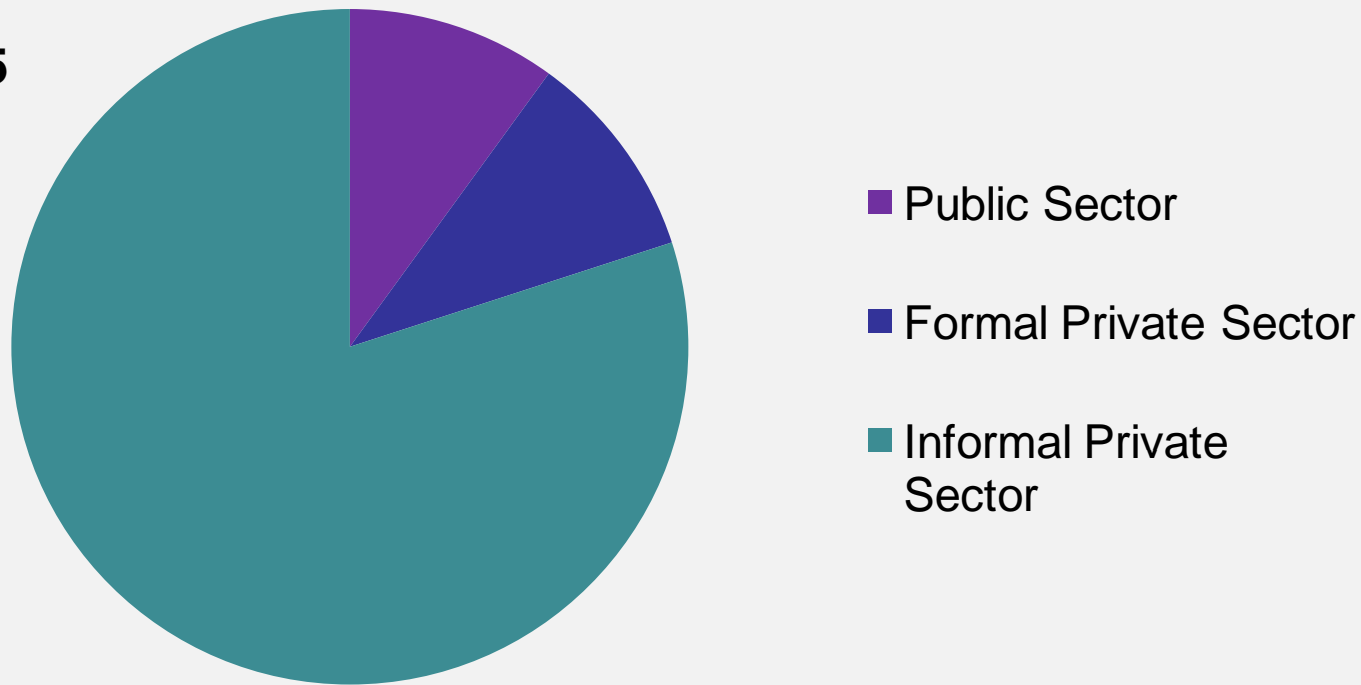
# Scoping the BoP as Producers

- Considerable overlap between the BOP economy and the informal economy
- Typically an informal firm is one not registered with tax authorities and employing less than 5 workers
- Difficult to estimate share of informal economy in – around 41% in developing countries
- Information about the informal economy is a challenge when doing business with BoP

# Zambia's Survey of Firms

- Comprehensive survey of firms
- Share of output of informal firms small but they are the great majority

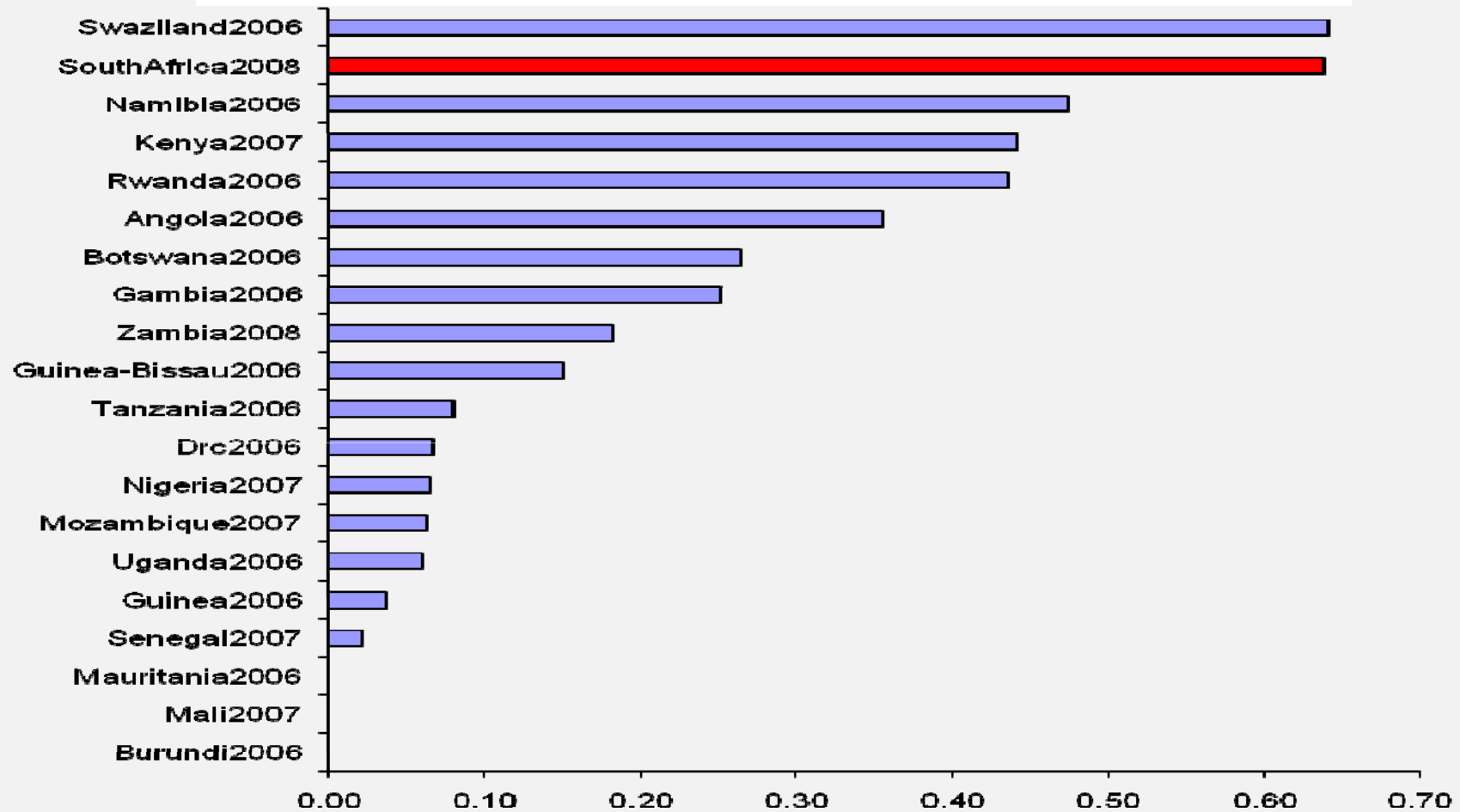
Zambia, 2005



Source: Zambia Business Survey

# BoP Penalty

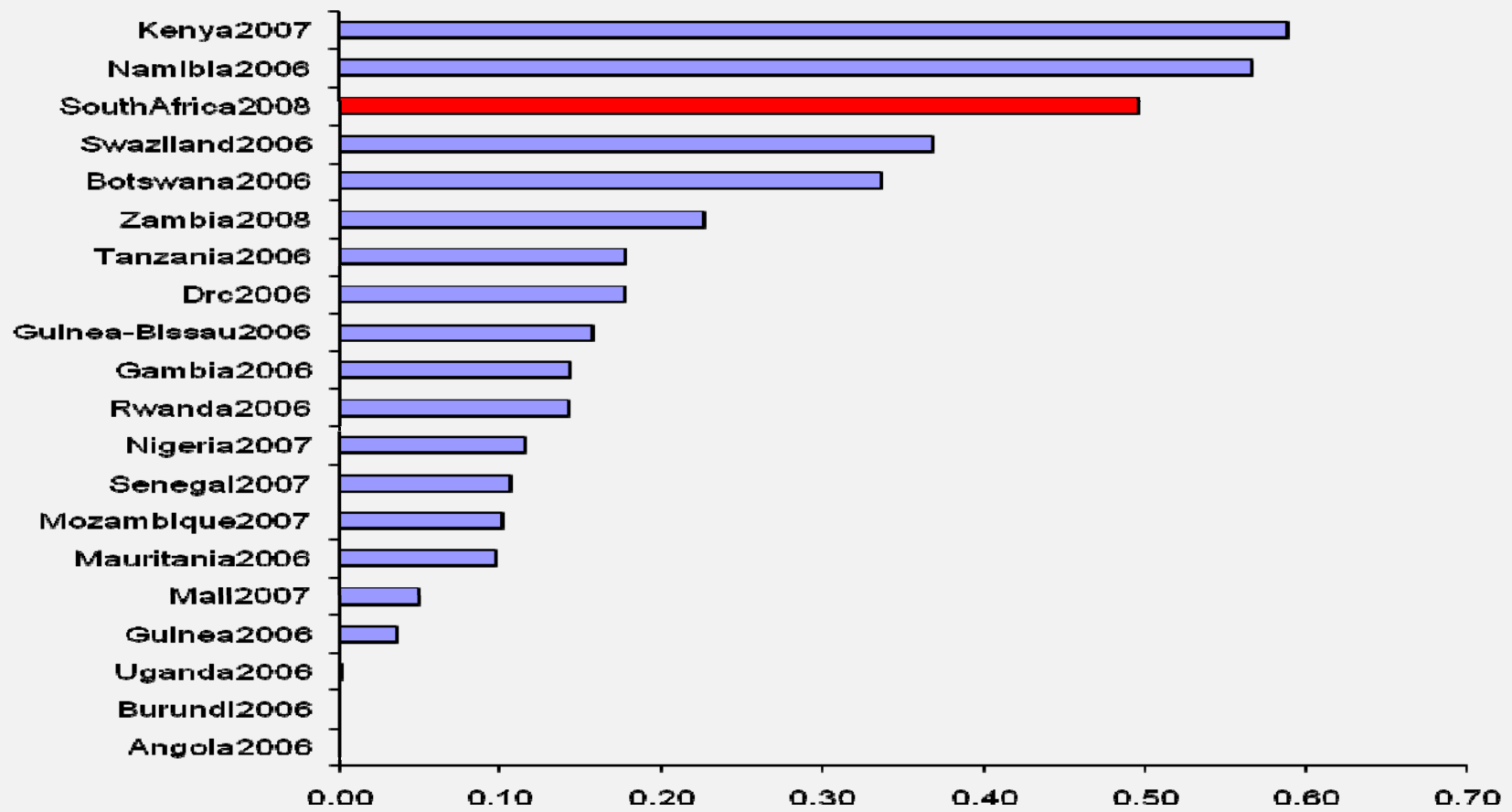
Proxy: Gap in proportion that have electrical connection:  
Formal - Informal



Source: Enterprise Surveys

# BoP Penalty

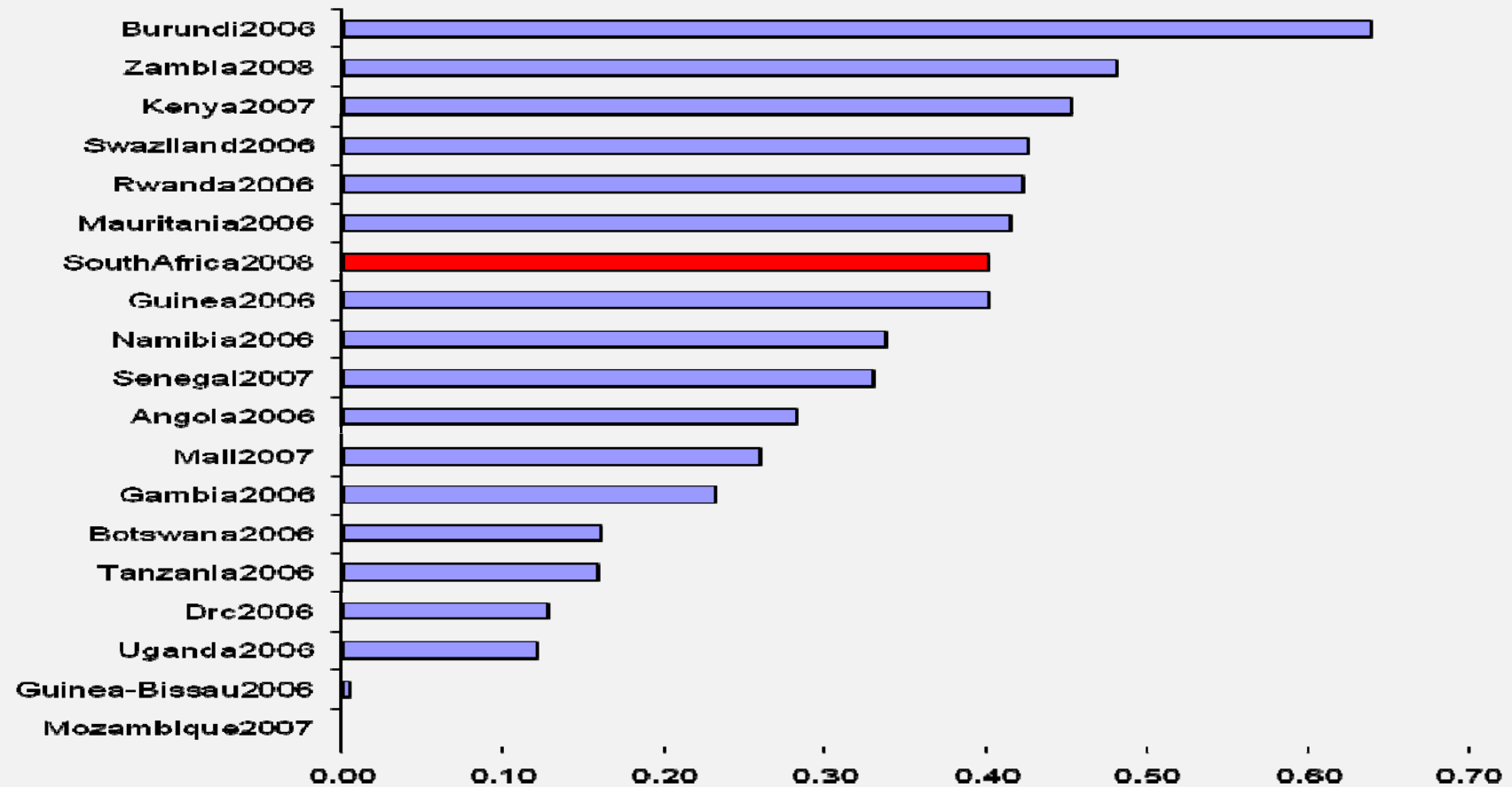
Proxy: Gap in proportion that have a water connection  
Formal-Informal



Source: Enterprise Surveys

# BoP Penalty

Proxy: Gap in proportion that have bank accounts:  
Formal-Informal



Source: Enterprise Surveys

# Getting to Scale

- Necessary to overcome productivity gap
- Will need innovative ways of involving local knowledge
- An example: e-Choupal in India
  - Procurement initiative of ITC Ltd.
  - Link directly with fragmented rural farmers
  - Making sound use of modern technology to create a network



# The ICT Opportunity

In Africa, for example, the number of mobile cellular subscriptions and internet users has grown faster than in other regions of the world.

And more of the poor have access to mobile services.

ICT developments in Africa, 1998-2008 penetration rate

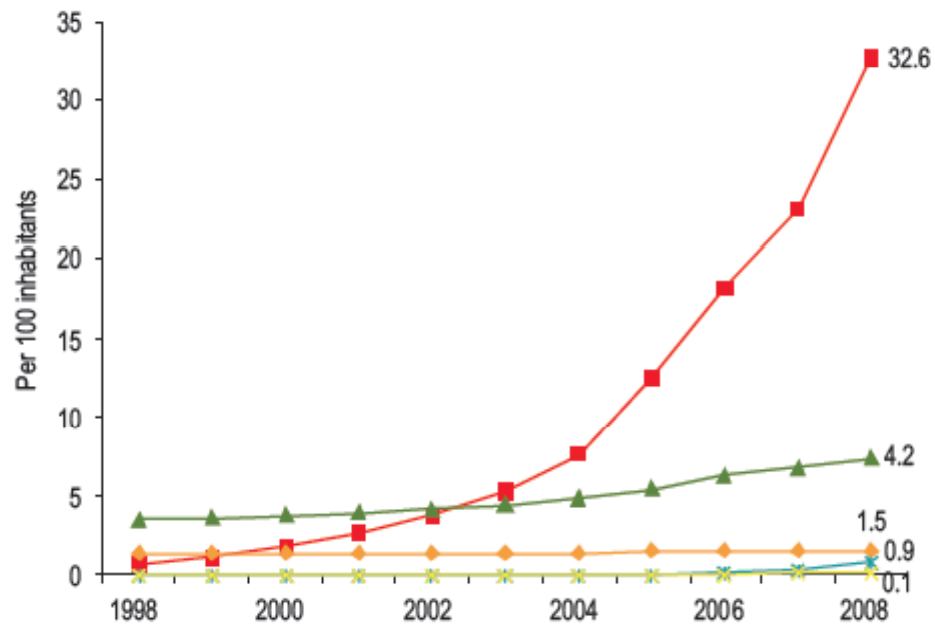
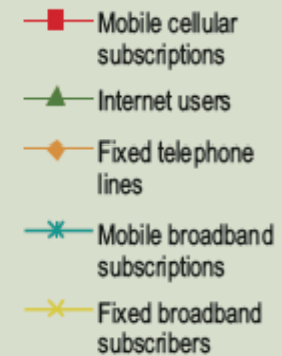


Chart 1.1



Source: ITU World Telecommunication/ICT Indicators database.

# Market-based Solutions to Poverty Alleviation



# Market-based Solutions

- Move away from public investments, direct subsidies, and grants
- Recognize that being poor does not preclude participation in market processes
- Recast the base of the pyramid as consumers and producers
- Focus on making market more competitive, inclusive, and efficient
- Generate sustainable solutions

# Hybrid Market Development Strategies

- Combine business development techniques with traditional development tools
  - Consumer education
  - Microloans
  - Franchise or retail agent
  - Partnerships with the public sector, NGOs and donors
- But fundamentally profit driven business model
- Achieving scale is critical to viability as profit margins likely to be very small

# Role of the World Bank Group: Catalyzing the Private Sector



# How Can the WBG Help?

- By sharing with the private sector knowledge gathered from our long association with the BoP
- By catalyzing private sector interest in the BoP via financial and other incentive programs
- By partnering with the private sector in financing and risk-sharing arrangements
- By providing a platform for key players to share experiences and market intelligence

# Lighting Africa



- Jointly managed by the World Bank and IFC the program supports private sector to develop, accelerate, and sustain the market for modern off-grid lighting technologies tailored to the needs of African consumers
- The program contributes to the provision of modern affordable lighting services to about 50 % of the 500 million people in sub-Saharan Africa who won't gain access to electricity by 2030

# M-PESA by Safaricom

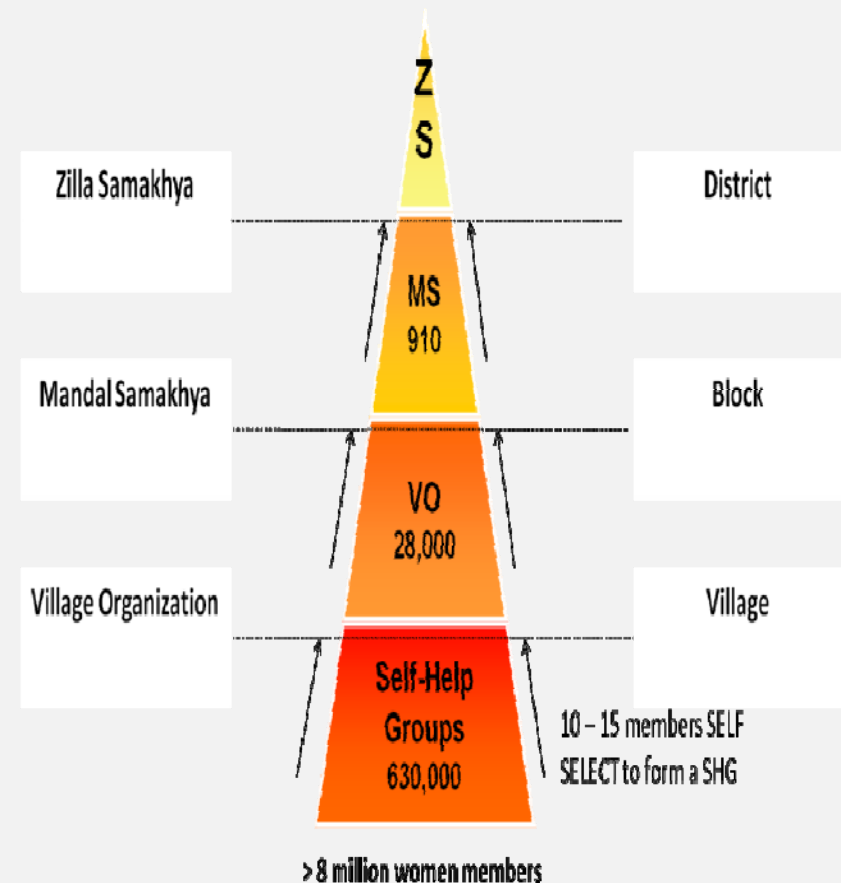
M-Pesa is one of the most successful examples of mobile money service since its launch in 2007. Now has 8.8 million users in Kenya, many of them without access to a bank account

- The Financial Sector Deepening Trust in Kenya (co-financed by DFID, World Bank project funds, and Swedish SIDA) provided a matching grant subsidy of 1 million pounds to Safaricom for product development.
- The new product allows money transfers across a secure, PIN protected system to those previously 'unbanked'; a majority of cash recipients are rural women.
- On average US\$1.96 million is transferred through M-PESA per day, mostly in small amounts averaging US\$20 per transaction
- A range of additional service providers are now also operating in the newly proven market space.



# Leveraging investments in Community Based Organizations – Andhra Pradesh Rural Poverty Reduction Project (APRPRP), INDIA

- Financial Inclusion
  - increased insurance coverage from less than 100,000 insured lives to more than 8 million rural poor with insurance between 2001 and 2009.
- Operational expenses (incl. admin and claims management cost)
  - less than Rs 10 per life (or US\$0.20) compared to average cost of Rs 350 per life (or US\$8.5) using “conventional” model.
- Turn-around-time (TAT) in claims settlement:
  - Reduced from 3-6 months to 4 - 6 weeks.
- Product Diversification
  - life insurance (death & disability)
  - credit life insurance
  - livestock insurance
  - health insurance

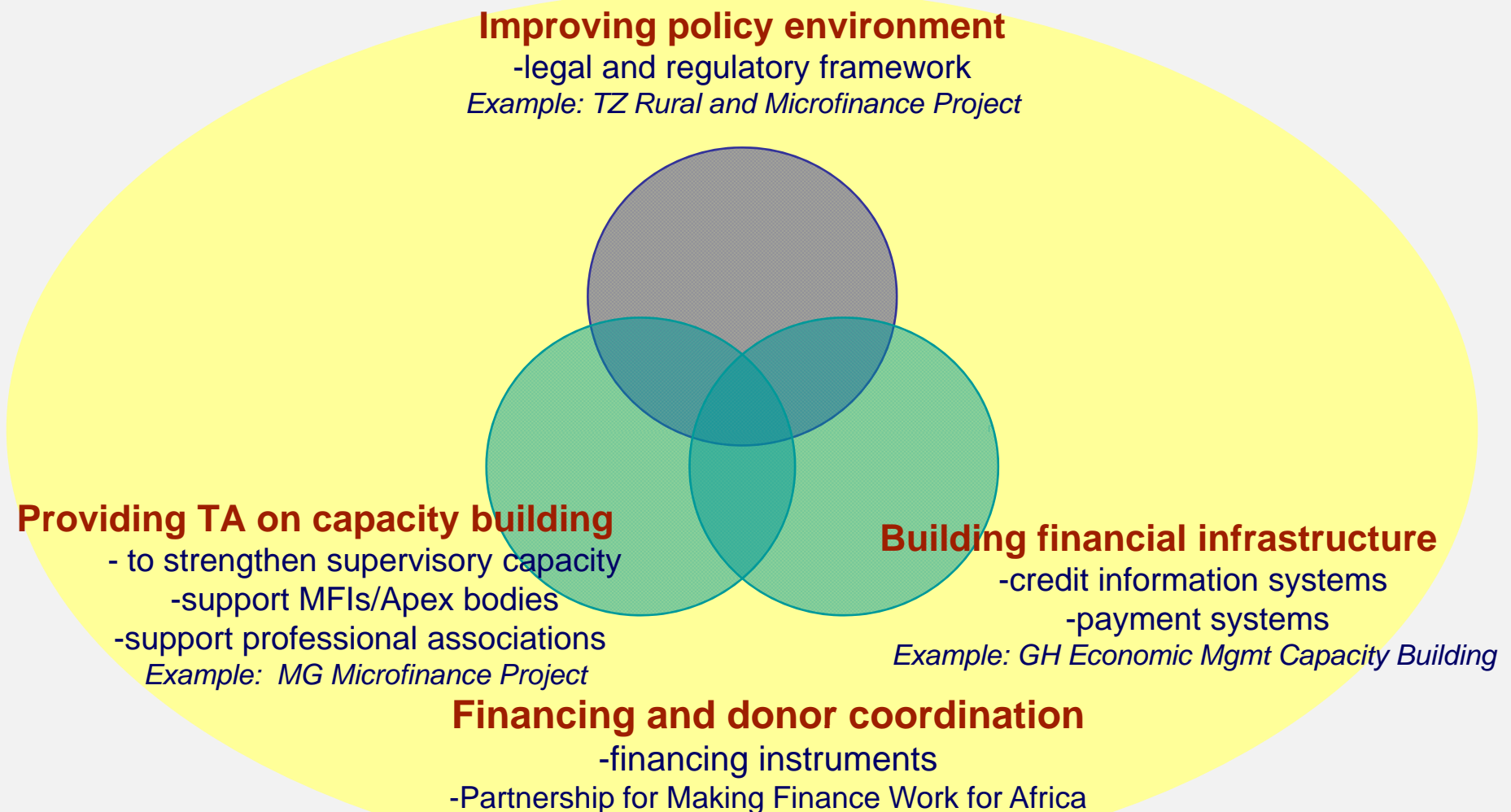


# Operations supported by IfP

| IfP Program supported operations<br>(year of implementation)                        | Number of insureds              | Insurance coverage<br>(US\$ million) |
|---|---------------------------------|--------------------------------------|
| <b>Health Insurance</b>   |                                 |                                      |
| Andhra Pradesh (India) community based health insurance (Sanjeevini)                | 500,000+                        |                                      |
| Catastrophic Health Insurance for people Below Poverty Line, Karnataka, (India) (1) | 4,000,000+                      |                                      |
| Nigeria community-based health insurance scheme (1)                                 | 240,000                         | 4.5                                  |
| <b>Term life and accidental death and disability insurance</b>                      |                                 |                                      |
| Andhra Pradesh (India) community based life insurance                               | 8,000,000                       |                                      |
| <b>Livestock Insurance</b>  |                                 |                                      |
| Mongolia index based livestock insurance (2005)                                     | 3,700                           | 17.0                                 |
| Andhra Pradesh (India) community based livestock insurance                          | 250,000+                        |                                      |
| <b>Crop Insurance</b>   |                                 |                                      |
| India weather based crop insurance (2003)   | 600,000                         | 370.0                                |
| <b>Natural Disaster Insurance</b>   |                                 |                                      |
| Caribbean Catastrophe Risk Insurance Facility (2007)                                | 16 Caribbean island Governments | 500.0                                |

Note:(1): Estimated by December 2009.

# IDA's multi-dimensional support for microfinance in SSA



## IFC/IDA MSME Program

- Objective of the IFC/IDA MSME programs: To promote MSME financing by delivering innovative financial products and services such as secured lending, financial information infrastructure frameworks, partial guarantees, matching grants, and business development services
- The program (>US\$250 million) covers Madagascar, Kenya, Ghana, Mali, Uganda, Tanzania, so far
- In Kenya, the project has supported 46 projects in 4 value chains, provided training to 52,000 farmers, supported 4,500 new contracts linking farmers to businesses and markets

# Additional Support

- Global Partnership In Output-Based Aid
- CGAP
- IFC's Performance Based Grant Initiative
- World Bank Group's analytical work and project on rural development, infrastructure and human development that impact the BoP.

*Thank You !!!*