



Technical Assistance Report

Project Number: 41258-01
Research and Development Technical Assistance
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Promoting Inclusive Growth through Business Development at the Base of the Pyramid

ABBREVIATIONS

BOP	–	base of the pyramid
NGO	–	nongovernment organization
SME	–	small and medium-sized enterprises
TA	–	technical assistance

TECHNICAL ASSISTANCE CLASSIFICATION

Type	–	Research and development technical assistance (RDTA)
Targeting Classification	–	Targeted intervention
Sector	–	Law, economic management, and public policy
Subsector	–	Economic management
Themes	–	Sustainable economic growth, inclusive social development, private sector development
Subthemes	–	Promoting economic efficiency and enabling markets, human development, public–private partnerships

NOTE

In this report, "\$" refers to US dollars.

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I. INTRODUCTION

1. Many developing member countries of the Asian Development Bank (ADB) have witnessed rapid economic growth but with insufficient reduction of poverty. ADB's long-term strategic framework 2008–2020 (Strategy 2020) responds to this by emphasizing inclusive growth as necessary for realizing its vision of a region free of poverty by 2020.¹

2. Poverty in the Asia and Pacific region is now estimated to be much larger than earlier reported.² The region also faces major hurdles in meeting its Millennium Development Goals. The task is far too large for the public sector to handle by itself, and so the role of the private sector in poverty reduction and inclusive growth is therefore critical. The base of the pyramid (BOP) approach³ is an innovative concept that channels private entrepreneurship towards inclusive development. It argues that the private sector can play a bigger role in improving the lives of the poor and near poor than it does now, leaving the public sector to focus on those most in need. This technical assistance (TA), therefore, attempts to strengthen the participation of the private sector in the BOP market.⁴

3. Fact finding for this TA was carried out in India and Indonesia and government agencies, private sector groups, representatives of the financial sector, and nongovernment organizations (NGOs) concerned in these countries have been consulted in developing the design and implementation arrangements. The design and monitoring framework is in Appendix 1.

II. ISSUES

4. **The Base of the Pyramid Approach.** Due to a high level of inequality, the richer groups in the region, although small in number, earn a disproportionately large portion of the total income. Those earning above \$3,000 (purchasing power parity in 2002 international dollars), while constituting only 17% of the region's population, account for 58% of its total income. The private sector generally caters to this narrow upper portion of the population. However, the BOP market is large and potentially viable. The BOP segment—those earning less than \$3,000 (purchasing power parity) a year, or less than current \$2.11 per day in the People's Republic of China and \$1.56 in India—is estimated at 2.8 billion people with total earnings of \$3.47 trillion.⁵ Any inclusive growth strategy must involve this vast BOP market in the growth process.

5. There are many reasons why the BOP market has failed to integrate with the growing economy of Asia. The BOP population in Asia, both as consumers and producers, is mainly rural and lacks infrastructure, financial services, communications, electricity, and access to clean water, education, and basic health services. It faces difficulties in accessing new technology, and its activities are largely informal in nature, preventing proper access to resources. A large number of the BOP population do not have title to their land, dwellings, or other property.⁶ Most do not have crucial information such as on prices, or access to markets for their labor or produce,

¹ ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank 2008–2020*. Manila.

² New estimates of poverty released by the World Bank have raised the numbers of extreme poor in Asia and the Pacific from about 600 million to about 900 million. See Chen S., M. Ravallion. 2008. *The Developing World is Poorer than We Thought, But No Less Successful in the Fight Against Poverty*. Washington, DC: World Bank.

³ Pioneered by Prahlad, C.K. 2004. *Fortune at the Bottom of the Pyramid*. Philadelphia: Wharton School Publishing.

⁴ The TA first appeared in the business opportunities section of ADB's website on 23 October 2008.

⁵ World Resources Institute and International Finance Corporation. 2007. *The Next 4 Billion: Market Size and Business Strategy at the Base of the Pyramid*. Washington, DC.

⁶ De Soto, Hernando. 2000. *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else*. New York: Basic Books.

and much of the value of what they produce gets captured by middlemen. They also pay a poverty penalty—paying higher prices or receiving lower quality for goods and services.

6. The BOP approach tries to overcome these constraints by addressing policy and institutional barriers⁷ and by fostering new business models with product and process innovations in order to enable the BOP market to function more efficiently and productively on commercial lines. Areas with some initial successes are commercial microfinance, commercial micro health insurance,⁸ and mobile telephony. There has been little headway made in other promising areas such as private water distribution, off-grid electric supply, or provision of clean cooking fuel (footnote 5).

7. In general, private enterprises (including small and medium-sized enterprises [SMEs]) in the formal sector have left the BOP sector relatively underserved due to perceptions of the high risk involved in addressing the BOP segment.⁹ The approach adopted in this project is to focus on the SME sector (including SMEs in the agriculture sector) where the potential is highest and the support is most needed.¹⁰ Among factors providing an edge to SMEs are (i) suitable scale to viably address BOP markets, and (ii) better ability—through working with NGOs and community organizations—to organize BOP producers.¹¹ Large enterprises inclined to tap the BOP market can do so using the larger resources at their command; many have already begun doing so.¹²

8. Policy Environment and Knowledge to Foster the Base of the Pyramid Approach.

The BOP approach will need strong public–private partnerships initially to succeed. At present, knowledge about ways to develop the BOP market is insufficient and the BOP approach does not figure prominently in strategies for development. While most countries are aware of the need to promote SMEs, more knowledge is needed about better ways to engage the private sector in the BOP sector. While studies have shown the size and potential of this market globally, they need to be followed up at the regional level to demonstrate BOP opportunities for the private sector and enable countries to adopt appropriate strategies, policies, and institutions to encourage development in the BOP sector. Such an approach can use the intellectual capital and global knowledge of best practices available, as well as profit from regional best practices.

9. Demonstrating Enterprise Potential at the Base of the Pyramid. Opportunities in the BOP sector can be demonstrated if there exists a sizable pipeline of enterprises with the required characteristics that are suitable for investment. New technologies with proven viability have been developed and these can enable BOP producers to obtain better value for their

⁷ For example, to enable easier entry, access to resources and markets, better partnering with government and civil society, removal of constraints facing informal sector participants, etc.

⁸ Such as the Yeshavani scheme in Karnataka, India.

⁹ SME lending without sufficient enterprise development is fraught with risk, and finance is not the only input needed. Many countries have banks with high nonperforming SME loans as a result.

¹⁰ The focus of ADB's considerable SME lending has not been exclusively in the BOP sector. Projects have emphasized development of the business environment for promoting SMEs, including capacity development for public business development services, and provided lines of credit. Credit has not usually been targeted exclusively at the BOP segment, although there has been geographical targeting to poor regions in some cases (such as in some Sri Lanka SME interventions). The criteria of subloans have been based on the size of turnover and assets and/or the size of loans. In the Philippines, a guarantee-cum-credit/equity operation was also carried out to support SME development, but it was not focused specifically on the BOP sector.

¹¹ Although the BOP approach encourages all enterprises, including microenterprises in the BOP segment, the focus in this regional research and development technical assistance is on SMEs, as (i) microenterprises are already engaged in the BOP sector, (ii) SMEs are likely to be potentially more attractive to the private sector than microenterprises, (iii) successful microenterprises have often relied on subsidized microfinance, and (iv) experience suggests that provision of finance without enterprise development is unlikely to be successful, so the focus is on enterprise development at the scale which is more viable—i.e., SMEs.

¹² Such as Hindustan Lever and ITC Ltd. in India.

products if they can be replicated in the region. Some starts have been made by small enterprises supporting the BOP sector, but there is no systematic database of such BOP enterprises or information on their experiences.

10. For example, mini hydropower plants (less than 1 megawatt) using run of the river technology in remote off-grid areas have great potential that remains largely unexploited in the region. Developing sustainable and organic agriculture to bring greater value to poor farmers is another example. Similarly, cultivation of *jatropha* plant, which uses arid land unfit for cultivation, can provide biofuel and generate livelihoods for poor farmers. New technologies in water purification are bringing affordable water to populations at risk. For BOP communities without water distribution networks, small-scale community-based water treatment systems are available. New dual-fuel stoves use clean-burning propane or biofuels, but reduce the amount of biofuels by as much as 80% compared to traditional cooking methods, providing clean affordable alternatives to coal and firewood. But many of these new technologies have yet to penetrate developing countries and may be unknown to entrepreneurs. Bringing global best practice to local businesses is one of the significant advantages of a BOP approach.

11. Entrepreneurs seeking to address the BOP sector face many challenges, including insufficiently conducive business environments, lack of knowledge of available technologies or business skills, and difficulty in obtaining finance. Enterprise development activities which identify potential BOP enterprises to help them develop viable business models, provide information about technologies, build business skills, and then, through a structured process, bring them into contact with investors, can address many such challenges. Studies reveal that successful BOP strategies (i) focus on meeting the BOP segment's specific needs through new approaches; (ii) localize value creation through franchising, building local systems of vendors or suppliers, or treating the community as a customer (all involving capacity-building efforts); (iii) enable access to goods and services by the BOP segment financially (such as single-use packaging), or physically through new distribution strategies; and (iv) involve unconventional partnering with governments, NGOs, and stakeholders (footnote 5).

12. **Financing.** A major constraint facing SME financing for the BOP sector is a perception of high risk. Although private equity investors and commercial financiers interested in investing in SMEs exist (particularly in some of the middle- or near middle-income countries in Asia), they do not possess adequate information on viable BOP enterprises. Thus, currently there is little finance available for SMEs catering to the BOP sector. The existence of a viable project pipeline may reduce the risks of such financing. There may still be need to establish further risk reduction mechanisms, such as guarantees or dedicated investment funds, to remove the hesitation in the market and catalyze such financing. This project expects to address these issues.

III. THE TECHNICAL ASSISTANCE

A. Impact and Outcome

13. The expected impact of the project is strengthening inclusive growth in ADB's developing member countries by enabling the BOP markets to integrate more fully in the formal economy. This will provide opportunities for the BOP population to increase their productivity through higher-value job creation and entrepreneurship. It will also provide more cost-efficient and effective service delivery to the low-income groups and the poor. The project's expected outcomes will be stronger engagement of the private sector with the BOP market through demonstration of BOP opportunities, and better understanding of policy and institutional issues among policy makers.

14. The main outputs and activities of the project are (i) case studies of 40 BOP business enterprises identified and supported in India and Indonesia (these countries have been chosen due to their middle-income nature and likelihood of greater success of demonstrating the BOP approach), (ii) a study to investigate the need for a pilot fund or guarantee and risk reduction instruments, (iii) a publication based on the experiences of the project, and (iv) dissemination activities.

B. Methodology and Key Activities

1. Case Studies on Enterprise Development

15. The project will develop case studies on enterprise development in India and Indonesia through (i) identification of potential BOP enterprises, (ii) supporting their development as viable businesses, and (iii) facilitating their financing tie-ups through investor forums and other means.

- (i) **Enterprise identification.** Enterprises will be selected based on their suitability to serve the BOP sector and act as demonstration cases for the region. Selection criteria will include (a) impact on the BOP segment; (b) innovative approach, scalability of their business models involving low-income groups as producers, consumers, distributors, and entrepreneurs; and (c) viability, sustainability, and growth potential. Existing databases of NGOs and development partners will be used, along with advertisements in media and websites, to obtain candidate projects.
- (ii) **Enterprise development.** The selected enterprises will receive some catalytic support on their business plans and developing business and financial skills. To the extent possible, the TA will attempt to leverage existing local enterprise development networks which are already active in developing socially and environmentally sustainable SMEs serving the BOP market.¹³
- (iii) **Investor forums.** Those enterprises that are found capable and with growth potential (about 20 each in India and Indonesia) will be provided with investment facilitation support by showcasing them to potential financing groups such as commercial banks and equity investors through investor forums.

2. Study of Market Potential for a Base of the Pyramid Fund and/or Risk Reduction Vehicle.

16. Due to financiers' perceptions of high risk about enterprises catering to the BOP segment, a BOP fund and/or risk reduction vehicle is necessary to initiate a process of commercial financing of the BOP sector. Such a fund can provide debt, equity, or guarantees to potential investors. A study will be conducted to assess the potential for such a fund and/or risk reduction vehicle, and to determine its possible size and structure covering both countries. Should the study indicate the existence of a sizeable market, ADB may consider supporting such a fund or risk reduction vehicle on a pilot basis to catalyze financing.

3. Knowledge Development, Dissemination, and Exchange

17. A publication chronicling the learning process gained through the enterprise development process and findings on financing mentioned in paras. 15 and 16 will be produced. It will look critically at the enterprise cases developed and assess their performance—successes as well as shortcomings—to understand the regulatory and market failures which (i) prevent the private

¹³ Such as New Ventures; available: <http://www.new-ventures.org/>

sector from exploiting the BOP, or (ii) prevent the poor and near poor from participating in the BOP more meaningfully. The publication will address both domestic and regional audiences, and target policy makers, potential investors, and entrepreneurs in order to produce a better understanding of the BOP market and help in developing appropriate policy and institutional changes. In addition, dissemination and exchange forums will be conducted in order to reach the widest possible audience and allow countries to learn and exchange experiences based on the India and Indonesia examples. Dissemination will also be conducted through websites¹⁴ and through knowledge networks,¹⁵ forums, and workshops.

C. Cost and Financing

18. The cost of the TA is \$650,000 to be financed on a grant basis by ADB's TA funding program. The detailed cost estimates are in Appendix 2.

D. Implementation Arrangements

19. This project will be the first of two phases. The first phase will involve India and Indonesia; the second phase will include the scoping of the creation of a social stock exchange in Asia to provide finance for socially responsible and green enterprises in Asia. It may also extend this initiative to other middle-income countries such as the People's Republic of China and Viet Nam, where strong enterprise development networks for BOP SMEs have begun to be built.¹⁶

20. ADB will be the Executing Agency for this TA, to be implemented by its Regional and Sustainable Development Department in consultation with concerned regional departments and the Private Sector Operations Department. The TA will be implemented over the period March 2009–September 2010. ADB will engage a firm of consultants to carry out the activities and deliver the outputs envisaged. The consultants will be engaged in accordance with the *Guidelines on the Use of Consultants* (2007, as amended from time to time) using the quality and cost-based selection and simplified technical proposal. The quality-cost ratio norm¹⁷ will also be applied in the evaluation of proposals. A total of 10 person-months of international and 50 person-months of national consultancy will be required. Expertise is needed in the areas of BOP enterprise identification, development and financing for the enterprise development, and BOP market study components, and development economists or specialists familiar with the BOP approach are needed for the publication. The outline terms of reference for consultants are in Appendix 3. Disbursements under the TA will be done in accordance with the ADB's *Technical Assistance Disbursement Handbook*.¹⁸

IV. THE PRESIDENT'S DECISION

21. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of \$650,000 on a grant basis for Promoting Inclusive Growth through Business Development at the Base of the Pyramid, and hereby reports this action to the Board.

¹⁴ Such as ADB's website (www.adb.org) and World Resources Institute's website (www.nextbillion.net).

¹⁵ Including the soon to be established poverty network in Asia, supported by ADB.

¹⁶ World Resources Institute, together with its local Chinese partner, New Ventures China, have started developing such networks in the People's Republic of China. Netherlands Development Organization (SNV) has begun such work in Viet Nam.

¹⁷ To calculate total scores, the technical proposal will be given a weight of 80%, and financial proposal 20%.

¹⁸ ADB. 2008. *Technical Assistance Disbursement Handbook*. Manila.

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and/or Indicators	Data Sources and/or Reporting Mechanisms	Assumptions and Risks
Impact Strengthened inclusive growth and poverty reduction in ADB's DMCs through improved BOP market performance	Improved access to services provided by private sector by BOP population Increased economic involvement of the BOP population in higher-value activities	Country reports and impact assessment reports including statistical data on the incidence and magnitude of the poor and near poor population; private sector investments, business climate indicators, and employment indices	Assumptions Conducive macroeconomic environment Sustained per capita growth in the countries covered by the TA activities Risk Political instability, particularly at local levels
Outcome Stronger engagement of the private sector with the BOP market than at present; better understanding of policy and institutional issues among policy makers.	Increased private sector investments and business formation in BOP market compared with currently Increased access of BOP market to more affordable products and services compared to present Identified policy and institutional constraints discussed with policy makers	Statistical data on the incidence and magnitude of the BOP income groups and the poor; private sector investments and business climate indicators; and employment indices and review mission reports	Assumption Conducive environment for public-private partnerships Risk Financial crisis is prolonged and affects financing of subprojects
Outputs 1. Identified viable business models for enterprise development 2. A feasibility study on a BOP fund or risk reduction vehicle submitted to ADB 3. A publication on BOP approach in enterprise development based on project experience, highlighting issues and strategies	About 40 enterprises identified and assisted in serving the BOP market bringing additional private investments in BOP sector Feasibility study submitted by the end of August 2009 BOP publication finalized by April 2010	Progress reports Consultants' technical reports Review mission reports	Assumptions Active local business community Cooperation and support from governments, nongovernment organizations, and private sector groups Risk Insufficient business infrastructure and services
Activities with Milestones 1.1 Enterprise identification: March–Sept 2009 1.2 Enterprise development: October 2009–January 2010 1.3 Investor forums: February–March 2010 2.1 Market potential and BOP fund/risk reduction study: March–August 2009 3.1. Preparing publication: October 2009–April 2010 4.1 Dissemination activities including BOP regional conference: June–August 2010			Inputs ADB: Financial (\$650,000) and staff resources for implementation of the TA activities and preparation of TA reports

ADB = Asian Development Bank, BOP = base of the pyramid, DMC = developing member country, TA = technical assistance.

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COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Total Cost
Asian Development Bank Financing^a	
1. Consultants	
a. Remuneration and Per Diem	
i. International Consultants	215.0
ii. National Consultants	125.0
b. International and Local Travel ^b	30.0
c. Reports ^c	35.0
2. Training, Seminars, Conferences, and Workshops	150.0
3. Miscellaneous Administration and Support Costs ^d	25.0
4. Contingencies	70.0
Total	650.0

^a Financed by the Asian Development Bank's technical assistance funding program.

^b Includes travel of resource persons, including travel of ADB staff as resource persons, participant travel cost, and trainings, seminars, and conferences logistics costs.

^c Includes reproduction and publication costs.

^d Includes communications and other administrative and support costs related to the implementation of the technical assistance.

Source: Asian Development Bank estimates.

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

A. Enterprise Development

1. Base of the Pyramid Enterprise Development Specialist (international, 7 person-months, intermittent)

1. The specialist will supervise the carrying out of the following three main functions by national consultants in both India and Indonesia:

- (i) base of the pyramid (BOP) enterprise identification,
- (ii) enterprise development through helping to structure viable business plans and providing mentoring support for developing business skills, and
- (iii) investment facilitation.

2. The specialist will be skilled in enterprise identification,¹ development, and investment facilitation and should have experience working with supporting development of sustainable BOP small and medium-sized enterprises in emerging economies and interacting with investors interested in these enterprises. In the case of investment facilitation, enterprises will be helped to make presentations of their business plans to audiences of local and international investors in investor forums in India and Indonesia (some such forums already exist and will be utilized as much as possible) and will also be helped to engage in one-on-one meetings between investors and enterprises. The specialist will be skilled in such facilitation work.

3. The specialist will have private sector experience and a degree in business administration would be preferred. The specialist will be responsible for studying various BOP business models globally and identifying which business models can be applied to address the needs of BOPs in India and Indonesia. The specialist will also play a part in developing the BOP study publication (see paragraphs 8 and 9), particularly regarding the analysis and results of the pilots. Moreover, the specialist will oversee the national consultants in their enterprise identification and mentoring as well as investment facilitation activities. Finally, he or she will also be involved in the information dissemination initiatives. The specialist will be traveling to India and Indonesia.

2. Base of the Pyramid Enterprise Development Specialists (national, 24 person-months)

4. The BOP enterprise development specialists will have a deep knowledge of the BOP business models, preferably in the areas of clean energy and clean water, as well as experience interacting with BOP enterprises in emerging economies. The specialists should have a good understanding of business strategy. The specialists will be mainly responsible for taking the identified business models from other countries or regions and determining whether and how these can be applied to the local context in India and Indonesia. The specialists will be working on refining these business models to suit local circumstances, and will also play a part in developing the report regarding the analysis and results of the pilots. The specialists will be traveling to India and Indonesia.

¹ Expertise on identification of suitable BOP entrepreneurs should also include assessment and evaluation techniques such as psychometric testing.

3. Base of the Pyramid Enterprise Development Analysts (national, 24 person-months)

5. The analysts will support the work of the national BOP enterprise development specialists by providing analytical support in identification of suitable BOP enterprises and thereafter in supporting and mentoring them and helping them draw up viable business plans. The analysts will also support the specialists in work relating to the investor forums, workshops, and conferences.

B. Study of Market Potential for a Base of the Pyramid Fund/Risk Reduction Vehicle

1. Base of the Pyramid Financing Expert (international, 1.5 person-months, intermittent)

6. The expert will advise on the feasibility of establishing a BOP fund, its nature and size, and investment criteria for accessing the fund. The expert will also explore guarantee and risk reduction instruments from financial institutions which could be used to support BOP enterprises.

2. Base of the Pyramid Market Demand Assessment Consultant (national, 2 person-months, intermittent)

7. The consultant will study the market demand for a potential BOP market in Indonesia and India which can be financed through a BOP fund to be established. The consultant will make use of existing studies and collaborate with new studies under way, if any.

C. Base of the Pyramid Study and Publication

1. Base of the Pyramid Specialist/Economist (international, 1.5 person-months)

8. The specialist, who will have a thorough knowledge of the BOP sector and its constraints and solutions, will put together a study based on the case studies of the enterprises in the project. The study will look critically at the enterprises developed (including those developed earlier outside of the project) and evaluate their performance—successes as well as shortcomings—and understand what types of regulatory failures and market failures are either (i) preventing the private sector from exploiting the BOP, or (ii) preventing the poor and near poor from participating in the BOP more meaningfully. The study will also suggest from the experience gathered the needed policy and institutional changes for developing the BOP market in Asia. The specialist will have considerable prior expertise in preparing publications.

9. The publication will include

- (i) a description of the enterprises dealt with under the project and the lessons from them;
- (ii) lessons available from other projects that have been undertaken in the BOP sector;
- (iii) a description of the BOP markets in Indonesia and India, their characteristics, and problems facing them;
- (iv) a description of financing issues, market demand for funding instruments, and potential gaps and solutions; and
- (v) policy and institutional constraints faced by the BOP market in each of the countries studied, and possible solutions.