



ASHOKA INNOVATORS FOR THE PUBLIC

Building Hybrid Value Chains™

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“Opportunities for the Majority in the
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Content



- Social Innovations and Full Economic Citizenship
- Building Hybrid Value Chains™: Irrigation and Small Farmers Case in Mexico
- Challenges Ahead

About Ashoka --- www.ashoka.org



Organization

- Founded in 1980
- Non-profit organization active in 62 countries in 5 continents

Ashoka's work

- Pioneered the development of the profession of social entrepreneurs
- Has invested in over 1,700 social entrepreneurs who are advancing system change solutions to social problems

Investors 1998 - 2004

- Business entrepreneurs – 64%
- Private foundations and companies – 22%
- Other individuals – 14%
- Government – 0%

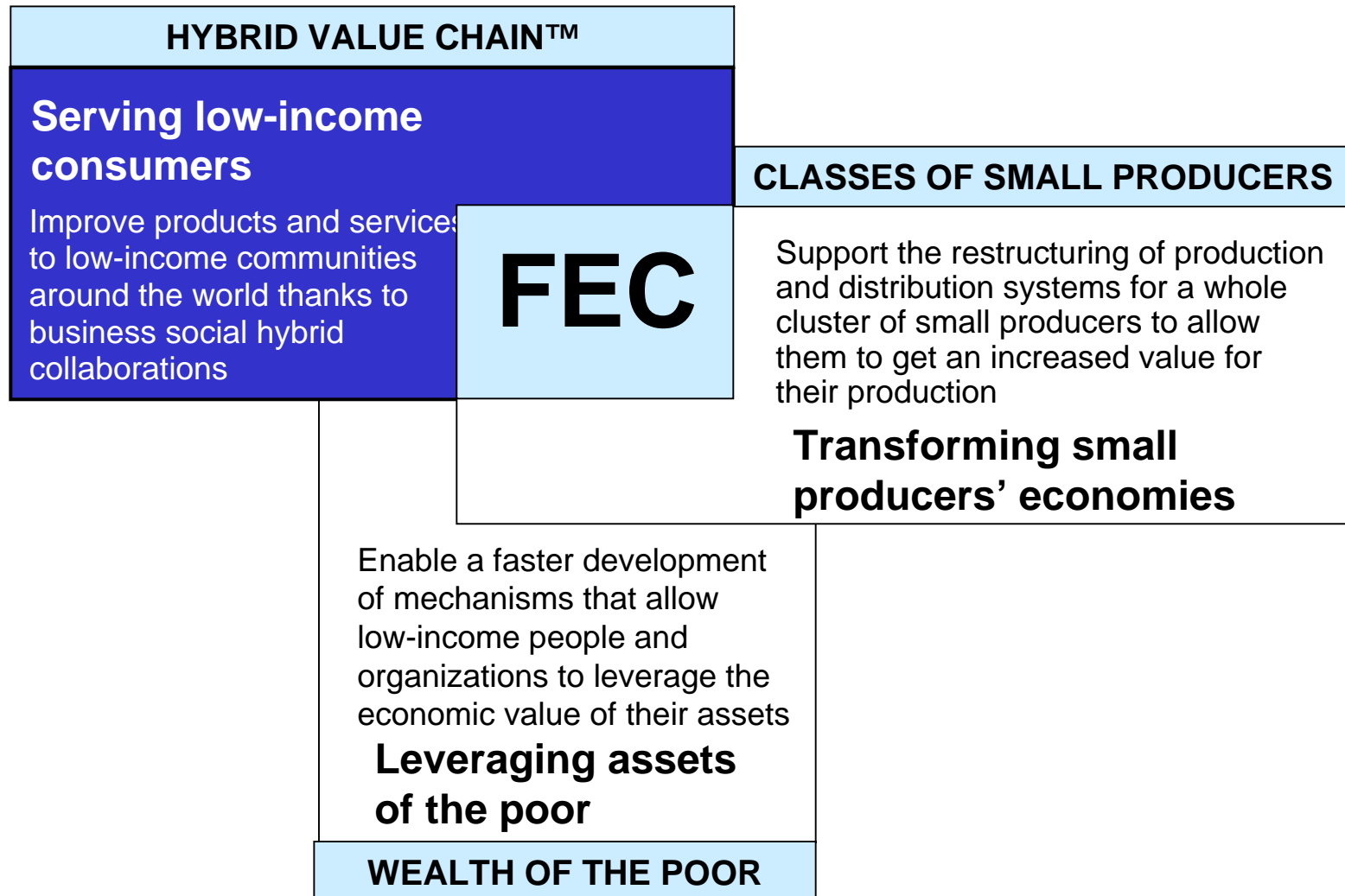
Main clients

- Leading social entrepreneurs
- Business entrepreneurs focused on social system change

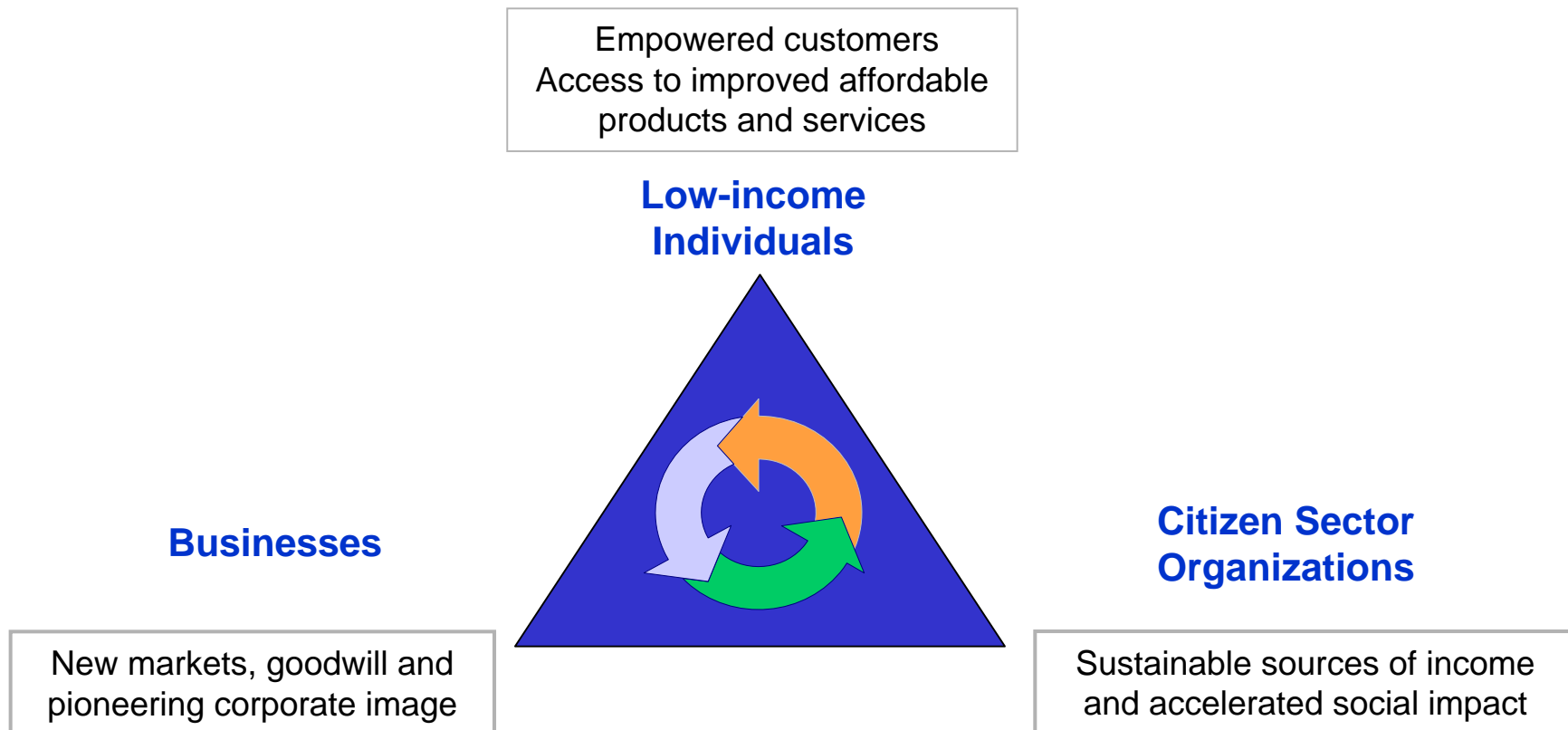
Global Strategic Partners

- McKinsey & Company
- Hill & Knowlton

Advancing Full Economic Citizenship (FEC) through a three-prong approach



Hybrid Value Chains™ - commercial partnerships between businesses and CSOs that generate economic and social value -- core FEC' strategy



Competition and commitment to social change are advancing the search for the best solutions to key social challenges

These highly leveraged partnerships are based on complementary assets and skills of CSOs and traditional businesses, which include:



□ CSO

- Social networks
- Understanding of community dynamics
- Aggregation of demand
- Complementary services (finance, education, technical assistance, etc.)



□ Business

- Ability to operate at scale
- Investment capacity
- Operational capacity (including manufacturing)
- Infrastructure and logistics

Principles behind the HVC™ business model



Principle #1. Design products and services that tap into the wealth of poor:

(Ex.: David Green and quality eye care for all; Fabio Rosa and “micro-leasing”)

Principle #2. Change radically the logic behind your business model

(Ex.: Yunus and group microlending; ICICI and CSO’s in India)

Principle #3. Leverage the power of communities as both consumers and producers

(Ex.: Grameen Telecom and shared purchasing, Dr. Kurien and dairy producers)

As one of Ashoka's Global Initiatives, FEC contributes to shaping an effective and globally integrated citizen sector



Ashoka's strategy:

FEC/Hybrid Value Chain™ Strategy:

Support social entrepreneurs

Create a “more than a sum of its parts” community

Build an infrastructure for the citizen sector

- Create opportunities to **increase impact**, improve sustainability and acquire new skills for social entrepreneurs and their organizations
- Draw on the **social innovations** and experiences of social entrepreneurs around the world who are developing solutions designed to serve low-income communities
- Demonstrate the power of **hybrid business models designed to serve low-income individuals and their communities at a massive scale**. As a result, businesses and citizen organizations work closely together towards a common long-term vision and share the wealth generated through these new opportunities.

The role of Ashoka's Full Economic Citizenship team



1. Demonstrate the potential of the Hybrid Value Chain™ business model:

- Engage leading corporations to incorporate low-income populations in their strategies
- Provide tailored support to a few selected pioneering corporations on a) designing HVCs, b) implementing HVCs and c) identifying the next generation of social partners for these pioneering corporations
- Coach Ashoka Fellows and other CSOs to help them work with corporations

2. Mobilize financing for the field:

- Mobilize the financing needed to test HVC business models
- Engage leading financial institutions to develop new financial products to scale up HVCs and other business-social ventures

3. Spread the Hybrid Value Chains™ concept to key audiences globally through:

- Systematize the learning of the Ashoka community in the sector
- Organize competitions, publications and other events opened to social entrepreneurs and business leaders

Criteria for Selecting HVC™ Opportunities



1. High priced ticket items in which low-income communities need to invest in order to either satisfy essential human needs (e.g., shelter, health and water) or significantly transform their income generation potential (e.g. irrigation systems).
2. Products for which price is not the primary barrier but a series of systemic failures are in fact inhibiting demand (ex. property rights, access to financing, lack of technical support).

Criteria for Selecting HVC™ Opportunities



3. Market segments in which the package of value added services required can be best provided by social entrepreneurs because their distinctive assets and skills (ie. social networks and ability to provide complementary services) are required on a recurrent basis.
4. The initiative should enhance the human and social capitals of all participants: communities served, social entrepreneurs and businesses.

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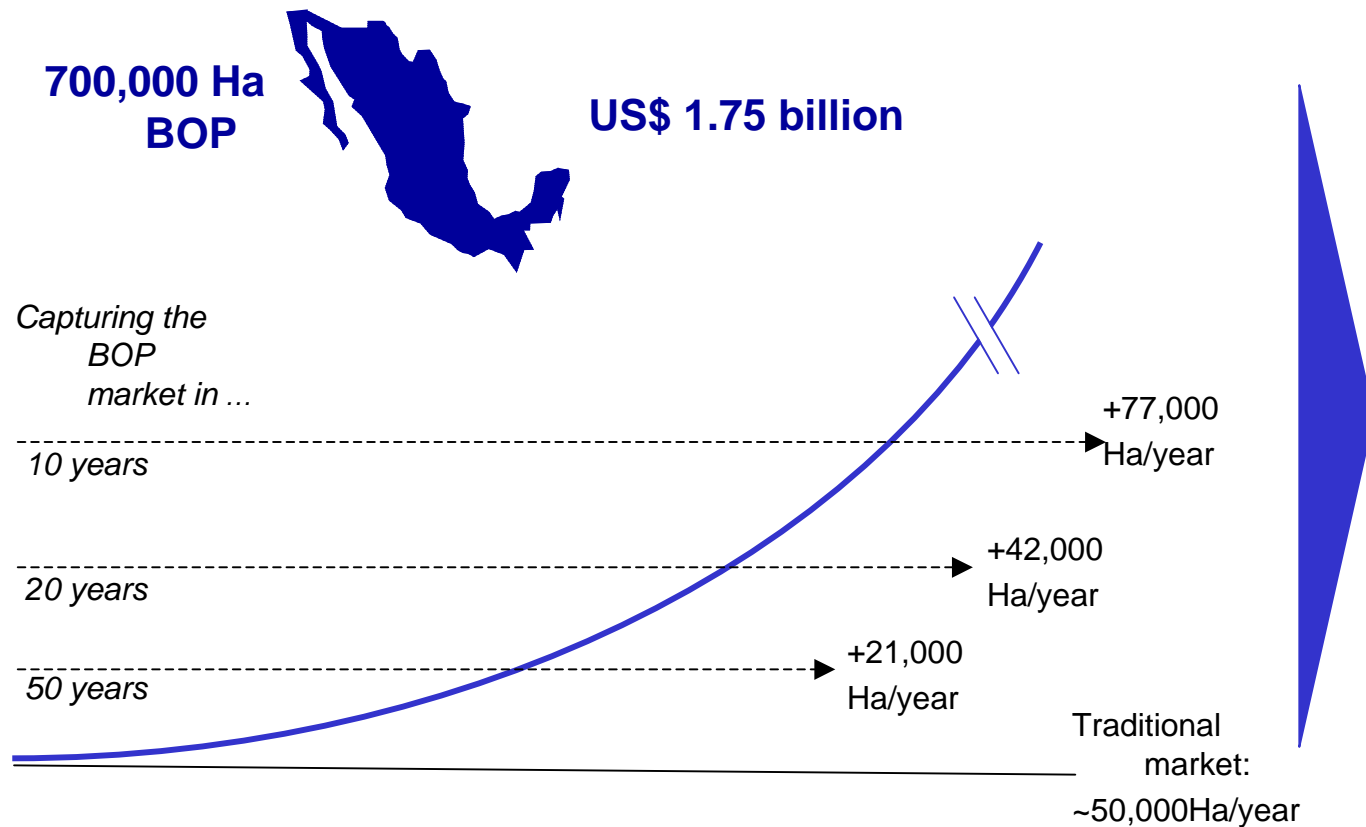
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Existing Value Chains are not serving small farmers: a package of integrated services is needed



1. Product Development: **Most solutions are not affordable** because they require or were not designed to address the needs of small farmers
2. Manufacturing: **Very high relative cost of inputs** given the type of “makeshift” solutions
3. Distribution and logistics: Only informal or highly **inefficient distribution channels** who tend to have high profit margins
4. Sales and marketing: Purchasing decision requires persuading the farmer first that he or she can aspire to have **a more profitable farm (not a technology)**
5. Financing: Does not meet conditions of financial institutions or approval process is too complex and costly. A **financial “broker” is needed**
6. Marketing of Agricultural Products: **Clients are dispersed and require an intermediary capable of aggregating production** and negotiating on their behalf

SIZE AND ECONOMIC IMPACT OF THE SMALL FARMERS IRRIGATION MARKET IN MEXICO



- If capturing the BOP market would take 50 years, this would still increase current market by 50%
- If the aggressiveness of players and other factors accelerate the process of capturing the market to only 10 years, this would triple current total market size

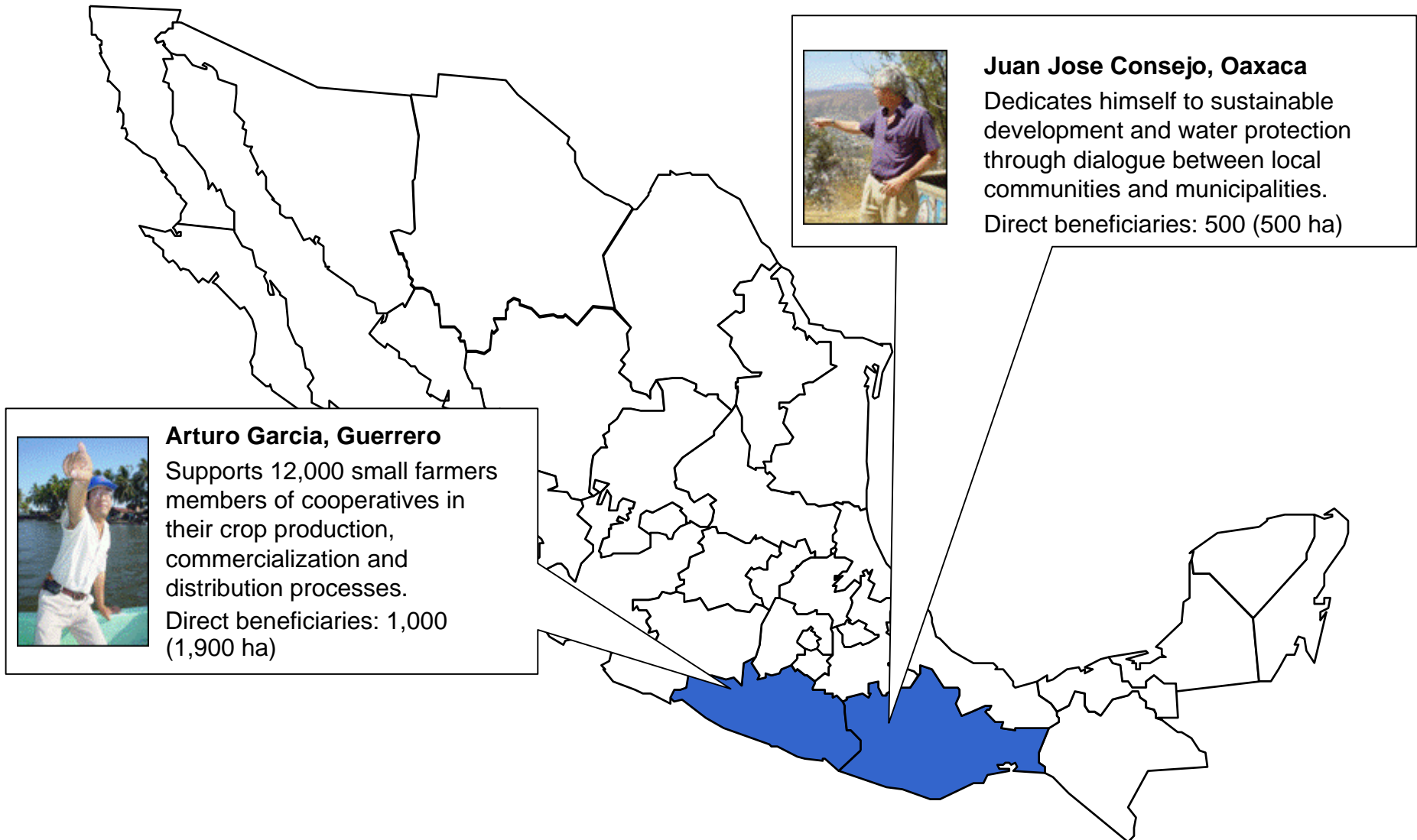
* Avg. price per hectare is US\$2,500. Current total market size for ALL the irrigation market is estimated in US\$125 milliones for 2006

Source: Amanco, Simonsen study and team analysis

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Ashoka Fellows participating in the HVC™ partnership in Mexico



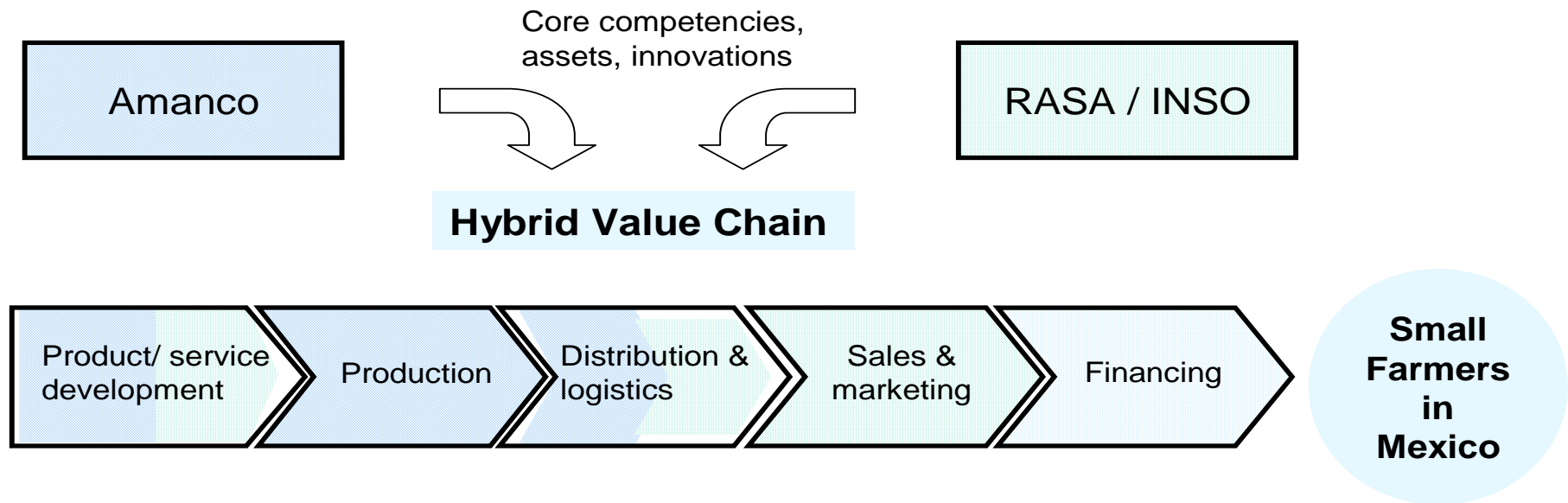
Citizen sector organizations can play several roles along the value chain



Depending on their specific skills, experience and core priorities, citizen organizations may be best suited to:

1. **Co-design or validate a product** or communications campaign by sharing their extensive knowledge on low income communities
2. **Enable cost-effective mechanism for demand aggregation** by acting as sales promoters while leveraging their existing infrastructure and social capital
3. **Provide complementary services** that contribute to both increase the purchasing power of low income clients as well as the overall social impact

Hybrid Value Chain partnership to develop irrigation market among small farmers in Mexico



The combination of skills and assets of both the company and social entrepreneur together create a new value chain for irrigation systems that meets the unique needs of small farmers in Mexico. This includes providing an integrated package of services to small farmers.

HVC™ partnership: roles and ‘business deal’



Small-scale farmers

Becomes an empowered consumer and increases his/her income significantly

- ✓ Access to irrigation systems at a fair price plus value-added services like financing, commercialization and technical assistance
- ✓ **Double or even tripled incomes**

Amanco

Water distribution company opens an underserved market

- ✓ New rural distribution channel for serving farmers profitably
- ✓ US\$ 1 million in sales during the pilot phase
- ✓ **US\$ 30 to 50 million by 2011 (equiv. to 20,000 ha.)**

Social Entrepreneurs

Serves small farmers while creating sustainable source of revenue

- ✓ Access to attractive wholesale prices that allow to cover expenses and finance complementary services
- ✓ **Larger social impact for over 20 CSO's**

Ashoka

Acts as a business/social broker

- ✓ **Contributes to accelerate social change and Full Economic Citizenship for all**
- ✓ 1.5% commission on total sales of each new rural distributor for 3 years

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Providing solutions to low-income communities requires a wide range of inputs and players as shown here in the Housing industry



Affordable/ accessible building materials



Construction skills



Access to financing in spite of limited or no collateral



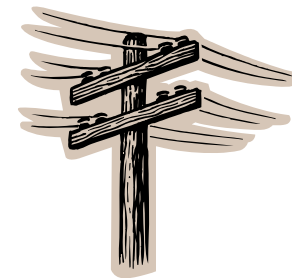
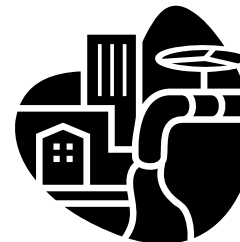
Proximity to jobs, schools, clinics..



Appropriate design



Land, with secure tenure



Water and sewer, electricity, transportation infrastructure

Full Economic Citizenship Initiative Action Plan



Ashoka's 2-year goal:

To create an accepted and proven new model for business and social entrepreneurs to work together to bring value to the BOP

Step 1: Ashoka to facilitate hybrid value chain collaborations with a small number of companies, in a small number of countries, in select industries

- Industries: housing, health, water
- Countries: Mexico, India, Brazil – plus globally through web-based resources

Step 2: Ashoka to aggressively market successful innovations globally to create a new movement in hybrid value chain collaborations and multiple applications of HVC™ business models.

Challenges Ahead



1. How to accelerate the necessary consolidation of CSOs (to make them effective partners for corporations) while preserving their unique values and cost structure?
2. How to structure the financing of these new activities when a full range of hybrid financing tools will be required?
3. How to ensure that the incentives of the different participants are conducive to maximum social and economic impact?
4. How to dramatically increase the pool of individuals – business and social entrepreneurs -- able to design and most importantly implement these HVCs?