

# OPPORTUNITIES *for the* MAJORITY

Bringing Market-based Solutions to Latin America  
and the Caribbean to Promote Social Change

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# PIONEERING SOCIAL INVESTMENTS WITH THE PRIVATE SECTOR TO THE BASE OF THE PYRAMID

Some 360 million people in Latin America and the Caribbean—70 percent of the population—live on very low incomes and have not shared in the economic and social growth of the region. These people make up the “base of the pyramid”—the largest part of the population, with the least money. But “little money” does not mean “no money.” The base of the pyramid (BOP) in Latin America and the Caribbean has an estimated collective purchasing power of \$500 billion a year—largely untapped. This majority is a market rich in potential.

Tapping that potential, and bringing market-based solutions to meet the challenge of poverty in Latin America and the Caribbean, is the mission of Opportunities for the Majority (OMJ).

This initiative of the Inter-American Development Bank (IDB),

launched in mid-2007, is backed by a \$250 million financing facility dedicated to supporting social investment at the base of the pyramid, together with local and international partners. Already it has provided more than \$150 million in investment capital and approved over 20 operations in such areas as health, education, housing, infrastructure, and financial services.

Opportunities for the Majority projects seek to increase productivity, bring the poor into the formal economy, create jobs, address market failures that raise costs for those least able to afford them, and bring quality goods and services to low-income people. Enjoy the examples featured on the pages that follow.

**Luiz Ros, Manager**

Opportunities for the Majority





For the private sector, the base of the pyramid is a source of innovation, business growth, and social transformation.

### CRACKING THE CODE ON DOING BUSINESS WITH THE BASE OF THE PYRAMID

Developing market-based solutions to address poverty challenges is an emerging field in development finance. Opportunities for the Majority is a pioneer in this work, and has now built up a portfolio of diverse, innovative, and proven solutions that can be replicated across the region and beyond.

Through its work with dozens of companies, OMJ has learned what it takes to create successful base of the pyramid business projects. Opportunities for the Majority knows:

- How to construct a business plan that engages the base of the pyramid in new ways.
- The market characteristics of base of the pyramid communities throughout Latin America and the Caribbean, and their unique needs and desires.
- Misperceptions and coordination failures that have kept the base of the pyramid such an underserved and underrecognized market for decades.
- How a company can measure the social impact of its base of the pyramid business ventures.

As part of the Inter-American Development Bank, Opportunities for the Majority is able to leverage the IDB's presence throughout the region, its experience with the public and private sectors, and its convening authority to build the partnerships and mobilize the resources required to build market-based solutions for the base of the pyramid.

# REACHING UNDERSERVED CUSTOMERS THROUGH NEW DISTRIBUTION CHANNELS

Throughout Latin America and the Caribbean, Opportunities for the Majority is using existing organizations, such as utility companies, retail operations, and community savings and loans associations, to scale up the number of new customers reached and deliver additional services to those at the base of the pyramid. This approach—which OMJ calls a “platform strategy”—is a proven method to increase the social impact of the network and help low-income people move into the economic mainstream.

Applying this strategy makes it possible for a project to reach scale much more quickly and effectively than a company building a small pilot, then gradually bringing it to scale. One of the biggest challenges in developing programs aimed at reaching the BOP is making contact with not just a neighborhood or village, but with an entire city, region, or country. Since margins are low on business models for the base of the pyramid, the key to profitability is scale. With the right platform strategy in place—whether through partnership with public agency, a nonprofit, or another business—a company can maximize its reach and connect with its target market.

## **Cracking the Code through Platforms and Partnerships:**

OMJ helps companies willing to try new approaches find new distribution opportunities.



## CREATING HOUSING SOLUTIONS THROUGH AN INNOVATIVE PARTNERSHIP

**Vision Banco**, a leading financial institution in Paraguay, provides microloans for microenterprise and consumer goods to about 140,000 clients. Now, with the help of a partial credit guarantee from Opportunities for the Majority, it is launching a new line of loans its clients can use to purchase, construct, or improve homes. Through a collaborative partnership with the international nonprofit Habitat for Humanity and a governmental financial development agency, Vision Banco will be able to provide technical assistance and financial literacy education to the beneficiaries of these new loans.



## HELPING LOW-INCOME CUSTOMERS ESTABLISH CREDIT HISTORIES

**Empresas Públicas de Medellín (EPM)**, a utility company in Medellín, Colombia, is helping its low-income customers establish credit histories, which will enable them to access the formal banking system in the future. EPM realized that customers who had a good record of paying their utility bills had effectively already established credit histories. Now, EPM is offering these customers revolving loans to fund household improvements and buy more efficient household appliances. Customers can repay the loans along with their regular electric bills. Their repayment performance on these loans will build an official credit history that will be made available to the rest of the financial system. Opportunities for the Majority is lending money to EPM to expand its pilot program.

<http://www.iadb.org/en/projects/project,1303.html?id=CO-M1058>

## PROVIDING CREDIT AND TRAINING TO FOOD SERVICE MICROENTREPRENEURS

In Brazil, people who produce and sell simple foodstuffs are called *transformadores* for their skills in transforming raw ingredients into ready-to-eat meals and snacks. With support from OMJ, Sao Paulo-based wholesale distributor **Tenda Atacado, Ltda.** is giving these microentrepreneurs new tools that will save them time and money. Working capital loans will allow the *transformadores* to buy needed supplies and equipment, and training programs will teach them how to grow their businesses.

Safe and secure homes are now within reach of the poor, thanks to innovative partnerships.

# A NEW APPROACH TO HELPING THE POOR GAIN ACCESS TO GOODS AND SERVICES

People living at the base of the pyramid are typically “unbanked,” meaning they do not have bank accounts and cannot access related financial services, such as consumer credit, home mortgages, or business loans. Opportunities for the Majority is working with businesses and financial institutions to introduce new tools and payment systems that enable low-income people to gain access to quality goods and services, as

well as income-generating opportunities. OMJ is pioneering new directions for companies to use microcredits as a vehicle to bring innovative solutions to the pressing needs of the majority.

**Cracking the Code  
through Financial Access:**  
OMJ is bringing the base  
of the pyramid into the  
economic mainstream.

## ACCELERATING ACCESS TO COMMUNITY INFRASTRUCTURE SOLUTIONS

Throughout Latin America, low-income neighborhoods have difficulty getting their city streets paved. In Mexico, for instance, 60 percent of urban streets are unpaved. The result is poor access to public transportation and services such as garbage collection, increased respiratory illnesses because of dust, and the continuing presence of pools of standing water that serve as breeding grounds for insects that transmit disease.

Municipalities are typically short of funds for paving. An innovative solution to mobilize both public and private resources to pave streets in low-income neighborhoods has been devised by **CEMEX**, a multinational cement company based in Mexico.

Under the plan, called **Mejora tu Calle (“Improve Your Street”)**, city residents receive individual microloans and then pool the resources to finance half the cost of paving neighborhood streets. Municipalities contribute the other half. The microloans average less than \$1,000 each and are repaid over a period of 70 weeks.

By participating in the project, the IDB reduces the risk of other investors, encouraging its partners to move ahead on a larger scale. The IDB, through Opportunities for the Majority, is backing the Mejora tu Calle project with a \$10 million partial credit guarantee.

Low-income residents are empowered to participate in improving their own communities.

## OPENING THE DOOR TO HIGHER EDUCATION FOR LOW-INCOME STUDENTS IN MEXICO

Today, only about one in four Mexicans between the ages of 19 and 24 is in college—but the rates of college enrollment are far lower among young people at the base of the socioeconomic pyramid: only 1 in 30 attends university, despite proven academic ability. Mexico’s college student population is forecast to grow from 2.4 million to 4 million over the next decade, and public universities are not expected to have sufficient capacity to meet the surging demand.

**FINAE**, a Mexican finance company specialized in education financing, will issue student loans to young people with good academic records who otherwise could not afford the tuition costs at private universities. Opportunities for the Majority is extending a \$2 million loan to FINAE to provide student loans. The project will expand the opportunities of low-income students to attain degrees, enabling them to compete for and obtain better-paying jobs. The project is also expected to have a demonstration effect, prompting more lenders to become involved in financing higher education.





# ACHIEVING HIGH-IMPACT RESULTS FOR LOW-INCOME PRODUCERS THROUGH CORPORATE SUPPLY CHAINS

Getting larger companies to incorporate small, low-income producers into their supply chains is a powerful way to break the cycle of poverty. Small producers can gain access to steady clients and working capital, as well as other benefits, such as production of higher value added or better quality products, financial services, training, and modernization of production processes.

For the larger company, working with suppliers from local low-income communities also has many benefits. For example, such relationships lower transportation costs and reduce carbon footprints, as production sources are located closer to factories or points of sale.

## **Cracking the Code by Creating New Relationships:**

OMJ has developed tools a company can use to move beyond small-scale supply chain projects.

## SMALL FARMERS, BIG DREAMS: PEPSICO BRINGS THE BOP INTO ITS SUPPLY CHAINS

In rural Mexico, small farmers tend to grow staple crops like beans and corn, and sell them only in their immediate communities. With little access to national supply chains or the working capital they need to expand their farms, they remain at subsistence levels. Meanwhile, Mexico is developing ever-higher rates of obesity and related health issues, leading the government to call for food companies to cut their use of saturated oils and trans-fats, and to implement public incentive plans to diversify the country's agricultural profile.

**Sabritas**, a leading Mexican snack foods producer owned by **PepsiCo**, has decided to take action. With support from Opportunities for the Majority in the form of a partial credit guarantee to local financial institution **Agrofinanzas**, PepsiCo will scale up a pilot program that incorporates small farmers into its sunflower supply chain. The new production of sunflower oil will reduce the company's dependence on expensive, unhealthy imported palm oil, while giving the farmers the chance to expand their crop output and enter the formal economy.



## FORGING A NEW PATH TO PROFIT FOR NICARAGUAN BEAN FARMERS

Beans are one of the most widely grown crops in Nicaragua, which has close to 300,000 smallholder bean farmers. While the elevations and highly fertile volcanic soil provide excellent farming conditions, the bean producers have often struggled to earn a fair profit because of low productivity, lack of access to credit, and excess intermediation by middlemen. A \$3.6 million loan from Opportunities for the Majority, part of a larger \$13.6 million package from the IDB, aims to make small bean farmers more competitive and improve their income levels. Opportunities for the Majority will team with **Agricorp**, Nicaragua's leading distributor of rice and other staple foods, to provide stable market access for storage and sale of beans, as well as access to credit, assistance to strengthen farmers' cooperatives, and training in best agricultural practices to improve productivity.

<http://majoritymarkets.org/news/beans-sustainable-incomes-new-path-profit-nicaraguan-farmers>

“The program helps producers transition from subsistence to profitability, creating more disposable income and ultimately a better quality of life.”

—Agricorp Project Manager Edgard Cuadro

# IMPROVING RESULTS THROUGH KNOWLEDGE AND CAPACITY-BUILDING

Opportunities for the Majority uses technical cooperation projects to determine the best way to structure financing, pilot different business models, conduct market research and feasibility studies, and support capacity building, among other activities. These efforts enhance OMJ's understanding of base of the pyramid business

projects and have educated hundreds of companies as well. OMJ offers technical assistance on a grant basis, making it especially attractive for participants. In addition to carrying out free-standing technical cooperation projects on a range of topics, OMJ includes technical assistance components in many of its business projects.

## **Cracking the Code with Research and Information:**

OMJ shows companies how to collaborate with and market themselves to the base of the pyramid.



## MAPPING BOP BUSINESS APPROACHES

This study, carried out in partnership with **SNV Netherlands Development Organization**, was the first regional mapping study designed to identify what companies in Latin America and the Caribbean were already doing to engage with the base of the pyramid. Some 500 companies in 13 countries were surveyed. OMJ and other organizations have relied on its findings, learning what has and has not worked for businesses, and finding solutions to the problems uncovered through the study.

## IDENTIFYING INNOVATIVE IDEAS

**The Corporate Leaders Program for Success in Majority Markets** identifies large firms that have preliminary ideas about launching BOP business projects and offers them access to some of the world's leading BOP and corporate consulting experts, along with individualized technical assistance, peer group networking, and tangible public recognition.



## HELPING LOW-INCOME FAMILIES FIND HOUSING SOLUTIONS

A \$7 million loan from OMJ to **FONAVIPO**, El Salvador's national low-income housing fund, is creating more opportunities for Salvadoran families at the base of the pyramid to access the financing they need to construct or improve their homes. An information and advisory center, established with support from a technical cooperation grant, makes the loan program all the more powerful, as it provides valuable information to the families about subsidy programs, the process of applying for housing loans, and other financial literacy tools that help the homeowners take full advantage of available resources.

## MAKING VISION CARE AFFORDABLE

For too long, people who cannot afford eyeglasses have had to retire prematurely when they can no longer see clearly. Using a microfranchising model they call "Business in a Bag," **Vision Spring** trains entrepreneurs to conduct simple vision exams and fit people with the correct frames and lenses. Thanks to mass production and microloans, it costs middle-aged and older customers only a few dollars to extend their working lives by years by purchasing eyeglasses. Opportunities for the Majority has provided Vision Spring with a grant to explore expansion throughout Latin America and the Caribbean and to test the possibility of offering other eye care products.



Lessons learned through research and pilot projects make business models more effective.

# SUPPORTING INVESTMENTS WITH A SOCIAL IMPACT

Just as development finance institutions are beginning to understand the potential of bringing market-based solutions to the base of the pyramid, a new asset class is also emerging, as investors are increasingly drawn to investments that have social as well as financial returns.

Opportunities for the Majority is active in this new and exciting field of impact investment, both as an investor in innovative funds and

as a creator of opportunities for other impact investors, who are invited to serve as co-lenders in many of its projects. Impact investors are attracted to OMJ's projects for many reasons, including the confidence that the business models have been fully vetted through rigorous due diligence procedures, and the knowledge that their money can go further, thanks to IDB's preferred creditor status throughout the region.

## **Cracking the Code**

### **through Impact Investing:**

OMJ demonstrates that a project that achieves a "double bottom line" by generating social as well as financial returns can also be an attractive investment opportunity.

## INVESTING IN INNOVATIVE FUNDS

Opportunities for the Majority has made significant investments in two major social funds. The first is **IGNIA**, a venture capital firm based in Mexico that invests in small and medium companies in Latin America. The second is **Global Partnerships**, based in Seattle, United States, and Managua, Nicaragua. Its **Social Investment Fund 2010** funds programs that offer additional goods and services to the low-income clients of microlending institutions.

IGNIA's innovative portfolio includes **ProOrganico**, a leading grower and exporter of organic produce headquartered in Monterrey, Mexico, which works with rural families, helping them increase their income dramatically by upgrading their production to higher value organic products; and **MeXvi**, which provides affordable and versatile construction systems that help low-income Mexicans build their own homes.



The Global Partnerships Social Investment Fund 2010 has supported projects such as an effort by the women's microfinance institution **Pro Mujer** to offer lifesaving cancer screenings and health education classes to its clients in rural Nicaragua, as well as training in trade skills carried out by **Comixmul**, a savings and credit cooperative in Honduras.

## CO-LENDING WITH IMPACT INVESTORS

Other impact investors are investing in OMJ projects through IDB's co-lending programs. In Peru, **Mibanco** is launching "Crece Mi Negocio" ("Growing My Business"), a credit fund for female microentrepreneurs that offers loans for starting or expanding small businesses, as well as training programs that give the women new skills and tools to run their businesses more effectively. Mibanco is a first for OMJ in that all its co-lenders are impact investment organizations: **Oikocredit**, **Blue Orchard**, and **the Calvert Foundation**.

Other OMJ projects are attracting impact investors, such as a partnership with the Fund for Small Producers (Fondo para Pequeños Productores, or **FOPEPRO**), which is making working capital loans available to farmers across Latin America through a variety of smallholder organizations and microfinance institutions.

Investors find that their money can have a social impact.





# LOOKING AHEAD

By **Luis Alberto Moreno**, President, Inter-American Development Bank

“Now is the time to think about working on a significantly larger scale.”

At this time of world financial and economic crisis, majority markets in both developing and developed countries represent a significant asset in our recovery and return to growth. We can work with majority markets to create quality jobs, increase productivity, move people from informality to formality, expand access to necessary goods and services and improve housing. Such work benefits not only those living at the base of the pyramid, and not only the companies that successfully engage with them, but the world as a whole, as these opportunities help communities become more prosperous, stable, and forward-thinking.

The IDB is proud of the work Opportunities for the Majority has done so far throughout the Latin American and Caribbean region. Thousands of lives are being changed

by projects like those presented in this brochure. But this is only the beginning. Now—this historic moment of great challenges—is the time to think about working on a significantly larger scale. In the years to come, successes in Mexico will be adapted and replicated in Chile, and vice versa. Companies will see what their competitors are achieving, and will rush to develop BOP business plans of their own. Pilot projects will be scaled up to reach millions.

I am confident that Opportunities for the Majority will remain a leader in this sphere, always learning from other examples all over the world, sharing its knowledge, and guiding the private sector toward the exciting possibilities that lie at the base of the pyramid.

# GET INVOLVED

Opportunities for the Majority, an initiative of the Inter-American Development Bank, exists to help all members of the social investment community be more effective in reaching those at the base of the pyramid in Latin America and the Caribbean. The resources of the initiative and its partners are available to you to help you find the right alliances and—where appropriate—support new projects through loans and grants.

For more information, please visit  
[www.iadb.org/om](http://www.iadb.org/om)  
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