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# THE POWER OF DOWNSTREAM

Inclusive distribution for development



# Introduction

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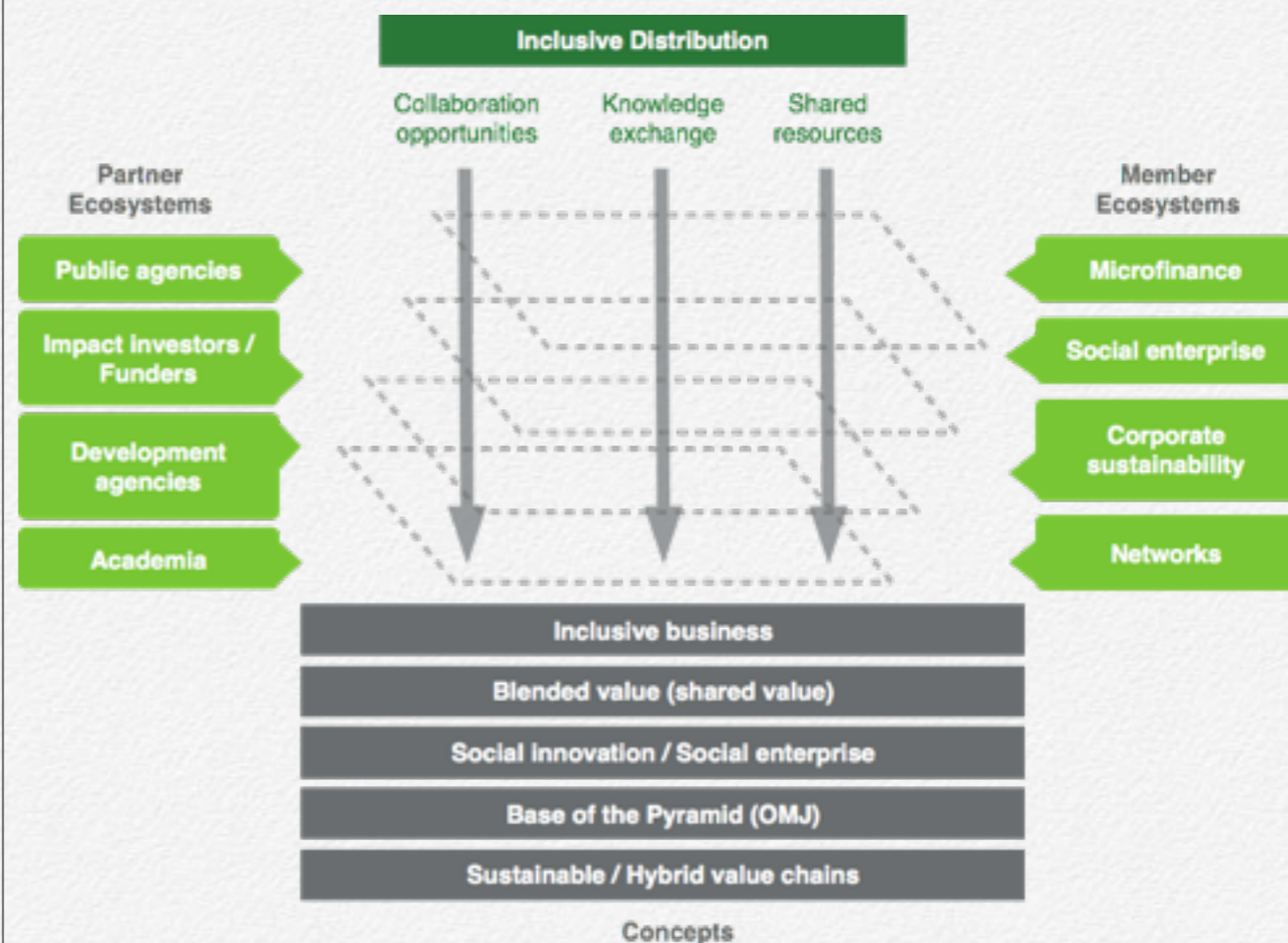
# About SCALA

During the past four years, MIF / FOMIN has supported pilot projects that tested inclusive distribution networks in seven different countries throughout Latin America and the Caribbean (LAC) to generate business opportunities for micro-entrepreneurs at the Base of the Socio-economic Pyramid (BoP). The results of these pilots have demonstrated that scale and viability are possible, but that significant complexity and challenges must be overcome.

In partnership with Citi Foundation, SCALA was created to scale the potential of inclusive distribution to advance economic opportunity, empowerment and enterprise for BoP communities. More recently, Canada's International Development Research Centre (IDRC) has joined SCALA to support knowledge generation and dissemination efforts. SCALA contemplates two main components: i) Project financing for the implementation of inclusive distribution networks, and ii) Knowledge management and community building. A clear opportunity exists for SCALA to convene and activate a fragmented community with a desire for col-

lective impact, but no defined 'network hub' to share knowledge, build identity, accelerate partnerships and provide field-making services.

**Convene + activate + serve a vibrant community of practice and knowledge around inclusive distribution**



# About this document

This document aims to explore the potential of Inclusive Distribution, provide examples of organizations and thought-leaders leading the way, and present frameworks and approaches to advance Inclusive Distribution Networks. The design and roll-out of Inclusive Distribution Networks (IDNs) is a potent alternative available to corporations and social enterprises to advance business objectives and development goals alike. IDNs aim to provide opportunities for income generation, enterprise growth and empowerment to micro-distributors.

Franchising has been successfully implemented in a diverse range of sectors, and extensive research and knowledge exist around critical success factors, key considerations and experiences regarding this business approach. Recently, micro-franchising has emerged as an alternative that builds from the knowledge and tools available from business franchising models, applying them specifically to the advancement of micro-entrepreneurship in BoP communities. Our approach to Inclusive Distribution encompasses knowledge generated around

micro-franchising experiences, while casting a wider net to include networks of micro-distributors who have not necessarily entered into micro-franchising agreements per se, but could have the potential to do it as they mature.

As the micro-entrepreneurship and micro-finance fields have expanded over the last decades, so has the concern around over-indebtedness and the ability of micro-enterprises to succeed in providing sustenance to BoP communities, as micro-entrepreneurs strive to build income, assets and wellbeing for their families. Although there is momentum around the potential of micro-enterprise to reduce poverty and unleash the creative and economic potential of low-income communities, innovative value chain approaches are needed to increase the growth and chance of survival of these micro-enterprises, which are frequently the only alternative for income generation for low-income communities. IDNs present an opportunity to reduce the risks of failure for micro-entrepreneurs and emerge as a potent vehicle to replicate successful models at scale.

**This ‘springboard’ publication aspires to contribute framing and ignite new conversations to advance the emerging field of Inclusive Distribution.**

It is especially relevant in the context of the post-2015 development agenda, as Inclusive Distribution addresses four of the proposed Sustainable Development Goals (SDGs):

Table: Sustainable Development Goals

1. End poverty everywhere.
5. Attain gender equality, empower women and girls everywhere.
8. Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.
17. Encourage and promote effective public, public-private, and civil society partnerships, building on the experience and resourcing strategies of partnerships.

We look forward to collaborating with various stakeholders in continuing to provide knowledge, pilot financing and services to advance the field of Inclusive Distribution, convinced that innovations related to value chain linkages, financial inclusion and enterprise development will be determinant for the attainment of these goals.

# SCALA

## project partners

### Multilateral Investment Fund - IDB

The Multilateral Investment Fund (MIF), a member of the Inter-American Development Bank (IDB) Group, acts as a development laboratory – experimenting, pioneering and taking risks to find and support successful development solutions. The MIF’s work has two main components: i) project financing and rigorous results measurement and, ii) active knowledge sharing so the most promising solutions can be known and taken to scale. These components are designed by the MIF to benefit low-income populations and the poor through support for private sector development.

### Citi Foundation

The Citi Foundation works to promote economic progress and improve the lives of people in low-income communities around the world. It invests in efforts that increase financial inclusion, catalyze job opportunities for youth, and reimagine approaches to building economically vibrant cities.

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## International Development Research Center (IDRC)

Part of Canada's foreign affairs and development efforts, IDRC invests in knowledge, innovation, and solutions to improve lives and livelihoods in the developing world. Bringing together the right partners around opportunities for impact, IDRC builds leaders for today and tomorrow and helps drive large-scale positive change by “conducting research into the problems of the developing regions of the world and into the means for applying and adapting scientific, technical, and other knowledge to the economic and social advancement of those regions.”

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# Navigation

This document is organized in three modular sections with complementary emphases.

**Click on sections to navigate directly.**

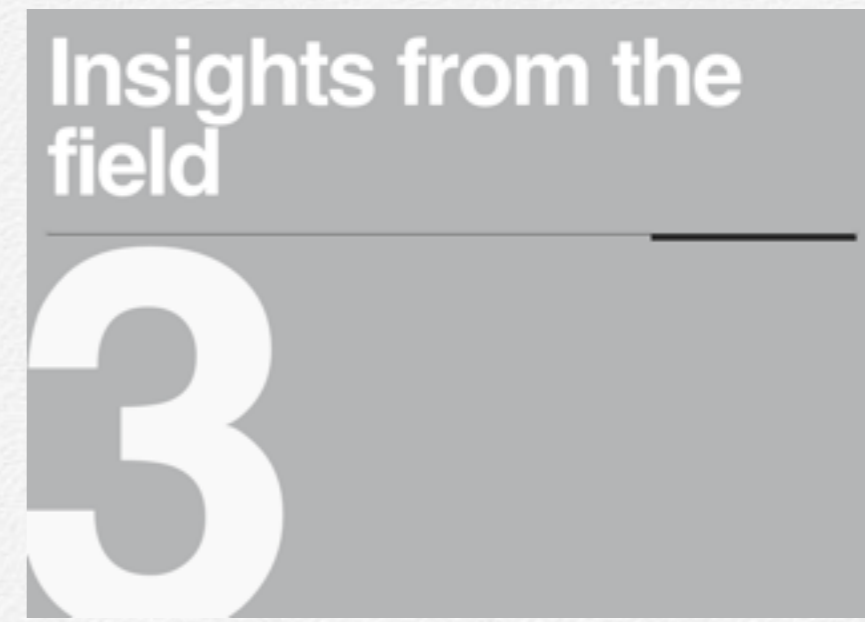


Main concepts that define Inclusive Distribution, as well as the driving forces behind the field.

Three impact lines (3Es - Economic opportunity, Empowerment, Enterprise) and partnership approach for Inclusive Distribution initiatives.

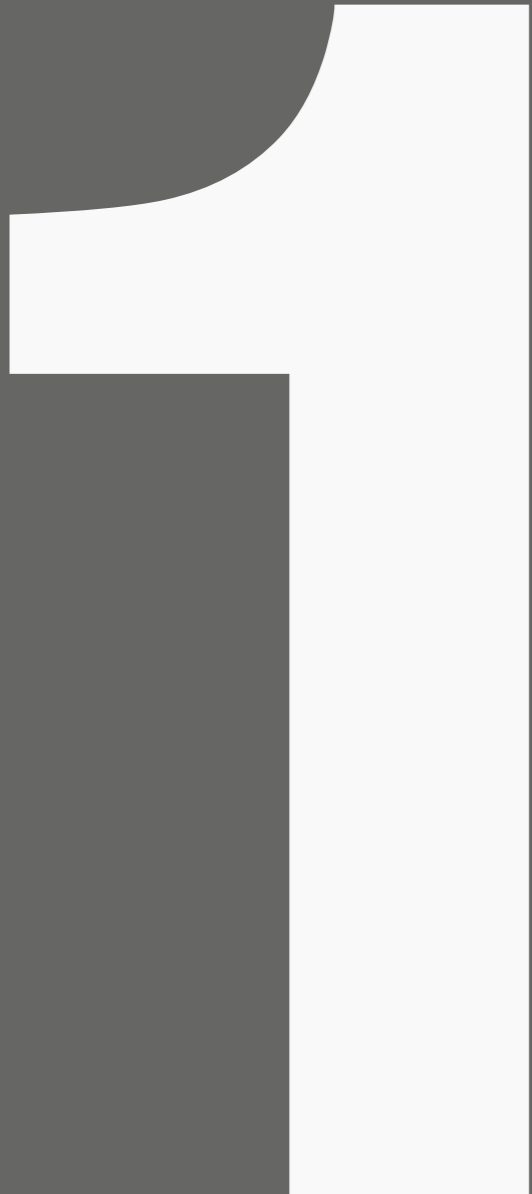


Leading innovators in the field advancing Inclusive Distribution initiatives. Examples include social enterprises and corporations.



Insights, lessons and recommendations from practitioners around the design and implementation of inclusive distribution strategies.

# Concept



“To overcome poverty and the flaws of the economic crisis in our society, we need to envision our social life. We have to free our mind, imagine what has never happened before and write social fiction. We need to imagine things to make them happen. If you don't imagine, it will never happen.”

- *Muhammad Yunus (Nobel Peace Prize)* <sup>1</sup>

# Context

## Inclusive distribution: an emerging focus in the inclusive business realm

The concept of inclusive business as a market-based solution to poverty consolidated over the last decade, permeating the boardrooms and sustainability / CSR agendas of companies across a variety of sectors. A step ahead of philanthropy and corporate citizenship, inclusive business can be defined as: “commercially viable and replicable business models that include low-income consumers, retailers, suppliers, or distributors in core operations. By adopting the models, companies build the capacity of low-income businesses and entrepreneurs; increase access to finance for businesses and consumers; create or adapt products to meet local needs and requirements; and develop innovative distribution approaches to hard-to-reach communities.” <sup>2</sup>

Though possibilities for these business models exist in both the supply and distribution chains, a majority of corporate initiatives, until recently, have been focused on the supply chain or upstream portion of the value chain (i.e. Fairtrade, Forest Stewardship Council). Meanwhile, programs like IDB’s Opportunities for the Majority, have focused primarily on identifying and scaling business models that provide access to crucial goods and services to BoP consumers. The focus of this document, and of the SCALA initiative, is on the latter component of the definition above - on the untapped potential of inclusive distribution models to advance enterprise, economic opportunity and empowerment at the Base of the socio-economic Pyramid - on the Power of Downstream.

Diagram: A focus on *downstream*



Inclusive supply chain models (*upstream*) like Fairtrade have been successful in redistributing margins amongst the different players in the value chain to allow producer organizations to capture more value, while eliminating unnecessary intermediation, strengthening rural enterprises and empowering farmers. We believe it is possible to achieve similar impacts with micro-distributors *downstream*.

# Driving Forces - Distribution to the BoP as an opportunity for impact

## BoP: An attractive market for companies

The market at the Base of the Socio-economic Pyramid (BoP) represents a unique opportunity for companies to design offerings of goods and services for low-income consumers. The size of this segment that groups the world’s poorest citizens is calculated in excess of about four billion <sup>3</sup> and projected to grow beyond 6 billion people over the next 30 years as it concentrates the bulk of population growth. <sup>4</sup> Estimates consider it to be a multi trillion-dollar global market. In Latin America alone, the BOP market is estimated at \$509 billion and includes 360 million people, representing 70% of the region’s population. <sup>5</sup> As this population continues to grow exponentially and improve their incomes, their aggregated consumption potential increases accordingly. Corporations are faced with the opportunity of designing business models with margin structures that previously seemed financially unviable, merging financial and societal ‘bottom lines’.

Table: Main reasons corporations are investing in the base of the pyramid <sup>6</sup>

Growth opportunities in BoP markets
Substantive collective purchasing power
Efficiency advantages
Source of innovation and market knowledge
Reputation, trust, ‘license to operate’ and long-term survival
Increased brand loyalty in fast-growing frontier markets
Business sector increasingly recognizing the power of their value chains as a driving force for change towards an inclusive economic system

An increased corporate focus on BoP markets offers an opportunity to design distribution chains that not only provide access to goods or services and grow markets, but also create ‘downstream’ value chains with the power to spark and strengthen micro-distributors along the way.

## BoP: An imperative market for social enterprises

The last decades have also seen a proliferation of social enterprises focused on solving social and environmental challenges through markets and innovation. For these social entrepreneurs, the status quo is unacceptable - as are the unmet basic needs of the BoP. The pioneering models they develop aim at spreading innovative solutions to low-income communities, but require sustainable distribution networks to take their impacts to scale. Inclusive Distribution experiments are already being piloted by leading social businesses, NGOs and entrepreneurs, as they aim to take their innovations through ‘the last mile’ by integrating and empowering networks of BoP agents and entrepreneurs.

### Diagram: Collaboration opportunities between social enterprises and companies



Source: Adapted from Ashoka Hybrid Value Chain

Pioneering social enterprises leveraging networks of BoP micro-distributors to achieve scale are an important reference for innovation as mainstream business players explore paths towards BoP markets. Similarly, the available capacities, reach, resources, knowledge and infrastructure of established corporate market players offer a possibility for innovators to accelerate their scaling-up journeys. Unlikely partnerships are starting to surface as a common denominator in successful Inclusive Distribution initiatives.

# Inclusive Distribution

## Distribution for development

Inclusive distribution focuses on using ‘the power of downstream’ to advance development goals and sustainable livelihoods in BoP communities. Its primary impact is to enable successful micro-enterprises in distribution chains, while advancing strategic market development goals for companies or social enterprises alike. It presents three central impact paths, all focused on BoP micro-distributors: **advancing economic opportunity, empowerment and enterprise (3Es)**. Inclusive distribution initiatives can aim to gradually advance in each of these paths over time, as well as in the number of beneficiaries and organizational strengthening / formalization of the enterprises overtime (including micro-franchising).



**Empowerment** - Empowerment for micro-distributors starts by a strengthened sense of agency and belonging as they join distribution networks. Support programs are put in place to advance the development of capacities for individuals and organizations. Well-being improves for micro-entrepreneurs, their families and communities.

**Economic opportunity** - Initially, participation in IDNs seeks to generate stable income generation opportunities for micro-distributors. Gradually, the models allow micro-distributors to increase their savings and build equity / assets as the micro-enterprises take shape and mature.

**Enterprise** - Enterprise development can also occur gradually, as micro-distributors first join networks, but eventually consolidate nodes that can evolve into formal SMEs and Coops where they have ownership / franchising agreements.

“Offering micro-distributors ownership is an essential piece of the HealthStore Foundation’s strategy. Giving people ownership of their businesses, as well as the tools, relationships, and systems to help their businesses thrive, transforms them into a powerful force for change. Too many organizations make the mistake of keeping power centralized, as opposed to empowering individuals. Ownership motivates hard work.”

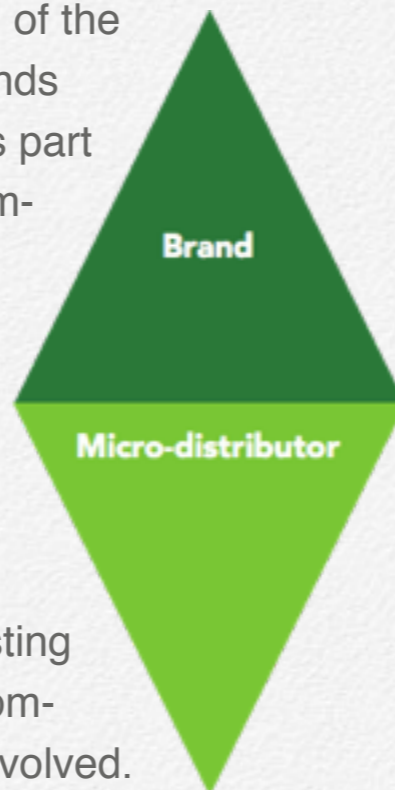
- Charles Hart, former president of HealthStore Foundation

## Inclusive distribution networks

Inclusive Distribution Networks are composed of the micro-distributors of goods / services that brands (corporations or social enterprises) engage as part of their distribution chain to reach BoP consumers.

Three main characteristics define the proposed engagement between networks of micro-distributors and brands exploring new market possibilities:

- **Leverage** of the power of **Brands** and existing organizational resources to increase the commercial success of the micro-distributors involved.



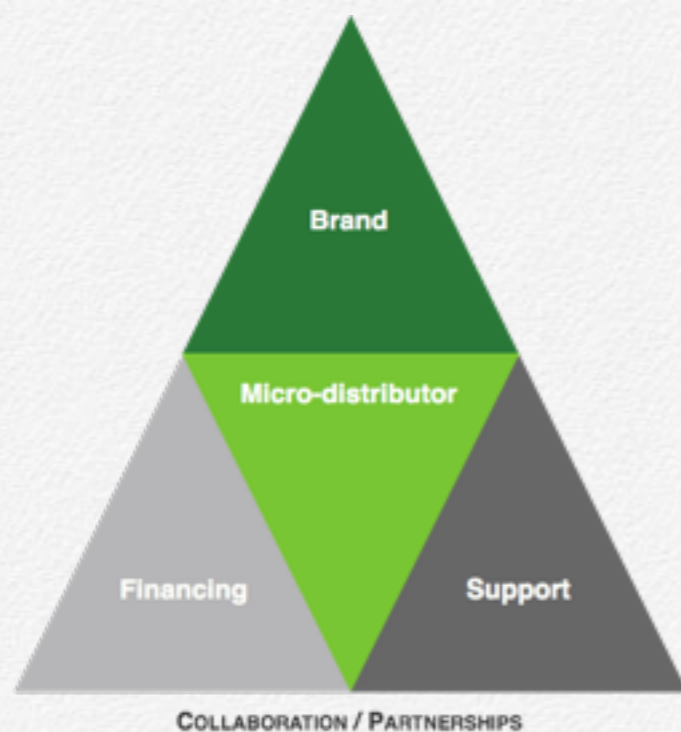
- Systems in place for the **standardization** of business processes and approaches that facilitate the establishment and advancement of micro-distribution enterprises.
- Systems in place for **knowledge transfer and business development** to sustain economic viability and well-being over time.

“[Inclusive Distribution] seems to work best when there is a business idea that can be easily and quickly codified, shared and replicated. Simplicity should be given high priority. Clear and documented processes are crucial for enabling scaling, especially where simplicity is not possible - If it takes more than two weeks to teach the workings of the model, then the micro-franchising model is too complex!” <sup>7</sup>

## Partnerships and collective action for scale

Initial pilot programs and research reveal that partnerships and collective action significantly potentiate the scale, impact and reach of Inclusive Distribution Networks. Partnerships are also essential to resolve resource and capability constraints, and to promote synergies. The partnership approach to inclusive distribution networks integrates two complementary functions / actors, beyond the **Brand** and the **Micro-Distributor**:

**Diagram: Partnership approach to inclusive distribution**



- **Financing:** Financing for the micro-distributors can be provided in the form of micro-credit, micro-consignment, and access to guarantee / revolving funds. Microfinance institutions are involved in most cases, but models exist where public service companies, impact investors, retailers, public agencies and corporations themselves are engaged as providers of financing mechanisms.
- **Support:** Support agencies (i.e. NGOs, consultants, academic institutions) play a key role in the provision of business development services to entrepreneurs. They may also serve as 'translators' of realities and resources between brands and micro-distributors. In some cases, they work directly with brands refining approaches and bringing grassroots perspectives / untapped resources to the table.

## Advantages of Inclusive Distribution Networks

Setting up and growing successful micro-enterprises is no easy job. The vulnerability of micro-enterprises is high, as are the risks challenging their potential to scale. The approach described above focuses on improving management of some of the existing risks and barriers for BoP communities to move beyond subsistence and towards sustainable livelihoods.

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Some of the key differentials include:

- Relies on business models that have been prototyped and proven to work.
- Facilitates the establishment and development of new businesses for BoP communities.
- Allows for replication through the application of validated systems, business tools and financing mechanisms.
- Increases the chances for success of micro-distributors who may lack entrepreneurial characteristics and talents, through training and capacity development programs.
- Provides micro-distributors access to resources and economies of scale available to established brands (i.e. effective promotional advertising, supply chain efficiencies).
- Potentiates the dissemination of innovations and learnings across the network of micro-distributors.
- Reduces risks of using micro-credit for failed business endeavors that can lead to over-indebtedness and increased poverty.

"[Inclusive distribution networks] are so powerful because not everyone is an entrepreneur. Microcredit gives someone access to capital; it does not give them access to a proven business plan or system."

- *Graham Macmillan* <sup>8</sup>

"[Inclusive distribution] is a powerful tool for addressing the challenges of eradicating poverty and creating jobs in less developed economies. In essence, [inclusive distribution networks] work best when they are matched to local needs, when they are simple enough to be managed without formal business training, and when they are documented and systematized enough to scale so that both the [brand] and the [micro-distributor] can profit."

- *David Lehr* <sup>7</sup>

# Innovators

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“Companies that are smart enough to tailor their offerings to the needs of low-income consumers and entrepreneurs will thrive in the 21st century.”

- *Luis Alberto Moreno (President Inter-American Development Bank)*

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# Innovators

A diverse range of pioneers can be found in the inclusive distribution space, some achieving remarkable impact, others still striving to consolidate their models. Experiments and emerging models exist both in the social enterprise and corporate distribution realms, through a wide spectrum of sectors, strategies and operational models. Below we present leading innovators in the field, particularly collective approaches aiming to advance **economic opportunity**, **empowerment**, and **enterprise** through inclusive distribution initiatives.

**This section will be continuously updated at [Scalaid.org](https://scalaid.org).**

**We invite you to [Join the Scala community](#) to continue identifying innovators and to engage in [Scala Labs](#).**

# Nestlé Dominicana, S.A. + Adopem Bank / Plan Barrio



## Description

In 2006, Nestlé Dominicana, S.A. developed Plan Barrio, a business strategy and social program aimed at improving both the quality of life and the economic conditions of emerging consumers. Through this plan, Nestlé Dominicana, S.A. and Adopem Bank, along with the Multilateral Investment Fund (MIF), joined forces to help women in the Dominican Republic sell affordable Nestlé products to consumers belonging to the base of the pyramid. The first pilot was developed in 2012, and in 2014, the program began increasing in scale, with support from the SCALA initiative.

The Plan Barrio pilot was launched in Barahona and targeted women from low-income households. Prior to joining the program, many of these women worked in Maquilas, earning only a minimum wage for a full day's work and having trouble making ends meet. Thanks to this program, local women are recruited and trained to sell products that promote healthy eating habits. Nestlé recruits the sales force in various areas and provides the products they are motivated to sell in their communities.



## Model

The program uses a 2-tiered, direct sales model. The sales force constitutes the 1st tier, selling Nestlé products door-to-door. These saleswomen receive ongoing training, including business management tools, financial education workshops, nutrition lectures, and cooking classes provided by Nestlé.

The micro-distributors comprise the 2nd tier, where each micro-distributor manages her own group of saleswomen. Nestlé Dominicana, S.A. and Adopem Bank provide the women with the business model and ongoing support, as well as an incentive scheme to promote good management and business growth. While the financing solutions are offered through Adopem, Nestlé is responsible for selling and distributing the products to the

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micro-distributors at a price which allows them to turn a profit while selling low-cost goods. Both the micro-distributors and the sales team earn a percent of each sale.

The program also uses ambassadors, who are part of an incentive program developed by Nestlé. Rotating ambassador positions are offered as incentives and rewards to high-performing saleswomen. Ambassadors receive additional training on communication and management, are given opportunities to improve their skills and act as mentors for newcomers and are recognized for their performance. The Ambassadors are an important aspect of spreading and growing the program.

### Impact Update 2015

#### Entrepreneurship

- **Saleswomen** - 835
- **Micro-distributors** - 82

#### Economic Opportunity

- **Increased Income** - Prior to joining the network, the majority of women previously worked 8-hour days for minimum wage. By participating in the program, their income can double or triple while only working half days.
- **Profit Margins** - the micro-distributor's profit margin is approximately 12-14% and the sales force profit margin is around 20-30%.

- **Access to Credit/Development of Capital** - 90% of micro-distributors receive loans. Some have already repaid these loans and created their own working capital.

#### Empowerment

- **Business Development** - women in the network receive training on business development and management, empowering them to develop their entrepreneurial skills.
- **Financial Literacy** - by participating in the program, the women receive training on financial management, a crucial skill for women not only to manage a business but also to manage their households.
- **Improved Health/Nutrition** - the women receive nutritional training as part of their job to sell Nestlé's products. This training enables them to also improve their own nutritional health as well as the health of their families.
- **Technology Access/Literacy** - Nestlé Dominicana, S.A. is developing new web-based tools to improve communication with the network. As part of this plan, micro-distributors will receive desktop computers with access to the Internet (19 micro-distributors have already received computers). Access to technology and Internet resources is a vital and empowering skill, the importance of which cannot be overstated.

- **Opportunities for Growth and Advancement** - through incentives and rewards (such as the Ambassadors program) and continued training, saleswomen have the opportunity to grow into micro-distributors over time.
- **Improved Quality of Life for families** - Participating in the network allows women to work close to home and enjoy flexible work hours, thus improving their ability to participate more actively in their family life.

### BoP Impact

- **Access to Nutritional Products** - the program is designed to provide access for BoP consumers to nutritional products. Before Nestlé Dominicana, S.A. started this initiative most of these emerging consumers had to rely on low nutritional quality products, purchased from local convenience stores with little to no options.
- **Improved Nutritional Literacy** - saleswomen in the network receive training in nutrition, which they transfer to consumers, improving nutritional literacy in communities.
- **Convenience of Access** - since the program employs a direct door-to-door sales model, consumers are able to access these products conveniently and easily from their homes.

### Business Value

- **Contribution to Nestlé's Shared Value Strategy** - this program effectively contributes to Nestlé's business philosophy of Creating Shared Value.
- **Improved Market Intelligence** - by employing women from local communities who communicate directly with consumers, Nestlé learns valuable lessons and gains key insights into challenges and opportunities in emerging markets.
- **Creating Brand Loyalty** - by engaging local members of the community to sell Nestlé's products, the company creates awareness of the brand in a way that promotes trust and loyalty among consumers.
- **Sales and Growth** - sales under the model currently account for 2% of total sales in the Dominican Republic. Sales have grown 30% since 2014. The model is expected to account for 3-4% of Nestlé Dominicana, S.A. sales in a 2-year forecast.

### Partners

**Brand:** Nestlé Dominicana, S.A. **Financing:** Adopem Bank, MIF  
**Support:** Adopem Foundation

# CEMEX Patrimonio Hoy



## Description

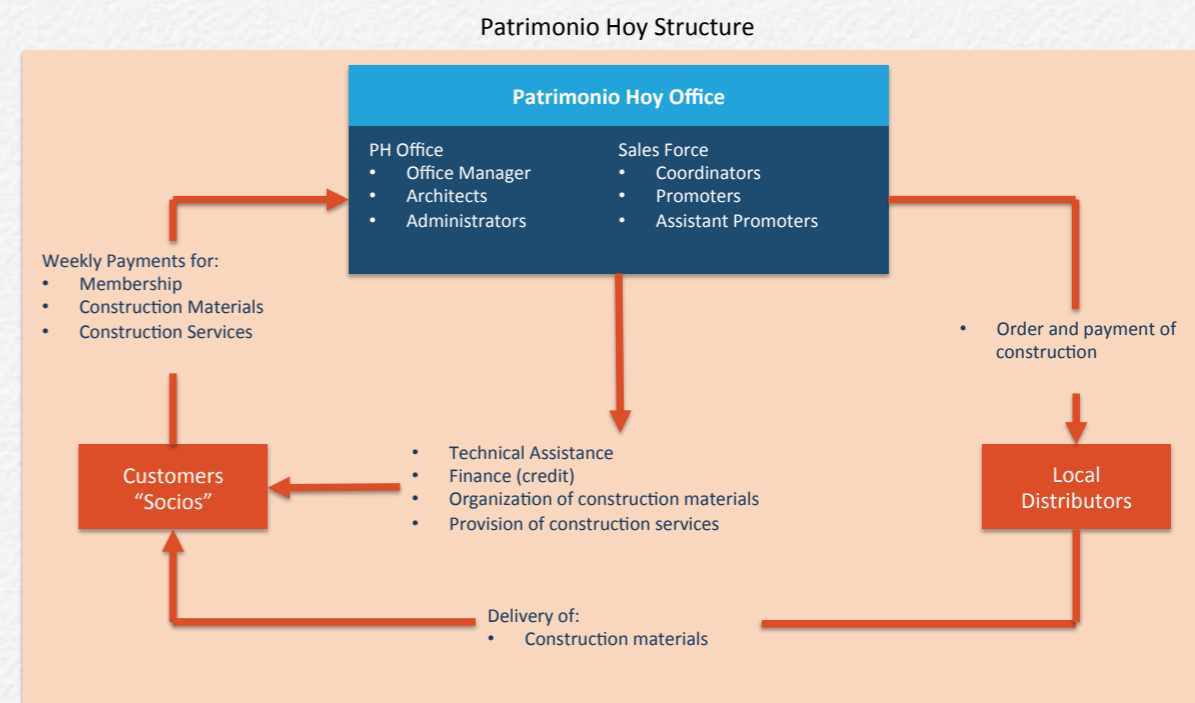
In 1998, CEMEX launched Patrimonio Hoy, a signature social initiative designed to address the housing needs of low-income families in urban and semi-urban areas. Under the initiative, a collaborative network of diverse partners are trained and empowered to provide and promote affordable housing solutions, financing and technical assistance to members of their communities. The goal of Patrimonio Hoy is to offer a market-based solution to meet the housing needs of low-income families in urban marginalized areas in order to empower them and improve their quality of life.

Patrimonio Hoy has been extremely successful since the first pilot was launched in Guadalajara in 1998. The initiative now operates in all states in Mexico and has also been implemented in Colombia, Nicaragua, Costa Rica and the Dominican Republic. Patrimonio Hoy has been honored and recognized by the International Chamber of Commerce, the Prince of Wales International Business Leader's Forum and the United Nations Development Program (UNDP)<sup>9</sup> for its contribution to improving social and economic outcomes for people at the BoP. In 2006, Pat-

rimonio Hoy received the World Business Award from the UNDP for its support of the Millennium Development Goals and in 2009, it received the UN-Habitat Business Award<sup>9</sup> for best practices in providing affordable housing solutions.

## Model

Patrimonio Hoy is headquartered in Guadalajara and operates local offices in strategic areas that service clients in surrounding marginalized communities using an inclusive business model shown in the figure<sup>10</sup> below.



The primary activity of local offices is to promote and sell Patrimonio Hoy. Local offices rely on a sales team of promoters, primarily women from local communities, to promote Patrimonio

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Hoy's products and services. These are mostly women having little or no previous working experience or limited skills and were mainly former clients who are empowered through training, promoting activity, income and recognition within the community. Most importantly, they are the key factor for trust-building and for generating commitment within the participants and leading to good economic performance in the model.

Through the local offices, Patrimonio Hoy organizes and offers technical and construction services. Technical teams, consisting of an architect visit customers to assess construction needs and financial capacities. Architects guide customers on design options, determine appropriate materials and amounts required for the project and design and develop customized building plans and financing options to meet customer needs. Technical assistance is a key aspect of the model as it ensures that projects are executed efficiently and correctly, material waste is reduced and the constructed housing meets required standards. Local offices also provide administrative and construction support services such as project supervision, if required by the customer.

Patrimonio Hoy offers customers flexible financing options to meet their needs. Micro-credit financing options or a savings and credit scheme (which gives customers access to construction materials without providing any collateral) are available based on financial capacities, construction needs and timelines.

The Patrimonio Hoy system is efficient, flexible and adaptable. Customers who choose the micro-financing option receive construction materials immediately to begin the project. Customers who choose the savings and credit scheme receive construction materials over an extended project timeline. The materials are delivered directly to customers on an as-needed basis, preventing material loss and saving money. Patrimonio Hoy also provides a guarantee of access to the materials at a fixed price regardless of when they are needed. The system creates certainty for the customer in the progress of the project and ensures customer confidence in access to quality housing.

### Impact Update 2015

As of 2015, Patrimonio Hoy has more than 45,000 clients, reaching more than 470,000 families, benefiting more than 2.25 million people. Under the initiative 3.7 million square meters have been built and more than US\$ 290 million have been given in microcredit loans since 1998. There are now 85 offices at the national level and a network of more than 230 distributors. Patrimonio Hoy is also able to inscribe new clients remotely ensuring that its coverage is not limited geographically.

### Entrepreneurship

- **Use of additional space** - 30% of Patrimonio Hoy's clients use the additional space they have constructed for micro-

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entrepreneurship. These spaces are used to establish small shops or are rented to provide additional sources of income.

- **Indirect Impacts through local development** - increased construction activity due to Patrimonio Hoy has led to increased local demand for professionals in the construction industry, creating jobs at the local level. This increase in local employment opportunities may in turn lead to new opportunities for entrepreneurship and business development in local communities.

### Economic Opportunity

- **Employment Opportunities** - 35% of customers are self-builders, but the majority, 65%, pay for construction services. This drives demand for these services and creates employment opportunities at the local level. Distributors also hire more staff to service the increase in demand for construction materials.
- **Income Opportunities** - Patrimonio Hoy provides income opportunities for women in the community by offering them the opportunity to work as promoters. Patrimonio Hoy has historically employed more than 4,000 promoters. 95% of them are women, half of which had no prior working experience. The average income of a promoter is approximately US\$ 260/month. For some women, this is additional income earned through flexible work and time options. For unskilled women

with limited employment options, it is a valuable source of income. Patrimonio Hoy has also created a referral program for customers, who receive a commission when referring new customers, thus creating additional income opportunities for community residents.

- **Access to Equity** - by building and owning their own homes, clients are able to own an asset with an approximate average plusvalue of 30% (this number varies based on the type and scope of the project) and build equity.

### Empowerment

- **Knowledge, Skills and Recognition** – promoters receive training on working with clients, sales and marketing, which empowers them with new skills, increases their sense of self-worth and self-esteem and awards them recognition in their communities.
- **Opportunities for Growth and Advancement** – the success of Patrimonio Hoy has led to significant growth in sales for distributors, with increases ranging from 5-50%. Promoters have the opportunity to advance to become office staff or coordinators. Coordinators work on developing strategies for selling Patrimonio Hoy's products and services, identifying target areas for expansion and managing at least 4 promoters.

### BoP Impact

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- **Business Development** - clients are able to use constructed spaces to start small businesses.
  - **Local Economic Development** - the increasing demand for construction services has created employment opportunities at the local level.
  - **Credit History** - most customers have no access to formal credit. With Patrimonio Hoy, people at the BoP have the opportunity to develop and build a credit history.
  - **Access to Housing** - under Patrimonio Hoy, a low-income family gets an opportunity to build a dream home. Patrimonio Hoy enables people at the BoP to build a well-designed, quality home in a timely manner (the construction cycle is shortened from 4-5 years to 15 months), which can have profound and significant impacts. Home ownership changes outcomes in multiple spheres, improving education/social outcomes, improving privacy and security, creating a sense of commitment, pride and ownership and laying the foundation for a better quality of life.

### Business Value

- **Profitability** - Patrimonio Hoy has been profitable since 2004, 6 years after it was launched.
- **Increased Social Capital** - the award winning initiative generates significant social capital for CEMEX. Through Patrimonio

Hoy, the company not only sells its own products but other companies' products as well to meet the goal of improving quality of life through better housing conditions. The initiative significantly enhances CEMEX's reputation as a company with a strong social responsibility ethos.

- **Increasing Market Share** - more than 60% of clients recommend Patrimonio Hoy, creating future clients and sales and creating a self-perpetuating cycle of creating and supplying demand for CEMEX products.
- **Sales Revenue** - the distributor network accounts for average sales of more than US\$ 30 million per year.

### Partners

Brand: CEMEX

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# Unilever Shakti



## Description

In 2001, Unilever India implemented Unilever Shakti, a program designed to expand the reach of Unilever's products into rural and BoP markets using an inclusive distribution model that provides livelihood enhancing opportunities to members of these communities.

The program began in Nalgonda district in the state of Andhra Pradesh and was extended across the state as well as to Karnataka and parts of Gujarat in 2002. The program now covers all states of India with rural demographics, except Kerala, Kashmir and Goa. Today, over 70,000 Shakti Entrepreneurs distribute Unilever's products in more than 165,000 villages and reach over four million rural households<sup>11</sup>.

## Model

Project Shakti uses a multi-layered model that includes micro-distributors from BoP communities, management and training staff provided by 3rd party partnerships and field staff to oversee the operation.

Members of BoP communities, primarily women are selected to work as micro-distributors or Shakti Entrepreneurs (SEs) of Uni-

lever's products in their communities. These women, known as Shakti Ammas receive classroom training on product awareness & knowledge, planning & inventory management, basic cash management, book keeping, mathematics and accounting principles and use of IT for facilitating business. They also receive field training on developing selling skills and distribution management. New SEs are typically trained for 3 months.

Micro-distributors are supported by Rural Sales Promoters (RSPs) who work to build the capabilities of SEs. RSPs are provided through a partnership with HFS, an organization that specializes in hiring and training marketing executives. The RSPs play a vital role in ensuring that the SEs are successful. They conduct personal visits, sales training and build basic business management capabilities to make the SEs' businesses self sustainable. RSPs also provide training to SEs on basic accounting, selling skills, health and hygiene.

Unilever field staff oversee and manage RSPs and ensure the smooth operation of the program. The RSPs report to Team leaders (on average 1 for every 40 RSPs) who in turn report to a regional field manager.

Micro-distributors gain access to Unilever's products through local distributors. Unilever sells its products to these distributors who in turn sell them to the SEs for distribution. To support the SEs, Unilever sells products to the distributor with an extra margin and the distributor passes on this margin to the SEs in the

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form of a discount on the goods. Some initial investment is required on the part of the SEs for the purchase of goods. Unilever does not formally engage with a specific financing partner. The investment is provided typically through 3rd party micro-finance organizations, local self-help groups and local governments.

## Impact Update 2015

### Entrepreneurship

- **Micro-entrepreneurship** - the program has evolved from a home-to-home model to one that encourages micro-distributors to open small shops and businesses to distribute the products.

### Economic Opportunity

- **Income Opportunities** - the Shakti initiative provides income opportunities to women, who typically do not have the ability to generate income and rely solely on the men in their families. Through the program, Shakti Entrepreneurs earn an additional income of approximately Rs. 1,000 (\$16 USD) per month. Additionally, since many of these women live in farming communities, this steady, additional income is a valuable supplement to income from farming which may be volatile and cyclical.

- **Business and Entrepreneurship Opportunities** - the program offers SEs the opportunity to grow from simply selling products door-to-door to opening their own shops and businesses.

### Empowerment

- **Business Skills** - Shakti Entrepreneurs gain valuable business skills through the training process. They acquire sales, marketing and business management skills and are supported by RSPs to ensure that they succeed.
- **Financial Literacy** - Shakti Entrepreneurs learn valuable financial skills, that can be applied not only to their work for Unilever, but also in their personal and family lives, leading to a better understanding and management of finances.
- **Opportunities for Growth and Advancement** - Shakti Entrepreneurs have the freedom to define the areas of distribution as they so choose. To overcome limitations of distribution, the program has expanded in 2010 to include Shaktimaans, who are typically husband or brothers of the Shakti Ammas. The Shaktimaans complement the Shakti Ammas by selling products on bicycles in surrounding villages and expanding the reach of the Shakti Ammas beyond the areas they can cover on foot. Currently, there are 48,000 Shaktimaans in the program<sup>11</sup>.

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## BoP Impact

- **Improved Quality of Life** - the economic opportunities and empowerment provided by the program allow Shakti Entrepreneurs to gain valuable additional income and knowledge. Shakti Entrepreneurs can apply their skills to improve their quality of life and that of their families. Working in the community increases the confidence and decision-making ability of the women who participate in the program and improves their social stature in the village.
- **Improved Cleanliness and Hygiene** - Shakti Entrepreneurs sell a wide-range of Unilever products but focus on cleanliness and hygiene products, ranging from soaps to oral care and household cleaning supplies. Access to these products meets an important need in BoP communities to improve sanitation and personal hygiene practices. Shakti Entrepreneurs may also impart knowledge and awareness on cleanliness and hygiene to their consumers.

## Business Value

- **Contribution to strategy** - the Shakti program is a part of Unilever's Sustainable Living plan and contributes to the goals of company's sustainability strategy to improve health and well-being and enhance livelihoods.

- **Improved market intelligence** - the close interaction between the Shakti Entrepreneurs and their target communities provides Unilever with an efficient way to gain intelligence about these target markets and respond effectively to meet market needs.
- **Increased market reach and brand awareness** - Shakti Entrepreneurs expand Unilever's market reach to BoP communities, create awareness of the brand in new markets and generate additional sales.
- **Efficient access to hard to reach markets** - the Shakti program targets rural communities that are hard to reach through traditional distribution channels. Shakti Entrepreneurs provide Unilever with an efficient distribution mechanism that is less costly to implement than deploying sales and distribution staff into rural communities that are difficult to reach without significant investment.

## Partners

Brand: Unilever Financing: 3rd parties Support: HFS

# Insights from the field

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# Topics

A thorough review of available insights from experts and pioneer practitioners in the field of inclusive distribution has brought to light some recurring key issues. Following, we present a collection of relevant insights related to:

- Model design & strategy
- Financing schemes
- Profiling
- Legal provisions / trust
- Overcoming the last-mile challenge / barriers to scale

**These are all knowledge topics that SCALA plans to advance in the future, as well as new thematic and sector-specific ones (i.e. Impact assessment, Training, Branding). They will be continuously updated at [Scalaid.org](https://scalaid.org). We invite you to [Join the Scala community](#) to continue identifying key lessons learned in the field and to engage in [Scala Labs](#).**

## Model Design & Strategy

As can be expected, a myriad of models and strategies for the development of inclusive distribution networks exist, depending on the diverse characteristics of business objectives, actors, sectors and communities. Some models provide ‘business in a box’ solutions for entrepreneurs to start their own micro-distribution enterprise, while others offer franchisee opportunities for micro-entrepreneurs who already have established businesses (i.e. local stores, food carts) to build on top of their existing offerings. Some start with rigid legal agreements regarding franchising and brand use, while others take baby steps with agent networks and advance towards micro-enterprise / micro-franchise development.

Varying levels of success speak to the complexity of BoP inclusive business initiatives, to the long-term and patient approach required, and to the impossibility to have a ‘one size fits all’ solution or ‘list of steps’ to deploy successful inclusive distribution networks. Aware of these constraints, the insights that follow offer valuable advice for the process of designing and implementing inclusive distribution strategies.

## Engaging the BoP in research and model design

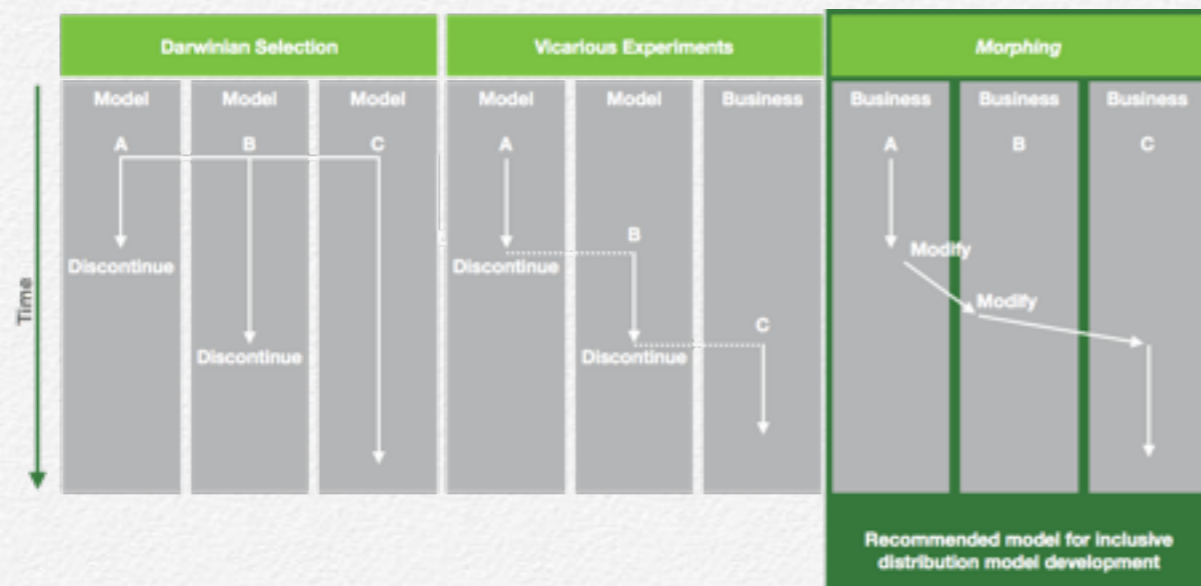
Not all markets are ripe for inclusive distribution networks and appropriate exercises must be undertaken to assess viability, especially as the realities, aspirations and capacities of BoP communities vary significantly. Human-centered design and co-creation are two important trends in this regard. By incorporating the BoP in initial research and design phases, brands can understand what solutions are most viable in a specific context. Also, it allows brands to overcome gaps in the local business ecosystem and gain a better understanding of the challenges ahead<sup>12</sup>.

“Establishing a new micro-franchise in remote areas often requires buy-in from more stakeholders than just the entrepreneur. In many cases, stakeholders from the whole village need to be involved and convinced to make the new franchise a success. ...local presence and local knowledge are key success factors for the franchisor. Furthermore, regulation may differ significantly between countries and states, even between villages, which often prevents exact replication of business models in other regions and makes further changes necessary. Again, local knowledge is essential for understanding and mitigating these differences.”<sup>13</sup>

## Experimentation and adaptation

Flexibility within business models is a prominent component of success in inclusive distribution initiatives. Often, models as they are initially planned must be finessed to incorporate the local context as knowledge expands and to adapt to changing priorities / opportunities. “Morphing” approaches, in which the initial model is tweaked until a system is consolidated are recommended.

Diagram: Morphing



Source: Adapted from FUNDES

“Human-centered design is all about building a deep empathy with the people you’re designing for.” - Ideo.org<sup>14</sup>

Rapid prototyping, a long-term vision and a willingness to adapt have proven essential to move models forward, as have a focus on simplicity and effective systematization. Below is another interesting model for developing pioneering enterprise models from blueprint to scale.

Diagram: Four stages of pioneer firm development



Source:

## Profit schedules aligned with micro-distributor needs and aggregators

“A common problem in micro-franchising is that there is demand for the product or service, but the commission or revenue structure is designed in a way that makes the business unsustainable for the micro-franchisee.” <sup>7</sup>

The commission structure or profitable margin must be large enough for the entrepreneur to cover operational expenses, loan payments, and costs of living. The revenue or commission must be paid to the entrepreneur in a timely manner and the revenue stream should be as continuous and dependable as possible. Loans and deferred profit-sharing are a way to cover the entrepreneur’s initial expenses, allowing micro-entrepreneurs to grow their customer base before having to make payments to the brand.

In reality, however, some micro-distribution initiatives do not generate enough revenue to support the micro-entrepreneur and his/her family. This is oftentimes because the market or demand is too small. As a workaround, a franchisee can run multiple micro-franchise businesses at the same time to ensure a higher total revenue stream. This can be done best by employing an intermediary (an “aggregator”) between the micro-franchisor and the franchisee that aggregates the interfaces /processes of multiple micro-franchising businesses for both sides.

“Franchisors may increase their franchisee base by employing an intermediary who provides access to many more micro-entrepreneurs than the franchisor could attract to a micro-franchising ecosystem with only his company’s offerings. And micro-entrepreneurs gain access to multiple micro-franchise business models that are provided by a single company with a common set of processes and interfaces.”

### Diagram: Aggregator Model (General)



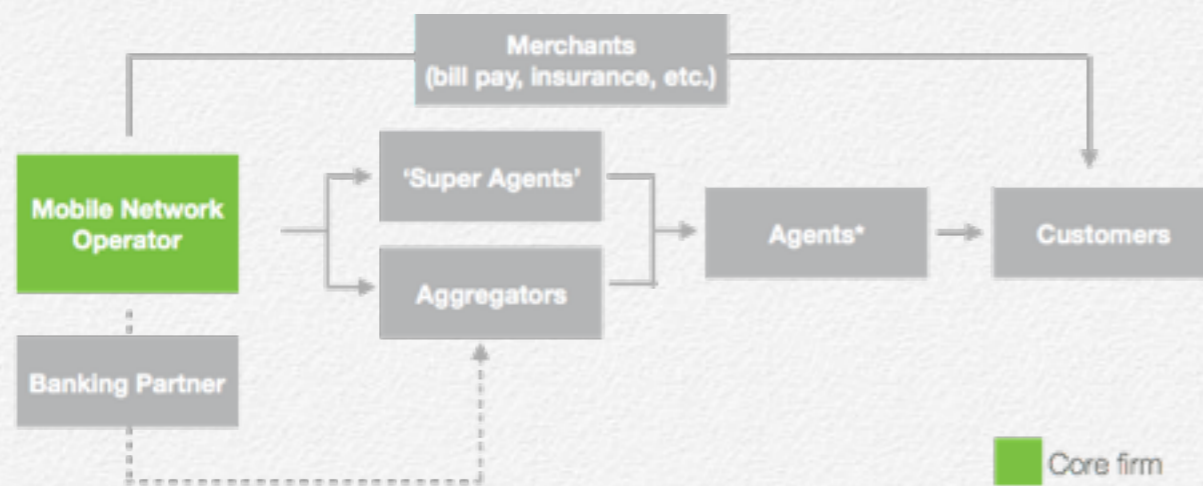
**Figure:** Illustration of the role of micro-franchising “aggregator” business as an intermediary between franchisors and franchisees. While multiple franchisors provide the physical goods or the services that form the base of a micro-franchising system, the aggregator provides the required micro-franchising infrastructure and coordinates the micro-entrepreneurs.

Source: Kellogg

“In early 2010, Vodacom began to engage a new type of channel intermediary — aggregators — to help accelerate the establishment of a dedicated M-PESA distribution channel, particularly in the rural areas. Aggregators would work in the field to acquire and train M-PESA enrollment agents to do what was required, from registering new customers to maintaining accurate log books. Aggregators would then provide on-going support

and performance monitoring, typically calling on agents three times a week. Aggregators would also recruit agents and help them to manage their floats; initially, they would also provide agents with some working capital to help them get started. Meanwhile, Vodacom increased its commission levels to support this heavier channel structure and increase the incentives for agents to drive actual transactions on the platform.” <sup>15</sup>

**Diagram: Aggregator Model (M-PESA)**



**Note\*:** Mobile money agents channel can be separate or be part of the existing talk-time network; M-PESA agents do both enrollment as well as cashi-in-cash out, but functions are often separated in case of other deployments.

Source: Monitor Deloitte Analysis

“Like businesspeople everywhere, franchisees usually invest to earn money – ideally more than they could earn elsewhere (although some will trade off financial return for the perceived prestige of becoming a business owner).” <sup>7</sup>

“Micro-franchisees generally need to earn a profit within the first six months. If they cannot become profitable, the model will not be sustainable regardless of whether overall operations are subsidized. The unit economics at the micro franchisee level must work.” <sup>7</sup>

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## Financing schemes

As mentioned before, it is common to see brands forge alliances with micro-finance institutions (MFIs) that can provide credit solutions for micro-distributors to get started, and they will likely continue to be a preferred provider for financing solutions, in tandem with a growing field of impact investors and crowd-funding alternatives.

MFIs involved in Inclusive Distribution partnerships have highlighted advantages for their operations that include portfolio diversification, product innovation and reduced default rates by micro-distributor clients linked to inclusive distribution networks.

“Microfinance networks are filled with people who have already proven themselves to be reliable borrowers and entrepreneurs, providing a partner MFO with a pool of qualified micro-franchising candidates.”

## Leveraging existing microfinance networks

A significant opportunity for innovation in financing that can drive scale is by leveraging the capacities of MFI networks, which could provide diverse offerings for micro-distribution initiatives and financing for brands, building upon their reach and knowledge of communities.

“VisionSpring and Drishtee are at the forefront of pushing models for cooperation with MFI partners, but the costs for partnering on a “one-off,” or location-by-location basis, are often prohibitive. There is clearly an opportunity for an organization with broad MFI relationships to solve this gap and take micro-franchising even further. By working with (or representing) multiple [brands], this entity could offer a wide choice of micro-franchising opportunities within a particular community, each requiring different levels of investment and skill. Instead of just lending to expand the handful of businesses that already exist or relying on one particular opportunity, resident MFIs could promote multiple micro-franchising options and even offer loans specifically targeted for micro-franchisees.” <sup>7</sup>

However, not all existing inclusive distribution models are using credit from MFIs and innovation in financing solutions is to be expected. Experiments with guarantee funds, revolving funds, savings incentives, ‘factoring’, partnerships with retailers & public services companies, crowdfunding and mobile money solutions are starting to emerge, offering new possibilities for all ac-

tors. Below, we highlight some insights on micro-consignment, a financing innovation for IDNs which is increasingly gaining traction as a potential alternative.

“One of the most compelling differences between credit and consignment is related to risk and uncertainty. Credit works in risky markets; [micro-consignment] works in uncertain markets. [Micro-consignment’s] power lies in its ability to create first-time sustainable access for apparently new products in new markets through new entrepreneurs.”

- Greg Van Kirk<sup>16</sup>

Micro-consignment

Micro-consignment extends opportunity to people unable to acquire micro-credit through traditional channels. Micro-consignment uses consignment instead of loans to extend products to potential distributors, creating a new revenue stream without involving currency-based loans. Additionally, micro-consignment encourages efficient reinvestment of revenues, allows for flexible repayment, and considers the needs of the micro-distributor and their community first.

Diagram: Micro-franchising vs micro-consignment vs. micro-credit vs. donation

	Donation	Micro-Consignment	Micro-Franchising	Micro-Credit
Risk for entrepreneur:	None	Low	Medium	High
Delivers proven business model:	X	✓	✓	X
Purpose:	Ensure survival	Creating entrepreneurial opportunity with a well-defined, proven business model		Seed capital for individual business

Diagram: Comparison of donation, micro-consignment, micro-franchising and micro-credit models. The four models mainly differ in terms of the risk for the entrepreneur and in whether the concepts are tied to a business model.

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## Legal provisions, incentives and trust

“Real partnership only starts after the risk involved for the micro-entrepreneur has been clarified.”<sup>6</sup>

Structuring contractual agreements that protect brand interests while promoting trust and acceptance in micro-distributors is challenging, and must be accompanied by the appropriate incentive schemes. Special attention should also be placed on varying national normative frameworks that may hinder the implementation of financing and commercial schemes, including tributary legislation.

“Replace legal fine print with incentives. Entrepreneurs are more likely to respond favorably when their interests are aligned with business success rather than legal contracts. This is because contracts with micro-entrepreneurs are hard to enforce in remote locations and micro-entrepreneurs may mistrust or misunderstand legal contracts.” <sup>17</sup>

An on-boarding approach early-on based on empathy, transparency and mutual respect is fundamental to build pillars of trust that will support the success of the relationship between brands and micro-distributors moving forward. Effective ongoing communication, accountability and engagement between the brand

and the micro-distributor will help avoid trust erosion, especially when bumps in the road appear.

Some recommended practices may include<sup>7</sup>:

- Regular meetings at all levels
- A feedback system for [micro-distributor] input
- Open communication in all forms of information exchange
- Available help-services
- Financial and managerial reports
- External ‘back-bone’ organization to keep partnership on track and mediate / translate when needed

“In many developing nations, businesses operate outside of the formal economy and/or only have weak legal protections available to them. If a micro-franchisee refuses to pay, misuses the brand or violates the contract in other ways, the enforcement options are limited” <sup>7</sup>

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## Profiling

After the market has been thoroughly researched and a viable initiative planned, selecting members of the population to act as micro-distributors must be carefully executed. IDNs and micro-franchising are new concepts BoP communities, and potential franchisees are difficult to identify and may be risk-averse. Also, the profile of a micro-distributor is not the same as that of a microcredit client. The ways in which micro-distributors leverage specific knowledge, reputation, and influence within their communities are key to successful outcomes. Several experiments around training programs have shown that they can serve as a powerful filter to select the most promising candidates.

“Not all villagers make equally good entrepreneurs. As there does not seem to be an individual social group that consistently produces good micro-entrepreneurs, franchisors must be careful and diligent in selecting entrepreneurs. Good candidates must have passion for the business, as opposed to people who only want to become entrepreneurs to gain a higher social status. Furthermore, they must be able to create the market for their product or service.” <sup>13</sup>

“There is often a period of trial and error in learning what makes a good micro-entrepreneur for a particular business, and the best [micro-distributors] are not necessarily those who are most entrepreneurial. The ability and willingness to follow processes and procedures and a desire to learn are often more important than having a high risk tolerance or the ability to generate a new business idea.” <sup>7</sup>

# Overcoming the ‘last mile challenge’ and barriers to scale

It is difficult, time consuming, and costly to create distribution channels in rural and underdeveloped areas. This is known as the last-mile challenge. Several components of this challenge are identified below:

Table: Challenges of reaching the BOP consumer

The challenges of reaching the BOP consumer	
Absence of conventional distribution chain	Markets lack the presence of distributors and distribution infrastructure such as warehouses, cold storages, logistics and transport infrastructure, and retail outlets.
Irregular and unreliable cash flows	Consumers are usually cash-poor and cash flows depend on external factors such as weather and harvest cycles. Consumers are unable to make single large payments (anything over INR 1000 or USD 20) and require financing assistance.
Fragmented and decentralized demand	Consumer groups in these markets are very different. Each group exhibits unique, heterogeneous demands. Demand is also family decentralized, in that there are no mechanics to aggregate demand from many small customers (no equivalent to the superstore or online outlet) across regions and segments.
Demand for basic services is latent	While there is a clear need for basic services (water, sanitation, health, education and energy), it does not translate into demand. Converting this latents demand into real demand requires mechanisms such as awareness-building programs and free product trials.
Demand is fairly elastic	Cash-poor consumers are highly price-sensitive, brand insensitive and willing to compromise on quality- particularly for small ticket items. However, for larger purchases, such as farm equipment and household gadgets, they are likely to be more royal towards trusted brands (i.e. in India there are some ubiquitous brands such as Tata and Mahindra, and it would take time for smaller brand to establish an identity un a market for larger items.
Reverse logistics are crucial but difficult	After-sale support is crucial for durables (i.e water filters, pumps, solar home lighting kits, etc.) that tend to be costly purchases. However, it is challenging for manufactures to provide product training, servicing and part replacement services in remote geographies.

Source:

## Business ecosystem approach

“One way to address the problem of scale is to switch from thinking about your business model to thinking about your business ecosystem. ... To tackle the barriers to scale, companies need to strengthen inclusive business ecosystems just as deliberately and strategically as they develop their inclusive business models.”

Diagram: Strategies for strengthening inclusive business ecosystems



Source: Barriers to scale sourced from UNDP (2008). “Creating Value for All: Strategies for Doing Business with the Poor.” New York, NY: UNDP.

A business ecosystem is defined as “an economic community supported by a foundation of interacting organizations and individuals – the organisms of the business world. The economic community produces goods and services of value to customers,

who are themselves members of the ecosystem. The member organisms also include suppliers, lead producers and other stakeholders [such as investors, trade associations, government agencies, and even competitors]. Over time, they co-evolve their capabilities and roles, and align themselves with the directions set by one or more central [organizations].”<sup>18</sup>

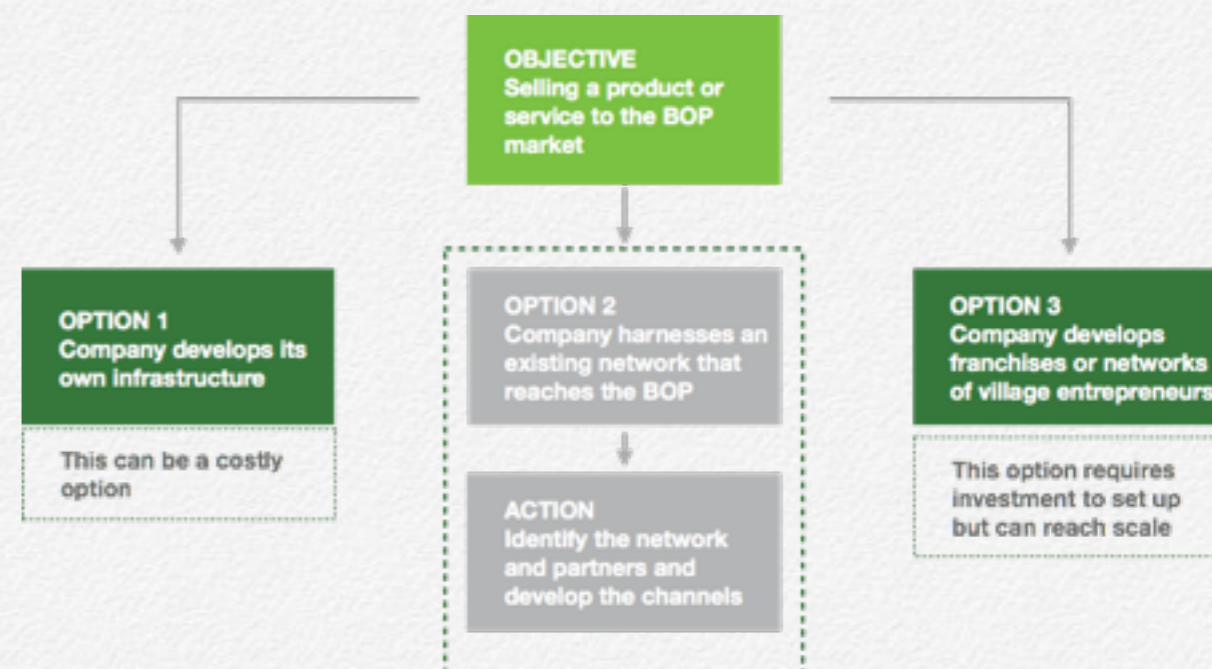
Players in an ecosystem may include: individuals, companies, governments, business associations, cooperatives, unions, standards bodies, NGOs, public and private donors, academic and research institutions, and the media. It is necessary to build an ecosystem around the business that promotes wealth creation and social development. Controlling the business ecosystem around the enterprise will serve as a protective barrier to failure. That ecosystem may include the education of the local people, infrastructure in the area and surrounding areas, access to financial services, and local and national regulations.

“While a solution may work in one location, expanding to other areas may test the limits of standardization, as operating in many locations can require a level of systematization that is difficult to achieve.”<sup>19</sup>

## Exploring alternative distribution scenarios, harnessing existing distribution networks

It is important to take into account that inclusive distribution networks may not be the best solution in all cases, especially in situations where accelerating the access to livelihood goods by BoP consumers may supersede the potential impact generated for micro-distributors. One possibility with high potential is to harness existing distribution networks instead to reach BoP consumers.

Diagram: Choosing a distribution channel



Source: Business Innovation Facility

“Vision Spring has found that while an entrepreneur-centered model is ideal for products and businesses-related R&D, it’s dif-

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difficult to scale and make profitable, particularly given the significant on-the-ground presence required. To that end, Vision Spring and Living Goods have both enlisted the massive distribution network of BRAC, a global micro-finance institution founded in Bangladesh to deliver their goods.”<sup>19</sup>

Distribution partners can be useful in providing the physical infrastructure required for distribution, but can also add value to the product through branding, can help market the product, and can harness trust from the community. Distribution networks can be found in many unexpected places, such as the government, non-profits, and NGOs. The enterprise must understand the value that each network offers as well as its limits. Sometimes it is necessary to employ more than one partner in order to achieve scale.

“It is not yet clear which kinds of social enterprises best fit with micro-franchising: which products or services can easily and profitably be distributed by community members? In which cases is another distribution strategy going to create more wide and deep impact?”<sup>19</sup>

# Engage

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SCALA is a platform that seeks to: **convene + activate + serve a vibrant community of practice and knowledge around inclusive distribution.**

### **Scalaid.org**

For those trying to close the gap between where they are and where they will need to be, for those interested in the topic, or for those who want to be part of the evolving field of Inclusive Distribution, please visit: [www.scalaaid.org](http://www.scalaaid.org).

There, you will find out more about Scala Labs, Events and Knowledge.

### **Support Services**

If you are interested in designing or advancing inclusive distribution initiatives contact Scala [\*\*here\*\*](#).

### **Catalyzers and members**

If you are interested in acting as a catalyzer to advance the field of inclusive distribution or become a member, contact Scala [\*\*here\*\*](#).

# Endnotes

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## Endnotes

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<sup>18</sup> Tackling Barriers to Scale: From Inclusive Business Models to Inclusive Business Ecosystems. Harvard

<sup>19</sup> Next Billion: <http://nextbillion.net/blogpost.aspx?blogid=1873>