Working Together in Pursuit of Inclusive Business: Sharing the Latin American and Caribbean Experience with Asia and the Pacific

A Retrospective

November 2013

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Preface

" … ADB's [corporate] Strategy 2020 emphasizes the importance of enhancing private sector development, which is absolutely critical for sustaining high growth. I intend to push this agenda forward vigorously by enhancing operations for private sector development and promoting public–private partnerships… The inclusive business model allows the private sector to contribute even more to poverty reduction…"

ADB President Takehiko Nakao during the 46th ADB Annual Meeting, 2 May 2013, Delhi, India

"… Across the globe, proponents of sustainable development are pioneering new products and services that can offer low-income populations tools for reducing vulnerability and/or enhancing socioeconomic well-being. Targeting this market gives the international development community a framework for concerted action …"

IDB President Luis Alberto Moreno at the Opportunities for the Majority Second Strategic Partners' Dialogue, 9 February 2010, Washington, DC, United States

The Asian Development Bank (ADB) and the Inter-American Development Bank (IDB) are major sources of development finance and know-how in the regions where they operate. In 2009, the two banks forged a partnership to support joint capacity-building initiatives, interregional policy dialogue, expert forums, sharing of best practice, and exchanges between policy makers and practitioners of the two regions. Since 2011, the two banks have also been jointly financing a technical assistance to facilitate knowledge sharing through several subprojects between Asia and the Pacific, and Latin America and the Caribbean.

Over the past decade, both regions have witnessed a paradigm shift in how the private sector perceives and engages with the poor. Once considered the concern of corporate social responsibility and philanthropic programs, private sector social development initiatives have begun to shift from the periphery to mainstream core business. This transformation—the recognition that poor people should no longer be seen as passive recipients of development aid but rather economic actors in their own right—has created a new wave of inspirational, next-generation business models that provide opportunities for those at the base of the (income) pyramid.

These inclusive business models are market-based, commercially viable, replicable, scalable, and innovative projects that generate measurable social and economic benefits to poor and low-income populations. They generate double bottom lines of positive financial returns, as well as economic and social benefits for those living at the base of the pyramid. Inclusive business ventures achieve direct development impacts through the provision of essential goods, services, and decent jobs. They also unlock new forms of innovation and entrepreneurial activity critical to accelerating inclusive growth.

Recognizing the powerful role that the market can play in substantially improving the lives of the poor and low-income persons, the IDB launched the Opportunities for the Majority (OMJ) initiative in 2007. To date, the IDB has made more than 43 investments across the region totaling over $300 million and benefitting more than 2 million people in Latin America and the Caribbean. In the process, IDB has learned many important lessons—in particular, how a large international financial institution can adapt its core business and integrate a new asset class, while changing mind-sets and models along the way to better address the needs of the 360 million low-income people in Latin America and the Caribbean.

In its long-term corporate framework (Strategy 2020), ADB has established a strategic goal of scaling up private sector development and private sector operations to 50% of its annual operations by 2020. Over the years, ADB has approved financing for inclusive business projects in agro-processing, microfinance, renewable energy, and slum rehabilitation, and is actively exploring new investment opportunities in these and other sectors. Following a more systemic approach to address poverty reduction through private sector investments, and building in part on the IDB experience, ADB launched its Inclusive Business Initiative in 2011. As part of this ongoing inclusive business effort, the ADB conducted market scoping studies in ten Asian countries, helped governments create enabling policy environments, developed and harmonized an impact assessment tool, facilitated cooperation among potential partners, built capacity of companies that wish to pursue inclusive business, and provided technical assistance for and developed investments in inclusive businesses.

ADB and the IDB are committed to deepening their efforts to promote market-based solutions for poverty reduction and deprivation. They will further promote the expansion of inclusive business ventures in Asia and the Pacific and in Latin America and the Caribbean to enhance the quality of life for millions of low-income people. In doing so, ADB and the IDB will capitalize on respective synergies and nurture South–South cooperation across two dynamic global regions.

This insightful publication is one of several outcomes of this partnership. It is representative of the belief that shared learning among development practitioners is essential to our collective success.

Takehiko Nakao President of ADB	Luis Alberto Moreno President of the IDB

Abbreviations

BoP	base of the pyramid
CEMEX	Cementos Mexicanos
DEM	Development Effectiveness Matrix (IDB)
EPM	Empresas Públicas de Medellín
GIIN	Global Impact Investors Network
ICT	information and communication technologies
IED	Independent Evaluation Department (ADB)
IFI	international finance institution
IIC	Inter-American Investment Corporation
IDB	Inter-American Development Bank
IRIS	Impact Reporting and Investment Standards
MDB	multilateral development bank
MFI	microfinance institution
NSG	nonsovereign guarantee
OMJ	Opportunities for the Majority (IDB)
OVE	Office of Evaluation (IDB)
PMU	Portfolio Management Unit (IDB)
PSOD	Private Sector Operations Department (ADB)
SCF	Structured and Corporate Finance Department (IDB)
SMEs	small and medium-sized enterprises
SPD	Strategic Planning and Development Effectiveness (IDB)

The Retrospective in Brief

> Asia and Latin America are among the world's fastest growing regions. They demonstrated strong resilience and rapid recovery following the global economic crisis, and have many useful lessons to share. For instance, Asia can gain from Latin America's experience of pension systems, cash transfer programs, urban infrastructure development, and agricultural modernization. Similarly, Latin America can benefit from Asia's experience in manufacturing production and supply chains, human capital formation, public–private sector partnerships, and regional financial cooperation initiatives, such as the Chiang Mai Initiative. Both regions have large domestic markets. And despite strong economic development, both still have large populations living in poverty. Both regions also have unique strengths—whether in natural resources, industry, or services. Building on these complementarities will continue to underpin our interregional relationship. We are committed to building more mature and diverse trade patterns, as well as more sustained investment and cooperation partnerships.
>
> Haruhiko Kuroda, former President of ADB, and Luis Alberto Moreno, President of the IDB

Over the course of the last decade, inclusive business—the development of commercially viable, mass market and/or supply chain strengthening solutions that deliberately expand access to goods, services, and income and employment opportunities for people living near or at the base of the pyramid—has emerged and developed into a mainstream private sector investment strategy critical to spurring inclusive growth—and one increasingly championed by development finance institutions. Since 2007, the Inter-American Development Bank (IDB) has been one of those champions—investing in more than 45 projects totaling $250 million, leveraging $1 billion in additional funding, and contributing to creating 41,000 new jobs, increasing income for 300,000 poor and vulnerable families, and extending credit to more than 220,000 micro-entrepreneurs. Given the IDB's track record and experience, the Asian Development Bank (ADB) in 2010 launched an exploratory effort to determine if and how inclusive business could become an integral part of its Strategy 2020 and, more importantly, if a dedicated pool of capital should be allocated to invest in similar ventures across Asia and the Pacific. As part of ongoing knowledge exchange between both institutions originally conceived as part of the 2009 ADB–IDB Partnership Agreement, this study was commissioned to systematize and contextualize the critical success factors and lessons that were fundamental to the development of the Opportunities for the Majority (OMJ) Initiative at the IDB, and what might be important lessons and recommendations that could serve to inform ADB's evolving inclusive business agenda. It was not designed to be an evaluation of OMJ nor assumes that ADB will continue to pursue inclusive business opportunities. Bearing this in mind, the main findings of this report are as follows:

1. **There is a significant and growing market opportunity for inclusive business.** OMJ has demonstrated that there is an underserved business segment and pent-up demand to design, develop, and execute inclusive business strategies that are commercially viable, can contribute to company growth, and can address many of the systemic challenges inhibiting inclusive growth (quality access to finance, access to markets, access to housing, etc.) and productivity across Latin America. Preliminary market scoping studies conducted by ADB validate a similar opportunity and growing need.

2. **Multilateral development banks can create value and additionality in this market.** Given their regional footprint, public and private sector legitimacy, assets, and financing windows, development finance institutions can create value and provide additionality by crowding in investors, leveraging capital, providing comfort to corporates and investors unwilling to price risk in such a way to increase deal viability, accessing networks, systematizing knowledge and experience, building a track record, creating proof of concept, and most importantly creating new ways to serve the unmet needs of the regions' low-income segment. As the first multilateral development bank (MDB) with a dedicated team and financing for pursuing inclusive business, the IDB, through OMJ, has demonstrated the tangible results this type of effort can achieve.

3. **OMJ was successful in mainstreaming inclusive business at the IDB and beyond.** OMJ was deliberately internal, experimental, time bound, and supported by a presidential mandate. Though

inclusive business had to be socialized within the bank, and policies and procedures had to be adapted or created to accommodate new types of business transactions, OMJ was largely successful in demonstrating that the IDB could provide financing to business models predicated on serving the interests of the low-income segment as their primary objective (as opposed to a peripheral, secondary, or indirect result of an investment decision). Irrespective of the outcome of the IDB's current restructuring of its private sector activities, it is clear that inclusive business financing will be here to stay at the IDB and will continue to be one of the bank's strategic lines of business.

4. **The IDB made a number of internal adjustments to accommodate base-of-the-pyramid business models.** By no means was the integration of a new financing window centered around the base of the pyramid (BoP) an easy endeavor. Significant effort was expended internally to adapt policies and procedures, overcome internal perceptions, navigate political interference, and create new frameworks that would facilitate internal efficiency. These adaptations are still under way. In retrospect, were more careful consideration been given to the type of capital, the operational limitations, internal capacity, and other key factors in advance, some of the growing pains associated with implementation might have been avoided.

5. **Assuring the evaluability of inclusive business investments is essential for model validation and learning.** BoP business models are different because they are designed from the bottom up, rather than designed with the hope of trickle-down BoP results. As such, integrating baselines, standard metrics for business performance and social impact, and targets is essential for assuring accountability, transparency, and performance management.

6. **Blended financial instruments and robust technical assistance are required for program effectiveness.** Despite the fact that OMJ was limited to debt-related instruments and limited technical assistance resources, staff acknowledge that the market required a wider range of financial products (including equity) and substantially more technical assistance resources to accelerate market development, mitigate pre- and post-investment risks and strengthen metrics (including establishing baselines). All of these are required to enhance portfolio and investee performance.

7. **A strong and diverse team was essential to program effectiveness.** Having a strong and diverse team (with a strong BoP business model understanding) was seen as critical to deal origination, structuring, and closing. While the team relied on a core group of professionals with a combination of sector, business model, investment banking, and geographic expertise, it also leveraged a creative talent pool through internships and fellowships necessary for additional research and analytics.

8. **Inclusive business does not mean higher risk and lower returns, yet should address systemic market failures to assure scale.** While most OMJ investments have not yet matured, preliminary evidence suggests that inclusive business investments do not mean higher risk nor do they result in lower returns. All OMJ investments are fully bank compliant and meet established bank risk and return criteria. In some instances, expectations are that some of the businesses will outperform initial expectations—both in social and business performance.

As part of this review, some preliminary recommendations were developed that were informed by the OMJ experience. The brief recommendations are as follows:

9. **ADB should resource coordination capacity and assess the best modalities for effective rollout of inclusive business.** Irrespective of the decision to be made by ADB with regard to inclusive business development, ADB should assure that a basic level of in-house coordination capacity is in place to assess and assure internal readiness (including developing a common standard, selection and review criteria, metrics to support evaluability, and performance targets), develop a coherent strategy aligning external demand with bank interests, provide deployment options, and determine if and how resource allocations would/should be made. Given that ADB's external market scoping has concluded and suggests that external demand is significant, the OMJ experience may serve as an additional input from which to inform the bank's next steps.

10. **This report recommends three scenarios for inclusive business deployment informed by the OMJ experience.** This report suggests that all ADB options must i) respond to external demand; ii) leverage the banks strengths and capacity; iii) be aligned to and build upon Strategy 2020; iv) create lasting impact by directly addressing systemic root causes of poverty while assuring market or above-market returns; v) advance the creation of a sustainable inclusive business ecosystem. The three scenarios include a technical assistance, a dedicated pool of capital, and the deployment of an externally managed fund—scenarios that could be considered options or progressive steps in the execution of a longer-term inclusive business strategy—were ADB to decide to pursue that.

I. Purpose and Approach

> For many people, progress is sometimes so astonishing that it evokes the term previously reserved for the supernatural: "miracle." But not everywhere, and not for everyone. And for the majority of people in Latin America and the Caribbean, not yet. Why not? The Inter-American Development Bank (IDB) has been grappling with this question since its inception, working to reduce poverty and lift the social and economic condition of the general population. The challenge, nonetheless, remains. In short, the benefits of growth need to reach the majority of the region to move forward on a stable and sustainable path...We need to redefine the possible of the average household, as well as the underpinnings of the region's overall economic growth.
>
> Luis Alberto Moreno, President, Inter-American Development Bank[1]

Despite the fact that more than half of the world's 8 billion people are living in countries with per capita income between $1,000 and $4,000 per year, countless millions are beginning to climb out of extreme poverty, thanks to the brisk economic development pace occurring in many of world's emerging markets. Yet, while it is now widely acknowledged that the pace of growth alone will not sustainably and equitably lift millions out of poverty, there is also increasing recognition that the private sector can be an important catalyst in expanding economic opportunities for the low-income segment. When enabled with the appropriate capabilities and provided with the right incentives, the private sector can bring new, sustainable business models and innovations, technology, cutting-edge expertise, and scale in ways that can address some of the poor's most intractable and systemic challenges while generating new opportunities for company growth and profitability. These "inclusive businesses" —profitable, core business initiatives that meaningfully integrate the low-income segment into a company's value chain as suppliers, distributors, employees, and/or consumers—are increasing in appeal across developing regions. However, they have been, for the most part, the exception, not the rule. This is now beginning to change, particularly in Asia and Latin America, where development finance institutions, such as the Asian Development Bank (ADB) and Inter-American Development Bank (IDB), have contributed new thinking, innovation, and proof of concept, in hopes of catalyzing an "inclusive business ecosystem," within which investors, companies, and, in some cases, governments hope to create shared value at the base of the pyramid (BoP).

The IDB and ADB launched their respective inclusive business initiatives in 2007 and 2010, respectively. As a pioneer in this space, the IDB's Opportunities for the Majority (OMJ) Initiative has developed a portfolio of diverse, innovative, and proven solutions that address systemic market failures and can be replicated across the Latin America region (and possibly beyond). Hoping to learn from this experience, ADB and the IDB agreed to support two regional technical assistance projects on "enhancing knowledge sharing and South–South cooperation between Asia and Latin America" which were part of a wider ADB–IDB collaboration framework agreement signed in 2009. The purpose of the partnership overall was to promote knowledge sharing, policy dialogue, and coordination between Asia and Latin America. Specifically, the 2012 technical assistance project (under which this assessment falls) was focused on "enhancing mutual learning between Asia and Latin America on the role that private sector shared value investments can play to reduce poverty and promote inclusive growth." The anticipated outcomes were as follows:

- **Systematization of best practice:** Systematize the lessons, tools, methods, and innovations that have been developed by the Inter-American Development´s OMJ Initiative for application, adaptation and integration into ADB´s Inclusive Business Initiative where appropriate.
- **Exploration of inclusive business facility financing and development opportunities among target Asian bilateral agencies:** Explore leverage opportunities among Asian bilateral donors and affiliated Asian companies interested in financing and developing inclusive business models in Asian and Latin American emerging markets.

[1] Elizabeth Boggs Davidsen, Pablo Alonso, Sarah Howden, and Dana Martin. 2006. *Building Opportunity for the Majority*. Washington, DC: The Inter-American Development Bank.

- **Learning exchange:** Develop opportunities (at key bank meetings) through which thought leaders, company executives (currently implementing inclusive business in Latin America and/or Asia), and relevant bank staff can raise awareness, and accelerate capacity, knowledge, and understanding of the potential for inclusive business development models in both development banks.

Specifically, the project was to accelerate the efficiency and effectiveness of multilateral development bank investment in inclusive business models in Asia and Latin America, expand access to investment and technical assistance financing from Asian bilateral agencies for inclusive business in Latin America and Asia, and further strengthen advocacy, awareness raising, and knowledge sharing opportunities among key stakeholders across both regions and both development banks.

Approach of the Assessment

This report is based on the review of IDB internal documents, reports, presentations, and tools and has been complemented by face-to-face interviews with select IDB staff from OMJ, legal, risk, the Vice Presidency for the Private Sector, and other relevant parties. It has been commissioned and coordinated by Elizabeth Boggs-Davidsen, Principal, Opportunities for the Majority Initiative at the Inter-American Development Bank (IDB); and Armin Bauer, Principal Economist, Regional and Sustainable Development Department of the Asian Development Bank (ADB). The scope was kept deliberately narrow and targeted to a few core questions: How and why was the IDB OMJ established? How did OMJ evolve within and outside the IDB? What is OMJ's value proposition and how did it evolve based on the market opportunity? What are the most salient lessons OMJ has learned that are relevant to ADB? What were the innovations that were critical to its success? And finally, how can the OMJ experience inform any specific recommendations for ADB as it assesses if and how it should develop inclusive business in Asia and the Pacific. The report is therefore structured as a summary of what OMJ did and how it did it, the most important lessons learned as part of that process in general, the most important aspects that are relevant to ADB, and some preliminary recommendations based on the IDB OMJ experience.

About the IDB's Opportunities for the Majority in Brief

OMJ, created in 2007 by the IDB, promotes and finances market-based, sustainable business models that engage private sector companies, and local governments and communities in the development and delivery of quality products and services for the low-income segment in Latin America and the Caribbean. OMJ 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 the 360 million people in Latin America and the Caribbean who are at the "base of the pyramid." OMJ offers three products: loans, guarantees, and technical cooperation.

OMJ provides medium- and long-term loans and partial credit guarantees to private sector companies and organizations without sovereign guarantee interested in supporting sustainable business models and market-based solutions that benefit low-income populations in Latin America and the Caribbean in areas such as financial services, housing, education, nutrition, and health. To be eligible for financing, projects should be:

- financially and structurally sound and require financing, on average, of between $5 million and $10 million per loan (at market rates but through long tenors);
- able to cover between 25% and 40% of the total project cost;
- market-based and BoP-centered;
- sustainable, replicable, and scalable over the long term;
- inclusive of innovations that forward the development agenda; and
- focused on social as well as economic outcomes.

Opportunities for the Majority Business Models

OMJ supports a variety of financially sustainable, innovative approaches that can be increased in scale. All of OMJ's models share several characteristics aligned to OMJ's mission and goals concerning the way each project aims at tackling poverty and work with the BoP. OMJ projects do the following:

Accelerate financial inclusion. People living at the BoP 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. OMJ works 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 catalyzes new approaches for companies to use micro-credits as a vehicle to bring innovative solutions to the pressing needs of the low-income segment.

Build out "last mile" distribution systems. OMJ helps companies willing to try new approaches to find new distribution opportunities. Throughout Latin America and the Caribbean, OMJ leverages 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 the low-income segment. This approach—which OMJ calls a "platform strategy"—is a proven method to increase the social impact of the network and help the poor and vulnerable move into the economic mainstream.

Broaden corporate supply chains. OMJ develops tools that a company can use to move beyond small-scale supply chain projects. 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 "anchor company," these models lower transportation costs and reduce carbon footprints, as production sources are located closer to factories and points of sale.

OMJ is also able to leverage grant funding on a case-by-case basis to support the pre-commercial stage projects. The IDB established a specific multidonor trust fund to identify and support innovative and sustainable business solutions and investments that raise the standard of living of the low-income segment. Called the Strategic Thematic Fund to Apply Market Solutions for Social Change, it supplements financial resources of the IDB, the private sector, nongovernment organizations (NGOs), and official institutions to provide technical expertise necessary to make investments in low-income markets more effective. The Strategic Thematic Fund seeks to mobilize nonfinancial, as well as financial, contributions that can be deployed to ensure the success of innovative business ventures through special partnerships established with contributors and other investors. In addition to financing, the IDB can act as an incubator for pilot endeavors and offer technical assistance in all the phases of project development. The majority of the projects that have received loans or credit guarantees have benefited from technical assistance to support market analyses, due diligence, capacity building, or pilot testing of business models.

Furthermore, OMJ fosters a true space for collaboration between like-minded organizations interested in advancing the agenda of market-based solutions for the poor through annual Strategic Partners' Dialogue meetings and roundtables attended by a wide range of stakeholders involved in majority markets in Latin America and the Caribbean, including other multilateral development institutions, business leaders, academic institutions, NGOs, and investors. The meetings are designed to foster collaborative thinking between different entities in this growing and diverse sphere, and also provide an important networking opportunity for the cross-fertilization of ideas and generating entrepreneurial partnerships.

About ADB´s Inclusive Business Initiative

Since 1990, the number of people in Asia and the Pacific living in extreme poverty, defined as earning less than $1 a day, has been halved, to under 20% of the population. Cheap land and labor, globalization, technological innovation, and forward-looking policy interventions related to trade and social investment, have lifted hundreds of millions out of poverty. However, despite the spectacular statistics, poverty and the vulnerabilities associated with it remain entrenched, exacerbated by rising inequity and growing social exclusion. And more importantly, when a wider definition of poverty is applied (less that $4 a day), almost 3 billion people, roughly 82% of the Asian population is considered part of the "base of the economic pyramid" as defined by the World Bank and will as such require "shared prosperity."2 While the private sector has been a key contributor to the economic boom in Asia, it is increasingly clear that it has yet to fully realize its potential in creating shared value, which is to promote business models that integrate the low-income segment in unique and innovative ways that generate company growth while creating value for the low-income segment and directly contributing to poverty reduction.

As one of the key multilateral financial institutions operating in the Asian region, ADB, through its long-term "Strategy 2020" has defined inclusive growth as one of its three main strategic pillars, which aims to broaden economic and social opportunities for lower-income and excluded groups. Inclusive business could represent one such inclusive growth strategy—catalyzing private sector development opportunities that through their business models accelerate economic growth while integrating the low-income segment into their value chains. Companies improve their bottom line, while the low-income segment can benefit through new income and employment opportunities and/or access to goods and services that meaningfully contribute to their livelihoods.

The ADB has taken proactive steps to further explore and develop the inclusive business concept as an important element of its private sector development strategy—leveraging lessons learned in particular from the International Finance Corporation and the IDB. Building in part on the experience of these institutions, ADB developed the regional technical assistance project "Promoting Inclusive Growth through Business Development at the Base of the Pyramid" that aimed to assess the feasibility of developing regional and/or country-based financing facilities for inclusive business ventures in 10 Asian countries (Bangladesh, Cambodia, India, Indonesia, the Lao People's Democratic Republic, Pakistan, the Philippines, Sri Lanka, Thailand, and Viet Nam) while increasing awareness about the market opportunity for the same. The expected impact of the overall ADB initiative is to better understand if and how a new class of private equity funds can invest in innovative, replicable, and scalable inclusive businesses, and contribute to promoting inclusive growth in the region.

How ADB Views Inclusive Business

In contrast to traditional social enterprise, inclusive businesses are profitable and create value in such a way that goes beyond economic returns: they generate social impact by deliberately and directly targeting the low-income segment as part of their value proposition. Inclusive businesses create or expand access to goods, services, and livelihood opportunities for the poor and vulnerable in commercially viable, scalable ways. Within this model, the low-income segment fills one or more of three important roles:

- **consumers**: new markets for affordable goods and services;
- **distributors**: new distribution networks; and
- **suppliers**: new sources of supply/inputs.

An inclusive business model is like any business model. The only differentiator is that it is a mass-market or supply-chain strengthening solution that deliberately expands access to goods, services, and income and employment opportunities for people living at the BoP. They can often be larger, well-established,

[2] The World Bank's shared prosperity indicator "implies a direct focus on the income of the less well-off, as opposed to the common practice of focusing only on growth of GDP per capita and implicitly relying on the "trickle down" impact of growth on the bottom of the distribution. Source: World Bank. 2013 . *The World Bank's Group Goals: End Extreme Poverty and Promote Shared Prosperity*. http://www.worldbank.org/content/dam/Worldbank/document/WB-goals2013.pdf

viable businesses that are (i) seeking to accelerate growth by pursuing new market segments and/or distribution channels, and/or (ii) focused on mitigating supply chain, labor, and reputational risks, or they can be successful social enterprises with a proven business model that is seeking to scale. Inclusive businesses maximize these opportunities and address these risks by integrating the low-income segment into their value chain in such a way that they contribute meaningfully to a company´s bottom line by increasing profits and reducing costs, on the one hand, and provide income and employment opportunities for the low-income segment and/or access to goods and services that improve their livelihoods in a sustainable manner, on the other.

To ADB, inclusive businesses tend to have the following characteristics that integrate both definitional and strategic/tactical considerations:

1. Inclusive businesses are strictly for-profit.
2. Inclusive businesses must be strictly core business.
3. Inclusive businesses must include the low-income segment within their business model through one or more of the following ways: as suppliers, as consumers, as employees, and as distributors.
4. Inclusive businesses must generate financial returns. The level of returns depends on either investment criteria set by an impact investor, company ambition, or strategy and business model or a combination of both. Ideally, an inclusive business should generate market returns commensurate with their business model and risk profile.
5. Inclusive businesses must generate social returns. The scale and scope of the anticipated social returns will also depend on the investment criteria set by an impact investor, company ambition, and strategy and business model, or a combination of both.
6. Inclusive businesses are designed from the start with scale in mind to (i) maximize and optimize their route to impact and (ii) maximize the creation of company value.
7. Inclusive businesses do not seek trade-offs between financial and social returns. Rather, they continuously seek solutions through which both can be optimized simultaneously.
8. Inclusive businesses often require blended capital priced for their level of risk and relevant stage of development. Therefore, different forms of capital (patient, debt, equity, and others) are often deployed at different stages of the life cycle of an inclusive business.
9. Inclusive businesses actively assess and measure both social and economic performance in a standardized manner.
10. Inclusive businesses normally evolve from social enterprises seeking to scale their proven (social purpose) business model or mid- to large-sized established companies seeking to create shared value through supply chain, labor-related, and/or product innovation.

Beyond these standard attributes, ADB is also considering if it should make more explicit its eligibility, impact and financial return criteria. These could include criteria such as:

11. achieve at least a 15% gross financial return (this is largely context dependent);
12. assure that at least 60% of the target beneficiaries are from the BoP—40% of the target beneficiaries could be from other market segments (to be determined in the context of the specific market);
13. measurably and meaningfully impact at least 5,000 people during the investment period;[3]
14. optimize their businesses' value proposition in such a way that it also addresses a systemic and relevant poverty-related issue in a specific geographic context;
15. demonstrate a clear route to impact; and
16. identify and manage pre- and post-investment risks.

In summary, ADB's thinking reflects a preference for specific kinds of inclusive businesses—it is by no means a generic approach to inclusive business development, but rather a qualified perspective meant to assure that market returns are commensurate with overall bank performance targets, and that social impact is meaningful and measurable.

[3] Total impact is case-dependent. The number of beneficiaries may vary based on the local context, business model, and opportunity.

II. The Evolution of the IDB's Base-of-the-Pyramid Strategy: The Opportunities for the Majority Initiative

The IDB's Strategy toward Inclusive Business

The Opportunities for the Majority (OMJ) Initiative was founded on the premise that "the private sector, working with communities and governments, can create jobs, increase income, and incorporate local communities as producers, while being profitable."[4] OMJ sought to support and finance a new business model in which the private sector engaged with poor, disenfranchised communities to deliver quality goods and services, create employment opportunities and integrate these communities into mainstream productive value chains. The overall vision was assuring the integration of the private sector into the development agenda. OMJ then established its business development strategy under the following tenets:

OMJ assured complementarity with the IDB's mission and developed a strategic and opportunistic approach. OMJ was developed as an effort to complement the IDB's existing development mission but focused more specifically on creating a venue through which a broader group of market actors could come together to meet the specific needs of the poor while maintaining profitability. Moreover, OMJ sought inclusive business investment opportunities using a two-pronged strategic approach: It worked with external partners in Latin America and the Caribbean to generate market information mainly through private sector mapping that gauged private sector interest in inclusive business and identified key private sector actors already engaged with low-income communities and identified inclusive business opportunities within key economic sectors. Separately, using specific criteria, OMJ worked directly with the IDB vice presidencies on the ground to identify potential opportunities for investment within IDB's network, portfolio, and existing deal flow. In a corollary effort, OMJ also sought its own deals using traditional means by leveraging local knowledge about the market from key players such as business associations, the nongovernment organization (NGO) community, and business schools. Both the strategic and opportunistic approaches provided OMJ with an in-depth view of the inclusive business market and how the initiative could insert itself as a positive force to move efforts forward.

OMJ's strategy was predicated on addressing key market failures. To achieve its own mission, OMJ set out to address the issues of information asymmetry and risk that historically prevented the private sector from engaging with low-income communities directly. However, rather than creating new infrastructure around mitigation strategies, OMJ leveraged the support of other actors, including internal bank champions, the public sector, and NGOs to generate security and mitigate potential risks. OMJ also narrowly defined its investment opportunities to enable private sector efforts that were intrinsically designed to be inclusive as opposed to investing in the conversion of traditional businesses into being more inclusive.

Developing a portfolio and generating transactions were essential for developing credibility and continuity. As with the core business of the IDB, success of OMJ will be measured by the volume of the business it generates and the deals it closes over the life of the initiative. OMJ began with a goal of investing $250 million in well-designed investments over the course of 3 years, the development impacts of which were envisioned to serve as replicable inclusive business models that could be leveraged to achieve scale in the Latin America and Caribbean region. As of its last reporting in 2012, OMJ had a diversified portfolio of 40 projects with clients across various economic sectors totaling over $235.4 million and has mobilized a total of $1.6 billion in total investments. It is projected that by 2015, the OMJ portfolio

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[4] Inter-American Development Bank. 2013. *Evaluation of the Opportunities for the Majority Initiative*. Washington DC. http://issuu.com/idb_publications/docs/technicalnotes_en_76818

will have directly benefitted over 2.2 million individuals and is estimated to increase as businesses mature and go to scale.

Beyond transactions, OMJ has been effective in mainstreaming inclusive business both internally and externally. Through its own investments and the additional resources it has been able to leverage for inclusive business development, the initiative has proven its value as a key strategic thought leader in the inclusive business arena. Key to its success is having generated its portfolio of successful investments by working closely with the IDB's vice presidencies, functioning effectively within the bank's existing structure and drawing on internal and external expertise. OMJ was designed as an "open facility" that has evolved based on market responses to its value proposition but also its demonstrated fit within the IDB's mandate and infrastructure.

Critical to its success has been OMJ's open source approach to structured learning. OMJ was developed based on an "open source" model for learning and to achieve its goal of generating demonstration projects that could be leveraged more widely. In addition to publishing informational pieces based on its own experience and that of its clients, OMJ has also invested heavily in venues through which market leaders could exchange knowledge and new businesses could learn. It also provided platforms for various actors within different value chains to come together and explore the potential for collaboration, partnerships, and finding solutions to common issues.

Guiding Principles for the Opportunities for the Majority Initiative

1. Complement the IDB's mission of economic and social development and poverty alleviation.
2. Show additionality.
3. Respond to the priorities of borrowing member countries.
4. Customize for local needs, while learning from local experiences.
5. Inform its actions with current time-tested examples from IDB's member countries; and do not be beholden to a few thought leaders.
6. Advance a private sector logic in line with development goals.
7. Be realistic in its scope and humble in its approach; not overreaching in its goals.
8. Manage the expectations of the target population and show respect for the majority.
9. Listen to and learn from all, recognizing the contribution of everyone.
10. Contribute to the IDB's learning.
11. Develop measurable and transparent performance and results metrics that demonstrate momentum and interim progress, as well as final objectives.
12. Be an integrated effort of the IDB, Inter-American Investment Corporation, and Multilateral Investment Fund, and not simply a presidential initiative.

Operational Design to Support Inclusive Business Efforts

The basic premise of OMJ is to provide loans, guarantees, and technical assistance to corporations, small/medium-sized enterprises, financial institutions, and, in some cases, investment funds for which the integration of low-income communities into their value chain as producers, employees, or consumers of products and services forms the core of their business. This highly targeted focus required OMJ to function differently from the IDB's usual practice.

OMJ clients specifically targeted the base of the pyramid and were attempting to address a critical market failure. OMJ developed its transaction portfolio with a diverse group of clients whose business model specifically targets the low-income segment of society, or the base of the pyramid (BoP). They fall within two broad categories of clients that improve the BoP's access to products and services in the form of infrastructure, health care, housing, finance, education, information technology (IT), and communications; and clients that seek to improve livelihoods through microenterprise development, employment, and smallholder farming. The resulting portfolio now includes a range of clients such as CEMEX (Cementos Mexicanos, a cement company in Mexico), which secured an OMJ partial credit guarantee that combines private and public resources used to pave community roads, and Vision Banco (a financial institution in Paraguay), which partnered with Habitat for Humanity (an NGO) to provide affordable and safe housing for low-income communities using OMJ funding.

OMJ developed standard project selection criteria to assure all projects were centered on the base of the pyramid. Beyond the profitability of the investment, OMJ employs a screening process to ensure that social inclusion and development impacts are the center of each project. Apart from being financially sound, the project must also be (i) market-based, (ii) BoP-centered, (iii) sustainable over the long term, (iv) inclusive of innovations that forward the development agenda, (v) focused on social as well as economic outcomes, and (vi) must be replicable to contribute to scale. Using this set of criteria supported the establishment of demonstration projects that serve as models of inclusive business.

Only three financial instruments were made available to OMJ—loans, partial credit guarantees and limited technical assistance grant funding. To build its portfolio, OMJ offers the following financial instruments that it applies on a case-to-case basis. A summary is provided in Table 1.

> *Loans (A-Loan)* – OMJ loans to well-established entities are pari passu along with the borrower's existing and future senior debt and can range from $3 million to $10 million with tenors between 8 and 15 years and fund up to 50% of the total project cost. For new operations, OMJ generally leverages other resources to complement its own and funds up to 25% of the total project cost. Interest rates, fixed or floating, are based on market reference points at the time of closing.

> *Partial Credit Guarantees (PCG) and Risk-Sharing Facility* – Operating in environments where credit history is often nonexistent and risks are prohibitive, OMJ provides credit guarantees to clients to share the risk of moving into low-income markets. Moreover, a risk-sharing facility allows OMJ to (i) guarantee a pool of micro-loans thereby sharing the risk of portfolio losses with clients, and (ii) assume a second loss position to cap potential losses and enabling companies to enter new markets or provide new products and services. These instruments are made available largely depending on the specific context of the client. The PCG and risk-sharing facility has enabled financing for thousands of microentrepreneurs from local financial institutions that otherwise could not lend them funds.

> *Technical Cooperation Grants* – This type of funding in the range of $100,000 to $500,000 (non-reimbursable funds) is often provided along with loans and guarantees for the express purpose of strengthening the overall project and maximizing its potential for direct impact. It can also be used to increase market knowledge through targeted research or feasibility studies, critical to developing blueprints to scale models where opportunities could be identified, structured, designed, and piloted.

OMJ developed and applies standard evaluability and performance metrics across its portfolio. Given the social impact focus of OMJ projects that are not part of traditional banking success measures, the initiative had to undergo an assessment to ascertain the evaluability of its investments. With time and experience, OMJ is now utilizing and improving upon its use of the Global Impact Investing Network's (GIIN) Impact Reporting and Investment Standards (IRIS) that provides metrics for measuring and describing social, economic, and environmental impacts. In addition, OMJ manages all data on PULSE[5] that enables the standardized application of indicators that are used to measure the social, economic, and environmental impacts of OMJ's portfolio.

[5] The PULSE case study can be found on page 29.

Table 1: Opportunities for the Majority Financial Instruments

Instrument	Target Client	Size	Other Information
Loan	Companies Small/Medium-Sized enterprises Financial intermediaries Nonprofit organizations	$3 million to $20 million with up to 15 years maturity	Coverage between 25% and 40% of the total project cost. Catalyzes third-party resources through syndicated loans. Loans often accompanied by technical assistance.
Partial Credit Guarantee and Risk-Sharing Facility	Companies Small/Medium-Sized enterprises Financial intermediaries Nonprofit organizations	$3 million to $20 million	Both instruments designed to address the lack of credit history among potential clients. Allows the division of risk incurred by micro-borrowers among the bank and its clients. The risk-sharing facility enables clients to cap potential losses and reduce risk as they go to scale and offer new products and services.
Technical Assistance	Companies Small/Medium-Sized enterprises Financial intermediaries Nonprofit organizations	$100,000 to $500,000	Provided in the form or non-reimbursable financing for the development of inclusive business models, market research, feasibility studies, and other knowledge-based earning activities.

Capabilities to Support Inclusive Business Initiatives

OMJ began with three staff members who worked mainly through the country offices to find opportunities and transact deals. As a pilot initiative within the Vice Presidency for Private Sector, OMJ staff were tasked with not only generating proof of concept for the inclusive business development model but also, if successful, to integrate the concept into the mainstream approach and structure of the entire organization. In this regard, the capacities of the OMJ team evolved to service mostly an external audience; however, much of its work was also directed at an internal audience that needed to "buy in" to the initiative's goal and process. At the time of writing, OMJ has grown into a team of 16 international and national staff, and 10 long-term consultants and fellows whose services are housed not only at the OMJ offices at IDB headquarters, but also within the country offices across the Latin America and Caribbean regions.

OMJ's success depended on well-resourced and diverse in-house expertise. While originally staffed with three professionals with limited transactional experience, OMJ today counts on a cadre of senior, mid-level, and junior professionals with a mix of investment banking, sector, inclusive business, and emerging market expertise. Over the years, the team has been able to rely progressively less on external partners for deal origination and design, and if often sought by investee companies for their business model and sectoral expertise. Having dedicated, high-quality in-house capacity and leadership has been essential to building an effective portfolio, engaging with critical stakeholders, developing product innovations, and leading effective outreach efforts. Notwithstanding, OMJ did lack nonoperational resources who would have been dedicated to mitigating OMJ growing pains, strengthening outreach, and developing knowledge products.

Internal cooperation was critical to establishing internal credibility and operational maneuverability. OMJ has acknowledged that its success and accomplishments are due, in large part, to having collaborated closely with other units of the IDB. OMJ was envisioned as a cross-cutting theme that would permeate the various branches throughout the IDB and not a stand-alone unit that would act independently. As a prelude to full integration, OMJ drew upon the knowledge, networks, and expertise of existing teams of the IDB to pilot inclusive business development models before investing in building their own team. The collaboration of OMJ with the vice presidencies was not a one-off endeavor but an ongoing effort that continues to date. The nature of working with each unit was determined on a case-to-case basis. However, the key points of collaboration were focused on developing and executing the different financial mechanisms necessitated by inclusive business clients of OMJ. These internal partnerships could be broadly categorized as follows:

1. **Corollary partnerships:** OMJ and IDB units fulfill financial assistance roles that they each could not on their own.
2. **Packaged deals:** OMJ and IDB units provide complementary support for the same client as one holistic support package.
3. **Product offerings** – Codevelopment of new financial instruments to further inclusive business development inclusive of socioculturally appropriate tools, such as local language loan applications and documentation.
4. **Resource leveraging:** OMJ and IDB units leveraging additional resources from other sources (e.g., social impact investors).
5. **Operational support:** OMJ drawing upon the existing knowledge and expertise of other IDB units to develop OMJ as a legitimate and credible bank offering such services as (but not limited to) building their own capacity in financial mechanisms, designing OMJ's lending processes, developing their offerings, and measuring the development effectiveness of their inclusive business projects.
6. **Business development:** IDB units originate many of OMJ's initial deals (30% of OMJ's portfolio originated from Multilateral Investment Fund specialists) and implement a staff-sharing arrangement that built the OMJ project portfolio.

Table 2: Internal Partnerships

Institutional Partnership	Collaborative Effort
Multilateral Investment Fund (MIF)	Together offer services, such as equity investments and technical assistance, that the Opportunities for the Majority (OMJ) Initiative could not, while OMJ offered direct lending that the MIF could not.
Inter-American Investment Corporation (IIC)	Develop a specific funding pipeline for small and medium-sized enterprises that provide services to the base of the pyramid (BoP) by pooling OMJ and IIC resources together as a packaged deal. Pilot OMJ-IIC projects are being tested in Brazil that will serve as replication models elsewhere in the region, if successful. Availed of the IIC's local currency funding mechanism to enable funding to local financial institutions as in the case of support for Credifamilia (Colombia) that offers mortgage lending for low-income housing.
Structured and Corporate Finance Department (SCF)	SCF provided a loan to Agricorp (Nicaragua) to restructure debt while OMJ provided a loan to support its program to increase overall productivity of rural farmers. A similar approach was used to support Banco G&T (Guatemala).
Syndications Unit	Key to leveraging OMJ "first mover" support for projects to attract social impact investors.
Vice Presidency for Sectors (VPS)	Jardin Azuayo and Banrural projects (Guatemala) both originated from VPS specialists who referred clients to OMJ for inclusive business development support. Regional finance project, FOPEPRO (Fondo para los Pequeños Productores Rurales en América Latina S.A. or Fund for Small Producers in Latin America), was developed with VPS technical assistance and expertise in the form of fund management assessment and critical review of the fund's instruments and investment guidelines, while OMJ ensured the BoP focus of the fund.
Vice Presidency for Countries	Shared staffing arrangement that enabled OMJ to: have a country presence, build its own capacity in the process of garnering business deals, and demonstrate integration at the country level.
Vice Presidency for Finance and Administration	Adaptation of the Partial Credit Guarantee product and Risk Sharing Facility of OMJ and development of their specific operations, such as using local law-governed reimbursement mechanisms, appropriate collection methods, and repayment incentives.

The cultivation of internal champions planted the seeds for long-term political support inside the IDB. The early stages of OMJ development were focused on building internal support for the initiative with the aim of full integration over the long term. In addition to staff-sharing arrangements that enabled key IDB unit specialists to allocate part of their time to OMJ deals, the initiative developed a cadre of supporters from various IDB units who championed the initiative throughout the institution. The OMJ champions were formalized mainly through collaborative efforts but also through structured capacity building that trained them in the principles of impact investing and structuring deals based on the nuances unique to developing businesses that are truly socially inclusive. While these champions took active part in the technical aspects of OMJ loans, they played a key role in advocating for OMJ to both external and internal audiences who were critical to recognizing OMJ as a legitimate financial instrument of the IDB.

Ongoing engagement and support continues to be strengthened through interdepartmental working groups. OMJ sponsored working groups comprising members from the various units of the IDB. The specific aim of these groups was to develop new instruments or adapt traditional methods for lending specifically to businesses with a development focus that is consistent with IDB policies and procedures.

Partnerships to Accelerate Inclusive Business Development

OMJ's partnerships are broadly divided into internal collaborations, as discussed previously, and external relationships designed to further the inclusive business agenda. This section will address the latter.

OMJ is recognized for its pioneering leadership in inclusive business across the Latin American region. As one of the early pioneers of inclusive business development in Latin America and the Caribbean, OMJ rapidly positioned the IDB as one of the key thought leaders of social inclusion. Building upon its resources, market-based solutions, knowledge, and experience, OMJ has found a niche for itself as one of the few "go to" institutions for enabling replicable inclusive business models. In this capacity, OMJ has utilized its convening power to bring thought leaders together with the aim of leveraging support and action from the private sector, the public arena, the NGO community, and civil society. OMJ has also been instrumental in brokering and fomenting key partnerships and collaborative efforts among financial institutions, NGOs, large corporations, and impact investors also looking to make inclusive business a part of their core (business) development strategy.

OMJ entered into strategic partnerships with relevant institutions to strengthen its sectoral value proposition. OMJ supports institutions that work with the public sector to improve the delivery of basic and other services to the BoP. Together with the Global Alliance for Improved Nutrition (GAIN) and the Fomento Economico Mexicano (FEMSA, the largest beverage company in Mexico and Latin America) Foundation, OMJ cofinanced a study that identified companies engaged in nutrition solutions for the BoP. The results of the study formed the basis of a regional pipeline of funds and technical assistance for these companies.

Business roundtables (i.e., BASE Forum) have been effective in helping OMJ and the IDB mainstream inclusive business within the private sector. OMJ has proactively engaged the private sector and the development community as part of its mission to promote social integration into mainstream business models. To this end, OMJ has hosted several business roundtable events that target local companies and other business leaders who learn about inclusive business strategies from their counterparts. The roundtables have been an effective medium for socializing the inclusive business concept, building cohesion around localized efforts, and identifying opportunities for participants to work together to develop inclusive businesses. The BASE Forums in particular have been high-profile, visible events that have attracted almost 1,000 participants from across Latin America to discuss and share inclusive business experiences, innovations, and solutions. They have become the preeminent inclusive business event in Latin America.

Bespoke OMJ portfolio workshops also allowed for collaborative learning opportunities among inclusive business senior executives. To foster a culture of learning and information sharing, OMJ sponsors a workshop among senior executives from its portfolio of projects to learn from each other's experiences. The panel discussion format of the workshops are designed for participants to interact with one another and aimed at inspiring future innovations in inclusive business models.

Main Lessons Learned

Internal and external communication was key to success. New concepts in traditional environments gain better acceptance through socialization and transparency. Although the mainstreaming process of OMJ into the IDB continues and is not without its set of challenges, the investments OMJ made with internal and external audiences did succeed in (i) gaining buy-in and support from critical stakeholders, (ii) demystifying the inclusive business concept and demonstrating successful models, and (iii) using learning and knowledge-sharing platforms to leverage action within the private sector, NGO community, the financial sector, and civil society.

The OMJ team's targeted networking proved to be the most effective deal-sourcing avenue. While OMJ invested heavily in convening critical stakeholders through workshops and other forms of exchange, they were not effective in generating deals and developing the project portfolio for the initiative. OMJ found success from within the networks of the IDB unit specialists in-country and building on the existing relationships the specialists had within local markets.

Working within internal systems in place provided an effective operational platform. Working within the IDB's current structure and processes provided a ready operational platform from which OMJ identified opportunities, cultivated relationships with prospective clients, and, eventually, structured appropriate financial mechanisms to support inclusive businesses. In addition, working on the basis of current internal systems allowed for innovation to take place overtly, lending itself favorably to capturing key learning processes, and new knowledge, and evolving experience.

Working the existing business ecosystem and framework increased inclusive business understanding and adoption. OMJ set out to demonstrate how inclusive business models could effectively impact the BoP, and it relied heavily on local business knowledge and expertise to adapt this new business model. Rather than creating a new and separate business environment, OMJ developed inclusive models within the context of mainstream business frameworks making it easier for those involved to understand, accept, and, eventually, adapt and implement.

Achieving scale through platforms rather than through individual companies is critical to achieving systemic impact. Following the previous point, scale has been more effectively and efficiently achieved when the current modalities for product and service delivery to the BoP were utilized as the platform from which inclusive strategies were developed. OMJ saw success where strategies sought to enhance existing distribution systems and improve partnerships that were already functional for market actors and the BoP instead of introducing new systems to foster inclusion. Working with what is already familiar to the BoP likely increased acceptability and the likelihood of the BoP's willingness to take advantage of new opportunities generated by OMJ and its partners.

Inclusive business clients looked to OMJ for resources beyond financing, particularly inclusive business expertise. Central to the development of inclusive business models is having a clear understanding of how a company adapts itself to its BoP clientele. In many cases, OMJ's clients looked to the initiative not just for financing but also for the technical assistance necessitated by how companies were going to be inclusive. In this regard, the knowledge and expertise the OMJ staff and partners have gained over the last 5 years of developing inclusive businesses has become a prime commodity in itself.

A company's social capital—its degree of trust with the base of the pyramid—is often overlooked in determining the likelihood of a prospective inclusive business' success. In choosing potential clients, OMJ has learned that beyond meeting project selection criteria, a critical factor to success is that the company has sufficiently built up its social capital and is firmly entrenched within the BoP community as a trusted provider of products of high value. Companies with a high level of credibility among the BoP generally come with a functional knowledge of the BoP market that enables them to work more effectively with OMJ to generate tailored solutions to the market failures being addressed by inclusive business models.

Temporal resources and innovation were critical to allow OMJ to overcome internal challenges. The relationships, connections, partnerships, and eventual agreements and transactions that comprise the entirety of generating an inclusive business deal to IDB standards take a significant amount of time and human resources that should not be underestimated. The added focus on ensuring that clients deliver value and positive impacts to the BoP necessitates the innovative adaptation of traditional processes, which themselves take time to design, adjust, and implement. The main innovations of OMJ in the form of the Partial Credit Guarantee and Risk Sharing Facility was developed with resources and expertise from several units of the IDB working together and closely collaborating with local institutions. Similarly, developing short-form loan applications available in the local language required significant time and effort for various teams, in addition to what is required to inform the BoP community of these products and services previously unavailable to them. The work associated with awareness building and developing the right skills and tools for inclusive business development should be accounted for as part of a project investment.

Small companies should not be overlooked and are essential to base of the pyramid business models due to their capillarity into BoP markets. OMJ has learned that smaller businesses, organizations, or institutions are often more attuned to the needs and micro-economies of the BoP than their large commercial counterparts and can be equally powerful allies and partners. Of particular note are small and medium-sized enterprises and highly localized informal markets that, despite their size, form the backbone of the BoP's access to specific products and services and, therefore, serve as ready distribution nodes for improved inclusion.

OMJ leveraged the IDB's convening power to crowd in resources when and where they were needed most. At every opportunity, OMJ seeks to leverage additional financial and technical resources to complement existing inclusive business development efforts. OMJ utilized its convening power to bring together a complementary set of market players who provided time, money, and knowledge to develop a new line of goods and services for the BoP. OMJ's leadership and credibility in the inclusive business development arena also enabled them to be the focal point of information sharing and expertise that made them the "go to" institution for inclusive business development in the Latin America and Caribbean region.

III. Key Findings of the Opportunities for the Majority Evolution

> When we all first started in this conversation, people could not relate to the concept because we had no examples in our portfolio. They would relate us to microfinance or to philanthropy or to corporate social responsibility. When you look at Opportunities for the Majority today, we have 43 operations right now in 18 countries—large economies, small economies, large corporates, small and medium-sized enterprises, investment funds, so it's quite diverse. What's fascinating to see is that I think the whole region has matured tremendously, to a point where you see an industry forming and an ecosystem beginning to emerge. Not just financial institutions, but also corporates and investment funds looking at this from a core business perspective rather than a social responsibility point of view. We have many challenges ahead of us, particularly when it comes to scale, but it's a major leap from where we were five or six years ago in terms of people understanding what doing business with the base of the pyramid is. Two years ago at the first BASE Forum in Sao Paolo, the director of social business for Coca-Cola in Brazil said to me, "My goodness, I thought this was an academic exercise! How did you bring 800 people, business executives, to come discuss these kinds of things?" I think it's really mind-boggling.
>
> Luiz Ros, Manager, Opportunities for the Majority, May 2013 from www.nextbillion.net

Considering the process and results of the Opportunities for the Majority (OMJ) Initiative's establishment and implementation over the past few years summarized in the previous section, this section presents the main findings that can be drawn from that evolution, their relevance to ADB, some examples of OMJ's innovations, and a sampling of OMJ transactions.

Main Findings about the Evolution of the Opportunities for the Majority Initiative

1. **International finance institutions can play a central and meaningful role in catalyzing a viable ecosystem for market-based solutions in development.** International finance institutions (IFIs) can crowd in investors, incentivize risk taking and risk sharing, help demonstrate viability and proof of concept, spur innovation, standardize metrics and accountability frameworks, and have a keen interest in systematizing best practice and lessons learned. In the case of the IDB, OMJ has been able to demonstrate how to be an effective leader in a new space and help create the market for inclusive business in Latin America. Placing the resources, credibility, and leadership of the IDB behind this concept has inspired many others—from multinational corporations and large domestic companies to national governments and academic institutions (there have been two training programs for national development banks from Argentina and Brazil as well) —to better understand how the private sector can be a partner in development and a driver of social change, entrepreneurship, and increased productivity.

2. **OMJ has played an important role in mainstreaming inclusive business within and outside the IDB.** Since 2007, OMJ specifically, and the IDB more broadly, has become synonymous with the promotion of business models that improve livelihoods at the base of the pyramid (BoP) throughout Latin America. This was achieved through a sustained external marketing and positioning effort that included media outreach, high-profile and targeted events, publications, road shows, and engagement with thought leaders, academia, and think tanks. Internally, though OMJ was seen to have challenged initially the internal status quo of other private sector "windows" within the IDB (i.e., the Multilateral Investment Fund [FOMIN], Structured Corporate Finance [SCF], and the Inter-American Investment Corporation [IIC]), it has since contributed to evolved thinking on how the bank can contribute more meaningfully to inclusive growth through market-based solutions and new IDB product innovations.

3. **While other options were originally considered, OMJ was created deliberately to be (i) internal, (ii) experimental and time-bound, and (iii) eventually mainstreamed throughout the IDB.** While the original design of OMJ contemplated a decentralized and outsourced network of strategic

partnerships coordinated centrally by the IDB and focused strategically on a limited number of topics identified by the bank, a deliberate choice was made to internalize OMJ, assure it was temporary in nature (initially 3 years), assure it would progressively mainstream its outcomes and lessons learned, and provide it initially with a defined mandate, scope, and pool of capital ($250 million). Notwithstanding the initial scope and due to the operational and strategic creativity of the team and proof of concept, OMJ has evolved beyond its original mandate, and its core value proposition is likely to emerge as a priority and permanent business line in the emerging reorganization of the IDB's private sector department.

4. **Despite its innovative and mainstreaming mandate, OMJ was asked to perform within existing operational frameworks which were designed originally for different business models and, particularly, larger transactions.** OMJ was designed to deploy only debt from the IDB's non-sovereign guarantee (NSG) operations, was not provided with technical assistance resources, and was required to comply with all internal procedures that govern NSG investments including SCF's risk assessment frameworks and loan agreements subject to New York law which subjected potential investees to significant transaction costs (i.e., small deals with high overheads). As such, these elevated costs had a negative effect on deal closings and has impacted on the volume and quality of initiatives financed during the first few years of the initiative. However, OMJ has led cross-departmental efforts to streamline operational requirements to assure they were commensurate with the deal size and risk profile of OMJ projects and substantially lower transaction costs.

5. **Once approved, OMJ's internal legitimacy was strengthened by the rapid development and establishment of a viable portfolio of investments.** Despite extensive internal engagement and preliminary market scoping, OMJ could only secure internal legitimacy through business development and deployment of capital. The constant refrain of OMJ leadership in the "start-up" years was "to be here next year" and that could only be assured by "establishing a portfolio." Without viable deals, OMJ would have been hard pressed to secure additional resources, including head count. Given the relentless pursuit of a portfolio, not only did OMJ exceed its original term limit, but it also eventually had the financing cap removed (OMJ is no longer subject to the original ceiling of $250 million) and is recognized increasingly as a legitimate fourth financing window within the private sector department of the IDB.

6. **Even with presidential support, operationalizing OMJ required significant leadership, a dedicated team, political will, emotional intelligence, and socialization.** For a number of reasons, OMJ was perceived at times as a competitor to other private sector windows with limited additionality at the IDB and as a philosophical contradiction among certain member countries who believed that market-based solutions were incompatible with the provision of public goods, especially in the context of the low-income segment and the role of the public sector. Overcoming these perceptions required extensive board cultivation and engagement, participatory and adaptive strategy development, leadership, persuasiveness, a high degree of emotional intelligence, and, most importantly, strong and unwavering support from senior management and a dedicated team committed to producing results.

7. **Assuring OMJ was housed within and led from private sector operations contributed to its success.** While OMJ was born from a cross-departmental effort, its implementation as an operational initiative of the IDB ensured it was seen as integral to the core business (rather than peripheral), challenged it to comply with all internal bank policies and procedures asked of all other operational departments, and held it to the same performance standards—notwithstanding the limited start-up resources and ongoing shortfalls in staff capacity on the nonoperational aspects of its mandate. Its place as a fourth operational window also assured its external visibility and continuous and effective representation by senior management, particularly the Vice President for the Private Sector.

8. **As with the concept of inclusive business itself, the primary purpose of OMJ was to change mindsets, not only models.** The thesis of OMJ is to design and structure an investment opportunity with the low-income end-beneficiary in mind rather than focusing solely on the commercial viability of the business model and "trickle down" development impact. When investment opportunities are

reframed under this paradigm, the nature and structure of the business is often turned on its head, uncovering new business opportunities that can help a company mitigate risks, pursue growth, and create value in novel and innovative ways. The ensuing niche was therefore defined as "the set of private sector players who are developing market-based models in the region in order to serve the unmet needs by (i) increasing access to quality and affordable goods and services to the low-income segment or (ii) creating income-generating opportunities for the low-income segment. This niche is not based on the size of the firm, sector, or financial product." As such, because OMJ operated on the front lines of BoP innovation, there was also a commensurate degree of risk, trial and error, and unpredictable results—commonplace during an experimental phase.

9. **The financial instruments available to OMJ and their administrative requirements were not always compatible with the inclusive business opportunities in the marketplace.** Debt instruments alone were insufficient to meet the demands of the market, and a number of opportunities (as many as 30%) had to be abandoned or turned down because equity was unavailable. Ideally, OMJ should have been able to leverage a full range of financial instruments, including grants bespoke to the needs and stages of business development of target clients engaging in inclusive businesses. As such, instruments do make a difference and OMJ's portfolio reflects the conditions under which its financing was administered and deployed (i.e., a reduced pool of potential projects).

10. **There is a strong correlation between integrating inclusive business within an international finance institution and inclusive business development more generally.** Inclusive business is predicated on embedding inclusion in the core business DNA of a company and its business strategy and assuring that it is not relegated to corporate social responsibility, philanthropy or other peripheral corporate objectives. In much the same way, if inclusive business is to be seriously integrated into the DNA of an international finance institution (IFI), it must be embedded into its core value proposition, it must be championed by executive leadership because it is central to its business strategy, it must have associated targets and metrics to assess and assure performance, and it must create value and additionality for both the institution and target beneficiaries (in this case, corporate clients and the low-income segment). There is a clear distinction between the performance of IFIs who have embedded inclusive business into their core strategy and those who have entered the space with peripheral, non-core business activities.

11. **Evaluability and business performance are and will be fundamental to eventually assessing the success of OMJ.** While, in principle, inclusive business investments should be no different than other investments (in terms of risk and profitability), they require differentiation because of their explicit focus on addressing (systemic) market failures and targeting segments of the population normally excluded from business transactions. This requires both emphasis on assuring project evaluability in project design (through integrating proper baselines, targets, and outcomes as a standard to measure social impact) *and* standard metrics to assess business performance and profitability. The failure to develop both these frameworks upfront undermines the ability to demonstrate proof of concept and could contribute to the perception that inclusive business investments require concessionary finance and patient capital and deliver below market business results.

12. **Developing an inclusive business portfolio (and catalyzing an inclusive business ecosystem) requires commensurate nonoperational resources in parallel to investment capital.** OMJ required different in-house and external capacities at different stages of its development, but lacked the resources to provide the quality of advisory services, knowledge products, branding, and operational inputs it considered necessary. While OMJ is acknowledged for its nonoperational results ranging from internal innovations (i.e., first risk-sharing facility, first syndicated project with impact investors in local currency, etc.) to external successes (Base Forum, corporate leaders training, etc.), OMJ recognizes that additional technical assistance resources, which were admittedly difficult to mobilize, would have accelerated deal origination, improved investee readiness, enhanced evaluability and performance management frameworks and the related collection of baselines, and generated additional knowledge products and case studies critical to advancing the inclusive business movement in the region.

13. **The base of the pyramid is not a homogenous mass market; therefore, targeting it by referencing a specific income level is fruitless (i.e., $2/day).** However, income as defined by purchasing power parity levels can be used as an empirical indicator despite its limitations as a definition for the BoP. OMJ acknowledges that while BoP markets are not monolithic and consist of the extreme poor, poor and vulnerable, inclusive business models tend to focus on the poor and vulnerable, given that the extreme poor have severely irregular cash flows and likely depend on government aid and related initiatives for their livelihood. Dedicating the appropriate resources to assure the clarity and transparency of targeting during the project design phase is critical to the legitimacy of the inclusive business model.

14. **Assessing inclusive business risk requires more than just specialized expertise and the commensurate adaptation of bank risk assessment methodologies.** OMJ recognized that traditional bank risk assessment methodologies and related capacity and expertise were insufficient to provide an objective review of inclusive business investments. Therefore, an adapted risk assessment methodology, based on BoP subject matter expertise, was created through a collaborative, interdepartmental task force, within the Credit Risk Classification Systems and validated by Standard & Poor's. This effort was not intended to dilute risk assessment criteria but rather to emphasize that subject matter expertise is fundamental to best-practice rating approaches in the assessment of credit quality.

15. **Irrespective of the initial and ongoing internal operational challenges encountered, OMJ demonstrated it can create value by (i) deploying capital, (ii) leveraging additional capital ($1.6 billion), (iii) driving innovation and additionality and (iv) contributing to systemic social impact.** OMJ was the first NSG operational window in a multilateral development bank (MDB) and has been on the forefront of driving innovation in the BoP marketplace. OMJ created the first syndicated project with impact investors in local currency and under local law (these were otherwise primarily under New York law), developed the first inclusive business risk assessment methodology at the IDB to be validated by Standard & Poor's, and structured the first risk-sharing facility created by adapting the IDB's partial credit guarantee which allows the IDB to tie its reimbursements to the cash flows generated by the individual micro-loans based on local-law governed reimbursement mechanisms. These were complemented by the reengineering of internal business processes which resulted in new, short-loan agreements, among others.

About Opportunities for the Majority for ADB Consideration

1. **There is a significant market opportunity.** Similar to the pervasive lack of financing for small and medium-sized enterprises (SMEs) in emerging markets, inclusive businesses, because of the nature of their business model, their BoP focus, and geographic footprint (countries or regions often considered high risk), do not have access to the type of capital and technical assistance they need to develop and grow. Traditional lending schemes often are ill-suited for these kinds of investments given longer tenors, the need for creative collateral schemes, and intermittent business development and BoP integration technical assistance needs. Through its research and market entry, OMJ has also demonstrated that corporations, from large domestics to multinationals, are motivated to pursue inclusive business as part of the company's growth strategy (not because of corporate social responsibility[6]) and do need capital and expertise to design and execute these inclusive businesses. Results of market scoping in Asia conducted across 10 Asian markets by ADB reveal similar trends.

2. **There is a defined niche for a multilateral development bank to address systemic market failures by developing and financing inclusive business and social entrepreneurship.** Despite

[6] According to the 2007 IDB–SNV *Private Sector Mapping* report, 85% of the 521 companies across 13 Latin American markets were interested in the BoP as a means to strengthen financial performance. Source: SNV Netherlands Development Organisation. 2008. *A Firm-Level Approach to Majority Market Business: Private Sector Mapping Project.* http://www.snvworld.org/sites/www.snvworld.org/files/publications/1f215d01.pdf?bcsi_scan_dab5294b144736b1=0&bcsi_scan_filename=1f215d01.pdf

the significant demand and the increased footprint of impact investment in the inclusive business space (though the majority of impact investments are still focused on environmentally oriented business transactions), very few players have the regional credibility, local presence, and financing pedigree to send a powerful signal to the market that inclusive business is not a passing fad but here to stay. Market entry of an MDB into this space can help crowd in other investors, strengthen reputational considerations of large corporate and financial institutions that are in search of a strong and viable partner with whom to share risk or receive comfort, leverage substantial amount of capital (as OMJ has shown by leveraging an additional $1.6 billion in investment—more than four times the capital it has deployed), and assure different forms of capital and expertise can be provided to incubate and accelerate these business transactions while developing a common standard for accountability and performance management. Conversely, the absence of an MDB as a leading development actor in this space could also have a detrimental effect if the perception is raised (willingly or unwillingly) that inaction is a signal that the concept has no merit and its potential is unfounded.

3. **Inclusive business is not a cosmetic rebranding of a multilateral bank's business as usual**. While development banks have historically contributed to broad-based development efforts across emerging markets, primarily through public sector finance and private sector initiatives to a lesser degree, they have not traditionally targeted BoP business models specifically. While a certain number of private sector investments in MDBs may have an inclusive dimension or have indirect or secondary impacts on the BoP, deliberate targeting and business model design in support of that targeting is not considered a significant percentage of the total MDBs investment volume. As such, inclusive business requires a deliberate change in paradigm (from trickle down to bottom–up) and focus to assure the relevant market failures are addressed and systemic outcomes that measurably improve the livelihoods of the poor are obtained and scaled. The strategy should therefore not be peripheral or ad hoc, it should be deliberate and well-resourced.

4. **There is no right way for a multilateral development bank to pursue inclusive business development, but ADB has the opportunity to leapfrog by leveraging IDB best practice.** While this assessment is an attempt to extract relevant lessons learned from the IDB experience, there is no established blueprint for how an MDB or IFI should enter and succeed in this space. Moreover, ADB and the IDB overlap in some areas but have somewhat different mandates in others, have different financing windows (e.g., IDB has the IIC for SME financing and the MIF that can provide both grant and investment capital to improve access to finance, markets, and basic services), have different motivations (i.e., IDB wanted the concept mainstreamed across the bank), and operate in different regional contexts. That being said, the options considered herein reflect in part the perspectives of bank staff with the benefit of hindsight (i.e., was there a better way of addressing internal procedural challenges up front?, how could OMJ have been structured to include equity and technical assistance?, how was risk managed?, etc.). As such, no matter the implementation modality (internal team or outsourced expertise with or without a dedicated pool of capital), inclusive business is best developed with dedicated leadership and effective management, and, more importantly, housed within an operational/transactional department of the bank.

5. **Inclusive business transactions do not necessarily have a higher risk profile or deliver lower returns.** While it is still too early to assess the business profitability of OMJ investments, some of the earliest examples have already demonstrated that they are on a path to deliver market or above-market returns. Perceived or real risks of doing transactions with the BoP are also manageable and thoughtfully mitigated through effective partnerships and/or creative financing schemes. OMJ transactions fit consistently within the risk tolerance of the IDB overall and from a portfolio management point of view—no excessive exposure is generated. While it is true that inclusive business deals are differentiated because of their deliberate targeting of the BoP, internal adaptations are only necessary to lower transaction costs (as MDBs are structured for much larger transactions) and assure content expertise when assessing risk.

Some of the Opportunities for the Majority Innovations

Over the course of the last few years, OMJ has sought to develop innovations driven by real needs or relevant market opportunities. Given their relevance to ADB, four of these innovations are described in brief in this report (with excerpts drawn specifically from internal OMJ documentation):

- **The BASE Forum:** OMJ's flagship external inclusive business event that draws almost 1,000 thought leaders and experts from across Latin America to share best practices and discuss future innovations,
- **The Development Effectiveness Matrix (DEM):** a OMJ-specific version of the IDB's DEM to facilitate and highlight BoP-related aspects of inclusive business transactions,
- **OMJ Eligibility Criteria:** developed to help determine project eligibility and alignment with OMJ and IDB strategic priorities,
- **OMJ's Impact Measurement System:** Developed in partnership with the Global Impact Investment Network (GIIN) through their Impact Reporting and Investment Standards (IRIS) metrics platform.

High-Profile External Events and Roundtables: BASE Forum

One of OMJ's highest profile innovations has been the development of high-profile events to advance knowledge exchange, the systematization of best practices, and creation of collaborative platforms that accelerate the advancement of inclusive business models. By leveraging the IDB's convening power, OMJ was able to attract a diverse and cross-sectoral range of senior executives to engage in BoP-related efforts and contribute to elevating the profile of inclusive business across the region through events like the BASE Forum. While not the only event OMJ has promoted (there have been smaller, more targeted convenings, numerous roundtables with the IDB's senior management including President Moreno, road shows, etc.), the BASE Forum is the largest and highest-profile inclusive business event in Latin America. The following is a summary of the first BASE Forum, including key topics covered and results:

On 27 and 28 June 2011, the IDB held its first major conference on BoP business models and their potential as a tool for reducing poverty. The first BASE Forum, held in Sao Paulo, Brazil, brought together over 700 leaders in fields ranging from business, academia, government, international development, and the nonprofit sector, and was focused on learning about companies that are successfully developing/implementing inclusive business. The conference agenda included presentations by executives from several large multinational and Latin American firms, such as: Banco Itaú Unibanco, Grupo Santander, DuPont, Procter & Gamble, Novartis, Walmart, Trilogy, Microsoft, CEMEX and Visa.

The range of topics covered during the 2-day event included:

- Fostering Growth and Development of SMEs Serving the BoP
- Creating an Ecosystem for SMEs Serving the BoP
- An SME Dialogue: Ideas, Challenges, and Success Stories
- An Investor Conversation: Financial and Social Returns from Innovative SMEs
- The "Bright Side of the Poor" and Latin America's Emerging Middle Class
- Addressing Coordination Failures: Unleashing Opportunity at the BoP
- Ending the "Talent Blackout": Equipping the Workforce for Regional Growth
- Technology as a Tool for Inclusion: Affordable, Fast, Effective
- Creating Housing Solutions for the BoP
- Reaching the Last Mile: Solving Infrastructure Deficiencies
- Meeting Human Needs: Providing Basic Services
- Distribution Platforms: Scale through Partnerships
- What Is Next in Market-Based Solutions for the BoP

The main takeaways from the first BASE Forum, as summarized by OMJ staff, were as follows:

1. **Business at the base of the pyramid is everyone's business.** It is not just that of micro-entrepreneurs who have the agility to get close to the communities they wish to serve. It is also not just for multinationals and large corporations with resources to invest in new market exploration and trial pilots. SMEs are also "anchors" that know how to deliver goods and services to low-income communities.

2. **"Opportunity" is in the majority.** The numbers speak for themselves. In Latin America, the numbers are exponential: 360 million people from low-income segments with approximate per capita incomes of under $350 a month but a collective annual purchasing power of $500 billion, vastly underserved due to the lack of companies seeking to compete for market share with quality goods and services.

3. **The main difference between traditional businesses and base-of-the-pyramid businesses is the low margin and need to reach scale to be sustainable.** Finding the right "mix" of distribution networks and partnerships is not a standard "copy–paste" formula to get it right for your business and does not happen overnight, but it is the "holy grail" of doing good business at the BoP in a way that helps makes a difference for a lot of people.

4. **Inclusive business takes an ecosystem.** Companies cannot do it alone—at least not easily. It takes a whole host of enabling factors to get this budding industry off the ground: regulation supporting the models, partnerships, access to credit, specialist advisors who understand BoP markets, talent attracted to develop the models, and risk takers willing to enter new markets, to mention just a few.

5. **Successful inclusive business is rooted in a sound business rationale.** According to Michael Chu of Harvard Business School and Founder of the IGNIA Fund, the BoP needs the "B.E.S.T." from business: "B" - top quality products and services; "E" - economic, i.e., affordable and accessible prices; "S" - solidarity, so that all benefit from the model, not just to the top social classes; and "T" – today, i.e., the BoP has urgent unmet needs now.

Adapted Development Effectiveness Matrix - Opportunities for the Majority-Specific

Background and purpose of the Development Effectiveness Matrix: The Development Effectiveness Matrix (DEM) for nonsovereign guarantee (NSG) operations was developed to identify, track, and measure, in advance, the effectiveness of the projects and their degree of alignment with the IDB's and OMJ's mandate. This new version of the DEM is meant to address the changes requested by the Board of Governors as part of the "Better Bank Agenda" approved in the Ninth General Capital Increase (GCI-9), with the goal to improve the methods used to assess the evaluability of NSG operations. More importantly, and beyond the request made by the IDB's Board, OMJ looked at this new methodology from a "bottom–up" approach. OMJ acknowledges the importance of making sure that their projects are developed in such a way that

1. OMJ is able to establish clearly what the development goals of the IDB's projects are beyond the benefits generated to the financed private sector entity;
2. OMJ can demonstrate how the projects are aligned with the IDB's strategic development objectives, complying with: (i) the bank's lending program priorities and/or the regional development goals established in the results framework, (ii) the country development objectives, and (iii) OMJ strategic development objectives; and
3. OMJ can demonstrate the additionality provided due to the participation of the IDB on the project.

Therefore, the DEM exercise is a checklist approach that gives OMJ a quick snapshot of how robust a given project is in terms of the above three main aspects.

OMJ developed this guide to help OMJ staff in the use of the DEM. Investment officers were responsible for preparing a preliminary DEM and a preliminary DEM worksheet at the time of drafting the project profile (PP), which is normally finalized during due diligence. The DEM is incorporated as a part of the final loan or guarantee proposal when considered by the Board. A well-compiled DEM will also improve the work of the Portfolio Management Unit officers, who will use this document to elaborate the project supervision reports (PSR) and the expanded project supervision reports (XPSR).

Overview of performance areas and indicators: The DEM is organized into three thematic areas and nine performance areas under which all individual indicators fall:

1. Development Outcome
   1.1 Project or Company Business Performance
   1.2 Contribution to Economic Development
   1.3 Environmental/Social Risk and Mitigation
   1.4 Contribution to Private Sector Development
2. IDB's Strategic Development Objectives
   2.1 Corporate Strategic Development Objectives
   2.2 Country Development Objectives
   2.3 OMJ Strategic Development Objectives
3. The IDB's Role – Additionality
   3.1 Financial Additionality
   3.2 Non-Financial Additionality

Overall Score:

Under each of the nine performance areas, there are several standard indicators. The score for performance areas, thematic areas, and the overall score are derived from the scores of the standard indicators and the weights assigned for each of them. This guide is designed to help OMJ staff understand how to use and score the standard indicators on an ex ante basis.[7]

Much of the guidance in this document is based upon the Good Practice Standards of the MDB Evaluation Coordination Group (ECG-GPS). OMJ staff members are not expected to be experts in the application of these standards, but to instead rely upon this document and advice from OMJ's appointed members and Office of Strategic Planning and Development Effectiveness (SPD).

Use of the Development Effectiveness Matrix worksheet: As investment officers prepare the DEMs, they are asked to first complete and save a DEM worksheet, which is an informal and expanded version of the document which includes working notes and comments to back up the ratings they are recommending. The DEM is designed to be a summary matrix that gives the reader a condensed look and results of the development effectiveness components of a project. Because the DEM format is so succinct, the DEM Worksheet is designed to help the investment officer document his or her thought process and justification for the ratings assigned.

[7] Standards and scores will also assist PMU officers to carry out scoring on an ex post basis.

The internal use of the DEM worksheet in OMJ allows for (i) informed dialogue between project teams, OMJ management, and SPD regarding the ratings in the DEM; (ii) a record for the benefit of the project team when justifying ex ante scores before bank committees; and (iii) a record of the thought process in the project files for future ex-post scores by the Portfolio Management Unit. For all the quantitative indicators, the DEM worksheet must specify (i) baseline, (ii) target, (iii) time frame, and (iv) source (where such indicators can be found and how they will be tracked). For other indicators, the DEM worksheet should specify the facts or actions taken or to be taken in the future (with expected time frame) and their source, which formed the basis for scoring. These are important features to enhance the monitoring and evaluation activities of the projects.

Development Effectiveness Matrix and Evaluability**:** *Evaluability* is the extent to which an activity or an intervention can be evaluated in a reliable and credible manner. As a part of the agreement for the general capital increase, IDB management was mandated to make an assessment on the transactions' evaluability and every project is required to satisfy certain evaluability standards. Since the DEM and DEM worksheet—in addition to the narrative included in the loan proposals and the Evaluability Assessment Note (EAN)—are the tools used to demonstrate the projects' expected development results and the IDB's additionality, they serve as objectives for future evaluation assessments.

Investment officers are expected to prepare the DEM and worksheet in accordance with the Evaluability Guidelines and provide a preliminary assessment of the quality of DEM worksheet in terms of its evaluability. The guidelines for this assessment are in the "Evaluability Score Guidelines Section."

Development Effectiveness Matrix for the Project Profile: It is fully recognized that providing a score for some indicators is challenging before the due diligence has taken place. Therefore, all the score in the project profile stage are understood as being preliminary scores**.** The investment officers are encouraged to provide ratings through best judgment on the future prospect of the project, based on the information available at the time of project profile. If the investment officers cannot estimate the future prospect on a specific score, "TBD" (to be determined) could be provided. It should be noted, however, that a DEM that has too many TBD ratings may be considered to be at too early a stage to be assessed for eligibility. For the sector specific indicators, investment officers are encouraged to provide the target figures, even though they are based on the information provided by the client. Although sometimes it is impossible to provide a target in the early stages of the project preparation, the baseline figures should be included.[8]

Scoring and weights: For the new DEM, 10-point scale scores (from 0 to 10) are provided for (i) each DEM indicator, (ii) each performance area, (iii) each DEM thematic area, and (iv) overall project score. Specific weights are assigned for all of the indicators and subcategories, from which the score for the overall project will be drawn. Each indicator of the "Development Outcome" category will also be rated according to its evaluability features, providing an overall evaluability score for the project. This score will also be drawn considering the individual ratings and weights of each individual indicator.

[8] Note that the baseline can be "0," as it is often the case with innovative projects (e.g., introducing a new product or service, or introducing the majority in the supply chain for the first time, among others).

OMJ Development Effectiveness Matrix

OMJ Development Effectiveness Matrix		Maximum Score	Indicator Score	Evaluability Score
1. Development Outcome				
1.1 Project or Company Business Performance	Target	1.50	1.50	4.00
(a) FRR/ROIC	14%	1.05	1.05	1.60
(b) Sector-specific indicator (e.g., revenue growth)	5% per year	0.15	0.15	0.80
(c) Sector-specific indicator (e.g., # units/volume sold)	5,000 new clients	0.15	0.15	0.80
(d) Sector-specific indicator (gross margin increase)	3% per year	0.15	0.15	0.80
1.2 Contribution to Economic Development	Target	1.50	1.50	4.00
(a) ERR/EROIC	24%	1.05	1.05	1.60
(b) Sector-specific Indicator (e.g., number of patients)	5,000	0.15	0.15	0.80
(c) Sector-specific Indicator (e.g., employees trained)	1,200	0.15	0.15	0.80
(d) Sector-specific Indicator (e.g., jobs created)	750	0.15	0.15	0.80
1.3 Environmental/Social Risk & Mitigation		0.50	0.50	1.00
(a) IDB Environmental and Social Policy Assessment		0.50	0.50	1.00
1.4 Contribution to Private Sector Development		1.00	1.00	1.00
(a) Competition		0.20	0.20	0.20
(b) Market expansion		0.20	0.20	0.20
(c) Private ownership or transition impact		0.15	0.15	0.15
(d) Technology and know-how transfer		0.25	0.25	0.25
(e) Standards of corporate governance		0.10	0.10	0.10
(f) Legal and regulatory framework		0.05	0.05	0.05
(g) Physical or financial market infrastructure		0.05	0.05	0.05
2. IDB Strategic Development Objectives				
2.1 Corporate Strategic Development Objectives		0.50	0.50	
(a) Small and vulnerable countries support	Lending Targets			
(b) Poverty reduction and equity enhancement	Lending Targets		X	
(c) Climate change initiatives, renewable energy	Lending Targets			
(d) Regional cooperation and integration	Lending Targets			
(e) Social policy for equity and productivity	Regional Development Goals			
(f) Infrastructure for competitiveness and social welfare	Regional Development Goals			
(g) Institutions for growth and social welfare	Regional Development Goals			
(h) Competitive regional and global international integration	Regional Development Goals			
(i) Environment, climate change, renewable energy, and food security	Regional Development Goals			
2.2 Country Development Objectives		0.50	0.50	
(a) Country Strategy Result Matrix			X	
(b) Country Program Result Matrix				
2.3 OMJ Strategic Development Objectives		1.00	1.00	
(a) Innovation		0.10	0.10	
(b) Targeting of majority populations		0.20	0.20	
(c) Participation of the majority in the project		0.20	0.20	
(d) Potential for scale		0.20	0.20	
(e) Demonstration effect		0.10	0.10	
(f) Alliance with stakeholders		0.20	0.20	
3. IDB's Role - Additionality				
3.1 Financial Additionality		1.50	1.50	
(a) Provision of terms/conditions not available in the market		1.05	1.05	
(b) Resource mobilization		0.45	0.45	
3.2 Non-Financial Additionality		2.00	2.00	
(a) Improvement in project stucture		0.80	0.80	
(b) Improvement in climate change/environmental impact		0.20	0.20	
(c) Improvement in corporate governance		0.20	0.20	
(d) Improvement in social impact		0.80	0.80	
Project Score		10.00	10.00	
Evaluability				10.00

Eligibility Criteria

Eligibility Scorecard: Methodology

The scorecard methodology involves both *static and dynamic criteria.* Static criteria relate to those elements of eligibility that are not expected to change over time, for example, OMJ financing guidelines that specify what percentage of a project OMJ can fund. Dynamic criteria are those that require quarterly or semi-annual updating to reflect the evolution of portfolio growth. Sector-level concentrations and limits are examples of dynamic criteria. The scorecard is structured so that no changes are needed in the template when dynamic criteria are updated. OMJ staff will always be responding to the same filtering questions, but the underlying scores will change as the strategy and portfolio growth evolve.

The methodology begins by defining the broad categories that always need to be addressed in determining project eligibility. These categories not only reflect important strategic parameters, such as country, sectors, and impact, but also address technical parameters that are relevant for the approval process, such as sponsor type and financial condition. Each category is weighted based on its relative importance for the IDB OMJ:

1. Sector 10%
2. Country 15%
3. Sponsor 10%
4. Financial 15%
5. Impact 50%

Within each category, one or more screening questions are designed to capture the critical variables and information within each category. The questions generally require selection from a drop-down menu of choices. Once an OMJ staff member selects a response, the appropriate score is automatically inserted into the scorecard. A minority of questions require OMJ staff to type in an answer, for example, project name and country.

Requiring OMJ staff to provide responses to eligibility questions, but automating the corresponding scoring function, ensures consistency of scoring. All corporate sponsors receive the same score, meaning that OMJ staff do not have to decide how strong a particular corporate sponsor is, but merely whether the sponsor should be considered “corporate” or “SME.” The user-scoring guidelines attempt to facilitate this decision-making process:

Opportunities for the Majority (OMJ) Eligibility Criteria

OMJ Scorecard (Revised June 2012)

Project:

1. SECTOR - 10%

	Health and Education	5
	ICT	4
	Diversified Funds / Community Infraestructure	3
	Financial Access through New Channels	3
	Housing, Industrial	2
	Microfinance, Smallholder Farming	1
Select		

Current Portfolio Concentration ($ Approvals OK?)

Projected Portfolio Concentration ($ Approvals + Pipeline OK?)

2. COUNTRY - 15%

	C&D Countries Not Yet in OMJ Portfolio	5
	C&D Countries Already in OMJ Portfolio	4
	Regional Project or Fund - Primarily C&D Countries	4
	Regional Project or Fund - Mixed A&B and C&D countries	3
	AB Country or Regional Project Fund Primarily in AB Countries	2
Select		

☐ If this project is in a depressed region of an AB Country + 1

3. SPONSOR - 10%

	Sponsor Scaling Established Business	4
	Sponsor Scaling Pilot or Early Stage Operation	3
	New Business, Sponsor Experience in Related Field	2
	New Business, Sponsor Little or No Related Experience	1
Select		

☐ If Corporate Sponsor +1

☐ If Government Entity -2

4. FINANCIAL - 15%

4.1 Deal Size (50%)

	$10 Million or Above	5
	$8 Million-$10 Million	4
	$5 Million-$8 Million	3
	$3 Million-$5 Million	1
	Less than $3 Million	0
Select		

4.2 Equity Capital (25%)

	$10 Million or Above	5
	$5 Million-$10 Million	3
	$2 Million-$5 Million	1
	Less than $2 Million	0
Select		

4.3 Profitability (25%)

	Consitently Profitable	5
	Profitable, with Irregular Returns	4
	At or Slightly above Breakeven	3
	Revenue-generating, but Below Breakeven	2
	Pre-revenue	1
Select		

Does it meet NSG Financial Guidelines?

5. IMPACT - 50%

5.1 Intensity of Impact (10%)

	New Housing	5
	Education, Health	4
	Income Enhancement (microentrepreneurs-smallholder farmers)	3
	Basic Services Community Infrastructure/Housing Improvement	3
	Diversified Funds	3
	ICT	3
	Personal Loans	2
Select		

5.2 Number of Direct Beneficiaries (5%)

	High > 50,000	5
	20,000 < High Middle < 50,000	4
	10,000 < Middle < 20,000	3
	1,000 < Low Middle < 10,000	2
	Low < 1,000	1
Select		

☐ Is the number of direct beneficiaries at or above average for this sector? + 1

5.3 Cost per Beneficiary (5%)

	Low Cost < $100	5
	Low Moderate Cost > $100 and < $1,000	4
	High Moderate Cost > $1,000 and < $10,000	3
	High Cost > $10,000	1
Select		

5.4 Role of BoP (10%)

	Owners (Control)	4
	Producers/Suppliers	3
	Distributors	3
	Consumers	3
	Minority Shareholders	2
	Employees	1
Select		

☐ The BoP plays more than one of the above roles in this project + 1

5.5 Innovation Factor (40%)

	Disruptive/Potentially Disruptive (Can it change the paradigm in applicable market?)	5
	Incremental	3
	New Markets	2
	Limited (been there/done that)	1
Select		

5.6 Scalability (15%)

	Yes (sponsor committed to scale)	5
	Qualified Yes (scalable but not in business plan)	3
	Unlikely (scale limited by geography or other factor)	1
Select		

5.7 Replicability (15%)

	Yes (proven model that can be replicated or is being replicated)	5
	Qualified Yes (new business model being tested)	3
	Unlikely (project is unique to local context)	1
Select		

GIIRS Rating, if available

CALCULATE DELETE

Sector Score
Country Score
Sponsor Score
Financial Score
Impact Score
Weighted Final Score

Measuring Impact at the Opportunities for the Majority: Adapting the Global Impact Investors Network's Impact Reporting and Investment Standards Metrics for the IDB[9]

OMJ restructured its impact measurement program across its grant and investment portfolio, putting IRIS metrics at the program's foundation. The team uses an integrated metrics framework to gain insight into its portfolio's overall performance. Rather than creating new metrics for each investment or grant project, OMJ draws from pre-defined IRIS metrics that are consistent with existing best practices and impact investment industry standards. In addition, it can track and aggregate the data to show how the combined impact of its diverse projects and investments contribute to the IDB Group's development objectives, improving communication around impact across the OMJ team and with other IDB group stakeholders.

IRIS USER AT A GLANCE: IDB GROUP'S OPPORTUNITIES FOR THE MAJORITY INITIATIVE		
USER TYPE	Development finance institution: direct investor; investor in funds	
TARGET GEOGRAPHY	Latin America and the Caribbean	
TARGET STAGE OF PORTFOLIO COMPANIES	Early stage, companies having recently reached break-even, mature companies	
SECTOR ACTIVITIES	• Agriculture • Education • Energy • Financial Services • Health • Housing Development	• Information and Communication Technologies • Infrastructure/Facilities Development • Supply Chain Services • Technical Assistance Services • Water
IMPACT OBJECTIVES	• Access to clean water • Access to energy • Access to financial services • Access to education • Access to information • Affordable housing • Agricultural productivity • Capacity-building	• Community development • Disease-specific prevention and mitigation • Employment generation • Equality and empowerment • Food security • Health improvement • Income/productivity growth

What Works

- **Use IRIS to convey the portfolio's strategic vision to stakeholders**

OMJ historically created new metrics for each grant-funded project or investment because it lacked a standardized list of social performance indicators. This process made it challenging to communicate how its portfolio was achieving its development goals. Therefore, OMJ developed a common metrics framework for its portfolio of impact investments and grant projects. It adopted IRIS because the metrics were generally accepted by impact investing leaders and thus was seen as a credible replacement for various internally-defined metrics. IRIS metrics encompass many sectors and impact objectives, so they were well suited to be applied to OMJ's diverse portfolio.

The new integrated metrics framework provides insight into the portfolio's social performance and helps OMJ communicate how it works toward the broader development objectives in the IDB Group's mandate. The team uses the framework to aggregate and analyze data across its portfolio, allowing OMJ to regularly communicate its portfolio's overall progress in real time to other bank stakeholders in ways that

[9] Case Study Inter-American Development Bank's Opportunities for the Majority Initiative: Use IRIS to Communicate the Impact of a Diverse Portfolio inserted verbatim with permission. http://www.thegiin.org/binary-data/RESOURCE/download_file/000/000/492-1.pdf

resonate with the IDB Group's broad development outcomes. For example, employment generation is an IDB Group target outcome, and OMJ uses IRIS metrics to report jobs created over time.

OPPORTUNITIES FOR THE MAJORITY INITIATIVE'S IMPACT MEASUREMENT PROGRAM	
NUMBER OF METRICS TRACKED	217 total metrics • 135 IRIS metrics • 82 user-defined metrics
COST OF IMPACT MEASUREMENT PROGRAM	OMJ estimates that portfolio management and monitoring expenses cost no more than USD 30,000 over the life of each investment. This cost is shared by OMJ and its investees.
DATA MANAGEMENT SYSTEM FOR PORTFOLIO	PULSE is used to manage its loan and grant portfolio. OMJ's investees and grantees enter their data into individual portals in the PULSE platform to ensure streamlined and efficient reporting.
IMPACT MEASUREMENT PRACTICE STAFFING	Of 20 total staff, 2.5 are dedicated to metrics identification, monitoring, and evaluation. One and a half staff are devoted to impact evaluation, and one to managing PULSE and IRIS metrics.

To create the framework, OMJ first identified existing proprietary metrics that could be replaced with IRIS metrics. This process was relatively straightforward for its impact investments into companies because IRIS metrics are defined in terms of an organization's impact. However, for OMJ's grant-funded projects, which often support multiple organizations, adapting existing metrics to IRIS was more challenging. For these, OMJ has identified a set of IRIS metrics that will help assess whether the overall developmental objective of the project has been accomplished.

For example, in order to measure the progress of its grant-funded projects focusing on financial access, OMJ created a set of IRIS metrics to capture performance data about the projects' penetration and reach within its target populations.

OMJ'S FINANCIAL ACCESS METRICS SET

IRIS ID	METRIC	RATIONALE FOR INCLUSION
PI2822	Client Individuals Provided New Access	To track the program reach into the BoP target population, OMJ measures the number of BoP individuals who are being banked for the first time.
• PI7098 • PI3193 • PI9835 • PI8330	• Client Individuals: Low Income • Client Individuals: Poor • Client Individuals: Very Poor • Client Individuals: Female	To track the banking reach and depth within differing BoP target populations, OMJ measures the total number of BoP clients according to different characteristic levels.[1]

- **Complement IRIS with additional metrics**

Due to its mandate to invest in innovative and often precommercial business models that may be in new impact areas, OMJ occasionally complements IRIS metrics with its own metrics if industry-accepted standards are not yet available. The OMJ team may also create metrics to help show how it is working toward the IDB Group's development goals. It took a thoughtful approach to developing its own metrics by balancing the need for context-specific metrics with the benefits of a streamlined reporting framework. In addition, OMJ shared feedback about its IRIS use and recommended its own metrics that could be applicable to IRIS' broad user base, as the IRIS taxonomy is updated regularly.

- **Build up internal impact measurement knowledge by offering staff training and support**

Staff training now includes education on IRIS, how to find metrics within OMJ's integrated metrics framework, and how to interpret and assign relevant metrics when designing projects. OMJ also established an internal metrics team to manage the portfolio's translation to IRIS and continuously monitor its use. This team oversees the creation of any OMJ-specific metrics, provides measurement guidance, and ensures metrics standardization and data integrity.

OMJ investment officers' abilities to work with companies to select relevant metrics and oversee data reporting improved significantly as a result of the metrics team's training and resources. The metrics team also created an internal training manual for the grant portfolio and a number of web tutorials that staff and clients can reference. The manual includes IRIS metrics and definitions, calculations, and reporting goals to ensure performance data are consistently and accurately collected.

- **Include data reporting expectations in contracts with grantees and investees**

OMJ found that part of adopting IRIS was educating companies on impact reporting. Investment officers and portfolio companies choose metrics together from OMJ's IRIS-based framework so impact reporting enhances, rather than burdens, the latter's business performance. Because data reporting is an integral piece of its measurement program, OMJ is prepared to provide training and technical support to help improve clients' reporting. Supporting and formalizing these practices with companies has improved their reporting via PULSE to OMJ.

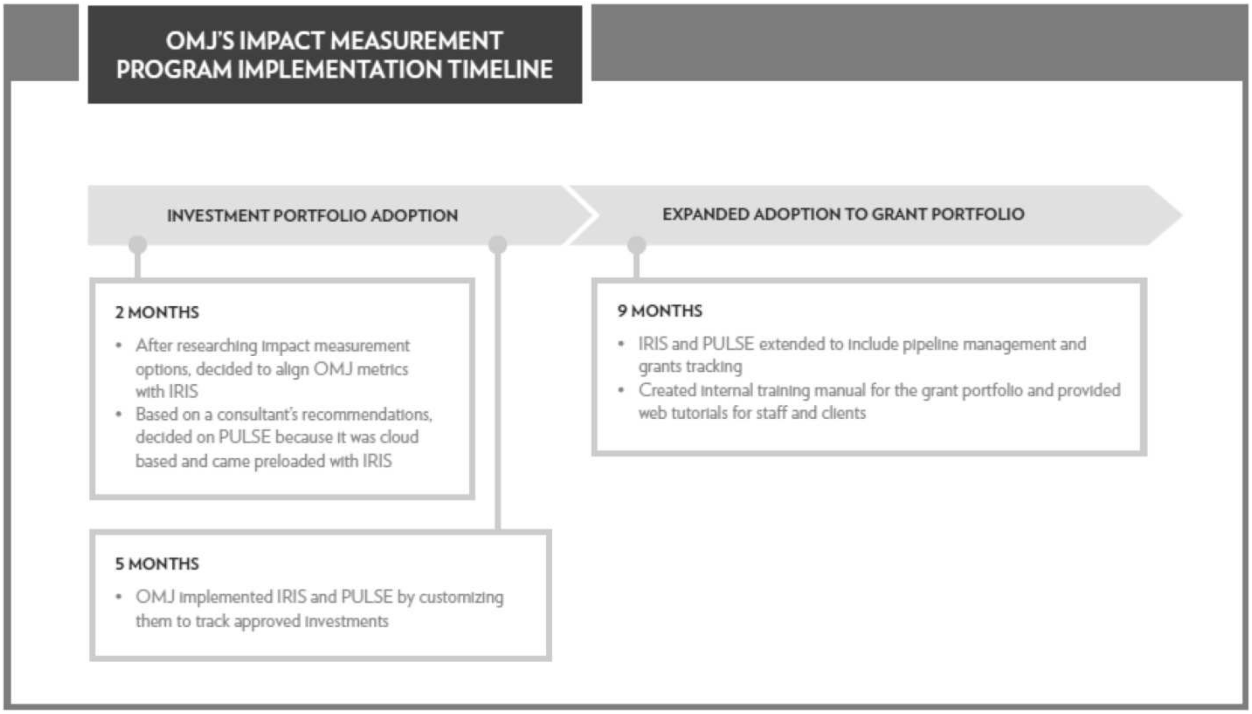
OMJ began incorporating IRIS metrics into its investment agreements in 2011. OMJ includes enforceable covenants in the terms and agreements with all investees around impact reporting. Reporting IRIS and OMJ metrics through PULSE was fully incorporated within companies' reporting requirements in loan and guarantee agreements, which state the complete list of metrics to be reported by the client. Consequently, for portfolio companies, reporting these metrics is as important as submitting quarterly financial statements.

OMJ encourages other large institutions with expansive portfolios to resist revisiting past investments or projects when implementing a new impact measurement program. Asking companies to re-report on new metrics or align old reporting methods to fit in a new metrics framework can be a significant burden, so OMJ chose to implement the changes going forward and have not tried to modify or interpret past data.

Benefits

Prior to using IRIS, it was time-consuming for OMJ to aggregate data to identify trends or report progress toward its portfolio's objectives and the IDB Group's development goals. IRIS offers OMJ a credible, independently-managed library of pre-defined metrics that can be applied consistently across its diverse portfolio of grants and investments. OMJ uses the resulting data to track projects' progress in real time and guide strategic decisions. A large benefit of its integrated metrics framework is that it facilitates communication around impact among portfolio management officers and with its broader bank stakeholders.

OMJ supports and utilizes tools like IRIS to help build and foster the growth of a coherent impact investing industry. OMJ hopes to contribute both suggestions for new metrics and data about investee performance to the IRIS initiative in order to help improve the standards and benchmark its performance against aggregated industry-wide analyses.



Opportunities for the Majority's Metrics Framework

OMJ chooses relevant metrics for new projects from its framework based on the nature of OMJ's financial involvement, the project's impact objectives, and other defining information. First, OMJ's framework designates a set of metrics for projects receiving grant support, a different set for those in which OMJ has made an investment, and some metrics that apply to both grants and investments. Next, metrics are sorted into sets based on OMJ's impact goals for the project or other defining characteristics, for example "Agriculture" or "Housing." Finally, OMJ has tagged all of the metrics in the framework with characteristic keywords, so the team can find additional relevant metrics used in the OMJ portfolio and apply them as needed.

CHOOSING METRICS: OMJ'S FILTERING PROCESS

1. Narrow metrics based on OMJ financial involvement. Metrics apply to investments, grants, or both.
2. Within this sub-set, narrow further by OMJ's impact goals for the project or other defining characteristics, such as any OMJ non-financial support.
3. Apply appropriate metrics set(s) and any additional relevant metrics.

For example, if OMJ were to make a loan to a company offering home improvement loans to individuals to increase access to housing, the metrics selection process for the project: 1) Begin with the metrics that apply to investment-supported projects; 2) Apply the Housing metrics set, the Client Individuals metrics set, and the Financial Performance metrics set; 3) Review metrics in the existing OMJ portfolio with relevant characteristic tags, such as "Housing/Infrastructure," and include according to project team discretion.

Throughout this process, two development effectiveness specialists advise the project teams on impact measurement and sign off on every project's metrics selection. Moreover, since impact reporting is an integral part of OMJ's loan agreements, every metrics selection is done in close coordination with the client to ensure that they will be able and willing to report on performance as accurately as possible.

OMJ METRICS FRAMEWORK

METRICS SET	IRIS ID	METRIC
ACCESS TO GOODS & SERVICES	PI2822	Client Individuals Provided New Access
	N/A	Consumer Price Premium
	PI1775	Sales
AGRICULTURE	OI1674	Cultivated Land Area – Indirect
	PI6372	Cultivated Land Area – Smallholder
	PI1568	Producer Price Premium
	N/A	Average Yield
CLIENT INDIVIDUALS	PI4060	Client Individuals
	PI1190	Client Individuals: Rural
	PI3193	Client Individuals: Poor
	PI4237	Client Individuals: Minorities/Previously Excluded
	PI7098	Client Individuals: Low Income
	PI8330	Client Individuals: Female
	PI9835	Client Individuals: Very Poor
EDUCATION	PI2389	School Enrollment
	PI8836	Vocational/Technical Training
	PI1081	School Enrollment: Female
	PI5110	Student to Teacher Ratio
	PI6569	School Enrollment: Rural
	PI2718	School Fees
	OI3160	Full-time Employees
	OI6213	Full-time Employees: Female
	OI8864	Part-time Employees
	OI8838	Part-time Employees: Female
	OI8869	Permanent Employees
	OI4229	Employees Trained
	OI2444	Permanent Employees: Female
	OI3236	Permanent Employees: Minority/Previously Excluded

OMJ METRICS FRAMEWORK (CONTINUED)

METRICS SET	IRIS ID	METRIC
ENERGY	OI2496	Energy Produced On-site: Renewable
	OI8825	Energy Purchased
	PI1586	Energy Efficiency Improvements
	OI3324	Energy Purchased: Renewable
	OI9624	Energy Produced On-site
	OI6697	Energy Conservation
	PI8706	Energy Produced
	PI7623	Energy Savings
	PI4009	Energy Saved/Conserved
FINANCIAL: EQUITY FUND	PI5066	Equity Deals Closed-Number of Investments
	PI4142	Equity Deals Closed-Value of Investments
	PI7940	Equity Portfolio Outstanding-Value of Investments
	PI4359	Direct Investment Portfolio Outstanding-Number of Investments
	PI1077	Direct Investment Deals Closed-Number of Investments
	PI9067	Direct Investment Deals Closed-Value of Investments
	PI1914	Equity Portfolio Outstanding-Number of Investments
	PI1656	Direct Investment Portfolio Outstanding-Value of Investments
	N/A	Average exit multiple - Funds
FINANCIAL CORPORATE	FP5317	Equity or Net Assets
	PI1775	Sales
	FP1657	EBITDA
	FP4812	Cash Flow from Operating Activities
	FP1001	Operating Expense
	FP1301	Net Income
	N/A	Leverage ratio
	FP3466	Vocational/Technical Training
	N/A	Rate of Return on Invested Capital (ROIC)
	N/A	Debt service coverage ratio
	FP5293	Total Assets
	FP4326	Return on Assets (ROA)
	FP2651	Return on Equity (ROE)
	FP2651	Total Liabilities

OMJ METRICS FRAMEWORK (CONTINUED)

METRICS SET	IRIS ID	METRIC
FINANCIAL INCLUSION	PI7569	Loan Portfolio Outstanding-Value of Investments
	FP2054	Financial Revenue
	FP1996	Total Liabilities
	FP2651	Return on Equity (ROE)
	FP5317	Equity or Net Assets
	PI1478	Loan Portfolio Outstanding-Number of Investments
	FP4326	Return on Assets (ROA)
	FP3466	Net Cash Flow
	N/A	Operating Efficiency
	PI7467	Effective Interest Rate
	N/A	Average value of loan: clients
	FP9717	Loan Write-offs
	N/A	Leverage ratio
	N/A	Debt service coverage ratio
	FP6354	Non Performing Loans (Portfolio at Risk)-60 days
	FP2635	Non Performing Loans (Portfolio at Risk)-30 days
	FP6373	Non Performing Loans (Portfolio at Risk)-90 days
	N/A	Loan tenor: clients
	N/A	Financial Rate of Return (FRR)
	N/A	Loan Loss Reserves
HEALTH	OI8372	Caregivers Trained
	PI3424	Health Related Well Visits
	PI1017	Healthcare Facilities
	OI5796	Caregivers Employed: Doctors
	OI3891	Caregivers Employed: Nurses
	PI7699	Health Related Curative Visits
	N/A	Patient Conversion Rate
HOUSING	PI5965	Number of Housing Units Financed
	PI2640	Individuals Housed
	PI7233	Value of Housing Units Financed
INFORMATION TECHNOLOGY & COMMUNICATIONS	N/A	Average value of transactions per consumer
	N/A	Average number of transactions per consumer
	PI5184	Sales Transactions
	N/A	Average number of transactions per business
	N/A	Average value of transactions per business

OMJ METRICS FRAMEWORK (CONTINUED)

METRICS SET	IRIS ID	METRIC
INFRASTRUCTURE	PI2410	Value of Community Facilities Financed
	PI5983	Value of Commercial or Retail Infrastructure Financed
	PI8007	Number of Community Facilities Financed
MICROENTERPRISE	PI4881	Microentrepreneur Distributors Earnings
	PI2758	Microentrepreneur Distributors
MICROINSURANCE	PI3734	Minimum Insurance Premium
	PI5698	Loan Insurance- Number of Clients
	PI1934	Average Insurance Premium
	N/A	Incurred claims ratio
OMJ RISK SHARING FACILITY	N/A	Guarantee Payment Amount: RSF
	N/A	First Loss Coverage: RSF
	N/A	Cumulative recoveries: RSF
	N/A	Portfolio Net Write Off Amount: RSF
	N/A	Guarantee Coverable Amount: RSF
	N/A	Cumulative Write Offs: RSF
	N/A	Available Guarantee Amount: RSF
	N/A	Portfolio Cumulative Balance: RSF
KNOWLEDGE GENERATION & DISSEMINATION	N/A	Knowledge Dissemination Event Attendance
	N/A	Total Enterprise/Business Development Training Hours
	N/A	BOP Business Plans Developed
	PI1193	Enterprise/Business Development Training
	N/A	BOP Business Plans Financed
	N/A	Clients: SMEs
	PI9652	Client Organizations
	N/A	Organizations Implementing BOP Strategy

ADDITIONAL METRICS APPLIED BY OMJ ON A PROJECT-BY-PROJECT BASIS

	IRIS ID	METRIC
PROJECT-BY-PROJECT-BASIS	N/A	Average Score Increase in Student Tests
	OI3389	Educators Trained
	N/A	Educators Trained: Female
	PI8069	School Enrollment: Urban
	PI3786	Student Attendance
	PI9215	Student Attendance: Female
	PI8372	Student Tests Pass Rate
	PI5501	Student to Classroom Ratio
	PI7957	Student to Facility Ratio
	OI1814	Total Educator Training Hours
	PI3687	Jobs Created (In Financed Enterprises)
	PI5691	Jobs Maintained (In Financed Enterprises)
	OI9028	Temporary Employees
	N/A	Job Placement Rate
	PI8043	Potable Water Produced
	N/A	Disbursements
	N/A	Economic Rate of Return (ERR)
	N/A	Economic Return on Equity (EROE)
	PI9319	Client Retention Rate
	N/A	Capital Adequacy Ratio (CAR)
	FP5662	Capital Available - Equity Capital
	FP9049	Cost of Goods Sold
	N/A	Current Ratio
	N/A	Debt/EBITDA
	N/A	Debt Service
	FP5958	Earned Revenue
	N/A	Economic Return on Invested Capital (EROIC)
	FP4649	Financial Assets
	FP2553	Financial Expense
	FP6094	Financial Liabilities
	FP4373	Gross Margin
	FP2392	Impairment Loss Allowance
	N/A	Loan Write-offs (%)
	FP6750	Loans Payable
	N/A	Long-term Debt/EBITDA
	N/A	Long-term Debt/Equity
	N/A	Long-term Debt/Total Assets
	FP7897	Operating Profit Margin

ADDITIONAL METRICS APPLIED BY OMJ ON A PROJECT-BY-PROJECT BASIS (CONTINUED)

	IRIS ID	METRIC
PROJECT-BY-PROJECT-BASIS	N/A	Operational Expenses/Total Sales
	FP4761	Revenue Growth
	N/A	Single Debtor Aggregate Exposure to Capital ratio
	FP2136	Total Value of Loans and Investments
	PI9278	Operating/Procedural Room Utilization Rate
	PI5647	Procedures/Surgeries
	N/A	Income premium: beneficiaries
	N/A	Number of Transactions
	N/A	Value of Transactions: Distributors to MSMEs
	N/A	Products - Low-Income Consumers
	N/A	Financial Intermediaries
	PI8732	New Client Individuals
	N/A	Student Dropout Rate
	PI3499	Students Provided Partial Scholarship
	PI1873	Educational Services
	N/A	Total Students Training Hours
	PI7787	Education Facilities New/Improved Space
	OI7877	Total Employee Training Hours
	OI8869	Permanent Employees
	N/A	Incidence of Nutrition Related Diseases
	N/A	Roads Paved
	N/A	Microentrepreneur Distributors Turnover Ratio
	N/A	Average Claim Amount
	PI2025	Earned Premium
	N/A	Incurred expense ratio
	PI1263	Units/Volume Sold
	PI2575	Client Organizations Provided New Access
	PI2476	Communities Served
	PI4583	New Businesses Created
	PI1492	Payments to Supplier Individuals
	PI5920	Sales from Exports
	PI5350	Supplier Individuals
	PI9601	Units Installed
	PI1290	Units/Volume Produced
	N/A	Alliances with Related Entities
	N/A	Beneficiaries
	N/A	Companies Accepted into the Program
	N/A	Companies Applying to the Program

ADDITIONAL METRICS APPLIED BY OMJ ON A PROJECT-BY-PROJECT BASIS (CONTINUED)

	IRIS ID	METRIC
PROJECT-BY-PROJECT-BASIS	N/A	Distribution Channels Identified
	N/A	Expansion of Project Beyond Pilot
	N/A	Government Programs Identified
	N/A	Governmental Organizations
	PI7997	Group-based Training
	N/A	Income Generating Activities Identified
	N/A	Manufacturers Identified
	N/A	Non-governmental Organizations
	PI6065	Organizations Receiving Training
	N/A	Properties Registered
	N/A	Public-Private Partnerships
	PI2822	Technical Assistance
	N/A	Total Group Based Training Hours
	PI2822	Client Individuals Provided New Access
	N/A	Consumer Price Premium
	PI1775	Sales
	PI7403	Cultivated Land Area – Indirect

Brief Sample of the Opportunities for the Majority (OMJ) Current Project Portfolio

Project	Description	Investment Amount	Anticipated Reach
1. PUPA: A Head Start for Young Children from the Base of the Pyramid	PUPA is the first private company in Brazil targeting low-income children, parents, and caregivers with educational products. PUPA will design, manufacture, and sell fun and easy to use early childhood kits comprising magazines, toys, and CDs or DVDs. Sold in series of "packets" that make them more affordable, materials cover 2 months of learning, and include LEGO toys for below retail price, and simple guides for facilitators.	$3 million secured loan	Once established, PUPA will expand in other states. In 7 years, it expects to train over 56,000 caregivers, provide income for over 1,400 women micro-franchisees, and improve the development of 224,000 children.
2. CEMEX: The Patrimonio Hoy Initiative That Is Bringing Successful Affordable Housing Solutions to Scale	A program through which low-income consumers can access micro-loans for the purpose of buying construction materials, it became one of the first Latin American companies with business models that engage with the base of the pyramid.	Up to $10 million partial credit guarantee	The program is now on track to reach a total of 750,000 families within the next 5 years.
3. LATCO International: Boosting Poor Farm Communities in Bolivia	Bolivia's leading sesame exporter, Alimentos Naturales LATCO International, has strong and rising demand for the sesame Santa Cruz's farmers grow. LATCO will provide financing and technical assistance to start or expand sesame cultivation, with a view to transferring bulking and other operations to small farmers so they can take a step forward in the value chain and create a sustainable source of income.	$2.1 million loan	As it starts to hull seeds, press oil, mill flour, and make tahini and sesame paste over the next 5 years, the company's demand will increase from 3,000 tons in 2010 to 8,000 tons in 2016. It will extend its network of suppliers to include 1,200 new farmer families and have a positive impact on the lives of 11,000 Bolivians.
4. IDEPRO: Bridging the Financial Divide to Reach Small Farmers	IDEPRO Desarrollo Empresarial, a not-for-profit development finance institution focused on linking actors within value and production chains, will give small and medium-sized enterprises, small producers, and entrepreneurs access to financing to increase production and earnings through its loan portfolio Pro-Cadenas.	$5 million loan	The aim is to reach 12,000 small producers so they can raise production and incomes, which will have a significant impact on the communities in which they live.
5. HEFF: Higher Education for the Poor through Microfinance Loans	The Higher Education Financing Fund (HEFF) will allow thousands of students from families of micro-entrepreneurs with limited means to afford university level education or training. The first fund of its kind in the region, HEFF is creating and financing long-term student loan programs adjusted to low-income students and their families.	$10 million loan	Approximately $50 million in education funds will be made available, and around $1 million in technical assistance. In the initial rollout of the program, 3,000 students will be supported. Once established, the program could expand to other countries in Latin America.

Project	Description	Investment Amount	Anticipated Reach
6. FOPEPRO: Bridging the Financial Divide to Reach Small Farmers	A new private social investment fund, Fondo para los Pequeños Productores Rurales en América Latina (FOPEPRO), provides financing for production and processing of staples and high-value export crops, or purchasing of equipment that benefits all members of an association. Groups receiving working capital loans can channel money to individual farmers.	$2 million loan and OMJ leveraged $1.6 million from Deutsche Bank Trust Company Americas, Calvert Foundation, and Monarch Community Funds.	The fund aims to reach at least 70 smallholder organizations, or 10,000 producers, in 10 years.
7. Fundación Covelo: Lighting the Way out of Poverty	Fundación José Maria Covelo is establishing a dedicated line of credit for micro-finance institutions to lend to low-income families to buy photovoltaic systems. In an innovative arrangement, the systems serve as guarantees for the loans, enabling poor families with little or no collateral to buy them.	$3 million loan	At least 6,000 low-income families in Honduras, El Salvador, and Belize are expected to benefit from Fundación Covelo's program. Once the business model is well established in these countries, it can be scaled up to provide clean energy to thousands of other people in Central America.
8. FIHIDROS: Affordable Water for Poor Communities in El Salvador	Banco ProCredit is launching a lending program for communal water projects in El Salvador. ProCredit will lend to local small-scale community operators (OLPES) to improve, repair, and expand water supply systems.	$2 million loan	For over 30 years, OLPES have been providing drinking water and sanitation services in Central America. They currently serve 15 million people, but could provide services to an additional 18 million in Latin America.
9. Credifamilia: Home Ownership within Reach in Colombia	Credifamilia is a new, regulated financial institution in Colombia that applies microfinance principles to housing loans for low-income homeowners. Credifamilia will allow tens of thousands of Colombians from the base of the pyramid to get a loan and buy a home.	$5 million partial credit guarantee	During the life of the loan, an estimated 16,000 low-income mortgages will be originated. Credifamilia's success in providing those at the base of the pyramid access to mortgage financing could increase ownership and spur other financial institutions to offer low-income loans.
10. Banco Gerador: Banking for the Poor, Financing for Neighborhood Markets	Banco Gerador S.A. (BG) is bringing banking to Brazilians at the base of the pyramid through its Banorte Todo Dia program, which licenses *mercadinhos* (*s*mall shops) in low-income communities to offer bank services and financial products.	Up to $5 million line of credit	Enrollment of more than 200 *mercadinhos* in BG's Banorte Todo Dia program is under way and nearly completed. BG expects to operate community bank branches in around 6,000 mercadinhos in nine states of northeastern Brazil and reach an estimated 1.5 million people.

Project	Description	Investment Amount	Anticipated Reach
11. ANCALMO: Sprinkles against Anemia	ANCALMO is a family-owned pharmaceutical manufacturer in El Salvador with a well-known line of products aimed at reducing malnutrition. It has experience developing new pharmaceuticals and exports almost half of its production to Central American countries. The company will become the first Central American producer of micronutrient powders (MNPs), called Sprinkles, with a loan from OMJ and a local bank to adapt and expand their plant.	$1.1 million loan	Up to a million children could benefit from locally produced MNPs, and ANCALMO could sell 1.4 billion units over the next 5 years to combat childhood anemia alone. Once ANCALMO has experience producing MNPs for children under 5, it will be in a position to manufacture a different formula to reduce anemia in pregnant women and target that population.
12. Going Beyond the Basics and Banking the Unbanked: Empresas Publicas de Medellín (EPM) - Colombia	Financiación Social (Social Financing or FS), an EPM program, provides accessible credit to those at the base of the pyramid. The program leverages EPM's business platform to assess credit risk by using clients' utilities payment records. After clients are extended a credit line, EPM bills them through their monthly utility bill. With an EPM credit card, customers purchase energy-efficient appliances and building materials for home improvements from allied vendors. EPM reports credit performances to credit bureaus, building a credit history for its clients. In 2012, FS will increase credit access to individuals and begin to offer one-time loans to micro- and small businesses (a program named MYPES).	$10 million loan	Within 5 years, EPM expects to have issued nearly 16,000 loans through MYPES, leading to the purchase of over 70,000 items. Between 2012 and 2014, EPM plans on implementing diagnostic analyses of purchases made by business owners to ensure effective use of the products acquired and efficient use of utilities. EPM anticipates a default rate of no more than 4% for MYPES.
13. Transforming Business Relations into Partnerships for Growth: Tenda Atacado	Tenda Atacado plans to expand its current credit portfolio to an additional 60,000 micro-entrepreneurs and engage 6,000 of these clients in a capacity-building program. This is expected to help mitigate challenges faced by clients while increasing the company's client base, client retention, sales, and the size of its credit portfolio.	$10 million loan	It is expected that both the capacity-building program and the expansion of credit will generate business results for Tenda, and social and business returns for micro-entrepreneurs. From Tenda's perspective, the company will evaluate if the expansion of the credit program, after the implementation of the new credit methodology, reduces delinquency rates and increases company sales and average purchase amount made with the store cards, and whether it increases client fidelity. Similar results will be measured to assess the capacity-building program.

Project	Description	Investment Amount	Anticipated Reach
14. Establishing an Integrated Rural Supply Network in Mexico: Mi Tienda	Mi Tienda provides door-to-door supply of grocery and basic products, as well as financing for merchandise purchase and business expansion to stores in rural communities with up to 5,000 inhabitants. The company also offers a comprehensive training and assistance program to stores that participate in the company's affiliation program, which has the goal of improving their operations, productivity, and returns. Stores incur no costs to affiliate, but are expected to increase purchases from Mi Tienda and adopt the company's image. Mi Tienda plans to establish 25 distribution cells in central Mexico, through which products and consultation services can be delivered to 25,000 stores.	$2 million loan	As Mi Tienda continues to expand its operations to reach 25 distribution cells, anticipated long-term results of this rural supply network and the affiliation program include increased sales, client retention, and an expanded client base. Mi Tienda also expects to achieve greater economies of scale with an increase in the number of distribution cells, which will lower the cost of goods sold and continue to transfer savings to storeowners and final clients. It is also expected that the access to credit and the affiliation program will continue to positively impact storeowners by increasing their sales and profitability, generating higher incomes to raise their standards of living.

IV. At a Crossroads: Key Considerations for ADB

> It is also true that markets do not always reach and empower the majority. Bad policies and weak institutions too often limit vibrant market activity to only those at the top of the economic pyramid, excluding a country's majority from full participation in economic life. Keeping the majority on the periphery of economic opportunity has a negative impact on economic growth, since it reduced domestic market potential and squanders the skills, energy and ambition of the population. It is also damaging to civil and political life, as it breeds a sense of alienation and resentment on the part of the majority...despite a 95 percent real growth in per capita gross domestic product over the past 45 years, there would still be no improvement in poverty or inequality in Latin America overall.
>
> *Building Opportunity for the Majority*, the Inter-American Development Bank, 2006

When the IDB launched the Opportunities for the Majority (OMJ) Initiative in 2006, it was predicated on the notion that a development finance institution could do more to increase the economic opportunities for the 360 million people in the Latin American region. In an ADB context, the most fundamental question requiring consideration is whether ADB intends to mainstream inclusive business as one of the key drivers of its Strategy 2020 and as a means to further engage the private sector on inclusive growth. After internalizing these important lessons—and assuming there is growing interest within ADB to incrementally develop and widen the scope of its inclusive business agenda—ADB should consider the following short- and medium-term recommendations (presented in terms of core capacity and three scenarios for consideration—internal, external, and hybrid). These recommendations are based, in part, on the experience gained through the development of OMJ and additional reflections provided by select bank staff. More importantly, they build on some of the more fundamental lessons learned: developing inclusive business requires a dedicated team and strong leadership support and buy-in, as well as a dedicated pool of capital, adequate resources for technical assistance, clear metrics, and a robust outreach, media, partnerships, and knowledge development strategy. It also takes into consideration the progress made to date by ADB's inclusive business initiative that, as primarily an externally-oriented effort, commissioned market scoping studies (in 10 Asian markets) and a sustained outreach and engagement strategy that validated that (i) there was a significant market opportunity for inclusive business development and financing, and (ii) there was significant donor and private equity/fund manager interest. As such, the key recommendations are as follows:

PREFERRED CORE CAPACITY (INTERNAL FEASIBILITY)

1. **Provide coordination capacity and assess operational options for inclusive business implementation:** Create either a modest, time-bound (3–6 months), inclusive business coordination and development unit/facility or dedicated human resources who are mandated by senior management to develop, design, and present a number of options to management for inclusive business development at ADB including a position on if and why inclusive business can provide additionality to ADB and its Strategy 2020. OMJ benefitted from having (i) a dedicated and cross-departmental team to conceptualize the initiative before it was established and (ii) dedicated resources (progressively allocated) to design, develop, and operationalize the initiative (albeit, in retrospect, OMJ would have benefitted from understanding and addressing the operational consequences earlier).

2. **Develop implementation modalities and rollout strategy**: Based on the preferred option selected, develop the required implementation modalities including resources required, phased implementation strategy, performance assessment, and evaluability frameworks, and if and when a dedicated pool of capital should be created to support these efforts. Whatever the modality, it will be important to build on, rather than distinguish from, current bank frameworks in order to maximize internal buy-in and comfort.

3. **Internal engagement and readiness:** Create an inter-departmental task force (including the Office of Risk Management, Legal, Private Sector Operations Department [PSOD], Regional and Sustainable Development Department, and Independent Evaluation Department) to develop a plan on how identify, systematize, streamline and reengineer the business processes, due diligence, and administrative procedures required for effective and efficient review of inclusive business transactions. Given the complexity of the undertaking, it is clear that ad hoc and opportunistic development of inclusive business efforts may not assure the most effective and collective standard required to move the process forward to assure long-term viability and success.

   Rationale: While ADB has made significant progress in understanding market demand and donor/investor appetite for inclusive business, it has yet to decide what strategic and operational role, if any, it would like to play in this space. Because of limited resources and capacity however, ADB may run the risk of developing inclusive business activities with insufficient internal coordination, without clear and transparent management buy-in, and not as part of an overall coherent strategy that supports its Strategy 2020 objectives. At the same time, because these activities have created external expectations, there has been limited effort to reach management clarity on: (i) does the bank want to pursue inclusive business as *an integral* part of bank strategy?; (ii) If so, what would be the bank's strategy, targets, and objectives for inclusive business?; (iii) What would be the operational modalities and resources required to achieve that strategy?; and (iv) How will it be operationalized effectively? This would at minimum create the enabling conditions under which ADB management could objectively assess if and how it would like to pursue and operationalize inclusive business.

   Provided these initial scoping and design steps are followed initially, ADB would be well positioned to consider if and when any of the following scenarios for inclusive business implementation might be explored:

   1. **Scenario Alpha – Inclusive Business Light:** This scenario assumes that ADB wants to contribute to inclusive business, but would rather have another organization play the leadership role. As such, this scenario is focused on peripheral but strategic interventions that provide targeted additionality in three areas: business incubation and pipeline development, tools and knowledge development, and advocacy (largely through convenings). It is likely this could be achieved through a well-resourced and dedicated technical assistance facility. Pursuing this approach allows ADB to learn from an arm's-length intervention strategy and decide later on if external developments warrant a stronger role. This approach would be premised on a nontransactional footprint and strategy.

      Rationale: Inclusive business is not something that can be easily achieved with simple "tweaking" of bank operations and strategies. Like any core business effort, it is a serious undertaking that requires leadership, strategy, and dedicated resources. Were ADB to conclude that it wants to actively but modestly contribute to the inclusive business agenda in Asia, incentivizing the development of an inclusive business ecosystem from the periphery through the tactical deployment of technical assistance resources may allow ADB to (i) offer continuity following the flurry of inclusive business activity over the past 2 years; (ii) manage its reputation cautiously by making investments consistent with its own objectives and in areas where ADB can make a difference (convenings, research and development, development of standards, tools, etc.).

   2. **Scenario Bravo – Inclusive Business Regular:** This scenario not only includes all the aspects of the "Inclusive Business Light" scenario, but also a dedicated pool of capital that is deployed toward a limited number of inclusive business transactions per year and a formal PSOD mandate to source, close, support, and assure the performance of a limited inclusive business investment portfolio. This dedicated pool of capital could be sourced in-house and/or leveraged alongside capital from external financing partners from bilateral or private financial institutions. Under this scenario, ADB would set a percentage target for the amount of its total private sector investment portfolio that should be demonstratively inclusive and be held accountable for meeting that target each year—not only in financial terms but also in social impact terms in order to assure deal quality. Rather than create an internal financing facility like OMJ or an externally managed fund, this scenario would simply embed inclusive business transactions as part of current PSOD practice and incentivize investment

specialists to meet the departmental target across sectors and regionally. Pursuing this approach would allow ADB to match "its bark with its bite" —in other words, embed inclusive business thinking in its core business development strategy in a nonintrusive manner while allowing it to deploy capital into real inclusive business.

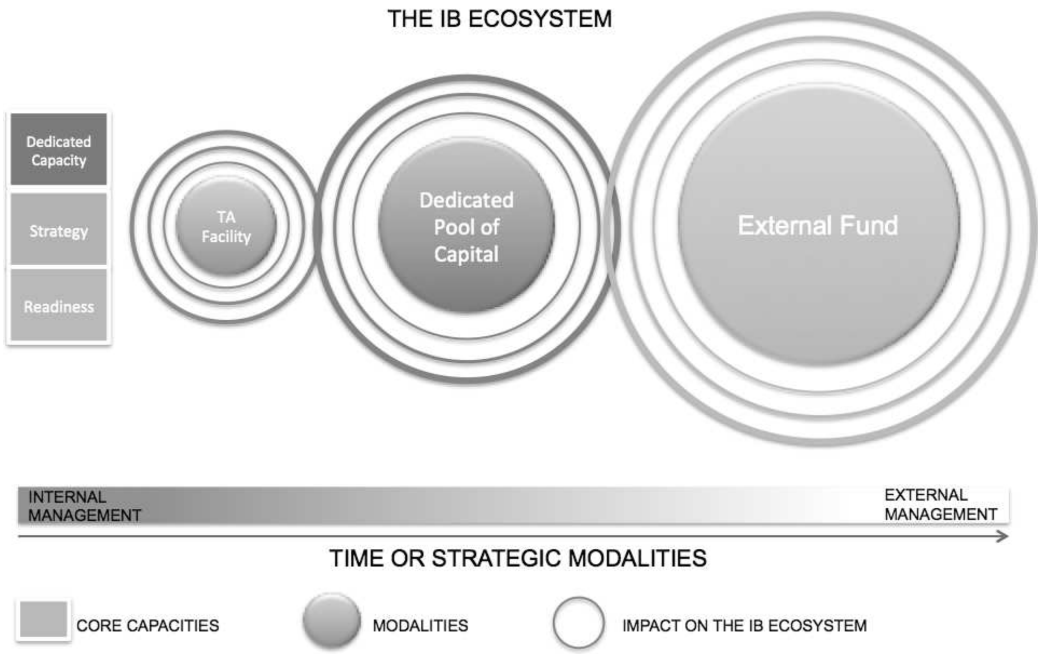
Rationale: ADB has and continues to make inclusive business-like investments as part of its PSOD investment portfolio. However, ADB has not formalized its desire to pursue inclusive business within its portfolio, nor is inclusive business considered part of PSOD's eligibility or performance criteria. As demonstrated by OMJ, were ADB willing to have a more explicit focus on inclusive business as part of its investment strategy, it could not be achieved by simple rebranding or reclassification of indirect investment outcomes. It would require a deliberate and formal effort to adjust how ADB considers investment opportunities—shifting in some instances from reactive to proactive, top down to bottom up, and from transactional to systemic. However, this approach is predicated on inclusive business being designed and developed as a part of its business as usual—leveraging the best thinking within ADB as to how to make inclusive business an element (percentage to be decided by ADB) of its private sector development strategy and maximize opportunities for internal learning.

3. **Scenario Charlie – Inclusive Business Heavy:** This scenario leverages all the elements of the Alpha and Bravo scenarios, but also includes the development and deployment of externally managed inclusive business financing facility (ideally with direct and/or indirect availability of blended financial instruments, including debt and equity). Under this scenario, ADB would be able to contribute to the development of inclusive business ecosystem through a robust technical assistance facility, create in-house expertise and a commensurate track record by allocating a certain percentage of NSG resources to inclusive business opportunities as part of regular PSOD business, and would seed and create an externally financed inclusive business fund (this fund could be either pure inclusive business or a blended inclusive business/SME fund) that would ideally mitigate the need for policy adaptations, increases in headcount, and other associated costs. Considering the significant external interest in Asia around inclusive business development and financing, modest ADB anchor investments could leverage 4–6 times additional capital from an existing pool of donors and investors who have already expressed a strong interest in partnering with the IDB on inclusive business at the highest levels.

   Rationale: Because ADB also deploys resources through funds in an effort to crowd in other investors and catalyze "an industry," being an anchor investor in a blended inclusive business fund would be seen as the most impactful and deliberate effort by ADB to not only enter but make a meaningful and long-lasting contribution to building an inclusive business ecosystem. On the other hand, by externalizing the effort to a fund manager (and if ADB did not pursue the other aforementioned scenarios), ADB could avoid having to deploy significant internal human resources and make changes on internal systems and policies to accommodate traditionally smaller inclusive business transactions. Provided the right fund manager is selected, any real or perceived reputational risk could also be easily mitigated. Despite this option being considered the most "hands off," it may preclude ADB from meaningfully introducing inclusive business logic and thinking into its operations, were this to be considered a priority to promote inclusiveness as part of its Strategy 2020.

These scenarios need not be taken solely as options, but they can also be taken as progressive steps in an incremental strategy to deliver value internally within ADB as part of its retooled Strategy 2020 and externally in the inclusive business marketplace in Asia. Regardless of the outcomes of ADB's internal deliberations and plans for inclusive business, it is clear that the OMJ experience has provided a glimpse into the potential and pitfalls of integrating BoP-centered business models into the value proposition of an IFI.

ADB SCENARIOS FOR INCLUSIVE BUSINESS DEVELOPMENT



Appendix

OMJ Investment Portfolio Case Studies

The following pages include 20 project briefs of the inclusive business portfolio of the Inter-American Development Bank's (IDB) Opportunities for the Majority (OMJ) Initiative extracted from OMJ and related documentation. They are included to illustrate the type of transactions that are considered "inclusive," their respective deal size, and anticipated outcomes and returns. All the projects included were selected using OMJ's eligibility criteria and reflect all the ex ante indicators highlighted in the adapted Development Effectiveness Matrix (DEM). On the one hand, they reflect the geographic and sector diversity (ranging from education and nutrition to agriculture and information and communication technology) of OMJ investments, but, on the other, they also reflect the consistent tenets of OMJ reason to exist: (i) seeking to invest in business solutions that improve the living standards of the low-income segment, (ii) demonstrating that investing in underserved markets is profitable, (iii) applying innovation and creativity to fulfill unmet human needs and contribute to economic growth, (iv) creating new solutions through public and private sector partnerships, and (v) sharing the risk among several partners.

PUPA: A Head Start for Young Children from the Base of the Pyramid

PUPA Fills Brazil's Early Childhood Education Gap

In Brazil, 10 million low-income children aged 0–6 are neither in day care nor in pre-school. They stay home with parents or spend days with informal caregivers—many of whom have little education and few materials geared to cognitive development of young children. PUPA Empreendimentos Educacionais e Representaçao plans to fill that important gap in early education at the base of the pyramid. With a $3 million secured loan from OMJ, new social business PUPA will provide magazines, LEGO toys, and audio-visual aids for young children; training and certification to adults for their use; and employment opportunities for women micro-franchisees.

Opportunities for Children and Adults

Stimulation through toys, blocks, music, and books is often missing for low-income children in Brazil who are not in formal care or preschool. Early childhood development lays a foundation for education, employment, and poverty reduction, and good programs can make up for gaps caused by poverty. Investing in readiness to learn reduces inequities with lifelong positive consequences.

PUPA is the first private company in Brazil targeting low-income children, parents, and caregivers with educational products. PUPA will design, manufacture, and sell fun and easy-to-use early childhood kits comprising magazines, toys, and CDs or DVDs. Sold in series of "packets" that make them more affordable, materials cover 2 months of learning and include LEGO toys for below retail price and simple guides for facilitators. Training is integral to PUPA's operations using a program designed by Brazil's leading early childhood education institute for caregivers with little or no formal education. Basic health, nutrition, and education information is included to ensure materials are used effectively while improving preschool activities and adding value to caregivers' services.

Women from low-income communities will be trained as PUPA micro-franchisees and be the primary sales force. Almost half will obtain their first job through the program. Micro-franchisees assess caregivers and parents and tailor PUPA packets to children's needs and environment. Every month, they will meet customers to make sure materials are being used correctly, offer advice, collect payment, and encourage continued participation. Micro-franchisees also take simple surveys to measure how much cognitive skills of children in the PUPA program are improving.

Building on Success

PUPA is the brainchild of ZOOM Editora Educational, a family-owned company that has sold more than 1.5 million kits comprising textbooks, LEGO educational products—for which it is the exclusive representative in Brazil—and other materials to Brazilian schoolchildren aged 7–14. An independently owned and managed company, PUPA draws on ZOOM's expertise and success in developing and selling innovative ways of learning. PUPA builds on ZOOM's relationship with around 200 non-governmental organizations (NGOs) providing free early child care in low-income communities. Those NGOs play a key role in PUPA's initial outreach and promotion, helping to identify micro-franchisees and becoming distribution points for PUPA packets.

The program will be piloted in five low-income communities in São Paulo where ZOOM has strong ties with NGO-operated day care facilities, and launched formally across São Paulo state a year later. Once established, PUPA will expand in other states. In 7 years, it expects to train over 56,000 caregivers, provide income for over 1,400 women micro-franchisees, and improve the development of 224,000 children. PUPA will become a valued partner in low-income communities, and has the potential to expand to other countries in Latin America and the Caribbean.

Patrimonio Hoy: Bringing a Successful Housing Solution to Scale

A Proven Model Expands in the Region

Mexico-based multinational cement producer CEMEX has been a pioneer in the business world for over a decade. By launching Patrimonio Hoy, a program through which low-income consumers can access micro-loans for the purpose of buying construction materials, it became one of the first Latin American companies with business models that engage with the base of the pyramid (BoP). In the years since its launch, Patrimonio Hoy has helped 300,000 Mexican families build or improve their homes. CEMEX treats its BoP projects as part of its core business strategy, and the company has established other such programs, such as Mejora tu Calle, an urban infrastructure financing program. Now, with the support of a partial credit guarantee from OMJ, CEMEX will stay on the leading edge of inclusive business by expanding Patrimonio Hoy to an additional five countries, and offering new kinds of loans and products that increase the program's flexibility and effectiveness. The program is now on track to reach a total of 750,000 families within the next 5 years.

Building on a Solid Foundation

Patrimonio Hoy, founded by CEMEX in 1998, provides low-income individuals with access to micro-loans, materials, labor, and technical assistance for the purpose of building or renovating homes. These credits and housing supports would be virtually impossible for these clients to access otherwise, because of a variety of factors, including high rates of "unbanking" and lack of credit history among the majority of low-income families, the expense of reaching BoP clients for traditional commercial banks, and shortages of low-income housing construction. To date, about 300,000 families throughout Mexico have participated in Patrimonio Hoy.

In order to bring this proven model to additional communities and countries, OMJ has established a partial credit guarantee of up to $10 million, through which it will share risk with CEMEX in order to scale its existing savings-credit program, as well as to introduce new value-added products. Over the next 3 years, CEMEX plans to expand Patrimonio Hoy to four additional countries: Colombia, Costa Rica, the Dominican Republic and Nicaragua.

New Features Strengthen a Long-Established Program

Since launching Patrimonio Hoy over a decade ago, CEMEX has piloted a range of products to be able to offer customized value-added housing solutions that better meet the needs of different low-income households. Besides the Patrimonio Hoy Traditional Product, with the support of the new risk-sharing facility, CEMEX is adding three more options to its credit portfolio: Patrimonio Hoy Lower-Income Product, which allows clients to access loans through a savings-credit mechanism; Patrimonio Hoy Labor Credit, which finances skilled labor support for families without self-construction know-how; and Patrimonio Hoy Materials Credit, which allows families with better credit scores or who have participated in a savings-credit program to access full credit in the form of materials.

CEMEX has become an international leader in demonstrating that BoP business models can be a sustainable and valuable part of a company's core business strategy. It has been deliberate and responsible in piloting its models to ensure their commercial and social viability and scalability. Additionally, Patrimonio Hoy provides benefits to low-income communities that go beyond increasing access to housing loans: it has created hundreds of jobs for the mostly female "promotoras" who work to enroll their neighbors in CEMEX programs, and its newer labor credit programs also are employing skilled contractors and builders. Now, in partnership with the IDB, CEMEX has set a goal of reaching 750,000 new families through Patrimonio Hoy within the next 5 years.

LATCO International: Boosting Poor Farm Communities in Bolivia

Increasing Small Farmers' Incomes and Productivity

Farmland is not the challenge for poor, small growers in Bolivia's Santa Cruz region. Many have access to plots of arable land. Their challenge is getting credit to buy seeds and hire labor to cultivate enough land with good yields to climb out of poverty. Bolivia's leading sesame exporter, Alimentos Naturales LATCO International, has strong and rising demand for the sesame Santa Cruz's farmers grow. The company lends to small farmers to buy seeds. To produce and earn more, however, small farmers at the BoP need more money and know-how. With a $2.1 million loan from OMJ, LATCO will expand, and incorporate more small farmers into its supply chain. LATCO will provide financing and technical assistance to start or expand sesame cultivation, with a view to transferring bulking and other operations to small farmers so they can take a step forward in the value chain and create a sustainable source of income.

Creating Opportunities for Income

A non-traditional crop, sesame growing started in Bolivia only a decade ago. Most sesame seedpods are delicate and burst open easily, requiring labor-intensive harvesting by hand. LATCO is a medium-sized company in Bolivia that specializes in organic farming and sells sesame to Germany, Israel, Japan, the Republic of Korea, the Netherlands, and the United States. Their exports have grown more than 400% in the past 6 years. LATCO buys sesame from Santa Cruz communities and is the main income source for more than 1,200 families. Most are indigenous and have access to community-owned land. Yet, almost three-quarters live below the national poverty line because they cannot afford to cultivate more than a few hectares each year. The project will increase the acreage farmers cultivate and the number of farmers growing sesame.

With the OMJ loan, LATCO will create a credit facility to make it easier for small farmers to borrow working capital for larger fields and higher yields. Farmer-entrepreneurs who want to farm more than 10 hectares can buy harvesting equipment. LATCO's agricultural production unit will train producers to become reliable suppliers, giving guidance on increased productivity and assistance toward organic certification of farmers' seeds. LATCO will work with groups to incorporate so they can apply for grants to develop their communities. Three communities have obtained World Bank funds to erect small buildings where they bulk sesame and also meet or socialize. LATCO monitors and traces its products from fields to importers' warehouses. This traceability is sought after and provides LATCO a competitive edge over many of its competitors. Additionally, as a result of OMJ's intervention, LATCO will create a computerized system to monitor loans to small farmers and measure their impact.

Adding Value Adds Incomes

With project support, LATCO will build an international distribution center to facilitate exports and invest in machinery and equipment to make the leap to producing value-added products. As it starts to hull seeds, press oil, mill flour, and make tahini and sesame paste over the next 5 years, the company's demand will increase from 3,000 tons in 2010 to 8,000 tons in 2016. It will extend its network of suppliers to include 1,200 new farmer families and have a positive impact on the lives of 11,000 Bolivians.

Increasing access to financing for small farmers and linking them to the primary processor and exporter is a model that can be replicated in other countries in the region that produce sesame: El Salvador, Guatemala, Mexico, Nicaragua, Paraguay, and Venezuela.

IDEPRO: Bridging the Financial Divide to Reach Small Farmers

Boosting Small Rural and Suburban Producers

Small producers and micro-entrepreneurs in Bolivia have difficulty increasing their production and competitiveness, as their access to finance and best practices is limited. For the same reason, small and medium-sized enterprises (SMEs) have difficulty incorporating producers from the BoP into their value chains. IDEPRO Desarrollo Empresarial, a not-for-profit development finance institution focused on linking actors within value and production chains, will give SMEs, small producers, and entrepreneurs access to financing to increase production and earnings through its loan portfolio Pro-Cadenas. Moreover, IDEPRO will offer them best practices training and business development assistance, increasing their likelihood of long-term success.

A $5 million loan from the IDB, through OMJ, will significantly expand and support the growth of IDEPRO's Pro-Cadenas loan portfolio accomplishing more sustainable value and product chains.

Narrowing the Productivity Gap

Micro, small and medium-sized enterprises employ far more people in Bolivia than large companies, yet large companies are 24 times more productive. Lack of investment capital and the difficulty of obtaining productive financing are among the main reasons why SMEs are not more productive and generating or maintaining value chains. Although Bolivia's microfinance industry is one of the most developed in the world, it has not reached rural areas with dispersed populations. It is difficult and expensive for small companies to adopt cutting-edge technology and hire skilled workers. They have few opportunities to access external markets.

Small rural and suburban producers at the BoP face many of the same challenges. IDEPRO aims to narrow the productivity gap by connecting producers of quinoa, chestnuts, and other agricultural products, textiles, and tourism microentrepreneurs with anchor SMEs. The anchors will finance small producers and micro-entrepreneurs to link commercially with small-scale bulking and transformation businesses and others in the production chain. That will assure sales and distribution, and boost both anchors' and producers' competitiveness and earnings.

Training for Productivity

IDEPRO is the only financial institution in Bolivia exclusively concentrating on supporting rural and suburban production chains. Its credit officers provide advice in sectors known to employ many people at the BoP and link small producers with SMEs—connections that might not happen otherwise.

Moreover, IDEPRO provides training to improve production techniques, ensure effective use of resources, and deepen the relationship among value chain players. It works with these groups to develop business plans aimed at making the chain stronger, better, and more productive and to enhance communication.

Connecting Small Producers to Enterprises

IDEPRO will increase lending and expand to new sectors, including manufacturing. By boosting the amount and number of loans that anchor enterprises can provide to small producers, the OMJ loan helps to drive the integration, growth, and sustainability of small producers' production chains. The aim is to reach 12,000 small producers so they can raise production and incomes, which will have a significant impact on the communities in which they live. With an expanded production chain loan portfolio, IDEPRO can encourage other financial institutions in Bolivia and the region to scale up and replicate this model.

HEFF: Higher Education for the Poor through Microfinance Loans

The Higher Education Financing Fund Offers Innovative Student Loans

Financing higher education opportunities for low-income students in Latin America is an ideal way for families at the BoP to break out of the cycle of poverty. The Higher Education Financing Fund (HEFF) will allow thousands of students from families of microentrepreneurs with limited means to afford university level education or training. The first fund of its kind in the region, HEFF is creating and financing long-term student loan programs adjusted to low-income students and their families.

With a $10 million loan from OMJ and funding from other lenders, HEFF will offer student loans through microfinance organizations in Bolivia, the Dominican Republic, Guatemala, Honduras, Paraguay, and Peru. This unique structure benefits individuals and communities while offering local oversight and administration to ensure loans are repaid.

Lending to Students, Collecting from Professionals

Lower-income students are often precluded from pursuing higher education because student loans are not available to them, even though their ability to repay after graduating is enhanced when they have recognized degrees. Demand for student loans has grown among lower-income students as increased access to media and news outlets over the internet has expanded their awareness of opportunities. Traditionally, poor families have tapped into their small business operations to fund higher education—sometimes jeopardizing the family's only source of income.

Student loans, when properly structured, take the burden of paying for education off of families while the student is at university or college. Costs include tuition, books, lodging, food, and transportation. If students are forced to work while trying to obtain a degree, their academic performance can suffer. If they do well and graduate, however, these students from the BoP are more likely to obtain high-paying jobs which allow them to help their families and, in turn, their communities, climb higher up the socioeconomic ladder.

Financing the Future, Securing the Present

To increase their likelihood of finding good jobs, funding will only be provided for students enrolled in academic institutions with strong reputations for professionalism and high graduation rates. They must embark on studies leading to careers that are in high demand or where jobs are expected to grow.

Once fully funded and operational, HEFF will give students the tools they need to succeed in higher education. To ensure the ongoing success of students and, in turn, the program, HEFF is incorporating a system of monitoring and mentoring whereby local educational experts oversee the progress of students benefiting from loans. They will provide tutoring and social system support as needed.

HEFF will be managed by Omtrix, a Costa Rican fund manager and financial consulting firm with more than 15 years of experience in managing microfinance loans in the region. HEFF will set country-specific guidelines on loan conditions to be met by microfinance institutions. Approximately $50 million in education funds will be made available and around $1 million in technical assistance. In the initial rollout of the program, 3,000 students will be supported. Once established, the program could expand to other countries in Latin America.

By providing an example of successful student loan programs for low-income students in Latin America using the vast network of micro-finance institutions, HEFF can serve as a catalyst for other institutions to begin similar programs throughout the region. That could create a movement whereby no student in Latin America is denied access to higher education because they come from a poor family.

FOPEPRO: Bridging the Financial Divide to Reach Small Farmers

Better Access to Finance for Smallholder Farmers

Latin American farmers who grow food on small plots of land are the backbone of the rural economy in the region. Getting food from fields to markets creates many jobs, especially in lower-income countries, where 30% of the population works in smallholder agriculture. Smallholders need better access to finance and training to produce and earn more, but traditional banks rarely operate in rural areas. It is expensive and seen as risky to lend to farmers with little or no credit history, seasonal production, and limited collateral.

A new private social investment fund, Fondo para los Pequeños Productores Rurales en América Latina (FOPEPRO), is solving the problem by providing credit to small rural producers from the BoP. FOPEPRO provides working capital and investment loans to groups of farmers, processors, and rural microfinance institutions in up to nine Central and South American countries.

OMJ has provided FOPEPRO with a $2 million loan and leveraged $1.6 million from social investors Deutsche Bank Trust Company Americas, Calvert Foundation, and Monarch Community Funds.

Loans to Umbrella Organizations

In Latin America, those raising crops on small plots of land produce much of the agricultural output; up to 60% in Central America. Yet, only 15% of the rural population of Latin America and the Caribbean has access to formal financial services. Distance and costs are the main barriers, and FOPEPRO bridges that divide by sending managers specialized in agricultural lending into the field to offer financial products to umbrella groups of small producers and SMEs that serve them. Two private social investment companies with 30 years of investing in agriculture in Latin America sponsor FOPEPRO and identify the groups. FOPEPRO also funds microfinance institutions with track records of lending to small farmers in underserved areas.

FOPEPRO provides financing for production and processing of staples and high-value export crops, or purchases of equipment that benefit all members of an association. Groups receiving working capital loans can channel money to individual farmers. The fund aims to reach at least 70 smallholder organizations, or 10,000 producers, in 10 years.

Investing in Farmers, Adding Value to Products

Besides lending, FOPEPRO also gives grants to strengthen management of organizations and train farmers, producer groups and cooperatives, and processors and marketers to certify crops and products. It will also help improve financial management systems of borrowers and work to improve productivity. Training companies that process and bring food to the market provides smallholders with better services and boosts the value chain.

FOPEPRO's managers know the agriculture sector, have access to credit histories of producer groups, and can create financial products that take into account crop variability and seasonality. The fund will operate in Bolivia, Colombia, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua, Paraguay, and Peru.

In addition to cash crops like coffee and cocoa, FOPEPRO will invest in maize, beans, dairy, vegetables, and livestock—important foodstuffs for local and regional populations. Investing in varied commodities in several countries also limits the fund's exposure to sudden price drops or the effects of natural disasters.

FOPEPRO's expertise allows it to tailor loans to small farmer groups in rural areas with sparse populations and little economic activity. The fund's target is to raise and manage $20 million. Investing in FOPEPRO allows OMJ to support economic development of grassroots agricultural producers taking out small loans, and promote a new market-based model for sustainable growth of their small operations. The model can be scaled up or replicated in Latin America or elsewhere.

Fundación Covelo: Lighting the Way out of Poverty

Renewable Energy for the Poor

Up to 7 million low-income Central Americans live without power, largely because of the expense of extending the grid to rural areas. Many people burn kerosene, candles, or wood, which can affect health and degrade the environment. Some families spend a large portion of their income to power diesel generators. Electricity is vital for workers and entrepreneurs to become more productive and climb out of poverty.

A new initiative is making clean, renewable energy available and affordable to families at the BoP in Belize, El Salvador, and Honduras. With a $3 million loan from OMJ and $3 million of its own funds, Fundación José Maria Covelo (Covelo Foundation) is establishing a dedicated line of credit for microfinance institutions to lend to low-income families to buy photovoltaic systems. An innovative arrangement, the systems serve as guarantees for the loans, enabling poor families with little or no collateral to buy them.

Clean Solutions for Clean Power

Photovoltaic systems with a capacity of 50–100 watts can light three to four energy-efficient light bulbs and recharge a cellphone or power a radio. Larger solar panels, or several linked together, allow families to power water pumps and refrigerators. These clean, stand-alone sources of power are ideal solutions for families living off the grid. However, most people at the BoP cannot afford to buy a solar panel kit outright, and financing has been unavailable until now. Furthermore, proper installation and good maintenance are essential to ensure systems keep generating electricity over their 15–20-year lifespan. So far, companies have had little incentive to guarantee service in areas with few clients.

Covelo Foundation—is a nonprofit organization with established ties to a network of microfinance institutions in Central America. With OMJ support, Covelo Foundation is creating a dedicated renewable energy line of credit for micro-finance institutions in Honduras and El Salvador. The funds are on-lent to clients who want to buy photovoltaic systems and need to use them as collateral.

Covelo Foundation is establishing partnerships between micro-financiers and reliable regional solar system distribution companies willing and able to service small systems in remote areas. Proper installation and maintenance are crucial for the systems to work and for clients to repay their loans.

Partnerships for a Cleaner Environment

Loans to low-income families to buy photovoltaic systems are structured so they can repay the debt affordably within 5 years. Their only additional expense over the system's 15–20-year lifespan is replacing the rechargeable battery every 3–5 years.

Technical assistance will build Covelo Foundation's capacity to develop and promote dedicated solar energy lines of credit to microfinance institutions and train loan officers to understand the product and extend loans to beneficiaries. It will promote partnerships between microfinance institutions and system suppliers to ensure proper system installation and maintenance. Technical assistance will involve community leaders in promoting the photovoltaic systems and build awareness of solar systems, their installation, and proper use among rural populations. Finally, it will provide assistance to help solar systems suppliers expand operations into Belize.

At least 6,000 low-income families in Belize, El Salvador, and Honduras are expected to benefit from Covelo Foundation's program. Once the business model is well established in these countries, it can be scaled up to provide clean energy to thousands of other people in Central America.

FIHIDROS: Affordable Water for Poor Communities in El Salvador

Private Financing to Expand Small Water Projects

Almost half the population in rural El Salvador has no readily available drinking water. People dig wells, carry water from streams, or buy it at considerable expense from cistern trucks. Some communities rely on donations to create and manage water systems that provide clean water and sanitation at affordable prices to hundreds or thousands of households at the BoP. Although these local operators have been successfully running and maintaining systems for decades, their growth has been limited by lack of managerial skills and access to finance.

With a $2 million loan from the Opportunities for the Majority Initiative (OMJ) and $2 million of its own funds, Banco ProCredit is launching a lending program for communal water projects in El Salvador. ProCredit will lend to local small-scale community operators (OLPES) to improve, repair, and expand water supply systems. OMJ will also assist OLPES to strengthen management of business, finances, assets, and the environment, so they can successfully package commercial loan requests.

Stronger Management for Better Financing

OLPES in El Salvador spring from community development associations that have formed private or semi-private enterprises to coordinate municipal efforts and international donations to supply low-income households with water and sanitation services that are more affordable than barreled water. Many OLPES run viable systems and have excellent growth potential. Many also have collateral to guarantee a loan, in the form of existing infrastructure, pumps, equipment, or offices. OLPES have relied on donations to fund growth, but that has proven unsustainable.

ProCredit is a leader in lending to SMEs in El Salvador. The bank will extend lines of credit to OLPES to expand networks and increase connections; drill wells, build, repair, and maintain water tanks; and buy pumping equipment and land surrounding wells in order to guarantee water sources.

OLPES have generally lacked the ability to prepare professional analyses of expansion needs when applying for commercial loans, resulting in denial of loans, or higher interest rates. ProCredit will give specialized training to OLPES taking out loans, thanks to technical assistance supported by OMJ and implemented by Fundación para el Desarrollo Sostenible (Foundation for Sustainable Development) El Salvador. In addition, technical assistance funds will create a model for financing, repayment, and sustainable improvements of water and sanitation systems to publicize the loan program, and monitor and evaluate its results.

Better Health and a Cleaner Environment

Communities with clean drinking water and sanitation systems are healthier, with fewer diarrheal diseases and lower child mortality rates. Women and girls spend fewer hours collecting water from faraway sources and are more likely to stay in school. Having water and sanitation at home is safer. And as communities treat wastewater, watersheds become less polluted and stay cleaner. For over 30 years, OLPES have been providing drinking water and sanitation services in Central America. They currently serve 15 million people, but could provide services to an additional 18 million in Latin America.

A New Financial Model in El Salvador and Beyond

Large Salvadoran OLPES use savings and collection services from several Salvadoran banks and have established ties. ProCredit’s lending program for water projects opens up a new market for the country’s financial sector, which has made strides in creating specialized lines of credit for education, health, and housing. Once proven, the financing model ProCredit is offering OLPES in El Salvador can be replicated and scaled up in other countries in Central America, such as Guatemala, Honduras, and Nicaragua where drinking water is scarce, and where rural, local operators have filled the gap to provide essential water and sanitation services.

Credifamilia: Homeownership within Reach in Colombia

Innovative Mortgages for Low-Income Families

Colombia's housing deficit is estimated at 3.5 million families. There is a shortage of housing, and new construction cannot keep up with demand. Low-income Colombians, whether formally or self-employed, face another hurdle. Often, they cannot obtain a mortgage without a credit history or steady income.

Credifamilia Compañía de Financiamiento Comercial is a new, regulated financial institution in Colombia that applies microfinance principles to housing loans for low-income home owners. Credifamilia will allow tens of thousands of Colombians from the BoP to obtain a loan and buy a home. OMJ is providing Credifamilia with a $5 million partial credit guarantee so it can borrow up to 9 billion Colombian pesos from the local market and attract additional capital to finance its mortgage portfolio.

Shortage of Affordable Homes and Loans

The recent global economic downturn had little effect on Colombia's economy, and mortgage lending increased. Yet, low-income Colombians were largely shut out of the home buyers' market, as their access to financing is very limited. Compounding the problem is a housing shortage exacerbated by the country's worst floods and torrential rains which left tens of thousands homeless and hundreds of thousands of houses severely damaged. New construction is under way. However, to manage risk and avoid empty inventory, Colombian builders require full payment before building. Future owners must make down payments and obtain mortgages before they move in.

Housing, including low-income housing, is a government priority and considered a crucial pillar of poverty alleviation and economic growth. Yet, the traditional banking industry has not offered mortgages to large numbers of Colombians at the BoP because of costs and risks to tailor operations, analysis, and portfolio management for loans to individuals with little or no credit history or collateral.

Tailoring Low-Income Financing While Managing Risk

Credifamilia started operations in the first quarter of 2011 as a new kind of financial institution. Rahul Desai, OMJ project team leader says, "It is the first regulated financial institution in Colombia dedicated exclusively to the low-income housing market." Seven big low-income housing builders who are Credifamilia's largest shareholders bring experience and knowledge of the market. To reach buyers, Credifamilia operates through commercial offices in partnership with homebuilders and often originates loans within existing projects. Loan officers check sales, cash flows, financial records, inventories, and professional reputations of low-income self-employed applicants. They use innovative ways to check credit of formally employed individuals with small but steady incomes who are often rejected by traditional banks. The minimum mortgage is $3,000 and the maximum is $28,464. By law, borrowers must have a 30% down payment. Loan officers work with eligible clients to access government housing subsidies and finance the remainder.

Credifamilia has begun lending in Colombia's capital, Bogota, and surroundings, and will offer mortgages in other major cities like Bucaramanga , Cali, and Medellín. It will originate loans in urban and suburban areas where large low-income housing construction projects are under way.

Regulations do not allow Credifamilia to take out a foreign currency loan since its mortgages are in Colombian pesos. OMJ's partial credit guarantee allows Credifamilia to access a loan from the local market with a 5-year maturity—terms not available to a start-up financial institution in Colombia. During the life of the loan, an estimated 16,000 low-income mortgages will be originated. Credifamilia's success in providing those at the BoP access to mortgage financing could increase ownership and spur other financial institutions to offer low-income loans.

Banco Gerador: Banking for the Poor, Financing for Neighborhood Markets

Bank Services at the *Mercadinho*
One of the greatest financial obstacles facing poor suburban and rural communities in Brazil is lack of access to banking. It is expensive to maintain bank branches in such areas and many commercial banks decide not to invest. Residents often must travel long distances and spend time and money to access basic services such as savings, loans, and utility bill payments. In a creative solution, Banco Gerador is bringing banking to Brazilians at the BoP through its Banorte Todo Dia program, which licenses *mercadinhos*—small shops—in low-income communities to offer bank services and financial products.

OMJ is offering a line of credit up to $5 million or its equivalent in Brazilian reais to Banco Gerador for its Banorte Todo Dia program to bridge the gap between those with easy access to bank services and those with none.

Partnerships for Banking in Low Income Communities
Mercadinhos are focal points in most suburban and rural communities. They sell everything from toothpaste to spark plugs and often are central to community social life. The Banorte Todo Dia program takes local expertise and information networks of *mercadinho* owners, and uses a card and PIN system to extend credit to low-income people who have never had access to formalized credit before. In the past, *mercadinho* owners often gave customers credit, tying up resources that could be put towards inventory management and expansion.

To effectively analyze credit-worthiness and extend credit, Banorte Todo Dia relies on established relationships between *mercadinho* owners, supply chain distributors, and customers. Distributors have well-established relationships with *mercadinho* owners who have a similar link with their customers. That means each party can effectively vouch for the other, and a trustworthy chain of credit is established in a way that is cost-effective for Banco Gerador.

Training *Mercadinhos* as Neighborhood Banks
Banco Gerador is the only domestically held private bank in Brazil focused on advancing access to financial services in low-income areas of the north and northeast. Authorized and supervised by the Central Bank of Brazil to do business as a commercial bank without its own branches through its Banorte Todo Dia program, Banco Gerador helps *mercadinhos* obtain licenses to become “banking correspondents.”

Once approved, *mercadinhos* install point-of-sale registers and enroll customers with good payment histories inside the store, or through paid community sales representatives trained to identify creditworthy individuals. Although *mercadinhos* identify potential bank clients, Banco Gerador assumes the responsibility for credit approval and loan defaults, and all transactions are recorded electronically at the bank.

Customers use smart cards to withdraw cash or buy on credit at the *mercadinho*. They can pay utility bills there—a valuable savings in time and bus fare—and pay off balances. Banco Gerador trains *mercadinho* owners and employees to use their banking points of sale and financial products. Importantly, the Banorte Todo Dia program gives participating *mercadinhos* the chance to obtain working capital or lines of credit to automate purchasing and improve the management of inventory. Banco Gerador has received close to $300,000 in technical cooperation funds from the Korean Poverty Reduction Fund to assist with the development of small shops as a platform for community banking. *Mercadinhos* can also take advantage of training Banco Gerador is organizing for better management, customer service, and marketing, as well as information about laws, taxes, and markets. Enrollment of more than 200 *mercadinhos* in Banco Gerador Banorte Todo Dia program is under way and nearly completed. Banco Gerador expects to operate community bank branches in around 6,000 *mercadinhos* in nine states of northeastern Brazil and reach an estimated 1.5 million people.

Ancalmo: Sprinkles against Anemia

Producing Micronutrients Locally to Reduce Anemia

Almost one-fifth of children under 5 in El Salvador are anemic because their diets contain too little iron. In rural areas, that number rises to 25%; the disorder extends across Central America. Iron is essential for bodies and minds to develop and resist infections and diseases. Giving children micronutrients such as iron, vitamins, and zinc is one of the most efficient and cost-effective ways of improving their health. Educating families about good nutrition is key.

A pharmaceutical company in El Salvador is retrofitting its plant with a $1.1 million loan from OMJ to become the first local producer of powdered micronutrients. Supervised by the Global Alliance for Improved Nutrition (GAIN), Establecimientos Ancalmo will ensure a reliable, affordable supply of supplements and reach more children in the Central America.

Broader Distribution through Easier Access

Inexpensive powdered supplements regularly added to food can reverse anemia and its debilitating, sometimes lifelong, consequences. Supplements are most effective when given to children between 6 months and 2 years. Iron drops and syrups work, but taste bad, can stain teeth and upset digestion, and are less popular.

Micronutrient powders (MNPs) are distributed in Central America through public and private nutrition programs but, until now, no local company manufactured them with required supervision and guarantees. MNPs are shipped from Asia, requiring health authority checks before dispensing. They must be bought in bulk, and are in transit so long that some deteriorate. GAIN pinpointed the lack of a local producer as a major obstacle in preventing wider use of these essential substances in Central America.

First Central American Micronutrient Producer

ANCALMO is a family-owned pharmaceutical manufacturer in El Salvador with a well-known line of products aimed at reducing malnutrition. It has experience developing new pharmaceuticals and exports almost half of its production to Central American countries. The company will become the first Central American producer of MNPs, called Sprinkles, with a loan from OMJ and a local bank to adapt and expand their plant.

Starting in 2012, ANCALMO will be able to manufacture 3 million sachets a month and meet international quality and production standards with technical assistance from GAIN, whose participation was ensured thanks to OMJ. Sprinkles are packaged in single doses requiring no measuring, refrigeration, or water, so they are easier for people to use and store, and for nutrition programs to distribute.

Getting Sprinkles to families is key, as is getting families to consume them. In addition to the loan for ANCALMO, OMJ is supporting a $600,000 grant for a vast community education campaign. Pounds of Love is an established program that distributes Sprinkles and seeks to end child malnutrition. With extra support, Pounds of Love will distribute Sprinkles more widely and work to increase their effectiveness by teaching families about nutrition, healthy lifestyles and childrearing, and early childhood development. Baseline measurements will be taken of Sprinkles' impact on communities in order to measure the program's effectiveness over the next 4 years.

Beyond El Salvador, ANCALMO can expect to sell to the Dominican Republic, Guatemala, Guyana, and Nicaragua. Governments there have resources to buy and distribute MNPs though nutrition or conditional cash transfer programs. Up to 1 million children could benefit from locally produced MNPs and ANCALMO could sell 1.4 billion units over the next 5 years to combat childhood anemia alone. Once ANCALMO has experience producing MNPs for children under 5, it will be in a position to manufacture a different formula to reduce anemia in pregnant women and target that population.

Vision Banco: Creating Housing Solutions through an Innovative Partnership

Vision Banco, a leading financial institution in Paraguay, provides micro-loans for microenterprise and consumer goods to about 140,000 clients. Now, with the help of a partial credit guarantee from OMJ, 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 organization 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.

EPM: 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. OMJ is lending money to EPM to expand its pilot program.

Tenda Atacado: 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, São Paulo-based wholesale distributor Tenda Atacado 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.

CEMEX: Accelerating Access to Community Infrastructure Solutions

Throughout Latin America, low-income neighborhoods have difficulty getting their city streets paved. In Mexico, for instance, 60% 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 micro-loans and then pool the resources to finance half the cost of paving neighborhood streets. Municipalities contribute the other half. The micro-loans 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 OMJ, is backing the Mejora tu Calle project with a $10 million partial credit guarantee.

FINAE: 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. OMJ 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.

Pepsi: Small Farmers, Big Dreams—PepsiCo Brings the Base of the Pyramid 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 OMJ in the form of a $5 million 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.

Agricorp: 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 OMJ, part of a larger $13.6 million package from the IDB, aims to make small bean farmers more competitive and improve their income levels. OMJ 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.

IGNIA Fund: Investing in Innovative Funds

OMJ 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-sized companies in Latin America. The second is Global Partnerships, based in Seattle, United States, and Managua, Nicaragua. Its Social Investment Fund 2010 finances 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.

Mibanco: Colending with Impact Investors

Other impact investors are investing in OMJ projects through IDB's colending programs. In Peru, Mibanco is launching Crecer 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.

Working Together in Pursuit of Inclusive Business: Sharing the Latin American and Caribbean Experience with Asia and the Pacific

In 2012, the Asian Development Bank (ADB) and the Inter-American Development Bank (IDB) entered into a formal partnership on South–South cooperation. One of the priority topics for this inter-institutional cooperation is inclusive business. Since 2008, the IDB has built up a dedicated program called Opportunities for the Majority (OMJ) for Latin America and the Caribbean with 45 private sector projects worth $250 million, leveraging more than $1 billion of additional investments, and 33 grant-financed technical assistance projects. ADB recently created its Inclusive Business Initiative to provide specific technical assistance and promote private sector investment that benefits the poor and lower-income groups in Asia and the Pacific. This publication summarizes the IDB's OMJ program and provides recommendations for ADB to learn from Latin America in the pursuit of inclusive business. It is part of the IDB–ADB cooperation on knowledge exchange between the two regional development banks in Latin America and the Caribbean and in Asia and the Pacific.

About the Asian Development Bank

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to two-thirds of the world's poor: 1.7 billion people live on less than $2 a day, with 828 million on less than $1.25 a day. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.

About the Inter American Development Bank

Established in 1959, the IDB is the leading source of development financing for Latin America and the Caribbean, with a strong commitment to support efforts by Latin America and the Caribbean countries to reduce poverty and inequality. Besides loans, the IDB is also providing grants and technical assistance and conducts research. The IDB's 48 shareholders include 26 Latin American and Caribbean borrowing members, who have a majority ownership of the IDB.

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