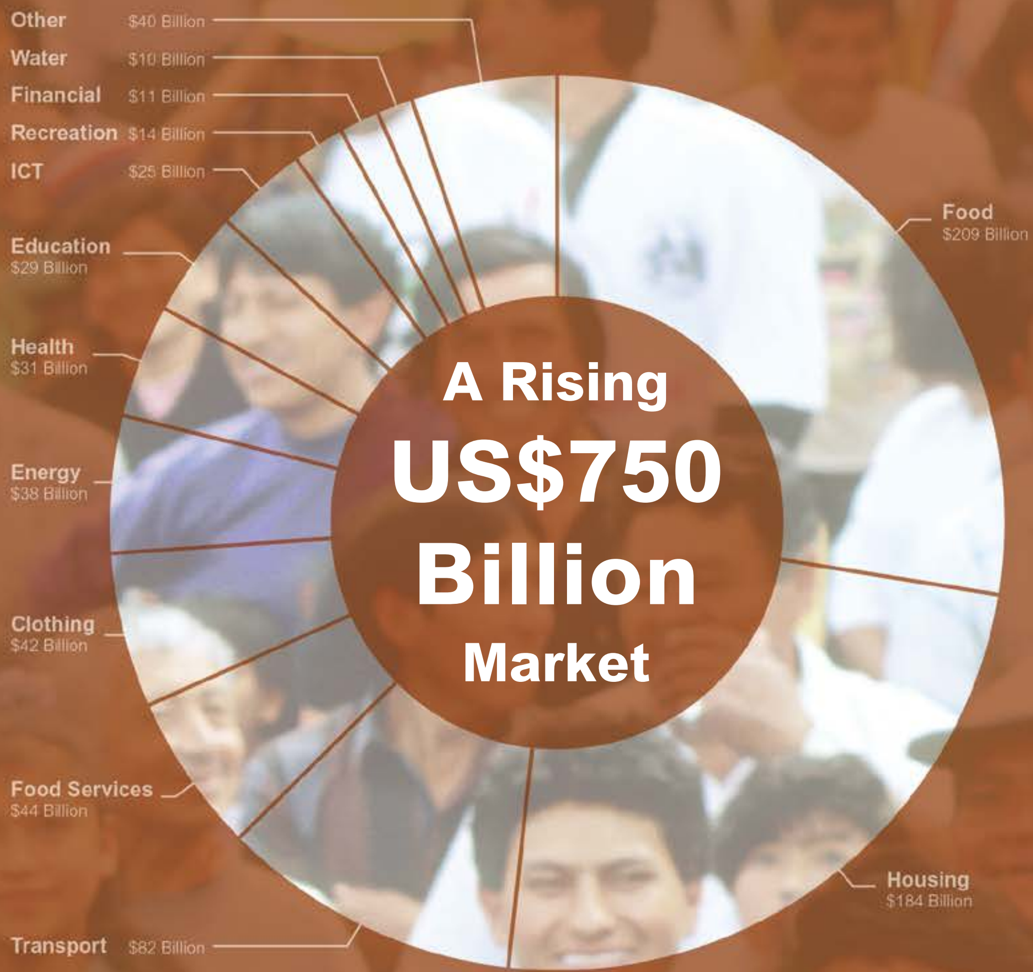
A Rising US$750 Billion Market



Unlocking Opportunities at the Base of the Pyramid in Latin America and the Caribbean

Inter-American Development Bank

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Opportunities for the Majority
The Opportunities for the Majority (OMJ) sector promotes and finances market-based, commercially viable business models that engage private sector companies, local governments, and communities in the development and delivery of quality goods and services for the base of the pyramid (BOP) in Latin America and the Caribbean. Created in 2007 as part of the Private Sector Group of the Inter-American Development Bank (IDB), OMJ provides financing to small, medium-sized, and large companies, financial institutions, and funds that support the development or expansion of business models that serve BOP markets. OMJ has supported BOP business models in 18 countries of the region in various sectors such as health care, education, housing, and financial services.

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IDB
Inter-American Development Bank

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List of Acronyms

BOP	base of the pyramid
ICT	information and communications technologies
IDB	Inter-American Development Bank
3G	third generation
CEPII	Centre d'Etudes Prospectives et d'Informations Internationales
DSL	digital subscriber line
EPM	Empresas Públicas de Medellín
m-banking	mobile banking
m-money	mobile money
MFIS	Micro Franquicias con Impacto Social
PPP	purchasing power parity
SEDLAC	Socio-Economic Database for Latin America and the Caribbean

A Rising US$750 Billion Market

Foreword

It has been nearly a decade since the IDB began financing profitable business models that provide quality goods and services to people living at the base of the economic pyramid in Latin America and the Caribbean.

The decision to invest in this area was driven by our research and empirical work, which indicated that these consumers represented a market of around $500 billion per year in spending power. We believed this was a huge opportunity both for investors and for policymakers working on poverty alleviation—and we continue to believe so today.

One of the most important things we have learned from our experience is that what we call the base of the pyramid is not a static social group. They are citizens characterized by having unsatisfied needs, but also for being a highly dynamic segment of the population with evolving ambitions, preferences and priorities.

We also know that the base of the pyramid as we knew it ten years ago has changed enormously. As you will discover in this report, today the people in this segment of the population in Latin America and the Caribbean are more urban, more connected and more educated. The majority of them have seen an increase in their purchasing power and they are closer than ever to joining the middle class. This represents a huge opportunity for businesses interested in serving these consumers; for governments that recognize this segment's potential for fueling economic growth; for visionary investors; for entrepreneurs who want to tackle urgent social and economic problems; and for development finance institutions convinced that betting on this emerging class is also betting on the region's growth.

A Rising US$750 Billion Market: Unlocking Opportunities at the Base of the Pyramid in Latin America and the Caribbean is a comprehensive and practical review of the state of the base of the pyramid markets in the region. The report provides a clear analysis on how these markets have evolved during the last decade and how those changes can be transformed into business opportunities. It also examines families' spending patterns and preferences, offering valuable insights on the trends shaping this market segment.

Today more than ever, the evidence shows that the base of the pyramid is a land of opportunity for families and individuals in the rising middle class of Latin America and the Caribbean, and for the visionary companies that serve them.

Luis Alberto Moreno
President
Inter-American Development Bank

Executive Summary

Market opportunities at the base of the pyramid (BOP) in Latin America and the Caribbean are far more promising than ever before. This report challenges misperceptions of the BOP as a monolithic bloc of low-income people who lack the purchasing power to be a profitable market for business investments. On the contrary, Latin American and the Caribbean BOP consumers today are more urban, more connected, more educated and have more disposable income than ever before.

During 2000–2013, Latin America and the Caribbean enjoyed remarkable economic growth that improved the incomes and welfare of those at the BOP while also changing their perceptions, expectations, and interactions with the rest of society.[1] Despite facing headwinds today, the region's markets are considerably larger than they used to be, and the private sector is increasingly serving the region´s BOP through innovative and inclusive business models that apply sustainable strategies to bring development solutions to BOP communities.

As the BOP market evolves, it presents new challenges to those aiming to serve it. Companies, impact investors, academia, and the development community are demanding more data and insights into the BOP market. In response, the Inter-American Development Bank has prepared this report on the Latin American and Caribbean BOP market to review how it has evolved and how social, demographic, and economic changes present new opportunities for the private sector.

The report answers the question, how has Latin America and the Caribbean's market at the BOP changed during recent years? Using national household and expenditure surveys, the report presents data on BOP market size, socioeconomic characteristics, market segments, expenditure patterns, and demand-related factors. It also provides insights into what the region's BOP consumers want and identifies underserved markets and business opportunities. Finally, the report examines the supply side of BOP markets and analyzes what types of business models, distribution channels, and input sources have enabled enterprises to successfully engage the Latin American and the Caribbean BOP market.

The Majority Market

The BOP market in Latin America and the Caribbean is made up of households whose members earn up to US$10 purchasing power parity (PPP) per capita per day in 2005 dollars, and it accounts for about 70 percent of the region's population, or 405 million people.[2] In contrast to that in other regions, the Latin American and Caribbean BOP is mostly urban, with three-quarters of BOP households in urban areas having access to basic services such as water and electricity.

The market is made up of two segments: the poor, living on up to US$4 PPP per capita per day in 2005 U.S. dollars, and the vulnerable, living on US$4 to US$10 PPP per capita per day in 2005 U.S. dollars. Poor households are defined as those without sufficient resources or abilities to meet their current needs, while vulnerable households are defined as being able to meet some needs but still at risk of sliding back to poverty in the future. A significant share of the BOP still lives in poverty (45 percent), but overall, BOP households are finally reaping the benefits of a more stable economic environment and a period of high economic growth.

With average per capita income of US$1,873 PPP, the overall size of Latin America and the Caribbean's BOP market is US$759 billion PPP, representing about 10 percent of the regional economy.

1 Ferreira et al. (2012).

2 Monetary values in this report are measured in per capita 2005 U.S. dollars at purchasing power parity. The PPP conversion factor is the number of units of a country's currency required to buy the same amounts of goods and services in the domestic market as the U.S. dollar would buy in the United States.

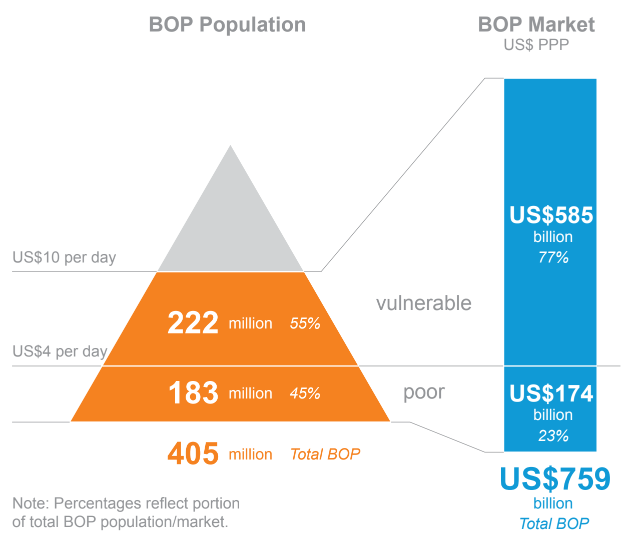


Figure E1 Base of the Pyramid Population and Market Size, Latin America and the Caribbean, 2010

A Market of Emerging Opportunities

In addition to market size, a number of changes in market dynamics present unique business opportunities in the Latin American and Caribbean BOP market.

First, **the BOP is a growing market**. Latin America and the Caribbean's BOP market grew at an annual rate of 2 percent from 2000 to 2010. Most notably, this increase was driven by economic growth rather than demographic changes: the per capita income increase of 2 percent annually for the BOP stands against that for the overall population, which remained more or less constant over the period.

Moreover, the growth trend is expected to continue in the medium term even as an increasing number of the region's BOP households graduate into the middle class. It is estimated that by 2020, the overall BOP population in the region will decrease by 6 percent because of these graduating households. Despite this decrease in the BOP consumer base, the Latin American and Caribbean BOP market will still grow in net terms, because average incomes are expected to increase by at approximately 10 percent, from US$1,873 to US$2,057 PPP. As a result, the region's BOP market is doubly attractive: it is increasing in size and purchasing power at the same time that a portion of the BOP's population is migrating into the middle class. **Companies that forge a customer relationship with the emerging Latin American and Caribbean BOP market segment through brand loyalty will therefore reap the benefits of its continued economic progress.**

In terms of **the composition of the BOP,** growing incomes mean that the **poorest BOP households in the region are declining in number**. The share of lower-income households (those classified as poor) among Latin America and the Caribbean's BOP decreased from 59 percent in 2000 to 45 percent in 2010, while the share of the higher-income segment (or those classified as vulnerable) increased from 41 to 55 percent. As a result, 54 million people increased their incomes and moved from living in poverty to living in vulnerability between 2000 and 2010. In some countries, such as Colombia, the overall national distribution of income is beginning to transform from a "pyramid" into a "diamond" as a growing middle class starts to take shape.

The second change in Latin American and Caribbean BOP market dynamics that presents a business opportunity is that **BOP consumers are looking more and more like middle-class families.** The average size of a BOP household in the region declined from 4.24 members in 2000 to 3.98 members in 2010. Over the same period, the average age of household members increased by two years to 28.2. Latin America and the Caribbean's BOP households are also more educated than at the beginning of the century. Average years of schooling of BOP household heads in the region increased from 5.8 years in 2000 to 7 years in 2010—an increase of more than a full year of education in a single decade.

For Latin American and Caribbean BOP parents, the education and health of their children is a particular priority. Their savings are directed mainly toward paying for private education (whenever possible) and medical care. If these trends continue, the outlook for the region's younger BOP generations will be brighter than that for preceding generations, as their parents stand to have more resources to ensure their good health and proper education.

As mentioned previously, the region's BOP population is mostly urban, with 75 percent of this population segment living in urban areas. Most Latin American and Caribbean BOP households today have access to electricity (90 percent) and running water (87 percent). This increased access to basic utilities translated into an increase in purchases of home appliances such as televisions (17 percent) and refrigerators (18 percent) from 2000 to 2010.

Finally, the region's BOP provides a unique niche for social impact, new customers, and innovation. Companies can profit while making a difference in people's lives by providing them with goods and services long unavailable to them. Additional opportunities include helping BOP consumers meet basic needs (such as food, clean water, sanitation, electricity, and health care) and enhancing their productivity and quality of life through financial services, information and communications technologies, and education. More productivity, in turn, can generate more self-sustainable income options. Other innovative opportunities include unconventional partnering, such as working with governments, nongovernmental organizations, or multiple stakeholders to lower transaction costs. Companies can work in tandem with government subsidy programs, participate in public-private partnerships, partner with nongovernmental organizations, and access impact investment financing by focusing on accomplishing social goals.

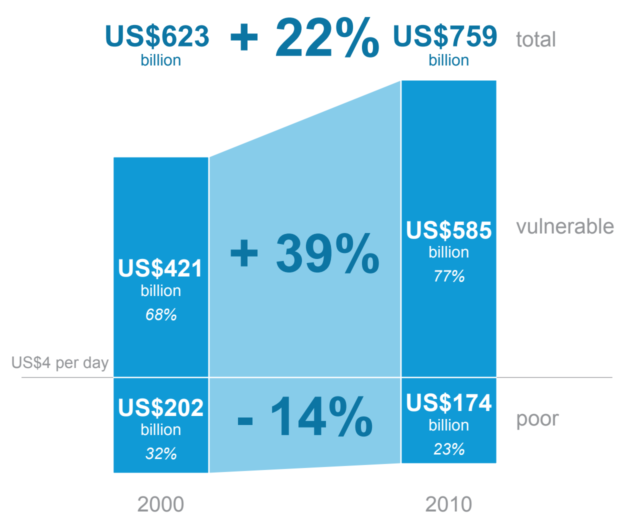


Figure E2 Base of the Pyramid Market Shift,Latin America and the Caribbean, 2000 to 2010, in US$ PPP

Penetrating the Untapped BOP Market

BOP consumers in Latin America and the Caribbean have more diversified spending patterns than ever before. Although the BOP population spends an important share of its income on food, this market is in fact about more than just consumer goods and basic needs. Around 27.5 percent of BOP spending in the region is on food; the rest is directed toward a variety of needs and desires, ranging from housing and transportation to entertainment and education. From 2000 to 2010, all categories of Latin American and Caribbean BOP expenditure increased; thus, BOP income growth in the region has resulted in greater BOP expenditure across the board. However, looking at expenditure categories separately, the BOP in Latin America and the Caribbean spent relatively less on "basic" goods and services, and more on "discretionary" goods and services such as information and communications technologies and food services in 2010 than it did a decade earlier.

In terms of consumer spending, each expenditure category has its own particular market trends and offers its own particular market opportunities. Further insights arise when spending categories are analyzed by market share and income responsiveness (elasticity). For the purposes of this report, "basic" goods and services include expenditure categories that are essential to cover basic needs, and these represent the largest amount of Latin American and Caribbean BOP spending (82.3 percent). For these purchases (such as food, housing, and transport), the region's BOP customers prioritize value. The "discretionary" spending category comprises goods and services that satisfy more social needs—such as ICT and entertainment—that have higher income elasticity in general. As people's incomes increase, discretionary sectors show a greater increase, as a proportion of total expenditure, than other sectors.

These insights into Latin American and Caribbean BOP spending patterns reveal different sets of opportunities for firms to engage the BOP market segment in the region. First, companies can create an affordable variety of a well-known brand product, since BOP customers are aware of the quality and status of the brand. Second, if products are already reaching the region's BOP market, their value can be enhanced by adding more functionality to meet the BOP's needs, although such upgrading must be communicated to BOP consumers in order to take full advantage of the opportunity. Finally, since the region's BOP is willing to try new brands and products that offer a better fit in terms of value, companies can enter the market by creating new products that serve BOP needs but remain consistent with the focus on value that is characteristic of the region's BOP consumers.

Traditional public services also present an opportunity: 49.2 percent of the goods and services purchased by Latin American and Caribbean BOP consumers are from areas traditionally served by the public sector, such as education, health care and transport. Although these sectors are usually covered by federal and local governments, the perception of improved efficiency and quality, and better service levels may explain why, when possible, the region's BOP consumers often turn to the private sector for these services even if they are more expensive: public provision of them may be insufficient, or the publicly provided versions may be not be available or easily accessible.

Companies can enter the Latin American and Caribbean BOP market through existing distribution channels or by creating new ones with a local focus. BOP consumers tend to shop and make decisions within their communities. For daily purchases, the region's BOP has traditionally been served by a collection of local and independent "mom-and-pop shops," small retailers, kiosks, and market stands that are largely owned by the BOP population. High transportation costs and long travel times due to lack of efficient public transportation in and out of BOP neighborhoods results in the region's BOP consumers generally buying at local shops, even if it means paying higher prices for goods and services. As a result, local shops have fostered relationships with their BOP customers and are often willing to extend them credit until their next visit. This connection between BOP stores and their customers represents a strategic and high-value distribution network to any company that intends to reach Latin American and Caribbean BOP markets.

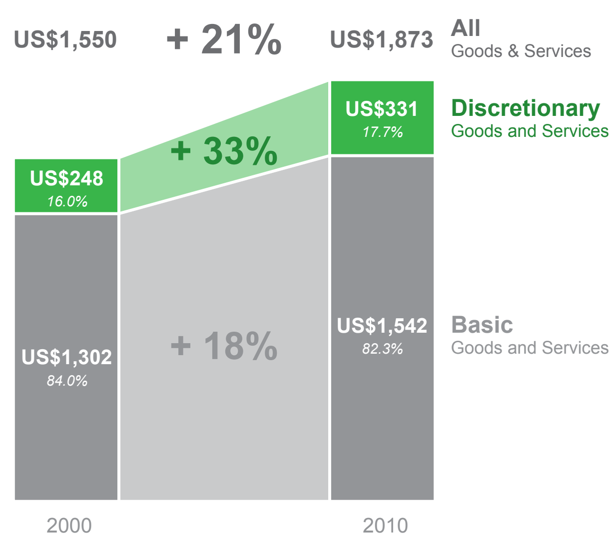


Figure E3 Base of the Pyramid Spending Changes, Latin America and the Caribbean, 2000 to 2010, in US$ PPP per Capita

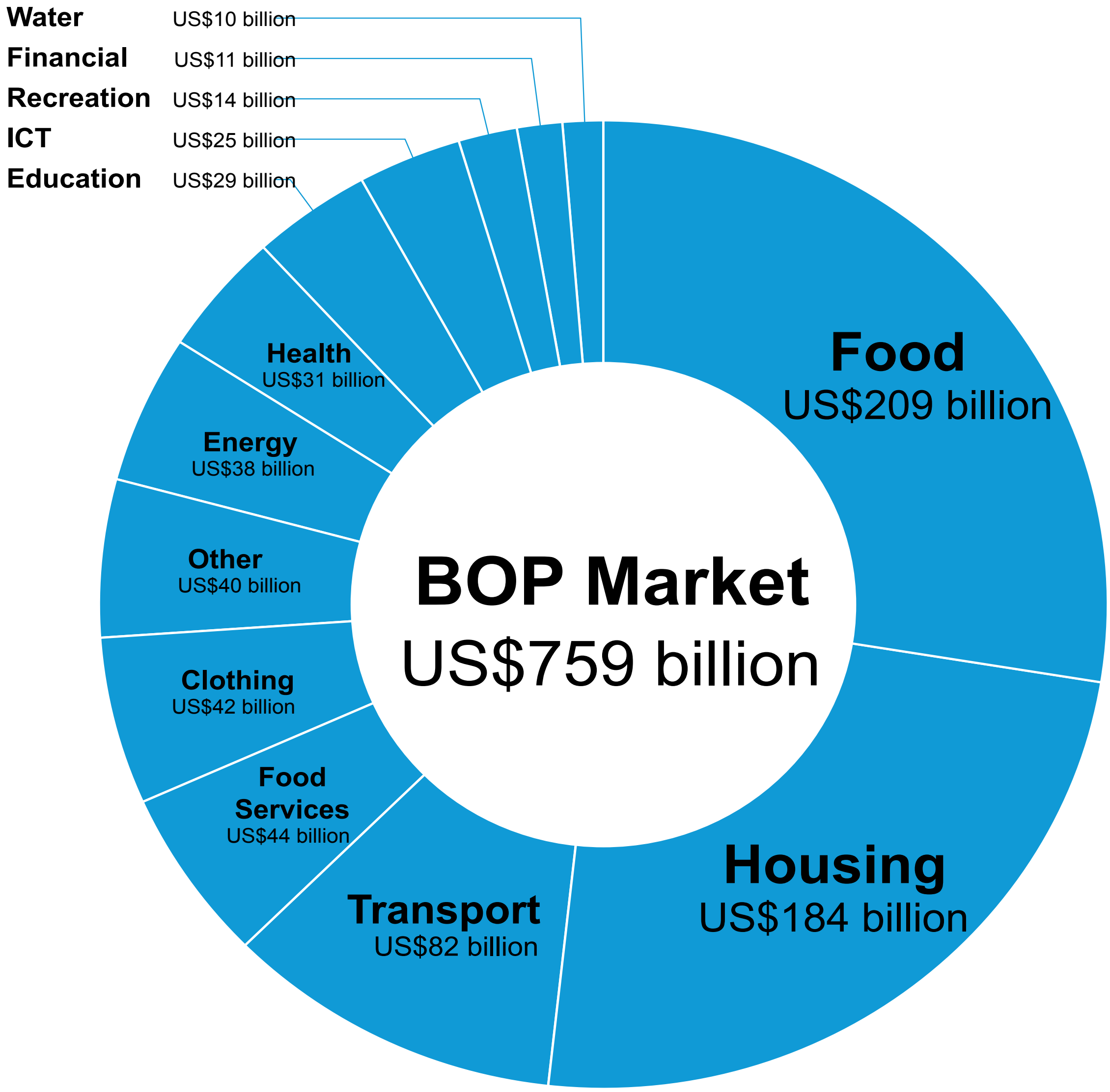


Figure E4 Base of the Pyramid Potential Market Size by Economic Sector, Latin America and the Caribbean, 2010, in Billions of US$ PPP

Introduction

Market opportunities at the base of the pyramid (BOP) in Latin America and the Caribbean are far more promising than ever before. This report challenges misperceptions of the BOP as a monolithic bloc of low-income people who lack the purchasing power to be a profitable market for business investments. On the contrary, Latin American and Caribbean BOP consumers today are more urban, more connected, and more educated and have more disposable income than ever before.

Businesses that innovate to provide goods and services to meet the needs and new demands of BOP consumers are tapping into a wide-open market that is moving quickly toward the middle class. As this report shows, many businesses have already moved into this market with resounding success, but opportunities still abound.

A common misperception is that the BOP population is composed mostly of people living utterly outside the mainstream, scraping by in substandard housing and struggling to meet everyday needs as basic as food and shelter. From this perspective, the businesses that serve these people are mostly informal, family-based concerns that come and go, selling low-quality products on the street.

This account may sound plausible, but in fact most of those at the BOP in Latin America and the Caribbean already use many modern products and services and are eager to participate more fully in the mainstream economy. They earn up to US$10 per capita per day in 2005 purchasing power parity (PPP), although some do indeed live in abject poverty. But the majority are at the upper fringe of the poverty line and are slowly getting ahead. In the years to come, millions currently at the BOP will join the middle class. In the early 2000s, C. K. Prahalad and Stuart Hart noted that the BOP represents trillions of dollars in untapped market potential, and they encouraged established businesses to actively pursue this market. Multinational corporations could thrive economically, they argued, while at the same time helping the BOP.[3] Their approach assigned the private sector a far greater role than it has traditionally played in combating poverty through filling in the gaps that separate those with access to basic goods and services from those long marginalized by market forces.

This kind of "inclusive capitalism" can generate a win-win: for businesses, an untapped market with lucrative potential, and for those at the BOP, access to goods and services long unavailable to them. It can also help reduce the poverty penalty: the price premium paid by excluded poor customers when compared with the nonpoor.

Since the turn of the century, hundreds of small and large firms have ventured into these uncharted waters, reaching out to the BOP market as never before. How has this global movement unfolded in Latin America and the Caribbean?

During the period 2000–2013 Latin America and the Caribbean enjoyed remarkable economic growth that improved the incomes and welfare of those at the BOP while also changing their perceptions, expectations, and interactions with the rest of society.[4] Despite facing recent headwinds, regional markets are considerably larger than a decade ago, and the private sector is increasingly serving the BOP through innovative and inclusive business models that apply sustainable strategies to bring development solutions to BOP communities. Thanks to this economic growth—as well as new approaches to public policies and the diffusion of technological innovations—Latin America and the Caribbean's BOP is now recognized not only as a huge market, but also as an attractive and accessible market.

Moreover, within corporations, developing strategies to serve the BOP market is increasingly seen as an early and effective way to create a strong brand position in an emergent Latin American and Caribbean middle-class market. In response to this opportunity, pioneering firms have been striving to build new business models that serve the needs of the region's BOP customers. Some have been successful, while others have failed. As the BOP market segment evolves, it presents new challenges to companies trying to serve this segment.

As a result, companies, investors, academia, and the development community are demanding more data and insights into the BOP market. This report answers the question, How has Latin America and the Caribbean's market at the base of the pyramid changed during recent years?

Using data on BOP market size, socioeconomic characteristics, market segments, expenditure patterns, and demand-related factors, the report provides insights into what BOP consumers want and identifies underserved markets and business opportunities. It also examines the supply side of BOP markets and analyzes what types of business models, distribution channels, and input sources have enabled companies to successfully engage with the Latin American and Caribbean BOP market.

3 Prahalad (2006); Hart (2007).

4 Ferreira et al. (2012).

A Rising $750 Billion Market: Unlocking Opportunities at the Base of the Pyramid in Latin America and the Caribbean is a resource for anyone interested in the evolution of the BOP market. It has been a while since the BOP segment was first presented as an opportunity for development and businesses. It is time to review how this market has evolved and how social, demographic, and economic changes present new opportunities for the private sector. The report's first section is based on national household and expenditure surveys and describes in depth the BOP market from 2000 to 2010, focusing on BOP households and their spending patterns. The second part uses additional sources to analyze recent business trends and case studies.

The Majority Market

The BOP market in Latin America and the Caribbean is composed of households whose members earn up to US$10 per capita per day in purchasing power parity (PPP).[5 6] This means that the BOP market accounts for about 70 percent of the population in the region, or 405 million people. Three-quarters of those BOP households are in urban areas and have access to basic services such as water and electricity. Although a significant share of the region's BOP still lives in poverty (45 percent), the majority are finally reaping the benefits of a decade of high economic growth.

The overall size of Latin America and the Caribbean's BOP market is US$759 billion PPP annually, with an average BOP per capita income of US$1,873 PPP[7] accounting for approximately 10 percent of the regional economy.[8] The region's BOP market grew at a rate of 2 percent per year from 2000 to 2010.[9] Most notably, this increase was driven by income growth rather than demographic changes. In other words, income growth within the BOP has exceeds the decrease in total BOP income resulting from those who exited the BOP as they joined the middle class. The BOP per capita income increase of 2 percent annually compared to the overall population, which has remained almost constant over the period, is expected to continue in the medium term: by 2020, it is estimated that 16 percent of the upper segment of the BOP will have migrated upward into the middle class, reducing the overall BOP population by 6 percent[10]. Yet despite this decrease in the size of the BOP customer base, the BOP market will actually grow, because average incomes within the BOP in the region are expected to increase by at least 10 percent overall.

5 See "Monetary Values" in "Notes on Methodology", p. 50.

6 See "BOP Thresholds" in "Notes on Methodology", p. 50.

7 This figure puts average per capita BOP income at US$5 PPP a day, but the BOP market includes incomes up to US$10 PPP per capita per day.

8 Regional GDP in 2014 was US$7,531,585 PPP according to the International Monetary Fund (IMF, 2014).

9 See "Market Size" in "Notes on Methodology", p. 50.

10 See "Market Growth for 2020" in "Notes on Methodology", p. 50.

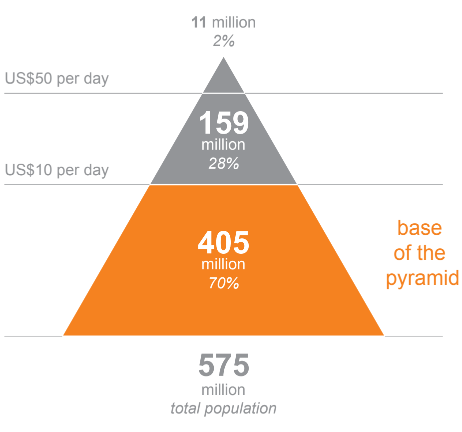


Figure 1 Population of Latin America and the Caribbean, 2010

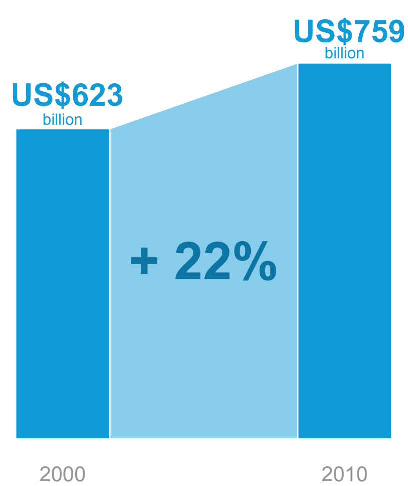


Figure 2 Base of the Pyramid Market Growth, Latin America and the Caribbean, 2000 to 2010, in US$ PPP

The New BOP: Less Poverty, More Purchasing Power

Growth in Latin America and the Caribbean, as measured through GDP, increased from an average of 3.15 percent annually in the 1990s to 4.34 percent in the 2000s.[11] How has this growth translated into outcomes for the BOP in the region? On average, per capita income at the BOP in Latin America and the Caribbean rose from US$4.20 PPP a day in 2000 to US$5.10 PPP in 2010, and the BOP market has grown at an annual rate of 2 percent. This increase is explained by changes in the composition of the BOP, which is made up of two segments: the poor, living on up to US$4 PPP per capita per day, and the vulnerable, living on US$4 to US$10 PPP per capita per day. Poor households do not have sufficient resources to adequately meet their needs, while vulnerable households can meet their basic needs but are at a high risk of becoming poor. As recent empirical evidence indicates, surpassing the US$10 PPP threshold reduces an individual's probability of falling below the poverty line.[12]

Vulnerable households have few savings and liquid assets, so even the slightest change in their circumstances or an economic shock—such as an illness or the temporary loss of a job—can nudge them into poverty. In Latin America and the Caribbean, such households are generally not well integrated into the formal sector of the economy. There are a number of reasons for this: (1) lack of access to financial instruments that can help lower borrowing costs or insure them against risks, (2) lack of access to good-quality health care, (3) reduced job security, and (4) higher vulnerability to crime, which results in more frequent losses of assets and high costs to protect themselves or their businesses.

The good news is that the number of people in the region's lower BOP segment (that is, the poor) is declining as people graduate to vulnerable status, and the overall size of its vulnerable population is growing because of this upward mobility. The percentage of poor among the BOP in Latin America and the Caribbean decreased from 59 percent in 2000 to 45 percent in 2010, while the vulnerable portion of the BOP increased from 41 to 55 percent. As a result, 54 million people in the region moved from living in poverty to living in vulnerability. In some countries, such as Colombia, the shape of the national income distribution has begun to transform from a pyramid into a diamond as a growing middle class starts

11 IMF (2013).

12 López-Calva and Ortiz-Juarez (2014).

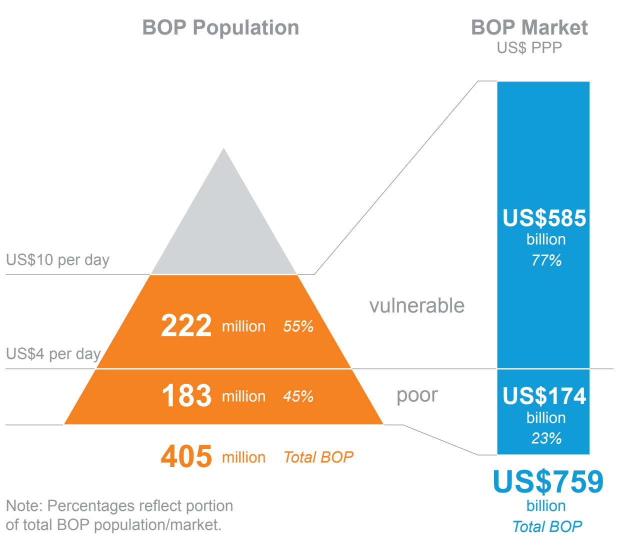


Figure 3 Base of the Pyramid Population and Market Size, Latin America and the Caribbean, 2010

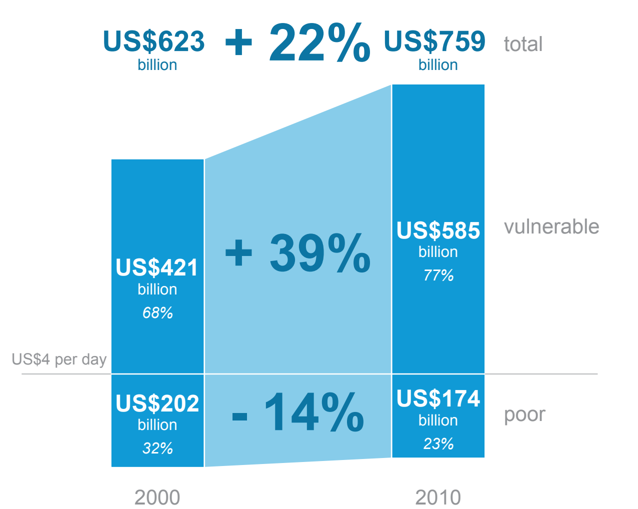


Figure 4 Base of the Pyramid Market Shift,Latin America and the Caribbean, 2000 to 2010, in US$ PPP

to take shape.[13] As a proportion of the region's BOP market, the poor segment decreased from 32 percent in 2000 to 23 percent in 2010, while the vulnerable segment increased correspondingly from 68 percent to 77 percent.

With a few exceptions, most countries in the region have seen their BOP populations increase their incomes. The transition toward a higher-income BOP has been quite remarkable in countries that showed steady economic growth over the last decade, such as Brazil and Peru. The poor segment of these two countries' BOP populations declined at least 20 percent during that time period.

Having more women in the labor market has probably contributed to this phenomenon. More than 70 million women have entered the workforce in Latin America and the Caribbean since 1980. This growth over the course of about three decades is equivalent to the increase in female labor participation in the United States over the entire century between 1890 and 1990.[14] Additionally, today girls in the region are more likely than boys to be enrolled in school, which increases female participation in the economy as a whole as these girls complete their education and move into the labor force. Women at the base of the pyramid are thus becoming active market agents, whether they have a formal job or work in the informal sector.

13 Colombia's National Administrative Department of Statistics has estimated that by 2020, the middle class and the vulnerable segment (upper end) of the BOP in that country together will constitute 85 percent of the population (MacMaster, 2013). It estimates that the country's 2020 income distribution will be 54 percent middle class, 31 percent vulnerable, 13 percent poor, and 2 percent upper class.

14 World Bank (2011).

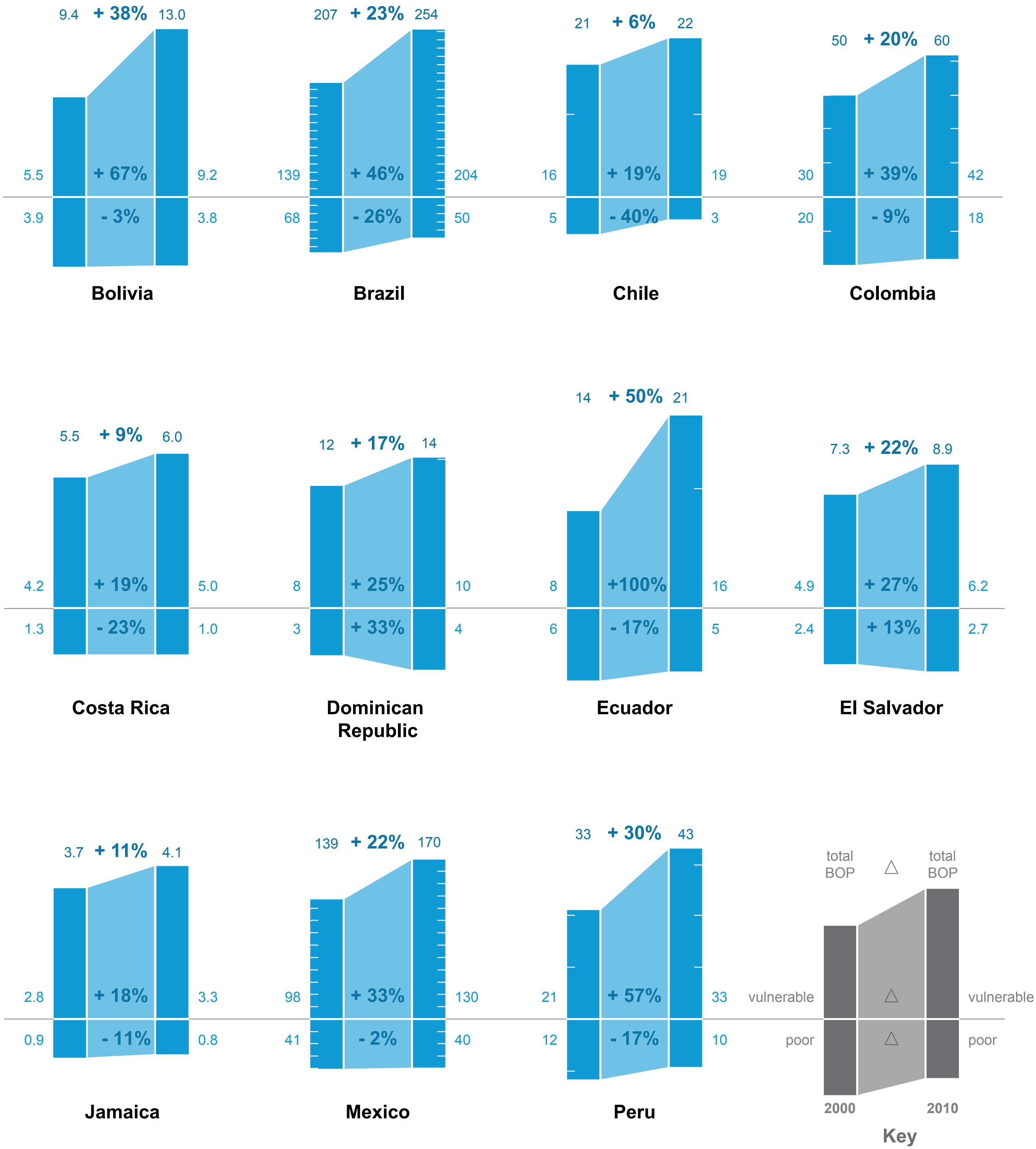


Figure 5 Base of the Pyramid Market Shift by Country, Latin America and the Caribbean, 2000 to 2010, in Billions of US$ PPP

Note: For each country, the size of total BOP market 2000 has been normalized to the same height, in order to enable comparison of growth rates. For larger markets, tick marks are displayed at US$10 billion increments.

Improved Living Conditions at the BOP

So what does a typical BOP household look like today in Latin America? Although all the poor are not the same and do not live in the same ways, there are some shared patterns and dynamics across the Latin American and Caribbean BOP.

First, Latin American and Caribbean BOP families are looking more and more like middle-class families: they are getting smaller and older. The average BOP household size in the region declined from 4.24 members in 2000 to 3.98 members in 2010. Over the same period, the average age of household members increased by two years to 28.2. Latin America and the Caribbean's BOP families are also more educated than in the past. The years of schooling of the average Latin American and Caribbean household head increased from 5.8 years in 2000 to 7 years in 2010—an increase of more than a full extra year of education among this group in a single decade. Moreover, Latin American and Caribbean BOP families have rising expectations about future educational achievement and health care. For the region's BOP parents, the education and health of their children is a priority, so their savings are directed primarily toward paying for private education and medical care.[15] These trends and aspirations make for a brighter outlook for the region's younger generations at the BOP, as they stand to be healthier and better educated than previous generations. Latin America and the Caribbean is becoming a more urban region as a result of migration to cities in search of higher incomes and better living conditions during the second half of the twentieth century. The region's BOP population is mostly urban as well, with 75 percent of this segment living in urban areas. Housing conditions for the BOP in Latin America and the Caribbean have been improving throughout the past decade. Access to household services has grown considerably, and BOP households in the region today have access to electricity (90 percent) and running water (87 percent). This increased access to basic utilities has translated into more purchases of home appliances such as televisions and refrigerators, with annual increases of 2 percent and 3 percent over the last decade, respectively.

15 From focus groups commissioned by the IDB and conducted by Grupo de Analisis para el Desarrollo (GRADE, 2013).

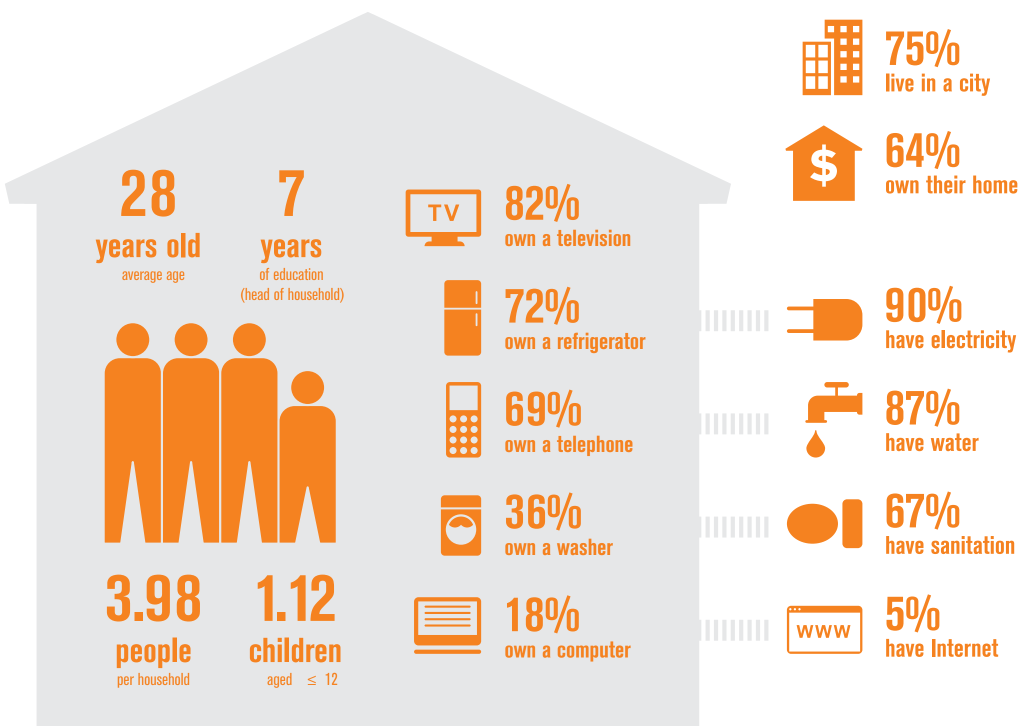


Figure 6 The Average BOP Household in Latin America and the Caribbean, 2010

Note: Percentages are calculated as a proportion of total households in Latin America and the Caribbean.

A Market for More than Just Basic Consumer Goods

The BOP market in Latin America and the Caribbean is about much more than just basic consumer goods and needs. Only 27.5 percent of BOP spending in the region is on food; the rest is directed toward fulfilling a variety of needs and desires, ranging from housing and transportation to entertainment and education. Interestingly, 49.2 percent of the goods and services purchased by BOP consumers in the region are from areas traditionally served by the public sector such as education, health care, basic infrastructure, and housing. This suggests that in some cases Latin American and Caribbean BOP households are consuming private sector products and services because public provision of them is insufficient or inaccessible. The health care sector in the region, for example, is traditionally covered by the federal or local governments, but the perception of improved efficiency, quality, and better service may explain why, when possible, BOP consumers in Latin America and the Caribbean often turn to private sector health care services even if they are more expensive. This consumption pattern also suggests that business opportunities in the region for new, high-quality goods and services are not limited to a handful of economic sectors.[16]

From 2000 to 2010, BOP spending in the region increased in all expenditure categories, which shows that BOP income growth has in general resulted in greater BOP expenditure across the board. However, when expenditure categories are considered separately, the data show that those at the BOP in the region spent relatively less on staples and basic services and more on discretionary goods and services in 2010 than they did a decade earlier. Expenditures on discretionary goods and services grew more in absolute terms (33 percent) over the period, compared to basic goods and services (18 percent).

16 See “Market Size of Sectors” in “Notes on Methodology” , p. 50.

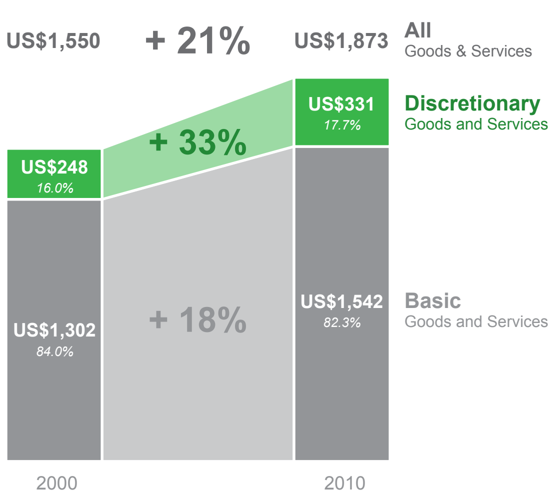


Figure 7 Base of the Pyramid Spending Changes, Latin America and the Caribbean, 2000 to 2010, in US$ PPP per Capita

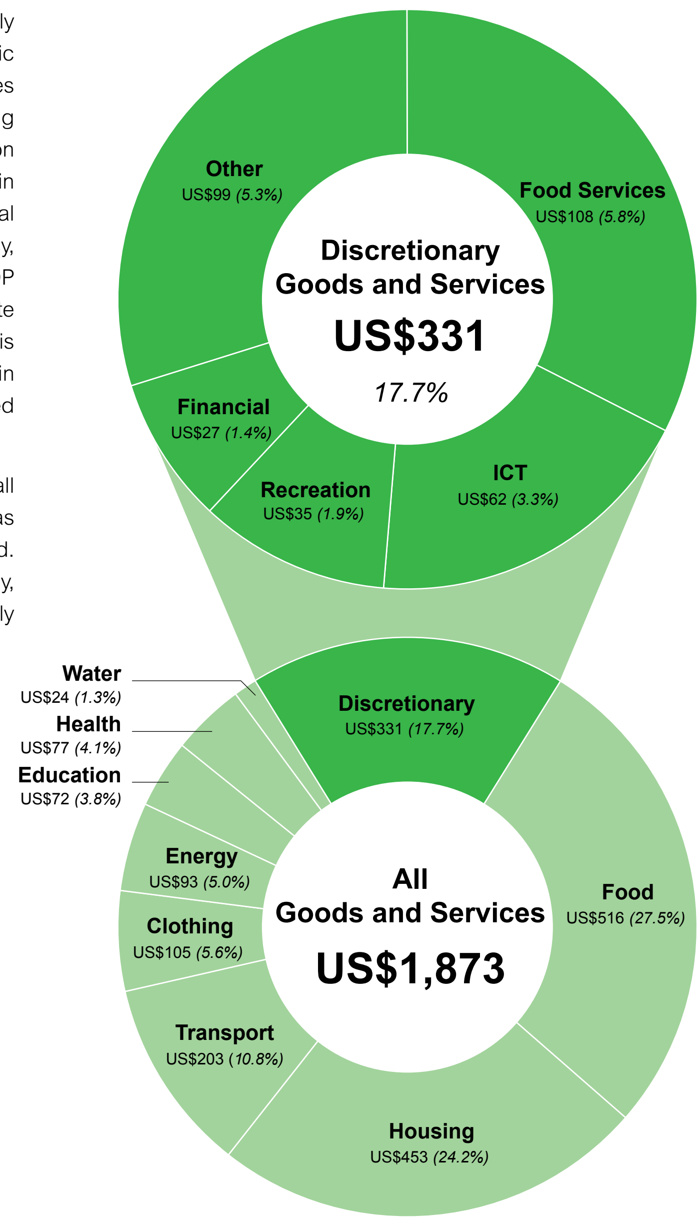


Figure 8 Base of the Pyramid Spending Patterns, Latin America and the Caribbean, 2010, in US$ PPP per Capita

Spending trends in each expenditure category can be explained by analyzing market share and income responsiveness (the elasticity of expenditure to changes in income)[17]—which determines how likely people are to increase or decrease expenditure on goods and services in a particular category if their incomes are increased or reduced. Basic goods and services include lower-elasticity expenditure categories that are essential to cover basic needs; these represent the largest amount of spending. Discretionary spending categories comprise higher-elasticity goods and services that satisfy more social needs, such as communications and entertainment.

As people's incomes increase, spending in discretionary goods and services categories shows a greater increase, as a proportion of their total expenditure, than spending in basic goods and services categories. For BOP households, this increase in discretionary expenditure generally represents a novel opportunity to project themselves into a better economic and social situation.

17 See "Elasticity" in "Notes on Methodology" p. 50.

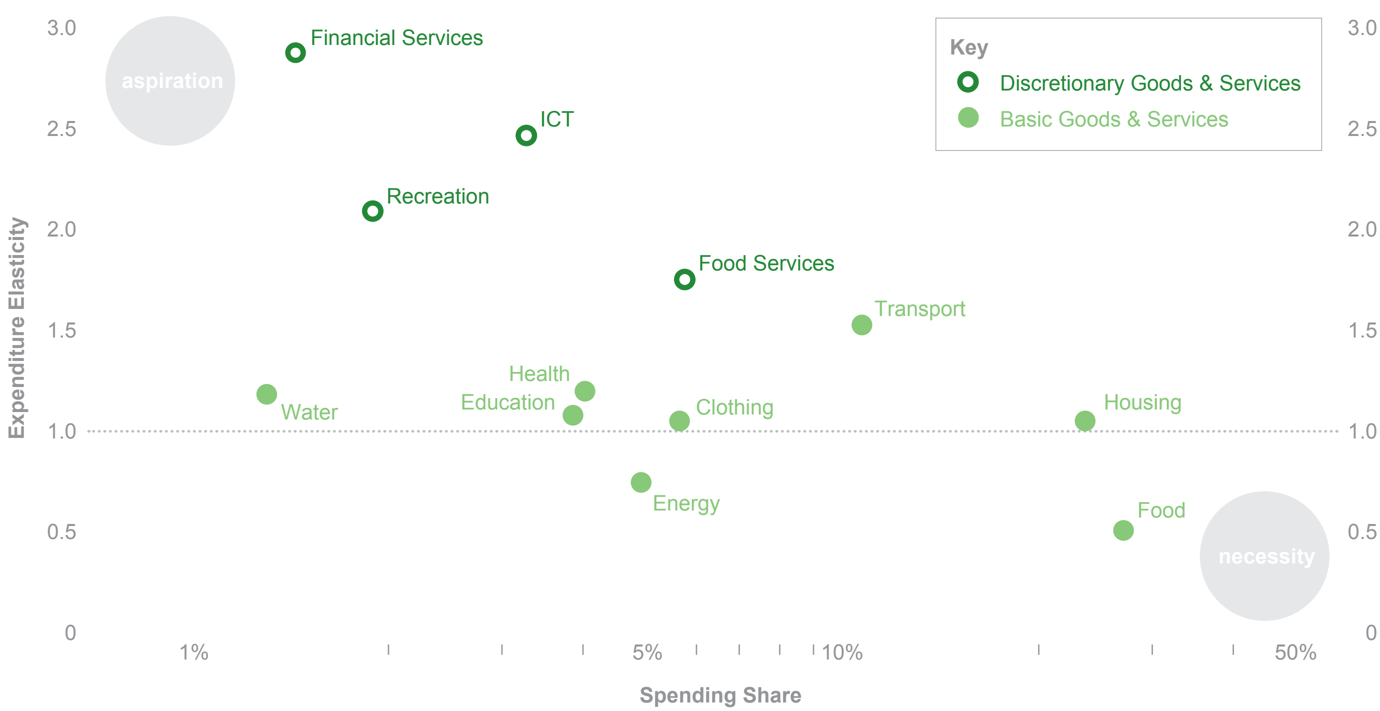


Figure 9 Base of the Pyramid Potential Spending Segments by Sector, Latin America and the Caribbean, 2010
Measured by expenditure elasticity and spending share

A Large Market Served by Small Retailers

In Latin America and the Caribbean, the BOP has traditionally been served by a combination of local and independent "mom-and-pop shops," small retailers, kiosks, and market stands that are largely owned by the BOP population. Many of these stores are subsistence-type microenterprises. BOP consumers make small and frequent purchases at these local stores because of their proximity and convenience. In fact, transportation considerations are a key determinant of where Latin America and the Caribbean's BOP consumers choose to shop. High transportation costs and long travel times due to the lack of efficient public transportation in and out of BOP neighborhoods in the region prompt BOP consumers to buy at local shops, even it means paying higher prices for goods and services.

For example, 67 percent of BOP households in the region rarely venture to locations different from those they usually frequent, even in cases in which they have precise goods in mind. In fact, BOP consumers in Latin America and the Caribbean are often willing to purchase a second-best product rather than venture out of their communities or shop at new retailers.[18] Some of the reasons that have been determined to underlie this phenomenon are racial discrimination, difficulty communicating due to accent or language issues, and gender issues. BOP customers also feel intimidated by the formality of supermarkets and other types of stores and are sometimes embarrassed if they do not have enough cash to pay in full for what they have purchased. While local stores often have a much smaller selection of products than supermarkets and other stores, smaller package sizes and fractioning are available for certain goods. This is very important for the cash-in-hand nature of the region's BOP economy, in which necessities are often purchased on a daily basis. Buying locally every day also fosters personal relationships and trust between shop operators and regular customers. These personal relationships not only promote good service in terms of the seller being attentive and culturally attuned to customers, but they also enable shop owners to function as short-term credit providers for merchandise purchases.[19]

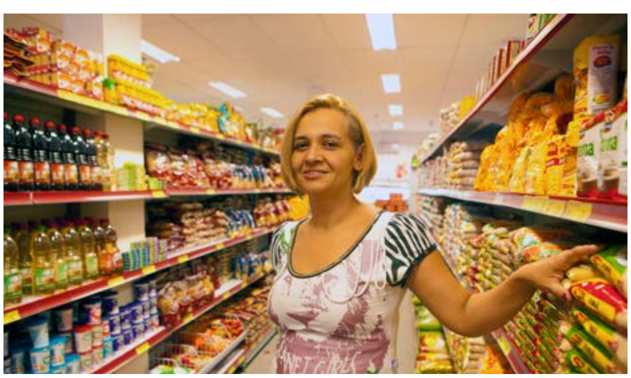
In sum, BOP consumers in Latin America and the Caribbean tend to prefer retailers for convenience and credit and out of habit, rather than for price, product selection, product quality, or in-store amenities. They choose nearby stores where they are comfortable and feel accepted. While the accessibility, flexibility, and trust of small shops are positive attributes valued by the region's BOP consumers, these retailers incur inefficiencies that constrain the BOP's overall buying capacity. Shelf prices can be up to 20 percent more expensive than those of supermarkets because of the additional layers of middlemen necessary to supply the stores and the lack of economies of scale in delivery costs and in the placement of small orders.[20]

Athough convenience store chains such as Mexico's OXXO stores are expanding and competing with traditional corner stores in the middle-class neighborhoods of Latin America and the Caribbean, mom-and-pop shops continue to be the main retail outlets in the region's BOP neighborhoods. The broad reach of these stores represents a strategic and high-value distribution network for any company that wants to reach BOP markets. Recognizing this potential, large firms, such as SABMiller through its Latin American companies (Industrias La Constancia in El Salvador, Bavaria in Colombia, and Backus in Peru), in partnership with local financial institutions and nongovernmental organizations, are investing through market-based models to upgrade the facilities of these mom-and-pop shops and the management and inventory-planning skills of their proprietors. By modernizing these small shops, large corporations gain insights into their BOP consumers while at the same time benefiting the company's business and bottom line.

18 From surveys conducted for the IDB by Development Research Strategies (DRS, 2014).

19 From focus groups conducted for the IDB by Grupo de Analisis para el Desarrollo (GRADE, 2013) in Peru and by Berumen & Associates (2013) in Mexico.

20 D'Andrea, Lopez-Aleman, and Stengel (2006).



Areas of Business Opportunity

The market opportunities at the base of the pyramid in Latin America and the Caribbean are far more promising than they were a mere half-decade ago. The region's BOP is more urban, more connected, wealthier, and more educated than ever before. At the same time, BOP consumers in the region are evolving, their buying preferences are changing and diversifying, and they are ready to spend money on a growing array of unmet needs and desires.

Public investment in infrastructure—particularly transportation—in the region and the development of supportive public policies have lagged behind this growth and shift in consumer behaviors. As noted previously, BOP consumers in Latin America and the Caribbean still shop locally and pay higher prices for comparable goods. This inefficiency in the supply of goods and services presents a business opportunity to invest in an underserved US$759 billion PPP market that will continue to grow. Even with lower unit margins compared with sales to high-income population segments, the sheer size of the BOP market makes it impossible to ignore. More importantly, many in this market will graduate into the middle class, which will grow into a much larger, deeper, and more diverse market over the next decade. This is therefore the time for established companies to stake out their position in this growing market.

Rather than wait until incomes at the BOP in Latin America and the Caribbean catch up to those of the middle class—at which point the evolving tastes of the upwardly mobile BOP will converge with those of the region's existing middle class—forward-looking companies are innovating to provide goods and services tailored to the needs of BOP consumers right now. The most innovative companies are expanding in this market by offering not only lower price points, but also unique value propositions. Some firms are starting from scratch with BOP-oriented greenfield initiatives, while others are merging their existing operations with traditional retail outlets and distribution channels.

As these pioneering firms deploy successful new business models, open distribution channels, and generate market-specific know-how, an increasing number of businesses are following them into this market. In addition to all the business development advantages or spillover effects that result from increased business activity at the BOP—such as shared infrastructure, greater accessibility to economies of scale, and increasing formalization of the market—serving the region's BOP has a social impact. Selling products and services to the BOP through a financially sustainable model is a win-win for the private sector and Latin American and Caribbean society as a whole. Some BOP markets in the region are already starting to benefit from the economies of scale offered by these new business models.

The opportunities to enter the region's growing BOP markets are broad-based and spread across different economic sectors. The food sector offers the largest of these markets, with an annual volume of US$209 billion PPP, followed by the housing sector market of US$184 billion PPP. Next, the transportation sector comprises a US$82 billion PPP market. Together, these top spending sectors constitute US$475 billion PPP and account for 63 percent of the overall BOP market in the region. The following section describes the contours and opportunities in various economic sectors: housing, information and communication technologies, health care, food services, financial services, and education.

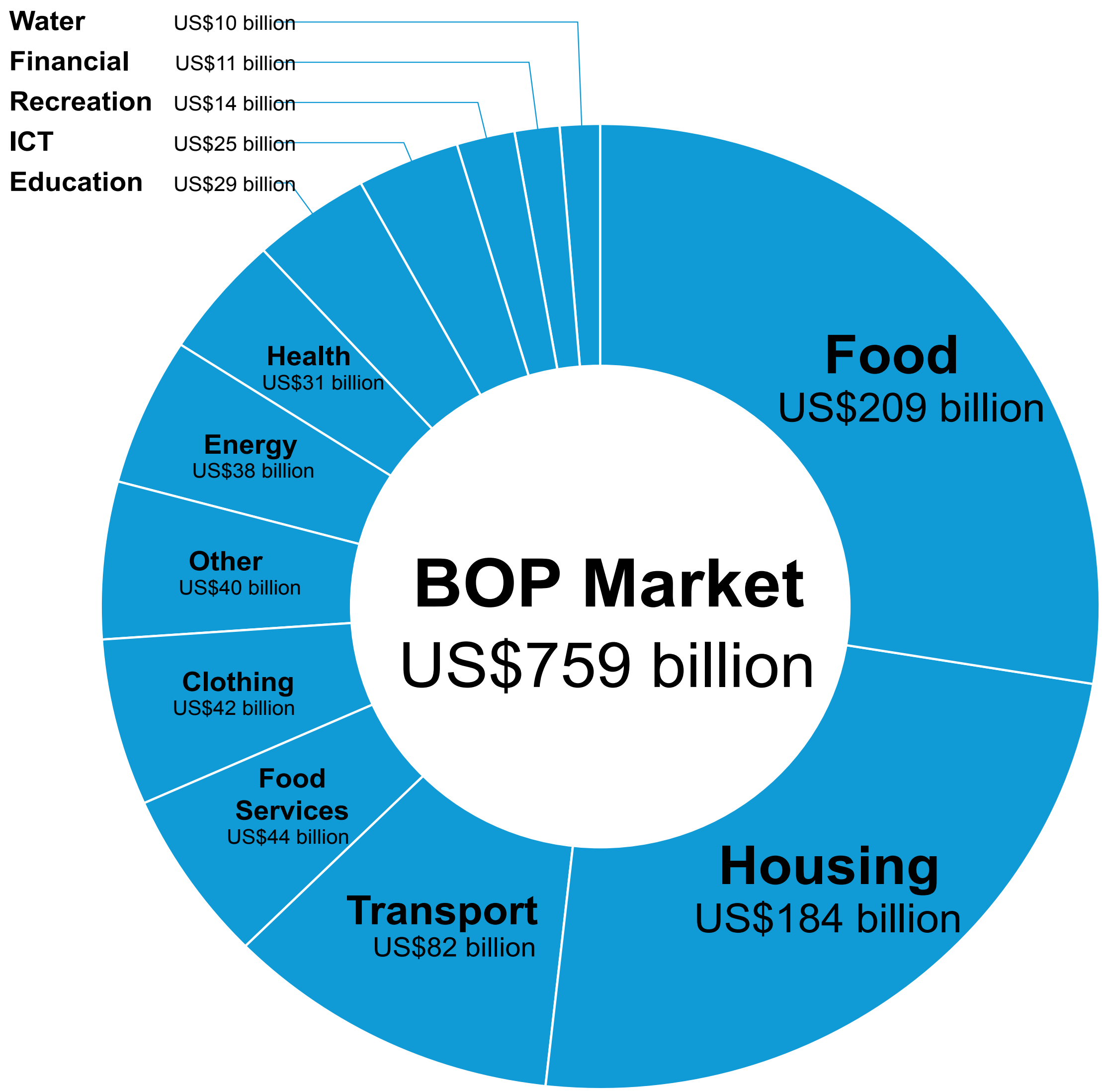


Figure 10 Base of the Pyramid Potential Market Size by Economic Sector, Latin America and the Caribbean, 2010, in Billions of US$ PPP

Housing

After food, housing is the largest category of BOP household spending in Latin America and the Caribbean. The size of the region's BOP housing market is estimated at US$184 billion PPP. Latin American and Caribbean BOP households spent 24.2 percent of their incomes in 2010 on housing-related expenses, including mortgage payments, rent, construction materials (for self-construction), and home improvement credit payments. As of 2010, almost 40 percent of families in the region needed new or improved homes, to relieve overcrowding, to avoid the risk of eviction, or to connect to utilities such as water, drainage, or electricity, among other reasons. Also, a significant portion of the "poor" category of the region's BOP population is composed of illegal squatters who need to legalize their land ownership or purchase a home.

While the total amount of yearly per capita housing expenses for the region's BOP increased from US$382 PPP in 2000 to US$453 PPP in 2010, the average share of housing in total BOP expenditure remained at 24 percent. However, that share varied widely across countries: while Brazilians at the BOP directed 24 percent of expenditures toward housing, Chileans at the BOP spent only about 11 percent. (Interestingly, these percentages do not change much as one moves up the income ladder.)

Governments Play a Big Role in the Latin American and Caribbean Housing Market

More than 40 percent of Latin America and the Caribbean's population cannot afford a dwelling built by a private contractor because they cannot access appropriate financing or because there is no housing stock available within their price range. The most affordable dwellings supplied by the private market cost on average US$24,000—about three years of household income for the average BOP family in the region.[21] Consequently, the Latin American and Caribbean mortgage industry has remained underdeveloped, representing 5.4 percent of GDP as compared to 9.4 percent in other emerging market economies.[22]

In addition, government spending on housing in Latin America and the Caribbean is substantial. This spending involves mortgages, subsidy programs, and direct provision of housing as well as subsidies and credit for home improvement and self-construction. However, government-sponsored affordable housing programs in the region have not adequately targeted the BOP, resulting in low coverage among BOP households.

21 Bouillón (2012).

22 Ibid.

Emerging Business Models for BOP Housing

As incomes increase among Latin America and the Caribbean's BOP consumers, so do their expectations for housing solutions. Since traditional housing options in the region are insufficient to meet this new demand, four broad types of private sector and innovative blended (public-private) business models have emerged to serve the region's BOP housing market[23]:

Micromortgage—This model combines microfinance credit instruments with government subsidies for the purchase of houses built by the private sector. Key elements of the model include selling mortgages directly at developer sites, applying a multifaceted credit-scoring and upfront-savings scheme to reduce the risk involved in lending to clients without formal credit histories, and state-of-the-art information systems and payment services at convenient locations.

Core house—This model combines direct government subsidy programs with medium-term unsecured loans for building new housing on land already owned by customers. The houses are built to government standards, including access to basic services (e.g., water and sanitation), and their design facilitates rapid, low-cost assembly as well as future additions. The need for prior land ownership and a steady income stream to repay the unsecured loans limits the market for this model to customers with formal jobs, such as public employees.

Rent-to-own—This model does not rely on government subsidies, but instead enables customers to build a credit history and save for a down payment by initially renting homes. Mortgages are offered only after customers have lived in the house for a specified rental period. This model relies on a stable supply of low-cost housing built by developers and meeting certified standards of quality.

Home improvement—This model provides short-term unsecured loans to BOP families to incrementally build or improve their homes. The loans are usually accompanied by technical assistance, building materials of guaranteed quality at discounted prices, and access to qualified labor. These elements of the model require the brokering of alliances between financial institutions and construction firms, suppliers of materials, and other private sector entities.

23 Stickney (2014).

Housing Business Cases

HOUSING BUSINESS CASE

Colcerámica—Viste Tu Casa (Colombia)

Latin America and the Caribbean's qualitative housing deficit surpasses its quantitative deficit: poor-quality construction is an even more serious problem in the region than lack of housing. Colombia is no exception: 19 percent of Colombian families live in homes that are overcrowded, that are built with substandard construction materials, that lack basic infrastructure or services, or for which the family has no property title. Of families in this group, some 68 percent are considered to be at the base of the pyramid.

Thus, the low-income market for home improvement in Colombia is vast, yet most available financing options are not accessible to most people living at the BOP, and there is a lack of coordination between the actors involved in providing that financing.

In 2006, Colcerámica, a business unit of the Colombian multinational Organización Corona, launched Viste Tu Casa (Furnish Your Home), a profitable business model through which the company sells its products at affordable prices to low-income customers who want to improve their homes and living conditions.

Viste Tu Casa started operating as a commercially viable business model that sells the company's flooring and wall materials to BOP consumers in Bogotá, Cali, Medellín, Cartagena, and Barranquilla, among other cities. The business model for Viste Tu Casa is to sell products directly to communities through a network of more than 600 women heads of household who are trained as salespersons. The wall and flooring materials are sold in small quantities and at affordable prices, and financing as well as technical assistance is provided.

To date, Viste Tu Casa has benefited 80,000 families throughout Colombia. To reach out to communities and build its sales force, Organización Corona works with local organizations, schools, and foundations such as Corporación Kayrós. Alliances with Colombia-based complementary models such as Promigas's Brilla, Empresas Públicas de Medellín, and Codensa have also contributed to Viste Tu Casa's successful financing scheme.

HOUSING BUSINESS CASE

Edyficar (Peru)

In Peru, 72 percent of low-income households suffer from some type of housing deficit. While most of the deficit is qualitative (79 percent), meaning that housing is not up to standard, the quantitative shortage, meaning a lack of available housing altogether, also increases every year by about 118,000 homes.

Like their counterparts in the rest of Latin America and the Caribbean, most Peruvians build their homes incrementally as resources become available. Because they have no credit histories or titles to their properties, Peruvians at the base of the pyramid have difficulty obtaining financing to buy or build a house. Even when financial products are available, they usually are not adapted to BOP customers' needs or do not offer the technical advice or access to skilled labor that would improve the quality of the construction.

Financiera Edyficar S.A., established in 1998, provides access and financial services to the low-income segment of the Peruvian population, especially micro and small business owners. Edyficar has a presence in 21 of Peru's 24 departments, and around 75 percent of its clients are at the BOP, with monthly per capita incomes under US$198.

Edyficar has established partnerships with hardware stores (suppliers of materials) and construction foremen (labor) to offer its low-income clients a comprehensive construction alternative that involves access to finance (loans range between US$120 and US$20,000), affordable building materials, and technical assistance. Edyficar does not require a guarantee or collateral and covers as much as 100 percent of the construction work. Based on a series of incentives—such as sales increases for stores and increased earnings for foremen—Edyficar has been able to strengthen its network throughout the country. Between 2011 and 2013, Edyficar's lending soared from US$93 million to US$242 million annually. Edyficar has now merged with MiBanco and will be taking the MiBanco name for future operations.

Information and Communications Technologies

The size of the BOP information and communications technologies (ICT) market in Latin America and the Caribbean is US$25 billion PPP. Though this category accounts for only 3.3 percent of all BOP expenditure in the region, the sector grew rapidly from 2000 to 2010, at an annual rate of 4 percent.

This trend has continued over the last 5 years. In recent surveys, more than 90 percent of the adult BOP population in urban areas of Latin America and the Caribbean reported owning a mobile phone and using it at least seven times a day.[24] By some measures, there are more mobile phones than inhabitants in Latin America and the Caribbean; that is, market penetration is above 100 percent. Most of the telephones in use (73 percent) are standard cell phones. Smartphones, especially those that provide access to the Internet and services beyond text messaging, represent a small but rapidly growing segment of the market, having increased in number by more than 45 percent in 2013.

In contrast to those in the developed countries of North America and Europe, Latin America and the Caribbean's mobile markets tend toward prepaid plans rather than subscriptions. This mirrors what occurs in other BOP regions and reflects the better market fit of pay-as-you-go plans for BOP customers. The prepaid plans do not offer lower prices on a minute or kilobyte rate and in many cases are more expensive than subscription plans, but they have several other features that make them more attractive to BOP markets: the flexibility to make small but frequent payments as needed rather than substantial fixed monthly payments, the freedom to pay only when phone service is needed, and the absence of requirements to provide collateral or make large upfront payments. Most importantly, these plans eliminate commercial risk for the provider.

24 Surveys conducted for the IDB by Development Research Strategies (DRS, 2014).

Mobile Phones and Cybercafés: The Primary Means of Accessing the Internet

Latin America and the Caribbean's BOP population accesses the Internet primarily via kiosks, multimedia booths, and cybercafés. Only 5 percent of BOP households in the region have home access to the Internet through personal computers, and the growth rates of digital subscriber line (DSL) and fixed-line connections to the Internet have not increased as rapidly in the region as mobile lines[25].

Smartphones overcome physical and economic barriers to household broadband use such as lack of service in the region, the cost of purchasing a personal computer, limited digital literacy, and lack of electricity. Mobile broadband prices have dropped significantly—as much as 52 percent in the last three years[26] —and flexible pricing is now available through various packages that allow consumers to purchase services based on what they can afford. Smartphone penetration has reached 20 percent in Latin America and the Caribbean and is expected to reach 44 percent by 2017. Argentina, Brazil, Chile, Mexico, Uruguay and Venezuela are the fastest-growing markets, with more than 20 percent penetration and third-generation (3G) connections representing at least 30 percent of total connections.[27]

25 Chong (2011).

26 According to Pénicaud and Katakam (2014), Argentina, Brazil, Colombia, Ecuador, and Mexico have experienced a 52 percent reduction in monthly prices over the past three years.

27 Pénicaud and Katakam (2014).

The Mobile Market Is Growing

Mobile telephony has been one of the most dynamic sectors in Latin America and the Caribbean over the past decade. In 2012, the industry contributed US$177 billion to the economies of Argentina, Brazil, Chile, Colombia, Ecuador, Mexico, Panama, Peru, and Uruguay—3.5 percent of the region's GDP.[28]

The ICT market in the region is top-heavy—population segments with higher incomes increase their spending on ICT more for every extra dollar they earn than do those in the poorer segments. But elasticity for ICT products and services is higher across the board than for most expenditure categories, with an average increase of 2.5 percent in expenditures for every 1 percent increase in income. In other words, as people move from the lower to the upper levels of the BOP, they spend disproportionately more money on mobile phones and Internet services. Since Latin America and the Caribbean's income mobility is expected to continue to increase over the next decade—particularly migration from the upper end of the BOP to the middle class—the ICT market in the region can be expected to continue to grow at a rate faster than that of the economy.

28 Ibid.

Trend: Mobile Money

By targeting the needs of the BOP, the mobile sector is growing rapidly in the region. Lack of access to banking services, combined with the flexibility and affordability of mobile services, underpins the demand for mobile payment services. The number of registered mobile money accounts in Latin America and the Caribbean increased by 147 percent during 2013 as providers continued to increase partnerships with local kiosks and major store networks.[29] These stores facilitate local, small, and frequent payment options that are adapted to the needs of low-income consumers.

Mobile money (m-money) has a positive impact on the BOP in the region because it allows users to overcome spatial, temporal, financial, and informational barriers. This in turn increases productivity, lowers costs, and opens up new BOP business opportunities. A derived service, mobile banking (m-banking), allows users to conduct basic financial transactions such as deposits and remittances through their mobile phones. M-banking can be offered by mobile network operators, financial institutions, or third parties, depending on local regulations.

Despite their incipient stage of development, services such as m-money and m-banking show great potential in the region. Penetration rates are lower than in other regions, but regulation is evolving in various Latin American and Caribbean countries to allow m-money to serve unbanked users (that is, those who lack formal bank accounts or access). During the past five years, mobile payments have gone from being a Central American and Caribbean phenomenon to becoming popular in some of Latin America's largest markets. Brazil has become the region's leading market and has the fastest growth rate, with more than 6 million users in 2012. As favorable regulation continues to progress and consumers further adopt mobile payments in their daily transactions, the service will continue to increase its coverage and enter remaining markets.

29 Ibid.

ICT Business Cases

ICT BUSINESS CASE

Barared (Mexico)

Forty percent of Mexico's retail transactions take place at local mom-and-pop shops known as ***tienditas*** that are estimated to number more than 1.2 million across the country. The ***tienditas*** are particularly popular in periurban neighborhoods that do not have many retail alternatives and lack public transportation and financial and other basic services. Locals usually buy at these ***tienditas*** because they know the shop owners and the shops are conveniently close to their homes.

To integrate this largely underserved economy at the base of the pyramid into Mexico's formal economy, Barared installs booths with iPad consoles in local shops where customers can access essential services such as telephony (local, national, international, and toll-free numbers), cell phone top-ups, bill payments (electricity, water, telephone), email, Skype calls, and banking (deposits, withdrawals, remittances, microloans, microinsurance). Barared is planning to make telemedicine services (the use of ICT to provide remote healthcare services) available through the booths in 2015.

By conducting these transactions via the booths in local shops, users save time and transportation costs. Customers simply use the iPad console in the booth for different services and, when finished, complete the transactions though the shop clerk, who acts as a bank representative.

By serving two types of BOP clients—local store owners and customers—Barared gives small stores a competitive edge by providing them with additional income opportunities, while at the same time enhancing the financial inclusion of customers, bringing both into the formal economy. Barared charges a commission on services, but this amount is very low compared to the transportation cost for customers to go to banks or other service provider locations outside their neighborhoods.

Putting in place a Barared booth costs about US$2,800. To ensure shop owners' commitment, Barared requires them to contribute 10 percent of the upfront cost plus a subscription fee. The service commissions are split between Barared and the shop owner, who can expect to earn between US$250 and US$450 a month and thus to pay off the upfront fees in less than two months.

ICT BUSINESS CASE

Digicel (Haiti)

In Haiti, one of the poorest countries in the world, mobile penetration stood at 5 percent in 2005, below the average for least-developed countries. The lack of an Internet connection prevented many Haitians from accessing information, quality education, and job opportunities, and from using communications to increase productivity. A worrying trend in Haiti was the geographic digital divide between urban and rural populations due to the gap between their respective purchasing power and the high costs of building infrastructure in remote areas.

Digicel arrived in Haiti in 2006 and now has the largest mobile phone market share in the country, with 2.4 million customers. A telecommunications company with more than 13 million customers in 30 markets in the Caribbean, Central America, and Asia and the Pacific, Digicel targets low-income clients, mainly low-wage workers ranging from small farmers to street vendors and fishermen. Just as it has done in its other Caribbean markets, Digicel democratized mobile phones in Haiti and made telecommunications markets in the region more competitive. Whereas cell phones used to cost US$70–US$200, Digicel dropped prices to as low as US$12.50. By 2008, mobile phone penetration in Haiti had jumped to 33 percent from the 5 percent three years earlier.Digicel's success in Haiti relies on the volume of its operations, which explains its competitive billing scheme designed to fit the profile of low-income customers by providing access to low-cost phones and prepaid phone cards. Customers are billed by the second rather than the first minute and are charged only for outgoing calls. Additionally, Digicel used 53 percent of its initial investment (US$260 million) to build a broad Global System for Mobile Communications (GSM) network that allows the company to reach remote populations outside of big cities. Digicel also provides solar chargers for areas where access to electricity is difficult or nonexistent.

Digicel's arrival in Haiti coincided with an increase in the country's GDP from 2.3 percent in 2006 to 3.2 percent in 2007, a surprising change for a country that had averaged –1 percent annual growth since the 1960s; some of this surprising increase can be attributed to the company. After only its first two years in Haiti, Digicel accounted for 20 percent of the country's GDP and had an indirect sales force of 63,000 Haitian street vendors. The telecommunications giant became the country's largest taxpayer in 2007.

Health Care

Latin America and the Caribbean's health care markets—which include medical products, appliances and equipment, and outpatient and hospital services—are expected to grow steadily in the coming years, with total health care expenditures increasing 7.7 percent on average between 2013 and 2017. This will make the region the world's third-fastest-growing health care market, behind Eastern Europe (8.4 percent) and the Middle East (9.9 percent).[30] The size of the BOP health care market in the region is US$31 billion PPP.

While Latin America and the Caribbean's per capita yearly health care spending was US$647 in 2008, today that figure stands at US$938. Based on the current annual growth rate of 6.6 percent, per capita health care expenditure will reach US$1,217 in 2017. By that year, people in Chile, Brazil, and Mexico will be spending US$315 more annually on health care than they do now, with the per capita averages reaching US$1,656, US$1,388, and US$1,057, respectively, in these countries. Governments' health care payments, on the other hand, are growing at a slower pace.[31]

30 Economist Intelligence Unit (2013).

31 Ibid.

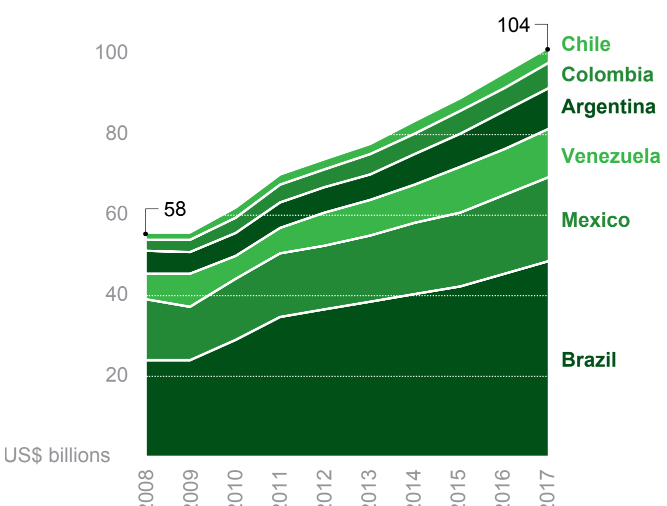


Figure 11 Latin America: Pharmaceutical Sales, 2008 to 2017
Source: Economist Intelligence Unit

BOP-Targeted Pharmaceutical Sales Are on the Rise

Pharmaceutical sales in the region reached US$78 billion in 2013, an increase of more than US$20 billion compared to 2008. By 2017, sales are expected to reach US$101 billion. The dynamism of this sector is illustrated by the high growth rates in countries like Brazil (where the pharmaceutical sector grew by 34 percent in 2010), Argentina (21 percent), Colombia (20 percent), Chile (16 percent), and Mexico (10 percent).[32]

The sector's growth is due mainly to Latin American and Caribbean generic drug companies and regional retail chains.[33] Brazil's largest drug laboratory, EMS, has produced generics since 2000 and currently employs 5,000 people. A similar situation exists in Mexico and Argentina.

Although generics can be 70 percent cheaper than brand name drugs, BOP-oriented pharmacies make a profit on them and tend to recommend them. Pharmacies are also key locations for delivering health care services to low-income populations, which often pay health care expenses out of pocket[34]. In 2008, more than 80 percent of Brazilian and Mexican pharmaceutical spending was out of pocket.[35] BOP patients tend to patronize nearby pharmacies where they know and trust the pharmacist, follow his or her medical advice, and can buy generic medicines by the unit.

The pharmacy retail sector is meeting the region's demand for generics. Chile's Farmacias Ahumada S.A. (Fasa) is the largest nationwide drugstore chain in the region. Its pharmacies can be either franchised or independently run. Under the franchise model, networks of private providers who own their own pharmacy kiosk or store are created to deliver health care services under a specific brand. Independently run pharmacies sell generics at low prices and sometimes offer additional services such as walk-in appointments for checkups, ophthalmology services, or diabetes testing.

32 Ibid.

33 Price (2013).

34 World Health Organization (2012).

35 Ibid.

Universal Health Care Has Expanded but There Still Is Unmet Demand

Even though most countries in the region started pursuing universal health care and implemented a market-oriented approach to health care service funding and delivery in the 1990s, there is ample room for improvement in terms of the quality of health care and access to it. For example, in 2011, there were only two medical-facility beds per 1,000 people in the region, and in 2013, countries such as Brazil and Colombia had fewer than 1.5 doctors per 1,000 inhabitants.[36]

Notwithstanding Latin America and the Caribbean's move toward universal health care, private sector providers play a significant role in the region's health care market. In 2012, the public/private mix of health care expenditure was 52/48 percent, and 32 percent of total private health care expenditure came directly from households (out of pocket). Direct out-of-pocket spending demonstrates the inefficiency of the systems in the region through which health care is financed. In Peru, for example, the poor complain about low-quality services and long waiting times in the public health system. They often go to private doctors in search of better service and treatment, even though they have to pay higher prices. Self-medication is common, and there is a clear preference in the region for small drugstores over large pharmacy chains.

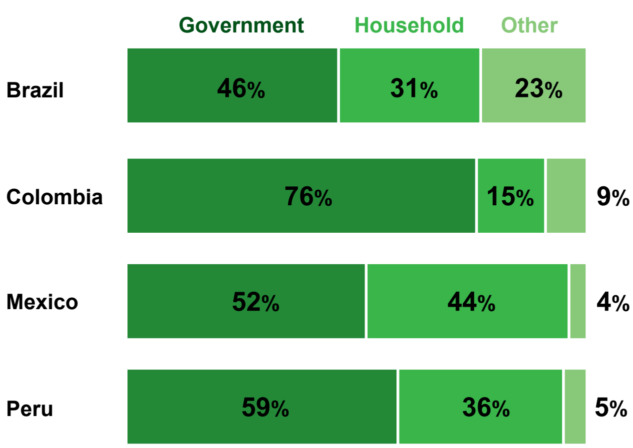


Figure 12 Share of Health Care Spending by Purchaser Type, Latin America, 2012
Source: World Health Organization

36 World Health Organization (2012).

Trend: Last-Mile Health Distribution

One of the reasons why those at the BOP are underserved in regard to health care services is because it is difficult to reach them. Common barriers across countries in the region include lack of infrastructure and bad working conditions, which discourage health care workers from working in BOP areas. There are, nonetheless, networks of what are referred to as "last-mile" retailers that function as the final leg of distribution to areas that lack urban infrastructure. These retailers offer health-care-related products and—most of the time—are trained to educate clients and guide them in their purchasing decisions. These businesses often train low-income locals as their sales and promotion force. They contribute to job creation, reach remote communities, and establish trust-based relationships with customers.

Trends: Customized Insurance Products and Clinics for BOP Consumers

As noted previously, private health care expenses in Latin America and the Caribbean are mostly paid out of pocket, and BOP consumers in the region are in many cases willing to pay higher prices directly to receive better-quality service. A variety of financial products have been deployed to meet this demand, such as community or micro insurance schemes that cover different types of risks in exchange for low premiums.

There is a high need for health and life insurance among the region's low-income, informal, and self-employed workers who do not have access to social protection programs. Insurers that offer policies to this market often partner with cooperatives, nongovernmental organizations, retailers, or microfinance institutions for distribution and servicing. Other examples include traditional community-based programs that pool funds and manage a relationship with a health care provider, as well as self-insuring microfinance institutions that assume the risk involved in offering insurance to their clients.

Private clinics that target the BOP throughout the region offer quality services at low cost that are a better alternative to overburdened public health services that, as noted, sometimes exclude informal or self-employed workers. These private businesses are usually walk-in clinics with basic treatment and diagnosis facilities that either offer general services or treat specific conditions such as cataracts or diabetes. Patients have the option of paying per service (in installments) or on a subscription basis that covers basic treatment and offers discounts for more complex services.

Health Care Business Cases

HEALTH CARE BUSINESS CASE

VisionSpring (El Salvador)

An estimated 40 million people in Latin America and the Caribbean suffer from chronic vision loss, and as a result, a loss of productivity and capacity to work. Easy access to quality and affordable reading glasses has the potential to reduce the direct and indirect costs of this condition to individuals and society as a whole and boost productivity in the region.

In 2001, Jordan Kassalow founded VisionSpring, a New York–based social enterprise with the goal of ensuring affordable access to eyewear for low-income people around the world. Under its slogan, "If you can't see, you can't work," VisionSpring operates in 24 countries in Latin America and the Caribbean, Africa, and Asia. One of its main operation centers is in El Salvador.

VisionSpring operates through a hub-and-spoke model. Its optical shops represent "hubs," and what are called "vision entrepreneurs"—low-income local workers trained by the company to do vision screenings—act as "spokes" in charge of reaching communities near the optical shops. Each hub employs an optometrist capable of conducting exams and providing a diagnosis. VisionSpring designs and manufactures simple and reliable reading glasses that sell for less than US$5 a pair and can correct different levels of astigmatism. The company partners with organizations with local experience and has established distribution networks that afford scale through arrangements with wholesale distributors with penetration in urban centers. The vision entrepreneurs are trained to identify potential customers, conduct screenings for astigmatism, recommend reading glasses, and manage their business and inventory.

Working on the principle that the base of the pyramid is a viable market that can be served through a high-volume, low-margin approach, VisionSpring has sold a million pairs of eyeglasses worldwide. An impact evaluation in 2007 found that the productivity of its BOP clients increased by 35 percent and their income by 20 percent, which translates into an annual increase in earning potential of US$108 per capita.

HEALTH CARE BUSINESS CASE

Clínicas del Azúcar (Mexico)

Current care alternatives for diabetes in Mexico are expensive, inconvenient, and out of reach for the country's population at the base of the pyramid. That's the main reason why diabetes is called the "disease of the rich," even though it isn't. Almost 9 million Mexicans were diagnosed with diabetes in 2013, and it is the nation's second-largest cause of death. When untreated, or improperly managed, diabetes can lead to heart disease, stroke, amputations, blindness, or kidney failure.

Unfortunately, less than 10 percent of the Mexican population has access to the specialized and comprehensive care needed to treat this disease. At the same time, the numbers of those afflicted with the disease continue to grow. It is estimated that by 2020, there will be 18.8 million diabetic patients and 160,000 diabetes-related deaths in Mexico.

Venture-backed Clínicas del Azúcar was founded in 2011 with the goal of providing specialized and affordable diabetes care and prevention for low-income populations in Mexico. Clínicas del Azúcar is a chain of low-cost, one-stop shops where patients receive comprehensive care, including consultations with highly trained endocrinologists, nutritionists, psychologists, and diabetes educators, along with laboratory tests and diagnoses that address eye-, foot-, and kidney-related issues that arise from the disease. By using cutting-edge technology for care and adopting a flexible payment method, Clínicas del Azúcar has lowered costs and made diabetes care more affordable for the BOP in Mexico. Patients pay an annual fixed fee or membership of US$250 to have unlimited access to consultations for one year, reducing annual treatment costs by 70 percent. To achieve broader coverage, Clínicas del Azúcar also offers its services to companies that want to provide diabetes care to their employees.

In addition to reducing treatment costs by 70 percent, Clínicas del Azúcar has reduced diabetes complication rates among patients by 60 percent. By the end of 2013, Clínicas del Azúcar had benefited 4,600 low-income patients.

Food Services

The food services industry in Latin America and the Caribbean—those businesses and institutions responsible for any meal prepared outside the home—is currently growing at the fastest rate of any region in the world.[37] Brazil is the regional leader and is expected to have the third-fastest food services chain growth worldwide in the coming years,[38] but other countries such as Argentina, Colombia, Mexico, and Venezuela also represent high-growth market opportunities.

The size of the BOP food services market in Latin America and the Caribbean is US$44 billion PPP. As the income of the Latin American and Caribbean BOP population has grown during the past decade, the demand for food services has solidified. Average BOP household expenditures on food services increased from approximately 4 percent in 2000 to 6 percent in 2010. This was the case among both the poor and the vulnerable segments of the region's BOP population.

The food services market in Latin America and the Caribbean is served mostly by local and independent stores, restaurants, stands, deliveries, and food markets. Food chains currently represent only 9 percent of the regional market,[39] but they have been increasing in number and entering the market at a fast pace, as shown by the growing presence of international and local franchises.

The BOP Frequently Eats Outside the Home

Those at the BOP in Latin America and the Caribbean frequently consume foods in restaurants and eat meals outside the home. This is partly driven by work and lifestyle changes. As a greater number of women join the workforce, they often lack the time to prepare or eat meals at home. As workers travel greater distances to their jobs, they are unable to return for midday meals at home.

On the other hand, with the increase in disposable income the region's BOP have started allocating some of their discretionary spending to eating outside the home for leisure. For example, in Peru, eating out ranks second on the list of activities that families pursue during their free time outside the home, second to visiting friends or family.[40] In low-income neighborhoods, there is often at least one fast-food rotisserie chicken venue per block.

Trends: Food Chains and Food Fairs Targeting the BOP Market

Successful fast-food chains, prepared-meal providers, food fairs, and microfranchises that cater to BOP tastes and pocketbooks have emerged recently in the region. The fast-food chains, some of which are international franchises, often feature a particular popular dish in the country's culinary culture, such as rotisserie chicken in Peru, fried chicken in many Central American countries, and ***areperas*** in Venezuela. Food fairs organize local food trucks, stalls, and restaurants into massive open fairs with accessible prices serving low-income neighborhoods.

Despite the emergence of restaurant chains targeting the BOP and the supply of food services outside the home, this market remains segmented in Latin America and the Caribbean. On a daily basis, BOP consumers in the region, particularly those who are actively employed, flock to marketplaces or small restaurants that offer substantial three-course meals plus a beverage for US$2 to US$3.

37 Euromonitor International (2012).

38 Ibid.

39 Ibid

40 From a study conducted for the IDB by Arellano Marketing (2014) in Peru.

Food Services Business Case

FOOD SERVICES BUSINESS CASE

Microfranchises and Food Chains for the Base of the Pyramid

There are plenty of interesting and profitable business models that serve the base of the pyramid in sectors such as health care, housing, education, and access to finance. The poverty penalty that affects the BOP (that is, the price premium paid by excluded poor customers when compared with the nonpoor) is particularly visible in these sectors, so numerous large companies, entrepreneurs, and other organizations have set up viable market-based solutions to address the largest challenges faced by low-income consumers.

In other sectors such as food services, however, it is more difficult to generate bottom-up solutions to reaching BOP consumers. Eating out or traveling, for example, are not basic needs like disease prevention or decent housing, for which business solutions come from the neighborhoods themselves and from those working in them at the grassroots level.

The food services industry offers several good examples of how the process of penetrating the BOP market takes a different path in these other sectors. In Peru, ***pollerías*** (grilled chicken shops) are very popular among low-income consumers. ***Pollerías*** Roky's and Norky's opened in 1985 and 1976, respectively, and have positioned themselves as the largest grilled chicken outlets in the country, with close to 100 points of sale each among the total number of 526 such outlets in the country. These two firms lead the market because they direct sales toward the lower socioeconomic segments, such as in the poor neighborhoods of Villa el Salvador and San Juan de Luringacho. Roky's, for example, launched a promotion in 2013 offering several pieces of chicken for as low as US$5.

In contrast, there are other types of business models such as Micro Franquicias con Impacto Social (MFIS) (Social Impact Microfranchises) in the department of Antioquia in Colombia that—in response to the city's worrying levels of informality—have created low-income food brands that can be commercialized as microfranchises by low-income entrepreneurs in their home neighborhoods. Their first brand, El Taconazo, sells low-cost tacos (as low as US$0.70).

MFIS has formed alliances with social development organizations such as Interactuar and the family compensation fund Comfama in order to identify potential entrepreneurs and train them in basic business administration. Potential entrepreneurs who make it to the end of the training (at no cost) then attend a rigorous workshop on the El Taconazo brand, operations, logistics, marketing, and processes. The microfranchisees then set up their locations—which must be in their neighborhoods—with credit (US$3,500) from a partner financial institution such as Medellín's Banca de Oportunidades and a three-year loan (US$4,000) from MFIS. Microfranchisees never have to cook or manipulate the product, as everything is sold ready-to-eat by MFIS. The model enables MFIS to make a profit from the product's sale and ensure quality, while contributing to job creation, business formalization, and the welfare and income of the BOP microfranchisees.

Financial Services

The regional financial services sector serving the base of the pyramid has grown consistently and strives to provide fresh and innovative financial solutions. The size of the BOP financial services market in Latin America and the Caribbean is US$11 billion PPP, and the market grew 57 percent during the first decade of 2000.

However, while its financial sector has been growing, the region still lags significantly behind the rest of the world. For example, Chile's banking services penetration rate of 68 percent—the highest in Latin America and the Caribbean—is still well below the average 90 percent rate for developed countries. Moreover, banking service rates vary substantially across countries in the region.[41]

41 Pablo (2013).

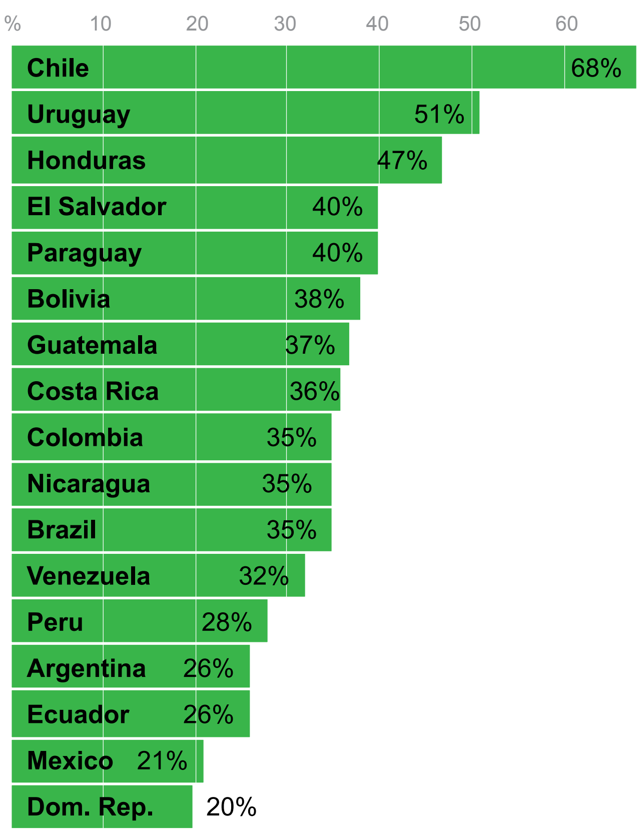


Figure 13 Bank Penetration Level, Latin America and the Caribbean, 2010
Sources: Martínez et al. (2014), Pablo (2013)

Informal Financial Services Are Still the Norm at the BOP

The BOP population in Latin America and the Caribbean currently spends around 1.4 percent of its income on financial services. This market is informally served by moneylenders, Rotating Savings and Credit Associations (known as ROSCAs or *tandas*), pawnbrokers, stores, and small networks of friends and family. Moneylenders provide short-term loans that rarely involve collateral but have high interest rates. *Tandas* are arrangements in which community members contribute predefined sums to a common "pot," which one member per meeting takes with him or her as a loan. Another common financing source is store credit, which involves a personal relationship with local store owners. None of these sources are sufficiently substantial or consistent sources of financing to meet the needs of the region's BOP.

Latin American and Caribbean BOP households are consistent savers, but they don't see savings as an asset-building or interest-related investment. Instead they use savings primarily as a cushion for emergencies or as a tool for acquiring large-ticket items. Savings are mostly in cash or deposits in *tandas*. In Mexico, for example, 44 percent of adults save outside the formal system either by keeping cash at home or by participating in *tandas*.

BOP consumers in the region are often reluctant to approach banks or financial institutions to request loans or open savings accounts. They are fearful of being cheated and feel vulnerable, since many have difficulty understanding legal terms. They are also intimidated by the formality in bank offices and by the abundant requirements and paperwork. Other barriers include BOP consumers' need for small and frequent transactions and substantial distance from the nearest bank offices. Thus, BOP consumers in Latin America and the Caribbean tend toward transacting within a close-knit, local network. Successful BOP financial services models in the region have been those that allow for small and frequent payments, have low transaction costs, educate users, and are provided through the local community.

It's All about Information

Limited information about potential or existing clients continues to be one of the main reasons why financial institutions find it difficult to serve the Latin American and Caribbean BOP. Many of the region's BOP consumers have no financial history, lack a formal or stable source of income, have no title for their property or other assets, and in some cases do not even have proof of identity.

In order to obtain the information needed to do business at the BOP, Latin American and Caribbean financial institutions are forming alliances with companies, most of which are involved in distributing consumer goods to small shops. These types of alliances not only provide financial institutions with detailed information about clients and their businesses, but they also serve as an entry point to the region's BOP because of the existing relationship between the client and the distribution company. At the same time, these distribution companies benefit, because their clients are able to increase their working capital through various financial products offered by financial institutions and therefore grow and expand their business.

However, information is also important from the client's point of view. As noted previously, many BOP consumers in the region tend to exclude themselves from the financial sector because they simply do not understand it or find it intimidating. This has prompted many financial institutions to come up with ways to educate the public about the basic principles of income management as well as the different financial products available. In innovative cases, this is being done through a variety of channels ranging from distributing information through branch offices to sending text messages. These efforts better inform the region's BOP consumers and reduce risks for all parties involved.

Financial Products Are Diversifying

Over the past decade, many Latin American and Caribbean financial institutions have gained a much deeper understanding of the BOP population. This increased awareness of the particular needs of different clients has led the sector to develop a rich portfolio of options that adapt to particular situations. For example, there are commercial lines of credit for mom-and-pop shops, loans for BOP university students, and microinsurance for smallholder farmers. The products are also specialized by economic sector (housing, education, agriculture, etc.). In some cases, financial institutions can also identify those cases in which, although the potential client may not qualify for a loan or another financial service just yet, he or she will likely be able to in the future. These situations represent opportunities for financial education programs that help potential clients make informed decisions and become better clients once they qualify for a product.

New Distribution Channels Are Evolving to Reach the Base of the Pyramid

One of the most important challenges for BOP businesses, and in particular for financial institutions, in Latin America and the Caribbean is the difficulty of developing and implementing a successful "last-mile" distribution system—that is, a network that can reach final customers in areas that are physically isolated and lack adequate infrastructure. In order to overcome the high costs of having a traditional sales force in such areas, many financial institutions are leveraging existing channels of distribution. By making use of channels and infrastructure already in place for distribution, financial institutions in the region can serve BOP consumers by, for example, partnering with small neighborhood shops or convenience stores. Store clerks have insight into the community and understand the needs of clients with whom they have long-standing relationships.

However, the most important trend in last-mile distribution in the region is the increasing use of digital and communications technologies. Mobile payment platforms are being used not only for making transactions but to market and educate the region's BOP clients, overcoming distance, literacy, and trust issues. Most platforms use simple mobile phones and points of sale that BOP consumers in the region already understand and have access to. Latin America and the Caribbean has also seen a growing use of Internet connectivity through tablets and other devices to connect to clients as well as to empower microentrepreneurs to become banking correspondents, which in turn is a source of jobs and income for the region's BOP.

Financial Services Business Cases

FINANCIAL SERVICES BUSINESS CASE

DaviPlata (Colombia)

Although Colombia has made progress in regard to financial inclusion, 29 percent of the population still lives outside the formal financial system, missing out on all the social and economic opportunities and advantages that formal financial services provide. Financial products in the market are currently expensive, since they are offered using a penetration model based on branches and personalized services, which makes it difficult to reach remote communities. Additionally, financial services are directed toward certain types of clients in the formal economy, so unbanked (that is, those who lack bank accounts or easy bank access), informal, and low-income users are often left out of the traditional banking system.

DaviPlata was created in 2011 by Davivienda, a bank within the Colombia-based Bolivar Corporate Group and the third-largest bank in the country, with operations in the financial, insurance, and construction sectors. DaviPlata was the bank's first effort to reach out to the untapped business opportunity represented by the base of the pyramid by providing affordable, easy-to-access financial services. DaviPlata is the first mass mobile money platform in Latin America and the Caribbean. It is a completely independent business unit within Davivienda, with its own call center and operations, marketing, business, commercial risk, and human resources departments. With only a cell phone—no previous documentation or face-to-face contact is required—banked or unbanked users can manage their cash (up to US$777) through a transactional channel no matter where they may be in the country.

DaviPlata clients can use the platform to transfer money, receive remittances, withdraw cash, pay utilities, charge phones, and even make purchases at shops and stores. DaviPlata has also launched public-private partnerships with the armed forces, government agencies, and private sector companies to channel subsidies and payroll payments through its platform.

Currently, DaviPlata has more than 3,200 outlets and a presence in 870 Colombian municipalities, and it carries out seven million transactions every month. The platform has more than two million low-income users who work in sectors ranging from agriculture to construction, manufacturing, and transportation. Importantly, more than 42 percent of those using the platform were unbanked before they accessed DaviPlata's services.

FINANCIAL SERVICES BUSINESS CASE

Empresas Públicas de Medellín

Measured in terms of private credit as a percentage of GDP, financial depth in Colombia is around 35 percent—very low compared with that in other countries such as Brazil, Chile, and Panama. Bank penetration is also low: there are only 16 bank branches per 100,000 inhabitants in Colombia, compared with the regional average (20). In Medellín, where close to 75 percent of the population lives at the base of the pyramid, most people lack access to financial services. While in 2013 there were 40,000 credit cards per 100,000 adult Colombians, in Antioquia (the department where Medellín is located) there were only 25,000. Nationwide, almost 30 percent of the adult population has no access to credit or can access credit only with great difficulty. When credit is available, the amounts are insufficient to cover credit needs, and payment terms are too demanding for most Colombians at the BOP to take advantage of it. This forces many people from Antioquia to turn to informal lenders who charge rates as high as 280 percent annually.

Established in 1955 as a state-owned utility company serving Medellín, Empresas Públicas de Medellín (EPM) currently has a presence directly or through subsidiaries throughout Colombia, in Central America, the Caribbean, South America, Mexico, the United States, and Spain. As a provider of energy, gas, water, sanitation and telecommunications, the company serves more than 13 million people. In the first half of 2014, EPM's operational revenues reached US$6.9 billion. The company is very sensitive to the needs of the BOP in regard to basic services. EPM launched the Social Funding Program in 2008 to contribute to Antioquia's financial inclusion goals and develop customer loyalty in order to reduce illegal usage and increase timely utility bill payments. EPM uses low-income clients' utilities payment records to assess risk among unbanked borrowers (that is, those without bank accounts or easy access to banks) in order to offer qualifying clients a credit card carrying a revolving credit line of up to US$700 through the Tarjeta Grupo EPM. With this credit card clients can purchase electronics and construction materials from any of the program's 120 allied vendors. The cards carry low interest rates and fixed monthly payment terms (up to 48 months). EPM started using its own credit scorecard in 2011, allowing for better approval times and a focus on utility bill payments rather than credit bureau reports. Starting with less than a thousand customers, the program had more than 74,000 card users by early 2012, benefiting 120,000 families with US$69 million in loans. More than 80 percent of the cards issued through the program were active at that time.

Education

The BOP population in the region invests in education and understands its value: BOP spending on education in Latin America and the Caribbean grew from US$54 PPP per capita in 2000 to US$72 PPP per capita in 2010, an increase of 34 percent. The size of the BOP education market in the region is US$29 billion PPP. Although about 96 percent of BOP children in Latin America and the Caribbean attend public schools, public education is not free. It often involves registration and placement fees and fees for exams, books, materials, and uniforms, plus transportation costs. However, BOP parents in the region prioritize education and have shown that they are willing to invest in it. Latin American and Caribbean BOP households currently allocate approximately 5 percent of their expenditures to education.

The Private Sector Can Fill the Gap for Public School Deficiencies

Many BOP households in Latin America and the Caribbean are not satisfied with the quality and availability of public education but may have no other option in terms of costs and location—that is, their options are limited to public education or no education at all. To make matters worse, the availability of public education in the region declines as students get older.[42] Although most BOP children in the region attend public schools, parents increasingly recognize the value proposition offered by private schools. They perceive them as having more-qualified teachers, better infrastructure, and additional features such as language instruction and extracurricular activities. When possible, BOP parents in the region often try to send at least one of their children to a private school, even if they have to leave the rest in the public system.[43] Private education offerings have been growing for the BOP in Latin America and the Caribbean over the past decade, and the number of BOP students attending private secondary schools has increased by 4 percent.[44] The private education market has been serving the region's BOP, but at an almost insignificant level—only 3 percent of secondary school students are from the lowest income quintile.[45] Penetration of private education offerings varies, however, across the region's cities and countries. For example, in the largest slum area of Cali, Colombia, 85 percent of schools are private.[46]

42 From focus groups conducted for the IDB by Berumen & Associates (2013) in Mexico.

43 Ibid.

44 IDB (2014).

45 Ibid.

46 AlWindi and Akerman (2008).

Early Childhood Education: An Emerging High-Impact Opportunity

Inequalities appear early in life: children in poverty are disproportionately exposed to stress, poor nutrition, and parents with higher levels of anxiety and depression. These circumstances can impair a child's early development, which leads to diminished learning capacity and school performance. Early childhood is a critical stage of brain development that shapes future cognitive, social, and emotional and health outcomes. Thus, actively managing early childhood development is a form of preventive health and economic investment. Adults who received assistance in their early years have higher employment rates and earnings compared with those who did not received such assistance[47]. A few companies are entering the market in Latin America and the Caribbean to complement public offerings for early childhood services in nutrition, education, and health, such as nutritional supplements and enriched powdered milk, interactive games and content to foster brain development, and day care and pediatric services.

Higher Education: A Market Opportunity for Financial Services

The region's growth has increased the demand for qualified professionals, but limited financing options for students to attend private universities have constrained the supply. Consequently there is an increased wage premium in the region for persons with college degrees. In Mexico, a professional with a college degree earns on average 74 percent more than a person with only a high school diploma.[48] This premium has increased market demand for higher education at the region's public universities, which are working at full capacity and cannot absorb the larger number of applications. Private education is becoming the only option for most students in the region, but it remains unaffordable to lower-income families. In some instances, the private sector has seized this business opportunity by providing student loans to low-income prospective students. Some student loans simply have to be repaid after graduation, but others exchange for a percentage of the student's future income. By partnering with universities, companies are able to reduce staffing costs and build scoring systems to assess the risk associated with loan candidates to ensure that their student loan products are profitable.

47 UNICEF (2013).

48 Estrada (2011).

Education Business Case

EDUCATION AND FINANCIAL SERVICES BUSINESS CASE

FINAE (Mexico)

Though higher education enrollment in Mexico is growing, low-income youth make up only 3.4 percent of the higher-education student population despite accounting for more than half of the 19- to 24-year-old population nationwide. The main reasons for this are the shortage of space in public universities and the lack of financing for low-income families to send their children to private universities.

In 2006, a group of Mexican businessman led by Francisco Vizcaya founded FINAE, a social-impact financial institution that provides low-income Mexican students with the opportunity to access quality higher education. FINAE is already working in 10 of the largest universities in Mexico, which account for 20 percent of total enrollment in private universities.

FINAE provides loans to students at the base of the pyramid who are eager to pursue degrees at well-known universities in Mexico in fields for which there is high demand in the labor market. The loans cover between 20 and 100 percent of tuition, and students make affordable payments every month while studying and then continue paying off the loan after they start working. To strike a balance between profitability and low interest rates for students without government subsidies, FINAE shares the costs and risks with allied universities.

FINAE's university offices are financed by the universities, which have also created a First Loss Collateral Fund by putting aside a percentage of the students' loan repayments. In cases of student default, the fund serves as a liquid guarantee.

In 2012, FINAE became the first social-impact enterprise in Latin America and the Caribbean to launch a student loan securitization with an AAA rating backed by the students' monthly payments and a credit guarantee by the Inter-American Development Bank. As of 2013 FINAE had provided loans to more than 5,000 students and had a presence on 80 campuses (including the 10 already mentioned) across the country.

Concluding Remarks

The sociodemographic and economic profile of the BOP in Latin America and the Caribbean as we knew it 10 years ago has been transformed by the region's recent economic growth. This report has highlighted expenditure trends at the BOP and the market opportunities they represent for the private sector in Latin America and the Caribbean. These opportunities are far more promising than ever before, and now the time is ripe for companies to stake out their position in this growing market. The BOP is more urban, more connected, wealthier, and more educated than in the past. More importantly, a segment of this market has the potential to become an emerging middle class that will grow into a much larger, deeper, and diverse market over the next decade.

Some businesses have already moved into this market with resounding success, but opportunities still abound. In addition to all the business development advantages and spillover effects that result from increased business activity at the BOP—such as shared infrastructure, greater accessibility to economies of scale, and increasing formalization of the market—serving the BOP also has a social impact. Selling products and services to the BOP through a financially sustainable model is a win-win for the private sector and society as a whole.

One of the aims of this report has been to provide valuable insights into the still-untapped BOP market in Latin America and the Caribbean. However, more research is still needed to further understand consumer dynamics and the innovative business models serving the BOP, particularly in the Caribbean, where household surveys and market data are less available.

Household Profiles
Who lives at the Base of the Pyramid?

The following household profiles offer a window into the lives of typical Base of the Pyramid households in Latin America and the Caribbean.

Household Profiles
Who Lives at the Base of the Pyramid?

THE ALMEIDAS

SÃO PAULO, BRAZIL

Neuza Almeida is separated and lives with her adult and teenage daughters in a housing development. Her family income of around US$8 PPP a day includes help from her older daughter and from child support payments. Now and then she does small jobs for local politicians. She attends an evangelical church, where she teaches 30 children, and advises residents of a public housing complex on document and paperwork issues.

She wants her youngest daughter to earn a college degree, so she has enrolled her in a better public school farther from their home. However, she expects that she'll have to revisit that decision because of safety issues involved in her daughter traveling to the school. Neuza's household purchases require a great deal of planning. She buys only food that is on sale and says that only functionality, not brand names, matters to her. If she could, she would buy health insurance, move to a nicer neighborhood, and even buy a camera phone. But as things stand, she sums up her situation by saying, "I get what my wallet can afford."

THE FLORES

GUADALAJARA, MEXICO

Francisco Flores is a carpenter who lives with his wife Ana and their children in Guadalajara. Ana has a part-time job on the cleaning staff of a local hospital, and her schedule enables her to take care of the children when they are not at school. She also cleans houses and sells baked goods. Together, Francisco and Ana earn an average income of US$5.20 PPP a day. The family does not have health coverage, so for minor illnesses they go to drugstores that provide walk-in medical care and buy generic drugs. If something more urgent comes up, they tap into their meager savings or borrow from family and friends. Their children, Sergio (11), Mario (10), and Claudia (7), are all in public primary school. Although school itself is free, there are many associated costs, such as fees, transport, books, and materials. Francisco and Ana spend most of their income on food, housing, and health care. The rest goes to clothing, transport, and education. In order to save enough money to add a new room to their house and make other home improvements, they are participating in a ***tanda*** operated by a Rotating Savings and Credit Association. ***Tandas*** are organizations in which members contribute predefined sums to the common "pot," which one member per meeting takes with him or her as a loan.

Household Profiles
Who Lives at the Base of the Pyramid?

THE QUISPES

VILLA EL SALVADOR, PERU

Antonio Quispe lives with his wife Nancy and their three children in his parents' house in a poor neighborhood on the outskirts of Lima. Antonio's brother Mario shares the house with them. Antonio earns US$3 PPP a day selling ***canchitas*** and ***barquillos*** on the streets of Miraflores. It's a full-time job, eight hours a day, six days a week. The money goes directly to meeting the family's basic needs: food, household expenses, and the children's education. Nancy is a stay-at-home mom who takes care of the children, cleans the house, and buys the groceries. Sometimes she helps out her sister, who cooks and sells lunches to government offices. When Antonio got married, his parents, with the help of neighbors, built an additional room for him and Nancy. The family is now building a second floor piece by piece as money becomes available to buy construction materials. Antonio has a cell phone, which he shares with his wife. Antonio's family gets free medical care from Peru's public health system, Sistema Integrado de Salud, but for minor illnesses they see a private doctor who also gives them free samples of pharmaceuticals, or they go to a local pharmacy and handle the matter themselves. The couple's top spending priority is the education of their children, Jessica (7), Delia (6), and Jesús (3). The older two are in a public school, which the family hopes will someday lead to a scholarship for them to attend a public university, if they are good students. The couple is saving for their children's future, knowing that they can borrow money from friends and neighbors if the need arises for short-term expenses.

THE WILLIAMS

OCHO RIOS, JAMAICA

Omar and Tanya Williams live with their three children, Tariq (9), Joel (7), and Nevaeh (4). After getting married, they built a house in the backyard of Tanya's parents' home and have been adding rooms as their children have grown. The family goes to church every week and enjoys meeting with their neighbors and friends for mass. A proud microentrepreneur, Omar opened a tourist shop in Ocho Rios 10 years ago and today makes about US$6.80 PPP on a good day. Most of the money goes toward food, clothing, education, and household expenses. Omar is considering joining a Rotating Savings and Credit Association in order to buy more inventory for his shop. Tanya helps at her father's fruit stand in front of their home during the day until the children arrive home from school. She then helps the children with homework, cleans the house, cooks dinner, and prepares lunch boxes for the next day. She is also learning to cook new meals that she thinks she could sell at the stand to earn some additional income. As it is, Tanya's extra earnings bring in another US$2 PPP a day. The family is now saving for a new television so that they can invite friends over from church to watch together.

Household Profiles
Who Lives at the Base of the Pyramid?

THE MENDOZAS

MARIANO ROQUE ALONSO, PARAGUAY

Arturo (35) and Mónica (34) Mendoza live in their house in Mariano Roque Alonso, Paraguay, with their boys Alex Nicolás (15) and Diego Arnaldo (7). Arturo works as a collection agent for a pharmaceutical company and his earnings total US$25 PPP a day. Every morning, he wakes up early and travels to different cities to make collections. Arturo and Monica's first priority has always been their sons' education, followed by improving their house. Alex is finishing middle school and trains at least three times a week to try to enter the youth soccer league. Diego studies at a local charter school. The Mendozas are currently focused on paying off their debts, since last year they took out a microloan for home remodeling and to fix their car for Arturo's work. They next plan to replace the roof of their house, since the current one provides little insulation on summer nights, when the family sleeps in a single air-conditioned room to cope with the intense heat.

THE CÓRDOBAS

BLUEFIELDS, NICARAGUA

Margarita Córdoba is 39 years old and has eight children (four boys and four girls). Her parents made a living by collecting recyclables from an open-air garbage landfill in Bluefields. She grew up working with them and then continued by herself until 2012, when she and 20 other women started the recycling cooperative Luz de Futuro (Light of the Future). Margarita is currently the president of the cooperative. She works recycling plastic, metal, and paper, which the cooperative then sells to different companies in Managua. In addition she chips stones with her children to earn some additional income. Before forming the cooperative, Margarita's income was only US$1 PPP a day. Now, with both jobs, she earns around US$5 PPP per day to support her family. All of her children are enrolled in public school, and she encourages them to study hard. Margarita's oldest daughter, Ana, will finish high school this year. She aspires to learn English and study tourism at the local university. Margarita and her coop partners are planning to expand recycling recollection points and start producing handicrafts made with recycled materials.

Country Profiles

The following profiles document country-level changes in the base of the pyramid (BOP) population and markets across Latin America and the Caribbena. For each country, data for population size and composition are shown in orange and data for market size and composition are shown in blue. Where available, data for household expenditure data are shown in green.

In addition, we employ increments of US$500 PPP dollars until US$3650 PPP dollars and follow the same nomenclature for market and population sizes, so that for instance, “BOP500” stands for the income segment from zero to US$500 PPP, “BOP1500” stands for the income segment from US$1000 PPP to US$1500 PPP, and “BOP3650” indicates the income segment from US$3000 PPP to US$3650 PPP.

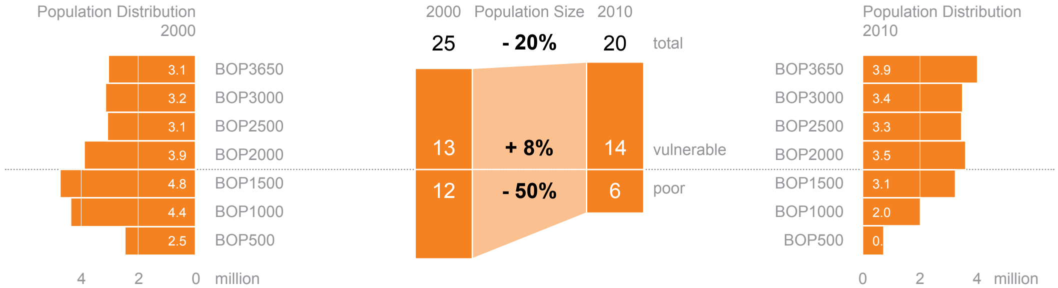
Argentina

Base of the Pyramid Country Profile, 2000 to 2010

BOP Population

2000 to 2010

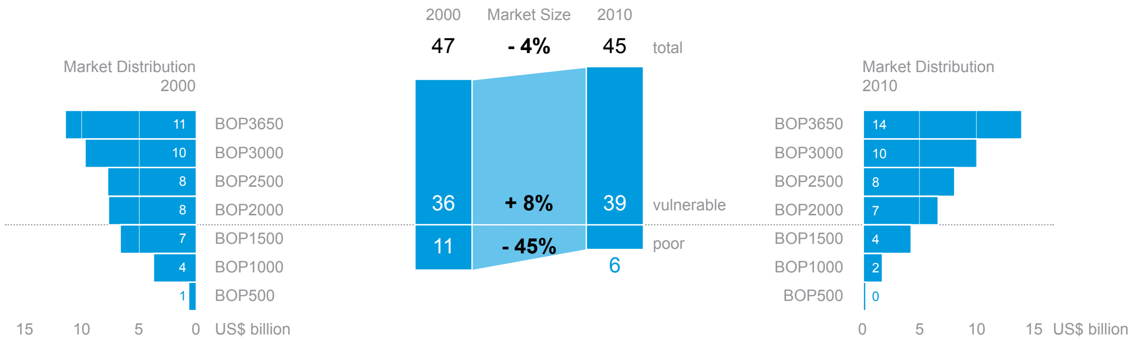
From 2000 to 2010, the BOP population of Argentina decreased 20% from 25 million to 20 million. The poor population (those earning less than US$4 per day) decreased 50% from 12 million to 6 million. The vulnerable population (those earning from US$4 to US$10 per day) increased 8% from 13 million to 14 million.



BOP Market

2000 to 2010

From 2000 to 2010, the BOP market in Argentina decreased 4% from US$47 billion to US$45 billion. The poor market (those earning less than US$4 per day) decreased 45% from US$11 billion to US$6 billion. The vulnerable market (those earning from US$4 to US$10 per day) increased 8% from US$36 billion to US$39 billion.



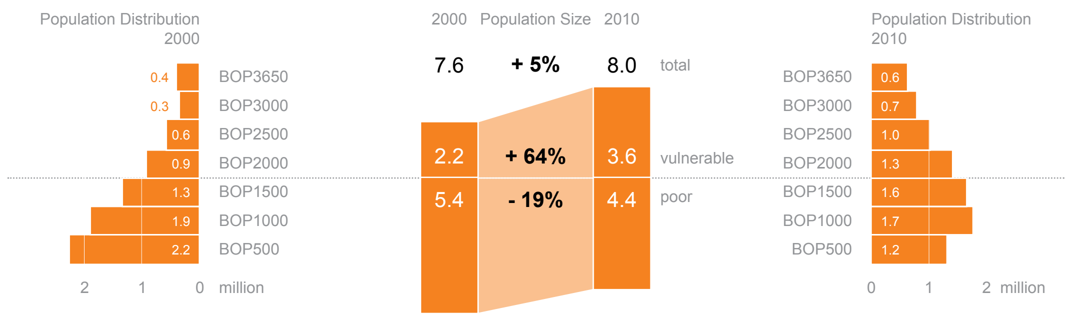
Bolivia

Base of the Pyramid Country Profile, 2000 to 2010

BOP Population

2000 to 2010

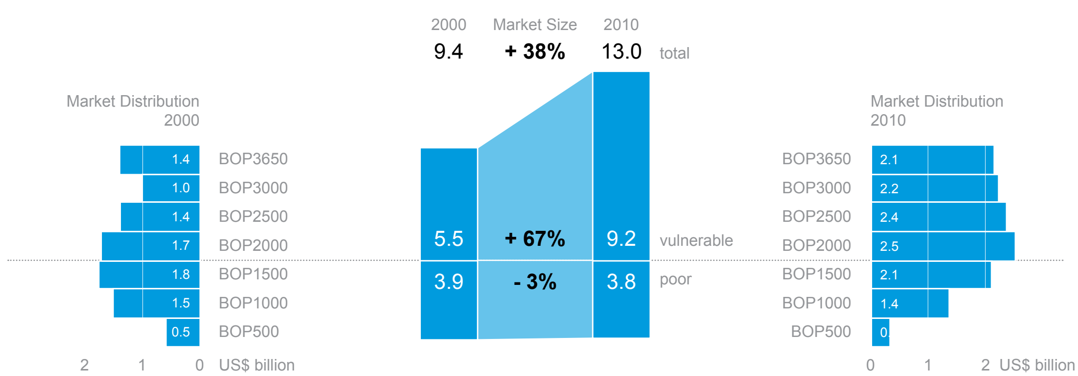
From 2000 to 2010, the BOP population of Bolivia increased 5% from 7.6 million to 8 million. The poor population (those earning less than US$4 per day) decreased 19% from 5.4 million to 4.4 million. The vulnerable population (those earning from US$4 to US$10 per day) increased 64% from 2.2 million to 3.6 million.



BOP Market

2000 to 2010

From 2000 to 2010, the BOP market in Bolivia increased 38% from US$9.4 billion to US$13 billion. The poor market (those earning less than US$4 per day) decreased 3% from US$3.9 billion to US$3.8 billion. The vulnerable market (those earning from US$4 to US$10 per day) increased 67% from US$5.5 billion to US$9.2 billion.



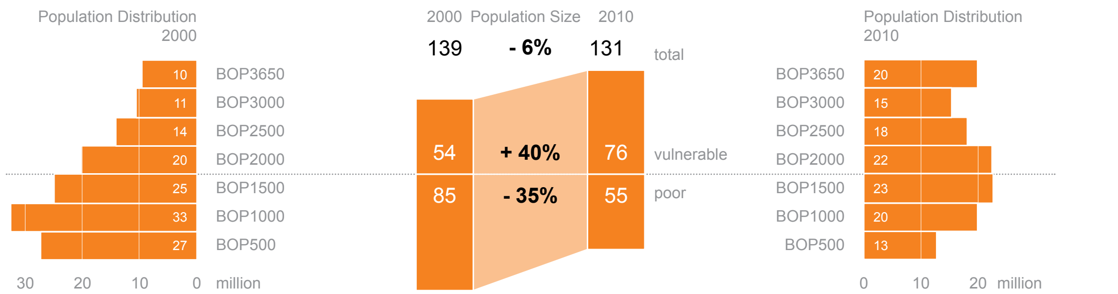
Brazil

Base of the Pyramid Country Profile, 2000 to 2010

BOP Population

2000 to 2010

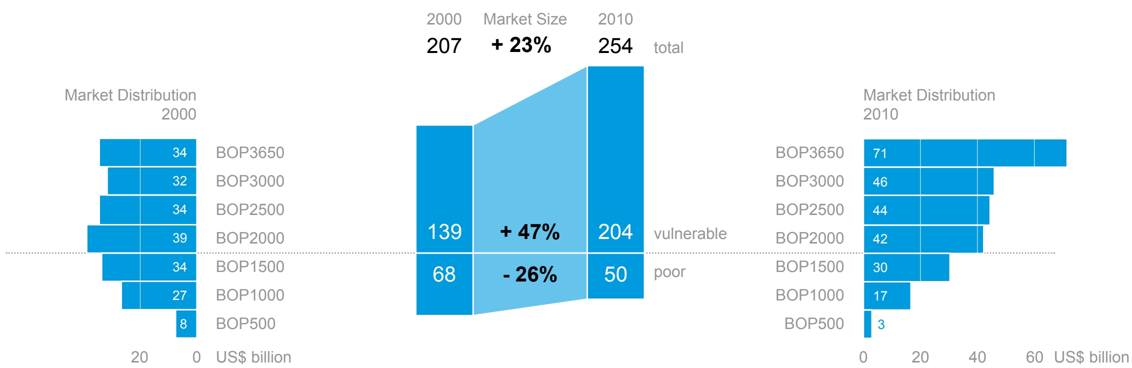
From 2000 to 2010, the BOP population of Brazil decreased 6% from 139 million to 131 million.
The poor population (those earning less than US$4 per day) decreased 35% from 85 million to 55 million.
The vulnerable population (those earning from US$4 to US$10 per day) increased 40% from 55 million to 76 million.



BOP Market

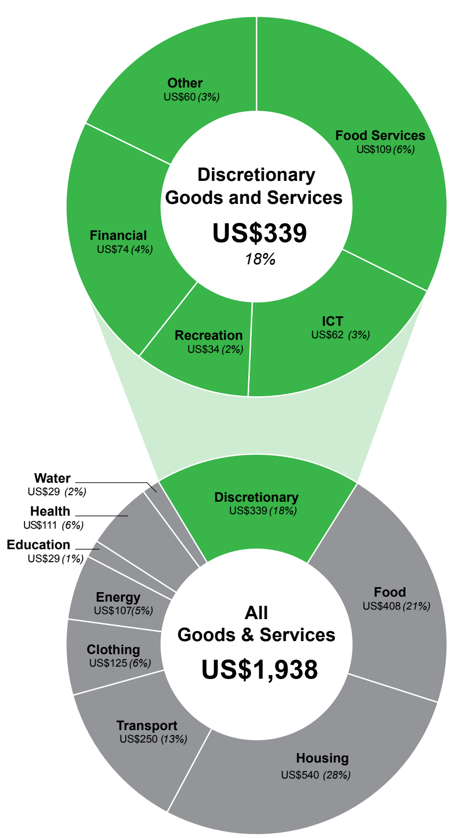
2000 to 2010

From 2000 to 2010, the BOP market in Brazil increased from US$207 billion to US$254 billion.
The poor market (those earning less than US$4 per day) decreased 26% from US$68 billion to US$50 billion.
The vulnerable market (those earning from US$4 to US$10 per day) increased 47% from US$139 billion to US$204 billion.



BOP Expenditure, by Segment

2010, US$ per capita per year



BOP Expenditure Change, by Segment

2000 to 2010, US$ per capita per year

BOP Expenditure Change, Total

2000 to 2010, US$ per capita per year

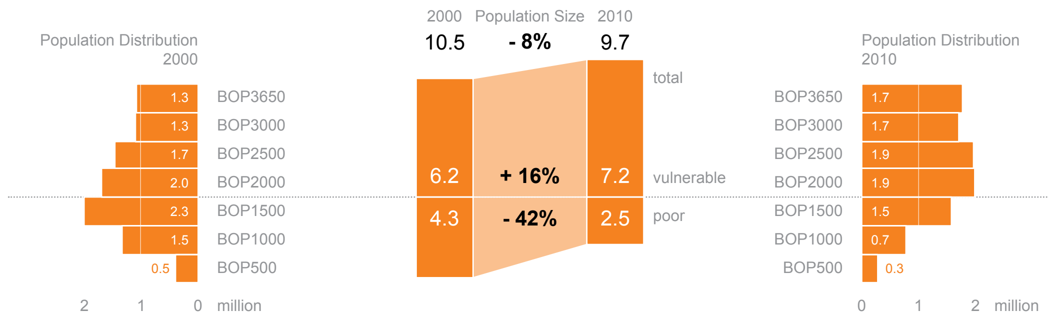
Chile

Base of the Pyramid Country Profile, 2000 to 2010

BOP Population

2000 to 2010

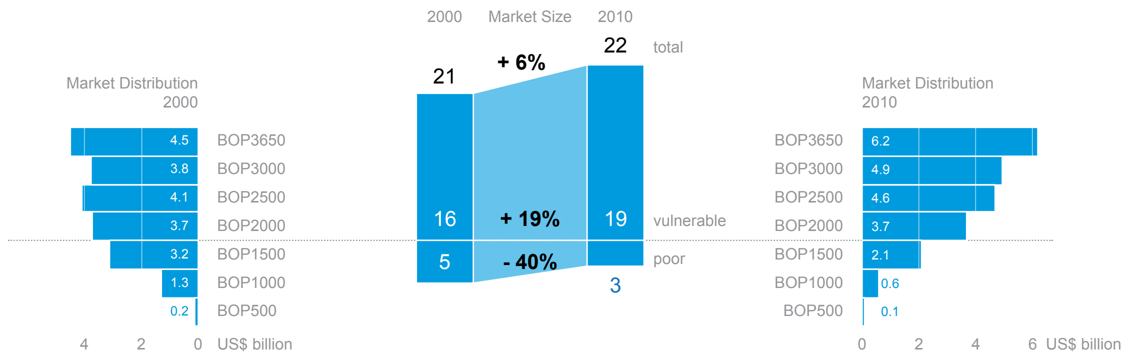
From 2000 to 2010, the BOP population of Chile decreased 8% from 10.5 million to 9.7million. The poor population (those earning less than US$4 per day) decreased 41% from 4.3 million to 2.5 million. The vulnerable population (those earning from US$4 to US$10 per day) increased 16% from 6.2 million to 7.2 million.



BOP Market

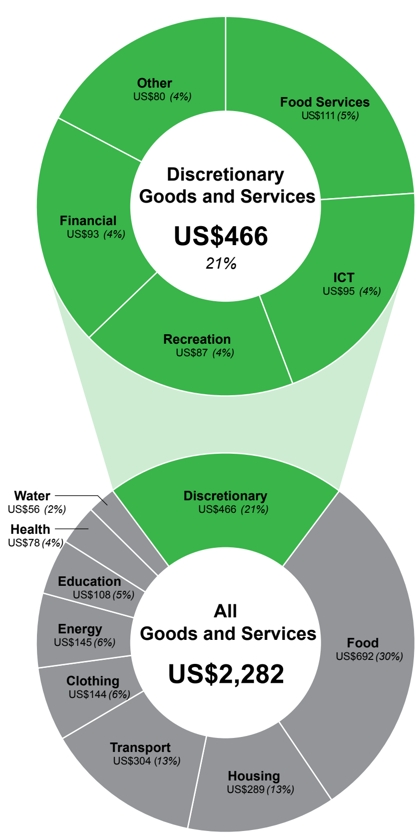
2000 to 2010

From 2000 to 2010, the BOP market in Chile increased 6% from US$21 billion to US$22 billion. The poor market (those earning less than US$4 per day) decreased 40% from US$5 billion to US$3 billion. The vulnerable market (those earning from US$4 to US$10 per day) increased 19% from US$16 billion to US$19 billion.



BOP Expenditure, by Segment

2010, US$ per capita per year



BOP Expenditure Change, by Segment

2000 to 2010, US$ per capita per year

BOP Expenditure Change, Total

2000 to 2010, US$ per capita per year

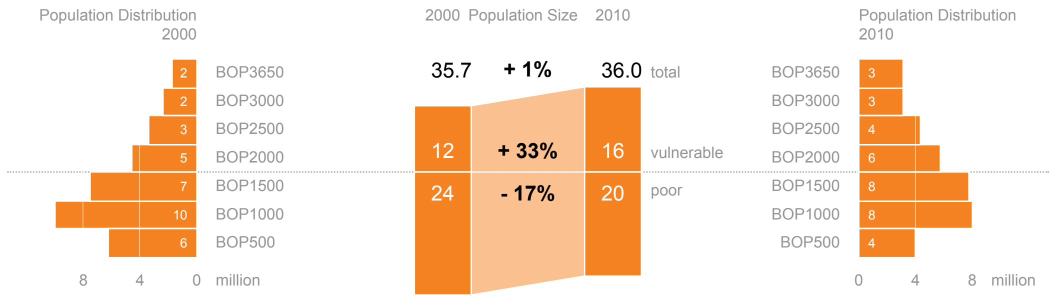
Colombia

Base of the Pyramid Country Profile, 2000 to 2010

BOP Population

2000 to 2010

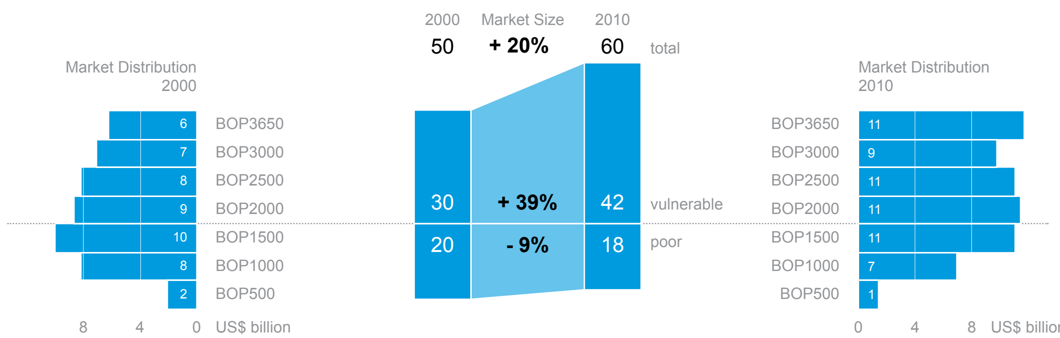
From 2000 to 2010, the BOP population of Colombia increased 1% from 35.7 million to 36.0 million. The poor population (those earning less than US$4 per day) decreased 17% from 24 million to 20 million. The vulnerable population (those earning from US$4 to US$10 per day) increased 33% from 12 million to 16 million.



BOP Market

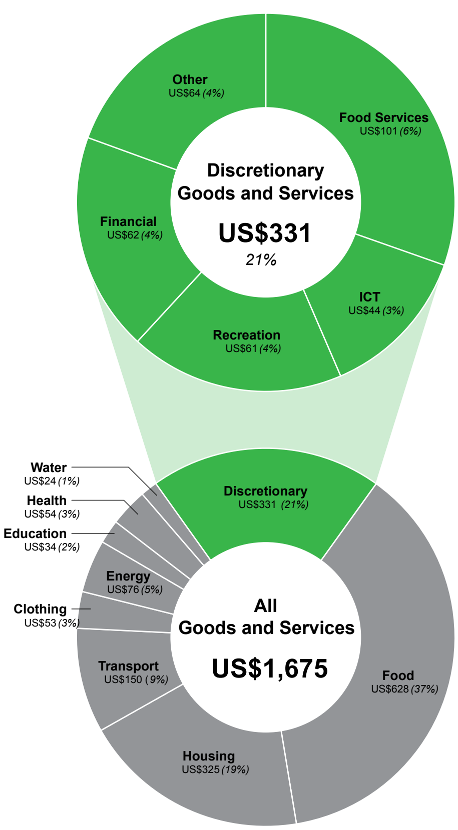
2000 to 2010

From 2000 to 2010, the BOP market in Colombia increased 20% from US$50 billion to US$60 billion. The poor market (those earning less than US$4 per day) decreased 9% from US$20 billion to US$18 billion. The vulnerable market (those earning from US$4 to US$10 per day) increased 39% from US$30 billion to US$42 billion.



BOP Expenditure, by Segment

2010, US$ per capita per year



BOP Expenditure Change, by Segment

2000 to 2010, US$ per capita per year

BOP Expenditure Change, Total

2000 to 2010, US$ per capita per year

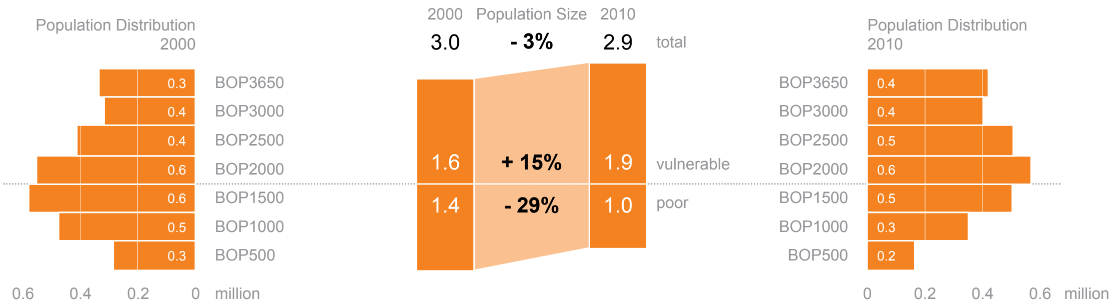
Costa Rica

Base of the Pyramid Country Profile, 2000 to 2010

BOP Population

2000 to 2010

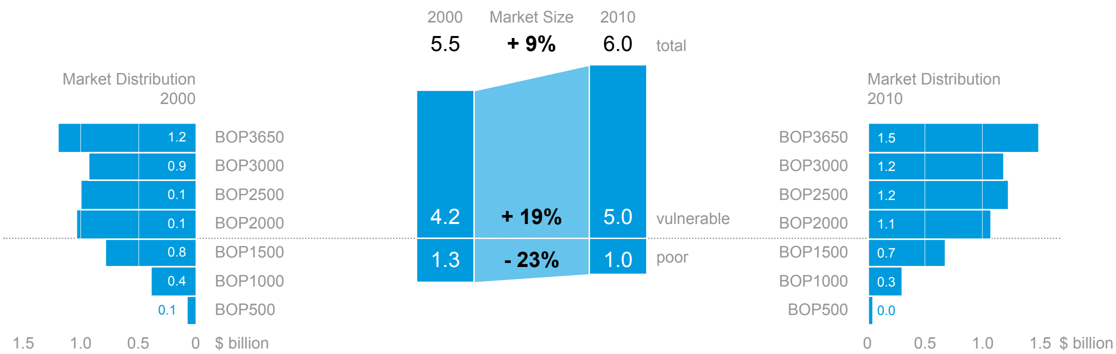
From 2000 to 2010, the BOP population of Costa Rica decreased 3% from 3.o million to 2.9 million. The poor population (those earning less than $4 per day) decreased 29% from 1.4 million to 1.0 million. The vulnerable population (those earning from $4 to $10 per day) increased 15% from 1.6 million to 1.9 million.



BOP Market

2000 to 2010

From 2000 to 2010, the BOP market in Costa Rica increased 9% from $5.5 billion to $6.0 billion. The poor population (those earning less than $4 per day) decreased 21% from $1.3 billion to $1 billion. The vulnerable population (those earning from $4 to $10 per day) increased 18% from $4.2 billion to $5 billion.



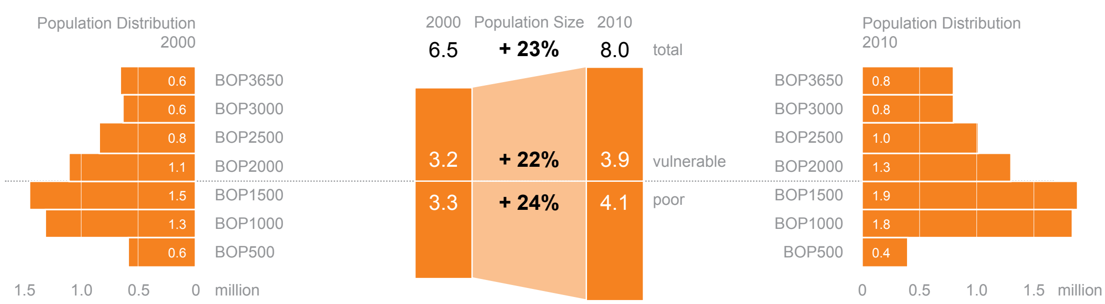
Dominican Republic

Base of the Pyramid Country Profile, 2000 to 2010

BOP Population

2000 to 2010

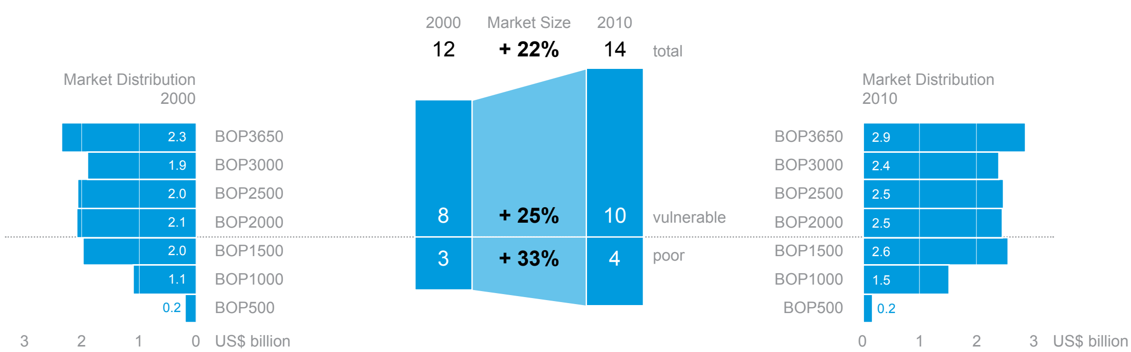
From 2000 to 2010, the BOP population of Dominican Republic increased 23% from 6.5 million to 8 million. The poor population (those earning less than US$4 per day) increased 24% from 3.3 million to 4.1 million. The vulnerable population (those earning from US$4 to US$10 per day) increased 22% from 3.3 million to 4.1 million.



BOP Market

2000 to 2010

From 2000 to 2010, the BOP market in Dominican Republic increased 22% from US$12 billion to US$14 billion. The poor population (those earning less than US$4 per day) increased 33% from US$3 billion to US$4 billion. The vulnerable population (those earning from US$4 to US$10 per day) increased 25% from US$8 billion to US$10 billion.



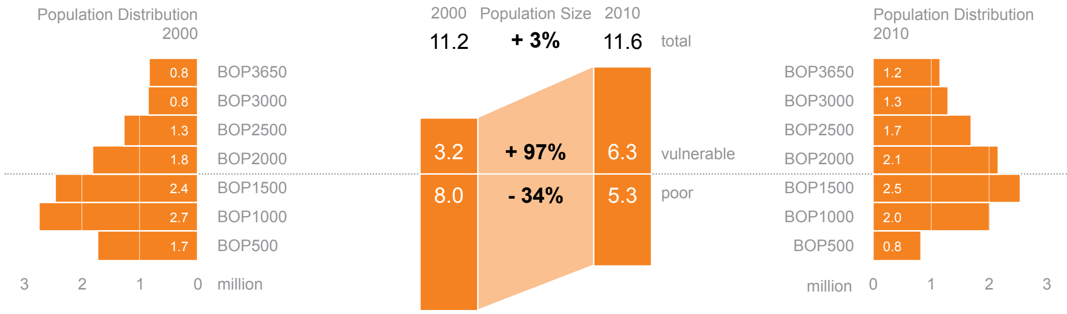
Ecuador

Base of the Pyramid Country Profile, 2000 to 2010

BOP Population

2000 to 2010

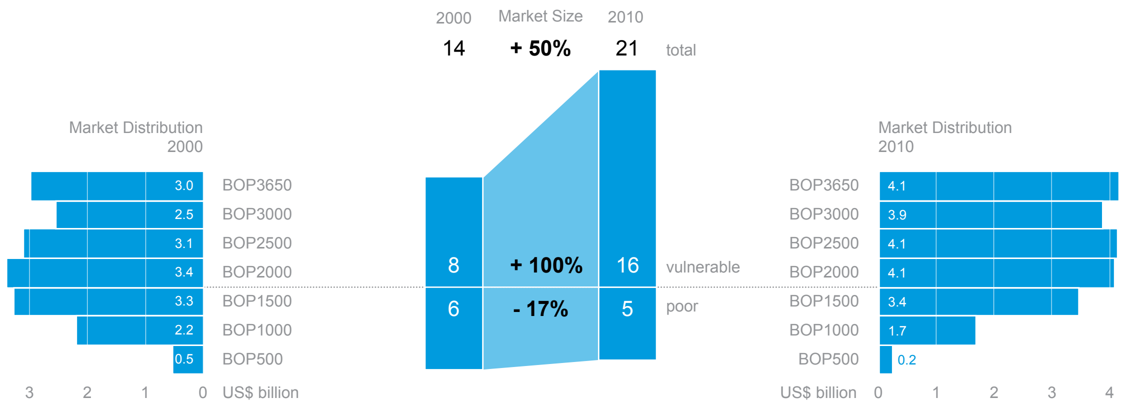
From 2000 to 2010, the BOP population of Ecuador increased 3% from 11.2 million to 11.6 million. The poor population (those earning less than US$4 per day) decreased 34% from 8 million to 5.3 million. The vulnerable population (those earning from US$4 to US$10 per day) increased 97% from 3.2 million to 6.3 million.



BOP Market

2000 to 2010

From 2000 to 2010, the BOP market in Ecuador increased 50% from US$14 billion to US$21 billion. The poor population (those earning less than US$4 per day) decreased 17% from US$6 billion to US$5 billion. The vulnerable population (those earning from US$4 to US$10 per day) increased 100% from US$8 billion to US$16 billion.



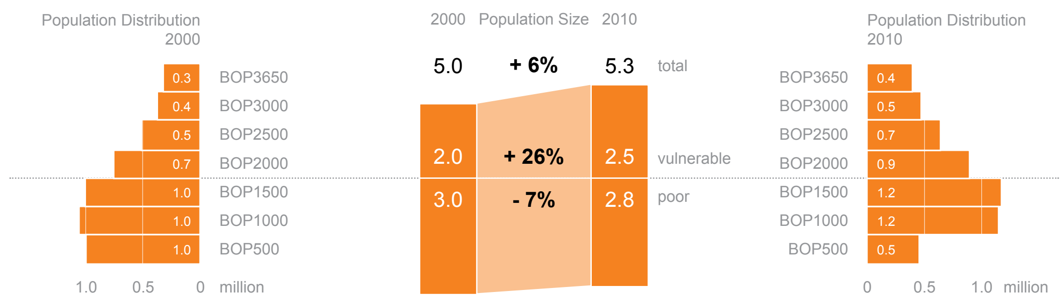
El Salvador

Base of the Pyramid Country Profile, 2000 to 2010

BOP Population

2000 to 2010

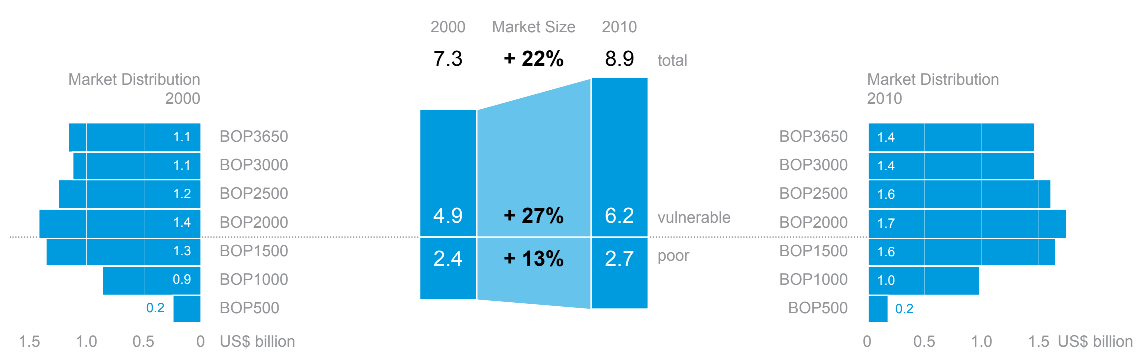
From 2000 to 2010, the BOP population of El Salvador increased 6% from 5 million to 5.3 million. The poor population (those earning less than US$4 per day) decreased 7% from 3.0 million to 2.8 million. The vulnerable population (those earning from US$4 to US$10 per day) increased 26% from 2 million to 2.5 million.



BOP Market

2000 to 2010

From 2000 to 2010, the BOP market in El Salvador increased 22% from US$7.3 billion to US$8.9 billion. The poor population (those earning less than US$4 per day) increased 13% from US$2.4 billion to US$2.7 billion. The vulnerable population (those earning from US$4 to US$10 per day) increased 27% from US$4.9 billion to US$6.2 billion.



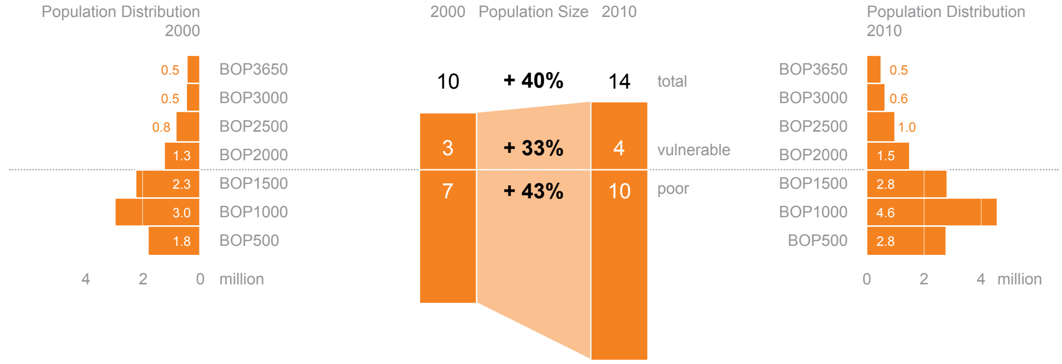
Guatemala

Base of the Pyramid Country Profile, 2000 to 2010

BOP Population

2000 to 2010

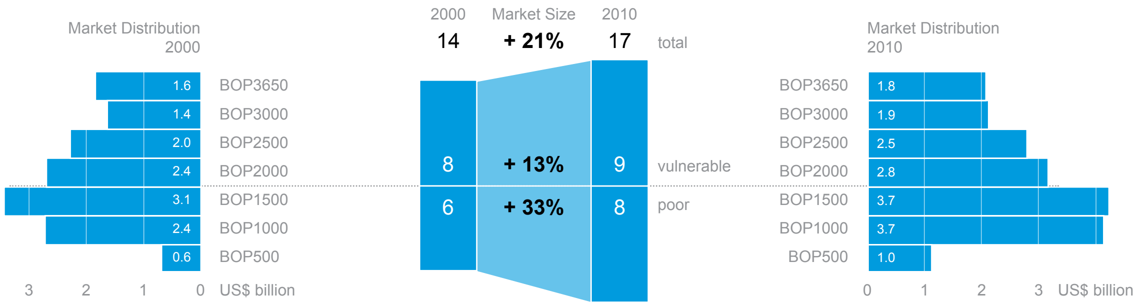
From 2000 to 2010, the BOP population of Guatemala increased 40% from 10 million to 14 million. The poor population (those earning less than US$4 per day) increased 43% from 7 million to 10 million. The vulnerable population (those earning from US$4 to US$10 per day) increased 33% from 3 million to 4 million.



BOP Market

2000 to 2010

From 2000 to 2010, the BOP market in Guatemala increased 21% from US$14 billion to US$17 billion. The poor population (those earning less than US$4 per day) increased 33% from US$6 billion to US$8 billion. The vulnerable population (those earning from US$4 to US$10 per day) increased 13% from US$8 billion to US$9 billion.



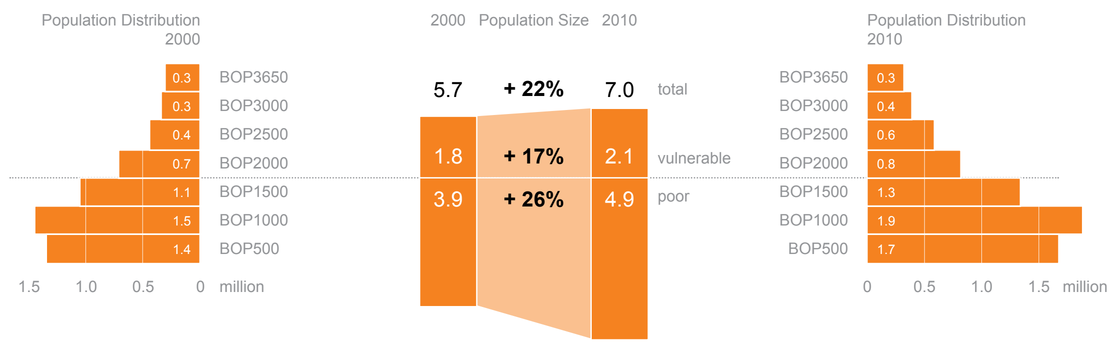
Honduras

Base of the Pyramid Country Profile, 2000 to 2010

BOP Population

2000 to 2010

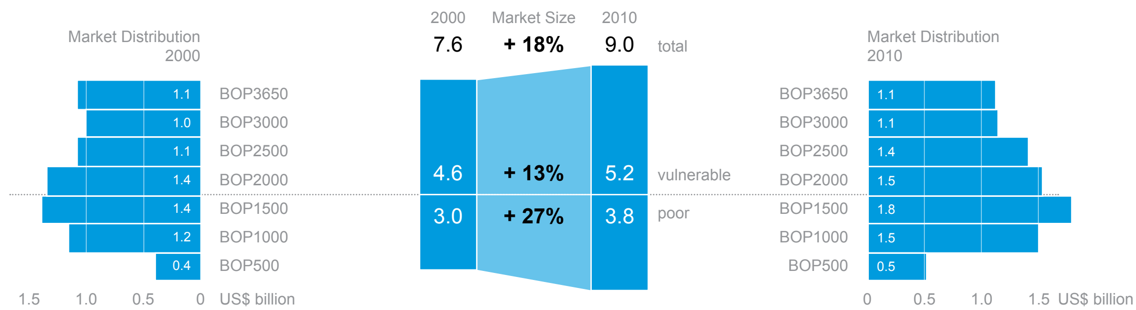
From 2000 to 2010, the BOP population of Honduras increased 22% from 5.7 million to 7 million. The poor population (those earning less than US$4 per day) increased 26% from 3.9 million to 4.9 million. The vulnerable population (those earning from US$4 to US$10 per day) increased 17% from 1.8 million to 2.1 million.



BOP Market

2000 to 2010

From 2000 to 2010, the BOP market in Honduras increased 18% from US$7.6 million to US$9 million. The poor population (those earning less than US$4 per day) increased 27% from US$3 million to US$3.8 million. The vulnerable population (those earning from US$4 to US$10 per day) increased 13% from US$4.6 million to US$5.2 million.



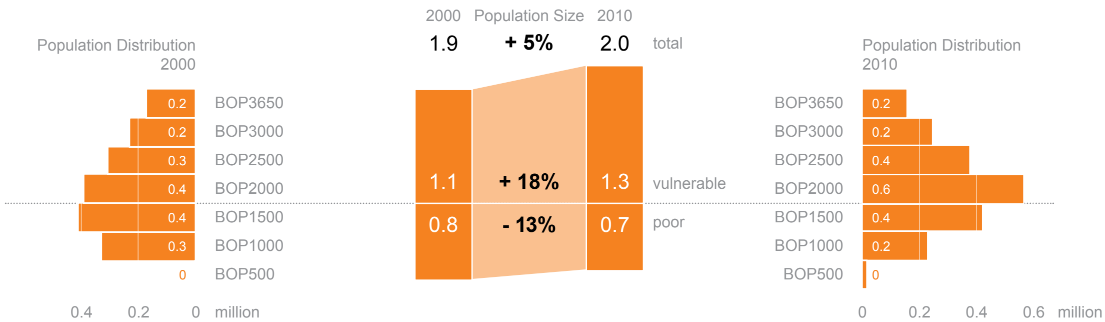
Jamaica

Base of the Pyramid Country Profile, 2000 to 2010

BOP Population

2000 to 2010

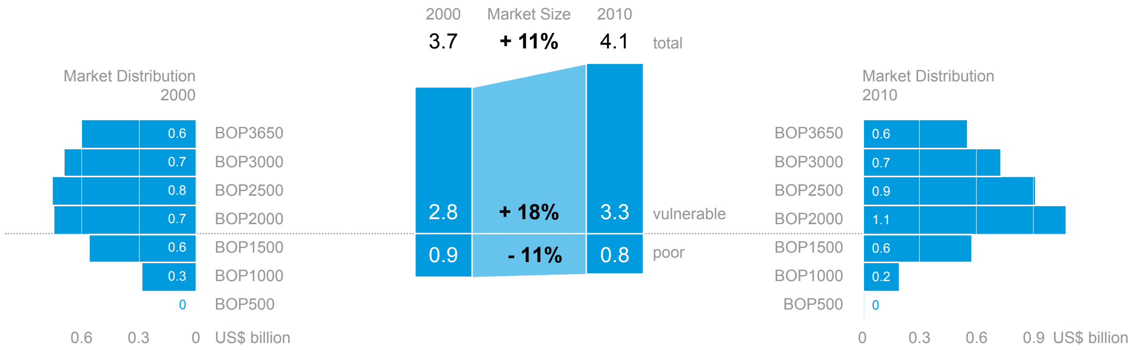
From 2000 to 2010, the BOP population of Jamaica increased 5% from 1.9 million to 2 million. The poor population (those earning less than US$4 per day) decreased 13% from 0.8 million to 0.7 million. The vulnerable population (those earning from US$4 to US$10 per day) increased 18% from 1.1 million to 1.3 million.



BOP Market

2000 to 2010

From 2000 to 2010, the BOP market in Jamaica increased 11% from US$3.7 billion to US$4.1 billion. The poor population (those earning less than US$4 per day) decreased 11% from US$0.9 billion to US$0.8 billion. The vulnerable population (those earning from US$4 to US$10 per day) increased 18% from US$2.8 billion to US$3.3 billion.



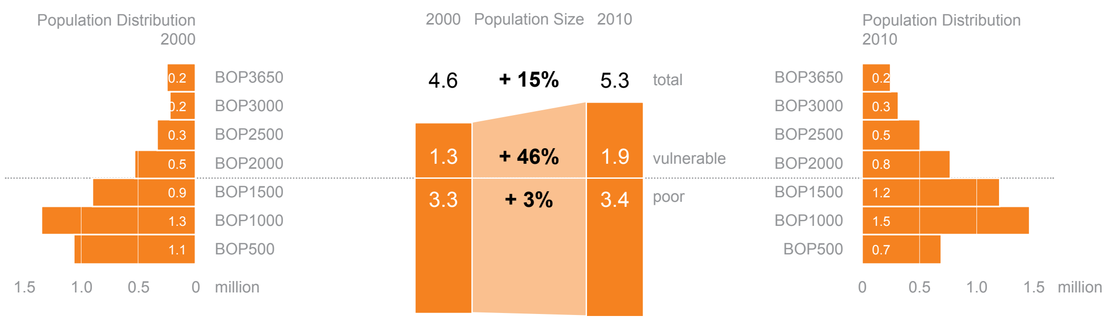
Nicaragua

Base of the Pyramid Country Profile, 2000 to 2010

BOP Population

2000 to 2010

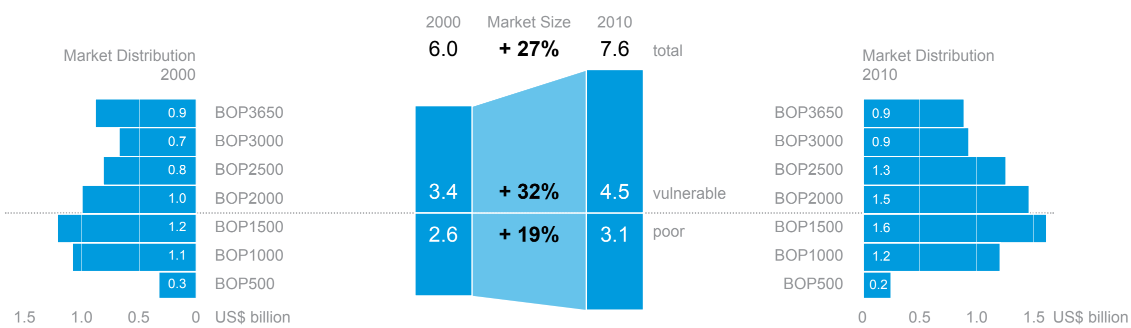
From 2000 to 2010, the BOP population of Nicaragua increased 15% from 4.6 million to 5.3 million. The poor population (those earning less than US$4 per day) increased 3% from 3.3 million to 3.4 million. The vulnerable population (those earning from US$4 to US$10 per day) increased 46% from 1.3 million to 1.9 million.



BOP Market

2000 to 2010

From 2000 to 2010, the BOP market in Nicaragua increased 27% from US$6 billion to US$7.6 billion. The poor population (those earning less than US$4 per day) increased 19% from US$2.6 billion to US$3.1 billion. The vulnerable population (those earning from US$4 to US$10 per day) increased 32% from US$3.4 billion to US$4.5 billion.



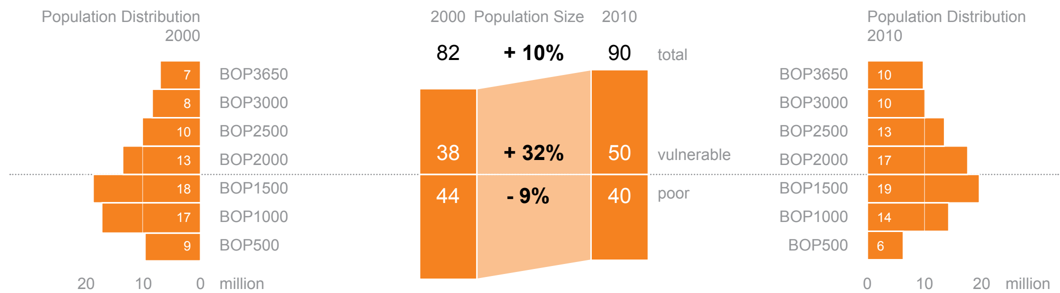
Mexico

Base of the Pyramid Country Profile, 2000 to 2010

BOP Population

2000 to 2010

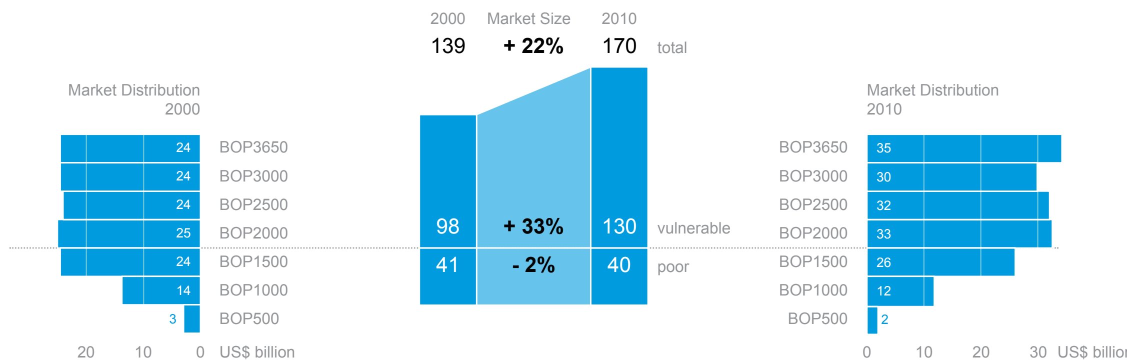
From 2000 to 2010, the BOP population of Mexico increased 10% from 82 million to 90 million. The poor population (those earning less than US$4 per day) decreased 9% from 44 million to 40 million. The vulnerable population (those earning from US$4 to US$10 per day) increased 32% from 38 million to 50 million.



BOP Market

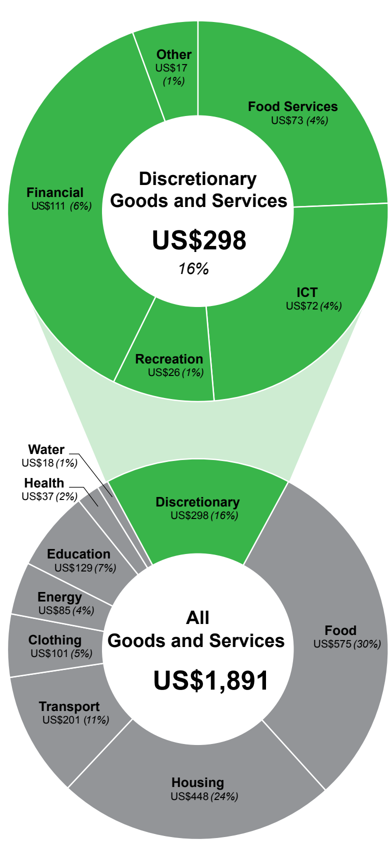
2000 to 2010

From 2000 to 2010, the BOP market in Mexico increased 22% from US$139 billion to US$170 billion. The poor market (those earning less than US$4 per day) decreased 2% from US$41 billion to US$40 billion. The vulnerable market (those earning from US$4 to US$10 per day) increased 33% from US$98 billion to US$130 billion.



BOP Expenditure, by Segment

2010, US$ per capita per year



BOP Expenditure Change, by Segment

2000 to 2010, US$ per capita per year

BOP Expenditure Change, Total

2000 to 2010, US$ per capita per year

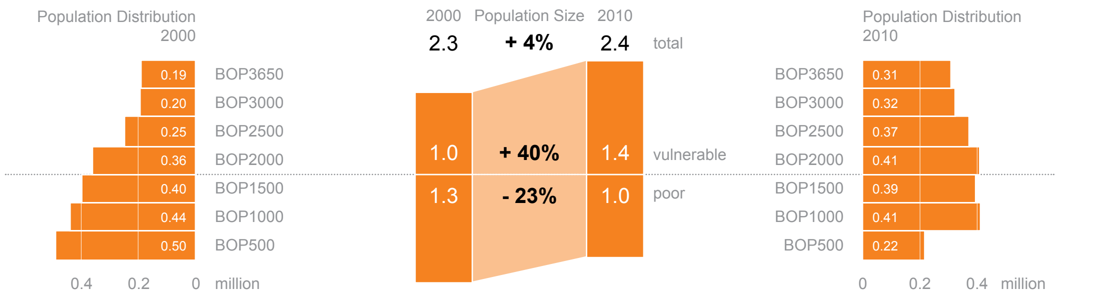
Panama

Base of the Pyramid Country Profile, 2000 to 2010

BOP Population

2000 to 2010

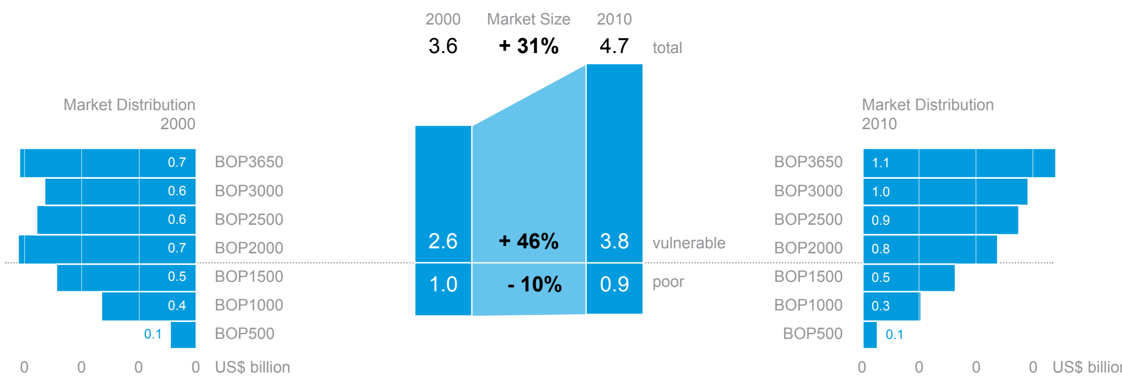
From 2000 to 2010, the BOP population of Panama increased 4% from 2.3 million to 2.4 million. The poor population (those earning less than US$4 per day) decreased 23% from 1.3 million to 1 million. The vulnerable population (those earning from US$4 to US$10 per day) increased 40% from 1 million to 1.4 million.



BOP Market

2000 to 2010

From 2000 to 2010, the BOP market in Panama increased 31% from US$3.6 billion to US$4.7 billion. The poor population (those earning less than US$4 per day) decreased 10% from US$1 billion to US$0.9 billion. The vulnerable population (those earning from US$4 to US$10 per day) increased 46% from US$2.6 billion to US$3.8 billion.



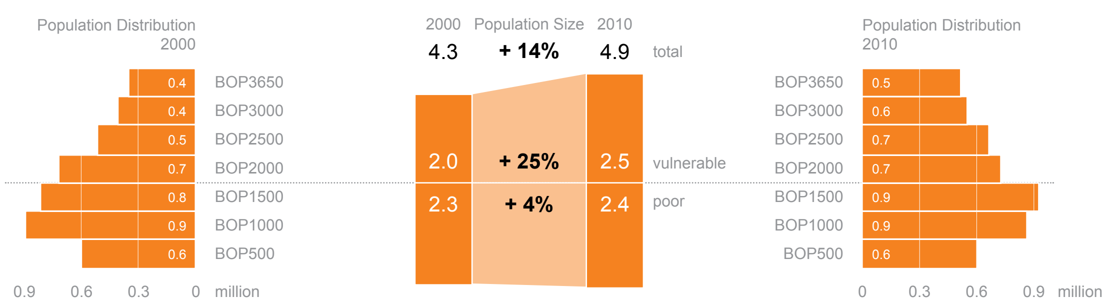
Paraguay

Base of the Pyramid Country Profile, 2000 to 2010

BOP Population

2000 to 2010

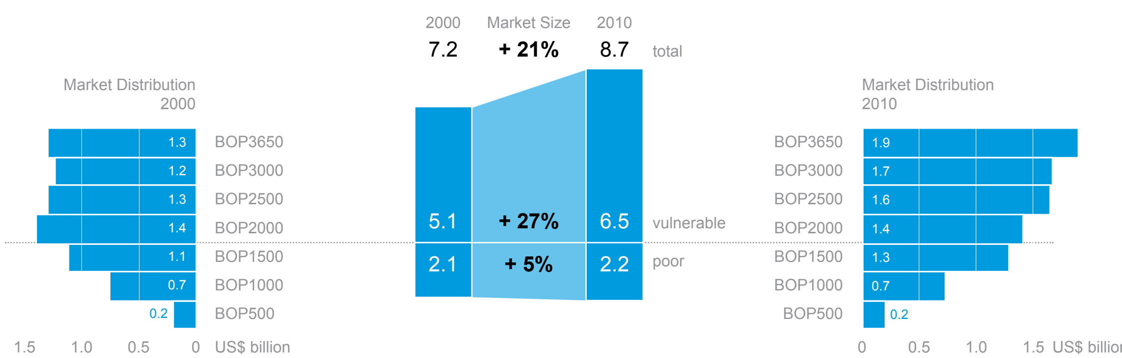
From 2000 to 2010, the BOP population of Paraguay increased 14% from 4.3 million to 4.9 million. The poor population (those earning less than US$4 per day) increased 4% from 2.3 million to 2.4 million. The vulnerable population (those earning from US$4 to US$10 per day) increased 25% from 2 million to 2.5 million.



BOP Market

2000 to 2010

From 2000 to 2010, the BOP market in Paraguay increased 21% from US$7.2 billion to US$8.7 billion. The poor population (those earning less than US$4 per day) increased 5% from US$2.1 billion to US$2.2 billion. The vulnerable population (those earning from US$4 to US$10 per day) increased 27% from US$5.1 billion to US$6.5 billion.



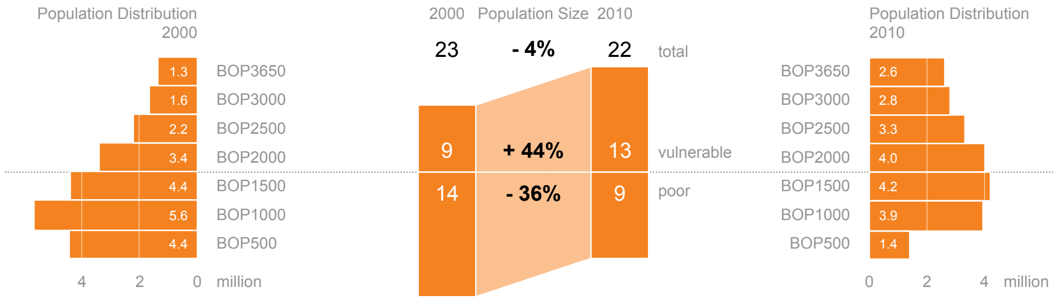
Peru

Base of the Pyramid (BOP) Country Profile, 2000 to 2010

BOP Population

2000 to 2010

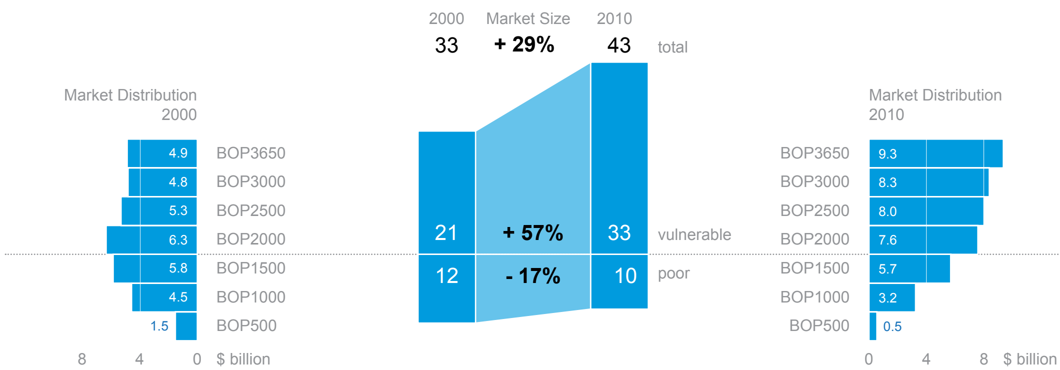
From 2000 to 2010, the BOP population of Peru decreased 4% from 23 million to 22 million. The poor population (those earning less than $4 per day) decreased 36% from 14 million to 9 million. The vulnerable population (those earning from $4 to $10 per day) increased 44% from 9 million to 13 million.



BOP Market

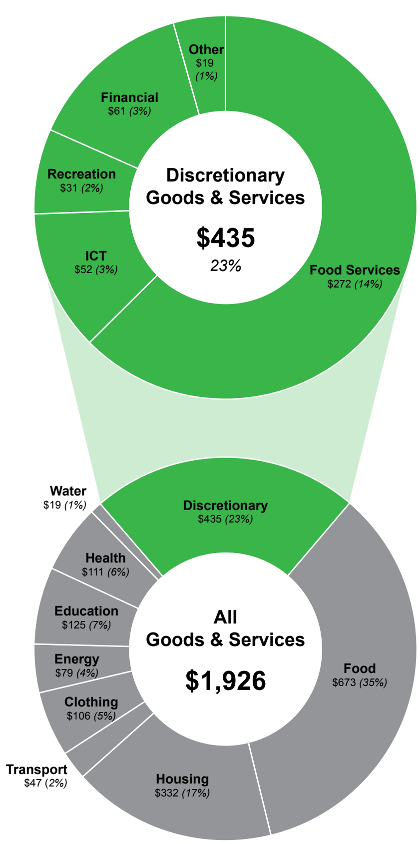
2000 to 2010

From 2000 to 2010, the BOP market in Peru increased 29% from $33 billion to $43 billion. The poor market (those earning less than $4 per day) decreased 20% from $12 billion to $10 billion. The vulnerable market (those earning from $4 to $10 per day) increased 56% from $21 billion to $33 billion.



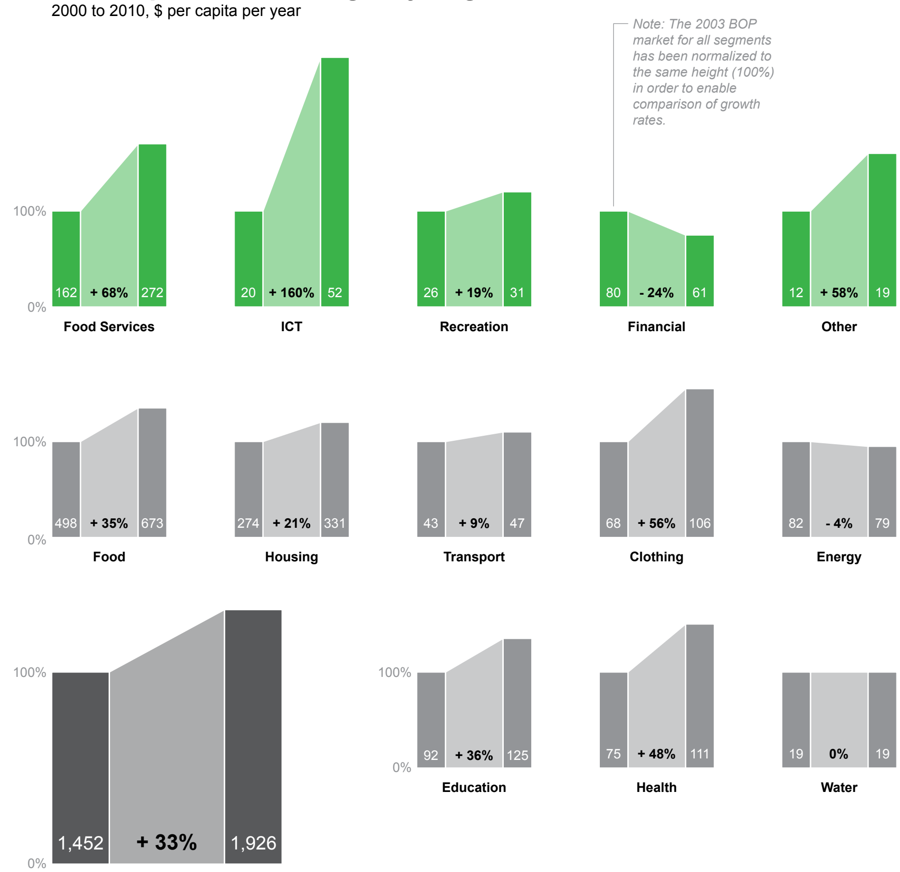
BOP Expenditure, by Segment

2010, $ per capita per year



BOP Expenditure Change, by Segment

2000 to 2010, $ per capita per year



BOP Expenditure Change, Total

2000 to 2010, $ per capita per year

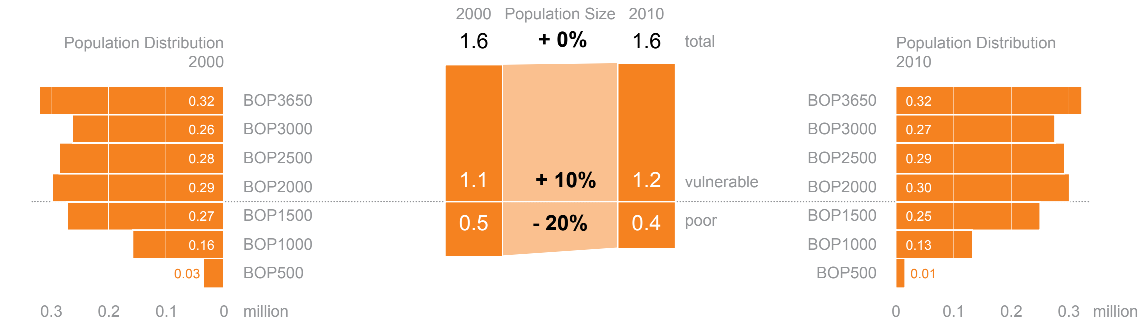
Uruguay

Base of the Pyramid Country Profile, 2000 to 2010

BOP Population

2000 to 2010

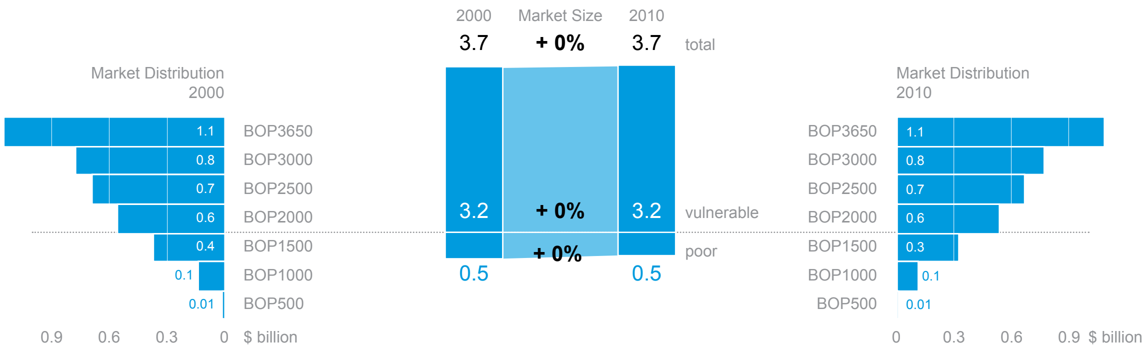
From 2000 to 2010, the BOP population of Uruguay remained stable in 1.6 million. The poor population (those earning less than $4 per day) decreased 20% from 0.5 million to 0.4 million. The vulnerable population (those earning from $4 to $10 per day) increased 10% from 1.1 million to 1.2 million.



BOP Market

2000 to 2010

From 2000 to 2010, the BOP market in Uruguay remained stable in $4 billion. The poor (those earning less than $4 per day) remained stable in $3.2 billion. The vulnerable population (those earning from $4 to $10 per day) remained at $3 billion.



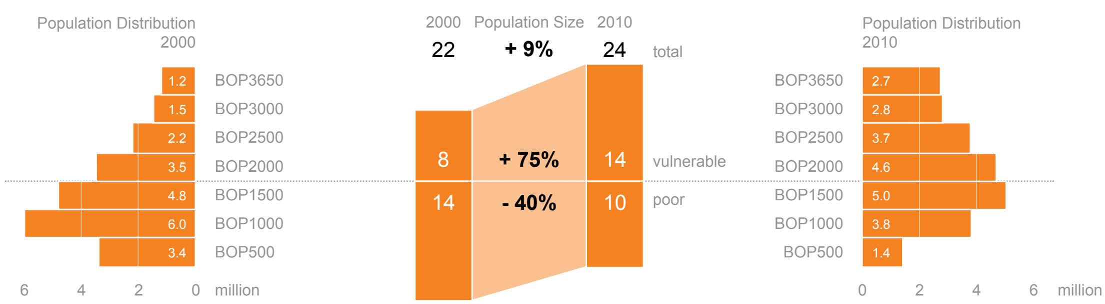
Venezuela

Base of the Pyramid Country Profile, 2000 to 2010

BOP Population

2000 to 2010

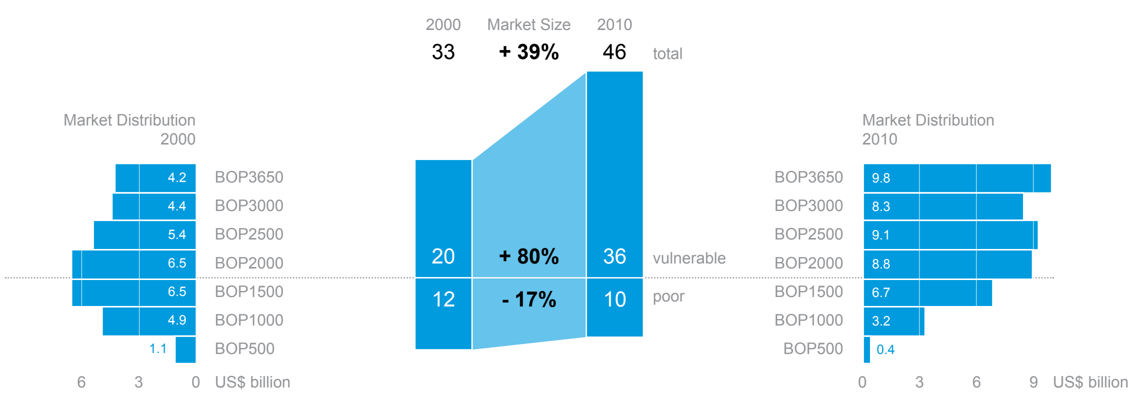
From 2000 to 2010, the BOP population of Venezuela increased 9% from 22 million to 24 million. The poor population (those earning less than US$4 per day) decreased 40% from 14 million to 10 million. The vulnerable population (those earning from US$4 to US$10 per day) increased 75% from 8 million to 14 million.



BOP Market

2000 to 2010

From 2000 to 2010, the BOP market in Venezuela increased 39% from US$33 billion to US$46 billion. The poor population (those earning less than US$4 per day) decreased 17% from US$12 million to US$10 billion. The vulnerable population (those earning from US$4 to US$10 per day) increased 80% from US$20 billion to US$36 billion.



Notes on Methodology

Monetary Values

Throughout this report, monetary values are measured in per capita 2005 U.S. dollars at purchasing power parity (PPP). The PPP conversion factor is the number of units of a country's currency required to buy the same amounts of goods and services in the domestic market as the U.S. dollar would buy in the United States. Income and expenditures are calculated in PPP U.S. dollars. The PPP U.S. dollar is measured in 2005 international dollars using PPP conversions estimated using conversion factors from the World Bank International Comparison Program (http://data.worldbank.org/indicator/PA.NUS.PRVT.PP).

BOP Thresholds

In this report the BOP is defined as the population with daily incomes below US$10 per day (in 2005 U.S. dollars at PPP). For Latin America and the Caribbean, a US$10 PPP threshold is in line with the most recent empirical works. López-Calva and Ortiz-Juarez (2014), Ferreira et al. (2012), and Birdsall, Lustig, and Meyer (2014) adopt US$10 PPP per capita per day as the Latin American and the Caribbean middle-class income lower bound. Empirical evidence indicates that the risk of falling below the poverty line, namely, a daily income of US$4 PPP or less, is drastically reduced once an individual reaches a threshold of US$10 PPP or more per day. In previous work, "The Next 4 Billion" by Hammond et al. (2007) adopted a US$8.22 PPP per capita per day (or US$3,000 PPP per year) threshold.

Market Size

The BOP market size is estimated by aggregating per capita income in PPP U.S. dollars. To calculate BOP market size and population for Latin America and the Caribbean, this report uses a sample of 19 countries that account for 98 percent of the regional population: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay, and Venezuela. The household surveys used in this report are from the Socio-Economic Database for Latin America and the Caribbean (SEDLAC) Project and were harmonized by SEDLAC as of December 2014 using official country data. The only countries from the Caribbean for which market size and population information was available at the time of processing data were the Dominican Republic and Jamaica. For comparison and analysis purposes, surveys used are circa 2000 and 2010, and figures and charts show 2000 and 2010 as the approximate years.

Market Growth for 2020

To estimate the region's BOP market growth through 2020, this report uses ventiles from the World Bank's PovcalNet database (http://iresearch.worldbank.org/PovcalNet/index.htm) for 18 countries in 2010 and applies GDP growth estimates from the three-factor production model (Centre d'Etudes Prospectives et d'Informations Internationales, or CEPII) of Fouré, Bénassy-Quéré, and Fontagné (2010) in 2005 U.S. dollars at PPP. It follows the assumptions of Birdsall, Lustig, and Meyer (2014) on intraventile uniform income and population distributions. The assumption of uniform population growth across income ventiles biases growth estimates downward, since for developing countries, population growth is higher in lower-income segments.

Market Size of Sectors

To estimate the potential market for each sector, this report uses household expenditure surveys for a subsample of five countries: Brazil, Chile, Colombia, Mexico, and Peru. These countries together account for 71 percent of the region's population. They were selected because of data availability in order to harmonize expenditure surveys into comparable consumption categories (2000 and 2010). Consumption shares for each category are calculated and extrapolated to the broader sample of 19 Latin American countries, under the assumption that total household expenditure equals total income. The market sizes estimated are thus the potential market sizes for the total BOP market.

Elasticity

Income elasticity of demand (expenditure) of each sector measures the responsiveness of the demand for goods and services of the sector to a change in income, ceteris paribus. To calculate the elasticity, we use the sector spending and incomes for the top and bottom segments of the BOP (those earning up to US$500 PPP and those earning from US$3000 to US$3650 PPP) and calculate the ratio of the percentage change in demand for each sector to the percentage change in income between the top and bottom segments.

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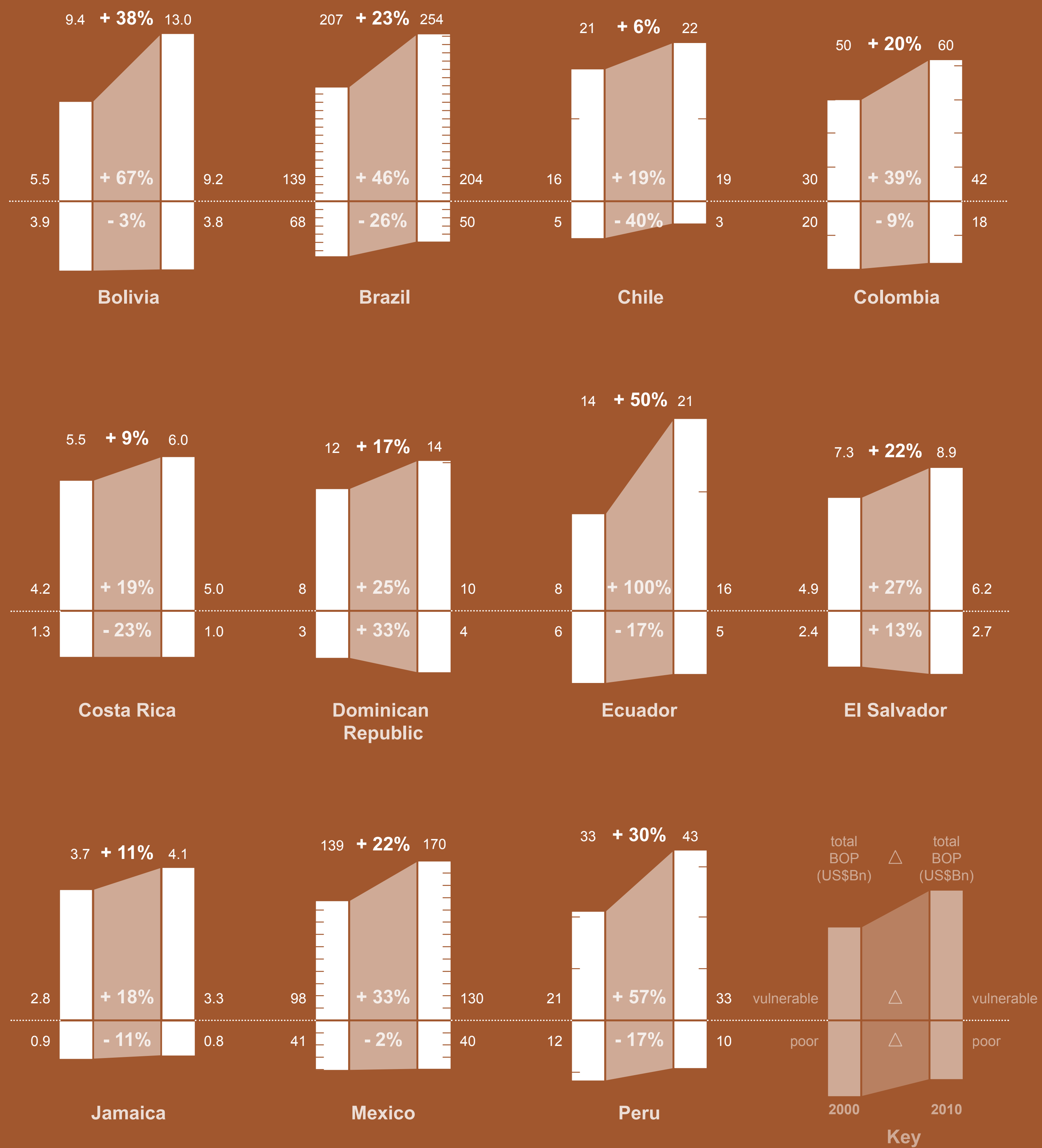

For each country, the size of the total BOP market in 2000 has been normalized to the same height, in order to enable comparison of growth rates. For larger markets, tick marks are displayed at US$10 billion increments.

Base of the Pyramid Market Growth
in Latin America and the Caribbean, 2000 to 2010

Base of the Pyramid Market Growth
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