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Using Innovative Finance to Scale Up Corporate Base-of-Pyramid Initiatives

Developments in innovative finance may enable companies to lead cross-sector partnerships, addressing some of today's biggest global health challenges.

It is commonly argued that viewing the "base of the pyramid" (BOP) as a business opportunity can help companies make a substantial impact on the lives of the poor and make money at the same time. Design of such "inclusive" business models is a challenge many companies have therefore taken up. But building sustainable and scalable BOP initiatives has proven to be more difficult in practice than in theory. An ongoing experiment in combining business model innovation with innovative finance may just overcome the hurdles typically faced by corporate BOP initiatives.

Realising the potential of corporate BOP initiatives?

Companies have made significant progress towards building business models that bring critical services like healthcare to the poor. In the process, they have addressed three fundamental challenges associated with the BOP market: affordability, access and awareness.

The most successful corporate BOP initiatives already break even on an operating basis. However, targeting the poor often requires significant upfront local investments to build a robust ecosystem that includes sufficient healthcare infrastructure, last-mile distribution and customer education. Once a company considers these costs, what otherwise might have looked like a promising business opportunity often no longer seems so, and the initiative remains limited in scale.

Even innovative corporate BOP initiatives are often not financially attractive, yet may contain the potential to generate significant societal value. One possible solution is to employ innovative finance, helping scale up impactful business models by providing companies access to impact-focused capital. Such concessionary capital (i.e. capital willing to accept below-average risk-adjusted returns) is attracted by the promise of delivering certain social outcomes. This, in turn, justifies the subsequent commercial investment required to further scale up the BOP initiative.

Innovative finance serves as the mechanism enabling cross-sector collaboration in an "impact ecosystem" comprised of diverse players. A development agency, a foundation, high-net-worth donors, venture philanthropists or a government provides the concessionary capital using outcome-based contracts that ensure delivery of a significant and measurable impact through a corporate BOP initiative, which would be hard to scale on its own.

In the context of uncorrected poor vision, which afflicts billions worldwide, outcome-based contracts are starting to be put in place to fund impactful corporate BOP initiatives.

Uncorrected poor vision: The world's largest disability

Poor vision correctable with appropriate eyeglasses, technically referred to as "refractive error", is one of two major causes of visual impairment (the other is cataracts). The numbers are staggering: More than 2.5 billion people globally have uncorrected refractive error, making it the largest disability in terms of the number of people affected. Of these, 90 percent live in less developed countries. There are 624 million who have such a severe condition that they are **classified as blind**.

According to a 2009 **WHO study**, this visual impairment resulted in an annual productivity loss of US$269 billion. A 2011 study by Boston Consulting Group and Essilor highlighted many other costs, such as reduced personal and road safety and exclusion from information and economic opportunities. WHO has placed eyeglasses on its **Priority Assistive Products List** – essential items prioritised so that people with disabilities can live healthy, productive and dignified lives.

Yet only US$37 million a year (as of 2015) of philanthropic and development **funding** has gone towards this cause. While seeking more funding seems worthwhile, it is important to examine how best to budget to maximise social impact. Rather than just giving away eyeglasses for free, channelling some of the impact-driven funds towards inclusive business models might be a promising and more sustainable solution.

Scaling up Essilor's Eye Mitra initiative to address poor vision

Essilor, **the world's leading vision care company**, is attempting to demonstrate the potential of combining business model innovation with innovative finance. The company has set itself an ambition to eradicate poor vision from the world by 2050. As part of its efforts to bring eyeglasses to the underserved, Essilor has been training and supporting independent rural micro-entrepreneurs to ensure demand creation and distribution in rural markets. These entrepreneurs, called "Eye Mitras" (*"friends of the eyes"*), help overcome the shortage of trained optometrists in emerging markets – a critical hurdle to expansion into poor rural communities. This shortage of trained health workers in rural areas is the main challenge in most other healthcare contexts as well.

Since its launch, the Eye Mitra programme has assisted more than 5,500 practicing primary vision care providers in 16 Indian states. The entrepreneurs have raised awareness and provided primary vision care to over 10 million people through eye screenings and the distribution of over 3 million affordable eyeglasses. The programme is now being scaled up in other countries with similar challenges, including Indonesia, Bangladesh, Kenya and China.

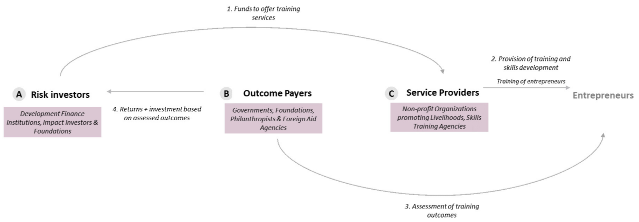
While continued refinement of the Eye Mitra business model has helped it reach break-even on an operational level, subsidies are still needed to create the foundational infrastructure – including finding and training individuals to take on the role of rural entrepreneurs. Until recently, this subsidy was provided internally, most often through Essilor's own funds. This limited the pace of the programme's expansion.

Recognising that the global vision care problem is too big for a single company to address, Essilor has started seeking external funding to support the Eye Mitra model using outcome-based contracts. The well-documented social impact makes the case for such funding: Increased earnings for the entrepreneurs, increased income for the customers through improved productivity, as well as positive impact on gender equality and respect for entrepreneurs in their communities.

In an impact study conducted by **Dalberg** and researchers from the Johns Hopkins Carey Business School, a survey of nearly 400 Eye Mitras serving 70,000 eyeglass wearers showed an impact of US$4.4 million a year in the six districts surveyed. Extrapolated to 600 districts in India alone, this would represent a socio-economic value of around US$440 million per year.

Essilor's outcome-based contracting approach draws closely on recent advances in social impact bonds and development impact bonds. Providers of concessionary capital (outcome payers) protect the providers of commercial capital (risk investors) by agreeing to repay the principal and a certain financial return as long as pre-agreed and independently verified outcomes are achieved. This includes targets such as the number of rural entrepreneurs trained in line with benchmarks shown to deliver the desired impact. This structure is illustrated in Figure 1.

Figure 1



In addition to generating direct impact, outcome-based models rigorously assess the impact of the underlying service-delivery approach. The accumulating body of evidence is enabling governments, aid agencies and foundations to make better decisions. For instance, the data can clarify whether it is best to channel some philanthropic funds to support an inclusive business approach, as opposed to giving away free eyeglasses.

How successful will innovative finance be in scaling up BOP initiatives?

Past BOP initiatives have revealed that it is rarely easy to make a significant impact *and* meet corporate financial goals. So, there is little doubt that the go-solo BOP approach needs redefining: Achieving sustainable impact at scale requires extending beyond the mindset of *standalone* corporate initiatives.

While leaders in the inclusive business space have long been aware of the importance of cross-sector partnerships, the challenge has been figuring out the right structures for these partnerships to realise their potential. Fortunately, this appears easier with the application of the emerging tool of innovative finance to enable promising business models that might not otherwise be scalable. While the jury is still out on how well it will work out, the early signs are promising. We will all be watching eagerly to find out how this space unfolds, as innovative finance could become an important tool to extend the potential of employing business as a force for good.

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