

BOP Business Policy Study Group Report <Summary>

~Building a new business model based on Public-Private Partnership in developing countries~

February 2010

I. Background and awareness of issues

- With the market of developed countries making a relative contraction, Japanese companies, whose strength has traditionally lain in high-end products, need to appeal to developing countries' middle-income groups (volume zone) and low-income groups (BOP: Base of the Economic Pyramid) as their "new market in the global economy".
- The BOP group represents 72% of the world's population (approx. 4 billion people), forming a market of an extremely large potential that could become worth 5 trillion dollars. Yet, the BOP group faces social issues such as poverty, insufficient living and social foundations and associated hygiene issues, which emerged from the low level of income. Economic cooperation is sought as a contribution to resolving these issues.
- Europe and the United States typically have a system for promoting diverse forms of Public-Private Partnership (from the identification of tasks to be resolved to business development) as an approach for addressing social needs and resolving the issues - e.g. the GDA (Global Development Alliance) program overseen by USAID (United States Agency for International Development - USA). Some global enterprises based in the West are making active use of the system, forming partnerships with local governments, NGOs (Non-Governmental Organizations), etc. to resolve the business tasks and challenges faced by local communities. In contrast, the number of such projects involving Japanese companies is low, with government assistance only extended on a case-by-case basis.
- Business targeting BOP contains miscellaneous risks, and it is not easy for enterprises to achieve a substantial profit from such activities in the short term. Yet, this represents a new frontier for the Japanese economy and industries. Innovation for conquering the frontier is expected to revitalize the Japanese economy as a whole. For support organizations, NPOs (Nonprofit Organization),

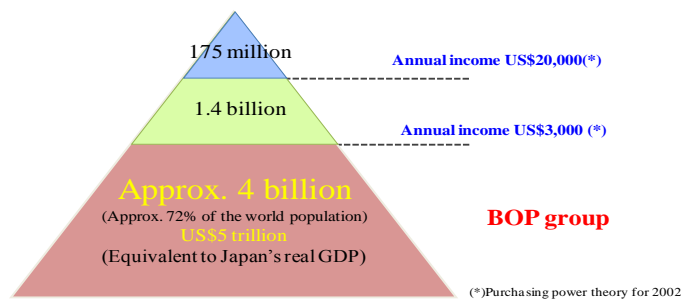
NGOs and social entrepreneurs, the use of company products, services, management capacity, networks and funds could help bring effective and sustainable solutions. This perspective could inspire them to review their past business approaches.

- From the perspectives of providing sustainable and effective economic cooperation, and helping Japanese companies make off-shore expansion or capture new markets, the Japanese government should urgently consider the direction and specific details of Public-Private Partnership, extending assistance to private-sector initiatives.

II. Positioning and potential of BOP business

1. What is BOP business? ~BOP business in developing countries~

Sustainable business that primarily targets low income earners in developing countries (earning up to US\$3,000 per annum, totaling 4 billion or approx. 70% of the world population), and is expected to contribute to resolving various social issues (water, delivery of daily necessities / services, reduction of poverty, etc.)



<Overseas company's example (1)> LifeStraw

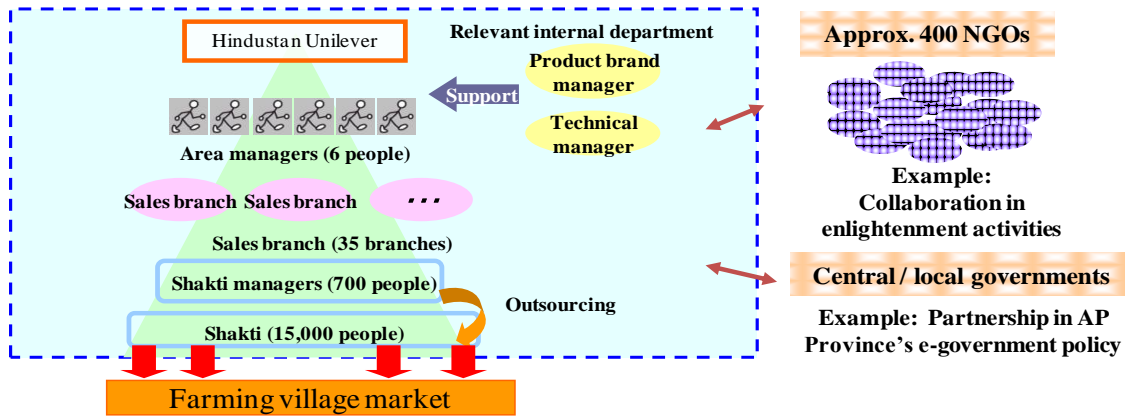
- LifeStraw is a water purification kit containing a high-quality purification device. It is affordable at \$4 per kit, and can be used for 3 years without replacing the filtration unit inside. It is supplied to African and Asian countries with assistance from international organizations.



From the website of Vestergaard Frandsen

<Overseas company's example (2)> Hygiene products (Unilever)

- Providing detergent, shampoo and other products in small bags at affordable prices (1 – 4 yen per bag)
- Local women in farming communities are trained and dispatched to conduct door-to-door sales. The program helps women gain independence.
- Sideline support from local governments, UNICEF (United Nations Children's Fund), NGO, etc. for the Global Handwashing Day campaign



Nomura Research Institute, Ltd. created based on Hindustan Unilever hearings (2006), publicly available

<Japanese company example (1)> Olyset Net (Sumitomo Chemical)

- The company developed the Olyset Net mosquito net made of pesticide-impregnated fibers, and supplied it to over 50 countries with assistance from international organizations.
- Demand has expanded due to the fact that it stays effective for at least 5 years to prevent malaria effectively and economically.
- Its production in Tanzania has created approx. 4,000 jobs, contributing to the development of the local economy.



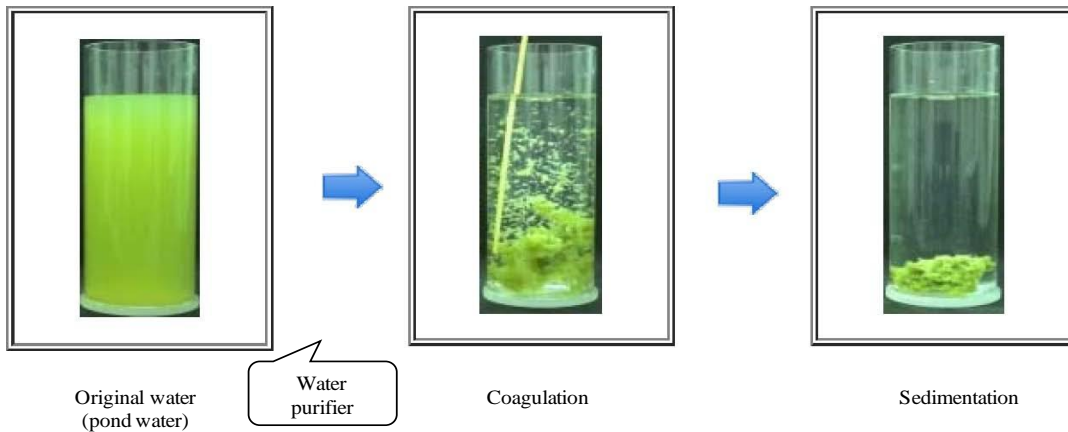
From the web site of Sumitomo Chemical Co., Ltd

<Japanese company example (2)> Water purifier (Nippon Poly-Glu Co., Ltd.)

- A small company manufacturing water purification kits (Osaka City, Osaka)
- The company uses this kit to work on the proliferation of safe water consumption in Bangladesh. A sales network using local women is being built.



Children cleaning water with a water purifier



Photos of coagulation via water purifier (taken from Nippon Poly-Glu Website)

2. Positioning and potential of BOP business as seen by involved parties

[Japanese perspective]

■ Japanese government's perspective

- Providing sustainable and effective economic cooperation through public-private partnership
Achieving improvements in the standard of living and reducing poverty in developing countries, revitalizing Japan's economy through developing emerging economies in Asia and other regions
- Raising the general recognition and presence of Japan's economic cooperation
- Helping Japanese companies expand overseas
Creating / expanding overseas markets for developing companies and the economy as a whole

■ Japanese companies' perspective

- Capturing (or preparing to capture) a new market
- Acquiring standards
- Developing goods and services that can be brought back to the Japanese market
- Small- and medium-sized companies expanding offshore
- Seizing opportunities for innovating own business (Innovative goods, services, sales channels and partnerships)
- Achieving business sustainability and efficiency through mutual collaboration with companies, government, support organizations, NPO / NGO and social entrepreneurs (*)

(*) NPOs / NGOs and social entrepreneurs may initiate projects.

[Developing countries' perspective]

■ Government perspective (developing countries)

- Developing economy through market revitalization, employment, domestic direct investments and import expansion
- Reducing poverty and improving the national standard of living

■ BOP perspective (developing countries)

- Expanding and creating opportunities for acquiring necessary goods and services
- Resolving BOP penalties (poverty forcing the purchase of relatively expensive and low quality products; difficulty and inability for accessing goods and services)
- Overcoming poverty through the creation of new employment opportunities

[Support organizations' perspective]

■ NPO/NGO perspective

- Identifying new BOP support needs through partnership with companies
- Providing sustainable and effective support through partnership with companies

■ Support organizations' perspective

- Effectively resolving social tasks in developing countries (MDGs (Millennium Development Goals), etc.) through the use of private-sector funds, goods, services and networks

III. Focal areas of BOP business for which support should be extended to encourage the involvement of Japanese companies

Considering which areas applicable countries' support organizations have focused on or extended assistance to, which areas Japanese companies wish to enter into, and which areas are given priority in the Official Development Assistance program (according to ODA Outlines, etc), Japanese companies should be encourage to become involved in the following areas:

<Focal industries>

Three pillars	Ten fields	Goal of the initiatives (social tasks to be resolved)
1. Japanese initiatives for reducing poverty	i. Education	Improving the low rate of adult literacy and primary education participation
	ii. Health, medical care and welfare	Improving the high rate of infant mortality
	iii. Water and hygiene	Improving the rate of population that has access to improved water sources
	iv. Agriculture, fisheries and forestry	Improving the efficiency of production in agriculture, fisheries and forestry for higher income
	v. Foods and nutrition	Reducing famine and improving the nutritional status
2. Areas of strength for Japan	vi. Environmental and energy equipment	Utilizing energy-saving technologies to expand electrical use and computer networks
	vii. Home appliances and industrial machinery	Improving the quality of life and shifting toward the secondary industry for higher income
3. Basic infrastructures for future industrial frameworks	viii. Information and telecommunications	Developing infrastructures required for achieving fields i - vii
	ix. Finances	
	x. Transportation equipment	

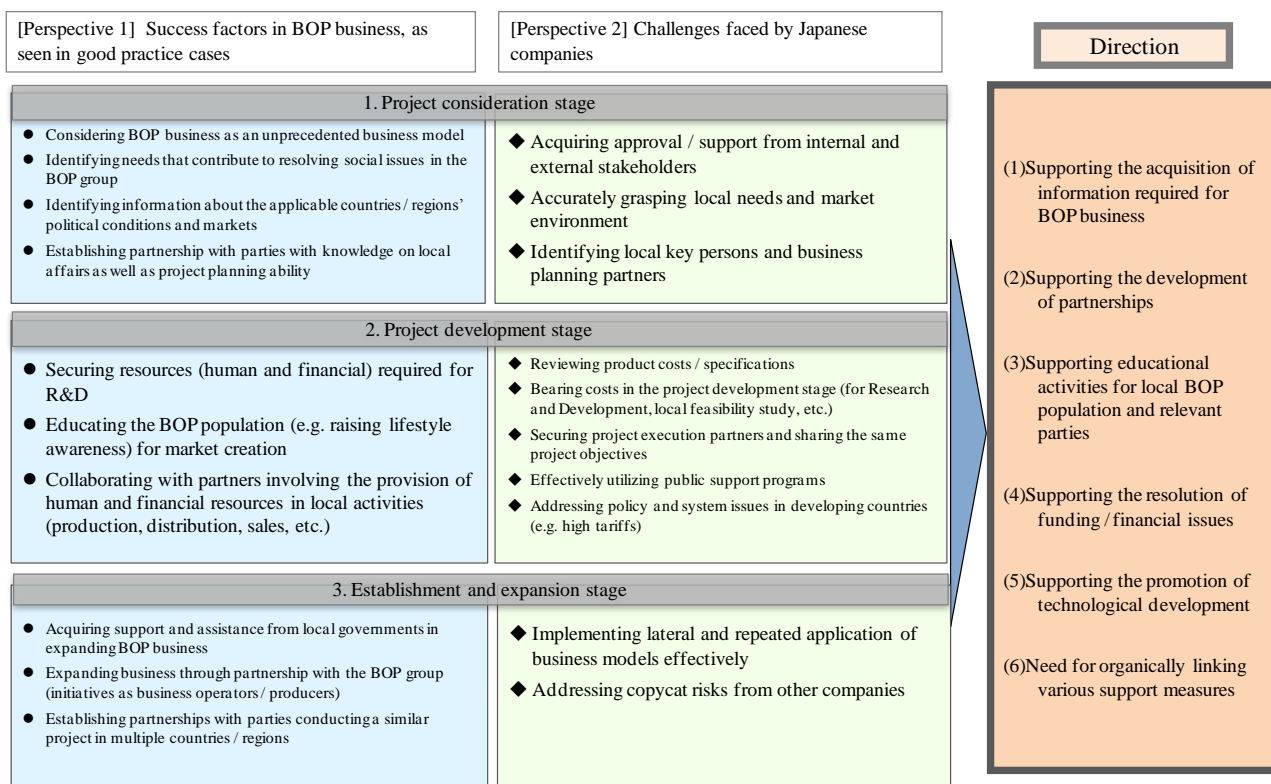
<Focal regions>

Based on geographical proximity and business expandability (e.g. Three billion of approx. four billion BOP population live in Asia), the program should give some emphasis on Asia while broadly covering developing nations. Projects should be selected on a case-by-case basis in view of the urgency for resolving the respective social issues and the level of business expandability.

IV. Challenges and responses in spreading and expanding BOP business

1. Success factors of good practices in other countries, challenges of Japanese companies and direction of future steps

- "Success (and non-success) factors of BOP business" as identified in the analysis of past BOP business cases in other countries, and "Japanese companies' challenges in entering BOP business" as identified in interviews with Japanese companies, have been analyzed in relation to the processes of business deployment (three steps), pointing to future steps in spreading and expanding BOP business (Direction: six items).



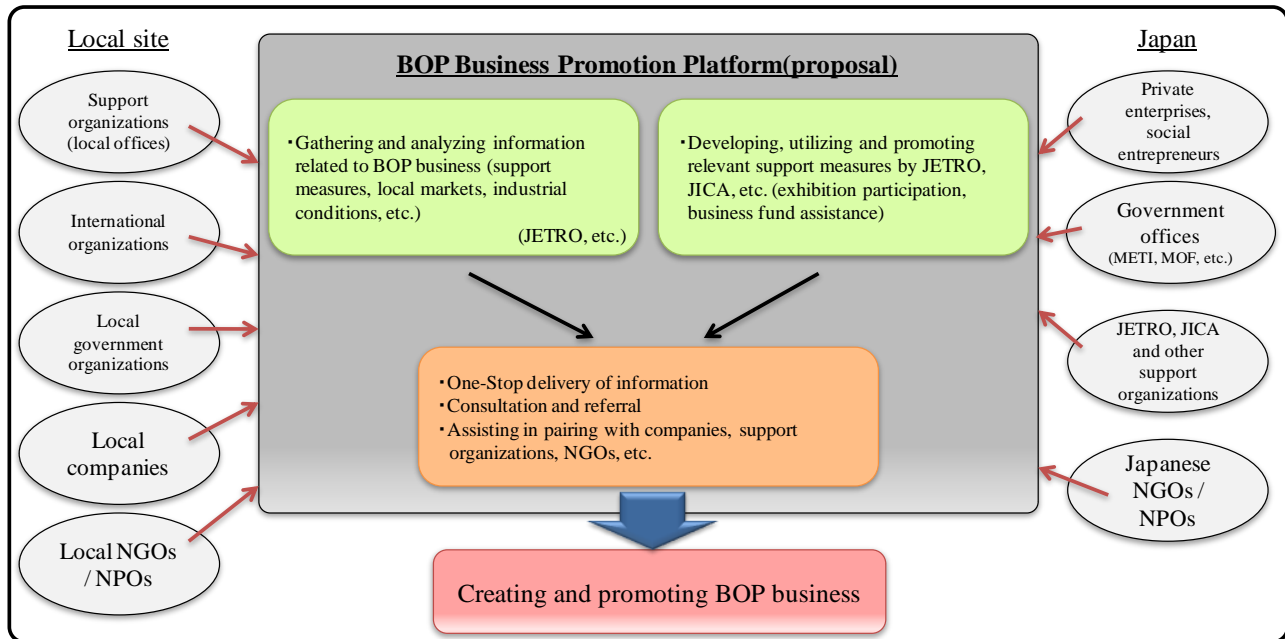
2. Challenges and specific responses for spreading and expanding BOP business

- The status of relevant support measures in Japan (measures that could be used for supporting BOP business) and their association with the aforementioned future steps (Direction: six items) have been sorted and analyzed. The results indicate that there are some areas with no support tools, that some existing support tools are not targeting BOP businesses, and that the accessibility of such tools is limited to specific countries or areas. These findings show that Japan has yet to provide sufficient measures for supporting BOP business.

- In view of overseas organizations' support measures and their characteristics, it is necessary to introduce the following support measures to encourage Japanese companies to enter the BOP business.

Direction	Specific measures
(1) Supporting the acquisition of information required for BOP business	<ul style="list-style-type: none"> • Investigating and distributing information about domestic / overseas good practices in support tools and BOP business • Having government organizations' overseas offices investigate and distribute information about market environment and potential needs
(2) Supporting the development of partnerships	<ul style="list-style-type: none"> • Conducting feasibility studies on specific business proposals by companies, NPOs, etc. • Helping Japanese companies find domestic / overseas NPOs, companies, government organizations, etc. to partner with
(3) Supporting educational activities for local BOP population and relevant parties	<ul style="list-style-type: none"> • Having government organizations' overseas offices provide enlightenment / educational activities (e.g. offering training, dispatching experts) to local government organizations, NPOs, etc.
(4) Supporting the resolution of funding / financial issues	<ul style="list-style-type: none"> • Promoting the use of existing support systems (JBIC (Japan Bank for International Cooperation), NEXI (Nippon Export and Investment Insurance), etc.) • Resuming JICA's(Japan International Cooperation Agency) overseas investment / loan function (providing long-term and short-term loans to compliment risks)
(5) Supporting the promotion of technological development	<ul style="list-style-type: none"> • Offering various support tools and assisting pairing of partners
(6) Promoting the development of business infrastructures in developing countries (hardware / software)	<ul style="list-style-type: none"> • Making greater use of existing systems such as yen loans, grant-in-aid, technical cooperation and trade insurance • Considering support measures for the use of microfinance's (small-scale finance services for the BOP group)
(7) The need for organically linking various support measures	<ul style="list-style-type: none"> • Developing the "BOP business promotion platform" for organically linking the above support measures <p><Expected functions></p> <ul style="list-style-type: none"> -- One-Stop delivery of information on BOP business -- Consultation and referral concerning BOP business -- Venue for parties involved in BOP business to exchange information and hold mutual consultation

<Image of the "BOP business promotion platform">



3. Issues to be noted in designing and administrating specific systems in the future

- (1) Securing transparency and fairness
- (2) Paying considerations to companies' information disclosure
- (3) Paying consideration to human rights, labor standards and the environment
- (4) Ensuring swift project development
- (5) Securing close coordination with relevant organizations including international organizations
- (6) Providing ex-post-facto follow-up and evaluation on the designing and administration of support measures

V. Conclusion ~Expectations for involved parties~

As examined in this report, the proliferation and expansion of BOP business represents a new approach to building a "win-win-win" situation for all parties concerned, namely Japanese companies / the government, BOP population / governments of developing countries, support organizations, NPOs / NGOs and social entrepreneurs.

At the same time, in order for various entities in Japan to take on BOP business as a new frontier, and transcend current boundaries to achieve further expansion, it is necessary to execute new ideas and actions to achieve innovation in goods, services, business models, partnership / collaboration formats, organizations and business structures. More specifically, involved entities are expected to serve the following roles and responses:

Entities	Main roles and responses expected
(1) Government	<ul style="list-style-type: none"> • Expanding / enhancing existing systems for application to BOP business, and developing other investment environment • Building an environment that promotes Public-Private Partnership through mechanisms such as the BOP business promotion platform
(2) Enterprises	<ul style="list-style-type: none"> • Ensuring that corporate executives become actively interested in BOP business, take on the challenges and bring out the strength of Japanese companies • Working with appropriate partners, e.g. NGOs, with in-depth knowledge of the characteristics of developing countries' market and local situations
(3) NPO/NGO, social entrepreneurs	<ul style="list-style-type: none"> • Increasing / expanding organizations capable of maintaining healthy tension and collaboration with government, companies, etc. • Initiating moves toward establishing close ties with a wide range of parties
(4) Domestic / overseas support organizations	<ul style="list-style-type: none"> • Providing accumulated information / know-how and financial assistance to companies • Promoting innovation in line with partnership for BOP business
(5) Academia, researchers	<ul style="list-style-type: none"> • Revitalizing research on BOP business and sharing their findings

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