

KNOWLEDGE NECESSARY TO MEET POVERTY ALLEVIATION GOALS: *Building Enterprise to Reach Low-Income Markets*

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THE NOTION THAT PROVISION of charitable or government aid and expertise from the developed world can solve the problems of the global poor is no longer taken for granted, as 50 years of top-down development have failed to close the gap between the rich and the extremely poor.¹ India, for example, is now considered by many to be an “emerging economy” with a huge and growing middle class, but 35 percent of the population still lives below the national poverty line, which is around USD1 per day, and 80 percent live on less than USD2 per day.² Closing these gaps is likely to require not only philanthropic and governmental intervention, but also the development of markets that can reach underserved segments with affordable goods and services.

The emergence of social entrepreneurship as a recognized and respected profession has emphasized the importance of leadership and innovation, but has not always addressed the need for financial sustainability. On the other hand, a growing interest in business models that serve the Base of the Pyramid (BoP) or those who earn less than USD4 per day indicates increased interest by the private sector in business models that are viable and reach the poor.³ However, efforts to achieve both social and financial objectives have often failed, in some cases because traditional products or business models are only slightly modified and not redesigned to address the needs of completely distinct markets. As an example, the introduction of sachets to sell products like shampoo and detergent have certainly penetrated BoP markets, but it is not clear how these products are impacting the lives of the poor.⁴

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This paper focuses on social entrepreneurs that seek to balance these social and financial objectives. To ensure the delivery of critical products and services to the poor at the required scale and on a sustainable basis, these entrepreneurs are reducing their reliance on grants and subsidies and instead seeking out financial viability and access to capital markets. The case of Jamii Bora in Kenya is provided as an example of an approach to addressing poverty and environmental challenges using market mechanisms and design innovations. This case examines the affordable housing sector, where families that have been left out of the formal housing market are looking to build a community that is sustainable financially and environmentally. It also presents the potential conflict between supporting development and preserving the environment.

By highlighting this success story, we seek to demonstrate the potential for similar models to succeed on social and financial terms, and reduce the perception of risk that is often associated with innovation.

As market forces alone are insufficient to address critical development challenges and deliver value to the BoP, entrepreneurs are forced to develop innovative business models that build on social capital. Their innovations are not exclusively of a technological nature, but also include innovations within the realm of product and service delivery models. In Acumen's experience, some of the challenges involved in reaching markets that have been previously overlooked include: a lack of distribution channels, a lack of communication channels, and lack of basic infrastructure that could support the introduction of new products or services. Infrastructure such as roads, running water, electricity, phone lines, and other communications tools cannot be taken for granted. The entrepreneurs that can successfully address these challenges will look not only at social and financial parameters, but also at innovative design solutions that can function within a BoP context.

Each entrepreneur that takes on the challenges involved in this sector has taken on a great degree of risk, and has explicitly or implicitly, volunteered to become a role model for entrepreneurs that will follow. For this reason, we also highlight the importance of leadership in the form of moral imagination, integrity, courage and humility. Though leadership may be more innate than taught, the presence of real-world examples and role models clearly pave the way for a new kind of leader to emerge. This is an opportunity to showcase examples of a new kind of leadership, which combines pragmatic skills with a commitment to bring about dramatic change, despite significant risks. By focusing on examples of enterprises that achieve this delicate balance, we begin to see models and insights that can be applied more broadly.

CASE STUDY: JAMII BORA EXTENDING FINANCIAL SERVICES TO BRING SUSTAINABLE HOUSING WITHIN REACH IN KENYA

This case study shares the history of an organization that brought financial products and a spirit of entrepreneurship to communities profoundly marginalized

by poverty in the slums of Nairobi, Kenya. Now expanding its scope to affordable and sustainable housing, Jamii Bora exhibits the potential to successfully balance social, financial, and environmental goals.

ABOUT JAMII BORA

Jamii Bora—which means “good families” in Swahili—is one of Kenya’s fastest growing microfinance institutions (MFI). Its mission is to assist members to get out of poverty and build a better life for their families through self-empowerment. To Jamii Bora members, this translates into the ability to borrow money to develop enterprises that can sustain families and communities. Headquartered in Nairobi, Jamii Bora serves both the urban and rural poor throughout the country, with concentrated operations in the slums of Nairobi: Kibera (the largest slum in sub-Saharan Africa), Mathare, and Soweto.⁵

Founded in 1999 by Ingrid Munro, Jamii Bora has expanded rapidly over the past seven years, having grown from 50 informal participants to over 130,000 members in seven years. Jamii Bora opened its first three branches in 2000, and now has 61 branches located primarily in urban areas with a distribution system that reaches 140 communities in the outlying and rural areas. Jamii Bora has a staff of more than 200, of which approximately 70 are finance specialists. As of June 30, 2006, the Trust had USD 9.0 million in assets, of which USD 5.0 million are net loans under management. By December 2005, Jamii Bora had provided more than 144,700 loans, totaling more than USD 17.0 million. Its portfolio at risk is 1.27 percent and its loss recovery rate nearly 100 percent.

Jamii Bora is now planning to build Kaputiei, a completely new town with 2,000 homes that will be inhabited by its members, many of whom are from the largest and poorest slums in Nairobi. In this innovative low-income housing development scheme, Jamii Bora plays the role of both developer and mortgage provider. This is a new role for Jamii Bora, which has traditionally focused on micro-finance. Other program offerings include education, health (life and health insurance), counseling, and a program for orphans as well as street children.

A NEW KIND OF LEADER: INGRID MUNRO

One of the forces behind Jamii Bora’s rapid rise is its founder, Ingrid Munro. Through a combination of spiritual will and practical action, she has helped Jamii Bora grow from 50 beggars to over 130,000 members in less than seven years. Affectionately dubbed “Mama Ingrid” by her inner circle, Ingrid is a charismatic and inspirational leader and a personal mentor to those in need. However, underneath the “Mama Ingrid” embrace is a hands-on, detailed-oriented pragmatist with a track record of stoic discipline, resourcefulness and practical action. From actively engaging in Jamii Bora’s daily operations and overseeing every step in the construction of Kaputiei, to maintaining a rigorous and strict membership policy based on loan repayments, Ingrid ensures that Jamii Bora is in order.

Yet beyond the persona, it is perhaps the philosophy that has been manifested in Jamii Bora that provides the foundation of the organization. Simple, and yet universally compelling, her message is that nobody is too poor to take themselves out of poverty. From the very beginning, Ingrid counseled her improv-

erished friends to have confidence in their own abilities and not be dependent on others. With a simple micro loan, the members of these communities—many of whom had traditionally resorted to begging, prostitution, and stealing to support themselves—were able to carve out new livelihoods by creating their own businesses. As they became successful and gained greater confidence, they in turn became leaders and mentors within the slums of Nairobi. They inspired new members to join Jamii Bora and follow suit.

BUILDING A COMMUNITY THROUGH ENTREPRENEURSHIP

One by one, Jamii Bora has helped to change minds deep within the slums of Nairobi and beyond—effectively transforming a mindset of desperation into a new generation of entrepreneurs through its “can do” attitude. Aside from its positive messaging, the basic tool that Jamii Bora uses to change minds is its micro loan products. Backed by a group guarantee, micro loans are issued to members based on the amount they have saved and are to be repaid within approximately one year. This plan requires learning how to save money as a first step. Learning to save is a difficult exercise for those who make less than USD1 per day, but Ingrid instituted a strict, yet simple, system of incentives where saving a certain amount of money would earn a member access to twice the amount in the form of a loan. The next step towards entrepreneurship is learning how to manage a loan and use it towards creating a business. If a member can demonstrate successful repayment, he or she can then qualify for a larger loan depending on the level of savings. However, members who do not pay back their loans can be penalized and ultimately requested to leave the organization. Not only does this system instill a new sense of discipline with money management but it also provides members with a lifeline out of poverty. Over time, many of its members have completely transformed their lives and have become successful business people, running activities ranging from beauty salons, clothing design and grocery stores to construction and real estate.

KAPUTIEI TOWN DEVELOPMENT

Taking this spirit of entrepreneurship to scale, Jamii Bora has decided to build an entirely new town for their own members through private financing. Jamii Bora is launching a major private-sector led housing program to move communities out of slums and into safe and affordable homes in Kaputiei Town, a 293-acre site located approximately 60 km south of the center of Nairobi. A pioneering urban planning project in Africa, the Kaputiei model is the first known instance in which a sizeable town has been pre-planned in its entirety within Kenya. Approximately 60 percent of Nairobi’s population—roughly 1.9 million people—live in slums.⁶ Affordable housing solutions have been difficult to implement due to the high cost of land and construction, lack of finance products for the poor and lack of a strong legal and policy framework.

Using the principles of holistic sustainable development, the Kaputiei project will consist of 2,000 homes that will be affordable for the BoP and be built with “green” materials. The town center will be “eco-friendly” with commercial, cultural and social facilities including shops, administrative offices, a health cen-

ter, banking facilities, and training centers. Once completed, the Jamii Bora philosophy and example of low-cost self-help housing is expected to serve as an inspiration and a role model for the rest of Africa.

Kaputiei will be a town comprised of entrepreneurs. By default, prospective households are proven business people. All those who wish to secure a home in Kaputiei need to meet the following criteria:

- ◆ Be a member of Jamii Bora;
- ◆ Register for a home;
- ◆ Have at least 10 percent of the potential cost of the homes in savings; and
- ◆ Indicate a perfect repayment record of at least three business loans.

These criteria are intended to help make the town the foundation of an economically viable community. Even though the new town is located one hour's drive away from Nairobi's city center, most prospective homeowners have existing businesses and sufficient entrepreneurial savvy to build an internal market, expand to neighboring communities and continue to serve their existing clients in Nairobi. In addition, as the new town will be built by members, the project will provide marketable skills that can help community members find work elsewhere in the surrounding community, such as construction and plumbing. To further strengthen its capital base, Jamii Bora is also considering the establishment of a milk plant in Kaputiei that will help the local community to preserve and sell their milk to the town and to the greater metropolitan area of Nairobi.

The development of this town has faced challenges due to local environmental NGOs that are holding up this development because they fear that it interrupts wildlife migration patterns in a neighboring wildlife corridor. They have brought a case against Jamii Bora that is currently underway. Since the migratory pathways are in fact several kilometers away from the site selected for the town, these groups could also represent communities that are resistant to the idea of a new community consisting entirely of extremely poor people that are former residents of some of the most dangerous slums in Kenya. The creation of Kaputiei town represents a pioneering effort to provide marginalized communities with formal housing and economic opportunity, but is also confronting existing tensions about sharing space and land to support economic development.

DESIGN FOR PRICE AND EFFICIENCY

To truly serve the poor it is important to tailor solutions to their respective needs and behaviors. Since market-based solutions for the BoP are rare, it is important that the voices of the poor be incorporated into the design and that there be constant innovation and testing. For example, when Jamii Bora designed its basic micro loan product, it found that when the size of the loan increased from two to three times the amount of a member's savings, the program failed as the debt burden placed too great a strain on the user.

With the Kaputiei project, Jamii Bora incorporated the perspectives of the poor at all levels of the town design, from conceptual planning to construction processes to pricing and mortgage financing. In all cases, Jamii Bora borrowed

from and experimented with established practices while organically tailoring solutions to the needs of the poor.

Kaputiei Town: Social and Economic Sustainability

In planning Kaputiei town, Jamii Bora dedicated significant time to consulting potential Kaputiei residents on the design of housing, community and commercial resources and desired infrastructure. On the one hand, the design of the town plan reflected the community values of the member households, such as providing schools and playgrounds for children. Homes would have two bedrooms on 50 square meters of land. On the other hand, it was important to balance the economic sustainability of the town. Therefore, a certain amount of land was reserved for retail activities. Also, to help keep the maintenance costs of the town low, Jamii Bora is seeking to lower its overall energy usage by using “green” technology. For instance, it has incorporated a hybrid wetlands / wastewater system into the town plan to help recycle water in an energy-efficient manner.

Affordable Housing: Pricing and Construction Methods

At approximately USD 3,500, the purchase price of each home is designed to be affordable to its members.⁷ This price will account for the cost of constructing the home as well as parts of the infrastructure and a modest markup. Part of the reason Jamii Bora is able to offer this low price is because of its efforts to balance the overall retail and residential mix of the community and to use local materials and labor for housing construction.

With respect to labor, Jamii Bora is keeping construction costs low by using member labor rather than conventional contractors. To address the low-skill level of its members, Jamii Bora developed processes to mass-manufacture building parts involving simple low-technology techniques that a small team could successfully carry out. For example, Kaputiei has a temporary on-site factory for the manufacture of hollow cement blocks and concrete roof tiles. The processes are simple to follow with clear instructions. Machines are small and low-tech and can often be handled by one to two people. Supervisors oversee production to ensure a smooth workflow. The units are subjected to rigorous quality control tests to ensure that they meet the required standards. Laborers are paid per unit produced, which has created an incentive to maximize productivity. To date, building materials for over half of the 2,000 homes have been produced on-site.

Affordable Mortgages

Jamii Bora’s other innovation is the design of affordable mortgages for its member households. The key challenges Jamii Bora faced in designing a mortgage product were to create a loan repayment schedule that is reasonable for the borrower and to find long-term sources of self-financing, so that it can offer long-term mortgages.

Jamii Bora relied on feedback from its members to design affordable mortgages. To qualify for the mortgage, families must be members and have set aside a certain amount in escrow. To ensure that this will be an attractive product, Jamii Bora aims to structure the monthly mortgage payment to be comparable

to the typical rent in slums by current members. Rent for a permanent single room in “planned estates” (slum housing upgraded by the Government of Kenya in 1970s and 1980s) typically located in peri-urban areas ranges from USD 30 to USD 60 per month; rent for a single room in urban slums such as Kibera are comparable.

The other challenge Jamii Bora faces with offering affordable mortgages is the need to offer long-term mortgages—on the order of 15 years—which would require Jamii Bora to also obtain sources for long-term self-financing. Although this endeavor is still underway and the financing structure is beyond the scope of this chapter, the fact that Jamii Bora holds title to Kaputiei will enable it to secure some of the long-term debt necessary to back its affordable mortgage program.

The work of Jamii Borato extend housing to extremely low-income communities is a breakthrough in a region where 71 percent of urban populations live in slums,⁸ and the total number of slum dwellers in Africa is expected to reach 332 million by 2015.⁹ Through its commitment to engaging slum dwellers as customers and potential home-owners, Jamii Bora is demonstrating a path forward. It is also critical to note that when communities have a say in the design of their communities, they make choices that incorporate sustainability as well as affordability.

CONCLUSION

The case of Jamii Bora demonstrates a viable, scalable and sustainable model for social change and shows that these seemingly divergent goals can be met simultaneously. It demonstrate four distinct drivers that, when combined, can deliver scalable models for social change. These four drivers are:

- ◆ Social impact, which takes into account the needs and preferences of the poor;
- ◆ Financial viability, which allows for growth and releases high-potential organizations from a reliance on grants and subsidies;
- ◆ Design innovation, which can leapfrog existing approaches and achieve greater scale, as well as resource efficiency; and
- ◆ Leadership that can balance those issues and break down traditional boundaries between social and financial imperatives.

The potential success stories that could come out of this model will require a tolerance for risk, as well as the development of skills that draw from a cross-section of disciplines. A better understanding of these four components of a sustainable and scalable social innovation on the part of social entrepreneurs and investors will help drive the emergence of more models like these. It will also, ultimately, lead to the inclusion of the poor in markets and systems that currently exclude them, thus closing the gap in access to basic goods and services.

NOTES

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