



## **TRANSFORMING URBAN MARKETS FOR THE POOR THROUGH COLLECTIVE ENTREPRENEURSHIP**

*Bill Drayton and Ashoka*

### **Foreword: Excerpt from “Everyone a Changemaker: Social Entrepreneurship’s Ultimate Goal”**

As part of its second generation of programs Ashoka started to advance what we have gracefully named business/social “hybrid value-added chains” (HVAC). This work originated in a major “mosaic” collaboration involving across roughly 400 Ashoka social entrepreneurs whose work is focused on ensuring full economic citizenship to everyone. A good many of those working toward this goal have found powerful leverage in reconnecting business with the newly entrepreneurial/competitive citizen sector through new value added chains involved in design, production, distribution, servicing, and parallel supports including finance. The new, more productive value added chains draw for each step in the chain whatever each side can contribute most effectively and efficiently. These hybrid value-added chains represent an important source of new investment opportunities for for-profit finance firms entering the social financial services business.

Ashoka’s HVAC strategy is to get four very different products/services quickly to the point where the customers, businesses, and citizen groups are all benefiting enormously from the new cooperative value-added chains. Once the businesses in an industry see one of their competitors gaining important new markets and making significantly higher profits, they cannot afford not to follow. The same is true for the organizations that compete with the pioneer HVAC citizen groups, once they see how much their competitors are benefiting from large, stable, nonpolitical, new revenues and their new, unique ability to provide valued new services to their clients. This competitive dynamic is key to the jujitsu that allows Ashoka, a small force, to set in motion so large and irreversible an historical change.

In order to achieve such transformation, what we must do now is increase the proportion of humans who know that they can cause change. And who, like smart white blood cells coursing through society, will stop with pleasure whenever they see that something is stuck or that an opportunity is ripe to be seized. Multiplying society’s capacity to adapt and change intelligently and constructively and building the necessary underlying collaborative architecture, is the world’s most critical opportunity now. Pattern-changing leading social entrepreneurs are the most critical single factor in catalyzing and engineering this transformation.<sup>14</sup>



*Business, the most financially innovative and efficient sector of all, has no direct mechanism to apply its practices to the goal of eliminating poverty.*  
 Muhammad Yunus

**What is at stake:**

Liliana, a divorced mother of five, lives in a favela in the suburbs of Sao Paolo. She earns about \$200 a month as an informal seamstress. She owns a house with one bathroom, one kitchen and one family room that she has spent about six years to build. She has invested about \$3,000 to date in her home, when she was able to put some money aside or borrowing from friends. Since she bought a plot of land from a municipality official when arriving to the Sao Paulo region from her native village she believed to have a valid title to her plot. But the development was illegal and that piece of paper she holds dearly is not a formal title that she can use as collateral. Her house has no sewage system and she uses illegal water and electricity connections, which are free if one forgets that supply is not always stable and Liliana has to pay someone to reconnect them from time to time.

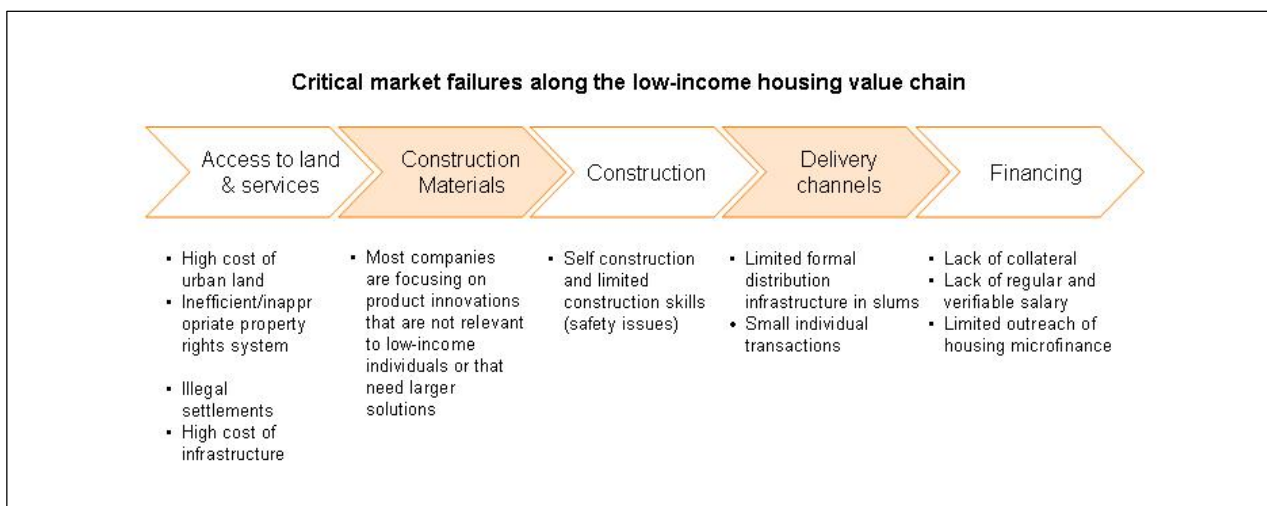
Liliana has a dream of adding a second floor and improving her house, to provide a more dignified place for her children and maybe open a small shop, but she has no bank account, no collateral typically used by banks beyond a TV and a few other house appliances and no pay slip at the end of the month. She qualifies, though, for 257% a year consumer loans, that she resorts to from time to time. Community spirit is low so she will have to hire a "half-spoon", an unqualified construction worker. Under the current conditions Liliana will pay \$8,000 to incorporate about \$4,000 doubtful quality improvements to her home, brick by brick.

<b>Ten eye-opening facts on low-income housing markets</b>	
1. World slum population	1 billion
2. New slum residents per week	500,000
3. Percentage of urban population living in slums	>98% – Chad, Ethiopia 72% – Sub Saharan Africa 57% – South Asia 31% – Latin America 6% – Developed countries
4. Population density per hectare	3,000 in Kibera slum (Kenya) 37 in Washington DC
5. Size of low-income markets	\$332 billion – housing \$158 billion – health \$51 billion – ICT
6. Total estimated dead capital in informal housing	\$9.3 trillion
7. Dead capital per square mile in Dharavi slum, Mumbai	\$10 billion
8. Annual interest rate on unsecured lending in Brazil	77% to 257%
9. Mortgage lending as a percentage of Gross Domestic Product	2% – Brazil 7% – Colombia 54% – Germany 75% – United States
10. Percentage of Millennium Challenge Corporation funds dedicated to Housing and Shelter	5%

Liliana is not an isolated case. The year 2007 marked a turning point in history, with one out of every two people living in a city. One-sixth of the world's population -- one billion people -- live in urban slums in emerging countries. In addition, virtually all the net growth of 2.6 billion in world population between now and 2050 is projected to occur in these cities. In effect, relatively poor nations will build the equivalent of a city of more than one million people each week for the next 45 years. Many of the urban inhabitants in slums face tenuous employment and precarious living situations. And the proportion of slum dwellers under 25 is increasing, making slums a place where disillusionment could be dangerous.

**Breakdowns in the low income housing value chain**

Collectively, the poor have massively invested in their homes. However, they do so in the most adverse conditions. They face inefficient or non-existent property rights systems, often compromised by corruption between developers and local officials. They find construction materials that may be of low-quality or unsuited to their needs, yet are priced more per unit than a higher income client would have to pay. Low-income people often build their own homes progressively, whenever they have the money available. Many utilize informal advice and labor from neighbors and friends, which often leads to unsafe structures. Delivery channels in slums are limited by the reluctance of formal companies to deal with small individual transactions, not recognizing the aggregate demand in slum communities. Finally, poor households have to pay cash or borrow at high rates from moneylenders or consumer lending institutions. In most developing countries, access to land and adequate financing are critical ingredients to mend the dysfunctional housing system, although other products and services such as affordable quality construction materials are also required. Absent major change, the bulk of urban development will occur informally, outside formal markets at tremendous public and private cost.



All indications are that low-income urban households are the markets of the future. Low income housing markets were recently estimated at about \$330 billion<sup>[2]</sup>. Despite this, housing has not received as much attention; for example, only 5% of the Millennium Challenge Corporation’s funding is directed to housing.<sup>[3]</sup> Yet housing is a human right in itself. It is a springboard for human and economic development that can impact the health, security, income flow, and self-esteem of poor families who are also more vulnerable to climate change risks, as precarious housing is threatened by flooding, sea-level rise, and extreme weather patterns.<sup>[4]</sup>

The core question that we would like to explore with readers in this special issue of the *Global Urban Development Magazine* is precisely how to address the housing market failures that low-income families are facing around the world. How to develop, operate and scale transformative business models that are adapted to the reality of low-income communities around the world: small-sized transactions, informal economy and lack of traditional distribution channels. How to think creatively beyond individual construction-related products or low-cost technologies to develop sustainable urban markets.

**A changing landscape of innovations and opportunities**

The pressures on slum communities have prompted national and international networks that share experience and strengths, such as Slum Dwellers International and the Asian Coalition for Housing Rights (ACHR). ACHR has

worked with over 50,000 households in Thailand to upgrade, re-block, or relocate communities, fostering creativity, hope, and unleashing commercial growth potential in urban spaces. Experimentations in low-income housing are emerging around the world, from sanitation improvements to community mobilizing that touches hundreds of families at a time.

Similarly, new financing schemes for home improvement and new homes have rapidly developed over the last few years with the expansion of housing microfinance. Several models have been demonstrated successfully but they are still benefiting only a fraction of the population given that traditional microfinance is serving about 10 percent of the market and housing microfinance is a subset of microfinance<sup>[6]</sup>. With regards to products, innovation in low-cost housing technologies continues even though it is often not available to low-income consumers due to lack of financing or delivery systems: a vicious circle.

Overall, new solutions and models are serving only a fraction of the population; they are fragmented and often limited to one sector – be it the public, private, or citizen sector. Government housing programs have evolved based on experience but tend to be slow-moving and fickle. Many of them still ignore market forces, informal processes, and low-income communities' norms such as progressive housing and the desire to choose one's neighbors. In the other sectors, citizen sector initiatives are easily fragmented, and only a few "enlightened" companies have stepped into low-income housing with the energy and commitment required. How do we broaden access to financing and complementary services across multiple distribution channels in low-income communities – such as retailers, banks, or community-based organizations, in addition to microfinance organizations? How do we bring all of these solutions together in cost-effective "last mile" solutions?

The current "silent" revolution of the citizen sector could offer new opportunities for low-income housing and urban development.<sup>[6]</sup> Although the business sector has had an edge in being entrepreneurial and competitive following the industrial revolution, since the 1980s the citizen sector has been rapidly catching up. The citizen sector has been growing explosively, generating jobs two and a half to three times as fast as business.<sup>[7]</sup> The citizen sector is also becoming more professional, guided by leading social entrepreneurs and local changemakers. There are now millions of modern, competing citizen groups, including large, sophisticated second-generation organizations, in Brazil, North America, Europe, and Southeast Asia.

No sector alone can meet the challenge of low-income housing. In order to provide housing with dignity for one billion slum dwellers, the business, citizen, and government sectors need to work together. For example, citizen sector organizations may have knowledge of what low-income people need, how they make investment decisions, and whom they trust. They speak to low-income people daily in places where companies fear to tread. Leading citizen sector organizations know how to change behaviors and mindsets and foster collective action, be they introducing women's savings groups, sanitation, or anti-corruption campaigns. Leading businesses bring expertise in product design and marketing, acquiring and allocating capital, managing large-scale operations, information systems, and performance management. Federal and local governments need to lead efforts towards effective land tenure, infrastructure, and business-friendly environments.

Ashoka's vision is a world in which CSOs and businesses collaborate, compete and learn to serve low-income markets with new business models, enabled by governments. A world in which every person participates as a full economic citizen, improving their lives by having access to affordable products and services, being able to work and get paid, and leveraging their assets.

## **Structure of this Issue**

As an increasing number of financially self-sustaining models are developed to serve low-income markets, new opportunities emerge for players involved in housing, basic services, urban development, and finance. There is a need for new business models combining profits and social impact, new roles, new investment mechanisms, new policy frameworks, and new mindsets – all these driven by innovation and competition. The aim of this issue of *Global Urban Development Magazine* is therefore to inspire new players to explore the social and financial potential of low income housing and urban development, to equip existing players with practical "how to's" and to trigger a dialogue about collective entrepreneurship. Our goal is to foster a learning community of business, social, and

public entrepreneurs to learn from previous experiences, keep refining our understanding of obstacles and success factors to drive transformative solutions at a big scale and innovate together.

This issue will provide perspectives on both micro and macro dimensions related to the low-income housing and urban development issues. It will discuss examples to develop, operate, and scale transformative market-based models that are adapted to the reality of low-income communities around the world and that goes beyond specific products or low-cost technologies to offer comprehensive solutions. We included a select number of cases and articles of pioneers in the field presenting insights on issues such as: What do low-income households need? How do they make decisions? How can businesses get started with low-income market initiatives? What steps have successful ventures taken to address the strategic, managerial, and cultural challenges of serving the poor? What are the competitive advantages of businesses and CSOs in the different steps of a value chain?

This special issue is divided into six thematic parts structured to reflect various enabling factors for low-income housing markets and urban development:



<b>Core topics</b>	<b>Articles</b>	<b>Descriptions</b>
<b>Introduction</b>	Creating a World Without Poverty: Social Business and the Future of Capitalism	Prof. Muhammad Yunus' call for a new form of enterprise, a social business that serves poor people while turning a profit
<b>How to assess the size of low income housing markets</b>	The Next 4 Billion – The Housing Market	Quantifies and explains the potential market for low-income housing around the world based on household expenditure patterns
	A Value Chain Framework for Affordable Housing in Emerging Countries	Introduces the scale of the problem in urban slums, and discusses the market potential that arises from understanding low-income housing needs, such as progressive informal building
<b>How to mobilize and empower communities to transform urban markets</b>	WWB Gender Study: The Capacity of Poor Women to Grow Their Businesses in the Dominican Republic	Examines how low-income women in the Dominican Republic manage their finances, including savings, housing, and starting and growing businesses
	Social Market Development and Social Mobilization in the Value Chain of the Construction Industry	Discusses the advantage of working with social movements in Brazil to gain understanding of what low income people want in housing
	Understanding Asian Cities: A Synthesis of the Findings from Eight City Case Studies	Discusses in-depth insights about recent developments in Asian cities, including contradictions within cities, roles of different actors, and the transformative impact of the citizen sector
<b>How to unlock these markets addressing the issue of land tenure</b>	Market-Based Models for Land Development for the Low/Moderate-Income Majority	Analyzes the gaps in the value chain that hinder low income housing, describes progressive housing as a technique, and analyzes relative strengths and weaknesses of two approaches to providing low income housing, in Pakistan and El-Salvador
	Putting the "Housing" Back into Housing Finance for the Poor: The Case of Guatemala	Describes the current state of housing microfinance in Guatemala, the model G and T Continental designed to provide multiple services along with housing credit, and the efforts of the company to create alliances to solve gaps in the housing value chain
<b>How to mobilize financing for these markets</b>	Housing Microfinance: Is the Glass Half Empty or Half Full?	Discusses the current state of housing microfinance, and describes specific development from Peru, Mexico, and Brazil. In light of persistent unmet demand, provides recommendations to provide housing micro-finance at scale
	Capital-Market Funding of Affordable Housing Finance in Emerging Countries: The Business Case	Analyzes the current bottlenecks regarding funding of housing finance, including the lack of viable institutional partners capable of serving this market, and long-term funding in local currency. Highlights the causes of these bottlenecks and the impetus to address them.
	Finance for Low-Income Housing and Community Development	Analyzes current sources of financing for low income housing, state and international financing options, and the need for further financial services for housing
<b>How to innovate business models</b>	Housing the Poor by Engaging the Private and Citizen Sectors: Social Innovations and "Hybrid Value Chains" Bringing Low-Income Consumers into the Market in Colombia: Home Improvements that Make a Difference	Explains the unique advantages of involving both the private and citizen sectors in commercial collaborations for low income housing and provides examples of innovative business model Describes Colceramica's business model supporting progressive housing for low income people in Colombia, including history, challenges, changes that were required, and prospects for growth
<b>How to create an enabling environment for private initiatives in urban development</b>	Private Sector Involvement in Slum Upgrading	Discusses the barriers to private sector involvement in low-income housing, including land tenure and the need for public investment, as well as the opportunities for private sector contributions to low income housing
	The Millennium Cities Initiative: A Comprehensive Approach to Reducing Urban Poverty and Generating Sustainable Prosperity	Describes the efforts of the Millennium Cities Initiative to reach the Millennium Development Goals in concert, recognizing that efforts to achieve one goal (health, education, housing, etc.), may fail due to lack of another of the MDGs

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## About Ashoka

Ashoka is a global network of leading social entrepreneurs. Since its creation 27 years ago, it has invested in over 2,000 social entrepreneurs in 62 countries through a "social venture capital" approach as a way to address major social challenges with systemic responses. Ashoka Fellows are selected for their innovative and practical solutions to social needs.

Ashoka's work on Hybrid Value Chains originates from the work of a significant group of Fellows around the world whose work is focused on ensuring full economic citizenship to everyone. Several of these social entrepreneurs working toward this goal have found powerful leverage in connecting business with the increasingly competitive citizen sector through new value chains for products/ services design, production, distribution, servicing and cross-cutting support like financing. The new business-social value chains draw whatever each side can contribute most effectively for each step in the chain.

Ashoka's strategy is to demonstrate the Hybrid Value Chain (HVC) model in several industries to the point where the customers, businesses and citizen groups all significantly benefit from the new value chains. Beyond specific business-social partnerships, our goal is to transform sectors and reach an irreversible change in the relationships of the business and citizen sectors. To do so, we are demonstrating the HVC concept through a series of business-social ventures in low-income housing, healthcare and small producers' economies. With the support of the Hilti Foundation and in collaboration with its community of social entrepreneurs, Ashoka launched a multi-country Housing for All program in 2007, starting with Brazil and India.

For more information, visit us at: [www.ashoka.org](http://www.ashoka.org) or contact us at [fec@ashoka.org](mailto:fec@ashoka.org)

<sup>[1]</sup> As Ashoka has come to understand this more clearly, it has clarified its ultimate goal. Challenged several years ago by eBay's Pierre Omidyar, Ashoka came to understand, given its understanding of these historical forces it came into being to serve, that its ultimate goal is an "everyone a changemaker" world. Before that, it had talked chiefly in terms of the intermediate goal of building an entrepreneurial/competitive citizen sector.

<sup>[2]</sup> The Next 4 Billion: Market Size and Business Strategy at the Base of the Pyramid. Washington, DC: World Resources Institute and International Finance Corporation, 2007

<sup>[3]</sup> Joseph F. Lombardo, Jr. and Kerstin Tebbe: Estimate of the Millennium Challenge Corporation's Urban and Shelter-Based Investments: International Housing Coalition, April 2008

<sup>[4]</sup> Gordon McGranahan: Urban environments, wealth and health: shifting burdens and possible responses in low and middle-income nations. IIED Human Settlements Program, 2007

<sup>[5]</sup> See Bruce Ferguson's article in this journal; "Housing Microfinance: Is the Glass Half Empty or Half Full?" for a full discussion of housing microfinance

<sup>[6]</sup> Defined as an organization primarily seeking social value. Ashoka has adopted the terms "Citizen Sector" and "Citizen Sector Organization" instead of negative definitions such as "Non-Profit" and "Non Governmental Organizations". The scope of these organizations may range from economic development to health, education, environment, etc.

<sup>[7]</sup> Ashoka analysis