

THE MARKET OF THE MAJORITY:

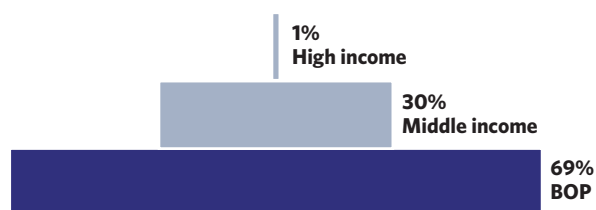
The BOP Opportunity Map of Latin America and the Caribbean

WHAT IS THE BOP?

The majority of the world's people subsist on incomes which do not fully meet basic human needs. In Latin America and the Caribbean, the majority comprise 70% of the region's population, around 360 million people; they are the base of the economic pyramid (BOP). The BOP is far too large to be ignored—as a market, as a matter of equity, and as a potential threat to social stability.

The BOP pyramid

Population shares by income group, Brazil

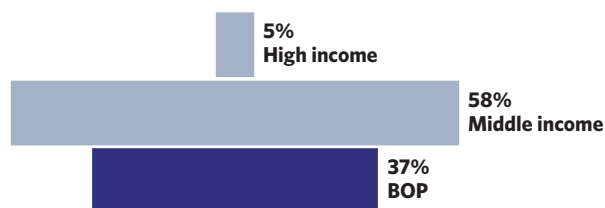


Population shares by income group, other selected countries

	High	Middle	BOP
Bolivia	0.7	16.5	82.8
Colombia	1.4	42.1	56.4
Honduras	0.3	12.7	87.0
Jamaica	1.0	10.0	89.0
Mexico	0.5	31.1	68.4
Peru	0.1	11.1	88.1

BOP accounts for a big share of spending

Expenditure shares by income group, Mexico



Shares of total expenditure by income group, other selected countries

	High	Middle	BOP
Bolivia	21.3	43.4	35.3
Brazil	9.8	60.9	29.3
Colombia	10.8	65.9	23.3
Honduras	4.8	39.0	56.2
Jamaica	20.5	30.5	49.1
Peru	0.9	33.4	65.7

THE MARKET OF THE MAJORITY

Preliminary data for the BOP majority in 20 countries

Income of the population living below \$3,260 (PPP) per capita,
millions of PPP dollars, 2005



TOTAL INCOME
IN MILLIONS
\$510,658

The majority in the LAC region comprises more than 360 million people, 70% of the population, with a combined purchasing power in excess of \$510 billion, representing a significant and underserved market.

	BOP Population (millions)	BOP Income (billions)
Argentina	17	29
Bolivia	8	7
Brazil	115	172
Chile	9	16
Colombia	31	42
Costa Rica	2	4
Dominican Republic	6	10
Ecuador	12	13
Guatemala	10	13
Honduras	6	7
Haiti	8	4
Jamaica	2	2
Mexico	77	105
Nicaragua	4	6
Panama	2	3
Peru	21	34
Paraguay	4	6
El Salvador	5	6
Surinam	0.3	0.4
Venezuela	23	28

BOP POPULATION
361 million

BOP INCOME
\$510 billion

SIZE OF THE BOP MARKETS

These data show emphatically the size and importance of the “markets of the majority” across a range of countries in the region. The map and data—spanning rich and less rich countries in the region—demonstrate that the middle-income market accounts for 28% of the population, while the BOP is a solid majority. Even more critical from a market perspective is the size of the BOP market share—from 25% to 65% of the country’s total household expenditures.

THE BOP PENALTY: PRICE-QUALITY-ACCESS WHAT IS THE BOP PENALTY?

The majority of people in the region, suffer a “BOP penalty” in multiple forms: lack of access to essential goods and services, higher prices for goods and services, and/or poor quality of good and services. Reducing the poverty penalty is both a business opportunity for the private sector and defines a policy agenda for the public sector. In this preliminary report, we have included only data on the access component of the BOP Penalty

SERVICES TO THE BOP

These data show the impacts of the BOP Penalty. We have chosen categories representing basic human needs—water and electricity (with television ownership as a proxy). As would be expected, in most categories, BOP segments show considerably less coverage, revealing a significant un-served market for appropriate goods and services. The data reveal one surprising conclusion—that those in the BOP have a high level of self-identified “home ownership” even when they may not have legal title to their dwelling.

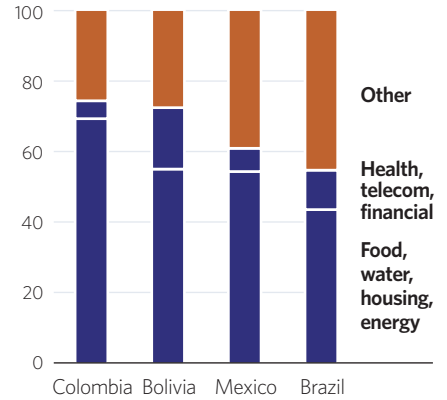
ELIMINATING THE BOP PENALTY

The previous data on penetration of basic services reflect the positive absence of services: what we call the BOP Penalty. A preliminary analysis of some of the household survey data reveals another side of the story—the removal of barriers—in other words a reduction in the BOP Penalty. The data in the figure shown at bottom right, which are approximate and indicative, show that as total per capita expenditure increases, the rate of increase in sector-specific spending is highest in financial services and information and communication technologies (ICT). Separately, the data also reveal that spending in these two sectors shows its highest relative rates of increase along BOP income segments. Given that the majority of the region’s population is in the BOP, we can say, with reasonable assurance, that the data reveal significant growth potential for goods and services within these segments.

Our own and others’ research suggest technology innovation is driving the growth in the ICT and financial sectors by reducing the BOP penalty. Technology is lowering costs and generating the creation of desirable goods and services, and these factors are creating new customers and revealing significant latent demand.

BOP spending goes far beyond basic living expenses

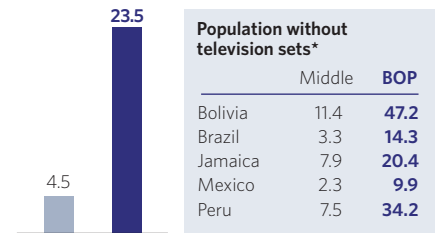
BOP expenditure shares by sectors (percent)



The BOP is an under-served market

Population without television sets*

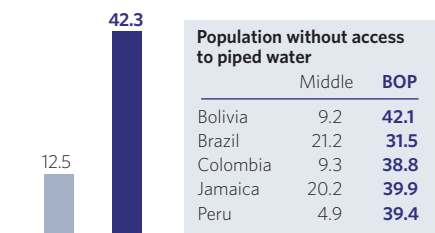
Percent, Colombia



*as a proxy for electricity

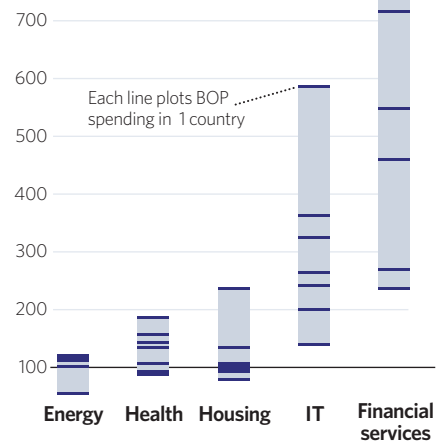
Population without access to piped water

Percent, Mexico



Strong growth in BOP spending

Growth rates in sector-specific spending (100 = Growth rate in total expenditure)



THE METHODOLOGY

The map of Latin America depicting BOP size is based on data derived from national income and consumption surveys conducted by national statistics offices (see list below). Analysis of the BOP is based on an income inequality methodology developed by Branko Milanovic, Lead Economist at the World Bank Research Department, and described in *Worlds Apart: Measuring International and Global Inequality* (Princeton University Press, 2005). Dr. Milanovic “lines up” all the world’s people in order to compare their income levels. The analysis undertaken here uses the same methodology in determining relative income levels. For the purposes of our analysis, those people reporting incomes less than US \$3,260 (purchasing power parity—PPP in 2005 US dollars) are the BOP. Those less than US \$21,731 PPP (2005 dollars) but more than US \$3,260 PPP are the middle. The remainder—those reporting incomes greater than US \$21,731 PPP (2005 dollars)—is the upper group.

Purchasing power parity conversions are made using data available from the World Bank’s World Development Indicators database. Inflation from 2002 to 2005 is calculated using the United States’ Consumer Price Index, since data are presented in international (PPP) dollars.

Graphics depicting the expenditure patterns of selected countries are also based on household consumption surveys conducted by national statistics offices. In order to estimate expenditure by sector for the different groups (BOP, middle, upper), the surveys needed first to be statistically and methodologically comparable. The survey standardization process is overseen by Olivier Dupriez, Senior Statistician/Economist with the World Bank’s Development Data Group. By standardizing the surveys (see list below), we were able to ensure that those variables comprising housing, water, energy, health, IT, financial services, food, etc. are consistent across countries and time periods. BOP, middle, and upper levels remain the same for the expenditure analysis as for the income analysis.

Graphics depicting the BOP penalty observed in several countries are based on the same standardized household consumption surveys. The standardization process also produces consistent data on certain basic services, such as home ownership, type of sanitation services, source of electricity, etc. These data can be noisy; therefore, we selected some of the most robust (home ownership, type of water connection, type of sanitation service, and television ownership) in order to introduce the BOP Penalty framework. Additional analysis of the BOP Penalty will appear in *Tomorrow’s Markets: Poverty, Profit and Unmet Human Needs* to be published October 2006.

Income Survey Sources

COUNTRY	SOURCE OF DATA (SURVEY NAME)	YEAR
Argentina	Encuesta Permanente de Hogares	2001
Bolivia	Encuesta de Mejoramiento de Condiciones de Vida	2002
Brazil	Pesquisa Nacional por Amostra de Domicilios	2001
Chile	Encuesta de Caracterización Socioeconómica Nacional	2000
Colombia	Encuesta Continua de Hogares	2003
Costa Rica	Encuesta de Hogares de Propósitos Múltiples	2000
Dominican Rep	Encuesta Nacional de Fuerza de Fuerza de Trabajo	2003
Ecuador	Encuesta de Condiciones de Vida	2003
El Salvador	Encuesta de Hogares de Propósitos Múltiples	2002
Guatemala	Encuesta de Condiciones de Vida	2000
Haiti	Enquête sur les Conditions de Vie en Haïti	2001
Honduras	Encuesta Permanente de Hogares de Propósitos Múltiples	2003
Jamaica	The Jamaica Survey of Living Conditions	2002
Mexico	Encuesta Nacional de Ingresos y Gastos de los Hogares	2002
Nicaragua	Encuesta Nacional de Hogares sobre Medición de Nivel de Vida	2001
Panama	Encuesta de Hogares	2002
Paraguay	Encuesta Integrada de Hogares	2001
Peru	Encuesta Nacional de Hogares	2002
Suriname	Household Survey (in Dutch)	2001
Uruguay (Urban)	Encuesta Continua de Hogares	2001
Venezuela	Encuesta de Hogares Por Muestreo	2000

Expenditure Survey Sources

COUNTRY	SOURCE OF DATA (SURVEY NAME)	YEAR
Bolivia	Encuesta de Hogares, Programa - MECOVI	2002
Brazil	Pesquisa de Orçamentos Familiares	2002
Colombia	Encuesta de Calidad de Vida	2003
Honduras	Encuesta Nacional de Condiciones de Vida	2004
Jamaica	The Jamaica Survey of Living Conditions	2002
Mexico	Encuesta Nacional de Ingresos y Gastos de los Hogares	2004
Peru	Encuesta Nacional de Hogares - Condiciones de Vida y Pobreza	2003

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