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The Role of the Private Sector in Poverty Alleviation at the Base of the Pyramid

Speaker's Corner Summary Report

The three-day online discussion forum, which took place June 23-25, 2009, brought together 200 participants from 39 countries to discuss their experiences and ideas related to The Role of the Private Sector in Poverty Alleviation at the Base of the Pyramid.

Speaker's Corners are online discussions hosted by subject matter experts, designed to help practitioners share and learn from each other. They are hosted on microLINKS (*www.microlinks.org*) and Poverty Frontiers (*www.povertyfrontiers.org*)

This report summarizes key themes and "lessons learned" from the "The Role of the Private Sector in Poverty Alleviation at the Base of the Pyramid" Speaker's Corner. This online discussion was hosted by Monica Touesnard of The Center for Sustainable Global Enterprise at Cornell University's Johnson Graduation School of Management on June 23-25, 2009. Related resources and a complete transcript of the discussion postings are available at www.microlinks.org/sc/bop.

Welcome to Day 1

"Today we will begin with an examination of the roles for private sector organizations. Many continue to question whether or not there is really a BoP business opportunity for firms. Many of the original BoP cases promoted as key examples of success stories have ended, been severely criticized, never been replicated, or failed to scale sufficiently…"

The Center for Sustainable Global Enterprise is committed to the pursuit and understanding of synergistic business models and sustainable enterprise at the Base of the Pyramid (BoP). The BoP is a socio-economic designation for the four billion people whose annual income is less than USD $3260 (purchasing power parity) or, more broadly, the impoverished communities in which those people live. Through work with startups, NGOs, and multinationals, the Center continually seeks to study and evolve the notion of mutually inclusive business in this space.

HIGHLIGHT OF MAJOR THEMES:

1. **What is the private sector's role in the BoP?**
2. **What is the role of technology commercialization in enterprise development in low-income communities?**
3. **What are the cultural, political, and geographic limitations of BoP enterprise development?**

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The Speaker's Corner online discussion brought together 200 participants from 39 countries, and practitioners shared examples from a variety of countries. Participants offered best practices, questions, and challenges, using both practical examples and technical expertise to inform the discussion.

1. What is the Private Sector's Role in the BoP?

The discussion sought to examine the role of private sector organizations within the BoP space: their advantages and disadvantages, their distinguishing features, and—perhaps most importantly—the nuances of their functions across communities at the Base of the Pyramid. The major theme in the dialogue turned out to be: Is the BoP market more suitable for large multinational corporations (MNCs) or smaller SMEs (small and medium enterprises)?

This led to a discussion about the motivation for pursuing BoP initiatives, particularly those undertaken by large corporations, and whether that motivation was rooted in social welfare or financial returns. Participants questioned how companies perceive business in the context of the BoP, whether as an opportunity to be socially proactive or an occasion to be profitable. Additionally, others questioned whether scalability is essential for replication and growth or whether it is sufficient for success to be measured within a single community or region.

One key distinguishing feature cited between the MNC and the SME in the BoP is the role of maneuverability in a rapidly changing business environment. Participants questioned whether large companies have the agility of an SME when it comes to adapting business models to BoP markets. Perhaps informed, highly focused ground-level experience coupled with flexibility provides SMEs an advantage compared to the lumbering nature of large corporations. SMEs, with a grounded sense of the local markets and customs, may better integrate into BoP communities and be more responsive to its needs. Multinationals, on the other hand, must invest significant time and resources into the communities to overcome trust issues upon their arrival. Interestingly, despite numerous promptings, the discussion remained largely theoretical, rarely delving into specific cases that illustrate the issues raised.

A final point was whether an enterprise's intentions at the BoP are driven by concern for people or profits. Two philosophies emerged: Top-Down BoP and Bottom-Up BoP. In the former, BoP enterprise was described as a profit-driven notion based on the assumption that if the people at the base of the economic pyramid engage in the traditional economic system and work towards a more globally integrated marketplace, they may overcome poverty. In the latter, BoP enterprise is rooted in social need and is mission-driven, whereby it is believed that the presence of local needs will breed self-sufficiency. It was noted that in the Bottom-Up approach access to capital is a major constraint in ultimately achieving success.

Quote:
"Perhaps we need a new definition of success for the BoP. I find it curious that when examining BoP business ventures we seem to raise expectations of what success means. For the MNCs that have made in-roads, we are quick to point at how they've failed - forgetting how many ToP businesses fail in the developed world. I'm sure the same would apply to the SMEs as well."

-Kristin O'Planick, Cornell University

These questions, and others, fueled a lively and rich discussion throughout the course of the day, and made for an excellent foundation on which to build a more thorough investigation into our central question: What is the role of the private sector in poverty alleviation?

2. What is the Role of Technology Commercialization in Enterprise Development in Low-Income Communities?

The discussion of this topic invited an exchange of views on the role of technology commercialization in enterprise development in low-income communities. Once again this raised numerous thought-provoking questions for us to ponder: Where is the value in a BoP enterprise? Where does the true value of an initiative lie, in technology, or social enterprise? How vital is technology, then,

to BoP enterprise development? Is technology commercialization a critical driver in BoP enterprise development? Or can BoP business blossom independent of technology, and in spite of all the entry and implementation obstacles associated with it?

The dialogue included an examination of two unique cases meant to illustrate the depth and complexity of these questions. The Byrraju Foundation's Sujala water filtration plant, a water purification and delivery service, and Calypso Foods, a farmer cooperative, were both explored. The Byrraju Foundation case illustrates that attitudes and appearances hold significant weight in the BoP space, and the perception of a BoP enterprise as a source of community investment is highly emblematic of the success of community enterprise. Moreover, the Calypso Foods case illustrates that technology is truly not essential: what is essential is the trust and interest of a community to back and support a BoP entrant, substantially heightening the enterprise's chances at success and longevity. Therefore, some may conclude that an enterprise's success derives from the *social enterprise* sewn into it, not necessarily the technology fortifying the endeavor itself.

Another interesting addition to the BoP formula was determined to be education, a primary ingredient in the philosophy of BoP enterprise development, independent of technology. Value addition in the form of community social investment – that is, proactive developments and improvements to a community in which an initiative operates – is much more indicative of a BoP enterprise's success than the technology bundled into it.

Quote:
"*I am wondering if out of this Forum an international partnership might be established to develop and trial an effective scalable model for supply of appropriate BOP products?***"**
-Mike Lane, World Vision

However, the discussion found that technology oftentimes lends itself to competitive advantage and is usually imperative if a product/service is to be innovative, a key aspect of successful BoP ventures. Technology is often a critical component of an initiative, as countless BoP enterprises have demonstrated. Witness the cases of Projét Radio, in Madagascar and SELCO, in India. Technology is, more often than not, the niche space in which an innovative BoP enterprise can operate. It is the enterprise's value addition to a community, however, that dictates its success and legacy.

With technology comes the opportunity for heightened scalability and innovation, as well as a component of richer, more dynamic, and global social investment in the form of modern advancements and improvements. So, indeed, technology can be quite crucial to a BoP enterprise development, but it is ultimately the synergistic component of an enterprise's innovation with the community it seeks to enrich that determines its true impact and vitality in the BoP space.

3. What are the Cultural, Political, and Geographic Limitations of BoP Enterprise Development?

This discussion invited dialogue on the cultural, political, and geographical limitations of BoP enterprise development, paying specific attention to the question of why certain regions of the world appear to be more receptive to business development within communities at the Base of the Pyramid. Take for example the high degree of BoP initiatives present in India relative to China, Africa, or South America. What, then, is the bundle of conditions – be them geographical, political, or cultural – that forecast viable BoP enterprise development?

A point made regarding the prevalence of BoP enterprise in certain areas of the world over others was that lack of presence of an initiative was confused with lack of *knowledge* of an initiative. With respect to China, in particular, the concept of Base of the Pyramid had not surfaced as a topic of research until just recently and, subsequently, was not viewed in the context of business opportunity. Although sustainable development initiatives are present in China, their existence has not formally been recognized under the watchword of "BoP" for lack of public knowledge or dissemination.

The most common factor found to impact the proliferation of BoP development throughout the world, explaining its success in certain areas and its absence in others, is—not surprisingly—the po-

litical and economic condition of the states in which they operate. Mozambique was raised in one example, citing the presence until very recently of a socialist government and a centralized economy acting as a possible impediment to BoP enterprise involvement. Contrast this with India, home to a large number of impoverished and malnourished communities as well as a rapidly increasing middle class. It was suggested that without a substantial middle class with which to anchor a country's economy, there cannot exist any tangible entrepreneurial spirit to drive proactive initiatives. Moreover, the presence of a spiritual tradition upholding Indian values for community service was also mentioned as reason for such strong enterprise initiative resonance therein.

Indeed, the cultural element present in work at the BoP is essential to the success of ventures operating inside its space. Citing the case of Desportivo Brazil, the BoP venture flourished for its remarkable role as a unique social enterprise dedicated to something at the core of the country's identity: soccer. Furthermore, it was conferred that an enterprise's respect for and ability to synergistically intertwine with the culture of the community they are working in feeds into the idea of Bottom-Up BoP. Bottom-Up BoP, we recall, is recognized as enterprise rooted in social need and is mission driven, whereby it is believed that the presence of local needs will breed self-sufficiency. Initiatives that are more pliable to a country's cultural topography, therefore, are at increased odds to achieve acceptance and success.

Quote:
"The deficiency of infrastructure and constitution will provide opportunities for firms: if they can provide some products or service that have the potential to overcome the deficiency, they find the potential to build a sustainable business model."

-Jianghua Zhou, Tsinghua University

The discussion placed equal attention, however, as mentioned above, on the role of the state in determining the presence and success of BoP initiatives. Are state-based limitations to blame for a country's lack of sustainable enterprise? Furthermore, are the strong politically driven economies, like those frequently found in emerging markets, beneficial or detrimental to the initiation and scalability of BoP initiatives? Certainly, we find that the political environment in which BoP development occurs has a profound impact on the success of an initiative; political constraints and moreover political turmoil can create market volatility and economic turmoil unsuitable for business startup. On the other hand, the Indian and Brazilian concepts of "jugaad," and "jeitinho brasileiro," respectively, point to creativity as the raison d'être of successful BoP enterprise establishment. Burdensome constraints, political or otherwise, sometimes necessitate and therefore instigate abundant initiatives.

It was noted that the role and presence of a state's government or political regime has a profound impact on the potential and accessibility of BoP enterprise. India and China, areas that have been more successful in their BoP-work presence, may have more suitable "enabling environments." Furthermore, the presence of significant economies of scale in India and China are conducive to more profitable and scalable BoP initiatives. However, within politically "weak" environments, deficiencies in civil rights or infrastructure may provide firms with niche-market opportunities: Should they provide a product or service with the potential to overcome the shortfall or inadequacy, they will be met with the potential to build a sustainable business model. This notion was referenced as the phenomenon of "institutional entrepreneurship," as coined by Professor Johanna Mair of IESE Business School. It is an opportunity for BoP ventures, MNCs, and SMEs to overcome an institutional deficiency with an entrepreneurial solution. On the other hand, a strong central government–one that is potentially disinclined to incentivize or enable BoP activity—sometimes can alleviate some social problems such as access to clean water. But it was also noted that the burden should not be placed entirely on the private sector; it is, in fact, the job of a country's government to play a dominant role in public and social service.

With these thoughts in mind we came to the conclusion of our three-day foray into the intricacies and conundrums of the BoP sphere. The questions posed gave pause to rich dialogue, estab-

lishing key insights and segueing into, we hope, a continued investigation into the nuances of the BoP space we so ardently seek to understand.

Online Resources for this Discussion

This document, discussion postings, and additional resources are available on microLINKS at www.microlinks.org/sc/bop.

Please visit the Center for Sustainable Global Enterprise's website at www.johnson.cornell.edu/sge.

Initiatives and Projects Discussed in the Forum

- SELCO India Solar Power Systems
- Project Shakti (Hindustan Unilever)
- Green Leap Initiative
- Cemex's Patrimonio Hoy
- Hewlett-Packard's E-Inclusion
- Ashoka, The Hybrid Value Chain Model (pdf)
- Aga Khan Fund
- Fundación Microfinanzas BBVA (FMBBVA)
- Mahaguthi
- Edenor
- Byrraju Foundation
- Calypso Foods
- South African Public-Private Partnerships (pdf)

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The views and opinions expressed by participants in the discussion and featured in this report were their own and may not necessarily reflect the views of their organizations, USAID, or the Center for Sustainable Global Enterprise at Cornell University.