



The Base of the Pyramid as a development strategy



Chapter 1

Combining commercial success with poverty alleviation

Four billion people in the world make up the Base of the Pyramid. They earn two dollar a day, or less. They are poor. And yet, they are considered to be a potentially profitable market. This may sound implausible. What is there to sell to people, who can hardly afford to send their children to school? It may also sound unethical. Why would you want to make money off the backs of the poor?

It needs a closer look at the reasoning behind the Base of the Pyramid (BoP) to make the whole idea become less enigmatic. Simply put, the 'BoP philosophy' states that companies have the resources and the expertise to develop new products or services that serve the needs of the poor, thus combining commercial success with poverty alleviation. So, it is not a matter of entering the huge low-income market by producing larger volumes of goods that companies have always been producing. That would be selling more of the same. Serving the Base of the Pyramid asks for a clear understanding of the needs and wants of the four billion poor people, and involves developing innovative business models and new technologies.

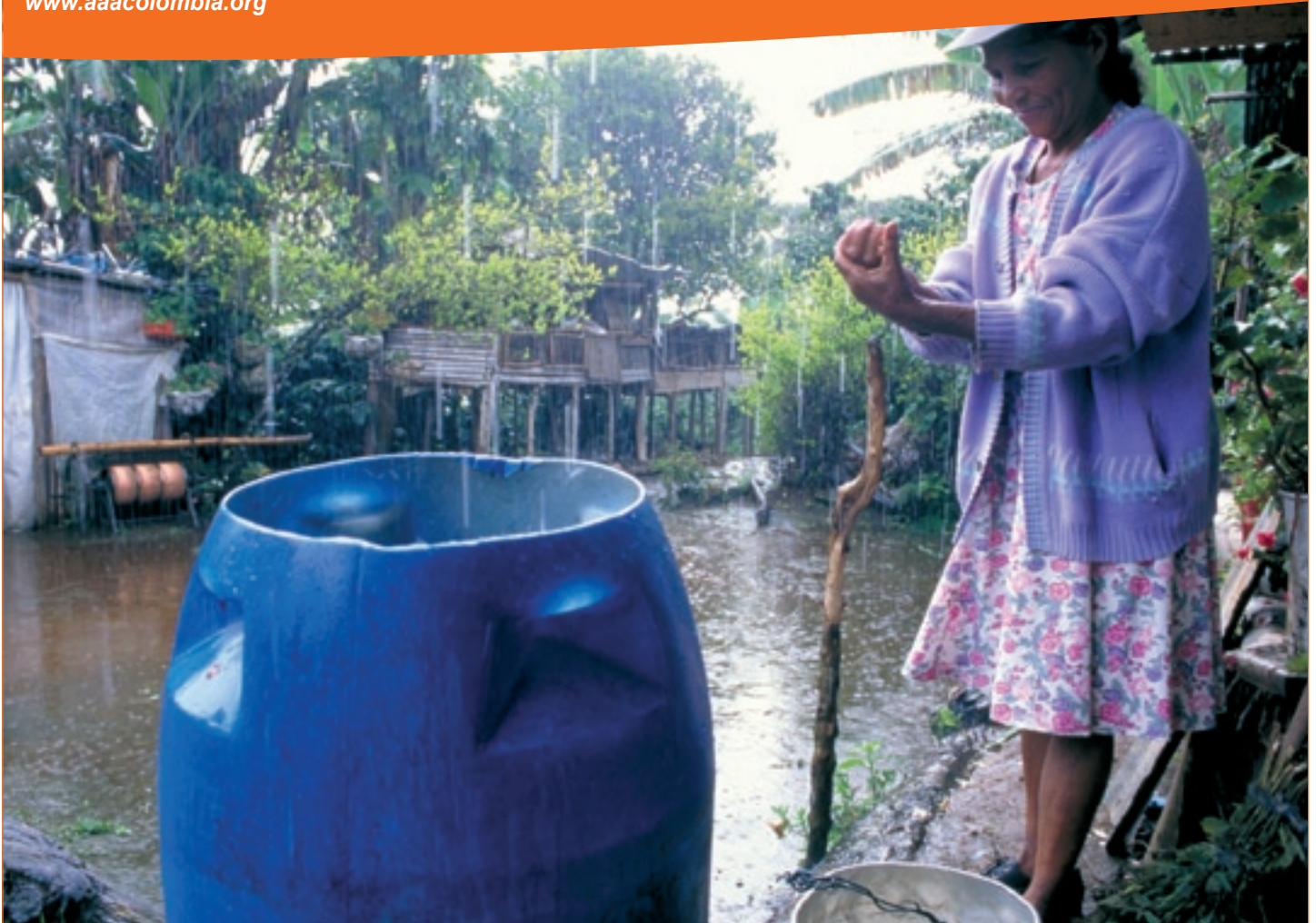
Although there is still enough reason to be skeptical about the acclaimed huge profits and impact on the lives of the poor, there is growing evidence that a market-based approach of the Base of the Pyramid might work. Even to such an extent that it gives rise to the hope that 'mining' the BoP can be an effective poverty alleviation mechanism. Some people even state that it might be more effective than traditional development approaches.

This paper explores the possibility of aligning the goals of poverty reduction and economic profit through the market-based approach of the BoP. In other words, can this approach be as much a development strategy as a business strategy? Can the productive capacity of the poor be leveraged in creating products and services that ultimately raise their own incomes and not only those of the companies involved? What does it take to work in BoP markets, combining profit with cultural appropriateness and environmental sustainability?

Water in Colombia

Past experience with privatisation of public water utilities has shown such negative consequences (bad service, rising prices, decreasing accessibility), that it has become a very unpopular measure. Yet, to scale up the provision of potable water for the poor, private capital and competitive market mechanisms seem indispensable. The water and sanitation company Asociación de Agentes Aduanales (AAA) in Colombia has tried a different approach in water provision in the Atlantic Coast region since 1996. According to recent research of Luigi Manzetti and Carlos Rufin, AAA has succeeded in expanding the coverage considerably, providing better quality of water, and still making profit. What are the secrets of their business model? Informal partnerships with poor communities and the government, asking customers to pay in return for superior service, and subsidies to make the service more affordable for the poor. However, the researchers warn that 'AAA's successes and legitimacy are fragile and require constant reinforcement'. Most troubling, they state, is the dependence on subsidies in a political environment characterized by clientelism and rampant corruption.

www.aacolombia.org





Chapter 2

From selling to co-creation

About ten years ago C.K. Prahalad and Stuart L. Hart, both US-based management professors, started developing their business theory about multinationals tapping the low-income market of four billion poor people in a profitable way. Their article *The Fortune on the Bottom of the Pyramid*, published in 2002, meant a breakthrough. Since then their ideas have been widely publicized and debated. And modified.

The original idea was quite simple. As the top of the economic pyramid, consisting of some 800 million consumers with an income of 20,000 dollar or more, will soon be saturated, it would be wise for multinational companies to start focusing on a new, highly undeveloped market. “Low-income markets,” as their article started off, “present a prodigious opportunity for the world’s wealthiest companies to seek their fortunes and bring prosperity to the aspiring poor.” Prahalad and Hart urged multinational companies to look at globalisation strategies through a new lens of inclusive capitalism – sharing their prosperity with those who are less fortunate.

This idea evoked a myriad of serious attempts to enter the market of the ‘underserved’. So far the results are mixed. Some attempts completely failed, others are still struggling, and some are likely to be successful. All in all, these experiences caused a shift in focus in a number of ways. First, making profitable products for the four billion poor is no longer considered to be an exclusive task for large

multinational companies. Initially, multinationals were supposed to be best fit for the job, because of their massive resources and superior technology. But practice shows that it is as much a viable assignment for national and medium-sized companies or even for non-profit organizations that run commercial activities. Second, BoP products don’t have to be highly profitable; if the business is economically self-sustaining and replicable, the product can have a significant impact on poverty alleviation. Third, the emphasis is now more on the poor as producers, less as consumers. Not only because most of them are producers, maybe small, but still making a living by producing goods or services. But also because the only sustainable way out of poverty is income generation. And fourth, the business model has changed from, roughly speaking, serving the poor with the same product as consumers with a greater purchasing power, but at a lower price and in smaller serves, to developing new products in close conjunction with the local communities. Whereas the previous business model was based on ‘selling’ (BoP 1.0), the present is based on ‘co-creation’ or ‘co-venturing’ (BoP 2.0). This co-creation involves a serious dialogue between the company and the poor communities, building trust and finding out in the process what the real needs are, using native capabilities in creating the product and evolving a business model from the ground up. Needless to say, this strategy of co-creation requires unconventional partnerships between companies, NGOs and government bodies.

Cell phones in South-Africa

In 1994 Vodacom, South Africa's largest cell phone company, and the government of South Africa started to roll out thousands of subsidized telephones in an attempt to bridge the digital gap. In townships and underserved rural areas, entrepreneurs opened phone shops, often housed in shipping containers. Vodacom Community Services offered both income generation and business skills for the entrepreneurs and affordable communication to millions of deprived South Africans. The program still runs in much the same way, but no longer government subsidized. The business model is franchise; phone shops are run as profit-making privately-owned businesses. Soft loans from a development bank enable the owner to get started. Similar programs are now being rolled out in Lesotho and Tanzania. In Lesotho, 'Motsamai Payphones' are a community initiative which enables people to sell public phone services. In Tanzania vendors receive a free trolley fully equipped with a mobile public phone and ongoing training and support. Vodacom thus invests not only in job creation for the poor, but also in its own future. When the income of the people rises, they will tend to buy their own cell phone, from a familiar brand.

www.vodacom.co.za



Patrick Vermeulen, BoP Learning Lab: 'It is all about mutual value creation'

"I believe the BoP-concept is all about mutual value creation.

It is an innovative business model in which the poor in developing countries are included as both suppliers and consumers. Of course, it is fine if a company starts a new factory that offers jobs, but it is even better if a business initiative stimulates local entrepreneurship."

This is the view of Patrick Vermeulen, academic director of the newly launched Benelux BoP Learning Lab in Tilburg. Patrick Vermeulen: "We are trying to create enthusiasm for the BoP amongst Dutch multinationals. Some of them are involved in serious efforts, but in general they lag behind their American fellows, that show more endeavour."

There are big challenges ahead for the BoP Learning Lab. Although the BoP concept is gaining popularity, little is known about effective business strategies or about the impact of existing projects. Patrick Vermeulen: "There is still much discussion about which criteria should be met to deserve the title 'BoP project'. Should a business initiative really aim at poverty reduction and reach for the poorest of the poor, people with an annual income of less than 500 dollars? Or does a project qualify that aims at improving the living conditions of a segment of the population with an annual income of 3,000 dollars, which is still poor, but not quite at the base of the pyramid? It is very difficult, also for local NGOs, to tap the

base of the pyramid. There are only a few examples, such as micro credits, or the Project Shakti of Hindustan Lever that has trained over 30,000 poor rural women in India to become sales distributors for soaps and shampoos. New technologies, like the Philips woodstove or the DSM water filter, might be too expensive for the poorest of the poor, but can be of great importance for the segment just above that level. I think it is important to define what a genuine BoP product is, not only to find out what effective strategies are, but also to prevent the emergence of projects that have nothing to do with the BoP philosophy, but are being advertised as such."

Vermeulen estimates that about forty or fifty BoP projects worldwide have evolved in such a way that it makes sense to start measuring their effectiveness and their impact. A multitude of efforts has failed, revealing the bumps and potholes companies meet on their way to reach the BoP market. Vermeulen: "The main pitfalls have been identified. Firstly, companies cannot operate 'quick and dirty'. Market entry takes at least five years, because you have to get thorough knowledge of the needs and wants of the poorest of the poor. Secondly, companies have to be prepared to invest, both in infrastructure and in trust. They cannot operate on their own. They need to cooperate with NGOs, and have to stay in close contact with their customers during the entire process. They'll have to be on the spot a lot."



The Benelux BoP Learning Lab

The Benelux BoP Learning Lab aims to be an expert center in which scholars, companies and NGOs jointly explore the possibilities and impact of BoP products. Founders are the Department of Organisation Studies at Tilburg University, Triple Value Strategy Consulting, and TiasNimbas Business School. Recently, ICCO has joined as a founding member. The members, international companies, development NGOs, government agencies and research institutes will define the agenda. The BoP Learning Lab in Tilburg has peers in countries like the US, Spain, Brazil, South Africa, Mexico, Argentina, India and, soon, China, thus forming a global network for action learning on new business models to reach the four billion people at the Base of the Pyramid.

Chapter 3

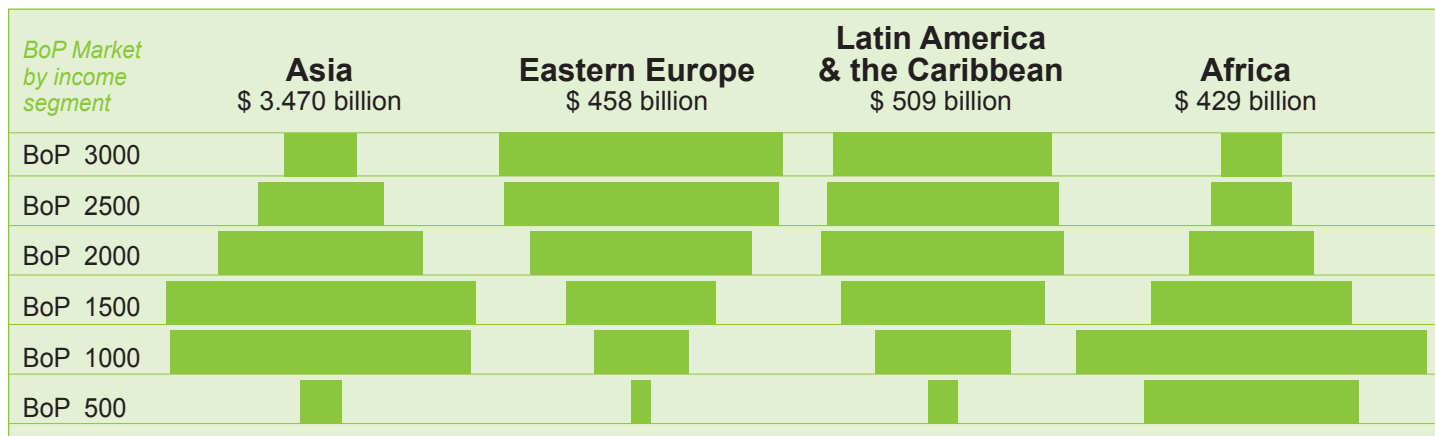
There is no such thing as 'the' BoP market

According to a recent calculation of the World Resources Institute and the International Finance Corporation (The next 4 billion, 2007), the four billion people at the Base of the Pyramid represent a purchasing power of 5 trillion dollar. Research was done in 110 countries, gathering data on incomes, expenditures and access to services. Even if these data are incomplete, the definition of poverty disputable and the estimated purchasing power inaccurate, the figures drop a hint of size and characteristics of the BoP market. Important fact to begin with: there is no such thing as 'the' BoP market. But there is one very clear common characteristic: the BoP population is hardly integrated into the global market economy and for sure does not benefit from it.

Let's take a closer look at the lives of the people at the Base of the Pyramid.

- In Africa and Asia the majority lives in rural areas, although there are large concentrations living in urban slums. In Eastern Europe and Latin America they often are an urban population.
- Most of them lack access to basic facilities such as safe drinking water and sanitation, health care or electricity. In their search for these basic assets, they often pay a higher price than people who are wealthier. It may take days and high transportation costs to reach a health clinic. Drinking water bought from a vendor can be tenfold the price of piped water. The expenses for lighting and cooking can be higher than the average bill of people with an electricity connection. Besides, they are confined to practices that are hazardous to their health.
- Only few of them have a bank account or access to any modern financial service. Most of them do not own a telephone, fax or computer. This seriously hampers their entrepreneurial activities, both in terms of access to money and of access to up-to-date information and knowledge.
- They lack access to markets, are often dependent on middlemen or exploited by employers, and are extremely vulnerable to weather conditions and destruction of natural resources.
- Small producers often lack proper technologies, expertise and inputs that are required for their size and conditions of production. This limits their access to markets and their possibilities to earn a sustainable income.
- Contrary to the people at the Top of the Pyramid, the people at the Base of the Pyramid have no consumers protecting agencies. In case of abuse, many consumers at the BoP have no rights, no voice, no power.





The World Resources Institute and the International Finance Corporation have quantified the BoP market by region.

- Asia and the Middle East have the largest BoP market: 2.86 billion people with a total income of 3,470 billion dollar. This represents 83% of the region's population and 42% of the purchasing power.
- Eastern Europe has a BoP of 254 million people with a total income of 458 billion dollar. They represent 64% of the population, with 36% of the income.
- Latin America has a BoP of 360 million people with a total income of 509 billion dollar. They represent 70% of the population, but only 28% of total household income.
- Africa has a BoP of 486 million people with a total income of 429 billion dollar. They are the dominant consumer market, with 71% of purchasing power.

The WRI/IFC report has also calculated the size of the sector markets for the four billion people at the Base of the Pyramid.

The largest market is, not surprising, food: 2,895 billion dollar. Also fairly large markets are energy (433 billion dollar), housing (332 billion dollar), transportation (179 billion dollar) and health (158 billion dollar).

Relatively small sector markets are ICT (51 billion dollar, but rapidly growing) and water (20 billion dollar).

Waste recycling in Bangladesh

The city council of Dhaka, the capital of Bangladesh, is faced with some 11 million inhabitants who produce over 4,000 tonnes of waste per day. Even a quarter of its annual budget was not enough for the council to process only half the waste. Apart from the dreadful sight and horrible stench, the waste creates serious health and environmental problems. In 1995, two Bangladeshi entrepreneurs started the NGO Waste Concern, to recycle the waste and sell the compost to farmers. By now, the initiative has grown into the Waste Concern Group, consisting of for-profit and not-for-profit enterprises. They are involved in waste recycling, environmental improvement, renewable energy, poverty reduction and sustainable development. About 30% of Waste Concern's revenues come from trading carbon credit rights. Four hundred people are employed as waste collectors, earning fair salaries and enjoying free meals and health care. Farmers replace chemical fertilizers with much cheaper organic compost. The municipality provided land for the plants and regulations for waste management. The model is now being replicated in Sri Lanka and Vietnam. Recently the Dutch company World Wide Recycling started a joint venture with the Waste Concern Group.

www.wasteconcern.org



Soumen Biswas, Pradan:

'DSM comes with a suitable product for small farmers'

"No dairy farmer would be interested in testing a new feed product for its cattle without knowing and trusting the supplier. That is why DSM needs our organisation to get its nutritional supplement on the market. We also provide our social infrastructure. The recipients of DSM's product are self-help groups of women farmers, with whom we have been working on a village level for a long time."

Soumen Biswas is the CEO of Pradan, an Indian NGO that works with some 140,000 rural families in the promotion of various livelihood activities. Pradan has entered a partnership with the Dutch chemical giant DSM to test the impact of its nutritional supplement on the production of dairy. Soumen Biswas: "The farmers we work with are mostly women with a tiny livestock of 1, 2 or 3 buffaloes. If one of the animals doesn't breed, or if it dies, it means the end of their business." Pradan helps families access better-quality breeds and veterinary care, and develop a reliable cadre of village-based service providers and marketing systems, in order for the small producers to earn a stable income. Mediator in the partnership between DSM and Pradan is ICCO. When DSM planned to develop a Base of the Pyramid product that would benefit large numbers of poor people, ICCO contacted its Indian partner Pradan. Soumen Biswas: "We found that the product is very suitable for small farmers, especially since it comes with sharing information and know how. Besides, if this partnership succeeds and we establish good relations with DSM, we might expand to other sectors like poultry." Two other Indian organizations are involved in the partnership with DSM. One is BAIF Research and Development Foundation, with technical specialisation in dairy development.

The other is Amul, a large dairy cooperative. Together they cover the whole chain, from the farmers and their cattle up until the sales of the milk. The pilot project will start in a few months and will comprise some 1,500 farmers.

Will this be the typical 'win-win' that everybody expects of the Base of the Pyramid business model? Soumen Biswas: "Yes. For the very poor it is a way to improve their income. For DSM it is a way to enter a large market. And for us the relationship with DSM might lead to improving our other livelihood activities." Pradan has previous experience in cooperating with companies, but with mixed success, as Biswas recalls. "The problem with many companies is their impatience. They want to see a quick return of investment. But it takes a long while before these small farmers start producing and selling a surplus. The other problem is that companies tend to come up with a product they have already created, whereas it takes time to create a product that is especially suitable for the poor."

DSM has this indispensable patience, and is wealthy enough to invest in a project with social components. But ultimately the business results will have to show a real profit. Manon Schuurmans, the responsible DSM Business Manager: "With these three Indian partners we can cover 3.5 per cent of the market. We are talking about 850,000 cows. India is a huge market."





Chapter 4

Unconventional partnerships are required

From a development point of view, BoP strategies should address the unmet needs of poor households in order to raise their productivity, income and welfare, in such a way that new dependencies are prevented and people are enabled to find their own way out of poverty.

What are the implications for production and marketing from a poverty perspective? From a business point of view a BoP product is successful when it is affordable, accessible and available. But from a development point of view, there is a fourth 'a' to be added: it should also be acceptable. This fourth 'a' implies moral obligations that are easily neglected when commercial profit is the ultimate goal. It is a great leap forward if new technologies are available that, say, give poor people access to affordable equipment to intensify their fisheries. But what are the side effects? Does the product disrupt socio-cultural habits? Does it negatively affect daily life? Is it detrimental to the environment? Does it lay a heavy burden on people's financial capabilities? And what happens if the fishermen indeed have a larger catch, but no means to get their fish clean and safe on the market? Or, to take an even more complicated example, what if a BoP product successfully increases the income of women, but their economic empowerment leads to increased domestic violence?

This is not at all a theoretical situation. It is a well-known phenomenon that should be thought of while developing a product, not afterwards, when harm is done.

And even if the preliminary work is done in a conscious way – thorough research of the needs of the poor, their daily life, their financial position, their cultural characteristics, the means to reach them, the tone of voice to sell -, what if the outcome is that they really want cheap cigarettes or affordable fancy T-shirts? Are these gadgets going to release them from poverty? When it comes to the crunch, what BoP products and services should lead to are improved lives and well being.

When approaching the BoP markets from a development perspective, all implications of new products or services should be thought through, and contingency plans should be in place. Obviously, this is no quick fix. It requires a coordinated effort between the private sector, NGOs and government bodies. It is more than just commercial market development. 'Co-creation' means that business is developed with local resources and materials, with local means of production, assembly and distribution. Commercial market development efforts thus are combined with traditional development tools like community organization, consumer education, stimulating local entrepreneurship, job creation, micro loans and cultural sensitivity. It also asks for government participation, not just to enhance economic activity by providing legislation, land rights, transportation, airfields or landing strips. Governments are indispensable to 'set the rules of the game', for instance that safe drinking water

should be provided at an acceptable price. And if analysing the entire market leads to the identification of needs for which commercial solutions are not available, this knowledge should not be lost, but requires addressing by other players than the private sector. People have a right to basic services. The private sector might offer partial solutions for those needs, but governments should not neglect their principle obligation of providing essential services like drinking water, health care and education.

As Ted London, director of the BOP Learning Laboratory in the United States, has put it in an interview: "It requires participation of multiple stakeholders, and that gets to the idea of inclusive capitalism. This is not about riding in solo, thinking you can do it all yourself; there's increasing recognition that serving this new market requires partnerships not only with other companies but also with local communities, non-profit organizations - entities that corporations just aren't used to dealing with, but when they do deal with them it creates a much more inclusive and interesting business model."

Solar energy in Brazil

With the privatisation of electric utilities in Brazil in the late 1990s, extension of grids to rural areas came practically to a standstill, leaving some 25 million Brazilians to find their own way out of the dark. Fabio Rosa, a Brazilian agronomist with longtime experience in rural electrification, started looking for a business model that could serve millions of relatively poor customers. Market research revealed that almost 70% of the households spent at least 11 dollar a month on kerosene, batteries, diesel, gas and candles. That was about the price for which Rosa's basic photovoltaic solar home system could be leased. For people who couldn't afford that, he came up with a scheme that provides income generation, at the same time providing renewable energy, management of native biodiversity, forestry with native species and actions against climate change for carbon credits. Involved are a commercial corporation, Agroelectric System of Appropriate Technology (STA) and a non-profit organization, the Institute for Development of Natural Energy and Sustainability (IDEAAS), both founded by Fabio Rosa.

www.ideaas.org.br



Pharmacy franchising in Mexico

Mi Farmacita is a chain of pharmacies in a franchise business structure, providing medicines and doctor consultations to low-income communities. In four years Mi Farmacita has expanded into almost 60 outlets in over 15 states. It is owned by two companies, a pharmaceutical distributor and a manufacturer of generic medicines, that wish to extend their business into low-income markets. The franchises, always located near major community centers like schools, shops or churches, offer medicines for common illnesses at about half the price of the name brand medicines. Doctor consultations cost only 2 dollar. The pharmacies also sell filtered water, beauty and hygiene goods, and offer internet and telephone services. Key factors for the success of Mi Farmacita franchises, making profit while serving low-income communities, are the partnerships with two well-established distributing and manufacturing companies, their low prices, their easy accessibility and their on-site doctors.

www.mifarmacita.com



Raghini Badhrinarayanan, Dhan

'A viable business for insurance companies'

"If a calamity occurs and there is no insurance to cover the risks, poor families lose all the development efforts and fall back into deep poverty," states Raghini Badhrinarayanan. She is programme leader of the Indian NGO Dhan, which has been introducing life and health insurance for the poor. A typical BoP product, she would call it: "It is in tune with the needs of the people and it is a viable business for the insurance companies."

Together with private banks, government bodies, international NGOs and other institutional partners Dhan has been developing products like livestock insurance, pension products and rainfall indexed crop insurance. Dhan works with 700,000 families, organized in some 72 decentralized federations, and is always searching for innovations that are suitable to scale up in order to eradicate poverty in vast areas of the country. Savings and credits are considered pivotal for escaping poverty.

For the missing link, insurance, Dhan looked for professional help, as setting up insurances is a complicated field. At the end of 2003 a project started to extend micro finance with micro insurance. Through the mediation of Oxfam Novib, Dhan contacted the Dutch insurance company Interpolis. Interpolis, having its roots in mutual solidarity funds, had experience in implementing combined financing and reinsurance models in countries like Sri Lanka, the Philippines and Nepal. The idea is that each federation, consisting of some 3,000 members, mostly women, sets up its own mutual insurance company. Interpolis sent several experts to India to assist in setting up an insurance system. First, a solution was explored with existing local insurance

companies. When this option appeared impossible, Dhan decided to take a venture itself. An intensive track of consultancy, learning and training followed. The products were decided upon, professionals of Dhan were trained who would then pass their knowledge on to the federations, an administrative system was constructed together with Dhan, and a financial accounting system was set in place. Early in 2008, the project had been rolled out in fifteen federations, comprising some 45,000 households.

Raghini Badhrinarayanan: "The types of insurance include life insurance for member and spouse, health insurance for the family members, livestock insurance and housing insurance. The federations identify the local needs and design suitable products in consultation with the insurance companies. Large and established federations offer and manage the products on their own. To new federations the products of existing companies are available. In both cases the federation acts as an intermediary and collects the premium from members, maintains the database and liaise with the insurance companies." For Dhan it is essential that the micro insurance products are commercially viable. Mrs. Badhrinarayanan: "The premium is calculated and decided on an actuarial basis, so the micro insurance products will result in a surplus." When asked what the added value of cooperating with companies is to her, Mrs. Badhrinarayanan shortly answers: "Quick claim settlement." And the added value for companies to work with Dhan? "As the penetration levels of insurance among the poor are very low, the potential for companies is high."



Cleaner tuk-tuks in the Philippines

They are cheap, carry a heavy load and are immensely popular throughout Asia: the tuk-tuks. But they also are a polluting nuisance. Envirofit International, an American non-profit organization developing clean and efficient technology for BoP markets, has come up with a cleaner, direct-injection kit that reduces hydrocarbon emissions by 90%, carbon monoxide emissions by 70%, and particulate emissions by 80%. The costs, about 250 dollar, are recovered in one year by reduced fuel intake of 30%. In the city of Vigan (Philippines) the entire 3,000 tricycle-taxi fleet is now being refitted, thanks to an agreement with the city council. Envirofit gained support from the local taxi drivers by hosting educational workshops, meeting with their association and inviting them to their installation center. Vigan is a pilot; if successful, Envirofit hopes to scale up to the other Asian countries.

www.envirofit.org



Paul Mudde, Partos:

‘Developing BoP-products should take place at the local level’

“The most promising examples of BoP-products are those developed by local companies and local NGOs. People who speak the language, who understand the culture, who are in touch with relevant organisations, they are the ones that can come up with interesting concepts. Developing BoP-products should take place at the local level. It is not a matter of western multinationals or western NGOs imposing their ideas on developing countries.”

Paul Mudde, chairman of Partos, the association of Dutch development NGOs, is a zealous ‘BoP-believer’. His background in banking (ABN AMRO) enabled him to closely observe the impact of micro credit on entrepreneurship. He is well aware of the potential resources of companies, which by far exceed the regular development assistance.

Phillips has completed a commercial pilot in India with the Woodstove; a fuel-efficient, clean-burning cooking stove designed for developing and emerging markets



“Combining the resources of companies, both in terms of money and expertise, with those of development organizations can have a large impact on poverty alleviation,” he states. According to Paul Mudde, business at the Base of the Pyramid requires innovation. “It is self-evident that commercial products that contribute to socio-economic development can only be the result of deep listening and joint efforts. It is not a matter of just making existing products cheaper to sell them to a mass of people with low purchasing power.” And this is where NGOs come in. Their strength, he says, is in product innovation, capacity building and distribution capabilities to poor communities. “They are close to the people concerned and can bring these local contacts together with companies to further explore their needs. If a business case appears, they can join forces with business and combine relevant competencies to roll it out. Dutch NGOs like ICCO are very active in both product development and building capacities of local producers to commercialise their products.”

However, in this cooperation between companies and NGOs many challenges lie ahead. Paul Mudde: “In the first place NGOs should be willing to share their Southern partners with companies. Is the NGO prepared to compromise and accept a company as a partner instead of a competitor? But then, how do large NGOs with multiple activities remain independent and fulfil their role as a critical follower of the business community? And they will have to develop an aid exit strategy.”



The BoP Protocol

The BoP Protocol is an ongoing process, launched in 2004 by Stuart L. Hart, Gordon A. Enk, and Erik N. Simanis, to ensure that business development at the Base of the Pyramid is both sustainable and equitable. Key assumption is that local knowledge and resources are central. Fundamental principles guiding the creation of the Protocol are inclusiveness, co-invention, and co-ownership.

Operating Guidelines

- Suspend disbelief - willingness to admit ignorance;
- Put the last first - seek out the voices seldom heard;
- Show respect and humility - all parties have something important to contribute;
- Accept and respect divergent views - there is no one best way;
- Recognize the positive - people that survive on 1 dollar per day must be doing something right;
- Co-develop solutions - mutual learning among MNCs, partners and BoP members;
- Create mutual value - all parties must benefit in terms important to them;
- Start small - begin with small pilot tests and scale out in modular fashion;
- Be patient - it takes time to grow the ecosystem and win the trust before the business takes off.
- Embrace ambiguity – the greatest opportunities often arise from unplanned events and circumstances.

Code of Conduct

- Design businesses that increase earning power, remove constraints, and build potential in the BoP;
- Ensure that wealth generated by the business is shared equitably with the local community;
- Use only the most appropriate - and sustainable – technologies;
- Promote the development of affected communities as broadly as possible, in ways defined by local people themselves;
- Track the ‘triple bottom line’ impacts associated with the entire BoP business system;
- Monitor and address any unintended negative impacts associated with the business model;
- Share best practices with local partners to the extent possible;
- Report transparently and involve key stakeholders in an on-going dialogue;
- Commit to increase community value regardless of the business outcome.

Chapter 5

Taking root in off-markets

Remember the hundred-dollar-laptop? The NGO One Laptop per Child, together with some IT-experts and a Taiwanese company, had developed a shock-, dust- and waterproof device. Because it was supposedly cheap and easy to handle, the laptop was hailed with great enthusiasm in 2005. Finally an affordable solution turned up to bridge the digital gap! But nothing much happened. An online discussion, early 2008, between stakeholders in Burkina Faso revealed why: 'it is not adapted to our local needs', 'our teaching methods clash with the use of ICT', 'we have bad connectivity', 'nobody knows how to maintain the thing', and 'it is still rather expensive'. Clearly, something has gone wrong in the process. The hundred-dollar-laptop was a top-down solution, not based on the disparate needs in different countries, not sensitive to cultural differences and not fitting to the local capacity to maintain or repair the laptop. What the initiative did evoke, however, is a whole range of new products of competing companies.

To take root in off-markets requires innovative thinking. An increasing number of companies, NGOs and government bodies are attracted to ventures that align the goals of poverty reduction and economic profit. The report *The next 4 billion* has drawn up an inventory of new ventures in different sectors. It points at mobile telephony as the "most dramatic BoP success story", in terms of market penetration, benefits to low-income customers and profits for the companies. Innovative business models such as prepaid voice and prepaid text-messaging services, available in ever-smaller units, have led to rapid growth, enabling low-income people to get access to market information, health care and financial

services. Ventures into other sectors, like water, health care or energy cannot boast similar performances, but many new technologies have been developed and are being tried out. There are some lessons to be learned from recent experiences. Companies that have succeeded in low-income markets were the ones that built market intelligence from the bottom-up, reckoning with the local habits, preferences and constraints. They forged fruitful partnerships with NGOs to acquire deep knowledge of local circumstances and to get a license to operate. Sometimes they aligned with local social entrepreneurs that lacked the ability to scale up. These companies also knew how to tackle the lack of infrastructure in poor markets, including the lack of formal institutions. Cooperating with local leaders and communities, they built incentives for everyone to 'play by the rules'. Often they incorporated inventive financial strategies to enhance the accessibility of their products and services, like cross-subsidy (wealthier customers help subsidize services for the low-income clients), micro credits, consumer finance, or mortgage financing. And to scale up their initiatives (they need volume in order to get profit) they ensured support from governments, international donors and NGOs.

There is a growing sense that new skills and strategies are needed to develop business models, tailored to raising the living standards of the poor. It is too early to judge whether they will succeed, in the sense that they will make profitable business on a fairly large scale, while at the same time serving the unmet needs of the poor in a sustainable way. These are processes that take a long time.

Operating Guidelines

- The BoP Learning Lab Network: www.bopnetwork.org
- The BoP-protocol: www.bop-protocol.org
- The report The next 4 billion: www.wri.org/publication/the-next-4-billion#
- The Benelux BoP Learning Lab: www.bopstrategies.nl
- The article The Fortune on the Bottom of the Pyramid: www.digitaldividend.org/pdf/bottompyramid.pdf
- Online forum for BoP experts: www.nextbillion.net

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