Bottom of the Pyramid from the Perspective of Poverty Reduction

OXFAM GB: PRESENTATION TO DSA

NICOLA DAY

18th JUNE, 2007
Oxfam works with others to alleviate poverty and suffering through:

- Development
- Humanitarian Response
- Campaigning and Communicating
Recognises the impact that the Private Sector has on those living in poverty

- Providing employment
- Buy goods from producers
- Sell goods to consumers
- Input capital through tax payments
- Power in markets
- Other externalities

The Private Sector therefore plays an important role in helping lift people out of poverty
Prahalad: Fortune at the Bottom of the Pyramid

- Opportunity to sell goods
- Opportunity to develop local enterprise

4 billion and growing
Less than $2 /day
BOP Potential Opportunities

- Recognises those living in poverty as real people with addressable and serviceable needs and the right to choice and quality
- Potential to increase access goods
- Potential to expand range, reduce costs and improve quality of products
- Potential to foster local business and capacity build
- Potential to improve infrastructure
- Increased commercial interest in developing countries, potentially leading to increased understanding of issues and needs that a MNC can help address

But there are dangers......
Concerns about BOP

- Creating non-existent needs
- Confusing BOP business with the CSR concept and taking attention away from the need for ODA
- Unscrupulous players taking advantage of BOP consumers’ vulnerability
- Who carries the innovation risk?

and.......
This has developed as a business concept

- Foundation of BOP was the business need to find new markets, not as a development tool
- Therefore does not explore the wider needs of poverty alleviation
Too focused on MNC

Development works best if combination of players:

**Role of Government**
- Provide regulation and control to:
  - Ensure national benefits
  - Minimise negative FDI impacts
  - Fair and equitable, enabling private sector environment

**National Private Sector**
- Provide the majority of employment
- Major purchaser and provider of products

**Civil Society**

**NGO**
- Oxfam is using livelihoods and power in markets in order to help lift people out of poverty: it is therefore creating new entrepreneurs and ‘private sector’
MNC role as a player in a Developing Country

- Bear a heavy influence over regional and international trade and investment regimes
- Essential to consider the impact on national business: particularly SMMEs
- Power to influence the private sector environment to benefit those in poverty
- Potential to use capacity and resources to facilitate development of local business and producers
- Need to understand context: companies have a much wider impact than their direct business
Poverty Footprint project with Unilever

A joint research project to understand the impacts of business on the lives of poor people…

“to understand the nuances of pro-poor strategies in the private sector, in order to engage more effectively with companies”

“to increase understanding of the impact of the operations of a business like ours on the lives of poor people”
Macroeconomic Impacts

Unilever is embedded in the Indonesian economy
- Rode out the 1997 Crisis
- 334 supplier companies
- 10,000s of farmers
- 1,652 distributors
- > 0.5 million retail outlets

UI’s pre-tax profits, 1999-2003

- Dividends to local shareholders: 7%
- Dividends to overseas shareholders: 38%
- Corporation Tax: 30%
- Retained Earnings: 25%
Employment Impacts

- UI employs 5,000 people: 60% directly, 40% as contract workers
- Overall 300,000 FTEs make their livelihoods in Unilever’s value chain
- The closer you are to Unilever, the better off you are likely to be:
  - Pay, benefits and conditions for employees are top quartile
  - Contract workers have lower pay and benefits and less security
  - Workers at the ends of Unilever’s value chain probably have the most precarious livelihoods
Understanding ‘real needs’

- Ave of $2/day is too simplistic
- Need to consider non-economic factors e.g. social, political and cultural freedoms
- Small is not necessarily economic
- Producers and consumers
From Transparency to Transactional

- Demand led through engagement with ‘fringe stakeholders’
- Need ability to access knowledge and opinions of those with radically different views
- Need ability to recognise alternative ways

TNC can learn from BOP
New way of working......

- New models
- Must develop programme in relationship with civil society and government
- Prior research into impact on local Private Sector, producers, culture and communities
- Deep understanding of poverty issues
- Meet real need with tangible, functional benefits
- Value and low cost means new product offerings not just lower quality or smaller units of existing products
- Contingency for risk
- Can not rush it
If a MNC is serious about poverty

- Review core business practices
- Look at value chain: producers, suppliers, distributors, retailers
- Review business terms’ impact through supply chain
- Review poverty footprint
- Benefit local environment