

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



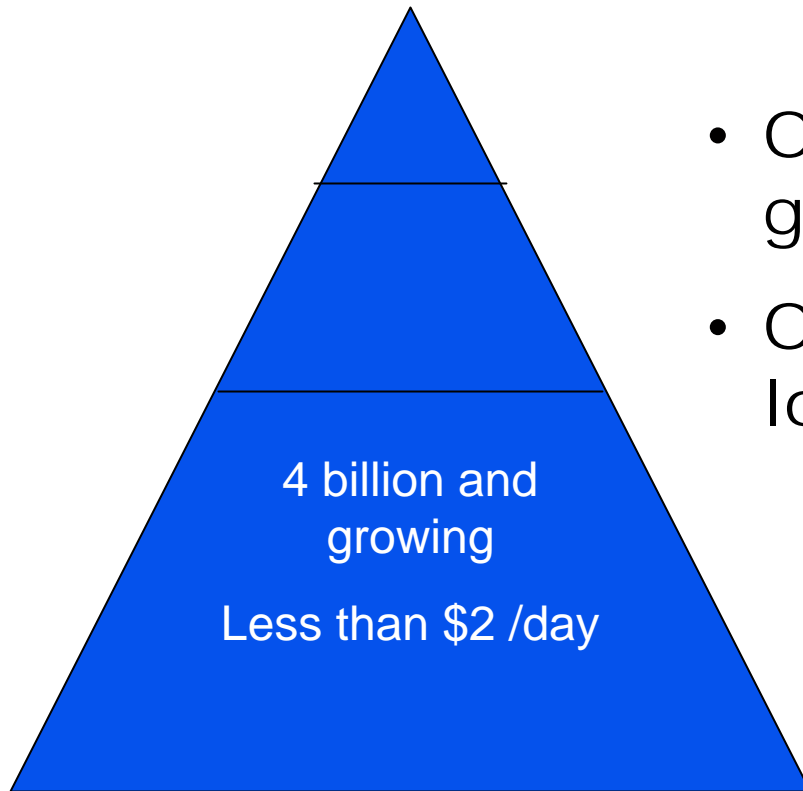
Oxfam GB

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

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.....



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This has developed as a business concept

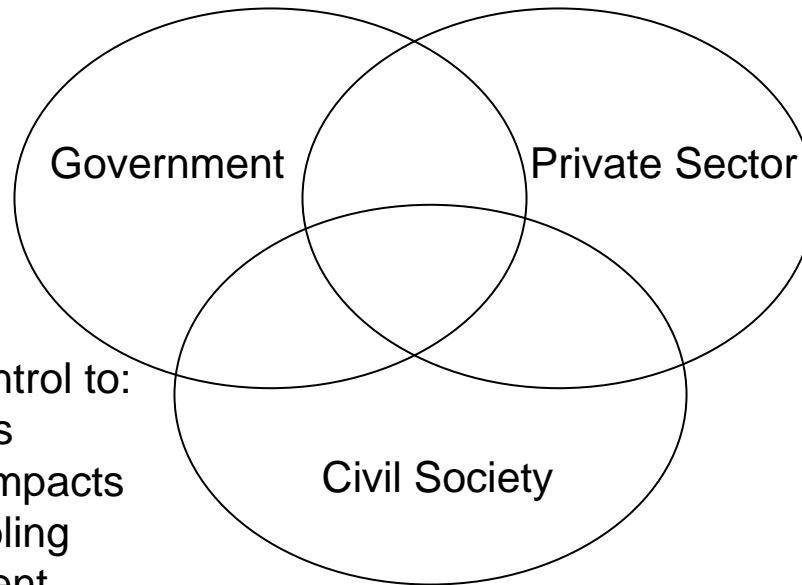
- Foundation of BOP was the business need to find new markets, not as a development tool
- Therefore does not explore the wider needs of poverty alleviation



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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

NGO

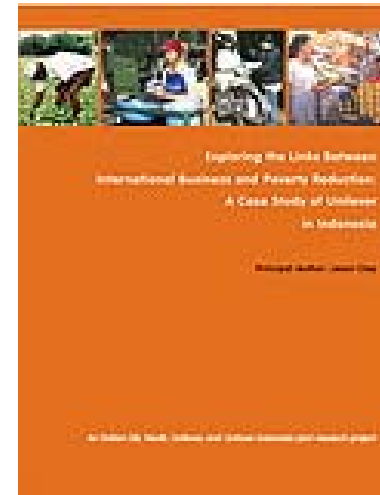
Oxfam is using livelihoods and power in markets in order to help lift people out of poverty: it is therefore creating new entrepreneurs and 'private sector'

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”

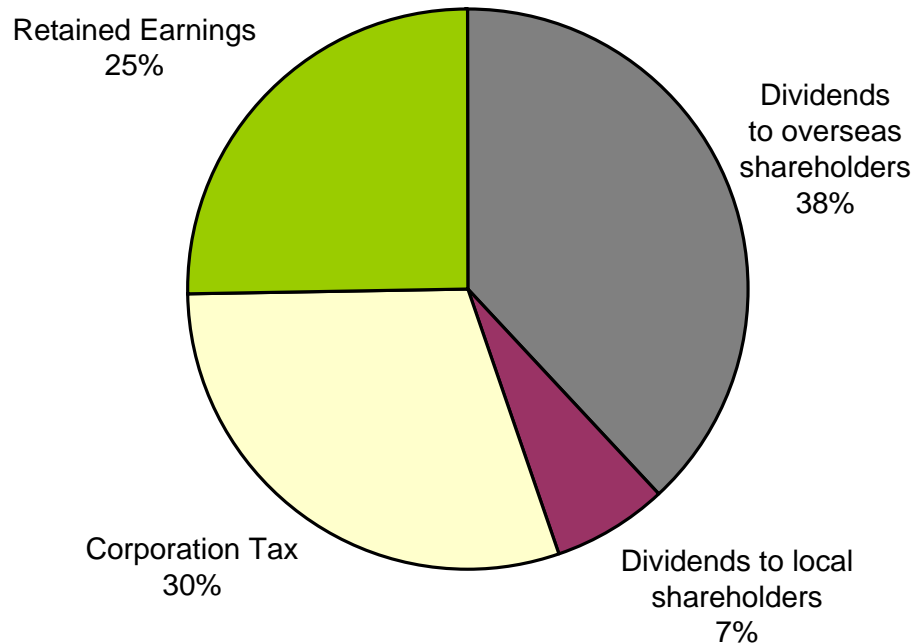


“to increase understanding of the impact of the operations of a business like ours on the lives of poor people”



Macroeconomic Impacts

UI's pre-tax profits, 1999-2003



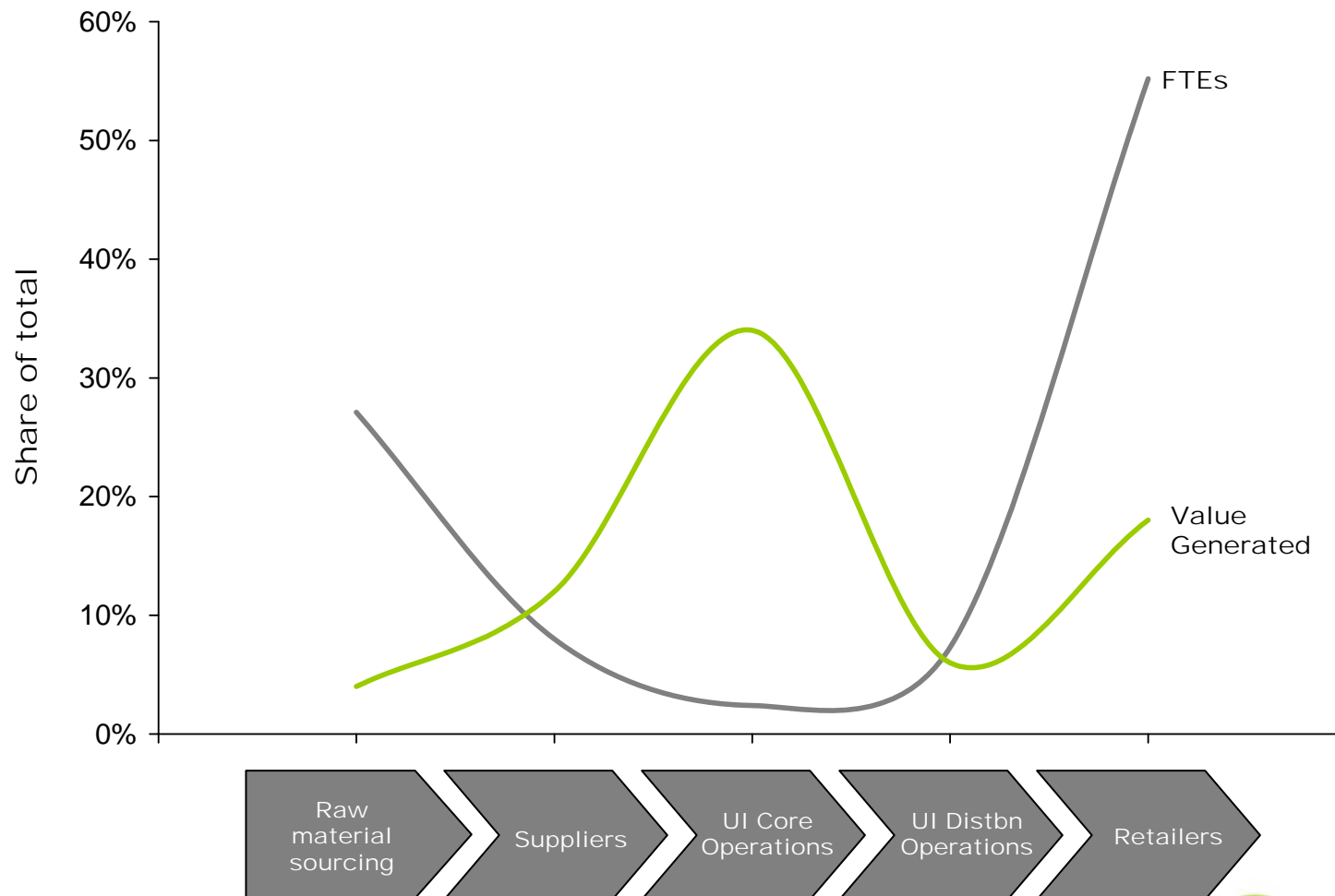
Unilever is embedded in the Indonesian economy

- Rode out the 1997 Crisis
- 334 supplier companies
- 10,000s of farmers
- 1,652 distributors
- > 0.5 million retail outlets

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

The Value Chain



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



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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