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Is BOP2 pro-poor? A theoretical analysis from a development perspective

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Abstract

Although interest surrounding Base of the Pyramid (BOP) markets and development initiatives has grown rapidly in the past decade, the academic discourse on this topic has remained underdeveloped. The existing BOP literature is largely business-centric, and rarely deviates from a fundamental BOP proposition involving only private companies and poor communities, and the concomitant effects BOP enterprises have on a corporate level. Although the BOP perspective has evolved in considering the needs of the poor more directly, an analysis on the effectiveness of current BOP strategy as a poverty alleviation mechanism remains lacking. This paper attempts to address this gap by evaluating the latest BOP strategies from a development perspective, and argues they are unlikely to deliver the expected gains from a profit-making or poverty alleviation angle. This paper also explores alternative applications of the BOP paradigm, suggesting BOP strategies could ultimately be most effective as development tools employed by non-private sector agents. Although governments and NGOs are moving in this direction by starting to embrace BOP ideas, there is still no discourse on whether the public rather than the private sector should be leading BOP policy implementation.

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List of acronyms

ABCD	Asset-Based Community Development
BOP	Base of the Pyramid
BOPIAF	Base of the Pyramid Impact Assessment Framework
BOP1G	First generation of 'Base of the Pyramid' strategies
BOP2G	Second generation of 'Base of the Pyramid' strategies
CBOs	Community-Based Organizations
CSOs	Civil Society Organizations
CSR	Corporate Social Responsibility
DFID	Department for International Development
ICT	Information and Communications Technology
IFC	International Finance Corporation
MNCs	Multinational Corporations
NGOs	Non-Governmental Organizations
PRA	Participatory Rural Appraisal
SLF	Sustainable Livelihoods Framework
WRI	World Resources Institute

1. Introduction

Market-based approaches to poverty alleviation hold a powerful conceptual appeal. Having a financially self-sustaining method to combat poverty overcomes a primary obstacle in the development field – the reliance on donors and external finance in funding projects and initiatives. Interest in the market-based approach has surged since the publication of Prahalad's "The Fortune at the Bottom of the Pyramid: Eradicating Poverty through Profits" in 2005. Prahalad espoused the notion that if the private sector followed certain strategies in catering to the poorest members of society (the base of the pyramid, to be referred to as "BOP")[1], it would contribute to poverty alleviation in addition to creating profits for private companies (Landrum, 2007). This BOP idea has attracted many notable advocates, but has also endured considerable criticism, leading to its evolution from one generation to the next.

Although many manifest problems of the initial BOP proposition (henceforth to be called BOP1G) have been addressed by a later generation of BOP strategies (to be called BOP2G), the extent to which BOP2G is viable from a development perspective has been largely neglected. This is understandable given that most BOP literature has been business-centric, but it raises doubts over the effectiveness with which the BOP perspective can be operationalized in a manner beneficial to the poor. Moreover, London (2008, p.2) laments the use of anecdotal evidence to support BOP ventures, deeming them "insufficient for measuring impact" and claims that ventures that rely on these anecdotes provide "an incomplete picture of their poverty alleviation performance". The absence of a rigorous analysis in how BOP2G ventures are actually impacting the poor prompted London (2008) to develop the BOP Impact Assessment Framework (BOPIAF), which attempts to incorporate poverty alleviation metrics in evaluating the effect of BOP2G ventures. However, a development-oriented assessment of the entire BOP2G domain's (including the BOPIAF) impact on poverty alleviation remains lacking.

This paper aims on addressing this deficit by analyzing the BOP2G perspective through the lens of a development framework. In doing so, it will examine whether the BOP2G proposition adequately acknowledges the inherent development challenges involved in its business-centric approach to poverty alleviation. The framework being used will borrow asset types from the Sustainable Livelihoods Framework (SLF), and also include other indicators which are pertinent towards measuring the success of a BOP2G initiative from the viewpoint of the poor, in keeping with Sen's (1999) understanding of the multi-dimensionality of poverty.

There has been some contention over what exactly the BOP constitutes - this paper will use the definition proposed by the World Resources Institute (WRI) and International Finance Corporation (IFC), which decided the BOP market refers to the $1.3 trillion market of 4 billion people living under $3000 US dollars per year (at 2002 US dollar rates) (Hammond, Kramer, Katz, Tran & Walker, 2007). Given space limitations, it is beyond the scope of this piece to exhaustively discuss how beneficial the BOP2G proposition could be for private sector firms, nor will this include analyses of BOP2G case studies. Hence, this paper will be confined to a theoretical examination of the BOP2G domain from the perspective of the markets they aspire to serve, with only limited reference to actual BOP2G ventures. Although this may detract from the validity of the critique being presented, the lack of available data given the recent nature of most of these ventures makes this unavoidable. Moreover, this paper hopes to make an original contribution to the growing body of BOP literature, as a thorough examination of BOP2G practices and the BOPIAF has not been previously conducted.

This paper will initially explore the debates surrounding the BOP1G and BOP2G propositions, discussing the position of BOP advocates and detractors alike. It will subsequently evaluate the latest BOP ideas based on a development framework. After briefly outlining and justifying the methodological framework employed, this paper will use it to analyze the current BOP2G proposition - specifically its sensitivity towards poverty alleviation. If the incarnation of BOP strategy that is presently being championed by its advocates fails to engage with target markets in a manner beneficial to them, it would jeopardize the legitimacy of the entire BOP movement. Finally, this paper will also evaluate whether or not the "pro-poorness" of BOP2G is even relevant, questioning the fundamental value of the entire BOP movement, both as a profit-making initiative for corporations and as a serious poverty alleviation strategy.

NOTES TO CHAPTER 1

1. Although BOP initially referred to the "bottom" of the pyramid, this paper will use "base" of the pyramid instead, following suit with BOP advocates such as London and Hart (2004) who believed it to be a less divisive term.

2. Literature Review

2.1 First generation BOP proposition

Widespread interest in BOP markets was first generated in 2002, following the pioneering work of C. K. Prahalad and Stuart Hart (2002) as they published an article titled "The Fortune at the BOP". This was followed by a book under the same name by Prahalad (2004), which detailed the vision that was touched upon two years earlier. In this first incarnation of the BOP perspective, Prahalad argued that following certain strategies in reaching BOP markets would result in profits for multi-national corporations (MNCs), and also contribute to poverty alleviation (Landrum, 2007). The general idea was that BOP markets presented a "significant untapped market for value creation" across consumers, producers, shareholders and employees (Prahalad, 2004, p.6). Prahalad refuted the reigning logic amongst MNCs that there was no money to be made by catering to the BOP. He urged a reexamination of certain assumptions that were being made about the global poor, arguing that the BOP market was potentially lucrative if approached with innovative marketing and product development (Prahalad & Hart, 2002).

A fundamental argument made by Prahalad was that the demand and capacity to pay for goods and services normally available to wealthier markets was also present in BOP markets, albeit on a different scale (Prahalad & Hart, 2002). He estimated the BOP covered around 4 billion people who were living under $2 a day, and contended that the way to cater to this market profitably was through low-margin, high-volume sales - the opposite strategy of what was dominant in developed markets. Paradoxically, the poor suffer from living in very high-cost economies, a point exemplified by Prahalad and Hammond (2003) as they compared the cost of living in a shanty town in Mumbai (Dharavi), and an affluent neighborhood in Mumbai (Warden Road)[2]. Insufficient supply and inefficient supply chains rendered the cost of credit, water, rice and phone calls several times more expensive in Dharavi than Warden Road. Prahalad believed MNCs were in a unique position to rectify these market conditions by providing improved supply and access to goods and services to poorer markets such as Dharavi (ibid.). Furthermore, he claimed the BOP was crucial to the long-term viability of MNCs, since it would spawn the next generation of consumers from the burgeoning lower-middle class of emerging markets (Prahalad, 2004).

In addition to justifying entry into BOP markets, first generation BOP thinkers promoted different strategies for serving the BOP, and identified the elements necessary to succeed in such markets. Some of the strategies advocated by Prahalad and Hammond (2003) were a) changing management perspectives, b) establishing new non-traditional partnerships with local non-governmental organizations (NGOs), civil society organizations (CSOs) and entrepreneurs, c) creating structural changes within MNCs to focus on research and business development for BOP markets, and d) sharing risks with credit and telecommunications companies and searching for synergistic cooperation with other stakeholders and e) surmounting connectivity barriers between formal and informal markets through information and communication technology (ICT). In a similar vein, Prahalad and Hart (2002) suggested that improving access to goods and services, creating purchasing power through increased access to credit and tailoring offerings based on local market demand were important considerations to make when dealing with BOP markets.

Prahalad (2004) illustrated his argument with twelve case studies, which were held as examples of different practices through which businesses could profitably serve BOP markets. These case studies were roundly criticized in most quarters for failing to support his claims, as they did not fit the idealized BOP venture envisioned by Prahalad (Landrum, 2007). Crabtree (2007) examines each case study and concludes only 3 of the 12 are involved with directly increasing income for BOP consumers, while others do not qualify as profit-making businesses (Jaipur Foot and Aravind Eye Care), or have other benefits which can only indirectly be related to a change in income (Voxiva and HLL). Karnani (2007) claims that some of the businesses identified by Prahalad (for example, Casas Bahia and Cemex) do not actually cater to the BOP market defined by him[3], and have customers who are far more affluent. Other commentators have suggested that these case studies shed very little light on poverty eradication, and that consuming the goods and services provided by these companies would do little to lift people out of poverty (Rost & Ydren 2006; Walsh, Kress & Beyerchen, 2005). Furthermore, only successful cases are presented, with the absence of failed ventures making it difficult to determine what factors are critical for success (ibid.).

2.2 BOP1G backlash

Several aspects of the first generation BOP proposition have been criticized beyond the case studies used by Prahalad. Firstly, the size of the BOP identified as a $13 trillion market of 4 billion people living under $2 a day has been unanimously discredited. Karnani (2007) estimated the market to be around $0.3 trillion, questioning the veracity of the population size claimed by Prahalad and citing the muddling effect of PPP rates. Indeed, in different writings Prahalad defined the BOP as 4 billion people living under $1500 a year (Prahalad & Hart, 2002), 4-5 billion living on under $2 a day (Prahalad, 2004) and a billion people living on under $1 a day (Prahalad & Hart, 2002) – measurements that Crabtree (2007) criticizes as being arbitrary and inconsistent. According to Karnani (2007), the World Bank estimated the number of people living on less than $2 a day to be around 2.7 billion in 2001. Furthermore, any profits made by MNCs would not be calculated at the PPP rates that Prahalad uses to make his estimates, further inflating his figures (ibid.).

A second major criticism of BOP1G thinking revolves around the ethical and environmental concerns of marketing to the poor. Critics question whether MNCs are creating a need or meeting a need when advertising to the BOP (Davidson, 2009; Karnani, 2009; Rost & Ydren, 2006). Jaiswal (2007, p.17) argues the problem with "the consumer-focused BOP approach is that it does not differentiate between priority and non-priority areas", which could cause poor consumers to purchase goods and services beyond their needs. The environmental sustainability and business sense of the single-serve packaging strategy championed by Prahalad has also come under attack, with commentators citing the problem of trash generation and the higher per unit cost of smaller volume products (Davidson 2009; Jaiswal, 2007; Karnani, 2007; Rost & Ydren, 2006).

Another perceived failing of BOP1G is that it failed to differentiate between different levels of poverty, instead treating the BOP as one homogeneous group (Arora & Romijn, 2009; Karnani, 2007). Furthermore, the strategies mentioned are oriented towards a Western perspective where local culture is viewed more as a barrier, rather than something that can inform actual BOP needs (Landrum, 2007; Thieme, 2010). The somewhat singular focus of BOP1G on income poverty has also come under fire. Commentators such as Crabtree (2007) and Karnani (2007) argue that the multi-dimensional nature of poverty must be considered in the BOP proposition for it to hold credence, given the fallacious notion that income and well-being are necessarily linked.

A significant source of contention for many critics has been the emphasis BOP1G puts on treating the poor as consumers. The criticism is that MNCs should focus on helping the poor become producers, rather than invest all their efforts in selling cheaper goods and services to them which is less effective in combating poverty (Arora & Romijn, 2009; Jaiswal, 2007; Khosla, 2007; Lodge & Wilson, 2006; Zachary, 2005). Indeed, in promoting the poor as producers, Karnani (2007, p.31) claims that "creating opportunities for steady employment at reasonable wages is the best way to eradicate poverty", as opposed to the consumption-oriented strategies of BOP1G in alleviating poverty.

From the perspective of MNCs, Prahalad's vision has been judged as misrepresentative of the challenges that are concomitant with serving BOP markets. In addition to being a smaller than touted market, the profit margins would be slight, and it would be difficult and expensive to reach geographically dispersed and heterogeneous BOP communities (Karnani, 2007). The cultural differences, lack of strong legal frameworks and weak infrastructure would also make doing business in emerging markets challenging (Hoskisson, Eden, Lau & Wright, 2000; Khanna, Palepu & Sinha, 2005; Walsh, Kress & Beyerchen, 2005). Perhaps the greatest obstacle would be scaling up locally-grown BOP businesses (necessary given the low profit margins) and replicating them across different heterogeneous BOP markets (Arora & Romijn, 2009; Karnani, 2007). Indeed, a study conducted by Ault and Spicer (2008) on the comparative institutional differences of different countries and its effect on a BOP business (microfinance) suggests that institutional differences can significantly limit the transferability of a business model.

Ultimately, many critics have questioned how effectively the BOP1G proposition deals with alleviating poverty. The two most successful case studies mentioned (Aravind Eye Care and Jaipur Foot) are both based on nonprofit organizations, which raises the question of whether the private sector is needed to tackle poverty (Crabtree, 2007). Selling products and services to the poor has been criticized as being an insufficient measure towards contributing to the welfare of the poor, in addition to being a half-baked effort to reduce poverty (Arora & Romijn, 2009; Hopkins, 2007; Jenkins, 2005; Karnani, 2007; Walsh et al., 2005). Jaiswal (2007, p.16) claims the key issue is that "BOP consumers really cannot buy more than they currently do because they have so little disposable income", which renders the consumption-based poverty alleviation strategy of BOP1G ineffective.

A major theme that has been targeted by most critiques of BOP1G is the business-centric nature of the proposition and the development paradigm it advocates. Landrum (2007, p.6) claims that Prahalad's "overt message is that these responsible and sustainable strategies will help eradicate global poverty…but the stronger covert message is that these strategies will increase profits". Others claim that BOP1G strategies fail to inculcate local context, and that only cursory attention is paid to the needs of the poor (Karnani, 2007; Thieme, 2010; Walsh et al., 2005).

Tellingly, BOP advocate Ted London (2007, p.2) conceded that "most of the current research has focused on business strategies for organizations interested in exploring these markets", while Simanis and Hart (2008a, p.1) simply claim that BOP1G strategies "failed to hit the mark". These same BOP advocates have been at the forefront of devising the next generation of BOP strategies (BOP2G) which the following section will explore.

2.3 The birth of BOP2G strategies

Just as Prahalad's BOP vision was being discredited, a separate strand of BOP thinking that rectified some of the weaknesses of BOP1G began to emerge. These 'BOP2G' strategies moved away from the top-down consumption-oriented business strategies, and toward initiatives that actively engaged the poor. A number of BOP advocates led by Stuart Hart and Ted London began to push this new agenda, which emphasized tighter collaboration between MNCs, local community groups and BOP markets to realize the goal of mutual value creation (see Hart & London, 2005; London & Hart, 2004; London, 2007; Simanis & Hart, 2006; Simanis, Hart, Enk, Duke, Gordon & Lippert, 2005). The key concepts for this evolved BOP perspective were involving the poor in a process of co-creation and co-invention and opening up to different distribution avenues, essentially allowing a business model to organically develop based on the unique context of local practices and markets with the local community as equal partners (ibid.). These ideas were crystallized in the "Base of the Pyramid Protocol" (BOP Protocol), which represents the essence of BOP2G thought in terms of methodology and practice.

The BOP Protocol (first published in 2005, with a second edition appearing in 2008) most recently articulated by Simanis and Hart (2008a), is informed by Participatory Rural Appraisal (PRA) and Asset Based Community Development (ABCD) development approaches. These are designed to empower BOP markets by encouraging the poor to analyze their situations, and by helping them identify the capabilities and assets they possess. The protocol itself is comprised of three phases. The first phase, "Opening Up", is based upon the immersion of companies into local communities, as they seek to understand local needs, forge relationships, and discuss prospective business opportunities, ultimately resulting in a business idea that is co-created (Simanis & Hart, 2008b). The next phase, "Building the Ecosystem", consists of creating a business prototype, informed by the business idea co-created in the first phase by the incipient partnership between the company and the local community (ibid.). The third and final phase, "Enterprise Creation", revolves around increasing demand for the offering in the local community. This is done by engaging community members in different aspects of the business process, and by putting the business model through low-level testing, culminating in a locally-embedded business (ibid.). The formation of entrepreneurial and management skills by local community members involved in the business process is fundamental to the BOP Protocol, as it safeguards the functioning of the business beyond the company's active participation (Simanis & Hart, 2008a).

By heavily involving the poor, there is a clear attempt by BOP2G strategies to remedy some of the problems associated with BOP1G, which was deemed too business-focused. Whether this attempt to be "pro-poor" by BOP2G strategies translates into a viable business model for corporations will be discussed later in this paper.

2.4 BOP2G criticisms: towards a development framework

Being inclusive towards the poor and involving them in each phase of the production process are features of BOP2G that could theoretically help develop the income-generating capacity of the poor. If executed properly, this would manage to address a central criticism of BOP1G (i.e. the focus on consumption), but it also opens up BOP2G ventures to a different range of criticisms.

Blowfield and Frynas (2005) claim the BOP2G proposal underestimates the educational, cultural and linguistic barriers that are likely to deter progress between potential corporate collaborators and local communities. It would be hopeful to assume a diverse stakeholder group including local government officials, MNC representatives, CSOs and NGOs could smoothly integrate with local communities to co-create business enterprises that produce mutual value (Arora & Romijn, 2009).

Secondly, it seems to be taken for granted that the poor can easily learn management and entrepreneurial skills as a part of the business enterprise creation process (London, 2007; Simanis & Hart, 2008). BOP markets tend to have limited educational backgrounds, and will have little to no experience engaging in such business enterprises. As such, it is presumptuous to assume they could learn the skills necessary to be valuable entrepreneurs and partners.

Thirdly, the BOP2G domain is missing an appraisal of potentially unequal local-corporate power relations, and what that could entail (Arora & Romijn, 2009). This is a twofold problem as asymmetric power relations can exist within a community and between different stakeholders (ibid.). The poor form a heterogeneous population with entrenched hierarchies similar to other parts of society. This makes it more likely that the interests of the poorest will be overlooked in the context of any engagement with an MNC, resulting in unequal profit distribution. Similarly, despite the intentions of BOP2G supporters, it is unlikely that partnerships between MNCs and members of BOP communities will be "equal" (ibid.). This has the potential for corporations to monopolize decision making and enjoy an unequal share of profits. In fact, BOP2G literature does nothing to elucidate the system of sharing and distributing profits from a BOP venture.

Finally, it is debatable if the locally-based initiatives promoted by BOP2G would be transferable across different communities and regions (Karnani, 2007). Being rooted in unique local contexts renders the potential non-transferability of these enterprises a legitimate concern, and raises implications for scalability for successful ventures (Arora & Romijn, 2009).

Many of the criticisms that have been mentioned stem from the same issue, namely the plausibility of BOP2G implementation in terms of development practice. It has been widely acknowledged (and discussed earlier) that BOP literature has been geared towards businesses and not poverty alleviation. The focus on inclusive participatory engagement by BOP2G advocates is a pro-poor step, but specificity about how the poor will be affected has remained relatively lacking in the literature. The endemic challenges of development ventures need to be acknowledged in the BOP2G proposition in order for it to be considered as a serious poverty alleviation strategy. London (2008) made a large step towards addressing this deficit in BOP2G literature with the BOPIAF that was mentioned earlier. This goes some way in bringing the poverty alleviation aspect of BOP ventures to the fore, the extent of which this paper will examine. Indeed, this paper will provide an assessment of how the BOP2G perspective (based on a few key documents) stacks up to facing development challenges using a framework that is suited to enabling a systemic analysis of the BOP2G model.

2.5 A pro-poor development assessment framework PPDAF

The elements that comprise the PPDAF (developed and used in this paper to evaluate the BOP2G perspective) provide a far more rounded approach to measuring progress, as opposed to a reductionist income-based approach (Ashley & Carney, 1999). London and Hart (2011) claim a central facet of the BOP2G domain is providing solutions to environmental and social problems whilst still creating economic returns. One of the strengths of the proposed framework is its focus on these various issues, reflected in the five livelihood assets borrowed from the SLF – human, natural, financial, social and physical capital (DFID, 1999). The overt acknowledgment of the multiplicity of issues surrounding development make these livelihood assets ideal in judging an approach such as BOP2G, which actively seeks to move away from being income-oriented (Krantz, 2001). Additionally, the PPDAF emphasizes the importance of participatory methods in development processes, further increasing its suitability as a framework for this paper, considering the central importance of participation in BOP2G approaches (Norton & Foster, 2001). Finally, the emphasis the PPDAF places on environmental, economic, social and institutional sustainability make it an ideal basis to judge these ventures, for which sustainability is a key consideration (Simanis & Hart, 2008a).

Important factors included in the PPDAF (which are absent from the five asset types in the SLF) that are particularly relevant to BOP2G approaches involve issues regarding power and gender relations (Krantz, 2001; Norton & Foster, 2001). The PPDAF also assesses the empowerment of the poor in challenging entrenched power structures and wresting control over their livelihoods. These indicators will be incorporated into the PPDAF through social capital and the introduction of a new form of capital, called "political capital".

The following framework has six different dimensions defined as forms of capital. The fulfillment of each of these dimensions will be based upon how well a venture measures up to pre-defined indicators, which are discussed below. In addition to the different forms of capital, the framework will include a vulnerability context and the effect of structures and processes on BOP2G ventures and the poor.

Human capital

Some of the relevant indicators suggested by DFID (1999) include the ability to work, and having good health, knowledge and skills. It is important to measure whether a development enterprise seeking to engage with the poor on an equal footing has mechanisms ready to ensure the poor have the capacity to act as equal partners. Whether the poor are being adequately educated and trained become significant considerations in this light.

Natural capital

BOP2G ventures involving the poor would most likely be done in places local to BOP markets. Environmental sustainability is a critical outcome for these initiatives, particularly considering the vital importance of natural resources to poor communities (Norton & Foster, 2001). Environmental degradation compromises the long-term productivity of natural assets, and can limit livelihood options, particularly to those who are not directly involved in a BOP2G business. Looking beyond the concerns of limiting livelihoods and reducing productivity, negative externalities such as pollution could pose health risks.

Financial capital
A central idea behind the BOP2G domain is the co-creation of businesses. The proceeds behind these businesses should be distributed in an equitable way, to ensure BOP co-creators are not taken advantage of. Side-effects of opening up a BOP2G venture also need to be considered - for instance a new venture could adversely affect livelihoods by putting local merchants out of business. Additionally, the product or service being developed by the BOP2G business should be affordable to local community members in order to positively impact the community at large as consumers, and not only those involved in business co-creation.

Social capital
Engaging local communities as part of a BOP2G enterprise could prove to be disruptive on a community and household level. Gender equality in terms of engaging with the poor is an important pursuit. However, a strategy such as employing only women could have a negative impact on the relations between women and their spouses, which could affect the functioning of the community. In addition, there is the danger of elite capture when it comes to working with private sector firms. Prominent members of the local community could stand to gain all the benefits of a BOP2G venture, at the expense of marginalized people who are rendered voiceless. Community-wide acceptance of a BOP2G venture is critical in legitimizing the creation of a BOP2G enterprise within a local space.

Any BOP2G venture should also be aware of the limits behind participatory engagements and work to mitigate them. For instance, they can exclude women due to socio-cultural obstacles and because of practical constraints – for example, if participatory workshops were held at times inconvenient for the attendance of women (Krantz, 2001). These events may also be dominated by local elites, which could cause some participants to feel reluctance in voicing their opinions (ibid.).

Physical capital
Many local communities targeted by BOP2G businesses could have limited capacity in terms of infrastructure. Overextension of local infrastructure could be concern in these cases, where the arrival of a BOP2G venture could leave less water and energy for the local community (which could lead to a rise in the price of utilities), or even result in people losing their homes due to lack of space. It is also important for local partners engaged in business with the private sector to have the necessary tools, machinery and physical capital in general to successfully add value to the business.

Political capital
Although BOP2G businesses emphasize co-creation, they should remain cognizant of actually giving an equal voice to BOP co-creators. In this sense, equal power relations between stakeholders must be maintained by BOP2G ventures, to ensure there is no abuse of power by more influential stakeholders. Additionally, BOP2G businesses should be assessed on how well they empower local communities to take control over their livelihoods rather than remain beholden to extant power structures. It is important to determine how well BOP2G processes equip the poor in challenging structures of oppression that preserve the status quo, although this may amount to a conflict of interest for private companies.

Vulnerability context
The poor generally have little in the way of savings and other assets to deal with external shocks to their livelihoods. BOP2G initiatives involving the poor must consider the effects that seasonality, natural disasters and global economic changes might have on the business, and consequently on the local community members reliant on the business (DFID, 1999). This would require a rigorous examination of possible external shocks, and appropriate mitigation strategies.

Structures and processes
National policies at different levels of government could have significant repercussions for BOP2G ventures and for related BOP markets. Additionally, the actions and roles of institutions including local and national governments, NGOs, CSOs and multilateral institutions must be accounted for, as they could have an important bearing on development outcomes associated with BOP2G ventures (Carney, 2002). Finally, attention must be directed towards the processes that affect BOP2G initiatives including decision-making, local customs and language and whether they impact the livelihoods of the poor (ibid.).

Based on this analysis, the indicators chosen for this framework are presented in Table 2.1.

It must be noted, that even if BOP2G practices are discovered to be “pro-poor” from the following analysis, other factors must be considered before lauding it as a viable overall strategy, since profit-making is central to the proposition. This holistic evaluation of the BOP2G proposal will follow the analysis of whether BOP2G is “pro-poor”.

Table 2.1. Pro-poor development assessment framework PPDAF. Source: Own elaboration based on DFID, 1999.

Frame Elements	Indicators
Human capital	• Increase in education level of local community in terms of skills and knowledge • No adverse health effects stemming from BOP2G venture
Natural capital	• Sustained long-term productivity of natural resources • Limited environmental degradation and pollution
Financial capital	• Equitable distribution of proceeds from business • No negative side-effects of BOP2G venture in terms of local employment • Affordable cost of product or service for local community
Social capital	• Gender equality and sensitivity • Equal opportunities for all members of the community • Solidarity within community over participation in BOP2G venture • Mitigation of elite bias in participatory engagements
Physical capital	• Local community retains access to infrastructure and utilities at affordable cost • Availability of physical capital for local partners in BOP ventures
Political capital	• Maintenance of even power relations between stakeholders • Empowerment of local communities to challenge existing power structures
Vulnerability context	• Assessment of possible external shocks and formulation of appropriate mitigation strategies
Structure and processes	• Evaluation of national and local policy, institutional environment and processes that could affect BOP2G venture and local BOP community

NOTES TO CHAPTER 2

2. This phenomenon is known as the “poverty penalty” (Prahalad & Hammond, 2003).

3. Prahalad (2004) categorized people in the BOP as those living under $2 a day at 2002 US Dollar PPP rate.

3. How pro-poor is BOP2G?

3.1 Overview of analysis

The following chapter will use the framework that has been outlined in analyzing the BOP2G perspective. Although a considerable amount has been written about the BOP2G domain, this paper will focus on a few key texts that most extensively describe the methodological aspect of BOP2G, including its implications regarding poverty alleviation. These include papers regarding the BOP Protocol by Simanis and Hart (2008), the BOPIAF by London (2008), the BOP view on poverty alleviation by London (2007) and most recently a text on next generation business strategies for the BOP, for which London and Hart (2011) are the co-editors. The majority of the analysis will focus on the BOP Protocol and the BOPIAF. The BOP Protocol is the most direct illustration of what a practical implementation of a BOP2G initiative would entail, while the BOPIAF represents a systematic process for evaluating the impact of BOP2G ventures on local communities (London & Hart, 2011). The BOPIAF judges the impact of ventures on three local groups – buyers, sellers and the community. The effect on the well-being of each of these three groups is then judged based on three criteria - "economic", "capacity" and "relationship" (see Table 2) (ibid.).

3.2 Capital analysis

The BOP2G perspective does a strong job in promoting the **human capital** of local community members, by focusing on investments in local capacity building and ensuring local team members have the necessary business and management knowledge to be successful venture partners (London, 2007; Simanis & Hart, 2008). The BOPIAF allocates human capital a central role, with the capacity dimension of the framework capturing the impact on skills, knowledge, health, education for the entire community (London, 2008).

BOP2G has a more mixed attitude towards **natural capital**. On the plus side, environmentally sustainable strategies are advocated, the effect of environmental footprints is mentioned and the BOPIAF includes indicators on the relationship between the community and natural environment (London, 2008). However the BOP Protocol fails to suggest mitigation strategies for environmental degradation caused by ventures, and seems to promote environmentally sustainable development primarily for "trickled up" corporate benefits (London & Hart, 2011).

On the **financial capital** side, BOP2G fails to address the equitable distribution of business proceeds, which is a crucial concern considering the co-creating role of local members (London, 2008). It also has no mechanism to ensure the BOP2G offering developed will be affordable to the local community, which could risk alienating the "consumer" members of the community. However, the BOPIAF does include stable income and affordable goods as indicators, and measures the effect of ventures on local businesses and livelihoods (ibid.).

Many aspects of the BOP2G domain heavily promote **social capital**, highlighting household roles and relationships, access to economic opportunities, and the effect of ventures on marginalized groups including women and minorities (London, 2008). However, the BOP perspective has oversights regarding the even conferral of benefits across the local community, involving potentially biased recruitment processes and the exclusion of marginalized groups using participatory processes through elite capture.

The BOP2G domain has very little mention of the relationship between ventures, the local community and **physical capital.** Concerns regarding local infrastructure and the use of finite resources such as energy and water remain largely unaddressed, and the capacity in which corporate-owned physical capital would be available to local community members is not articulated in BOP2G literature (London, 2008). However, the BOP Protocol implies there will be equal control over all aspects of the business between local team members and corporate team members (ibid.).

For **political capital,** the BOPIAF adequately captures the dependencies and relationships between stakeholders in BOP2G ventures (London, 2008). However, doubts remain over how equal relationships would be established between corporations and the poor, and also over the level of involvement for local community members involved in the "co-creation" process (London, 2007). Nevertheless, the BOP Protocol claims to have local community members becoming venture co-founders on a full-time basis after the initial business development phase, underlining the commitment that BOP2G theoretically has towards making the poor equal partners (Simanis & Hart, 2008). The BOP2G domain does less well in empowering local communities to challenge existing power structures, aiming to absorb the poor into the dominant power structure by including them in the creation of BOP2G businesses, rather than encouraging bottom-up innovation directly from the poor.

3.3 Vulnerability context analysis

Local communities targeted by corporations as potential partners in BOP2G ventures will generally not have the means to comfortably deal with external shocks to their livelihoods. The BOP Protocol encourages organizing a project team so that an insurance mechanism is in place to safeguard against financial contingencies for local team members (Simanis & Hart, 2008). It also calls for revenue targets to be set to ensure local team members have a baseline level of income that would not disrupt their livelihoods (ibid.). London and Hart (2011) argue that implementation pilots for BOP2G projects should not have local partners risking significant investments without establishing safety nets. The BOPIAF sees the vulnerability of community members to economic and household shocks as something ventures

Table 3.1. BOP Impact assessment framework. Source: London, 2008, p.22.

	Seller (local distributor or producer)	Buyer (local consumer or agent)	Community
Economic	• +/- income (profit/ loss) from business activities • +/- income stability +/- prices received for output or cost of inputs • +/- access to credit and debt incurred • +/- savings and other assets • +/- vulnerability to economic or household shocks	• +/- income (profit/ loss) from business activities • +/- income stability • +/- economic consumer surplus (e.g. changes in • affordability, access to goods/services) • +/- productivity of livelihood activities • +/- access to credit and debt incurred • +/- savings and other assets • +/- vulnerability to economic or household shocks	• +/- income of existing businesses as a result of competition • +/- number/type of businesses choosing to serve the community • +/- economically valuable infrastructure (e.g. power sources, roads, or transportation options) • +/- economically valuable common assets (e.g. land quality or fishery levels) • +/- access to economic opportunities
Capacity	• +/- skills, knowledge, and education • +/- decision making ability • +/- health as a result of involvement with venture or use of product/service • +/- self-confidence, self-respect, and sense of dignity • +/- aspirations and goals for the future	• +/- skills, knowledge, and education • +/- decision making ability • +/- health as a result of involvement with venture or use of product/service • +/- self-confidence, self-respect, and sense of dignity • +/- aspirations and goals for the future	• +/- access to free information and educational opportunities • +/- health-related common assets (e.g. water access and quality) • +/- community's sense of dignity and respect • +/- aspirations of specific community groups, including women and minorities
Relational	• +/- access to individuals and networks • +/- relationship and • bargaining power with buyers • +/- dependence on intermediary and partner organizations • +/- reputation, level trusted, and respect • +/- household roles and relationships • +/- social status (e.g. local political leadership)	• +/- access to individuals and networks • +/- relationship and bargaining power with sellers • +/- dependence on intermediary and partner • organizations • +/- reputation, level trusted, and respect • +/- household roles and relationships • +/- social status (e.g. local political leadership)	• +/- community's relationship with government and nonprofits • +/- gender equity or views about castes, races, or religions • +/- social cohesion • +/- values (e.g. consumerism • or views about "western" culture) • +/- community's relationship with the natural environment (e.g. protection of ecosystems)

should assess (London, 2008). External shocks (for instance, economic, health-related, or crop-related) can have terrible consequences for the poor, and their effect can be exacerbated by the involvement of capital investment since the poor would have more to lose. This makes an adequate contingency plan important in preventing local community members invested in a BOP2G venture from struggling. Fortunately, the BOP2G domain does an adequate job of incorporating risk mitigation and awareness in its overall strategy for working with the poor.

3.4 Structures and processes analysis

Institutional structures are of paramount importance in shaping livelihoods, making the relationship between these institutions and any BOP2G initiative crucial (DFID, 1999). The BOPIAF does include the relationships between local communities, governments and non-profits as something to consider – but there is little else regarding the role of the government in a BOP2G venture (London, 2008). The absence of any extended literature or research on the role of governments presents an important gap in the BOP2G perspective that shall be discussed in greater detail later. However, the role of local partners such as community-based organizations (CBOs) is recognized in BOP2G literature, as the BOP Protocol looks to leverage the local expertise and facilitating capabilities of these groups in establishing relationships between corporations and local communities (Simanis & Hart, 2008). On the other hand, BOP2G literature does not seem overly concerned with the presence of private sector businesses to complement local ventures. The BOP Protocol suggests that local businesses can be created with the help of BOP2G project teams, which would contribute to positive outcomes for the local community, including increased employment and higher incomes for producers, and access to a wider range of products and services for consumers (ibid.).

The BOP2G perspective heavily emphasizes engaging with local communities in locally-oriented processes that are meant to be culturally sensitive (Simanis & Hart, 2008). The use of language appropriate to the local community is important in BOP2G project activities that involve community members (ibid.). Furthermore, the entire process of immersion in local communities suggested by the BOP Protocol is meant to promote a culturally sensitive enterprise creation process between community members and corporate team members. What the BOP2G domain lacks in terms of processes revolves around the impact that national and local policies could have on BOP2G ventures and local communities. Awareness over relevant legislation and policy surrounding a BOP venture could prevent external shocks, as well as present synergistic venture opportunities.

3.5 Overall picture of analysis

The preceding analysis focused on the poverty alleviation implications of the BOP2G proposition, in order to explore how the pro-poor rhetoric held up under close scrutiny from a development standpoint. Judging by the ideas and methodology presented in the examined texts, the BOP2G perspective does an adequate job of considering the impact of BOP2G ventures on the poor. However, this conclusion is based on analyzing an amalgamation of different pieces of BOP2G literature, as no single work adequately captures the multi-dimensional impact that ventures could have on local communities.

The BOP2G domain does a particularly strong job in promoting the human capital of local community members, in addition to acknowledging the vulnerabilities a venture could pose towards their livelihoods. In terms of financial and social capital, it provides a reasonable set of metrics to assess the impact of ventures, although it should provide a better articulation of how proceeds are distributed between corporations and locals and also be more aware of the problems with participatory processes. It should also ensure the venture is creating an offering that can be afforded by the local community to ensure the positive effects are not focused only towards those directly involved with the enterprise. BOP2G attitude towards natural capital is relatively mixed, while it does a weak job in identifying the effect of ventures on physical capital. For political capital, BOP2G scores well by promoting equality between different stakeholders and the poor, although it is unclear how the rhetoric translates into tangible action. It does less well in empowering the poor to challenge oppressive power structures, as this could lead to a conflict of interest. Although the BOP2G domain acknowledges the effect of some institutions (local partners) on poverty alleviation outcomes, more research on working with the government and other private sector firms is necessary. Finally, BOP2G methodology places strong emphasis on working with processes that do not alienate the poor, although a greater recognition of the effects of national and local policy on BOP2G ventures and the poor is recommended.

Table 3.2. Outcomes for pro-poor development assessment framework. Source: Own elaboration based on DFID, 1999

	Indicators	BOP2G Perspective Assessment
Human capital	• increase in education level of local community in terms of skills and knowledge • no adverse health effects stemming from bop2g venture	• + emphasizes business and project management knowledge and skill building • + promotes community-wide improvement in service provision capacity
Natural capital	• sustained long-term productivity of natural resources • limited environmental degradation and pollution	• + measures effect of venture on natural environment • - primarily corporate interest in environmentally friendly ventures
Financial capital	• equitable distribution of proceeds from business • no negative side-effects of bop2g venture in terms of local employment • affordable cost of product or service for local community	• + values stable income and affordable products • + recognition of impact on local livelihoods • - potentially inequitable distribution of benefits from venture
Social capital	• gender equality and sensitivity • equal opportunities for all members of the community • solidarity within community over participation in bop2g venture • mitigation of elite bias in participatory engagements	• + community-wide access to economic opportunities • + sensitive to gender issues and household dynamics • - no process to gauge support of bop2g venture across whole community • - vulnerable to problems associated with participatory processes
Physical capital	• local community retains access to infrastructure and utilities at affordable cost • availability of physical capital for local partners in bop ventures	• + measures impact on economically valuable infrastructure • - unspecified relationship between physical capital, venture and local community
Political capital	• maintenance of even power relations between stakeholders • empowerment of local communities to challenge existing power structures	• + promotes equal relationship between corporations and the poor • - little empowerment beyond being absorbed into corporate structure
Vulnerability context	• assessment of possible external shocks and formulation of appropriate mitigation strategies	• + adequate risk mitigation and awareness for locals involved in bop2g ventures
Structure and processes	• evaluation of national and local policy, institutional environment and processes that could affect bop2g venture and local bop community	• + recognition of local partner institutions • + emphasis on using processes that the poor are comfortable with • - lack of acknowledgement regarding role of government and private sector • - insufficient focus on impact of national and local policies

4. The BOP2G perspective is pro-poor – So what?

Based on the analysis conducted, it would be reasonable to concede that on a theoretical level, the BOP2G perspective fulfills a substantial amount of development-related criteria. However, to be judged as an effective strategy that is worth adopting by global corporations it needs to offer much more. Evaluating the BOP2G perspective from a broader angle, beyond its theoretical "pro-poorness", points to some major concerns. First, there is a worrying lack of specificity regarding the implementation of BOP2G practices, despite how methodologically robust the BOP Protocol aims to be. More crucially, this paper argues that overall the BOP2G proposition is an unattractive profit-making strategy for corporations. The suggested investment of time and resources is arguably too great and too risky to justify adhering to the BOP2G perspective. It also seems to severely underestimate the difficulty of both working in developing markets, and the transferability of BOP ventures across different communities, let alone countries. Moreover, the importance of governments in both BOP2G strategies and development in general is ignored, although it can be argued that governments hold the key to poverty alleviation (Karnani, 2009).

4.1 Is BOP2G worth the trouble?

Implementation issues

As discussed earlier, the BOP2G domain provides a satisfactory checklist of practices that are beneficial to local communities. Hence, the issue lies not in the intent of BOP2G, but in the details of how this vision is to be carried out by private companies. For instance, there is no mention of how any effect on the natural environment or physical infrastructure would be measured, or how a venture would engage women and other marginalized groups. BOP2G ideas stress having equal relations between local and corporate team members, but contribute little else beyond the expression of this ideal. The BOP Protocol explicitly mentions training local community team members, but is vague about building local capacity for members of the broader community (Simanis & Hart, 2008). Indeed, many of the benefits conferred to community members outside of the venture come across as "trickle-down" benefits, implying the mere presence of a BOP2G business would be enough to improve livelihoods for locals. In addition, there seems to be very little monitoring and oversight over the operation of BOP2G ventures beyond the initial stage where local partners act as intermediaries between corporate and local team members. It would make sense for a local CSO or NGO to track the progress of a BOP2G venture to ensure local community members are not taken advantage of, particularly in terms of dividing profits from a business. In fact, without some external actor acting as a regulatory force, the pro-poor motives of the BOPIAF and BOP Protocol would potentially be non-factors, as there would be no one to enforce the BOP2G mandate.

Issues with working in developing countries

The potential obstacles to operating a successful BOP2G business in a developing country are manifold – poor infrastructure and distribution channels, corruption, unskilled labor, illiteracy, fragile legal frameworks, cultural barriers and sometimes violent conflict (Anderson & Billou, 2007; Sprague, 2008). Moreover, the BOP2G perspective focuses on creating businesses that are tailored by people from a particular community – there is no guarantee that such a locally-tailored business would succeed if transferred to different regions (Khanna, Palepu & Sinha, 2005).Considering the significant investment that is required to develop a BOP2G venture, this is a major concern.

A large investment of time and money – For what?

The BOP Protocol suggests the entire co-creation process for a venture will take roughly two years, from the pre-process through the completion of the "enterprise creation" phase (Simanis & Hart, 2008). The time investment of two years, coupled with the investment of capital and human resources over the same period, with no guarantee of success, appears questionable from a business perspective. Despite this, there are reasons corporations would want to develop BOP2G businesses, the most practical of which are the prospective windfalls to be gained by building brand recognition, and the competitive advantages obtained by accumulating knowledge about a future consumer base. The idea that a BOP consumer of today could be a middle-income consumer in the future (with a much higher disposable income) represents reasonable long-term rationale for marketing to the BOP. However, it is not necessary to rigidly follow the BOP2G vision to reap the benefits of brand recognition and gain increased knowledge about potential markets. What then, incentivizes corporations to adopt BOP2G strategies?

How BOP2G is attractive to corporations

It can be argued that the BOP2G proposition sacrifices business expediency in order to appear more acceptable from a development perspective. However, the idea behind incorporating the poor in business ventures is more nuanced. Although poverty alleviation is an essential feature of the BOP2G proposition, advocates have been vocal in asserting that local communities are essential towards developing successful BOP businesses – London (2007, p.25) claims "the greater the ability of the venture to meet the needs of the poor, the greater the economic return to the venture". Hence, there appears to be a genuine commitment to creating mutual value, stemming from the idea that it would profit corporate interests by helping the poor. The logic behind being societally beneficial is therefore more cynical than helping the poor in the name of philanthropy. In fact, London (2007, p.23) goes on to argue that the long term success of a venture is reliant on partnerships forged with local organizations, and that these partnerships will only "remain viable if the BOP hypothesis of mutual value creation holds". By this rationale, the creation of societal value is important in gaining the competitive advantages associated with having local partners, once again highlighting the underlying business interests in helping the poor.

BOP2G ventures are unviable profit-making initiatives

There is very little evidence to support the hypothesis that helping the poor will help generate profits, which is a fundamental reason to be skeptical about the BOP2G proposition. In the words of a leading BOP2G advocate, it is "a hypothesis that requires more comprehensive testing to better understand the interactions and boundary conditions in the relationship between profits and poverty alleviation" (London, 2007, p.31). This uncertainty over the return on BOP2G investments diminishes claims of it being a viable strategy for corporations, as "corporate actors may not wish to take on such risk" (Cooney & Shanks, 2010, p.49).

Instead of being seen as dependable profit-making initiatives, BOP2G ventures are better off being viewed as incubators for corporate ideas to engage with poorer markets, or as replacements for unsustainable corporate social responsibility (CSR) schemes. The initial commitment of time that is needed to co-create a BOP2G business can be mutually frustrating for companies as well as local business partners who are required to suspend other activities that could earn them income while focusing on a BOP2G venture (Cooney & Shanks, 2010). However, by treating BOP2G investments as part of a research and development strategy, corporations can give these ideas the time needed to mature into fully realized ventures without the burden of having to be profitable. In fact, the disruptive technologies and strategies that can be discovered and refined when working in a "bottom-up" manner are perhaps the most important potential upside from BOP2G investments, rather than instant profitability. If MNCs are interested in making profits within a shorter timeframe, they are better off targeting markets slightly more affluent than the BOP, rather than working with the poorest members of society in building businesses (Warnholz, 2007). In sum, BOP2G strategies are not the most expedient in terms of generating profits.

What about the government?

Ultimately, there are better, more practical alternatives to BOP2G strategies in combating poverty. It is unrealistic to expect too much from any business-oriented poverty alleviation endeavor – issues such as "workers' rights, environmental protection, community reinvestment and long term investments are better dealt with by governments (Newell & Frynas, 2007). Karnani (2009, p.11) argues that the BOP proposition "detracts from the imperative to correct the failure of the government to fulfill its traditional and accepted functions such as public safety, basic education, public health, and infrastructure", and that "there is no alternative viable mechanism for achieving these results". Considering the importance of government, it is surprising that very little has been written about the role of the state in BOP2G ventures. London and Hart (2011) have noted this and identified some ways in which the state can assist BOP2G businesses. Support could involve lower regulatory barriers towards enterprise creation, targeted financial assistance to improve access to crucial products for consumers, and offering below-market-rate funding and smart subsidies for companies developing BOP2G businesses (London & Hart, 2011). However, adequate research on this topic has been lacking, which London and Hart (2011, p.223) readily concede, as they say "given their potential to accelerate poverty alleviation and sustainable development, the role of government and donors in catalyzing BOP business is thus a topic that deserves extensive future consideration". What follows is an exploration of an alternative BOP paradigm that places the state at the forefront of BOP development ventures.

4.2 Using BOP strategies for development policy: BOP3G

This paper argues that the BOP2G blueprint is unlikely to achieve the level of profits and poverty alleviation targeted by its advocates. The seductive notion that profits and poverty alleviation can both be achieved without significant compromise on either side is misleading, and at best, unproven. The issue with BOP2G is that it fails to acknowledge the intrinsic trade-off between profits and poverty alleviation – real advances in poverty reduction for the poorest people requires a focus on achieving social results that will often impede profitability.

Despite this, the BOP proposition remains compelling. There is strong evidence that economic growth is necessary, albeit insufficient, for poverty reduction, and profit-motive driven capitalism remains the most effective system in generating growth. The use of market processes to combat poverty is validated in this relationship between economic growth and poverty alleviation, as greater growth will lift more people out of poverty. However, a distributive imbalance of prosperity will remain as long as BOP processes are driven by corporations. This dominant private-sector driven approach of BOP2G can conceivably be altered to create a new generation of BOP ideology, henceforth referred to as third generation BOP (BOP3G). BOP3G would not represent a fundamental change from BOP2G in an operational sense. Instead, it would involve shifting the onus of implementation from the private sector to governments, donors and NGOs. In addition, it would change the key targeted outcome from private-sector profit to sustainable development. Instead of focusing on profits and being implemented by corporations, BOP3G can be used by the public sphere to promote development by harnessing market mechanisms.

The general idea behind BOP2G strategies, of including the poor in wealth creation and making them important stakeholders and collaborators in businesses, has undoubted merit. This paper has not criticized the strategy of using the dynamism of market forces to lift people out of poverty. Rather, it has analyzed BOP2G and concluded that its implementation is misguided, and its objectives are unrealistic, stemming from the inherent incompatibility of making profits and reducing poverty. By switching the implementing institutions and adjusting targeted outcomes of BOP2G, BOP3G can rectify the shortcomings of its predecessor and establish itself as a hugely viable private sector development policy. It would unleash the immense potential of a market-oriented approach to development by offsetting capitalism's rigid focus on capital accumulation with the social awareness and redistributive hand of the public sector. Hence by changing the application of BOP strategy on an ideological level, BOP3G can fulfill the promise of the BOP proposition.

5. Conclusion

The BOP2G proposition sacrifices business expediency for fulfilling development related criteria under the untested hypothesis that benefiting the poor will benefit corporations. In reality, it is better off leaving poverty alleviation work to governments and NGOs, or should at least work with these entities in developing poverty alleviation schemes, establishing what this paper has defined as a next generation of BOP strategy - 'BOP3G'. Ultimately, although there is merit to the idea of BOP2G in working with the poor to create mutual value, the ambition of this vision needs to be scaled down or reconfigured to match the probable outcomes.

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