

Are poverty alleviation and private sector development at opposite ends of the ‘development spectrum’?

Alvaro Valverde

MA Globalisation and Development

Institute of Development Studies, University of Sussex

1. Introduction

The private sector has been one of the key drivers of economic growth in the last century. In a continuously evolving and interconnected world, business and technological advances have spread across the global markets. As a result, certain countries have benefited from rapid economic growth while others have remained stagnant. In the same way social and economic inequalities within countries have increased. Acknowledging the potential of the private sector to promote economic growth and social benefits like the creation of jobs and entrepreneurial opportunities, it is clear that the private sector could improve its contribution to development and poverty reduction. The location of the private sector and of poverty alleviation in the ‘development spectrum’ depends on how business and the ways of doing business are understood. My personal belief is that the private sector and poverty alleviation can and should be positioned side by side in the centre of the ‘development spectrum’. Supporting this idea, this paper will describe some ways in which profit-maximizing business can be engaged in poverty alleviation and it will analyse social business as a good alternative or complement to conventional business. Afterwards it will present different motivations for and benefits from engaging the private sector in poverty reduction. To conclude it will study the successful case of

Grameen Phone, a joint venture between a profit-maximising business and a social business with a direct impact in development and poverty reduction.

2. Engaging the Private Sector in Development and Poverty Alleviation

There are two ways in which the private sector can engage in development: passively and actively (Christian Aid: 2009). The passive approach is based on the positive social effects of businesses as the result of the engagement in profit increasing activities (Friedman: 1970), these positive effects are valuable but they are not enough to alleviate poverty. The other approach is the active role of the private sector, which recognizes the social responsibility of business and reinforces the idea that ‘it is possible to do well by doing good’ (Prahalad: 2005). There are different ways in which the active role of business can be achieved. This section will discuss some them, and in this way will create an analytical framework for the study of social businesses, which will help to understand better the case study of Grameen Phone.

The bottom of the pyramid (BoP) approach was first introduced by Prahalad, and argued that business should change its mindset and recognize the poor as value conscious, resilient and creative entrepreneurs (2005). If this change takes place the private sector would have access to a four billion-person market situated at the bottom of the economic pyramid. The result of this engagement would be a win-win situation, where the poor would be actively engaged and business could increase profits by providing them with products and services (Prahalad: 2005). This approach has received some critiques arguing that the case studies used to support this theory did not involve poor consumers and that it failed to produce sustainable incomes (Edwards: 2008). Furthermore, as the BoP is a consumer driven approach its effects on increased economic facilities are limited (Raufflet et al.: 2008). Moreover, not only by transforming

the poor into consumers, business can help to reduce the fundamental problems of poverty.

This idea has been examined and reconsidered by Simanis and Hart in the Base of the Pyramid Protocol (2008), where some of the failures of the first BoP approach are highlighted and an alternative and improved conception of the BoP is proposed. The BoP 2.0 is based on the idea of co-invention and business co-creation, reinforcing in this way the importance of creating long-lasting mutual value and establishing the foundation for long-term corporate growth and innovation. The role of the poor is conceived as both business partner and consumer instead of solely consumer. The main challenge of this approach is the need to create a replicable and transferrable business model that justifies the initial investment of capital and time of the corporation (Simanis and Hart: 2008).

Value Chains (VC) interventions are increasingly being considered essential for promoting poverty reduction through business (Humphrey and Navas-Alemán: 2010). The main argument for VC interventions is that they connect private sector, donors, economic growth, and poverty reduction. By focusing on the VC, the issues affecting the performance of the chain as a whole can be identified and solved, making the relationship between actors within the chain more effective. Nevertheless these kinds of interventions present some doubts about their effectiveness in poverty reduction because their main focus is not on poverty reduction, there is a lack of evidence generated. VC interventions should target better poverty reduction instead of focusing on protecting those activities undertaken by the poor (Humphrey and Navas-Alemán: 2010).

Making Markets Work for the Poor is a different approach that focuses on improving the effectiveness and sustainability of the market's role in poverty alleviation and pursues the increase of market participation by the poor (DFID and SDC: 2008). It

supports the idea that markets are the main link between growth in the economy and the lives of the poor. As proposed by the Commission on the Private Sector & Development of UNDP, a set of simultaneous actions in the private sphere, public sphere and public-private sphere need to take place (2004). Nevertheless, the range of interventions in this approach is broad, as it covers basic services to business development and VC (Humphrey and Navas-Alemán: 2010).

Social entrepreneurship creates a new model for the provision of products and services that address those basic human needs that remain unsatisfied by current economic or social institutions (Seelos and Mair: 2004). A subset of social entrepreneurship is social business and it can be defined as ‘a company that is cause-driven rather than profit-driven, with the potential to act as a change agent for the world’ (Yunus: 2008). Yunus argues that social business is organized in the same way as profit making business, but their underlying objective and evaluation process is based on creating social benefits for those whose lives it touches. In the same way social business differs from charity because social business has to operate without incurring losses and recover its costs while achieving its social objective, it is also independent from donor agencies and governments (2008). Nevertheless, these initiatives face difficulties when operated large-scale and while blending the social and financial bottom lines (Edwards: 2008).

Social business is a good example of how the private sector and poverty alleviation can be situated side by side in the middle of the ‘development spectrum’. The idea of social business offers an absolutely new conception of what is known as business. It provides investors and businesspeople with an opportunity to engage in social activities without incurring losses of money, while at the same time having the opportunity to reinvest it in new social business and getting personal satisfaction only comparable with

philanthropy. Social business is conceived in two different ways, like companies focused on providing social benefits that directly address poverty alleviation or like profit maximizing business owned by the poor or disadvantaged (Yunus: 2008). In these two kinds of social business there is a clear connection with poverty alleviation.

3. Reasons for the Private Sector to Engage in Poverty Alleviation

For a long time motivations for and benefits from engaging the private sector in poverty alleviation have remained unperceived. Ideas like ‘the poor cannot afford our products or services’ or ‘the BoP market is not critical for long-term growth and vitality of multinational companies’ have prevailed (Prahalad: 2005). However in the increasingly interconnected, rapid growing and changing global market, this idea cannot remain invariable in the minds of the actors of the private sector.

Most enterprises benefit from operating in stable societies, by having access to a healthy and competent workforce, consumers, and investors. By not engaging in poverty reduction the private sector incurs additional costs and risks of doing business, such as inequality, security, personnel or operational costs, and sources of conflict (Nelson and Prescott: 2008). Consequently those enterprises that understand these implications and decide to engage in poverty alleviation have the opportunity to improve their risk and reputation management, reduce their costs and even enhance their productivity.

The poorest two thirds of the world’s population represent a major source of suppliers and employees with the necessary creativity, flexibility, and agility to operate profitably in emerging countries. Some of the most successful companies in the world base their success in their innovation capacity and recognise that many developing countries offer long-term business opportunities (Nelson and Prescott: 2008). By

engaging with the poorest two thirds of the world's population, business can benefit from innovative and resilient customers, employees, and suppliers. Innovation and resiliency are necessary qualities that business must have in order to succeed in the challenging markets of the BoP. Prahalad explains that many local innovations can be replicated in other BoP markets, in this way creating a global opportunity for local innovations and some of which are also applicable to developed markets (2005).

The BoP represents an approximate four billion-person 'latent market' for goods and services, offering a new growth opportunity for the private sector (Prahalad: 2005). The annual income of the BoP is US\$ 2.3 trillion and has grown at 8% in recent years, representing a fast growing consumer market with an underutilized productive sector and great entrepreneurial potential (WEF: 2009). Engaging with the BoP as consumers, producers, and entrepreneurs appears to be a necessary step for reducing poverty and promoting broader economic growth.

When analysing VC interventions, the benefits and motivations vary depending on the type of intervention used. In the case of lead firm interventions, TNCs benefit from supply localisation of cost effective SMEs, from meeting commitments with governments on localisation and economic impact, and from branding image and CSR. In the case of chain linkage interventions, by increasing the linkages between producers and markets, the benefits of market oriented production can be increased and the whole chain can be more productive as the result of the improved relations and knowledge transfer (Humphrey and Navas-Alemán: 2010).

The social business approach offers an opportunity to those businesspeople whose expectations go beyond simply bringing money to increasing their own business skills and creativity to solve social problems (Yunus: 2008). Yunus argues that those who enrol in a social business get their investment back and still remain owners of the company,

finding themselves in the privileged position of deciding their future course of action, like starting a new social business (2008). In this way the owner of the social business gets the satisfaction of having created a self-sustainable, self-propelled, self-perpetuating and self-expanding organization, that keeps growing while increasing the social benefits of the invested and recovered money.

4. Case Study: Grameen Phone

The Nobel Peace Prize Laureate Prof. Muhammad Yunus founded the Grameen Bank in 1976 with the goal of designing a credit delivery system to provide the rural poor in Bangladesh with banking services. Grameen Bank has promoted during the last thirty years the creation of a great number of social businesses, ranging from agriculture or fisheries to energy business or health care (Yunus: 2005). One of the most successful social business ventures supported by Grameen Bank is Grameen Phone, which crossed the 23 million-subscriber mark in December 2009, having the biggest share of the mobile market in Bangladesh (Grameen Phone: 2009).

In 1997 Grameen Bank started a joint venture with Telenor, a state-owned Norwegian company, that led to the formation of two separate organizations: a for-profit telecom operator called Grameen Phone and a not-for-profit company called Grameen Telecom which runs the Village Phone Program (OECD: 2004). The current shareholding structure of Grameen Phone is divided in the following way: Telenor Mobile Communications owns 55.80% of the shares, Grameen Telecom owns 34.20% and the general public and other institutions the remaining 10.00% (Grameen Phone: 2009).

The basic idea of the Village Phone Program is to provide modern communication

services to the poor people in Bangladesh (Aminuzzaman: 2003). The way the program functions is simple; a Grameen Bank member, usually a woman (village phone ladies), borrows around US\$ 350 and obtains ownership of a mobile phone. After that she starts selling phone services to her fellow villagers and in this way she can make her living and repay the loan while giving telephone access to all the inhabitants of the village (OECD: 2004). Each village phone is under the custody of a village pay phone operator, who is also responsible for extending the telecommunication services to the surrounding villages; Grameen Phone provides the technical support needed for the program (Aminuzzaman: 2003).

There are different ways the program helps to reduce poverty in the areas it operates. A number of studies have concluded that the program is a profitable business for the village phone ladies, who can earn more that double the per capita income in Bangladesh (OECD: 2004). Yunus explains that those who have a phone can be surely out of poverty in a couple of years (2005). Furthermore, the program has a positive socio-economic impact on the entire community. The main impacts of the program are the reduction of transaction costs and uncertainty; as some activities can be done via mobile there is less need to incur transport expenses and better access to information reduces the uncertainty of taking decisions. Women benefit from having the opportunity to interact with a wider cross-section of people, including their family contacts and husbands living abroad as migrant workers, reducing in this way the sense of isolation they often face (Aminuzzaman: 2003). It is a fact that 'if the poor are empowered or enriched through phones, they can assert their own requirements and better meet their primary needs' (Grameen Phone: 1998). Additionally to the direct impacts of Grameen Phone in poverty alleviation, Professor Yunus' ultimate goal is to give the village phone ladies the opportunity to become not only users, but owners of Grameen Telecom (OECD: 2004). After analysing all these positive impacts, it can be concluded that there

is a clear link between the Village Phone Program and poverty alleviation.

Positive impacts can also be seen for Telenor as the result of this joint venture. In the early 1990's the Scandinavian market was saturated and Telenor did not have the human and financial capacity to enter big markets like China or India. The potential for growth laid in internationalisation and the opportunity to start a joint venture with Grameen Bank opened the door to the Bangladeshi market. Telenor stated in the 2001 Annual Report that 'the company's objective is not just financial, but also to contribute to the development of the country' (OECD: 2004). With the creation of Grameen Phone, Telenor was able to help the poor rural areas of Bangladesh while increasing its own profits. Serving the rural poor through Grameen Telecom has resulted in an increase in the middle class and in this way the main target group of Grameen Phone (Seelos and Mair: 2006). Furthermore, the fact that Grameen Telecom served rural areas made building country coverage one of the priorities of Grameen Phone, and this has been one of the main drivers of customer satisfaction, resulting in an increase in the market share.

The analysis of Grameen Phone provides a number of conclusions that help to address the title of this paper. There can be synergies between business objectives and poverty alleviation, as the former CEO of Telenor used to say: 'Good business is good development and good development is good business' (Seelos and Mair: 2006). The BoP is a big market and there are good reasons for the private sector to target it. The poor have purchasing power and with the combination of micro-credits and access to new technologies they can become active producers and consumers. Creative partnerships can produce efficient models, which can in turn expand infrastructure models beyond the most common profitable areas. These partnerships have the potential to create win-win situations (OECD: 2004). Social Business has the potential to help the poor to escape

from poverty and become the new middle class. This should be the motivation for conventional business to promote social business, because by doing so the private sector would be investing in the creation a future target group of customers that could boost their profits in the long term.

5. Conclusion

There is an overall consensus that the private sector is the main driver of the economy, but there are facts and opinions that differ about its role in development and poverty reduction. Assumptions like the poor's lack of purchasing power or the market at the BoP is not critical in the long-term have been insurmountable barriers for the private sector to perform well at the BoP. By not engaging in development and poverty reduction, the private sector incurs unnecessary and undesired risks and costs that can affect its future performance. This paper has described different motivations for the private sector to engage in poverty reduction. These motivations range from access to bigger markets that offer opportunities for income generation and innovation, to a bigger and deeper personal satisfaction for businesspeople. As well, this paper has analysed different ways in which conventional businesses can engage in poverty reduction, and social business as an alternative, result-oriented way of doing business. With the analysis of Grameen Phone this paper has shown that profit-oriented and result-oriented business can work together and have an effective impact in poverty reduction. Furthermore, the combination of micro-credits and access to new technologies has the potential to transform the poor into active producers and consumers.

The private sector and poverty reduction can and should be situated side by side in the centre of the 'development spectrum', because as the former CEO of Telenor used to say: 'Good business is good development and good development is good business'.

Bibliography

Aminuzzaman, S., Baldersheim, H. and Jamil, I. (2003), 'Talking back! Empowerment and mobile phones in rural Bangladesh: A study of the Village Phone Scheme of Grameen Bank', *Contemporary South Asia* 12 (3), 327-348, Carfax Publishing.

Christian Aid (2009), 'Getting Back on the Rails: The private Sector and Development', *Christian Aid Report October 2009*.

Commission on the Private Sector and Development (2004), *Unleashing Entrepreneurship: Making Business Work for the Poor*, UNDP.

DFID and SDC (2008), *Perspectives on the Making Markets Work for the Poor (M4P) Approach*, Swiss Agency for Development and Cooperation.

Edwards, M. (2008), *Small Change, Why Business Won't Save the World*, Berrett-Koehler Publishers, Inc.

Friedman, M. (September 13, 1970), 'The Social Responsibility of Business is to Increase its Profits', *The New York Times Magazine*.

Grameen Phone (1998), *Annual Report 1998*, Grameen Phone Ltd., Dhaka.

Grameen Phone (2009), *Annual Report 2009*, Grameen Phone Ltd., Dhaka.

Humphrey, J. and Navas-Alemán, L. (2010), 'Value Chains, Donor Interventions and Poverty Reduction: A Review of Donor Practice', *Research Report Vol 2010 No 63*, Institute of Development Studies.

Nelson, J. and Prescott, D. (2008), 'Business and the Millennium Development Goals: A Framework for Action', *International Business Leaders Forum*, UNDP.

OECD (2004), 'Grameen Phone Revisited: Investors Reach Out to the Poor', *DAC Journal 2004, Volume 5, No. 3*.

Prahalad, C.K. (2005), *The Fortune at the Bottom of the Pyramid*, Wharton School Publishing.

Raufflet, E., Berranger A. and Aguilar-Platas, A. (2008), 'Innovative Business Approaches and Poverty: Toward a First Evaluation', *Alleviating Poverty Through Business Strategy*, Palgrave Macmillan.

Simanis, E. and Hart, S. (2008), *The Base of the Pyramid Protocol: Toward Next Generation BoP Strategy*, Cornell University.

Seelos, C. and Mair, J. (2004), 'Social entrepreneurship: Creating new business models to serve the poor', *Business Horizons* 48, 241-246, Kelley School of Business, Indiana University.

Seelos, C. and Mair, J. (2006), 'Profitable Business Models and Market Creation in the Context of Deep Poverty: a Strategy View', *OP no 07/6*, IESE Business School, University of Navarra.

World Economic Forum (2009), *The Next Billions: Unleashing Business Potential in Untapped Markets*, World Economic Forum.

Yunus, M. (2005), 'Building social business ventures' (video recording), *Insights from Muhammad Yunus, founder of the Grameen Bank and Grameen Family of Companies, The social entrepreneurship series*, Ashoka's Global Academy, Ashoka: Innovators for the Public.

Yunus, M. (2008), 'Creating a world without poverty: Social business and the future of capitalism', *Global Urban Development, Volume 4, Issue 2*.