

**DESA Working Paper No. 80**

ST/ESA/2009/DWP/80

August 2009

## **The Bottom of the Pyramid Strategy for Reducing Poverty: A Failed Promise**

*Aneel Karnani*

---

### **Abstract**

The movement emphasizing free markets to reduce poverty has found strong expression in the ‘bottom of the pyramid’ approach in recent years. It views the poor as “resilient and creative entrepreneurs and value-conscious consumers”. This romanticized view of the poor harms the poor in two ways. First, it results in too little emphasis on legal, regulatory and social mechanisms to protect the poor who are vulnerable consumers. Second, it overemphasizes microcredit and underemphasizes fostering modern enterprises that would provide employment opportunities for the poor. More importantly, it grossly underemphasizes the critical role and responsibility of the state in poverty reduction.

JEL categories: O10 General (Economic Development), I30 General (Welfare and Poverty)

Keywords: Poverty reduction; bottom of pyramid; consumption choices; micro-entrepreneurs.

---

**Aneel Karnani** is Professor at the Ross School of Business, University of Michigan, Ann Arbor. Comments should be addressed by e-mail to the author: [akarnani@umich.edu](mailto:akarnani@umich.edu)

## Contents

The Poor as Value-Conscious Consumers .....	2
Empirical Evidence .....	2
Poverty and Alcohol .....	4
Whitening Cream .....	5
The Poor as an Attractive Market .....	6
The Poor as Entrepreneurs .....	7
BOP Proposition Under-emphasizes the Role of the State .....	8
Conclusion .....	9
Fortune or Mirage at the Bottom of the Pyramid (BOP)? .....	10
References .....	11

UN/DESA Working Papers are preliminary documents circulated in a limited number of copies and posted on the DESA website at <http://www.un.org/esa/desa/papers> to stimulate discussion and critical comment. The views and opinions expressed herein are those of the author and do not necessarily reflect those of the United Nations Secretariat. The designations and terminology employed may not conform to United Nations practice and do not imply the expression of any opinion whatsoever on the part of the Organization.

Typesetter: *Malgorzata Juszcak*

United Nations  
Department of Economic and Social Affairs  
2 United Nations Plaza, Room DC2-1428  
New York, N.Y. 10017, USA  
Tel: (1-212) 963-4761 • Fax: (1-212) 963-4444  
e-mail: [esa@un.org](mailto:esa@un.org)  
<http://www.un.org/esa/desa/papers>

## **The Bottom of the Pyramid Strategy for Reducing Poverty: A Failed Promise**

*Aneel Karnani*

A libertarian movement that emphasizes free markets to reduce poverty has grown strong in recent years. The think tank World Resources Institute advocates 'development through enterprise' and emphasizes business models driven by a profit motive that engage the poor as producers and consumers. The Private Sector Development network, part of the World Bank, focuses on private sector led growth in developing countries. CK Prahalad (2005), a prolific exponent of this perspective, argues that selling to the poor people at the 'bottom of the pyramid' (BOP) can simultaneously be profitable while helping eradicate poverty. The BOP proposition has caught the attention of senior executives and business academics. Many multinational companies (such as Unilever and SC Johnson) have undertaken BOP initiatives while some of the world's top CEOs have discussed this topic at recent sessions of the World Economic Forum. Several business schools (such as the University of Michigan and the University of North Carolina) have set up BOP centres.

This libertarian approach to reducing poverty necessarily assumes that the poor are fully capable and willing participants in the free market economy. Prahalad (2005) explicitly urges us, in the very first paragraph of his book, to recognize the poor as "resilient and creative entrepreneurs and value-conscious consumers". However, the rest of the book does not provide *any* empirical support for this assumption about the behaviour of the poor as consumers and as entrepreneurs. Having designated 2005 as the International Year of Microcredit, the United Nations declares on its website, "currently, micro-entrepreneurs use loans as small as \$100 to grow thriving business and, in turn, provide [for] their families, leading to strong and flourishing local economies." This is hype and the United Nations provides no empirical evidence to support its bold assertion.

I will argue that the view of the poor as "resilient and creative entrepreneurs and value-conscious consumers" is empirically false. This romanticized view of the poor does not help them, and actually harms the poor. First, it results in too little emphasis on legal, regulatory, and social mechanisms to protect the poor who are vulnerable consumers. Second, it results in overemphasis on micro-credit and under-emphasis on fostering modern enterprises that would provide employment opportunities for the poor. More importantly, the BOP proposition grossly under-emphasizes the critical role and responsibility of the state for poverty reduction.

This is not to advocate a return to states policies that have stifled economic growth. Contemporary economic history suggests that the market system is the best way to achieve overall growth and development. But that does not mean that there is no role for the state. Rajan and Zingales (2003, 293) persuasively argue that "markets cannot flourish without the very visible hand of the governments." There is a need to impose some limits on markets to prevent exploitation of the poor (Karnani, 2007b). Another vital role of the state is to provide basic services such as infrastructure, public health and education. Both these responsibilities of the state are even more critical in the context of poverty reduction.

## The Poor as Value-Conscious Consumers

The BOP proposition views the poor primarily as potential consumers i.e. as untapped purchasing power. Providing increased consumption choices to the poor will increase their welfare, assuming rational consumers. It is almost an “item of faith” among development economists that the poor act rationally (*The Economist*, 2007). Some civil society organizations have argued that targeting the poor as a market might cause them to wastefully spend part of their already meagre income on low priority products and services (for example, Clay, 2005: chapter 5). Hammond and Prahalad (2004) dismiss such arguments as patronizing and arrogant; how can anybody else decide what is best for the poor? The BOP proposition argues that the poor have the right to determine how they spend their limited income and are, in fact, value-conscious consumers; the poor themselves are the best judge of how to maximize their utility.

Only the expenditure patterns of the poor, and not their utility preferences, can be directly observed. The BOP proposition assumes—on ideological grounds, and without empirical evidence—that the poor must be maximizing their utility preferences, and that these preferences are congruent with the true self-interest of the poor. This is free market ideology taken to a dangerous extreme, and harms the poor. Even a stalwart proponent of neo-liberal policies like *The Economist* concludes that the poor do make choices, and the empirical evidence suggests that “they are not always the best ones” (*The Economist*, 2007). I will argue below that the assumption that the poor are value-conscious consumers is empirically false; additionally, it is morally problematic.

The poor, in fact, are vulnerable due to lack of education (often they are illiterate), lack of information, and other economic, cultural and social deprivations. A person’s utility preferences are malleable and shaped by his or her background and experience, especially if he or she is disadvantaged (Sen, 2000). It is not appropriate to assume that the poor’s expressed preferences are truly in their self-interest. We need to look beyond their expressed preferences and focus on people’s capabilities to choose the lives they have reason to value. Amartya Sen (2000: 63), the Nobel Prize winning economist, eloquently states:

“The deprived people tend to come to terms with their deprivation because of the sheer necessity of survival, and they may, as a result, lack the courage to demand any radical change, and may even adjust their desires and expectations to what they unambitiously see as feasible. The mental metric of pleasure or desire is just too malleable to be a firm guide to deprivation and disadvantage. ... Social and economic factors such as basic education, elementary health care, and secure employment are important not only in their own right, but also for the role they can play in giving people opportunity to approach the world with courage and freedom.”

## Empirical Evidence

Unfortunately, there are few micro-level studies on the purchasing behaviour of the poor. In an excellent survey of research on the consumption choices the poor make, Banerjee and Duflo (2007) show that the poor spend a “surprisingly large” fraction of their total income on alcohol, tobacco, and entertainment (whether televisions, weddings, or festivals). The poor enjoy such products as much as affluent people do, and maybe even more so, given their rather bleak lives of the poor. It is easy to rationalize any particular consumption choice of the poor. But, it is problematic that the poor do not spend enough on their own nutrition, health and education.

One survey of the poor in Udaipur in India found that 55 per cent of the adults were anaemic and that 65 per cent of adult men and 40 per cent of adult women were underweight (Banerjee, Deaton, Duflo, 2004). The typical poor household in Udaipur could spend up to 30 per cent more on food than it actually does, just based on what it spends on alcohol, tobacco, and festivals. Meenakshi and Vishwanathan (2003) find that the poor are buying less and less calories over time. Partly as a result of this general weakness, the poor are frequently sick. Banerjee and Duflo (2007) speculate that one cause of this surprising under-spending on nutrition is the “growing availability of consumption goods.”

The poor lack self-control and yield to temptation. One cause may be that the poor typically do not have bank accounts, and keeping cash at home makes it harder to exercise self-control. The poor seem to be aware of their vulnerability to temptation. In a survey in Hyderabad, India, the poor were asked to name whether they would like to cut particular expenses, and 28 per cent of the respondents named at least one item (Banerjee, Duflo, and Glennerster, 2006). The top consumption items that households would like to cut are alcohol and tobacco, mentioned by 44 per cent of the households that wanted to cut consumption. Then came sugar, tea, and snacks (9 per cent), festivals (7 per cent), and entertainment (7 per cent).

The evidence suggests that the poor lack self-control, yield to temptation, and spend to keep up with their neighbours (Banerjee and Duflo, 2007). In this, they are little different from people with more money, but the consequences of bad choices are clearly more severe for the poor. Efrogmson and Ahmed (2001) tell a moving, but not uncommon, story of Hasan, a rickshaw puller, who spent \$0.20/day on tobacco. When asked if his three children ever eat eggs, he exclaimed, “Eggs? Where will the money come from to buy them?” If Hasan did not buy tobacco, each of his children could eat an egg a day, or other nutritious foods, and be healthier as a result. For the more affluent, the consequences of smoking are not as bleak as children’s malnutrition.

There is much evidence (for example, Luttmer, 2005, and Diener, Suh, Lucas, & Smith, 1999) from economics and psychology showing that people derive satisfaction not just from their own consumption, but also from faring better than their peers. Fafchamps and Shilpi (2008) show that this is equally true for the poor. Keeping up with the neighbours seems to be a pervasive trait cutting across income brackets. Poor people in Nepal were asked to assess whether the levels of their income as well as their ‘consumption’ of housing, food, clothing, health care, and schooling were adequate. The answers to these questions were strongly negatively related to the (average) consumption pattern of other people living in the same village.

Spending on festivals accounts for a surprisingly large part of the budget for many extremely poor households living on less than \$1 per day per person. In Udaipur, more than 99 per cent of the extremely poor households spent money on a wedding, a funeral, or a religious festival (Banerjee, Deaton, and Duflo, 2004). The median household spent 10 per cent of its annual budget on festivals. In South Africa, 90 per cent of extremely poor households spent money on festivals. In Pakistan, Indonesia, and Cote d’Ivoire, more than 50 per cent did likewise (Banerjee and Duflo, 2007). Spending on festivals is a form of entertainment, especially in the absence of movies and television, and provides rare respite from the bleakness of life. The need to spend more on entertainment appears to be strongly felt. One reason this may be so is that the poor want to ‘keep up with their neighbours’.

The empirical evidence does not support the romanticized view of the poor as ‘value conscious consumers’. The problem is that the poor often make choices that are not in their own self interest. The rich also often make choices not in their own self interest, but the consequences are not as severe in their case. Selling

to the poor can, in fact, reduce their welfare. Therefore, there is a need to impose some limits on free markets to prevent exploitation of the poor (Karnani, 2007b). Markets work best when appropriately regulated to protect the vulnerable. To examine one example in depth, I study below the consumption choices of the poor with respect to alcohol.

## Poverty and Alcohol

Alcohol consumption is a financial drain for the poor. The reported share of household income spent on alcohol and tobacco by the poor is high in all countries, ranging from 6 per cent in Indonesia to 1 per cent in Nicaragua (Banerjee and Duflo, 2007). The poor in India spend about 3 per cent of their household income on alcohol and tobacco (Gangopadhyay and Wadhwa, 2004). These numbers understate the true consumption level since it is usually only the man in the household who engages in this consumption. In their in-depth field study, Baklien and Samarasinghe (2004) found that “money spent on alcohol by poor families and communities is underestimated to a remarkable degree. ... A large part of alcohol expenditure is unseen. ... Over 10 per cent of male respondents report spending as much as (or more than!) their regular income on alcohol.” Also, poorer people spend greater fractions of their incomes on alcohol than the less poor.

Aside from the direct financial cost, alcohol abuse imposes other economic and social costs affecting work performance, occupational health and industrial accidents. “Domestic violence and gender based violence was almost taken for granted in nearly all settings as an automatic consequence of alcohol use. Deprivation of the needs of children, due to the father’s heavy alcohol use, was regarded simply as a misfortune of the children concerned” (Baklien and Samarasinghe, 2004). There is much evidence showing that alcohol abuse exacerbates poverty (for example, Assunta, 2001).

*The Economist* (2006a) cites SABMiller, which has succeeded in several African countries with Eagle, a cheaper beer made from locally grown sorghum (rather than imported malt). SABMiller is able to price this beer at levels below those of other clear beers in Uganda, Zambia and Zimbabwe, partly because it has obtained a reduction in excise duties from the governments involved. Andre Parker, managing director for its Africa and Asia division, says “The brand is reliant on the excise break, so we are working with the governments to lower the excise rate so that the retail price is below that of clear beer. The margin, though, is at least as good as our other brands” (Bolin, 2005). Eagle beer is profitable for SABMiller and a good example consistent with the BOP proposition, but it is probably detrimental to the overall welfare of poor consumers. Activist consumer organizations advocate higher (not lower) taxes on alcohol to support public education and rehabilitation programs (for example, Assunta, 2001).

Is it in the self interest of the poor to consume, and thus abuse, alcohol to do so? Should companies have the right to profit from such sales of alcohol to the poor? In rich economies, governments constrain right with ‘sin taxes’, restrictions on advertising, and sale to minors. Yet, in many developing countries, such constraints are missing, and even when they do exist, they are poorly enforced, especially when it comes to marketing alcohol to the poor. For example, in Malaysia, bottles of ‘samsu’ (the generic name for cheap spirits) advertise outrageous claims that it is “good for health, it can cure rheumatism, body aches, low blood pressure, and indigestion. Labels also claim it is good for the elderly, and for mothers who are lactating” (Assunta, Idris and Hamid, 2001).

Even MNCs have got into the act. DOM Benedictine, which contains 40 per cent alcohol, claims health-giving and medicinal properties. Guinness Stout suggests it is good for health and male virility. Alcoholic drinks are easily available in coffee shops and sundry shops without a liquor license. 45 per cent of Malaysian youth under 18 consume alcohol regularly. In an ironic twist on the 'single serve packaging' idea often championed by BOP advocates, samsu is available in small bottles of about 150ml and "sold for as little as \$0.40-0.80. ... It is obvious that these potent drinks are packaged to especially appeal to the poor" (Assunta, Idris and Hamid, 2001).

Aside from the government, activist movements also play a role in protecting the consumer, but these are generally weak if not non-existent in most poor societies. Alcoholics Anonymous is a fellowship of men and women who share their experiences to help each other solve their common problem with alcoholism. The poor in emerging economies usually do not have access to such rehabilitation programs. In the USA in 1991, Heilman Brewery introduced PowerMaster, a malt liquor with high alcohol content, targeted at African American youth. A campaign led by African American leaders resulted in the product being withdrawn from the market within a few months. Such social mechanisms for consumer protection are often very weak in developing countries, and even more so for the poor. There is a need for checks and balances on powerful companies, especially MNCs, marketing to the poor. The romanticization of the poor as 'value conscious consumers' has resulted in too little emphasis on legal, regulatory, and social mechanisms to protect the vulnerable consumers. In the absence of such protective mechanisms, even companies that proclaim to be socially responsible do sell products to the poor that are of dubious value and probably harmful to the poor. I study below the example of Fair & Lovely, a skin whitening cream marketed by Unilever in 40 countries in Asia, Africa and the Middle East.

### Whitening Cream<sup>1</sup>

Hammond and Prahalad (2004) cite the example of a poor sweeper woman who expressed pride in being able to use a fashion product, Fair & Lovely, a skin cream marketed by Unilever. "She has a choice and feels empowered." One TV advertisement for Fair & Lovely aired in India "showed a young, dark-skinned girl's father lamenting he had no son to provide for him, as his daughter's salary was not high enough—the suggestion being that she could not get a better job or get married because of her dark skin. The girl then uses the cream, becomes fairer, and gets a better-paid job as an air hostess—and makes her father happy" (BBC News, 2003). The All India Democratic Women's Association campaigned against this and another advertisement as being racist, discriminatory, and an affront to women's dignity. This campaign culminated in the Indian government banning two Fair & Lovely advertisements. Ravi Shankar Prasad, India's Minister of Information and Broadcasting, said "Fair & Lovely cannot be supported because the advertising is demeaning to women and women's movement" (*The Economic Times*, 2003).

Indian society, like many others, unfortunately suffers from racist and sexist prejudices. This leads many women to use skin lightening products, sometimes with negative health side-effects (Browne, 2004). Hammond and Prahalad (2004) argue that the poor woman "has a choice and feels empowered because of an affordable consumer product formulated for her needs." This is no empowerment! At best, it is an illusion; at worst, it serves to entrench her disempowerment. Women's movements in countries from India to Malaysia to Egypt obviously do not agree with Hammond and Prahalad, and have campaigned against

---

<sup>1</sup> For a longer discussion of this topic, see Karnani (2007b).

these products. The way to truly empower a woman is to make her less poor, financially independent, and better educated; we need social and cultural changes that eliminate the prejudices that are the cause of her deprivations.

Should women have the right to buy Fair & Lovely? Yes. Should Unilever have the right to make profits by selling these products? Yes; Unilever after all did not create the prejudices that feed the demand for this product. Yet, it is likely that the company helps to sustain these prejudices, however unwittingly. In any case, we should impose some constraints on this right in terms of truth in advertising, full disclosure of ingredients in the product and its potential side effects. Even in rich capitalist countries, governments impose restriction on free markets to protect consumers in various ways, such as regulations related to labelling disclosure, truth in advertising, and marketing to minors. Consumer movements are active in areas where there are no legal restrictions, such as the recent pressure on McDonald's to introduce healthful meals. Such consumer protection, both legal and social, is inadequate in the developing countries. This is even truer in the context of selling to the poor, who often lack the information and education needed to make well-informed choices.

The BOP proposition is not satisfied with just giving the company the right to sell skin whitening cream. It goes further and commends the company for empowering women and helping eradicate poverty. This position is morally problematic.

### **The Poor as an Attractive Market**

The growing appeal of the BOP proposition has been fuelled by the argument that poor people represent a large and lucrative market. Prahalad (2005) argues that the poor, defined as people living on less than \$2 per day, at purchasing power parity (PPP) rates, represent a market size of PPP\$13 trillion. Allen Hammond, vice president of World Resources Institute (WRI) and a leading advocate of the BOP proposition, asserts that "the buying power of these poorer markets weighs in at a staggering \$15 trillion a year" (Wall, 2006). Given such large estimates, it is not surprising that the BOP proposition has become so popular.

In a 2006 article<sup>2</sup>, I argued that such BOP market estimates are gross exaggerations. Using rough calculations from then available World Bank data, I estimated the BOP market to be \$1.2 trillion at PPP, and \$0.3 trillion at current exchange rates, in 2002. From the perspective of multinational companies, the BOP market size is \$0.3 trillion, since companies necessarily convert local currencies into the home currency at exchange rates. In response to my article, Prahalad insisted, in an interview published in *Fast Company* in March 2007, that he had not overestimated the size of the BOP market.

We now have new data to resolve this debate. The report *The Next 4 Billion*, released in 2007 by the International Finance Corporation (the private sector arm of the World Bank group) and WRI, estimates the size of the BOP market based on unique (and previously unreleased) access to the household surveys of 146 developing and transition countries.

I have calculated the BOP market in 2002 using data from *The Next 4 Billion* for a poverty line of \$1000 at PPP (which roughly corresponds to the commonly used \$2/day in 1990 prices standard). In that case, the global BOP market size is only \$0.36 trillion at market exchange rates, which is remarkably close

---

2 Since published as Karnani (2007a).



to my earlier estimate. The headline of *The Next 4 Billion* is “New Analysis reveals \$5 Trillion Market at Base of Pyramid”. The report arrives at such a high estimate by defining the poverty cut-off level at \$3,000 PPP, which is much higher than any commonly used poverty line. According to this report, 98.6 per cent of the population in India is in the “bottom of the pyramid”!

The allegedly large and lucrative market at the bottom of the pyramid is a mirage. Fuelled by rapid economic growth, the shape of the economic pyramid is changing in many developing countries, leading to the rapid emergence of a middle class. Companies seeking new profit opportunities are much better off targeting this vast new pool of consumers—the fast growing middle class—in the emerging economies, especially China and India.<sup>3</sup>

The BOP literature often confuses the emerging middle class for the poor. Virtually none of the examples cited by BOP proponents support the recommendation that companies can make a fortune by selling to the poor (Karnani, 2007a). Several of the examples that apparently support the BOP proposition involve companies that are profitable by selling to the middle class in developing economies, although even these consumers seem poor to a Western researcher.

This romanticizing the poor as being more affluent than they really are is harmful to both companies and the poor. Companies following the BOP proposition often fail because they overestimate the purchasing power of poor people and set prices too high, and overestimate the market size. Karnani (2007a) describes the case of Coca Cola in India launching its low-price, affordability strategy, which hinged on raising the overall consumer base by offering carbonated soft drinks in smaller pack sizes of 200 ml at Rs. 5, which is equivalent to \$0.57 (at PPP). People living on less than \$2/day do not find this to be ‘affordable’. Coca Cola’s BOP initiative is certainly not helping the poor. Nor is it helping Coca Cola. Facing declining profits, the company reversed this low-price strategy in 2004. Unilever had a similar experience in the ice cream business in India (Karnani, 2007a).

More importantly, confusing together the middle class and the poor harms the poor by leading to ineffective poverty alleviation policies. Muhammad Yunus (1998) cautions against overly broad definitions of “the poor” and argues that there is no “room for conceptual vagueness” if poverty alleviation efforts are to be effective. Yunus (1998) states clearly:

“The inability to reach the poorest of the poor is a problem that plagues most poverty alleviation programs. As Gresham’s Law<sup>4</sup> reminds us, if the poor and non-poor are combined within a single program, the non-poor will always drive out the poor. To be effective, the delivery system must be designed and operated exclusively for the poor. That requires a strict definition of who the poor are—there is no room for conceptual vagueness.”

### The Poor as Entrepreneurs

Many poor people are entrepreneurs in the literal sense: they are self-employed, raise the capital, manage the business and are the residual claimants of the earnings. But, the current usage of the word ‘entrepreneur’ requires more than a literal definition. Entrepreneurship is the dynamic engine of Joseph Schumpeter’s con-

<sup>3</sup> See, for example, McKinsey Global Institute (2006, 2007).

<sup>4</sup> Here, it refers to the tendency of one group to “crowd out” another’s ability to gain benefits from a program.

cept of ‘creative destruction.’ An entrepreneur is a person of vision and creativity who converts a new idea into a successful innovation, into a new business model. Some poor people are certainly true entrepreneurs, and have created thriving businesses—these are the subjects of heart-warming anecdotes. But, the empirical evidence suggests that the vast majority of the poor lack the skills, vision, creativity and drive also needed for entrepreneurial success due to their unfortunate circumstances.

Banerjee and Duflo (2007) argue that the poor have a “reluctance to psychologically commit themselves to the project of making as much money as they can.” In a study of farmers in Kenya, Duflo, Kremer, and Robinson (2006) find that few farmers use fertilizers, even after the benefits -- average return on investment of over 100 per cent -- have been demonstrated to them. Not many Ghanaian farmers cultivate pineapples which would achieve returns of 250-300 per cent (*The Economist*, 2007a). This is perhaps understandable: the poor face such bleak circumstances that they come to believe the future is hopeless. Almost a century ago, George Orwell wrote that poverty “annihilates the future”—that bleak trenchant observation is just as valid today.

The vast majority of the self-employed poor are stuck in subsistence activities with no prospect of competitive advantage. The self-employed poor usually have no specialized skills and often practice multiple occupations (Banerjee and Duflo, 2007). Many of these businesses operate at too small a scale. The median business operated by the poor has no paid staff; most of these businesses have very few assets as well. With low skills, little capital and no scale economies, these businesses operate in arenas with low entry barriers and too much competition; they have low productivity leading to meagre earnings that cannot lift their owners out of poverty. There is no evidence to support Prahalad’s (2005) assertion that (all) the poor are ‘resilient and creative entrepreneurs’.

This should not be too surprising. Most people do not have the skills, vision, creativity, and persistence to be true entrepreneurs. Even in developed countries, with higher levels of education and infrastructure, about 90 per cent of the labour force are employees, rather than entrepreneurs (International Labour Organization, 2007). Even with the greater availability of financial services in developed countries, only a small fraction has used credit for entrepreneurial purposes. Most poor people are not self-employed by choice and would gladly take a factory job at reasonable wages if possible. The romanticized portrayal of the poor as ‘resilient and creative entrepreneurs’ is far from accurate, and a misleadingly poor basis for effective poverty reduction measures. The International Labour Organization (ILO) uses a more appropriate term: ‘own account workers.’

### **BOP Proposition Under-emphasizes the Role of the State**

In recent decades, the world has seen a decisive ideological shift towards an increased role for markets. There is a growing ‘neo-liberal’ movement which seeks to reduce the role of the state and to ‘marketize’ all public sector functions. In particular, the BOP proposition argues that the private sector should play the leading role in poverty reduction (Prahalad, 2005). This is a dangerous delusion because it grossly underemphasizes the role and the responsibility of the state in poverty reduction.

Contrary to the BOP proposition, the empirical evidence supports a larger role for the state in providing social services in developing countries. Pattnayak (2006) calculates the public expenditure on education as a percentage of GNP for developed countries to be 5.46 per cent in 1980 and 5.54 per cent in 1997;

the comparable numbers for developing countries are 3.99 per cent and 3.92 per cent. World Bank (2006) data indicate public education expenditure to be 5.6 per cent of GDP for developed countries and 4.1 per cent for developing countries in 2004. Similarly, public health expenditure accounted for 6.7 per cent of GDP in 2004 in high income countries compared to 1.3 per cent in low income countries. Governments in developing countries need to play a larger role in education and public health.

Prahalad and Hammond (2002) describe the impressive extent of business activity in the slums of Dharavi (in Mumbai), claiming “the seeds of a vibrant commercial sector have been sown.” They argue that the poor accept that access to running water is not a “realistic option”, and therefore spend their income on things that they can get immediately to improve the quality of their lives. Prahalad has said “if people have no sewage and drinking water, should we also deny them televisions and cell phones?” (*Time*, 2005). This opens up a market, and the BOP proposition urges private companies to make profits by selling to the poor. (This paper focuses on poverty alleviation, not profit maximizing strategies for firms; however, this advice to companies is riddled with fallacies—see the appendix).

But we should be cautious about celebrating this entrepreneurship too much and romanticizing the poor. In her emotive book about Dharavi, Sharma (2000) states that while enterprise in the midst of deprivation is to be admired, there is absolutely “nothing to celebrate about living in a cramped 150 sq. ft. house with no natural light or ventilation, without running water or sanitation”. UN-Habitat estimates that in Dharavi there is one public toilet for every 800 people. Writing about the slums of Kibera (in Nairobi), *The Economist* (2007b) observed, “most striking of all, to those inured to the sight of such places through photography, is the smell. With piles of human faeces littering the ground and sewage running freely, the stench is ever-present.”

The real issue which the BOP proposition glosses over is: why do the poor accept that access to running water is not a “realistic option”? Even if they do, why should we all accept this bleak view? Instead, we should emphasize the failure of government and attempt to correct it. By emphatically focusing on the private sector, the BOP proposition detracts from the imperative to correct the failure of the government to fulfil its traditional and accepted functions such as public safety, basic education, public health, and infrastructure. There is no alternative viable mechanism for achieving these results.

The downside of the BOP proposition can be illustrated by the metaphor of a seriously wounded person being tended by an ineffective doctor (either incompetent or corrupt or both). A Good Samaritan is appalled by the situation and takes charge, putting a band-aid on the patient. The Samaritan feels good about his own actions. Meanwhile, the doctor walks away, thinking somebody else is now responsible for the patient. A BOP consultant advises the Samaritan to start a business selling band-aids. The patient continues to deteriorate.

## Conclusion

A libertarian movement that emphasizes free markets to reduce poverty has grown strong in recent years, attracting the attention of business executives, academics, and public officials. This approach explicitly views the poor as “resilient and creative entrepreneurs and value-conscious consumers”. This romanticized view of the poor is far from the truth and harms the poor in two ways. First, it results in too little emphasis on legal, regulatory, and social mechanisms to protect the poor who are vulnerable as consumers. Second, it results in

over-emphasis on micro-credit and under-emphasis on fostering modern enterprises that could provide decent employment opportunities for the poor. More importantly, the BOP proposition grossly under-emphasizes the critical role and responsibility of the state for poverty reduction. Support for the BOP proposition is intellectually problematic while the implications of the BOP proposition are morally problematic. The BOP approach relies on the invisible hand of the free market to alleviate poverty. We should instead require the state to extend a very visible hand to the poor to help them climb out of poverty.

---

### Fortune or Mirage at the Bottom of the Pyramid (BOP)?

**Fortune at the BOP:** Large multinational companies can make a fortune by selling to poor people at the bottom of the pyramid.

**Mirage of a Fortune:** The alleged large and lucrative market at the bottom of the pyramid is a mirage, and companies are much better off targeting the growing middle class in emerging economies.

<b>Fortune at the BOP</b>	<b>Mirage of a Fortune</b>
BOP market size is \$13 to \$15 trillion	BOP market size is only \$0.36 trillion.
There is much 'untapped' purchasing power at the BOP	The poor have low savings rates, and little 'untapped' purchasing power.
Profit margins in BOP markets are high	BOP markets are not so profitable because customers are price sensitive, and the cost of serving them is high, given the small size of transactions and poor infrastructure.
The poor often buy 'luxury' items	The poor spend 80 per cent of their meagre income on food, clothing, and fuel alone, leaving little room for luxuries.
Companies should reduce prices dramatically without reducing quality	A significant improvement in technology could reduce prices dramatically without reducing quality, such as in computers, telecommunications and electronics. But in most other product categories, the only way to reduce prices significantly is to reduce quality. The challenge is to do this in a way that the cost-quality trade-off is acceptable to the poor.
Single serve packages increase affordability	Single serve packages do increase convenience and help the poor to manage cash flow. But the only way to increase real affordability is to reduce the price per use.
Large MNCs should take the lead role in the BOP initiative to sell to the poor	Markets for selling to the poor usually do not involve significant scale economies, and small to medium sized local firms are better suited to exploiting these opportunities.

---

### References

- Assunta, Mary (2001). Impact of alcohol consumption on Asia. *The Globe*, Special Issue 4, pages 4-8.
- Assunta, Mary, Mohammed Idris and Hamid (2001). The alcohol problem in Malaysia. *The Globe*, Special Issue 4, pages 18-20.
- Baklien, Bergljot, and Diyanath Samarasinghe (2004). Alcohol and poverty in Sri Lanka. FORUT, Norway. Report available at <http://www.forut.no/index.php/15703-1>.
- Banerjee, Abhijit, Angus Deaton and Ester Duflo (2004). Wealth, Health and health Services in Rural Rajasthan. *American Economic Review*, 94 (2), pages 326-330.
- Banerjee, Abhijit, and Ester Duflo (2007). The economic lives of the poor. *Journal of Economic Perspectives*, 21 (1), pages 141-167.
- Banerjee, Abhijit, Ester Duflo, and Rachel Glennerster (2006). A snapshot of micro enterprises in Hyderabad. Processed, Massachusetts Institute of Technology, Cambridge, MA.
- BBC News (2003). India debates 'racist' skin cream ads. *BBC News*, 24 July. Available at [http://news.bbc.co.uk/2/hi/south\\_asia/3089495.stm](http://news.bbc.co.uk/2/hi/south_asia/3089495.stm). [Accessed 11 July 2009]

- Bolin, Lynn (2005). SABMiller's new clear sorghum beer. *business.iafrica.com*, 2 February. Available at [http://www.iafrica.com/pls/cms/iac.page?p\\_t1=8&p\\_t2=42&p\\_t3=0&p\\_r4=0&p\\_dynamic=Y&p\\_content\\_id=410044&p\\_site\\_id=2](http://www.iafrica.com/pls/cms/iac.page?p_t1=8&p_t2=42&p_t3=0&p_r4=0&p_dynamic=Y&p_content_id=410044&p_site_id=2). [Accessed 11 July 2009]
- Browne, Kari (2004). An unhealthy idea of beauty. *Ms*, Spring, pages 60-62.
- Clay, Jason (2005). Exploring the Links between International Business and Poverty reduction: A Case Study of Unilever in Indonesia. Oxfam, Oxford.
- Diener, Ed, E.M. Suh, R.E. Lucas, and H.L. Smith (1999). Subjective well-being: three decades of progress. *Psychology Bulletin*, 125 (2), pages 276-302.
- Duflo, Ester, Michael Kremer, and Jonathan Robinson (2006). Understanding fertilizer adoption: evidence from field experiments. Processed, Massachusetts Institute of Technology, Cambridge, MA.
- Efroymsen, Debra, and Saiffudin Ahmed (2001). Hungry for tobacco: an analysis of the economic impact of tobacco consumption on the poor in Bangladesh. *Tobacco Control*, 10, pages 212-217.
- Fafchamps, Marcel, and Fforhad Shilpi (2008). Subjective welfare, isolation, and relative consumption. *Journal of Development Economics*, 86 (1), April, pages 43-60.
- Gangopadhyay, Shubhashis, and Wilima Wadhwa (2004). Changing pattern of household consumption expenditure. Society for Economic Research & Financial Analysis, and The Planning Commission, Government of India, New Delhi.
- Hammond, Allen, and C.K. Prahalad (2004). Selling to the poor. *Foreign Policy*, May-June, pages 30-37.
- International Labour Organization (2007). LABORSTA Internet database. Available at <http://laborsta.ilo.org>. [Accessed 10 May 2008]
- Karnani, Aneel (2007a). The Mirage of Marketing to the Bottom of the Pyramid. *California Management Review*, 49 (4), Summer, pages 90-111.
- Karnani, Aneel (2007b). Doing Well By Doing Good. Case Study: 'Fair & Lovely' Whitening Cream. *Strategic Management Journal*, December, pages 1351-1357.
- Luttmer, Erzo F.P. (2005). Neighbors as negatives: relative earnings and well-being. *The Quarterly Journal of Economics*, 120 (3), August, pages 963-1002.
- Meenakshi, J.V., and B. Vishwanathan (2003). Calorie deprivation in Rural India, 1983-1999/2000. *Economic and Political Weekly*, 25 January, pages 369-375.
- McKinsey Global Institute (2006). *From 'Made in China' to 'Sold in China': The Rise of the Chinese Urban Consumer*. November, McKinsey Global Institute, San Francisco.
- McKinsey Global Institute (2007). *The 'Bird of Gold': The Rise of India's Consumer Market*. May, McKinsey Global Institute, San Francisco.
- Patt Nayak, S.R. (2006). *The Return of the State*. Yash Publications, Delhi.
- Prahalad, C.K., and Allen Hammond (2002). Serving the world's poor profitably. *Harvard Business Review*, pages 4-11.
- Prahalad, C.K. (2005). Fortune at the Bottom of the Pyramid: Eradicating Poverty through Profits. Wharton School Publishing, Philadelphia.
- Sen, Amartya (2000). *Development as Freedom*. Anchor Books, Philadelphia.
- The Economic Times (2003). Ban for the buck. *The Economic Times*, 2 April.
- The Economist (2006). The flicker of a brighter future. *The Economist*, 7 September.
- The Economist (2007a). Another day, another \$1.08. *The Economist*, 28 April.
- The Economist (2007b). Strange allure of the slums. *The Economist*, 3 May.
- Time (2005). Selling to the poor. *Time*, 17 April.
- Yunus, Muhammad (1998). Poverty Alleviation: Is Economics Any Help? Lessons from the Grameen Bank Experience. *Journal of International Affairs*, 52 (1), Fall: 47-65.
- Wall, Barbara (2006). Facing global challenges while turning a profit. *International Herald Tribune*. 7 July.
- World Bank (2006). *World Development Indicators, 2006*. Washington, D.C.

