Social Business for Pro-Poor Growth

Sanae ITO*

Abstract

This article examines the growing debate concerning social business in order to understand its potential for promoting pro-poor growth. It first explores the meaning of pro-poor growth and suggests that social business may arguably be seen as one way of realizing pro-poor growth that promotes poor people’s participation in growth processes. It then discusses social business that is targeted at ‘the Bottom (or the Base) of the Pyramid (BOP)’ market, and compares it to the appropriate technology movement which was popular in the 1970s and early 1980s but has run out of steam since then. It is suggested that the recent popularity of BOP business should be understood against the background of technological innovation and the growing number of low-income consumers in emerging markets. While advocates of BOP business see a win-win situation in which enterprise promotion and poverty reduction can be achieved at the same time, this article argues that these may not be compatible for two reasons. First, while many of the BOP businesses aim to solve the problem of poverty through applying market principles, they do not necessarily address deeper social and political questions that may underlie the problem of poverty. If the BOP businesses choose to remain politically neutral, aid-giving governments increasingly use industrial policy to help their countries’ BOP businesses expand overseas, thus implicating them in the governments’ political and economic agenda. Second, the integration of poor people in an international value chain through BOP approaches tends to ignore the power relations inherent in the chain governance. These two factors could jeopardize the locally embedded process of inclusive business development that is intended to promote pro-poor growth.

1. Introduction

The objective of this article is to examine the potential for promoting pro-poor growth through social business, an increasingly popular strategy for combating social problems with market principles. The article argues that social business that targets ‘the Bottom (or the Base) of the Pyramid (BOP)’ cannot be an effective means to achieve pro-poor growth while avoiding deeper political and social commitments. Using an example of Grameen Yukiguni Maitake of Bangladesh, a social business intended to achieve business success and poverty reduction at the same time, the article also argues that the locally embedded process of pro-poor business development is not easily compatible with the management of an international value chain promoted by a rich country government.

* Professor, Graduate School of International Development, Nagoya University. The author is indebted to anonymous referees for their useful comments.
It is first necessary to understand why we use the term ‘pro-poor growth’ instead of ‘growth’. Since the turn of the century the old idea that higher rates of economic growth benefit the poor has regained significant influence. Dollar and Kraay (2002) contributed to its spread with their paper “Growth is good for the poor”. The same idea was popular in the 1970s through the 1980s when it was believed that benefits of economic growth would automatically trickle down to the poor. The new version of the growth-poverty linkage, however, is accompanied by such bywords as ‘inclusive growth’ and ‘pro-poor growth’. What exactly these words mean is not very clear, however. One can look at the incomes of the poor and if they go up fast, one may conclude that pro-poor growth is occurring. One may, on the other hand, compare changes in the incomes of the poor with those in the average incomes of the population at large, and conclude that pro-poor growth is happening if the first grows faster than the second. In this case, pro-poor growth must be accompanied by the reduction of income inequality (Osada 2009: 170–172).

Which of these interpretations is better depends on where one’s chief concern lies. If one wants to see the reduction of absolute poverty, it is more important to know the rate at which the incomes of the poor grow than to know the rate at which income inequality falls (DFID 2004). One may, on the other hand, be more concerned about income inequality which tends to slow down overall economic growth. In that case, one would like to see how the benefit of economic growth can be distributed in such a way as to reduce income gaps between the rich and the poor. Whichever definition one may choose, the use of the adjective, ‘pro-poor’ or ‘inclusive’, implies that growth should be accompanied by specific measures to enhance the well-being of the poor. Otherwise, one would simply talk about ‘growth’ instead of ‘pro-poor growth’, and assume that it should naturally benefit the poor. The specific measures to be taken must ensure that market forces do not bypass the poor, and preferably bring better distributional outcomes, by harnessing social and political dynamics underpinning growth (Kaplinsky 2011: 1–2). This is because the socially and politically marginalized groups of poor people could not effectively participate in economic activities unless the social and political barriers are removed. As a result of realizing such pro-poor growth, the poor should come out as being not only economically better-off, but socially and politically more empowered.

2. The Potential of Social Business as a Strategy for Pro-Poor Growth

One strategy for promoting such pro-poor growth that is attracting increasing attention is social business. It is intended to solve social problems that are often associated with poverty by mobilizing market principles. The concept has been popularized by the Nobel Peace Laureate, Muhammad Yunus of Bangladesh. According to Yunus, social business is a new kind of business distinct from “either a traditional profit-maximizing business...or a not-for-profit organization (which relies on charitable or philanthropic donations)” (Yunus with Weber 2010: 1). It aims at solving “a social problem by using
business methods, including the creation and sale of products or services” (ibid.).

Yunus holds the view that modern capitalism “fosters global economic growth, generates technological innovation and creates plenty of wealth, but it has left out a significant portion of humans in the world so far” (Humberg 2007: 1). He envisions a new kind of capitalism that is more humane and friendly to the environment.

Related to the concept of social business is that of BOP business, which may be described as social business specifically targeted at ‘the Bottom (or the Base) of the Pyramid’, or the BOP market. C. K. Prahalad (2005) drew attention to the fortune lying at the bottom of the economic pyramid that comprised the world’s largest, and poorest, population group living on less than $2 per day. He argued that the large number of the world’s poor represented a ‘latent market’ for goods and services offered by multinational corporations (MNCs) and that it would be foolish for any sensible business to ignore this market. The BOP market thus represents a new growth opportunity for private enterprises who can find innovative ways of serving the hitherto unrecognized, large group of consumers. Selling disposable sachet packs of shampoo to poor people in affordably small amounts is one example of innovative marketing required for a BOP business. Selling fortified yogurt to poor children through a distribution system involving poor women who make sales door-to-door is another. Some of the private enterprises engaged in the BOP market see their operation as part of normal (for-profit) business activities. Others are more inclined to think of helping the poor as their primary objective while remaining either for-profit or not-for-profit. From their point of view, the well-being of the poor will be enhanced if they can gain access to certain goods and services hitherto denied to them. Despite (mostly) good intentions, these businesses have increasingly drawn criticisms for selling non-essential products to the poor. The rise of BOP business has thus been seen by some as representing the latest form of ‘corporate imperialism’ that turns every poor person into ‘a consumer’.

The debate has helped BOP strategies move on to the second generation; the old strategies have come to be known as ‘BOP 1.0’ characterized by a narrow, consumption-based understanding of local needs, and are distinguished from ‘BOP 2.0’, which seeks to generate “an embedded process of co-invention and business co-creation that brings corporations into close, personal business partnership with BOP communities” (Simanis and Hart 2008: 2). The BOP 2.0 encourages private corporations not just to listen to the poor for what they want to buy, but to develop a shared commitment to enhancing their well-being based on mutual learning. The corporate team is supposed to enter the community with no preconceived ideas about new products and no initial commercial design. It has to start with building relationships with local people and with understanding how they live their lives (ibid. 20). The corporate team and local people are then to co-create a new business concept and operationalize it together through collective entrepreneurship development. When a business enterprise is finally created, this should entail capacity development of the local people. This means that local people should be effectively integrated in an emerging chain of activities along the supply chain, which should be localized as much as possible. The localized supply chain should entail production of raw materials
by local producers, and the development of new products and technologies must be aligned with local realities. These ideas seemingly bring BOP approaches closer to pro-poor growth.

3. From Appropriate Technology to the Base of the Pyramid

The emphasis on locally embedded products and technologies reminds us of what used to be known as the appropriate technology movement that became influential in the 1970s and early 1980s. The movement was inspired by Schumacher who popularized the ideas of Gandhi’s Swadeshi Movement in India, and was promoted by such civil society organizations as the Intermediate Technology Development Group in the UK and Appropriate Technology International in the USA. These organizations promoted the idea of appropriate technology as “being small scale, energy efficient, environmentally sound, labor-intensive, and controlled by the local community” and spread it domestically as well as internationally (Hazeltine and Bull 1999: 3). The appropriate technology developed was often a product of locally available, traditional skills combined with innovative new ideas about how to make them more useful and presentable.

The appropriate technology movement may therefore be seen as an early attempt to promote inclusive, pro-poor growth before social (BOP) business arguably attempted to do the same. But the movement gradually ran out of steam because many of the so-called appropriate technologies turned out to be economically inefficient, using greater capital and labor per unit of output (Kaplinsky 2011: 7–8, Hazeltine and Bull 1999: 341–345). Critics also pointed out the complexities involved in the notion of ‘appropriateness’, for labor-intensive and small-scale ‘appropriate’ technologies could be inappropriately energy-intensive. The social context of innovation was questioned too as innovative engineers were mostly based in high-income countries and were inclined to elaborate technology so that appropriate technologies ended up being overdesigned and less useful to poor people in developing countries. The urban elites living in the developing countries did not show much interest in these ‘appropriate’ technologies either as their own lifestyles were closely modeled after those of their rich country peers. As a consequence, the appropriate technology movement was largely associated with NGO activities which may have been ideologically potent, but remained at the margins of mainstream economic growth.

With the pronouncement by Prahalad that there is a fortune at the base of the economic pyramid ready to be captured by transnational (and local) corporations, the social context of innovation has begun to change (Kaplinsky 2011). Profit-seeking private companies, instead of NGOs, are now interested to bring innovation to the ways in which new products and services are created in partnership with local communities comprising poor people. This is against the background in which the world is witnessing the growing number of low-income consumers both in high-income countries as the economy of these countries slows down, and in low-income countries as their economy begins
 Availability of new technologies such as mobile phones and internet is propelling the spread of new products and services affordable to the poor while improving their access to market information. Poor people are now emerging not only as viable consumers but as providers of low-cost products and services.

Yunus’ Grameen Telecom and Grameen Phone of Bangladesh\(^6\) may be a good example of this. Set up in 1996 in partnership with three overseas companies – Telenor of Norway, Marubeni of Japan, and Gonofone Development Company of USA, these Grameen companies seek to link remote villages of Bangladesh electronically to the global marketplace. In 1996, Bangladesh had the lowest rate of telephone service penetration in the world, with only 400,000 phones for the population of 120 million. By 2007, the number of cell phone subscribers in Bangladesh went over sixteen million, making Grameen Phone Bangladesh’s largest tax-generating company (Yunus 2007: 91–94). Cell phone technology became a tool of empowerment for the poor as they participated in the business operation not only as consumers but as ‘telephone ladies’ who sold phone service to their neighbors within the community, a few minutes at a time, thus representing “their villages’ sole lifeline to the outside world” (ibid. 93).

4. Can Philanthrocapitalism Change the World?

As BOP approaches evolve from BOP 1.0 to BOP 2.0, making a greater commitment to involving local communities, the language they use sounds increasingly like the one typically used by civil society organizations. According to Simanis and Hart (2008: 2), second-generation BOP (BOP 2.0) strategy must move corporations “beyond deep *listening* and into deep *dialogue* with the poor, resulting in a shared commitment born out of mutual sharing and mutual learning”. Having participatory dialogue with poor people and learning from them have long been associated with NGO activities at the grassroots. The transformation of BOP 1.0 to BOP 2.0 may hence be seen to represent businesses behaving more like NGOs. Conversely, one may also argue that the NGOs behaving more like business have come to be known as social businesses, some of which are also called BOP businesses as they target at the BOP market.

Edwards (2008: 91–92) cautions against the trend that claims to bring social transformation by making non-profit organizations operate more like business. Nicknamed ‘philanthrocapitalism’ by Bishop and Green (2009), this movement shifts our attention, according to Edwards, from the fundamental role that governments and civil society organizations ought to play in driving social change. He condemns philanthrocapitalists for claiming to find a market-based, quick solution to what are fundamentally social and political problems. He argues that business and civil society ask “different questions about society altogether” (Edwards 2008: 91), and that citizens’ groups therefore “have nothing to be ashamed of in not being a business, and everything to gain by re-asserting their
difference and their diversity” (ibid. 92). They, after all, address deep-rooted structural problems which business cannot solve in order to bring about long-term social transformation. If philanthrocapitalists are determined to behave pragmatically while remaining politically uninvolved, this will not necessarily protect them from political interventions. Aid-giving governments have already started to use industrial policy to promote BOP businesses based in their own countries to expand markets in the developing world. The state-sponsored promotion of BOP business by rich countries thus implicates some of the philanthrocapitalists in the countries’ political and economic agenda.

5. State-Sponsored Promotion of BOP Business

It has been some time since governments and aid agencies began to show interest in promoting public-private partnerships and business-led solutions to poverty. The United States Agency for International Development (USAID) created the Global Development Alliance in 2001 in order to provide aid through public-private partnerships. The United Nations Development Program (UNDP) set up the Global Sustainable Business initiative to help private companies identify investment opportunities and develop business models to be successful in BOP markets. Following these examples, Japan’s Ministry of Economy, Trade, and Industry (METI) created the Japan Inclusive Business Support Center in 2010 to help Japanese companies and other organizations to gain access to BOP markets. Its website explains the background in the following words (Japan Inclusive Business Support Center 2012/10/06):

In recent years, much attention has been focused on inclusive business for BOP in developing countries. These business initiatives require two components in terms of policy: (1) sustained, effective economic cooperation policy driven by private-public alliances, and (2) industrial policy that supports Japanese companies and other groups in overseas expansion and gaining access to new markets. On the other hand, Japanese companies and other group [sic] lag behind US and European companies in terms of their participation in inclusive business.

Interestingly, the Ministry of Economy, Trade, and Industry’s industrial policy unexpectedly sees eye to eye with the Ministry of Foreign Affairs’ ODA policy here. According to Japan’s Official Development Assistance White Paper 2011, Japan “provides support for ODA partnerships with the private sector in BOP business, by assisting in the formulation of BOP business models of corporations (private businesses, NGOs, etc.) that submitted proposals, and by requesting proposals regarding partnerships with ODA” (Ministry of Foreign Affairs 2012: 29).

There is nothing new about Japan’s ODA policy being closely aligned with its economic and diplomatic interests. What is new is that, in addition to encouraging large corporations to win
infrastructure building contracts, the government now urges small and medium-sized companies, though larger companies are not excluded, to explore emerging BOP markets. The government takes pains to emphasize that the promotion of BOP business will create a win-win situation for both Japanese SMEs and the poor in emerging markets (Ministry of Economy, Trade and Industry 2010). As we have seen, however, the second generation BOP strategies require private companies to develop close, personal business partnership with BOP communities and to create an embedded process of co-invention and business co-creation. The question is whether the state-sponsored business promotion in emerging markets as part of Japan’s industrial policy is compatible with the bottom-up process of poor people’s empowerment. If it is, another question remains as to whether the value chains that integrate poor people as consumers, producers, or distributors can be successfully and equitably governed by the lead firms located in high-income countries having to survive in highly competitive marketplaces.

6. A Case of Social (BOP) Business Involving a Japanese Company

A closer look at the example of a social business targeting the BOP market in Japan’s agricultural sector, albeit small, will help to examine both of these questions. Yukiguni Maitake Co. Limited (YMC), one of Japan’s leading agri-business companies capitalized at 1.7 billion yen, signed a joint venture agreement with Grameen Krishi Foundation (GKF) of Bangladesh in December 2011 for establishing a social business in the field of agriculture (Sugawara, Ohno, and Tsuchiya 2011: 143–150). Yukiguni Maitake provided the capital of US$75,000 while Grameen Krishi Foundation provided US$25,000. The board of directors included three from Grameen Krishi Foundation and three from Yukiguni Maitake. Kyushu University, which facilitated the joint venture agreement, sent one board member. The new social business was named Grameen Yukiguni Maitake Co. Limited (GYM).

Grameen Yukiguni Maitake aims to enhance incomes of the farmers and the village women in Bangladesh through the production and sale of mung beans, as well as to ensure soil fertility and improve the protein intake of the poor in Bangladesh. Apart from helping the poor in Bangladesh, Grameen Yukiguchi Maitake also aims at exporting high quality mung beans to Japan where they will be germinated to produce bean sprouts. Around 70 percent of the mung beans are to be exported to Japan and sold as bean sprouts under Yukiguni Maitake’s brand name. The remaining 30 percent will be sold in Bangladesh for lower prices. Yukiguni Maitake makes an annual sale of approximately 26,000 million yen’s worth of bean sprouts, mushrooms, and other vegetables in Japan. Over 90 percent of mung beans from which bean sprouts are made have been imported from China where the market prices have risen by more than twofold since 2008. Yukiguni Maitake sees a great benefit in reducing overdependence on China for mung beans by diversifying the sources of supply.

Prior to the establishment of Grameen Yukiguni Maitake, the Japan External Trade Organization
(JETRO) granted Yukiguni Maitake a subsidy of 5 million-yen for developing the business idea. Japan International Cooperation Agency provided 50 million yen under the scheme called “the preparatory survey for BOP business promotion”. Yukiguni Maitake also contacted university laboratories in both Japan and Bangladesh to select appropriate varieties of mung beans resistant to common pests in Bangladesh and to develop the technology for reducing pesticide residues and soil contamination.

Once the appropriate seeds and technologies were identified, the production of mung beans has been contracted out to over 7,000 farmers affiliated with Grameen Krishi Foundation in northern, western, and southern parts of Bangladesh. An extra 1,000 new jobs are expected to be created for poor village women who sort the harvested beans. The contract farmers’ incomes are expected to more than double. Over the long term, the annual production of mung beans is estimated to reach 10,000 tons to meet 20 percent of the annual consumption in Japan, creating 300,000 extra jobs in rural Bangladesh (Sugawara, Ohno, and Tsuchiya 2011: 146). The company also offers healthcare and scholarships to children of farmers. The business model of Grameen Yukiguni Maitake is as shown above.

While Grameen Yukiguni Maitake itself is a non-profit social business, the entire business model involves an international value chain which is apparently more buyer-driven than producer-driven. The success of this business model therefore depends on the governance of the chain by the lead firm,
in this case, Yukiguni Maitake in Japan. Satake, Grameen Yukiguni Maitake’s Co-CEO, emphasizes the need to use Japanese agricultural technology and high-tech system of monitoring to meet Japan’s stringent pesticide residue standards (BOP Business Seminar 2012). Grameen Yukiguni Maitake initially organized a number of induction sessions in villages of Bangladesh where production of mung beans were to take place (Sugawara, Ohno, and Tsuchiya 2011: 144). The farmers who agreed to become its contract farmers have been provided with the guidelines on farming techniques, and their farming operations have been closely monitored by field supervisors. Grameen Yukiguni Maitake also trained village women in sorting the harvested beans into different grades to be exported to Japan or sold in the local market. It found it particularly difficult to make these women understand that even the smallest amount of bugs and pebbles should not remain with the beans (ibid. 145).

These arrangements on the ground make one wonder if the integration of poor people in a value chain governed by an outside enterprise aiming to sell products in high-income markets is congruous with the localized supply chain the BOP protocol calls for. According to the BOP protocol (Simanis and Hart 2008: 41), the supply chain for a BOP business must be ‘locally-embedded’, based on mutual trust and shared commitment between the business and the community. World Economic Forum (2009: 22) suggests that BOP companies should try to reduce the monitoring costs required to ensure compliance with quality standards “by aligning the interests of the employees with those of the company so that employees are motivated to deliver better results”. This can be achieved “by developing shared aspirations and values, leveraging incentives such as profits so that employees benefit when the organization benefits” (ibid.).

Developing shared aspirations and values may not be so easy, however, when contract farmers are turned into ‘producers without a factory’ under the strict monitoring and supervisory regime of the lead firm. The value chain literature points out that contract farmers working along the buyer-driven supply chains typically in clothing, footwear, toys, and fresh fruit and vegetables often end up being ‘producers without factories’, subordinated to lead agents who determine “who does what (and at what price, on the basis of which standards, to which specifications, and on the basis of which delivery schedules)” (Gibbon and Ponte 2005: 81). In the case of Grameen Yukiguni Maitake, local communities may have been invited to participatory workshops and been encouraged to share their values and aspirations. Yet, in the environment in which it aims to export 70 percent of its produce to Japan’s agri-food market characterized by high competition and complicated regulations, it is not clear to what extent the locally embedded process of business development that is empowering to the poor becomes possible.

7. Conclusion

This article has examined the potential of social business, particularly those that target the base of
the economic pyramid, for promoting pro-poor growth with meaningful participation of poor people. It was suggested that the potential was recently boosted as the number of low-income consumers was growing around the world at the same time as technological innovation was enabling the poor to consume, as well as to deliver, new products and services.

While advocates of social business see a win-win situation in which enterprise promotion and poverty reduction can be simultaneously achieved, this article has argued that the two objectives may not sit comfortably with each other. Drawing on Edwards (2008), it has suggested that deep-seated structural problems underlying poverty may be beyond the reach of market solutions. Furthermore, it has drawn attention to the fact that rich country governments are increasingly keen to use industrial policy to support their own social businesses in order to advance their political and economic agenda in the developing world. Using the example of Grameen Yukiguni Maitake of Bangladesh, the article has also described the situation in which the integration of poor people in an international value chain through BOP approaches possibly conflicts with the chain governance required by a lead company having to survive in a competitive market back home. These factors - the limitation of market-based solutions to the problem of poverty and the failure to address power relations entailed in value chains of which social businesses may be a part - could jeopardize the locally embedded process of inclusive business development that is intended to empower poor people, and thereby to realize pro-poor growth. Grameen Yukiguni Maitake and many other social businesses similar to it may contribute to increasing the incomes of the poor. That possibility, however, has little to do with the more participatory and ‘humane’ process of pro-poor growth advocated by many of the social business proponents themselves.

Notes

1  To be more precise, Yunus envisions two kinds of social business. One is “a non-loss, non-dividend company devoted to solving a social problem and owned by investors who reinvest all profits in expanding and improving the business” (Yunus with Weber 2010: 1). The other is “a profit-making company owned by poor people, either directly or through a trust that is dedicated to a predefined social cause” (ibid. 2).
2  This example refers to Grameen Danone Foods Ltd. of Bangladesh. See Chapter 7 of Humberg (2011) for a more detailed explanation of its operation.
3  See London and Hart (2010), “Introduction: Creating a Fortune with the Base of the Pyramid”, for more discussion on various debates concerning the rise of BOP business.
4  His book, Small is Beautiful: A study of Economics as if People Mattered caused a sensation when it first appeared in 1973. It is widely recognized as one of the most influential books on appropriate technologies and sustainable development.
5  Kaplinsky (2011: 12–13) points out that, despite what Prahalad believed, large transnational corporations are usually not good at understanding the needs of new customers.
6  Both Grameen Telecom and Grameen Phone are for-profit companies.
7  Grameen Krishi Foundation engages in experimentation and training of farmers to improve agricultural practices and output in rural Bangladesh (Yunus 2007: 78).
The GYM’s scheme is explained in detail by Yuko Satake, Co-CEO of GYM, in an USTREAM video about the BOP Business Seminar held on 10 July 2012 jointly by JICA and JETRO (BOP Business Seminar 2012).

See Gibbon and Ponte (2005) for the discussion of governance of buyer-driven value chains.

See Gereffi (1994: 7) for the discussion on producer-driven chains and buyer-driven commodity chains.

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