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Consumption, development and the Private Sector:

A critical analysis of the base of the pyramid (BoP) ventures

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ABSTRACT

Business and development circles are lauding private sector BoP ventures as a dynamic and powerful means of poverty reduction in less developed countries (LDCs). It is argued that the provision of products and services to poor consumers will have social and economic benefits. Rigorous conceptual and empirical analysis is however lacking. Using insights from research into consumption patterns, status and well-being this study argues that the BoP literature too narrowly conceptualises possible development outcomes. A broader framework which considers, among other factors, the socio-psychological relationship between status and consumption both deepens the existing criticisms of the approach and illuminates the benefits.

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INTRODUCTION

The private sector's role in development is often thought of in negative terms – the sweatshops, oil spills, corruption scandals and violent suppression of workers. But the past decade has also seen an emerging business and development discourse that frames the role of the private sector in much more positive terms (Prahalad 2009; UNDP 2004, 2008). The United Nations Development Programme (UNDP) argue that businesses can and should play a pivotal role in meeting the Millennium Development Goals (MDGs) and well-funded (and well publicised) corporate foundations invest in health, education, micro-business and so on, across the globe. Meanwhile, business itself has been rethinking its relationship with the poor, guided by C. K. Prahalad's (2009) concept of the "base of the pyramid" (BoP). This approach argues that business can "do well by doing good" – that is, a business can redirect its core operations in such a way that both alleviates poverty and is also profitable. Essentially, this process occurs either by including the poor in the supply chain as producers or by designing products and services for poor consumers. These proposals are gaining interest in donor circles. The UNDP, UK Department for International Development (DFID), World Bank and International Finance Corporation (IFC) all have programs researching, investing in, or promoting their growth.

This study focuses on the consumer end of the BoP proposal. It notes that the BoP literature makes grand claims about its potential to alleviate poverty but is weak on specifics and shaky on evidence. Increased interest by donors has not been matched by academic research from the development community. Indeed, out of 18 of the largest development journals over the past 10 years only one study focuses directly on this topic. This is exacerbated by the fact that the BoP literature in general barely touches on the development outcomes of the approach, instead emphasising how business models can be optimised.

It is argued here that the BoP approach uncritically assumes that increased access to products and services will have positive development outcomes. This is explained by a deeper assumption about *how* people consume. Using insights from social-psychology, consumer research, social theory and micro econometrics, it is then argued that people do not necessarily consume in ways that optimise development outcomes. This process is given three explanations which are not intended to be exhaustive: non-unitary households, present-biased preferences and status concerns. The latter of these is studied in depth and is seen as a useful framework for understanding a significant benefit of the BoP proposal – well-being gains through status consumption. But it also raises two sizeable negatives that are unexamined in the BoP literature. Firstly, that status consumption can decrease the well-being of the consumer and their peers, while potentially also ingraining negative cultural hierarchies. Secondly, that resources may be allocated to such consumption at the expense of basic needs. It is therefore concluded that the BoP approach fails to recognise possible negative outcomes which could challenge its poverty alleviating claims and that more research from a development perspective is needed.

Part I examines this new business-development discourse. Part II examines the assumptions and empirical evidence behind the BoP approach. Part III forms the major critique of the approach by examining how the poor consume.

1. PART I: BUSINESS AND DEVELOPMENT - A NEW DISCOURSE

Over the past decade the intersection between business and development has received increased attention from the international development community. The UNDP's 2004 Commission on the Private Sector and Development marked a turning point in perceptions of the role of business in development, and the work of C. K. Prahalad has completely reframed how business can view its relationship with what he called the BoP. As a result, academic centres, cross sector partnerships, conferences and networks have developed focusing on this relationship. To begin to understand these, the BoP concept must first be explained.

The "BoP" concept as an approach for poverty alleviation refers to the inclusion of the poorest tier in society, defined as those living on under $2 a day (Prahalad 2009, 7), as either consumers or producers in the value chains of larger businesses.[1] This could be as a producer of an agricultural commodity or as a consumer of a mobile phone, for example.[2] Following Karnani (2006), the consumption side of the BoP proposal (henceforth referred to as the "BoP approach" or the "BoP proposal") can be broken down into three propositions:

1. There is significant purchasing power at the BoP. The private sector can therefore make large profits by selling their products to them. Prahalad argues that 'the real source of market promise… is the billions of *aspiring poor* who are joining the market economy for the first time' (Hart & Prahalad 2002, 1).

2. This will bring prosperity to the BoP and help eradicate poverty.

3. Large MNCs should lead the way in the process of selling to the BoP. (Karnani 2006, 2).

This study analyses the second of these propositions: that increased access to products and services at the BoP will help eradicate poverty. It should be noted that the arguments presented have very little relevance to the production side of the BoP approach.

1.1. The emergence of BoP in development discourse

[1] "BoP" also refers to this segment of society itself and the term "the poor" is used here interchangeably with this.
[2] There are a number of similar concepts which refer to this inclusion, most notably "inclusive business" which was coined by the World Business Council for Sustainable Development (WBCSD).

As background to this focus it is important to understand how the BoP approach has emerged and where it sits within the development community. Indeed, the growing sense that there is a common trajectory between business and development and that the BoP proposal can meaningfully alleviate poverty has many roots.

In part it plays on the recent trend in popular development thinking to critique aid as a vehicle for development (Hart 2008; Prahalad 2009). Moyo, for example, proposes a market based solution through capital investment, trade and micro financial services. She wrote that 'aid has been, and continues to be, an unmitigated political, economic, and humanitarian disaster for most parts of the developing world' (Moyo 2009, xix). This sentiment is often used by the authors cited to justify the BoP approach, which could be seen as its conceptual opposite. Part of the explanation also lies in the supposed success of micro scale market based solutions to poverty alleviation. Muhammad Yunus' microfinance "revolution" is a key example (Yunus 2003), but has been followed by micro insurance, savings accounts, the money transfer system M-Pesa and many others.

Another reason for this relationship stems from the UNDP. In 1998 the UNDP's *Human Development Report* focused on consumption. Influenced by the work of among others De Soto (1989), it argued that the poor suffer from inadequate access to markets. In Lima, for example, 'a poor family pays more than 20 times what a middle-class family pays for water' (UNDP 1998, 52). It also argued that the poor are undersupplied with goods on the open market. Essentially this is an issue of incentives, with the rich being a far more attractive market to the private sector than the poor. They saw new incentives, technological innovation and product development as essential for this to be improved (Ibid, 52). The UNDP subsequently produced a major report titled *Creating Value for All: Strategies for doing Business with the Poor* in 2008 on the back of their *Growing Inclusive Markets Initiative* and their 2004 report *Unleashing Entrepreneurship: Making Business Work for the Poor*. This expressed their 'strong conviction that the private sector is a great untapped resource for investment and innovation to achieve the Millennium Development Goals' (UNDP 2008: i).

Other explanations for this new relationship stem from movements in the business community. At a macro level the market liberalisation over the past 20 years is essential for understanding the relationship from a business perspective (Brugmann and Prahalad 2007, 3). Prahalad argues that the liberalisation seen in many LDCs since the 1990s has been a battle ground for civil society organisations (CSOs) and multinational corporations (MNCs) arguing about social responsibility, particularly labour and environmental standards (Ibid, 3). For example, a decade ago there were the anti-globalisation street protests at the World Trade Organisation (WTO) conference in 1999, following and preceding innumerable campaigns criticising MNCs for their practises in LDCs – the anti-sweat shop campaigns targeted against sports companies or the Anti-Nestle campaign for example. These pressures have, they argue, led to three broad trends. Firstly, utilising the internet NGOs have become regulators of the private sector, ready to hold companies to account through campaigns. Secondly, as a result companies have invested in corporate social responsibility units, publicity campaigns to counteract loss in reputation, and non-profit foundations. Finally, NGOs have emerged as partner organisations for MNCs looking to develop pro-poor business models. These "pro-poor business models" are the BoP models described at the start. In business circles, both academic and commercial, they have found expression, direction and momentum from the work of Hart (2002), Hammond (2002) and most well known, the late C. K. Prahalad (2002, 2009) whose first edition of *The Fortune at the Bottom of the Pyramid – eradicating poverty through profits* in 2005 became a bestseller and gave wide profile to the BoP concept.

1.2. The rise of the BoP approach

BoP models are catching on. Michigan and North Carolina Universities have founded academic centres dedicated to their study and MBA courses have emerged with a BoP focus. Businesses seem only to ready to sponsor and run conferences on the subject, and online networks such as 'Business fights poverty' have been founded to facilitate the discussion.

Donor involvement is also growing. DFID launched their Private Sector Development Strategy, *Prosperity for all: making markets work* in January 2009 and as of March 2010 launched the *Business Innovation Facility*, one purpose of which is to help businesses 'develop new, or adapt existing, products and services needed by the poor' (DFID 2008). The UNDP launched their *Business Call to Action* in 2008 with among others Gordon Brown and Bill Clinton, to profile businesses seen as particularly innovative and active in this field.

NGOs have also played a key role in this relationship. Their role as campaigners has already been highlighted but NGOs such as the International Business Leaders Forum (IBLF), the WBCSD and the World Economic Forum (WEF) have provided space for businesses to discuss opportunities and pushed forward the research side. Others such as CARE and Oxfam have worked with businesses on the ground.

These new relationships are seen by some as promising and others as uncomfortable, but most agree they are certainly surprising, particularly against the backdrop of the recent financial crisis. Regardless, perhaps it is only a small caricature to say that where 10 years ago NGOs were more likely to be supporting a Nestle boycott, in 2010 they are more likely to attend events such as Nestle's 'Creating Shared Value Forum' in London which brought together business, academia and NGOs to discuss a common trajectory.

1.3. How this study adds value

This study forms a theoretical critique of the BoP approach, analysing its assumptions and questioning its empirical foundations. It argues that a broader set of negative development outcomes are theoretically possible from increased access to products and services and uses findings from quantitative econometric studies to substantiate these points.

The strength of this study is to use multi-disciplinary research to analyse a subject that has, with only few exceptions, failed to be critically analysed outside of a narrow business orientated framework. It is motivated by the increased importance accorded to the approach by donors and the research failure highlighted.

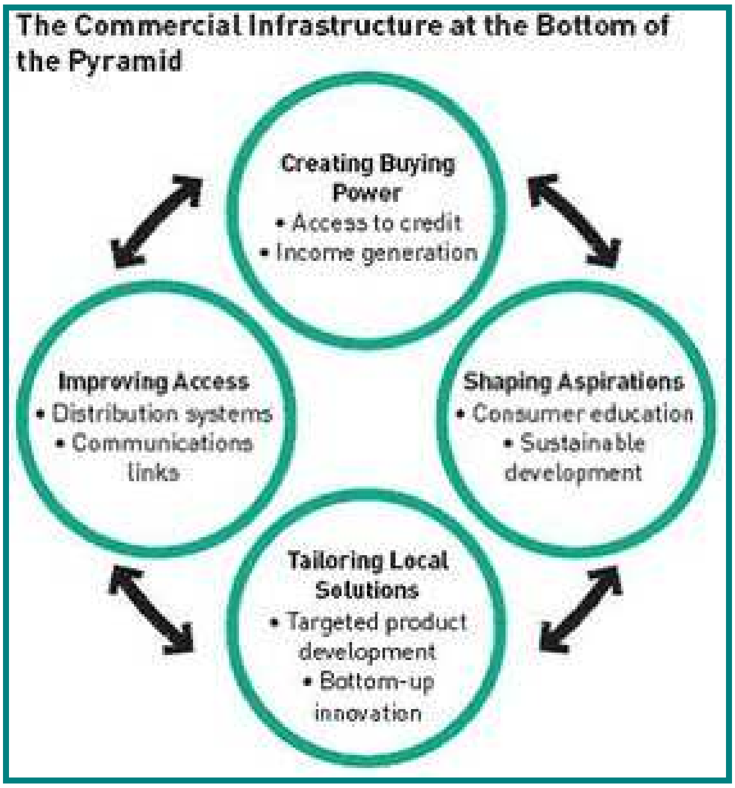
2. PART II: ANALYSING THE BOP APPROACH

The BoP proposal makes major claims about poverty alleviation. While strong on the business mechanics, it is weak on the development specifics – not only do different sources highlight different benefits, have omissions and differing emphases but there is also a general lack of supporting empirical evidence. Development meanwhile seems not to be listening, with very little academic input. This section expands this argument and shows the need for focused development research. It uses the following publications to exemplify the BoP argument, chosen for their prominence in the field: UNDP (2008), UNDP (2004), WBCSD (2005 A), WBCSD (2005 B), Prahalad (2009). Prahalad & Hammond (2002).

2.1. How does the BoP literature conceptualise the development outcomes?

As already mentioned, the BoP literature highlights the engagement of the BoP as both consumers and producers. Conceptually, it links the two, as shown in Figure 1 below:

Figure 1: The Commercial Infrastructure at the Bottom of the Pyramid



Source: Hart & Prahalad 2002, 8

The BoP proposal is presented here as a unified chain between increasing income ("buying power") and the provision of those products and services ("tailoring local solutions" and "improving access"). Three points should be made here. Firstly, there is no reason to suppose that businesses will be involved in *both* the production and consumption sides. Therefore, while this "commercial infrastructure" is theorised as a unit, it may not develop as such – in different locations, one or the other may be present. Secondly, there seems to be a bias in the literature towards the consumption side. As a cursory illustration, of the 11 featured case studies in Prahalad's 2009 edition of the *The Fortune at the Bottom of the Pyramid*, only 1 is focused on supply chain inclusion whereas 9 are concerned with the provision of products and services to the BoP. Thirdly, while the BoP literature conceptually distinguishes between these two areas, the magnitude of poverty alleviation resulting from one or the other is not delineated.

Analysing the consumption side in isolation from the production side is therefore warranted. So, how does the literature define the benefits from such consumption? To a significant extent different BoP sources highlight the same benefits, though they frame them differently and have varying emphases. The conceptualised benefits are listed below by source:

Table 1: BoP development outcomes

Prahalad (2009, 34-46; 2002)	*UNDP (2008, 22-23)*	*WBCSD (2008, 4)*
1. Freeing up capital 2. Increased information 3. Increased quantity, quality and range of consumption 4. Dignity and access to brands 5. Increased productivity	1. Meeting basic needs 2. Increased productivity 3. Empowering the poor	1. Greater access to quality products and services 2. Lower prices 3. Better quality of life 4. Increased productivity

Prahalad conceptualises the development outcomes as such:

1. Freeing up capital

It is argued that due to monopolies, inefficient distribution models and poor access, the poor often have to pay more for basic consumer items than the wealthy. This is known as the “poverty trap” and Prahalad argues BoP ventures improve on these thereby freeing up capital to be used elsewhere. This relates to WBCSD point 2 and UNDP point 3.

2. Increased information

It is argued that improved access to technology facilitates communication which increases access to information that can be ‘a potent force for assessing product quality, prices, and options available to them’ (Prahalad 2009, 39). This is not explicitly highlighted by either the UNDP or WBCSD though could be considered under the UNDP’s point 3 and WBCSD’s point 3.

3. Increased quantity, quality and range of consumption

It is argued that increased access to products is of itself inherently a benefit. This is perhaps comes under UNDP’s point 1 and WBCSD’s point 1.

4. Dignity and Access to Brands

It is argued that the BoP value brands showing an ‘aspiration to a new and different quality of life’ (Prahalad 2009, 38). Increased access to products allows the BoP to ‘acquire the dignity of attention and choices from the private sector that were previously reserved for the middle-class and rich’ (Ibid, 44). This could come under UNDP and WBCSD’s point 3.

5. Increased productivity

Finally, better information and new services can increase productivity of the poor (Hammond & Prahalad 2002, 35). This is explicitly highlighted by both the UNDP (point 2) and WBCSD (point 4).

2.2. A biased literature?

The most striking characteristic of the benefits highlighted by the UNDP and WBCSD is that they are so broad and not expanded in the documents cited. Generally few if any pages of the publications above attempt to conceptualise, examine and demonstrate development outcomes. This highlights a general characteristic of the BoP discourse: that it is significantly biased towards focusing on the business rather than the development side (London 2007, 12). The vast majority of the literature, by NGOs and international development organisations including and beyond the examples cited, focuses heavily on issues related to optimising the business models. Key questions include:

- How can new ventures be funded and supported, what form of internal organisation is most appropriate and how can internal buy-in be reached? What is the role of the "intrepreneur"?

- What forms of partnership are most effective, how can these be managed and at what point should they be developed and utilised? (IFC 2010: 12-15)

This can partly be explained by where the approach has emerged. Prahalad was a professor of business, and most other leading academics in the field come from US management and business schools. Naturally their focus is optimising the business and management strategies and not principally the development outcomes.

A further reason is arguably the comparative ease of measuring the business outcomes compared to development ones (WBCSD 2005, 65). For business the bottom line is profitability, coupled with social concerns that determine longer term profitability, measured through 'sales volumes, profits, returns on investment, and growth of market share' (WBCSD 2005, 65). Impact assessment (IA) of development outcomes is by comparison underdeveloped and expensive. Although there are IA frameworks for BoP initiatives, notably Oxfam's (2009) *Poverty Footprint* and Ted London's (2008) *Impact Assessment Framework*, these generally require high levels of investment which can cut in to the profitability of a venture.

Furthermore, establishing causality rather than mere correlation between the introduction of a product/service and a particular development outcome should be a perennial concern. If consumption of the product/service is seen as the independent variable and the development outcome the dependent variable there is a potentially high level of omitted variables biasing any observed relationship. Any IA methodology may also face obstacles such as self-selection or placement bias. Finally, it is also possible that businesses face a negative incentive to the implementation of an IA. They may fear a negative result would be found which could undermine it even being considered a BoP venture and would cast a shadow over any positive PR already gained.

2.3. Grand claims and shaky evidence

Turning the poor into customers and consumers is a far more effective way of reducing poverty

(Hammond & Prahalad 2004, 30)

A second striking characteristic is that the literature makes grand sweeping claims about its poverty alleviating potential. As an illustration:

> When the poor at the BOP are treated as consumers, they can reap the benefits of respect, choice, and self-esteem and have an opportunity to climb out of the poverty trap (Prahalad 2009, 125).

Similarly, WBCSD's (2005) message is that all companies in all industries can engage the poor as customers, 'thereby alleviating poverty and increasing prosperity and opportunity for all' (4). Inflated rhetoric is certainly not peculiar to this development discourse. For some NGOs it is partly a consequence of the need to compete for limited donor funds. It is also explainable by the fact that

NGOs and organisations “selling” this approach are aiming to get businesses on board and therefore need a powerful message to inspire action. Finally it could also be explained by the fact that majority of the people and organisations proposing this approach (excluding the UNDP) are not necessarily coming from an explicitly development focused “practitioner” background and these grand claims could be an indication of misunderstandings about poverty and its alleviation.

It is also important to note the differences between sources. The UNDP and WBCSD highlight increased productivity more than Prahalad (this is almost omitted in Prahalad 2009), who himself emphasises social transformation. This relates to the UNDP’s argument that ‘by conferring new hope and pride, inclusive business models can give people the confidence and strength to escape poverty using their own means’ (UNDP 2008, 23) but is not explicitly mentioned by WBCSD. Further, none of the sources conceptually distinguish between the impacts that different types of products have, though differing benefits are highlighted in the various case studies.

These differences are not dramatic but do suggest that the theorised development outcomes do not stem from systematic evidence on the benefits of such consumption. This is a critique raised by among other, Karnani (2009) and Walsh (2005). The only “evidence” used by all sources to show the approach can work are case studies. Given that the basic unit of analysis are companies’ ventures this is understandable. But Walsh argues that Prahalad, by his own omission, has a serious sampling bias. The successful case studies are highlighted while the many other studies that could be made but which have failed, are not. It is therefore very difficult to know the extent to which the approach does work, even if we know it can work. Monitor (2008), for example, examined 160 market-based models (35) and highlights only 7 that have ‘the best chance of success’ in terms of financial sustainability and scale (Ibid, 5). Furthermore, the case studies used by the sources in section 2.1 generally give no indication of development impact assessments, and their credibility must therefore be questioned.

2.4. What's development got to say?

Meanwhile, the mainstream academic development community is very quiet on the BoP proposal. As evidence for this every issue of 18 prominent development journals[3] was surveyed between 2000 and 2010 looking for articles on this subject. While the BoP ideas have been circulating for over a decade, only one article has been published in a prominent development journal directly assessing their claims in the past 10 years. This is Karnani's article *Romanticising the Poor Harms the Poor* from the Journal of International Development in 2009. Though not to take away from his arguments, it should be noted that Karnani is a Professor of Strategy at the Michigan Ross School of Business and not from an academic development background. Outside of academia a notable exception is Oxfam's 2005 case study of Unilever in Indonesia which addresses some of the issues raised in the next section. This is only an illustration but can be seen as indicating the lack of attention to this topic.

2.5. Judging others

The previous subsections have argued that the BoP literature places little emphasis on examining the development outcomes proposed and that there is little input from the development literature. Furthermore, there is reason to doubt the claims made by the BoP approach given the weak empirical methodology. The emphasis therefore has been on improving Prahalad's (2009) 4 A's – Awareness, Access, Affordability and Availability (11) but *by omission, this*

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[3] Journals surveyed between 2000-2010: Development, Development and Change, Development Policy Review, Economic Development and Cultural Change European Journal of Development Research, Journal of Development Economics, Journal of Development Studies, Journal of International Development, Oxford Development Studies, Public Administration and Development, Review of Development Economics, Studies in Comparative International Development, Sustainable Development, The Developing Economies, Third World Quarterly and World Development.

study argues, this has lead to the implicit assumption that the provision of a product/service will lead to a certain positive development outcome. There are two substantial omissions:

1. *Appropriateness.* The literature hasn't conceptually distinguished between the impacts of differing types of products. As a result, products which only have dubious development outcomes have been included under the BoP umbrella.

2. *How people consume.* The literature fails to recognise that people do not necessarily consume in a way that optimises development outcomes.

This study is principally concerned with the latter of these two assumptions, though the first is touched upon in the subsequent section. What can explain this significant assumption? Firstly, it can be seen as partly ideological. As Karnani (2009) argues:

> The BOP proposition assumes on ideological grounds, and without empirical evidence, that the poor must be maximising 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 (77).

Secondly, it is perhaps partly because 'despite the growing interest in BoP worldwide, there is still a lack of deeper studies that analyse the consumption behaviour differences of BoP consumers' (Barki & Parente 2010, 12). I.e. there is a general lack of empirical research and therefore understanding into how the BoP consume. But thirdly and most interestingly it is perhaps also explainable as a reaction against the potential connotations that the opposite of assumption two could have. This is an understandable opinion: why would anyone else be better positioned to judge someone else's consumption decisions? Surely any attempt to do so would border on illiberal arrogance? Indeed as the WBCSD passionately argue,

> We believe it would be *presumptuous and morally wrong* to prescribe to the world's poorest what would be good or bad for their development. No one has the right to dictate three billion people's aspirations. (WBCSD 2005, 19, italics mine)

Outside of the BoP literature the UNDP argue similarly,

> Individual consumers are assumed to be in the best position to judge their own needs and preferences and to make their own choices. It is fair to presume that people know what they are seeking and have reasons for their preferences when they opt for one consumption pattern over another. Even when a person may not be all that well informed, the idea that another person could judge her decisions better than she can is not, as a general rule, easy to accept.' (UNDP 1998, 41)

Although understandable, there is no *a priori* reason to believe that an individual's choice and the choice that will lead to a positive development outcome are necessarily the same. Following Sen (1999), "positive development outcomes" are defined as those which are part of the 'process of expanding the real freedoms that people enjoy' (36). *Having* the freedom to choose between products and services thanks to BoP ventures and *expressions* of that freedom are categorically different. A consumption choice can lead to individual losses (it can impinge on that individual's other freedoms) or perhaps more likely, can lead to losses for their dependants (it can hinder the freedoms of others). The BoP literature has failed to recognise this and therefore doesn't fully conceptualise all the development outcomes from BoP ventures. The following section makes this argument empirically, synthesising some of the latest insights on the topic from a variety of academic disciplines.

3. PART III: CONSUMPTION AND DEVELOPMENT AT THE BOP

This section begins by empirically substantiating the point that people do not necessarily consume in an optimal way through the findings of Banerjee and Duflo (2007) and a deeper analysis of tobacco consumption. It then explores the reasons underlying this and pinpoints non-unitary households, present-biased preferences and status concerns as important. The last of these is analysed in depth and used to examine an important strength and weakness of the BoP proposal.

3.1. Consuming to whose benefit?

There is evidence to suggest that poor people, like any other group, consume certain products at the expense of basic needs. Banerjee and Duflo (2007) use survey data from 13 diverse LDCs to argue that the poor do not spend their money only on commodities they 'greatly need' (145) but spend a significant amount on items such as tobacco, alcohol and festivals, money which could be reallocated towards food. This is a significant point given that the bottom decile (in per capita expenditure terms) consumes less than 1400 calories per day (Ibid, 149) and more food could therefore have health and potentially productivity benefits. The authors speculate that underlying this consumption pattern could be 'the fact that the poor *have more choice* in some countries than in others, because consumption goods are cheap relative to food in some countries' (Ibid, 145, italics mine).

Similar findings are well established in relation to tobacco consumption. Block and Webb (2009) use survey data from 33,000 households in rural Java, Indonesia, to show that low income households with a smoker reallocate a significant amount of income to tobacco consumption at the expense of food consumption. They find that households with a smoker spend 10% of income on tobacco, 70% of which is reallocated from the food budget (2). They argue that this consumption pattern is 'associated with a statistically significant reduction in the nutritional status of children in those households' (Ibid, 1). Wang *et al* (2006) research the impact of tobacco consumption in rural China using survey data from 4538 households. They compare the expenditure patterns of no, low, moderate and high tobacco consuming households, isolating how increased tobacco consumption is related to expenditure on basic goods (education, food, medical care etc) by controlling for demographic characteristics (1415). They find that households with high tobacco consumption spend on average 36%, 46% and 33.8% less on education, health and food, respectively (Ibid, 1420-1423). Efroymson *et al* (2001) conducted similar research in Bangladesh and found that 70.3% of men between the ages of 35-49 smoke, and 58.2% of men of men with a household income of less than $24 a month smoke (213). They argue that were the resources used for cigarettes reallocated towards food consumption this could decrease the high level of malnutrition observed in both adults and children. It is even argued that 'given the high rates of tobacco use among the poor, it is plausible that development gains over the past several years have been significantly offset by diversion of income to tobacco' (Ibid, 215).

Arguably these studies have limited external validity but they nonetheless do show that the poor are not in principle inherently different from any other group. These studies provide evidence that poor individuals consume in a way that is at the expense of a basic needs, both for them and critically, for their dependants. The next step is to understand why this is the case. Three reasons are highlighted here and are argued for in turn. They are not intended to be exhaustive:

1. Non-unitary households
2. Present-biased preferences
3. Status concerns

3.2. Non-unitary households

The unitary model of the household is one which 'envisages the household as a single unit, implying the existence of a single household welfare function reflecting the preferences of *all* its members' (Baschiera & Falkingham 2005, 2, italics in original). Although it is a surprising assumption given the commonality of domestic violence in both affluent countries and LDCs, it is often assumed, particularly in neo-classical economics, and reportedly the World Bank's poverty assessments (Ibid, 2). There is econometric evidence however to suggest that households as a "unit" are not pareto-efficient; that they do not necessarily act in a way that equitably allocates resources. This can be for both intrinsic and functional reasons (Ray 1998, 282). If this is the case it cannot be assumed that firstly, individuals within a household have the same preferences, and secondly, that resources are pooled and equitably allocated among its members. Consequently, any 'analysis of poverty that uses the unitary household assumption might provide an entirely wrong picture of the relative levels of poverty amongst men and women' (Baschiera & Falkingham 2005, 5).

Duflo (2003) tests for whether preference differences lead to inequitable resource allocation using a regression discontinuity approach to see whether the sex of a pension recipient in South Africa determines the amount of money invested in children within that household and whether there are biases in who the money goes to (8). She finds that the pension 'led to an improvement in the health and nutrition of girls, reflected in the weight for height of all girls and the height for age of the youngest girls. It had no discernible effect on boys. The effect is entirely due to pensions received by women' (Ibid, 21). The key finding here is that grandfathers do not tend to invest in the nutrition of their grandchildren, either male or female, whereas grandmothers tend to invest in their granddaughters. This suggests that households do not necessarily allocate resource equally or to the same extent.

There is also evidence to suggest that households do not allocate resources efficiently. Udry (1996) tests this assumption by comparing the marginal output of labour across plots of land owned by men and women in the same household in Burkina Faso. His aim is to 'attempt to determine whether differences in decision-making authority and nominal control over output from various plots are reflected in the allocation of resources across the plots of the household' (1017). The key finding is that 'plots controlled by women have significantly lower yields than other plots within the household planted to the same crop in the same year, but controlled by men' (Ibid, 1018). As a result, households could achieve higher productivity if resources invested on the man's plot were reinvested on the woman's, indeed up to 6% of output is lost due to this inefficient allocation (Ibid, 1010).

These insights help explain the individualistic and non-unitary behaviour of particular members of any given household acting in a way that may maximise a benefit for themselves but potentially at the expense of a disadvantage to others in their household. Relating these insights back to the BoP proposal, theoretically it is very possible that increased access to products and services may only be utilised by particular members in a household and not equitably among all its members. If increased access to products/services increases the overall opportunity to consume it is possible inequalities will be exacerbated.

3.3. Present-biased preferences

Another reason why consumption may not result in positive or optimal outcomes is because people have present-biased preferences. This is also known as a "dynamic inconsistency" and refers to the tendency for people to discount the future more heavily than the present.

Banerjee and Duflo (2007) argue that there is a tendency for the poor to, 'like everyone else, have problems resisting the temptation of spending money that they have at hand' (155). They argue that this behaviour can be partially explained by their access (or rather lack of) to financial services such as savings accounts. Putting this in reverse, the success of savings accounts where introduced can be used to highlight the existence of present-biased preferences. Recent micro econometric research corroborates this argument. Ashraf *et al* (2006) examine whether people will open a SEED account (Save, Earn, Enjoy, Deposits) which 'requires that clients commit to not withdraw funds that are in the account until they reach a goal date or amount, but does not explicitly commit the client to deposit funds after opening the account' (639). The authors found that this form of commitment technology had a significant impact on savings rates. After 12 months the savings of those with a SEED account (28% of those in that treatment group chose to open the account) increased by 82% compared to the control group (Ibid, 669).

These findings are relevant to the BoP proposal because again they give an explanation as to why people do not necessarily consume in a way that optimises development outcomes. Increasing access to affordable products and services may also exacerbate existing present-biased preferences by increasing the temptation to consume today at the expense of tomorrow.

3.4. Status consumption

To understand the role of status concerns in consumption and its relevance to this discussion a deeper analysis of consumption is required. Firstly it must be recognised that poverty is multi-dimensional, beyond material deprivation, and encompasses not only human "capital" but psychological realities of powerlessness and voicelessness (Chakravarti 2006, 365). Secondly, the role of consumption cannot be confined to meeting security and physiological needs (Guillen-Royo 2008, 535) but has social, psychological and moral dimensions.

These other dimensions of consumption have long been recognised. Discussing rich farmers, Adam Smith (1776) wrote of 'the foolish ostentation with which they commonly display that wealth, excite… indignation still more.' (Book V, Ch II). Veblen's *Theory of the Leisure Class* (1899) was the first to analyse these dynamics explicitly. Focused on the American leisured class he highlighted how they were prone to "*conspicuous consumption*", which is the wasteful public display of wealth which serves to reinforce ones social position. This understood consumption as a multi-faceted phenomenon that is critically both social and psychological. The relational aspect of consumption was the subject of the

French theorist Baudrillard's *The Consumer Society: Myths and Structures* (originally published in 1970). He argued that taken individually consumer items 'have no meaning: it is their constellation, their configuration, the relation to these objects and their overall social 'perspective' which alone have a meaning' (Baudrillard 1998, 59). Baudrillard understood the social logic of consumption as the 'production and manipulation of social signifiers' (Ibid, 60). One way this can be analysed is as '*a process of signification and communication*' (Ibid, 60, italics in original) – a language or code which gives meaning to consumption practises. The UNDP seems to point to this in referring to consumer items as 'words of a social language… without which a person would be excluded from full participation in society' (UNDP 1998, 38). The second way this can be analysed is as a '*process of classification and social differentiation*' (Baudrillard 1998, 60, italics in original) – where consumption signifies differences in a hierarchy. Once again, the UNDP seem to recognise this in writing of consumption for 'social rivalry' (UNDP 1998, 45). Consumption, by this understanding, relates to social structures, identities and well-being. It is a means of social projection, both to distinguish and integrate, and is a channel for mediating identity and thereby asserting self-esteem and well-being (van Kempen 2004, 207).

This understanding of the social-psychological dynamics of consumption has however been developed in the affluent world. It is therefore questionable whether transplanting these ideas to LDCs, particularly the BoP, is appropriate given the completely different levels of consumption and types of social stratification. Furthermore, there is a general cross-disciplinary absence of research into this field. Van Kempen (2005) notes that the subject has been 'comparatively neglected, either wholly or partly, in the economics literature' (3). Similarly, in the consumer psychology literature Chakravarti (2006) states that 'consumption issues surrounding poverty are not a significant part of our discipline's scholarly portfolio' (364). Research has been done by social anthropologists but these 'have shown a disproportionate interest in 'exotic' forms of status consumption in traditional small-scale societies' (van Kempen 2005, 5). Fafchamps and Shilpi (2008) argue that research from the affluent world shows that welfare and relative consumption are related by 'envy, aversion to inequality, relative deprivation, or a human propensity to judge one's achievement relative to that of others' (43). Due to lack of research however, it has remained unclear whether these are "universal" traits or a product of the societal structures and wealth of the affluent world. They therefore address two questions:

1. Do the poor care less about relative consumption than the non-poor?

2. Do people care less about relative consumption when they are isolated from markets?

The authors use regression analysis with household 'subjective consumption adequacy' data for 3373 households, both urban and rural, over 274 geographic areas in Nepal. The data includes questions regarding food consumption, housing, clothing, health care, schooling and total income. They conclude that:

> Nepalese households do not differ from their counterparts in more prosperous economies: their subjective assessment of the adequacy of their consumption increases with own consumption and falls with the average consumption of neighbours. The effect is robust, consistent across goods, and strong in magnitude (Ibid, 58).

The authors argue that their results suggest that level of market interaction does not determine the extent to which interpersonal comparisons are made. In fact, those that have less access to markets seem to care more. This study suggests that, at least within their sample, the perception of the adequacy of one's consumption is relative to social context. Micro econometric studies tend to have weak external validity but similar findings strengthen the argument. Guillen-Royo (2010) hypothesises that 'poor people in Peru assess their consumption domains taking into account, among other aspects, the level of consumption in their community' (4). To test for this she uses regression analysis on household survey and questionnaire data from 7 communities in Peru where 67% of participants are below the extreme poverty line and 95% are in poverty (Ibid, 6). Her key finding is that 'average consumption in the community is a significant predictor of satisfaction with children's education, family housing and clothes'

(Ibid, 10), meaning that participants find their consumption levels less adequate (in the respects listed) if they live in a community with higher consumption levels.

These theoretical and empirical insights suggest that the welfare of the poor in LDCs is, at least in part, a function of consumption relative to context. It has been shown that consumption can confer status, but not necessarily that people consume *on the basis* of the status that it confers. A study from Bolivia by Luuk van Kempen (2004) suggests this can be the case. Van Kempen conducted a field experiment in Cochabamba, Bolivia, in 2002 to test whether poor urban people are willing to pay a premium for a designer good that has no qualitative difference from exactly the same product, other than the fact that it has a designer label. The experiment asked participants how much they were willing to pay for two products which differed only in packaging. The key result was that 40% of participants were willing to pay a 'symbolic premium' for a designer label. It was also found that the likelihood of being willing to pay increased with television usage, decreased with lower income and increased with lower levels of education. In another study van Kempen highlights how people use deceptive status signalling through the consumption of counterfeit goods to increase well-being, which is here a function of the degree to which that signalling is effective (van Kempen 2003, 174).

This section has examined evidence that suggests poor people in LDCs, like anyone else, care about their relative social position and purchase items on the basis that they confer status. This status in turn relates positively to well-being. The following sections highlight how these insights relate both positively and negatively to the BoP proposal.

3.4.1. Increased well-being

'The compulsion to consume might be said to compensate for failure to rise up the vertical social ladder'

(Baudrillard 1998, 64)

As argued in section 2.1 Prahalad (2009) emphasises the socially transformative power that increased access to products can have. He notes that access allows the BoP to 'acquire the dignity of attention and choices from the private sector that were previously reserved for the middle-class and rich' (44). The insights from the previous section give this assertion an empirical and theoretical backbone. It seems that one of the significant benefits of the BoP proposal is to increase access to goods which confer a status, a more positive position relative to others, and thereby lead to enhanced well-being and "dignity".

There are few studies however that make this link in the BoP context. One interesting example is Barki and Parente (2010) who argue that consumption can compensate for low self-esteem and confer "dignity" onto the consumer. Based on in-depth interviews and focus groups with low income housewives in Sao Paolo, Brazil, they find that consumption of branded products 'indicate a clear demonstration of poor Brazilians' attempts to counterbalance their 'inferiority complex'' (16). In this context consumers fear being seen as "unclean" or "dishonest", values associated with the lowest class and also racist stereotypes. Going to shops with friendly staff, facilities and branded products helps associate them with mainstream society as illustrated in the quote below:

> *I feel like Gisele Bündchen* [a Brazilian supermodel]: *wonderful, gorgeous, with power and happy for being able to keep my family happy* (Ibid, 17, italics mine).

The authors also found an inconsistency between preferences for on the one hand low prices and on the other "dignity", where the consumers associated the supermarket which was perceived as preferable in terms of service, facilities etc, with lower prices, when in fact it was more expensive. They explained this through the 'halo effect' concept where positive qualities in some respects are transferred illegitimately to others.

These findings fit the notion of “compensatory consumption” where people compensate for social marginalisation through consumption that confers a status beyond their own lot. As Baudrillard (1998) argues 'it is quite possible that strictly consumer aspirations... in fact *compensate* for the serious underachievement of certain classes in terms of social mobility' (63-64, italics in original). Other anecdotal evidence supports this hypothesis; Alain Mathys, managing director of Suezís, Water For All Program claims ‘poor people want to become customers and receive a bill. They also want to pay for their bill. This is an important signal to them that they belong to society’ (WBCSD A 2005, 63).

If consumption can lead to gains in well-being, confidence, and a sense of inclusiveness in wealthier society, it is possible that it can be a route to overcome some of the psychological traits which are a consequence of poverty and prevent people from utilising resources available. Hence Chakravarti (2006) writes of the need for ‘fostering psychological capability’ (365), and this is related to the observation that ‘overcoming poverty means a change in aspirations’ (Samarasinghe 2009, 6).

Relating the BoP approach back to the social-psychological status consumption literature deepens the understanding of how consumption can increase well-being. This is important given that Prahalad (2009) gives gains in dignity and self-esteem conferred by status consumption pride of place in his analysis, at least in terms of emphasis. But this benefit also has a “dark side”. It will be argued that:

1. Status consumption can decrease well-being and ingrain discriminatory cultural norms

2. Status consumption can lead to sub optimal resource use

3.4.2. Decreased well-being and perpetuation of negative cultural norms

The flip side to the positive well-being argument above is the possibility that increased access to affordable products can have a negative social/psychological impact. As explained, products can confer status that allows the consumer to feel included in more affluent society. "Inclusive" products can as a result distinguish that consumer from peers who do not have such conferred status. Such consumption could therefore have a negative externality, creating status anxiety and decreased well-being for those unable to consume such a good. Van Kempen *et al* (2010) highlight another possibility. They study subjective well-being in areas of Orissa, India, and find that increased consumption of status goods actually decreases well-being *for the consumer*. They explain this counterintuitive finding with the suggestion that if an individual and her peers increase "conspicuous consumption" she will have to increase such consumption further to retain relative positioning, thereby increasing the financial burden and decreasing well-being (13-14).

A second potential outcome is that status consumption can perpetuate discriminatory cultural norms. This is arguably the case with Hindustan Lever Limited's product 'Fair and Lovely', which is a skin whitening cream marketed in Asia, the Middle East and Africa. The product plays on cultural norms that see lighter skin as superior and as something to aspire to that will bring success. In 2003 the product came under public scrutiny in India after producing an 'air hostess ad'. The ad

> showed a young, dark-skinner girls 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 neither 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).

Surprisingly it was included as a model case study in Hammond and Prahalad (2004). They describe a young female street sweeper 'expressing pride' in being able to use the 'fashion product' which means she 'has a choice and feels empowered' (36). Karnani (2007) notes that this is the exact phrase used by Fair & Lovely to respond to criticisms of their adverts in India (10). The impact of BoP advertising on well-being more broadly requires deeper analysis that is beyond the scope of this study. Oxfam (2005) have raised ethical concerns about the way that products, particularly in the fast moving consumer goods (FMCG) sector, are marketed to people on limited income (96-97). From their Unilever case study they note that marketing can not only respond to values but also shape them.

3.4.3. Resource reallocation

'If you provide a valuable enough product/service in an affordable manner, they will find a way to pay for it.'

(WBCSD 2005, 63)

The second more substantial negative consequence of status consumption is that it can lead to socio-psychological pressures to consume goods *at the expense* of basic needs. Having argued that people do not necessarily consume in a way that optimises development outcomes, that people care about their relative consumption, and that people consume on the basis that it confers status, leads to at least the possibility that one consequence of increased access to products under the BoP proposal will be negative resource reallocation towards those goods at the expense of more important uses. As Oxfam (2005) write, 'for every purchase there is an 'opportunity cost' of not purchasing something else' (96). Reallocation of resources on the basis of status is recognised by UNDP (1998) literature:

> If social standards are rising faster than incomes, consumption patterns can become unbalanced. Household spending for conspicuous consumption can crowd out such essentials as food, education, health care, child care and saving for a secure future (59).

The principle of reallocation at the expense of basic needs was already established in relation to tobacco, but is there evidence of such consumption on the basis of status? Samarasinghe (2009) makes this argument in relation to alcohol. He argues 'visible expenditure allows the poor too to validate themselves, to demonstrate – for example, that they are not penniless. Disastrous spending may be driven by the need for social esteem which is, unfortunately, the biggest determinant of self esteem' (5). Banerjee and Duflo (2007) argue that 'provided that eating more would increase their productivity, it is unlikely that the low levels of good consumption can be explained by a simple lack of self control' (163). The poor spend money on items that do require savings and therefore the self-control that overcomes present biased preferences. They therefore argue that 'the need to spend more on entertainment rather than on food appears to be a strongly felt need, not a result of inadequate planning' (Ibid, 163). Arguably this is suggestive evidence of the same phenomenon – resource reallocation away from basic goods towards goods that confer status (and clearly fun as well). Van Kempen *et al* (2010) provide more empirical evidence in support of this hypothesis using data from interviews with 697 individuals from regions in Orissa, India, as well as data on ownership of cameras, DVDs, jewellery, mobile phones, televisions, wristwatches, and the past week's recreation expenses (social and religious). They show that 'motivated by positional concerns, people do not passively accept their relative rank but instead consume conspicuous goods to keep up with the Joneses' (1). They argue that this 'always comes at the account of the consumption of basic needs' (Ibid, 1).

Arguably many of the products promoted under the BoP approach could be consumed on the basis of status and have resource reallocated towards at the expense of basic needs. Prahalad (2009) gives profile to Casas Bahia, a Brazilian shop selling home appliances such as televisions as well as furniture, and emphasises the innovative "passbook" model which allows customers to purchase the product and pay back between 1 and 15 months (208). The study has been criticised on numerous counts, notably it is argued it does not serve the real BoP (Karnani, 2006) and that its products do not alleviate poverty in any meaningful sense (Walsh 2006; Davidson 2009). Karnani (2006) also argues that the payment plan does not improve the inherent affordability of the product but rather gives 'instant gratification at a price' (10), this could relate to the present-biased preference previously highlighted. Improving access to products normally sold to the rich clearly can have benefits, but one consequence could very well be that it offers a further temptation which is indulged at the expense of basic needs.[4]

One response to these arguments is to say that the types of products highlighted in these case studies are "old style BoP" and do not reflect the nature of the products nor the approaches being advocated today. Hart *et al* (2008) have developed the BoP 2.0 approach which:

> Requires an embedded process of co-invention and business co-creation that brings corporations into close, personal business partnership with BoP communities. It moves corporations beyond mere deep listening and into deep dialogue with the poor, resulting in a shared commitment born out of mutual sharing and mutual learning (2).

This is an interesting development contrasted with the "selling to" approach of BoP 1.0. Although there is not space for a deep analysis of the approach here it seems that firstly, the wider discourse, exemplified by Prahalad (2009) for example, has not caught up.

Secondly, the BoP protocol website seems lacking in any examples of this new BoP 2.0 approach being implemented outside of the US. This may be because the business model seems much less attractive from a business perspective. Contrast the possibility of an "untapped unlimited market" of BoP 1.0 with a process of "co-invention" which is a total investment of corporate resources into a start up which is presumably also "co-owned" with people in marginalised communities.

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[4] It is important to recognise that consumption could lead to negative resource reallocation but also enhanced status and therefore well-being. It is difficult to see how these are then weighed up in development terms. For example, positive well-being but decreased nutrition seem quite incommensurable, though intuitively it seems the magnitude of both should be considered. The argument here about the importance of *how* people consume for the BoP proposal is strengthened when considering the impact of an individual's consumption choice on their dependants.

Thirdly, the arguments presented have weight not solely on the basis of examples so far cited. Though the arguments may seem clearer when discussing skin whitening cream or televisions, intra-household inequalities, present-biased preferences, status consumption and its consequences can operate with many more products and services. An interesting example is to analyse the use of mobile phones from this perspective.

3.5. A short case study of mobile phones at the BoP

Mobile technology can be seen as a key BoP product and service bringing increased business efficiency and productivity, micro financial transfer systems such as M-Pesa, and the potential to transform social connectedness for the better (Vodafone 2009). It cannot be presumed however that improving the "4 A's" will not also lead to some of the negative development outcomes highlighted above.

It must first be noted that some of the BoP spend a considerable amount of income on mobile handsets and their servicing. Agüero and de Silva (2009) conduct 9540 interviews based on a randomised stratified sampling survey at the BoP in Bangladesh, India, Pakistan, Philippines, Sri Lanka and Thailand. They find that the poorest quintile (in per capita income) spend on average over 20% of their income on mobile phone servicing (10-11). A 2009 Vodafone study in India found that households with average monthly incomes of US$129 spend an average US$54 on a handset then almost 40% of income on credit, though there's no indication of a randomised methodology and they do note that a minority skew this figure upwards. The study also finds that 51% of people report highest or high use of a phone for non work related 'social interaction' which would not seem to increase income or productivity (Vodafone 2009, 40).

Given the high levels of both monthly expenditure and non-economically productive use it is essential to ask whether such consumption comes at the expense of more basic needs. That this question is not addressed in the Vodafone study is telling and supportive of the argument made earlier about the limited conceptualised development outcomes in the business literature. It is also surprising given elsewhere a Vodafone study casually notes that 'tens of millions of people in countries such as Tanzania and Kenya are using mobile phones even though they are struggling to meet their basic needs' (Vodafone 2004, 1). There is evidence from other contexts that this is a question worth asking. Diga (2007) conducted interviews and focus groups with villagers in Katote, Wakiso District, Uganda and found that in some cases families spent less on food in order to purchase phone credit. She notes that 'landless asset-deficient households' were most vulnerable and as a result of buying phone credit 'would fail to meet nutritional requirements or fail to improve other essential amenities like water, toilet facilities or electricity' (66). She also notes that people purchase phones on the basis of status concerns (Ibid, 73).

Both the study by Diga and that by Vodafone highlight the gender dynamics behind such consumption, substantiating the non-unitary households argument. Vodafone (2009) find that 87% of primary users (defined as the person who owns or uses the mobile most) are male (39). Diga found that in her sample the male heads of households tended to control the mobile phone and limit others usage of it. The gender inequalities underlying household resource use could therefore significantly determine the poverty alleviating impact of mobile phones to the detriment of women.

Analysing mobile phone access and usage in terms of resource allocation and non-unitary households deepens an understanding of their impact on poverty. It substantiates the argument that these considerations have wide applicability for the BoP proposal.

IMPLICATIONS & CONCLUSION

The purpose of these arguments has not been to dismiss BoP ventures as "anti-poor" or normatively assert that certain people should not consume any of the products mentioned. Rather it has been to question the poverty alleviating claims made by the BoP literature and argue that the provision and consumption of a product or service will not *necessarily* lead to a positive development outcome. The emphasis has been on showing possible development outcomes that are not considered in the BoP literature but that must be taken into consideration as the BoP approach gains more traction within the development community. This suggests that more research into BoP consumption patterns is needed.

The BoP approach is presented as "win-win" for both business and the poor. As this study has argued however, the process does not necessarily lead to win-win outcomes for both sides because people can consume in ways that lead to negative or sub optimal outcomes. The proposal is therefore inherently biased in favour of business. A consumer requires a business to benefit (to be profitable) to also benefit but a business doesn't require a customer to benefit (positive development outcome) for it to be profitable. Businesses may not therefore have the incentive to theoretically examine development outcomes. This gives weight to the argument that more research is needed from the development community.

This study has questioned the poverty alleviating claims made by the BoP proposal. It has argued that the BoP literature focuses on business models at the expense of properly conceptualising and empirically justifying the development outcomes. It has argued that this has led to the assumption that increasing the "4 A's" will lead to positive outcomes, but that this ignores *how* people consume. Possible negative outcomes have been highlighted on the basis of non-unitary households, present-biased preferences and status concerns. While this latter topic highlights the well-being gains from such consumption it points to negative resource reallocation as a serious concern. It is hoped that theoretical contributions of this sort will enable the BoP proposal to be more critically and effectively utilised to alleviate poverty.

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