

Two Book Comparison

The Blue Sweater; The Fortune at the Bottom of the Pyramid

MGT 8803 – Social Entrepreneurship

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The Role of Philanthropy, MNCs, and Early Stage Investment in Developing Countries

I want to start this paper by getting all of my thoughts on philanthropy out of the way. Before reading these books I preferred investment in sustainable growth and operations to charity in many situations. Those feelings were only strengthened by what I read in *The Blue Sweater* (TBS) and *The Fortune at the Bottom of the Pyramid* (TFBOP).

Charities do have a very important place in the grand scheme of aid. No amount of economic development could have given starving people a dinner tonight in sub-Saharan Africa, or built emergency shelters for victims of the Haiti earthquake, or offered immediate relief for the survivors of the Rwandan genocide. In these and similar emergency situations, charity is a vital and necessary avenue to helping those who are suffering. In my mind, charity exists to fill an immediate need; however, it should not be confused with a sustainable path to economic development. I think it is fair to wonder how many fewer people would be starving if, rather than sending continuous packages of food to Africa and calling it a day, we taught them sustainable farming techniques that would slow desertification. Not only would such an initiative improve the lives of sub-Saharan Africans for generations, it would provide them with a skill they could use to grow a business selling crops to others.

One of the critical reasons that philanthropy should not be used for projects dealing with sustainable growth is that it builds an environment of expecting handouts, but the funding is very fickle. In TBS, author Jacqueline Novogratz talks about women across Africa who had learned to use the phrase “working capital,” despite not knowing the meaning, as an answer to grant proposals in order to receive money. However, according to both Novogratz and TFBOP author CK Prahlad, one reason people give to charity is to feel better. Also, they are very quick to move their money towards the latest cause célèbre, hurting the poor people who they were originally funding. Novogratz summed this up well with a quote about her dealings with philanthropy groups, “There seemed neither rhyme nor reason to the ways different groups took on their projects, and no one seemed to pay attention to the finances.” These are not the conditions that allow sustainable growth to take hold and permanently affect the poor.

People not in life threatening conditions who receive handouts from charity learn not how to better themselves, but how to play the system for maximum gain. Similarly, the charities are

not suited to attempt to move into the realm of economic development. As we saw in the CARE: Kenya case, charities are good at raising money and distributing it to needy people. They are not investment firms, and do not have the people on staff who can make sure that they are putting their money to good use when the goal is earned income instead of impact. Charities, in my opinion, should stick to helping the poorest of the poor survive and giving aid following disasters, both natural and man-made, while leaving the economic development efforts to business people who are more skilled in these areas.

The Blue Sweater and The Fortune at the Bottom of the Pyramid focus on two different methods of economic development for impoverished countries. TBS focuses on author Jacqueline Novogratz's experiences leading entrepreneurial projects and micro-finance funds in Africa, India and Pakistan. TFBOP is more about how large companies can profit from the poor while at the same time building better lives for them. Based on the examples given in each book, either of these methods is a reasonable path for improved economic development. However, I think it is clear that these two approaches each offer a distinct set of positives and negatives.

The stories in TBS are all about developing entrepreneurs in high-poverty areas. Micro-finance firms like Novogratz's Acumen Fund invest in local entrepreneurs who have ideas for profitable and sustainable ventures, and aid them in navigating the legal and regulatory hurdles present in most of these areas. Ideally, as people gain an understanding of how markets work and are able to build wealth, it will bring more money and sustainable growth to the impoverished areas. Her theory is that the "developing world needed management skills" rather than just people with good intentions. Once entrepreneurs have developed these skills they can continue to build new business, each time increasing the wealth and commercial options for their communities. Over time, more people would learn value business skills and a middle class would begin to form.

While she has impacted thousands of people in her lifetime, Novogratz concentrated a few dramatic examples in her book. One of the most persistent examples was her work with The Blue Bakery in Rwanda. When she first visited the bakery they were spending \$650 a month, received through charitable aid, to employ twenty women making 50¢ a day. Had they just distributed that money instead without the look and feel of a business, each woman would have received three times as much. Novogratz worked with the women, teaching them how to keep

track of expenses and costs, helping them learn how to sell, and showing them how their work had a direct impact on their earnings. After a few months, this bakery that was once losing hundreds of dollars a month was now profitable and paying its female employees up to \$2-\$3 a day; enough money that they were able to feed their family and send their children to school.

This and other stories show the type of impact that creating a small enterprise can have. The people living in these poor neighborhoods are the ones who benefit directly since the wealth creation stays local rather than being shipped off to a large corporation. Also, many of these investment funds focus on female entrepreneurs. Research has shown that women are more likely to spend their newfound money on the family, such as putting children through school. Not only does this make a difference in the near term, because the family has more money to buy food, clothing, and medicine, there is also the long term effect of a better educated population, which is highly correlated with increased standards of living.

However, this book also showed that there are some serious hurdles towards growing small businesses in the poorest regions of the world. One concern that came up early in Novogratz's career in Africa was the local women feeling like they were being belittled by the organizations from America. After she was sent to help, the local women in charge of the effort in Côte D'Ivoire were resentful, not of Novogratz, but that the group sending her just assumed they knew what the women wanted and needed. Nobody asked them for their opinions or needs. This is unfortunately representative of what you see from many aid organizations who believe that they are experts despite having little or no direct experience. In order for these programs to succeed, the local community must be engaged at all stages and their input must be seriously considered so that everyone buys in to the plans.

Another reason some groups have problems instituting a program like this is that it requires you to say "No" to people, which is not something that people who are giving out aid like to do. If you look at some of the initial work that people like Constance were doing in Rwanda, a lot of it was not economically viable. She had set up a project where women were growing sunflowers and pressing the seeds into oil, but no one had done any research on its feasibility as an actual business. In fact, Novogratz points out that many officials wanted to work on projects that "had little to do with making a business work." The projects that investment firms fund, if they are to succeed, cannot simply be about keeping people busy. The

organizations must focus on a handful of businesses and work diligently with them to make sure that they have the best chance of succeeding.

A third problem is that there are only so many people who are cut out to be entrepreneurs in this world. For one, you need people who can understand what goes in to making a business. One of the reasons Grameen Bank was so successful was that Bangladesh had a history of trading, so people were somewhat familiar with markets and how they worked. Also, you need people who are willing to take risks and make themselves responsible for the success or failure of a business that will provide others with jobs. It is a small percentage of the population who has this understanding of markets, risk tolerance, and ability to imagine a different future than what others see. To be successful you must hunt these people down and nurture them as they learn and grow.

When an organization learns to minimize these three risks, as Acumen Fund seems to have done, they can put themselves into a position to have a significant and direct impact on poor communities.

In TFBOP, author CK Prahalad lays out the basic demographics and market realities of the bottom of the pyramid (BOP) consumer and then addresses ways in which large corporations can and have sold to them for mutual benefit. His hypothesis is that “[i]f we stop thinking of the poor as victims or as a burden and start recognizing them as resilient and creative entrepreneurs and value-conscious consumers, a whole new world of opportunity can open up.” These types of solutions will, according to Prahalad, build markets for the poor, give them the opportunity to buy the things they need at lower costs, and introduce them to fairer examples of a market economy than the local loan sharks and brokers they are used to.

Of course, there are many new realities that companies focusing on the poor as consumers must adjust for. BOP markets are much different than the first-world markets these companies normally serve. They are based on small unit packages, low margin per unit, and high sales volumes. This may even mean selling units at 1¢ each and finding new creative ways to formulate the product and the packaging. However, we can see that companies like Hindustan Lever Ltd (HLL), the Indian subsidiary of Unilever, has adapted to these market realities and built thriving businesses.

HLL had been selling their products to the upper class of India for years. Sensing that there was unmet opportunity, they devised a strategy to start selling to the poorest people. To reach these customers, HLL created over a million small-scale entrepreneurs through their Shakti Amma program. These women are responsible for selling HLL's products in their villages, which allows them to learn about products, prices, and processes for dealing with customers. This knowledge teaches them about how to run a business. Also, their earnings are based on their sales so they see a direct impact from their work and have a strong incentive to work hard. HLL also benefits from this program. One of the big problems with selling to BOP consumers is the high cost of sales because it is so difficult to reach them. By using local women as salespeople, HLL outsources the marketing and sales aspects to people who are experts in how their communities operate and know exactly what will appeal to which consumers. They were able to both broaden their market and reduce their costs to sell.

One thing that I think the book glosses over, however, is how important entrepreneurs are to this ecosystem. HLL was not the first company to introduce a new type of detergent to the poor consumers, for instance. Nirma was an Indian startup that developed a detergent powder for use by the poor. They formulated a product to work under a running tap or in a stream instead of in a washing machine since that was how the poor had to wash their clothes. Using a standard detergent was not feasible as the low water pressure would not cause the soap to work as designed. HLL then came in and copied some of Nirma's product design and practices to enter the market. Yes, the poor were better off now that there was competition which would keep the price down and potentially offer different attributes, but HLL should not get all of the credit. Without entrepreneurial businesses like Nirma I do not believe the HLL would have identified the need to reformulate a detergent for use by BOP consumers.

After reading both books, I do wonder whether this TFBOP model is better than the TBS model since the profits of the venture are not staying in the community to the same extent. Yes, some of these firms (HLL and ITC are both mentioned in the book) do employ local women to act as entrepreneurs and "run" their areas, but the overall profit margin is still going to the corporation. I am certainly not anti-corporate, but it seems to me that the best way to encourage development in the poorest areas is through demonstrating to the people who live there that they

can control their wealth by working hard. I believe that this is best exhibited through local entrepreneurs who come up with ideas, work hard at them, and start making lots of money.

There were many more things I could talk about and examples I could highlight for the benefits and dangers of all types of aid and business dealing with the poor. However, I hope through these few I have summarized well the need for each development strategy as a way to improve the lives of the poor. Charity is an important way to offer immediate aid to those who are suffering. Giving people mosquito nets can allow them to live healthier lives, which also lets them focus more on work than simply survival. Novogratz shows this through her example of Eliarehemu, the Tanzanian man who was able to buy a mattress and clothes, and grow crops for food once he was able to remove constant Malaria symptoms. However, charitable donors are too fickle to be relied upon for long-term and sustainable economic development.

Early stage investment is, in my mind, the best option for kick-starting economic development in poor areas. It is an extremely difficult undertaking and must be run with the utmost care, but these ventures build wealth that stays in the community and demonstrate to others that it is possible to make a living without having to skirt the lines of legal enterprise. MNCs are another very important component to an improving economy, but I believe they should come in after some local economy has been built up. MNCs, while they can offer goods and services that are not native to the poor locations, do not keep much of their wealth creation in the communities. Yes, some of the money stays with whoever is responsible for selling the products to the end consumers but the rest leaves. While this still allows economies to grow, and provides a valuable service, I believe it is better suited for areas where there has already been some local development.

All three of these options play an important role in the improving the economic realities faced by the poorest people in the world. By working together with their relative strengths and knowledge, and also incorporating local governments, charities, early stage investment and MNCs can have a great effect on the poor around the world.