

UN-HABITAT - WORKING GROUP A

Bottom of the Pyramid Approaches for Urban Sustainability

Background Paper – Draft 0

At the Fourth Session of the World Urban Forum held in Nanjing in November 2008, the private sector decided to organise two working groups which would be based on the themes of Urban Governance and Bottom of the Pyramid Approaches for Urban Sustainability. Through their work, the groups will also contribute to the preparation of Core Business Principles for Sustainable Urbanization that will be presented at the Fifth Session of the World Urban Forum to be held in Rio de Janeiro in May 2010.

Given the challenge of urban poverty, with 1 billion slum dwellers projected to rise to more than 1.4 billion by 2020, UN-HABITAT is well aware that the private sector is not merely a part of the solution, but instead is a vital partner that must be engaged if the world's cities are to achieve sustainability. The challenge is first and foremost to address the shelter and basic services needs of low-income segments in urban areas. A further challenge is to scale-up operations through new partnerships in order to address the daunting challenge of rapid urbanization. Ensuring harmonious cities starts by dealing with the slums and finding affordable solutions for those deprived from decent housing and other essential services who find themselves systematically marginalized by mainstream urban market economics. The private sector can play a pivotal role in the process of empowering those at the bottom of the economic pyramid leading to a sustainable and stable urban community.

This first draft is intended to guide the working group in the first place. The working group shall update its content and add recommendations based on concrete examples presented by the companies to be inserted in this document.

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Introduction

It is agreed that urban poverty is one of the principal stumbling blocks towards urban development and sustainability. The very essence and realization of a harmonious urban ambiance is put into jeopardy by the stark reality of poverty, which in recent times has been growing by leaps and bounds in urban centers across the world. Unprecedented urban population growth, stagnating urban economic growth to correspond to the needs of the growing population, mismanagement of urban resources and a general lack of common and personal responsibility of urban citizenry are some of the factors that are pushing urban poverty to unmanageable levels. In terms of population growth it is estimated that approximately 180,000 people are added to the urban grid each day worldwide! At this rate, at least 65% of the world's population will be living in urban areas by 2030.¹ UN-HABITAT projects that by 2030 two-thirds of the world's population will be urbanized. A scarier statistic is that by 2020, there will be 1.3 billion people living in urban slums across the world.² We can conjecture that more two-thirds of the urban population will be poor.

Indications are that the poor are urbanizing faster than the global population as a whole.³ This means that a growing part of the urban population is increasingly becoming poorer over time. Urbanization of poverty is being experienced by a gradual erosion of the middle class population, degeneration of once modest suburbs to squalid neighborhoods and the sprawling of slums and informal settlements. The main corollary of this phenomenon is political and socio-economic instability, which may result to failed states. In the event of social unrest and political upheavals the private sector is usually the immediate target and casualty leading to loss of property and lives in the process. Being the sector that suffers most, it is imperative that it comes up with measures and means of addressing the growing inequalities and disparity that exist in the urban world. One way of doing this is to open up to the large urban population that finds itself at the bottom of the economic pyramid of market economics (BOP).

The bottom of the pyramid approaches to urban sustainability is based on two fundamental principles, one that is market-centric and another that is production-centric. Both approaches ultimately lead to a common goal; i.e. reduction of urban poverty through economic and social empowerment, and access to goods and services for all. The concept of creating market and production centers among the BOP populace has been discussed by academicians and tested by business practitioners with measurable levels of success. The BOP as markets or producers poses a set of challenge to the private sector, which if addressed appropriately will transform the current urban horizon, by unleashing the true potentials that lie in the BOP and establish the urban equilibrium that will ultimately result in the creation of cities of justice, peace and harmony.

There is an urgent need to address the systematic marginalization of BOP populace in the urban environment. By so doing we shall be taking responsibility for the creation of sustainable and harmonious urban centers which are a prerequisite global security and welfare. If the recent food riots in cities in Asia, Latin America and parts of Africa are anything to go by, the future of global stability and peace lies in the creation of stable and sustainable cities, which in return must address the challenge of urban poverty. UN-HABITAT strongly believes that private sector partnerships and *modus operandi* are pivotal to practical sustainability in cities, particularly in delivering sustainable urbanization at scales that have immediate and long lasting impact on the urban poor.

¹ UN-HABITAT, Global Report on Human Settlement, 2005

² Business for Sustainable Urbanization, 2007

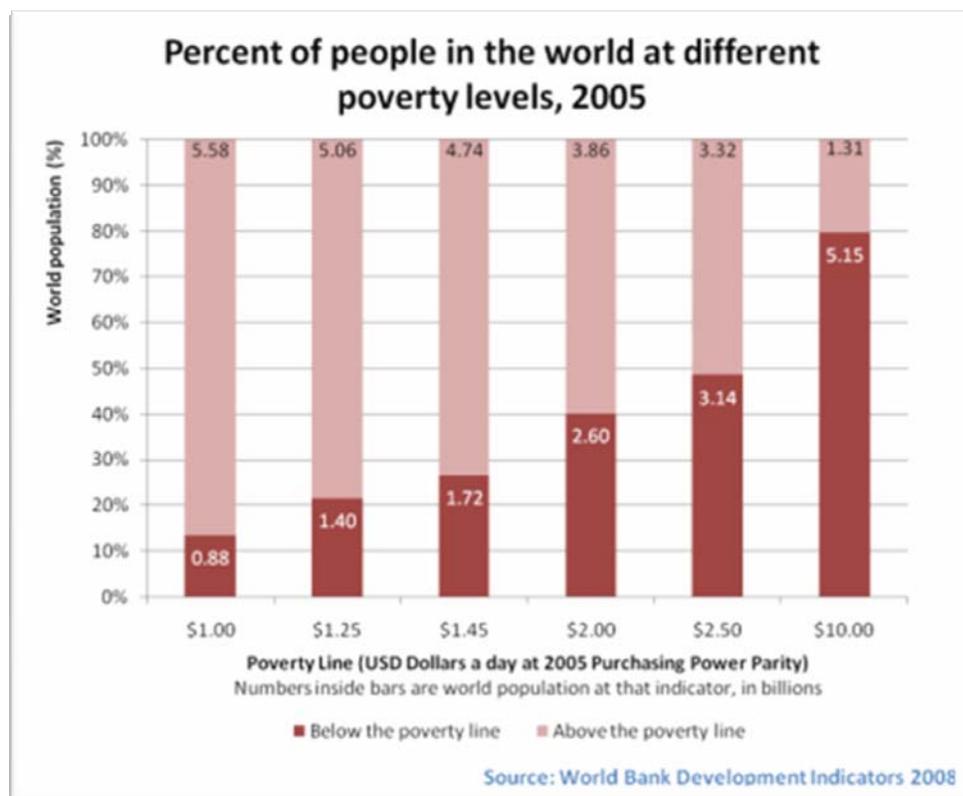
³ Ravallion *et al.* 2007

1. The Bottom of the Pyramid Concept

"If 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 will open up"..... C.K. Prahalad.

Background

The urban challenge presents a unique set of circumstances that are dynamic and random with no clear cut answers. It first presents a set of opportunities that if tapped can unleash the full urban economic potential. Secondly it presents obstacles that if not addressed can easily result in the total annihilation of the urban world as we know it. One of the real threats to sustainable urbanization is urban poverty. It establishes a sophisticated and intricate system that results in a vicious cycle of poverty where conventional market economics condemns millions to poverty, while awarding a few with prosperity. The World Bank affirms that over 3 billion people live on less than \$2.50 a day, and with the recent global crisis, this number is bound to grow unprecedentedly.⁴



Using the above figures and the definition of World Resources Institute of BOP as those with incomes up to and including \$3,000 per capita per annum, the global BOP market consists of a population of 4.5 billion. This population is increasingly becoming urbanized and there is need to develop strategies that will ensure that this growing population of urbanized poor has access to essential goods and services for a decent and humane

⁴ World Bank Development Indicators, 2008

existence. The Bottom of the Pyramid Approach presents us with a unique framework with which we can use market economics to address the challenge of urban poverty without having to renege the core principles of market economics. The BOP approaches are not social solutions to the problem of urban poverty; to the contrary they are economic solutions. The approaches postulate the creation of structured and efficient markets at the bottom of the economic pyramid. They also present the opportunity of partnering with non conventional economic sectors with the aim of tapping into the creative and innovative technologies and ideas that are mushrooming among BOP entrepreneurs.

1.1 Nature of the Concept

The BOP argument originally developed by C.K. Prahalad, affirms that businesses can gain competitive advantage and therefore sustained profitability by targeting the poor at the bottom of the economic pyramid. By expanding the global market system to include over 4.5 billion people who live in relative poverty would have the result of direct benefits and expanded opportunities for poor communities, while at the same time providing new profit centers for the private sector.⁵ Hence if firms are innovative to tailor goods and services that meet the economic realities and needs of the BOPs a mutual benefit exists for the private sector and the BOPs, which in turn results in a more stable urban economy.⁶ Despite the substantial global population this segment consists of, it is poorly served and dominated by the informal economy and therefore inefficient and uncompetitive.⁷ The basic assumption of many executives has been that this segment of the global market is unstructured; making it inefficient and uncompetitive, and unviable; due to the per capita income levels. While this assumption holds strongly when looking at BOP segments in rural areas, the urban phenomenon presents a different circumstance that makes such assertions fly in the face of reality.

Urbanization presents the possibility of concentrated BOP populations and therefore the possibility of structuring the BOP for marketing purposes. Up-scaled intervention by the private sector into this segment may be what is urgently needed to turn on the wheels of efficiency and market competitiveness in terms of consumption and production of goods and services. This can be achieved by creating business models that deliberately aim at merging the informal economy of the BOP with the mainstream, formal economy. The BOP concept postulates the creation of viable urban economies through the development of business models that are inclusive, responsible to society and the environment, efficient and effective by using innovations and ideas that are generated by the majority of the urban populace who happen to be in the BOP segment. The concept further focuses on alleviating poverty and inhuman existence through the use of market economics.

The BOP concept is build around three pillars that can also be termed as its key principles. These are the principles of availability, accessibility and affordability. From the perspective of the private sector, to gain strategic competitive advantage that is sustainable and profitable; one needs to address the immediate and distant needs and realities of the BOP. These realities and needs are encrypted in the basic code of the BOP as:

1. Value-conscious consumers who aspire to fully participate in and benefit from the mainstream economy
2. Consumers who have been accustomed to living in expensive economies due to limitations and negative externalities of market economics.
3. Resilient and creative entrepreneurs who over time have perfected the ability to produce using recycled or limited resources.

⁵ Prahalad, C.K., & Hart, S.L., 2002

⁶ Aspen Institute, 2007

⁷ Hammond, A.L., *et al.* 2007

4. Entrepreneurs who possess part of the solution to the urban challenge and only require recognition and support from the mainstream economy.

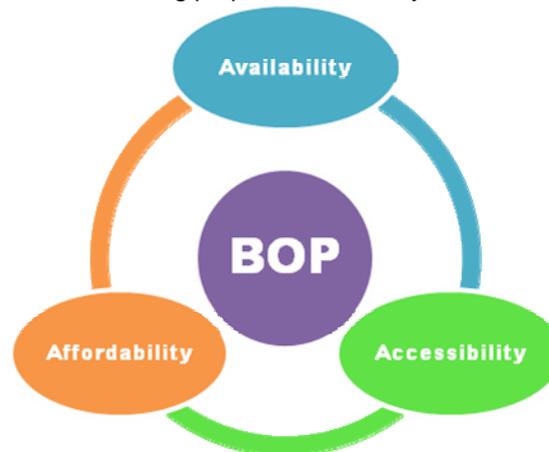
From the perspective of the BOP, goods and services must not only look at them as latent markets, but also as sources of entrepreneurship that can further transform resources and even finished goods to meet customized and specific needs of the urban society.

1.2 BOP Three Pillar Principles

While there is a strong demand among the urban poor for better services and quality goods, as well as a demonstrated ability to pay for those services and goods, the failure of the private sector to provide adequate services and goods is in fact a contributor to poverty. Because of the deliberate exclusion of the urban poor from mainstream urban market systems, they live in very high cost economies. For instance, slum dwellers without access to municipal water pay 4 to 100 times as much as their middle and upper class counterparts. They also pay 30% to 50% more for food items that are sold in small unit packages.⁸

The availability, accessibility and affordability of private sector goods and services is bound to change the situation of the urban poor and in turn address some of the challenges facing urban centres today. By expanding the global market system to include the urban poor would provide new markets for the private sector and at the same time create opportunities for poor communities. For example, the wireless telecommunication industry in Africa and Asia has been able to create a sustainable win-win situation for the private sector and the urban poor. Mobile communication allows an incredible whole range of new ways to conduct business for the small slum-based entrepreneurs. This industry has created systems and channels that have increased availability of affordable mobile phone service for the poor without creating cost structures that translate to higher prices for the poor. Instead it has opened and created new business possibilities for the poor through access to technology, which a few years back was considered the prerogative of the middle and upper class.⁹ The BOP three pillar principles possess the following questions to the private sector:

- Are the goods and services in the market available to the poor?
- How accessible and at the disposal of the poor are these goods and services?
- Can the poor afford what is being proposed to them by the markets?



⁸ UN-HABITAT, *Business for Sustainable Urbanization*. 2007

⁹ Auclair Christine, *The Habitat Debate*, 2008

Availability

Goods and service availability refers to the prevalence of the product required by the consumer on demand. The higher the immediacy levels of products to the end user the better the ability to create brand or product loyalty. In most cities, particularly in the developing world, the BOPs reside in informal settlements or slums. The nature of these neighborhoods makes it difficult for them to have goods and services on demand, if the conventional market systems remain standardized. To overcome the weaknesses of the conventional market system to avail goods and services to this segment, BOP entrepreneurs have developed their own models that make essential goods and services available to the populace. While some of these models have covered the gap left by the conventional market mechanics, they at times fall short of accepted standards due to lack of regulatory framework and the informal nature of the BOP markets.

Some of the headaches that most private sector manufacturers and service providers face – counterfeiting and piracy – can be solved if the question of availability is addressed. Since the original products are not available the falsified alternatives are always available. The counterfeiting industry is a multi-billion dollar enterprise, further proving the viability of the BOP markets. Many firms have invested heavily in policing activities to stem the influx of counterfeits to the BOP market (mainly). A suitable strategy of addressing the counterfeiting problem is to avail the real brands to the BOP, in this way brand loyalty will be instilled. Such a move would benefit the private sector by stemming the problem of counterfeits and also benefit the BOP by availing to them quality goods and services. As mentioned before, the poor are value-conscious consumers and therefore expect to get the best that the market avails. But due to being locked out of the mainstream economy, they have been left to their own means.

The role of the private sector should be to address ways of availing goods and services to the BOP within the market mechanism. To achieve this feat will require critically reviewing the methods of production and operation that are used to service the markets. To avail goods and services to the BOP requires a system that optimally leverages economies of scale to make product availability profitable. While engaging the BOP in availing goods and services, the private needs to respond to the following questions:

1. What is the nature of the corporate strategies we can formulate and implement to stimulate BOP entrepreneurs and retailers to adopt acceptable standards without negatively impacting the availability of essential goods and services?
2. What form of partnerships can we create with the BOP that will ensure goods and products are always available on demand?
3. How do we adjust our value chain to achieve high product immediacy to the BOP?

Accessibility

The principle of accessibility addresses the key area of goods and service distribution. It is a critical principle for it not only addresses the issue of availing products but also the possibility of partnership between mainstream distribution channels blending with informal channels to create a seamless network for the flow of goods and services to the BOP markets. While many firms are willing to move into this market by modifying their products and services, so that they are accessible to the poor, these firms have faced the challenge of a suitable supply chain system that meets the needs of the urban poor without having an adverse effect on the cost of operation and active participation of the poor in the process of product and service delivery. The main barriers to serving the urban poor profitably are small individual transactions and the lack of existing distribution channels in slums and informal settlements.

While by themselves most of these networks are inefficient and uncompetitive, they constitute an outreach infrastructure that can serve multiple purposes, one of which is the delivery of valuable products and services to the poor. These networks are the cornerstone on which to establish a new delivery infrastructure capable of reaching hundreds of millions of people through BOP approaches. Such collaborations will sensitize the slum entrepreneurs to the possibility of building new types of commercial collaborations that would facilitate their access to the specialized infrastructure and financial resources typically available only to conventional businesses, and to significantly increasing their impact.

At the same time, businesses will need to change their perception of the BOP entrepreneurs by recognizing them as co-designers of solutions and finding ways to compensate them fairly for the assets and skills they bring to distribution channel partnership. Alternatively, they could also consider adopting and scaling-up specific elements of social innovations developed by civil society organizations. From providing access to basic services (water, sanitation, electricity) to distributing building materials, there are multiple value-added steps that constitute the housing value chain. Businesses will be able to enter low-income markets more rapidly and profitably if they learn to tap into the knowledge and resources of citizen organizations and BOP entrepreneurs. Multi-partner collaborations are required to create an “ecosystem” because many services are interdependent (such as access to land, basic services, financing and the construction process.)¹⁰.

Affordability

This principle is essential because it addresses the economic power of the BOP. The first element that increases affordability is the pricing that is directly affected by the cost structure of the production process. If a business organization increases efficiency in the production process through adoption of better technologies and reduction of wastefulness, the cost structure will enable it to price its products targeted at the urban poor lower. Coupled with affordability that is achieved by a low cost structure business model, the types of products and services to be made available are also important to consider. Food, shelter, water and sanitation, energy and transport, waste management, financial services, security and clothing are the immediate needs of the urban poor. Increased affordability to these goods and services will play a significant role in radically reducing the levels of poverty in most urban areas.

The volatility of this market can be attributed to the low levels of income that each family unit commands. When the market is considered collectively and as an almost homogenous whole, the economic worth it commands is sizable. The most pessimistic image of this market painted by BOP skeptics ranges the market as worth \$1.2 trillion, which is a significant size.¹¹

¹⁰ Schmidt Stephanie (2006), Housing the Poor by Engaging the Private Sector and Citizen Sectors: Social Innovations and ‘Hybrid Value Chain’. Paper submitted by Ashoka: Innovators for the Public, World Urban Forum, Vancouver.

¹¹ Kamani, A., 2006

2. Bottom of Pyramid Approaches

Background

The BOP approaches present us with a purely market-based system of addressing urban challenges. The BOP approaches not only open new markets and business opportunities for the private sector, but also offer channels for commercial revitalization and ethical commitment, which are key pillars for urban sustainability. The BOP approaches perceive the poor not as individuals waiting for humanitarian assistance of charity, but value-conscious consumers and resilient entrepreneurs. The two BOP approaches of viewing the poor as consumers and entrepreneurs is centered on the market mechanism that makes profit the incentive for the private sector to make essential goods and services accessible, available and affordable to the urban poor.

Urban sustainability requires the inclusion of marginalized groups like the poor into the mainstream economic and social life of the city. Other approaches like CSR, product subsidies or philanthropy may require separate contributions from the private sector and allocation of development funds from the public sector, and in themselves may face problems of sustainability. The BOP approaches require no separate contributions or funds but operate within the business premise of investing for returns. The economics of BOP strategies presents a sustainable paradigm for addressing urban challenges. Though these strategies do not offer total solutions, they provide viable contributions in addressing these challenges.

2.1 The Poor as Value-Conscious Consumers

The urban poor as consumers also aspire for the benefits that the urban economy offers to other economic classes. The conventional thinking of many private sector players is that the BOP markets are essentially basic and therefore only focused on acquisition of basic goods. While this is true, it does not eliminate the fact that the urban poor are willing to compromise on quality of goods and services. The BOP market is a potential market that with the right approach and business model is easy to access and service. Most of the BOP markets are geographically concentrated and homogeneous, making targeting, segmentation and reach considerably cheaper compared to other market segments. These markets offer businesses economies of scale due to the sheer numbers involved. The Kibera slums of Nairobi, Kenya in Africa cover an area of 1.5 square miles, which is the same size as New York City's Central Park. In this area live about 1.5 million slum dwellers. The concentration and homogeneity offers a potential market that is easy to service and at the same time play a greater role in improving the living conditions of the slum dwellers

The urban poor live in very high-cost economies that are at times 5 to 100 times as much as other urban groups. To have a greater impact, the BOP approach for urban slums, particularly in the provision of shelter and basic services solutions may require the involvement of large private sector firms, local financial institutions, medium-sized enterprises as well as small entrepreneurs, mostly from the informal sector who are essentially the drivers of most developing urban economies. The advantage of integrating the efforts of firms in the private sector and the informal sector is the creation of synergy that translates into the development of goods and services that respond to the needs and

realities of the urban poor. This may also result in exploiting economies of scale to lower cost of product and service provision to the poor. Such developments are in the form of small-unit packaging, affordable pricing, partnering with slum distribution networks and points of sale for easy market accessibility and even innovation of alternative production and selling models that can serve other markets. There are several examples that have shown the effect of BOP market strategies that have resulted in the creation of sustainable business ventures and the improvement of the lives of the urban poor.

2.2 The Poor as Innovative Entrepreneurs

The urban poor live in very high-cost economies that are at times 5 to 100 times as much as other urban groups. To have a greater impact, the BOP approach for urban slums, particularly in the provision of shelter and basic services solutions may require the involvement of large private sector firms, local financial institutions, medium-sized enterprises as well as small entrepreneurs, mostly from the informal sector who are essentially the drivers of most developing urban economies. The advantage of integrating the efforts of firms in the private sector and the informal sector is the creation of synergy that translates into the development of goods and services that respond to the needs and realities of the urban poor. This may also result in exploiting economies of scale to lower cost of product and service provision to the poor. Such developments are in the form of small-unit packaging, affordable pricing, partnering with slum distribution networks and points of sale for easy market accessibility and even innovation of alternative production and selling models that can serve other markets. There are several examples that have shown the effect of BOP market strategies that have resulted in the creation of sustainable business ventures and the improvement of the lives of the urban poor.

The Asian Development Bank took up an initiative of promoting Small Piped Water Networks in Manila, Philippines; Hanoi, Vietnam and Ahmadabad, India by involving local small scale water providers. UN-HABITAT, as the ADB partner, developed a similar model in the three cities of Madhya Pradesh, India, where local private sector entrepreneurs, in association with the community are providing piped water supply to individual households on a full cost recovery basis. The framework allows for: (a) adoption of a demand-responsive approach along with community participation in the project; (b) community's full ownership of the assets; and (c) 100% responsibility of O&M with the community. These are quick-win projects implemented over 8-10 months and are under implementation in selected slums settlements of the project cities of Gwalior, Indore and Jabalpur in Madhya Pradesh (India).¹²

Services that aim to promote entrepreneurship and income generating activities based on a BOP market model are playing an important role of economically empowering the poor and turning slums into centers of innovation and production. Telecommunication technology is providing new ways of transacting business that is accessible to the poor; this has made the telecom services sector as one industry that has provided an avenue for the urban poor to access markets as producers and providers of services. Some of the companies in the sector have done it through ensuring the poor benefit from expanding access to networks by offering low cost operations, low tariff models and low denominations of air time.

¹² UN-HABITAT, Business for Sustainable Urbanization, 2007

3 – The BOP Paradigm: Private Sector Applications

3.1 BOP and Responsible Business

The notion of responsible business goes beyond CSR or philanthropy. It calls for the private sector to practice the art and science of wealth creation by taking into account the society and the environment within which they operate. In the short-run, responsible business initiatives require investments of firms' resources, but in the long-run it results in attributes that are essential for sustainable urbanization. The resource investment required to achieve responsible business may be prohibitive for most SMEs, but if considered within a partnership paradigm with BOP entrepreneurs the benefits outweigh the costs involved.

The BOP paradigm that perceives the poor as entrepreneurs is bound to benefit the private sector in its endeavor to become more responsible to society and the environment. The BOP entrepreneurs over time have become accustomed to producing more from less. The innovativeness of these entrepreneurs lies in their ability to recycle wasted resources and using production methods that contribute to a smaller ecological footprint compared to the conventional methods of production. It should be noted that commercial activities account for over 70% of Carbon Dioxide emissions in cities, and without adoption of greener methods of performing commercial processes will leave cities as the main emission centers of toxic gasses that are warming the planet. By partnering with BOP entrepreneurs the private sector can harness the ideas that may be required to save the planet from the adverse effects of global warming.

Responsible business demands that private sector firms invest more funds in research and development to improve the quality of their goods and services, and also to realize production at the optimal point of efficiency and effectiveness. To say that the current predominate means of production are unsustainable is an understatement. Due to the nature of the BOP, the BOP entrepreneurs have adopted some of these unsustainable methods as low scale levels and made them friendly to the society and environment. This is an indication that BOP entrepreneurs have a lot to contribute to responsible business initiatives. On account of their innovativeness and resourcefulness it is fitting that the technologies developed by the private sector should be made accessible to the BOP entrepreneurs who have the skills and ability of converting high technologies to appropriate technologies. While many private sector players may raise the issue of not being able to commercially benefit from their inventions, if this is the case, it is imperative to realize the apart from commercial benefits of technological innovation, the social benefits through increased accessibility of such technologies to the BOP entrepreneurs. The alternative economic sector dominated by the BOP entrepreneurs is ablaze with ideas and creations that due to their low scale application remain inefficient. By adopting such ideas through partnering with these entrepreneurs, the private sector will be unleashing the full potential of such innovations, and therefore creating a significant impact on the drive towards sustainable urbanization.

3.2 BOP and Commercial Revitalization

“How can we urbanize without adversely affecting the society and environment?” The answer to this question lies on the quest for commercial revitalization by the private sector. Due to the negative effects of commercial activities on the society and environment it cannot be business as usual. One of the roots of private sector renewal and revitalization lies in operating and serving the BOP markets. The BOP markets present a new commercial infrastructure that is pegged on four (4) factors that may create the much needed market pull for disruptive technologies that will ultimately replace unsustainable technologies.¹³



Source: C.K. Prahalad & S.L. Hart, 2002

The new commercial infrastructure aims to address the double BOP approaches of poor as consumers and entrepreneurs. The model leads to the creation of sustainable and viable relationships between the private sector and the BOP populace. Creating buying power that is viable among BOP families needs to increase access to credit and putting in place methodologies that will increase the earning potential of the poor. For the private sector, particularly the financial sector, this is a business opportunity in itself. Innovations such as the Grameen Banking have demonstrated the financial capacity of the BOP entrepreneurs and how small financial facilitation can result in higher returns for both the borrower and the lender.

Innovations initiated at the BOP by the private sector must be supported by consumer education that will positively influence the choices of the BOP populace. The underlying idea of serving the BOP creatively involves developing solutions that are low cost and directly impact development. Such innovations to be successful must address both the aspiration of the private sector and the BOP markets:

1. They must achieve price reduction for optimal market penetration and profitability

¹³ C.K. Prahalad & S.L. Hart, 2002

2. They must be scalable and usable in multiple settings
3. They must be affordable for the BOPs
4. They must result in products and services of acceptable standards and quality.¹⁴

Few private sector players have designed their distribution systems to adjust to the realities and needs of the BOP. Improving access postulates a situation where the private sector either redesigns its channels to meet the needs of the BOP markets, or partner with existing systems operated by BOP entrepreneurs to ensure the essential goods and services reach the poor at affordable prices. The knowledge gained by the private sector in operating at the BOP level will contribute the learning curve of the sector and have the overall impact of increasing competitiveness of firms in other market levels.

Ultimately if the private sector is to survive it must broaden its economic base and include the larger segment of society. By doing so the private sector will be using market mechanism to bridge the gap between the rich and poor which is largely an economic divide than anything else. Tailoring products and services to fit the BOP realities require bottom-up solutions that are driven by a specific user-fit approach. For example the poor do not have the necessary cash and space to leverage the benefits of *“inventory convenience”* like the middle and upper economic classes. Therefore essential services and goods have to be packed in a way that makes small purchases possible. Take the example of water supply. The poor may not have the storage facility to store water for future when the taps run dry as is a frequent phenomenon in many urban areas. Water service providers hence must ensure that there is water consistently flowing in the pipes or invest in huge storage facilities on behalf of the poor.

The implication of such a model may result to the emergence of new strategies of serving the BOP markets. The strategies can be based on price performance, quality management, sustainability and profitability. This commercial infrastructure will induce the private sector to focus on development of products and services that are accessible and needed by the BOPs. The development of such products and services will be informed by realistic market intelligence attained through the collaboration with BOP entrepreneurs resulting in attaining the optimal quality-cost point. The end result is the emergence of a renewed private sector that is capable of producing more from less, operating at greener levels and maximizes profit for itself and the society at large. The benefit to the private sector is a renewal on the way to conduct business in the long run that will guarantee sustainable development and urbanization.

Price Performance	Quality Management
<ul style="list-style-type: none"> • Product development • Manufacturing • Distribution 	<ul style="list-style-type: none"> • New delivery formats • Creation of robust products for BOP realities
Sustainability	Profitability
<ul style="list-style-type: none"> • Reduction in resource intensity • Recyclability • Renewable energy 	<ul style="list-style-type: none"> • Investment intensity • Margins • Volumes

Sources: C.K. Prahalad & S.L. Hart, 2002

¹⁴ C.K. Prahalad & S.L. Hart, 2002

3.3 BOP and the New Ethical Commitment

Urban sustainability is a prerequisite for private sector growth in urban centers and the creation of harmonious cities. It requires pushing the current market systems towards the creation of wealth at optimally sustainable points while respecting human dignity and environmental concerns. The BOP paradigm requires a corresponding ethical paradigm shift. These new generation market models must be based on sound and unquestionable ethical principles that place human dignity and environmental concerns before profiteering and resource exploitation for wealth creation.

The new ethical commitment will act as the control mechanism that will inform the private sector of the acceptable levels required to realize sustainable economic growth in our cities. The commitment will aim to foster business participation in sustainable urbanization by rewarding good business practices that show sensitivity to human existence and the environment, while penalizing organizations and individuals that behave irresponsibly. These ethical principles should be anchored on a multi-sectoral and stakeholder approach where the business community creates openness to dialogue, learn and acquire practices from other stakeholders that would enrich the private sector. For example the private sector can tap into the innovativeness of the informal sector, which if turned into large scale operations leads to optimal operating points, commercial revitalization and increased commitment to ethical practices that go beyond meeting the bare minimum requirements of law. Some of the new ethical commitment should be based on:

- Socio-centric and environ-centric approach to business strategy
- Minimization of harm to society and environment
- Maximization of benefits for all stakeholders
- Responsible use of scarce resources
- Partnerships and collaborations to optimize the benefits of the best practices available
- Accountability and transparency
- Good corporate governance and management

Conclusion

The Bottom of the Pyramid approaches offers the private sector an opportunity to lead the way towards urban economic and social transformation in the 21st century. What is fundamentally required is the elicitation of the adventurous spirit of the sector to push the frontiers of market economics to new heights. The risk-taking attitude of the entrepreneurs of the industrial revolution who opened the wells of wealth to humanity through inventions and innovations needs to be relived in our times.

Despite the idea of serving the poor profitably being with us for over a decade, little has been done to demonstrate the true calling of the private sector, as the entity of risk takers who utilize existing market opportunities to create wealth. While the skepticism of many in the private sector is based is real, the reality of the BOP latent potential is real too. By dedicating more investments into research and development, forming alliances and partnerships with BOP entrepreneurs the road to unleashing the full potential of the BOP market will be realized in our live time.

The private sector is bound to benefit from serving and working with the BOP populace. The synergy created in the process is what will translate into a research ground where innovations and ideas will be developed tested and implemented before being moved up

to other markets and segments of the urban society. The bottom-up approach to the creation and development of solutions to the urban challenge will place the private sector on a track of sustainability and offer real benefits to the wider society. The challenges that rapid urbanization present us with makes it imperative that we create working models and framework that will enable the private sector to tap into the reservoir of the whole society, including the BOP to come up with economic solutions to the economic problems that threaten the very fabric of urban living today.

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