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Evaluating “The Bottom of the Pyramid” from a Fundamental Capabilities Perspective

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Evaluating “The Bottom of the Pyramid” from a Fundamental Capabilities Perspective¹

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Abstract:

Prahalad’s thesis is extremely vague, indeed it identifies seven versions. The paper then turns to examining the 12 major cross-country case studies that Prahalad uses as corroboration for his views. It argues that the evidence that Prahalad offers to support his claims fails to do so, or, proves to provide counter-examples. Furthermore, the case study approach that Prahalad uses is methodologically weak for the strong claims that he makes. Placing the argument in a broader perspective, it is argued that the bottom of the pyramid approach can do more harm than good if it, as Prahalad does, plays down factors which have been important to large scale poverty reduction in countries such as South Korea, China, India and Vietnam. After assessing the book on its own terms, the paper asks whether or not income poverty is the correct space in which to evaluate the impact of business activities. The concepts of income poverty, multidimensional poverty and capability deprivation are discussed and a notion of fundamental capability deprivations as being the relevant evaluative space is defended. It is argued while the Bottom of the Pyramid approach fares better on these criteria, but still leaves a lot to be desired. The eradication of deprivation requires more than self-interested firms.

Keywords: *Prahalad, Bottom of the pyramid, Poverty.*

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Introduction

“An important and insightful book showing persuasively how the private sector can be put at the centre of development, not just as a rhetorical flourish but as a real engine of jobs and services for the poor.” (March Malloch Brown, Administrator, UNDP)

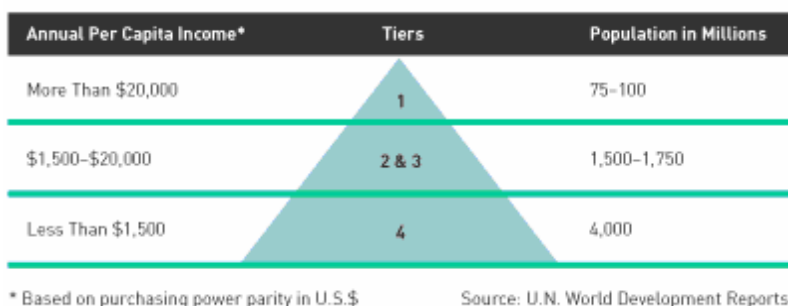
C.K. Prahalad’s book “The Fortune at the Bottom of the Pyramid, eradicating poverty through profits, enabling dignity and choice through markets” has received a great deal of attention from CEOs, politicians and was voted by The Economist to be amongst the top 25 books published in 2004. And yet, as Prahalad states in his preface, an article together with Stu Hart covering the same theme that was sent to journals was rejected by reviewers as it failed to, in Prahalad’s words “follow the work of development economists” (Prahalad 2006:xvii) view because they were “offering an alternative to the traditional wisdom of how to alleviate poverty.” (Prahalad 2006:xvii) The thesis was too radical to be understood.

This paper examines “The Fortune at the Bottom of the Pyramid”, it begins with an examination of the thesis that Prahalad is propounding and then goes on the 12 major case studies that Prahalad uses as corroboration for his views. After assessing the book on its own terms, the paper argues that we should employ an alternative evaluative space based on the notion of fundamental capabilities inspired by the works of Amartya Sen (1999). After arguing the case, Prahalad’s claims are reassessed. It is argued that a bottom of the pyramid approach fares better on the broader and more important, criteria relating to fundamental capabilities, but that it is nonetheless extremely weak. A reformulation of Prahalad’s thesis is suggested which although more plausible would be far less contentious and suggests that Prahalad has far less new to offer than he professes.

The bottom of the pyramid (BOP)

Traditionally, the World Bank has worked with two income poverty lines, an absolute poverty line of \$1 a day or less, and one of \$2 a day or less. The first line was chosen to reflect “the inability to attain consumption levels which would be deemed adequate in only the poorest countries” and was established by examining the poverty lines poor countries had established, \$1 a day was found typical. The \$2 a day or less line reflects poverty lines commonly employed in lower-middle-income countries (World Bank 2000/2001). Prahalad’s notion of “bottom of the pyramid” or “BOP” refers to the approximately four billion or more people who live on or below \$2 dollars a day, he depicts the situation diagrammatically as follows (his data are taken from the UNDP):

Figure 1 The world economic pyramid



Though purchasing power of each individual at the BOP is low, their collective income represents an enormous market which, as Prahalad argues, can be a huge business opportunity. He also maintains that selling to those people at the BOP will benefit them as consumers – big business can serve the poor profitably.

It must be said that Prahalad is somewhat imprecise about the exact number (or estimate) of those at the BOP. For example, in the Preface he refers to “those 4 billion people who live on less than \$2 a day” and in the *next paragraph* “The four to five billion people at the BOP” (Prahalad 2006:xvi). Obviously, there is considerable difference in the numbers in income poverty, in market size and in purchasing capacity between four billion and four to five billion, the consumers on which business is to profit, and in the number of those living in income poverty which business is, *at least*, to reduce. Such imprecision would be a bane to both businesses and policy makers. A further oddity is that Prahalad offers no justification for choosing \$2 a day and not \$1. The World Bank’s preliminary data for 1998 suggested that there were approximately 1.2 billion people living on \$1 a day or less (World Bank 2000/2001) suggesting there are approximately 2.8 billion in the one to two dollar a day range. Clearly at such margins there can be a large difference in purchasing power and living standards depending on whether one has one or two dollars a day. Can business reach all those at the BOP or only the 2.8 billion in the one to two dollar a day range? What happens if we sell goods that cost more than one dollar a day? Are we to say that the consequent lack of, say, nutrition is acceptable? The disaggregation and its consequences are not discussed by Prahalad.

What is Prahalad’s thesis? Surprisingly, this is equally vague, and at least seven can be identified:

- 1) The advertising thesis (the front cover)
Poverty can be *eradicated* through profits.
- 2) The optimistic thesis
“Our best allies in fighting poverty are the poor themselves. Their resilience and perseverance must give us courage to move forward with entrepreneurial solutions to the problem. Given bold and responsible leadership from the private sector and civil society organizations, I have no doubt that *the elimination of poverty and deprivation is possible by 2020. We can build a humane and just society.*” (Prahalad 2006:112, emphasis mine)
- 3) The co-creation thesis
“The vision that is presented here in the following pages is the co-creation of a solution to the problem of poverty. The opportunities at the BOP cannot be unlocked if large and small firms, governments, civil society organizations, development agencies, and the poor themselves do not work together with a shared agenda. Entrepreneurship on a massive scale is the key. This approach will challenge the prejudices about the “role of value added” of each group and its role in the economic development of the BOP:” (Prahalad 2006:2).
- 4) The co-creation poverty *reduction* thesis
“Poverty reduction can result from co-creating a market around the needs of the poor.” (Prahalad 2006:xvi)
- 5) The poverty *alleviation* thesis

“...an alternative to the traditional wisdom of how to alleviate poverty.”
(Prahalad 2006:xvii-xviii)

6) The social transformation thesis

There will always be “the rich,” but a measure of development is the number of people in a society who are considered middle class. **More important, social transformation is about the number of people who believe that they can aspire to a middle class lifestyle.**” (Prahalad 2006:xvi, emphasis in the original)

7) The broader thesis

“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 2006:99, emphasis in the original), and the sub-subheading on the cover.

Clearly, there are huge differences between the theses and, consequently as to whether the cases he uses to support his “thesis” can do so or not. Are we simply dealing with income poverty or something broader? Is poverty going to be eliminated by 2020, or just reduced or alleviated? Is this going to be achieved through profits alone, or are other actors going to be involved, and if so, which ones? This is not just quibbling about words, for example, it makes an enormous difference to four billion people as to whether their income poverty is going to be alleviated or eradicated. It makes an enormous difference to policy makers as to which actors should be included in their plans – just big business, business in general, governments, local governments, NGOs, the poor themselves, international financial institutions? This is an appalling blindness to the substantial consequences of in-exactitude.

If “Prahalad’s thesis” is to get off the ground at all, it is necessary to extract a “minimum hypothesis” which, if not corroborated, should lead us to reject the BOP approach. The hypothesis I suggest is as follows:

Income poverty (\$2 dollars a day or less) can be substantially reduced by profit seeking businesses taking the leading role (by being the key player) in serving the BOP consumers, and working together with the poor and a variety of institutions.

If poverty is not substantially reduced, or if other actors than business play the key role in poverty reduction, then Prahalad’s thesis does not hold water. The paper argues that the evidence Prahalad provides is *far from adequate* to corroborate his thesis.

Prahalad makes it clear that we are not dealing with CSR or philanthropy, in his view both are admirable but they can not be integrated into the core activities of the firm (making profit) and hence will lack sustainability, resources and innovativeness (Prahalad 2006). Nor is Prahalad talking about foreign direct investment (FDI) which he simply asserts does not create wealth at the BOP (Prahalad 2006).

The cases

The second section of Prahalad’s book concerns “Business Success Stories at the Bottom of the Pyramid” offered to illuminate how BOP solutions can be made. The book’s case studies are backed up by an accompanying video that provides additional evidence concerning the individual cases.

While Prahalad offers 12 cases of “business success stories”, not all of the cases he cites are businesses! The Aravind Eye Care System is a trust which is largely self-financing. Jaipur Foot is an NGO that provides and fits limbs for free (www.jaipurfoot.org). Their success, sustained over a far longer period of time than any of the business examples offered, is impressive by any account. However, not being businesses they cannot support Prahalad’s thesis, on the contrary, they question the necessity of business involvement and show how successful NGOs can be.

Indeed, as Table 1 shows, *only three of the twelve cases (ICICI, EID Parry and ICT) can be directly related to increased income*, the criterion Prahalad wishes to be judged on, and therefore it is these that will be discussed in greater detail. The others engage in activities where an increase in income might result as a spin off, e.g. through better health, but in *none* of the cases is this documented. The Brazilian retail store Casas Bahia is concerned with selling to poorer customers (one might increase the choice of products available to those on two dollars a day or less, but the consequence is not a reduction in poverty if relative income is not increased that is to say cheaper goods enable one to buy more with the same income), E+Co is concerned with providing sustainable energy resources where the NGO is the major partner, Voxiva Int. and HLL are concerned with “improved” health.

The latter is a good example of how a BOP “solution” can go radically wrong. Diarrhoea is the cause of an estimated 2.2 million deaths a year many of which could be prevented by good hygiene. In a public private initiative (not taken by business), the World Bank, the Water and Sanitation Program, the London School of Hygiene and Tropical medicine, UNICEF, USAID, and the Environmental Health Project were joined by Hindustan Lever Limited (HLL), which is the biggest soap seller in India. In financial terms HLL was only a minor partner meeting but 15% of costs. The idea behind the initiative was to get more people to have hygienic habits, which would include the use of soap. However, as Prahalad himself points out, the soap contained Triclosan, the bacterial effects of which are subject to controversy and may be very dangerous (in fact Danish supermarkets refuse to sell soap containing Triclosan because of potential health hazards). As Prahalad himself states, controversy about its effects have led to the project of introducing the soap to be substantially downsized, and it is under discussion as to whether the initiative should be moved to another state in India or not. This is hardly an example of a sustainable BOP solution. One can also imagine that if international NGOs pick up the story, Unilever’s (of which HLL is a subsidiary) profits might be hit by a consumer boycott. Whether the downsized project will be of benefit has yet to be proven, but the evidence Prahalad provides does not give us any evidence of a reduction in income poverty, nor, indeed any evidence of a reduction in the number of cases of diarrhoea in India, nor, indeed that HLL has made any profits out of it.

CEMEX is the third largest cement manufacturer in the world, and the largest one in Mexico. It provides microfinance to poor people so that they can purchase CEMAX products and build or extend their houses. One might call this tied microfinance. There are several points to be made in relation to Prahalad’s thesis. Firstly, it does not increase the poor people’s income, so it fails on that criterion. Secondly, according to Prahalad, the microfinance does not go to the poorest of the poor rather CEMEX aims at “...the

average family (five or six people) [which earn] between 50 and 150 pesos (\$5 to \$15 approximately) per day. The target population for the Patrimonio Hoy is not the absolute bottom of the economic pyramid (for whom the average per-capita income is less than \$5 per day” (Prahalad 2006:226). Again, it does not show how income poverty will be either eradicated, nor substantially reduced.

Table 1 Resume of Prahalad’s case studies

| Company/ Organisation | Activity | Main Actor(s) | Start date | Sustainability | Income Poverty Reduction | Location | Other benefits |
|---|--|------------------------|---------------|-------------------------------|--------------------------------|------------------------------|--|
| ICICI + Self Help Groups | Micro- Finance | Govt. ICICI SHGs | 2003 | Unproven | Not demonstrated | India | Self esteem |
| Aravind Eye Care (self- financing) | Eye care | Aravaind | 1976 | Proven | Not demonstrated | India | Health care provision |
| E+Co (NGO) Tecnosol (Private sector) | Sustain- able energy | E+Co | 2003 | Unproven | Poor but not BOP oriented | USA + Nicaragua | Sustainable Energy |
| EID Parry | Agri- culture | EID Parry | 2001 | Unproven | Not demonstrated | India | Education |
| Casas Bahia | Retail Savings book for the low paid | Casas Bahia | Not stated | Proven | None Not BOP | Brazil | Shopping opport- unities to those on a minimum wage |
| ITC | Computer kiosks in rural areas | ITC | | Unproven | Not demonstrated | India | E-gover- nance social activities |
| Jaipur Foot (Trust) | Artificial limbs | Jaipur Foot | 1968 | Proven | Indirect | India | Health Self esteem |
| Voxiva Inc. | Infectious disease alert system | Voxiva | 2002- 2002 | Unproven | Indirect | Peru | Better health |
| Andhra Predesh Local government | E-gov- ernance | Local Government | | Unproven | None | Andhra Predesh (India) | Transparent government |
| HLL | Iodized salt | Government HLL | 1997 | Unproven | Indirect | India | Health – Less Iodine Deficiency disorder |
| Cemex | Cement | Cemex | | Unproven | Not absolute BOP oriented | Mexico | Housing |
| HLL | Soap | HLL Local Govt. | | Demonstrated unsustainable | Indirect | India | Health |

Micro-finance: Industrial credit and investment corporation of India (ICICI)

The problem of finance for the poor, either in terms of micro-credit or micro-financing, is well-known. Of India’s 741.6 million rural population, only one million has access to micro-credit or micro-finance. The poor do not have collateral. The 500 or so donor led micro-finance institutions have problems with “...low savings to credit ratios, liquidity problems, high “capacity building” costs and general inefficiencies.” (Prahalad 2006:118). Prahalad argues that ICICI can provide a commercially viable alternative in supplying microfinance to India’s rural poor.

As Prahalad points out, the impetus for ICICI's project did not come from the Bank itself, but was the result of government legislation which requires Indian banks to open one quarter of their total number of branches in rural or semi-urban areas. Thus, one can argue that the key role has been that of The Reserve Bank of India setting down the requirements, otherwise ICICI would not have made forays into the micro-finance business. ICICI has entered the market by "piggybacking on the established network of rurally-oriented players." (Prahalad 2006:118), primarily by merging with the Commercial Bank of Madura in 2001, the bank was already operating in rural markets with Self Help Groups (SHGs) of women, these groups were the vehicle for formal savings, banking and lending operations and offering social collateral. At the time of the takeover, the Bank of Madura's rural operations were "still not financially viable" (Prahalad 2006:122), though the rest of the Bank's activities were. This raises the question of why Prahalad should be so optimistic about ICICI solutions if present attempts under the Bank of Madura are failing. Prahalad quotes a National Bank for Agriculture and Rural Development (India) report (not properly referenced) stating "Banking with the poor has undergone a paradigm shift. It is no longer viewed as a mere social obligation. It is financially viable as well." (Prahalad 2006:129). This may be so, but the ICICI case presented by Prahalad does not prove it. Indeed as he points out, ICICI's project is still in its "nascent stages" (Prahalad 2006:128-9). Having started in 2001, it is too early to prove its sustainability, or its effects on poverty reduction which, not surprisingly, are not documented. The ICICI case gives insufficient data to support the "minimum thesis".

Perhaps one of the most successful projects has been that of the Grameen Bank (GB), which has been operating since 1976 and is clearly sustainable. According to its own data, it now has "6.74 million borrowers, 97% of whom are women. With 2259 branches, GB provides services in 72,833 villages, covering more than 86% of the total villages in Bangladesh." (Grameen Bank 2006). It claims that 58% of borrowers' families have crossed the poverty line (not defined). This is a substantial achievement, but given 141.8 million people, 50% of whom are below the national poverty line in Bangladesh, it is unlikely that micro-credit and micro-finance can eradicate income poverty by the year 2015. Why then should we expect world wide poverty to be eradicated by that year, especially given that some countries have very poor banking systems?

EID Parry and ITC Group (both India)

There are a number of similarities between the EID Parry and ITC Group cases. Both involve the use of internet communications via kiosks (EID Parry) and ICT's e-Choupals (a choupal is traditional village gathering place), both are aimed at the rural community to which both are interested in selling their products. Their primary concern is to make a profit.

The internet can provide several benefits to farmers. Firstly, it allows them to gain information about market prices which are otherwise controlled by middle men who make substantial amounts of money due to lack of alternatives, the internet secures them higher prices for their produce. Secondly, the internet can provide information about the weather, which allows them to plant at the right time. Thirdly, it can also provide them with knowledge about farm inputs which they can purchase at lower

prices and farm advisory services. Fourthly, in the ICT case, farmers benefit from more accurate weighing, faster processing times, and prompt payment. Other advantages include e-government services, publishing/copying, digital photography and other interests such as astrology (Prahalad 2006).

Prahalad does not discuss the obvious weakness in the system, namely that kiosks and e-Choupals favour the socio-economically rich who can afford to become operators and are literate – a pre-requisite for using the internet. Again, this would leave the poorest of the poor outside. Again, Prahalad does not document the effects on income poverty for although income may rise it is not clear that it will rise sufficiently to take the farmers out of income poverty. Whilst EID Parry aimed to increase farmers' income threefold within five years, Prahalad does not state whether or not this has been achieved, or what a threefold increase would mean to the family as a whole. Furthermore, as both projects are new, Prahalad does not document their sustainability. So, once more, the “minimum thesis” remains uncorroborated.

The methodological advantages and shortcomings of case studies are well-known. Primarily, case studies allow one to gain in depth knowledge, one would therefore expect information about income poverty to be systematically revealed by the case studies if the minimum thesis were to be derived from the case studies or if the minimum thesis was a hypothesis to be tested. Intriguingly, only one person in the videos was directly asked about his change in income. A dealer for E+Co stated that his income had risen from \$82 per month to \$410, a considerable increase, but for someone who was not at the bottom of the pyramid. Thus, there is no systematic attempt to substantiate the thesis, even at case study level. One of the disadvantages of case studies is that they are specific to the context and that it is difficult to make extrapolations from them as factors vary (such as banking systems), yet this is exactly what Prahalad does. On the basis of 12 case studies, which do not corroborate his thesis, he makes the universal claim that poverty can be eradicated through profits. This is clearly untenable that is, the minimum thesis is not validated.

Changing the evaluative space: from income poverty to fundamental capability deprivation

The “minimum thesis” and the thrust of Prahalad's book suggest that the appropriate evaluative space should be that of the effects on income poverty, in this case \$2 a day or less. However, the broader thesis (7) suggests that a wider range of factors should be taken into consideration, a view that would fit in with the present emphasis on multidimensional poverty. We must ask what the correct evaluative space is, and how Prahalad's cases fare on that basis. The second part of the paper argues that the concept of income poverty is inadequate if our overall concern is the quality of people's lives. The now commonly employed concept of multidimensional poverty is also found wanting, instead the paper argues for a fundamental capabilities approach against which the case studies are evaluated.

Utilitarianism and income poverty

It might be argued that there has been a fundamental shift in the conceptualisation of poverty over the last ten years or so, away from the idea that poverty is adequately measured by income, to a more multidimensional view that can now be found in various

World Bank reports and is central to the notion of the Millennium Development Goals, where income poverty is reduced to being but part of, along with the eradication of hunger, one of the eight Millennium Development Goals. Indeed, the 2000/2001 World Development Report even claims that multidimensional poverty is now the *traditional* view. Thus, it might be argued that discussing the income view is no longer relevant.

But this would be mistaken. Firstly, the most widely accepted definition of absolute poverty is the World Bank's one dollar or less a day threshold. Secondly, although the IMF now, at least implicitly in its support for Poverty Reduction Strategy Papers (PRSPs), embraces the multidimensional view of poverty, income measures are still used when determining which countries can receive loans under the Poverty Reduction and Growth Facility. Thirdly, although the related Poverty Reduction Strategy Papers clearly embrace the concept of multidimensional poverty, income still plays a leading role in the advice given by the World Bank (2002), and in actual PRSPs (e.g. Socialist Government of Vietnam 2005). Fourthly, the income approach is used widely as is the case with Prahalad. Hence, an examination of the income approach is still of importance.

There are two main claims concerning taking income as a measure of poverty, a strong one and a weak one. The strong claim is that income reflects well-being, this claim is often related to the utilitarian approach, the weak one is that income is a practical way of measuring poverty and it is a fairly good, though not perfect, indicator of well-being. I shall argue that both claims are false.

In terms of well-being, there has been a long tradition in economics, starting with Bentham and John Stuart Mill of measuring well-being in terms of utility – happiness *or* pleasure – which, given the difficulties in measuring happiness and pleasure, is again measured in money terms through the choices we make. It should be noted that this approach to well-being has not been unanimous amongst economists, Keynes in particular was against the Benthamite calculus and pro the anti-utilitarian philosophy of G.E. Moore. Many contemporary economists also reject the association between money and happiness, Amartya Sen being the prime example.

This utilitarian-income view has run into many problems. Firstly, utilitarianism itself has been severely criticised in philosophical terms. Secondly, even *if* the utilitarian account were to be accepted, the relationship between income and utility has been and must be seriously questioned.

The philosophical onslaught against utilitarianism has come from many directions, but the arguments of Rawls, Nozick and Sen are particularly strong. All have influenced the World Bank (2005 ch. 4) in moving away from a utilitarian view of justice. The arguments are complex and will only be outlined here. For Rawls (1971), utilitarianism is problematic because it accepts trade offs between diverse goods so as to produce the greatest happiness. In doing so, it fails to offer sufficient protection of religious liberties, such liberties would be valued by anybody in the original position. Nozick (1974) has pointed to the inadequacy of only being concerned with ends, which utilitarianism is, and not acts in themselves. The contrast is brought out with his example of the experience machine where we are asked to envisage being hooked up to a machine which gives us pleasant or happy experiences without our doing anything, most would

regard this something short of well-being - frustrated action is more desirable. In political terms this means that some form of democracy is more commendable than other regimes which only concentrate on the end results (Nussbaum 2006). Such criticisms of the income approach are accepted by the capabilities approach supported here, and indeed the capabilities approach has been heavily influenced by Rawls. The major difference² between the two approaches was outlined by Sen in his 1979 Tanner Lecture *Equality of What?* where he introduced the capability approach:

“[Basic capabilities] can be seen as a natural extension of Rawl’s concern with primary goods, shifting attention from goods to what goods do to human beings. Rawls himself motivates judging advantage in terms of primary goods by referring to capabilities, even though his criteria end up focussing on goods as such: on income rather than what income does, on the “social basis for self-respect” rather than on self-respect itself, and so on. If human beings were very like each other, this would not have mattered a great deal, but there is evidence that the conversion of goods to capabilities varies from person to person substantially, and the equality of the former may still be far from the equality of the latter.” (Sen 1980)

But Sen’s criticisms of the utilitarian approach go beyond those of Rawls. In particular, Sen (1999) draws our attention to the distributional indifference of the utilitarian approach, being only interested in aggregates, the utilitarians ignore inequalities in happiness. Secondly, the utilitarian approach also ignores adaptive preferences (Sen 1999; Nussbaum 2000), that is, the most deprived often accept their lot in life and adjust their satisfaction to the situation they find themselves in and not ask for more. The utilitarian calculus does little for the most deprived.

If we examine the relationship between income and well-being, we find income a very poor measure. At the aggregate level, as Kanbur (2004) has pointed out, we are in the all too real situation where the income poorest in some countries may die out because of HIV/AIDS, as a consequence, per capita incomes in these countries may actually rise, but it would be perverse to argue that well-being had increased. Furthermore, Botswana is now a middle income country (World Bank 2005), whilst its income has increased, life expectancy has *decreased* by 20 years because of HIV/AIDS which accounts for its comparatively low level on the Human Development Index. An increase in income cannot reflect such a drop in well-being. Again, as with aggregates in happiness, aggregates in income do little to inform us about distribution within a country – the top and the bottom quintiles.

At the household level, it seems absurd to suggest that two households have the same well-being simply because they have the same income. One in four women in Botswana suffers from domestic violence, the well-being of such women is clearly not the same as that of the other 75%. It defies the imagination to believe that households that have members among the 39.6 million infected with HIV/AIDS, or there is infant mortality, or where the mother has died in child birth and so on have the same well-being as

² This difference is far from being the only one see in particular Nussbaum (2006)

households in which such dreadful events do not occur. Such differences are widespread and cannot be seen as a few exceptional cases.

At the individual level, the income approach asks us to forget the discipline of psychology. For whatever the view of the make-up of human beings all approaches from Freudian to Behaviourist agree that our pasts affect our present states. To assume that our present state is adequately reflected by our income is to automatically assume, for example, that someone who has been subject to child abuse has *a priori* the same well-being as someone who has not been so abused. That income and well-being are well-linked is simply empirically false.

A further argument put forward by Sen (1999) against the income approach is that income is only instrumental for achieving another end, it is not an end in itself (unlike capabilities). Income is only interesting for what it can bring us. This fact is implicit in the World Bank's definition of absolute poverty as being one dollar a day or less introduced for cross-country comparison (Gordan 2002). This measure was from the outset related to consumption in terms of the amount of money (the means) required to ensure adequate nutrition (the end). It would be more meaningful to compare countries in terms of nutritional rates than incomes. Interestingly, the inadequacy of the income view was acknowledged by the World Bank when it introduced the one dollar a day benchmark. In the World Bank's view at that time, the concept of poverty should include being able to participate in the every day life of the society, but, it was thought too complex to calculate as what is involved in participation varies from one society to the next and is thus not easily amenable to international comparison (Gordan 2002). That is to say that the main institutional proponent of income poverty, never thought that it was an adequate measure of poverty, it was just easier. But what then is the point of making international comparisons if the comparisons are, in principle, wrong?

The above arguments imply that Prahalad's concern with eradicating income poverty is misplaced.

Multidimensional poverty

It is now commonly asserted that poverty is multidimensional, one of the leading examples of this is the World Bank's World Development Report 2000/2001 *Attacking Poverty* where it states:

“Poverty is the pronounced deprivation in well-being...the voices of the poor bear eloquent testimony to its meaning...to be poor is to be hungry, to lack shelter and clothing, to be sick and not cared for, to be illiterate and not schooled. But for poor people, living in poverty is more than this. Poor people are particularly vulnerable to adverse events outside their control. They are often treated badly by the institutions of state and society and excluded from voice and power in those institutions.” (World Bank 2000/2001)

Such views are echoed in other World Bank documents and the Sourcebook for Poverty Reduction Strategies (World Bank 2002). They are also reflected in the Millennium Development Goals:

“The Millennium Development Goals are the world’s time-bound and quantified targets for addressing extreme poverty in its many dimensions – income poverty, hunger, disease, lack of adequate shelter, and exclusion – while promoting gender equality, education and environmental sustainability. They are also basic human rights – the rights of each person on the planet to health, education shelter, and security as pledged in the Universal Declaration of Human Rights and the UN Millennium Declaration.” (UN Millennium Project 2006)

Although these definitions of poverty differ (e.g. with respect to education), they do have advantages over the uni-dimensional view of poverty espoused by the income approach. Furthermore, they have a certain legitimacy, the UN Millennium Development Goals (MDGs) have been agreed upon by 189 countries and, more importantly, the World Bank’s definition of multidimensional poverty, as alluded to in the quote above, reflects the definition of poverty presented in the World Bank’s *Voices of the Poor* (Narayan 2000). This so-called ‘subjective approach’ (Hulme et al. 2001) rests on interviews with 60,000 poor people. That is, the definition of poverty is the definition provided by the poor themselves, and not the subjective view of an international institution defining poverty in terms of one dimension. Statistically speaking, the views reflected in the *Voices of the Poor* are insignificant being such a small portion of the estimated 1.2 billion absolute income poor, and even less of the four billion living on \$2 a day or less. It is interesting to speculate what other aspects of poverty would be brought to the fore if more people were asked and hence it would be wise to think of the “definition” as being an open ended minimum to which other dimensions could be added. Despite these reservations, it is by far the most representative survey we have.

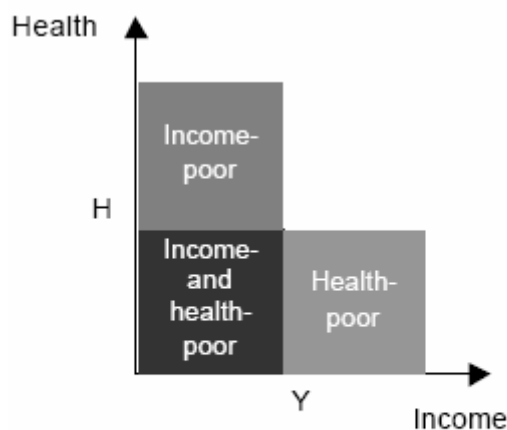
Definitions of multidimensional poverty are themselves problematic, as just stated, definitions differ, so the question arises as to how we decide between them. One method, using Participatory Poverty Analyses (PPAs), is to ask the poor, and those directly affected by government policy themselves, but this method has several problems of its own. Firstly, it is expensive, the PPAs carried out in Vietnam cost \$2 million and included only 1,200 people out of a population of 86 million, thus being unrepresentative. Secondly, a great deal of trust is required to gain the relevant information, which means that PPAs are often carried out where NGOs are already working, thus there is a degree of path dependency. In the Vietnamese case this meant, for example, that members of the migrant workers were not included in the assessments. Thirdly, they are time consuming and therefore it is difficult to gather representative data that is sufficiently new for policy making and implementation (Shanks & Turk 2003). The alternative is top down, decisions concerning relevance are made at a central level as is the case with, for example, the Human Development Index, or the concept of poverty related to the MDGs. Such definitions might not correlate with the views of the poor themselves.

A further problem becomes apparent when discussing aggregation. The question arises as to whether a person should be classified as poor if they are poor on any one of the dimensions or whether they have to be poor on all (World Bank 2000/2001). This problem is captured in a simplified version in Figure 2 below which deals with two dimensions, namely health and income. Obviously, one can be income rich, the Y axis,

but health poor, the H axis, yet to call such a person “poor” goes against our common usage and thus *seems* ridiculous. Again, there are no guidelines for settling the definition.

We might take some comfort in the fact that dimensions of poverty often correlate and hence, by and large, we end up concentrating on the same group of people (Kanbur & Squire 1999). However, this may be of little comfort to those who do not fit into the correlation, and, furthermore, the selection of different dimensions is likely to have different policy outcomes with different groups being helped. The answer from the capabilities approach is that each deprivation is of significance in itself, both problems are significant.

Figure 2 Two dimensional poverty



Note: H is the threshold defining the health-poor, and Y that defining the income-poor.

Source: World Bank (2000: 22).

The concept of multidimensional poverty has important implications for how we evaluate Prahalad’s claims. As stated earlier, many of the examples he gives do not directly relate to income poverty, however, they are more directly related to other aspects of multidimensional poverty such as health or housing, and we might argue that Prahalad does better on these scores, however, being multidimensionally poor means that many dimensions need to be met in order to escape poverty, which implies that several businesses need to be active in one area and the population needs to have sufficient money to purchase all the goods necessary to get them out of multidimensional poverty. Needless to say, Prahalad does not give sufficient evidence to show that this can happen.

One case presented by Jeffery Sachs, again we should be careful about generalising, gives an idea of what might be involved. The situation in the Sauri sublocation, Nyanza, Kenya is one in which food production is falling, there is hunger, inadequate firewood, at least 30% of the adult population suffer from HIV/AIDS, malaria is common, there is a lack of clean water and good sanitation, fertilizers, school facilities (including meals for undernourished school children) and a lack of infrastructure. A rough estimate suggested that to meet these needs the area would need approximately \$70 per person for five years if they were to have a sustainable livelihood in the future (Sachs 2005). It

is far from clear how the inhabitants could purchase their way out of these problems, which Prahalad's approach would require.

A major problem with concepts of multidimensional poverty is that they miss out on the notion of choice³. It might be argued that for those living in multidimensional poverty, choice is out of the question, but choice is not *always* irrelevant, some people die prematurely because of the lifestyles they choose. Indeed, Denmark would be placed higher on the Human Development Index if people did not drink, smoke, or eat too much fat. Exercising for four hours a week would reportedly add seven years to a Dane's life. Other people choose to run the risk of getting HIV/AIDS. But these choices are not reflected in indicators of multidimensional poverty used by the World Bank or the United Nations.

Furthermore, concentrating on poverty and making it the centre of policy making draws our attention away from other capability deprivations, such as mental disorders, which can be equally devastating to sufferers. We now turn to the capabilities approach which encourages us to see a broader range of deprivations than those covered by multidimensional poverty.

The capabilities approach

A person's capabilities are the opportunities he or she has to do or to be. The importance of examining these freedoms can be seen by contrasting the capability approach with those that just look at outcomes or those that just look at resources. Sen often illustrates the differences thus: two people can have the same nutritional intake, but the situations differ radically if one person's intake is due to dieting and the others due to starvation, the former has a choice while the latter does not. Secondly, two people might have the same amount of resources but what they are able to do or be might be radically different, an amputee needs more resources than an able bodied person (Sen 1999).

Sen (1999) has argued that poverty is best conceived as basic capability deprivation, yet he has stoutly refused to give a definitive list of capabilities which are basic and which are to be prioritised. For this he has given three reasons (Sen 2005): firstly, a canonical list would not allow for public debate and reasoning to establish if such a list was top-down and imposed upon others. Secondly, lists are context specific. To rule out a capability would be automatically to give it a weighting of zero no matter what one investigates. Thirdly, relevant capabilities differ across societies, thus, to be able to use the internet might be a relevant capability with respect to participating in a community today, where it was clearly not so a hundred years ago.

However, Sen appears to be contradicting himself on these matters. Firstly, whilst the argument about public debate has considerable appeal, it implies that public reasoning and some form of democratic decision making is seen as essential to establishing lists, and, therefore, it should be some form of basic capability. Secondly, in Sen's debate with Peter Townsend (Sen 1983) he argued that the capability to participate in society

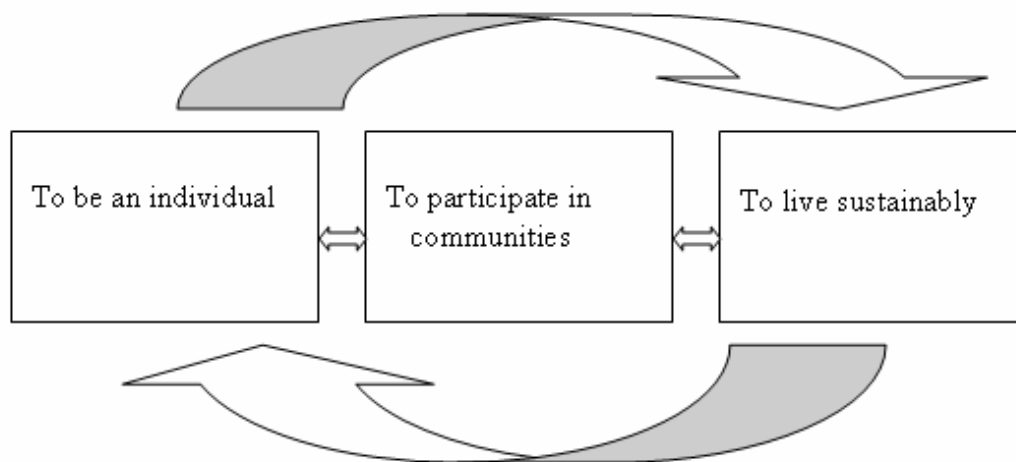
³ References to capabilities now abound in World Bank literature (e.g. World Bank 2002, 2005), but the concept does not seem to be employed as such.

was fixed, but what that participation involved would vary from society to society. Again we appear to have a specific capability which should be on every list.

This paper endorses the view that a list of *fundamental capabilities* which are essential for human flourishing can be given. The justification is that these capabilities are universal in that they are not context specific in relation to culture, place or time. However, the “specifications” of these fundamental capabilities may vary in respect to culture, place and time. The list presented here is *not finite* that is Sen is right to stress that other capabilities might be extremely important in other contexts, the approach taken here does not automatically give them a weighting of zero. Rather, the list can be understood as a minimum.

The basis is the *empirical* observation that human beings are social animals, who, in order to continue living, need to live sustainably⁴. This is universally true irrespective of time place or culture. As Giddens (1989) states, individuals have to live in societies for at least the first four years of their lives in order to survive, those that have lived outside society for a large part of their lives are clearly capability deprived and act more like animals than humans, as was the case with the wild boy of Aveyron, (Giddens 1989). According to Ponting (1991) not living sustainably has played an important role in the demise of some civilizations, such as the Maya, and societies, such as that on Easter Island. Figure 3 shows the interrelations between fundamental capabilities.

Figure 3 Fundamental capabilities and their interrelations



Source: Author's own illustration

There is widespread discussion as to what individuals, society and sustainability are and how they interrelate (the divisions made here are somewhat arbitrary). There is no claim to solve these problems here, and, in that sense the fundamental capabilities approach is flexible and has an “honest vagueness”. For example, the position held here does not rule out *a priori* the idea, held by many (including Plato), that individuals are reincarnated and that their minds exist from one time to another and inhabit different bodies, nor does it rule out *a priori* a materialist concept of the mind, also held by many.

The list is also open to revision on the basis of new findings. Despite this flexibility, these fundamental capabilities can be “specified” that is, there are a number of fundamental capabilities relating to each of them which can be elucidated. The specifications can be listed thus:

To be an individual

- To have good bodily health
- To have good mental health
- To have good emotional health
- To lead a meaningful life

To participate in the community

- To go without shame- to have dignity
- To not be discriminated against or stigmatized
- To participate in decision making
- To have kinship relations and friends
- To be able to communicate
- To be educated
- To have a productive life
- To be able to engage in leisure activities

To live sustainably

Development is sustainable when future generations are equally capable, if not more, of having the other fundamental capabilities (Crabtree 2006).

I now turn to the justification for the inclusion of the capabilities listed above. The capability to be an individual involves good bodily, emotional and mental health, which are clearly interrelated, but exactly how is far from known, for instance we do not know what the relationship is between genetics and mental disorders (WHO 2001). However, it is difficult to conceive of a person without bodies, emotions and minds. The capability to live a meaningful life is also fundamental as is testified by the number of people who commit suicide because they do not feel their lives are meaningful. There is no suggestion that these capabilities are constitutive of personhood. One can be lacking in the capability of good mental health, for example one could be deaf, but still be a person. Nor do these capabilities say much about human nature for example as whether humans are inherently aggressive or not. They are capabilities which are necessary for people to flourish as individuals.

Participating in communities involves five fundamental capabilities which are cultural universals (Giddens 1989): to have kinship relations and friends, to be able to communicate (all cultures have grammatically complex languages, music and dance) and having a language is often considered the defining characteristic of man (O’Hear 1985, ch.4), to be educated (in a broad sense, not just literacy), to be productive, and to engage in leisure activities (the need to rest can be seen as sleep deprivation is considered a form of torture, overwork can lead to stress, serious mental breakdowns, premature morbidity and an incapacity to carry out work (Hilgard, Atkinson & Atkinson 1975)). We can imagine individuals within a society not having these capabilities, but

not the entire society, for example, the old and the very young are dependent but the society as a whole must produce to stay alive (this is also true of hunter gather societies (Giddens 1989)).

A final capability here is perhaps the most fundamental though one can live without it: to have dignity or to go without shame, to not be discriminated against or be socially excluded. For Rawls (1971), self respect is the most important primary good as it involves an individual's own value as a person, and in the belief in one's own ability to fulfil one's own intentions. That is to say that it is at *the very heart of our being as people*, and therefore it is not surprising that the shaming of others denies them the status of being a human being. Using humiliation as torture, as was the case in Abu Gharaib prison in Iraq, "tear[s] down the very core of the individual by invoking a deep sense of shame" (Thukral 2004). The importance of self respect also finds empirical support from the World's largest in-depth survey (60,000 people) the World Bank's *Voices of the Poor* Report (World Bank 2000/2001) where lack of self-respect and humiliation are named as being one aspect of poverty. The power of shame is also reflected in De Herdt's study of hunger in the Democratic Republic of the Congo where a Médecins Sans Frontière food relief program was abandoned in part because the target population was not reached, it was considered by them too shameful to accept food relief (De Herdt *forthcoming*).

Given the importance of self-respect and dignity, it follows that one cannot have equal dignity with others if one is not able to participate in the community in the same way, and thus be able to participate in decision-making processes. Whilst in contemporary societies this might, at least, imply support for parliamentary democracy (there are many other issues such as international bodies and the European Union), other forms of democracy might be clearly relevant to other societies. From what scant evidence there is, it would seem that members of hunter gather societies made decisions in family groups, deep disagreements were solved by "exit" that is to say the groups split up (Giddens 1989), this is hardly contemporary democracy, but it would be absurd to demand it. Equal participation in decision-making also gives the approach bite, we are not simply talking about people being able to participate in society and simply accepting that society as it is, it is a fundamental capability to be able to change that society.

Lastly, the capability to live sustainably discussed here brakes with the basic needs approach endorsed by the Brundtland Commission avoiding the problems of a resource influenced view (for a fuller discussion of this see Crabtree 2006).

To repeat, the list of fundamental capabilities is open ended and not canonical in the sense that additional, non-fundamental, capabilities may be very important in some contexts. It is also open to revision.

Re-evaluating Prahalad from a fundamental capabilities standpoint

As argued, Prahalad does not substantiate his main claim that business can make profits while reducing poverty. However, if we return to Table 1, what we do see are "other benefits" many of which fit in with the fundamental capabilities approach expounded here. These can be correlated as follows:

To be an individual

To have good bodily health

- To be well nourished
- To avoid premature morbidity
- To be without major diseases [Voxiva Inc., HLL (depending upon whether or not the soap *is* beneficial)]
- To be free of major disabilities (inc. blindness, deafness, dumbness, physical handicaps) [Jaipur Foot, Aravind Eye are]

To have good mental health [HLL (salt)]

- To be able to reason and think
- To be free of the disorders as classified by the World Health Organisation (WHO 2001)

To have good emotional health

To be secure

To lead a meaningful life

To participate in communities

To go without shame- to have dignity [ICICI, Jaipur Foot]

To not be discriminated against or stigmatized

To participate in decision making [Andhra Pradesh]

To have kinship relations and friends

To be able to communicate [EID Parry, ITC]

To be educated

To have a productive life [EID Parry, ITC]

To be able to engage in leisure activities [EID Parry, ITC]

To be able to participate across communities [EID Parry, ITC]

To live sustainably

Sustainable development [E+Co and Tecnosol]

If we exclude Aravind Eye Care and Jaipur Foot, which clearly have a great impact on fundamental capability deprivation, as being non-private sector, and Casas Bahia which only expands consumer choice and therefore does not affect fundamental capability deprivations, many of the cases are positive when it comes to fundamental capabilities. Self-esteem and community engagement are often the result from engaging in such projects (e.g. the self-esteem gained by being a member of an ICICI self-help group), though Prahalad does not document the effects on those that are not included in the different projects, the local government case in Andhra Pradesh suggests how internet technology can make government more transparent to those who are computer literate (this is not fundamentally private sector). The two cases Prahalad discusses concerning HLL relate to improvements in health either in the form of reducing health problems which are the result of iodine deficiency (low IQ, cretinism, gross mental retardation and short stature), and, more contentiously, the selling of soap which should help to reduce the number of deaths from diarrhoea assuming the bacterial effects are not negative, these clearly relate to the fundamental capabilities of good bodily and mental health, as does Voxiva's disease alert system. E+Co and Tecnosol's sustainable energy

products, though not directly aimed at the bottom of the market, could have a spin-off effect as they would reduce the number of pollutants which affect us all, and thus enhance our capability to live sustainably. Less convincing is CEMAX's sale of concrete which again is not directed at the bottom of the pyramid, where Mexican prices are four times higher than they are in the USA and refers to a *resource* and not a *capability*. The sustainability of these endeavours is yet to be proven, but the evidence suggests that Prahalad should reformulate his thesis:

Business, along with other actors, *can play a role* in enhancing fundamental capabilities.

But this thesis would be much less provocative and would remind us that business' role should be seen in an overall context as is commonly emphasised (e.g. UN 2003). Interestingly, the two most convincing cases Prahalad discusses, Jaipur Foot and Aravind Eye Care, are successful, sustainable and non-profit – this questions the necessity of the private sector. Furthermore, the fact that business *can* play a role also emphasises that business does not always play a positive role, the Bhopal disaster from which people are still dying is but one example.

Lastly, it should be said that there is a danger in Prahalad's approach that by emphasising BOP activities, we lose sight of other important factors. The huge income poverty reductions witnessed in South Korea, China, Vietnam and India have *not* been due to BOP initiatives. To ignore these successes and the variety of reasons for them would be to miss an opportunity to learn and benefit the poor in other areas. Thus, the BOP approach's case is much overstated.

Conclusion

The paper has argued that Prahalad's thesis concerning the bottom of the pyramid is vague and that the evidence he uses to support it is wholly inadequate. Furthermore, the aim of ending income poverty is not the correct one if it is the quality of people's lives with which we are concerned. A case has been made for taking the concept of fundamental capabilities as being the correct evaluative space, if granted, the BOP approach does much better, but it is far from being the revolution Prahalad envisages. Indeed, it could be dangerous if it leads us to ignore other factors which have been central to the huge reductions in income poverty in several countries, successes that have been achieved without the bottom of the pyramid approach.

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