



Innovations at the „Base of the Pyramid“

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Sector Project Innovative Approaches of Private Sector Development



Outline

1. Innovation for the BoP
2. A systemic perspective to pro-poor innovation?
3. Questions for Discussion





1. Innovation for the BoP



A Paradigm Shift

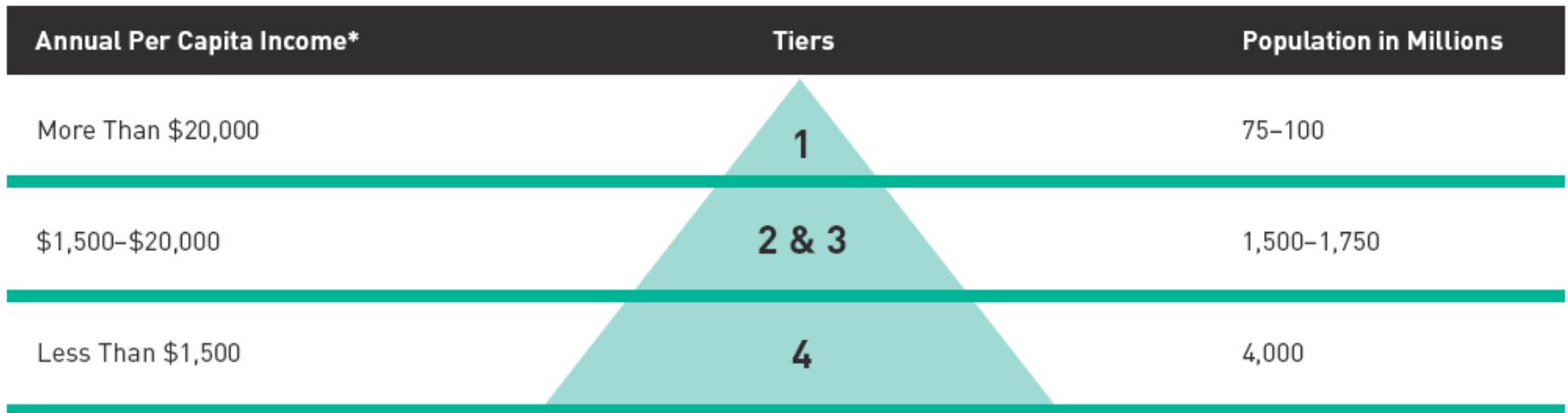
– Market-based solutions and BoP-approaches

- ➔ **4 billion** low-income consumers constitute the base of the economic pyramid (BOP)
- ➔ Empirical measures of their purchasing power and their behavior as **consumers** suggest significant opportunities for market-based approaches to:
 - better meet their needs (e.g. health, education, sanitation, etc.),
 - increase their productivity and incomes, and
 - empower entry into the formal economy (foster entrepreneurship)
- ➔ The poor can benefit from BOP-approaches being included as **producers** (integration in value chains, new business model development)

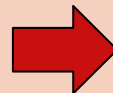


The BoP-Argumentation

Exhibit 1: The World Economic Pyramid



* Based on purchasing power parity in U.S.\$
Source: U.N. World Development Reports



Challenge: developing innovations for the poor



„Innovation for the Poor“ - A new Agenda?

Market-based solutions to poverty alleviation

- „Making Markets Work for the Poor“-Approach

Beyond CSR: **Social Entrepreneurship** and social needs as a **Business Case**

- UNDP „Growing Inclusive Markets Initiative“
- World Economic Forum 2009: The Next Billions: Unleashing Business Potential in Untapped Markets
- Growing number of initiatives like Ashoka, Skoll Foundation

Innovation to address global social challenges

- OECD Innovation Strategy 2010



Emerging Consensus: Social needs as a Driver for Innovation

- **Pro-poor innovation** and “**Bottom of the pyramid innovation**” = open / user-driven innovation, “the poor” being active participants in the innovation process
- **Social innovation:** “the process of inventing, securing support for, and implementing **novel solutions to social needs and problems.**” *Stanford Social Innovation Review*

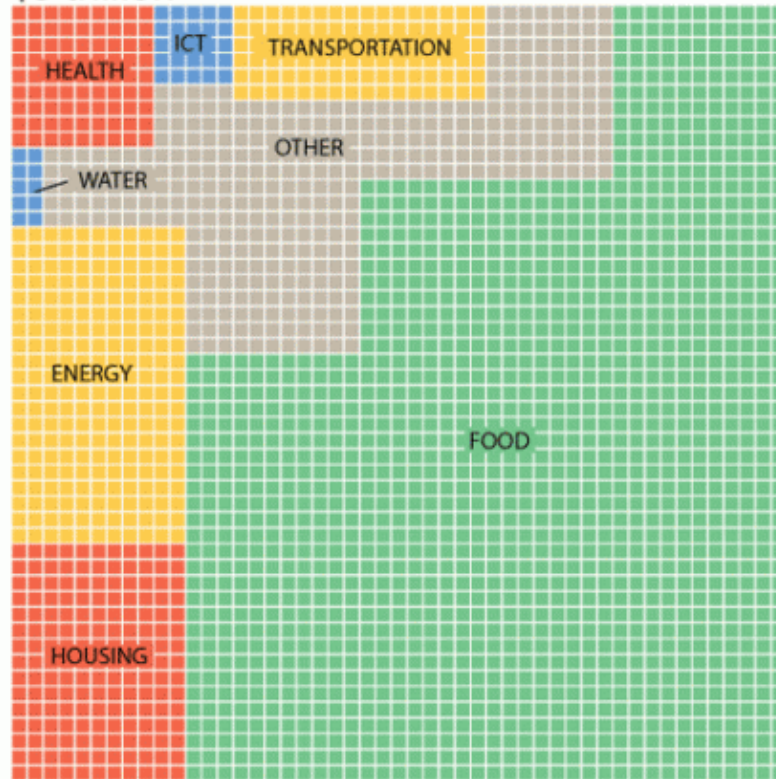
Innovation

- = product, production process, or technology
- development, adaptation, and improvement of products and processes
- is not necessarily „new to the world“, but new to the context
- Commercially viable



Social Needs at the BoP - A Business Perspective

Estimated BOP market by sector
\$5 trillion



- **Regional differences:** Asia (including middle East) = largest BoP-Market
- In **Africa**, the BoP is the regions dominant consumer market (71% of purchasing power)
- „**Green**“- technology as a new BoP-sector?





Common Argumentation

Success factors of BoP-Strategies

- **Focusing on the BoP** with unique products and services
- **Localising Value Creation** through new „pro-poor“ business models
- **Enabling access** to goods and services
- **Unconventional partnering** with governments, NGOs, groups of multiple stakeholders

Source: WRI

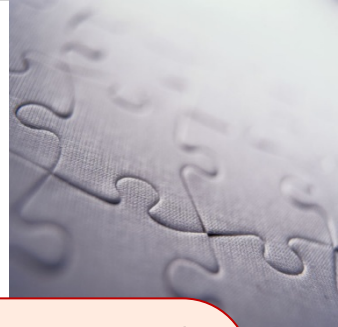


2. A Systemic Perspective to Pro-Poor Innovation?



Systems of Innovation

- Innovation processes are **not linear**
- **Systems of innovation perspective** looks at roles of **different innovation agents**, the types and quality of the **interactions** between them, and the formal and informal **institutions** that structure the innovation processes
- System-perspective includes **complexity** of reality
- Different actors have different definitions and framings of problem → **alternative solutions** are possible
- **Exchange and interaction** between different agents is necessary (→ no blueprint for supporting innovation)

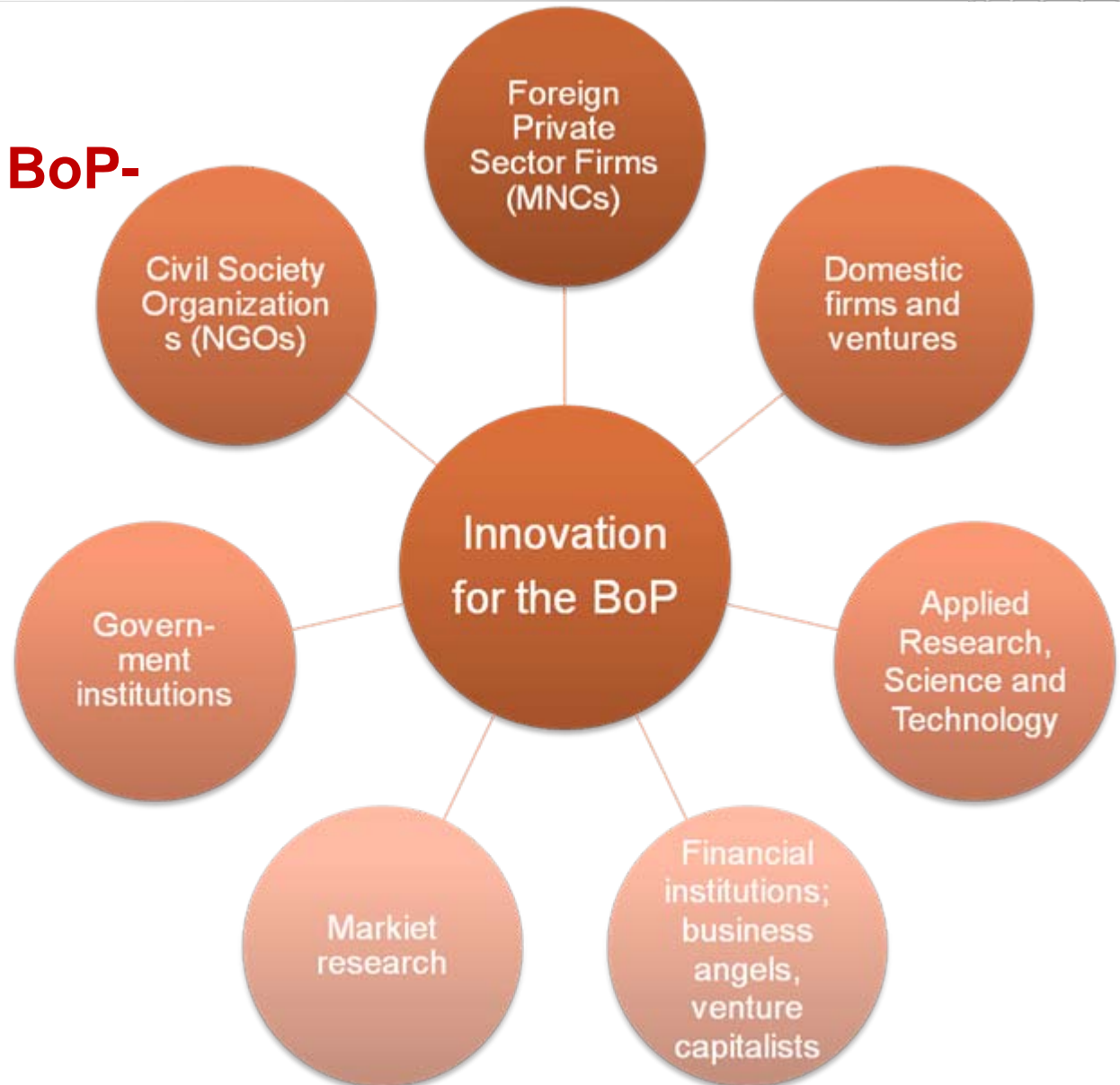




Actors for „Co-creating“ BoP- innovations

Do we miss something?

- Who defines the problems and the solutions of the poor?
- Do WE know what THEY need?





The Missing Link?

Lacking Knowledge and Information on the BoP

- Including the perspective of „the poor“ in the innovation and knowledge creation process is key
(*user-led innovation* → *they **are** the market*)
 - Their definition / framing of the problem
 - Their definition of a solution→ „Bridging formal and informal science“ (Anil Gupta)
- MNCs often lack knowledge on the poor’s environment
- **BoP innovations need to include the perspective of the poor themselves**
- **New Alliances necessary? What is our role?**



Other Challenges for „Pro Poor Innovation“

- Systemic Weaknesses with regard to

Innovation System

- lacking interaction between agents; lacking networks and „bridging“ social capital;
- missing „connectors“, i.e. institutions, linking people, ideas, money & power
- dysfunctional social learning processes and „bridging“ between agents

Institutions / incentive structures (formal and informal)

- laws and regulations, e.g. IPR;
- lacking service infrastructure e.g. finance; physical infrastructure e.g. ICT;
- dysfunctional social norms

Institutional failures

- competitive pressures that drive innovation and that are existing in other markets are absent in the social field
- market failures (e.g. lacking information)
- coordination failures



3. Questions for Discussion



Questions for discussion

How can **markets** for pro-poor or social innovation be created?
What are necessary **incentive structures**?

- What hinders pro-poor innovation? (e.g. market failures)
- What institutions are necessary? (e.g. innovative financial mechanisms)

How can systems of pro-poor innovation be **supported**?

- How can **governments** support pro-poor innovation?
- Which **support measures** are necessary?
- How can donors play a role as **connectors**“/brokers“?

How can pro-poor innovation promotion strengthen the **innovative capabilities** of developing countries / incl. „the poor“?

- Are „BoP-innovations“ necessarily related to **high-tech**?

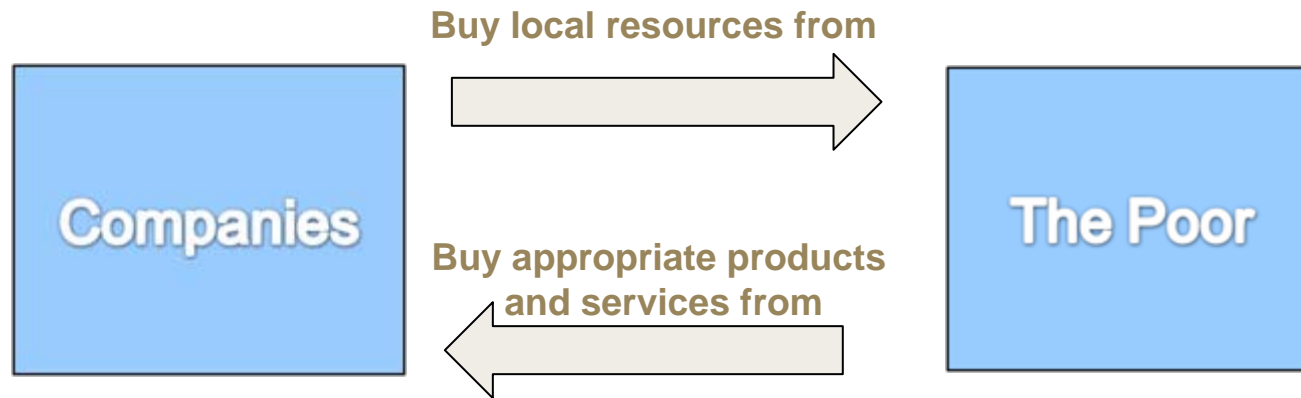


Thank you for your attention!

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„Win-Win“ – BoP as Producers and Consumers





BOP as Producer		BOP as Consumer	
Business Benefits	Community Benefits	Business Benefits	Community Benefits
<ul style="list-style-type: none"> ➤ Reduced labor costs ➤ Shared risk ➤ Local knowledge and capabilities ➤ Better government relations ➤ Fair trade branding 	<ul style="list-style-type: none"> ➤ Job creation ➤ Capacity building for local SMEs ➤ Know-how and technology transfer ➤ Improved business environment and investment climate 	<ul style="list-style-type: none"> ➤ New markets, revenue growth ➤ Increased brand value, positioning to capture future market growth ➤ Transfer product innovations to existing markets 	<ul style="list-style-type: none"> ➤ Greater access to quality products and services ➤ Lower prices ➤ Improved quality of life ➤ Improved productivity