“Can For-Profit Business Alleviate Extreme Poverty in Developing Countries?”

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ABSTRACT

We investigate whether for-profit firms can alleviate their extreme poverty at the "base of the pyramid" of the income distribution in poor countries. The scope for market penetration is enhanced when multinationals capable of performing R&D for appropriate technologies team up with local enterprises to provide marketing and distribution. For the (severely credit-constrained) potential customers, the willingness to pay for a product is divorced from the latter's productivity-enhancing aspects. We show that partnerships with non-governmental organizations (NGOs) dedicated to poverty alleviation are more effective than even mergers with local for-profit firms. NGOs that elicit the trust of the target clientele determine their marketing and distribution effort by a product's potential to reduce poverty and hence by its productivity-enhancing capabilities. This circumvents the credit market constraints of the buyers and, by increasing the market size, provides multinationals with the incentive to innovate for appropriate technologies. Furthermore, since pecuniary externalities increase the profitability of sequential technologies, partnerships with NGOs---by dint of their greater potential for common agency---alleviate extreme poverty by facilitating a Big Push at the base of the pyramid more effectively than do mergers with local for-profit firms. Corporate social responsibility forms no part of the argument offered here.