

**SUMMARY**

**Panel Discussion on “Eradicating Poverty through Enterprise”<sup>1</sup>**  
**Friday, 2 November 2007**

The panel on “Eradicating Poverty through Enterprise”, a special event by the Department of Economic and Social Affairs (DESA) during the Second Committee, was chaired by Mr. **Jomo Kwame Sundaram**, Assistant Secretary-General for Economic Development. The panel was composed of Mr. **Shoaib Sultan Khan**, Chairman, National Rural Support Programme (Pakistan); Professor **Aneel Karnani**, Associate Professor of Strategy, Stephen M. Ross School of Business, University of Michigan; Ms. **Shulamit Ferdman**, Director, MCTC Director of Microenterprise Development Courses (Haifa, Israel); and Ms. **Sheri Willoughby**, Senior Manager, Markets and Enterprise Program, World Resources Institute (Washington, DC).

**Mr. Jomo** opened the panel with brief remarks on the broader and historical perspectives of enterprise. He highlighted the role of policy in encouraging entrepreneurship, the importance of the right conditions for fostering new business and also the need to transform fledgling enterprises into viable concerns. He referred to the historical experiences of today’s industrialized countries in promoting enterprise and entrepreneurship. He indicated that policies vary, but the State commonly plays a role. Mr. Jomo also touched upon corporate governance and the relationships among actors. He stated the last two decades have seen an increased interest in the potential of microcredit in ameliorating poverty, partly due to the recognition given to the founder of the Grameen Bank and Nobel Prize recipient, Professor Mohammad Yunus. Mr. Jomo underlined the importance of inclusive finance to promote balanced economic development and noted the creation of a variety of financial instruments to meet the needs of the poor. He also observed the growing interest in marketing, to the “bottom of the pyramid” (BOP), premised on the belief that large companies can make money by selling to the poor to meet their needs. Mr. Jomo urged the audience not to neglect the importance of increasing their incomes and purchasing power by generating employment. Before introducing the first speaker, Mr. Jomo touched briefly on other related issues, including the need to reform labour laws and to ensure income security.

**Mr. Khan** reflected on his 54-year career, noting that his greatest successes were in forging genuine and meaningful partnerships with communities. His statement offered several examples which illustrated his success in mobilizing communities and engaging governments. Mr. Khan spoke of the importance of partnership in development – obligations of both the development organization and the community, with the programme limits set by the community. In this spirit, the Aga Khan Rural Support Programme (AKRSP) offered an approach and social guidance to the poor to overcome their problems themselves. Micro-variations at the local level render a “blue print” approach ineffective, and demand consultation and dialogues with each and every community. At the community level, needs identified in the AKRSP process were productive infrastructure (mostly irrigation channels) and, at the household level, human resource development and microcredit for enterprise. Following AKRSP’s interventions, Mr. Khan reported seeing a visible change in the economic and social situation of the poor. He underscored

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<sup>1</sup> Speakers’ presentations and background materials are available at <http://www.un.org/esa/coordination/secondcommittee.htm#Otherevents>.

the tremendous potential and willingness in people to take action to come out of poverty, as well as the importance of the support of an organization to help them unleash their potential. According to a World Bank evaluation of AKRSP, in ten years the income of the people served had in real terms more than doubled.

Mr. Khan recalled his work in India with the South Asia Poverty Alleviation Programme (SAPAP), which focused particularly on women. Mr. Khan did not suggest that everyone was fit to be an entrepreneur, but that, with support mechanisms to facilitate entrepreneurship amongst the poor, many jobs can be created and livelihoods sustained. He spoke of the opportunity and support given to illiterate rural women in 20 Mandals and recalled that they demonstrated remarkable dynamism, managerial and productive skills, and sense of responsibility and sensitivity to social evils. The Vice President of the World Bank called it “UNDP’s Miracle” and offered to help the State Government replicate SAPAP in the State, and the offer was embraced by the Government. In seven years, almost 75% of the organised households rose above the subsistence level in Andhra Pradesh. He pointed toward this success as proof that development comes from the bottom and happens in pockets.

Believing that governments should take the lead role in poverty alleviation, Mr. Khan reported that the Government of Pakistan has taken many steps to help the 75 million poor come out of poverty. He believes that the challenge is how to scale up coverage of poor households which is stagnating at under 20%, unlike the Northern Areas and Chitral where AKRSP reached more than 85% of the poor households. With this objective in view, the Government of Pakistan in 1992 provided resources to set up an independent and autonomous National Rural Support Programme (NRSP) on the lines of AKRSP which has been followed by setting up of provincial and regional programmes. Today the Rural Support Programmes Network in Pakistan extends to 93 out of 127 districts of Pakistan comprising over 100,000 communities with 2 million households as members. He described some of the specific activities of the NRSP, including its entrepreneurship and vocational skills training programme and the Enterprise Activist Programme, which aims to create a holistic indigenous business development support system for sustainable local entrepreneurship and livelihood development. He cited social mobilization as the key to poverty alleviation, but noted the difficulty governments face in generating it. Mr. Khan explained that the NRSP is helping to overcome this challenge.

**Professor Karnani** stated that the market-driven or bottom of the pyramid approach to alleviate poverty has become popular among intergovernmental organizations, civil society and the private sector. In his presentation, he argued that the approach is fundamentally wrong. It is not the responsibility of the market to solve the problems caused by poverty; it is primarily the government’s role to provide basic services to the poor. While the BOP approach may increase choice for consumer (which, Professor Karnani argued, has only marginal benefit), it does not address the root problem of poverty. The market-driven approach emphasises the poor’s role as consumers, whereas, he believes that concentrating on their role as producers will have greater impact on poverty. Businesses targeting the poor should provide services and goods that will increase the productivity and income potential of the poor, such as vocational training, fertilizer, or better machinery. Furthermore, he warned that BOP creates possibilities for the exploitation of the poor, diverting their limited resources from critical needs to frivolous desires. Citing disproportionate expenditure by the poor on alcohol and tobacco, he stated that the poor do not make good choices. He insisted that there must be adequate social mechanisms to protect consumers and that business must respect the vulnerabilities of the poor and act in a socially responsible manner. Moreover, he observed that poor consumers are prepared to accept a reduction in quality in order to get a lower price, and he advocates that business take this approach as long as there is transparency about the price-quality trade-off. He also said that

transnational corporations (TNCs) can crowd out small, domestic businesses and make it easier for governments to reduce their role in service provision where the private sector is also active.

Professor Karnani's presentation also pointed to microcredit as having had minimal economic impact on alleviating poverty. He said the poor are not entrepreneurs in the true sense of the word. Instead of micro-credit, he advocates meso-credit, funding businesses that will employ 20 people or more at a time. Increasing the employability of the poor, improving labour mobility and making more information about jobs would have an impact on poverty. The private sector can contribute to alleviating poverty by providing productive employment on a larger scale, preferably labour-intensive, and low-skill in order to reach the very poorest. Small and medium enterprises (SMEs) are, in fact, the engine of growth. He also emphasised the importance of improving direct market access for the poor so that they can cut out the middlemen who presently capture much of the value of transactions.

**Ms. Ferdman** introduced the programme that she directs at the Golda Meir Mount Carmel International Training Center, which focuses on microenterprise training, especially among women, as part of community development and with the goal of increasing income among the entrepreneurs. She explained that her training centers work towards achieving the MDGs by creating decent and productive employment, promoting gender equality and women's empowerment and by developing global partnerships for development. Ms. Ferdman agreed that not all poor can be entrepreneurs and so a screening system and support mechanisms are imperative in order to avoid failure. Her organization takes a holistic approach, which contains five components: training, counseling, entrepreneurial support, microcredit and follow-up. She advocated a bottom-up approach, providing tools at the grass roots level, and endorsed that business and managerial concepts be 'translated' into a language understood by the target population, which adapts to the social environment. She also urged relying on locally available resources, as in tourism businesses which leverage local skills and culture (but have the disadvantage of requiring a minimum level of government investment in infrastructure). Furthermore, she emphasized the importance to small businesses of information and communication technologies (ICTs) -- not only computers but also radios and telephones -- which can bring access to potential clients and suppliers and to more information, cut administrative costs, and help entrepreneurs join together to ensure larger orders.

Ms. Ferdman provided an overview of the Young American Business Trust-OAS (YABT) "Business Lab" joint project, which has reached 17, 000 trainers and young entrepreneurs in 29 countries of the Americas, and is expanding now to Mongolia and Africa. The labs are premised on a 'learning by doing' approach and 'hands on' experience through practice and exposure to basic business concepts. The trainees translate ideas into profitable businesses, moving through feasibility studies, marketing, production, finance, and business planning. In several countries in South America, one-stop Business Support Centers provide services to entrepreneurs. Ms. Ferdman concluded by sharing examples of success stories from India and Guatemala. She indicated that through her programmes poverty is not being eradicated but is certainly being reduced.

**Ms. Willoughby** introduced the World Resources Institute and *The Next 4 Billion* report. The premise of the report is that the roughly 4 billion people at the bottom of the economic pyramid are served by inefficient and uncompetitive markets and have many unmet needs, are stuck in the informality trap and suffer the BOP penalty. The WRI estimates the aggregate buying power of these poor, earning less than \$3000 (PPP) per year, at \$5 trillion. The report analyses spending by sector, including food, energy, housing, health, transportation, information and communication technologies (ICT) and water. Ms. Willoughby stated that the analysis shows

there is significant latent demand among the poor within these sectors. The report concludes that this need can be served profitably, and there is a significant market opportunity for entrepreneurs, large corporations and investors. She emphasized that local entrepreneurs are well-placed to serve the poor, as they best understand local needs and cultures. As an example of the private sector's fulfilling unmet needs, the pharmaceutical industry was cited. In many parts of developing countries, medication is scarce and expensive, and there are risks borne by the poor associated with fake pharmaceutical products and self-medication (due to the concomitant shortage of trained medical personnel). In several BOP markets, the private sector has been adept at overcoming the distribution problem, having found that it can profitably serve rural, poor communities that otherwise lack sufficient health infrastructure. WRI contributes to the private sector serving the needs of the poor by conducting market research, identifying transformative sector strategies, helping to scale enterprise development, and engaging capital markets to invest in BOP ventures.

Reacting to some of Professor Karnani's points, Ms. Willoughby argued that the poor are already consumers. She offered that the private sector can create improvements in the distribution of food, if not the food itself, and provide financing mechanisms that permit the poor to pay for shelter, if not drive down the cost of the shelter. She asserted that the private sector has an important complementary role to governments and NGOs. She agreed that governments should provide services to the poor, but in many cases governments do not or cannot do so, and the private sector can sometimes effectively fill the gap. Ms. Willoughby disagreed that the poor are not entrepreneurs, asserting that many are ingenious and creative at providing for their needs. Finally, she agreed with Professor Karnani's points about the importance of creating productive employment for the poor, pointing out that employment is generated, for instance, in the distribution and supply chain elements of BOP models.

Following the presentations and interaction among the panellists, moderated by Mr. Jomo, the floor was opened to comments and questions from the audience. Some interventions supported observations that the poor do not have sufficient choice, pay a premium for essential goods and services, and find that jobs created downstream in the supply chain may be superior to those lost to the crowding-out effect, endorsing the BOP approach. The representative of Pakistan observed that opposite paradigms can produce similar results, and also that success has different shapes. Israel and Senegal underscored the importance of freedom of choice for consumers, emphasising that having options is important. Togo called upon both public and private sectors to meet their responsibilities to protect poor consumers, and also questioned the impact of open and free markets on developing country economies. Another intervention observed that consumers are the winners from the lower prices that big businesses offer the poor and that uncompetitive local businesses lose out. If this is true, the speaker asked how it might be possible to maintain local business without consumers being worse off.

Other speakers reiterated the importance of creating employment opportunities through enterprises of all sizes. Several agreed with the panellists that microenterprises require comprehensive support packages. Speakers largely disagreed with Professor Karnani's statement that the poor are not entrepreneurs, citing their frequent ingenuity and initiative. Pakistan stated that poor entrepreneurs need a level playing field. Israel wished to know how it is possible to change the culture of communities within which microenterprise development and other poverty alleviation efforts are undertaken, to ensure that projects are sustainable once the sponsors leave the communities. A representative of an NGO asked panellists to expound upon the role of civil society in poverty alleviation through enterprise. The representative of Senegal asked Professor Karnani why Africa has not succeeded in developing low-skill, labour-intensive enterprises.

Responding to the questions and comments, **Mr. Khan** reiterated the need to reach the poor individually, recognizing their tremendous potential, and to help them to organize to achieve social mobilization. Addressing Israel's question of sustainability, he stated that the key is creating institutions of the poor that are financially viable, such as self-help groups and local support organizations. While Mr. Khan agreed that all poor are not entrepreneurs, he said those who have the potential need adequate support, and, once established, their businesses can provide jobs to a larger number of people.

**Professor Karnani** clarified that he advocates increasing the production capacity of the poor, not their consumption. On the debate about the entrepreneurialism of the poor, he warned the audience against romanticizing the poor, and said for every success, there are thousands who do not succeed as entrepreneurs. Microcredit atomizes the economy; productive enterprise needs economies of scale. To support his assertion, he cited the fact that Bangladesh and Bolivia – the countries with the highest amount of microcredit – have failed to experience significant development, while China – which deploys very little microcredit but employs a large portion of the population in low-skilled jobs – has had much success in reducing poverty. Professor Karnani noted that regulation in developed countries protects consumers, sometimes at the expense of choice, and underscored the need for sensible restrictions on markets in developing countries.

**Ms. Ferdman** reiterated that her microenterprise programme identifies entrepreneurs who have the most potential and works with them to develop it. She stressed that macroenterprise can't solve all the problems and that there is an important role for microenterprise. Ms. Ferdman rejected Professor Karnani's assertion that the poor would prefer to work in a sweatshop than to run their own businesses, if they had the ability and support to do so. She also said that many microenterprises grow to a larger size and employ more people.

**Ms. Willoughby** underscored the importance of helping the poor to spend their income better. She explained that the WRI works with TNCs to help them enter new markets in a responsible way. The private sector approach to poverty alleviation is a new one, leveraging business' advantages in innovativeness, human capital, and efficiency, and so it is still experimental. She closed, reiterating that there are significant unmet needs at the bottom of the pyramid, and that serving these needs could provide jobs and produce growth that will support poverty reduction and development.

Following the panellists' responses and final remarks, **Mr. Jomo** closed the session.