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## CREATING VALUE NETWORKS AT THE BASE OF THE PYRAMID: AN APPROACH TO ALLEVIATING POVERTY IN THE PHILIPPINES

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### Abstract

Using the Base of the Pyramid and value networks as lenses, the paper explores an alternative approach to crafting policies and designing programs for the poor to address the issue of sustainability of government-initiated livelihood programs. A discussion is made on the evolution of the BoP concept, the different dimensions of value networks, and how they are applied to the poverty reduction program of the Aquino administration, specifically, the Sustainable Livelihood Program. The paper asserts that using a market-based, development strategy is necessary for the poor to raise their real incomes. This involves creating innovative partnerships with BoP stakeholders which is an integral part in fostering participatory and sustainable approaches to development and poverty alleviation among the marginalized.

**Keywords:** Base of the Pyramid, Poverty Reduction, Value Networks and Sustainable Livelihood Program.

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### 1. Introduction

This paper examines the concepts of the Base of the Pyramid and Value Networks in relation to the development goal of alleviating poverty in the Philippines. By taking a closer look at the poverty reduction program of the current Aquino administration from the Base of the Pyramid and Value Networks perspectives, the paper seeks to offer an alternative approach to address the issue of sustainable livelihood programs for the poor.

This paper suggests a re-thinking of who are the poor, and what are their needs and assets which include local production and learning networks. This entails a shift in government thinking as far as providing services for them are concerned. It also entails facilitating innovative partnerships with the private sector, non-government organizations, and communities of the BOP themselves to alleviate conditions among the poor.

The questions this paper seeks to address are: (1) What is the Base-of-the-Pyramid as a concept? (2) What are value networks and their application to the Aquino administration's Sustainable Livelihood Program? (3) In what ways can the BoP concept and Value Network approach be leveraged upon to create spaces for innovation in policy and program implementation for the poor in the Philippines?

A discussion shall be made on the evolution of the BoP concept, the different dimensions of value networks, and how they are applied to the poverty reduction program of the Aquino administration, specifically, the Sustainable Livelihood Program, a component of the social protection program commonly known as the Pantawid Pamilyang Pilipino Program (4Ps).

## **2. Defining the BoP**

C.K. Prahalad in his work *Fortune at the Bottom of the Pyramid: Eradicating Poverty through Profits* (2005) refers to the Bottom of the Pyramid as the more than four billion people globally living on less than \$2 per day with per capita incomes below \$1,500 (purchasing power parity). Essentially, those in socioeconomic classes D & E belong to this group. The main assumptions in C.K. Prahalad's view of the BOP are that: (1) there is money at the BoP; (2) the private sector needed for the poor to access products and services; (3) there is easy access to BoP markets through innovative approaches; (4) the poor are brand-conscious; (4) the BoP is connected through mobile, TV, Internet; and (5) BOP consumers are open towards advanced technology.

Prahalad posits that the answer to the problem of poverty is co-creation among the BOP consumers and entrepreneurs, private enterprise, development and aid agencies, civil society organizations, and government. This view veers away from how the poor are commonly seen by governments and some international funding institutions as "powerless victims and passive recipients of aid programs in their analyses of poverty".

Examining the BoP from a market-based, developmental approach is necessary in allowing the poor to create value through government and private sector-led initiatives.

## **3. From BoP 1.0 to BoP 2.0**

The BoP as a concept has evolved as development agencies, non-government organizations, and scholars have expressed criticism on the entry of corporations into developing countries as sellers to poor populations.

The assumption in Prahalad's BoP is that large companies can make a fortune by selling to the BoP, with the poor merely seen as consumers. Karnani (2006) claims that the only way to reduce poverty is to raise the real incomes of the poor and to see them as producers. The private sector can help alleviate poverty by investing in upgrading the poor's skills and productivity, making markets more efficient so that the poor capture the full value of their outputs, and by helping create more employment opportunities for them. Government's role, on the other hand, is to facilitate the creation and growth of private enterprises in labor intensive sectors of the economy, through appropriate policies, infrastructure, and institutions offering financing options for micro- and small enterprises (Karnani, 2006).

Hart and London (2011) have advanced another approach, one that focuses on the poor as business partners and innovators rather than merely potential producers and consumers. A values-based protocol business at the BoP is introduced focusing on the principles of co-creation and co-ownership between companies and poor communities. While companies provide access to technologies and scale, BoP entrepreneurs have an understanding of the social and economic context of their communities. Brand loyalty and credibility is built by companies that prove their social mission by sharing wealth and leadership with BoP entrepreneurs (Hart and London, 2011).

Reference to the BoP concept from “the Bottom of the Pyramid” to “Base of the Pyramid” underscores an entrepreneurial process that guides companies in developing business partnerships with income-poor communities in order to “co-create businesses and markets that mutually benefit the companies and the communities.”

#### **4. Value Networks as an Approach**

As the private sector and the BoP engage in a process of building mutual value, the value networks approach can serve as a vital tool in understanding how co-creation and partnership can take shape among the BoP and other players in the BoP ecosystem.

Contextualizing this within the local environment is essential. This involves an understanding of the cultural aspects, practices, and networks operating in BoP communities.

Value networks as conceived by Allee (2003) are webs of relationships that have the potential of generating tangible as well as intangible value through exchanges between two or more individuals, groups, or organizations. (Any organization or group of organizations engaged in both tangible and intangible exchanges can be viewed as a value network.) Tangible values include all exchanges of goods and services in the traditional value chain. Intangible values, classified as either knowledge or benefits, can be converted to a good or service that has financial value. The intangible value of knowledge within value networks is just as important as a monetary value. In order to succeed, knowledge must be shared to create the best situations or opportunities. Value networks are how ideas flow into the market and to the people that need to hear and use them (Allee, 2003).

In the context of this paper, knowledge exchange would include technical know-how or best practice information which support tangible values. Benefits include favors offered by one person to another, the local benefits of accreditation or prestige by association, or recognition given to group membership (Allee, 2003).

The core assumptions about value networks is that: (1) participants and stakeholders participate in a value network by converting what they know, both individually and collectively, into tangible and intangible value that they contribute to the network; (2) participants accrue value from their participation by converting value inputs into positive increases in their assets, allowing them to continue producing value outputs in the future; and (3) successful value networks require trusting relationships and a high level of integrity and transparency on the part of all participants (Allee, 2002).

The importance of collaboration and inclusion of networks of stakeholders and actors in a productive economy is essential. Missing links in the network may impede BoP communities from functioning well.

#### **5. Dimensions of Value Networks**

There are three salient dimensions of value networks, which come in the form of *multiple actors network* (which comprises a network of indirect actors in an economic sector that help to support economic production), *learning networks* (consisting of a network of information and learning sources), and *local production network* (involving a network of value-adding productive agents that add value directly to economic production).

Taken as a whole, these three value networks help us to identify areas of opportunities to fill the gap in value-creation which concerns BoP communities. It is an integral part in the broader challenge of fostering participatory and sustainable approaches to development and poverty alleviation among the marginalized.

A preliminary mapping of the learning and multiple actors network shall be made from the Sustainable Livelihood Program's implementation, a component of the Aquino administration's convergence strategy in poverty alleviation.

## **6. The Sustainable Livelihood Program under the Aquino Administration**

Since President Benigno Aquino III assumed office in 2010, his administration has embarked on a policy to reduce poverty in the country. This is embodied in the social development program known as the Pantawid Pamilyang Pilipino Program (4Ps) spearheaded by the Department of Social Welfare and Development with the aim of breaking the intergenerational cycle of poverty by investing in human capital particularly in health and education.

While there is heavy infusion of funds in this program and target beneficiaries have reached 103% of the Sets 1-6 target households for 2013, there are issues raised on whether it has significantly addressed widespread poverty in the Philippines and how sustainable such an approach is.

It has been reported that despite the growth in the Philippine economy in recent years, poverty levels have not changed since 2006. According to the 2012 National Statistical Coordination Board report, the estimated number of extremely poor families in the country between 2006 and 2012 has remarkably remained steady at 1.6 million. In 2012, on the average, incomes of poor families are short of the poverty threshold by 26.2% (Ordinario, 2013). Questions have been raised on whether economic gains have trickled down to the poorest of the poor and whether economic growth is inclusive enough.

This paper focuses on examining the Sustainable Livelihood Program, an integral component of the 4Ps, as it allows for the poor to raise their real incomes through micro- entrepreneurship.

The DSWD has adopted a convergence strategy to administer its poverty alleviation program. This convergence strategy in the 4Ps involve two tracks: (1) the Sustainable Livelihood Program; and (2) the Guaranteed Employment Program. The Listahanan, an information management system of DSWD, identifies participants from the National Household Targeting System for Poverty Reductions (NHTS-PR) for the SLP coming from the 4Ps partner families.

The SLP is a "capacity building program that aims to improve the socio-economic mobility of poor families in the Philippines, aiming to reduce poverty through generating livelihoods, thereby improving self-sufficiency." It is implemented through the Community-Driven Enterprise Development (CDED) approach, which equips the program participants to actively contribute to production and labor markets by making use of available resources and accessible markets (DSWD brief, n.d.). Social preparation and financial literacy workshops are held for the program participants by the DSWD together with its partner institutions. Through Participatory Livelihood Issue Analysis (PLIA) implemented by the DSWD, an environmental scanning of the participants' existing livelihood resources is made with the goal to link them to financial institutions and partner agencies to help expand their livelihood assets. The value-chain for potential products and markets is analyzed with the help of private sector partners. DSWD

provides a non-collateral and interest free loan amounting to a maximum of P10,000 per family beneficiary as seed capital for their proposed livelihood project.

## 7. Networks and Partners

In the SLP, a network of partners from the public and private sectors assist in the program implementation, particularly in the areas of micro-credit, micro-insurance, financial assistance, values formation, training on product development and marketing and market linkage.

SLP partners from both the public and private sectors include the following:

- For values and skills formation - SM Foundation, Inc., Negosyo ;
- For product development and marketing – Department of Trade and Industry, Ateneo de Manila University, Aranaz;
- Market linkage – Philippine Business for Social Progress;
- Provision of capital resources – Security Bank, Farmers Community Development Foundation International, Inc.;
- Credit, savings, micro-insurance – BPI Banko; and
- Employment Facilitation – International Container Terminal Services, Inc., Habitat for Humanity, Bernabest Food Products, Inc (Hernandez, 2013).

SLP partnerships happen both in the national and local levels. A network of partners from the public and private sectors, and civil society organizations assist in the program implementation. On the regional level, there are also SLP partnerships concurrently created among regional agencies, local government units, companies, foundation and local universities and cooperatives that suit local conditions and needs.

For example, in the Cordillera Autonomous Region, a partnership agreement was signed between DSWD-CAR field office and Mountain Polytechnic State University in August 2013 to conduct training for SLP beneficiaries in said region. The DSWD-CAR was also able to tap the Cordillera Community and Family Assistance for Progress, Inc. to conduct a credit and savings facility training workshop for the associations that will be funded by Security Bank Corporation.

In Region 1, during third quarter of 2013, DOLE's regional office enlisted beneficiaries to DOLE's Skills Registry Program and facilitated the provision of NegoKart franchising for microenterprises. Moreover, in Bolinao, Pangasinan, SLP participants were successfully linked to Green Valley United Cooperative for the buri wine bags made by SLP participants.

In Region 3, SM Foundation conducted the Kabalikat sa Kabuhayan Farmers Training Program (KSK-FTP) for SLP participants and the Alalay sa Kaunlaran, Inc. (ASKI), a partner civil society organization, conducted Farmers Entrepreneurship Trainings in August and September 2013.

These are some examples of partnerships across sectors happening nationally and regionally as well. Direct market partnership between foundations of large companies and local communities are also made possible as in the cases of SM Foundation, which provided training for farmers who can, in turn, supply SM supermarkets with their farm produce, and Ayala Foundation, whose training intervention focuses on the production of crafts and coffee.

On the whole, from the period of January 2011 to December 2013, DSWD served a total of 334,158 poor households through the SLP, 83.92% ( or 280, 427 households) of which are 4Ps

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household. Some 16.08% (or 53, 731 non-4Ps households) were likewise served during the time period (SLP brief, 2014).

### **8. Examining Value Networks through the SLP**

From the SLP initiative, it is seen that the creation of significant value networks emerge from the partnerships created among different BoP stakeholders. Multiple actors network consisting of national agencies (e.g., DOLE, DSWD, TESDA), LGUs, NGOs, and civic organizations are forged. Local production networks are strengthened with the assistance of private sector partners in linking BoP/ SLP products to markets. Learning networks comprised of companies and educational institutions provide SLP participants, with training in the form of financial literacy, business management orientations, high crop value training, and new farming technologies. The knowledge that the SLP participant gets in this network can translate into monetary values through improved production techniques and marketing of goods they produce. These intangible values of information and knowledge are so crucial especially for the BoP who are in the first place, disadvantaged because of the lack of formal education in most cases, and difficulty in accessing vital information to improve livelihood due to geographic, material, and financial conditions.

It is for this reason that nodes in the network are important. Value networks are composed of complementary nodes and links which bridge the BoP individual or community to other networks that can provide inputs which translate into values. In this case, the nodes in the SLP include the DSWD and its field development officers which link BoP individuals and communities with partner institutions in the business community. Foundations (e.g., SM Foundation, Inc., Ayala Foundation), cooperatives (e.g., Bagong Henerasyon), community-based organizations (e.g., Community Crafts Association of the Philippines) and social enterprises (e.g., Rags2Riches) are also nodes that link the BoP / SLP participant to markets for their products. They play a significant role in helping the BoP communities create value given the interdependence of these networks within which they operate.

### **9. The missing link: value networks as perceived from within the BoP**

It may be noted that this government poverty reduction program effectively uses networking and partnering with different actors in society. The SLP, in particular, addresses the concern for raising real incomes of the BoP, capacitating the SLP beneficiaries as producers and training them to become entrepreneurs. Innovation can take place from the ground where new products can be developed from within BoP communities.

While interventions from the DSWD in collaboration with its partner institutions pave the way for supply-driven value networks to be formed for BoP beneficiaries, there is a gap as to identifying what kind of value networks already exist from within BoP communities. An evaluation of the BoP ecosystem from the perspective of the BoP themselves could provide insights on other tangible and intangible values which can be tapped.

Being able to map out existing networks within BoP communities is important input to policy and program design. Viewing networks from within the BoP, using their own perspective can bring about insights on how organically relationships work within BoP communities. This can be helpful in a crafting a more creative, innovative approach in enhancing livelihood policies and programs for the poor.

In doing so, the work of those who are directly in touch with the BoP/ SLP participants particularly the DSWD field development officers is so crucial in mapping out the networks within the BoP communities they work with. Having inputs from the BoP communities themselves may be a painstaking but important process in coming up with more responsive interventions that are adaptive to local conditions.

There is also a need to have alternative plans to livelihood collaborations especially in a case where natural calamities strike. When disasters strike, working relationships, livelihood activities, and BoP businesses put in place experience a significant setback as in the case of SLP activities that were conducted and were put on halt in Tacloban when Typhoon Yolanda hit the region. Having insight into the internal networks of BoP communities could be helpful in tapping mechanisms for resilience as they can be important sources of adaptation to disruptive changes in the environment.

### **10. Conclusion and areas for future research**

The value networks approach is important to consider in achieving the desired outcomes of the government's Sustainable Livelihood Program – that is, for the self-sufficiency of the poor through micro-entrepreneurship.

Seeing the value networks from within the BoP, mapping out the poor communities' own links and relationships may provide insights and identify frictions that may be seen as gaps for partnerships between the private sector and other players in the learning and local production networks.

Another area for future research is a systems mapping to analyze and understand the participants' role in transactions and how they add to value creation. Hidden network patterns within BoP communities need to be surfaced to identify tangible and intangible value creation in an enterprise environment. A more concrete system to know how these deliverables translate into monetary values such as income and profits can be made.

There may be a variety of models that can emerge from such an undertaking given the distinct characteristics of communities, regions, products, and dynamics of relationships between the SLP beneficiaries and partners.

Case studies showing how the BoP/ SLP community ecosystem works is beneficial as it can give ideas on which nodes and mechanisms work. Important nodes could even be informal leaders in the community and other individuals who have information and influence in the BoP community. These cases can also show co-innovation between the SLP participants and private companies in terms of developing products and markets which add to value creation in these networks. These case studies can provide input to DSWD in coming up with specific relevant indicators (both quantifiable and qualitative) to gauge the effectiveness of the government's poverty alleviation program.

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