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Breaking the Poverty Trap

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Illustration by Sally Comport

In September 2000, 189 countries endorsed the United Nations Millennium Declaration. Each committed to meeting eight Millennium Development Goals (MDGs) related to poverty, hunger, health, gender equality, education, environmental sustainability, and global partnership. The United Nations Millennium Campaign stated the ultimate goal succinctly: “End poverty by 2015.”

Ten years later, has progress been made?

More than 310 million people now live below the basic subsistence level of one U.S. dollar per day. That number is expected to grow to 420 million by 2015. Despite \$1.5 trillion invested in aid and subsidies to the developing world during the past 50 years, disparities

within and between countries have widened, with no indication that this trend will reverse. Poor people and their governments remain concerned with meeting basic needs. The result is that skeptics have begun to question the value of ambitious “development” goals.

During the last few years, development economists have heralded new solutions: entrepreneurship and innovation. Joseph Schumpeter argued that innovative entrepreneurial acts have the potential to be a self-organizing, bottom-up force to mobilize scattered and hidden resources. In fact, infrastructures to deal with poverty—micro-credit lending and social ventures, for example—sponsored by nongovernmental organizations, community-based organizations, and other social movements have not only improved the quality of life of underprivileged communities, they have produced new kinds of “social” entrepreneurs and “venture” philanthropists whose focus on economic profit is intrinsically linked to human development.

Development is not just about economic growth. Progress equally depends on getting policies right and building effective institutions to implement them; building health systems that work; encouraging lending institutions to provide credit to those with insufficient capital; generating demand for better and more accessible services; and ensuring that there are enough jobs where people are treated fairly. Furthermore, development includes not only collective concerns but individual ones. The Swedish Society for Anthropology and Geography defines human development as the enhancement of individual and collective quality of life in a manner that satisfies basic needs; is environmentally, socially, and economically sustainable; and empowers by giving people substantial control over the process through access to the means of accumulating social power.

This is the basic tenet Nobel Prize winner Amartya Sen proposed when calling for a different understanding of development. Sen is concerned with people’s ability to live lives of value, not just of subsistence—what he calls “humane existence.” As he notes, poverty can be seen as a deprivation of basic capabilities essential for a humane existence, such as opportunities to engage in market transactions. The crucial question is not whether poor people have enough resources. Do they really have choices? Individual and collective freedom should be the essential goal.

So is it possible to develop Sen’s free, humane existence through the development of micro-enterprises? Some argue that the focus on so-called “bottom-of-the-pyramid” entrepreneurship often is based on an economic rationale at the expense of a sociological one, and that merely stimulating the creation of micro-enterprises is not going to be successful as a development strategy. There is more to entrepreneurship than merely starting a micro-business, they argue, especially when the underprivileged have been forced to set up such enterprises merely to survive. People living in poor conditions with such limited resources and entitlement opportunities often lack the entrepreneurial and organizational skills to run larger businesses. So they still face limited social, economic, and political possibilities despite the financing of micro-enterprises, and most of the time will fail because of that.

We introduce the concept of “inclusive entrepreneurship” as a way to break the poverty trap. Inclusive entrepreneurship focuses on entrepreneurial initiatives at the bottom of the pyramid in developing countries, but initiatives that are broadly conceived and work against exclusion, catalysts to social change and freedom. One example is an innovative business partnership in Mexico: Patrimonio Hoy, out of the family-owned construction materials conglomerate CEMEX. The concept was launched in 2000 and provides low-income families with financing

for cement, other building materials, and warehousing, but also technical advice on how to build houses and additions at a reasonable cost. Patrimonio Hoy uses social capital as collateral by requiring three families to form a borrowing group, which is then responsible for weekly repayment of micro-credits. If for any reason they miss payments, all the group members not only lose access to Patrimonio Hoy, their social standing in the community is affected. In an unexpected outcome, this social responsibility program has not only contributed to the betterment of families' quality of life; it has given those with the entrepreneurial drive the opportunity to set up their own small businesses. More than 25 percent of families that have built spare rooms on their houses use them to run small family businesses. (Most of them have become CEMEX distributors, enjoying not only discounted prices but also advertising, insurance programs, financing, knowledge on best practices, etc.) So far the program has helped more than 165,000 low-income families, with plans to expand to 2 million families throughout Mexico, Colombia, Venezuela, Nicaragua, and Costa Rica.

One crucial question is always whether development solutions are replicable in different environments. To answer this, we are developing a research project to compare efforts to enhance inclusive entrepreneurship between emerging economies (i.e., Mexico) and post-conflict rebuilding countries (i.e., Afghanistan). These efforts, organized by the Family Business Center at Tecnológico de Monterrey (Campus Monterrey, Mexico) and the Armed Forces of the Netherlands, are an example of recent policies related to social integration and the development of innovative educational business models in emerging markets. Comparing outcomes in these different contexts should lead to a deeper understanding of the factors that stimulate or limit the possibilities to develop a humane existence out of entrepreneurial activities at the base of the pyramid.

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