

# **Local Economic Development of the Bottom of the Pyramid in Bogotá and Medellín: a market research**

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**Jenny Bekkering  
Alex Crick  
Samy Lounis  
Gioia Nijenhuis  
Melvin de Vries**

## **Executive summary**

### Context

This research is an extension of previous research performed in Indonesia and Egypt on the topic of Local Economic Development (LED). Focussing on LED, these preceding researches aimed to investigate how the presence of Multinational Corporations (MNCs) in Indonesia and Egypt influences LED among the poorest local communities, which are considered to be part of the Bottom of the Pyramid (BoP). In 2013, IBR Colombia 2013 approached dr. B.J.W. Pennink of the University of Groningen to discuss the possibilities for a similar project in Colombia. Dr. B.J.W. Pennink has been involved in both researches in Indonesia and Egypt, as well as with past IBR projects, and therefore recognizes how this research by IBR Colombia 2013 can contribute to the theory of LED among the BoP. This research differs from the preceding researches due to its shift of focus towards the role of the non commercial organizations in the stimulation of LED among the BoP.

### Aim of research

The aim of this research is to identify what the cities of Bogotá and Medellín as governmental agencies are doing to stimulate economic development among the 'Bottom of the Pyramid' (BoP) group living in their cities. Aside from this, this research aims to establish if, and how, multinational corporations (MNCs) affect economic development among the BoP group.

### Research summary

In short, this research aims to answer three main questions on the topic of LED in Bogotá and Medellín, Colombia. First of all, it describes the BoP living in these cities. In doing so, it shows what the size of this group is, where they are living, how they are economically active and on what income they live. Moreover, it aims to provide an estimation of the developments of the BoP in the past five years. Secondly, this research focuses on local governments and affiliated organisations, and their role in stimulating LED in their cities. It investigates what programs the these institutions have developed, and are developing for the future, aimed at stimulating economic activity among the BoP. The third and final focus of this research is on the role of MNCs in stimulating economic activity within the communities belonging to the BoP. The effect of their presence on LED, as well as specific strategies aimed at the BoP are being analyzed in order to determine their role in the stimulation of LED within the Bop.

During a field research of five weeks in Bogotá and Medellín the information for this report has been collected through interviews with MNCs and non-commercial organizations, as well as from preceding research done on this same subject in these specific cities. Customized interview questionnaires have been used to obtain the necessary data with which we have determined what these organizations have done to stimulate LED among the BoP, and moreover, what work still needs to be done.

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## **1. Introduction**

Globalization offers Multinational Corporations (MNCs) the opportunity to enter new and upcoming markets through which they can increase profitability while at the same time offering these countries new and prosperous opportunities (for economic growth). Unfortunately, in emerging countries this prosperity is often unequally divided (Farag Nagi and Pennink, 2012). The majority of the people in emerging countries have an income ranging from low to no income at all, and as these people represent a large part of society it has significant potential as a future market (Farag Nagi and Pennink, 2012). This group, both the largest and poorest socio-economic group in society, is also referred to as the Bottom of the Pyramid (BoP) (Prahalad and Stuart, 1998).

This section will discuss the research objective, followed by an overview of the research method, the theoretical framework and finally, an outline of this report will be given.

### **1.1 Aim of the research**

The aim of this research is to identify what the cities of Bogotá and Medellín as governmental agencies are doing to stimulate economic development among the 'Bottom of the Pyramid' (BoP) group living in their cities. Aside from this, this research aims to establish if, and how, multinational commercial organisations affect economic development among the BoP group.

### **1.2 Research method**

In order to find answers to the research questions, data was collected mainly through qualitative methods. Interviews conducted in Bogotá and Medellín are the main method of data collection. In Appendix 1A, an overview is presented of all respondents, with their specific function and the organization they represent. Overall, interviews are conducted with experts working in the field of Corporate Social Responsibility (CSR). A total of thirteen interviews are conducted in Bogotá and Medellín. In order to ensure the right information is gathered, questionnaires were set up. Three types of questionnaires were developed, one for independent experts (e.g. university professors), one for local governments (e.g. organizations carrying out programs initiated by the government), and one for MNCs. The questionnaires are presented in Appendix 2. This appendix also clarifies the link between informational needs and specific questions. Overall, the different questionnaires cover the same subjects, which are the characteristics and developments of the BoP, the needs of the BoP and the programs aimed at the BoP by governmental institutions and MNCs.

Other sources of information are academic articles and relevant governmental institutional internet websites and documents.

### **1.3 Theoretical framework**

This research builds upon the studies of Gada Farag Nagi (2012) and Richard van Genderen (2013). The main subject of both studies is the strategies and business models implemented by MNCs to target the Bottom of the Pyramid group. The studies were performed in Egypt and Indonesia respectively. These two countries, together with Colombia, are part of the CIVETS group that consists of countries with favoured emerging markets. These countries are favoured

because of a diverse and dynamic economy, with a young and growing population. Colombia experiences a fast growing middle class and like many other emerging countries, a quick rate of urbanization. These factors make Colombia an interesting case study, contributing to the topic of urban economic development.

The Bottom of the Pyramid is an economic model that divides the world population in three prosperity groups (Prahalad, 1998). The top of the pyramid represents about half a billion people living in great welfare. Below the top of the pyramid is a group of approximately two billion people with an income between \$3.000-\$20.000 US dollars per year. The market of this group is largely urban, already relatively well-served, and extremely competitive (Rapport IFC, 2007). The Bottom of the Pyramid exists of four billion people that earn up to and including \$3000 US dollars per year (Rapport IFC, 2007). A fourth of these people is extremely poor and has to survive on an income of less than two dollars per day. The remainder of this group earns an average income of nine dollars per day. This is the part of the BoP market that may be interesting for companies, but according to Prahalad (1998), is often neglected as a target group. The BoP markets are often rural, poorly served, dominated by informal economic activities and relatively inefficient and uncompetitive (Rapport IFC, 2007).

Even though members of the BoP have a small income, these four billion consumers can be very interesting for companies to target because of their combined purchasing power, which, according to the IFC (2007), amounts to \$5 trillion US dollars. The products bought by these people are relatively expensive, as they have to buy smaller volumes more frequently. Furthermore, they are of lower quality and produced in an unsustainable way (Prahalad 1998). Therefore, opportunities exist for companies in these markets. The economic growth of emerging countries means that people from lower classes slowly move up to middle classes. By targeting the BoP group at an early stage, a company could increase the loyalty of a customer and thereby the company's profits in the long run.

## **1.4 Outline**

First, the characteristics of the BoP in Colombia, and more specifically in Bogotá and Medellín, will be identified as well as how these characteristics have developed over the past five years. Chapter 3 sheds light on the perspective of non-commercial organizations on the BoP, as well as programs that have been, and will be set up in the future in order to stimulate economic development among the BoP. In chapter 4, the role of the MNCs in stimulating local economic development of the BoP will be discussed. Finally, a summary of the research will be provided in chapter 5, followed by an overview of the references in chapter 6. The appendices can be found in chapter 7.

## 2. The Bottom of the Pyramid (BoP)

In this chapter the characteristics of the BoP in Bogotá and Medellín will be described. First, background information is provided that is necessary to determine the BoP group in Bogotá and Medellín. With this in mind, the characteristics of the BoP in Bogotá and Medellín will be further elaborated. Lastly, factors hindering the development of the BoP in both Bogotá and Medellín will be discussed.

### 2.1 The definition of BoP in Colombia

In Colombia, municipalities and districts are characterized on the basis of social and economic factors into six socio-economic “Estratos”. Level one is lower-low, two is low, three is upper-low, four is medium, five is medium-high, and six is high. The main indicators are the housing characteristics and the quality of the residential neighbourhoods (Medina et al., 2008). According to Professor Urquijo of Universidad de Externado Bogotá, Patricia Gonzales of the Bogotá Chamber of Commerce and Juanita Mesa of Suramericana, the people of stratum one, stratum two and the lower 50 per cent of stratum three belong to the BoP. However, different views on the BoP have been identified. For example, ANSPE, a governmental institution against extreme poverty, believes that stratum zero, stratum one and stratum two belong to the BoP. Moreover, ANSPE states that the people in stratum one and two earn somewhere in between \$150 and \$200 per month.

The legal minimum wage in Colombia in 2013 is COP 589.500 (333 US Dollars) per month (Colombian Politics, 2013). Although there is a legal minimum wage in Colombia, this is often not effectively regulated in the informal sector. In Colombia, between 50 per cent and 60 per cent of the jobs are in the informal sector in which wages are often lower than the legal minimum wage (Prof. Alvaro; Florez, 2002). This is also in line with a research performed by the OECD (2012), which states that about 50 per cent of the employed population was in the informal sector early 2012. For Bogotá and Medellín specifically, the percentage of employed population in the informal sector is respectively 45 and 50 per cent (OECD, 2012). Moreover, this report claims that two-third of the informal workers earn less than the legal minimum wage. ANSPE states that people in the informal sector earn an average of 150\$ US dollar per month. According to a research conducted by MESEP in 2010, people are considered poor in urban areas when they earn less than COP 207.005 per month, which is approximately 113 US Dollars. People in urban areas are considered extremely poor when they earn less than COP 87.401 per month, approximately 48 US dollars.

### 2.2 The BoP in Bogotá

| Characteristics BoP in Bogotá  |                                    |
|--------------------------------|------------------------------------|
| Size (% of inhabitants)        | <b>66% in 2011 (61.5% in 2008)</b> |
| Income per months (US Dollars) | <b>\$0-\$250</b>                   |
| Geographic Location            | <b>South Bogotá</b>                |

#### 2.2.1 Size

Bogotá has over seven million inhabitants (Secretaría Distrital de Planeación, 2011). According to Medina et al. (2008), 6 per cent of the inhabitants of Bogotá are part of the first stratum, 34

per cent belong to the second stratum and 43 per cent belong to the third stratum. Following the previously determined definition of the BoP approximately 61.5 per cent of the inhabitants of Bogotá belong to the BoP. However, based on statistics from the local government in Bogotá, 9.5 per cent of the inhabitants belong to the first stratum, 39 per cent to the second stratum and 35 per cent to the third stratum.

Figure 1: Percentage of inhabitants belonging to the BoP in Bogotá, based on estratos (2008 and 2011).

| <b>2008</b>    |                         | <b>2011</b>    |                         |
|----------------|-------------------------|----------------|-------------------------|
| <i>Estrato</i> | <i>% of inhabitants</i> | <i>Estrato</i> | <i>% of inhabitants</i> |
| 1              | 6%                      | 1              | 9%                      |
| 2              | 34%                     | 2              | 39%                     |
| 3              | 43%                     | 3              | 35%                     |
| <b>Total</b>   | <b>61,5%</b>            | <b>Total</b>   | <b>66%</b>              |

### 2.2.2 Income

As mentioned before in this chapter, people can be considered poor when they earn less than 113 US Dollars per month and extremely poor when they earn less than 48 US Dollars per month (MESEP, 2012). With this in mind, MESEP calculated that 15.5 per cent of the total inhabitants of Bogotá could be considered as poor and 2.6 per cent as extremely poor. Assuming that approximately 66 per cent of the inhabitants of Bogotá belong to the BoP and that 15.5 per cent of the inhabitants can be considered poor, it can be concluded that 23.5 per cent of the BoP earns less than 113 dollars per month. The remaining 76.5 per cent earns between 113 US dollars and 250 US dollars per month.

### 2.2.3 Location

As can be seen in figure 2.2.3, strata one, two and three, considered to belong to the BoP, are mostly located in the south of Bogotá. On the other hand, the wealthier strata four, five and six are located in the north of Bogotá [see Appendix 3].

## 2.3 The BoP in Medellin

| Characteristics BoP in Medellin |                                      |
|---------------------------------|--------------------------------------|
| Size (% of inhabitants)         | <b>64.5% in 2010 (61.5% in 2008)</b> |
| Income per months (US Dollars)  | <b>\$0-\$250</b>                     |
| Geographic Location             | <b>North Medellin</b>                |

### 2.3.1 Size

Medellin has approximately 2.7 million inhabitants (International Development Bank, 2012). In Medellin, the people are divided in strata as well. According to Medina et al. (2008), 10 per cent of the inhabitants of Medellin are part of the first stratum, 36 per cent belong to the second stratum and 31 per cent belong to the third stratum. This would indicate that the size of the BoP in Medellin in 2008 is 61.5 per cent. According to Perfil Alimentario y Nutricional de Medellin (2010) (part of the local government of Medellin), 10 per cent of the inhabitants of Medellin is part of the first stratum, 40 per cent belongs to the second stratum and 29 per cent to the third



stratum. Based on these statistics, it can be assumed that approximately 64,5 per cent of the inhabitants of Medellin in 2010 belongs to the BoP.

Figure 2: Percentage of inhabitants belonging to the BoP in Medellin, based on strata (2008 and 2011).

| <b>2008</b>    |                         | <b>2010</b>    |                         |
|----------------|-------------------------|----------------|-------------------------|
| <i>Estrato</i> | <i>% of inhabitants</i> | <i>Estrato</i> | <i>% of inhabitants</i> |
| 1              | 10%                     | 1              | 10%                     |
| 2              | 36%                     | 2              | 40%                     |
| 3              | 31% (15.5)              | 3              | 29% (14.5)              |
| <b>Total</b>   | <b>61.5%</b>            | <b>Total</b>   | <b>64.5%</b>            |

### 2.3.2 Income

In 2012, MESEP calculated that 22 per cent of the inhabitants of Medellin could be considered as poor and 5.6 per cent as extremely poor. Assuming that 64.5 per cent of the inhabitants of Medellin belong to the BoP and that 22 per cent of the inhabitants can be considered poor, it can be said that approximately 34 per cent of the BoP earns less than 113 dollars per month. The remaining 66 per cent earns between 113 US dollars and 250 US dollars per month.

### 2.3.3 Location

The higher strata are located in the south of Medellin and the lower strata in the north of Medellin [see Appendix 3].

## 2.4 The Developments of the BoP in Bogotá

### 2.4.1 Size

Based on the statistics in figure 1, approximately 66 per cent of the inhabitants of Bogotá belong to the BoP. Comparing the results of Medina et al. (2008) and SDP (2011), it seems that the BoP group in Bogotá has increased [see figure 1]. Information shows that in the period 2002-2010 the poverty incidence of the poor and the extreme poor in Bogotá declined from 31.3 per cent of the total inhabitants in Bogotá in 2002 to 15.5 per cent in 2010 (MESEP, 2012). However, according to Professor Urquijo, this decline is not only due to the improvement in income of poor people but also because of a changed assessment methodology of the strata by the government. According to Professor Urquijo, the government changed the assessment methodology to change the public image of poverty in Colombia.

### 2.4.2 Income

Professor Urquijo indicated that because most of the BoP works in the informal sector, there is hardly any information available about the developments regarding income. This is confirmed by ANSPE. Although we have hardly any information about the developments, we can make one remark about the changes in the size of lower strata. Although the poverty incidence has declined over the years, the size of the lower strata have increased. This could indicate that the lower strata have a higher income than before. Professor Urquijo indicated that it could also be, as stated before, because of the different assessment methodology the government used to calculate that poverty incidence.

### *2.4.3 Location*

No remarkable changes in location of the BoP.

## **2.5 The Developments of the BoP in Medellin**

### *2.5.1 Size*

Comparing the results of Medina et al. (2008) and Perfil Alimentario y Nutricional de Medellin (2010), it seems that the size of the BoP in Medellin has increased. In particular stratum two shows a significant increase from 2008 to 2010, while stratum three has decreased in the same period. Information shows that in the period 2002-2010 the poverty incidence of the poor and the extreme poor in Medellin declined from 36.1 per cent of the total inhabitants in 2002 to 22 per cent in 2010 (MESEP, 2012). The same change in assessment applies here.

### *2.5.2 Income*

For the developments of income in Medellin the same remark as for the developments in Bogotá can be made.

### *2.5.3 Location*

No remarkable change in location of the BoP.

## **2.6 Obstacles concerning the economic development of the BoP**

### *2.6.1 Colombia*

Several obstacles have been identified that possibly hinder the economic development of the BoP group in the entire country of Colombia.

An important obstacle according to all the respondents of the interviews is the way the formal and informal sector is structured in the main urban areas. Professor Urquijo, the CCB and ANSPE indicate that in Colombia 50 per cent of the jobs can be characterized as informal. The Inter-American Development Bank (IDB) estimates this percentage to be even higher, at 60 per cent in 2012. According to DANE, the Colombian National Office for Statistics, the informal sector stands at 51.3 per cent of the working population in urban areas and almost 60 per cent overall. According to Florez (2002), this difference depends on the definition that is used for estimating the size of the informal sector. This high percentage of informal jobs is partially a result of large migration waves in the 1950s and 1960s (Florez, 2002) to the urban areas. Although there is a lack of information on migration waves during the last decades, Florez (2002) confirms the fact that the intensification of armed conflicts in the country is increasing rural migration to urban areas, which is also stated by ANSPE, Confama and the CCB.

According to ANSPE and professor Urquijo, the average wage in the informal sector is about 150 US Dollars per month and is significantly below the legal minimum wage. This sector is hardly effectively regulated and jobs can be characterized as low quality (Professor Urquijo; Florez, 2002). To decrease the size of the informal sector, many organizations have set up programs to change the occupation from an informal to a formal one. However, according to Professor Urquijo, these programs never reach their goals and the informal sector remains a problem.

Another important obstacle is the access to financial systems. The IDB (2012) indicates: *“that formal credit is not available to a lower-income population niche, because the transaction costs associated with lending and providing other services to a low-income clientele and to smaller businesses are high and limit the supply of credit”*. Professor Urquijo and the IDB state that only 30 per cent of Colombia’s population uses banking services. According to Juanita Mesa of Suramericana, it is crucial that the BoP has more access to the financial markets in order to improve their economic development. Suramericana states that when people get better access to the financial markets, they will have more to spend and therefore companies in Colombia can benefit. The very slim share of micro lending in total credit approvals, which is only 6 per cent of formal financial system active loan balances, indicates that formal credit is not available extensively to the lower-income part of the population (Country strategy IDB, 2012).

According to DANE, there are multiple unsatisfied basic needs which may be hindering the BoP from developing economically. Inadequate housing and housing with critical overcrowding, inadequate services, high levels of economic dependence and school-aged children not enrolled in school, are the major problems.

### 2.6.2 Bogotá

An obstacle in Bogotá that influences the economic development of the BoP is mobility. Due to rising GDP per capita, there are 350,000 new cars a year in Bogotá. This means that roads are getting more crowded, emissions are getting higher and private cars and ‘colectivos’ move with an average speed of 25 km/hour in the city (International Federation for Housing and Planning, 2013). It is estimated that by 2030, Bogotá and the smaller cities attached will have three times as many cars as compared to 2009 (Acevedo et al. 2009).

Acavedo et al. (2009) estimate that people have to earn at least 430 US dollar per month to buy a motorcycle and 855 US dollars to buy a car, which is well above the maximum income of the BoP. Consequently, the BoP relies heavily on public transportation. As the largest part of the BoP lives in the Southern parts of Bogotá and most of the economic activity is in the North, the BoP has to travel huge distances to go to work. Besides the traffic jams, 46 per cent of the roads in Bogotá are in a very bad state (Acavedo et al, 2009). The traditional public transportation which is privately owned, has a circulation speed of 10 km/h during morning rush hours and this will decrease even more in the future due to increasing traffic (Chaparro, 2002). The recently developed Transmilenio system is the only (public) transportation system in the city that can avoid these traffic jams because it runs on separate bus lanes. The demand for public transportation is highest for the lower income segments, but in contrast to that the Transmilenio is mostly used by the higher incomes (Echeverry, Ibanez and Hillon, 2004). Aside from that, due to extreme overcrowding in the Transmilenio buses the total average travel time is even higher than with the traditional public transportation system (Echeverry, Hillon and Carlos, 2004). Especially for the part of the BoP living in the South, the mobility situation hinders them in efficiently travelling to the economic activity in the centre and in the North (Professor Urquijo).

According to Confama, ANSPE, CCB and professor Urquijo, one of the main factors influencing the proper execution of local government’s policies is the frequency in which the city changes its mayor. Furthermore, as the CCB states, new mayors tend to be allergic for policies implemented

by their predecessors. This tends to have a negative effect on the ability of institutions to develop sustainable programs to stimulate local economic development in the long-run and thereby the economic development of the BoP (CCB, Confama & Secretary of Socioeconomic Integration).

### 2.6.3 Medellin

According to Confama, the major problem with Medellin is the rural migration pushing against urban areas which affects the city in many ways. ANSPE and Confama refer to these people as displaced people, as most of these people are families running from rural areas with violence or armed conflicts.

These families move to the city without any possessions hoping to find a safe environment and benefiting from the resources of the city. Nationally, Medellin is known for its strong programs and good resources for the BoP and is therefore a popular destination of choice for these displaced families. Yearly, 30.000 displaced people move to Medellin and are in extreme conditions. Due to this influx, Medellin has a hard time reducing poverty in its city.

## 3. Non commercial organisations and their policy with regard to the BoP

### 3.1 Bogotá

The Chamber of Commerce of Bogotá (CCB) and the Agencia Nacional para la Superación de la Pobreza Extrema (ANSPE) are the main institutions in Bogotá that execute programs and initiatives of the local government. The CCB focuses only on the Metropolitan Area of Bogotá and is oriented at creating business opportunities, whereas the ANSPE is a nationally focussed organization, focussing on social conditions. Another institution worth mentioning is the District Department of Economics Development. In the following sections we will describe how these institutions are involved in stimulating economic development of the BoP in Bogotá.

#### 3.1.1 Cámara de Comercio de Bogotá (CCB)

The information stated in this section has been gathered during an interview with Patricia González Ávila (Director of the Department of Shared Value) of the CCB.

The Bogotá chamber of Commerce (CCB) is a private institution funded by public funds. Their mission is as follows: *“To increase prosperity of the inhabitants of Bogotá and the surrounding regions by strengthening business capacities and improving the competitive environment for the generation of shared value under the principles of governance with long/term global vision.” (CCB.ORG)*. The CCB executes programs initiated by the local government, but also creates programs in cooperation with the local government. The CCB tries to create economic growth by stimulating the business environment and also by improving the quality of life. One way in which they try to achieve this is by aiming at the poorest inhabitants of the city. The CCB set up several programs to improve the quality of life of the lower classes. An example of such a program is given below.

The programs of the CCB have several key focus points like security in the Estratos communities one, two and three [see Appendix 4, Program 1], violence prevention [see Appendix 4, Program 2], and education and nutrition [see Appendix 4, Program 3].

A new and important program of the CCB is aimed at waste pickers. Waste picking is an informal occupation executed mostly by members of Estratos one and two. According to the CCB, there are around 3000 waste pickers in the city, and the goal of this program is stimulate these waste pickers to move to the formal sector. The program offers participating waste pickers the opportunity to develop a business plan for other, formal occupations. During this program, the participants receive legal, financial and managerial guidance, as well as ten thousand US Dollars in start-up capital. Currently there are only around thirty waste pickers participating in this program since it has just been recently launched, but the CCB aims to further expand it. Unfortunately, due to the novelty of the program there are no results yet and the CCB was unable to give us an estimation of the future effects on economic development within this group.

With respect to the cooperation between the local government and the private sector numerous examples can be given, yet in most cases the CCB acts as the sole executer of a project funded by a group of companies affiliated to the CCB.

### *3.1.2 Agencia Nacional para la Superación de la Pobreza Extrema (ANSPE)*

The information stated in this section has been gathered during an interview with Raizza May (Regional Advisor) of ANSPE Bogotá.

The ANSPE is a national organisation, which is aimed at reducing extreme poverty in Colombia. The organization was founded on the principles of the United Nations Millenium Goals (2000), which has as its first goal to reduce worldwide extreme poverty. ANSPE holds multiple offices around the country with their own regional focus. According to ANSPE, people are living in extreme poverty conditions if they are living from less than two US dollars per day, per family member. In Bogotá, where communities are categorized from Estratos one to six, these people are said to be living in communities belonging to *Estrato zero*. Aside from their poverty conditions, these people are often displaced and fled to the city away from violence driven by drug related- or political conflicts.

For the purpose of poverty reduction ANSPE has developed a program called Plan Familiar. This program is aimed at extremely poor and displaced families, and offers services in nine areas ranging from health and nutrition to legal aid. With Plan Familiar ANSPE subsidizes initiatives for these families to improve their own conditions in one or more of these nine areas in the long-run, and thereby hopes to create a sustainable improvement in the living and working conditions of the extremely poor. It is important to note here that ANSPE acknowledges that there is a downturn to the program, because subsidies may be a significant substitute to salary, which in some cases creates an unwillingness to work – or laziness – among the participants. Like in the case of the waste pickers program, this program is still young and ANSPE is not yet able to test its effect on the economic development of this group.

### 3.1.3 The District Department of Economic Development

Aside from initiatives by organizations such as the CCB and ANSPE, the city government of Bogotá has developed programs aimed at stimulating local economic development as well. For example, the Mayor of Bogotá from 2004 to 2007, Luis Eduardo Garzón, focused on the development of social programs that sought to provide education and food security for vulnerable populations. The goal of these programs was to create a Bogotá without indifference – Bogotá sin indiferencia, and Bogotá without hunger – Bogotá sin hambre [see Appendix 4, Program 6] (A Harvard Kennedy School Case Study, 2012).

## 3.2 Medellin

Comfama and the Secretary of Socioeconomic Integration are two important institutions involved in stimulating local economic development in Medellin and the surrounding areas. Comfama is a local institution, which acts as a coordinator and administrator for a wide range of services offered by multiple parties, whereas the Secretary is the main governmental institution involved in stimulating the economic development of the BoP in Medellin. The following sections will further describe their activities aimed at stimulating local economic development.

### 3.2.1 Comfama

The information stated in this section has been gathered during an interview with Jimena Puyo Posada (Deputy Director of the Department for Agreements Development) and Germán Ignacio Casas Arango (Economist) of Comfama.

Founded as a union between employers and employees in 1954 to improve the conditions of workers in the Antioquia department (Colombia), Comfama is currently the most well-known organization in Medellin involved in stimulating economic development among the BoP. Comfama offers programs and services in health, housing, education, recreation and financial aid. These services are aimed at members from Estratos one till three, which in Bogotá, houses the most members of the BoP, but its services are publically accessible. According to Comfama, it has around six million beneficiaries in the Antioquia department, who are all charged a *progressive* fee for these services depending on their income.

### 3.2.2 Secretario de Integración Socioeconómica de Medellin

The information stated in this section has been gathered during an interview with Ricardo León Yepez Pérez, Undersecretary of Socioeconomic Integration in Medellin.

The Secretary of Socioeconomic Integration of Medellin is the main governmental institution involved in stimulating local economic development in the city. As part of the Municipality of Medellin, this institution is mainly focussing on stimulating the transition of informal economic activity into the formal sector. By doing so, the Secretary hopes to achieve higher and more sustainable incomes for the city's poorest inhabitants. For this purpose, the city built 17 community centres spread over the 16 *communas* of the city in 2005. The community centres operate as local development centres where inhabitants of the *communas* are being trained to become productive employees or come to be guided through an entrepreneurial plan for their own business in the formal sector.



According to Ricardo León Yepez Pérez, there are currently 150 business initiatives being guided to become independent sustainable businesses. Rather than expanding this amount, the Secretary aims to improve and expand these businesses so that they can become a source of employment for others. In terms of income, the Secretary hopes to achieve a sustainable income of 333 US Dollars (legal minimum wage) for its participants, and those employed by them.

Both private and public institutions in and around the city fund the Secretary which allocates most of its funds towards the development of entrepreneurs and new employees in the *communas* of Estratos 1 and 2. Aside from this, the Secretary also operates as a credit institution with extremely low interest rates. These credits are especially for people at the BoP, who otherwise would be unable to obtain funds. Because of this, the Secretary is also seen as the 'Bank of the Poor'.

According to Ricardo Pérez, the Secretary feels very strongly that this is a successful project, which has achieved a lot in the past 8 years. Unfortunately, like many organizations in Colombia, they have no clear statistics of its accomplishments and the impact on local economic development in the city.

### 3.3 Summary

This section has shown in what manner the local government and other affiliated organizations are involved in poverty reduction and the local economic development of the BoP. Many programs are aimed at the actual bottom of the BoP and focus on a wide variety of services. What the information reveals is that the transitioning of informal economic activities into the formal sector is seen as an important aspect of stimulating their economic development. Although the aforementioned programs seem promising they have its pitfalls and moreover, for most of these programs the actual impact on local economic development is unclear or still remains to be seen.

## 4. Strategies of multinationals regarding the BoP

### 4.1 Introduction

This section will discuss to what extend the companies Alpina, Royal DSM, Codensa, OI Peldar, L'Oreal, Suramericana and Nutresa target the BoP and adapt their strategies to fit the needs of these people and if so, how. It is analyzed whether these companies, as Prahalad (1998) stated, are able to generate profits by targeting the BoP while at the same time stimulating the economic development of this group. The choice to include these companies in our investigation was to get a broad perspective of the Colombian market. Therefore, many companies in different sectors were approached. Unfortunately not all companies that were contacted wanted to participate in our investigation (appendix 1B).

### 4.2 Table of MNCs and other companies

| Table of MNCs | BoP as target group |                 | Motivations to target the BoP |                        |
|---------------|---------------------|-----------------|-------------------------------|------------------------|
|               | <i>Products</i>     | <i>Programs</i> | <i>Generating profits</i>     | <i>Stimulating LED</i> |

|              |          |   |            |   |
|--------------|----------|---|------------|---|
| Alpina       | X        | X | X          | X |
| Codensa      | X        |   | X          | X |
| Royal DSM    | X        | X |            | X |
| OI Peldar    |          | X |            | X |
| L'Oreal      | (Future) | X | X (Future) | X |
| Suramericana | X        | X | X          | X |
| Nutresa      |          | X |            | X |

The table above summarizes to what extent, and via which channels, the aforementioned companies are targeting the BoP. It shows that these companies tend to do this in two ways. First of all by selling their products directly to the BoP. A strategy which is usually chosen solely for the purpose of generating profits, yet also creates access to new products for the BoP. The second option is setting up development programs aimed at the BoP. These programs focus on stimulating economic development of the BoP and not directly at generating profits. While this is not their primary focus, these programs do tend to improve the image of the companies.

### 4.3 Alpina Productos Alimenticios S.A.

Alpina is the third largest dairy producing company in Colombia. Its products include beverages, milk, baby food, desserts, cheeses, cream and butter, and finesse products ([alpina.com](http://alpina.com)). It was founded in 1958 and has its main production location in Sopo, a small town near Bogotá.

#### 4.3.1 Target and strategy

Alpina uses the strategy of adapting their products to fit the needs of the BoP. They adapt their products by adjusting the size and by offering alternatives. Alpina offers their regular products in small packages tailored for the BoP. By doing so, the BoP is able to afford these small sized products. Alpina also offers affordable alternatives for expensive products such as milk. An example of such a product is Alpilac, a nutritious dairy substitute with a similar taste. Aside from such product strategies, Alpina is also involved in the development of local dairy producers in the Sopo area. By offering these farmers special training and advice Alpina helps to increase their productivity and the quality of the milk. Both parties benefit because Alpina is able to buy more milk and the farmers earn a higher income by selling better quality milk. Because Alpina is a producer of nutritional products they feel the responsibility to teach the BoP about consuming a balanced diet. According to Alpina the BoP needs to be educated on these topics and therefore has programs to assist poorer people in buying nutritious food with their limited budget.

### 4.4 Royal DSM

DSM is a global science-based company active in health, nutrition and materials with the head office in Heerlen and a subsidiary in Tocancipa, Colombia.

#### 4.4.1 Target and strategy

DSM is a B2B company and therefore does not directly sell their products to the BoP, yet is still involved in the development of this group. DSM works closely together with companies like Doria and Quila to fortify their products with nutrients, so-called (non-)fortified products. These are companies which sell their products directly to the BoP. DSM aims to provide the



people at the BoP with fortified products, which are offered at the same price as non-fortified products. DSM only has one final product named *MixMe* aimed at children between 6-59 months, which they sell to governments and other public institutions. This product, which was developed with the World Food Program, is a sachet that contains one gram of micro nutrients that people at the BoP can add to their diet. DSM sells these sachets with only a small profit because they believe they have a responsibility to help the BoP. The Colombian government is considering obligating these sachets to all Colombian children. Furthermore, DSM has a program in cooperation with Instituto Colombiano de Bienestar Familiar (ICBF). This institution's primary objective is to stimulate the development and improve the protection of Colombian families. DSM supports this institution by providing them with very cheap nutrients and other resources. For example, they give pregnant women in the program advice on healthy food and offer free day-care to the children in the program. This program is part of DSM's CSR policy and does not generate any (direct) profits.

#### 4.5 Codensa S.A.

Codensa is a Colombian energy company. It is the biggest distributor of electricity in Colombia and provides services to Bogotá and over 96 towns in other districts (Martinez and Carbonell, 2007). Codensa controls 22.9 per cent of the market for distribution and 17.9 per cent in the market for energy.

##### 4.5.1. Target and strategy

Colombian legislation limits market concentration in the distribution and energy market to 25 per cent (Martinez and Carbonell, 2007). Codensa looked for opportunities in related businesses to make better use of their cash surpluses, and at the same time generating part of the working capital needed to operate its distribution and marketing businesses. Codensa detected that *"improving customers' quality of life through acquisition and use of electrical goods and appliances could be an opportunity for strengthening ties with customers and expanding their business"* (Martinez and Carbonell, 2007). The problem was that these lower income segments lacked the funds to buy these appliances. The solution was a credit card that connected with the electricity bill. This enabled lower income segments to buy appliances with repayment to be made through their electricity bill. Codensa's strategy was a great success and increased its sales with 194 per cent in 2004 compared to 2003. Martinez and Carbonell (2007) state: *"Codensa not only improved their customers' quality of life but also their own corporate reputation and brand image"*.

#### 4.6 OI Peldar

Cristalería Peldar S.A. was founded in Medellin, Colombia in 1949 and produces glass with high quality standards. It manufactures three product lines: glass containers, flat glass and glassware for homes. It has four plants located in Colombia. Several years ago it was taken over by the American company Owen Illinois which is active in 21 countries and has a total of 82 plants. OI Peldar is the biggest glass producer in Colombia as well as in the world.

##### 4.6.1 Target and strategy

Recently OI Peldar has started to focus their core business on sustainability and CSR. Therefore, OI Peldar chose to target the BoP through two separate programs. The first program is aimed at

waste pickers in Envigado (a small town near Medellín where the factory of OI Peldar is located). The program is an initiative of the Bank of International Development, the local government and several companies, including OI Peldar. It started in 2010 and its goal is to improve the economic development of the waste pickers. By providing the waste pickers with better transportation they are able to collect more waste and therefore earn more money. The program also provides the waste pickers with new clothing, free food for their families and educates the waste pickers to manage the money that they have earned. Another goal of the program is to offer people that live on the street a job as a waste picker and thereby give them the opportunity to earn money. This program not only benefits the waste pickers but also benefits OI Peldar. The glass that is collected by the waste pickers is transported to OI Peldar and subsequently recycled and used for OI Peldar's own products. The second program is called Read and Write, which is part of the foundation "dividend por Colombia". The goal of this program is to educate professors on how to teach children up to the age of 12 to read and write. The project is partly funded by the employees of OI Peldar: Every peso donated by an employee is doubled by OI Peldar.

#### **4.7 L'Oréal**

L'Oréal's Colombian HQ is based in Bogotá and possesses a relatively small market share of the Colombian market. Recently L'Oréal Colombia bought Vogue Colombia to gain a stronger position in the Colombian market.

##### *4.7.1 Target and strategy*

L'Oréal has a clear vision of the BoP. At this point they serve around one billion consumers worldwide and they intent to double this to two billion consumers in the next ten years. They hope to do so by focussing on the BoP of developing countries such as India and Indonesia, and also Colombia. This however, may be a difficult mission considering that people in this group only have around 1 to 3 dollars to spend on cosmetics and beauty products, since they need to prioritize on buying food and other primary products. As a result, the main focus of L'Oréal will be on the top of the BoP, and the people that are likely to enter the middle class in the near future. L'Oréal plans to target this group by adapting their existing products. According to D'Have, people in the BoP live on a daily salary and therefore can only buy small packages of shampoo or deodorant for example. L'Oréal has therefore decided to target the higher income segment of the BoP by selling their products in very small quantities at a low price. Furthermore, D'Have mentioned that selling mini shampoos and other beauty products to the bottom of the BoP is not possible, as they have to meet other primary needs first. Therefore, for these groups L'Oréal has set up several social programs to stimulate the economic development. A good example of these social programs is a program called Futuro, which is developed for single and distressed women. It is a beauty program that consists of 5 to 6 months of training to become an assistant of, for example, a hairdresser or beauty artist. The goal of the program is to give these women the opportunity to earn enough money to take care of themselves and their children.

#### **4.8 Suramericana**

Suramericana is a subsidiary of Grupo de Inversiones Suramericana that handles investments in the insurance and social security sectors. Suramericana's corporate purpose is to fully satisfy the

community's needs with regard to security and savings, with products such as life and general insurance, occupational risk coverage and healthcare.

#### *4.8.1 Target and Strategy*

According to Juanita Mesa, the BoP is fundamental for business and the development of Colombia. Suramericana targets the BoP through their Foundation. The mission of this foundation is to improve the living conditions of the BoP, not only in the areas where Suramericana is located but also in the rural areas. The Foundation strives to economically develop the BoP, which in the long term benefits Suramericana. This is caused by the fact that a rise in welfare of the Colombian inhabitants has a positive effect in the amount of products sold by Suramericana. A good example of the programs initiated by the Foundation is the 'Expansion program'. This program mostly focuses on people living in Estrato 2 and 3 and its goal is to educate people in the BoP to become insurance advisers and subsequently sell insurances in their communities. This benefits the BoP in several ways. The program generates jobs, offers insurances to the communities and guarantees the income of the families who participate in this program. Furthermore, it also benefits Suramericana in the way that it stimulates the turnover of the company due to the fact that more of their products are sold. Another program worth mentioning, yet not aimed at Bogotá and Medellín is the Naidi program. This program aimed at a specific company operating in the Chocó, which is in the Northwest of Colombia. It is a large firm and the largest employer in this region. The Foundation offers financial funds to this company, thereby hoping to stimulate its activities. In return, the Foundation asks for a percentage on their profits, which are again invested in other economically stimulating programs.

#### **4.9 Nutresa**

Nutresa is a food-processing conglomerate headquartered in Medellín, which focuses on producing, distributing and selling chocolates. Nutresa has 31.650 employees of which 24.204 work in Colombia.

##### *Target and Strategy*

Nutresa has committed itself to sustainable development and invested \$1.7 million dollar in 2012 in stimulating the income of people they call the BoP. For Nutresa, the BoP consists of small farmers that own a maximum of 1.5 hectare and who are living in the rural areas of Colombia. In the urban areas they consider the people of stratum one as BoP. Their strategy is focussed on expanding their business to emerging economies, yet the BoP is not a specific focus group. However, they do target the BoP as part of their value chain. The goal of this is *“to accompany the value chain with producers and maintain relationships with them”*. Nutresa stimulates the economic development of these small farmers by educating them on how to increase the yield of their land. So-called leading farmers are selected for this educational program and are stimulated to share their acquired knowledge with other farmers in their community. With this program, Nutresa aims to improve the quality of products produced by these farmers, which they in turn, are able to acquire.

#### 4.10 Summary

All the companies that were researched target the BoP in one way or another. Companies like Codensa and Alpina have aimed to create a situation that is beneficial to themselves and the BoP. They see a great potential in the BoP and therefore adapted its products to fit its needs. They are currently generating profits while at the same time stimulating economic development among the BoP. L'Oréal has plans to target the BoP with their products in the near future and sees a lot of potential in that group. Companies like DSM and OI Peldar only target the BoP through social programs. The motivation behind these programs is to provide the BoP with opportunities to develop themselves. The waste picker program is an example of that. All these companies feel a certain responsibility to stimulate economic development of the BoP.

## 5. Summary

In short, this research provides an overview of what the cities of Bogotá and Medellín, as governmental institutions, are doing to stimulate the economic development of the Bottom of the Pyramid group living and working in these cities. In doing so, this research describes in detail what kind of programs have been, and are being developed, for the purpose of improving the economic conditions of this specific group. Furthermore, this study also focusses on the role of several multinational organizations in different sectors, in stimulating local economic development in these urban areas. Aside from this, the characteristics of the BoP and their developments are being discussed.

The findings show that both cities have been paying much attention to stimulating local economic development of the BoP. Both the government of these cities and the respective multinational organizations recognize the importance of the economic development of this group. Therefore, many varying programs have been set up, and are currently being developed, in order to assist the BoP in improving their social and economic conditions. An important finding is that both parties focus on the transition of informal- to formal labour. According to both the local governments, as well as the multinational organizations this is a key aspect in stimulating their economic prospective. Moreover, it enables these institutions to better measure the development of the BoP.

Finally, there are a number of limitations that are important to consider. First of all, the economic focus on the BoP is still relatively young. Therefore, most programs which have been developed by governmental institutions and multinational organizations still don't have broad scope. As a consequence, no significant results have yet been made, or are able to be measured. Another important limitation to consider is the fact that the gathered information during the field research may provide a limited view on the effects of these programs, since the perspective of the BoP group itself could not be taken into account.

All in all, the activities aimed at the economic development of the BoP in Bogotá and Medellín seem promising, yet there is still much room for improvement and growth. The near future will show if the first efforts will result in a positive sustainable effect on local economic development.

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## 7. Appendices

### Appendix 1A: Overviews Interviews

| Organisation                     | Who                      | Function  | Why   | Type  |
|----------------------------------|--------------------------|---|---|---|
| Unversidad Externado de Colombia | Professor Alvaro Urquijo | Professor of CSR courses and owner of his own company which implements CSR practices in companies | Useful for macro information and a more objective view of the BoP in Bogotá   | Expert  |
| Chamber of Commerce Bogotá       | Patricia Gonzales        | Executor of the concept of shared value   | The CCB executed many programs aimed at the poorer classes of society initiated by the local government or by themselves.   | Local government                                    |
| L'Oreal                          | Philippe D'Have          | Country manager L'Oreal   | L'Oreal is a company which is active on the BoP market in many countries and develops special products aimed at this group, making it an interesting company to contact in Colombia | MNC   |
| DSM                              | Diana Tellez             | Account manager   | DSM is a leading company in the world which has many activities and programs aimed at the BoP   | MNC   |
| Alpina                           | Isabela Zuluaga          | Sustainability manager  | In many interviews Alpina was mentioned as one of the leading Colombian companies developing special products for the poor people.  | MNC (active in multiple countries in Latin America) |



|                   |                       |  |   |                  |
|-------------------|-----------------------|--|---|------------------|
| ANSPE             | Raizza May            | Regional advisor   | ANSPE is the executor of an important and major program aimed at the poorest families in Bogotá (and the rest of Colombia)                        | Local government |
| CONFAMA           | Jimena Puyo Posada    | Professional in national and international agreements of Confama | CONFAMA has been a very important institution in the lives of many poor people as it provides many (public) services for them in different areas. | Local government |
| OI Peldar         | Oscar Tobón           | Sustainability manager   | OI Peldar is one of the biggest glass producers worldwide and has four production facilities in Colombia, of which one is located in Medellin.    | MNC              |
| Grupo Nutresa     | Claudia Rivera Marin  | Executive Director   | Grupo Nutresa is the fourth largest food company in Latin America   | MNC              |
| Suramericana      | Juanita Mesa White    | Analyst responsible for Corporate citizenship                    | Suramericano is a subsidiary of Grupo de Inversiones Suramericana that handles investments in the insurance and social security sectors.          | Local government |
| EAFIT Universidad | Maria Alejandra Perez | International Business professor                                 | Useful for macro information and a more objective view of the BoP in Medellin, she also did her PHD in globalization                              | Expert           |

|  |                          |   |                  |
|--|--------------------------|---|------------------|
|  |                          | and CSR   |                  |
| Nutresa                                  | Claudia Rivera Marin     |   | MNC              |
| Secretario de Integración Socioeconómica | Ricardo León Yepez Pérez | Peréz is the Undersecretary of Socioeconomic Integration and is responsible for developing and executing a long-term plan for the purpose of LED among the BoP. | Local government |

### Appendix 1B: Non-respondents

| Organisation                      | Who              | Function                     | Why   | Type             |
|-----------------------------------|------------------|------------------------------|---|------------------|
| Grupo Exito                       | Esmeraldo Rincon | Unknown                      | Grupo Exito is the leading retail company in Colombia with 427 stores across the country                            | MNC              |
| Quala                             | Mr. Munoz        | CEO                          | Quala produces small sized products especially aimed at the BoP   | MNC              |
| CECODES                           | Mr. Rengifo      | CEO                          | CECODES is the Colombian Business Council for sustainable development   | Local government |
| Masa Team (Part of Stork)         |                  |                              | This is a market leader in asset management for the oil and gas sector and part of the Dutch industrial group Stork | MNC              |
| Instituto Para La Economia Social | Yazmin Callejas  | Entrepreneurship Coordinator | A governmental institution based in Bogotá which purpose is to improve the quality of life of the population of     | Local Government |

|  |                       |                |  |                         |
|--|-----------------------|----------------|--|-------------------------|
|  |                       |                | this city  |                         |
| Dutch Consulate Medellin   | Juan Esteban Restrepo | Consul General | Important for its network in Medellin                      | Local Government/Expert |
| Agencia de Cooperacion e Inversion de Medellin y el Area Metropolitana | Gina D'amato          | Consultant     | This institution is focused on internationalizing Medellin | Local government        |

## Appendix 2: Overview Questionnaires

### Questionnaire for experts

#### *Introduction*

1. Can you give a short introduction of yourself?
  - a. What is your specific field of expertise?
  - b. What is your professional background?
  - c. Have you done any research in the past or do you have any experience with the subject of our investigation?

#### *Characteristics*

*The population which we associate with the term Bottom of the Pyramid (BoP) are those who belong to the poorest communities of society in the urban areas. For our research we are therefore focussing on the poorest communities within Bogotá and Medellin.*

2. Who do you consider to be part of the BoP in Bogotá?
3. Why do you consider them to be part of the BoP?
4. Do you know the size of this group in terms of population?
5. Is the BoP population in Bogotá divided into different communities?
  - a. If so, how many communities belong to the BoP?
6. Where (geographically) are these communities located in Bogotá?
7. What is the average per capita income of the BoP group in Bogotá?
8. Are there differences with respect to average per capita income and size between these communities?

#### *Developments of communities*

9. Have these communities changed over the past five years, with respect to the following:
  - b. Number of communities
  - c. Size (in terms of population) of the communities
  - d. Location
  - e. Average income per capita

### *Needs of BOP*

10. What does the BoP need to stimulate their economic development according to you in respect to:
  - a. Job opportunities
  - b. Education
  - c. Living conditions
  - d. Any other factors you see as influential to economic development
11. Which actions does the government undertake to stimulate local economic development looking at the previously mentioned factors? (*The questions 13-15 are aimed at assisting to answer this question*)
12. Which actions do MNC's undertake to stimulate local economic development looking at the previously mentioned factors? (*The questions 16-21 are aimed at assisting to answer this question*)

### *Government programs*

13. Do any specific programs exist, or have existed, which are aimed at stimulating economic development within the BoP in Bogotá? If so:
  - a. What did these programs entail?
  - b. Have these programs been executed?
  - c. At which communities were these programs aimed, and why?
  - d. What is/was the goal of these programs?
  - e. What has been the effect of these programs?
  - f. Do you think that these programs have had the desired effect? If not, how come?
  - g. What kind of improvements can be implemented to increase the effect of the programs?
14. If not:
  - a. Why do such programs not exist?
  - b. Are there any other alternatives that are aimed at stimulating economic development within the BoP in Bogotá? If not:
    - i. Why do you think that the government is not involved in the stimulation of economic development among this group?
15. Are there programs aimed at stimulating economic development within the BoP in Bogotá planned in the next five years? If so:
  - a. What do these programs entail?
  - b. At which communities are these programs aimed, and why?
  - c. What is the goal of these programs?
  - d. Do you think these programs will have the desired effect? If not, how come?
  - e. What kind of improvements can be implemented to increase the effect of the programs?

### *MNC's*

16. Do you think that the BoP is a target group for MNC's? If so, why?
17. Do you think MNC's have strategies and/or business models to improve local economic development of people living at the BoP?

18. If so, how do these strategies and/or business models look like?
19. What do you think the motivation is for MNC's to use these strategies?
20. What are the effects of these strategies/business models?
21. Do you see any room for improvement?

#### *Collaboration between government and MNCs*

22. Do you know if there are any collaborations between the local government and MNC's to stimulate economic development of the BoP, if so what kind of programs:
  - a. How do these programs look like?
  - b. What are the effects of these programs?
  - c. Do you see any room for improvement?
23. If not, do you know if there were plans by any party to initiate a collaboration to stimulate economic development of the BoP?
24. What is your opinion about the cooperation between the local government and the MNC's in stimulation economic development? Do you see any room for improvement and, if so, how?

#### *Concluding*

25. Do you know any other people who might be able to help us with gathering information for our research? (Experts, government and MNC's). Could you introduce us?
26. Is there anything we forgot to ask you, which could be relevant for our research?

#### Questionnaire for Commercial organizations

##### I. CHARACTERISTICS

1. Can you give a short introduction about your Company?
2. How big is your company in terms of people working in Bogotá/Medellin?
3. Where are the production facilities located in Bogotá/Medellin (Poorer areas etc)
4. What are the reasons to locate the production facilities in these particular areas? (cost of land/ image/ employment)
5. Did the local government have any influence in the location choice of your company and if so in what way?
6. What was the impact, if any, of locating production facilities in these areas? (Economic development of the areas?)

##### II. CHARACTERISTICS BOP

7. What is your company's vision on the BoP? (Awareness and view)
8. Is this part of society recognized as a profitable target group, elaborate?

9. What does the BOP need according to you? (Job opportunities, education, more support government, etc)

### III. COMPANY POLICY ON BOP

10. Does your company see potential in the BoP, if so, what kind of potential?

### IV. BOP AS CONSUMERS

11. Is the Bottom of the Pyramid a target group for your company, elaborate?

12. Are your company's goods and services available, accessible and affordable to the BoP in urban areas in Bogotá/Medellin?

13. Is there a business strategy developed for targeting the BoP?

- New products for target group
- Adaption productions to target group (Packaging/size/components, quality etc)
- Specific (marketing) methods to reach target group

14. What are the motivations behind these business strategies? (future market strategy: growing class, present strategy to increase profits, increasing brand awareness for future )

15. What are the strategies and/or business models of your company to improve the living conditions of people living at the BoP?

### V. BOP AS PRODUCERS

16. How many people are employed in low skilled labour at your company in Bogotá/Medellin (per facility)

17. Where are those low skilled labourers from and why from these areas? (Bogotá/Medellin or rural areas)

18. What do you offer your low skilled labourers now compared to five years ago? (Wages, housing, education, career possibilities etc) and are there noticeable results for the living conditions of these low skilled labourers?

19. How does this differ in comparison to other companies in the same sector?

20. What is the motivation behind hiring low skilled labourers. (Is it solely because of cheap labour or are there any other motivations for example producers who will transform into consumers?)

### VI. CORPORATE SOCIAL RESPONSIBILITY

21. Does your company stimulate poor regions of the urban areas other than already discussed and if so how? (For example: education employees, sponsoring regional projects)

22. Is there a CSR department and what are their priority tasks?

23. Short and long term goals for the CSR programs?

24. Are there any collaborations with the local government to stimulate economic development of the BoP, if so what kind of programs?

25. If not, were there plans by any party to initiate a collaboration to stimulate economic development of the BoP?

26. What is your opinion about the role of the local government in stimulation economic development in cooperation with local institutions? Do you see any room for improvement and, if so, how?

### Questionnaire for Non-Commerical Organizations

#### *Introduction*

1. Can you give a short introduction of yourself?
  - a. What is your specific field of expertise?
  - b. What is your professional background?
  - c. What is the role of your organization with respect to the organization of this city?

#### *Characteristics of the BoP*

*The population which we associate with the term Bottom of the Pyramid are those who belong to the poorest communities of society with a daily income of max 2 dollar. For our research we are therefore focussing on the poorest communities within this city.*

2. Who do you consider to be part of the Bottom of the Pyramid in your city?
3. Why do you consider them to be part of the BoP?
4. What is the size of the BoP in your city in terms of population?
5. Is the BoP population in your city divided into different communities?
  - a. If so, how many communities belong to the BoP?
6. Where (geographically) are these communities located in your city?
7. What is the average per capita income of the BoP group in your city?
  - a. What is the variance of the per capita income of the BoP group in your city?
8. Are there differences with respect to average per capita income and size between these communities?

#### *Developments*

9. Have these communities changed over the past five years, with respect to the following:
  - f. Number of communities
  - g. Size( in terms of population) of the communities
  - h. Location
  - i. Average income per capita
  - j. Community initiatives

#### *Government programs*

10. Do any specific programs exist, or have existed, which are aimed at stimulating economic development within the BoP group in your city? If so:
  - h. What did these programs entail?
  - i. Have these programs been executed?
  - j. At which communities were these programs aimed, and why?
  - k. What has been the effect of these programs?
  - l. What is/was the goal of these programs?
11. If not:
  - m. Why do such programs not exist?
  - n. Are there any other alternatives that are aimed at stimulating economic development within the BoP group in your city? If not:
    - i. Why is the government not involved in the stimulation of economic development among this group?
12. Are there programs aimed at stimulating economic development within the BoP group in your city planned in the next five years? If so:
  - o. What do these programs entail?
  - p. At which communities are these programs aimed, and why?
  - q. What is the goal of these programs?

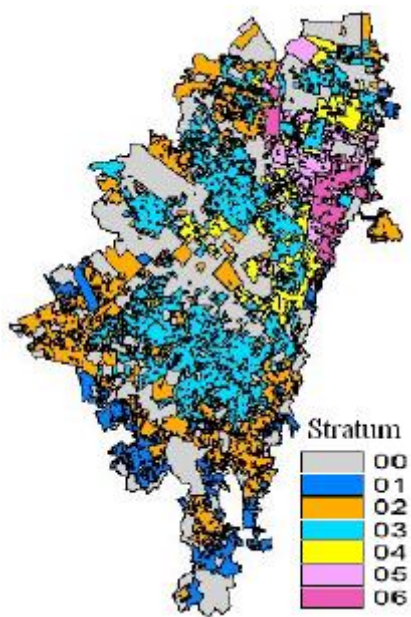
#### *Multinational Corporations*

13. Are there any collaborations between local government institutions and MNCs in your city to stimulate economic development of the BoP, if so:
  - b. What kind of activities?
  - c. At whom are these activities aimed?
  - d. What are the goals of these activities?
14. If not, have there been, or are there plans by any party to initiate a collaboration to stimulate economic development of the BoP?
15. What is your opinion about the role of the MNCs in your city in stimulation economic development in cooperation with local institutions? Do you see any room for improvement and, if so, how?
16. Are there any requirements imposed on the MNC's in respect to helping the BoP before allowing the MNC's to settle in your city?
  - a. If not, what do you think of this idea?

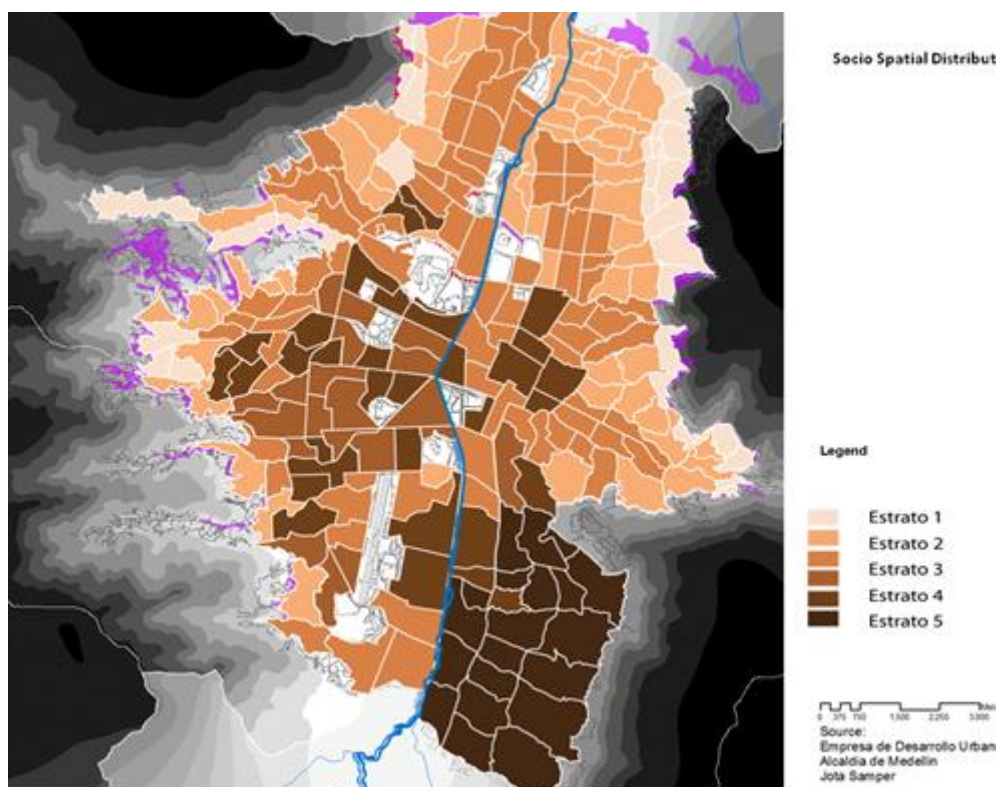
### **Appendix 3: Map of socio-economic strata in Bogotá and Medellín**



## Bogotá



## Medellin



## Appendix 4: Overview of programs developed by governmental institutions

| Institution | Program   | Target Group  | Budget  | Goal   | Duration  |
|-------------|---|---|---|--|---|
| CCB         | 1. Soacha Foundation: Initiative of companies located in this area. Around 15 companies initiated this program in cooperation with the CCB. The Foundation started an education program here for children from 4-12 years old as well as a nutrition program. The aid is through direct donations of money and education materials (e.g. school books). At the moment only 3 or 4 companies together with the CCB are still involved in this program. | Designed for the community of Altos de Casuca.  | Depends on what the companies would like to donate and what the local government of Bogotá has made available for this program. | Main goal is access to primary education for children while having enough nutrition to fully enjoy school.                           | Implemented 17 years ago-ongoing.                         |
| CCB         | 2. Violence prevention program: A program that educates children from the age of 5-16 about consolidation and conflicts. The CCB works together in this program with the Education Secretary and seven poor regions. In 2011 the Hermes Foundation (of Kellogg's) named this program the best (educational) program of the year.  | This program is implemented in public schools in 7 poor regions: Chia, Soacha, Tenjo, Ciota, Ajiea, Szipaqira and Sibera. In total 3800 public schools. | Unknown.  | The goal of this program is to educate children from the age of 5-16 about consolidation and (family) conflicts to prevent violence. | Ongoing.  |
| CCB         | 3. Foundation of the Wives of the Board of Directors: a general fund raising foundation, focused on nutrition. It offers breakfast and lunch to children so that they are better able to perform in school.   | People living in Soacha.  | Unknown.  | Better performance in school and thus a better educated population in the poor areas in the long run.                                | Ongoing.  |
| CCB         | 4. Waste pickers program: The city of Bogotá does not have a proper waste management and recycling system, so   | Waste pickers in Bogotá.  | \$10 billion US dollars in total, \$10.000 per waste picker.  | The goal of this program is help create business plans for waste   | The program started beginning 2013. The program lasts one |

|   |   |   |   |  |   |
|---|---|---|---|--|---|
|   | <p>waste pickers ride around the city with a horse and buggy collecting waste. They are offered 200 pesos (around \$0,10) per kg. The program helps around 30 people each time, and is completely funded by the government of the city. There are about 2890 waste pickers in Bogotá. The program offers three possible alternatives:</p> <ol style="list-style-type: none"> <li>1.) Substituting the horse and buggy by a different (automated) form of transportation.</li> <li>2.) Creating a business plan and receiving a budget for it.</li> <li>3.) Receiving a sponsored house for their family (least popular option).</li> </ol> <p>The CCB is mostly involved in executing option 2.</p> |   |   | <p>pickers in order to change occupation into one that is part of the formal sector.</p>   | <p>month for each participant.</p>                              |
| ANSPE                                       | <p>5. Plan Familiar, with 9 focus points for families:</p> <ol style="list-style-type: none"> <li>1. Identification</li> <li>2. Work</li> <li>3. Education</li> <li>4. Health</li> <li>5. Nutrition</li> <li>6. Housing conditions</li> <li>7. Family conditions</li> <li>8. Access to banking services</li> <li>9. Legal aid</li> </ol>  | <p>Extremely poor and displaced families in estratos zero, living with an income of \$1-2 US dollars per day per adult family member. A major focus is on displaced families.</p> | <p>A budget which enables ANSPE to help 36.000 families in total at the same time. Exact amount is unknown.</p> | <p>To increase their income to at least 40 US Dollars per week, per adult family member. Eventually erase extreme poverty in Colombia.</p> | <p>Since 2012. The program lasts for five years per family.</p> |
| District Department of Economic Development | <p>6. Bogotá sin indiferencia - Bogotá sin hambre:</p> <ul style="list-style-type: none"> <li>- 672.332 people receive daily food and nutritional support.</li> <li>- Bogotá now has</li> </ul>   | <p>Policy for the poorest and most vulnerable population of Bogotá.</p>   | <p>The amount of budget is unknown.</p>   | <p>Improving the citizen's well-being</p>  | <p>Ongoing.</p>   |

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- 50 new mega schools creating appropriate educational environments that enable quality academic growth.
  - Investments in subsidized healthcare.
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