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Subsidies in Base-of-the-Pyramid Venture Development

In the developed world, the role of subsidies in supporting enterprise creation and growth has been extensively researched and widely debated. Proponents of subsidies believe that, when properly used, they address market inefficiencies and help businesses grow. Others, however, believe that subsidies distort the free markets and create suboptimal outcomes. One conclusion is clear though: subsidies have played a substantial role in facilitating enterprise development in these markets.¹

In developing countries however, the role of subsidies in enterprise development, particularly for those serving low income markets, is less well understood, even though substantial resources have been dedicated to these efforts. Over the past fifty years, developing countries have received more than \$2.0 trillion (in 2006 US dollars) in foreign aid.² A portion of this has focused on developing ventures that serve the base of the pyramid, the four billion people who are not part of the global capitalist system.³ While an approach for most effectively allocating these subsidies remains elusive, their impact must be better recognized.

Indeed, although the understanding of the role of subsidies in this environment is still incomplete, an increasing number of ventures are receiving access to low cost capital and other resources to support their efforts to serve the base of the pyramid. The following cases illustrate the varying roles that subsidies can play in these efforts. The ventures depicted, Water Health International, Ziqitza Healthcare Limited, and Sustainable Healthcare Foundation, are all part of Acumen Fund's portfolio of investees.

Acumen Fund Background

Acumen Fund is a social venture capital fund that seeks to prove that small amounts of philanthropic capital, combined with large doses of business acumen, can build thriving enterprises that serve vast numbers of the poor. Founded in 2001, the organization holds to the belief that there are opportunities to develop new and more sustainable approaches to address the unmet needs of poor communities that can complement current methods used by aid organizations. By 2008, Acumen Fund had approximately \$39.5 million in investments under management in India, Kenya, Pakistan, South Africa, and Tanzania.

Acumen Fund primarily supports ventures that deliver goods and services to the poor by providing financing and high level management assistance. This involves using a variety of financial vehicles, such as



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