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'The Price is Wrong' (For Some Things) at the BoP

Most people interested in poverty and economic development issues have heard of MIT's Esther Duflo and Abhijit Banerjee at the Jameel Poverty Action Lab. (And even more people will be familiar with their work since the release and [promotion](#) of their new book, [Poor Economics](#)). Their pioneering use of Randomized Control Trials (RCTs) in answering economic questions has challenged and changed much of the thinking on solutions on the subject in recent years. At its core, their work focuses on how people (and the poor in particular), make economic decisions about their daily lives. The results are often surprising, controversial and always insightful.

Their latest bulletin "[The Price is Wrong](#)" (PDF download) presents the results of ten evaluations on health and education programs from around the world, and argues that "charging small fees dramatically reduces access to important products for the poor". Banerjee and Duflo discuss studies that looked at the comparative impact of programs that provided products like deworming medicines, insecticide-treated bed nets and school uniforms for free versus programs that charged small fees for the same products. Results of these studies suggest that

charging small fees to balance access and "sustainability" can often dramatically reduce uptake, while raising little revenue.

At first glance, this study would appear to contradict the entire 'development through enterprise' theory and agenda, suggesting that the poor are unwilling to pay for essential products and services. However, a closer look suggests that Banerjee and Duflo's arguments are not far removed from the more refined views of BoP markets that have emerged through recent research.

While studying the market for clean energy products in rural India, my colleagues at the [Centre for Development Finance](#) and I spent several weeks talking to BoP consumers about the products they chose to buy, and the ones they didn't, through a series of focus group discussions. We found it surprising that only 10-15 percent of the households in the area had purchased energy-efficient cookstoves, despite the important health benefits and the reduced fuel consumption. Solar lanterns had similar rates of adoption, and most users were unable to afford the \$10-\$20 upfront cost of these products, despite the longer-term savings. However, when an entrepreneur set up a small biomass-based power plant in a village, nearly all the households in the village signed up for service, paying the upfront cost of about \$4 for the initial connection, and the \$1-\$3 monthly cost of electrical service.

Understanding what clean energy products users were willing to pay for, and more importantly, what they were not, gave us valuable insights into consumer behavior in BoP markets:

- The poor, like everyone else, aspire to buy better products. Gas stoves instead of biomass cookstoves; multi-use electricity services to operate televisions and charge cell phones, instead of single-use products like solar lanterns. This doesn't mean that they won't purchase these products in the interim, but only at prices that are comparable to the cheaper products they are replacing, e.g. mud stoves and kerosene lanterns.
- Again, similar to most consumers, the BoP prefers to pay smaller amounts over time, rather than a large, upfront payment. Uncertain seasonal incomes also mean that people would prefer to pay for a service month to month, so they can reduce expenditures during difficult periods.
- Despite the potential market at the base of the pyramid, there are still hundreds of millions that constitute the extreme base of the pyramid - who cannot afford to pay for anything. It's important to remember that despite the promise of the BoP approach, it works best as a complement to traditional aid driven programs, not as a replacement.

As our understanding of BoP markets have evolved, it is clear that there can often be a distinct difference between the perceived "need" of a beneficial product or service and actual consumer demand for it. The studies that Banerjee and Duflo discuss are an important step in better understanding BoP markets, and present valuable insights into the buying decisions of the poor.

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