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Innovative business approaches for the reduction of extreme poverty and marginality?

Heike Baumüller, Christine Ladenburger, Joachim von Braun

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Abstract

Extreme poverty is an immense political and market failure, wasting the potential of hundreds of millions of people. Investing in the creation of markets that include the extreme poor and marginalized should thus not only be considered as a charitable activity, but promises high returns on investments – in financial and humanitarian terms. However, while the potential of innovative business approaches to target the poor that live close to the poverty line is increasingly being recognised, the question remains how far these approaches can push the margin to also include those that are extremely poor. And how can those that are marginalized from development opportunities be brought into and benefit from market-based systems to improve the quality of their lives?

The impressive rise of business approaches to combating poverty stems from a long history of debates on the role of businesses in society. From an initial focus on social objectives as an external add-on, leading business thinkers have increasingly been stressing the benefits for companies of integrating social considerations into their core business strategies, for instance by targeting low-income consumers (or 'bottom of the pyramid' markets) or strengthening supply and distribution chains through the involvement of local communities as part of inclusive business strategies.

Others – most notably Muhammed Yunus along with other social entrepreneurs – are taking this argument one step further, advocating the use of business strategies primarily to address social goals rather than for financial gains. Thus, in discussions on the role of business in society, profit maximisation as the primary objective of business operations is increasingly making way for business initiatives that are guided by social objectives. This trend is also being supported by growing interest among investors in financing enterprises that promote social or environmental objectives, either as their primary aim or in parallel with seeking to generate financial returns.

How suitable these different approaches are to engage the poorest and marginalized depends in part on the extent to which they are able to involve the extreme poor themselves, their flexibility to direct business objectives towards the reduction of extreme poverty and marginality, and their ability to successfully operate with non-business public and civil society partners and in sectors of particular interest to the extreme poor. Further research and action is needed to identify outcome-focused indicators and measurement tools for social value creation, examine possible government measures to support business activities for the poorest, and consider complementarities between the different business approaches. While we recognise that it is unrealistic to expect businesses to be able to reach all of the extreme poor, we believe that the boundaries of innovative business operations can be pushed much further to include a far larger number of the poorest and marginalized.

Keywords:

Marginality, extreme poverty, social value, corporate social responsibility, bottom of the pyramid, inclusive business, social entrepreneurship, impact investing

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1 Introduction

Extreme poverty is an immense political and market failure, wasting the potential of hundreds of millions of people (von Braun 2010). Investing in the creation of markets that include the extreme poor and marginalized should thus not only be considered as a charitable activity, but promises high returns on investments – in financial and humanitarian terms. Various new business approaches have begun to fill these investment gaps, led by well-known names such as Muhammed Yunus, Michael Porter, Mark Kramer and C.K. Prahalad on the one hand and an uncountable number of individual social entrepreneurs on the other who have brought the creation of social value into mainstream businesses thinking.

While the potential of these approaches to target the poor that live close to the poverty line is increasingly being recognised, the question remains to what extent business can also help the extreme poor. C.K. Prahalad in his influential book *The Fortune at the Bottom of the Pyramid* acknowledges that "There is a segment of the 4 billion who are so destitute, so deprived, and so consumed by war and disease that they need other forms of help", such as government subsidies, multilateral aid or philanthropy (Prahalad 2010, p.8). But **how far can business approaches push the margin to also include those that are extremely poor?** And **how can those that are excluded from development opportunities be brought into and benefit from market-based systems to improve the quality of their lives?** These are the questions that this paper seeks to examine.[1]

What characterizes the extreme poor from the perspective of businesses? In some respect, their situation is similar to that of the poor, albeit more severe. As consumers, their purchasing power is extremely low and they often struggle to follow regular payment schedules due to income fluctuations. While many may already operate as business people, for instance by selling their time or engaging in small-scale trading, returns tend to be low due to limited skills and assets. These constraints, along with lack of access to credit and additional barriers that may result from discrimination, also restrict their ability to expand their business activities.

In other respects, extreme poverty has particular characteristics, as highlighted by the extensive work undertaken by BRAC in Bangladesh to engage the ultra-poor. BRAC notes that the extreme poor are subject to an overlapping set of constraints and deprivations that make them "structurally different from other categories of the poor; they are not only poorer than others, but differently so" (Matin et al. 2008, p.5). Their main priority tends to be survival, with little time or extra resources to invest in longer-term strategies. As a result, they get caught in "below-subsistence trap from which it is difficult for them to break free using available resources and mechanisms" (ibid, p.2).

Moreover, the extreme poor are often marginalized, which prevents them from realizing their potential (for an overview on marginality and extreme poverty issues see Gatzweiler et al. 2011). We define marginality as "an involuntary position and condition of an individual or group at the margins of social, political, economic, ecological and biophysical systems, preventing them from access to resources, assets, services, restraining freedom of choice, preventing the development of capabilities, and eventually causing extreme poverty" (ibid, p.3). As we know that the large majority of the marginalized and extreme poor live in rural areas of the developing world and depend directly and indirectly on agriculture, forestry and fisheries, any business efforts to address extreme poverty must consider these circumstances. Other cross-cutting aspects are the adverse health and nutrition situation of the extreme poor, as well as their lack of access to education and information.

[1] This study is part of a research project on "Marginality and Extreme Poverty" at the Center for Development Research (ZEF). Support by the Bill and Melinda Gates Foundation for this research is gratefully acknowledged. For further information, see www.zef.de/margip.html.

The impressive rise of business approaches to combating poverty stems from a long history of debates on the role of businesses in society, which some trace as far back as India's Kautily in the 4th century BC and around 200 years later Cicero in Rome (Blowfield & Frynas 2005). In the time of the Industrial Revolution entrepreneurs like John Cadbury, Robert Owen and Léon Harmel took measures towards solving the problem of feeding, clothing and employing a great number of people, trying to improve the working and living conditions of the workers and their families (Boddice 2009) (see Box 1).

Box 1: The history of social entrepreneurship

Robert Owen – with reference to whom the term social entrepreneur was coined – was a cotton spinner who lived in the late 18th and early 19th century. He merged the communal happiness of the population into his ideal of the industrial future. Owen was driven by his ambition not to be merely a manager of cotton mills but "to change the condition of the people" (Taylor 1983, p.xii). Owen started two communitarian projects with the aim to provide permanent employment and living conditions conducive to the happiness of the population. However, Owen's projects came with a certain ideology and community inhabitants had to go to schools for the building of character. The established regime was strongly paternalist, with all the initiative and control in the hands of Owen (Boddice 2009).

Similarly, Léon Harmel was a pioneer in improved conditions for workers in fin-de-siècle France. Harmel was, like Owen, a mill owner with a passionate care for the condition of his employees. He was driven by his catholic faith. Not willing to wait until the government would improve the living and working conditions of the working class, Harmel started amid the political, economic and social vortex of the times to establish a Christian corporation with a 'family wage and factory' council. Harmel initiated the Christian democratic congresses, a 'factory chaplain project' and a program of Social Weeks for young clergy. Furthermore, he played a key role in the Christian trade unions. Harmel's vision consisted in the triumvirate of family unity, worker happiness and the Lord's work (Coffey 2003). As in the case of Robert Owen's programs, the inclusion in Hamel's social projects entailed acquiescence in his values (Coffey 2003; Boddice 2009). Both Owen and Harmel did not consider their activities as philanthropy but wanted to change the society (Lamb 2011).

Entrepreneurs have also long engaged in philanthropic activities, donating their time, money or reputation to charitable causes, in particular in the US. Among the early high-profile corporate givers was steel tycoon Andrew Carnegie who spent his retirement years in the early 1900s supporting philanthropic projects such as libraries and research institutes. Other notable philanthropists included John D. Rockefeller, Henry Ford, Cornelius Van der Starr and Robert Wood Johnson, W.K. Kellogg.

Over the past four decades, the business world has seen a rapid evolution from 'command and control' approaches to addressing environmental and social issues towards the pro-active application of business strategies to pursue social goals. In the 1970s, governments relied primarily on regulations to mitigate environmental and social impacts of corporations. While this approach succeeded in forcing companies to bear a share of the costs they imposed on societies and the environment, it also created what Stuart Hart calls the 'great trade-off illusion', i.e. the belief that firms must sacrifice financial performance to meet societal obligations (Hart 2005, p.21). Socially minded companies were involved in philanthropy or corporate social responsibility, but social and environmental concerns were not part of companies' core business.

During that time, suggestions that firms also had a responsibility to create social value found strong opponents, notable among them Milton Friedman who argued that there was "only one social responsibility of business: to use its resources and engage in activities designed to increase its profits" (Milton Friedman 1962, p.133). He accused proponents of social business objectives of "preaching pure and unadulterated socialism", adding that "[b]usinessmen who talk this way are unwitting puppets of the intellectual forces that have been undermining the basis of a free society these past decades" (Friedman 1970).

In the 1980s, this 'command and control' approach was supplemented or replaced by market-based incentives such as tradable emission permit (Hart 2005). Regulators and companies began to recognize that avoiding pollution and other negative impacts could be more cost-effective than cleaning them up afterwards. In the 1990s, strict separation of business from philanthropy got weaker and new approaches to combining the two through corporate partnerships with non-governmental organizations (NGOs), strategic philanthropy and other forms of social innovation emerged. The growing corporate interest in sustainability and development issues is also reflected in a number of international initiatives led or supported by big companies (see Box 2).

Box 2: Examples of international business initiatives to promote social objectives

1992: The year of the Earth Summit saw the establishment of the World Business Council on Sustainable Development, which was founded by Swiss industrialist, Stephan Schmidheiny and today brings together over 200 companies 'to provide business leadership as a catalyst for change toward sustainable development' (www.wbcsd.org).

2000: The UN Global Compact was set up at the initiative of UN Secretary-General Kofi Annan o encourage businesses worldwide to adopt sustainable and socially responsible policies. Today, Global Compact counts over 5300 businesses in 130 countries among its participants who have signed up to the 10 principles (www.unglobalcompact.org).

2002: The World Economic Forum launched a Global Corporate Citizenship Initiative which is based on the belief that 'corporate global citizenship is fundamentally in the enlightened self-interest of global corporations since their growth, prosperity and sustainability is dependent on the state of the global political, economic, environmental and social landscape' (www.weforum.org/issues/corporate-global-citizenship).

2003: Private sector banks led by Citigroup, ABN AMRO, Barclays and WestLB developed the Equator Principles. Modelled on the environmental standards of the World Bank and the social policies of the International Finance Corporation (IFC), the principles provide a credit risk management framework for determining, assessing and managing environmental and social risk in project finance transactions (www.equator-principles.com).

2011: Following 18 months of global and regional stakeholder consultations, the WEF presented a roadmap for Realizing a New Vision for Agriculture. This initiative, which is led by 17 global companies, addresses the major challenges of global food and agricultural sustainability based on a vision of agriculture as a positive contributor to food security, environmental sustainability and economic opportunity (www.weforum.org/issues/agriculture-and-food-security).

During recent years, the proposition has been gaining ground that firms and investments can still be profitable and possibly even improve the competitive position of companies when the creation of social value is considered as core business activity (Porter & Kramer 2011). This marks an important step on the path of the private sector from 'being less bad' towards 'being more good' (McDonough & Braungart 2003). In the meantime, the recognition that governments and traditional development assistance has not solved the still alarming problem of poverty has also been growing. Indeed, much criticism has been levelled at the perceived failures and inefficiency of many governmental and non-governmental development programs and official development aid in recent years.

Against this background, social entrepreneurship has come onto the scene. Social entrepreneurs seek to launch new enterprises that directly address problems such of poverty and un-sustainability. Led by organizations such as Ashoka and Grameen Bank, there are now thousands of ventures around the world which are developing new strategies and business models to bring about social change (Hart 2005). At times, these entrepreneurs have started to take over roles that would traditionally have been filled by aid organisations or national governments, for instance in the areas of health, sanitation or nutrition.

As businesses increasingly engage with social issues, the distinction between the private sector and the aid world is becoming less clear-cut. Some non-governmental organisations are themselves at times organized like businesses (in particular the larger NGOs), are running programmes that operate businesses or support the poor to develop enterprises, or are engaging with corporations to influence their practices or implement joint initiatives. Hybrid organisational forms are also emerging, as in the case of BRAC in Bangladesh which combines elements of social entrepreneurship and aid organisations.

Moreover, debates on the role of business in society are moving out of 'Western-dominated' circles to the global level, exemplified by the emergence of new propositions from leading thinkers in the developing world and growing hubs of social business activity in low-income countries such as India and Bangladesh. This shift has helped to stimulate a more constructive and practical approach to private sector engagement in development which remains coloured by scepticism in particular of many European NGOs towards businesses' motives and commitment to social goals.

The following paper outlines this evolution in thinking – both in the business world and among investors – and explores in more detail the relatively new business approaches to addressing societal problems that have recently emerged. Furthermore, the paper has the specific focus to examine whether and how these approaches can not only support the lower-income middle classes and those living close to the poverty line, but can also include in meaningful ways those at the lowest end of the income scale and help bring the marginalized into market-based systems.

2 Business and social values

In the past, the public discourse and research agenda on the social roles of business has been largely dominated by North American and European perspectives, in particular through the concept of corporate social responsibility (CSR). However, the underlying idea of CSR, i.e. that companies have responsibilities towards the wider community, is not purely a 'northern' phenomenon, even if the terminology is (Frynas 2005). Indeed, examples from Africa show that businesses are often expected to assist the communities in which they operate and which they are seen to be part of (Idemudia 2010; Frynas 2005).

Recently, leading business thinkers have been stressing the benefits for companies of integrating social considerations into their core business strategies rather than treating them as external add-ons as is common in CSR, for instance by targeting low-income consumers (or 'bottom of the pyramid' markets) or strengthening supply and distribution chains through the involvement of local communities as part of inclusive business strategies.

Others – most notably Muhammed Yunus along with other social entrepreneurs – are taking this argument one step further, advocating the use of business strategies primarily to address social goals rather than for financial gains. Thus, in discussions on the role of business in society, profit maximisation as the primary objective of business operations is increasingly making way for business initiatives that are guided by social objectives (and may or may not be making a profit).

2.1 Corporate social responsibility

The term 'corporate social responsibility' (CSR) started to be widely used in the 1960s and 70s, coinciding with the rise of multinational companies. There is no agreed definition of CSR. One of the most commonly cited definitions comes from the European Commission which refers to **CSR as "a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis"** (EC 2011, p.6).

More generally, Blowfield & Frynas (2005) regard CSR as an "an umbrella term for a variety of theories and practices all of which recognize the following:

(a) that companies have a responsibility for their impact on society and the natural environment, sometimes beyond legal compliance and the liability of individuals;
(b) that companies have a responsibility for the behaviour of others with whom they do business (e.g. within supply chains); and
(c) that business needs to manage its relationship with wider society, whether for reasons of commercial viability or to add value to society." (p.503)

The terminology and publicized approaches to CSR are largely shaped by Anglo-Saxon tradition, with its differentiation between economic and social affairs, the focus on individualistic rather than community values and the limited role of government in regulating markets (Blowfield & Frynas 2005; Sadler & Lloyd 2009). Proponents of CSR tend to emphasize the benefits of voluntarism and self-regulation as more effective means to promote socially responsible corporate activities. The UK Department for International Development (DFID), for instance, warns that "international legally-binding frameworks for multinational companies may divert attention and energy away from encouraging corporate social responsibility and towards legal processes" (DFID 2003, p.9).

The 'northern-centred' view of CSR has driven the research agenda over recent decades, which has largely concentrated on firms in high-income countries, notably North America and Europe, and the adoption of universal norms such as workers' rights. These approaches have also shaped the way that CSR is being applied in developing countries. As Blowfield & Frynas (2005) note, "by the time empirical studies started to be commissioned to investigate whether CSR could benefit the poor and marginalized, certain conventions and orthodoxies had already been established" (p.504).

Thus, development-related CSR emerged largely as a response to growing criticism from activists, consumers and shareholders that attacked multinational companies for poor labour and environmental standards and associated impacts on local communities. An initial focus on codes of conduct and voluntary firm-level standards has expanded to include ethical sourcing, certification, community development and stakeholder engagement.

While NGOs were a key driving force behind CSR in the 1990s, they have become increasingly critical, accusing companies of using CSR as 'greenwash' for unsustainable business practices and to avoid regulations. The UK-based NGO Christian Aid, for instance acknowledges that civil society groups with their support for CSR "have unwittingly enhanced company images and market profiles" (Christian Aid 2004, p.14). They suggest that instead "NGOs may be more effective by throwing their collective weight behind the drive for international regulation than by tying up their scant resources in bilateral dialogues" (p.14).

Critics also point to the gap between CSR rhetoric and practice, exacerbated by the lack of measurement approaches to assess impacts (Utting 2007). CSR activities are seen as cosmetic rather than operational or strategic, summarized in CSR reports that "aggregate anecdotes about uncoordinated initiatives to demonstrate a company's social sensitivity" (Porter & M. R. Kramer 2006, p.79). The focus, it is claimed, is on mitigating tensions between the company and society rather than on their interdependence. As a result, the "potential of companies to take actions that would support both their communities and their business goals" is lost (ibid, p.81).

The promotion of CSR as a 'development tool' has also attracted criticism. Specifically, it is argued that CSR neglects issues related to the power dynamics and political economy of the context in which the companies operate. In particular marginalized groups are often left out of CSR activities where they are unable to engage in stakeholder dialogue or their concerns do not coincide with NGO, donor or company priorities. This can be particularly problematic where the choice of CSR activities is primarily driven by business considerations. As Blowfield & Frynas (2005) point out,

> "[s]ince inclusion in or exclusion from stakeholder status is not based on either legal rights or moral obligations, a stakeholder's recognition is contingent upon the business case for that recognition. Consequently, the well-being of some groups in developing countries may be jeopardized by the very pursuit of CSR." (p.508)

Similarly, lacking contextual analysis can result in projects that may promote business interests rather than development priorities. Idemudia (2010), for instance, concludes that basing choices of CSR projects on the business case logic rather than local needs has "contributed to the breakdown of traditional institutions and the proliferation of failed development projects in the Niger Delta" (p.841).

At the same time, it is argued that CSR may reinforce corporate power by offering companies an excuse to avoid regulations and strengthening their influence by providing them the space to lead and shape the CSR movement (Utting 2007). The economic role and political influence of MNCs, however, is not fundamentally questioned in the CSR agenda (ibid).

Critics also note that CSR only addresses some of the symptoms of poverty, but ignores underlying development challenges. Utting (2003) stresses that

> "if large corporations are to contribute in a meaningful way to social and sustainable development, the CSR agenda needs to address the central question of the structural and policy determinants of underdevelopment, inequality and poverty, and the relationship of [transnational corporations] to these determinants." (p.7)

Even companies that are implementing CSR activities ostensibly for development reasons may at the same time lobby for tax reductions, outsource parts of the value chain to avoid compliance with standards or destroy local livelihoods through their business activities (Utting 2007; Idemudia 2010).

More recently, the rhetoric in the CSR debate – and in broader discussions on the role of business in society – has shifted from mitigating the negative impacts of business towards the positive role that business could play in advancing development and poverty reduction. This shift is also being promoted by leading development organizations, such as DFID, SNV, the World Bank and UNDP (Prieto-Carrón et al. 2006). At the same time, it is acknowledged that it may be unrealistic to expect too much of CSR. Indeed, CSR "was never conceived as a tool to tackle poverty" (Newell & Frynas 2007, p.678). Rather, recent debates on how to strengthen the role of business in development have focused on the need for new business strategies where social objectives are a core element or even the primary goal of business operations.

2.2 'Bottom of the pyramid' market

The introduction of the 'bottom of the pyramid' (BOP) concept by Prahalad and Hart in 2002 marks a milestone in debates around the role of business in promoting social goals and poverty reduction. By highlighting the 'fortune' that lies at the 4 billion strong bottom of the income pyramid, they succeeded in attracting the attention of the business world to recognize and investigate the market opportunities offered by the "billions of *aspiring poor* who are joining the market economy for the first time" (Prahalad & Hart 2002, p.1). The BOP argument thereby places the complementarities of social and corporate objectives at the heart of business strategies.

While the proponents of the BOP market highlight the potential of this group as both producers and consumers, the business case initially focused largely on the poor as consumers (Prahalad & Hart 2002; Prahalad 2010; Hammond et al. 2007). **The BOP market is usually defined by income, with the annual income cut-off ranging from $1,500 to $3,260** (Table 1).

Table 1: Delineation of the bottom/base of the pyramid markets

	Annual income			Number of people		
	1	2	3	1	2	3
High income	>$20,000	>20,000	>$20,000 ($21,731)	75-100 million	100 million	nd
Middle income	$1,500-$20,000	$2,000-$20,000	$3,000-$20,000	1,500-1,750 million	2 billion	1.4 billion
BOP	<$1,500	<$2,000	<$3,000 (<$3,260)	4 billion	4 billion	4 billion

1 **Prahalad & Hart (2002)** – income in ppp
2 **Prahalad & Hammond (2002)** – income ppp
3 **Hammond et al. (2007)** – income in 2002 ppp (income in 2005 ppp)

Hammond et al. (2007) characterize what they refer to as the 'base of the pyramid' as people with significant unmet needs, including access to finance, housing, water, sanitation, electricity and health services. BOP populations are largely dependent on informal or subsistence livelihoods with limited access to markets and highly vulnerable to the destruction of natural resources that their livelihoods depend upon. Often, they are subject to a 'BOP penalty' in the form of higher prices and lower quality of goods and services than more affluent consumers (see also Gradl & Knobloch 2010).

Elaborating on the nature and potential of the BOP market, Prahalad (2010) argues that although individual consumers may have low purchasing power, the market is nevertheless lucrative due to its sheer size. Contrary to widespread assumptions, BOP customers are brand conscious – thus also attractive for large multinational companies – and ready to adopt new technologies. The use of local distribution systems and modern communication technologies has greatly facilitated access to BOP customers. Capitalizing on this market will require companies to adapt their business strategies to the needs of BOP customers, for instance by creating the capacity to consume (e.g. through changes in packaging, pricing or payment schedules) and by developing new goods and services.

Assessments of the size of the BOP market vary. Prahalad (2010) estimated the BOP buying power to amount to as much as $13 trillion. A detailed assessment carried out by the International Finance Corporation (IFC) and the World Resources Institute valued the BOP market at $5 trillion (Hammond et al. 2007). The World Economic Forum puts the annual income of the BOP population segment at $2.3 trillion, which could increase to $4 trillion by 2015 (WEF 2009). Among the 4 billion, the largest segment (1.6 billion) was found to be located in the middle tier earning around $1-2.50 per day, while 1 billion people earn less than $1 a day and 1.1 billion around $2-8 (ibid). In comparison, the 1.4 billion strong mid-level market is estimated to be worth $12.5 trillion (Hammond et al. 2007).

Hammond et al. (2007) break down the BOP market geographically and by sector. They conclude that the largest market is found in Asia: 2.86 billion people with an income of $3.47 trillion, representing 82% of the region's population and 42% of purchasing power. The highest share of the population in the BOP segment is found in Africa where 95% of surveyed people (486 million) with an income of $429 million constitute the BOP market. In Latin America, the $509 billion BOP market with 360 million people represents less than a third of household income (28%).

In terms of sectors, Hammond et al. (2007) identify food as by far the largest market, valued at $2,896 billion. Also important are energy ($433 billion), housing ($332 billion), transportation ($179 billion) and health ($158 billion). Information and communication technologies represent around $51 billion which, the authors acknowledge, could in fact be twice that given rapid growth, while the water market is estimated at $20 billion. BOP markets for water, ICT and housing are largely urban in all regions while food and healthcare are mainly rural in most Asian and African countries. In Asia, rural markets also dominate for energy and transportation.

Karnani (2009), on the other hand, contends that claims about the BOP market are wildly exaggerated. He maintains that most of the successful examples of selling to the BOP market are in fact targeting the middle class rather than the poor. He argues that the size of the market is overestimated because of the high income cut-off of $3,000 per year (or $8 per day) used by the IFC/WRI study, which is considerably higher than the commonly used poverty line. "According to this report, 98.6 per cent of the population in India is in the 'bottom of the pyramid'", he notes (p.7). Using a $1,000 poverty cut-off, he estimates the BOP market to amount to $1.2 trillion at purchasing power parity and just US$ 0.36 trillion at market exchange rate.

For Prahalad, the exact delineation of the BOP market and even the terminology used to describe it – be it 'base of the pyramid', the 'next billion' or the 'bottom billion' – are somewhat secondary. Reflecting on the debates sparked by the introduction of the concept, he acknowledges that "there is no single universal definition of the Bottom of the Pyramid that can be useful" (Prahalad 2010, p.7). The fact remains that it is widely recognized that "four billion micro consumers and micro producers constitute a significant market and represent an engine of innovation, vitality, and growth" (ibid) and companies can choose to serve any segment of this market.

A more fundamental criticism of the BOP approach, however, is whether access to consumer goods and services will necessarily bring developmental benefits. Karnani (2009) argues that the view of the poor as "resilient and creative entrepreneurs and value-conscious consumers" (Prahalad 2009, p.25) is empirically false. Karnani cites research by Banerjee & Duflo (2007), showing that the poor, just like any consumer, do not necessarily make purchasing decisions that are most beneficial for the health and food security of the individual or their household. He points to Unilever's Fair & Lovely skin whitening cream – an example cited to highlight the success in servicing BOP markets (Prahalad 2010) – as a product which he claims in fact further sustains racist and sexist prejudices. Thus, Karnani concludes, "there is a need to impose some limits on free markets to prevent exploitation of the poor" (p.4).

In response, Prahalad maintains that "consumption can and does increase income" (Prahalad 2006, p.2). He also notes that it is ultimately up to the poor to choose what to spend their money on. As already noted above, he does acknowledge that access to markets will not provide a solution for all and that the poorest will continue to rely on outside help from governments and donors. Even for this segment, though, the goal would be to "build capacity for people to escape poverty and deprivation through self-sustaining market-based systems" (Prahalad 2010, p.8).

2.3 Inclusive business

Another recent incarnation of the BOP approach is **'inclusive business' or 'inclusive markets' which emphasizes the benefits of engaging the poor along the entire supply chain. Inclusive business models include the poor on the demand side as clients and customers and on the supply side as employees, producers and business owners.**[2] Among the main advocates is the United Nations Development Programme which – as a follow up to the 2004 report of the Commission on the Private Sector and Development – set up the *Growing Inclusive Markets Initiative* in 2006 with the aim of better understanding "how the private sector can contribute to human development and to the Millennium Development Goals" (UNDP 2008, p.v).

UNDP argues that engaging the poor can be beneficial both for businesses and for poverty alleviation. Business can profit through (potentially) higher rates of return, opening up new markets, innovation driven by challenges of developing inclusive markets, expanding the labour pool and strengthening supply chains through local sourcing. The poor in turn will benefit through greater access to essential goods and services, income generation and empowerment. UNDP acknowledges that inclusive markets also poses serious challenges that need to be addressed, such as limited market information, ineffective regulatory environments, inadequate physical infrastructure, lack of knowledge and skills, and restricted access to financial products and services.

Inclusive business has also found strong support in the business community and among some donors. The World Council on Sustainable Development, in an alliance with SNV Netherlands Development Organization, is promoting inclusive business models that are both profitable and have a clear development benefit for the low-income segment (SNV and WBCSD 2008). The IFC, which explicitly links the BOP and inclusive business approaches, has committed $780 million to more than 35 clients with inclusive business models in 2009 while more than 150 active clients are in its portfolio (Jenkins et al. 2010).

An assessment of 14 inclusive business models published by the IFC and Harvard University's Kennedy School of Government highlights a number of common themes (Jenkins & Ishikawa 2010). The study found that expected growth was the main driver for the businesses to develop such models. The most common outcome for the businesses has been revenue growth while the main development outcomes has been expanded economic opportunity (as suppliers, distributors or retailers) and access to goods and services for the poor. Factors contributing to their success have included network and technology platforms to reach low-income consumers, financing schedules that match the cash flows of individuals and households, capacity building among suppliers, consumers and distributors, and partnerships with other companies, governments or finance institutions.

2.4 Creating Shared Value

With their concept of 'Shared Value', Porter & Kramer (2006; 2011) take the argument for the private sector's role in advancing human development and poverty alleviation one step further by arguing that it is in fact in the interest of all business to be promoting social values – for strategic, profit and social reasons. Thus, rather than creating special 'social' entities that address issues such as poverty or environmental damage, they call on companies to bring business and society back together by addressing societal and environmental concerns related to their products and designing production processes that benefit the workers and their families. It is not a matter of altruism to commit to this change, they argue, but a strategic advantage that pays off in the mid- to long-term.

[2] See UNDP (2008, p.2), Jenkins et al. (2010, p.2), and WBCSD/SNV (www.inclusivebusiness.org) for definitions of inclusive business/markets. See also Gradl & Knobloch (2010).

The idea of factoring social and environmental objectives into business strategies for commercial reasons – be it to increase labour productivity, ensure stability and quality of production inputs or respond to consumer demand – is not new. As far back as the 18th century, some of the early industrial entrepreneurs promoted improved working conditions to enhance labour productivity. More recent examples include company programmes to address HIV/AIDS, improve smallholder productivity or sell fair trade-labelled products to affluent markets (see Box 3). What sets Porter & Kramer's approach aside from these initiatives is the call for a fundamental rethink of business strategy rather than piecemeal activities for a limited part of business operations or public relations purposes.

Box 3: The business case: Improving supply, responding to demand

Various supply and demand-side related considerations have long induced businesses to invest in activities that promote both commercial interests and social, health-related and environmental objectives. For instance, to mitigate impacts of high rates of HIV/AIDS infections on the labour force, in particular in Africa and Asia, some companies are investing in prevention and treatment programmes. In addition to the human tragedy, HIV/AIDS can reduce business productivity and profitability due to absenteeism or loss of working hours and high employee recruitment, re-training and retention rates (Pazderka 2010). The International Labour Organization (ILO) estimates that between 11% and 26% of the agricultural labour force (or 16 million people) will be lost in the worst affected African countries by 2020 (ILO 2004). Among the first to recognize and address this issues was the mining sector where infection rates are particularly high (Setswe 2009). Examples are also found in India where efforts have focused on reducing discrimination, such as a 'Ladies' Core Group' set up by the Tata Iron and Steel Company to promote HIV awareness.

Driven in part by rising commodity prices and growing demand and therefore competition for raw materials, businesses are also increasingly recognizing the benefits of investing in support programmes for smallholder farmers in developing countries to ensure stable, high-quality supplies. The Cadbury Cocoa Partnership, for instance, is investing £45 million "to guarantee a reliable long term source of the right quality of cocoa, but also to improve the livelihoods of cocoa farmers" [3]. Among other initiatives, the company is providing microfinance and business support to promote rural businesses and income diversification. Another example is Unilever's Black Soy Farmers Development Programme which strengthened local supply networks in order to obtain sufficient supplies of black soy needed to roll out Kecap Bango soy sauce from Java to the whole of Indonesia (Kaniawati et al. 2009).

Companies are also increasingly adopting certification standards in response to growing consumer demand for sustainably and ethically sourced products mainly in industrialized countries. A number of 'fair trade' labels have been developed which certify that the products have been produced in developing countries in compliance with certain environmental and social standards, including fair prices for farmers. It is estimated, for instances, that in some markets, Fairtrade-labelled products account for between 20% and 50% of market share in certain product categories (www.fairtrade.net). While opinions differ on whether these labelling schemes indeed provide sustainable benefits for producers in developing countries or are just a clever marketing ploy by Western companies, the expansion of this market highlights the growing recognition among companies that at least in some markets and for some products there is money to be made by promoting development-supportive business strategies.

[3] http://www.cadbury.co.uk/cadburyandchocolate/OurCommitments/CocoaSourcing/CadburyCocoaPartnership/Pages/CadburyCocoaPartnership.aspx

‘Creating Shared Value’ has been most publicly embraced by Nestlé as “the basic way we do business”, recognizing that “in order to create long-term value for shareholders, we have to create value for society” (creatingsharedvalue.org/). Nestlé notes that this approach goes beyond ensuring compliance and sustainability to consider how sound business principles can create value for both shareholders and for society in the long term. In 2009, the company set up a high-level Nestlé Creating Shared Value Advisory Board to increase the company’s positive impact on society. The company recognizes that implementation of the approach is bound to face challenges, including how to put the concept into practice, how to measure environmental and social impact and how to positively influence the value chain.

2.5 Social entrepreneurship

While Porter & Kramer stress the complementarity of social and corporate objectives, profit making remains a primary goal which the pursuit of social objectives can support. **A social entrepreneur, in contrast, uses entrepreneurial principles to organize, create, and manage a venture with the primary aim of bringing about social change. Unlike a business entrepreneur who typically measures performance in terms of (long term) profit and return, a social entrepreneur measures success in terms of progress towards the creation of social value** (Thompson 2002; Nicholls 2006; Dees 1998; Haugh 2006).

While the language of social entrepreneurship may be new, the phenomenon is not, but dates back to the 18th and 19th century (Boddice 2009; Dees 1998) (see Box 1). According to Nicholls (2006, p.7) the term ‘social entrepreneur’ was coined by Banks in 1972 with reference to Robert Owen. While there is no commonly agreed definition of social entrepreneurship, most authors agree on the three definitional features of social entrepreneurship as being sociality, innovation and market orientation (Nicholls 2006). The explicit and central social mission of social entrepreneurs is reflected in the special emphasis on projects designed to improve the quality of life of humans, health, nutrition, education, the creation of stable productive jobs and training (Bornstein 2007).

Opinions differ, however, to what extent social entrepreneurs are necessarily engaged in business activities. Ashoka-founder Bill Drayton, for instance, holds that social entrepreneurs are ‘changemakers’ but not necessarily business people. To him, people like Florence Nightingale who revolutionized healthcare are good historical examples for social entrepreneurs. They were committed to induce change in their societies and employed entrepreneurial principles but they did not see themselves as running a business (Lamb 2011).

Observers also disagree over whether social entrepreneurship refers only to non-profit or also to profit-seeking enterprises. While some authors require the primacy of social targets over all other objectives, many so-called hybrid organizations also exist that operate with a double or triple bottom line, i.e. aiming at social, financial and environmental returns on investment (Certo & Miller 2008; Dees 1998; Guclu et al. 2002; Nicholls 2006; Bornstein 2007; Mair & Martí 2006; Seelos & Mair 2007). The idea of a triple bottom line was introduced by Spreckley (1981) who proposed to add other criteria than financial performance to measure success of social enterprises. The term was then promoted by John Elkington (1998) in his book *Cannibals with Forks*.

In the absence of a common definition, an exact number of existing social enterprises is difficult to find. A recent report counted 55,000 social enterprises only in the UK in 2006 (Brown & Campanale 2006). Ashoka, one of the pioneers in supporting social entrepreneurs, has 2500 ‘fellows’ worldwide (www.ashoka.org). The organization, which was set up in 1980 by Bill Drayton, aims at bringing communities of social entrepreneurs together to help leverage their impact, scale their ideas, and capture and disseminate best practice examples. To this end, Ashoka selects social entrepreneurs as ‘Ashoka Fellows’ and provides them with living stipends for an average of three years, professional support, and access to a global network of peers in 70 countries. The organization started with an annual budget of $50,000 and grew to nearly $35 million in 2008. Ashoka is now active in 60 countries.

Several organizations have followed the approach pioneered by Ashoka. Two well-known examples are the Schwab Foundation for Social Entrepreneurship and the Skoll Foundation. In 1998, Klaus Schwab, founder of the World Economic Forum, and his wife Hilde created the Schwab Foundation for Social Entrepreneurship with the “purpose to promote entrepreneurial solutions and social commitment with a clear impact at the grassroots level” (www.schwabfound.org). The Foundation’s activities focus on supporting social entrepreneurs strategically by awarding 20 to 25 “Social Entrepreneur of the Year” who benefit from networking within and outside the foundation. Through the ‘Schwab Foundation community’ the organization fosters the exchange among social entrepreneurs and supports the replication of their methodologies among each other. The Foundation does not give grants or other financial support to the organizations of its selected social entrepreneurs.

Another example is the Skoll Foundation, which – in addition to providing financing to social funds (see Section 3.2) – founded the Skoll Centre for Social Entrepreneurship at Saïd Business School of Oxford University in 2003m sponsors the Skoll Award for Social Entrepreneurship, which includes monetary and non-monetary elements, and hosts the yearly Skoll World Forum on Social Entrepreneurship, an international high-level platform created to accelerate “entrepreneurial approaches and innovative solutions to the world’s most pressing social issues” (www.skollworldforum.org).

These organisations have contributed enormously to establishing the concept of social entrepreneurship. Their prominent support helped social entrepreneurs to institutionalize their activities and broaden their impact (for two examples of social entrepreneurs, see Box 4). Especially the Schwab Foundation for Social Entrepreneurship helped to bring the concept into the view of mainstream business; introducing social entrepreneurs to the World Economic Forum was an important step to lift them out of a shadowy existence.

Box 4: Examples of social entrepreneurs – OneWorld Health and Jaipur Foot

OneWorld Health – a non-profit social enterprise

The Institute for OneWorld Health is the first non-profit pharmaceutical company in the US, developing affordable drugs for people suffering from neglected infectious diseases in the developing world. The Institute is headquartered in San Francisco, California, with a field operation office in Bihar, India. It currently has three active drug development programs that include Visceral Leishmaniasis, a systemic infection caused by various species of Leishmania parasites; malaria, and diarrheal diseases. Research was enabled by in-licensing of promising new drugs and research funding by the Bill & Melinda Gates Foundation. They cooperate with various universities and the World Health Organization (WHO).

In 2006 OneWorld Health received the approval for Paromomycin IM Injection from the Drug Controller General of India for the treatment of Visceral Leishmaniasis. Gland Pharma makes the medicine available at-cost, or approximately $10 per treatment course, a significantly lower price than currently approved VL therapies. Paromomycin IM Injection was also designated by the WHO for inclusion on its Model List for Essential Medicines, which serves as a model for countries to select medicines addressing public health priorities. Paromomycin IM Injection was also voted ‘Product of the Year’ by BayBio, Northern California's Life Sciences Association (Prahalad 2010; www.oneworldhealth.org).

Jaipur Foot: Prosthetics for the Poor – targeting the disabled

In India, a society named Bhagwan Mahaveer Viklang Sahayata Samiti (BMVSS) was founded to treat amputees and to distribute prosthetics at costs as low as possible or for free when necessary (Prahalad 2010; www.jaipurfoot.org). Jaipur Foot designed prosthesis that simulate normal foot movements and provide a solution that also allows for movements such as squatting, sitting cross-legged, walking on uneven grounds and barefoot walking. The prosthetics are fabricated from locally available material and are manufactured in a simplified process that can be performed with limited training.

The distribution of the Jaipur Foot occurs at BMVSS sites (of which there are seven in India, two in Jaipur alone) and at camps, including camps in 20 countries. BMVSS has laid down extremely simple procedures for reception, admission, measurement taking, manufacturing, fitting, and discharge of patients. To serve poor patients in rural areas of India a camp approach for on-the-spot limb- manufacturing and fitment was initiated. The costs of a foot fabricated and fitted by BMVSS is at about 40$, the comparable figure in the US is approximately 12,000$. By the end of March 2009, the total number of beneficiaries was about 11 million. To facilitate the spread of the technology, the creators of the artificial limbs have decided not to patent the invention.

2.6 Social business

The concept of social business was mainly shaped by Muhammed Yunus, the founder of Grameen Bank in Bangladesh, who argues that **for a 'social business' the creation of social value is the main purpose of business activities, not just a complement to profit creation** (e.g. Yunus 2007). The boundary between social entrepreneurship and social business is not quite clear. Connotations tend towards calling non-profit enterprises 'social enterprise' and for-profit enterprises 'social business'. However, there is no agreement on this division in the literature.

According to Yunus' seven principles of social business, the business objective is to "overcome poverty, or one or more problems, which threaten people and society; not profit maximization" (www.grameencreativelab.com). Social businesses are run on a 'no loss, no dividend' basis, i.e. they need to be financially sustainable and investors only get back what they initially invested, but not more. Every financial surplus after breaking even is used for expansion and improvement of the company's activities.

These principles are the outcome of a long history of experimentation and improvement. Starting already in the 1970s with lending small amounts of money to poor people, Muhammed Yunus launched various businesses to provide goods and services he considered as useful for improving the lives of the poor at prices they could afford. Today the 'Grameen family' consists of fourteen social businesses such as telecommunication, education and garment production, including through joint ventures with big companies such as Nestlé, BASF and Telenor (www.grameen-info.org).

Operating a business for social objectives rather than monetary returns appears to fly in the face of conventional wisdom that humans by and large are rational and self-interested individuals (*homo oeconomicus*). Yunus argues that capitalism's assumption that people act so as to maximize profit fails "to capture the essence of what it is to be human" (e.g. Yunus 2007, p.18). He contends that it is the multi-dimensional nature of people that motivates some to pursue social goals rather than only act to maximise personal profit.

Yunus identifies two types of social business (although they may overlap in one business operation): One focuses on providing a product and/or service with a specific social, ethical or environmental goal. An example for this type is Grameen Danone which produces special yoghurt with high nutritional value for children in Bangladesh. The other type is a profit-oriented business that is owned by the poor or other underprivileged parts of the society. The Grameen Bank e.g. is owned by the poor. However, through its activities it also classifies as an example for the first type of social business (Yunus 2007).

The idea of social business has some earlier precedents. The same idea of lending to poor people, in this case to poor farmers, was already successfully applied by Friedrich Wilhelm Raiffeisen in the 19th century. To help farmers who were in the grip of moneylenders taking usurious interests he founded the first cooperative lending bank in 1864 with the clear intention to lift poor farmers out of poverty (Braumann 1970). The 'Volksbanken Raiffeisenbanken' still exists today as a cooperative bank.

The recent interest in social businesses can in part be attributed to the great success of microfinance in the last decades. Beginning with Muhammed Yunus who raised awareness among the business class that 'being social' can pay, many banks started to engage in providing microcredits to poor people. This was a first step towards establishing social businesses in the mainstream economic field. However, this story also shows the weaknesses of the concept: without any regulation the approach is exposed to misuse as has happened e.g. with microcredit-lending in India (see e.g. Biswas 2010).

Despite certain challenges, social entrepreneurship and social business show promising features for reducing extreme poverty and marginality. Since the social mission is the central task of such ventures, going the extra mile to serve the most deprived might be more appealing for such entrepreneurs since the social returns to their investments are especially high among those people. On the other hand, social enterprises face other constraints when trying to reach out to the extreme poor and marginalized such as difficulties with accessing capital.

3 Investments and social values

The consideration of social criteria and objectives also has a long history in the investment sector. Starting with the Quakers in the middle of the 18th century, the focus was initially on negative screening where certain investments were excluded from the portfolio. Such screening is still widely used today, often in combination with investment criteria related to environmental performance, social justice and corporate governance.

More recently, attention has increasingly shifted towards investing in enterprises that promote social or environmental objectives – either as their primary objective such as social businesses or in parallel with seeking to generate financial returns – supported by groups such as the Acumen Fund, E+Co, Root Capital, Grassroots Business Fund, Intellicap, Microvest, New Ventures, and Technoserve.

3.1 Socially Responsible Investing

The term 'socially responsively investing' (SRI) has tended to replace the older term 'ethical investment'. While they are not exact synonyms, both terms broadly refer to: "the exercise of ethical and social criteria in the selection and management of investment portfolios, generally consisting of company shares (stocks)" (Cowton 1994, p.215). Funds engaging in SRI apply screening criteria that relate for instance to corporate governance or international norms (e.g. human rights or labour relations). They also often use negative social screening, for instance by excluding investments in tobacco or weapons. A prominent example of SRI is the Norwegian Pension Fund, Europe's largest pension fund worth over $500 billion. The Norwegian government has set up a Council on Ethics tasked with evaluating whether companies financed by the fund comply with its ethical guidelines.

The history of SRI began with the Quakers who were the first investors to apply social screening to their investments to ensure that the investments did not contradict their persuasions. In 1758, the Quaker Philadelphia Yearly Meeting prohibited members from participating in the slave trade (Kinder & Domini 1997). By the mid-1920s, alcohol and tobacco screens were already quite common. The first US mutual funds, the Pioneer Fund, made such screening mandatory in this period (Dillenburg et al. 2003).

A movement from exclusion criteria towards a more comprehensive paradigm of modified corporate behaviour became apparent in the South Africa divestiture movement. "Between 1969 and 1994, circumstances in South Africa catalyzed a change among social investors from an inward-focused desire for consistency between one's values and one's investments to an outward-oriented expression of how society should work" (Dillenburg et al. 2003, p.168).

As part of this shift, Reverend Leon Sullivan, together with representatives of 12 major US corporations, released the so-called Sullivan Principles in March 1977 which demand desegregation of facilities, equal employment practices for all employees, equal pay for equal work, skills training and black advancement within the work place, and improvement of employees lives outside the workplace. The number of companies that signed to the program grew from the initial 12 to more than 180 in 1985 (Dillenburg et al. 2003).

The actual benefits of SRI continue to be debated. "To proponents, SRI is a powerful vehicle for achieving both competitive portfolio returns and positive social change. For sceptics, however, SRI is ineffective at best and 'politically correct' marketing hype at worst", Rivoli notes (Rivoli 2003, p.272). However, numbers indicate that SRI did find its way into the mainstream. The SRI industry is estimated to have over $2 trillion under its management (Rivoli 2003) and SRI is thought to account for $3.07 trillion out of $25.2 trillion in the US investment marketplace (www.socialinvest.org). In the UK, a survey of the 500 largest pension funds and 97 local authority pension funds found that 59% of respondents, representing 78% of assets, were intending to adopt SRI principles (Green 2001). More recent surveys of pension fund trustees show similar results (see Mill 2006 for an overview).

3.2 Impact investing

Impact investing differs from SRI in that it not only aims at avoiding negative impacts of investments, but specifically targets activities that seek to address societal problems (Monitor Institute 2009). The idea has its roots in older concepts such as 'community development' in the US. The term became widely used in the 2000s, resulting in the foundation of the Global Impact Investing Network (GIIN) in 2007, initiated by the Rockefeller Foundation. Other supporters of the idea include the Washington-based Center for Global Development (CGD) and the consulting firm Monitor Institute co-founded by Michael Porter.

Impact investing is an important step in the direction of putting social issues into mainstream financing by moving the creation of social value from the periphery of activist investors to the core of mainstream financial institutions. It is "defined in the broadest terms as investment made with the intent to create social or environmental benefit in addition to financial return" (Thornley et al. 2011, p.12). The CGD proposes to use impact investing as a general term subsuming social enterprises, double and triple bottom line businesses as well as sustainable and blended value businesses (Simon & Barmeier 2010).

Trelstad (2009) describes impact investors as companies operating with a double or triple bottom line. "Any investor that wants to succeed in early stage investing is by definition an impact investor. So what differentiates them from traditional investors? We define a social or impact investor as someone who takes a double (or in some cases triple) bottom line approach to their capital, and attributes real value to the social or environmental return in their investment decision-making. They will often, but not always, be willing to exchange a lower economic return for potential social or environmental impact." (Trelstad 2009, p.2)

An approach similar to impact investing is the concept of '**blended value investing**' (BVI) that was developed by Jed Emerson (Emerson 2003). Emerson clearly separates his concept from double bottom line investments or philanthropy since in his view value created by investors and organizations acting to pursue their mission is neither solely economic nor solely social, but a blend of both (Emerson & Bonini 2004; Emerson 2003; WEF 2006). Interestingly, microfinance as for instance practiced by the Grameen Bank in Bangladesh is described by some as one of the most mature among the blended value investing strategies (Anon 2006) while Grameen defines itself as social business (and is in fact often cited as *the* example for a social business), thus clearly highlighting the overlaps between the different concepts.

Another related concept is '**patient capital**' provided by Social Investment Funds. The term refers to "debt or equity investment in an early-stage enterprise that provides low-income consumers with goods and services such as healthcare, water, housing, alternative energy, or agricultural inputs" (www.acumenfund.org). Patient capital is characterized by long time horizons for the investment, relatively high risk-tolerance and by pursuing the maximization of social, rather than financial returns. Prominent examples of social funds include Root Capital and the Acumen Fund (see Box 5).

Box 5: Examples of social investment funds offering patient capital

One of the first non-profit social investment funds was Root Capital. Since its launch in 1999, the fund has provided $256 million in credit to 320 small and growing businesses in 30 countries. Its founder, William F. Foote, was elected as Ashoka Global Fellow in 2007 and a Young Global Leader by the World Economic Forum in 2008.

The Acumen Fund is probably the most prominent of the funds providing patient capital. It is itself a non-profit organization that was created in 2001 with the help of the Rockefeller Foundation and the Cisco Systems Foundation. Acumen Fund's total assets were $90.6 million as at December 31, 2009. As of June 30, 2008, Acumen Fund had invested $34 million in the form of philanthropic capital to make investments in the form of loans or equity (not grants) that yield both financial and social returns. Any financial returns are recycled into new investments.

Other examples for funds providing patient capital are Agora Partnerships (www.agorapartnerships.org), Grassroots Business Funds (www.gbfund.org), E+Co (www.eandco.net), Aavishkaar (www.aavishkaar.in), IGNIA (www.ignia.com) and Good Capital (www.goodcap.net). Many but not all of these institutions are non-profit organizations. Most of these funds were founded in the end 1990s or early 2000s.

The Skoll Foundation is an important source of financing for these social funds. The foundation was set up in 1999 by Jeff Skoll, first president of the internet auction firm eBay. Its mission is to "drive large-scale change by investing in, connecting and celebrating social entrepreneurs and other innovators dedicated to solving the world's most pressing problems" (www.skollfoundation.org). Among others, the foundation granted loans at below-market rates to Root Capital ($2.5 million), the Acumen Fund ($2.6 million). The foundation also provides direct grants to social entrepreneurs. Overall, the Skoll Foundation awarded more than $250 million to for-profit and non-profit social entrepreneurs on five continents (www.skollworldforum.org).

Impact investment fills the gap between activities of NGOs engaged in development and traditional investments, targeting social and environmental issues not directly met by existing international development efforts or investment opportunities. The "messy world of 'impact investor'" (Trelstad 2009, p.3) includes for-profit funds, non-profit organizations, government-sponsored funds, domestic funds, global funds and technology funds among others.

Impact investing has been growing rapidly as a destination for socially oriented capital. Since there are only vague definitions of what constitutes an impact investment, exact figures are difficult to find. Examples of the growing number of investors provide an indication of the scale:

- The *Aspen Network of Development Entrepreneurs* (ANDE) has more than 70 members, 50 of which are funds focused on impact investing.
- The *Global Impact Investing Network* (GIIN) has more than 40 members of impressive size and global impact, among them large foundations like the Bill & Melinda Gates Foundation and the Kelloggs Foundation as well as corporations such as Deutsche Bank and J.P. Morgan.
- The *Kellogg Foundation* alone has committed US$100 million to what it calls mission-driven investing.
- The *Bill & Melinda Gates Foundation* dedicates US$400 million to impact investing.

Simon & Barmeier (2010) attribute this expansion in part to the global financial crisis which they argue has created a unique opportunities for impact investing. As traditional investments have become insecure or failed, many impact investments appear to have comparatively better performances, even with their relatively modest returns. Furthermore, improved regulatory and political frameworks have made such investments easier. Some large corporations have also begun to explore whether impact investing could be one option for their CSR programs. The Shell Foundation, for instance, invested in the small-and medium-enterprise finance vehicle GroFin, and ChevronTexaco established its own microcredit bank in Angola.

Estimates from the Monitor Group and the Money for Good Initiative suggest that impact investing could mobilize $500 billion annually within ten years, of which $120 billion could come from US retail investors alone (Monitor Institute 2009). Although this is a small amount compared to total global managed assets ($50 trillion) or even global social screened and shareholder advocacy investing ($7 trillion), it would mark a significant increase in financial resources directed toward social issues, in particular compared to aid from the members of the OECD's Development Assistance Committee, which totalled $121 billion globally in 2008 (CGP 2010), or private sector philanthropy estimated to be $50 billion in 2007 (Rai 2009).

At the same time, impact investing is not without its challenges, as its proponents readily acknowledge. One is the struggle with the definition of the concept; the lack of a clear and unified terminology limits consolidation and may discourage commercial investors from dedicating money to impact investing (Simon & Barmeier 2010). In addition, there is still no commonly adopted framework to measure social value created. There are few third party evaluations of the projects done by social entrepreneurs or social businesses. Such impact evaluations are essential to gain trust and provide investors with an idea of the (social) productivity of their invested capital. Different measurements have been proposed (for an overview see e.g. Nicholls 2009), but as yet none of the proposed concepts could take the lead and establish an accepted standard.

Assessing the success of impact investing is also hindered by the fact that the history of such initiatives in sectors other than microfinance is short. Few impact investment funds can claim a significant number of portfolio companies that have performed well over a longer period of time (Simon & Barmeier 2010). Generally, the sector still faces the typical challenges a new industry is confronted with, which could ultimately lead to a collapse if investors simply give up too soon (Monitor Institute 2009). At the same time, there is the risk that investing for impact will become too easy. If the definition of social and environmental impact becomes too loose, this type of investing will turn into a "feel good" rather than a "do good" exercise (Monitor Institute 2009, p.35). In the worst case it could actually divert capital away from philanthropy.

Furthermore, most social entrepreneurs still struggle to access capital, in particular commercial funds (Clark & Ucak 2006; Simon & Barmeier 2010). As relatively young businesses, most social enterprises are not suitable for bank loans. On the other hand they often have limited upside potential, so they do not fit into the requirements for venture capital either. Often, management teams committed to their mission finance their business out of their own pockets (Simon & Barmeier 2010; Sharir & Lerner 2006). These financial problems often drag on; a recent survey of 200 existing and aspiring impact investments finds that

> "[s]eventy-two percent of businesses in our database are not currently profitable, with the majority forecasting profitability within the next one to two years. Therefore, they do not have the current cash flow to service a commercial loan. Less than 20 percent expect returns in excess of 30 percent, making few viable candidates for traditional venture capital funding." (Simon & Barmeier 2010, p.18)

Additionally, the flow of funds from impact investors is hindered by a lack of intermediates in the sector, causing problems of high costs relative to the size of the deals as well as difficulties in finding other funders to provide follow-on funding (Trelstad 2009). Moreover, inconsistent metrics between funders and inconsistent portfolio management processes are leading to an extremely fragmented marketplace that increases transaction costs for financing particular projects (Simon & Barmeier 2010). Furthermore, insufficient compensation for risk may result in a lack of interest in impact investing.

3.3 Social Stock Exchange

Social stock exchanges (SSE) have been proposed as a way to raise financing for social enterprises. A SSE provides a platform to bring together investors and social enterprises and enable investors to trade shares in these businesses. The original idea is often ascribed to Muhammed Yunus. The two best-known examples for social stock exchanges operating in developing countries are the *Bolsa De Valores Sociais* initiated by the Bovespa in Brazil and SASIX in South Africa.

Bolsa De Valores Sociais was set up by the Sao Paolo Stock Exchange (BOVESPA) in Brazil in 2003 as an innovative fundraising model for non-profit organization. This social stock exchange employs a team that selects non-profit companies that are then eligible for funding. Already in the first year more than 1000 enterprises applied for funding, of which 30 were selected according to certain social and financial indicators. These organizations received Reais 9.2 million (about $3 million) for their social projects. Each social share is worth Reais 1 (about $0.33). As at May 2011, there are about 30 projects eligible with project values of €20,000 to €200,000 (www.bvs.org.pt). There is no information about the total value traded since its inception.

The second well-known example of a social stock exchange is SASIX, the South Africa's Social Investment Exchange founded in 2006 by GreaterCapital, a non-profit social enterprise that was created in 2004. Social development projects are selected to serve as investment opportunities with a social return. Investors have different options for carrying out their investments. They can set up their own Giving Foundation, i.e. a personalized charitable fund or they can buy shares in SASIX projects. As at May 2011, SASIX listed projects with a total sum of project costs of more than $5.5 million (www.sasix.co.za). Both the Bolsa de Valores Sociais and SASIX only offer social returns.

Another project in this direction is the Impact Investment Exchange Asia (IIX), founded and chaired by Durreen Shahnaz. The IIX is itself a social enterprise with the mission to provide social enterprises in Asia with better access to capital (www.asiaiix.com). In contrast to the Brazilian and the South African examples, IIX will facilitate actual market investments in a regulated environment. Thus, only economically viable social enterprises (for-profit and not-for-profit) are eligible for funding. In April 2011, IIX announced the launch of 'Impact Partners', a private online platform based in Singapore that serves to introduce impact investors to a selected group of pre-screened Asian social enterprises.

A similar approach is followed by Mission Markets, serving as an exchange platform for impact investors in the US and worldwide and by ClearlySo, a 'hub' for social enterprises, social businesses and social investments that also works as a marketplace to match supply and demand for social investment projects (www.clearlyso.com). Other social stock exchanges are being created in London by Pradeep Jethi, formerly new product development manager at the London Stock Exchange, and Mark Campanale, former SRI specialist at Henderson Global Investors, with the support of the Rockefeller Foundation (m.rockfound.org) as well as in Germany (e.g. www.betterplace.org).

The example of GEXSI illustrates the difficulties related to the creation of such institutions. GEXSI was founded in 2001 at the World Economic Forum. Originally, the goal was to set up an exchange for social investments in low-income regions around the world. Outstanding social enterprises should have been identified and matched with mainly US- and Europe-based impact investors. However, hardly any deals were made. As a result, GEXSI revised its focus. It has now divided it activities, providing social entrepreneurs with financial and advisory support for early-stage development on the one hand and offering social investors with strategic guidance on how best to deploy their money to achieve the maximum positive social and environmental benefits on the other (www.gexsi.org).

4 Potentials and constraints of innovative business approaches in addressing extreme poverty and marginality

New and evolving business approaches have shown significant promise in reaching low-income people. But how suitable are these different approaches to engage the extreme poor and marginalized? The answer depends in part (1) on the extent to which the different approaches are able to involve the extreme poor themselves, (2) their flexibility to direct business objectives towards the reduction of extreme poverty and marginality and (3) their ability to successfully operate with non-business public and civil society partners and in sectors of particular interest to the extreme poor (for a summary, see also Table 2).

Willingness to include the extreme poor as producers, employees and consumers. The extreme poor and marginalized are, by definition, excluded from many economic (and other) activities. Access to land and forest is a case in point. Thus, unless businesses make a dedicated effort to engage them, the extreme poor are unlikely to benefit from corporate activities. A precondition of such engagement is deep knowledge of the contextual situation in which the extreme poor and marginalized live and operate. In rural areas this must include detailed know how about the poor's agricultural operations.

In many cases, businesses cannot rely on governments to facilitate the participation of the poorest, as the marginalized may be actively discriminated against by their national or local governments (e.g. for ethnic or religious reasons) or may simply not have been recognized as needing special attention. As UNICEF (2010) notes:

> "The poorest and most marginalized communities are not systematically assessed and are often forgotten when national development plans are laid and resources allocated. They are also the least likely to have a voice in global and national decision-making forums. Disaggregating national data to identify these groups and assess the factors that exclude them is fundamental to designing equitable solutions." (p.5)

As already noted above, **CSR** activities often fail to include the extreme poor and marginalized, unless designed as charitable side activities. Moreover, CSR is likely to favour projects of small scale with high visibility and quick wins, rather than the kinds of long-term projects that would be needed to reduce extreme poverty and marginality. Scaling up has rarely been an objective in CSR activities.

In the case of **inclusive business** approaches (or BOP markets), companies may prefer to target those living on $3-4 a day as producers and consumers. As Gradl & Knobloch (2010) point out: "It is often easier to concentrate on groups that have capital, be it knowledge, land or social inclusion, but are unable to benefit from it because of inadequate market access" (p.15). In the case of contract farming, for instance, companies tend to prefer working with larger farmers to reduce transaction costs and because they expect higher outputs (Fullbrook 2007). The willingness of inclusive business operations to invest in bringing the extreme poor into the supply chain is likely to be shaped by their business interests, such as the need to expand the supply base beyond poor farmers or to engage the extreme poor in distribution networks in areas or for population segments that would otherwise be difficult to reach.

Among **social entrepreneurs**, where social value creation is the main objective, engaging the very poorest becomes more attractive as it is likely to generate the greatest (social) returns. A recent study by the United Nations Children's Fund (UNICEF) concluded that reaching the most deprived "will be considerably more cost-effective and sustainable" towards reducing child mortality and improve maternal health (UNICEF 2010, p.1). The study estimates that such an 'equity-focused' approach targeting those most in need – and thereby closing existing health gaps – could avert 60% more deaths for every additional $1 million invested. To maximize social returns, social businesses may therefore be more likely to actively seek out the extreme poor and support their participation through communication tools and capacity building activities.

Flexibility to engage in socially-oriented business activities. The suitability of the different business approaches to pursue activities that aim at engaging those at the lowest end of the income scale will also depend on their ability to mobilize capital for social activities and the flexibility of organisational structures to be adapted to the particular needs of the extreme poor. In the case of **CSR**, the primacy of corporate objectives tends to restrict companies' financial flexibility to divert intra-firm resources away from competing priorities. Also, the organisational set-up of established companies is generally rigid, with little openness towards experimentation and adaptation to meet the needs of the extreme poor.

In contrast, **inclusive businesses** are in a comparatively good position to mobilize capital, as their dual objectives open up a wider range of potential funding sources, including traditional investors as well as impact investors and social funds. The organisational forms of inclusive businesses can differ widely, with some more flexible than others. Inclusive businesses can range from large multinationals like The Coca-Cola Company or Unilever that apply such models to some parts of the operations (e.g. to ensure stable supplies or to access new markets) to smaller-scale enterprises specifically set up as inclusive businesses. Given the evolving nature of inclusive business models, there is still considerable room for experimentation and lesson-learning to identify models that could best reach the extreme poor and marginalized.

In terms of financial capital, **social entrepreneurs** mainly rely on funding sources that are willing to invest in relatively risky enterprises with no or little prospect of financial profit. While access to capital remains a constraint for social entrepreneurs, the current expansion in social funds, a growing interest in market-based approaches among some donors, and ongoing efforts to link social businesses and investors (e.g. through social stock exchanges) are likely to open up additional financial resources. Social businesses also tend to have more institutional flexibility and are able to set up organisational structures that are specifically aimed at engaging the extreme poor.

Focusing on sectors that matter most for the poorest. Businesses have the greatest potential to benefit the extreme poor if they get involved in sectors that matter most to the poorest, such as food, health, education or low-cost infrastructure, including in the area of information and communication technologies. These sectors, however, often do not yield the highest returns, in particular if the aim is to extend coverage into remote areas and/or to customers with very low purchasing power. Thus, approaches where social returns have an equal or higher weight than financial profit, as in the case of **social entrepreneurs** and **certain inclusive businesses models**, may be better suited to serve the poorest consumers in these sectors.

A stronger involvement of enterprises in these sectors may require a shift in the respective roles of private and public investors. Businesses may take over the provision of certain goods and services that have traditionally been the domain of governments or development organisations while the public sectors focuses on facilitating business activities to reach the poorest, for instance through financial incentives, streamlined administration, market guarantees or transport infrastructure. At the same time, governments will need to ensure that private investments do not entirely crowd out public investments and thereby risk that some sectors end up being neglected or the associated goods and services remain out of reach of the extreme poor due to high prices or concentration in certain areas. To minimize these risks, governments may need to consider regulatory measures or implement complementary activities to engage those out of reach of businesses.

Table 2: Suitability of different business approaches to engage the extreme poor

	CSR	BOP/inclusive business	Social entrepreneurs
Inclusion of the extreme poor	Low	Medium	High
Ability to mobilize capital for social goals	Low	High	Medium to high
Organisational flexibility	Low	Varied	High
Engagement in sectors that matter most to the poorest	Low	Medium	High

Conclusions for the research and action agenda

A major challenge in assessing the suitability of business approaches for the reduction of extreme poverty and marginality and adapting them where needed is the lack of a standardized and generally accepted methodology for measuring social value creation. Unlike monetary returns, 'social value' cannot easily be condensed into a single measure. Various proposals have been made, but a unified framework is lacking. A key question is how to measure not only outputs (such as micro-credit volumes or number of products sold to the poor), but also whether these outputs have indeed translated into real and sustainable poverty reduction. Thus, further research is needed to **identify outcome-focused indicators for social value creation and develop suitable measurement tools** to provide comparable assessments of businesses' effectiveness in reducing extreme poverty and marginality**.**

While the need for government support to facilitate business solutions to address extreme poverty and marginality is clear, the forms that this support should take and the actual benefits of various support measures remain poorly understood. At times, governments may provide support measures that could in fact reduce social welfare overall. The example of fiscal incentives is a case in point: While tax breaks are a popular tool used by governments to try to attract foreign direct investments into certain areas or sectors, several country studies have shown that these incentives had little influence on investors' decisions while governments lost important revenue that could have been invested elsewhere (see e.g. Thomas 2007; Baumüller 2009). Thus, research should explore options for **government measures to support business activities for the poorest** and assess their **potential impact in the different contexts in which they are applied**.

Further research investments are also warranted to address opportunities for **scaling up apparently promising small scale projects**. Given the often spread out households and communities of marginalized and extreme poor people, this is a particular challenge. A framework for scaling up of initiatives targeted at the extreme poor should not just start from a service or product, but from the situation of the extreme poor themselves.

In that context, **indirect approaches for inclusive business and shared value generation** that reaches the extreme poor may be of particular significance, such as infrastructure investments in marginal areas, access to improved seeds, health service, and food fortification that have elements of comprehensive coverage and do not exclude the poor. Tracing results and favourable impacts on the extreme poor of such investments should, however, be part of sound impact assessments.

It is important to note that the distinction between the different business approaches is not as clear-cut as this analysis may suggest. While the above review has pointed at pros and cons of the different approaches from a perspective of their potential contributions to positively impact on the extreme poor and marginalized, the new **business approaches to include the poor may also be understood as a continuum**. The continuum and overlaps between these approaches can serve to extend their reach and effectiveness through cooperation among different approaches and the formation of hybrid models that combine different elements. For instance, business activities for the extreme poor may start as a CSR projects or pilot business models by existing companies, to then be scaled up and outsourced to dedicated inclusive or social businesses.

We recognise that it is unrealistic to expect businesses to be able to reach all of the extreme poor and marginalized. There are **limits for any individual or type of player in the business to overcome extreme poverty and marginality**. However, these limits are often context specific and should not be drawn too restrictively. The entrepreneurial capacities of the marginalized and extreme poor tend to be underestimated. Most of the approaches reviewed here are relatively new and still need to be evaluated to assess how they could best help to reduce extreme poverty and whether they are replicable and can be scaled up. Moreover, none of the presented business approaches will succeed by themselves, but will require equally innovative cooperation with public authorities, development organisation and above all, the extreme poor themselves.

In sum, it seems that **the boundaries of innovative business operations can be pushed much further** to include a far larger number of the marginalized and extreme poor. The corporate sector may like to look into these opportunities as a low risk / high return venture and keep experimenting. The development partner communities may best serve the initiatives with own insights gained and with co-funding. The research community may best serve these efforts by innovative institutional ideas that foster institutional arrangements that bring together unusual alliances, by accompanying solid impact studies and with insights from comparative assessments for scaling up.

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