

Learning Laboratory



Social entrepreneurship offers innovative cost-effective development solutions

J. Gregory Dees

Children study by kerosene lamp in Lucknow, India.

A PREGNANT South African mother diagnosed with HIV is scared and has no idea what to do. She is reassured when introduced to a “mentor mother” from the nonprofit mothers2mothers who also has HIV; her mentor’s counseling helps raise her chance of survival and lower her baby’s likelihood of infection.

A young Cambodian woman faces a bleak future of poverty and a terrible job market until she spots an opportunity to learn about digital data conversion and get a job in the field with the social enterprise Digital Divide Data (DDD) while earning a scholarship for higher education.

In India, a father spots a stall in the marketplace selling solar-powered lanterns, manufactured by the for-profit d.light. His home has no electricity. He replaces his kerosene lamp with the d.light lantern, saving on kerosene and providing better light for his children to study in the evenings.

These are just three examples, out of thousands, of how social entrepreneurs are working to address development problems such as HIV/AIDS, youth unemployment, and lack of reliable electricity. Their scope of activities is nearly boundless, covering microfinance, sustainable forestry, water purification, sanitation, agricultural productivity, women’s employment,

education, health care (from drug and technology development to delivering supplies, selling products, and providing care), and much more. Sometimes their work is effective; sometimes it is not. Often, success depends on credibility and relationships with major players—government agencies, prominent foundations, multilateral development organizations, large established nongovernmental organizations (NGOs), and corporations. If those players can reach beyond the hype and the moving stories to draw out and apply hard lessons about effective and scalable solutions, the payoff can be significant.

Social entrepreneurs bring private resources, ingenuity, determination, business skills, and, in some cases, deep local knowledge to the problems that hold societies back. They innovate, test, and refine new approaches. Their successes and failures, once identified, are a source of valuable information about what works and what doesn’t. These social endeavors form a living—and vastly underutilized—learning laboratory for development innovation. We have a long way to go before governments and development institutions take full advantage of this creative problem-solving activity. But as rigorous assessment becomes more common, we can begin to identify which solutions are effective and have the potential to scale up

and learn what we can from those ideas that looked promising but failed to deliver cost-effective results. (See “Every Which Way We Can” in this issue of *F&D*.)

Misunderstood concept

Many people confuse social entrepreneurship with a narrower idea of “social business,” moneymaking enterprises that also create social good. Combining powerful social innovation with a fully profitable business model may be the Holy Grail for many social entrepreneurs, but it is not an essential characteristic. This is apparent in leading proponents’ definitions of the concept (see box). What is essential is pursuit of new ways to tackle a social problem. Business models range from grant-dependent nonprofits to commercially viable for-profits.

Whatever the model, social entrepreneurs use business tools in creative ways as they attempt to craft more cost-effective, sustainable, scalable solutions. They often draw on creative business models to generate a better social return on investment. Although it is not necessary to show a profit, these entrepreneurs must be savvy when it comes to cost structures, revenue streams, and capital requirements. If they want to change the world, they need to find an economically viable path for getting there.

Our three examples illustrate a range of business models.

mothers2mothers (m2m) is a South Africa-based NGO that employs mothers with HIV as mentors to HIV-positive pregnant women to reduce mother-to-child transmission of the virus. The NGO has demonstrated that in health care facilities with mentor mothers, more women access and continue with prenatal care and fewer babies are infected with HIV. Without treatment, between 20 and 45 percent of babies born to HIV-positive mothers become infected (about 390,000 infants a year worldwide as of 2008). Without treatment, approximately half will die before their second birthday. With treatment, transmission can be reduced to about 1 to 2 percent in non-breast-feeding

populations and to less than 5 percent where breast-feeding is the norm.

Founded in 2001, m2m now operates in more than 600 sites in seven sub-Saharan African countries and employs nearly 1,500 mentor mothers to serve the 240,000-plus expectant mothers enrolled in its programs in 2011. Mentor mothers educate and empower their peers and are a more effective and lower-cost resource than a nurse or professional health care provider.

Funding for m2m comes largely from aid agencies, foreign government grants, corporate contributions, and the like, but its model saves health systems the significant expense of treating a generation of children born with HIV. It has worked to pivot its operating model: in addition to direct service delivery m2m now advises governments, helping them embed Mentor Mother programs in national health systems—an approach launched in Kenya in 2010 with the help of the United States Agency for International Development (USAID). In 2011, the United Nations Program on HIV/AIDS endorsed mentor mothers as a best practice.

DDD is a social enterprise that provides data entry, conversion, and digital preservation to a wide range of customers. It trains, employs, and awards higher-education scholarships to disadvantaged young people in Cambodia, Kenya, and Laos so they can develop marketable skills to move out of poverty. Initiated in 2001 in Cambodia, DDD moved into Laos in 2003 and into Kenya in 2011. In 11 years, it has trained more than 2,500 young people, 900 of whom are currently employed in its three offices. These numbers may seem small given the magnitude of the problem in each of the countries, but DDD has been recognized as a pioneer and model in the now sizable and growing “impact sourcing” field (business process outsourcing that also achieves positive social impact by employing poor and vulnerable people). A recent report by consulting firm Avasant, commissioned by the Rockefeller Foundation, places impact sourcing sector employment at more than 560,000, with the potential to grow to 2.9 million by 2020.

It is hard to predict the long-term effect of these jobs, but DDD’s recent impact assessment shows its graduates are earning incomes four times higher than comparable high school graduates. While DDD has a thriving business, generating over \$2.4 million in revenue in 2011, it is legally set up as a nonprofit and raised an additional \$2 million in contributions to support its extensive training and scholarship programs. This is not the business model of all the organizations classified as “impact sourcing service providers”—indicating that they employ poor or otherwise vulnerable people. Organizations that do not provide the same level of training or scholarships may not see the same results, but this conclusion awaits further comparative evaluation.

d.light design, Inc., is a for-profit social enterprise started in 2007 to provide affordable lighting to poor people who do not have reliable electricity. Its primary products are inexpensive solar-powered lights, ranging from small study lanterns to higher-powered household lanterns that can also charge now ubiquitous cell phones. It sells products in more than 45 countries. In its brief life, d.light has reached nearly 10 million people and aims to reach 50 million by 2015. By replacing kerosene

What are social entrepreneurs?

Leading organizations define them in various ways.

Ashoka: Innovators for the Public—“Social entrepreneurs are individuals with innovative solutions to society’s most pressing social problems. They are ambitious and persistent, tackling major social issues and offering new ideas for wide-scale change.” See www.ashoka.org/social_entrepreneur

Skoll Foundation—“Social entrepreneurs are society’s change agents, creators of innovations that disrupt the status quo and transform our world for the better.” See www.skollfoundation.org/about

Schwab Foundation for Social Entrepreneurship, an affiliate of the World Economic Forum—“Social entrepreneurs drive social innovation and transformation in various fields including education, health, environment and enterprise development. They pursue poverty alleviation goals with entrepreneurial zeal, business methods, and the courage to innovate and overcome traditional practices.” See www.schwabfound.org/sf/SocialEntrepreneurs/Whatisasocialentrepreneur/index.htm

lamps, d.light products not only provide better light, they also save households money, prevent loss of life from accidental fires, and reduce health costs from indoor pollution. The company estimates that it has benefited more than 2.2 million school-age children, offset an equivalent of 276,000 tons of carbon dioxide, and saved its customers over \$100 million in energy-related expenditures—though these numbers have not yet been confirmed by independent assessment. (An IMF study—Anand and others, forthcoming—suggests that d.light and others may have overestimated the amount households spend on kerosene, particularly in markets such as India, where kerosene is heavily subsidized by the government.) Because d.light is a private company its financial information is also private, but it hopes to be profitable and has promised to set aside 10 percent of the net proceeds from sales in the United States and Canada to provide lighting to distressed communities through partnerships with best-in-class established nonprofits.

It is only one of many experiments to bring solar and other forms of distributed electrical power to rural areas in developing countries that lack electricity. These kinds of market-based interventions must pass the market test. If the products do not provide value, through savings or improved quality of life, people will not buy them. Performance in the marketplace demonstrates value to customers, but from a development perspective, these products must be evaluated against other solutions. For instance, widespread adoption of d.light or other alternatives (such as whole-house solar panels or village-based microgrids) might reduce or eventually eliminate the need for government subsidies for kerosene—a major expense for the Indian government. Even this market-based experiment is worth serious scrutiny from a development perspective.

All three projects are works in progress that will surely evolve over time and stimulate further innovation, both within these organizations and by others. The examples were selected to illustrate various kinds of ventures at different stages of progress rather than large-scale success. Examples of large-scale success are Aravind Eye Care System, the largest ophthalmological services center in the world, providing nearly 350,000 surgeries a year—at least half to the poor—and the Bangladesh Rural Advancement Committee (BRAC), an NGO that touches the lives of more than 100 million people in Bangladesh and 10 other countries, through innovative schools, health outreach programs, and businesses that employ poor people. Aravind funds itself through fees from patients who can afford them, and BRAC pays the bulk of its expenses through income from its enterprises. Some experiments have blossomed into great successes, but we need to be more systematic in harvesting the benefits of this learning laboratory.

Global practice

The concept of social entrepreneurship is relatively new, but the practice is widespread, according to the Global Entrepreneurship Monitor (GEM). In 2009, the GEM network conducted a survey of social entrepreneurship activity in 49 countries as part of its general annual entrepreneurship survey. For the survey, the GEM project adopted a broad definition of social entrepreneurship: “individuals or organiza-

tions engaged in entrepreneurial activities with a social goal” (Terjesen and others, 2012, p. 8). The average proportion of the adult population ages 18–65 engaged in some form of social entrepreneurship activity (from nascent to established social enterprises) was significant at 2.8 percent—more than 1 in 40 adults—ranging from 0.2 percent in Malaysia to 7.6 percent in Argentina (see chart). The variations between countries present fascinating research opportunities, but the data clearly show that the activity is widely distributed.

Wide-ranging benefits

From a development perspective, the potential benefits of social entrepreneurship fall into three categories.

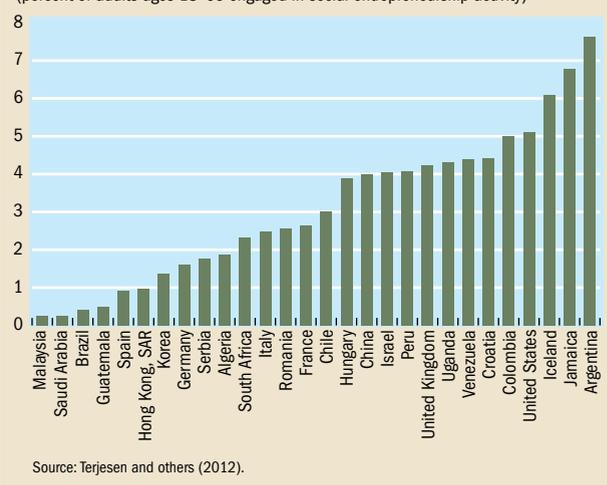
Testing innovative solutions: Social entrepreneurs bring a portfolio of potential solutions to development problems, which can then be examined critically to identify those that are effective and scalable. They have the flexibility to conceive of and experiment with ideas for solving persistent and troublesome development problems that would be stifled in larger organizations or would never spring up in the first place. Social entrepreneurs keep costs and risks low by testing their ideas on a small scale, providing room for adjustment before scaling up. Businesses understand the value of independent entrepreneurship as a testing ground and often scout out innovations among start-ups in their sector. Even as inventive a company as Google has made more than 200 such acquisitions, including Android—which it turned into the largest mobile platform in the world.

Leveraging resources: At a time of scarce public resources, social entrepreneurs bring a nimble business mind-set and tangible private resources to the table. In many cases, private resources fund part or all of their experimentation and can also fund expansion. Social entrepreneurship business model innovations can lower costs relative to impact and help leverage public funds with earned income and private philan-

Getting involved

Engagement in social entrepreneurship varies widely among both developed and developing economies.

(percent of adults ages 18–65 engaged in social entrepreneurship activity)



thropy. In some cases, they eliminate the need for subsidies altogether with market-based models that become sustainable and scalable on their own.

Enhancing adaptive capacity: Social entrepreneurs help societies adapt. Development can best be seen as building a society's capacity for adaptation. How? Nobel laureate Douglass North argues that "adaptive efficiency" is strength-

Social entrepreneurs bring a portfolio of potential solutions to development problems.

ened by "decentralized decision making processes that will allow societies to maximize the efforts required to explore alternative ways of solving problems" (North, 1990, p. 81). Social entrepreneurs are decentralized problem solvers crafting and testing those alternative solutions.

Building a better laboratory

As North says, the ability to adapt is "concerned with the willingness of a society to acquire knowledge and learning, to induce innovation, to undertake risk and creative activity of all sorts, as well as to resolve problems and bottlenecks of the society through time." The more trials in the laboratory, the better, *but only as long as it is part of a learning process.* That's the rub.

Decentralized problem solvers alone won't do the job. Without proper support and discipline, decentralized problem solving can be fragmented, duplicative, and marginal—with the occasional exceptional success, many disappointments, failures that teach little, and efforts whose effectiveness is largely unknown. Fortunately, many players have begun to strengthen this laboratory.

The Skoll Foundation, the Schwab Foundation, Ashoka, Echoing Green, Acumen Fund, Omidyar Network, and others are identifying and supporting promising innovators. The HUB, based in Vienna, Austria, is developing a network of incubators for social innovators in cities around the world: there are now 25 on five continents with more to come. Innovations for Poverty Action (IPA) and the Jameel Poverty Action Lab are applying rigorous evaluation techniques to many innovations. IPA started the Proven Impact Fund to support initiatives with positive results. Impact Investment Exchange Asia is working on a social enterprise stock market. Some countries, such as the United States and the United Kingdom, are experimenting with new types of legal entities. Community interest companies and benefit corporations are examples of this new class of company, which allows for a mix of social purpose and business structure. Creative financial instruments, such as social impact bonds, are repaid by the government only if stated performance thresholds are met. Colombia and the United States have created national offices for social innovation. Many universities around the world have launched research and education programs in this area. This is all still experimental and nascent.

How do those in the world of development—public and private players, unilateral and multilateral—integrate this activity into their work?

In parallel with the three benefits of social entrepreneurship, development players can take these steps:

- **Promote smart social innovations:** Facilitate the development of social innovation, support rigorous evaluation, and promote adoption of ideas with proven impact.
- **Support resourceful approaches:** Encourage and provide incentives for the development of resource-efficient business models, especially models that do not use scarce public resources—or use them efficiently.
- **Enhance local adaptive capacity:** Invest in local mechanisms that foster decentralized problem solving and harvest the benefits, such as competitions for solutions to pressing problems, funding tied to performance, rigorous evaluation, and incubators for social entrepreneurs.

Many agencies are taking the first step, as USAID did with m2m in Kenya.

Support for resourceful approaches, the second step listed above, might involve foundations, impact investors, and others in building an environment that supports market-based and government cost-saving approaches, through hybrid or for-profit social enterprises. The Rockefeller Foundation's work on impact sourcing such as DDD is one example of this kind of support.

The third step requires helping local actors (such as governments, local philanthropists, investors, and universities) build an infrastructure to stimulate and capitalize on social entrepreneurship. This could mean convening leaders and sharing lessons learned about topics such as new legal entities, new financing mechanisms, national offices for social innovation, and so on. It could even mean stimulating the development of university programs on design for extreme affordability, such as the one at Stanford University that generated d.light.

As a living learning laboratory of problem solving, social entrepreneurship is the key to building societies' adaptive capacity. But it can succeed only if national leaders recognize its value and help build institutions and cultures that provide the right mix of discipline and support. ■

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