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The publication of the Second Issue of this new international quarterly journal coincides with the 71st Birthday of Nobel Peace Laureate Muhammad Yunus on 28 June, preceded by the 2nd Anniversary of prudent futurist Norman Macrae's death on 11 June, followed by an extraordinary visionary human Nelson Mandela's 93rd Birthday on 18 July.

THE JOURNAL *of* SOCIAL BUSINESS
Social Business and New Economics Paradigm
Volume 1, No. 2, July 2011

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Editorial

The Journal of Social Business
One that places People at the Centre

ECONOMIC analysis is about understanding the workings of the economic system. Many elegant economic theories exist to analyse wealth-creating productive activities. Conventional economic theory focuses on a one-dimensional world. Prof Andrew Skinner, a pre-eminent scholar of Adam Smith, has argued that Smith – the great economist – would have had every sympathy with *Nobel Peace Laureate* Muhammad Yunus' rejection of the economists' 'one-dimensional' treatment of human activity', and he joins him to say: 'people are exceedingly multi-dimensional in what Adam Smith explained as the multifaceted nature of human behaviour – while they have their selfish dimension, at the same time they also have their selfless dimension' (JSB Vol 1, No. 1: 25).

Capitalism together with technological advancement and the role of the market that has grown up around conventional theories makes only little room for the selfless dimension of people. Despite Smith's observations and reasonable concerns over the miseries of the poorer majority in society, economists who have followed his ideas have failed to explore the impact of the selfless notion of people as a driver of behaviour for economic action (as, for instance, in charitable and philanthropic activities). As such, economic theory has so far been less effective to integrate these other drivers of behaviour in mainstream economic models.

Furthermore, the writings of Adam Smith were seized upon by traditional economists to argue that the 'invisible hand' of the market always creates the best of all possible worlds. This undermined investigation of the 'real' challenge of economics: the design of sustainable systems – the notion of entrepreneurship was distorted into 'top-down' value extraction as distinct from value-creating 'bottom-up' possibilities.

The increasingly important role of social enterprises and initiatives directed at empowering communities in tackling poverty, deprivation and inequalities in income, health, education, housing, etc, presses socially-conscious people to reinvent economics. Referring to the current inability of modern economics to solve crucially important societal problems, Prof Muhammad Yunus explains: 'things are going wrong not because of *market failures*. The problem is much deeper than that. The mainstream free-market theory suffers from a *conceptualisation failure*, a failure to capture the essence of what it is to be human' [Yunus, M (2007): *Creating a World Without Poverty*, New York: Public Affairs].

Currently, the selfless dimension of entrepreneurial activity – even charity or philanthropy – has no effective role in mainstream economics, yet these yield an important re-distributive function to improve fairness in economic outcomes. However, bringing social concern business issues and ideas into the sphere of economic and business strategy theory would allow economists to better capture the human dimension of entrepreneurship. Remarkably, the recent successes of Grameen-type collateral-free microcredit and microfinance initiatives – directed at addressing the critical needs of the people at the bottom of the global community – challenges economists to rethink assumptions about how poor households save, invest and build assets, and how institutions can overcome market failures. *What obviously is new: microfinance seeks to develop capitalist operations,* even though on a small scale! As such, these other drivers of behaviour for influencing economic actions need to be integrated into a more encompassing paradigm.

The global economic crisis, food crisis, energy crisis and ever-worsening environmental problems have forced economists to think about traditional economic theories anew. As explained earlier, economics essentially needs to be built on the foundation of humanity. Hence, the articulation of 'Social Business and the New Economics' as a new line of enquiry will allow them to better capture 'the essence of what is to be human', and focus on how to create sustainable social business enterprises in order to regenerate the most humanly purposeful society.

Indeed, a new economics paradigm idea has evolved out of a volume of research, culminating in a number of groundbreaking presentations at the Global Assembly Conference – organised by The Centre for Development (CfD) Scotland at the University of Glasgow on 4th July

2010 – on diverse community initiatives directed at tackling poverty, deprivation and income inequalities in Scotland and elsewhere. These included Grameen's global experiences and Prof Yunus' timely presentations to encourage innovative ideas and provide poor people's access to technology and entrepreneurial non-loss non-dividend activities which have social cause-driven purposes to deal with apparently insurmountable problems from malnutrition, inadequate healthcare, education and housing, as well as safe and secure affordable alternative energy sources.

In an attempt to address the issue of 'Social Business and New Economics' as a subset of mainstream economics paradigm, the current issue of this new Journal includes a number of scholarly research papers and 'real life' scenario articles which focus on new dimensions of economics and business. In his elegant analysis, Prof Chris Berry seeks to identify some aspects where Adam Smith's conception of a 'moral economy' might inform an assessment of the current economic hardships induced by the banking crisis, notably the relation between liberty and regulation which he links to a too facile interpretation of the 'invisible hand' and the seeming detachment of economics from a moral framework. As he further reflects, whether a re-invigorated version of the Smithian type of moral economy is a solution remains to be seen and attempts to recapture something of his outlook, as in the concept of 'social business', are ongoing. To this extent, he suggests that Muhammad Yunus, in an articulation of the basic weakness of capitalism, has recently invoked Smith's *Theory of Moral Sentiments* for its recognition of 'the moral dimension of social consciousness' (JSB Vol 1, No 1: 11).

Dr Purba Mukerji and Chad Stewart have attempted to assess whether economic fundamentals representing enduring characteristics of an economy (such as infrastructure, financial development, social structures, etc) serve as important inputs into the success of income-generating initiatives undertaken by the poor with credit received from microfinance institutions. It is worthy of note, in a panel dataset of 74 countries over 10 years, they have constructed a New Index of Microfinance while ranking countries according to how conducive their economic environment is for microfinance.

Dr Reiner Blank and Dr Richard Blents in their article argue that the recent financial crisis and concomitant global interdependencies have exposed some of the flaws of capitalism, thus calling into question the relevance of the old economics paradigm. They argue for a transformation and paradigm shift towards people orientation while pursuing business goals. As they claim, now is the time to explicate and define the emerging patterns and support what is deemed desirable, sustainable and life-promoting.

Samuel Touboul and Thomas Roulet, in a detailed analysis of the potential of social entrepreneurs in developing countries, argue that turning existing entrepreneurs into social entrepreneurs is a challenge for governments and multilateral organisations. They suggest that the 'turning' move could heavily impact on the development and sustainability of emerging markets. As they conclude, turning existing entrepreneurs into social entrepreneurs is the key most developing countries need to balance economic and social development, and attracting to create social business enterprises remains to be seen.

Chris Macrae, in reference to *The Economist* magazine's former deputy editor, prudent futurist Norman Macrae's recent urge – 'to right now seize his 1976's 'entrepreneurial revolution' challenge if richer nations wish to prevent the 2010s from being a decade of compounding slumps and ever higher youth unemployment' – emphasises that we essentially need to commit for building pro-youth models of economics. He believes that 7 billion people can advance the human lot while empowering our children to be more productive and sustain more than our (elder) generation's possibilities. In the second part of his article, Chris Macrae regards Grameen as a real leader of the race to end poverty. He suggests that the Grameen microeconomic miracle compounded over seven years (1976-83) of action learning research was passionately focused on the world's poorest village mothers' own definition of how to communally end poverty. He finds a historic coincidence between the entrepreneurial revolution challenges advanced in 1976, from the two different perspectives of Norman Macrae from London and Muhammad Yunus from the Bangladeshi village, Jobra.

Sofia Bustmante and Mamading Ceesay – with reference to Grameen's outstanding success in lifting millions of Bangladeshi people (women) out of poverty – describes a community development action initiative called 'Social Startup Creative Labs' in rising to the challenge of fighting poverty in a most developed Western city. This is being achieved via creating work and bringing social business ideas to deprived communities. Finally, Roy Grieve in his article asks if it is realistic to expect that particular business model to fulfil the high hopes placed upon it as a powerful instrument of social improvement.

It is hoped that the launch of this exciting new international Journal will be able to draw on new developments in theories of economics and business strategy, encourage scholarly research, but also lead to more effective practice and public policy in dealing with poverty. Also, the role of the Journal will be one of providing a forum for a wide range of discussions of the problems and experiences of social cause-driven entrepreneurial activities – both for-profit and not-for-profit – in their various manifestations and initiatives to achieve social benefits where unmet needs are perceived. Finally, even in a small way, the launch of this new Journal may help in that process in order to maximise social impact, thus enhancing human welfare.

JSB Editorial Team
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Adam Smith and The Morality of Economics

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Abstract: This paper has the following five-part structure. In the first Part, I quickly rehearse the classical disparagement of commercial or economic life (in deliberate contrast to the more highly valued life of politics or active citizenship). In Part II, I outline Smith's defence of commerce – his vindication of what he calls opulence and freedom. In the third Part, I correct that interpretation of Smith that reads this defence as unleashing asocial or selfish behaviour and thus as freeing the 'economy' from moral norms (as a 'de-moralisation'). Rather, I argue that Smith's own moral philosophy, with its roots in social interaction, is based on a criticism of self-love that does, moreover, permit a wider critique of aspects of his contemporary commercial society, while steadfastly adopting a view of 'liberty' that is thoroughly moralised. Part IV examines the bearing that a Smithian moral perspective might have on the current economic situation induced by the banking crisis. It is not conceivable that there could be a regression to a pre-Smithian version of a moral economy but whether a re-invigorated version of his type of moral economy is a solution remains to be seen and attempts to recapture something of his outlook, as in the concept of 'social business', are ongoing. I conclude in Part V with a brief summary.

Keywords: wealth of nations, commerce, liberty, morality, regulation, justice

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Section I: The Classical Critique

THE ROOTS of the Western classical critique of commerce lie in Aristotle. Man, he says famously, is by nature a creature of the polis. Since for Aristotle humans only realise themselves when they act according to their nature then being political, that is to say doing politics, is a fulfilment. 'Doing politics' meant participating in the public realm of the *polis*. Those who participated were *polites* or, using the Roman vocabulary, citizens. Citizens are active. As actors they enjoy a moral equality one with another and possess an educated ethical disposition to maintain the public good. Implicit in this characterisation is that citizens are also free or independent – Aristotle indeed defines the 'polis' as 'a community of free men' (Aristotle 1944:1279a23).

This freedom entailed a necessary sociology. Citizens were independent heads of households. The household looked after the instrumental business of mere living – it was the realm of women, slaves and animals. With his needs taken care of the male head of the household had 'leisure' (*skole*)'to devote himself to the 'good life', to intrinsically worthwhile activity, of which doing politics was a central feature. This vision of active citizenship was re-articulated by Roman political moralists. For them the citizen was one who devoted his activity to the public affairs (*rei publicae*), whence the association of this vision with 'republicanism'. Republican thought re-emerged in the independent city states of Renaissance Italy and from there it was transported into seventeenth century English thought and then into the eighteenth century.

Alongside this account of the meaning of citizenship was an urgent concern with what threatened it. The particular threat differed in emphases but it retained the same structure. Again its roots are Aristotelian. The intrinsically worthwhile public task of politics should not be confused with the instrumental private purpose of the household, and its governance (from which we derive the term 'economics'). Nor should it be confused with the task of money-making. The household's function is to gather such goods as are necessary to its function (meeting limited needs). This may be extended to exchange, so a coat may be exchanged for some rice, as long as the recipient uses it for its proper or natural purpose (*kata phusin*), that is, the coat should not be produced for the sake of exchange but to be worn, to meet the need for warmth. While money can play a legitimate role in facilitating this process the danger is that this instrumental role becomes perversely an end in itself.

This was the enduring threat – that 'economics' and money-making (exchange), in short, private interests would subvert the public good.'There was, that is to say, a moralised context for 'economics' based on the meeting of imputed finite needs, posited on a conception of a worthwhile human life that is debased if it spent slavishly pursuing private ends, which were'defined essentially by seeking the satisfaction of appetite and desire.

It was further assumed that pre-eminent among those who served their private interest were traders or merchants. Compared to a citizen in the full sense, that is, one who dedicated his life to the public good, a merchant lived a less fulfilling, less humanly worthwhile, life. This disparagement was sharpened once commerce began to spread and it came to a head in the eighteenth century. Commerce was suspect because of the uncertainty or risk that lies at its core. I will come back to this point. These suspicions were given seeming substance by the spectacular financial collapses of the late seventeenth and early eighteenth century, such as the South Sea Bubble. These worries were given a focus by the presence of a contrasting model in the person of the independent landowner or country gentleman. This individual enjoys stability and certainty. In sharp and deliberate contrast to the fluidity of a money economy, the giddy whirl of fashion and the evanescence of 'profit', the landowner with his commitment to a fixed 'place' is able to practise what Edmund Burke called,'in his 'Speech on American Taxation' (1774), the great and masculine virtues – 'constancy, gravity, magnanimity, fortitude, fidelity and firmness' (Burke 1889: I, 427). These can be contrasted to the proverbial unreliability of women (it is their 'prerogative to change their mind'). Commercial societies were liable to become 'soft' (hence the enduring moralistic critique of them for fostering effeminacy and luxury)'Berry'(1994).

Section II: Smith's Vindication of Commerce

To defend commerce required a deflation of this whole set of ideas. Smith undertook this task but this deflation does not mean that he disavowed a moral perspective or 'de-moralised' the economy; rather what he did was'reconfigure 'morality' which, as we will see, involved a re-assessment of the role of desire.

A student records Smith professing in his Glasgow lectures that 'opulence and freedom' were the 'two greatest blessings men can possess' (LJA.ii.111/185). This linkage is central to Smith's vindication of commercial society. For him a commercial society is morally better than that celebrated by Aristotle and his heirs, because it enjoys those twin blessings since everyone, and not merely slave-owners, is free and everyone enjoys a materially better life. A modern commercial economy is thus far from a 'moral-free zone'; it is clearly committed to a moral perspective. As a first step I wish to elaborate on those two 'blessings'. They are, as we shall see, connected.

For Smith one characteristic of a developed commercial society is the presence of a 'universal opulence which extends itself to the lowest ranks of the people' (WN I.1.10/22). A mark of this opulence is that these ranks are supplied 'abundantly' with what they have 'occasion for'. Smith illustrates how an extensive division of labour produces opulence with the famous example of pin-making. He calculates that through the division of labour ten individuals could make 48,000 pins a day – equivalent to 4,800 each – whereas, if each performed all the tasks required, 'not twenty each' would have been manufactured. A society where tasks like pin-making are minutely divided must necessarily be complex.

The members of a commercial society are deeply interdependent. As the phenomenon labelled 'globalisation' reflects, this principle of interdependence has of course grown immeasurably since Smith. Smith himself illustrates the principle with the example of a coarse woollen coat. The production of even this relatively simple garment, he remarks, involves 'many thousands' (WN I.i.11/22-23). The fact of interdependence means that each individual 'stands at all times in need of the co-operation and assistance of great multitudes' (WN I.ii.2/26). So extensive does this become that 'everyman thus lives by exchanging or becomes in some measure a merchant'. And when this has happened then this is 'properly a commercial society' (WN I.iv.1/37). We will meet this 'proper' characterisation again.

We now turn to 'liberty' the second 'blessing'. The interdependence of relationships in a commercial society entails a particular reading of liberty. Commerce requires stability or consistency and security because it rests on a set of expectations and beliefs. Exchange presupposes specialisation. I will only specialise in making spades in the expectation that others are specialising in rakes, forks, hoes, and so on, so that when I take my products to market I can, via the medium of money, exchange them for theirs. This means acting now in expectation of future return. To make this prudent there has to be a constancy or predictability in human social life; I need the confidence to commit to making spades. Where the actions of others are not predictable, then it is better (more rational) to be independent and self-sufficient and not rely on anyone – I make all my own tools. But, of course, that option means forgoing the blessing of the opulence – poorer quality of tools, even of spades because I can no longer devote as much time to their manufacture – that comes from interdependence. However, expectations are not always met. The future is always uncertain. There are risks in specialising – my spades may not sell. This uncertainty at the centre of a system that seems to depend on predictability was thought by many to be its inherent flaw.

Expectation and belief are thus central to the functioning of society where everyman is a merchant. It is one of the great, and historically significant, contributions of Smith, and a number of his fellow-Scots, to situate the role of 'expectation' in a historical, institutional narrative. This also has the incidental effect of side-lining the republican story of citizenship. The credit system can be briefly cited as an illustration. According to Smith, and others, property began as the concrete immediate possession of an object but it became increasingly abstract, as something could be 'mine' although I have no contact with it (see Berry 1997:ch 5). Credit, a pivotal factor in commerce, is a culmination of this process; it is simultaneously, and for the same reason, both abstract and belief-dependent. A promissory note (cf WN II.ii.28/292), contrary to any direct concrete 'experience', can be a substantial piece of property. Its substance obviously does not lie in the physical object and neither does it lie in the fact that it represents symbolically something tangible like land; rather it lies in the fact that *others believe* it to have value. It is evidence of that belief's substance that it supports action – possession of a promissory note can be used as surety to secure a loan.

This constitutes a contract. Smith argues that in the first periods of society, and even for some considerable time subsequently, contracts were not binding and the earliest forms required both parties to be present (LJA.i.46.53/88,91). But in a commercial society contracts between strangers are central. Smith maintains that the obligatoriness of contract arises 'entirely from the expectation and dependence which was excited in him to whom the contract was made' (LJA.ii.56/92). This now brings us back to predictability.

What lies behind this obligation and what sustains the co-operativeness that these contracts embody is what Smith calls the 'regular administration of justice' (WN V.iii.7/910). A system of justice is an impersonal abstract order that operates through general rules and is the antithesis of the personal particular rule of the tribal chiefs or local landlords, that is, of the practice in earlier pre-commercial societies – those of hunter-gatherers, shepherds or farmers. At the heart of the commercial system, what constitutes its regularity, is the implementation of the rule of law. [I can here aptly quote Smith's pupil then colleague at Glasgow University John Millar, who wrote that in 'opulent and polished nations' the 'impartial administration of justice is looked upon almost as a matter of course' (Millar 2006:131)]. It is, says Smith, only through living under the predictability occasioned by the rule of law that individuals will have 'confidence' in the 'faith of contracts' and 'payment of debts' (WN V.iii.7/910). Only in 'commercial countries', he says this time in the *Moral Sentiments*, is the 'authority of the law. . . perfectly sufficient to protect the meanest man in the state' (TMS VI.ii.1.13/223).

The rule of law embodies a distinctively modern view of liberty. This enjoyment of liberty-under-law is a blessing. It is linked to the blessing of opulence. The establishment of opulence requires markets and they require stable belief and they require the rule of law to operate. In a commercial society its members have, for example, the liberty to change occupations as often as they please and he is explicit that it is the presence of this choice, along with others, that makes individuals 'free in our present sense of the word Freedom' (WN III.iii.5/400).

The 'modernity' implied in that last quotation is significant. Smith accepts – and here I generalise sweepingly- that the way to seek the truth about human nature is, in principle, no different from the way to seek the truth about nature in general. In both cases it is a search for causes (the full title of *Wealth of Nations* is an enquiry into its 'nature and causes'). But the 'causes' in question reflect the 'modern consensus', according to which, when seeking explanations attention should be paid to efficient or material causes. We explain human behaviour by identifying motives, that is, literally, what causes motion in us (cf LRBL 191/171). The material facts about human nature are that humans react to bodily sensations (they desire pleasure and are averse to pain).[2] This is not merely a matter of physical reaction. Humans are also subject to the moral causation of socialisation – what I have called 'soft determinism' (Berry 2006: 130). In Smith this is discernible in his comment that the difference between a philosopher and a porter arises 'not so much from

[2] Smith is explicit: 'pleasure and pain are the great objects of desire and aversion'. Moreover, he adopts the corollary that it is 'immediate sense and feeling' not reason that distinguishes these objects (TMS VII.iii.2.8/320).

nature as from habit, custom and education' (WN I.ii.4/29).

Humans are thus creatures of desire but on the modern (non-Aristotelian) reading this means they are 'uneasy' or restless. This is the underlying philosophical psychology behind one of Smith's most famous remarks, namely, that the 'desire of bettering our condition [is] a desire . . . which comes with us from the womb and never leaves us till we go into the grave'. Nor is this a mere background condition, because he goes on to declare that 'there is scarce perhaps a single instant in which any man is so perfectly and completely satisfied with his situation as to be without any wish of alteration or improvement of any kind'. What this leaves unspecified is the object of the desire but, in this same passage, Smith gives a telling example; this restless desire creates opulence because 'an augmentation of fortune is the means by which the greater part of men propose and wish to better their condition' (WN II.iii.28/341).

In order to achieve this betterment individuals should enjoy the private liberty to decide for themselves how to deploy their resources (WN IV.ii.4/454). This is what Smith calls the 'obvious and simple system of natural liberty' where everyman is 'left perfectly free to pursue his own interest his own way' (WN IV.ix.51/687). This goes to the heart of liberty as a 'blessing'. Hence sumptuary laws, which aim to regulate consumption, and which were strongly advocated by civic republicans (modern as well as classical) as part of their assault on luxury, are rather for Smith, the 'highest impertinence' and show up the presumptuousness of 'kings and ministers' as they attempt 'to watch over the economy of private people' (WN II.iii.36/346).

According to Smith's system of natural liberty, government has only three tasks – protection from external foes, maintenance of public works, including importantly education, and 'an exact administration of justice' (WN IV.ix.51/687). Provided individuals do not violate the laws of justice then they are to be left alone to pursue their own interests. On this understanding modern liberty consists in living under equitable laws or rule of law. What is important here is that this liberty is enjoyed by all. This inclusiveness demarcates it sharply from 'ancient liberty'. Ancient liberty was exclusive. It was enjoyed by those who had leisure and that was made possible, as Smith'pointed out, by the presence of a class of slaves (LJA.iv.69/226). The moral good of abolishing slavery was part of the civilising process that entrenches justice and the rule of law brought about by the emergence of commerce.

For Smith, justice is indispensable; it is 'the main pillar that upholds the'immense fabric of human society' (TMS II.ii.3.4/86). It comprises rules and Smith likens them to the rules of grammar since both can be taught (TMS II.6.11/175). Everyone (porters and philosophers) can be taught how to conjugate and everyone can be educated or socialised to abide by 'general rules'. The effect of this process of instruction or socialisation is to establish what we have already seen as crucial to commercial society, namely, certainty and predictability, for 'without this sacred regard to general rules there is no man whose conduct can be much depended upon' (TMS III.5.2/163). Smith illustrates the indispensability of justice by the fact that it makes a society of merchants possible (TMS II.ii.3.2/86). This example was chosen to identify quite deliberately a society where 'mutual love and affection' are absent. An important conclusion can be drawn from this, namely, 'beneficence is less essential to the existence of society than justice' (TMS II.ii.3.3/86). And since, as we have noted, in commercial society 'everyman is a merchant' this further entails that a commercial society's coherence – its social bonds – does not depend on love and affection. You can coexist socially with those to whom you are emotionally indifferent.

This state of affairs is the reality of commercial life. The very complexity of commercial society means, on the one hand, that any individual needs the assistance of many others (the message of the coarse woollen coat) but, on the other, that only a few of this 'many' are personally known (WN I.ii.2/26). In a commercial society we live predominantly among strangers. Relationships of mutual love and affection or friendship are correspondingly relatively scarce. Since the bulk of our dealings are impersonal then they must thus be conducted on the basis of adhering to the rules of justice. In a complex society a shopkeeper is unlikely to be also your friend; to you he provides something you want, to him you are a customer. This pattern of relationships lies behind Smith's famous passage –

> it is not from the benevolence of the butcher, the brewer or the baker that we expect our dinner, but from their regard to their own interest. We address ourselves not to their humanity but to their self-love and never talk to them of our own necessities but of their advantages. Nobody but a beggar chuses to depend chiefly upon the benevolence of his fellow-citizens (WN I.ii.2/26-7).

Nothing in this means that Smith is denying the virtuousness of benevolence or implying that a commercial society is inimical to virtue and morality.

The premium to act justly in a commercial society, the concern 'not to hurt our neighbour', constitutes a correspondingly just character, that of the 'perfectly innocent and just man'. And such a character, he continues, can 'scarce ever fail to be accompanied with many other virtues, with great feeling for other people, with great humanity and great benevolence' (TMS Vi.ii.intro.2/218). Members of a commercial society can be both just and benevolent.

As the last quotation exemplifies this is underwritten by *The Theory of Moral Sentiments*. This work is a leading example of an approach to moral philosophy that regards it as best understood as the interaction of human feelings, emotions or sentiments in the real settings of human life. One consequence of this is that economic behaviour is necessarily situated in a moral context; it does not exist in some separate sphere that somehow isolates it from the moral norms of society at large.

Section III: Smith's Socialised Morality

The very emphasis on humans as desirous creatures was integral to the establishment of what we would today call the 'social sciences'. Once the recourse to Aristotelian final causation is effectively side-lined the consequence is not (as traditional moralists feared and as their eighteenth-century heirs continued to fear) disorder but an order premised on the predictability and certainty inherent in the 'new' psychology based on'the material fact that all humans enjoy pleasure and avoid pain. The most palpable evidence of such constancy is the 'fact' of the salience of self-interest in human nature.

All this is true but it is liable to give a misleading picture of Smith's position. His acceptance of the modern consensus, outlined in Part II, does not mean he accepts the Hobbesian interpretation of it. The basic fault with that interpretation, as post-Lockean thought established, was that it was contradicted by experience. The facts of how humans actually behaved was at odds with the view provocatively promoted by Mandeville (1988). While Mandeville, for example, could severely criticise Shaftesbury's classicism for its hypocritical divergence from the evidence about how humans behaved, his own position was itself judged to diverge from those facts. It was evident that humans naturally acted on more than purely self-interested grounds.

Notwithstanding that each individual has a 'natural preference. . .

for his own happiness above that of other people' (TMS II.ii.2.1/82) it is, for Smith, a weakness of the Hobbesian/Mandevillean view that it cannot accommodate the fact that the interactions of social life 'humble the arrogance of self-love' so that no-one 'dares to look mankind in the face' and admit he acts according to the principle of self-preference (TMS II.ii.2.1/83). For Smith this reveals something profoundly true about the nature of human nature. Indeed this is the leitmotif of the *Moral Sentiments*. The opening sentence of the book bears this out,

> 'How selfish soever a man may be supposed, there are evidently some principles in *his nature* which interest him in the fortune of others, and render their happiness necessary to him, though he derive nothing from it except the pleasure of seeing it' (TMS I.i.1.1/9 my emphasis).

In this commitment to the evidential reality in human nature of disinterested concern for the happiness of others, Smith is following, although not without divergence, the lead of his teacher Francis Hutcheson. Smith accepted Hutcheson's affirmation of the reality of moral judgments and behaviour but he differed by rejecting Hutcheson's invocation of a distinct moral sense to justify that reality. Nonetheless Smith's argument still relies on certain key postulates about the nature of human nature. One such postulate is that humans are imaginative creatures. Through our imagination we are able to conceive what we would feel if we were in the situation of another. In this way we can bring 'home to ourselves', though in a necessarily weaker form, the other's sensations (TMS I.i.1.2/9). This 'fellow-feeling' Smith terms 'sympathy' (TMS I.i.1.4/10) and it is an 'original passion of human nature' (TMS I.i.1.1/9). But in the articulation of his moral theory, Smith's meaning is technical. It is the context, circumstance or situation that is crucial. Smith stresses that this 'sympathy' in his technical sense is not based on another's exhibited passion but on our view of the 'situation that excites it' (TMS I.i.1.10/12).

For Smith it is a fact about human nature that 'nothing pleases more than to observe in other men a fellow-feeling with all the emotions of our own breast' (TMS I.i.2.1/13). This pleasure, he notes, cannot be explained by those who would derive all our sentiments from self-love. This is all the more significant since it is this fellow-feeling that is the root of moral judgment. If we, as spectators, replicate through sympathy the passions emoted by others in their situation then we approve (TMS I.i.3.1/16). To give one of Smith's own examples: if I see a tearful stranger and am informed that he has just learnt of his father's death then I approve of his grief. What makes this possible is that I have learnt from experience that death of a parent is distressing (TMS I.i.3.4 /18). The experience can only come from socialisation, from the fact that humans are, as social creatures, educable. It was this sociality that effectively marked Smith's departure from Hutcheson's moral sense theory.

Smith illustrates the natural fact of human sociality (that it is human nature to belong to a group or to live within society) with an instructive analogy. He says living in society is like looking in a mirror (TMS III.i.3.3/ 110). Just as the mirror allows us to see our own appearance so life in society enables us to see the impact of our behaviour on others. A crucial effect of this exposure to the social gaze is that 'a human creature' will observe that others approve of some of his actions and disapprove of others with the consequence, for Smith, that he 'will be elevated in the one case, and cast down in the other'. It is this responsiveness to others – pleasure in their approval, pain in their disapproval – that Smith used to explain why the rich parade their wealth while the poor hide their poverty. The rich value their possessions more for the esteem they bring than any utility (TMS II.iii.2.1/51) and it is this disposition to 'go along with the passions of the rich and powerful' that establishes the foundation for rank distinctions (TMS II.iii.2.3/52). And it is this desire for esteem that constitutes the key explanation of that incentive to better our condition mentioned above (TMS II.iii.2.1/50 cf IV.i.10/183).

This socio-moral interaction has direct bearing on Smith's analysis of commercial society. As mentioned in Part II, the very complexity of that society meant that the bulk of inter-personal dealings were with strangers. Since, according to Smith's theory, an actor can expect less sympathy from a stranger than from a friend then the habitual effect of living among strangers is to induce greater moderation and self-command than that required in more tribal or clannish eras. A stranger is more like the 'impartial spectator' (conscience, 'the man within') who corrects the 'natural misrepresentations of self-love' and who demonstrates the 'deformity of injustice' (TMS III.3.4/137) [recall the importance of justice to commerce].

To see morality as a social phenomenon does not preclude criticism. The 'impartial spectator' adjudicates. Smith attributes to human nature the wish 'not only to be loved but to be lovely. . . not only praise but praiseworthiness' [and similarly dread to be hated and to be blameworthy (TMS III.2.1/113-4)]. One consequence of this is that we are pleased with having acted in a praiseworthy manner even if nobody praises us. We do not therefore rely on actual praise or blame but seek to act in such a way that an 'impartial spectator' would approve of our conduct (TMS III.2.5/116). It is only by 'consulting this judge' that we can ever get a proper evaluative distance or perspective on our actions (TMS III.3.1/134). This reflects Smith's assessment of the morality of economic behaviour. In the *Wealth of Nations* he made it clear that the 'wealth' lay in the well-being of the people. This covered not only their material prosperity but also their moral welfare. Accordingly he thought to be in poverty is to be in a miserable condition (WN Introd 4) and, as we have already seen, he regards opulence as a blessing. Despite that last point Smith is alert to the potential moral damage attendant upon life in a commercial society.

In a well-known juxtaposition, in the opening chapters of the *Wealth of Nations*, Smith celebrates the division of labour in pin-making while in Book 5, he expresses concern for the 'social' and 'intellectual' (as well as 'martial') 'virtues' of pin-makers. He notes that those whose lives were spent performing a 'few simple operations' (a phrase used in Book 1 about pin-making) were rendered 'stupid and ignorant' and incapable of 'forming any just judgment concerning many even of the ordinary duties of private life' (WN V.1.f.50/782). The 'morality' into which they are socialised is defective; the 'mirror' in which they see themselves, reflects back to them to their 'mutilated' condition because the all-enveloping nature of their shared work experience deprives them of perspective and weakens the impartial spectator's jurisdiction. As a result, their self-command is reduced and they are prey to enthusiasm and superstition (WN V.1.f.61/788). This at any rate is the probable course of events unless 'the public' takes remedial steps by instituting a subsidised system of elementary schooling (WN V.1.f.54/785). Enabling or providing, through education, the pin-makers with the capacity to lead lives of 'virtue' is a moral commitment to their well-being. Here we can see Smith's social and moral theory meshing to support his policy prescriptions because, as we have seen, this integration is central to Smith's conception of morality as a process of social interaction.

Section IV: A Modern Moral Economy

I now seek to identify some areas where Smith's conception of a 'moral economy' might inform an assessment of the current situation. I will mention two aspects – (a) the relation between liberty and regulation which I will link to a too facile interpretation of the 'invisible hand' and (b) the seeming detachment of economics from a moral framework.

(a) Liberty and Regulation

We can start by returning to Smith's discussion of 'liberty'. There are two aspects to consider. The first concerns its relation to the proper work of government, the second the supposed benignity of the 'invisible hand'. It is not indeed the role of government to make people make pins. What government does properly, via the exact administration of justice, is enable the 'system of natural liberty' to function. Liberty is a blessing and, it follows, enabling it is good.

Accordingly Smith does see a proper role for government regulation. In the light of the 2007-2009 financial crisis a significant example of this is banking. He draws the enlightening parallel between the requirement to build firewalls (thus restricting the liberty of builders) and the restraints on bankers (WN II.ii.94/324). They should not issue notes below a certain sum (to reduce the number in circulation) and should be obliged to honour requests for payments as soon as they are made (WN II.ii.106/329). A couple of other financial examples can be mentioned. He is in favour of a legal rate of interest to inhibit those he labels 'prodigals and projectors' (WN II.iv.15/357, see Sen (2010). Also, he favours discouraging the selling of 'futures' and this, at least in part on the moral ground, that it is the 'expedient of a spendthrift' (WN V.ii.c.12/831). The basic message is clear. Regulation can be appropriately required and justified by the greater good of society.

One of the commonly evoked explanations for the banking crisis has been that there has been insufficient regulation (or damaging de-regulation of previous restraints such as the repeal in 1999 of the US 1933 Glass-Steagall Act that separated commercial and investment banking). The defence offered for de-regulation seems prima facie

Smithian, that is, oversight-rules interfere with the 'market' and that produces deleterious outcomes. At the heart of the neo-liberal orthodoxy is the argument that the market 'clears' automatically and all benefit. This is the supposed meaning of the 'invisible hand'.[3] The one reference in the *Wealth of Nations* is as follows: an individual 'intends only his own gain and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention. . . by pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it' (WN IV.ii.9/456).

It is clear that this statement is hedged with qualifications (Smith was a careful, non-dogmatic writer). But beyond this and, crucially, the phenomenon of unintended consequences, of which the invisible hand is only a figurative expression, is not uniformly benign. We have already seen this illustrated by the division of labour since the opulence it generates has the consequence of 'mutilating' the workers. Another example that is especially appropriate is Smith's account of credit. One of the usually identified causes of the crisis was the accumulation of bad debt, in the form of sub-prime mortgages'– as financial institutions lent to those who–could not afford the repayments (another instance of a less than benign unintended consequence since one of its roots was the policy to increase home ownership among what were called 'underserved communities'). One of the reasons these mortgages were offered was because of a confidence born of a network of mutual support that enabled these institutions to generate more and more complex and arcane financial instruments – securitisation of collateralised debt obligations or credit default swaps and the like. The basic logic here Smith had covered.

His argument is that given the regular administration of justice that commercial societies enjoy then merchants will have sufficient trust and confidence in the government to give credit. But since the government can now foresee a source of revenues it 'dispenses itself from the duty of saving'. A chain is set in motion which produces 'enormous debts' that Smith somewhat apocalyptically declares 'will in the long run probably ruin all the great nations of Europe' (WN V.iii.8, 10/911). Given the size of the debts the focus turns on how it is going to be serviced. Smith, in his account, proceeds at some length to itemise the various devices by which the debt is funded. Despite the ingenuity thereby shown,

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[3] See, for example, Milton Friedman (1979) who in the Preface to this popularising book mentions the invisible hand three times.

bankruptcy, when the revenues are insufficient to pay off the interest, let alone the capital, on past loans, is the ultimate consequence. This, Smith notes, is often 'disguised' by 'raising the denomination of the coin' (WN V.iii.60/929). This only aggravates the situation and extends the 'calamity' to more innocent people. Just as in the contemporary context, 'quantitative easing' while pumping money into economy also enhances the risks of inflation. Smith himself thinks it 'vain to expect' the public debt ever to be paid back and, at best it can be reduced by increasing public revenues (and/or reducing public expenditure (WN v.iii.66/933).

This has distinctly familiar echo in contemporary Britain. All the political parties agreed in the 2010 General Election debates that tax will have to increase and spending decrease, the key divide – and what has dominated the debate since the Election – is timing; act too soon and the economic recovery will be stifled (producing a double-dip recession) or delay too long and the costs of borrowing will jeopardise the country's credit rating, such that the UK may join the other weak economies of Europe such as Greece.

(b) Moral Framework

Muhammad Yunus, in an articulation of the basic weakness of capitalism, has recently invoked Smith's *Theory of Moral Sentiments* for its recognition of 'the moral dimension of the social consciousness' (Yunus 2011:11). One way to explain the delusive system of mutual confidence upheld by financiers is to note their detachment from the spectatorial discipline identified by Smith. That discipline, as portrayed in the persona of the Impartial Spectator, stems from the fact that humans are socially moralised beings. Just as the mirror in which the pin-makers see themselves reflects back to them their own narrow horizons so too does that of the financial elite. They lacked critical distance to enable the moral self-reflection that would have instilled a sense of responsibility.

Recall that for Smith the shared work experience of the pin-makers deprived them of perspective and weakened the impartial spectator's jurisdiction so that, as a result, their self-command was reduced and they became prey to enthusiasm and superstition. This can look like a pretty accurate description of the closed world of the financiers. They became so wrapped-up in their own projects that they became oblivious to the weakness of their assumptions as they enthusiastically pursued ever more elaborate ways of parcelling up debt and superstitiously followed the mathematical formulae (which most seemingly couldn't understand) that supposedly underwrote them. In these 'masters of the universe' (to use Tom Wolfe's expression) the human propensity always to over-value the chances of gain and under-value those of loss was given free rein (WN I.x.b.26/125). Smith says this explains the success of lotteries and what the bankers did, it might be said, was play a lottery with money they didn't have. Or, at the very least, their calculations of risk were misjudged due to their self-enclosed environment, with resultant detrimental effects on their intellectual and social virtues, again just like pin-makers. It has to be said that this same environment incorporates the 'regulators', and credit rating agencies like Standard and Poor, since they shared the same 'mindset', resulting in their willingness not to require risk reduction in, for example, the Credit Default Swap market.

Of course, just as Smith has no qualms about the butcher selling his meat on the basis of his own interest so he has nothing against bankers doing their proper business on the same basis. But it would be a mistake to see this as an abnegation of moral norms. Smith did think social well-being was best advanced by individuals making their own decisions and he was thus opposed to central attempts to direct 'the market'. However, what he really opposes is the attempt to direct individual's activities, their 'natural liberty' to pursue their own ends in their own way.

But none of this exempts from criticism those private individuals who would distort the 'market'. His well-known judgment of merchants belongs in this context – they are hypocrites who complain of others while being silent on the 'pernicious effects' of their own gains (WN I.ix.24/115); they are conspirators as they contrive to raise prices (WN I.x.c.27/145), indeed they have an 'interest to deceive, and even to oppress the publick' (WN I.x.p.10/267). We don't have to accept that those in charge of the investment banks or building societies were hypocrites but what Smith does alert us to is sectional interest in the sense that this instils a blinkered vision.'

In his final edition of the *Moral Sentiments* Smith explicitly turned his attention in a new chapter to what he called the 'corruption of our moral sentiments', identifying particularly the seeming fact that 'wealth and greatness are often regarded with that respect and admiration which are due only to wisdom and virtue' (TMS I.iii.3.1/61-2). These represent two different characters to emulate – one of humble modesty and equitable justice, the other of 'proud ambition and ostentatious avidity.' It is clear that Smith not only thinks the former superior but fears that it is losing ground to the latter. The current clamour against banker's bonuses suggests that those whom Smith calls the 'great mob of mankind' are no longer so enamoured of the lifestyles of the rich and famous and are, rather, engaging in a moral condemnation of that ostentatious avidity. This is, indeed, perhaps, some sort of vindication of the Smithian insight that economic life is not exempt from the societal moral norms. The fact that some leading bankers have forgone their bonuses, and banks have publicly restructured the mode of bonus payments, could be read as an exemplification of Smith's dictum quoted earlier that the arrogance of self-love is humbled by the opinion/judgment of others.

To conclude this section: for Smith 'economic' activity took place within society; its participants were socialised beings. Of course, the meaning of economics has changed significantly since Smith – not for him deductive mathematicised econometric theorems – as has, of course the commercial world itself changed, he did after all write before the Industrial Revolution. This means it is an exercise of little worth to ask: what would Smith have made of the contemporary state. However, I have suggested a number of ways in which the current crisis exemplifies certain Smithian perspectives. It is not conceivable that there could be a regression to a pre-Smithian version of a moral economy but whether a re-invigorated version of his type of moral economy is a solution remains to be seen and attempts to recapture something of his outlook, as in the concept of 'social business', are ongoing.

Section V: Conclusion

That Smith continued to work on the *Moral Sentiments* after he had published the *Wealth of Nations* should alert us to the fact that he never forsook his Glasgow roots as a professor of moral philosophy. More significantly it indicates that Smith's thought is a 'whole' – there is no 'Adam Smith Problem' that contrasts the selfish human nature of the *Wealth of Nations* against an altruistic version in the *Moral Sentiments*. For Smith 'economic' activity took place within society; its participants were socialised beings. This socialisation was also necessarily a moralisation. Just because Smith rejected a version of a moralised economy based on the meeting of imputed finite needs, posited on a conception of a 'good life' devoted to transcending the essentially animalistic realm of appetite and desire, does not mean that he 'de-moralised' the economy. Rather what he did was reconfigure economic morality as part of a general re-scheduling of values.

This occurred on two fronts. On the political or civic front, Smith undermined the republican's emphasis on active citizenship or deliberate pursuit of the pubic good. For Smith the true public good (the real wealth of nations)'lay in the world of material well-being and that was best obtained via 'commercial' endeavour (making coats) not via privileging the political over the economic. Opulence is a blessing. This is most effectively obtained through humans acting on their own judgment of their interests. But these interests are not merely self-serving since, as humans are not isolated atoms but social beings, they 'as a principle of their nature incorporate disinterestedly the well-being of others'.

On a wider philosophical front this interpretation of the materiality of well-being represented a rejection of the classical/Christian perspective. For Aristotle mutability was characteristic of normative imperfection and this set up the basic classical/Christian distinction between, on the one hand, the tranquil/ascetic life, devoted to the contemplation of the immutable First Cause or the eternal perfection of God, and, on the other, the mundane life which is unceasingly at the beck and call of the demands of bodily desires. One consequence of rejecting the normative superiority of the eternally immutable was the acceptance of the worth of the mundanely mutable. The business of 'economics' – the organising framework for the provision of the wherewithal for living – is of itself valuable. The prosecution of that business is thus moral. It is also governed by moral norms such as justice, humanity, probity and law-abidingness. They along with the desire for praise-worthiness underwrite the actual operation of the rule of law, the guarantor of the blessing that is liberty. In line with this, the sovereign's interest lies not in the specific content of the desires only in the likelihood of their peaceful co-existence; not in the choice of music but the volume at which it is played, not in the religious ritual performed but in its confinement to those who have chosen to practise it, not in the nature of the business enterprised but in its conformity to general rules and so on. This is the view that comes to be called liberalism. In effect, liberalism valorises the mundane. As a mundane liberal, Smith's 'economy' is 'moral'.[5] □

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[5] I covered much of the ground of this article in Berry (2010). I also here draw on an unpublished lecture delivered at Peking University in March 2010. I am grateful to the School of Economics for the invitation.

Abbreviations

The author uses the following abbreviations (inserted in the text) and adopts the standard procedure and cites by book. part. chapter. paragraph/page:

LJA: *Lectures on Jurisprudence* (Report 1762-3) Glasgow Edition ed R Meek, D Raphael and P Stein, Indianapolis: Liberty Press, 1982.
LRBL: *Lectures on Rhetoric and Belles-lettres*, Glasgow Edition ed J Bryce, Indianapolis: Liberty Fund, 1983.
TMS: *The Theory of Moral Sentiments* (1759/90), Glasgow Edition, eds A MacFie and D Raphael, Indianapolis: Liberty Fund, 1982.
WN: *Inquiry into the Nature and Causes of the Wealth of Nations* (1776) Glasgow Edition ed R Campbell and A Skinner, Indianapolis: Liberty Press, 1981.

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Economic Fundamentals and Microfinance Success

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Abstract: Using panel data on 74 countries from the years 2000 to 2010 we investigate the impact of economic fundamentals on the success of the microfinance sector. Economic fundamentals are salient characteristics such as infrastructure, development, literacy, etc. We test formally for the contribution of each of these fundamentals towards microfinance success defined as long-term sustainability and positive social impact, both of which are measured using a measure of industry profitability. Measures of health expenditure, infrastructure, financial development and literacy, turn out to be significant determinants of microfinance success. These measures are weighted based on their explanatory power and used to construct a New Index of Microfinance. A case study of Uganda is presented to illustrate the interpretation and practical usefulness of the new index.

Keywords: economic environment, economic fundamentals, long-term sustainability, women empowerment, preconditions for microfinance success, new microfinance index

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1. Introduction

THE ECONOMIC environment of a country will determine the success of its microfinance sector in the long term. This environment consists of fundamental characteristics such as its infrastructure, financial development, social set-ups that help or impede certain economic transactions, etc, as well as the policy regime adopted by its government. As an important departure from previous literature which has concentrated on policy regimes as the major determinant of microfinance success, in this paper we focus on the fundamental characteristics of the economy and refer to them as its 'economic fundamentals. We believe economic fundamentals to be important because, as microfinance has spread to various countries of the world, similar policy regimes have not resulted in even growth and success of microfinance. Thus it seems reasonable to take the investigation beyond policy regimes to more enduring characteristics embodied in the economic fundamentals.

From its innovative beginnings in Bangladesh as the Grameen Bank project, founded by *Nobel Peace Laureate* Prof Muhammad Yunus (Yunus 2003), the microfinance sector has grown by leaps and bounds and spread to all corners of the globe. This has ensured a reasonable stock of database of microfinance experiences of a large number of countries at various stages of economic development. We use this past experience of countries with their microfinance sector to glean the preconditions among economic fundamentals that aid in its long-term success. We define success to indicate long-term growth potential and the ability to deliver a high positive social impact. We measure these by the profitability of microfinance. It is important to note that the profitability of microfinance has different characteristics from the profitability of the traditional financial industry. Microfinance profits are based on the hard work and under-utilised potential of the skills of the poor. Microfinance profitability represents the true productive capacity of an economy and thus is an important variable in its own right.

Profitability of the microfinance sector is crucial to its long-term survival and its ability to serve those who are excluded from traditional financial markets. While each country has unique experiences with microfinance, our paper attempts to arrive at a few fundaments that emerge, through formal testing, to be significant determinants of microfinance profitability across all countries in our sample. We use panel data on 74 countries over the years 2000 to 2010. We use the results of our testing to weight each economic fundamental according to its explanatory power over microfinance profitability and combine them to construct a new index of microfinance. This index indicates how conducive each country is to its microfinance sector. We provide annual ranking of our sample countries based on this index.

The paper focuses on economic fundamentals which is different from the focus of other indices in the field of microfinance which tend to focus on regulatory framework that govern the sector/industry. While economic fundamentals are harder to change, they are likely to be amenable to long-term policy interventions which are aimed at making a country more conducive to microfinance operations. In addition, it is our belief that economic fundamentals will determine the true sustainability of microfinance industry's profits more than the regulatory framework alone. Thus our aim is to provide helpful input into policy-making, particularly in countries with nascent microfinance sectors to create conditions that would lead to its sustained profitability.

This paper is divided into seven sections. Section two discusses the diverse fortunes of a few selected countries' microfinance sectors. Section three discusses other indices that measure microfinance characteristics and distinguishes our work from them. Section four presents the method of analysis, presents the components of our index and provides justification of the potential importance of each. Section five presents the results: formal testing of each determinant's significance in determining profitability and construction of the index. Section six presents the comparison of our new index with those existing in the literature as well as gives the example of Uganda to present a practical application of our index. Section seven concludes.

2. Diverse Microfinance Experiences Across the Globe

Experiences with the microfinance sector are fairly diverse across nations, even as recently as the past decade. In what follows we present a short narrative of the development of microfinance and some interesting characteristics it has exhibited in a few select countries[3]. This demonstrates a wide variety of experiences that our study seeks to exploit in order to understand the determinants of microfinance success.

2.1 Bangladesh

The scope of microfinance in Bangladesh has grown rapidly since from 2000 to 2009, with the number of active borrowers increasing by over 385 percent to over 20 million. Relative to other countries, Bangladesh has retained a remarkably high and stable female borrower rate – remaining at over 94 percent in 2000 and 2009. Today, Bangladesh's microfinance sector is heavily regulated by the Microcredit Regulatory Authority and in 2010 the branch implemented the Guidelines on Interest Rate/Service Credit in Microcredit Policy, which set caps, timeframes and limits on a linty of MFI services and products[4].

2.2 Chile

In the year 2000, Chile's microfinance sector was still very much in its nascent stage and by 2009 this had grown to 200,000 active borrowers. The total sum of the country's loan portfolio grew from just under US$3 million in 2000 to over US$1.2 billion in 2009 – a phenomenal rise. The rapid growth of the loan portfolio relative to the increase in borrowers has made the country's microfinance sector highly profitable and led Chile's Central Bank to begin regulating the sector.

2.3 India

India's microfinance sector has been growing in leaps and bounds in terms of its number of active borrowers – just under 100,000 in 2000 and over 25 million in 2009. However, relative to other countries, India's growth in average loan balances per person over this period has been more modest, growing only'about 80 percent, compared to neighbouring countries Bangladesh and Nepal, which grew by the upwards of 200

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[3] All data for country overviews taken from the Microfinance Information Exchange database. http://www.mixmarket.org/

[4] Legal information retrieved from the Consultant Group to Assist the Poor's country profile on Bangladesh. http://www.cgap.org/p/site/c/template.rc/1.26.13743/

percent each over the same period, respectively. Regulation of India's microfinance sector varies widely by region with the only central regulatory power being the Reserve Bank of India.

2.4 Kenya

Microfinance in Kenya has expanded more rapidly from 2000 to 2009 than almost any other country in scale and scope. The number of active borrowers has grown from just over 50,000 in 2000 to almost 1.5 million in 2009 and the total sum of the country's loan portfolio grew by over 6,000 percent during this period to over US$1.1 billion! MFIs in Kenya are made up of a variety of financial institutions, and are regulated under the Central Bank of Kenya and the Saving and Credit Cooperatives Societies Regulatory Authority.

2.5 Uganda

Unlike its neighbour Kenya, Uganda experienced much modest growth rates from 2000 to 2009. The number of active borrowers, increased from just over 100,000 to more than 400,000 and in the total sum of its microfinance sector's loan portfolio, growing at less than a quarter of Kenya's rate. This'can be partly attributed to the fact that Uganda had more than twice the number of official MFIs in 2000 than Kenya, and has retained the same amount through 2009. The 2009 Microscope report notes that in 2003, Uganda passed the Microfinance Deposit-taking Institutions Act, creating a tier system within the country for MFIs. In the first (top) tier are commercial banks offering microfinance services, which hold at least a US$2 million equivalent in domestic capital. These top classified MFIs are allowed to maintain significantly smaller capital-adequacy ratios than the lower tiers. This regulation has significantly increased the barrier to entry for new MFIs, and may partially explain the lack of growth in entry new MFIs over the 2000 to 2009 period.

3. Other Comparable Indices in the Literature

There are two other measures in the literature that are related to our work. However they measure the regulatory framework or profitability of MFIs, thus they change fairly rapidly with any shift in regulations or profits of MFIs. They are nonetheless relevant for our paper since they measure how conducive the environment is for the microfinance sector. Our work attempts to answer a related, although very different question:

how conducive are the conditions based on the economic fundamentals which we believe are important for long-term sustainability.

The most comparable is the 'Global Microscope on the Microfinance Business Environment' report published annually by the Economist Intelligence Unit from 2007 to 2009. The report analysed 55 developing and transitional countries around the world in 2009, up from 20 Latin American and Caribbean (LAC) countries in 2008. It ranks the countries with a composite score of thirteen indicators on a one to four scale. The indicators in the Microscope reports mostly comprise of country-level data on how MFIs operate and/or are supported by the existing regulatory framework. Each indicator's weight is determined based on interviews with microfinance practitioners who are predominantly from LAC countries. This makes the rankings possibly biased by the preponderance of LAC influence in determining indicator weights. Table 1 presents the variables that are included in the index. Appendix 1 presents the details of how the MICROSCOPE is constructed.

There are, however, some problems with the index. The 2009 Microscope report notes that information on MFIs by country is not yet robust, presenting 'poor data and often incomplete information'.[5] The nature of MFIs operating at rural or cooperative levels in developing countries understandably could lead to a lack of information due to little standardisation of reporting at the sector-level. This is especially true since disclosure of financial data is not always mandated and this private information could help MFIs manipulate interest rates to raise profits/ market share[6]. Our index aims to overcome these shortcomings by looking towards economic fundamentals as the ultimate driving-force behind the microfinance industry. In addition, while the Microscope report offers perhaps one of the best indications of how supportive a country's microfinance regulatory environment is in a given year, the fact that an index score could change substantially over the following year, through a change in legislation or financial regulation, suggests that the results of this index are not necessarily strong indicators of countries' industry growth potential.

The second, much less comparable, but commonly cited measure is the Forbes ranking of the world's Top 50 Microfinance Institutions (Forbes 2007). The index uses six indicators of MFI profitability presented in

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[5] See page 4 from EIU, 2009.
[6] Gonzalez et al (2009) also finds that MFIs may not be reporting because of financing incentives related to their transparency.

Table 1: Components of the MICROSCOPE Index and the FORBES Ranking

Index	Category	Variable	Weight (Percentage of Cumulative Score)
Microscope	Regulatory Framework	Regulation of Microcredit Operations	10
		Formation and Operations of Regulated/supervised Specialised MFIs	10
		Formation and Operation of Non-regulated MFIs	10
		Regulatory and Examination Capacity	10
	Investment Climate	Political Stability	3.33
		Capital Market Stability	3.33
		Judicial System	3.33
		Accounting Standards	3.33
		Governance Standards	3.33
		MFI Transparency	3.33
	Institutional Development	Range of MFI Services	13.33
		Credit Bureaus	13.33
		Level of Competition	13.33
Forbes	Efficiency	Operating Expense	12.5
		Cost Per Borrower as a Percentage of Gross National Income Per Capita	12.5
	Returns	Return on Assets	12.5
		Return on Equity	12.5
	Risk	Percent of the Portfolio at Risk greater than 30 days	25
	Scale	Size of Gross Loan Portfolio	25

Table 1. Again, like the Microscope index, this information includes sector level indicators of microfinance operations that are highly specific to the year, and also this index does not attempt to analyze the industry at a country-wide-level. Interestingly the Forbes listing shows that most of the top 50 MFIs that are most profitable happen to be concentrated in a few countries. This provides some clues to how countries could be ranked using the Forbes listing.

4. Method and Analysis

Existing country case studies and some cross-country analysis indicate some important economic fundamentals that determine microfinance profitability. Our aim is to formally test which fundamentals are significant determinants, on average, of MFI profitability across all of our sample countries. Then we use these to construct a composite index of the conduciveness of domestic economic fundamentals in each country for microfinance success.

In order to formally identify those economic fundamentals that are significant in microfinance profitability, we use a measure of MFI profitability that we are able to construct for our entire sample of countries. This is used as the dependent variable in a series of regressions where we determine whether each of the economic fundamentals that have been found to be important for microfinance is significant in determining its profitability as well. Those economic fundamentals that pass this test are then weighted according to their explanatory power and added together to construct our index.

In what follows we first introduce the MFI profitability measure that is used as the dependent variable in regressions to determine the weighting of indicators in our index. Next we discuss the various potential determinants of MFI success that have been indicated in the literature so far.

4.1 MFI Profitability: Operational Self-Sufficiency

Given how little comparable international data on microfinance exists, it is difficult to get a fully accurate picture of how profitable the sector is by country. We use the measure suggested by Ahlina et al (2010) called Operational Self-Sufficiency (OS) to measure country-level MFI profitability. To construct this variable, the authors took second party audited data from the top reporting MFIs by country – a total of 74 countries – from Microfinance Information Exchange Market (MIX Market)[7], which is one of the largest online databases for MFI financial information.

The variables taken from MIX to construct the OS variable include: total financial revenue (TFR) of each country's top second party audited

[7] See http://www.mixmarket.org/mfi/indicators

MFIs, over the financial expenses (FE), plus loan loss provisions (LLP) and operating expenses (OE). Thus, the OS is calculated as follows:

$$OS = \frac{TFR}{FE + LLP + OE}$$

OS ranked on a scale of one to 10. One being a low level of capital access and 10 being a high level of access, and then these scores are averaged in a general CAISCORE. All of these composite indicators paint a broad overview of many different aspects of financial resources available for business development prospects by country.

Intuitively, the OS variable is the total revenue as a percentage of total cost of an MFI. OS is averaged over all MFIs included for each country in each year to yield the annual average operational self-sufficiency (AOS). Since it includes the top MFIs that report audited financial data in each country, as a practical outcome it captures a vast majority of the microfinance clientele in our sample countries. The AOS variable is used as a dependent variable to test which economic fundamentals are significantly related to factors that affect countries' MFI profitability.

4.2 The Economic Fundamentals

The economic fundamentals tested for their significant role in determining microfinance profitability fall into a few broad categories:

1. Social Capital and other incentives at the level of the individual borrower that decrease default.
2. Infrastructure that has proven to be important in helping poor access work opportunities and aid in their use of financial services eg, telecommunications – especially cell phones and the internet.
3. Ease of raising capital for business purposes.
4. Per capita health expenditure.
5. Availability of universal and systematic credit-rating information on borrowers.
6. Use of financial services by the poor, eg, banking.

4.2.1 Social Capital and Other Incentives

A fundamental determinant of microfinance viability, commonly excluded from standard financial analysis, but highly important for many MFIs' solvency, is a social opportunity variable (Anderson 2002). Within group lending models (GLMs), mutual trust and peer pressure often act as the only collateral for a lending MFI – especially in least developed countries (LDCs). However, finding comparable measures of this, commonly referred to as the social capital variable is practically impossible given different forms that social capital takes in different countries and time periods. For some it might be based on religion, for others social-ties are village-based, still others it might be family-based, and so on.

In this study we concentrate on a gender based variable to measure individual incentives to refrain from default. Specifically we use the fact that group lending which is based on social capital tends to have more female borrowers than male (Khandker 1998). Given this gender disparity within MFI lending portfolios, measuring for women's economic and social opportunities is a practical measure for understanding individual incentives to refrain from default. The Global Gender Gap Index constructed by the World Economic Forum annually serves as the premier indices for measuring such opportunities.

The Global Gender Gap Index is comprised of four key sub-sections: economic participation and opportunity, educational obtainment, health and survival, and political empowerment. Each of these sub-sections factor female to male ratios for each of the variables to reflect the disparities between the genders.

MFIs in highly ranked countries on the Global Gender Gap Index conceivably may be able to leverage larger pools of potential clients given that more work opportunities for women would exist in these places. A larger selection of available clients will lead to borrowers with higher human capital, who receive higher returns on their investments, and are therefore less likely to default. Considering repayment rates from women are significantly higher relative to men (Armendariz de Aghion 2005; Grameen Dialogues 2006-09), in countries with inequitable wages and opportunities for women, the risk of lending to females would probably rise. We would expect this outcome since this situation will limit possibility of repayment in these cases where the primary venture for which money has been borrowed fails to generate sufficient revenue.

4.2.2 Infrastructure

With a growing field of evidence drawing positive correlations between productivity and access to telecommunications in a country, inclusion of a variable measuring a country's usage of this infrastructure has become increasingly important when analysing MFI prospects at a county-level. Moreover, it also has implications for the use of technology in the way many MFIs offer products and conduct business. For example, mobile banking not only makes repaying loans more accessible for borrowers, but it also lowers transaction costs and provides important data for MFIs (Cracknell 2004).

We use country-level telephone and internet usage data from the International Telecommunications Union. This yields variables for telephone and internet use, TELE and INTERNET, respectively. In countries with high access to telecommunication infrastructure, it should be expected that MFIs would have more mediums to offer services through, which would reduce transaction costs for the lenders and borrowers; hence making the MFIs operations more profitable. Additionally, it should be expected that borrowers with higher access to telecommunication technology would be more productive with their loans (Mathison 2005).

4.2.3 Ease of Raising Capital for Business

For MFIs, the ease of the clients' ability to raise money for their business can directly impact operations. In the instance of credit saturation – when there is an excessive amount of lending available in a country – competition becomes a major impediment, and cross-subsidisation of loans from MFIs can often pose a real threat of increasing default rates. Especially in countries that lack strong national ID systems, where it is difficult to track borrowing patterns of clients, the prospects of a client taking a loan from one MFI to pay off a loan at another becomes a real danger for increasing risk in the industry (McIntosh 2005).

Higher access to loans in a country can make MFIs less relevant and profitable in two following ways: cross-subsidisation on the borrowers' side becomes a real threat for loan repayment, and, with highly accessible commercial rate loans, the social objectives of MFIs to bring low interest lending to the poor may become uncompetitive, and therefore these institutions may lack the demand from potential highly profitable borderline clientele that are needed to for these organisations to remain solvent.

There are two measures we use in this context. The first is from the World Economic Forum (WEF) and the second from the Milken Institute. The Global Competitiveness Report published by the World Economic Forum has a sub-level index indicator titled the 'Ease of Access to Loans', which ranks countries on a scale of how easy it is to obtain a bank loan in a country with only a good business plan and no collateral – with a range of–one as very difficult, and seven as very easy.

Similar to the 'Ease of Access to Loans Index', the Milken Institute's annual report, the Capital Access Index (CAI), provides a composite index score (CAISCORE) and rank for financing options available to countries, including indicators for the macroeconomic and institutional environments, financial and banking institutions, equity market development, bond market development, alternative sources of capital, and international funding. Each indicator is ranked on a scale of'one, being a low level of capital access, to 10, being a high level of access, and then these scores are averaged in a general CAISCORE. All of these composite indicators paint a broad overview of many different aspects of financial resources available for business development prospects by country.

4.2.4 Health Expenditure

One of the most common reasons for defaults among MFI clients is excessive health costs.[8] The Health Expenditure Per Capita variable, given by data from the World Health Organisation (WHO), provides the most macro-level indication of the use of health resources within a society when it is taken over gross domestic product per capita (GDPPC). While some developed countries may provide substantial health services through the public sector, thus diluting the significance of this variable's indication of residents' access to health services, countries that utilise MFI services are mostly developing or transitional countries that have marginal social sector involvement in health provision, which in turn make this a strong indicator for the purpose of this study. It should be expected that countries with lower levels of health expenditure per capita would likely have higher default rates and therefore be less sustainable for MFIs.

[8] Johnston (2009) finds in his study that unanticipated health expenses are the most common reason for default for MFIs.

4.2.5 Credit Rating Information

The availability of credit information within a country allows MFIs to assess their risk of lending to potential clients. Information on a clients' credit history, both positive and negative can have a profound impact on MFIs' ability to expand their clientele portfolio and manage risk (McIntosh 2005). The Credit Depth of Information Index (CDI) by the World Bank Doing Business Project ranks each country on a scale of one through six by its level of credit information available to financial institutions. Countries with high scores in the CDI index should be expected to produce more sound market places for MFI operations, given the reduction of risk from a more complete registry of credit information of clients.

4.2.6 Use of Banking Facilities

While official information on usage of banking facilities in developing countries is difficult to quantify, the World Bank Doing Business Project has collected perhaps the one of the largest databases on Private and Public Credit Bureau Coverage. These indicators (PRIVCRED and PUBCRED) measure the usage of banking facilities within the official registry system in the public and private sectors, as a percentage of usage by adults. A higher level of usage in each of these indicators would likely reflect a lower need for MFIs in a country and possibly excessive competition (Hardy 2002), given that a large portion of the population would already have access to credit. Therefore, countries with high percentages in these variables would be expected to present more obstacles for microfinance industry growth.

Table 2 provides detailed information on the economic fundamental variables discussed above as potentially significant determinants of microfinance success.

5. Results

Our analysis is based on a panel dataset of 74 countries over the sample period 2000 to 2010. In order to determine how the potentially relevant economic fundamentals actually affect profitability of the microfinance sector, each one was regressed separately against the average country-level operational self sufficiency (AOS). Each regression includes per

Table 2: Sources of Data

Variable	Source
Operational Self-Sufficiency (OS)	Data for Variable Taken from Microfinance Information Exchange Market. Construction of Variable by Ahlina 2010.
Average Operational Self-Sufficiency (AOS)	Constructed by Averaging OS Data by Country and Year.
Country/Economy and World Bank Code (countryeconomy and wbcodes)	World Bank Countries/Economies with Adjacent Country Codes found here: http://www.irows.ucr.edu/research/tsmstudy/wbcountrycodes.htm
Year (year)	Years 2000 through 2010 Constructed in STATA.
Global Gender Gap Index Score (genscore)	2006 through 2010 Global Gender Gap Index Reports by the World Economic Forum found here: http://www.weforum.org/en/Communities/Women%20Leaders %20and%20Gender%20Parity/GenderGapNetwork/index.htm
Credit Depth of Information Index score (CDI)	2004 through 2009 World Bank Doing Business Project Scores found here: http://data.worldbank.org/indicator/IC.CRD.INFO.XQ
Ease of Access to Loans Index Score (loanscore)	2004 and 2007 through 2009 Global Competitiveness Reports by the World Economic Forum found here: http://www.weforum.org/en/initiatives/gcp/ Global%20Competitiveness%20Report/PastReports/index.htm
Internet Access Per Capita (INTERNET)	2000 through 2008 Internet Access per Capita as a Percentage of Adults provided by the International Telecommunications Union: http://data.worldbank.org/indicator/IT.NET.BBND.P2
Telephone Access Per Capita (TELE)	2000 through 2008 Telephone Access per Capita as a Percentage of Adults provided by the International Telecommunications Union: http://data.worldbank.org/indicator/IT.TEL.TOTL.P2
Private Credit Bureau Coverage (PRIVCRED)	2004 through 2009 World Bank Doing Business Project Percentages of Private Credit Bureau Coverage found here: http://data.worldbank.org/indicator/IC.CRD.PRVT.ZS
Public Credit Bureau Coverage (PUBCRED)	2004 through 2009 World Bank Doing Business Project Percentages of Public Credit Bureau Coverage found here: http://data.worldbank.org/indicator/IC.CRD.PUBL.ZS
Capital Access Index Score (CAI)	2004 through 2009 Capital Access Index Score by The Milken Institute found here: http://www.milkeninstitute.org/research/research.taf?cat=indexes
Health Expenditure Per Capita (healthgdppc)	2003 through 2007 Health Expenditure Per Capita provided by the World Health Organisation found here: http://data.worldbank.org/indicator/SH.XPD.PCAP 2000 through 2009 Gross Domestic Product Per Capita provided by the World Bank National Accounts Data and found here: http://data.worldbank.org/indicator/NY.GDP.PCAP.CD
Natural Logarithm of Population (lpop)	2000 through 2008 Total Population provided by the United Nations Population Division and can be found here: http://data.worldbank.org/indicator/SP.POP.TOTL
Literacy Per Capita (lit)	2000 through 2008 Literacy Rate of Adult Population provided by the United Nations Educational, Scientific and Cultural Organisation and found here: http://data.worldbank.org/indicator/SE.ADT.LITR.ZS

capita gross domestic product (GDPPC) to account for cross country differences. Also included is the natural log of population to account for country size differences. Year fixed effects are added thus the coefficients represent cross country variations.

For the significant variables we weight each with its R squared in the above described regression. Our index (which we call MICROFIN) was then constructed based on these new variables for each country in each year.[9]

$$\begin{aligned} \text{MICROFIN}_{it} = {} & \text{Significant Economic Fundamental}_1 * R_1^2 \\ & + \text{Significant Economic Fundamental}_1 * R_2^2 + \ldots \\ & + \text{Significant Economic Fundamental}_n * R_n^2 \end{aligned}$$

The sample countries are ranked on the basis of their annual MICROFIN index. The country with the highest index is best suited for microfinance industry growth and so on.

Finally, we provide a comparison of our MICROFIN index to the MICROSCOPE index. We provide both yearly correlations between the two indices as well as the country case study of Uganda to highlight the differences between the two indices and the reasons thereof.

5.1 The Economic Fundamentals that Matter

We start first with a discussion of our findings regarding the significance of the economic fundamentals we considered as being potentially influential in determining microfinance success. All results are at the 10% level of significance.

5.1.1 Insignificant Variables Removed for the Index

Social Capital and Other Incentives

The gender variable was not found to be statistically significant when regressed against the AOS. This suggests that gender equity may be less significant for microfinance's profitability in a country. Because, men

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[9] Construction of index instructed by section 'VII Multivariate methods in index construction' (Abeyasekera 2005).

[10] Karlen (2010) finds in his study that males will have larger borrowing increases over time than females and also take out larger loans.

will often take out larger loans than women,[10] despite their higher default rates, the lower transaction cost of issuing a large loan relative in size to the equivalent of multiple small loans needed for women, may very well outweigh the repayment discrepancy. This result suggests that while microfinance success leads to the empowerment of women and has therefore a high positive social impact as Bangladesh experience suggests (Khandker 1998), success does not need empowerment as a precondition. This is indeed an expected result. We would expect microfinance to lead to the empowerment of women and not necessarily require this empowerment to be a precondition of microfinance success.

Credit Rating Information

The degree of availability of credit rating information was not significant determinant, suggesting that the availability of credit information in a country is not a precursor to the profitability of its microfinance market. If the global microfinance industry continues to grow at the rate it has over the past two decades,[11] and countries' CDI scores do not correspondingly rise, it is likely that these markets will become increasingly competitive with each other and this variable will become more significant as problems of cross-subsidisation become more prevalent (ie borrowers taking loans to payoff outstanding loans).

5.1.2 Significant Variables Included in the Index

Health Expenditure

When controlling for literacy rates by country, which is a proxy for general education, health expenditure is better able to account for microfinance profitability. Because, educational attainment and health expenditure per capita are positively linked to each other – as a person attains more years of education, they are more likely to spend more of their income on health expenditures (Appleton 1998) – it is important to control for it. Borrowers who need microfinance loans likely have fewer assets to begin with, relative to other residents in their respective county, and are therefore less likely to have been able to afford as much schooling as other citizens. Therefore, when the borrowers who make up this low income-strata, actually receive a microcredit loan, it is important to control for different education levels to isolate how likely they will be to use their increased capital for health expenditures. As predicted, when

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[11] From approximately 13 million clients in 1997 to 150 million in 2007, see Daley-Harris (2009).

controlling for education, health expenditure is significant and positively correlated with a country's AOS (see Table 7). This correlation should be expected, as the most prevalent reason for defaults on MFI loans are consistently unforeseen health expenses (Johnston 2009). Moreover, the r^2 value was the highest of all included significant independent variables, suggesting that a country's propensity to spend an increased part of their total income on health is a strong indicator of the potential for microfinance profitability.

Table 3: Results - Health Expenditure Per Capita

Dependent Variable- Microfinance Profitability country i year t: AOSi,t	Coefficients (t-stats)
Gross Domestic Product Per Capita: gdppc	-0.0000291 (-1.88)*
Natural Logarithm of Population: lpop	0.0290223 (1.04)
Literacy Per Capita (lit): lit	0.003268 (1.80)*
Health Expenditure Per Capita: healthgdppc	5.85384 (1.73)*
Constant: _cons	0.3230775 (0.62)
Observations	61
R2	0.1526

Note: t statistics reported in parentheses. *** significant at 1%; ** significant at 5%; * significant at 10%; year dummies 2000-2010 were also included to account for fixed year effects.

Infrastructure

Both TELE and INTERNET (less so) were significant and had positive, though marginal, coefficients when regressed against the AOS. Tables 8 and 9 below provide the results for the TELE and INTERNET regressions respectively. While a small number of MFIs are beginning to offer online services, the rural nature of many of these organisations limit the scope of internet's influence on the OS. The recent success of mobile phone banking programmes – like Kenya's M-Pesa (Bonyo 2010) – suggest that the TELE variable will likely become more significant to the AOS over time, as these types of services can drastically lower transaction and opportunity costs for both the creditor and borrower.

Ease of Raising Capital for Business

Both the measures were significant and positively correlated with the AOS. The measures had the second highest r^2 value of all the included significant independent variables, after public health, suggesting that businesses' ability to access loans without substantial collateral in a

Table 4: Results - Internet Access Per Capita

Dependent Variable- Microfinance Profitability country i year t: AOSi,t	Coefficients (t-stats)
Gross Domestic Product Per Capita: gdppc	5.75e-07 (0.06)
Natural Logarithm of Population: lpop	0.0136685 (0.90)
Internet Access Per Capita: internet	0.0069453 (1.59)*
Constant: _cons	0.8667688 (3.29)***
Observations	576
R2	0.0285

Note: t statistics reported in parentheses. *** significant at 1%; ** significant at 5%; * significant at 10%; year dummies 2000-2010 were also included to account for fixed year effects.

Table 5: Results - Telephone Access Per Capita

Dependent Variable- Microfinance Profitability country i year t: AOSi,t	Coefficients (t-stats)
Gross Domestic Product Per Capita: gdppc	-7.58e-06 (-0.67)
Natural Logarithm of Population: lpop	0.0155209 (1.01)
Telephone Access Per Capita: tele	0.002848 (2.04)**
Constant: _cons	0.7279811 (2.81)***
Observations	572
R2	0.0309

Note: t statistics reported in parentheses. *** significant at 1%; ** significant at 5%; * significant at 10%; year dummies 2000-2010 were also included to account for fixed year effects.

Table 6: Results - Ease of Access to Loans Index Score

Dependent Variable- Microfinance Profitability country i year t: AOSi,t	Coefficients (t-stats)
Gross Domestic Product Per Capita: gdppc	-0.0000117 (-1.76)*
Natural Logarithm of Population: lpop	-0.0302681 (-1.74)*
Ease of Access to Loans Index Score: loanscore	0.1091593 (2.76)***
Constant: _cons	1.49287 (5.05)***
Observations	133
R2	0.0793

Note: t statistics reported in parentheses. *** significant at 1%; ** significant at 5%; * significant at 10%; year dummies 2000-2010 were also included to account for fixed year effects.

Table 7: Results - Capital Access Index Score

Dependent Variable- Microfinance Profitability country i year t: AOSi,t	Coefficients (t-stats)
Gross Domestic Product Per Capita: gdppc	-1.65e-06 (-0.24)
Natural Logarithm of Population: lpop	-0.0188272 (-1.32)
Capital Access Index Score: caiscore	0.0567736 (2.18)**
Constant: _cons	1.209704 (4.91)***
Observations	367
R2	0.0346

Note: t statistics reported in parentheses. *** significant at 1%; ** significant at 5%; * significant at 10%; year dummies 2000-2010 were also included to account for fixed year effects.

country is an important precursor to microfinance profitability. Tables 3 and 4 present the results.

Use of Banking Facilities

The PRIVCRED and PUBCRED scores were both significant when regressed against the AOS and had marginally negative coefficients – positive within the upper limit of the standard error – see Table 5 (PRIVCRED) and Table 6 (PUBCRED). The variability of these variables' coefficients could be explained by the assumption that countries with high levels of usage of public or private credit might make MFIs obsolete or uncompetitive, given that many people in these types of countries not only have access to credit, but also receive it.

Table 8: Results - Private Credit Bureau Coverage

Dependent Variable- Microfinance Profitability country i year t: AOSi,t	Coefficients (t-stats)
Gross Domestic Product Per Capita: gdppc	0.000012 (2.25)**
Natural Logarithm of Population: lpop	0.0043613 (0.33)
Private Credit Bureau Coverage: privcred	-0.0032416 (-1.94)**
Constant: _cons	1.144442 (5.17)***
Observations	339
R2	0.0275

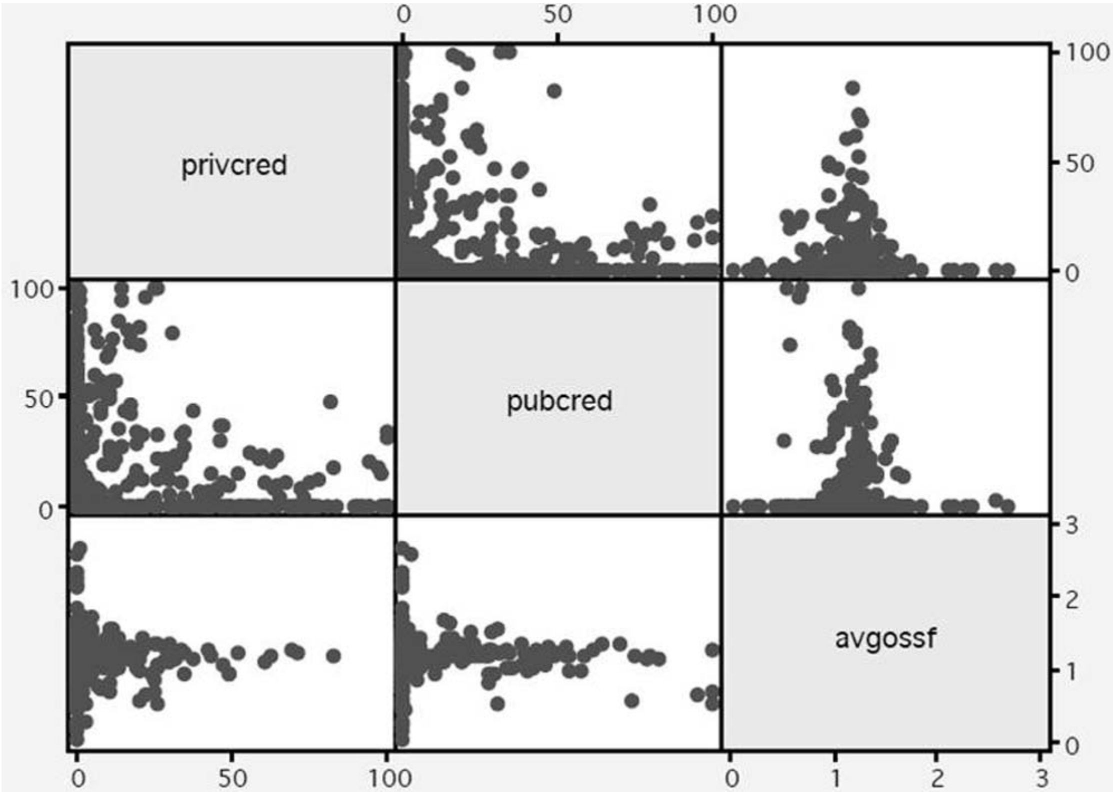
Note: t statistics reported in parentheses. *** significant at 1%; ** significant at 5%; * significant at 10%; year dummies 2000-2010 were also included to account for fixed year effects.

Table 9: Results: Public Credit Bureau Coverage

Dependent Variable- Microfinance Profitability country i year t: AOSi,t	Coefficients (t-stats)
Gross Domestic Product Per Capita: gdppc	0.0000149 (2.62)***
Natural Logarithm of Population: lpop	0.0047631 (0.36)
Public Credit Bureau Coverage: pubcred	-0.0024192 (-2.33)**
Constant: _cons	1.063987 (4.79)***
Observations	336
R2	0.0348

Note: t statistics reported in parentheses. *** significant at 1%; ** significant at 5%; * significant at 10%; year dummies 2000-2010 were also included to account for fixed year effects.

Figure 1 shows a simple scatter plot matrix of PRIVCRED, PUBCRED, and the AOS. The strong cluster effect of PRIVCRED and PUBCRED percentages between one and two on the AOS suggests that countries with very low levels of usage of public and private credit registries are either slightly or highly profitable. One explanation for this occurrence might come from the idea that countries with very low resident familiarity with a formal financial sector may not be well adapted for any type of credit lending, including microcredit. However, countries without high levels of PRIVCRED or PUBCRED might also be underserved credit markets where MFIs can easily expand without substantial competition. Hence, while both PRIVCRED and PUBCRED have small negative coefficients, their standard deviations that each span into positive regions make the conclusive net-effect on the AOS from either of the two variables ambiguous – deferring inferences to specific country scenarios.



6. The MICROFIN Index: Comparisons with MICROSCOPE and FORBES

Only two years out of the 2000 through 2010 data for this paper's index returned enough significant data across all included variables for our panel to produce our MICROFIN index: 2004 and 2007. The index is presented in Table 10 and Table 11 for the years 2004 and 2007 respectively.

In the MICROSCOPE index in 2007 and 2008 indices, only 15 and 20

Table 10: MICROFIN Index for Year 2004

Country	Microfinance Profitability: AOS	MICROFIN Index	Country Rank
Argentina	0.57795	5.619157	1
El Salvador	1.15439	5.381018	2
Chile	1.28955	5.32505	3
Brazil	1.09873	4.469491	4
Panama	1.0009	4.290271	5
Turkey	0.5285	4.239413	6
Mexico	1.35057	3.871502	7
Bulgaria	1.3249	3.816502	8
Russian Federation	1.21473	3.131105	9
Colombia	1.24606	3.020593	10
Thailand	1.6221	2.932583	11
Romania	1.61773	2.829308	12
Venezuela, RB	1.3669	2.750225	13
Peru	1.1727	2.734677	14
Tunisia	1.4426	2.49818	15
China	0.55565	2.13329	16
Jordan	1.6419	2.096312	17
Guatemala	1.2679	1.993349	18
Philippines	1.03656	1.992964	19
Morocco	1.39482	1.821818	20
Egypt, Arab Republic	1.02177	1.249985	21
Honduras	1.13532	1.163509	22
Indonesia	1.42175	1.090906	23
Sri Lanka	1.1834	1.049755	24

LAC countries are analysed respectively. Our MICROFIN index includes 24 countries in 2004 and 52 in 2007 from a span of Africa, Asia, Eastern Europe, and LAC. In spite of these differences in samples, it is interesting that our MICROFIN index found that seven out of 10 top spots in 2004 and six in 2007 went to LAC countries. Five out of six the LAC top countries overlapped in 2007 between our MICROFIN index and the Investment Climate sub-index of the MICROSCOPE.

Within the Forbes Top 50 Microfinance Institutions index for 2007, nine countries make up 36 out of the top 50 MFIs: Bangladesh (seven), Bosnia and Herzegovina (five), Colombia (three), Ecuador (two), Ethiopia (two), India (seven), Morocco (four), and Peru (four). Out of these nine

Table 11 – MICROFIN index for year 2007

Country	Microfinance Profitability: AOS	MICROFIN index	Country Rank
Argentina	0.5337	9.167028	1
El Salvador	1.20353	7.359993	2
Bulgaria	1.3411	7.082113	3
Chile	1.0126	6.561923	4
Bosnia and Herzegovina	1.343	6.22415	5
Ecuador	1.15574	6.007357	6
Brazil	1.30525	5.997139	7
Russian Federation	1.11576	5.949056	8
Turkey	0.8338	5.907013	9
Panama	1.0452	5.868126	10
Nicaragua	1.25038	5.8088	11
Mexico	1.26882	5.690029	12
Colombia	1.1655	5.537664	13
Costa Rica	1.3051	5.315652	14
Honduras	1.19071	5.271352	15
Romania	1.20673	5.171269	16
Paraguay	1.2084	5.125467	17
Thailand	1.5311	4.838992	18
Peru	1.25759	4.838975	19
Guatemala	1.29908	4.832187	20
Dominican Republic	1.02297	4.433759	21
China	0.9552	4.349884	22
Venezuela, RB	1.1631	4.205127	23
Tunisia	1.4335	4.081507	24
Jordan	1.43595	3.962627	25
Armenia	1.41965	3.552994	26
Moldova	1.01	3.406767	27
Morocco	1.31519	3.301668	28
Vietnam	1.28342	3.115571	29
Bolivia	1.18623	3.007416	30
Philippines	1.04013	2.885998	31
Indonesia	0.97125	2.712458	32
Mongolia	1.54283	2.549653	33
Syrian Arab Republic	2.1201	2.289358	34
Pakistan	1.1073	2.199375	35
Kenya	1.12276	1.683985	36
Senegal	1.30346	1.571441	37
Ghana	1.17973	1.511576	38
Nigeria	1.20205	1.377037	39
Benin	0.73748	1.289914	40
Cameroon	0.9822	1.154703	41
Bangladesh	1.23543	1.033354	42
Tanzania	1.06347	1.005932	43

Country	Microfinance Profitability: AOS	MICROFIN index	Country Rank
Mali	1.08581	0.9981962	44
Uganda	1.0513	0.8951541	45
Cambodia	1.3508	0.8880944	46
Mozambique	1.18255	0.7656289	47
Burkina Faso	0.9671	0.6938998	48
Madagascar	1.24063	0.6808723	49
Malawi	0.9774	0.5842271	50
Chad	1.3633	0.5188637	51
Ethiopia	1.35355	0.3793553	52

countries, seven were included in this paper's index for 2007 and'four were in the top 20 rank out of 52.

The similarities and differences among the indices and ours arise from the clear overlap and differences in their aims. Our MICROFIN focuses on economic fundamentals that determine microfinance profitability. MICROSCOPE is concerned with regulatory environment and FORBES with current microfinance profitability alone.

6.1 The MICROFIN Index: Country Case Study of Uganda

To highlight the differences with other indices we present the case of Uganda. This is an interesting case study since it brings out the contribution of our index in light of others available in the literature. Uganda's 2007 rank in the MICROFIN came in as 45 out of 52 countries, which is a much lower place relative to the 2009 Microscope report, putting it at nine out of 55.

MICROSCOPE index's components are primarily shaped by legal and regulatory frameworks; the scores have a high propensity to change by year, depending on lawmakers' discretion. Most of the 2009 Microscope Report's praise for Uganda, and contribution to its relatively high rank, came from country's structure of its regulatory framework. The report noted that Uganda's Microfinance Deposit-taking Institutions Act of 2003 created a tier system within the country for MFIs. In the first (top) tier are commercial banks offering microfinance'services, which hold at least US$2.0 million equivalent in domestic capital. These classified MFIs are allowed to maintain significantly smaller capital-adequacy ratios than the lower tiers. While the report does not specifically qualify how this format of regulation improves the commercial viability of MFIs in Uganda, the scoring and weighting of these indicators comes from a lengthy review and interview process with industry experts. Thus, Uganda's high rank within the Microscope Report reveals a favourable industry-impression of its regulatory framework.

In contrast, the indicators in the MICROFIN were weighted and included based on their impact on the industry's profitability (AOS). Only variables that were found to significantly correlate with the AOS were selected for the MICROFIN. The largest contributor to profitability in Uganda's MPLG score was TELE, although this was only marginally higher than the other contributing variables. By far the lowest contributor to profitability in Ugandan microfinance markets was health expenditure. Recall that the r^2 of health expenditure was the strongest overall variable in the MICROFIN found to positively increase all countries' profitability. Uganda's small health expenditure overwhelmingly contributes to the county's low rank in the MICROFIN. As mentioned before, the most common reason for defaults of microfinance loans is due to unexpected health-related expenses; therefore, when a society has a relatively low propensity to invest in health as a percentage of income, as is the case in Uganda, a country's cumulated score within the MICROFIN will be lower, reflecting less potential for the microfinance sector to profit and proliferate. For a sector's profitability and growth potential in a country, a low health expenditure policy is a structural problem that is relatively hard to change. Instead, this type of change requires a *paradigm shift* of cultural norms and practices that will take time and a variety of policy initiatives. All the same policy initiatives can play large role in addressing this issue.

The Ugandan case-study brings into focus our case for addressing economic fundamentals that are not as easy to change as the regulatory framework, but are still amenable to policy action such as health expenditure in Uganda's case.

7. Conclusions

In this paper we have attempted to investigate whether economic fundamentals representing enduring characteristics of the economy such as infrastructure, financial development, social structures, etc, serve as important preconditions for microfinance industry's success. We construct a New Index measuring the potential of microfinance success by country. The index is comprised of economic fundamentals that have been found to be of importance in determining outcomes for microfinance in specific country case studies in the literature. We test these economic fundamentals formally to estimate if they are significant in the determination of microfinance profitability in a panel dataset of 74 countries over 10 years. Those that are found to be significant are used to construct a New Index of Microfinance. We use this index to rank countries according to how conducive their economic environment is for microfinance.

With its roots in the microcredit movement *a la* Grameen Bank, pioneered in Bangladesh by *Nobel Peace Laureate* Muhammad Yunus (see Yunus 2003), the microfinance industry all over the world has proven to have a positive social impact. The current paper aims to identify what leads to a vibrant microfinance sector and is therefore an attempt to provide informed analysis to those interested in reaping the benefits of this industry. The paper finds that the most important determinants among economic fundamentals turn out to be public health expenditure, telecommunications infrastructure, the ease of raising capital, and the use of banking facilities by the poor. Health and telecommunications, particularly cell phones, are important inputs into the success of any business enterprise set up by the poor with credit received from microfinance institutions. The ease of raising capital and use of banking facilities indicate the level of a country's financial development and literacy. It is likely that the spread of microfinance will lead to changes in each variable's relative importance. It will be worthwhile to conduct such analysis on an ongoing basis to track how the index changes and its components rise and fall in importance with the spread of microfinance. □

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Appendix 1 – Construction of the MICROSCOPE Index

Three categories with a total of 13 indicators comprise Microscope's framework for evaluating countries, including:

1. Regulatory Frameworks (40%)

1) Regulation of Microcredit Operations

2) Formation and Operations of Regulated/supervised Specialised MFIs

3) Formation and Operation of Non-regulated MFIs

4) Regulatory and Examination Capacity

2. Investment Climates (20%)

5) Political Stability

6) Capital Market Stability

7) Judicial System

8) Accounting Standards

9) Governance Standards

10) MFI Transparency

3. Institutional Development (40%)

11) Range of MFI Services

12) Credit Bureaus

13) Level of Competition

Each Microscope indicator is scored on a scale of 0 (worst) to 4 (best). The scores are then cumulated and weighted by section to compute countries' overall score and rank within the index.

Forward To The Roots: A Paradigm Shift Towards People Orientation

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Starting Point

As Karsetter 2002 illustrates, eighty percent of a company's value is in immaterial asset: intellectual capital (found in the people) far out-weights tangible assets. Within a knowledge-based company like SAP, intellectual capital may exceed ninety percent. For a steel-company, it's less of course; but may still be in access of fifty percent. Unfortunately financial accounting and traditional management instruments are not able to capture these new values and report on them (Nielsen 2003).

Students of economics have over decades learned that in Western societies profit is the primary target of entrepreneurial activities. The financial crisis and concomitant global interdependencies would now call into question: the relevance of old economics paradigm. Transformation and paradigm shift are necessary particularly when we take note of the latest research of Transparency International, November 2010: corruption has become a global problem and challenge.

Now is the time to look ahead: *forward to the roots*. Roots are found

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in Nobel Peace Prize Laureate Muhammad Yunus' proposition and implementation of social business. It is in the roots of humanity where we will find deeper answers. Social business is an essential fractal for a new paradigm of business. Each and every social business creates employment, improved working conditions, and of course, addresses a specific social ill such as poor education, healthcare, nutrition, etc. Yunus (2010) noted: 'The biggest flaw in our existing theory of capitalism lies in it misrepresentation of human nature. . . human beings are not money-making robots. The essential fact about humans is that they are multi-dimensional beings'.

In simple terms, a social business is a non loss non-dividend company dedicated entirely to achieve a social goal. In social business, the investor gets the investment capital back over time, but never receives dividend beyond that. The Grameen Bank is a prime example of social business, with the Grameen borrowers themselves being its shareholders: a paradigm shift, indeed.

In this context, we want to focus on an issue relating to our Western cultures: how to instil a sense of community and create social businesses within various communities. Any social business provides opportunity to exercise our talents (immaterial assets). Over the last 250 years of Enlightenment we have been well-trained in self-fulfilment, individualism, interdependence and profit-making. The era ahead of us calls for added emphasis on sense of responsibility, accepting authority and the creation of power. Trust must be the cohesive element of social interaction. Only on that basis will global business prove sustainable and will activate innovative and creative new solutions.

Bad News First . . . and the Challenge Ahead

'Flight into Death'– as Managers reorganised France Tèlècom they forgot the people' – thus reads a headline of the German *Die Zeit*. Anger, dissatisfaction, health problems, depression and suicides were the effect of changing management in that organisation. Where are the social aspects of such business?

We have been socialised in an economic world of numbers and linear planning. Our minds have been limited by this linear perspective. The solid reaction of Harvard graduates in June 2009 condemned the one-sided positivist training. They demanded ethics and corporate responsibility to be taught and exercised in the business world. They took an oath to be ethical in an era of Immorality (Wayne 2009). These students created a domino effect in business schools across the country with their declaration. Now, we hold our breath. Do they set a cornerstone for a 'two-world' theory? On one side a hard linear calculative world of business realities and on the other a harbour of ethical reflection. This certainly would set ground works for schizophrenic mentalities. But this matters a caution!

In order to navigate business and social realities into a sustainable future (which proposes global challenges ahead of us as never experienced before in modern society) we definitely need framings and paradigms, which enable us to bring together the paradox of 'two worlds'. Living with high complexity, experiencing ever fast-moving turns, and exhibiting socialised individualism create the challenges ahead.

We suggest a more holistic integrated approach as we refer to well-known patterns and proven stakeholders of performance, and success. We call this *integrating* people and *synchronising* resources – INTEGSYNCH. We propose an integrated approach of hard coinage of measurements (linear laws of *physic*) and flexible textures of human needs and behaviours (lateral world of *quantum physics*) for one world.

Performance is Essential: Community is Key

Elinor Ostrom, the first woman receiving the 2009 Nobel Prize for economics articulated how communities of people who know each other are much more effective and efficient to care for an environment than a highly organised bureaucratic system (see Ostrom 1990). An important element here is that caring for an environment was done by the 'locals' – the people that lived in that environment. Ostrom illustrated the facts that: (a) they knew each other; (b) they knew the environment; and (c) therefore they created a more effective and efficient result. Much is to be learned here: the 'locals' are integrated and they are also synchronising. They understood performance in their context. The 'locals' measured their performance within community awareness. The paradigm of integration and synchronisation of systems is for survival in our complex world of organisations.

Business clearly understands Key Performance Indicators (KPIs). KPIs have been and will continue to be helpful in offering parameters and controls. Understandably, KPIs are quantifiable measurements – they indicate and monitor aspects critical for the success of an organisation. A Service Centre might want to know how many customer calls are answered. A school might focus on graduation rates of its students as a KPI. The Indicators reflect the organisations' goals and the keys to success. If the goal is 'to be the most profitable company' then fiscal measures dominate the check-points. KPI defines the success factors and has basis for strategic and tactical decisions. Well-defined KPIs serve as a performance management tool and they give a clear picture of what is important and what needs to be done. KPIs follow the linear logic of counting numbers and straight ahead targets representing one side of the coin.

KPIs ought to be combined with a lateral dimension. Grameen Bank and the microcredit system in Bangladesh introduced this essential diversification (see Yunus 2003) and effected a *paradigm shift* for the monolithic financial system of Western capitalism which generously gives away donations to African people. Instead of giving a donation, Reiner Luyken, a German, gave a loan of US$250 to an innkeeper in Sierra Leone and closely observed for a full year what happened with his given loan. A male officer from the Salone Microfinance Trust (SMT) had visited Mrs Kumba Moore who wanted to start a restaurant. He made a cash-flow chart and then advertised her business plan. Luyken and 13 other credit grantors financed her. They got a password from SMT so they could stay in touch and communicate with each other. In addition, he stayed in touch with Kumba Moore for a whole year: he visited her, saw the ups and downs over time. Her husband gets malaria, so no more income from his side to support the family or business. The annex she had to build turns out to be more expensive than she thought, given prevailing inflation rate – 14%. For a few months she couldn't pay'back the loan. The officer of SMT confirmed Kumba's life catastrophes.'

There is economic pragmatism behind the microcredit system – at the same time trust in the entrepreneurial drive of people. The borrowers make management mistakes and learn from their mistakes. Reiner Luyken followed closely the positive development of his client Kumba who eventually paid back the loan and turned out to be very successful. SMT now supports 4,000 clients – mainly women. The key lateral factor that Luyken observed was what we call 'community'. Community is the essence factor for people, their interrelatedness, their competencies, their authentic excitement, hidden potentials and their ability to connect with a special group of clients.

The tradition of economics is based on measurement. The question is: are we measuring the right things in the right ways? The issue of community-building in business companies and societies is essential for sustainability. We need to learn how to measure 'community building' and 'sustainability'. So far we have relied on 'key performance indicators'. People issues remain rather 'nice to have cushions for welfare'. People issues are rarely measured with the same precision and esteem. The turning point for future orientation will be the hard-core *Key Performance Syntegrators* (KPS). We propose that if an organisation is not able to implement key performance syntegration (KPS), it is on the fringe of failure and working with a short-term focus. It is approaching a dead-end road in an ever changing world of economics and social disequilibrium.

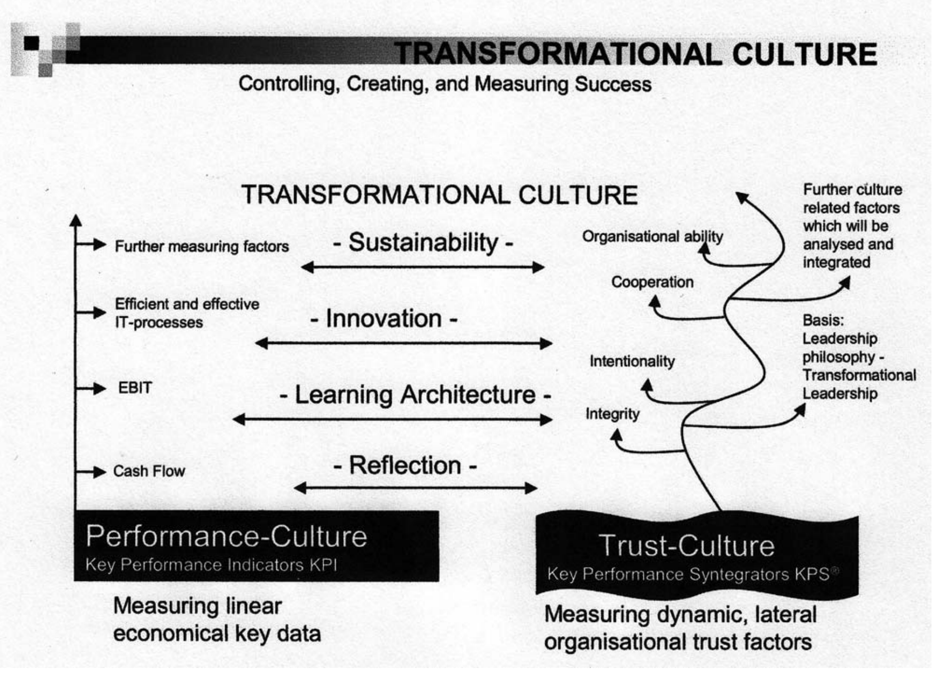
To develop corporate community is critical. This will prove as tangible assets for customers and society as a whole as it integrates 'performance culture' and 'trust culture'. As our capitalistic paradigm is based on measurable and tangible parameters, 'corporate community' has to be included within the governance of a company.

Figure 1: Corporate Community

Both the performance culture and the trust culture are necessary. There is a natural integration of the linear and the lateral. Customers and society benefit, for both are part of community. This ensures the creation of shared value (creating economic value in a way that also creates value for society by addressing its needs and challenges).

Key Performance Syntegrators (KPS)

Figure 2: Transformational Culture



What are KPS? First we point out that KPS are not defined once and for all. In reference to Elinor Ostorm's *Governing the Commons* (1990), it is the 'locals' that know best integrating and synchronising, just like organisms. Organisations are organisms. Therefore, KPS have to be defined within a culture, adjusted and profiled within a certain context. At the same time KPS refer to key controls which are ever present in each organisational or cultural environment but find different organic expressions. Key elements include the following:

Intentionality is expressed in mental awareness – being awake, being in a productive tension zone, feeling excited, etc – it is observed with neurobiological processes e.g. neuronal action of the brain (frontal lobe).

Integrity is exhibited by people in an organisation where managers and leaders walk the talk, others do as well.

Cooperation has positive effects on health and performance. If there is cooperation and trust among people, they share knowledge. This knowledge is the one value which increases when it is shared.

Result orientation is the hardware for success. The human mind is geared to search for success and results. Results must be promoted, celebrated and at the same time (when results are on the table) there must be new proposition for new results (because resting on results achieved leads to lethargy and retirement into comfort zones).

Competencies have individual, social and collective components for an organisation. They must be defined, made aware of, nourished and nurtured.

Organisational Ability includes both processes and competencies which emanate from, and have to be implemented in, the lowest level of the organisation so that decisions can be made by people with competence and authority and responsibility all the way 'down there' (see Ostrom's hypothesis).

How do we articulate, experience, and measure Key Performance Synetgrators? The transformational culture created by KPS is outlined here:

Checkpoints for KPS (quantitative and qualitative research) are adjusted to the requirement of the organisation. KPS offer strategic data to raise the level of performance within the organisation, create identification with the present strategy of the organisation and ensure sustainability. Organisational trust is the 'breath' of the organism of a corporation.

Integrating and synchronising call for both quantitative and qualitative measures. We need the more exact precision that numbers provide and we need the understanding and meaning to appreciate the context in which to place the numbers. For example, 'what did the Short-Sight Brothers do wrong?' They had clear targets and quantifiable goals for their furniture business. It was clear for them that they had to dismiss a number of employees. Of course, those who were still on probation were the first ones. Beth, an architect, had sold quite successfully high-priced furniture. She was on the list, though. The S-S Brothers had their office several hundred miles from the store where Beth worked. They had just the payroll sheets and decided who should leave. Shortly after the manager of the store where Beth had worked noticed that sales had gone down dramatically – incurred–losses of several hundred thousand Euros. He realised why: because they had fired Beth. She had been the key sales person. And she could have been the key sales person for that big Algerian project where they needed a French-speaking person (and Beth had lived in France for some time).

So what went wrong? The linear thinking of management was blind to that essential lateral factor which we call 'community'. The Short-Sight Brothers understood the numbers, but they did not assess (or did not know) the context of the numbers. They needed to meet Beth and put the numbers in context.

When reviewing the Short-Sight Brothers we are providing an historical perspective. In that case it is much easier to see the application of only one perspective and the lack of another. But we live in fast changing circumstances. As we appreciate change we know that the numbers and the context are always changing – and they may not change in any synchronised way. Therefore, we advocate measuring both the quantitative and qualitative aspects of an organisation as it progresses through change.

By way of example, let us continue with the Short-Sight brothers. The store where Beth worked is now suffering from low level of sales. A change needs to happen, this is what we call the 'Awareness' stage of the Change Wave. Two questions arise: (i) exactly how do we label the change (raising this store sales by 80%; increasing store sales by engaging more sales people; finding a sales champion; etc); and (ii) what is the context within the store now after Beth has left?

Regarding the first question, once the label has been articulated, we can measure exactly how many people know the label, how they understand what the change is, whether or not they are doing anything about it. This is where the quantitative data is very helpful. We can get this data with surveys, questionnaires and observations. And, the context has changed with Beth's departure.'So, when we get the numbers, we will need to apply them in the appropriate context. How have the others been influenced by Beth's leaving? Are they happy, depressed or only minimally impacted? Are there any 'survivor' effects evident?'What meaning have the people'attached to what has happened? Knowing the context is quite important in understanding the numbers and the level of 'awareness' of the new change. Focus groups, interviews, discussions with key people, participant observations, and scenario writing can all be helpful in articulating the context.

Then the organisation moves from 'awareness' to more 'personal concerns'. With this movement, the context changes as does the questions to be answered in quantitative ways. We continue to gather data to answer the questions and continue to monitor the context.

The integration and synchronisation of gathering information and carrying out analysis is critical to understand the organisation and to suggest productive pathways into the future. Just as the organisation changes, so does the way in which data is gathered. This clearly provides an 'organic' nature to the growth of the organisation and a customised approach to learning about the growth.

Practical Diagnostics

Organisations are always in a state of flux. Therefore any intervention ought to determine: where the organisation is relative to a particular change initiative and what is the culture of the organisation at this point in time. Stated another way: the organisation needs to know how well integrated they are; and what is the context for the necessary synchronisation?

Step 1 is the Diagnostic which measures where the organisation is on the Change Wave using the Change Assessment. This will provide the necessary concrete data to determine the particular stage for the organisation. Concurrently, interviews, participant observations, and focus groups will be deployed to determine the context and culture of the organisation. The resulting scenario writing will articulate values, patterns of behaviour, and attractors. Then the full report will identify congruence or non-congruence of the stage on the Wave of Change and the cultural context of the organisation.

Step 2 is the design of the intervention and the designation of the necessary monitoring measures or approaches. As noted above, each stage in the Wave of Change clearly requires unique interventions and different ways to determine whether or not the organisation ought to move to the next stage or if more intervention is necessary. Knowing what, how and when to intervene is critical to success.

The interventions are always unique to the organisation. We need to listen to the *Nobel Laureate* Elinor Ostorm and recognise that there is much to be learned from the 'locals', that is, how they are integrated and how they are synchronising. This ought to result in powerful inquiry within the organisation. Everyone may be involved in answering the central questions and solving their own problems – meeting their own challenges. The real intervention work is done internally based on the results of the diagnostics.

The monitoring measures are a bit more stable and somewhat more prescribed, however always contain both the quantitative and qualitative elements. Stage 1 of the Wave of Change requires a more straight forward approach. Survey the population for levels of Awareness (be sure to do this by various groupings within the organisation). Awareness, knowing and understanding the change are revealed here in terms of quantitative data. Qualitative mapping and observing individuals and groups are important at this Stage 1. Determining where there are pockets of influence and groups of resistance will be helpful. Knowing where ideas are emerging and growing are thus essential.

Stage 2 of the Wave of Change relies much more on qualitative data. It is appropriate to secure levels of satisfaction and how people are feeling via surveys. However, it is much more valuable to convene 'listening' groups, conversation cafÈs, and document informal interactions to determine the levels of Personal Concerns. At this stage the emotional climate needs to be determined.

Stage 3 of the Wave of Change requires a more quantitative data, but not in the sense of using surveys, rather quantitative analyses are used. Business case scenarios, implementation histories and current researches are developed to guide the change. However, we will need to know whether the Awareness still holds, and that more Personal Concerns are being met as we work though Managerial Considerations.

Stage 4 of the Wave of Change – Commitment – ought to equally combine both the objective–(these are the reasons and relevant gathered data) and the subjective (these are the values that create the foundation for one's commitment). Measurement of this can quickly and easily be done by documenting and publishing (making public) all of the reasons to make the commitment and the underlying values. It is always helpful to secure signatures to this commitment as well.

Stage 5 of the Wave of Change is the implementation of the interventions. Here much formative data needs to be applied to guide the behaviour. Many mini-surveys and continuous progress charting can provide the guidance on the objective level. Discussion groups can assist in monitoring the tempo, feelings, and emotions of the organisation.

Stage 6 of the Wave of Change is the Celebration – the Evaluation – the Climax. Here everything comes together. All of the previously gathered data (both quantitative and qualitative) are summarised. While conducting one final analysis of Diagnostic (see Step 1 above) in order to identify just how far the organisation has moved, and in what direction, two critical elements at this stage would involve: the emotional levels at this point (they ought to be very high), and harvesting the learning – the seeds for future growth and development. Again this data can be captured via surveys, focus groups, interviews, participant observations and scenario writing.

It becomes obvious how *Integsynch* unites and aligns to bring necessary aspects together while engaging in social business. The organic measurement gives meaning to the present and a blueprint for the future. It is this type of engagement that ensures sustainability as we 'govern the commons'.

An Initiative in Right Direction?

Grameen Bank started small and local, that is how most innovative revolutions begin. Grameen is now global and its approach is now branded as a poverty alleviation tool. And *Nobel Peace Laureate* Prof Muhammad Yunus's social business approach is now gaining momentum worldwide. In the spirit of social business approach, ShareOn – an online tool offering assessments and resources used for leadership development – is currently a small and somewhat local initiative (in Hamburg Germany) to link people and resources promoting growth and development.

The ShareOn is a community of consultants, psychologists, educators, enterprising youths and business professionals dedicated to the assumption of abundance. The initiators believe in collaboration and thrive in an environment of trust and sharing, and seek to link leaders of all types to resources which would enhance their growth.

The ShareOn endeavours to create value to society by nurturing leaders generally and linking non-profit/NGOs and profit organisations more closely to the needs and challenges of society. This initiative endeavours to create opportunities for closer alliances between and among all types of organisations via sharing of resources. In the context of creating 'shared value', Porter and Kramer (2011) noted, 'A big part of the problem lies with companies themselves, which remain trapped in an outdated approach to value creation that has emerged over the past few decades'. They go on to say: 'Companies must take the lead in bringing business and society back together'. Non-profits/NGOs must however have to play their part.

The ShareOn resources are shared by its partners, now 62 worldwide, dedicated to linking people and resources.–While its business approach is 'social business'-orientated, and the method of assessing environment and learning to know each other through its community profiles progresses along Ostrom's line. It is experiencing *Key Performance Syntegrators*. Intentionality, integrity, cooperation, result orientation, competencies and organisational ability are all being practised. The ShareOn is using expertise of its community to promote life and sustainability – exercising new models of learning and building community.

Remarks

The Global Social Business Summit held at Autostadt, Wolfsburg in Germany, November 2010 set a tone that brought people together: 'if you are in business, you ought to make money but not on rejection of humane'. As Prof Muhammad Yunus reiterates, we ought to accept the fact that every human is multi-dimensional. The 'selfish' and 'selfless' must'live side-by-side, the latter posture is the abundant source for creativity and innovation, the key challenges for business in the future. Special speaker at the Summit, charismatic Brazilian writer Paolo Coehlo noted 'trust is the key investment'. Trust is the leverage for networking. Only trustful networking will create the essential synergies for dealing with the ever more complex world companies and global society. It can be asserted by diagnosing and measuring that companies who implement the basics of 'social business' are here to stay – sustainable.

Corporate is a unified body, where connections are explored and synergies appreciated – that is what the human norm of 'social business' is about – being corporate. When paradigms change the ways in which we talk about them (documenting and measuring) must evolve as well. Clearly we currently face challenges in many ways: some of the flaws of capitalism have been exposed. Now is the time to perceive, investigate, and explore: we needed to explicate and define the emerging patterns and support what is deemed desirable, sustainable and life-promoting. □

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How to Turn Entrepreneurs into Social Entrepreneurs?

A Challenge for Developing Countries

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Abstract: In developing countries, entrepreneurial skills would play an essential role in the creation of successful social businesses. Because there are no better people than existing entrepreneurs when developing new businesses, we argue that governments and multilateral organisations should rely on them to promote the concept of social business. But, are existing entrepreneurs ready to turn into social entrepreneurs? In this article we analyse the characteristics of entrepreneurs in developing countries, provide insight into their mindset toward social entrepreneurship, and produce policy recommendations that may help persuade them to become social entrepreneurs.

Keywords: entrepreneurship, social entrepreneurship, developing countries, policy recommendations, multilateral organisations

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Introduction

IN DEVELOPING countries, multi-national companies (MNCs) are not the main drivers of economic growth: emerging economies mostly rely on small and medium-size enterprises (SMEs). Although MNCs may certainly have a role to play in fostering social business development, governments will also need to turn to existing entrepreneurs in order to fully realise the potential of this sector. However, while MNCs' interest in social business has been deeply analysed, existing entrepreneurs' willingness to go 'social' remains to be investigated. We try in this article to provide turnkey recommendations for governments and multilateral institutions to leverage the existing local network of entrepreneurs, and spread the concept of 'social business'.

We base those recommendations on a study conducted through the International Finance Corporation (IFC). The IFC has, over the last ten years, been developing the SMEtoolkit[3], a network of online training websites for entrepreneurs in 32 developing countries. Those websites provide their five million visitors per year with classical business development training materials. In 2010 the IFC wanted to know if those trained entrepreneurs would be interested in supporting programmes toward social entrepreneurship. We therefore conducted, through the IFC, a survey that investigates how small and medium enterprises in emerging markets perceive environmental and social issues. This survey includes both qualitative interviews with entrepreneurs, NGOs, academics and corporate partners, and a quantitative study conducted among the websites' visitors. We analyse those results to provide an outline of the main strategic issues and options offered to entrepreneurs in developing countries, to underscore their mindset toward social entrepreneurship, and to provide recommendations to programmes aiming at turning existing entrepreneurs into social entrepreneurs.

We underline that if existing entrepreneurs were to turn their attention to social businesses, this may have a deep impact on emerging countries' economic and social development. However, we also note that at present this population does not seem ready to embrace the social business trend. Existing entrepreneurs' only strategic orientation is

[3] www.smetoolkit.org

towards short-term profitability; and their limited access to capital drastically limits their willingness to invest in pro-social initiatives. We therefore emphasise that governments and multilateral organisations should first concentrate on changing entrepreneurs' mindset toward social business. They should raise their awareness on their enterprises' social impact, prove to them the financial viability of social initiatives, and build their capabilities to implement such initiatives. Finally, we highlight that policies designed to foster social business initiatives should be tailored to existing entrepreneurs' specificities. We therefore propose a set of social entrepreneurship opportunities which institutional programmes should promote.

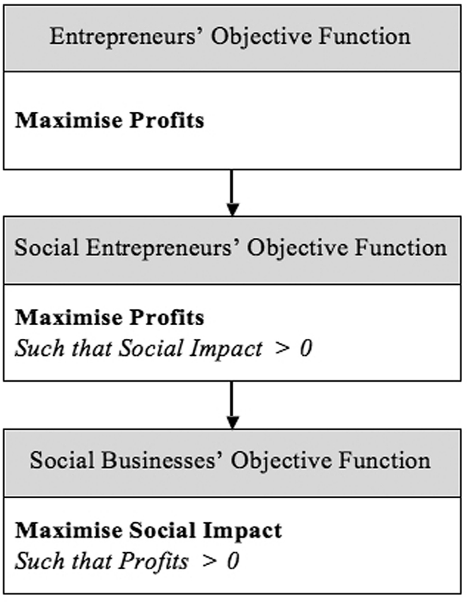
Entrepreneurship, Social Entrepreneurship and Social Business: Key Development Drivers for Developing Countries

The origins of the word *entrepreneur* go back to the French entreprendre popularised by the economist Richard Cantillon in the late eithteenth century (Cantillon 1755). *Entreprendre* means to undertake. Therefore, Cantillon's perspective was that entrepreneurs'are, above all else, risk-takers. They engage resources in a venture while being uncertain of its potential financial success. Jean-Baptiste Say walked on Cantillon's path and further developed the definition of entrepreneurship (Say 1861). He posited that entrepreneurs were not investing but re-allocating their own resources to a more productive but more risky activity. Entrepreneurs' skills and mindset have therefore long been highlighted as determinants of their strategies. It is their state of mind that allows them balancing between profits' opportunities and risks weighting on their options.

In developing countries, entrepreneurs have become a critical component of economic development. They account for more than 45% of employment and 33% of GDP, even more if is taken into account the large informal sector (IFC 2010). They are also major change-makers when it comes to countries' business structures and market developments. Entrepreneurs innovate by exploring unsuspected markets, by taking risks where large companies'do not. They create new ways to operate, serve un-reached customers and drastically modify business practices. In that sense they do not only drive developing economies' growth, but further contribute to coin business practices. In that sense, they could be the best advocates of innovative corporate social practices.

On the other hand, social entrepreneurship is a more contemporary concept, mainly coined by Bill Drayton, the founder of the international social entrepreneurs' network Ashoka. In recent years, it has become increasingly familiar to the general public. It differs from canonical entrepreneurship in the sense that it goes beyond the economic objective of the firm to include a 'social' one. While existing entrepreneurs' goal is to maximise their venture's profits, social entrepreneurs' goal is to maximise their profits while also ensuring a certain level of social impact. The concept of *social business* as developed by Muhammad Yunus goes further. It assumes that social businesses' objective is to maximise their social impact, while remaining economically sustainable (Yunus 2007). Social entrepreneurship and social business are both non-loss making economic activities. They generate economic revenues to finance their social missions and use market mechanisms to grow. However a social business is a non-dividend organisation whose only goal is to impact its stakeholders' welfare. A social entrepreneur also commits to its shareholders, but distributes dividends. Social entrepreneurship lies in between entrepreneurship and pure social business (see Figure 1).

Figure 1: Entrepreneurs, Social Entrepreneurs & Social Businesses



Governments must, therefore, see 'social entrepreneurship' as a step from canonical entrepreneurship to 'social business'. First existing entrepreneurs are unlikely to switch from a pure profit maximisation objective to a pure social impact maximisation objective. While they may have an interest in social business, switching implies a deep organisational change and thus a risk they are not willing to take. Entrepreneurs need proofs that an enterprise based on social performance is viable. Social entrepreneurship in proving them they can have a positive social impact while pursuing a profit maximisation strategy is a first proof. Furthermore, entrepreneurs in developing countries are reluctant to replicate initiatives based in other countries, other sectors, or for firms of different sizes. Social business cases are now-a-days scarce and few existing entrepreneurs have the opportunity to find comparables to their situation. This impossibility to find relevant successful cases to base their approach prevents several new entrepreneurs from going social. The development of social entrepreneurship should thus not only push social entrepreneurs to social business, but further provide comparables to new entrepreneurs willing to directly launch a social business.

Regarding governments and multilateral organisations, social entrepreneurship and social business are of deep interest. Social enterprises through a double-edged objective are not only factors of economic growth and business innovation, but further factors of social change. They ensure not only economic development, but further its social sustainability. They are an 'innovative business model that meets both social and economic objectives, contributing to labour market integration, social inclusion and economic development' (Noya 2009). A social business initiative such as the Grameen Bank contributes to business infrastructures in creating innovative banking products, but also ensures social development in providing wages to an unprivileged population. Social enterprises are therefore a way for institutions to make a balance between economic and social development.

Social enterprises find roots in three different seeds: MNCs, new entrepreneurs and existing entrepreneurs. The Grameen Bank initiative was led by a new entrepreneur, Professor Yunus who built from scratch the first 'social business'. Later on, he engaged in joint-ventures with MNCs such as Danone, BASF or SAP. Those MNCs embraced the social business principles, but only as part of their activities. They never modified their core business orientations to maximise only social welfare. In that sense, while those joint-ventures are pure social business players, at the firm level MNCs are still closer to the social entrepreneurship principle: they maximise profits but still want to ensure a beneficial impact on society. The third group of social enterprises' initiators has however been scarce and understudied: existing entrepreneurs. Governments have relied on MNCs' and new entrepreneurs'-led social initiatives to strengthen this increasing part of their economic development. Could they now rely on existing entrepreneurs? Are existing entrepreneurs interested in going social? What should governments and multilateral organisations do to promote social enterprises among them?

Success in business relies on leaders' capacity to innovate and take risks. Being a successful social entrepreneur requires the same capacities as being a successful entrepreneur. Social entrepreneurs just mobilise entrepreneurial principles and their skills to serve a social cause. In addition, social enterprises need to be self-sustainable, similarly to any kind of businesses. Thus, who better than existing entrepreneurs could be successful as social entrepreneurs?

The question to solve is therefore not to understand if existing entrepreneurs would be successful social entrepreneurs, but whether or not they are willing to go social? And if not, what are drivers at governments' disposal? We do not pretend that all entrepreneurs should be social entrepreneurs. However, we suggest that in developing countries, due to limited access to information and lack of specific factors of production, the number of social entrepreneurs is still lower than the number of existing entrepreneurs willing to be part of them.

Entrepreneurs in Developing Countries: Strategic Orientations and Business Preoccupations

To understand if existing entrepreneurs in developing countries are willing to go social, one must understand what are existing entrepreneurs' strategic orientations and the issues they are facing. Entrepreneurs in developing countries are far from being similar to entrepreneurs in the developed world. While commonalities exist, both are willing to take risk to expect a higher pay-off, the way they take those risks and how they define their pay-offs largely differ. New ventures' strategic orientations are deeply dependant on their business environment. While developed countries offer well-framed market rules, institutionalised relations to stakeholders and defined processes to access labour and capital, in developing countries business environment is rapidly changing and subject to high uncertainty. When demand is rapidly changing, contracts and property rights hardly enforced, and competition unregulated, entrepreneurs need to adapt their objectives and tackle issues that are not necessarily related to their core business.

Entrepreneurs in Developing Countries are Strategically Oriented Toward Short-term Profitability

Initially, most entrepreneurs in developing countries do not have any social motivation when launching their new ventures. Their main motivation is to increase their revenues and thus strategic decisions are always made to generate higher profits or ensure companies' survival. Such particularity find roots in entrepreneurs' motivation to launch their businesses: exploiting slack resources, or unique competences. In developing countries there are large discrepancies in terms of revenues between business-owners and employees. Most workers are willing to develop their own projects and switch from their position to the one of business-owner. Entrepreneurs are therefore most often individuals who gained enough liquidity, slack resources from their past positions to invest in a business project. This is specifically the case in the services sector such as for retailing shops or construction works. Entrepreneurs may also extract those slack resources from family or relatives networks. When parents or relatives developed successful businesses it is easier to access capital and supporting networks, and thus easier to develop a new venture. This access to normally scarce capital opens opportunities in the manufacturing sector, a sector of predilection for entrepreneurs with family-related slack resources. On the other hand, entrepreneurs are also often young graduates with relatively little working experience, but unique competences. In the developing world the number of people accessing higher education is scarce and those who do so gain a competitive advantage they may transform in higher revenues. Such cases are most common in high value services such as lawyers, consultancy services or engineering works.

Compared to entrepreneurs in developed economies who have long-term plans for their companies and expect value-creation on 2 to 3 years periods, entrepreneurs in developing countries have a myopic view on their businesses. They rarely envisage strategies over a six months period. First explanation is that their business environment is constantly changing. Entrepreneurs in developing countries are facing day-to-day events that potentially modify their whole operations. A power outage may stop the production line for days, people enforcing laws might decide to suddenly raise taxes, employees might stop to show-up, etc. Secondly, in developing countries contracts and property rights are often not enforced which increases business uncertainty. Most contracts are implicit, orally formulated and not written. Even when explicit contracts are formulated few reliable legal proceedings exist to enforce them. On the other hand, markets for raw materials, products, human resources, and capital tend to be much more efficient since the contracts can be enforced. In the absence of contracts, entrepreneurs face a higher risk of new entrants, switching customers, unreliable suppliers or human resources. In developing countries it is almost impossible to ensure through contracts long-term sales or raw materials supply, political instabilities often modify licences to operate and few mechanisms exist to ensure reliability of human resources. Therefore, due to business environment instability and such lack of contracts, entrepreneurs in developing countries face higher uncertainty on their future profits, and put much more weight on their short-term performance, than on medium or long-term strategies.

Entrepreneurs in Developing Countries Lack Access to Capital and Business Knowledge

Among the 365 to 445 millions of micro, small and medium enterprises in emerging markets, 72 percent do not have access to formal institutional loans (IFC 2010). This gap between demand and access to finance comes first from a lack of financing institutions. The banking sector is less mature and structured in the developing world, when compared to the developed world. Banks are usually concentrated in cities while many SMEs operate in rural areas. Banks are lacking liquidities, which pushes SMEs toward informal lenders or community supports resulting in unprofitable high interest rates.

In addition, limited access to finance comes from the lack of trust between entrepreneurs and bankers; a lack of trust mostly due to the entrepreneurs' lack of business knowledge. Most entrepreneurs in emerging markets may have very specific skills related to their venture, but are desperately lacking general business knowledge, finance fundamentals or basics of management. Moreover, in such countries accounting and reporting standards are fluctuant, and make entrepreneurs unable to provide precise, measured and reliable financial statements of their existing or planned venture. Most users of the IFC training programme for SMEs are therefore looking for information on business planning, accounting and finance in order to be able to present viable and reliable projects to financing institutions. In a second time they have been shown to look for information on human resources management or fundamentals of marketing while implementing efficient recruitment or develop their sales. Entrepreneurs in developing countries may have competences to innovate but little competences to sell, organise, and optimise a production. Facing this knowledge gap, bankers in developing countries are even more reluctant to provide capital.

Myopic Strategic Orientation and Difficult Access to Capital Lead to Cost Leadership Strategies

A strategic orientation toward short-term profitability, the difficult access to capital and the lack of business knowledge limit entrepreneurs' range of options. While entrepreneurs in developed markets still balance between Porter's canonical differentiation or cost leadership competitive strategies (Porter 1980), entrepreneurs in developing countries most often try to create value by producing at lower costs than their competitors, and neglect products' differentiation. Differentiation strategies require changes in production processes; involve advertising expenditures or the development of new products. They imply large investments that are'neither affordable nor available to entrepreneurs. Their only way to differentiate is to do it at no cost, thanks to new distribution channels, word of mouth marketing or new management models aimed at providing better services. However, such opportunities are scarce and require in-depth business knowledge. In addition, differentiation strategies necessitate long-term planning. Customers' appropriation of new products or services takes time and entrepreneurs may have to be patient before observing any returns on their investments. Such strategies are thus at odd with entrepreneurs' myopic view on their business and difficulties they encounter in an uncertain environment. They therefore often rely on cost leadership strategies. They focus on reducing their production costs rather than investing in potentially profitable projects.

Understanding such strategic mindset is crucial to understand entrepreneurs' position toward sustainability issues. While in developed countries most entrepreneurs would agree that pollution prevention investments or organic food production are long-term profitable strategies, such opportunities are not only unavailable to entrepreneurs with low access to capital, but also out of interest for entrepreneurs focused on their short-term profitability.

Entrepreneurs' Mindset toward Social Entrepreneurship: A Need for Awareness-raising and Capacity-building

In July 2010, the International Finance Corporation conducted a survey to understand the orientation of SMEs in developing countries toward sustainability issues. The main objective was to understand whether users of its online training tool, the SME toolkit, had an interest in pro-social strategies. This study included both an online questionnaire and interviews. While the quantitative survey remains limited (52 respondents) and centred on specific geographic areas, (62% from western Africa, others from North Africa, Central and South America), we only provide results that have been validated through interviews with entrepreneurs, NGOs, corporate partners and development experts. In a first step, we suggest that the entrepreneurs' mindset toward social entrepreneurship in developing countries is the key impediment to social entrepreneurship development. We then try to understand how governments and multilateral organisations could trigger a mindset change.

Entrepreneurs in Developing Countries are Unaware of their Social Impact

While most entrepreneurs in developing countries understand the words sustainability, corporate social responsibility (CSR) or sustainable development, they most often fail to apply those concepts to small and medium enterprises. While 23% of entrepreneurs consider themselves as knowledgeable on sustainability issues, only 50% form this subset integrate social performance in their objectives. One of the main reasons is that they are only partially aware of social issues they generate. Their knowledge of sustainability issues is limited to the ones broadcasted in the media. Specifically, most respondents assimilate their social impact to their impact on climate change or air pollution. While they are governments' priority and well advertised, SMEs hardly see or measure their impact on such environmental issues. Most entrepreneurs therefore consider that social issues are MNCs' responsibilities as they are more likely to have an impact on those concerns. However, social impact does not only include reduction of polluting emissions. It encompasses a broader range of issues including working condition, human rights, natural resources management or waste management. While entrepreneurs have rapidly understood that their enterprises couldn't impact climate change, they still fail to understand that through they could have impact on other crucial issues. Therefore, while some would argue that entrepreneurs in developing countries do not have any morality or interest in social impact, our study instead underscore that they are just unaware of their social impact. Several factors may explain this unawareness. First, there is usually very little institutional communication to raise awareness of entrepreneurs on their social impact. Secondly, consulting or training services on sustainability issues are almost inexistent in emerging markets. Finally, MNCs from developed countries, which should transfer their best practices in terms of pro-social strategies, often forget their commitment to sustainability when entering an emerging market. At the contrary they are often worse performers in terms of social impact.

Entrepreneurs in Developing Countries are Unaware of Business Opportunities Made Available by Social Entrepreneurship

While entrepreneurs' awareness of their social impact is a necessary condition, it is not a sufficient one to push entrepreneurs toward social entrepreneurship.

'Classic' entrepreneurs' main objective is to increase their revenue and therefore any initiative that tackle a social issue but'does not increase their venture's profitability won't ring any bell for them. Here again there exists a lack of knowledge. Entrepreneurs believe that any action primarily aimed at limiting their social impact will negatively affect their financial performance. This perception is mistaken, specifically in the context of an emerging market. First most existing entrepreneurs can't afford insurances for their employees and thus encounter huge costs when they face health or safety issues. When an employee faces an accident at work, the entrepreneur has to take in charge all the medical expenses and the potential disability pension. Secondly, energy in developing countries is a scarce and thus costly resource. In such situation, energy accounts for 10% to more than 65% of SMEs' total costs of production (USAID 2009). In addition, green labels and sustainability reporting could also be valuable assets for SMEs. Most manufacturing and agri-business enterprises in developing countries are turned toward exportations and there is an increasing pressure from buyers in developed markets to promote sustainability standards. Finally, regulatory frameworks on social and environmental issues begin to emerge in fast growing emerging markets. They may also create pressures on future profits. It is thus interesting to note that at first, most interviewed entrepreneurs didn't consider social entrepreneurship as an opportunity. However, when being described actions they could implement to decrease their energy consumption, or their waste's production, their interest suddenly raised.'SMEs do not have a spontaneous knowledge on how social performance impacts their bottom line.

Entrepreneurs in Developing Countries Lack Capabilities to Enter Social Entrepreneurship

Even if existing entrepreneurs in developing countries were contemplating opportunities to improve their social impact, they would still face a lack of competences to implement such strategies. Among entrepreneurs who believe there is a business case for pro-social strategies, only 51% of them take into social performance in their business model. Interviews revealed that even when SMEs were aware that energy savings or employees' health and safety could increase their productivity, most of them didn't know how to reduce their energy consumption, how to prevent accidents at work. When different training programmes were offered to them, surveyed entrepreneurs ranked second a training on the implementation of pro-social strategies, behind a training in finance, but before trainings in accounting, legal issues or even business planning. This interest in competencies to implement pro-social strategies was even higher for micro-enterprises that account for more than 70% of SMEs in developing countries. Existing entrepreneurs in developing countries therefore lack the know-how to implement sustainable strategies. Even if they would which, they wouldn't be able to turn into social entrepreneurs.

Changing Existing Entrepreneurs' Mindset toward Social Entrepreneurship

Governments and multilateral organisations willing to strengthen social entrepreneurship in developing countries are thus facing a crucial issue: at first sight existing entrepreneurs are not interested in going social. However, our study underscores that such reaction is mainly driven by a low awareness on their enterprises' social impact, on profitable opportunities related to social and environmental issues, and by a lack of capabilities to implement pro-social strategies. Therefore to efficiently promote social entrepreneurship, institutions should first focus on changing existing entrepreneurs' mindset.

Changing existing entrepreneurs' mindset can be seen as a three steps process (see Figure 2). First, institutions should raise awareness of existing entrepreneurs on their social impact. Among entrepreneurs aware of their social impact, 50% of them have a social performance objective. By contrast, among entrepreneurs having a limited knowledge of social and environmental issues, only 15% implement pro-social strategies. Institutions could achieve better awareness in providing existing entrepreneurs with social impact diagnostic tools, benchmarking instruments and assessment methodologies. Institutions should above all specifically highlight social issues that are specific to SMEs such as working conditions, energy consumption or waste management. Awareness-raising is a necessary step before tackling a second gap: the linkage between social entrepreneurship and profitable strategies.

Relating social responsibility and profitability is for institutions a second necessary step toward social entrepreneurship development. 66% of entrepreneurs who perceive this relation could be potentially tempted by social entrepreneurship, while only 47% of unaware entrepreneurs would like to turn social. Institutions to make existing entrepreneurs aware that pro-social strategies may be profitable should focus on providing success stories and detailed business cases as proofs of social entrepreneurship profitability. They could also create sustainability awards that would put successful companies as role models.

A final step in modifying existing entrepreneurs' mindset would be to provide them with tools to implement pro-social strategies. Among the entrepreneurs who are willing to turn social, only 38% effectively do. Institutions could leverage on this willingness to go social by offering training programmes, support from successful social entrepreneurs, and institutionalised agencies that support social entrepreneurs.

Figure 2: Changing Existing Entrepreneurs' Mindset

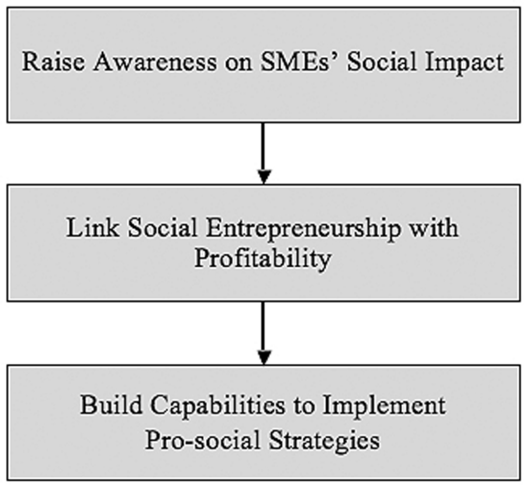
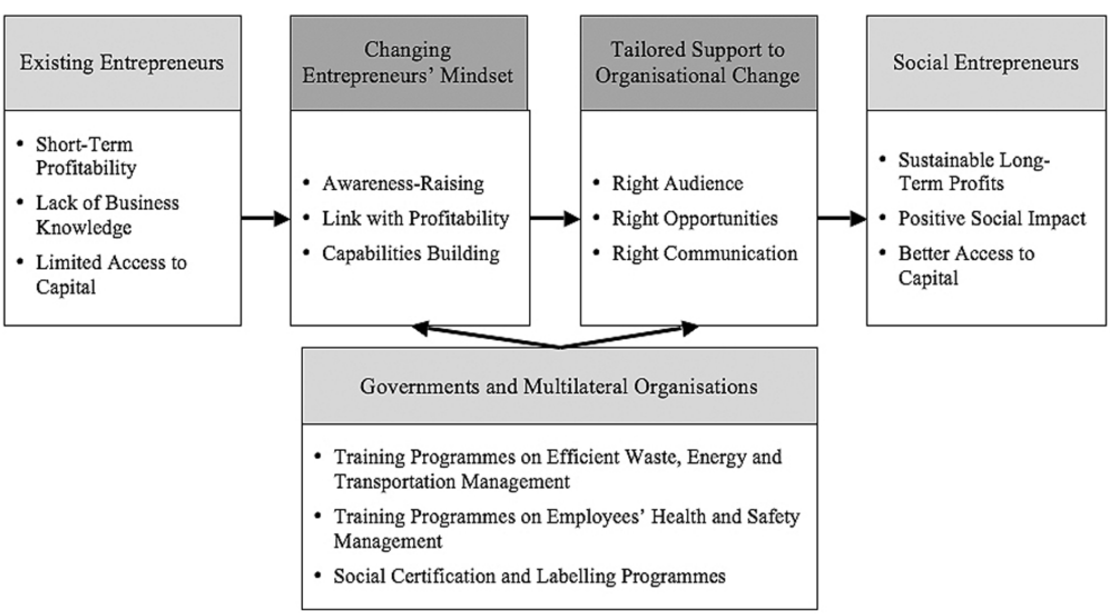


Figure 3: Challenge in Developing Countries: Turning Existing Entrepreneurs into Social Entrepreneurs



A Tailored Support to Organisational Change: Matching Existing Entrepreneurs' Strategic Orientations

Changing entrepreneurs' mindset is a first step. It is however still not enough to turn a critical amount of existing entrepreneurs into social entrepreneurs. Such drastic modification in a business's strategic orientation is a risky organisational change. To take such risks entrepreneurs must not only be aware of benefits they could reach, but must further have incentives to do so. Governments and multilateral organisations can't really use a stick to force existing entrepreneurs toward social entrepreneurship. Even when social and environmental regulations exist, they are hardly enforced and corruption issues are common. Institutions must instead use a carrot to trigger such organisational move, design programmes that appeal entrepreneurs. An efficient institutional programme that would aim at turning existing entrepreneurs into social entrepreneurs should thus present the right opportunities, with the right message, to the right audience. An efficient programme fostering SMEs' organisational change should match their existing strategic orientations and preoccupations. It should underscore social entrepreneurship as way to both leverage their strategies, and limit their preoccupations.

The Right Audience

Institutions should differentiate their programmes supporting organisational change in the audience they are targeting. Existing entrepreneurs are managing firms of different sizes and from different industrial sectors. They do not encounter the same issues and engage in quite different strategies. In the manufacturing sectors most SMEs in developing countries rely on the export markets as growth driver. They are thus extremely dependant on pressures from large purchasers in developed countries. On the other hand SMEs from the services sector are focused on the internal market, but mostly rely on their employees to create value. Those entrepreneurs' main preoccupation is to prevent themselves from employees' no show-up or extra-costs such as work incidents. Finally, energy is a major issue in developing countries where distribution is expensive and randomly provided. While small and medium size companies can afford investing in their own generators, micro-enterprises might spend more than 50% of their total costs in energy purchases (electricity, gas, oil, etc).

The Right Opportunities

Institutions should identify social entrepreneurship opportunities that match existing entrepreneurs' strategic orientations. Entrepreneurs concentrate on short-term profitability. As they lack access to capital, they can't afford large investment and prefer cost leadership strategies. Therefore, institutions fostering changes in production tools, large investments to reduce pollutants or investments in organic food production are mistaken. Entrepreneurs will never have incentive to go on such strategies that are long-term sighted and necessitate large investments. Governments promoting the respect of human right will probably get answers from MNCs but will hardly convince SMEs. Their chances to be caught by regulatory authorities are minimal and thus the impact of respecting human rights remains minimal on their profitability. However, our interviews underscored 4 typologies of pro-social strategies that match entrepreneurs' strategic orientations, and their firms' size and sector-specific issues.

Waste, Energy and Transportation Management

Most appealing initiatives that would turn existing entrepreneurs into social entrepreneurs are pro-social strategies targeting waste, energy and transportation costs reduction. Entrepreneurs if they are trained to techniques that reduce their energy consumption, limit waste in their production processes and optimise the use of costly transportation will be more likely to implement them. While such strategies have a direct and positive social impact, they nonetheless necessitate no cash investment. They consist in changing the processes, not the production tools. They also have a direct and short-term impact on firms' profitability as waste, energy and transportation are typically variable costs incurred in the production process. Such pro-social strategies specifically match micro-enterprises' preoccupations and therefore 100% of those answering our study claimed to be interested in trainings that address such subjects.

Employees' Health and Safety

The second most appealing topic is labor productivity through employees' health and safety. Human capital is a main competitive driver for SMEs in developing countries. However, due to cash limitation entrepreneurs can't insure their employees nor can afford pecuniary incentives. This situation brings about a number of risks. Work accident, no show-up and labour turnover are frequent and can hugely threaten enterprises' profitability. In addition, entrepreneurs struggle in fostering motivation and involvement of their employees. Most of them envisage work as a mean of survival, not a social benefit. They are reluctant to provide work-quality and accept any other opportunity with higher salary. Therefore, if entrepreneurs were trained to techniques limiting accidents at work, protecting their employees' health and creating better work conditions, they would not only gain in limiting risks, but also in motivating their staff toward their firm's objectives. Limiting employees' health and safety issue is bound to increase firms' short-term profitability by reducing labour costs and increasing labour productivity. It thus perfectly matches entrepreneurs' strategic orientation, specifically entrepreneurs from the services sector whose business models largely rely on labour productivity. 97% of them claimed in our survey to be interested in trainings on such techniques.

Certifications, Labels and Sustainability Reporting

Finally, the third pro-social strategy our interviews highlighted is the certification and reporting of good practices. More and more buyers from developed countries pressurised by their governments try to implement a sustainable supply chain. They modify their portfolios of suppliers based not only on those suppliers' prices and quality, but further on their respect of some basic social norms. Because of a lack of certifications and traceability in developing countries such pressures have a huge impact on SMEs that are struggling to maintain their exports. Exporting SMEs even if they already respect the social norms are entering a risky phase when customers may suddenly switch to competition for not observing certain certifications. Existing entrepreneurs therefore have a large incentive to report and certify their productions' social performance. Such labels limit the risks of customers switching and the costs of finding new-ones. They therefore match entrepreneurs' short-term profitability objectives. They are specifically relevant to the agri-business sector and more broadly to manufacturing companies that for 94% of them would be interested in institutional certification programmes and trainings on reporting practices.

The Right Communication

Governments and multilateral organisations supporting existing entrepreneurs should not only foster appropriated pro-social strategies, develop trainings and certification programmes adapted to entrepreneurs' strategic orientations, but further should create incentives through the way they communicate on those programmes. Entrepreneurs in developing countries are at first sight and due to a lack of awareness reluctant to turn into social entrepreneurs. Therefore, the way they are approached will determine their willingness to go on a further organisational change. When they advertise programmes, institutions should also take into account entrepreneurs' strategic orientation toward short-term profitability, their lack of business knowledge and access to capital.

A Focus on Profitability

Institutional communications should be bottom-line oriented. Institutions won't create any incentive in proposing entrepreneurs to 'reduce their social or environmental impact'. However, they will create large demand when proposing programmes to 'reduce production costs, while having at the same time a beneficial social impact'. The profitability argumentation can be used as a carrot: *going social implies business opportunities*; or as a stick: *there will soon be regulations that will constraint profits of irresponsible SMEs*. Expectations of rewards and fears of punishments have been shown both assembled to efficiently promote social entrepreneurship.

An Approach Specific to countries, Industrial Sectors and Enterprises' Size

Our interviews also showed that while institutions quite often rely on canonical business cases such as the one of the Grameen Bank to promote social business, the impact of advertising such best practices is quite limited. Entrepreneurs do not attach any value to cases that are not specific to their country, their industrial sector and their size. In developing countries business environment is unstructured, unregulated, and therefore heavily differ from countries to countries and industries to industries. Furthermore, social issues creating opportunities may also differ. While medium-size companies in Mexico might fear regulations on health and safety at work, and will see business opportunities in protecting their employees, a micro-enterprise in Senegal won't mind about a regulation that it knows to be unenforced for firms of its size, and would better focus on reducing its energy consumption that accounts for a large part of its production costs. Due to business environment uncertainty and specificities, a micro-entrepreneur in Nigeria will rightly consider impossible for him to replicate best practices from other countries, other sectors and companies of different size. Institutions and more specifically multilateral organisations should thus promote social entrepreneurship while taking into account existing entrepreneurs' regional, industrial and size specificities.

Choosing the Right Communication Channel

Finally institutions can rely on different communication channels to support organisational change toward social entrepreneurship. They can either directly contact entrepreneurs through mass media, large programmes, and government-related institutions, or indirectly approach them through NGOs, academic institutions, multilateral organisations' programmes or independent trainers. The direct approach is the most costly and hardest to implement. It necessitates the training of institutions' employees that initially have no knowledge on social business, and requires the development of new organisations inside existing institutions. While the indirect approach might allow a cheaper deployment of supporting programmes, it has also some limits. Legitimacy of NGOs or independent trainers is limited among existing entrepreneurs. Awareness-raising and knowledge transfer mostly rely on trainers' legitimacy that might be at risk in such approach. In the specific case of social entrepreneurship some biases might appear. NGOs, academic institutions and multilateral organisations' programmes are independent and might have different objectives than the ones of governments. While governments are willing to leverage existing entrepreneurs in promoting only certain typologies of social entrepreneurship that are appealing to them, indirect trainers might at the opposite create noise by promoting also typologies that have been proved to create limited incentives for entrepreneurs. While governments want to focus on waste reduction, employees' health and safety and sustainability reporting, NGOs might want to include also human rights, climate change or organic food production and thus limit the impact of a supporting programme. Therefore, there is no perfect communication channel; institutions must balance between increasing costs of a supporting programme though a direct approach, and limiting its efficiency though an indirect one.

Conclusions

Turning existing entrepreneurs into social entrepreneurs is a challenge for governments and multilateral organisations in developing countries. This could potentially heavily impact the development and sustainability of those emerging markets. Turning existing entrepreneurs into social entrepreneurs is the key most developing countries lack to balance economic and social development.

The path to social entrepreneurship is not, however, a one step process (see Figure 3). Institutions should first recognise existing entrepreneurs' strategic orientation toward short-term profitability, difficult access to capital and lack of business knowledge. They should then focus on changing those entrepreneurs mindset toward social entrepreneurship, by raising their awareness on their social and environmental impact, by proving them the viability of 'social business' initiatives, and providing them with the know-how to implement pro-social strategies. They should finally support existing entrepreneurs' organisational change toward such strategies by developing tailored programmes and advertising them in an optimal way. They should specifically differentiate entrepreneurs in their sizes and industrial sectors to propose them pro-social business opportunities that match their strategic orientations. In essence, we identified that existing entrepreneurs will only have interest to become social entrepreneurs if institutions support them in reducing their waste, energy and transportation costs, in limiting their employees' health and safety issues, and in providing social certifications and reports to their foreign customers. □

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We Can Create a World of Our Choice

PROF MUHAMMAD YUNUS
Nobel Peace Laureate
Founder of Grameen Bank, Bangladesh

[The author delivered the Seventh *Nelson Mandela Annual Lecture* in Johannesburg on 17 July 2009 on the eve of the 91st Birthday of Nelson Mandela – an extraordinary visionary human of the twentieth century. The full text of his speech is published here.]

I STAND in awe, in front of the most wonderful person on Earth today. I feel so honoured and privileged to say Happy Birthday personally to him today. You have inspired us; you don't know who we are, where we grew up, but you have touched our lives.

As young people, we looked up to you: you stood tall and made us stand tall; you rejected prejudices; and you inspired us to reject prejudices; you rejected hatred; and you inspired us to reject hatred. You inspired us to love people, embrace peace; you inspired us to be brave, bold. You inspired us to be defiant. You inspired us to fight the enemies and then extend the hands of friendship without any reservation, and to live in peace and love thereafter. You inspired us to be totally uncompromising, but not lose sight of the moment when the time is right to reconcile and embrace each other. You represent the best in human beings. You inspire the whole world.

Today, on the occasion of your 91st birthday what an experience it is for me to be in your presence on this stage. I feel privileged to be living on this planet and sharing this planet with you. For me this is a moment I'll cherish all my life.

You lifted people from their insignificance. You gave people honour and dignity, irrespective of their race, colour or religion. You became the symbol of the human spirit. You raised the bar to an all-time high to show the world the height a human being can reach in moral strength. You will remain an inspiration for ever. You had gone through your struggles; the world watched, we watched them from a distance. We had our own struggles – our own Liberation War, our own heroes – but you inspired us, nonetheless.

Bangladesh was devastated by massive poverty when it became an independent country in March 1971. It was devastated by war and bloodshed. On top of it there was massive poverty – and then came the famine in 1974.

As a young Economics teacher, I was telling students how wonderful the subject is, how elegant the theories are! Outside the classroom, the famine is raging. Then the frustrations came: 'What good does the theory [of economics] do if it is not working for people?'

So that's where one needs to be bold, to shake off whatever is in the textbook and go by the common sense, by the human spirit, to see if there is anything that can be done without any reference to any textbook.

That is the beginning of the story of our [Grameen Bank's] work – we were trying to do something for our neighbours to save them from the clutches of money-lenders.

A few people in the village all together borrowed US$27. So without reference or anybody's advice, I decided to lend US$27 to [those] people so they could return it to the loan sharks and be free from their clutches. The excitement that it generated in the people caught me. I thought, 'If you can make people happy for US$27, why shouldn't I do more of it?'

I went to pitch the idea to the bank located on the campus. Why doesn't the bank lend the money instead of the loan shark? But they rejected my idea and said it couldn't be done; they told me it was impossible.

Madiba, you taught us that nothing is impossible – so we took the journey and did the impossible.

I became the guarantor and it [Grameen Bank] grew stronger and stronger and never collapsed. Now we have branches all over the world, including South Africa. Those who told us that our model would collapse have collapsed.

We wanted to focus on women because we saw that when money goes to the family through women, it does so much more than going through men. The more we lent money to women, the more we were shouted at and condemned. We had male opposition, and soon it was translated into religious opposition.

People said we were destroying their culture; that women needed to be kept at home because they weren't supposed to have or handle money. They said, 'You are destroying our culture by giving them money; they are not supposed to have money.'

I said, 'You keep your culture, I am creating a counter culture.'

Ever since then I have felt so strongly that culture is useless unless it is constantly challenged by counter culture. People create culture; culture creates people. It is a two-way street. When people hide behind a culture, you know that's a dead culture. Dead culture is good for the museum, not good for human society. Human society moves on, evolves and creates its own culture, taking the culture forward step by step. We defied the culture that wanted to remain a dead culture.

Today we have nearly eight million borrowers at Grameen Bank, 97 percent of them women. These women have succeeded in putting their children through schools. We hoped that they would finish primary school. But impossible became possible very quickly. Not only did they complete their primary school, they went to high school. Grameen Bank encouraged them and gave them scholarships so they went to graduate from high schools.

Grameen Bank introduced student loans so that they didn't have to stop there. Today, we have 38,000 students with student loans who are studying medicine, engineering, etc in universities and colleges. Some of them have completed their PhDs.

Sometimes these students ask me to get them jobs because it is difficult to find jobs in Bangladesh. But I tell them that they are Grameen Bank kids, they must not think like other kids. I tell them that they should make a pledge and repeat that pledge every morning by saying, 'I should never seek a job in my life, my mission in life is to create jobs. I am not a job-seeker, I am a job-giver.'

I tell them that they are special because their mothers own a bank, Grameen Bank. Money is not their problem. [I tell them] 'Your mother's bank has stacks of money waiting for you. While studying, just figure out how to make the best use of your money so that you can create jobs for other young people.'

Women borrowers, elected by their peers, sit on our board, they make decisions. Money comes from the bank's own resources. We thought that if we depended on donor money we would be stuck, so [instead] we take deposits from people and then we lend this money to poor women.

Today we have a completely new generation of young people coming up in the Grameen families.

Once when I went to one of the villages, I met a woman who had been with Grameen Bank for over 15 years. I saw a smart-looking young girl with her. She introduced her to me. She is her daughter. She told me that she was a medical doctor. That woke me up.

Her mother sent her to medical school with the Grameen Bank's student loan. She now practises in a nearby town. When I saw them together a thought ran through my mind – her mother could have been a doctor too. There is nothing wrong with her. But nobody gave her a chance. She never went to school. The only chance she got – she joined Grameen Bank, sent her daughter to school and Grameen Bank gave her student loan to become a doctor. That's the only difference between the two. But what a difference it made in life!

Looking at them you can easily conclude poverty is not in the person. There is nothing wrong with poor people – they are as capable as anyone else – but society never gave them a chance.

Poverty is created by the system. Banks don't want to lend money to the poor people. The banks used to say if you [lend] money to poor people you won't get it back, but today Grameen Bank and microcredit programmes all over the world have shown that poor people are the ones that pay the money back.

Why don't the banks do it? They don't have a good answer.

That's where the root of poverty is, because of the institutions that make sure that some people remain deprived while some prosper. If we fix those institutions then people will show their creativity and children will be more capable than their parents were.

Policies are also to blame: the only thing that the governments and people can come up with to give to the poor people is charity. Poor people get handouts from the state. But this is not a solution to poverty. Charity freezes poverty, imprisons people. It takes away a sense of responsibility from people; it takes initiative away from them. The responsibility of the state is to create opportunities for people, support them, so that they can stand up for themselves.

Human life is all about taking challenges; it excites human beings to take on challenges.

The 'concepts' are also responsible. For example, take the case of the concept of 'business'. The concept of business is built around making money. The whole mission of business is to maximise profit.

It is obvious that the theoreticians who created this kind of business considered a human being as a one-dimensional being who just wanted to make money.

Human beings are not one-dimensional – they are multidimensional; they want to do a lot of things. So how come in the theory of economies we cut off the other dimensions of human beings and just concentrate on one? That's where we went wrong.

We have selfishness in us. Money-making businesses are built on this aspect of human beings. Under the influence of this drive in us we want everything for ourselves. I am proposing to create another kind of business, based on 'selflessness' that is in all of us. I am calling it social business. I am postulating that people are willing to invest money in a social business. Some people think I must be crazy to propose such an idea. People give away their money – thousands of dollars of it – and no-one thinks they are crazy. How come when I say people are ready to invest money in a social business then I am crazy?

I think social business is the most logical thing to do. If we had done that, we could reduce all the problems we have. We can create social business to address poverty, to improve nutrition, to bring clean drinking water and [allow] people to [have] good quality health services – [allow] people to sustain themselves.

We have done some of these in Bangladesh. Whenever I see a problem, I immediately go and create a company. That's what I did all my life. I created Grameen Bank to solve the problem of credit for the poor. Not for myself, but for the people it helps. I don't own that business, it's owned by the borrowers. It helps them a lot.

We have a social business called Grameen Danone in Bangladesh to address the issue of malnutrition in children. We don't take any dividend out of it. It is created to bring nutrition to the malnourished children of Bangladesh. We put in all the nutrients – iron, vitamin, zinc, iodine, and so forth – and make it delicious. Children love it, I love it, and you will love it too. Children who eat two cups of the yogurt each week and continue to do so over eight to nine months get all the micro-nutrients and grow up to be healthy and playful children.

Why don't we do it? Anybody here can do it. Anyone can create a social business and employ unemployed people. If anyone in the audience here creates a social business to employ five people, five people would have jobs. Unemployment will go down by that number. If I create a social business like that and you create one like that, how many unemployed people will have jobs? You don't have to wait for the government to do it; we can solve our own problems. If you can find a way to create employment for five unemployed people then you have a seed. We need to plant the seed wherever it is needed; spread it out until the unemployment problem is solved.

In social business, I don't want to make money; I want to make sure that people have proper healthcare, access to education. It leads to a changed mindset. If we can express this frame of our mind we would be a better society. Every single company can create social business; there are many locations companies don't want to operate in because operating there doesn't give them enough profit. If that company can create a social business in those locations, people can be employed and those locations will enjoy a service which did not exist for them before. It won't be for making money, but it will be doing a social business. If we change the institutions and concepts, we can create a different world.

The current financial crisis makes it very clear that the system that we have isn't really working, and this is the right time for us to undo things and build them in a new way. It is time for us to wake up and realise that there are things we need to change. We are going through a cluster of very serious crises – economic crisis, food crisis, energy crisis, environmental crisis, social crisis. Isn't it time that we wake up?

We know the things that we need to undo.

This is the twentieth anniversary of the fall of the Berlin Wall and we will be celebrating it in November this year. That wall was demolished not by highly sophisticated explosives or unstoppable military power, but by citizens who got together and chipped away the wall. Many of them had their children on their backs. This is what we call people's power.

If people brought down a mighty wall that no-one thought would ever disappear, we can make this world free from poverty too. The wall of poverty can be taken down too – by the power of the people. It can happen.

This year marks the 40th anniversary of the first man who landed on the moon. People didn't'believe that this could ever happen – they thought it was a crazy idea – but 40 years back it happened, right in front of the eyes of all the people in the world! If we can go all the way to land on the moon, can't we go to our neighbour's house and get him out of the misery of poverty? Isn't what human beings did throughout history?

Every time they did it because they felt it needed to be done, because it looked impossible. If you think creating a world without any poverty is impossible, let's do it. Because it is the right thing to do.

We are now celebrating Madiba's 91st birthday, the man who brought an end to apartheid. Everyone thought it couldn't be done. He did the impossible and made it possible. We got rid of colonialism, we got rid of slavery, and we got rid of apartheid – everyone thought each one of them was impossible. Let's take the next impossible, do it with joy and get it finished with and create a world free from poverty: *Let us create the world of our choice.*

The human journey began in Africa. On behalf of Africa, let's make South Africa the first country where poverty will not exist, nobody will be a poor person. Let's do it fast – let's do it in the next 20 years. You are laughing because it seems impossible. Since it sounds so impossible this has all the ingredients of getting done. Let us pledge that we'll do it. Let's plan what we'll do after 20 years when poverty is over. For one thing, we'll advertise in the media that if anybody can find one poor person anywhere in South Africa, we'll give him a million dollar award. We'll be confident that nobody will be able to claim that award – because nobody will succeed in finding a poor person in South Africa.

Let South Africa be the first country in the world to create a poverty museum. Our children will go there and see what it was like to live in poverty. Let's make it happen. Thank you. □

Norman Macrae's Entrepreneurial Revolution Trilogy AND Dr Yunus's The Bank That Wasn't a Bank!

CHRIS MACRAE[1]
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NORMAN MACRAE – after spending almost his entire 1948-88 career at the weekly free-market *The Economist* magazine – alone 23 years as its deputy editor – died on 11 June 2010, aged 87. The former colleagues at *The Economist* dubbed him 'Unacknowledged Giant'.[2] His writings straddle both quarters of the second half of the twentieth century. During the quarter 1950-1975 Norman diarised with horror how macroeconomists (those whose models are sponsored by individuals whose politics or greed accidentally or knowingly disinvest in youth) were reining high on sidelining of others' microeconomic views!

The main learning of John Maynard Keynes' life – expressed in his *General Theory* – is: 'increasingly only economics rules the world'. If we value Maynard Keynes' works we might ask questions like; did Keynes

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[2] See The Economist, 17 June 2010 Issue.

actually mean that notions of democracy don't exist separately from what economics rules? And if we were to state two completely opposite rules of economics that might rule the world – what could they be? Not quite coincidentally, a while back Norman Macrae participated in an Oxford Union debate of that kind. He was just completing his 40 years of being *The Economist*'s main staff journalist on entrepreneurship and excitingly productive futures. Well ahead of that Norman alarmed in 1963: beware of elder macroeconomists as the next generation's greatest risk. The case was wholly made in his 1963 book *Sunshades in October*. Sunshades' mix of humour and curiosity was such that even those who sponsor non-economic models of 'big gets bigger' permitted themselves a chuckle.

Against the backdrop of slowly recovering UK and other European economies from the war-effects, Norman visited Japan in 1962 to get a measure of how the war-torn country was changing in the post-war years. He was overwhelmed with signs of a thriving economy there. He wrote a piece headlined 'Consider Japan' in September 1962 – a time when many in the western world had forgotten the country existed. Two years later the world woke up to Japan's success with the Tokyo Olympics and reckoned a faster rise of Japan as an industrial power-house as it had in the late nineteenth century after the Meiji Restoration. Practically, Japan emerged as an industrial giant in mid-1970s.

On Xmas day 1976, *The Economist* magazine published his in-depth survey what became Norman Macrae's 'The Coming Entrepreneurial Revolution (ER)' trilogy which concluded with the net generation future and whose middle piece was on how service economies are empowered by a totally different management system, some call 'intrapreneurship', than that which ruled the industrial age.

His ER argued that big business was as doomed as big government. Hierarchical managers sitting in their skyscrapers could no longer arrange how brain workers should best use their imaginations. The future lay with small firms that could exploit individual creativity and with bigger firms that could split themselves into small centres and encourage competition between them (see *The Economist*, 17 June 2010). He argued on the virtues of entrepreneurship and people working in small teams. He embraced the market on micro-economic policy when the post-war obsession with policy of 'commanding heights' industrial policy and government planning deepened.

The ER set the scene. Norman saw the third quarter of the twentieth century making a wrong turn as more and more experts got hired by the big-get-bigger forces with the result that macroeconomics all but undermined microeconomic views. The human race's most exciting challenge either side of the new millennium, as Norman wrote in 1976, will be to transform organisational system designs (and professions whose Hippocratic oaths are supposed to fit the reasoning why society permits them a monopoly of rules) back to the microeconomic origins, embraced with breeds of small entrepreneurs. Those which the entrepreneurial schools of Scotland and France had designed to be the paradigm that progressively enlightened free markets of the nineteenth century.

Norman called himself an internationalist Scot. Remarkably few people appreciate that there are more worldwide Scots than Scots living in Scotland. This was a consequence of an international financial scam that happened around 1700 AD where Scots literally lost more than half of the nation's savings. A hostile takeover happened in spite of being dubbed with the euphemistic brand name of United Kingdom. The Empire's accountants were sent up to London ordering Scottish landlords around the new economic regime which insisted they value sheep as quarterly more profitable than people. His great grandfather's life is a testimony to the above situation. On the Isle of Arran, once a week islanders would walk the length of the island to sit in a community circle and discuss how to survive. Their free speech mainly negotiated rights of passage to ship their families anywhere in the world other than England's Scotland!

One result of the Scottish experience was that over half of Scots sailed the seven seas by 1850 in search of places where they would be entrepreneurially freer to invest in productive activities. One can deeply see that Adam Smith's writings in those days were dominantly emanating from the challenge confronting Scots.

Of many futures Norman Macrae had a go at scripting first, one near the start of his job was: what can the future of the European Union be? Norman had as much permission as anyone to question as he was the only journalist at Messina where the concept of the EU was founded.

Another future the *prudent futurist* Norman wrote up in 1984 at his peak of productivity at *The Economist* was the first future of the internet and the net generation 1984-2024. Being a die-hard optimist, Norman mapped what sequence of events would need to happen if the net generation were to celebrate a 10-fold increase in worldwide productivity as we integrated every local society sustainably into a multi-win global.

Norman Macrae's maps of how to celebrate 1984-2024 becoming the most productive time of any generation went back to first principles:

(a) choose the most exciting goal to unite the net generation round ie end babies being born into starvation and poverty;

(b) provide open access to every human to affordable education and health with a priority on schooling;

(c) celebrate those big organisations that necessarily get first chance at innovating new technology when they extend the technology to great experiments in critical needs of the poorest;

(d) reform professions and geographic constitutions to be ever more pro-youth and to recognise the newly defining challenges of the networked age; and

(e) if sustainability is to be the human race's future blend an evolutionary economics with the rules nature uses to determine who to extinguish next so that the planet becomes ever more abundant.

Norman penned his last article in 2008: 'if richer nations wish to prevent the 2010s from being a decade of compounding slumps and ever higher youth unemployment, now would be the best time to seize the 'entrepreneurial revolution' challenge first announced on 1976 Xmas Day'. That was when *The Economist* first called for a 'new capitalism' – market capitalism with the multi-win capacity to sustain humanity – one that would replace macroeconomic short-term system fixes that occurred through the first three quarters of the twentieth century with transparent microeconomic maps. Norman clarified that the human race has an urgent window for sharing 3rd Millennium goals before 7 billion peoples' journey through 'death of distance' accelerates.

As Norman's ER trilogy suggests, we essentially need to commit for building pro-youth models of economics and believe that 7 billion people can advance the human lot – empowering our children to be more productive and sustain more than our (elder) generation's possibilities.

In February 2008, both Norman Macrae and Muhammad Yunus had brief chats over a lunch in London. As an octogenarian *Free Marketer*, Norman was thirled fully to Yunus' stated aim to 'harness the powers of the free market to solve the problems of poverty', and his brave belief that he can 'do exactly that'. And Yunus was happy to find remarkably prescient soothsayer, Norman's enthusiasm about Grameen microcredit, social business and Grameen entrepreneurial economics in Bangladesh.

The Bank That Wasn't a Bank! Grameen as a Real Leader of the Race to End Poverty

To begin with, Grameen Bank was no more a credit and savings bank than it was village community centre of market and knowledge-hub configured by and for the poorest.

It was no more a village centre than poor families' property rights society in which sub-subprime loans were the safest ever made and repaid; and in which ownership was trusted to female family members so as to give women more respect in society.

It is no more pro-female-poor property owning society than an intergenerational investment club – what can we communally make possible for our children that was impossible for us?

Such an *impossible becomes possible* search for innovation valued round advancing the human lot is one which any Scot proud of Adam Smith's believes to be the prime purpose of entrepreneurial economics.

The Grameen microeconomic miracle compounded because at the start of the fourth quarter of the twentieth century, seven years (1976-83) of action learning research was passionately focused on the world's poorest village mothers' own definition of how to communally end poverty.

The world's poorest mothers chose '16 decisions' charter that they wished to see their life's communal work entrepreneurially invested around. Never have peoples' commitment to investing in youth been more purposefully integrated. The exponential rising consequence is the most sustainable girls empowerment knowhow network that humanity has ever been invited to celebrate. As Nobel Peace Laureate Muhammad Yunus joyfully reminds biographers of the first 210 years of entrepreneurship, sustainability world's greatest innovation becomes possible once we discover the entrepreneur is *she who makes more jobs than she takes*.

Wall Street's Global banking model had demonstrated itself to be the least economic ever designed. New York's biggest bank was being retrained on community banking by Kenya's bank for slum youth and Bangladesh's bank for the poorest village women. Barack Obama (himself the son of a microcredit pioneer in Indonesia) won an election on: 'we have learnt that over-government and top-down doesn't work – not just in financial services but in energy, health, education and anything that is critical to investing in youth's futures'.

In year 2000, Brooking Economics Institute and Georgetown Law School published the report *Unseen Wealth*. Its stark conclusion: twentieth century auditing professions do not have any whole truth metrics of compound risk. Here was all the evidence needed to prevent Wall Street compounding a decade of investment in figures that underestimated how both trust and distrust multiply exponentially faster through a networking world.

Until this professional black hole is sorted, every year of the new millennium is liable to compound ever greater unknown risks. We can choose our own most terrifying year of this young century – and it will be influenced by where we are geographically and what natural and man-made events have hit that place. Yet all the while we could have been helping youth to use network maps which bring down degrees of separation on life's most critical knowledge flows and actions. Google's example of open intelligence crowd-mapping is noteworthy. Most of the other big internet companies are failing youth's job-creation and sustainability needs however noisily they claim to be delivering social media.

By any standard, 2011 looks revolutionary – with unparalleled opportunity and threat. From Tunisia all across North Africa through the Middle East, networks of youth have shown extraordinary courage. Europe's macroeconomic collapse is prompting similarly brave communities of youth particularly in Spain at time of writing. US Congress has invited the world's leading microeconomist to come and dialogue on microcredit being the lifeblood of any nation. Bangladesh has the opportunity of celebrating the 40th anniversary of the nation that came up with the world's greatest innovation – sustaining girl and youth power.

Back in the 1970s, Bangladesh Rural Advance Committee (BRAC) and Grameen Bank (village bank) for the poorest emerged. It's pretty simple to see: *networks aiming at open sourcing solutions to vital needs quickly adapt each other's best discoveries*.

Just as Grameen was *the bank that wasn't a bank*, BRAC was aid *that wasn't aid*. The reasoning? Sir Fazle Abed's founding team wanted to continue to develop communities not just assist in temporary relief. BRAC rapidly grew beyond being just an aid agency for disaster relief. It found its voice as a community microlawyer able to make the case for informal professions in any rural village that the national government couldn't field professional public servants. This breakthrough was first entrepreneurially demonstrated by designing a network that saved up to 20% of infants' lives by increasing village mothers' awareness of how to do oral rehydration. Soon, this network created the village job of being para-retailer of basic health cures and diagnosis. Next came the job of the informal primary teacher. Both needed scaling across the whole of rural Bangladesh.

1996: Something Happened to the Greatest Grassroots Networking Nation

Just as Bangladesh was celebrating its first quarter of a century as a free nation something planet-shaking happened. It became the only country where poor village women experimented with how to use mobile telecommunication networking before the richer urban population. Moreover, this experiment was hosted by the Grameen whose hubs for each 60 villagers already numbered about 40,000. Overnight end-poverty's greatest hubs network formed. Life-shaping knowledge could now flow through 40,000 hubs as well as productively valuable data such as farmers markets' prices.

From mobile phones proving their immediate worth as an income multiplier – Grameen village telephone ladies became the most productive job that villagers had ever seen. Next, it is natural to ask: what innovation partnerships have 15 years of being the first to end digital divides through mobile brought?

Imagine what happens when the poorest village farmer has access to three systems – mobile phone, ebay-type virtual auctions customised to micro-markets and village-owned microcredit banking. This goes way beyond fair trade and it also empowers a return to non-petrochemical agriculture. This healthy and climate-saving direction is the new 'quality' that sustainable and job-creating youth the world over can joyfully celebrate through 2010s.

Dr Muhammad Yunus merits being celebrated for something more. Back in the early days of Grameen, he chose the bank's first non-financial service to be retailing of carrot seeds in one Taka packs. These were easily transported by the bank manager on their weekly round to each village centre. Mothers were instructed to grow and feed the carrots to their infants whom Dr Yunus observed to be suffering from night blindness (caused by vitamin-deficient diet). Nearly quarter of a century later the first global Social Business partnership mediated by Muhammad Yunus with Danone focused on the same value-creating solution. The trials of Grameen Danone yogurt in Bangladesh have already attracted the Chinese to join forces with Dr Yunus and Danone in innovating what looks to be a new trillion dollar marketplace – functional grains for infants. All these matter to women power especially because medical science shows that if the stage of infancy that goes beyond mothers' milk to solid foods is not served by sufficient nutrients then the child's brain will never develop to the capacity it could have had.

Clean Agriculture, Clean Water and Clean Energy form a triple win for community sustainability and job creation. At the end of 2010, Grameen Bank had installed half a million solar units on track to install a million units by end 2011. So, one bank for the poor had installed more solar units than the whole of the USA. Of course, in Bangladesh there are multiple benefits to rural areas having access to electricity for the first time to after-service of solar units being an ideal job for young village women.

Again Dr Yunus's Global Social Business partners out of Paris have extra good news to announce. Collaborations between Danone, Veolia, Credit Agricole have made water and clean agriculture – the core focus of the world's largest social business fund. Every year thousands of Danone shareholders celebrate the fact that their corporation led the way into discovering the most purposeful uses of mass markets of water, milk and grain. One day soon the advertising spot will be seen to be a most uneconomic media when contrasted with youth entrepreneurship and social business investor portals like Danone Communities.

Since 1976 'Entrepreneurial Revolution' networks that began spreading out of London-based *The Economist* magazine have had advance notice of 2010s being the most exciting decade to be alive. It's the one where the first net generation will determine the sustainability or not of future generations. Sustainability depends on developing multi-win models way above zero-sum games. It depends on the deeper level of innovation that is achievable when 'you go micro my daughter' something that the twentieth century leading mathematicians have theoretically proved and which Social Business entrepreneurs led collaboratively by eastern women power – can now openly help source as well as replicate. □

An Exclusive Interview With Nobel Peace Prize-Winning Grameen Bank Founder Prof Muhammad Yunus

ARUN DEVNATH
MD FAZLUR RAHMAN
The Daily Star[1], Dhaka

[On 30th November 2010 the Norwegian State Television aired Danish film-maker Tom Heinemann's 'Caught in Micro-debt' documentary film which accused Nobel Peace Prize winner Prof Muhammad Yunus of improperly diverting funds from the Grameen Bank to Grameen Kalyan (healthcare services) in 1996 that had been donated by the country's aid agency, and the micro-lending Grameen Bank for charging exorbitantly high interest rates which aggravated the poor borrowers' lives. Immediate after the documentary aired, the Norwegian government said the transfer issue was mutually resolved in 1998 and there was no indication Grameen ever engaged in corruption or embezzlement, whereas Bangladeshi Prime Minister Sheikh Hasina promptly used the opportunity given by this documentary to assert that Dr Yunus treated the Grameen Bank as his 'personal property' and claimed that he was 'sucking blood from the poor'. Clearly, the more likely reason was Prof Yunus' criticism of the government in recent years and his 2007 bid to launch a political party'. (Source: Jacques Attali, 'Micro-lending Genius: Why he was done wrong' / 8th April, 2011, reappeared in The Christian Science Monitor, 10th June 2011 Issue/online) – JSB Editors]

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[1] The Founder of Nobel Peace Prize-winning Grameen Bank, Professor Muhammad Yunus exchanged his views with Arun Devnath, Business Manager and M Fazlur Rahman, Business Reporter of The Daily Star (the highest circulated popular English Daily in Bangladesh), after his resignation from the post of Managing Director of Grameen Bank on 12 May, 2011. This exclusive interview was published in The Daily Star, Dhaka on 25 May, 2011.

THE BANGLADESH government hastily formed a five-member Review Committee on 10 January 2011 and tasked the Committee with reviewing the Norwegian TV documentary and subsequent media reports on transfer of funds from Grameen Bank to Grameen Kalyan (healthcare services) and interest rates on the micro-financier's loans. Bangladeshi Finance Minister (AMA Muhith) on 25 April revealed 'a government probe did not find any irregularity in transaction of the Grameen Bank as reported by a Norwegian television' and 'the interest rate of the Grameen Bank is lowest among the microcredit lenders in the country'. The finance minister was speaking to journalists after the Review Committee submitted their Report. [Source: The Daily Star Online, Monday, 25 April 2011.]

On March 2, whilst the Review Committee's task was still ongoing, Bangladesh Bank (the central bank) issued a letter raising that Prof Muhammad Yunus (who at 70 is full of youthful energy combined with sagacity) was illegally holding the post of managing director of Grameen Bank, on claims that he was beyond the mandatory retirement age of 60. The central bank move triggered a legal battle but Prof Yunus lost in courts.

On May 12, Prof Yunus relinquished the post of Managing Director of Grameen Bank 'to prevent undue disruption in the activities of the micro finance institution'.[2]

The full text of the exclusive interview with Prof Muhammad Yunus is published here, after consent/permission received from individuals/organisations involved.

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[2] Professor Muhammad Yunus, Dhaka, 12 May, 2011: 'I am today relinquishing the post of Managing Director of Grameen Bank on the basis that the Deputy Managing Director Mrs Nurjahan Begum would hold charge until a Managing Director is appointed in accordance with the procedures under section 14 of the Grameen Bank ordinance. Since the board of Grameen Bank is my appointing authority, it may take appropriate steps. I have still not received the Appellate Division's full order. I am taking this step without prejudice to the legal issues raised before the Supreme Court, and in order to prevent undue disruption of the activities of Grameen Bank and to ensure my colleagues and our 8 million members, and owners of the bank, are not subjected to any difficulty in discharging their responsibilities'.

The Daily Star (DS): You have often said misconceptions float around Grameen Bank. What are these? Which misconceptions upset you the most?

Prof Muhammad Yunus (MY): The very common misconception is, Grameen is an NGO, but it is not an NGO because it is a commercial organisation. It has owners and all the features of a business. Grameen Bank is a special organisation, not just another bank. But people like to see it in their own way and put a label on it.

Some think that Professor Yunus owns this bank and is earning a lot of money out of it. I do not own a single share in the bank. I was just an employee.

Now the government is promoting an idea that it is a government bank, which never existed in the minds of the people. Even the Government-led Review Committee report gives the impression that it is a government bank and their entire mental setup was based on the misconception that we are public servants.

To call it a government bank, it has to be owned by the government as the majority shareholder. Even in private banks, the government may have some shares. It does not make a private bank a government bank. In Grameen Bank, the government has effectively a 3.5 percent share, while 96.5 percent shares belong to the borrowers.

The only argument the government is using to try to justify its claim is that Grameen Bank (GB) is created under a special law of the government. Even Asian University for Women in Chittagong has been created under a special law. But it is not a government university. It is a private university. The vice-chancellor of the university is not a public servant. How come suddenly we (GB employees) have become public servants?

Grameen Bank is a bank under a charter. That the government created a charter does not mean it is a government bank. It is another misconception that is floating around.

The other misconception is this bank is run by foreign donations. People think that Professor Yunus goes around the world and brings in money, but that is a gross misunderstanding. Since 1995, GB has not received any money from outside. At that time, it was decided unilaterally not to receive money from outside. The money now comes from deposits and is lent to borrowers.

Grameen Bank has now more than TK 10,000 crore (USS1.45 billion) in deposits. Of that, TK 6,000 crore (US$880 million) is coming from borrowers. GB does not take money from outside; rather, it is generated from internal sources. The bulk of the fund is the fund of the borrowers themselves. It is a self-reliant bank.

The other misconception is Grameen Bank charges a high rate of interest. I can say GB has the lowest among all MFIs (microfinance institutions) in Bangladesh. It has been repeatedly proven. Luckily, the review committee has endorsed our claims.

Some doubt whether microcredit activities have any impact on the lives of the poor. They claim that the poor are becoming poorer. GB has 83 lakh (8.3 million) borrowers who constitute a major part of the total microcredit borrowers in the country. Whether we did it or someone else did it, the poor are definitely not getting poorer.

These poor people have TK 6,000 crore (US$880 million) in deposits in Grameen Bank. You cannot say there is no impact on their families. Their children are in schools, GB is giving them education and scholarships. So, a new generation is coming out of this.

If you are looking for the impact, there are many ways to see that. You can look at savings, loans, deposits, children and the quality of housing.

It is not that everybody has gained from it. There might be some who could not. It is as following: You open a school, you take students and in the final exams, not everybody gets first class. Some get first class, some get second, some get third. People used the money in different ways – under different circumstances. Some lost out, some gained a little bit while others gained a lot.

If you look at women's empowerment, you have to see they own the bank. They have got their own money in the bank. They can deal with an institution. It is a big thing.

DS: How do you define the relationships between Grameen Bank and its associated organisations or companies? How were the associated organisations formed? Explain the shareholding pattern, sources of funds and revenue/profit sharing.

MY: Grameen Bank was set up to help the poor, particularly women, in income generating activities by providing collateral-free loans. Along the way, I saw many other problems of the poor. How to get them out of the poverty-trap was always on my mind. I started reacting to each problem.

When I saw a problem, my instinctive reaction to solve the problem was to create a business. So I created a company. I went on and set up company after company. Whenever I created an organisation, I used the 'Grameen' name for it – to make it known that it was part of a series.

The word, Grameen, came from me, not from the bank. It was like a pet name from me. I like it. People know that I am involved with it. The Grameen name does not have a trademark right. You cannot register this word as a trademark, as it is an adjective.

I liked the word Grameen as it carries my association with it when I set up any company. None of them has any link, legally, with Grameen Bank. Each one is an independent organisation. Even the review committee was confused about it. They arrived at the idea that all these belong to Grameen Bank and we must do something about it as Prof Yunus is making a mess of it. They have made strong recommendations about them, without trying to understand what these organisations are!

They are all legally independent and registered with the Office of the Registrar of Joint Stock Companies and Firms. The Grameen Bank Ordinance does not allow Grameen Bank to create any other organisation. The review committee says Grameen Bank has violated rules by creating companies, but we have not violated any rule because Grameen Bank has not created any organisation.

I have created all these organisations in my personal capacity and as a volunteer, not as the Managing Director [of Grameen Bank].

I do not think becoming members of many boards while working as an employee of Grameen Bank creates any conflict of interest. Most of them are non-profit organisations, so there is no conflict in that sense, as the board members do not gain personally from these. It is not a conflict of interest. It is rather about supplementing each other, as we are trying to address certain problems, not make personal gains out of it.

Most of the companies are non-profit. A few of them are for-profit. All the for-profit companies are owned by non-profit companies. So, there is no way anybody can gain personally from them.

Nobody, including me, owns shares in these companies personally. Our colleagues on board do not get any honorarium or financial benefits or fees for sitting on the board.

Once a non-profit owns a for-profit, the money goes to the non-profit. Individuals do not get it; rather the non-profits get it to promote their objectives, reaching out to the goals they have set for themselves. Many charity organisations rent out places and do other thing to earn money so that they can run their charity organisations. There is nothing unusual about it.

When I created these companies I needed money to start them. Sometimes it came as a donation. In many cases, I created the business so that it continuously brought in money itself and could grow. Grameen Shakti (solar energy), a good example, has grown big. It started in a small way and then we started selling solar home systems, which made revenues. We reinvested and made more. Luckily, the government created IDCOL, which was looking for this type of an organisation to finance. We borrowed money from IDCOL and continued to grow.

The seed money for these companies did not come from Grameen Bank. There are two entities which received seed money from Grameen Bank: Grameen Kalyan and Grameen Fund. The seed money for these two companies came from donor money. Donors gave the money for special purpose activities, not for regular Grameen Bank activities. One is called Social Advancement Fund and the other is Social Venture Capital Fund.

These funds were created inside Grameen Bank. What we did was, we created independent companies and put the money into these independent companies as loans and purpose oriented grants. This money was not given to Grameen Bank to carry out its core activities.

Each of the companies, such as Grameen Healthcare Services, which was set up later, found a donor or an investor, or took a loan to start the business. One thing must be clear that these are independent creations and are not legally connected with Grameen Bank. There may be institutional connections. For example, Grameen Kalyan provides healthcare services and has a focus on Grameen Bank borrowers.

Grameen Shikkha looks after the educational programmes for Grameen and non-Grameen families. They supplement each other.

DS: The Government-led Review Committee suggested that the Government merge all associated companies under Grameen Bank. What's your reaction?

MY: The proposal to merge all associated companies bearing a Grameen name or related to Grameen Bank in some way came from a big misconception. The misconception is that all these companies are part of a conglomerate, meaning that Grameen Bank is the mother of all these organisations.

Once you know that they are not, the recommendations become meaningless. And that is what it is. I am sorry that the review committee did not have enough time to study and understand what these organisations are.

The review committee had a very limited time and had no prior experience of Grameen Bank. Grameen Bank is not an ordinary organisation. It is a very originally designed organisation with an innovative character. It is not only an innovative and unique organisation. It is an important organisation – locally and globally.

You do not see any parallel to it in any other country. Members of the Review Committee had no experience with Grameen through their professional exposure. You are inviting people to do a job they are not prepared for. I feel sorry for them that they had to undertake such an assignment.

DS: Did the Review Committee visit the Grameen Bank headquarters?

MY: During the review, the committee members did not visit Grameen Bank. They did not visit branches of Grameen Bank to see what Grameen Bank is. They did not meet the borrowers of Grameen Bank. Maybe some of them individually met some borrowers in the past, but as a body, as part of the committee work, it never went on site to see what Grameen Bank really is.

They did not talk to the staff of Grameen Bank. The committee talked to me for an hour when I went to them and answered a few questions. Additionally, they talked to the deputy managing director for a few minutes.

For an organisation that has been running for 34 years and working all over the country and which won a Nobel Peace Prize, a one hour discussion with the CEO of the company does not give you the feel of the company, nor does it give the sense of what it is all about.

The committee had preconceived notions and perceptions about Grameen Bank. Based on their perceptions, they made the recommendations. It was very unkind to give such a big task to them. It is extremely unkind for Grameen Bank to receive those recommendations. After all, we should not take Grameen Bank so lightly.

I think they have studied books and papers on GB but the physical contact, when you are making such important recommendations, is important. It is like you are asking someone who is living in Sierra Leone to amend the constitution of Bangladesh. Would you do that when you did not know the society and their aspirations?

The report said the review committee depended highly on one person on legal matters. I do not know whether that person had ever visited Grameen Bank, had a chance to see and understand how it works, or checked through the legal structure of one of the organisations with the Grameen name.

They even recommended that these two organisations [Grameen Kalyan and Grameen Fund] should become 'departments' of Grameen Bank. Both are independent companies. How could anyone make a recommendation like that? They were so innocent about the legal issues.

The committee could have taken help from other lawyers, sit down and spent a day with them to understand the legal issues, before they made recommendations about a nationally and internationally important institution.

They could have invited the board members – all board members of Grameen Bank, or at least nine of them who came from villages. They could see their faces, they could have had a conversation with them. After all, they represent millions of borrowers. It is their bank. The committee never consulted the representatives of the people who own 96.5 percent of the bank. Then the committee stated that they are illiterate women!

By meeting the borrower representatives in the board, the committee could assess whether they have any understanding of their bank. This would have given the committee an understanding of what type of a board Grameen Bank has.

DS: According to one observation, Grameen Bank has a rubber-stamp Board of Directors and women directors don't have an independent voice in the state of affairs. What's your response?

MY: It is not a rubber-stamp board. Grameen Bank has nine seats in the board for the elected borrowers and they come from around the country, which is divided into nine constituencies. A borrower who has a board membership has to be elected at centre level, branch level, area level and zonal level to finally make it to the board. She has to be an outstanding person.

DS: The Report said it is a personality-based organisation – one person decides everything. What's your take on it?

MY: I think this is a very humiliating remark for the board. If the committee had met the board, they probably would not have said such an offensive thing. The Grameen Bank board from the beginning has been headed by the chairmen, who are very distinguished persons of the country. It started with Professor Iqbal Mahmud, then came Professor Kaiser Hossain, Dr Akbar Ali Khan, Professor Rehman Sobhan and Mr Tabarak Hossain. They are outstanding people of the country. The government has two other nominated board members because they have 25 percent shares in the bank. They were always at the level of secretaries – active secretaries, not retired ones. Currently, the defence and cultural affairs secretaries are on GB's board.

We always tried to make decisions on the basis of consensus. If there was serious opposition and one was not yielding and insisted that it should not be done in a certain way, then we withdrew that item from the agenda.

We came back to the next board meeting after redesigning the proposal. The board paid attention to all views. Now we are told that it is a rubber-stamp board. It is again a misconception.

It is not that Professor Yunus (or the chairman) dictates everything. It is because what the management proposes is so reasonable and simple. Grameen Bank is not giving loans to big companies that could be debated. It was a routine process. There are not too many things that needed to be strongly debated.

DS: What's your view on the educational level of the nine women board members?

MY: Some of them have some level of education but not higher level. But the important thing is that they bring the reality to the board. If the review committee had sat with them, their recommendations would have been completely different. Then I can guarantee that they would not have made the unfortunate comments about them in the review report, as they have done now.

They bring the reality of life, and the ground realities are reflected in the board. Sitting face to face with them, the tone and the attention level of the seasoned secretaries change. Every time we meet, we talk about how their life is, how the centre is doing, any important news from their centre and how the beggars in their centre, who are also the borrowers, are doing.

When the women board members come to the meeting, they come with many ideas. They suggest things to do because it is their life. They say our husbands suffer so much and our children suffer so much. 'Can you do something about this?' So, passing remarks such as 'they are illiterate: what can they contribute? Do they know about banking?' – is very sad.

DS: What's your reaction to another recommendation that the Grameen Bank Ordinance should be amended? What do you fear the most about any amendment to the ordinance?

MY: We have an ordinance. We needed some amendments to improve it. These amendments were done during the caretaker government's rule. When this government came, it did not present these amendments to the parliament for approval. So we were back to the pre-amendment ordinance. But this ordinance has worked well for us. This ordinance has created the winning institution, which brought the nation global recognition, brought us the Nobel Peace Prize. This ordinance has created the winning management team to make all these happen.

Should we now rush to change the law that produced a winning team and a winning institution? Even the age-old advice says: 'Don't fix it, if it is not broken'. In the case of Grameen Bank, it is not only not broken, it just got its Nobel Peace Prize. It is in its best shape.

Definitely, I should not take review committee's words seriously. They were time-constrained, expertise-constrained and biased. Maybe they want to amend it to make it more government-controlled, which will be terrible, simply disastrous.

Who would want an organisation that is running and winning to be handed to the government? While the government is trying to privatise banks, why should we now take a private bank and nationalise it? The moment the government influence comes into an institution like this, it gets caught in political in-fighting, the kind of thing we had seen. That is the end of the story. It will never be the same bank again.

It is a private organisation. Right from the beginning, I was saying that it should be owned by the poor people.

The original ordinance kept 60 percent ownership to the government and gave 40 percent to the borrowers. That's not the ownership pattern I was lobbying for. At that time, the finance minister assured me that he will change it to make the borrowers the majority shareholders. His successor picked it up and amended the ordinance to make it 75 percent for borrowers and 25 percent for the government. But in reality today, the government only has a 3.5 percent share; the remaining 96.5 percent is with the borrowers.

A few amendments that we have been pleading for many years was to have the chairman elected by the board, instead of being appointed by the government, to allow Grameen Bank to operate in urban areas (which is not allowed now), and reduce government ownership to a token amount of under 5 percent. The caretaker government accepted and introduced the first two amendments. The selection of a chairman by the government remains as an opening for politics to creep in. If the chairman is appointed by the board of Grameen Bank, it will be protected from political intervention.

DS: The Review Report claims that Grameen Bank has a tendency not to follow rules and regulations. How do you respond?

MY: It's again based on a basic misconception. The committee thought all these Grameen companies belong to Grameen Bank. Once you think that way, you start seeing violations, such as, the violation of creating companies that was not allowed by law, and violations of allowing business with each other. The review committee never had a chance to interact with these companies, but they guessed that there must be a chaotic situation. Grameen Bank does not have a tendency towards violating any rules. It has always tried to follow the rules and procedures in a transparent manner. It is a very law-abiding bank. Grameen Bank does not violate rules because that's the foundation on which Grameen Bank stands. Grameen Bank is based on trust. Without total commitment to rules and discipline, trust cannot survive. As a result, Grameen Bank cannot survive.

DS: Why did you not retire when you turned 60?

MY: I offered to resign when I was 60, but the board did not let me go. The board said: 'We are the appointing authority and you should continue.' Grameen Bank's regulations allowed it. The board said: 'You continue until we tell you [to retire].'

I turned 70 and again I offered my resignation. The board said we will not let you go. I tried all the time, but the board was telling me to stay. I wrote a letter on 15 March 2010 to the honourable finance minister, offering to step down. He thought my proposal was a good one.

The question was whether it was a violation of the law. There is no violation. The board said it was very important for me to continue. The board also said the law does not stop them. The board created the regulation. They made the regulation that the managing director does not have an age limit.

This issue of me going over the retirement age was raised by the audit teams of Bangladesh Bank. That team said you are going over your age-limit. We gave our explanation. We explained that there was no age-limit for the managing director of Grameen Bank.

They looked at our explanation. The next year, the issue was discussed in detail. We told them we are ruled by our own regulations. Under the ordinance, we created the regulations.

The audit team told us to bring all our papers. We brought all our papers. There were six people, chaired by the Bangladesh Bank general manager, reviewing these documents. When they saw all the documents, they said you are OK. At the time I was sixty and a half years.

Ever since then, Bangladesh Bank never raised the issue again. That means they had no objection to it. No question was ever raised again since then.

Suddenly the central bank came up eleven years later with a letter. If you discover a mistake 11 years later, you suddenly do not send a letter to fix it. You can pick up the phone, say a sorry we have made a mistake, we missed it and you missed it and let's sort it out. That is how it could be addressed.

I cannot say why they sent the letter after 11 years. I did not think it was legally correct. So I went to court. But the high court said I do not have the *locus-standi* to seek redress. They did not accept my case. Supreme Court upheld the High Court decision.

DS: What is the future path for Grameen Bank without you at the helm?

MY: Grameen Bank is at a very interesting stage right now. The second generation within Grameen Bank borrowers' families is becoming adults – in large numbers. We have helped them go to school and finish school. Many went for higher education with Grameen Bank loans. They are completely different from their mothers. They grew up within a Grameen Bank environment. Grameen Bank's policy has been to create a new generation who will not only be free from poverty, but from this generation on, nobody will ever return to poverty. We have been encouraging them to become job-givers rather than being job-seekers.

The future of Grameen Bank could be an exciting journey of exploring new grounds. It could be a glorious journey. But if GB does not manage the transition carefully, it could end up a disaster. A friendly transition is the key to a successful future. We have already damaged that process. But we still have a chance to do damage-control by insisting on smooth continuity, by leaving the existing ordinance alone, by not trying to bring government control, by respecting the decision-making power of the board, by accepting my proposal to the finance minister in March last year, to appoint me as the chairman and by selecting a non-political person of high-standing as the next managing director. Grameen Bank is a precious institution. It has demonstrated its ability to govern itself with world-class efficiency. If we keep it that way, we will not have to worry. We can relax and expect more success ahead for Grameen Bank.

DS: What's next in your efforts to help the poor? What's next in your life as a private person (as Muhammad Yunus)?

MY: I started out concentrating on the issue of poverty alleviation. All the companies I created are all focused on that. I will continue with that. I have no intention to slow down. I cannot even if I try to. I will continue – some people may like what I do, some may dislike it, or some may even hate it. I will go on doing things that I think is the right thing to do. I get the feeling that my way of approaching world problems particularly appeals to young people. I enjoy working with them.

My work comes from a faith that all human beings have unlimited capacities. But society does not allow people to become acquainted with their capacity. We can start to create an environment where people will gradually start discovering themselves.

A part of poverty is because people are not aware of their own capacities. Most of the time, people are made dependent. They are being told that the state will take care of you, or the market will take care of you. They are turned into passive beings. We are not encouraging the person to discover his own inherent capacity to take care of himself.

I want to find ways to encourage people to explore their capacities, to give them a chance for self-help. I am not saying 'do not help them'. I am saying that the important part of the help should be to help them gain independence, not to get used to dependence.

On top of that, I strongly feel that each individual has the capacity to change the world. But he does not always get to use this capacity. We think we are too small to change anything. I want everybody to believe that he is big. He can change the world. He can come up with fantastic ideas. Human creativity is just limitless. We must believe in it.

This generation of young people is very different from ours. They have technology, internet access and are connected with thousands or even millions of others. If they can use the technology, they will be able to change the world much faster than we can imagine.

I started social business to solve social and economic problems. Young people are responding to that call. Many universities have opened their own institutes of social business, centres for social business and chairs for social business in countries such as Germany, UK, USA and Japan. Many are coming along in this direction, such as India, Russia and Colombia.

I see the positive responses from people. I see the possibilities. If the idea of social business catches up, it will bring a big change in the economy and the society. My mission will be to concentrate on that and make young people think big and get involved, rather than feel frustrated and withdrawn. I believe the young generation will transform the world in a fundamental way.

Do Not Let Go of Grameen Bank Ownership – Prof Muhammad Yunus, Founder of Grameen Bank

On 17 May, 2011 Nobel Peace Laureate Professor Muhammad Yunus urged the 83 lakh (8.3 million) members of Grameen Bank to remain vigilant against any attempts to take away the microfinance bank from the majority shareholders. The caution came after his resignation as the bank's managing director amid widespread speculation that his removal was part of a coordinated government ploy to take the full control of the bank.

'Grameen Bank is a priceless wealth for you. Do not give away this to anyone. You are the owners of this bank. Do not let go of this ownership,' Dr Yunus said in a letter addressed to the bank members.

'If anyone speaks about taking away the ownership of Grameen Bank, if anyone speaks against your bank, then you must protest against it. . . If you remain silent, the bank will be taken away from your possession,' he said.

In papers, the government controls 25 percent shares while 75 percent belongs to the borrowers, the majority of them are rural women.

However, the government now effectively has only 3.5 percent share in terms of paid-up capital and the borrowers own the rest.

Yunus said the members of the microcredit agency are set to face tough time following his departure from the bank he founded three decades ago.

'Soon you will be put under difficult tests. You must prepare yourself from now on to come out successfully from these tests. If you are able to protect this bank, then your children and descendants will be benefited from its wealth.'

In the letter, the microfinance pioneer described how he embarked on one of the greatest economic innovations of the twentieth century 35 years ago.

'Thirty-five years ago, I did not know that I would start a bank, and that I would lend to poor people, especially to poor rural women. Like many other teachers, I was busy teaching in the classroom, far from the realities on the ground. But Jobra village took my future completely into a different direction.'

'I saw, first hand, how the loan sharks enslaved the villagers; I thought that if I were to lend money to the poor, then the villagers could be free from the grasp of the loan sharks. That is what I did. I never imagined that this would become my calling in life.'

'A lot of people from the villages resisted your joining Grameen Bank. They were opposed to seeing women handle money and earn. They tried to frighten you by telling you about the horrifying outcomes of accepting money from Grameen Bank.'

'They said this was a missionary bank whose purpose was to convert you. They threatened to attack you; they threatened that they would'bury you wrapped in black shroud when you died; they would not have a burial prayer for you. They threatened to chase you from your homes. And many of you were chased out of your homes and your villages. But you did not get frightened. You became united. . . You vowed that you would bring prosperity to your families. That is why from the Grameen Bank project, you managed to create Grameen Bank and became its owners,' said Prof Yunus.

'Grameen Bank, in other words you, won the Nobel Peace Prize. You brought the nation a very big honour. Those who had earlier been chased out of their villages now had brought this great honour for the nation.

The entire nation felt proud of you. . . you will always keep your heads raised high. You will never bow your heads to anyone – this pledge has become a part of each and every one of you.' The *Banker to the Poor* thanked women members of the bank for successfully overcoming tough challenges to make the Grameen Bank a success story.

In 2006, Prof Muhammad Yunus and Grameen Bank jointly won the Nobel Peace Prize for their efforts to create economic and social development from below. Grameen Bank has now become the flagship enterprise of a global industry that in 2010 enabled 200 million poor families all around the world to access financial services.

[Source: The Yunus Centre, Dhaka. The statement was published in the Daily Star on Wednesday, 18 May 2011.]

Rising to the Challenge of Fighting Poverty

Creating Work and Bringing Social Business to the City Introducing Social Startup Labs

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Abstract: This article describes Social Startup Labs, a systemic solution for work creation in deprived communities in London. It shows how the solution is inspired by the work of Grameen in Bangladesh and the cardinal principles that underlie its success. The solution was also motivated by the desire to support the emergence of more social businesses to follow the lead of Grameen in creating solutions that could scale in developed Western cities. This is in line with the challenge that Dr Yunus has given us all to play a part in creating a world without poverty.

Keywords: start-up lab, skills camp, self-organising hubs, distributed process literacy, bonsai people, scalable social business model

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Section 1: Context and Challenge

1. Introduction

It began in Bangladesh. After years of following the work of Nobel Prize-winning *Banker To the Poor*, Dr Muhammad Yunus, Sofia Bustmante, lead author of this article, met him on a number of occasions and read his books, and finally went on to undertake life-changing field visits to Bangladesh to see the Grameen in action. Having gained a deeper understanding of the underlying principles at work, she was inspired to found the London Creative Labs, an organisation that would use 'social business' approach to solve the serious social problems facing London, one of the wealthiest and most socially divided cities in the world. Six months later, Mamading Ceesay joined her on this journey. Gradually they adapted the core idea to the reality of the structures (organisations and systems) on the ground, and began to develop a workable solution.

2. London Creative Labs' Mission

2.1 To apply the Core Principles of Grameen to a Local Context

The principles we found at work in our observation of Grameen are described in this section. Some were stated directly by Dr Yunus, others we observed independently during field visits. In this section, we describe the principles and how we attempt to apply it at London Creative Labs (LCL).

2.1.1 Principle at Work: Maintaining both a 'Bird's Eye' and 'Worm's Eye' Approach

Dr Yunus worked at the macro level to change the systemic conditions so that microfinance became possible for many people. But he started at what he called the 'worm's eye' level, identifying what it would take to move just one person out of poverty a day. His eye was on the systemic intervention needed to change both macro and micro conditions. This dual-focus ensured the integrity of anti-poverty solution that he devised.

We realised that we needed to make sure that our intervention worked for each and all individuals that would go through it, as much as for the community as a whole. Hence to complement the community-focused intervention of the Social Startup Labs workshop, the Skills Camps were designed in order that participation in the overall programme for any individual was meaningful (see details in Section two).

2.1.2 Principle at Work: Sustained Mission Focus

We observed that Dr Yunus's mission had not drifted since he started on the journey in 1976 towards creating Grameen Bank, a bank for poor. His endeavour succeeded in moving many people out of poverty and into financial inclusion. This is a commendable achievement, considering how frequently organisations drift from their original mission. On observing how this could be possible, it was clear that he has avoided conflicts between key system elements. For example, in Bangladesh we saw how staff are incentivised not solely through pay but also through systems of reward that link to qualitative and quantitative achievement of social outcomes for the borrowers and their families, such as the 5-star system of awards for branches. Where, for instance, one of the stars is a reward for the achievement of 100% school attendance amongst the branch borrowers' children. This is but one of many examples of how Dr Yunus has avoided systemic conflicts of interest that would reduce the likelihood of achieving the core mission.

Consistent application of this principle at London Creative Labs is by definition only possible to test in the long-run. However, by regularly asking the question of whether we are on course, we can apply course-correction along the way.

2.1.3 Principle at Work: Self-Organising Hubs

In Grameen, the local branches are effectively many thousands of hubs that operate through a process of self-organisation by up to sixty women. This hub structure reduces the marketing costs of individual businesses, as competition levels are self-regulated by transparency of information disseminated. The principle of self-organisation increases the level of personal agency and ownership of solutions, by avoiding top-down models for the organising of communities, and by working with the natural motivation of individuals. We see self-organisation as part of a larger principle of 'distributed process literacy' (as described in Section 2.4) which we work with. However, since we have observed self-organisation at play within Grameen, we feel it deserves a mention in its own right.

Working with communities, means working with *living* systems that are complex and adaptive. We apply self-organisation *with transparent intention* in London Creative Labs (LCL), as we nurture communities to address their own needs, and teach them how to do this in the process.

The processes within each Social Startup Lab workshop use tools such as Open Space Technology, and Action Cycles, which tap into the power of self-organisation.

Self-organisation is often mistakenly associated with a lack of structure. The correct interpretation is that it involves very light structures (at LCL, we often say 'just enough structure') that enable bottom-up action in such a way that a glimpse of the bigger whole also becomes available to individuals (not just to leaders and organisations). In our fragmented societies, it is important for everyone to get a sense of the bigger whole in which they operate, so that they can make informed decisions about their lives.

These minimal structures ultimately enable people to look forward together via facilitating a clear vision of what communities want. It is vital that this kind of vision emerges out of the community, and to which all members have access once it does emerge – that it does not get lost in a large report which is not accessible to most. A t LCL, it is part of our practice to ensure all participants have full access to all the proceedings of an event and that anybody else who is interested can also gain access. We ensure that this happens in a matter of days, and not several months as is often the case with community consultation exercises.

Examples of light structures that enable self-organisation are Communities of Practice, and the existence of local stewardship. Such elements support a community to have a view on a relevant bigger picture, which informs them how best to individually act for their own benefit and for those they are concerned about. More examples of structures for self-organisation are community notice -boards, online forums, and the identification and resourcing of individuals that possess above average levels of what Putnam (2000) describes as bridging social capital in communities. In LCL terminology, those individuals are 'community catalysts'.'

2.1.4 Principle at Work: Bonsai People

In his work on Social Business, Dr Yunus describes everyone as a 'bonsai' person, after the Japanese art of cultivating miniature trees. Bonsai people flourish in proportion to the quality of the system from which they emerge. As Dr Yunus shows, we need to change the systems so that we can allow *everyone* to flourish, rather than have only the 'winner takes all' outcomes that seem to be the current default.

We resonate deeply with this and bring nearly 10 years of professional career coaching experience to help people at the bottom end of the socio-economic pyramid to flourish. We believe that until more people take part in designing solutions, we will not have an optimal, healthy and just society. What does it take for someone to participate in solution design? We believe the most fundamental element is that they have the type of self-confidence and sense of agency, which is based on accurate peer-rated feedback and real-life tested evidence of a person's unique contribution to society. We address this via Skills Camps, as described in Section two.

2.1.5 Principle at Work: Viewing Poverty as Unacceptable

Dr Yunus has challenged us all to combat poverty and create a 'poverty museum'. He challenges the very idea of poverty, and does not place the fault for it at the personal level. Rather he sees it as the outcome of the established system. Most importantly, he takes responsibility himself to do something about it.

In our challenge to adapt this to the context of an urban developed world we operate in, we have followed his example of returning to the question of how our intervention can help both individuals and communities to move out of poverty. We are also inspired to address inclusion, which is intricately linked to poverty. Our focus on inclusion is about enabling more people to participate in creating and designing systemic solutions, along a gradient of participation.

In London, there prevails different kind of poverty from that of the borrowers in Bangladesh. For a start, the UK benefits system means that there is a different set of incentives and counter-incentives for people to improve their own situation. In some deprived communities in the UK, this has led to generations of people who have never worked in their lives, the phenomenon known in some quarters as worklessness. The poverty here is one of access, conviction and of confidence, in both an individual and collective capacity, to grow and meet individual and community needs. We describe further below how we address these challenges.

One of the hardest elements of tackling poverty is addressing the hardened views that people have about poor people (including poor people's own self-perceptions). If people do not themselves see a way to better themselves, it is not possible to say that they have a way forward. It is as much a work of changing perception and facilitating positive feedback loops wherever possible.

2.2 LCL Mission: Supporting Social Business

We will encourage the newly formed enterprises to adopt a social business model, though we will not be prescriptive in doing this. As Latifee (2008) illustrates, Grameen has formulated the notion of Social Business Types 1 and 2. A Type 1 social business is where those running the business are not at a subsistence level and so can adopt a not-for-profit model or a legal form which allows them to operate optimally while ploughing all surpluses back into the business. One of the key features here is that there are no shareholders to take profits out of the social business. A Type 2 social business involves the owners using the surplus to address their subsistence, i.e. the social business fulfills its social purpose by enabling the business owners to climb out of poverty.

In the UK, we have observed that many social entrepreneurs and other agents of social change who have spent years to make social change happen are riddled with debt and lead a financially precarious existence. We believe that social business can be used to help move them out of precarity while improving their social impact and making it self-sustaining. This is also relevant to many inner-city graduates who start their professional life with sizable debt that could take all their working life to pay off, so are strongly incentivised to seek the best paying jobs regardless of social impact rather than putting their energy and talent to use where they can do the most social good.

2.3 LCL Mission: Addressing Poverty

As mentioned in the descriptions of Grameen's principles above, we had to think about what poverty means in a very different context while tackling poverty in a meaningful way.

We decided to look at the wealth that already exists in communities, and how communities could harness this as a starting point for climbing out of poverty. We were highly influenced by the 'Zero Waste' approach, originally posited by Pauli (2009) for the environmental domain. In his recent book *The Blue Economy*, he recommends looking at nature as part of the business ecosystem and focuses on it as a sweet spot 'where sustainability, entrepreneurship and innovation meet'. We extend the *Zero Waste* approach to include people. Hence for example, the passion and skills that exist within communities that are not being used are a wasted resource that could be harnessed.

The untapped potential within those communities represents a massive *opportunity cost* to society, who knows how many diamonds in the rough lie within them? Harnessing that potential would have incalculable social and economic benefits that could make almost everyone better off.

In looking at how to harness the wealth in the community we considered: *The Fortune at the Bottom of the Pyramid* by Prahalad (2006). In considering who this book was aimed at, managers in multi-national corporations, it occurred to us that the possibility for communities to be the primary beneficiaries of the identified opportunities was limited. The limits are systemic – if multi-nationals hold onto all of the knowledge of what is needed and wanted by the community, then they can serve that community as they see fit and their shareholders will naturally be the primary beneficiaries of wealth generated from trading 'At the bottom of the Pyramid'. We decided to design an intervention so that communities could be the primary beneficiaries. This does not exclude multi-nationals, but gives communities a chance to level the playing field. This intervention is the Social Startup Lab Workshop as described in Section 2.

We always come back to the question, how will this help the community to improve its state as a whole, as well as for the benefit of the individuals involved? This question is what led our intervention to include the Skills Camps. The Social Startup Labs alone will not ensure the participation of the more deprived and excluded members of the community. By running the Labs without the Skills Camps, it would mean that the new products and services that emerge from the Social Startup Labs and the Social Startup Incubator will only reflect the demand (and supply) of those other than the most deprived members of the community, thus perpetuating their current social exclusion.

2.4 LCL Mission: Achieving Aims Using Own Core Skills as Bonsai People

We wanted to apply our definitive set of principles while arriving at a solution to an identified area of societal need. We wanted to do this using our own core skill-sets to address that need. Our own core skills and domains of expertise are not those of finance or economics, but that, amongst others, of process literacy

Introducing Distributed Process Literacy

We view (social) process literacy as the ability to identify, adjust and sculpt the social dynamic present in groups, both in real-time and in advance of a social occurrence, in order to achieve a desired societal outcome. In our domain, the social intervention is the cause; the intended socio-economic outcome is the effect. While social outcomes are better collaboration, or less conflict, examples of socio-economic outcomes are better societal conditions such as increased output and creativity in enterprise, and better social conditions.

It is recognised that the economic and social domains are interdependent. Certain economic interventions will generate certain social and societal outcomes. And *vice versa*.

- We assert that process should get more attention than it already does, compared with structure and form.

- We also assert given the interdependence of the socio-economic relationship, that in trying to improve economic conditions, more attention should be placed on social interventions. Our assertion is that on balance that the emphasis in many government think-tanks and policy making circles lies too heavily on changing the economic conditions in order to achieve social outcomes. More focus on systemic social interventions along the line of Social Startup Labs is needed.

Grameen presents a good example of nurturing social processes to achieve improved socio-economic outcomes. There the *social processes were allowed to evolve*, and in doing so generated new *forms*. For example, we observed that the life-changing '16 decisions' criteria are a governance tool, a social *form* that evolved from the centre meetings and from the *processes* within the self-organising hubs and bottom-up governance *structures* in Grameen. Each centre chooses its own combination of the decisions to emphasise. One of the reasons we believe Grameen has been so successful is that the social processes were allowed to *evolve* at the periphery of the organisation, and this intelligence was then gradually integrated – literally 'in*forming*' the structures and *de facto* practices of the organisation.

The way to test a social process is to test how well it generates the intended societal outcomes. We have designed our own work creation intervention (social process) which aims to generate more work (economic outcome) and more participation (societal outcome).

We believe that in order to increase meaningful participation in solving our societal problems, more people need to be able to operate at the higher leverage point in the societal solution generation: at the point of design, not even of the forms, but of the process. Hence, our longer term systemic aim is to teach process literacy as we believe it will significantly improve society. Ultimately if more people could design and improve our social processes, then we would access more collective intelligence. We would therefore see better social processes, leading to improved social dynamics, which in turn would generate better societal outcomes. This would go a long way towards making poverty history and fit for Dr Yunus's Poverty Museum!

Our intervention is therefore a living case study in process design. This is why we are making an effort to keep the design process open and to continually enable people to participate in them.

The different levels of participation in the overall process are as follows:

Increasing Degree of Participation

Degree of Participation 1:	End user/ beneficiary of the *societal outcome*
Example:	Receives a new job or starts a new business.
Degree of Participation 2:	Co-designer of *societal intervention*
Example:	Gives feedback and suggests improvement on content of *Social Startup Labs Programme*, e.g. we need less marketing support and more financial planning skills support within the incubation process.

Degree of Participation 3:	End user of *social process*
Example:	Applies *Social Startup Labs* elsewhere, e.g. runs a *Social Startup Labs Programme* in Detroit.
Degree of Participation 4:	Co-designer of *social process*
Example:	Participates in the ongoing design of the underlying *processes* of the *Social Startup Labs*.

In reality, many people would probably engage at multiple levels at the same time. But our aim is to enable more people to be capable of this level of flexibility as what we do taps into inherent human capabilities.

2.5 Selecting a Societal Challenge

We decided to select a societal challenge and to apply these principles to that challenge. In the UK, worklessness and long-term unemployment has been a persistent problem. This would be our challenge!

Section 2: The Solution – A Designed Intervention

First, let us consider the problems we are aiming to solve:

- **There are not enough vacancies to absorb the amount of people seeking work.**

  Employment offers the best and most sustainable route out of poverty says the Office for National Statistics,[3] but the Labour Force Survey says that there are 10.6 million people of working age not in work and the Vacancy Survey says there are only 492,000 available job vacancies. More than 21 times more people out of work than there are jobs in the UK! Hence, solutions that focus primarily on matching individuals to vacancies are not dealing with the root cause of the problem. There needs to be a focus on job creation.

[3]http://www.lsis.org.uk/Services/Policy/Documents/Briefguidetostateofthenationreport.pdf
http://www.statistics.gov.uk/StatBase/Product.asp?vlnk=545&Pos=6&ColRank=1&Rank=272
http://www.statistics.gov.uk/StatBase/Product.asp?vlnk=14019&Pos=1&ColRank=1&Rank=272

- **There is not enough work of the kind that allows Bonsai people to flourish.**

Bowles and Jayadev (2007) have shown that there is a direct correlation between income inequality and the quality of available jobs. It is important that when work is created, that the work will allow people to grow personally, as well as making ends meet and being economically productive. In practice, this means keeping a check on the system integrity. In generating new work we must use a process that involves enough diversity in people so as to not cater primarily to the dominant demographics, and to ensure that the work that emerges from the process, is work that enables people to develop themselves through it.

- **Governments do not seem to realise that net job creation is almost exclusively achieved by organically grown local startups.**[4]

Bowles and Jayadev (2007) have further shown that there is a direct correlation between income inequality and the quality of available jobs. It is important that when work is created, that the work will allow people to grow personally, as well as making ends meet and being economically productive. In practice, this means keeping a check on the system integrity. In generating new work we must use a process that involves enough diversity in people so as to not cater primarily to the dominant demographics, and to ensure that the work that emerges from the process, is work that enables people to develop themselves through it.

The Solution in Detail: Social Startup Labs Programme

The solution we arrived at is a designed intervention with three inter-dependent components: Social Startup Labs, Skills Camps and the Social Startup Incubator. Note that these are social structures, forms, and processes. The structure is visible in Figure 1. The forms are the tools that are used, and the process is the unseen and facilitated social dynamic throughout the interventions.

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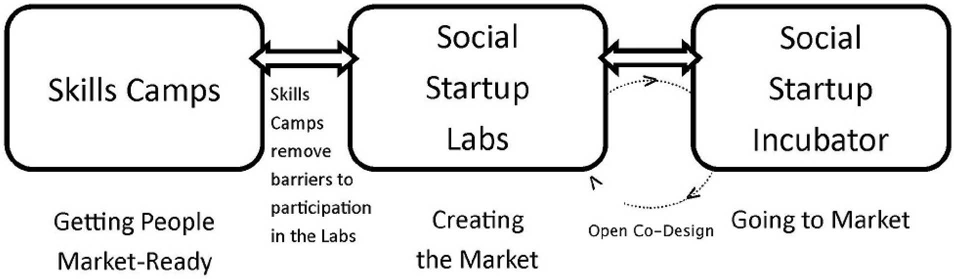
[4] Kane, T (2010): The Importance of Startups in Job Creation and Job Destruction, Kauffman Foundation Research Series.



Each Skills Camp:

- 12 Weeks
- 20 People per Skills Camp
- 12 Half-Day Workshops
- Coaching Training, Peer Coaching and Mentoring, Career Coaching, Option for Work Placement

Each Social Startup Lab:

- 1 Day Long
- 50 People in a Lab
- 1 Social Startup Lab per Month
- Assets, Needs Opportunities Mapping, Business Model Prototyping,
- Lean Startup and Customer Development Modules

Each Social Startup Incubator Cycle:

- 3 Months
- Fortnightly Social Startup Coaching
- Fortnightly Business Skills Training Sessions
- Access to a Business Coach
- Dragon's Den Pitching Sessions

Figure 1: A three-pronged intervention to address worklessness

1. Addressing Work Creation – Introducing Social Startup Labs

Social Startup Lab workshops bring together a diverse range of local actors and stakeholders from the public, private and third sectors including Skills Camps participants and the disadvantaged to first of all form a Bigger Picture of the assets (places, equipment and skills/ knowledge) they collectively own or have ready access to the unmet or poorly met needs, and the opportunities that arise from leveraging the assets to address the needs.

The attendees are then guided to go from opportunity to action, by first forming teams around opportunities through a process of self-selection. The teams then take part in short, sharp, entrepreneurial learning-by-doing sessions as follows:

- Business Model Prototyping using the Business Model Canvas to generate and visualise multiple potential business models for their opportunity.

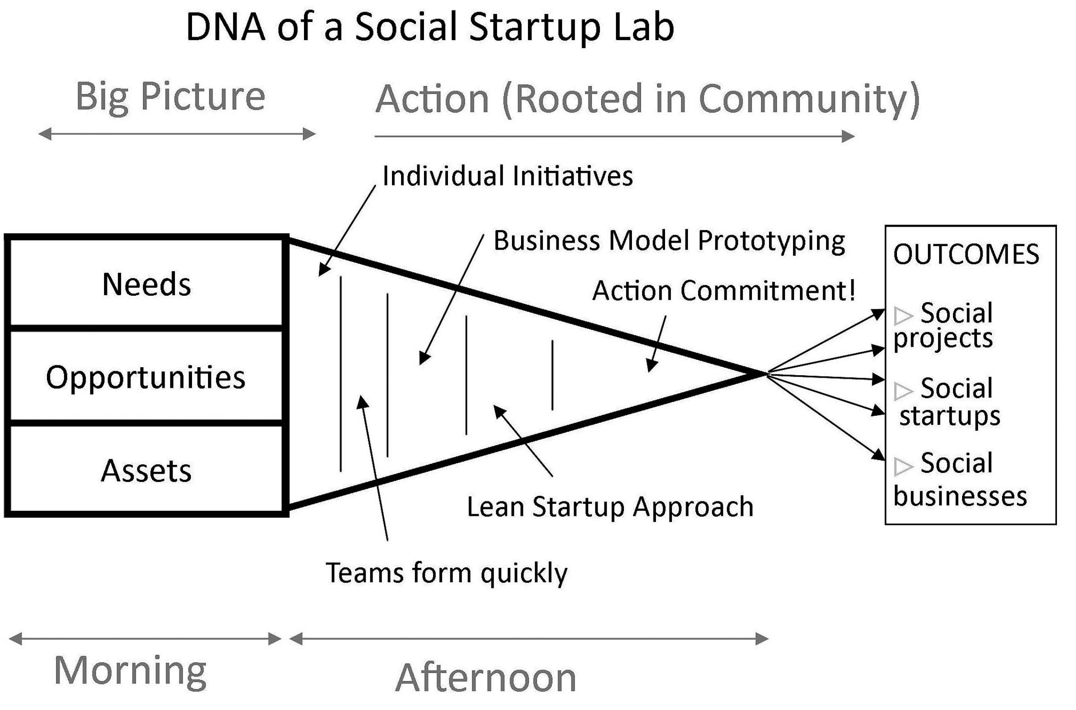


Figure 2: The DNA Composition of a Social Startup Lab

- Customer Development principles from Lean Startup methodology guide them towards building the right product/service for the right customer (thus reducing marketing spend).
- Action Cycles to provoke them to take action within a week to establish that their business idea is viable and/or that they can work together effectively as a team.

By the conclusion of a day-long Social Startup Lab event, there will be a number of nascent Social Startups in the making. Given a suitable venue, a Lab could comfortably accommodate at least 20-50 participants with at least 2 facilitators.

Social Startup Labs encourage the idea of social actions that in some cases could become social startups, which could in turn become social businesses. We emphatically need to meet people where they are, rather than assume that people are all able to run a social enterprise outright! This picks up on the notion of social actions that Dr Yunus introduced in his 2008 book *Creating a World without Poverty*, and guides participants through graduated action that helps them keep taking the next step towards Social Business.

2. Addressing Participation – Introducing Skills Camps

Skills Camps are focused on identifying skills that already exist within in a person, which could be of value to society. For people who have the perception of having very little, and who are used to focusing on what they do not have, it is good to focus on what they do have. We believe that when participants understand their natural gifts they have the key to their own dignity. We believe that every person has something to offer the world, even if it is the condensed learning from their mistakes. Awareness of this can be a valuable gift if administered in right time and place.

Hence, Skills Camps apply the learning from years of experience in professional career coaching to help disadvantaged people understand their personal offer in the world of work, while building up their confidence and communication skills. A key aspect of Skills Camp is to foster peer coaching amongst the participants, so that they learn to communicate more effectively and make the most of each other's strengths building confidence and self-esteem.

Another aspect of the Skills Camp is to broker work placements and help participants gain work experience and testimonials as a result. A typical Skills Camp would last 12 weeks with a half-day session per week, with 10 participants and 2 facilitators.

3. Enabling Success – Introducing the Social Startup Incubator

The Social Startup Incubator can access the resources they need to go from having an idea to being a trading enterprise. Core aspects of the Incubator are –

1. Social Startup Coaching sessions where the Social Startups' business models are reviewed using the Business Model Canvas and where obstacles to progress are addressed in a peer-based learning environment.

2. A Business Coach who is a seasoned entrepreneur with the attributes of a deeply networked connector, business mentor and dealmaker whose role will be to ensure the success of the Social Startups by advising them and brokering deals on their behalf.

3. Business skills training sessions where guest experts can train and mentor Startups in the essential skills they need to successfully run an enterprise.

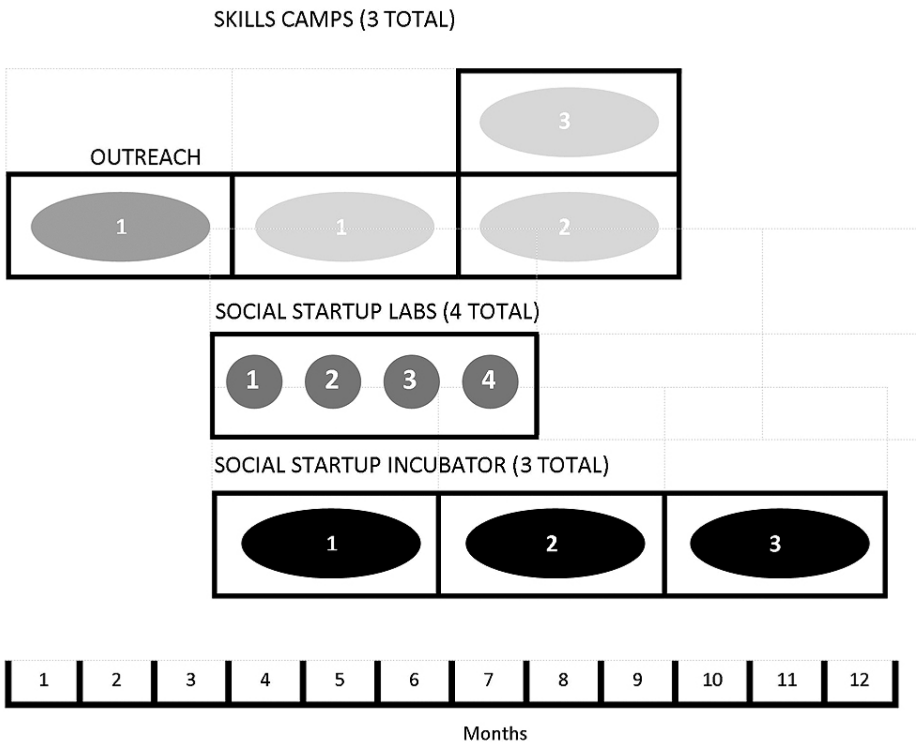


Figure 3: The Social Startup Labs Programme Timing

4. Dragon's Den-style investment panels where the Startups can pitch to potential investors.
5. A community in which they can learn, experiment and grow with other people, in their common endeavours to better themselves and the places within which they live.

London Creative Labs is in the process of negotiating to become a local delivery partner for UnLtd's 'Community Entrepreneurs' model. This will enable the incorporation into the Incubator of a proven model, provision of match funding, and the wider environment of support provided by UnLtd. The Incubator will operate on a three-month cycle of fortnightly Social Startup Coaching sessions each of two hours duration; fortnightly Business Skills training sessions of varying length from a diverse range of specialists; access to a Business Coach who will mentor the Startups and broker access to support and resources on their behalf; and each cycle concludes with a Dragon's Den-style pitching session.

Section 3: How We Approached the Challenge

Pilots: We tested the core elements of the intervention separately. We ran Social Startup Labs workshops in two inner-city areas of London and also tested the Skills Camp process and the Social Startup Coaching in one of the areas. These were all very well received. We documented the proceedings at http://www.londoncreativelabs.com/labs making a point to share openly all the data collected. We have since improved the data collection process.[5]

Building Trust Locally: We have built the connections and networks to engage with relevant local structures to create healthy foundations for this intervention – both as co-designers and also as clients. For example, we have delivered self-organising processes to the local authority and have led them to apply this approach as part of their consultation methodology.

Lean Operation: We have focused on what we do best, turning to other organisations in order to scale or to extend our technical capacity to deliver.

Community Facilitation Up-Skilling: As a result of our work on distributed process literacy, we have gained the trust of the local authority Lambeth, who wish us to help them with capacity-building the community with these skills. Having more people in the community with these skills is a critical factor in local communities being able to take their future into their own hands. The local authority has accepted our model for cultivating Community Facilitators as one of their 'Early Adopter Projects' for'their pioneering initiative to become a Co-operative Council. See Lambeth (2010), based on concept of Facilitatory Leadership.[6]

Eco-Intelligence: In order to ensure that the solutions we generate address environmental concerns or even tackle them, we work continuously with local green 'stewards' in our Borough. We have built very strong networks with their groups and readily barter in skills and

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[5] A blog post from one of the attendees of the first Social Startup Labs pilot workshop can be found here: http://www.scottcolfer.com/2011/02/06/social-business-its-time-to-change-the-world/

[6] The Co-operative Council – Sharing power: A new settlement between citizens and the state.
http://www.lambeth.gov.uk/Services/CouncilDemocracy/MakingADifference/TheCooperativeCouncil/SharingPowerNewSettlementCitizensState.htm

resources and knowledge with them. In equipping these groups with better social process facilitation and design skills, we build their capacity to lead within the interventions we create and ultimately they can create their own. This represents an example of Facilitatory Leadership. They in turn are better able to be a fertile ground of business ideas that could help to unleash the potential for green jobs and to guide us in our understanding of how to ensure that environmental concerns are addressed. For example, the local group Transition Town Brixton hosted one of our Social Startup Labs workshops in their venue. We have helped them in developing better decision-making strategies in their operation as a network-based organisation.

Section 4: Finance

Taking an Empirical Approach

The typical advice given to those starting a business and seeking finance is to create a business plan. We tried going down that route and found it an unhelpful distraction. It was only after we shifted to a prototyping approach based on testing our ideas and shaping them into product offerings that we started to make real headway. The downside of that approach is that we weren't really able to properly price what we were doing. The questions of who do you charge and how much you charge them is quite a challenge, one that will be addressed in more detail shortly.

As we needed to generate an income while we were seeking a fit between our product and the market, we ended up falling back on our group facilitation expertise for bringing in money by undertaking community consultation assignments. At first, this was a necessary distraction from what was our prime focus, bringing Social Startup Labs to market. However, it proved beneficial in three ways: (i) it widened the network of people who were aware of what we could do and had trust in our capabilities to deliver; (ii) it enabled us to apply and refine elements of our Social Startups Labs methodology, most notably the Bigger Picture process which evolved from an exercise using sticky notes to having 'fill'in the blank' templates with examples; and (iii) we started to identify common themes and patterns in the needs and behaviours of the communities and organisations we were working with.

The Challenge of Seeking Early Stage Social Investment

A major drawback of the *prototyping approach* we were takin is that typical funders/sponsors either didn't understand what we were doing or found it too risky and/or experimental, when what they really wanted was something proven and tested. The issue of them not understanding was often a result of our not being clear enough, over time we got better at explaining what we were doing in a clear and succinct way. The issue of not being proven and tested on the other hand was a bit of a chicken and egg challenge. We needed funding to be able to conduct a full-blown trial Social Startup Labs Programme to properly test and prove what we were doing.

Thanks to the work that we've been facilitating community consultation events and the way they showcase our capacity to deliver results in terms of community participation and development. We are on the brink of securing funding from a corporate grant-making foundation to run our first full-scale programme in a deprived area of Lambeth, the South London borough we are based in.

Who Pays?

Questions that all viable social businesses need to be able to answer meaningfully are 'who is the beneficiary?' and 'who is the customer?' In conventional businesses, the distinction between beneficiary (the person who benefits) and customer (the person who pays) rarely arises. In 'social business' particularly one located within a welfare state, the distinction is critical and if handled badly or ignored will ultimately lead to the social business not being sustainable, and failing.

From very early on, people consistently advised us to seek funding and support from local government and from the national government department responsible for unemployment (UK Department for Work & Pensions). As a small startup 'social business', navigating these large bureaucratic organisations is difficult and time-consuming. One of the most precious resources that a startup has is time. Our entrepreneurial instincts told us that we would be better off focusing on prototyping and design, engaging with individuals and communities, developing our networks. Consequently, we consciously avoided institutional engagement until we had initially tested our core products.

Our investment in developing networks has paid off in a number of ways. For instance, our long-term relationship with Transition Town

Brixton (an influential local grassroots organisation focused on a proactive community-led approach to adaptation to the challenges of climate change and peak oil) and our membership of Lambeth's Green Community Champions network led to us meeting the key person responsible for driving Lambeth's Co-operative Council initiative. As a result, we were commissioned to facilitate a community consultation on the Co-operative Council, and began a relationship with one of the most forward looking parts of our local authority.

In a similar vein, thanks once again to the Transition Town Brixton, we were introduced to Lambeth First which is the body responsible for bringing all the stakeholders in Lambeth together in partnership (a Local Strategic Partnership). That in turn led to us working with a local grant-making foundation called the Capital Community Foundation on community consultations where we took a significant step forward in refining the Bigger Picture process we use for mapping the assets, needs and opportunities that the community has.

All the while this was going on, we were thinking about the business model trying to figure out how to make Social Startup Labs a self-sustaining revenue-generating intervention. The crux of the matter is 'who would pay for Social Startup Labs and why?'

Who Benefits?

At LCL, we frequently say 'Context is everything'. The context determines which business models are viable and which ones aren't. Much of the following is based on our context as an organisation working in the UK. The details will differ, but many of the considerations will be the same in other nations. The national political context is especially important. With the rise to power of the Conservative/Liberal Democrat coalition and their subsequent austerity policies regarding public spending, many sources of funding for the Third Sector have dried up. In particular, local authority spending has been significantly cut and in turn, the local authorities have heavily weighted their cuts against the Third Sector funding and service provision. The former Labour government saw a Cambrian explosion of the Third Sector organisations. We are now witnessing an extinction of many Third Sector organisations that are no longer financially viable without public funding which they were mainly relying.

With local government in a period of radical retrenchment and hopefully transformative adaptation, it is clearly not in the best interest of LCL to become reliant on local government funding without very solid risk management and mitigation strategies in place. F urthermore, there is weak alignment of local government with the economic interests of the poor people that LCL is targeting.

So, who would benefit financially from our work with the poor? In the UK as in other developed nations, the poor are concentrated in social housing. As they are generally unable to pay the entire costs of social housing, they receive specific welfare payments called Housing Benefit, which partially or wholly covers the rent for social housing. In the UK, social housing is a regulated sector and many of the organisations that provided social housing are Registered Social Landlords who have received government subsidies in order to build and provide social housing. Housing Benefit represents a major source of revenue for the social landlords, but due to the previously mentioned cuts in UK public spending, there are new caps on welfare generally and on housing benefit specifically with new restrictions coming into play. Along with other public spending cuts and policy changes, social landlords are coming under increasing financial pressure and their revenues will fall as a result.

This gives rise to an opportunity for LCL. Any intervention that makes social housing tenants less dependent on housing benefit for paying their rent will improve the revenue and cash flow of the social landlords making them more financially viable. This enables us to position Social Startup Labs as a revenue protection measure for social landlords. It thus becomes in their direct financial interest to back Social Startup Labs programmes aimed at their tenants.

We are currently in the process of formulating a marketing strategy that will enable us to get our message out to major social landlords in London, commencing with those who have housing stock in our local authority (Lambeth).

Sponsors

As Social Startup Labs generates data regarding local bottom peoples' needs and opportunities for products and services, there is a potentially quite compelling offer to corporates that goes beyond their social responsibility and has real business benefits in terms of market research and product innovation. This makes seeking corporate ticket sales and sponsorship for the Social Startup Labs a very real possibility.

Will the Poor Pay for Real Opportunities?

We believe that once the Social Startup Labs brand is sufficiently established, we have enough scale and the right affordable pricing structure is in place, the disadvantaged people can and will pay to participate in Social Startup Labs programmes and in time the programmes may become entirely self-sustaining through revenues generated via that route alone.

At that point, LCL will be on a secure financial footing insulated from any changes in public spending and able to operate independently from any source of outside funding as we will be generating our revenue from clients/customers like any other (social) business.

Section 5: Conclusions

Any 'Welfare to Work' intervention that does not address work creation via startups is not a systemic solution to worklessness and unemployment. This means that billions of pounds has been and will be wasted on mostly ineffective, non-systemic interventions. This might go someway in explaining both the hopeless atmosphere frequently encountered in Job Centres and the Coalition government's move to a 'Payment by Results' regime for their new Work Programme. Worklessness and unemployment is a complex social issue and can only be successfully addressed by a complex social intervention. We have described here a complex social intervention of LCL-led Social Startup Labs programme – how we have prototyped and tested components of it, the challenges we are negotiating in bringing the intervention to market. As LCL develops a robust business model and product line, it will reach a point where what we do can be effectively replicated in other places by other organisations.

On walking the road of Social Business, the entrepreneurial journey is one full of challenge and discovery, especially working with communities – how as human beings we all have the same basic needs and desires. We have often paraphrased Blank's (2010) definition of a startup at the Social Startup Labs workshops as – 'A startup is a learning organisation in search of a scalable business model'. The corollary is that 'A social startup is a learning organisation in search of a scalable social business model'. □

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How Great Actually Is the Potential of 'Social Business'?
An Awkward Question

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Abstract: Looking into the nature and role of 'social business' as envisaged by Professor Yunus, we ask if it is realistic to expect that particular business model to fulfil the high hopes placed upon it as a powerful instrument of social improvement. Furthermore, we suspect that the capitalist economy is unlikely to be transformed through the development of 'social business' as predicted by Professor Yunus.

1. Introduction

Professor Muhammad Yunus, renowned as founder of the Grameen Bank and pioneer of poverty alleviation through microcredit, is – as readers of this Journal will be well aware – presently advocating a new strategy through the application of which he confidently expects nothing less than the ultimate elimination of world poverty. This strategy focuses on the development of what he calls 'social business'. Professor Yunus has propounded his vision in two recent books – *Creating a World Without Poverty* (2007) and *Building Social Business: The New Kind of Capitalism that Serves Humanity's Most Pressing Needs* (2010)[1] Given the high claims being made for social business as an agent of economic and social

[1] For briefer outlines of Professor Yunus's vision; see Yunus (2009) and Yunus (2011).

transformation, some reflection on the nature and potential of the Yunus conception is, we think, appropriate.

2. What is 'Social Business' *a la* Yunus?

Professor Yunus describes a social business (2011, p13) as a 'new category of business', a 'non-loss, non-dividend enterprise dedicated entirely to achieving a social goal'.'He elaborates (2007, Pp21-25):

> In its organisational structure, this new business is basically the same as existing profit-maximising businesses. Like other businesses, it employs workers, creates goods or services, and provides these to customers for a price consistent with its objective. But its underlying objective – and the criterion by which it should be evaluated – is to create social benefits for those whose lives it touches.

The business is 'cause-driven', not 'profit-driven'. 'The company itself may earn a profit, but the investors who support it do not take any profits out of the company except to recoup, over time, an amount equivalent to their original investment.' Yunus sees social business as a novel form of capitalism which – driven by a different ambition – has the potential to achieve all sorts of good things beyond attainment by the old selfish, for-profit capitalism. In particular, it becomes conceivable that poverty can be eliminated from the world within the foreseeable future.

While the *raison d'etre* of a social business is not to make profit for its owners but to benefit society in some particular way, it must nevertheless be managed efficiently in terms of normal business principles. And a social business (at least once it is fully developed beyond the fledgling state of dependence on initial sponsors) aims to become an independent business living by its own wits in the market. That is strongly emphasised by Yunus (2007, p23):

> As long as it has to rely on subsidies and donations to cover its losses . . . an organisation remains in the category of a charity. But once . . . a project achieves full cost recovery, on a sustained basis, it graduates into another world – the world of business. Only then can it be called a social business. . . Once a social-objective-driven project overcomes the gravitational force of financial dependence, it is ready for space flight. Such a project is self-sustaining and enjoys the potential for almost unlimited growth and expansion.

Note what is implied by that condition, as specified by Yunus, for qualification as a social business: the very act of undertaking a particular 'social-objective-driven project' must *itself* bring in the revenue required to cover the costs incurred. The key advantage of a social business over a charity is its ability to recover the costs of 'doing good' from sales of what the business itself, *in the course of doing that good*, produces. Unlike a charity, a viable social business doesn't have the continuing worry and distraction of eliciting sufficient donations to keep the activity going. That, as Yunus emphasises (2007, p22), is a rare and important advantage:

> There are many organisations in the world today that concentrate on creating social benefit. Most do not recover their total costs. Nonprofit organisations and nongovernmental organisations rely on charitable donations, foundation grants, or government support to implement their programmes. Most of their leaders are dedicated people doing commendable work. But since they do not recover their costs from their operations, they are forced to devote part of their time and energy, sometimes a significant part, to raising money.

Thus, the distinctive and exciting feature of a 'social business', as envisaged by Professor Yunus, is that the activity of creating social benefit is self-financing. One might make the point that Adam Smith's butcher, baker and brewer are indeed, each in their daily activities, likewise providing valuable services to the community, and at the same time receiving due recompense for their contributions: so how is social business any different? In the case of what Yunus describes as a social business something extra is happening: an element of deliberate benevolence comes into play. The social business – because it has a social objective in view – is conducting operations in such a way that not only does the consumer benefit as normal, an *additional* benefit is rendered. For instance, if the social business, by strategic adaptation of its product or by foregoing a normal margin of profit, can offer goods or services to the market more cheaply than 'ordinary' rivals, thus making those goods or services available to members of the community to whom they would otherwise have been inaccessible, a *distributional* dimension is added, and extra social benefit achieved.

That, for instance, is precisely is the rationale of the Grameen joint ventures described by Professor Yunus (2011, p14): Grameen Danone produces yoghurt for children 'and sells it at a price affordable to the poor'; with Grameen Veolia the outcome is that 'villagers are buying water from the company at an affordable price instead of drinking contaminated water'; the Grameen joint venture with Addidas 'aims at producing shoes for the lowest income people at an affordable price'. 'Affordable' is the key word. Not only are goods supplied to consumers as could have been done by an 'ordinary' business, the consumers to whom they are supplied by the social business are people who, ordinarily, would have had to do without.

Consider another example, one closer to home. Production and sale by The Big Issue Company of *The Big Issue* magazine[2] demonstrates how a social business, through conducting a commercially viable operation, but foregoing the profits thereon, can create significant social benefit. Customers buy the magazine, and can read its content with enjoyment, but the real and intended beneficiaries of the venture are the vendors (homeless or unemployed people) who, in selling the magazine on the streets (at twice the price they themselves pay to the Big Issue Company), receive a regular job, an earned income (profits foregone by the company) and access to support services. The operation is set up in such a way that when purchasers buy the magazine, their purchase creates a positive externality to the benefit of the vendors.

Social business, as a means of harnessing concern about social problems, certainly can do good things. The question is though: can it do all that Professor Yunus claims for it?

Yunus expects a great deal from social business. He sees the concept as of epoch-making importance – 'a new option to people within the framework of capitalism' which 'will bring a fundamental change in the architecture of our capitalist economy, freeing it from the basic flaws which lead to poverty and'other social and economic ills.' The spread of social businesses throughout the economy will, he predicts, 'complete' the capitalist system by allowing selfless as well as 'selfish' motivation to play a part in the working of the system. Thus Yunus (2010, p199):

> Once social business becomes a recognised element of [the global economic architecture] it can play a very important role in solving the financial crisis, the food crisis, and the environmental crisis. Furthermore it can provide the most effective institutional mechanism for resolving poverty, homelessness, hunger, and ill-health. Social business can address all the problems left behind by the profit-making

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[2] The Big Issue is a professionally-produced weekly current affairs and entertainment magazine sold on the streets by licensed vendors. See http://www.bigissue.com

> businesses and at the same time reduce the excesses of the profit-making businesses.

Social business can not only repair the deficiencies left by the for-profit sector, it may, Yunus claims, help to bring better results than can be expected of other agencies that concern themselves with social welfare. Thus, with respect to the contribution of the public sector (in the capabilities of which he seems to have very limited faith) Yunus suggests (2010, Pp22-23) that social business may well do better:

> In a society where social business is a vibrant economic force, people will no longer have to wait for government to address such issues as poverty, hunger, homelessness and diseases because they themselves can find ways to address them by forming their own enterprises, first on a small scale and eventually on a large scale. . . If governments had already solved the world's most pressing problems, we would not need social business.'

Likewise, comparing the limitations (as he sees them) of not-for-profit charity operations with the supposed potential of social business, Yunus (2010, Pp6, 10) observes:

> NGOs do a lot of good work in the world. But the charitable model has some inherent weaknesses, which led me to create the concept of social business as an alternative.
>
> Relying on charitable donations is not a sustainable way of running an organisation. It forces NGO leaders to spend a lot of time, energy, and money on fund-raising efforts. Even when they are successful, most NGOs are perennially strapped for cash and unable to sustain, let alone expand, their most successful programmes. . . There is a built-in ceiling to the reach and effectiveness of nonprofit organisations.[3] The need to constantly raise funds from donors uses up the time and energy of nonprofit leaders, when they should be planning the growth and expansion of their programmes. No wonder they don't make much progress in their battles against social problems.
>
> By contrast, a social business is designed to be sustainable. This allows its owners to focus not on asking for donations, but on increasing the benefits they can deliver to the poor or to others in society. The power of social business to endlessly recycle money gives it potentially a greater impact than even the best-run charity.

[3] Somewhat confusingly, Yunus refers to social businesses not as 'nonprofit' or 'not-for-profit' operations, but as 'non-loss, non-dividend enterprises'.

Yunus describes examples of social businesses with which he is associated. These typically take the form of a partnership between an existing for-profit company and a Grameen operation focussed on a specific social objective. The original case described by Yunus relates to the provision of especially nutritious yoghurt to the poor children of Bangladesh. A not-for-profit company was set up by the Grameen organisation in cooperation with the French multi-national Danone to produce yoghurt for that particular market, half the initial capital to be provided on non-commercial terms by Danone[4] (with the remainder coming from Grameen); manufacture and distribution would be undertaken on commercially viable terms by the not-for-profit partner in Bangladesh. Similar arrangements have been made with other international companies – Veolia for the supply of safe drinking water, Addidas and Reebok for affordable shoes for the very poor.

It appears to be the case, at least at the moment, that the status of these ventures is that they are embryonic rather than fully-fledged social businesses. None has yet achieved complete cost recovery which would allow, as Professor Yunus puts it, graduation into the world of business. Until that is achieved there is nothing really novel in the cases described by Yunus: what we observe in each instance is an established for-profit organisation helping a socially-concerned partner to set up to achieve a certain social objective, a production operation, one not expected to show immediate commercial viability. These cases look to us very much like examples of the well-known phenomenon of 'corporate social responsibility' (CSR) – in that an established and profitable enterprise (Danone, for instance) allocates, with benevolent intent, some portion of its available resources to supporting a socially valuable, though not financially rewarding, activity[5]. Although Yunus – who has reservations

[4] The funding arrangements were very carefully arranged to minimise the financial cost to Danone shareholders of (voluntarily) subscribing to the 'Danone Communities Fund' which would, 50/50 with the Grameen organisation, provide the start-up capital. To ensure a pretty safe and predictable return to subscribers, 90% of the Fund's assets would be held in money market securities, with the remaining 10% invested in the social business operation.

[5] 'The goal of CSR is to . . . encourage a positive impact . . . on the environment, consumers, employees, communities, stakeholders and all other members of the public sphere. . . . CSR is the deliberate inclusion of public interest into corporate decision-making . . . and the honouring of a triple bottom line: people, planet, profit.' (http://en.wikipedia.org/wiki/Corporate_social_responsibility)

about CSR[6] – might not agree, Jean-Luc Peron, writing in the inaugural issue of this *Journal* (Peron 2011, p85) also sees these joint ventures as expressions of CSR on the part of the companies entering into partnership with the Grameen organisation.

However, CSR-type assistance from established firms, even if essential in getting a social business under way, is not meant to be an on-going feature of social business: as mentioned, a successful social business is expected, in time, to be able to recoup from sales all costs incurred in its operations, repay obligations to its sponsors, and become a viable, independent operation – a proper social business.

To sum up: the gist of Professor Yunus's message is that social business – given that it is driven by benevolence,–and supported by a reliable flow of funds from its own operations in the market – possesses an extraordinary potential, so far largely unrecognised and untapped, to change the world. His predicts that a truly utopian transformation will, in the foreseeable future, be brought about through a greatly extended sector of social business not only filling the gaps in welfare provision left at present by existing agencies, but also by social businesses taking over from what he considers the relatively ineffective operations currently conducted by charities and the public sector.

It will be understood however that, although a social business does not have to concern itself with maintaining an inflow of donations, *it nevertheless must, in the same way as a normal business, pay constant regard to the 'bottom line' of the relationship between costs and revenues.* The fact is that social business, as defined by Professor Yunus, differs from conventional business only in respect of the soft terms of its initial funding – and, of course, the motivation behind the operation. Just what, we may ask, is the potential of social business thus characterised to bring to society widespread benefits not attainable through the operations of other agencies?

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[6] Thus Yunus (2007, Pp 15-17): '[CSR] runs up against a basic problem. Corporate managers are responsible to those who own the business they run. . . these shareholders have only one objective: to see the monetary value of their investment grow. . . Although advocates of CSR like to talk about the triple bottom line of financial, social and environmental benefits by which companies should be measured, ultimately only one bottom line calls the shots: financial profit. . .'

3. A Wider Perspective

This paper attempts to answer the question of what to make of Professor Yunus's vision of social business as an enormously powerful new agent of social improvement. We now widen our horizons by looking at something of what is happening in the sphere of social business existing beyond the ambit of the Yunus-Grameen ventures on which our attention has so far largely been focused. Professor Yunus and the Grameen organisation are, of course, by no means the only players in the field of social business – many other parties are currently seeking to apply business methods to the solution of social problems; some indeed were already doing so well in advance of the Grameen-Danone deal.[7] The fact is that across the world, an extensive range of socially-concerned enterprises is operating independently of any direct connection with Yunus-Grameen activities. While the earliest examples of what would now be called 'social business' or 'social enterprise' lie far back in the past,'quite recently – over the last thirty or so years – there has occurred a global surge in the setting-up of such operations. Of the situation in the UK, the Social Enterprise Coalition[8] reports: 'A resurgence of social enterprise started in the late 1990s with the coming together of different traditions, including cooperatives, community enterprises, enterprising voluntary associations and other forms of social business'. Government figures[9] indicate that, in period 2005-07, approximately 62,000 social enterprises, estimated to be employing around 800,000 people, were active in this country. While it may be that not all of these 62,000 enterprises would qualify as social businesses in Yunus terms (for instance, cooperatives benefitting other than particularly poor members of the community would not), it may be assumed that the great majority share essential features with the Yunus ventures.

There is a terminological issue here. Professor Yunus himself speaks of 'social *business*' but in the contemporary literature we more commonly encounter the term 'social *enterprise*'. While some authorities attempt to draw a distinction between 'social business' and 'social enterprise', the fact that these terms both refer to business activities conducted in

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[7] The Big Issue started operations in 1991; Grameen Danone was set up in 2005.

[8] The Social Enterprise Coalition describes itself as 'the UK's national body for social enterprise.' See www.socialenterprise.org.uk

[9] 2005-07 Annual Survey of Small Business, UK.

the market context, activities of which a principal purpose is the attainment of a particular social objective, suggests that they may (for our purposes at least) legitimately be understood as equivalent. (The Grameen organisation refers to Grameen Danone as a 'social business enterprise'!) Note too how closely the following statement by the Social Enterprise Coalition of what social *enterprise* is about tallies with Professor Yunus's account of social business:

> Social enterprises are business driven by a social or environmental purpose. . . As with all businesses, they compete to deliver goods and services. The difference is that social purpose is at the very heart of what they do. . . . The government defines social enterprises as 'businesses with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or community, rather than being driven by the need to maximise profit for shareholders and owners'. Social businesses operate in almost every industry in the UK, from health and social care to renewable energy, from retail to recycling, from employment to sport, from housing to education. Whatever they do, they do it differently from typical business, because they are driven by a social and/or environmental mission, and they are focussed on the community they serve.

For convenience let us treat these terms as interchangeable labels for operations conducted through the market with a primary concern for social welfare. We take these labels to apply whether or not the ventures in question exactly match the Yunus blueprint.

Some Examples of Social Business Enterprises!

We now turn to a few examples of social business, different from the Yunus coverage, to get some idea of the situation on the ground and how closely or otherwise ventures currently operating correspond to the version a la Yunus. The following very limited selection of socially-concerned organisations is not presented as, in any formal statistical sense, a representative sample: these are simply a dozen or so ventures, with various characteristics, operating in various fields, which are described (by themselves or others) as social businesses / enterprises. They are listed below in alphabetical order.

Belu Water[10] was set up as a not-for-profit social enterprise with

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[10] www.belu.org

environmental objectives. Belu introduced the first plastic bottle made from corn (not petroleum), uses PVC-free bottle tops and, for every bottle sold (around 8 million in 2008), provides one month's clean water to people in India, Bangladesh, Mali and Madagascar. Revenue surplus is devoted to funding clean water projects.

Bridges Ventures[11] is 'a private sector venture capital company with a social mission'. Commercial expertise is used to achieve social or environmental aims as well as the best possible returns for investors. All investments are carefully screened to deliver regeneration in the 25% most deprived areas of the UK. The Bridges Charitable Trust was set up to reflect the social mission of the company and the dual motivation of the team to achieve social as well as financial results.

The Charity Bank[12] (a registered charity) is the only not-for-profit bank in the UK. It describes its mission as 'transforming the future of charities'. It applies to charitable purposes 100% of the money saved with it, making loans to charities, voluntary groups and social enterprises.

DSL,[13] an 'ethical, not-for-profit lender', specialising in providing business loans and other support to firms across Scotland, was formed as a direct response to the difficulties faced by people from under-invested communities attempting to access funding for new and existing businesses. DSL is supported by the European Regional Development Fund and the Unity Trust Bank.

The Ethical Property Company[14] supports innovative and progressive organisations working for social change by taking care of their property needs. Rents are set at a discount to the market rate. The EPC pays great attention to minimising the environmental impact of its operations. The company has paid an annual dividend throughout the last ten years.

Fair Finance[15] describes itself as a 'social business, which aims to create both social and financial profit. Based in London it offers a range of 'affordable and accessible' financial products and services to meet the needs of people who are 'financially excluded'. Fair Finance charges around 45% APR for its loans as compared with the 450% – 2,500% APR of doorstep lenders.

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[11] http://.clearly so .com/company/52BridgesVentures.jsf

[12] www.charitybank.org

[13] http://dsl-businessfinance.co.uk/

[14] www.ethicalproperty.co.uk

[15] http://fairfinance.org.uk

The Fifteen Group[16] provides apprenticeships in Jamie Oliver restaurants in London, Cornwall and Amsterdam to give selected unemployed and under-qualified young people a chance of a better future, 'empowering, educating and engaging them' through'training to become qualified chefs'. Profits go to a registered charity, the Jamie Oliver Foundation.

HCT Group[17] is a social enterprise (and registered charity) providing bus transport and community transport services in London and Yorkshire. As well as operating a number of routes for London Buses, HCT provides services for people who are unable to use mainstream public transport because of age, sickness, disability or poverty. It also provides driver training programmes with the aim of reducing unemployment. HCT's strategy is to generate profits from its commercial services and use these to provide community services.

Pack-IT[18] was originally set up by Cardiff City Council to provide training opportunities and permanent paid employment for people with learning disabilities. It is now the only example in the country of a Social Firm which has been successfully externalised from its local authority. As a Social Firm and community business, Pack-IT employs 21 staff, half of whom have Down's Syndrome, are profoundly deaf or have behavioural and learning difficulties, yet everyone at Pack-IT is paid above market rates and works full-time. Profits are ploughed back into the business.

Peaceworks[19] describes itself as a *not-only-for-profit* company which has 'proven that we can build and sustain a profitable company and do a little good in the world'. PeaceWorks' social mission is to bring together through its operations groups of people who would otherwise be separated and hostile to each other. PeaceWorks trades in fruit and foodstuffs, doing business with Israelis, Palestinians, Egyptians, Australians, Turks, Indonesians and Sri Lankans.

Riders for Health [20] is a non-profit organisation that manages vehicles and motorcycles used to deliver health care and other services vital to rural communities in Africa. Riders manages vehicle fleets on a planned, preventive maintenance basis. As a not-for-profit social enterprise, Riders,

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[16] www.jamieoliver.com/fifteen-london/

[17] www.hctgroup.org/

[18] http://socialframework.co.uk/features/case-study-pack-it

[19] Fleischer (2001); www.peaceworks.com/aboutUs/

[20] Rammohan, S (2010); http://riders.org

currently operating in seven African countries, uses a cost-recovery model, charging a fee to governments and health care agencies.

SELDOC [21] (South East London Doctors' Cooperative), founded by local GPs to provide quality out-of-hours care, services 125 practices and nearly one million patients across SE London. Member practices are charged per patient to fund the on-call fees for the GPs. Profits are ploughed back into the cooperative.

Triodos Bank[22] lends money only to organisations and businesses pursuing positive social, environmental and cultural goals. In Scotland Triodos works with 'some of Scotland's most progressive businesses and charities, from community-based social projects, fair trade enterprises, organic food and farming, to renewable energy companies'. Triodos is a for-profit company, in 2010 paying out 80% of profits as dividends.

What does our review of these social businesses tell us?

Even this very limited survey allows us to make three points.

(i) Social business *a la* Yunus certainly does exist and operate to good effect

The basic Yunus concept of social business is seen to be a valid one. It is evident that commercially viable nonprofit operations, as envisaged by Professor Yunus, are being conducted, and to good effect. (Of our sample group, Belu Water, The Charity Bank, DSL, Fifteen, HCT, Pack-IT, Riders and SELDOC appear to fit the Yunus specification.) Other effective socially-concerned ventures, though not exactly corresponding to the Yunus specification, are also active.

Some questions though: if a particular activity is commercially viable for a social business, could not production of the good or service in question be carried out just as well by a conventional business? If a social business arrives on the scene is it simply going to duplicate what would have been done in any case by an ordinary business, *or can it make a special contribution?* Do social businesses possess any unique advantages which would allow them to enter markets and meet social needs which, without their involvement, would remain unmet?

We believe they do. We identify two factors which justify special claims for social businesses. Firstly, the motivation and understanding of the

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[21] www.socialenterprise.org.uk/pages/south-east-london-doctors-cooperative.html

[22] www.triodos.co.uk

social entrepreneur can undoubtedly be significant. When entrepreneurial initiative comes from informed parties committed to solving a particular social problem, their commitment can result in enterprises operating in ways that might never have occurred to less interested and involved investors. For instance, Fifteen Group not only serves restaurant meals to customers, but simultaneously creates an extra social benefit by employing specially selected trainees. Pack-It provides storage and delivery services and by doing so creates employment for disadvantaged people. PeaceWorks supplies a variety of commodities to the market, and, in organising its activities with a particular non-economic purpose in view, creates a social benefit. The engaged social entrepreneur may find a novel approach to a problem, or spot a niche in the market invisible to others. A social business may therefore not only match the contribution of an ordinary business, but contribute something more. Secondly, the simple fact that a social business does not have to worry about paying returns to its owners should of course give it some leeway in selling at comparatively lower prices than otherwise, thus enabling it to cater for markets not accessible to an ordinary profit-maximising firm.

(ii) There is an issue as to whether social business should be for-profit, or not

Different views evidently exist as to whether a social business should, or should not, aim to return profits to its owners. Professor Yunus strongly believes that a social business ought to plough back and *not* distribute any revenue surplus. Of the social businesses we surveyed, the majority were indeed found to be non-dividend *a la* Yunus, but others (Bridge Ventures, The Ethical Property Company, Peaceworks and the Triodos Bank) have taken the position that it is quite proper to distribute a proportion of their earnings as private profit.

One justification offered for a social business distributing profit in the conventional manner is that a business which is recognised as a straightforward profit maximiser will find it significantly easier to raise funds – particularly long-term capital – than a non-dividend or not-for-profit operator, about whose prospects the financial markets may have reservations. Goddeeris and Weisbrod (1998, p131) comment that, 'Greater access to capital is argued to be a major advantage of the for-profit institutional form in health care; . . . it is presumably also an advantage in other industries such as colleges, museums and social-welfare organisations.' See also Peron (2011) and Perrinni and Vurro (2011) for further consideration of the difficulties which non-profit social businesses may face in raising capital.

On the other hand, commentators looking beyond issues of finance suggest that non-profits, possibly more focussed on an ethical objective, may achieve better social outcomes. Thus Burton A Weisbrod (1998, Pp11-12), with reference to US experience, observes that 'in the day-care industry nonprofits have been found to have more experienced teachers, to be more trusted by consumers, and to encourage more parental involvement as volunteers in the classroom. . . In the nursing-home industry, and in the mentally handicapped facilities industry, nonprofits have been found to have significantly lower prices; to provide more labour per patient . . . and to generate greater consumer satisfaction'. Doubts about the compatibility of a business's social objectives with the profit motive are expressed. Discussing the current tendency (again with reference to the US) for not-for-profit social service operations to turn themselves into commercial profit-seekers, Estelle James (1998, p281) highlights what she sees as a likely danger of that change of status. '[T]he psychological theory of cognitive dissonance suggests that attitudes follow behaviour – so even if values were not pecuniary to begin with, they would gradually become so as managers are expected to meet monetary goals and are evaluated according to their success in doing so. In that case, the generation of commercial revenues may become an end in itself.'

To return to the position taken by Professor Yunus: he evidently shares the concern that for-profit motivation does not sit easily with the commitment to social improvement of a social business. Assessing the implications of the emergence of 'mixed' organisations which seek to combine commercial and social roles, organisations such as the 'community interest company' (CIC) or the 'the socially responsible profit-maximiser', Yunus is sceptical. He notes the potential for conflict between objectives, observing (2010, Pp129-130) that, 'In my judgement, making selfishness and selflessness work through the same vehicle will serve neither master well. The equivocation between the profit motive and the social motive introduces a weakness that will make [such ventures] less effective in its pursuit of humanitarian goals than the pure social business'.

Nevertheless, despite Yunus' plea for separation of activities intended for social benefit from private financial interest, official specifications of the requirements for an enterprises's recognition as a 'social business' do not in fact insist that *all* profit is foregone.

The formal British government definition does not require that a social business reinvests all surplus revenue into the business, or donate it to charity. Thus (Social Enterprise Action Plan, 2006)[23]: 'A social enterprise is a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners.' Note that this specification – 'surpluses are *principally* reinvested' – is weaker than the Yunus requirement regarding profits. Again, the recently introduced legal form of a 'community interest company (CIC)' also allows for a margin of retained profit; but legislation caps the level of dividends payable at 35% of profits and returns to individuals at 4% above the bank base rate.

It is debatable as to whether private profit should or should not be taken by the owners or shareholders of a social business. Professor Yunus's position on this issue is not unanimously accepted.

(iii) Social businesses are critically dependent on sales revenues

A feature common to all the social businesses (including the Yunus enterprises) whose operations we have examined is that they are able to recoup their costs by selling the goods or services they produce. They manage that in different ways. Some (Grameen Danone, DSL, Fair Finance, Triodos Bank) earn revenue by selling (on appropriate terms) to selected beneficiaries. Others (The Big Issue, Fifteen Group, Pack-IT, PeaceWorks) sell to third parties whose expenditure in meeting their own needs makes possible the provision of a particular social benefit to a targeted group. Others again (SELDOC, Riders) provide services as agents of the public sector, which supplies the funding. HCT uses surpluses generated in one part of its transport operations to cover the deficit in others. Market opportunities such as these must be found if a social business is to be commercially viable and at the same time remain independent of subsidies and donations. However obvious that may seem, Professor Yunus, in implying that social business can enter into almost any kind of economic activity – any kind of activity where, at present, charities or government are operating with (supposed) inefficiency – apparently overlooks the probability that in many cases market conditions will be incompatible with the survival of a social business.

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[23] http://www.civilsociety.co.uk /governance

4. Limitations of Social Business

It is certainly not in question that social businesses can do good things, but – *can they do everything Professor Yunus expects of them?* We have reservations – on two scores – about his contention that the benefit-generating capability of social business is pretty well without limit, far exceeding the capabilities of other agencies. Our doubts relate to (i) the possibility that social businesses may encounter certain funding difficulties, and, more fundamentally, to (ii) the probability that social businesses, *by their very nature*, will not be able to operate in many areas of social need.

(i) Possible Funding Problems

Yunus claims that an established social business will be free of the vagaries and limits of charitable giving: he makes much of the argument that resources available for charity are limited. He writes (Yunus 2007, pp10-11):

> Relying on donations creates . . . problems. In countries where the social needs are greatest – Bangladesh, elsewhere in South Asia, and in large parts of Latin America and sub-Saharan Africa – the resources available for charity are usually very small. And it is often difficult to get donors from the richest countries to take a sustained interest in giving to distant countries they may never have visited, to benefit people they will never know. . .
>
> The problems become even greater in times of crisis . . . the demand for charity quickly outpaces the supply. . . For all the good work that nonprofits, NGOs, and foundations do, they cannot be expected to solve the world's social ills. The very nature of these organisations as defined by society makes that virtually impossible.

But is it actually the case that social businesses would be completely free from the difficulties and constraints that may hamper and limit the activities of charitable organisations? Will it be as easy as Professor Yunus apparently supposes for potential or established social businesses to 'escape the gravitational force of financial dependence'. The question is: will a nonprofit social business enjoy the same access to the capital markets as would a normal business when funds are required to permit development and expansion of the operation? Yunus doesn't seem to see any problem here; but Jean-Luc Peron (2011, pp84-90, emphasis added) who, as Managing Director of Credit Agricole Grameen Microfinance should be well-informed on such matters, is of the opinion that, when seeking funds from the market, a social business may indeed encounter difficulties – difficulties similar to those met by charities.

> Like any business project, a social business organisation needs capital, whether in the form of debt or equity. Whilst some of the financing requirement, particularly from the production cycle, could come from bank debt under standard terms and conditions, equity and long-term asset financing requires resources . . . to be better geared to the Social Business (SB) model. To achieve its social objective, SB innovates in many ways: product innovation, innovation in production processes, innovation in methods and in distribution channels. In addition, [it seeks] the lowest possible prices to make a product affordable to the poorest puts pressure on the trading model. For all these reasons, SB initiatives will find it difficult to convince traditional lenders to provide the long-term funds they need. As regards equity, the risks inherent in the business and the lack of return or capital gain for the owners will discourage traditional venture capitalists and, more generally, private equity funds from investing alongside the project promoter. *Yet the project promoter will typically not have the ability to provide all the long-term funding required.*

Given that conventional market sources may be less than keen to support social businesses, Peron asks who is likely to be interested? With particular reference to the French situation, he reviews potential sources of social business funding. While several possibilities are identified, Peron does not expect much from the largest potential source of funds, philanthropic foundations and institutional investors. He suspects that fund managers, unwilling to sacrifice dividends and capital gains, would be reluctant to allocate more than 'a fraction' of their funds to non-profit social causes. It therefore looks very much as if the special circumstances of social businesses will, when need arises of external funding, require resort to special facilities – to investors who, out of benevolent concern for social improvement, are prepared to step in where conventional investors will not venture.

Peron mentions the desirability of introducing of new funding institutions or arrangements specially geared to the needs of social businesses. 'Venture philanthropy' is one such. Francesco Perrini and Clodia Vurro (2011) explain that 'under the venture philanthropy model, a private or corporate foundation – the venture philanthropist – decides to develop a long-term relationship with a social organisation that stands out for its innovative spirit and high potential social impact.' While'observing[24] that interest in venture philanthropy is growing across the UK and Europe, the European Venture Philanthropy Association, adds a bit of a damper: 'It is unlikely that the volume of finance flowing through specialised venture philanthropy funds will ever be more than a fraction of independent or statutory grant-making.'

If, as Peron thinks probable, social business will not generally be capable – not only at the start-up stage – of meeting long-term capital requirements internally, *and* it is unlikely that the funding they need will be available from the sources on which ordinary businesses rely, it may well – particularly in a country with a less-developed financial system – find itself in a situation not all that different from that of a charity. If social businesses remain to a significant extent dependent on the goodwill and support of benevolent agencies, that is not at all the scenario envisaged by Professor Yunus in highlighting independence from subsidies and donations as *the* significant advantage possessed by a social business over a conventional charity. The bright prospect (as he saw it) of social businesses as *independent* market operators, taking the place of conventional charities struggling to maintain a regular inflow of funds from outside donors, is somewhat dulled.

(ii) The Question of 'Reach'

Another factor likely to restrict the potential of social business is that of 'reach' – the question of how far social businesses are able to go in responding to social issues. A social business can go only as far in tacking problems as funds allow. A fully-fledged social business, operating without private or public subsidy, is necessarily dependent for revenue of whatever sales to the market it is able to make.

The most likely obstacle, therefore, which we may expect to limit the reach of social business into areas of need inaccessible to conventional business – and such are precisely the areas where charities or government agencies operate – is want of a market for whatever the social business has to sell. But Professor Yunus, in proposing a general replacement of 'relatively ineffective' charitable activities by supposedly more effective social businesses – designed, as he says (Yunus 2010, p6), precisely for that purpose – seems to pay insufficient attention to the possibility of that obstacle being encountered. The common feature of Yunus's illustrative social businesses is that they do happen to be in a position to

[24] http://philanthropyuk.org/publications

achieve (or at least can expect to achieve) commercial viability by sales of goods or services produced. But it cannot be taken for granted that that fortunate state of affairs – necessary for the survival of a social business – would prevail in every area of social need in which charities are presently active. As a matter of fact most well-known charities are nowhere near the situation that their outgoings could be paid for out of sales to the market. For instance, in 2008-09, of Oxfam's total net income of £206m, £170.7m came from donors and £8.9m was contributed by DfID as a partner, while only £15.8m was raised from profit on its trading activities. In other words, Oxfam raised only 7.7% of its total income from its commercial activities. The corresponding figure for Save the Children was even lower, 4.7% (£7.6m out of £161m). What, we may ask, would be the prospects for a social business in circumstances where costs of charitable activities far exceed revenues earned?

The data reproduced in Appendix 1 confirm that in the cases of the well-known charities featured, the notion that they themselves or – the point at issue – *replacement social businesses* could meet operating costs out of revenue from commercial sales is far-fetched. It will be noted from Appendix 1 that all the charities featured are, to a significant degree, dependent on donations or grants – from their supporters, the general public, the government or the big funding–agencies. The contributions of profit-generating commercial operations are relatively small. Partnerships with government (eg DfID) also contribute some small portions of revenue. Only one of these charities (Sense) appears to derive a substantial portion of its income as service fees (for day and residential services, provided to the public sector), even then such earnings (at about 70% of Sense's income) are well short of matching total outlays. Any notion that charities such as these could be replaced by self-financing 'social business' operations must be considered highly unrealistic.

If Professor Yunus believes that social businesses can operate more effectively than other agencies to bring benefit in almost any field, he would seem to be assuming – quite unrealistically – that in almost any area, to meet almost any sort of social problem, a commercially viable social business can be set up – a business able to cover its costs from revenues it raises directly in dealing with the problem.

(iii) Increasing the Reach of Social Business?

It might however be suggested that the solution to the problem of a social business being unable to fund socially advantageous but commercially unviable services would simply be for that business to set up a separate revenue-generating operation to bring in funds to meet the deficit of the charitable activity. Does this mean – if such a complementary commercial operation achieved what was expected of it – that the problem of the limited 'reach' of social business could thus readily be resolved? That, we believe, would be the wrong way to look at the situation. If the complementary money-raising exercise is not directly connected, as a technological and accounting entity, with the social operation it is supporting, the result would not be the creation of a (strengthened) social business. Recall that, according to Yunus, the distinctive feature of a social business is that the costs of meeting its social objective are automatically covered as the business conducts its core activities. An enterprise which, to make its intended social contribution, has to rely on subsidies derived from an add-on operation external to its socially-beneficial activities is not a social business in terms of the Yunus definition.

But what if *charities* themselves set up supplementary commercial operations to cover their deficits? Unless these operations were directly linked to the organisations' charitable activities, these charities would not turn into social businesses with the ability to do virtually anything. Again, the outcome would not be the emergence of a new set of all-powerful social businesses, but rather there would remain – essentially as before – a group of loss-making charities, their benevolent operations subsidised by external activities. Without the *automatic* funding uniquely characteristic of social business operations, the need to find *external* funding to support socially beneficial activities, in other words the potentially constraining problem which the advent of social business is meant to eliminate, would remain.

While the Yunus vision of social businesses acting as the agents of social improvement and simultaneously maintaining their commercial viability is certainly an exciting one, it does seem to us that Professor Yunus has got carried away by his enthusiasm for this particular business model. A social business is, in essentially the same way as an ordinary business, limited in what it can do by the imperative of meeting costs out of sales revenues. When a business – social or ordinary – cannot meet some social need because it is not commercially worthwhile to do so, we have the situation of market failure. Professor Yunus puts great stress on the benevolent motivation behind social business, but as regards an operation's viability that is not the complete answer: it is ultimately the money, not the motivation, that determines what is commercially feasible.

5. A New Kind of Capitalism?

Professor Yunus refers to social business as a 'new kind of capitalism', the emergence of which he expects to transform the economic system. Passing over the question of just how 'new' the concept of social business actually is, and before we consider possible long-term consequences, we ask: can social business as defined by Professor Yunus properly be described a form of capitalism?

We may – following J G Dees (1996) – envisage a spectrum of agencies, ranging from, at the one extreme, pure profit-seeking capitalist firms to, at the other, charitable activities conducted solely for benevolent purposes. The pure for-profit capitalist firm invests in resources and employs labour in order to realise surplus value by selling output at a price which more than covers its cost of production. The purpose of the operation is to make profit and the *modus operandi* of doing so is through purchase and sale in the market. By contrast, the typical 'pure' charity'aims to achieve some philanthropic objective, not monetary profit, and relies for funding not on sales proceeds but on donations and grants. In between these extremes, different business models shade into each other.

On the one hand, on the business wing of the spectrum, but in a less extreme position than the pure capitalist operation, a business wishing to contribute something extra to society may adopt an active CSR strategy and in so doing sacrifice some element of profit. Thus, while the firm conducts its activities in the usual way through the market, the pure capitalist motivation is somewhat diluted: in that respect the firm has something in common with a charity. Correspondingly, on the other hand, if a charity relies on commercial activities to supply some part of its funding, so to that extent it is employing the operating method of a for-profit firm. If organisations on each wing of the spectrum are envisaged as progressively modified in their objectives and methods of operation – with firms from the business side less concerned with profit and more with other objectives, and from the other side, charities becoming more dependent on market trading to raise money, the representatives of the two wings of the spectrum eventually 'meet in the middle' as a common, *hybrid* form. That form is of a nonprofit organisation operating through the market. How do we classify this hybrid? Is it a type of charity or a variety of capitalist business?

If we focus on its mode of operation – working through the market –

we cannot allocate this hybrid to the one or the other category; if, however, we think in terms of motivation, different classifications are implied. To regard the hybrid enterprise as a capitalist business, implies that making money through market activities is in itself the end and purpose of the operation (which would be paradoxical if profit is not actually sought). On the other hand, to classify it as a charity means that making money through the market is only a means to an end – the ultimate objective of the operation is a social, philanthropic one.

On this basis, a nonprofit social business, as defined by Yunus, falls into the category of a charitable operation – a charity which (untypically) happens to be able to cover its costs through its operations in the market – but, having regard to the ultimate purpose of the operation – is a charity none the less. The Big Issue falls into the charity category. So also does The Charity Bank, which in legal terms *is* a charity, but operates as a nonprofit social business. Likewise HCT is both a registered charity and a commercially-viable nonprofit social business. To describe a nonprofit charity operation, even if it is trading on the market, as a 'capitalist business' would be a contradiction in terms.

But what about cases such as, say, the Triodos Bank, Bridge Ventures or PeaceWorks which professedly act, as do the Yunus-type social businesses, to create social benefit, but, at the same time, generate private profit for owners and shareholders? We suggest that, if the social objective and the private profit objective are of equal importance to the enterprise, such for-profit social businesses fall precisely on the 'charity/capitalist boundary'. They are neither pure 'fish nor fowl' but a bit of both – perhaps we might describe them as 'capitalist operations with *essential* charitable characteristics'. With 'a foot in each camp' they are nearer to conventional charities than are for-profit (essentially capitalist) companies which operate a CSR policy but regard such benevolent activities as something secondary to the company's main purpose of profit generation We reckon that what these for-profit social businesses have in common with nonprofit social businesses is more significant than what separates them: after all, as noted above, official specifications of what a social business is do allow profits to be taken by owners. If in the make-up of a for-profit social business a charitable purpose is an essential element, we suggest that such an organisation qualifies for inclusion in the 'Third Sector'[25] of

[25] 'The third sector is constituted by all . . . organisations that are not-for-profit and non-government, together with the activities of volunteering and giving which sustain them. These organisations are a major component of many industries including community health services, education, housing, sport and recreation, culture and finance.' (http://www.anztsr.org.au/third1.htm)

the economy, along with strictly nonprofit social businesses and other enterprises which do not see themselves as belonging either to the mainstream, for-profit, capitalist sector or to the government sector.

In short, what this discussion of the status of social business suggests is that, even if the social business sector continues to flourish and develop, its expansion should be interpreted as something happening essentially *alongside*[26] the conventional capitalist system, rather than *within* that system itself.

6. Implications

(i) The Necessary Contributions of Alternative Agencies

We take the view that Professor Yunus, in *overestimating* the potential of social business correspondingly *underestimates* the contributions of alternative agencies – of both the private and the public sectors.–Where no help–can be expected from–social business in doing 'good things', society has no option but to look to other possible agents – that is to say, to charitable organisations, to 'ordinary' businesses choosing to exercise corporate social responsibility, and to local and national government.

We emphasise the importance of charities – both as agents undertaking direct action and as suppliers of funds to front-line operators (such as social businesses). As we have tried to show, the reach of charitable operations may stretch far beyond the capabilities of social business. It may be true (as Yunus complains) that charities spend much time and energy in securing donations, but, where there is no hope of raising by other means the wherewithal to cover their operating costs, they have no alternative.

With respect to the contribution of the private sector, we have already mentioned that Yunus does not have much faith in beneficent possibilities of CSR. 'Occasionally,' he admits, 'the needs of society and opportunities for high profits happen to coincide. . . [But] what about when the demands of the marketplace and the long-term interests of society conflict? . . . Experience shows that profit always wins out.' Despite its key role in setting up the Grameen social businesses, the potential of

[26] In saying 'essentially alongside' the mainstream capitalist sector, we recognise the dual characteristics of for-profit social businesses, with an overlap into the mainstream sector.

CSR is perhaps underplayed by Yunus. Even if CSR benefits the company concerned as well as society in general, that need not be a cause for complaint – it can be read rather as an illustration of the invisible hand at work. At this point we mention that, rather oddly, Professor Yunus seems reluctant to entertain the idea that activities intended for private profit are not necessarily contrary to the public interest; an underlying scepticism about the whole notion of the 'invisible hand' can be detected in Professor Yunus's writings. For example, referring (2005, p5, emphasis added) to the collapse of the Soviet system, he remarks: 'With command economies gone we are back to the artificial division of work between the market and the State. In this arrangement the market is turned into an exclusive playground of the personal gain seekers,'*overwhelmingly ignoring the common interest of communities and the world as a whole.*'

As regards a possible government contribution, Professor Yunus's verdict is not only dismal but suspect. To illustrate, note his observations (Yunus 1998, p244) about the public provision of health care:

> whether it is the 'free market' system of the US, or the 'nationalised' systems of England, France or Germany, the poor are not protected. In Bangladesh, where the government spends generously, the quality of services the poor receive is appalling. . . So the reality of free government care means that if you want proper treatment, you have to turn to the expensive private clinics. For the rich or even middle class that is perhaps possible. If you are destitute you are caught in a trap.

Professor Yunus may be right about the quality of service in Bangladesh, but the rest is far off the mark. Of course governments can be bureaucratic and slow, and attainment of desirable objectives may be frustrated by inefficiency and corruption – but he should recognise that some governments are much more competent and honest than others. In many instances much more can be expected from government agencies than he allows. Perhaps, where public sector performance is unsatisfactory, it would be more productive for Professor Yunus to focus on reform rather than simply bemoaning prevailing negatives.

The whole Yunus vision of a dramatically transformed economic system is unbalanced by excessive optimism about the potential of social business and undue pessimism regarding the contributions other agencies are capable of making – and indeed *must* make – to the furtherance of social welfare. It is unlikely that the future state of the capitalist economic system will be quite as Professor Yunus anticipates.

(ii) Future Prospects: Not the Future We Foresee

There are two reasons why we are not convinced by the Yunus forecast of dramatic transformation of the economic system via the widespread introduction of social business.

(1) We do not think that the social business model possesses the potential to perform a dominant role in the provision of otherwise unavailable social benefits to the community. Good things can certainly be done via the social business route, but the effective scope of social business is limited. Significant limitations mean that many social problems lie far beyond the reach of social business. On the other hand, charities and government, whose activities are not limited by the constraints of the market have, it must be said, a great deal to contribute.

(2) We do not see social businesses as merely part of the mainstream, for-profit commercial sector. Rather, recognising the essential importance of their benevolent motivation, we see these organisations (including for-profit social businesses) as being at home in the socially-concerned third sector. This sector – given its evident vitality and entrepreneurial flair – may well be a growing one, contributing increasingly to social welfare, but its growth cannot be interpreted as implying a transformation of the mainstream capitalist economy. That is not to say that change there is impossible, but that is another matter. If the mainstream business world becomes more aware of its 'corporate social responsibilities', and more active in taking steps to meet them, that would be all to the good – but not, we think, quite the transformation of the system that Professor Yunus has in mind.

(iii) Future Prospects: An Alternative Vision

For anyone unconvinced by the Yunus thesis that the job of achieving social improvement will best be done by social business taking over the leading role from charitable and governmental agencies, an alternative picture of progress achieved through the fruitful cooperation of all the different agencies may be preferred. Bill Gates, the multi-millionaire philanthropist, outlines (Gates 2008) a vision rather different from that of Professor Yunus. Instead of emphasising the contribution of just the one agent (social business) Gates urges that agents from all sectors of the economy, from the for-profit private sector, from the charity sector and from the government sector – each exploiting their own particular capabilities – should work together for the benefit of society. For example, Gates proposes a strategy for inducing industrial corporations to contribute more effectively to the alleviation of poverty. The strategy is to attract profit-seeking businesses into areas where they can do things of particular social benefit, using appropriate incentives to make it worth their while to become involved. As Gates explains, this approach goes 'with the grain' of the capitalist system, rather than attempting to turn it into something which essentially it is not:

> Naturally, if companies are going to get more involved, they need to earn some kind of return. . . It's not just about doing more corporate philanthropy, or asking companies to be more virtuous. It's about giving them a real incentive to apply their expertise in new ways, making it possible to earn a return while serving the people who have been left out. This can happen in two ways: companies can find these opportunities on their own, or governments and nonprofits can help create such opportunities where they presently don't exist.

Gates urges companies to put more effort into seeking out opportunities in neglected markets; at the same time he encourages nonprofits to get together with industrial companies to explain to them the nature of outstanding needs with which they are familiar, and to explore the possibilities of applying the companies' technological know-how to finding solutions.

That, we suggest, is the direction in which we should be looking – not so much to the revolutionary development of a novel and separate social business sector alongside conventional business – but to the possibility of developing fruitful cooperative relationships through which charitable organisations (including social businesses), with particular social objectives in view, work together with profit-seeking companies and government, each party contributing according to its own particular capabilities and interests to carrying forward a coordinated and effective programme for benefit to society. As an alternative to the Yunus vision which places so much emphasis on the supposed contribution of social business, we prefer – as more realistic and feasible – the Gates vision of a world of productive cooperation between all the different agencies working together for the good of society.

7. Conclusions

While Professor Yunus offers an exciting prospect of social enterprise and business expertise harnessed to the cause of social improvement through extensive application of the model he calls social business, the potential of this model is, we believe, nothing like as great as he seems to think it is. Social business is not going to change the nature of the market / capitalist system. Social business – the spiritual home of which is not the conventional capitalist sector but the charity or 'third sector' – is not sufficiently powerful to do that. The potential of the model is limited by the phenomenon of market failure – a barrier is set by the fact that if social business operations cannot recover their costs from sales revenues, these operations cannot be sustained. The high expectations which Professor Yunus entertains for the transformative power of social business are brought low when it is appreciated that many social problems cannot be dealt with by a charitable intervention which, if it is to engage with the targeted problem, must pay for itself. To tackle such cases outside funding – donations from sympathetic private or public sector agencies not directly involved in the activity in question – is the only option. □

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Appendix 1

Sources of Charity Funding – Some Examples

Selected Items from Charities' Accounts

Figures in £Millions

The British Heart Foundation:

Total Net Income 2007-08		87.6
Legacy Fundraising	47.3	
General Fundraising	35.2	
(Partnerships with companies generated over £4mn)		
Public Funding,	5.7	
(Including £4.8m from the Big Lottery Fund and £0.7m from Sport England)		
Retail Profit	12.5	

(Source: www.bhf.org.uk)

CAFOD

Total Income 2008		47.9
Voluntary Income	37.8	
(General donations, legacies, etc)		
DfID Partnership Programme Agreement	3.7	
Trading and Other income	0.114	

(Source: www.cafod.org.uk)

OXFAM

Total Net Income 2007-08		206.7
Fundraising Net Income	170.7	
(Including both income from supporters and public and institutional donor income)		
DfID Partnership	8.9	
Trading Profit	15.8	

(Source: www.oxfam.org.uk)

PDSA

Total Net Income 2007		53.16
Legacies and Donations	44.03	
Merchandising, etc	2.23	
Preventive Services	2.29	

(Source: www.pdsa.org.uk)

Save the Children

Total Income 2007-08		161.0
Donations and Gifts	57.8	
Legacies	15.3	
Grants	65.4	

(Received from UK and foreign governments, multilateral bodies such as the European Union, and international agencies such as the UN)

Retail	7.6	

(Source: www.savethechildren.org.uk)

Sense

Total Income 2007		69.4
Fundraising Income	6.4	
Legacies	1.6	
Shops Income	8.7	
Incoming from Charitable Activities	48.8	

Fees and Allowances (Paid by statutory authorities for services provided)

Statutory Grants	0.97	

(Source: www.sense.org.uk)

WaterAid

Total Incoming Resources 2008-09		43.8
Donations	22.0	
(regular giving, legacies, etc		
Legacies	2.3	
Fundraising Events	3.1	
Grants	14.3	
Other	2.1	

(Source: www.wateraid.org)

THE CENTRE FOR DEVELOPMENT (C*f*D) SCOTLAND

[The Centre *for* Development (C*f*D) Scotland is a proud organisation for taking an initiative in January 2007 and finally connecting the University of Glasgow and Glasgow Caledonian University with *Nobel Peace Laureate* Prof Muhammad Yunus and the Grameen organisations in December 2008, followed by Prof Yunus' second visit in July 2010. Indeed, Dr Zasheem Ahmed of the C*f*D has been the single key player in this role.]

The Centre *for* Development Scotland is a Non-Government initiative to promote multi-dimensional development nexus between Scotland and other nations. An Economic Development Forum (EDF), formed at the Department of Economics, University of Strathclyde, Glasgow, was functioning since 1998 as a platform for policy dialogue on socio-economic development issues relating to both Scotland and the South Asian nations.

Historically, the South Asian regions have continued to maintain profound multilateral relations with Scotland since the East India Company's merchant trade with Bengal began in mid-17th century. Notably, Dundee's industrial glory was rooted in Bengal's jute. Scotland's Cairn Energy plc is now a significant player in both Bangladesh and India in off-shore oil and gas explorations, alongside a number of on-going collaborations, links and exchange programmes in various fields of bilateral importance. The obvious bond among these countries has inspired development enthusiasts to shape EDF into an organisation which since February 2006 is known as 'The Centre *for* Development Scotland'.

The C*f*D seeks to influence the development of both Scotland and developing countries through promoting education and research collaborations, encouraging investment and trade, and promoting cultural exchanges and youth work placements in these countries.

Mission Statement, Aims and Activities of the CfD

The central focus of the Centre *for* Development Scotland is to promote and strengthen the socio-economic development community in undertaking creative and innovative initiatives to facilitate closer interaction amongst development practitioners, academics, researchers, investors and donors, NGO operators and social entrepreneurs, arts and cultural operators, etc, and encourage inter-disciplinary exchange and cooperation towards greater mutual benefit of both Scotland and the developing countries.

The membership of The Centre *for* Development (C*f*D) Scotland is open to anyone believing in and supporting its Mission Statement.

The C*f*D aims principally to *promote* a pool of experts on alternative processes and methods of socio-economic change and international development; *facilitate* maximum interaction among C*f*D members through inter-disciplinary meetings, seminars and conferences on socio-economic issues and bringing their expertise known to a wider audience of development partners and donors; *connect* development community/ development practitioners, academics and researchers, prospective investors, social entrepreneurs, NGO entrepreneurs, arts and cultural operators, etc, in Scotland and both developed and developing countries; and *encourage* and promote innovative entrepreneurial initiatives aimed at developing social mission-driven ventures aimed at tackling poverty, deprivation and income inequality using the bottom-up development approach.

The C*f*D functions in close association with universities, research organisations and socio-cultural bodies in Scotland. It operates on small grants against research projects on diverse socio-economic development issues, and organises workshops, seminars and conferences of special importance (few noted hereafter).

19 July 2001: The C*f*D organised a talk by the economist and finance expert, Professor Mansur Masih of Edith Cowan University in Australia on 'Asian Crisis: Perspectives and Challenges' held at the Fraser of Allander Institute, University of Strathclyde, Glasgow.

21 June 2007: The C*f*D organised a Conference on 'The East-West Relations' at the University of Glasgow. The international relations expert and political scientist, Professor Winston E Langley, Chancellor of the University of Massachusetts, Boston, USA gave a Talk on 'Meeting of The East and West'.

01 December 2008: The C*f*D organised a Festive Party at the University of Glasgow to celebrate Nobel Peace Laureate, Professor Muhammad Yunus's first visit to Glasgow when he delivered the prestigious Adam Smith Lecture (marking the 250th Anniversary of Adam Smith's *The Theory of Moral Sentiments*) at the University of Glasgow, and a Public Lecture on 'Alleviating Poverty: Microcredit and Social Business' at Glasgow Caledonian University. Just immediately after his Nobel Prize Award on 13 October 2006, the C*f*D took the initiative and facilitated Professor Yunus' visit to Glasgow.

04 July 2010: At the invitation of The Centre *for* Development (C*f*D), Prof Muhammad Yunus made his second visit to Glasgow to attend and speak to the Global Assembly Conference on 'Tackling Poverty For a Fairer World: New Microeconomics Revolution Along the Grameen Path', held at the University of Glasgow. The day-long Global Assembly event attracted almost 500 including delegates from 12 countries. In the presence of Prof Yunus and a number of high profile guests, the C*f*D made the landmark announcements on the launch of a new journal *The Journal of Social Business* and 'Norman Macrae Foundation' in honour of Norman Macrae, former deputy editor of *The Economist* magazine.

21 February 2011: The C*f*D has received stocks of the Inaugural Issue of *The Journal of Social Business* (JSB), a new international quarterly journal, produced by Argyll Publishing, under financial support from the Norman Macrae Foundation on social business terms. Since then, complimentary copies of this new journal is on distribution to target resource individuals, institutions, and organisations throughout the world, including a few formal launching events held in Dhaka at the National Media Press Club on 16 March, Washington, DC at World Healthcare Congress on 4 April, Paris at Veolia Conference/Conseil Economique, Social et Environnemental on 26 April, and at Danone General Community Meeting/Carrousel du Louvre on 27 April, London at Conversation with Prof Yunus Event/NESTA on 24 May, Hamburg in Germany at Social Business Symposium/Business Club Hamburg/Plangesche Villa im Heinepark on 25 May, and Glasgow at Glasgow University Union Library on 26 May 2011.

For enquiries about The Centre *for* Development (C*f*D) Scotland's activities, membership, conference, etc, contact: cfdscotland@hotmail.com or visit: www.cfdscotland.co.uk.

GLOBAL ASSEMBLY 2010

Some Exciting Developments

The Centre *for* Development (C*f*D) Scotland, in association with the University of Glasgow, organised a day-long Global Assembly on 4th July 2010 to mark the beginning of the Net Generation Decade of the 2010s.

The programme included:
Conference – 'Tackling Poverty and Income Inequality for a Fairer World', Keynote speech by Nobel Peace Laureate Prof Muhammad Yunus and signing of new his book *Building Social Business* (2010), a Celebratory Dinner and a Mini Cultural Show. A total of 542 persons registered their interest in this international event. Finally, 483 turned up including 32 delegates from 12 countries. The international conference was held at the Charles Wilson Lecture Hall, Glasgow University, Scotland.

Dr Zasheem Ahmed, Convener of the Global Assembly, welcomed the audience and briefly explained the theme of the Global Assembly Conference. Prof Anton Muscatelli, Principal of Glasgow University gave the welcome address, Prof Graham Caie introduced Nobel Prize winning Grameen Bank *champion* Prof Muhammad Yunus, and Prof Yunus opened the Conference.

Prof John Struthers of the University of West of Scotland (UWS) Business School led the First Session with a Scottish focus on 'Trickle-up' Community initiatives directed at tackling financial exclusion, deprivation and income inequality in Scotland. Prof Graham Caie, Vice Principal of Glasgow University, led the Second Session with a global focus on social mission-driven education, research and development policy profiles including a number of social business and job-creating initiatives aimed at addressing poverty and inequality, and undertaking community-building Grameen-type projects in countries around the globe. In both the sessions a total of 25 groundbreaking presentations were made including Prof Yunus's useful intervention.

A brief Memorandum of Understanding (MoU) signing session took place between Prof Anton Muscatelli and Prof Muhammad Yunus – aimed at establishing 'Yunus Institute of Social Business and Economics' at Glasgow University and forging collaborations in diverse areas of co-operation between University of Glasgow and the Yunus Centre, Dhaka.

Prof M Yunus delivered his interactive speech to the conference on community-building system design and job creation. He mentioned that in creating a foothold on the basis of income-generating activity, undertaking social cause-driven entrepreneurial ventures are better approaches than welfare dependence and/or charity. He further emphasised that the 'Grameen way' – 'microcredit' and 'social business' – has proved a viable solution to lift millions out of poverty. As such, the 'bottom-up development' is an effective approach to meaningfully promote and assist the most disadvantaged live with dignity.

Dr Zasheem Ahmed summed up the Global Assembly conference as producing a remarkable premise for emerging 'Social Business and New Economics' ideas as a paradigm shift, while dealing with such diverse issues as the reduction of relative disadvantage, poverty and income inequality, community empowerment, fairer banking and credit, etc. On behalf of the C*f*D, he also made landmark announcements on the launch of a new international quarterly journal (The Journal of Social Business) with an inaugural issue in January 2011 and 'Norman Macrae Foundation' in honour of Norman Macrae, a towering figure in economics journalism – former deputy editor of *The Economist* magazine.

Finally, Prof Graham Caie offered a Vote of Thanks on behalf of Glasgow University and The Centre *for* Development (C*f*D). The Conference concluded, followed by a brief session of Prof Yunus's signing of his'book, *Building Social Business – The New Kind of Capitalism* (2010).

After a Celebratory Dinner in honour of Prof Yunus, joined by over 150 conference participants and guests, the day-long event concluded with a brief East-West (Bengali and Scottish) dance and music performances, presented by The Nazrul-Burns Centre

(The Centre for East-West Arts and Cultural Excellence). This part of the Global Assembly was held at the Glasgow University Union Complex.

In response to the C*f*D's post-Global Assembly survey, 341 participants – out of total 345 responded – said, they found the Global Assembly very interesting, useful and interacting, and would like it happen again on new socio-economic issues hopefully in the presence of Nobel Peace Laureate Muhammad Yunus.

The Global Assembly has indeed marked the beginning of exciting Net Generation Decade of the 2010s – sustainable community-building system design, youth job creation and opensource innovative entrepreneurial network – which would eventually replace the mindset of a *dismal science* with the joy of economics going way above zero-sum war-games.

List of Presentations at the Global Assembly Conference: 04 July 2010

Session 1: Community Initiatives to Tackle Poverty and Income Inequality in Scotland

Chair: Prof John Struthers, University of the West of Scotland, Scotland

Jackie Cropper, Grand Central Savings, Glasgow – 'Assisting the Disadvantaged'.

Dr Rev Graham Blount, University of Edinburgh – 'Henry Duncan's Legacy of Savings Bank in Addressing Poverty'.

Brian Togher, GEMAP, Glasgow – 'Greater Easterhouse Anti-Poverty Project Approach to Financial Inclusion'.

Antonia Maryam Rofagha, Microfinance Society, St Andrews University – 'Students' Creative Enterprise Initiative'.

John McCormack, Capital Credit Union, Edinburgh – 'The Role of Credit Union in Addressing the Disadvantages of the Financially Excluded'.

Robbie Marwick, Economics Society, University of Edinburgh – 'Students' Social Enterprise Initiative'.

Faisel Rahman, Fair Finance, UK – 'Microfinance in the United Kingdom'.

Martin Johnstone, Church of Scotland Ministries Council, Glasgow – 'The Church of Scotland's Model of Community Engagement in Scotland's Poorest Neighbourhoods'.

Dharmendra Kanani, Big Lottery Fund, Scotland – 'Social Change from the Lottery Funds'.

Charlotte Atta, KARIBU, Glasgow – 'African Women's Microcredit Project in Glasgow'.

Mick Jackson, Wildhearts in Action, Scotland – 'Business as a Force for Good'.

Ellen McCance, Working for Environmental Community Action Now (We CAN) Project, Fife – 'WE CAN Bank: Growing Social Capital'.

Second Session: Bottom-Up Approach Furthering Multiplier Effect

Chair: Prof Graham Caie, University of Glasgow, Scotland

Chris Macrae, Youth Futures and Network Mapmaker, Washington, DC, USA – 'Entrepreneurial Revolution – 33rd Year Update of Norman Macrae's Survey'.

Eric Meade, Institute for Alternative Futures, Rockefeller Foundation, USA – 'The Future of Microfinance Impact Assessment'.

Jean-Luc Perron, Grameen Agricole Microfinance Foundation, France – 'The Importance and Relevance of P rofessor Yunus and Social Business'.

Eugenio La Mesa, Cure2Children, Italy – 'Grameen-Cure2Children Social Business to Cure Thalassemia'.

Samantha Caccamo, Social Business Earth, Italy – 'Tackling Healthcare Problems Through a Social Business Model'.

Olivier Maurel, Groupe Danone, France – 'Exploring Economically Sustainable New Model'.

Sofia Bustamante, London Creative Labs, London – 'Facilitating Job Creation in Communities Through Social Business: An Inclusive Approach'.

Dr Ashir Ahmed, Kyushu University, Japan – 'Grameen Technology Lab: Development of Technologies Based on Social Needs'.

Hans Reitz, Grameen, Creative Lab, Germany – 'Passion for Social Business'.

Elisa Rubini, San Patrignano, Italy – 'San Patrignano and the Good Goods Project'.

Dr Maria T Quiros Fernandez, European Business School (EBS), Wiesbaden, Germany – 'Social Business as New Innovative Idea in the Context of European Social Business'.

Julia Wilson, California State University Channel Islands – 'The Yunus Institute of Social Business – A New Discipline'.

Ms Lamiya Morshed, Yunus Centre, Dhaka, Bangladesh – 'Global Connecting Role of the Yunus Centre'.

Keynote Speech: Nobel Laureate Prof Muhammad Yunus, Founder of Grameen Bank

The Theory and Practice of Microcredit

A New Book – Publication by End of 2011

Prof Wahiduddin Mahmud
University of Dhaka, Bangladesh

Prof S R Osmani
University of Ulster, United Kingdom

Microcredit has emerged as a hugely popular tool all over the developing world for helping poor people to help themselves by engaging in self-employed income-earning activities. By developing innovative ways of providing the poor with access to credit, the 'microcredit revolution', as it has come to be called, has seriously challenged many traditional assumptions about both poverty reduction strategies and financial markets. While this has encouraged new theorising about how microcredit works, the evolution of the practice of microcredit has outpaced the development of theory.

This publication aims to remedy this imbalance, arguing that a proper understanding of the evolution of practice is essential both for developing theories that are relevant for the real world and for adopting policies that can better realise the full potential of microcredit. Using a rich blend of theoretical and empirical analysis, this book sets out to provide a well-balanced review and synthesis of the existing literature on microcredit/microfinance. It also seeks to advance the frontiers of knowledge about microcredit by tracing recent evolution in the practice of microcredit – with special focus on Bangladesh – and by making the case that a proper understanding of this evolution in practice is essential for both relevant theorising and effective policymaking.

[Source: Prof Wahiduddin Mahmud, Description of the Routledge Publication; Routledge Studies in Development Economics]

The Economics of Microfinance

Dr Beatriz Armendariz
Harvard University

Jonathan Morduch
New York University

The microfinance revolution, begun with independent initiatives in Latin America and South Asia starting in the 1970s, has so far enabled more than 150 million of the world's poor to receive small loans without collateral, build up assets, and buy insurance. This comprehensive survey of microfinance seeks to bridge the gap in the existing literature on microfinance between academic economists and practitioners. Both authors have pursued the subject not only in academia but in the field; Beatriz Armendariz founded a microfinance bank in Chiapas, Mexico, and Jonathan Morduch has done fieldwork in Bangladesh, China, and Indonesia.

The authors move beyond the usual theoretical focus in the microfinance literature and draw on new developments in theories of contracts and incentives. They challenge conventional assumptions about how poor households save and build assets and how institutions can overcome market failures. The book provides an overview of microfinance by addressing a range of issues, including lessons from informal markets, savings and insurance, the role of women, the place of subsidies, impact measurement, and management incentives. It integrates theory with empirical data, citing studies from Asia, Africa, and Latin America and introducing ideas about asymmetric information, principal-agent theory, and household decision making in the context of microfinance.

[Source: Dr Beatriz Armendariz for outlines on the Second Edition 2010 by MIT Press, Cambridge, Massachusetts 02142]

2011 Global Microcredit Summit

November 14 – 17, 2011

Valladolid, Spain

Featuring a Plenary Paper by Nobel Peace Laureate
Prof Muhammad Yunus
Founder of Grameen Bank

Social Businesses and Microfinance:
Building Partnerships with Corporations and Other Entities to Speed Up the End of Poverty

Join her Majesty Queen Sofía of Spain, Nobel Peace Prize Laureate Muhammad Yunus, Sir Fazle Abed of BRAC, and more than 2,000 delegates from over 100 countries at the 2011 Global Microcredit Summit. During the Summit – the 15th organised by the Microcredit Summit Campaign – delegates will have the opportunity to participate in six plenary sessions, more than 50 workshops, more than 30 associated sessions, a variety of day-long courses, and other events. In addition, the Summit will offer delegates the opportunity to participate in field visits to leading microfinance institutions around the world in the days before the Summit to observe their work first-hand.

For additional information and to register visit:

www.globalmicrocreditsummit2011.org

The Journal of Social Business

(An International Quarterly Journal)

Call for Papers: 2011 & 2012 Issues

The Journal of Social Business (JSB) is focused on the 'Social Business and New Economics Paradigm' – *one that places people at the centre*. Given that social business entrepreneurship is an emerging global phenomenon, the JSB will be emphatically international in its coverage in terms of scholarship and real world experiences. The JSB aims to provide an interface between the social mission-driven practitioner community **-** entrepreneurs who are actively engaged in embracing the challenge of a 'new' orientation to businesses while maxmising social impact and the development of effective strategies for integrating their innovations into their ongoing and future operations – and the academic community - scholars who perceive the opportunity to apply their work (qualitative and quantitative) to critical issues facing the society and are enthusiastic to pursue Social Business and New Economics as a new line of inquiry.

The JSB invites contributions that offer creative ideas, observations and analysis in areas such as: pro-poor growth strategy; poverty and welfare economics; multiple faces of world poverty and solutions; pro-poor healthcare and education; poor-friendly technology; moral philosophy and business ethics; human relations economics; philanthropy/charity and productive activity; community economic development; bottom-up development/trickle-up approach; micro-entrepreneurship; community banking: microcredit and microfinance; mapping social business enterprise and sustainable economy; social business and third sector/public sector / corporate relationships; globalisation and social business; microfinance and climate change (for example, using microfinance to ensure sustainable rural livelihoods and food security while mitigating climate change)**;** sustainable energy; environment community action and sustainability; active citizenship through skills and capacity building; people orientation in business and management; etc. The JSB welcomes contributions that discuss these issues in new and imaginative ways, particularly if they point to new scope of application, reform or policy recommendation.

The next issue of the JSB will appear by October, followed by December 2011. For full consideration of the October and December issues, manuscripts must be received two full months prior to each forthcoming issue. From 2012 the Journal will appear four times a year – March, June, September and December.

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The title of the paper together with the author's name, address, affiliation and a contact telephone number should appear on an introductory page, separate from the text (and title again) of the paper. In case of more than one author, full correspondence details – postal address, telephone and fax numbers and email address – of the corresponding author should be furnished.

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The JSB uses British English spelling. Numbers from zero to nine should be written out; numerals should be used for all other numbers. The Inaugural Issue of JSB (Vol 1, No. 1, Jan 2011) can be seen for house-style, etc.

Broad division and section headings should be clearly marked in the text where appropriate. Any quotations should appear in single marks, with quotations that exceed 40 words indented in the text. Notes should be placed at the bottom of each page as footnotes. Author's acknowledgement should be given at the end of the paper under a separate subtitle – Acknowledgement.

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Bibliographical references should be carefully checked for accuracy. Every reference cited in the paper must be listed in the References section in alphabetical order.

Contributors should note that materials submitted to the Journal of Social Business must be their own and original work. These must not have already appeared in another publication and must not be submitted for publication elsewhere while under consideration by the Journal of Social Business. Contributors are fully responsible to ascertain that their contributions do not violate intellectual property rights or other proprietary rights of others, including copyright, trademark, patent or trade secrets.

Submission of Papers

Manuscripts should be submitted electronically in MS Word Rich Text Format as Non-pdf version. All submissions should be emailed to

Dr Zasheem Ahmed, Managing Editor of The Journal of Social Business:
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