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Social Business: a New Private Sector Contribution to Development?

Reflections on Opportunities, Limitations, and Risks

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Social Business: a New Private Sector Contribution to Development?

Reflections on Opportunities, Limitations, and Risks

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Abstract:

Since Nobel Peace Laureate Muhammad Yunus first began launching joint ventures with multinational corporations (MNCs) in Bangladesh, his social business concept has received international attention. What's the meaning of social business? What can it contribute to poverty reduction, and how does it foster human development? With reference to empirical findings, we illustrate how social business enterprises can create new sources of income, raise productivity and provide low-income consumers with access to products for their basic needs. Yet the findings are not suggestive of a panacea. Social purpose business rather represents a complementary approach to traditional poverty reduction strategies with its own set of opportunities, limitations, and risks. Some of the limitations could be mitigated by means of cross-sector partnerships and development partners creating an enabling environment. The mitigation of risks, however, will require a deliberate regulatory framework and rigorous monitoring and evaluation of impact.

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1. Introduction

There is a growing consensus that despite international development efforts and financial aid amounting to more than US$ 1.8 trillion since 1950, there has been little progress in reducing mass poverty in developing countries so far. Positive trends towards the Millennium Development Goals (MDGs) have been compromised by global challenges such as environmental degradation and the loss of habitat due to climate change. Critics of state-led development models argue that these tend to reinforce rather than replace systems' poverty causing structures. Corporate-led development on the other hand would combine promising features such as better access to technology, skill training, and finance. Furthermore, the expansion and replication of successful initiatives is considered as more common in private sector initiatives. Against this background, businesses are increasingly regarded as better drivers towards sustainable and human development.

For the last couple of years, Nobel Peace Laureate Muhammad Yunus has been promoting such a business way to overcome poverty: social business – a new type of enterprise in addition to profit-maximizing companies and mission-driven organisations depending on charity and donations. Based on his own experiences in Bangladesh, he believes that self-sustainable social purpose companies could solve human challenges ranging from income poverty and environmental pollution to inadequate healthcare and lack of quality education. Though his Grameen Bank took three decades to receive full global recognition, his model has strongly influenced the way of thinking in the banking, development, and non-profit sectors – promoting the idea that entrepreneurialism, rather than charity, is the way to overcome mass poverty.

The paper is organized as follows: We first clarify the meaning of social business and related concepts. We then reflect upon the concept's opportunities, limitations, and risks. The paper concludes with a set of policy recommendations and perspectives.[3]

2. What is social business?

2.1 Alternative concepts

Social business has become a popular buzzword since Yunus first publicly coined the term in 2005, but the expression is neither proprietary nor trade-marked. The expression is now used for all kinds of hybrid organisations ranging from non-governmental organisations (NGOs) with income-generating activities to socially responsible businesses that adhere to a double or triple bottom-line concept. Since the first term ("social") is normative in nature and

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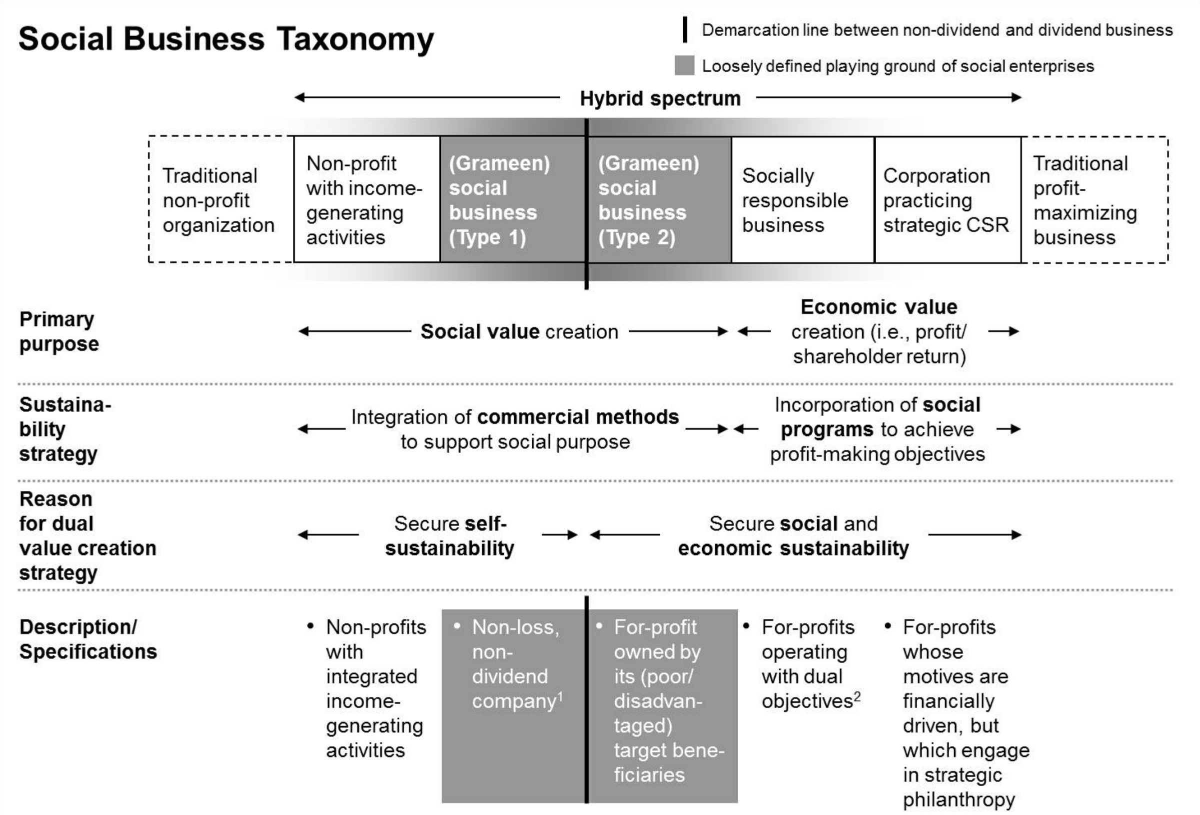
[3] A shorter version of this paper has been published as chapter 16 of the OECD development report 2014.

the second (“business”) an umbrella term for trade, enterprise, and economic life, “social business” is essentially a composite of two words that mean different things to different people. Yunus promotes social business as a new kind of social purpose business that addresses human challenges in a self-sustaining way.

Social business companies as envisioned by Yunus:

- are a new type of business driven by a social mission rather than profit, explicitly excluding the pursuit of individual profit by company’s founders and shareholding investors.
- Exist in two versions (Figure 1): Type 1 is a “non-loss, non-dividend company” that creates social benefits through the nature of its products, services and/or operating systems. Type 2 is a profit-maximizing company owned by its poor or otherwise disadvantaged target beneficiaries or a dedicated trust respectively (Yunus 2007, 2010).
- The deliberate abdication of personal financial gain by those who invest their time and/or capital is the line of demarcation between a “social” and any other for-profit business.

Figure 1:
Social Business Taxonomy



1 Based on a profitable business model
2 Making profits for shareholders and contributing to a broader social good

Source: Own draft; inspired by Alter 2007

- Even though social business investors abdicate from personal financial gain, they can get back their initial investment and remain the company's shareholders with legal ownership rights that include control over the company. Yunus' social business approach, thus, delinks ownership from personal financial gain.
- Yunus' two social business types can be classified as sub-categories of social enterprises (Alter 2007), which means that all (Grameen) social business companies are social enterprises, but not all social enterprises do necessarily comply with Yunus' social business concept (see Figure 1).

Yunus is not a socialist – quite the opposite. He rather believes in the power of the free market with profit-maximizing companies as an integral part of it. Yunus' call for social business is rather a plea for social entrepreneurship and an argument for the efficient use of philanthropic resources in contrast with the conventional charity approach.

There are several related concepts:

- Corporate social responsibility (CSR): While CSR is a concept referring to the order and conduct of conventional for-profit business geared to the principles of the shareholder value concept, the social business approach is geared to a new type of business that rather complies with the principles of the stakeholder concept. From a corporate management perspective however, social business epitomizes the idea of strategic CSR and shared value creation as promoted by Porter and Kramer (2006 and 2011). Early social business joint ventures in Bangladesh such as Grameen Danone Foods Ltd. exemplify how a social business investment can foster product innovation and yield market insights (Humberg 2011 and Box 1).
- "Business at the base of the pyramid" (BOP): There is some overlap with the so-called BOP approach (Prahalad and Hart 2002). However, in Grameen-type social businesses, profits are considered as a means to an end, whereas BOP proponents regard profits as an end in themselves. The BOP concept sees poor people mainly as consumers, whose quality of life can be improved by corporations that create basic versions of existing products that people at the bottom of the income pyramid would otherwise not be able to afford (Prahalad and Hart 2002). Social business companies do also not necessarily operate at the base of the economic pyramid or in poverty contexts.
- Non-profit corporations: Non-profit corporations in Europe or the US (e.g., in the form of Catholic hospitals or universities) actually represent an interesting precursor of Yunus' idea in the developed world. Yet there is an important difference between these organisations and social business: social business investors can get back their initial investment and remain the company's shareholders. Beyond this formal differenc, there is another feature that differentiates Yunus' model from traditional non-profit corporations. It's the notion of "social entrepreneurship" as conceptualized by authors such as David Bornstein or Alex Nicholls. Social business companies naturally strive for scale, expansion, and replication.

Box 1:
Lessons learnt from Grameen Danone in Bangladesh[4]

Grameen Danone Foods Ltd. was launched in July 2006 as a private limited company in rural Bangladesh. The company was set up as a 50/50 joint venture between Grameen Group and Group Danone Asia Pte Ltd., a subsidiary of the multinational food producer Group Danone. Grameen Danone aims to alleviate malnutrition among needy children by selling fortified yoghurt at an affordable price. The company's scope of business covers the manufacturing, packaging, marketing, sales, and distribution of fermented fresh dairy products under the brand name Shokti+. Additional core activities are linked to social marketing and setting up a rural sales and distribution system.

A comprehensive field study, conducted by one of the authors between 2009 and 2011, indicates the following: Grameen Danone had fallen short of its own business objectives, but the company's learning curve is reassuring with respect to its future commercial viability. Although the yoghurt business was still loss-making in its fifth year of business operation, it had reached production levels that allowed for initial gross profits.

During the start-up phase Grameen Danone has been confronted with a similar set of challenges as Grameen Veolia Water Ltd., Yunus' second multinational social business joint venture in partnership with a French corporation: low demand ("pull") in its rural target market, channel issues in rural marketing and sales ("push") and high operating costs. In the absence of established sales and distribution channels, Grameen Danone had difficulties in accessing the poor, especially extreme poor consumers who lack sufficient cash income. In order to ensure the yoghurt's affordability, Grameen Danone tried to keep the initial price point as low as possible. The initial focus on a one-product-fits-all solution in rural sales was, however, proven to be counterproductive. Therefore, Grameen Danone decided to diversify its product portfolio and to expand to urban markets in order to boost the plants' capacity utilization and allow for economies of scale.

What about livelihood outcomes? On the positive side, Grameen Danone outranged Grameen Veolia with respect to job creation potential and additional income opportunities. However, considering suppliers', employees', and distributors' income potential in comparison to local poverty lines, findings indicated that Grameen Danone may contribute to sales' ladies and micro farmers' income and food security, but does not (yet) lift them out of poverty. Due to its pilot project character, Grameen Danone was still limited in scale: In 2011 the yoghurt business was reaching approximately 60,000 people or an estimated 0.04 % of Bangladesh's total population with one cup of yoghurt per day. Reasonable replication, however, requires a proof of concept – both in terms of commercial viability as well as social impact. Most critical is the fact that Grameen Danone has not yet fully established the desired health impact. If consumed regularly at least twice per week, Grameen Danone's nutrition product should be effective. However, this type of regular consumption requires not only a minimum ability to pay, but also a change in target customers' consumption patterns.

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[4] For a comprehensive account of the case studies' analytical framework and research design see Humberg (2011: 99–127).

- Another overlap exists with "inclusive business", a term pioneered by the United Nations Development Program. It is conceptually similar to BOP, with the extension that the poor can not only be "included" as consumers but also as producers or employees. Catchwords referring to market-based poverty reduction approaches or business solutions to global poverty are in fact highly en vogue.

In conclusion, Yunus' concept refers to social purpose companies consciously designed to generate social benefits in a commercially viable way through their offer and/or business systems. What makes this type of business distinctive is the conscious abdication from distributing profits to its founders and shareholding investors beyond the return of their original investment. Why? In order to maximize the company's social and environmental value creation potential. The bottom line is to operate without incurring losses while serving the company's mission. Nevertheless it is not always clear what this "social mission" actually means (see Box 2).

Box 2:
What makes a business social?

Yunus' social business concept certainly contributes to the debate on the role of business in society, but a fundamental question remains unacknowledged: what makes a business social? A social mission or cause combined with founders' and investors' abdication from personal financial gain does not guarantee any desired social impact. How "social" a business turns out to be rather depends on its livelihood context and net impact. Its norms and standards are context-specific. Against this background and with reference to Amartaya Sen's capability approach (2001), we propose the following definition for the universal social business term: a social business is a business that contributes to human development by enlarging people's choice in an economically, environmentally, and socially sustainable way. Its norms and standards are context-specific and result from societal negotiation.

2.2 The current role of social business entrepreneurship in developing countries

How common and relevant is the social business approach in developing countries? Although the general idea has spread across the globe, many multinational corporations have focused their social business activities on partnership arrangements with the Grameen Group so far. However, Ashoka has exemplified how social entrepreneurship, as a broader concept, can take root all over the world. Though Asia is Ashoka's largest region of activity (with more than 600 fellows), South America (with more than 500 fellows) and Africa (with more than 350 fellows) are catching up. More detailed data about the extent and impact of social businesses is scarce. It is difficult to establish the scale of social business in developing countries as long as definitions are not clear and may vary from country to country. The global Monitor Report on Social Entrepreneurship, using data from emerging and developed markets, shows that between 0.4 and 4 % of the working age population in emerging and developed countries can be considered as social entrepreneurs (Terjesen et al. 2011). While this account is not complete, it shows that the concept is transferable and can, in principle, be scaled and replicated. Emerging social business start-up hubs in megacities such as Nairobi and Accra may help to promote the concept and its implementation in the developing world.

2.3 Who starts social businesses in developing countries?

Reports and case studies illustrate three dominant modes of social business creation in developing countries.

- Social businesses are founded and funded by local elites which have been educated or have spent part of their working life abroad. They bring back home the idea of solving social problems through business. They are well educated, comparatively wealthy and have a good international network.
- Social businesses are founded by international elites that have a history in a particular country often working as development workers or employees of international organisations, NGOs or MNCs. A typical case is that of an aid worker who decides that development projects are too short-term oriented and too much driven by donor interests to allow for any sustainable benefit. She or he leaves the aid sector to set up a social business enterprise or develop a social business arm for an existing NGO.
- Social businesses are founded by MNCs that establish a social business spin-off. For them this can be a test field for market entry, a corporate social responsibility scheme or an entry point into transforming the whole business.

3. Opportunities, limitations and risks of social business

3.1 Opportunities

One of the great strength we see in the social business approach relative to conventional development aid is the combination of a long-term perspective (as opposed to a short-term project logic), and a business case that builds on market dynamics, thus increasing the chance that products or services offered to target beneficiaries are actually in demand.

There can also be no doubt that Yunus' social business joint ventures with multinational corporations have mobilized private sector resources ranging from financial capital to technical expertise and management know-how (Humberg 2011: 84–88). Since development aid is already supporting the private sector to a growing extent[5] in the form of grants, public procurement, public private partnerships (PPPs), and subsidized lending by development finance institutions, this support could focus more on social businesses.Evidence from the first pilot projects suggest that the joint creation of business solutions geared to poor consumers' needs also triggers a new kind of mind-set. In a social business initiative, both NGOs and the private sector are forced to regard "the poor" as active market participants, for example, as employees who can add to value creation or consumers who are ready to pay if they get value for money at an affordable price.

Social business initiatives can enlarge poor consumers' choice of products and services. Integrating the poor into value chains that did not exist before also involves new income and employment opportunities. However, to what extent this happens in terms of jobs and income potential depends on the type of business model. Creating social benefits through a company's business system or ownership structure seems to pledge greater income potential for the poor than social business companies that are primarily geared to serving poor consumers' needs. Upon activating stakeholders' capabilities (e.g., in terms of better health and productivity) and contributing to rural development, initiatives such as Grameen Danone and Grameen Veolia foster growth from the bottom-up in contrast to macroeconomic top-down strategies.

The non-dividend policy for Type 1 social business companies as promoted by Muhammad Yunus (see Figure 1) prevents foreign shareholders from extracting profits after they have recovered their initial investment, thus allowing for an inflow of foreign capital into developing countries, while at the same time contributing to capital accumulation within the given target market. The same principle also marks an important difference in contrast to the BOP approach: external shareholder's abdication from dividends relieves a social business from making extra profits for the company's owners.

A growing number of self-sustainable initiatives could provide a signalling effect towards both profit-maximizing companies and traditional NGOs, promoting the idea of cross-sector collaboration and social entrepreneurship while overcoming the more conventional charity mentality.

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[5] The Netherlands, Norway, and Sweden distribute around 2 % of their direct bilateral assistance to the private sector. In Belgium and Sweden aid channelled to the private sector has increased by four and seven times respectively since 2006 (Kwakkenbos 2012). Development finance institutions invest in the private sector to provide financing to companies in developing countries that support development goals and would otherwise not be able to access funds. These companies are otherwise considered as too small or too risky to access finance, or are based in countries where credit supply is limited or interest rates are very high. Kwakkenbos (2012) finds that only a quarter of this support goes to companies based in developing countries and almost 50 % are received by companies based in OECD countries and so-called tax havens.

Overall, our research findings suggest that self-sustainable business solutions are specifically promising in two regards: commercial viability (if achieved) relieves executives from fundraising and donor-dependency. Sufficient profit also allows successful initiatives to scale and replicate their solution. The central idea of social value creation allows a social business entrepreneur to enter new markets that are judged unprofitable or too risky by conventional businesses. It is then possible that win-win situations arise, because the social-minded entrepreneur may innovate and take advantage of a previously untapped opportunity. In an alternative strategy, social businesses take a long-term view – investing in methods that incur high upfront costs, but are expected to pay off in the long run (Haanaes et al. 2013).

3.2 Limitations

The opportunities outlined above reflect a best-case scenario. Our research findings show, in contrast, how challenging it is to find the right balance between a social mission, environmental sustainability, and commercial viability (see Humberg 2011: 224–243). The creation of commercially viable social purpose ventures is complicated. Social business development requires not only private sector capital and technical know-how but also sufficient time for learning and experimentation. Whether charity or business – changing consumer behaviour in line with a social objective takes time; especially when a product or service requires regular consumption. How to ensure target beneficiaries' regular purchase if they lack both the awareness and purchasing power? The empirical findings suggest that marketing and sales become particularly tricky if a company's offer doesn't involve immediately tangible but long-term (for example health related) benefits. In addition, Sesan et al. (2013) support our observation that challenges in commercial viability can lead to a shift in focus away from those poor households that were originally targeted.

When comparing Grameen Danone with success cases such as the Grameen Bank or Grameen Phone in terms of scale, profitability, and reach, a major difference attracts attention. While the latter two managed to reduce consumers' previous (transaction) costs through innovation in service delivery (e.g., lower interest rates for micro-credits or reduced transaction costs through direct access to market information via mobile phones), Grameen Danone's product first of all involves extra costs for the poor: 7 to 17 US$ cents (depending on container size) for a packaged nutrition product that did not exist before. Though regular consumption may pay off in the long run (e.g., in terms of better health, increased productivity, and less health-related expenditure), the short-term calculation speaks against regular purchase.

A social business company may reduce target beneficiaries' vulnerability (e.g. by providing better health or growing social capital), but not lift them out of poverty, unless the business involves significant income opportunities for the poor. Overall, the number of scalable and replicable business models that prove Yunus' social business concept is limited. In the absence of a favourable regulatory framework, access to seed capital for individual entrepreneurs and external management support, it is also a moot question whether Yunus' high-profile joint ventures will foster a wave of social entrepreneurship in developing countries. Funding in particular is seen as a big constraint by many social entrepreneurs (see Box 3).

Box 3:
Funding for social businesses

The main sources of funding for social business start-ups in developing countries are friends and family and own savings. In addition to these private funding options, there are three principal sources of finance: development grants, banks, and private equity investors. A major problem with access to finance for social businesses is the division of finance into commercial and philanthropic or developmental sources with a missing middle ground.

Development money is perceived as arbitrary and volatile coming with strings attached that lower the value for the social entrepreneur. In addition, many donors prefer to support only the social purpose of a social business, while making sure that their money is "not used for business activities". This may be impossible to achieve from a social entrepreneur's perspective. Banks represent a common source of finance with two problems. First, when social businesses are innovative in terms of their business model (as well as language and metrics used), they are perceived as risky from the banks' perspective, mainly because the risks are usually hard to calculate. This increases their interest rates. Second, small but growing social businesses from developing countries are caught in a trap where they are too small for average business loans and too big for microfinance. Private equity as another source of finance finally comes with the risk of undermining the primary social purpose of a business for the sake of private investors' profit demands. This is where development driven intermediaries, impact investors, and social business angels have a role to play.

Another challenge is a particularly critical one: social impact assessment tends to be resource-intensive and complicated, not only due to potential time lags between interventions and impact, but also due to the absence of universal social reporting standards. In addition, all positive and negative outcomes should be considered in order to obviate unintended side effects and gauge a venture's net social return on investment. However, so far, we see little empirical evidence to support social business companies' social impact.

It should be noted that social business ventures might contribute to achieving the Millennium Development Goals, but do not address national or global causes of poverty such as those related to national income distribution or legal voids, the world trade system, or climate change. They also remain insular solutions unless they are scaled and replicated. In addition, social business also does not compensate for charity when quick disaster relief is required or target beneficiaries are unable to engage in a business because of their age, health status, or mental disabilities.

3.3 Risks

Though socially motivated, social business enterprises are not immune to negative outcomes. Our research suggests that acute cost pressure might involve an adverse effect on secondary objectives such as environmental sustainability or wage levels. Exploitative business practices for the sake of commercial viability, safety risks for employees, health risks for consumers, or job losses for local competitors might become public only on intentional investigation. Some of the upcoming social business companies may also involve direct competition with local producers, thus distorting local markets. What if, for example, a multinational social business engaged in the marketing and sales of treated mosquito nets fails after having pushed local mosquito net producers out of business?

The on-going micro-credit crisis and debate about for-profit providers such as SKS Microfinance in India or Compartamos in Mexico points to another risk: once a social entrepreneur has succeeded in developing a viable social business model, the model is open to replication; either by non-profit organisations that employ the model to generate income for their non-commercial activities, or by profit-maximizing entrepreneurs in search of personal financial gain. While the first sort of replication may contribute to increased commercialization within the social or development sector, the second turns Yunus' concept upside down with potentially negative consequences for the poor. What if, going forward, a growing number of previously free resources such as water were commercialized?

The tension between the profit maximization principle in business and social and/or environmental goals is the most frequent criticism of social business ventures (Karnani, 2007, O'Laughlin 2008). In the absence of a clear regulatory framework, anyone could claim to run a social business, simply for marketing purposes or cost-effective R&D. The problem, however, with such a regulatory framework is the following: what is considered as "social" is context-dependent. Formal job creation may be considered as a social purpose in many developing countries, but this is not necessarily the case in developed markets. And while providing clean water, albeit at a cost, may be regarded as a noble cause in one place, it may be perceived as an offense to people's right to clean water in another setting.

Even those who start with noble objectives are not immune to a mission drift. While cost pressure might lead to a change in target customers (e.g., from the rural poor to the affluent urban), owners of profitable social business companies might suddenly feel the lure of financial gain. The cases investigated by the authors point to a trade-off between profitability and affordability. In their quest for commercial viability, social businesses run the risk of missing out the extreme poor (see also Shrimali et al. 2011). In particular, social businesses that primarily aim at selling products to low income consumers have been criticized for romanticizing the poor and therefore shifting the focus away from their particular vulnerabilities as consumers and citizens (Karnani 2009).

In some cases development aid competes with social business enterprises for instance by underpricing certain goods in particular in the health or education sector for a period long enough to exhaust a social business' financial resources. From a development perspective, this is only negative if the aid sector withdraws afterwards, leaving the affected communities without a service for needed product. In addition, social entrepreneurs frequently compete with traditional donors for both resources and customers. Unintended effects of development projects might in fact hinder social business development.

4. Conclusions and perspectives

What do our findings imply for the concept's practical implementation? How to exhaust the opportunities, overcome limitations, and address potential risks? First of all, there is a need for a comprehensive proof of concept. Not in itself, since the Grameen Bank has already exemplified that social entrepreneurship can originate self-sustainable business models for a social cause in developing countries.

- **There is a need for additional business models that prove to be commercially viable and significant in terms of scalability and replication potential.**

  Scale in this respect can be the growth of the business or the concept. If taken seriously, social business calls for experimentation, innovation, growth, expansion, replication, and systemic change. Our empirical findings indicate that multinational corporations without previous experience in poverty contexts tend to underestimate the extra commitment and market intelligence needed to overcome typical market constraints in developing countries, ranging from a lack of basic retail and communication infrastructure to consumers' lack of education, and limited purchasing power. Additional obstacles to commercial viability are found in the (poor) target beneficiaries' livelihood context and strategies that are largely unknown, due to a lack of transparent market information for previously untapped markets. Going forward, further cross-sector partnerships between local entrepreneurs, NGOs and multinational corporations may help to pool resources and capabilities, combining local networks and poverty insights with technical expertise and business know-how.

- **There is need for continuous proof of impact.**

  The microfinance debate shows how conceptual oversimplification and hype can backfire and even cause harmful impact. In addition, even well-meant social businesses may distort local markets or incur negative side-effects. Increased cooperation between non-profits and profit-maximizing companies may also entail potential conflicts of interest, for example, when hidden financial motives or corporate strategy come into play. How to prevent the abuse of the concept as a cheap market entry strategy? How to prevent exploitative business practices for the sake of commercial viability or the suppression of local competitors? Partnerships with local development agencies and the stronger involvement of individual social entrepreneurs could help to mitigate these risks, but provide no guarantee. Due to a lack of generalities for social business efforts and practical experiences, the commercial or philanthropic misuse (either purposely or ignorantly) of the term and concept seems to be a realistic concern. Who defines social norms and standards in a given context? To what extent can educational efforts as part of a social marketing strategy be legitimized?

- **There is a need for a seal of approval for companies that follow certain standards and principles**

Introducing a seal of approval for companies that follow certain standards and principles could help to establish norms for acceptable missions, working conditions, and environmental sustainability. More elaborated standards would definitely facilitate a more consistent application of the social business term and concept. But for this to happen, reporting standards and rating agencies need to be put in place. For instance, specifying Yunus' concept by adding a "Grameen" to the broader social business term could be a first step towards differentiation. Other approaches include the US based B-corporation. Perspectives differ as far as Yunus' non-dividend policy is concerned. Our practical viewpoint is that the dividend debate fails to address the real issue. Enterprises that forego dividends are not automatically more social than any other company and good intentions do not necessarily produce positive results. Assessing how social a company actually is should be measured less against the mission or dividend policy and more against results achieved.

- **There is a need for local support systems for education, consultancy services and access to social business finance**

Who is ultimately willing to take the risks to create a company for social impact? We have shown that there are three primary groups: MNCs as well as local and international elites. The latter two could thrive more with local support systems for education, consultancy services and access to social business finance. Redesigning traditional business/start-up support systems to match social business entrepreneurs' particular needs represents a major challenge ahead. Much can be learned from developed country experiences. The UK for instance, has gone far in creating a supportive environment specifically for social businesses. A creative environment, which allows for failure and which hosts contests, hubs, consulting services and dynamic financing mechanisms helps to create an atmosphere allowing social entrepreneurs to flourish. In all parts of the world, the majority of start-ups with new ideas are founded by existing corporations or entrepreneurs with a strong safety net or a safe fallback option. In other words, allowing failures requires safety nets either through people's family background or through a social welfare system. If necessary, areas of particularly pressing social issues can be fostered by incentivizing the creation of start-ups through business competitions and targeted financing vehicles. Finally, since a dominant group of social business entrepreneurs are internationally educated local elites, attracting more of these talents could become a specific aim for developing countries.

- **There is a need for development aid support for social business creation and growth**

  The role that development aid can play in fostering social business is to some extent similar to creating an enabling business environment in general – providing financing mechanisms, improving skills and infrastructure, providing business support in the form of business advisory services, fighting corruption and assisting governments in simplifying legislation and setting up a clear and enforceable regulatory system. In addition, we see several support mechanisms for social business in particular in particular special financing support systems for social business enterprises.

Thus, coming back to the initial question: is social business a new private sector contribution to development? Based on our research findings, our proposed response is that social business actively promotes the idea of sustainable business solutions to human challenges. The concept stimulates a seminal debate about the role of business in society and opens up new avenues for cross-sector collaboration in developing countries. While the private sector offers financial capital, technical expertise, and functional business know-how, partnerships with research institutions allow for progress in the field of social impact monitoring and evaluation. If well-managed and contributing to poor consumers' purchasing power through their business set-up, social business companies can directly contribute to poverty reduction through growing access to economic resources, income opportunities, or access to beneficial products and services. Social business is certainly a model for inclusive business that turns poor communities effectively from aid beneficiaries into market participants. It thus amplifies the existing portfolio of direct poverty reduction strategies by a market based bottom up approach.

Yet, considering the multidimensional character of poverty, the findings are not suggestive of a panacea. Social business rather represents a complementary approach to poverty reduction with its own set of opportunities, limitations, and risks. For future development policy the concept entails two major challenges: The first one is to figure out what exactly should be done through state-led versus private-sector led development initiatives. The second and arguably trickier challenge is to come up with context specific social business concepts and tailor-made support and impact monitoring systems.

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