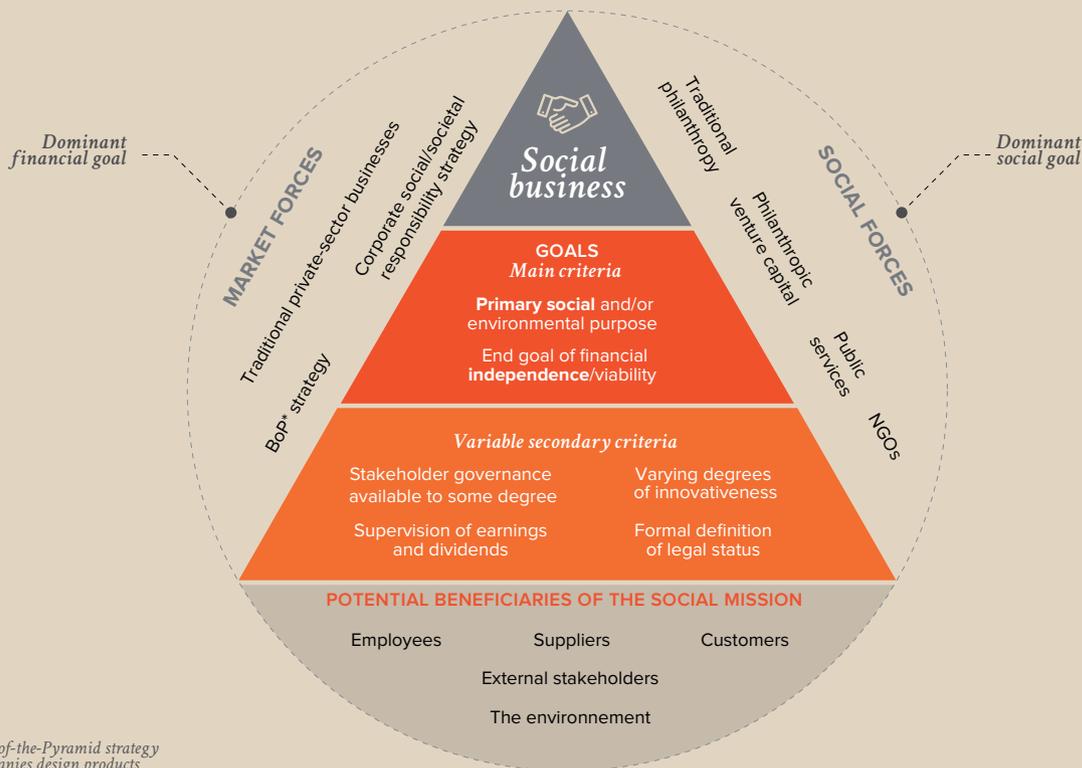


WHAT IS MEANT BY SOCIAL BUSINESS?

Prepared by Clélie Nallet, Deputy Editor

Social businesses have attracted an enthusiastic following in economic, political and media circles. A wide range of actors describe themselves as such, even though there is no consensus as to a definition. The term's close connection to other concepts, such as inclusive business, the social economy, impact investing and Bottom-of-the-Pyramid (BoP) initiatives, only fuels this nebulousness. Since its definition is subject to debate, the social business phenomenon is difficult to quantify. This partly explains the scarcity of statistical data on the subject. However, there are some studies which shed light on the sector's dynamics such as monographs conducted in India and Madagascar or impact investing and BoP reports, which reveal some of the market's major trends.



*BoP (Bottom-of-the-Pyramid strategy whereby companies design products that can be sold to the poorest consumers)

Source: AFD, 2015

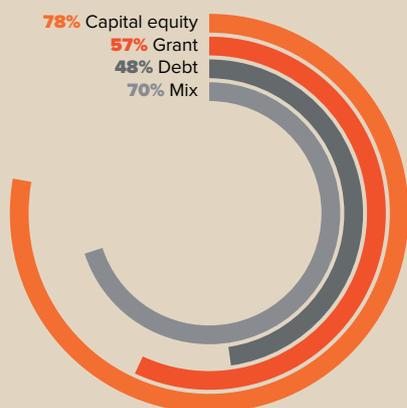
» Currently, there is no standard definition of social business. Nevertheless, the various approaches all seem to share two fundamental principles: a key social purpose and the need for financial independence, while generally differing on four, more secondary criteria. Social business is at the interface between commercial enterprise, market needs, social goals and public services. It can operate in a wide variety of sectors (for instance, financial inclusion, nutrition, food safety, healthcare, education, housing, water and sanitation, and

energy). Direct beneficiaries of the social mission include consumers (poor people given access to essential goods or services at low cost), employees (disadvantaged people given jobs), suppliers (guaranteed steady income and given assistance with sector structuring), the environment (mitigation, adaptation and protection) and external stakeholders (NGOs, local communities, etc.).

Source: AFD, 2015 (extracts)

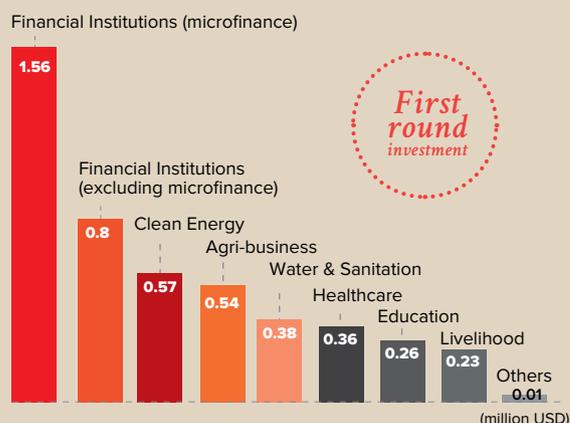
ON THE SOCIAL BUSINESS SIDE

Social businesses' financing needs ▼



Source: Intellectap, 2012 / Methodology: data were collected from 95 social businesses in a range of sectors throughout India. Because of the size and maturity of India's social businesses, the country is a good indicator of key trends across the sector as a whole.

Average investment in social businesses ▼



Source: Intellectap, 2014 / Methodology: data were collected from 65 impact funds in India. Because of its size and maturity, the Indian social business sector is a good indicator of key trends as a whole.

» Most social businesses are the size of an SME and typically require under USD 2 million in financing. They most often require a combination of financing instruments. Grants are usually essential during the start-up phase.

Social businesses' main constraints to financing ▼



Source: Intellectap, 2012

Social businesses' main challenges to development ▼

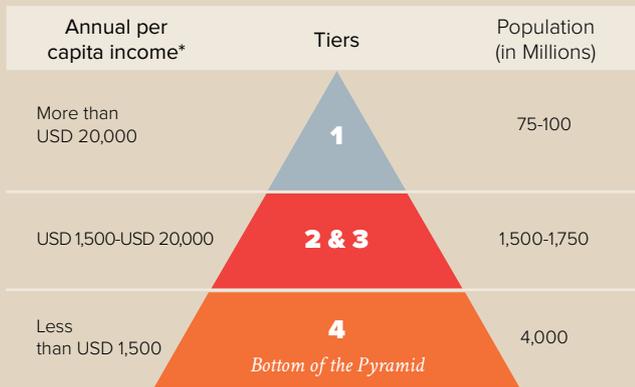


Source: Intellectap, 2012

» The Intellectap study, which surveyed 95 social businesses in India, revealed the main difficulties related to seeking financing and scaling up. The two main challenges facing these businesses appear to be raising capital (structure and term not suited to market requirements) and hiring/retaining qualified staff.

KEY DATA

The world economic pyramid ▼

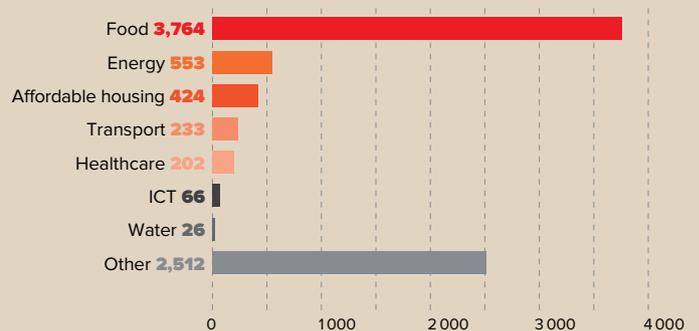


* Based on purchasing power parity in USD

Source: Prahalad, C.K., Hart, S.T., 2002

Breakdown of BoP expenditure, 2010 ▼

in millions of PPP USD



Source: Drayton, B., Valeria Budinich, V., 2010

» The Bottom-of-the-Pyramid concept was popularised by the work of C.K. Prahalad and Stuart L. Hall at the end of the 1990s. They argued that by targeting populations at the bottom of the pyramid (BoP), businesses could significantly reduce poverty at the same time as benefiting from substantial business opportunities. And indeed, the size of the BoP market is actually offsetting the weak purchasing power of individuals while considerably raising overall purchasing power. According to 2010 estimates (Drayton, B., Valeria Budinich, V., 2010), the BoP market – the main target of social business – is believed to be worth USD 6 trillion. That said, such estimates depend on the criteria used to define the BoP, which can vary widely depending on the study.

The investment philosophy spectrum ▼

Geared entirely to social goals

Geared entirely to financial goals



Source: Dayre, J.G., 2016

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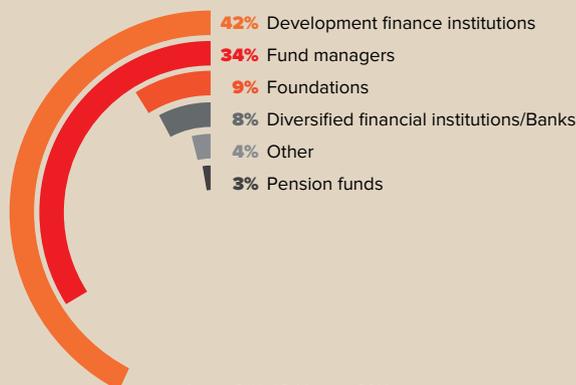
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ON THE FINANCER SIDE

Who engages in impact investing? ▼

Assets under management by investor type

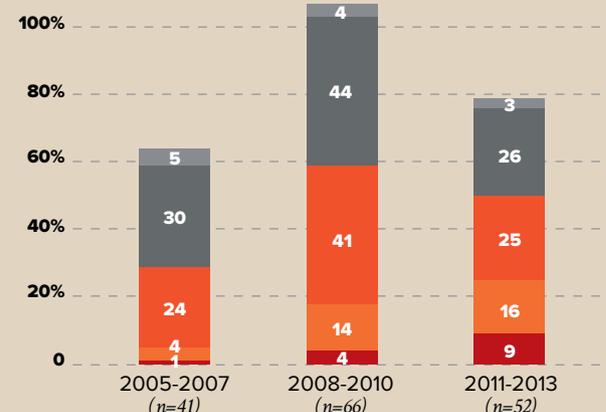


Source: GIIN, J.P. Morgan, 2014
Methodology: data were collected from 125 impact investors

» A wide range of organisations are involved in impact investing, from socially responsible investment funds to foundations, and from NGOs to large companies. The bulk of their funding goes to mature enterprises that are in the early or growth stage. In addition, many impact investors target below-market financial returns or simply a return of capital.

Maturity level of investees ▼

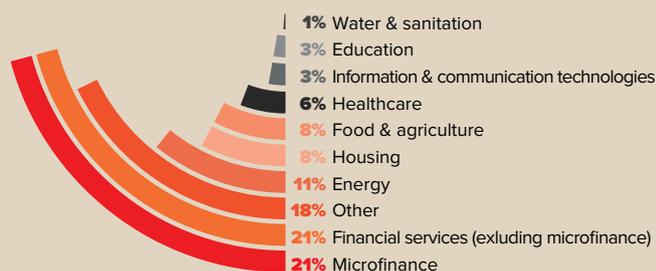
Number of investment vehicles by business maturity stage



■ Mature
■ Expansion/growth: generating a sustainable profit and ready to scale
■ Early: generating revenue, but usually pre-profit
■ Start-up: product development begins and initial operations established
■ Seed: idea stage, pre-cash flow

Source: ANDE, 2014
Methodology: the study was conducted among members of the Aspen Network of Development Entrepreneurs and other impact investors selected according to the emerging markets targeted with transactions ranging from USD 20,000 to USD 2 million and business sector variety. Each investment vehicle could select more than one stage.

Impact investments by sector ▼



Source: GIIN, J.P. Morgan, 2014
Methodology: data were collected from 125 impact investors.

» While the recipients of impact investing span a variety of sectors, inclusive financial service providers and microfinance institutions with tried-and-tested business models still constitute a large majority.

Challenges to the growth of impact investing ▼

Rank	Score	Available answer choices
1	165	Shortage of high quality investment opportunities with track record
2	161	Lack of appropriate capital across the risk/return spectrum
3	98	Difficulties with exiting investments
4	82	Lack of innovative deal/fund structures to accommodate investors' or portfolio companies' needs
5	80	Lack of common way to talk about impact investing
6	73	Lack of research and data on products and performance
7	49	Lack of investment professionals with relevant skill sets
8	42	Inadequate impact measurement practice

Source: GIIN, 2014
Methodology: data were collected from 125 impact investors.

THE DIVERSITY OF SOCIAL BUSINESS: THE CASE OF MADAGASCAR

Prepared by Nicolas Vincent, *Research Officer, AFD*

Despite a troubled macroeconomic and political environment, Madagascar possesses a fairly diversified, dynamic economic fabric in comparison to other countries with a similar level of development. This national particularity undoubtedly explains the country's thriving social business sector. A study undertaken by AFD¹ lists close to 90 projects² that meet the broad definition of a social business, i.e., organisations (of all types) whose priority is to address a social problem and who aim to be financially self-sustainable³.

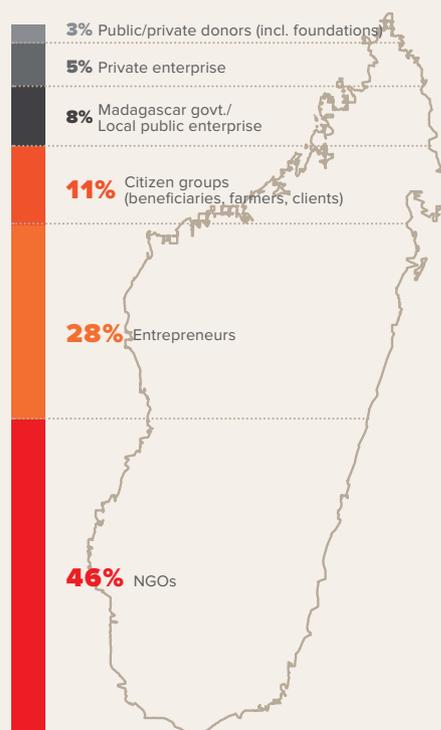
WHAT IS THE KEY DRIVER OF SOCIAL BUSINESS IN MADAGASCAR? ▼

In a country with over two thirds of the population living in poverty and with little in the way of essential government services (due to serial political crises), non-state actors attempt to come up with alternatives in the hope of offering the population better living conditions.

“The projects covered are on average 10 years old and over a third have existed for more than 15 years.”

We are referring here to organisations that are part of civil society – not only NGOs, but social business projects as well, which have a long history in Madagascar. Many of these existed before Muhammad Yunus coined the term “social business”. The projects covered are on average 10 years old and over a third have existed for more than 15 years. Nearly half of all such projects (46%) were initiated by NGOs that wished to generate their own revenue to finance their development rather than being entirely dependent on public funding.

Project initiators ▼



Source: AFD, 2015

1 • Étude sur l'entreprenariat social à Madagascar, AFD Technical Reports, 2015.

2 • In this paper, we use the term “social business projects”, because many of the ventures discussed do not (as yet) have formal company status.

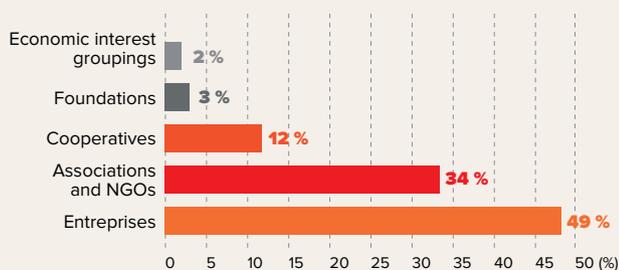
3 • Legal status was not considered a discriminating factor in this study, as it soon became apparent that organisations with a variety of statuses may contribute to a single social business project.

WHAT ARE THE KEY FEATURES OF SOCIAL BUSINESS PROJECTS IN MADAGASCAR? ▼

A particularly striking feature of the social business projects in the study is their diversity – in terms of the social problems addressed (i.e., job opportunities, making essential products and services accessible to the poorest, assistance in organising production chains, environmental protection, etc.), the sectors involved (although microfinance still funds nearly one-third of all projects), the initiators' legal status (companies, associations, NGOs, cooperatives and in some cases hybrid approaches) and their targets (customers, employees, suppliers and other stakeholders, the environment). This highlights the cross-cutting nature of social business and the opportunities for adapting its business model to a wide variety of settings. →

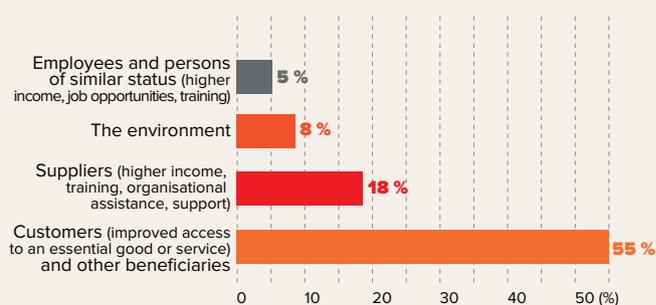
“A particularly striking feature of the social business projects in the study is their diversity.”

Diverse legal status ▼



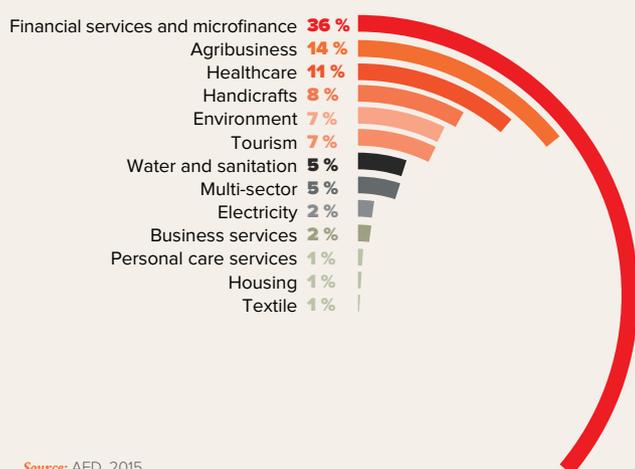
Source: AFD, 2015

Social mission beneficiaries ▼



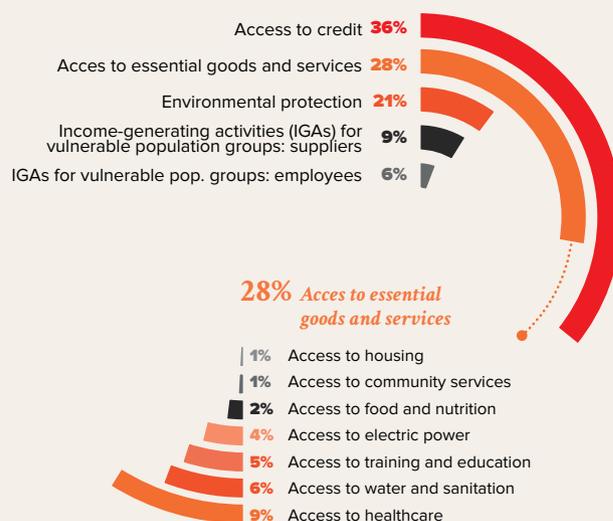
Source: AFD, 2015

Sectors involved ▼



Source: AFD, 2015

Social purpose ▼



Source: AFD, 2015