

Balancing profit-making with social value creation: challenges, opportunities and lessons learned

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25 June 2018

Question

What evidence is there that businesses operating in Low Income Countries and Fragile and Conflict Affected States can generate both sustained profit and positive impact (i.e. 'shared value') from goods and services targeted at poor people?

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1. Summary

Corporate businesses and investors are increasingly aware about the potential source of profit and rich institutional ecosystem that can be 'tapped' to facilitate engagement with Base of the Pyramid (BoP) markets in developing countries. To be successful by making a profit from these markets and combining this by making a positive impact on poor communities means adapting a specific business approach that is not replicable from formal economies. The literature shows that corporate businesses and investors who engage with the BoP must consider investing time and money in special partnerships with local stakeholders (preferably in informal economies), making use of innovative payment methods, and taking into account gender issues to increase impact, while accepting a lower return on investment (Ngoasong et al., 2015).

Nowadays, business actors emphasise on engaging with the poor as agents rather than as passive consumers. The challenge of reaping these high-volume (4 billion people) and low-margin opportunities, is not to create formal institutions, but to make informal arrangements 'legible' to capital with a view to incorporating them into new business systems. The emphasis is on acquiring 'native capability', understanding local business practices, mapping local markets and consumer behaviour, and building local partnerships (Leliveld & Knorringa, 2018).

Population dynamics show that the BoP market remains a growth market for decades to come. It will continue to increase in absolute numbers, the market will become more urban oriented, and there is a growing demand for frugal innovations and special services targeted at special needs of an increasing group of displaced people. However, to make any sense of the BoP market and its impacts (positive and negative) on local entrepreneurs, producers, manufacturers, middlemen and consumers, who operate mainly in informal economies, businesses that target the poor with services and products should be categorised by size, inclusiveness, social value creation and their engagement with the BoP.

The literature mentions several challenges, for example that of serving rural communities (dealing with mistrust, high levels of illiteracy, high transportation costs, lack of skilled people), of receiving an earned income from engaging with the BoP, and of building sustainable partnerships with local actors. Further, there is a lack of access to finance particularly for smaller businesses, because of higher risks and costs, long term commitments, and lower return on investment. However, the potential of making a positive impact on local communities and their livelihoods is considerably higher. The literature shows that large business are not better in combining profit-making with positive impact generation for the poor in comparison with emerging and maturing businesses (Business Call for Action, 2014).

From a management perspective there is a shift in thinking towards the idea that corporate businesses need access to informal markets through micro-enterprises. To help improve the distribution channels, businesses are making use of informal retail chains, micro-enterprises, and village-level entrepreneurs to increase their reach across remote areas and urban slums. There are different payment methods for services and products targeted at poor people (e.g. pay-as-you-go, special arrangements with micro-credit organisations, or to let a third party pay for products or services) that help them to generate an earned income. The success of partnerships depends on how relationships are grounded in social rather than legal contracts and requires a capability to understand and appreciate the benefits of the existing social infrastructure with the lack of Western-style institutions (Bendul et al., 2018). Corporate businesses prefer (because of the complexity of dealing with such environment) to work together with civil society actors and social entrepreneurs.

From a development perspective, there is evidence that BoP and shared value approaches are not lifting micro-business actors out of poverty and informal economies, but rather keeping them in poverty, as BoP strategies are based on copying from the informal economy, free-riding on informal community and economic networks, bypassing informal commercial intermediaries in favour of NGOs and social entrepreneurs, and ultimately shifting most of the risks and costs to the poor micro-enterprises, for example through franchising (Meagher, 2018).

The literature also shows that doing business with the poor only makes sense if it looks through a gender lens (Vossenbergh, 2018). Firstly, literature shows that the socioeconomic impact of female entrepreneurs on livelihoods is higher and that their specific challenges to succeed in markets (e.g. power structures) have been ignored in most BoP projects. Secondly, the literature on BoP markets and frugal innovations lack specific evidence for gender outcomes. The task is to deliberately examine markets and look for replicable innovations that can have empowering effects for marginalised women.

2. The market dynamics at the Base of the Pyramid

The debate about businesses that provide services and products targeting the poor in local markets is referred to in the literature as the Base/Bottom of the Pyramid (BoP) discourse. It suggests that corporate business can make significant profits by serving the people at the base of the pyramid, those living on less than US\$2 a day; an estimated 4 billion people worldwide (Prahalad & Hart, 2002). Together they have substantial purchasing power: the BoP constitutes a US\$5 trillion global consumer market (Hammond et al., 2007). Although more than ten years old, these statistics are still widely used in literature to describe the potential of the BoP market. Such markets are often rural, poorly served, dominated by the informal economy, and, as a result, relatively inefficient and uncompetitive. In contrast to the wealthier mid-market population segment of 1.4 billion people that is largely urban, already well served, and extremely competitive.

Asia has by far the largest BoP market (2.86 billion people with an aggregate income of US\$3.47 trillion), followed by Latin America (360 million people with US\$509 billion) and Africa (486 million people with US\$429 billion). The majority of the income is spent on food (US\$2.9 trillion), followed by energy (US\$433 billion), housing (US\$332 billion), transportation (US\$179 billion) and health (US\$158 billion). A relatively low part of the income is spent on water (US\$20 billion) and one of the most rapidly growing sectors is in communication technology (Hammond et al, 2007).

Population dynamics impact on future BoP markets. Three sub-trends are particularly relevant: population growth, urbanisation, and displacement because of political turmoil and (natural) calamities (Leliveld & Knorringa, 2018).

- **Projections forecast that the world population will continue to grow mainly in Low Income Countries for decades to come.** After 2050 population growth will almost exclusively be driven by fertility levels in the world's least developed countries, mainly in sub-Saharan Africa (Dietz, 2017). The combined population of these countries, roughly one billion in 2017, is projected to increase by 33% between 2017 and 2030, and then to reach 1.9 billion persons in 2050 (UN, 2017).
- **High levels of urbanisation are forecasted.** Over half of the world's population (54%) now lives in urban areas, up from 30% in 1950. The world's population in 2050 is

projected to be 66% urban, of which 2.5 billion are projected to be urban poor with nearly 90% of the increase concentrated in Asia and Africa (UN, 2015). These two regions, which are projected to become 56% and 64% urban by mid-century, respectively, are still expected to be less urbanised than other regions of the world.

- **The number of displacements has almost doubled since 2000.** The number of refugees in 2016 are estimated at 22.5 million (UNHCR, 2017). In addition, 31.1 million people were internally displaced by conflict, violence, and disasters in 2016 of which 24.2 million by natural disasters and 6.9 million by conflict and violence (IDMC, 2017). With regard to violence and conflict-related displacements, sub-Saharan Africa overtook the Middle East as the region most affected. South and East Asia were the regions most affected when it comes to displacements caused by natural disasters.

These population dynamics show that the BoP market will continue to increase in absolute numbers in the next decades, that this market will become more urban oriented, and that there is a growing demand for frugal innovations and special services to serve the needs of the increasing group of displaced people. India, Nigeria, China, Indonesia, and South Africa have been identified as the current top BoP markets as income inequality is expected to remain high (Euromonitor International, 2017).

3. A shift from top-down business strategies towards shared value strategies

Traditionally, the BoP market would be referred to as the informal market where micro, small and medium scale local manufacturers, entrepreneurs, farmers and retailers provide all kinds of products and services targeting the poor population. However, at the start of the 2000s the BoP market (triggered by the awareness of its market potential) became associated with corporate business (Prahalad & Hart, 2002). The literature refers to this as the first generation (2002-2009) of businesses that see the BoP as purely consumers.

Kolk et al. (2014) analysed this period and concludes that the literature was more practitioner oriented, concentrated on a few markets (e.g. China, India and Bangladesh) and a few companies (e.g. Unilever and Grameen Bank). Although the early BoP studies offer evidence (including some data on increased profits, jobs and numbers of customers) suggesting that corporate businesses can engage profitably with the BoP and create increased self-esteem and economic progress for people at the BoP, Kolk et al. (2014) show in their study that the vast majority of articles that view the poor primarily as consumers fail to identify rigorous measures of the real economic, social and environmental impact of these initiatives.

The second generation (after 2009) of businesses that target the BoP is associated with the idea of alleviating poverty by generating business activities that engage with the lives of the poor (Amaral Dionisio, 2016). The idea behind this generation is based on the recognition that the poverty marketplace is as “vast and diverse as humanity itself” (Kotler & Lee, 2015, p.74). To make sense of this complex market and find specific solutions that would be beneficial for both business and society, corporate businesses need to establish local partnerships: collaborating with non-traditional partners, co-inventing custom solutions and building local capacity in order to get better expertise and relationships with local institutions. Singh et al. (2014, p.364) states that such multi-stakeholder partnerships do lay the foundations for co-creation of shared value on which new business models would be based.

The notion of reciprocity is central to the current BoP concept and the idea of mutual value creation is common in the second generation of BoP literature. According to Porter & Kramer (2011, p.64): “The solution lies in the principle of shared value, which involves creating economic value in a way that also creates value for society by addressing its needs and challenges”. As such the basic principle regarding businesses targeting the poor with innovative products and services has shifted from “doing more with less” (Radjou et al., 2012) to “doing better with less” (Radjou & Prabhu, 2015), presenting it as a win–win socially responsible business proposition that combines high turnovers and profits with realising development goals. This discourse resonates with other common terms, such as ‘inclusive business for the poor’ (alternatively ‘social business’ or ‘pro-poor business’), which addresses questions such as how to marry profits with social aims, assuming that business activities can contribute to the long-term goal of poverty alleviation by embedding the rural and urban poor into efficient value chains and market structures (Leliveld & Knorringa, 2018). The technology and innovation side of the discussion is labelled as “frugal innovation”, which encompasses (re)designing products, services, systems, and business models in order to reduce complexity and total lifecycle costs, and enhance functionality, while providing high user value and affordable solutions for low-income customers (Leliveld & Knorringa, 2018).

There is a recognition of valuing the developmental relevance of localised and embedded bottom-up innovations by usually poor individuals, entrepreneurs, households, and communities, that give agency and a competitive advantage to innovators and entrepreneurs in local communities and local (informal) economies, because they possess (often tacit) knowledge about the unique local circumstances, local preferences, and needs. Corporate businesses’ challenge is, therefore, that it cannot just simply provide stripped-down versions of products to middle- and high-income consumers, but instead provide newly designed, and value and context sensitive products and services that are truly compatible with the circumstances of people living in poverty, including distribution and payment methods (Nakata & Weidner, 2012). By doing so, multinationals are increasingly penetrating informal economies in more remote and isolated communities with services and products. In addition, they increasingly interact with local NGOs and social entrepreneurs.

4. Categorising businesses that target the Base of the Pyramid

Making sense of all the different types of businesses that serve the poor, the literature has started to categorise businesses in term of their size (e.g. employees, turn-over, profit, client base) or on the economic sectors in which they work (e.g. health, energy, agriculture, education). The literature also identifies ways businesses to do business with the BoP that can be categorised into three groups (Intellectap, 2016):

- **Access-led businesses** provide affordable products and services to poor communities. As such they engage with the low income populations as consumers and provide them with products and services.
- **Ability-led businesses** partner with the poor communities on a more equal basis, for example by buying or brokering a deal for their produce. As such they engage with the low income populations as producers or partners, and provide them with skills and market linkages to gain livelihoods and earn incomes.

- **Knowledge-led businesses** improve the access to knowledge services of poor communities. As such they disseminate information or knowledge to increase awareness and bring about behavioural change amongst low income and underserved populations.

The Intelicap study (2016) concludes that across East Africa, most sustainable and scalable models are ability-led businesses in the agrifood sector: *ability agribusinesses*. This is primarily because they provide support across all segments of the value chain and market the produce to customers from the middle and higher income brackets. Through interventions across segments, these enterprises are able to ensure quality as well as efficient and continuous supply to markets. Ability agribusinesses have, therefore, attracted considerable investor interest. Besides the agriculture sector, a number of scalable and sustainable models are observed in clean energy. These *access enterprises* provide clean energy solutions to low income populations, and are constrained on pricing and payments. Some of the most interesting innovations in payment models are seen in this sector, although many of the enterprises in this sector are still backed by grants.¹

Some other literature adds the category of **employment-led businesses** (Nyssens, 2006), which create direct employment for people like the low-qualified unemployed youth or the disabled, who are increasingly excluded from the labour market in low income countries. The mission of this so called 'work integration social enterprises' (WISEs) is to integrate excluded members into work and society through a productive activity.

Businesses targeting the BoP could also be categorised through targeting the BoP as core business or not (Business Call to Action, 2014):

- **Large and established companies** are established national or multinational companies that are introducing new business lines that buy from or sell to the BoP. The aim is to start a new and innovative part of the business that is intended to differentiate them from competitors, bring access to new markets, and position them in the long term. Because buying from or selling to the BoP is a new aspect of their business, there can be internal challenges, such as making a compelling business case or getting support and buy-in from different parts of the organisation.
- **Emerging and maturing companies** are small to medium enterprises (SMEs) located in Low- and Middle-Income Countries and High-Income Countries, whose original business idea focused on an opportunity at the BoP. They have premised their business model on buying from or selling to underserved markets. Their business lives or dies on finding a commercially viable model at the BoP.

Business Call to Action (2014) concludes that there is often a misunderstanding that large and established companies are the most efficient and successful to combine profit-making with social impact due to greater financial resources. Emerging and maturing companies are doing both better and worse, meaning they have more initiatives reported as either progressing slowly or flourishing. Revenue analysis shows that emerging and maturing companies are strongly represented, when it comes to high revenue earnings.

¹ See also: Quak, E. (2018). Lighting and Electricity Services for Off-Grid Populations in sub-Saharan Africa. K4D Helpdesk Report no. 317. Brighton, UK: Institute of Development Studies.
<https://opendocs.ids.ac.uk/opendocs/handle/123456789/13649>

Van Der Velden & De Greve (2016) categorise businesses on the social mission. It goes from profit-maximising businesses, businesses with a strong Corporate Social Responsibility (CSR) policy, shared value businesses, social businesses, social entrepreneurs with hybrid business model, to not-for profit organisations.

5. Challenges of profit-making and doing good

Corporate businesses that target the poor and marginalised people around the world have to look beyond the search for short-term profits. If they want to be sustainable, fair and socially responsible it could be difficult to keep costs low, which is necessary to serve the needs of poor people with products and services (and as a requirement to keep investors happy) (Ngoasong et al., 2015). The literature shows several challenges that can be clustered as follows (e.g. F&BKP, 2016; Bendul et al., 2018).

- **Challenges of serving rural communities:** As the majority of the BoP market is still in rural areas, there are specific constraints and challenges of working directly with rural communities as the main customers or stakeholders. Several examples have been mentioned in the literature:
 - ❖ It is difficult to break down the negative misconceptions towards organisations extending assistance. Businesses have to deal with mistrust among many farmers who have in the past been victims of scams and have been exploited by middlemen who took advantage of weak rural market networks (Institute for Social Entrepreneurship in Asia, 2015; Griffin-EL & Darko, 2014; Darko & Koranteng, 2015).
 - ❖ The high level of illiteracy amongst the poor, in particular in rural areas, is another obstacle. Businesses need to invest sufficient time in upskilling them to use their products and services. For example, they require more demonstrations, guidance and follow-up when offering services to farmers (Griffin-EL & Darko, 2014; Darko & Koranteng, 2015; Thompson & MacMillan, 2010).
 - ❖ Reaching remote rural areas with their teams and equipment can be challenging, especially during rainy seasons. To reach remote rural areas while being revenue-generating and commercially viable can mean that businesses are forced to be selective and limited about where they can operate to a greater extent than grant-reliant NGOs (Griffin-EL & Darko, 2014; Darko & Koranteng, 2015).
 - ❖ There are difficulties in identifying professionals who are equipped with both the necessary skills and knowledge and who share a vision of creating positive impact and transformation. Some of the most vulnerable populations reside in remote rural areas, and businesses struggle to find professionals willing to live in remote areas (Smith & Darko, 2014; Griffin-EL & Darko, 2014; Darko & Koranteng, 2015).
- **Challenges of receiving an earned income:** In particular, is it difficult to find the right payment model for poor communities as part of gaining an earned income from providing services and products. Some communities are used to receiving free services and inputs as delivered by public and aid organisations. As a consequence, there remains a dependency environment, which makes it more difficult to build the business case (Intellectap, 2016; Griffin-EL & Darko, 2014).

- **Challenges to access finance:** For the emerging and maturing businesses, access to finance is another challenge. Although there is often a reasonable flow of early-stage grant capital, for many enterprises getting the first injection of capital can be difficult. In particular, there is a concentration of specific types of financial resources, which leads to resource gaps for certain sizes of enterprises and stages of growth. For example, one ODI study acknowledged that there are two stages at which entrepreneurs can identify such challenges (Griffin-EL & Darko, 2014). The first is the “Seed/Blueprint” stage when social capital seems to play a role that has bias leaning towards less-well-connected entrepreneurs. The next growth phase at which entrepreneurs struggle is the “Operationalize/Grow” stage, when the business model has been proven but is not yet sustainable so it is risky for commercial investors, and capital needs are too high for many grant schemes.
- **Challenges of building and maintaining partnerships:** The last cluster of challenges relates to building and maintaining partnerships with stakeholders. Corporate businesses struggle to find ways to connect with local stakeholders to give them access to informal or remote markets. Smaller businesses question the value of engaging with corporations for funding and of their endorsement (Bendul et al., 2018). Pursuing corporate social investment seemed to be “too much work for too little gain”, and that emerging businesses eventually end up compromising their mission and become increasingly dependent (Griffin-EL & Darko, 2014).

6. Developing payment methods for the poor

Businesses must earn money in the market. As social business expert Tania Ellis wrote in her book “The new pioneers”, businesses that target the poor people may not seek the highest profit; holding costs low is evident to survive in the markets (Ellis, 2010). However, such businesses have the disadvantage of serving customers who are mostly excluded, live in remote or deprived areas, and with limited capacity to pay. A longitudinal field experiment in rural Malawi showed that poor customers of a water purification product were more likely to remain using the product with a deeply discounted price, instead of paying the moderate price or take it for free (Christensen et al., 2014).

Intelicap (2016) observed a shift in the way businesses in East Africa react to the challenges of affordability. Creating affordable products was synonymous to creating low-cost products with basic features. However, entrepreneurs “now focus on designing innovative pricing and payment solutions for full-feature products and services”. They use sliding fee scales or special discounts for people of lesser means or introduce new payment models. Several payment models have been mentioned in the literature (e.g. F&BKP, 2016):

- **Rental model:** The lease or rental model is particularly popular in agriculture where businesses lease out processing facilities to farmers and train them to use the facility. For example, Baridi Stores uses such a model to solve one of the biggest challenges in Uganda: wastage of agricultural produce due to lack of affordable storage infrastructure. Post-harvest, the shelf life of produce is limited and hence farmers are forced to agree to unfavourable prices or allow wastage. Baridi Stores has since designed and developed solar powered storehouses exclusively for agricultural products. These storehouses are leased out to farmers for a rental fee to prevent food wastage, which simultaneously enables farmers to negotiate a better price for their produce.

- **Prepaid fee:** The prepaid fee approach in the form of subscription payments is mostly used in ICT-enabled models that provide capacity building through mobile phones, for example, by creating market linkages or providing access to educational material. A traditional prepaid model requires the customer to purchase a particular amount of credit before services can be used. For customers, the prepaid model allows them to purchase services as and when cash is available, while for enterprises, the model allows them to eliminate the risk of payment defaults. For example, SokoNect in Kenya uses a technology-based platform to eliminate brokers in the agriculture value chain, thus enabling farmers to access markets directly. Farmers prepay a predetermined fee to use the platform.
- **Pay-as-you-go:** Another trend is the pay-as-you-go model which is also referred to as a progressive ownership model or rent-to-own model. Businesses use this model to provide rural asset financing for the low income population. In this model, a consumer pays an initial deposit for an asset and pays instalments on a regular basis. Once the instalments are paid to cover the balance cost, the consumer owns the product and can stop paying instalments. For example, Akili Holding in Kenya and Juhudi Kilimo co-invest this way with rural communities to provide them with tools and assistance.
- **Small percentage from sales:** Most businesses targeting the poor seek ways to earn a small commission on the sale of products on the market while offering multiple services and capacity building. For instance, Tanzania-based East Africa Fruits Farm leases out farmland to farmers who earn less than US\$1 per day. It provides training and support to farmers to increase yield and procures the harvest for distribution. EA Fruits Farm then cleans, processes and packages the produce for distribution in retail outlets and for door-to-door delivery. The enterprise pays farmers at regular intervals of seven to ten days. Another example is Kigali Farms in Rwanda that provides inputs, training and support for producing mushrooms which it buys back for processing and export.
- **Cooperate directly with microcredit organisations:** Businesses also work together with microcredit organisations to increase the opportunity for the poor to buy a product. Some companies that provide solar powered energy solutions for off-grid communities offer products which can be bought with microfinance services.
- **Making use of third parties:** When there are too many difficulties with charging the beneficiaries themselves, businesses can earn income through third parties, like government agencies, NGOs and corporations that have a vested interest in an intended beneficiary group to pay for services or products for them. Governments can do this for collective goods and in the welfare for the poor, while corporations can pay for services that benefit their employees or suppliers (Khieng & Quak, 2013). Most beneficiaries share some of the costs through co-payments and deductibles. For example, Ireland-based Valid Nutrition works with local manufacturers in Malawi, Kenya and Ethiopia that produce their nutritious ready-to-eat food products. Undernourished people are their clients, however the main part of their paid customers are public institutes, large international aid donors and multilateral organisations.

7. Building partnerships

In the management and business literature there is a growing interest and movement towards the idea that businesses need to move beyond thinking about scaling up to achieve organisational growth. McPhedran Waitzer & Paul (2011) stated the transition “from an enterprise

to an ecosystem” in which entrepreneurs have become part of strategic networks or alliances and adopt a broader, integral and more political approach to reach their goal. Davies & Simon (2013) underlined the importance to distinguish the concepts of scaling and diffusion. They wrote that scaling is only useful in thinking about the growth of the business, where diffusion tools, although primarily descriptive, could help to understand how to increase positive impact.

For shared value, equal and sustainable partnerships between corporate businesses and local SMEs are important. Bloom & Skloot (2010) showed that local businesses that embrace social values could be interesting partners for the private sector, governments and civil society. For example, they are often pioneers in new technology or finding new usages for existing technology, which makes them attractive partners. Building partnerships could help such businesses to be more cost efficient and to deal with the many specific challenges of serving poor communities. To overcome high distribution and transportation costs, some SMEs partner with large corporate businesses that have existing channels to rapidly increase reach. For instance, One Degree Solar entered into a partnership with Coca-Cola to market its solar power kits Brightbox to kiosk owners selling Coca-Cola (F&BKP, 2016).

From the perspective of corporate businesses, they need access to informal markets through micro-enterprises. To help improve the distribution channels, businesses are making use of informal retail chains, micro-enterprises, and village-level entrepreneurs to increase their reach across remote areas or urban slums. For example, SunnyMoney in Kenya distributes lamps through cooperatives as well as local shops and agents (Intellectap, 2016). Unilever works with women shopkeepers to sell their products in India (Amaral Dionisio, 2016).

The success of partnerships depends on how relationships are grounded in social rather than legal contracts and requires a capability to understand and appreciate the benefits of the existing social infrastructure with the lack of Western-style institutions (Hart & London, 2005, p. 33). This requires a middle-ground between top-down and bottom-up approaches to innovation and economic development, facilitating the ‘co-creation’ of new products and new business ecosystems for the mutual benefit of formal as well as informal actors (Knorringa et al, 2016). In the telecommunications sector, Anderson et al (2010, p. 16) describe how non-traditional partnerships with informal actors were used to reduce transaction costs of setting up base stations in slums and rural areas by allowing multinational partners to benefit from local entrepreneurs’ ‘basic commercial acumen, entrepreneurial spirit, and a deep understanding of how to manage the local environment’.

The BoP management literature celebrates the value of ‘connectivity’ between the formal and informal economies, which forms a basis for the formation of new ‘business ecosystems’ made up of a wide range of non-traditional business actors, including multinational firms, NGOs, universities, donors, government policy-makers and informal firms. Cozzens and Sutz (2012, p. 25–26) draw attention to the role of such partnerships in ‘bridging formal and informal settings’, stressing the need for such partnerships to ‘[b]e as close to the community as possible and [at] the same time assure linkages to wider networks able to provide support; add “formality” in all possible ways taking care to do this by fine tuning previous informal ways of doing things instead of ruling them out...’.

However, as Hammond (2013) shows, small businesses struggle in building meaningful relationships especially with larger or more powerful organisations. For such partnerships to work, corporate businesses need a basis of trust, and they often give that trust through legal

contracts that define roles, milestones and obligations, while SMEs and micro-entrepreneurs in particular informal networks expecting a different kind of trust.

NGOs and social entrepreneurs are often used to gain access to informal organisational infrastructure. 'Many locally embedded NGOs possess the resources and network relationships needed to create and manage links between multinationals and BOP markets. As such, NGOs can serve as effective alliance partners to MNEs ... for exploiting opportunities in BOP markets' (Webb et al, 2010, p. 568). However, little is known about the entrepreneurial opportunities this offers for domestic firms. On the one hand, there is an optimistic view that polycentric innovation can indeed lead to more chances for domestic firms; on the other hand, there is a critical view that points out possible crowding out or exploitation of (informal) domestic firms (Knorringa et al, 2016). Both views lack empirical evidence (Leliveld & Knorringa, 2018).

Another stakeholder is the government. Partnerships with national governments can be very bureaucratic and time-intensive (Quak, 2017). To foster trust with poor communities, local governments sometimes assist businesses through validation of their products, however being involved in local power structures as an outsider could be very challenging for social entrepreneurs. To exchange lessons learned, peer-to-peer networks are necessary. However, such networks are limited in the rural context with most businesses concentrated in the largest urban areas (Institute for Social Entrepreneurship in Asia, 2015; Darko & Koranteng, 2015). For example, Jiro-VE, a business that provides solar lights to rural communities in Madagascar, is deliberately not partnering with the national government, because the political situation has been far from stable (Stamhuis, 2014).

8. Impact on the informal sector

The literature that looks to the impact of businesses from a development perspective, is more critical on BoP and shared value approaches. Far from collaborating with informal economic systems and actors in search for mutual benefit, corporate businesses that target the poor tend to treat informal economies as a pool of workers and organisational resources to be tapped for the benefit of corporate actors (Meagher, 2018). This is particularly acute in sub-Saharan Africa, where 66% of those working outside of agriculture earn their living in a wide range of informal economic activities (ILO, 2013).

Fressoli et al. (2014, p. 278) point out, 'inclusion is not an unproblematic, smooth endeavour; rather, in practice it can also involve uneven, unequal, incomplete and sometimes antagonistic processes and outcomes'. Moreover, informal economic systems generate opportunities for accumulation as well as basic livelihoods, shaping informal career paths in production, service and trading activities that can lead to middle-class incomes and even considerable wealth. BoP strategies are ignoring this wider informal ecosystem, making it less clear that they improve economic opportunities for informal workers, entrepreneurs and consumers (Meagher, 2018). Meagher identifies four mechanisms of adverse incorporation operating within frugal innovation and BoP models:

- **Copying:** The strategy of copying from the informal economy is widely encouraged by BoP initiatives, with particular reference to micro-packaging, 'leveraging' local knowledge and identifying market opportunities. These practices are more delicately referred to as 'adapting products and processes' by the UNDP (2008, p. 18) report 'Creating Value for All'.

- **Free-riding:** Also referred to as ‘leveraging soft networks’, or ‘leveraging the strengths of the poor’, the idea is to reduce costs by free-riding on informal community or economic networks and institutions downward flow of benefits that is often checked by the use of formal contracts, bureaucratic complexities and other forms of corporate discipline to ‘align incentives’ and protect corporate profits For example, a high turnover of sales agents in BoP distributive networks indicates that benefits are often slow to trickle down.
- **Bypassing nodes of accumulation:** This means the sidelining of informal manufacturers and de-legitimation of informal commercial intermediaries, including informal wholesalers, brokers and money-lenders, who may absorb a higher share of profits into the informal economy. BoP strategies call for the replacement of informal intermediaries by NGOs or social enterprises to facilitate access to these otherwise difficult to reach markets. This serves to restructure value chains away from informal nodes of accumulation which redistribute profits into informal economic systems. NGOs are regarded as ‘honest brokers’ who facilitate economic inclusion of the poorest, while the informal commercial intermediaries are censured for ‘monopolistic behaviour’ (Dolan & Rajak, 2016).
- **Shifting risk and costs:** In addition to free-riding on informal marketing networks, BoP distribution channels that use micro-credit-based payment solutions and micro-franchising arrangements force informal entrepreneurs to absorb marketing costs, turnover risks and interest payments within their very low margins. A number of studies have detailed how BoP programmes such as Care International’s Rural Sales Programme, Grameen ‘Phone Ladies’, and Avon in South Africa and Brazil transfers risk onto poor women by requiring them to buy equipment or goods up front on credit, leaving them to cope with increasingly saturated markets, falling returns and in some cases the social opprobrium of transgressing cultural boundaries (Dolan and Roll, 2013). Delayed payment and financial pressures within low-income communities place increasing strains on social networks, eroding rather than strengthening local social capital.

Ultimately, the objective is not to draw the poor out of informality, but to benefit from the cost advantages of keeping them informal. For example, a study on small-scale mobile money agents in Zambia suggests that the franchising relationship, although holding some entrepreneurial potential for agents, should be closely monitored to avoid adverse labour relations among tellers (Pesa, 2018).

9. Looking through a gender lens

There has recently been an increasing interest in female entrepreneurship, specifically in developing countries. There are two reasons for this: an increase in interest in the role of entrepreneurship in the economic development process, and the insight that female-led enterprises can have a more significant impact on socioeconomic opportunities of households and communities (De Winter, 2014). In this light, supporting and expanding female entrepreneurship has become an objective to empower women and to reduce poverty in developing countries.

The practice of entrepreneurship in itself marks a long-established traditional division of labour for women, due to gender identity in the market and a lack of available economic and political networks (Kleinrichert, 2012). However, the traditional business literature still tends to consider entrepreneurship as gender neutral. Feminist economists critically describe this as ‘the imaginary

entrepreneur', who makes decisions unhindered by socioeconomic inequality or the unequal distribution of power and income, and free of family obligations or care responsibilities (Vossenberg, 2013). As a result, women entrepreneurs are often those left in the informal economy and running microenterprises, having lower returns and fewer employees than their male counterparts.

However, for businesses that combine profit-making with social impact there are four women entrepreneurs for every five men (GEM, 2011).² A study conducted by the Third Sector Research Centre (2012) found that women are more inclined to get involved in ventures with a social mission and that – unlike in 'regular' businesses – social ventures employed around twice as many women as men. This raises the question whether male-female differences and the challenges they involve do not apply in the case of enterprises that look for positive impacts (De Winter, 2014).

By adopting a gender lens, the identification of the socioeconomic impact of female entrepreneurs on communities and their specific challenges in the market, is expanded to encompass how specific products and services that target 'the poor' also include women. Vossenberg (2018) shows that current literature on frugal innovations and specific products and services for the BoP markets mention development outcomes, but lack more specific evidence for gender outcomes. Therefore she comes to the conclusion that for advancing such research the task is to deliberately examine markets and look for replicable innovations that can have empowering effects for marginalised women. Such a 'means to an end' approach indicates that one needs to explicate what development outcomes such products and services value and seek to achieve. Doing this through a gender lens, automatically implies a shift from the current research emphasis on how products and innovation processes contribute to individual wealth accumulation to a focus on exploring empowerment and social and economic well-being outcomes in lives of marginalised women and gender equality.

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Suggested citation

Quak, E. (2018). *Balancing profit-making with social value creation: challenges, opportunities and lessons learned*. K4D Helpdesk Report. Brighton, UK: Institute of Development Studies.

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