

Poverty Reduction Through Social Business in Developing Countries

— A Case of the Grameen Family of Companies' Social Business Initiative in Bangladesh —

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Abstract:

The purpose of this paper is to examine the new trends of social business for improving the socioeconomic condition of poor people through direct involvement in social business activities at the grassroots level in developing countries. Many people in developing countries are faced with basic problems such as poverty, unemployment, education, malnutrition, reducing infant-mortality, less access to health services, gender inequality and loss of environmental resources. To overcome all of these problems the key challenge is achieving economic growth and equal distribution. Why can't government services fulfill all these basic human needs of citizens? One possible answer is, in most development cases conventional 'top-down' approaches were adopted both by governments' bi/multilateral development programs bypassing the poorest of the poor who are at the grassroots level. So many poor people are not receiving their basic needs. Nor can they afford to pay for alternative services offered by the business sector. This market failure leaves them marginalized and, unless a third party offers some alternative basic services, the prevailing inequalities and poverty will continue. In the past, to some extent these kind of services provided by foundations and non-governmental organizations. In recent days, many companies have become significant and active partners in this endeavor through their social business commitments. Again, the government endeavors tend to use the welfare approach. In the long run, the welfare approach does not work because it does not foster new skills, nor empower the poor, but rather creates greater dependency on others and is not sustainable. The new trend to a sustainable poverty reduction approach is to turn the poor people into social entrepreneurs so that they can afford the basic necessities of their life through their direct participation even in small scale social business.

1. What is Social Business?

'Social Business'- a selfless business whose purpose is to bring an end to a social problem and in which an investor aims to help other without making any financial gain himself (Yunus). 'Social businesses implement social technologies, strategies and processes that span across their entire enterprise, creating and optimizing collaborative ecosystems of employees, customers, partners, suppliers, communities and stakeholders in a safe and consistent way (Cheryl Burgess).' 'Social Business is the ability for an organization to its communities to improve its performance (www.socioous.com).' Social business is outside the profit-seeking world. Its goal is to solve a social problem and to improve the socioeconomic condition of the people poor through business.

2. Social Business Concept

Muhammad Yunus termed social business “Social benefit maximizing kind of business which are created to do good to people, not paying any attention to making personal gain.” Yunus featured social business as follows;

- to be designed and operated to pass on all the benefits to the consumers.
- to be operated without incurring losses.
- making profit by a Social Business shall be consistent and desirable because:
 - to generate enough surplus to pay back the invested capital to the investors as early as possible.
 - to generate surplus for;
 - Expansion
 - Improvement of quality
 - Increasing efficiency through introducing new technology
 - Innovative marketing to reach the deeper layers of low-income people and disadvantaged communities.
 - Undertake research and experimentation to improve and diversify products and services.

2.1 Dividend Policy of Social Business

- Investors’ capital out of the profit will be paid back within a time period agreed upon by the investors.
- After the capital amount is paid back, Social Business no more dividend is given to the investors.
- Bottom line for Social Business will always be to deliver benefits to people, rather than to earn money for the investors.

2.2 Share Transfer Policy of Social Business

If an investor wants to withdraw his investment from an SBI (Social Business Invest) at any point of time, he may do so, provided he sells his shares to the existing shareholders, or to a new shareholder who accepts the philosophy, practice and conventions of a SBI.

2.3 Seven Principles of Social Business

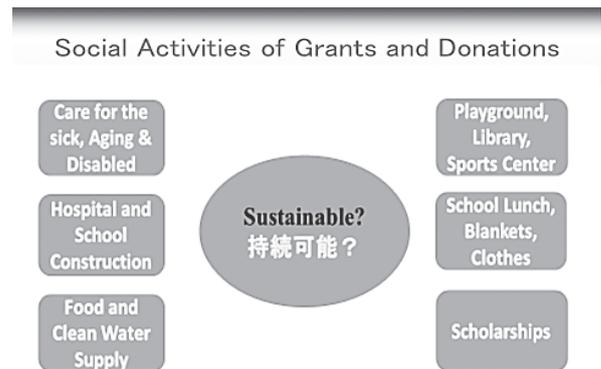
- Business objective will be to overcome poverty, or one or more problems (such as education, health technology access and environment) which threaten people and society; not profit maximization.
- Financial and economic sustainability.
- Investors get back their investment amount only. No dividend is given beyond investment money.
- When investment amount is paid back, company profit stays with the company for expansion and improvement.
- Environmentally conscious.
- Workforce gets market wage with better working conditions.

- Do it with joy.

3. Why Social Business is Necessary?

An integrate approach in development is necessary to improve the Basic Human Needs (BHN) of the poor to be managed by the government in the developing world. Due to the economic constraints of developing countries and their responsibility for the institutional building of the entire population, lack of adequate budget and man power it is very difficult for the government to work at the rural area of their respective countries. The government promises to provide all the basic human needs of its citizens. At the same time, government programs are often affected by long bureaucratic procedures, which are tedious and have inflexible lines of authority. Despite the promise, many poor people are not receiving their basic needs, nor can they afford to pay for alternative services offered by the conventional business sector. This market failure leaves them marginalized and unless a third party offers some alternative basic services, the prevailing inequalities and poverty will continue. Beside the government programs previously most foundation, NPO/NGOs and missionaries had worked for the betterment of the poor. Some of their activities as shown in figure 1.

Figure 1 Social Activities of Grants and Donations



Above mentioned activities are not sustainable to improve the socioeconomic condition of the poor people. Because, this kind of welfare approach; does not foster new skills, nor empower the poor rather it creates greater dependency on others. The poor are also business people who seek to make a profit but lack of business skills and access to credit they cannot start even a small scale business. But today, many companies have significant partners in this endeavor through their 'Social Business' commitments. So there is a road out of poverty is through social business not social welfare. The important and special role the Social Business play in the process of social and economic development is widely recognized by concerned communities as well as by government organizations, corporates and the international development agencies. Although their focus of concern and involvement covers a wide range of socioeconomic issues, their common and mostly shared mission can be seen in their commitment and responsibility to raise awareness for social conditions and to help reduce the country's burden through supplanting the government's efforts. Therefore, they tend to promote and even support innovative business activities and upon proven success, the business replicates and expands those projects on small and medium scale.

Successful social business initiatives already have most skills required to improve the overall socioeconomic conditions of the poor people through awareness building, education, human resource development and multifaceted income-generating activities. To provide an opportunity such as skills and small amount of capital 'that even the least educated and poorest of the poor can run profitable business enterprise. The best business

initiatives are clearly as entrepreneurial as best companies, being able to make things happen and create something out of nothing.¹ Because, the people remain poor due to lack of their business skills, marketing knowhow and access to credit. Once they become entrepreneur it foster new skills, empowering the poor and it does not creates further dependency on others. When governments attempt to help the poor out of poverty, they usually carry out activities through ‘the welfare approach’. In the long-run ‘the welfare approach’ does not work to independent themselves. Because, it does not foster new skills, not empower the poor, rather this approach creates greater dependency on others.

Regarding the source of fund, one source can easily be the philanthropy money going for creating social business. This makes enormous sense. ‘One problem of charity programs is that they remain perpetually dependent on donations. They cannot stand on their own two feet. Charity money goes out to do good thing, but that money never come back. It is one way route. But if a charity program can be converted into a social business that supports itself, it become a powerful undertaking. Now the money invested is recycled endlessly.’² A charity one dollar has one life, but a social business dollar has endless life. That’s the power of social business. Besides philanthropists, many other people can invest in social business just share their life experience to making a difference in other people’s lives. People can share not only their money but also their creativity, networking skills, technological knowhow, and other resources to create social business that can change the overall socioeconomic condition of the poor people in developing countries.

4. There are Two Types of Social Business in Bangladesh

Type one is non-loss, Non-dividend Company devoted to solving a social problem and owned by the investors who reinvest all profits in expanding and improving the business. A social business has investors and owners. However, in a Type one social business, the investors and owners don’t earn a profit, a dividend, or any other form of financial benefit. But the investors in a social business can take back their original investment amount over a period of time they defined. For example, Grameen-Danone is working to solve the problem of malnutrition by selling affordable yogurt fortified with micronutrients. Grameen-Veolia Water addresses the problem of arsenic-contaminated drinking water by selling pure water at a low price the poor can afford. The second type is a profit-making company owned by the poor people, either directly or through a trust that is dedicated to a predefined social cause. Since profits that flow to poor people are alleviating poverty, such a business by definition helping poor to solve a social problem. Grameen Bank, which is owned by the poor people who are its depositors and clients, is an example of this type of social business.

Social Businesses are both financially and socially profitable ventures in sectors like craft, dairy, poultry, fisheries

1 UNAIDS, ‘Strategies to Strengthen NGO Capacity in Resource Mobilization through Business Activities’ Switzerland, 2001, p.9

2 Muhammad Yunus, ‘Social Business-A Step Toward Creating a New Economic and Social Order’ GB, Dhaka, 2009, p.11

and agriculture. Each business/enterprises have a clear social mission, ranging from helping poor farmers to improved breeds of livestock to empowering rural artisans to rise above poverty. Designed to benefit the poor, these business/enterprises help to fulfil their social mission at a greater scale– by supporting micro-enterprise development, generating livelihood opportunities, training entrepreneurs to improve their skills and introducing better quality inputs to increase productivity of their assets. Social business helps community members to become buoyant producers, and ensure market access or marketability of their products and services. So social business playing an important role to improve poor people socioeconomic condition and reduce dependency on others.

5. From Microcredit to Social Business

The Grameen Bank was established in 1983, it provides microcredit without any collateral to the rural poor to generate employment, income and self-esteem. Because, the landless and destitute could not avail any loan facility from the existing banking system or other financial institution as they did not have assets to provide collateral. ‘We were simply working closely with poor in our roles as bankers- driven by circumstances, and lured by the possibility of transforming opportunity into tangible benefits for the poor, we began experimenting with new business ideas. Now, after twenty years of this experimentation, we find ourselves operating twenty-five organizations, often described “the Grameen family companies.”³ Now the Grameen family companies’ new economic frontier is Social Business. Some emerging social business enterprises with the collaboration of Intel, UNIQLO, Pfizer, and Otto.

Table 1 The Grameen Family of Companies

Company Name	Founded	Purpose
Grameen Bank	1983	Financial services for the poor
Grameen Trust	1989	Training, technical assistance, and financial support for MFIs around the world
Grameen Krishi (Agriculture) Foundation	1991	Experimentation and training to improve agricultural practices and output
Grameen Uddog (Enterprise)	1994	Export of Grameen Check hand-loom fabrics
Grameen Fund	1994	Social venture capital funding for entrepreneurial start-ups
Grameen Fisheries Livestock Fou.	1994	Fish pond and livestock breeding programs
Grameen Telecom	1995	Telecommunications services for the poor
Grameen Shamogree (Products)	1996	Domestics sales of Grameen Check hand-loom fabrics, handicrafts, and products
Grameen Cyber net	1996	Internet service provider
Grameen Shakti (Energy)	1996	Renewable energy sources for rural Bangladesh
Grameen Phone	1996	Cell-phone service
Grameen Kalyan (Welfare)	1996	Health and welfare services for members and staff of Grameen Bank
Grameen Shikkha (Education)	1997	Scholarships and other assistance to students of poor families
Grameen Communications	1997	Internet service provider and data processing services
Grameen Knitwear	1997	Manufacture of knitted fabrics for export
Grameen Capital Management	1998	Investment management
Grameen Solutions	1999	Development of IT solutions for business
Grameen IT Park	2001	Development of high-tech office facilities in Dhaka
Grameen Business Promotion	2001	Provision of small business loan guarantees
Grameen Information Highway	2001	Data connectivity and Internet access provider
Grameen Star Education	2002	Information technology training
Grameen Bitek	2002	Manufacture of electronics products
Grameen Health Care Trust	2006	Funding for Grameen Health Care Services
Grameen Health Care Services	2006	Health care services for the poor
Grameen Danone	2006	Affordable, nutritious foods for the poor

Source: Muhammad Yunus, ‘Creating a World Without Poverty’ PublicAffairs, New York. pp.78-79

3 Muhammad Yunus, ‘Creating a World Without Poverty’ Public Affairs, New York, 2007, p.78

6. Social Business by Grameen-Danone Limited in Bangladesh

In March 2006, Group Danone (Danone), a French food giant, and the Grameen Group, a Bangladesh-based group, came together to form a joint venture, Grameen Danone Foods Social Business Enterprise (GDF). As the name indicated, the joint venture was to be a social business enterprise (SBE) - an enterprise whose primary objective was to maximize the benefits to society rather than to maximize profits for company. This is a yogurt company, producing healthy yogurt to fulfill nutritional deficiency especially to the poor children. This social business enterprise is established in collaboration between Group Danone and four Grameen Companies namely, Grameen Business Promotion Services, Grameen Wellbeing, Grameen Energy and Grameen Telecom. Ownership 50:50 by Groupe Danone and four above Grameen companies. Authorized Capital is US\$ 3.67 million and the Paid up Capital is US\$ 2.57 million and the company is registered under Companies Act of Bangladesh.



Grameen-Danone Limited yogurt factory in Bogra



French and Bangladeshi workers in Bogra factory

This new type of business to provide nutrition to the rural poor. The proximity model was established in Bogra, a northern district with a high incidence of malnutrition that is known for producing the best yogurt in Bangladesh. ‘First, Danone engineers designed a small dairy plant with a production capacity of 6,000kg of specially fortified yogurt per day. Next, Grameen Bank members within the community, mostly women from poor village households, were mobilized to practice for participate. With microcredit from Grameen Bank, the members raised milkproducing cattle and sold milk to the dairy plant for producing into yogurt. Finally, members were employed to sell the nutritious yogurt exclusively households with malnourished children.²⁴ Sixty-five percent of the yogurt was refrigerated and sold through shops. The remaining 35 percent was sold by women who took the product to villagers on a daily basis. “This is a unique opportunity to create a business totally dedicated to social objectives, a company whose ambition is not to generate profits for its investors, but committed to serve the interests of people without incurring losses”



Finished products ready for delivery to the market

4 Khalid Shams, 'Accelerating Poverty Reduction in Bangladesh Through the Grameen Family of Companies' GF, Dhaka, 2009, p.8

(Yunus: 2007). “Reducing poverty by means of a new business model that will provide the least well off with a healthy diet, every day. With this initiative, the need to maximize profits for the investors is replaced by social impact on local community. Profits go to the local communities in terms of benefits brought to them” (E. Faber: 2007). This business model, to reduce poverty and bring daily nutrition to the poor children as well.

6.1 A Unique Model of Grameen-Danone Social Business Enterprise

Grameen Danone Foods Ltd. is a unique model of Social Business with following mission and objectives:

Mission:

Reduce poverty by a unique proximity business model that brings daily healthy nutrition to the poor people.

Objectives:

- To bring daily health nutrition to low income and nutritionally deprived poor people of Bangladesh.
- To alleviate poverty through the implementation of a unique proximity based business model.
- To contribute in creating independent business and job opportunities in the farming, processing, sales and distribution sectors.
- To provide easily affordable dairy product especially developed to fulfill the nutritional needs of children.
- To protect the environment relying on solar & biogas energy and develop innovative, environment friendly packaging solutions for its products.

7. Grameen-Danone’s Social Business Impact on Poor Children Health

The John Hopkins University, USA, is conducted a comparative study between fortified (Shokti Doi) and non-fortified (plane) yogurt in order to measure the impact on the health of Bangladeshi poor children in 2008-2011. This study is being financed by GAIN (Global Alliance For Improved Nutrition), a global NGO. The study evaluated the impact of the consumption of a fortified and non-fortified yogurt over a period 6 months and one year, based on following criteria: morbidity, growth, and cognitive development and status indicators. The GAIN study revealed, “Our preliminary findings show that micronutrient fortified yogurt had a positive impact on the children’s growth in terms of height, When compared to the children who received yogurt without micronutrient fortification, those who had eaten fortified yogurt were significantly better at important functions such as planning, concentration, problem solving and mental flexibility as measured by psychometric tests (Sunil Sazawal: 2012).” “This Study is unique in that its shows that eating fortified foods can have an impact on the nutrition and health of school age children. It proves that micronutrient programs alone can improve height in children. This a big win for the global nutrition community in terms of learning. There’s no better return on investment for nutrition programming than impact on child growth and development (Marc Ameringen: 2012).”⁵

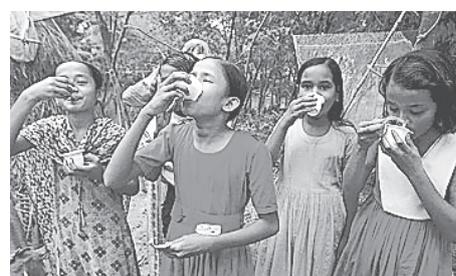
5 GAIN, 'Global Alliance for Improved Nutrition- Study Report' GAIN, Geneva, 2013, p.11

7.1 An Economic Impact of Grameen-Danone Social Business on Local

In January 2009, Grameen-Danone Enterprise has created a network of micro-farmers to supplying their milk for a reasonable price. As of 2013, as shown in table 2, company is collaborating with 475 micro-farmers, organized around two milk collection points. Door-to-door sales in rural areas through a network of sales ladies. They get one-day sales credit, reimburse the cost of cups through their sales and keep a margin on each sold cup. During 2013, number of ladies exceeded 697. These ladies that are often among the poorest in their community, this activity is a source of empowerment and valuable additional income for their family. Door-to-door sales through ladies are 35% of Grameen Danone sales. To promote income-generating activities of rural poor, GDFL buys milk from small farms and sales their products door-to-door in rural area through Grameen ladies.



Grameen lady sales yogurt door to door



Malnourish children eating Danone's yogurt

Table 2 Economic empowerment of the poor through income-generating activities

Year	2011	2012	2013
Number of Employees	204	264	279
<i>Number of Farms Supported</i>	385	442	475
<i>Number Yogurt Ladies</i>	878	579	697
Production in Tons	1,420	1,644	1,792
Yearly Turnover in Euro (€)	1,128,900	1,579,000	1,827,000
Number of Yogurts sold/day	83,120	89,492	96,530

Source: GDFL, 'Innovative Social Investor' leGCAfund, Paris, 2012, p.10

8. Replication of Social Business Through Companies and Universities

'Social business aims to render help by empowering individuals, organizations and communities to gain more control over their finances instead of depending on donations, charity and government aid for their social cause. This where social business becomes very relevant. A social objective is achieved by using business method and practices, thus making it more sustainable'⁶ Over the last 15 years, social business has been playing an important role in alleviating poverty in Bangladesh and this approach already been replicated in abroad. Some examples are as shown in table 3. After the invention of social business idea, it attracted wider audience including entrepreneurs, social workers, and human rights activists and so on. 'Innovations and replications are going on in more than 30 countries and also social business learning centers are in operations in the universities in Bangladesh and abroad. Government-sponsored social business activities are going on in Haiti, Albania and Malaysia. Local governments

6 Muhammad Yunus, 'We are not Job seekers We are Job givers' Yunus Center, 2015, 108

and city corporations are involved in creating social business cities in Germany, Italy and so on.⁷⁷ It has been great area of interest academia too. A deal of research has been conducted on social business; a number of universities have opened courses/degrees on social business.

Table 3 Replication of social business method by corporates and academic institution

Companies	Universities
<u>UNIQLO</u> in garments business	Kyushu University- IT Education
<u>Intel</u> in information technology	Glasgow Caledonian U. –Nursing school
<u>BASF</u> and Intel in joint ventures on healthcare	Korczak University P. Empowerment
<u>Pfizer</u> in maternal and child health	University of New South Wales- Health
<u>Otto</u> in Textile business	Asian Institute of Technology- Poverty
<u>Adidas Group/Reebok</u> in shoes for all	California State Univ. S Business Degree
Johnson & Johnson in mother and child health	La Trobe University A. SB Community
<u>The Mayo Clinic</u> is collaborating with Grameen Health Care project	National Central University, Taiwan
	-Offering high-quality Social business Course
	University of Salford UK. Community
	Other five Universities in Bangladesh

Source: Yunus Center, '6th Social Business Day' Dhaka, 2015, pp. 146-150

9. Social Business for Sustainable Development

Social business is a new category of business. It does not stipulate the end of the familiar profit-maximizing business model. Rather, it widens the market by giving a new option to consumers, employees and entrepreneurs. Today's world is looking forward to building new ways towards a common destination for the next 15 years: Sustainable Development Goals (SDGs), leaving no one behind. Millennium Development Goals were an attempt to define an immediate destination over a short period. That was a good beginning. Social business can be one of the new highway signs to lead the world to its sustainable destination. One can start in a small way. The power of social business is imbedded in the idea that private enterprises be driven by a social mission of changing lives for the better in a financially sustainable way rather than by private financial gain. Financing social business can involve philanthropists, charity, Corporate Social Responsibility (CSR), private investors, companies, foundations, NGOs and even city corporations, local governments and governments. Charities work for social development and welfare and do not have a profit making objective. Hence they are highly dependent on aid and external sources for survival and often do not generate sufficient fund to sustain their operations.

10. Problems in Grameen-Danone Social Business and Approaches to Improvement

Due to low production levels during the first years, its indirect cost such as office, administration and promotion expenses was higher than its total revenue. On the other hand, rising raw material prices, resource wastage, and

⁷⁷ Parveen Mahmud, 'The Daily Stars Newspaper' Dhaka, 28 June 2015, p.10

high logistics costs per unit in rural sales were major reasons for high direct costs. Initially, consumers complained about Shokti-Doi's 'bad smell' 'strange color' 'sour taste. 'Grameen Danone reformulated the yogurt recipe to better adjust the product to local preferences. Some more sugar and date molasses were added to make yogurt sweeter. In April 2008 April, raw material cost rose sharply. Milk price jumped 100 percent. Grameen-Danone board made a tough decision to remain economically sustainable. It increased the price by 60 percent raising the price of 80g cup from 5 Taka to 8 Taka. Consumer demand immediately collapsed. In June 2008, GDFL (Grameen-Danone Foods Limited) launched a new formula maintaining cost 30 percent in micronutrients in a smaller 60g cup, beginning down price to 6 Taka. With mini-promotional events and school nutrition programs in the villages. GDFL started to recover the market and expanded its sales, through retail shops to Rajshahi and Pabna cities 50km from Bogra.

In reality, Grameen-Danone is still **Loss-making**. By March 2011, Grameen-Danone have invested around US\$2.3 million, covering initial construction costs as well as previous losses. 'Given the company's previous losses and additional investments (e.g. for the construction of its second plant), neither Grameen nor Danone executives currently have the heart to forecast when exactly their company might have generated enough surplus to pay back the initial investment. The company is acting on assumption that GDFL will require at least one more plant up and running before thinking of any repayment'⁸ Business performance since autumn 2008, however, shows promise for the company's future commercial viability: having generated the **first positive gross margin** in the fourth quarter of 2010, the management currently expects to break even in 2012 or 2013. Beside the rural distribution GDFL board decided to expand its market to use the excess capacity of the plant. Increase in production was necessary to decrease the per unit fixed cost. Dhaka price was set to get a margin to offset the loss in rural market: a 60g cup of Shokti-Doi reinforced in proteins, is priced at 8 Taka. Since 2009, GDFL also launched new products like a valorized mango Shokti-Doi 8 Taka for 60g and 12 Taka for 80g. Dhaka is a growing market for GDFL's product to reduce the transportation and other indirect costs company is eager to one more factory to be established close to Dhaka city.

11. Recommendation and Concluding Remarks

Poverty reduction programs have succeeded through many social businesses when beneficiaries' were given first priority in their business activities. Due to the lack skills and financial limitation the poor people cannot carry solve their existing problems. A social business has investors and owners. It is a cause-driven business where the investors/owners can gradually recoup the money invested, but cannot take any dividends beyond the invested amount. The social business must cover all costs and make profit, while at the same time achieving a social objective. The corporates have enough fund, skills and marketing knowledge and academic institutions have

8 Danone Communities, 'Grameen-Danone Foods Limited-Case Study' Paris, 2012, 13

innovative and technical knowhow. So corporates and academic institutions could work together in drawing on their past experiences in social business activities, and figure out what they do collectively or individually in the future to improve social business strategies. Their effective involvements would be an alternative or new path to improve or good change of the poor people socioeconomic condition through social business. It is recommended that the government become involved in social infrastructure and corporate can play a vital role to providing fund and business skills. The poor people have indigenous knowledge and some kind of business skills, so the corporate can acts as partner with them to turn the poor into social entrepreneurs. Following the above discussions, it may concludes the social business approach can play an important role in self-employment to make an impact on poverty reduction and empowering the poor in developing countries.

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