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*A Planet for Life* provides first hand analysis and narrative of ongoing transformation and sustainable development challenges in key countries. It tours five continents to shed light on what countries and regions are actually doing to achieve sustainable development, tackling their own local – and global – problems, and exploring different pathways towards sustainability. It explores implementation issues and financing for development options more specifically, with an overview of key propositions for making sustainable development financing a lever to transform economies and societies.

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In 2014, a number of reports and events have highlighted the enthusiasm shared by the public authorities, NGOs and the private sector for social business and, more broadly, for the social and solidarity economy. These include: the presentation of the Faber-Naidoo report on a new approach to development assistance; the reports of the social impact investment taskforce established by the UK Presidency of the G8; the Global Social Business Summit held in Mexico City; and a new law on social and solidarity economy that was enacted in France.

This general momentum is due to the fact that the actors involved in social business are seeing a range of new frontiers, such as the ability of social business to sustain projects that have so far been funded by NGOs and development agencies; that it has the ability to solve social problems while limiting the use of public funds; and that it can facilitate the testing of technological and organizational innovations in new models of production or distribution (private companies). But what about the reality? Can social business contribute to the renewal of development aid policies? Which specific challenges need to be addressed? This article provides an analysis of an approach that is often presented as a solution to the reconciliation of profitability and social concerns.

Defining social business

‘Social business’, ‘social and solidarity economy’ and ‘social entrepreneurship’ are similar concepts that overlap, for which there are as many definitions as there are actors claiming to be part of the movement. The underlying idea is to harness the power of businesses and the economy for social (and/or environmental) benefit. The specific term ‘social business’ was popularized by Muhammad Yunus and it was based on the ‘no loss, no dividend’ principle that prohibits the distribution of dividends. Since then the term has escaped the control of its author and today there is no harmonized definition of social business. However, the different approaches seem to converge towards two common principles (a primary social objective and the search for financial independence), while they generally differ on four more secondary criteria: (1) governance with varying degrees of openness to stakeholders (beneficiaries, employees, suppliers, neighbours, etc.); (2) the management and allocation of profits (which should be fully reinvested in the opinion of Yunus, or partially distributed according to others); (3) the level of innovation in the solution provided by social business, and (4) the status of the organization (commercial enterprise, development project, foundation, cooperative, association, NGO, etc.). To remain sufficiently broad, this article uses the term ‘social business project’ rather than ‘social enterprises’. Indeed, many projects claiming to be social businesses do not (yet) have any legal status.

Social business can be considered to be at the crossroads between market forces, businesses and social missions. The idea is for the intended benefits of an entrepreneurial operation (optimized) to be utilized for a higher purpose than merely profit. Given that social business can be applied to all areas of development (financial inclusion, nutrition and food security, health, education,
housing, water, sanitation, energy, etc.), it can therefore be present in all economic sectors, albeit with a predominance in microfinance.

The objective of social business models is to provide new answers to social problems where public policies are failing, especially in developing countries. Such models are therefore designed to become financially independent (or at least that is the ultimate goal) so as to be sustainable and durable. To policy makers and development assistance actors, the support of social business enables the promotion of decentralized and innovative solutions that reduce the demand (eventually) on public funding. Social business can then serve as a lever to increase the social impact of public expenditure.

Today, most multinational companies have foundations or funds dedicated to the development of social business. These funds are often operated in parallel with Bottom of the Pyramid (BOP) strategies that involves the adaptation of products so that they can be sold to the poorest people. For such multinationals, social business not only provides benefits in terms of image, but it also serves as a means to stimulate reverse innovation by carrying out trials in developing countries of new production and marketing ideas.

**Specific development challenges**
In addition to the usual difficulties for small and medium-sized enterprises in developing countries (such as financing, business environment, knowledge of the market, etc.), social business projects face additional difficulties inherent to their model. Indeed, trying to address a social problem by creating market value to ensure project

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**FIGURE 1  Defining social business**

Social business, which combines the market, business and a social mission, aims to take advantage of the intended benefits of an entrepreneurial operation to serve social or environmental objectives.
Social business in Madagascar

A recent study by AFD in Madagascar has identified nearly 90 projects that could be described as social businesses. These are relatively old projects (10 years old on average), of which almost half were initiated by NGOs, characterized by a wide variety of recipients, social missions, status types (50% companies) and sectors of intervention.

1 Conducted in January 2014 by the consortium of consultants FTHM and Croisens.
sustainability very often involves the ‘creation’ of a market that did not exist. Therefore, solving a social problem in a financially viable way often requires an original idea, an innovation, and typically involves a long learning process.

There is a significant tension between the social objective and the imperative of financial stability. How can this stability be achieved when producing a good or service for the poor? How can a price be determined that is low enough to be accessible to the targeted beneficiaries but also high enough to allow the company to break even? There is also a natural temptation to assign multiple social objectives to a social business project: should a company that claims to be ‘social’ be exemplary and therefore have a social mission for all of its stakeholders (clients, employees, suppliers, neighbours, etc.)? This approach, however legitimate it may be, often leads to insurmountable difficulties and to contradictions between social objectives (for example supporting a smallholder sector while practicing low prices for customers).

Moreover, a social business project must find its place in the field among NGO activities and the market for commercialized products, which is a potential source of conflict. NGO activity can indeed affect the social business project (for example, there is incompatibility in cases where an NGO is subsidizing the free distribution of a product, while a social business is offering a similar product at a low price); and a social business project that is too close to an existing market may experience hostile private sector competition.

There are also operational challenges. Firstly, how can funds be attracted towards projects that are risky and unprofitable by nature? For instance, most social business projects are innovative (in terms of techniques, organization or distribution). Also, the initial business model is

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**NUTRI’ZAZA: AN EXAMPLE OF SOCIAL BUSINESS IN SEARCH OF FINANCIAL BALANCE**

Nutri’zaza is a social enterprise in Madagascar (with a limited company status) that has a social mission to fight against chronic malnutrition, which affects nearly one in two children. The company is the culmination of a development project led by an NGO that created the *Koba Aina* dietary supplement. Since 1998, the French development NGO, GRET, has been raising awareness amongst mothers on the subject of child malnutrition and has distributed a type of baby food of high nutritional quality via a number of ‘restaurants for babies’. The infant food is made mainly from local ingredients and is part of the Nutrimad project (created by GRET, IRD and the University of Antananarivo). The project took on the status of a company in September 2012 following years of learning and testing to develop a distribution network for a liquid baby food (for 6 to 24 month old infants) that is affordable to the poorest households. The GRET NGO and four other shareholders (including two French investment funds, SIDI and I&P) were behind the creation of Nutri’zaza, with the support of a grant from AFD that was intended to cover the losses in the first years of its operation. It now manages a network of 39 restaurants for babies in seven towns in Madagascar, while 64 counsellors are engaged in daily home sales. Sachets of ready to prepare baby food are also available in grocery stores. Each month, more than 60,000 portions are sold. To maintain the social mission of this limited company, founding shareholders have strengthened the normal modes of governance (management and directors’ boards, shareholders’ general meetings) with an ethics and social monitoring committee (including all stakeholders) and a shareholder agreement that makes the social objective the priority of the business. The committee meets twice a year to monitor social indicators of the business: the number of children reached, number of meals provided, accessibility for the poorest (product selling price), number of counsellor jobs created, nutrition education activities carried out, etc.
fragile and should be reviewed as and when the project is tested and there is therefore a high degree of risk, which is a major obstacle to mobilizing financing during the testing and project initiation phase. Once the project has broken even (or is close to doing so), the low profitability inherent in the project does not attract the ‘classic’ shareholder. However, many investment funds dedicated to social business and development agencies have already been mobilized with sufficient volumes to fund the most mature projects today (AFD, 2014).

How can continuity of funding be ensured when most social businesses experience statutory changes during growth, for example changing from an associative to a commercial status? Finally, how can project objectives, the adopted governance principles, human resources management and the prioritization of objectives be translated into daily organization and functioning? How can social objectives be secured in relation to the financial constraints? The development of the business and organizational model and its governance are the main issues to ensure the sustainability of social businesses. Again, experimentation and adjustments are necessary.

If public policy makers wish to encourage the emergence of social businesses, they may seek: to create an enabling legal and regulatory environment (for example, this was the intention of the law on social economy, adopted in France in 2014); to accompany the projects upstream at the stage of experimentation of innovative solutions (business incubators and nurseries); to raise patient capital that is intended to have a social impact and a limited financial return (dedicated investment funds, philanthropic ventures, etc.); to facilitate the networking of social business actors for the exchanging of experiences; and to finance capacity building or invent simplified impact measurement devices that will be called for by investors claiming to be engaged in impact investment.

Alongside investment funds dedicated to social business, most funders have recently adopted financing and accompanying strategies and instruments. However, the resources that are being mobilized on this issue seem to be drawn towards the more mature projects (which are still few in number), while smaller experimental and uncertain projects are struggling to find support. Who is willing to take the risk?

**REFERENCES**


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