Social Entrepreneurship in Developing Nations

An Independent Study Project
Sara Foryt
With input from Anastasia O'Rourke (CMER department of INSEAD)
and Uma Lakshmi (INSEAD)
Professor Bruce Kogut
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"Social Entrepreneurship strives to combine the heart of business with the heart of the community through the creativity of the individual."

--Gary McPherson, Executive Director, Canadian Center for Social Entrepreneurship

"Social Entrepreneurship" is a broad term that does not have a widely accepted precise definition. In practice, it is used to describe everything from revolutionary leaders in third world countries who are not at all involved in business to first world businessmen and women who start a socially-responsible business in their home country. Thus Mahatma Gandhi and Ben Cohen of Ben & Jerry's could be thrown into the same category. This paper, however, will examine one type of social entrepreneurship represented by a number of small and mid-sized for-profit businesses that offer a product or set of products that fulfill a larger social need. This could be in the area(s) of health, education, environmental sustainability, or economic development, while simultaneously operating in and selling to a low-income population in the developing world.[1] This subsector is of interest specifically because it is nascent, very new, yet full of possibilities.

The purpose of this paper is to explore the challenges and opportunities in this sector, based on the experiences of several specific companies. Very few firms have so far attained the "double bottom line" of social mission and profits, especially in developing countries. But many of the firms identified here show how success can be achieved, and perhaps serve as a model for future efforts.

Market size, Market Characterization and General Challenges

The traditional multinational corporation has focused on targeting international consumers with mid- to high-income levels in order to support the cost of their product (Prahalad & Hart). This explains (in part) why foreign directed investment (FDI) into

[1] The business idea for most (though not all) of the companies evaluated in this paper originated in first world countries, primarily because information is more readily available about such firms.

developed nations is four times greater than FDI into developing nations (UNCTAD). See Exhibit 1. However, emerging markets are not just potential future markets that will take off once the income level rises. Indeed, such markets offer huge potential in their existing state. Why? Because of the numbers.

There are an estimated three to four billion people in the world today with per capita income of less than $1,500 per year, representing one-half to two-thirds of the entire world population (Prahalad & Hart). Plus, 95% of all population growth is in developing countries (UNCTAD), meaning that this portion of the world population will only increase in the coming years. See Exhibit 2. In India alone, whereas 55-70 million people earn over $10,000 per year, over 500 million people earn less than $2,000 per year (Prahalad & Hart). Thus, if the market to extreme low-income consumers can be captured, the potential for profitability is clear.

But it will take more creativity and perseverance to target these markets than elsewhere. This is a different tier of consumer, characterized by low or non-existent education levels and a lack of access to technology or capital. This consumer often lives in rural villages, urban slums or shanty towns. This portion of the world population faces health and environmental issues unknown to the first world, such as malaria and the lack of fresh water and wastewater services. The "market" to these consumers, if it can be thought of as one combined entity, is hard to reach, unorganized, and local in character (Prahalad & Hart).

Further challenges include the fact that there are normally severe governmental and political constraints on foreign and local operations. This may include ownership and repatriation restrictions. Additionally, property rights and contracts are not always enforceable. In fact, there may be a dearth of regulations (in law or via a lack of enforcement) that either help or hinder business operations. Local connections matter, and corruption and nepotism are common. Because of the fragmented nature of these markets, uniform efforts across countries may prove extremely difficult. Besides, the "bottom of the pyramid" (consumers with annual income of less than $1500) is different depending on which country one is considering; some countries have higher income disparities than others, and consumer preferences and needs vary depending on culture, climate, geography, etc. There are some similarities, but the needs may not be uniform across countries and regions.

The companies examined in this paper have targeted a representational cross-section of countries and geographic regions in order that we may draw some general conclusions based on the similarities, rather than the differences, of selling to consumers in developing nations.

Companies Evaluated and Methodology

The companies listed below have one thing in common: All strive to capture the low-income market in developing nations while simultaneously offering a social side benefit.[2] The latter may be improved health or environmental conditions, economic development or basic improvements in the standard of living. But at the same time, all of these businesses either seek or have sought to attain at least a minimal level of profitability through the sale of specific products or services. Not all of the businesses have been profitable or successful, however; those that were unsuccessful provide some critical lessons. Additionally, some of the businesses are further along in the process than others; some have been around for several years, while two have not yet launched.

The following companies were primarily evaluated on profitability, type of social side benefit, business model, and sources of financing where available. Much of the information was obtained from the companies' websites themselves, through articles about the company, and from individual interviews with entrepreneurs or relevant individuals via e-mail or phone discussions. It should be noted that it was difficult to locate firms that fit the targeted description. Gregory Dees, a professor on Social Entrepreneurship at Duke/Stanford, indicated that he was not aware of any such

[2] Additional companies will be mentioned as part of individual examples, however the above companies will be used as the basis for multiple discussions throughout the paper.

companies, as most social entrepreneurs live and focus on first world countries. Of the firms included here, some are very small and most are private, and thus limited information is available. This is perhaps because the field is so new. Several venture capital firms were contacted however none were willing to reveal the names of clients beyond what was mentioned on their respective websites.

1. Prisma Microfinance (www.prismamicrofinance.com). Prisma Microfinance is a for-profit corporation offering small business loans in Latin America. Credit for small businesses operating in developing nations is often hard to come by, and thus microlending serves as a catalyst to local business, fostering economic development in a community. While Prisma Microfinance is a small operation (with a portfolio balance in FY 2000 of $855,000), it stands out as a profitable venture in the rough and tumble world of microlending, and is unique in that none of its funding comes from donations (www.prismafinance.com). See Exhibit 3.

2. Grameen Bank (http://www.grameen-info.org/). Grameen Bank started in the 1970s in Bangladesh offering small business loans. It quickly became the model for microlending institutions elsewhere, and today claims to have over two million borrowers. While Grameen Bank achieved profitability for many years, over the past five years it has faced a number of repayment problems which threaten its long term viability (Pearl & Phillips 2001).

3. Aravind Eye Hospital in Madurai, India (www.Aravind.org). Operating for over twenty years, the Aravind Eye Hospital offers eyecare services as well as cataract surgery to cure blindness at a very small fraction of the cost in the developed world. The Hospital has a gross margin of 40% despite the fact that 70% of the patients pay nothing or close to nothing (Rubin 2001). In the year 2000, the Hospital performed sight restoring surgery to 200,000 people (Green 2002).

4. Voxiva (www.voxiva.net). A voice applications service provider operating in developing nations, Voxiva has developed a voicemail application similar to e-

mail. Their technology has been used in Peru to connect remote health centers and to develop a national disease reporting network. Ultimately, this increases the ability of health workers (who themselves have a low literacy rate) to send and receive time-sensitive information about disease patterns, morbidity and mortality, and epidemiological outbreaks (www.voxiva.net). The technology has also been used by microlending institutions operating in developing nations to expand their networks of borrowers in isolated areas and reduce operating costs, which is in turn passed on to small business owners/borrowers.

5. Lumbini Eye Care Program and Project Impact. The Lumbini Eye Care Program is similar to the Aravind Eye Hospital in its mission and operation. Replicated in Nepal, Egypt, and Kenya, the Lumbini Eye Care Program offers a range of eye-care services as well as cataract surgery, and operates based on customer's ability to pay. Ten percent of the surgical patients at the hospital in Nepal are served free of charge, yet the same hospital generates revenues sufficient to cover hospital costs plus satellite clinics (Gilbert 2002). Project Impact is operated by the same person, and refers to an Affordable Hearing Aid Project to develop and produce high-quality hearing aids within the financial means of low-income persons in the developing world. While not yet launched, Project Impact has already obtained $1.5 million in funding and is expected to be operated in much the same way as the Eye Care Program: high volume, low cost production. The World Health Organization estimates that at least 250 million people in the world have a disabling degree of hearing impairment, but cannot afford hearing aids that work (Green 2002).

6. Low Cost Eyeglasses (www.lowcosteyeglasses.net). Low Cost Eyeglasses is a small startup that has not yet launched its proposal to design inexpensive eyeglasses for the estimated one billion people in the developing world who need eyeglasses but do not yet have them. Low Cost Eyeglasses won Harvard Business School's social enterprise business plan contest last year. Low Cost Eyeglasses

intends to develop an advanced technology and distribute it through local microentrepreneurs worldwide.

7. Adesemi Company. Adesemi is a failed startup venture aimed at providing wireless telecommunications in Africa. Through the use of a beeper system to alert a customer of a message coupled with an Adesemi pay phone, the venture, launched in 1993, intended to create a continentwide communications network, which would yield side benefits similar to those of Voxiva's system: improved access to health information, etc. After raising nearly $40 million in investment funds, Adesemi failed when it hit bureaucratic obstacles in Tanzania and investors pulled out (Maddy 2000).

Key Success Factors

Through the examination of the businesses' successes and failures, several notable factors emerged as keys to achieving success in the target market.

1. The first is the need for a low cost product that doesn't sacrifice on quality and makes up for the low price through high volume sales. Indeed, product affordability is critical. Aravind Eye Hospital, for example, has dealt with this issue by dramatically reducing their cost structure and passing the savings on to consumers. It now costs about $10 for them to conduct a cataract operation, while the same operation in the U.S. would cost a hospital about $1,650 to perform (Rubin 2001). How does Aravind do it so cheaply? They first started with the technology: the Hospital's own laboratory (www.Aurolab.org) pioneered the production of high-quality, low cost intraocular lenses that it now exports. But in addition, Aravind explored areas of operations where it could cut costs. The Hospital puts two or more patients in an operating room at the same time (illegal in the U.S.) and uses bamboo, for example, over metal bedding structures because of its negligible cost.

Another example of a low cost product is Project Impact's Affordable Hearing Aid Project ("AHAP"), which intends to design, manufacture and distribute its digitally programmable analog hearing aid for a price of approximately $40 (the equivalent price in the U.S. is about $1500).

2. A second success factor is the need to segment the market in terms of price. If the product is unaffordable to the very lowest income sector despite cost cutting measures, it may be that higher-income clients can subsidize those with lower-incomes. For example, at the Aravind Eye Hospital, paying customers are charged a consultation fee as well as the cost of the operation….while 30% of the customer base is charged nothing. Customers can choose between "A class" rooms at $3 per day to "C class" rooms at $1 per day--essentially a mat on the floor (Rubin 2000). The Lumbini Eye Care Program follows the same methodology; proceeds received from those who can pay are used to provide free or subsidized service for those who cannot.

3. A third factor is to meet the criteria of a high-ranking need among low-income consumers. The poor can afford products and services, but the product has to register as a need greater than other competing needs and wants. Typically, this means emphasizing functionality over features, although this is not to say that the low-income customers won't be choosy; unfashionable or poor quality products may not meet with success. Low Cost Eyeglasses states that its strategy is to "Simplify the number of touches and cost in the value chain without sacrificing style" (www.lowcosteyeglasses.net). Project Impact refers to its hearing aid product as "cosmetically acceptable," a quality important for sales (Green 2002). When considering fashion, it is important to understand what consumer preferences are. Neil Houghton of Low Cost Eyeglasses notes that "Fashion and trends [in developing nations] are heavily influenced by the U.S. and Europe," and that the there may be a disconnect with local trends (Houghton Draft Notes 2001).

But if a new kind of product is offered, even where fashion and need are combined, it still may be necessary to create demand. "Market driving," a termed coined by Philip Kotler, a professor at the Kellogg Graduate School of Management at Northwestern University, refers to the creation of a need that didn't exist before (Rubin 2001). The Aravind Eye Hospital, for example, must practice market driving. It's employees usually have to visit many villages where residents are unaware that improved vision (through eyeglasses or surgery) is even possible.

"They put a pair of glasses on people for whom the purchase represents a day-and-a-half's pay. They can't believe it. Often they can see clearly for the first time in their lives. They usually say 'thank you' and go away with the glasses on. The next day, they come back ready to take the purchase. This is how we sell 1,000 pairs of eyeglasses per day" (Rubin 2001).

4. A fourth criteria for success is partnership building. According to David Satterthwaite of Prisma Microfinance, "the tough part was to find a good partner." Yet he managed to find a local Nicaraguan to take on a key role in his company (See Exhibit 4). Indeed, he credits local partnerships as the reason for his success. Monique Maddy of Adesemi says that it was extremely difficult to find a good local partner (Maddy 2000). Her company eventually wound up providing a small stake in Adesemi to a local elder statesman. She suggests that local partners be required to invest their own capital and that entrepreneurs conduct serious due diligence to ensure that those who say they can deliver can (Maddy 2000). And she suggests to be choosy; "There are scads of local businesspeople eager to join forces with credible foreign entrepreneurs and investors. When seeking a partner, remember that [the entrepreneur is] in the driver's seat" (Maddy 2000).

5. A fifth strategy would be to capitalize on the profit motivations of locals, including local businessmen/women and local financial organizations. Low Cost Eyeglasses, for example, seeks to use microentrepreneurs who will be expected to put up their own capital (obtained in part through local banks and lending

institutions) to undertake the business and purchase equipment that will (ideally) produce lenses on-site. Grameen Bank follows a similar strategy: In Bangladesh, it makes loans to local entrepreneurs who purchase phones and rent them out in rural areas, where almost no one has access to a phone. Rural phones in Bangladesh generate more revenue than urban ones, however this is only possible by bringing in local entrepreneurs, who have existing networks and who (for a foreign firm) are more familiar with the culture and language of the targeted region (The Economist 2001).

6. A sixth success factor is customer relationship building. Prisma Microfinance's Satterthwaite argues that a critical reason for its success where other microlenders have failed is the strong relationship it maintains with its customers (Satterthwaite 2002). In Latin America, were his company is located, relationship building is especially important, and where repayment of loans is required, those relationships can mean the difference between customers who repay and those who do not. However, this has important implications for scalability. Prisma Microfinance has plans for expansion, but the company also knows that its small size has been an advantage. Satterthwaite admits that "institutionalization becomes harder."

   Indeed, Grameen Bank may be a perfect example of why institutionalization often doesn't work. As the Bank grew, relationships became more standardized, and borrowers became more rebellious, protesting mandatory deposits and threatening not to pay off loans. Grameen responded by relaxing some of its stipulations and instead created new loan products—housing, education, etc. Nevertheless, borrowers simply used one loan to pay off another. As a result of these problems, in 1997 over 4.6% of Grameen's loans were more than two years overdue, many of which have since been refinanced or rescheduled under flexible terms to encourage repayment. According to a foundation known as PKSF established by Grameen to distribute funds to foreign microlenders, if Grameen had followed the same accounting guidelines it requires of other microlenders, Grameen would have produced a loss of more than $7.5 million for 2000 instead of its reported profit of less than $200,000. Thus, being big does not necessarily imply being better.

The Role of Technology

Most people these days think of new enterprise as being linked to new technology is some fashion, however this cannot be taken for granted when the customer is a low-income consumer in a developing nation. Such a consumer may be lucky to have electricity in his/her place of dwelling much less have access to the most basic of technologies. Thus, a high tech product might not be viewed as relevant to this consumer. There might even be a fundamental apprehension of anything modern and a distrust of foreign products that the consumer does not understand. Nonetheless, the use of high technology solutions for low-income areas can be profitable. Voxiva, Project Impact, and Low Cost Eyeglasses are all using high technology to meet unusual needs in low-income areas. So is Agro-electric Adequate Technology Systems, a combined for-profit company and non-profit organization operating in Brazil that installs solar electric systems in rural areas. By packaging solar energy with electric fencing and managed grazing techniques, Agroelectric is able to offer poor rural dwellers a livelihood while simultaneously attacking environmental degradation in delicate grasslands (Schwab Foundation, 2002). Indeed, high-tech solutions may at times prove more attractive than low-tech solutions in developing countries. For example, mobile phones have extra advantages in developing countries, because they are less expensive than installing a payphone in a remote village. Credit issues are also bypassed. Poor people are typically barred from opening accounts with traditional telephone companies because no one trusts them to pay their bills, however with mobile phones they can buy pre-paid cards (The Economist 2001).

Not all good ideas are high-tech, however. In Asia, entrepreneur Takao Furuno figured out a way to use ducks to improve the yield of rice paddies in an environmentally-friendly way (Schwab Foundation, 2002). Another idea is the Hippo Roller, a plastic barrel with a handle that can be filled with water, placed on its side, and pushed along like the wheel of a wheelbarrow. See Exhibit 5. Women in Africa have found they can roll four times as much water in a Hippo Roller as they used to carry in buckets on their heads, allowing them to make a smaller number of daily treks to a water source (The Economist 2001).

Financing the Ventures

One of the toughest challenges facing any entrepreneur with a good idea and not a lot of cash is obtaining the necessary capital to move forward. However, for an entrepreneur who has a second social objective and intends to sell his/her product to the third world, this can be especially daunting. For one, venture capitalists or other potential funders may be hesitant to provide funding if the motive is anything other than 100% profit-driven. According to one entrepreneur who's fuel cell technology offers environmental benefits, he did not emphasize those benefits when selling the product to potential investors (Randjelovic 2001). "Many green people think that it is enough to make green and not to make money," he said, supporting his reason not to use environmental claims for the product. If he approached investors with the "green story," he claims, they would not have paid attention to him (Randjelovic 2001). Additionally, while venture capitalists understand that high risk is to be expected, they likely have limited experience in developing nations. "[They] frequently are not as well versed in the intricacies of doing business in these areas. Often they have trouble understanding how horrendous the bureaucratic morass in certain emerging-market countries can be" (Maddy 2000).

Social venture capital funding is a recent development; this includes venture capital (VC) funds established for the purpose of investing in businesses with profit potential and with a social side benefit. Examples include the Energy & Environmental Capital Network(www.ecn-capital.org), Investor's Circle (www.investorscircle.net), and Commons Capital (www.commonscapital.com). Nevertheless, most of these firms tend to focus on firms from the first world producing high profit items for first world consumers, such as fuel cell technology for electric vehicles. Such an idea may also be attractive to other types of venture capital firms. Thus, the social VC firm provides little value-added or risk-taking above and beyond what typical VC firms would provide. According to [removed], "I'm just not convinced that socially responsible investment exists," based on his experience seeking funding from such firms ([removed]). According to Houghton, there is perhaps an estimated total of $50 million available through all the social venture capital funds, a pittance compared to the overall venture capital industry (Houghton, 2002).

Other potential sources of funding include non-profits, government grants and loans, private foundations, and angel investors. Nonprofits that can provide some funding for social entrepreneurship include the Schwab Foundation (www.schwabfound.org), Endeavor Global (www.endeavor.org), and E&Co (www.energyhouse.com). These nonprofits have limited funding, however, and it appears much of their funding is targeted at not-for-profit "entrepreneurs." E&Co, a non-profit that focuses on supporting environmentally sustainable energy enterprises in developing countries, suggests that it is also necessary for the large multilateral entities like the World Bank, IFC and GEF (Global Environment Facility) to support such projects, but that those entities tend to "sit around waiting for 20% dollar denominated IRRs that don't exist" (E&Co).

Monique Maddy of Adesemi recommends stearing clear of funding from what she calls "do-gooder" multinational banks and quasi-government agencies that provide equity and loan capital for idealistic purposes (Maddy 2000). While they tend to understand the low-income market better than the venture capitalists (and such entities are familiar with government rules and regulations in developing countries), "they are terrified of risk and deeply enmeshed in bureaucracy" (Maddy 2000). While these organizations may claim to look for profitable ventures, she argues that they are not really looking for big paybacks on their own investment, because if by chance they get a huge return, "that might even jeopardize their own funding" (Maddy 2000). Maddy blames risk-adverse government funders for the failure of her company. They pulled the plug, she claims, before she could prove that the concept would work (Maddy 2000).

It seems that angel investors, who on an individual basis may understand what the entrepreneur is trying to accomplish, are an attractive option if they can be found. Prisma Microfinance funded their operation through the use of angel investors, and Low Cost

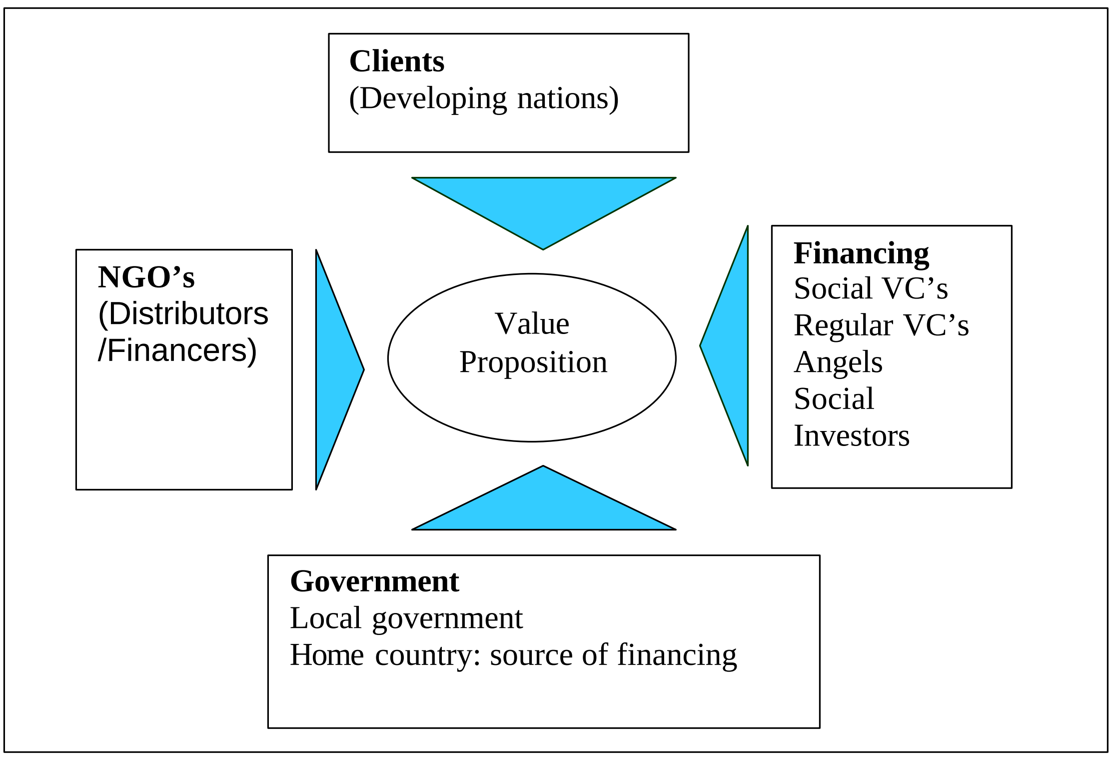
Eyeglasses has indicated a preference to do the same (Satterthwaite 2002 and Houghton 2002). Houghton especially noted the "large number of hoops" required by government funders, and has sought socially responsible angels before following up with the venture capital firms (Houghton 2002). However, it may be tough to sustain a large amount of such capital if a normal return in the area of 30% is expected. This is what Prisma Microfinance is paying to its angels, however the maximum interest rate it can command for its loans to customers is approximately that same percentage. Thus, it remains to be seen how a sustainable profit can be made without additional sources of lower cost capital.

The capital problem is compounded by firms without access to the financing mechanisms located in the developed world. Bio Solutions, a start-up biotech firm located in Thailand is a case in point. The company developed a pill containing bacteria that eat shrimp excrement and thus contribute to more environmentally-friendly shrimp farming, but the company could not obtain any external seed money as there are hardly any venture capitalists in Thailand (The Economist 2001). Instead, it received funds from the company founder's family, which clearly has its limitations. A young Thai with a good idea but no connections would probably not find any funding, and this is likely true in many other countries. Also, there may be a lack of sophistication when it comes to searching for funding. According to Satterthwaite of Prisma Microfinance, as good as his local partners were, he still had to teach them how to go about looking for funds (Satterthwaite 2002).

One other possible solution is to develop a more complex structure that combines for-profit and non-profit entities. David Green, the founder of the Lumbini Eye Care Program and Project Impact, has made his ventures work through just such an arrangement. In each case, he first creates a non-profit that can more easily receive funds from private foundations, etc. Later on, he creates a for-profit entity that reaps the profits of the undertaking. In order to avoid a conflict of interest, however, Mr. Green does not hold an equity stake in the for-profit venture. Thus, he will never become wealthy. That seems not to bother him, however. "Compassionate capitalism (which he claims influenced the development of his projects) is capitalism that understands that profit is the *means* to an *end*, not the other way around--as has become fashionable in our times. It is capitalism that evaluates itself in terms of its benefits to society, not just its bottom line" (Green, e-mail, 2002).

Green is not alone. Agro-Electric Technology Systems uses a joint for-profit and non-profit institution. Even Grameen Bank receives some subsidies in order to offer below-market interest rates. According to Professor Dees, "These partnerships and hybrid structures can help alleviate some of the potential tensions between profit making and social benefit. It is often very hard to take social objectives seriously and still provide a market-rate return to investors" (Dees, 2002).

Stakeholder Map



Additional Challenges

A number of key additional challenges confront social entrepreneurs:

?? Distribution. Gains in the distribution network in one country may not necessary carry over to another country. According to Monique Maddy, it is best to start in one country and grow incrementally (Maddy 2000). Partnerships with local NGOS or other organizations may be necessary. However, NGOs may provide limited results ("They never even answered the phone," says Houghton) or differing objectives (Satterthwaite describes first world NGOs operating in developing nations as "Imperialistic [and] condescending" (Satterthwaite, 2002).

?? Marketing. A product sold to low-income clients may not support a large advertising budget. Alternative methods to build awareness may be required (Houghton, Draft Notes, 2002).

?? Lack of information about the market. How can one sell to a client that he or she does not know or understand? A foreign company with "do-gooder" ideas may encounter a very strong disconnect between what will sell and what is believed to be best. An example of this comes from a series of Western companies that make artificial limbs for Afghans who lost limbs due to landmines during various wars. Besides being too expensive, the limbs prevented squatting or cross-legged sitting and came with an attached "shoe" unsuitable for the rural poor (Dhillon, 2002). Eventually, inventors from India created a prosthesis more suitable to the cultural norms of Afghanistan.

?? Competitive pressure. This can be a problem even in the third world. Grameen Bank is a perfect example of this; one reason for its repayment problems is that borrowers now have a choice. "Shopkeepers playing cards in the village of Bagil Bazar can cite from memory the terms being offered by seven competing microlenders" (Pearl & Phillips, 2001). A profitable idea will bring other players to the table, even in the most isolated areas.

?? Inability to reach the target market. In order to reach the extreme low-income consumer, it is necessary to go where the low-income consumer is. And that may mean urban slums or hard to reach rural areas. An attractive product or service may likely prove attractive to everyone in a country, including the small pocket of wealthy consumers in the capital city, but to reach the low-income target market, one may need to work a bit harder.

?? Failure to identify and connect with early adopters (those most willing to try a new product or service for the first time) and opinion leaders (those who are looked to or sought out for their views and insights by slower adopters).

Companies /Areas with Potential

It is worth mentioning that there are a number of firms operating in the first world with clear potential to take their operations to the third world. One is Sea Power (www.seapower.cc), which has developed a wave system to generate electricity in coastal economies. Or Wise Toad, which has developed a voice devise to assist in literacy training. Certainly, areas with potential include biotechnology, if the technology can be used to create a way to increase food production or cure third world diseases (The Economist, 2001).

Conclusions

Based on the insights provided by the businesses included in this paper, I shall offer 1.) my thoughts on the viability of social entrepreneurship in developing countries and 2.) my ideas on how I would go about starting a similar venture.

First of all, while I see the inherent potential of selling to such a huge market, I think it will take an extremely unique product to have profit potential on a large scale. The fact that there are so few businesses that are profitable, and that even these companies operate on a fairly small scale is telling. It appears that the barriers to entry are extremely high, given the difficulties of reaching such a market and the low profit margin. However, that such companies have managed to succeed at all is a tribute to the fact that it can be done. I also look to the large multinationals—I imagine that the Coca Cola Company wondered, once upon a time, how they could make money in the developing world. Yet the Company managed to develop one of the largest distribution and sales networks known to mankind. I also look to the local companies, the national firms that often dominate the market in one particular good, who have managed to get their products to the most remote rural corners of their respective countries. Based on the success of multinationals and large local firms, I am convinced the same can be done with a “social” product or service.

But how would I do it? Based on my own experience living and working in a rural area of a developing country (Guatemala), as well as on the insights from the businesses included in this paper, I would do the following:

1.) I would start by offering the proposed product in one developing country, preferably a country I know and understand well, and preferably one I would have chosen based on the willingness, primarily, of the local government to support such a venture. The government, to me, stands out as the entity that would be most likely to single-handedly kill a project. Thus, knowing and understanding the local bureaucracy is key. Once I had achieved a measure of success in one country, and only then, would I consider expanding to another region or country.
2.) I would try to form some kind of joint venture with a company located in the third world. This paper has primarily explored foreign companies addressing a problem of the third world, however local companies have ideas as well and best understand the plight of the country. In addition, they know the culture, language, and likely have existing networks.
3.) I would focus on a product that uses a higher level of technology, if possible, and is therefore more difficult to copy. While I agree that low-tech solutions can be profitable, the lack of intellectual property rights would, in my opinion, would immediately threaten the profitability of anything that can be easily replicated.
4.) I would seek financing and expertise from one or more mature multinationals with products/services in similar areas. While the danger is that I risk losing control over the venture, there is more than one reason for seeking help from a multinational: 1.) multinationals have a “global knowledge base” (Prahalad) which includes experience in many developing countries; 2.) They have deep

pockets;[3] 3.) They may have existing distribution channels and established infrastructure; 4.) They have the clout required to help bring together numerous parties and work through larger problems using their connections; 5.) Their investment could be justified in part because product innovations that occur for this market can be adapted and used in the developed world market as well (Prahalad & Hart); 6.) They are in an ideal position to bring the product into more unfamiliar terrain by using their networks.

5.) I would try not to lose sight of both goals: profitability and a social side benefit. Profitability is key—the more I sell, the more benefits I bring to those who buy the product/service and the more likely that my company could continue to grown. But also, I would try to remember what I was trying to achieve through the side benefit, and keep my own social objectives in mind. Dr. Venkatswamy of the Aravind Eye Hospital is an inspiration in this regard. He says, "I don't run a business. I give people their sight" (Rubin 2001). See Exhibit 6.

In the Wealth of Nations, Adam Smith said, "I have never known much good done by those who affected to trade for the public good. It is an affection, indeed, not very common among merchants, and very few words need be employed in dissuading them from it" (Chpt. 2, page 2). Perhaps it is not so common to find those who undertake a business with a social benefit. But one person with a good idea can have a great impact, and I for one intend to learn more on how to accomplish that.

"Your soul is tested more in the depths [e.g. with low-income peoples in developing nations] *than it is at the heights"*
(Rubin, 2001)

[3] Monique Maddy argues that if she just had one patient, deep-pocketed investor willing to go the long haul, her business would be operating profitably today (Maddy 2000).

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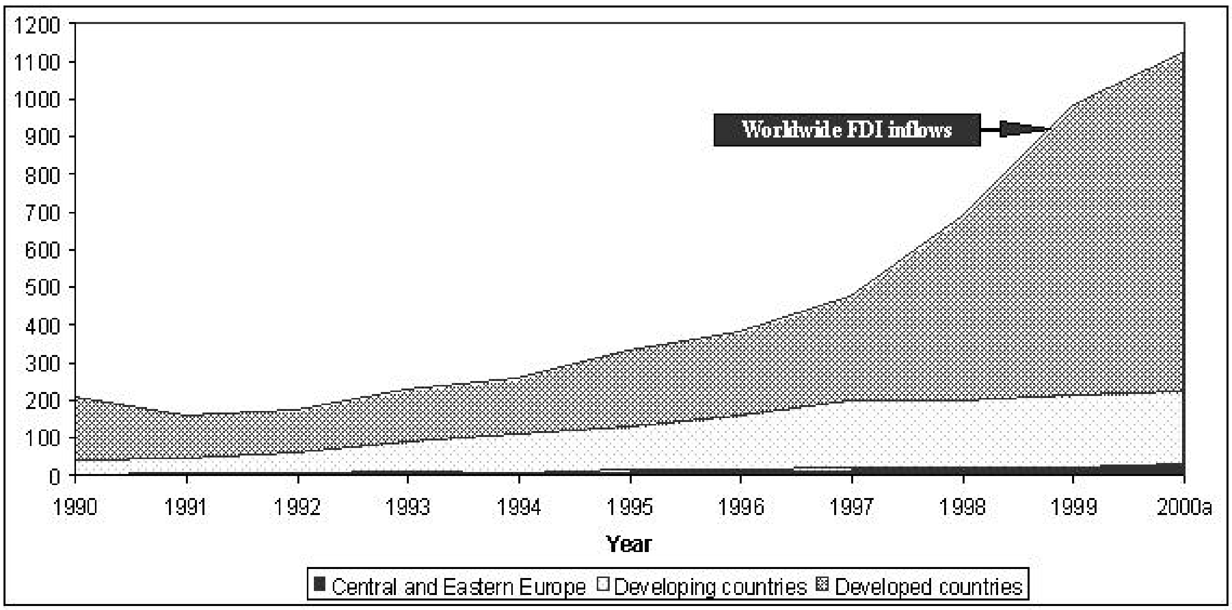
Exhibits

Exhibit 1: FDI in developed and developing nations

Table 1. FDI inflows by region, 1990-2000[a]

(Billions of US dollars)

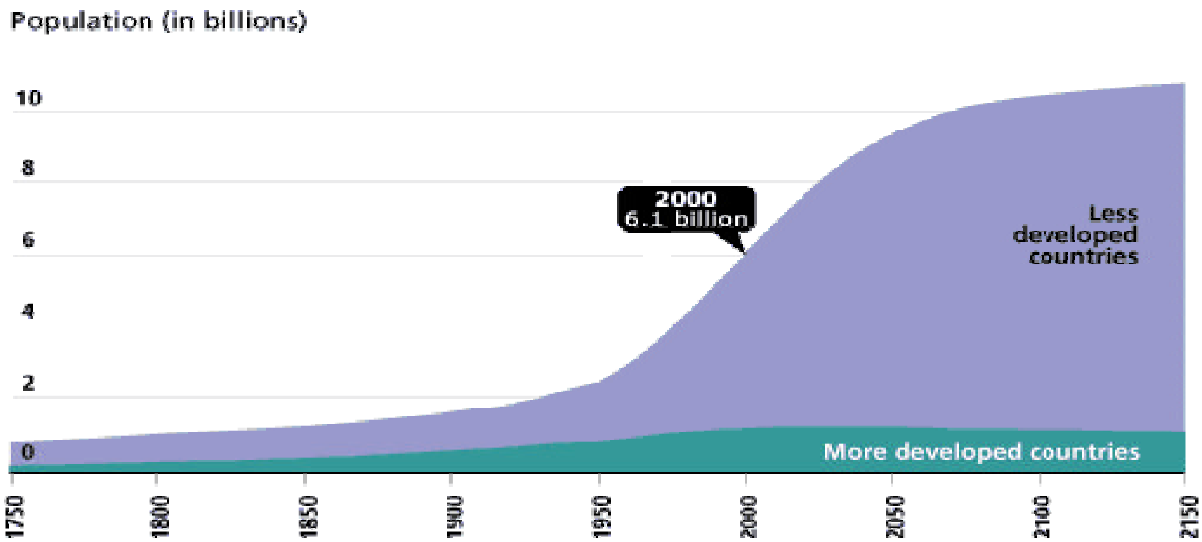


Region	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000[a]
World total	209	160	172	226	256	331	377	473	683	982	1118
Developed countries	172	114	113	139	145	204	220	276	485	770	899
Developing countries	37	43	55	81	105	112	145	178	178	190	190
Central and Eastern Europe	1	3	4	7	6	14	13	19	20	21	30

Source: UNCTAD, FDI/TNC database.

[a] Preliminary estimates on the basis of 50 major host countries (22 developed and 28 developing countries) and Central and Eastern Europe as a region.

Exhibit 2: Population growth in developed vs. developing nations



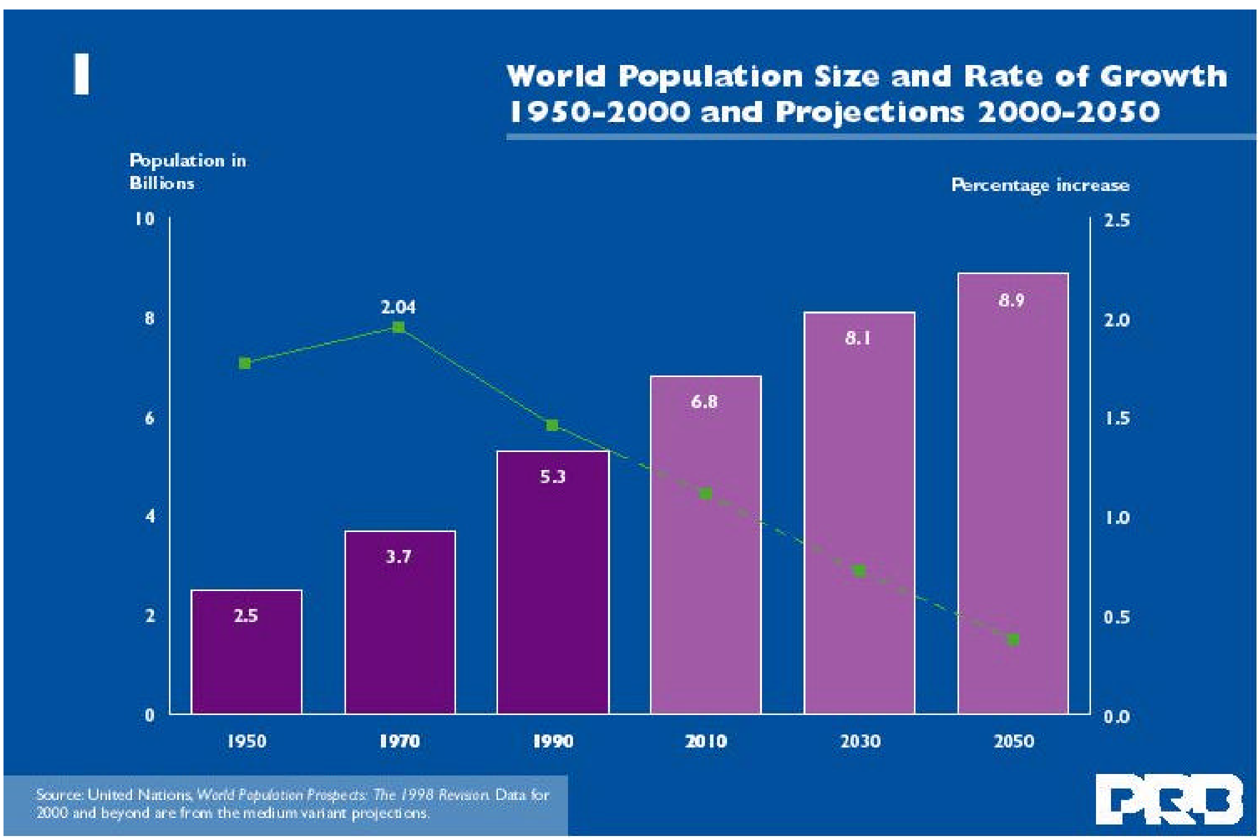


Exhibit 3: Prisma Microfinance Growth

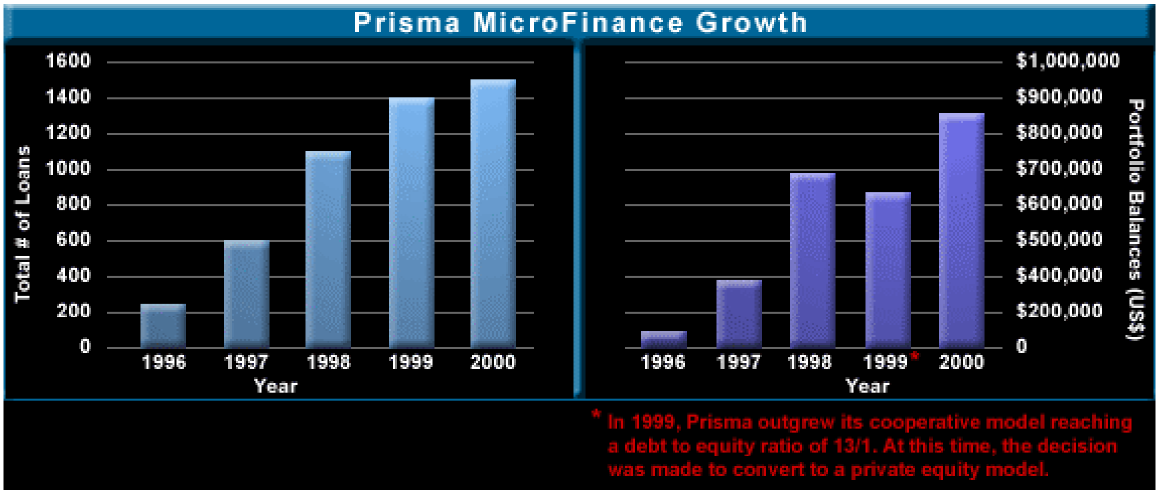


Exhibit 4: David Satterthwaite and partner Roger Aburto, Prisma Microfinance

Exhibit 5: The “Hippo” in Africa

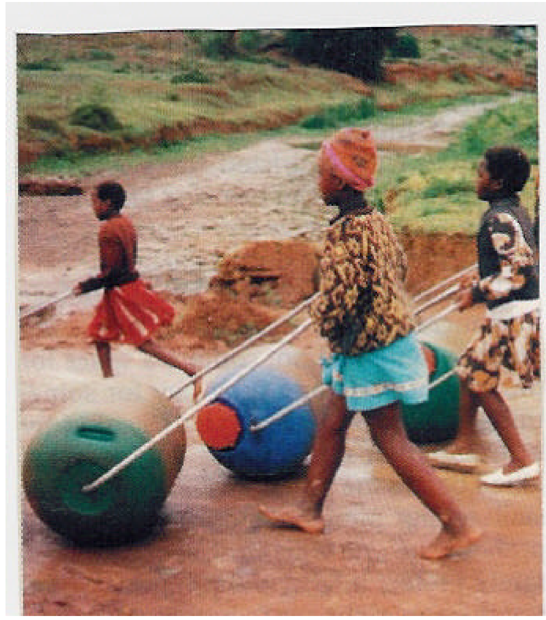
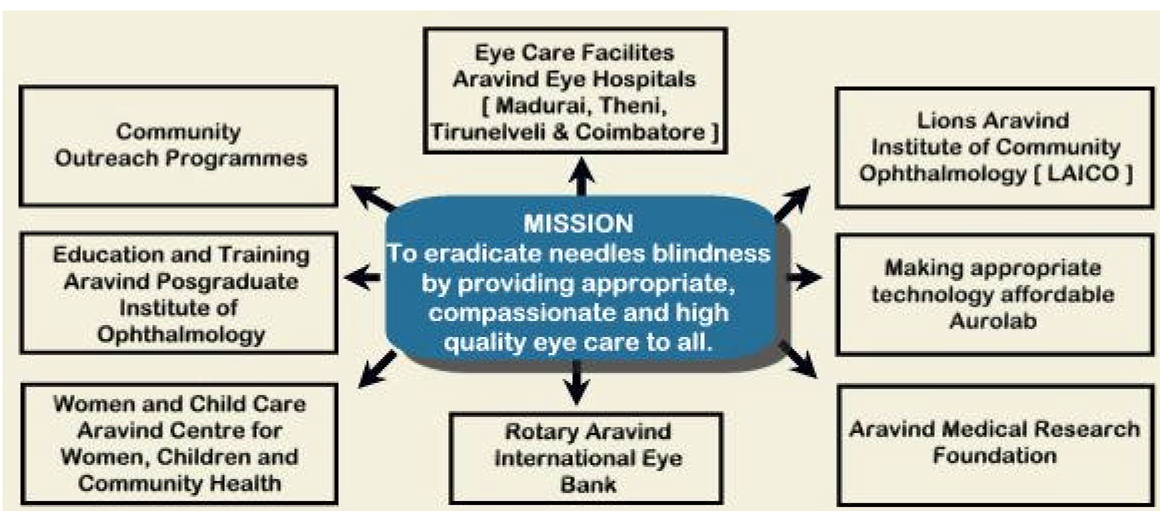
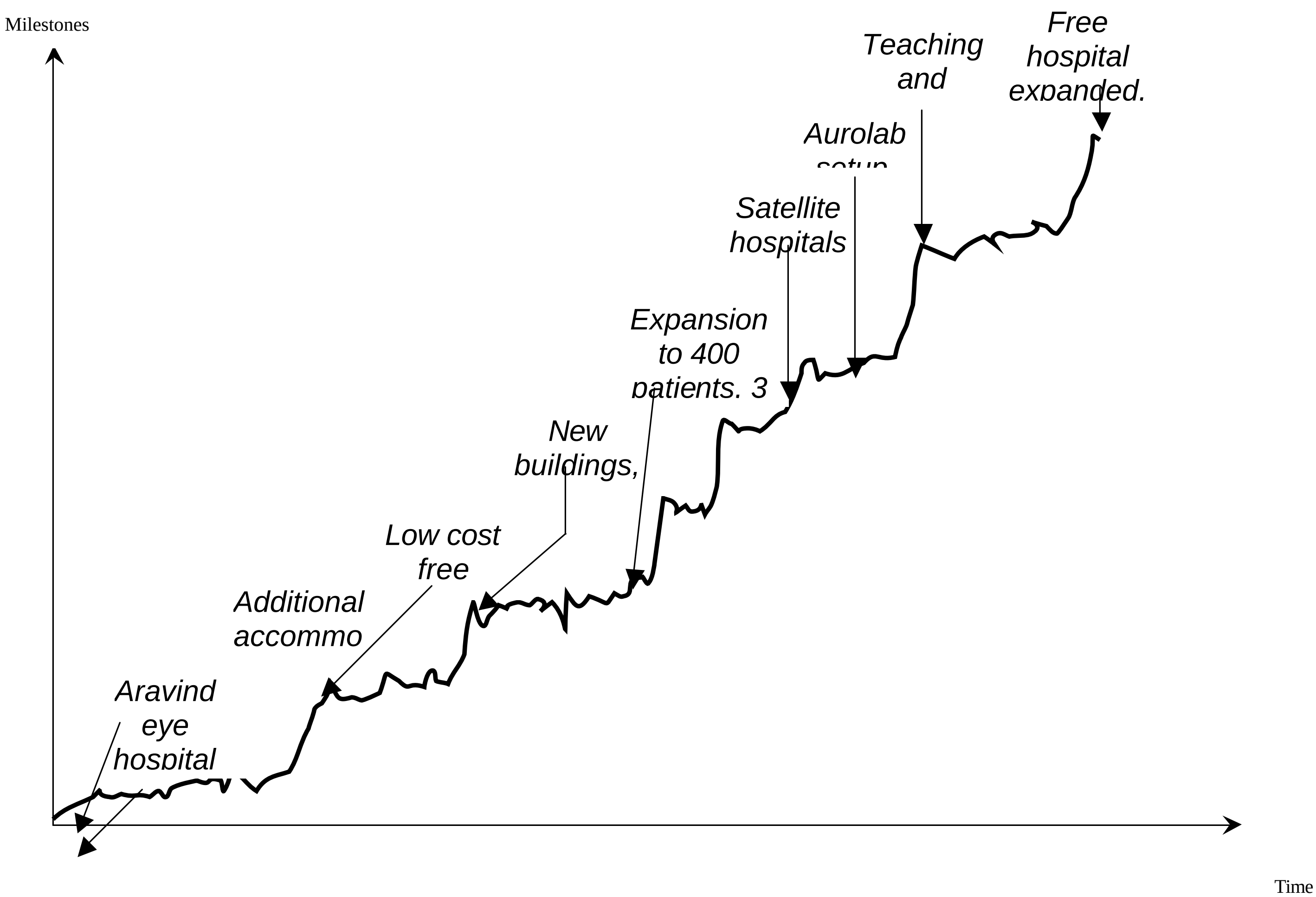


Exhibit 6: Aravind Eye Hospital, Madurai, India and mission



Gradual growth of a profitable firm as demonstrated by Aravind Eye Hospital

ILLUSTRATIVE



1976-2001