

WHITE PAPER

SOCIAL BUSINESS

The path to entrepreneurship for the common good



LA FONDATION

GRAMEEN CRÉDIT AGRICOLE

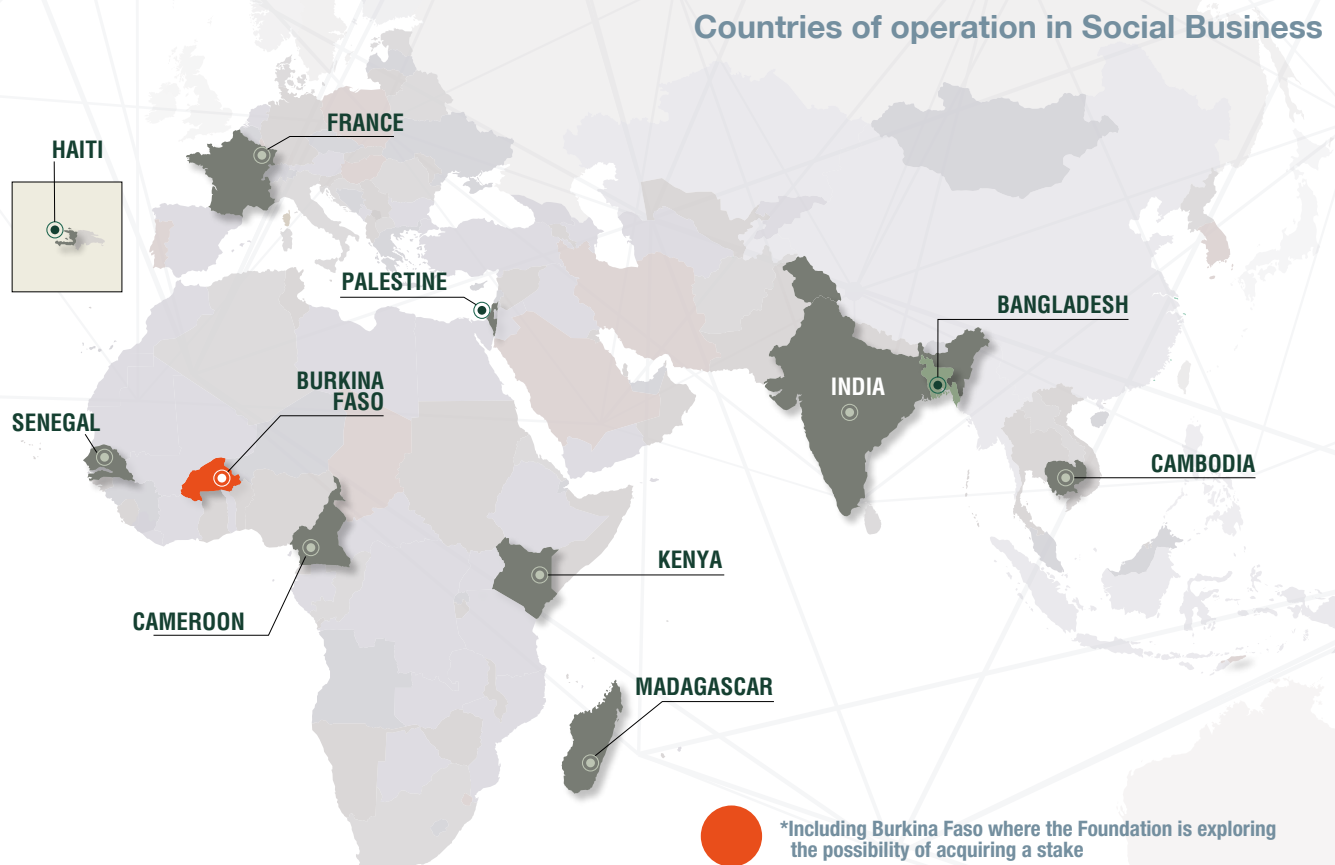
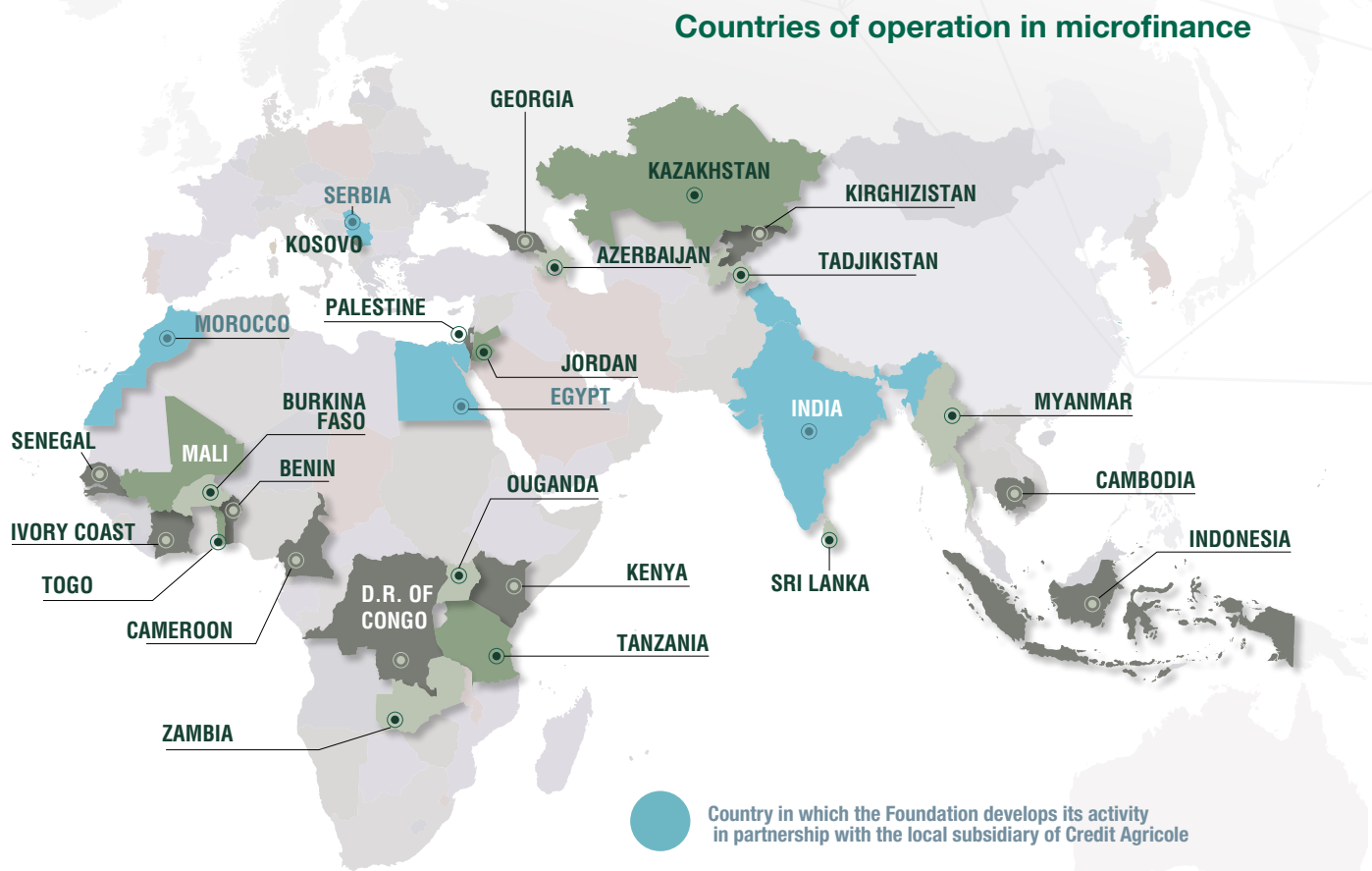
WHO ARE WE?

The Grameen Crédit Agricole Foundation is an international reference player in the fields of inclusive finance and social business. Its mission is to improve the economic conditions of populations in emerging and developing countries. With a range of financial products and dedicated services, it finances, supports and strengthens social businesses.

Present in 30 countries, the Foundation operates mainly in rural areas. Its activity relies on a network of 60 microfinance institutions it is currently funding.

Founded in 2008 by the leaders of Crédit Agricole SA and Professor Yunus, Nobel Peace Prize, the Grameen Crédit Agricole Foundation is also involved as a shareholder in 15 social business companies, i.e. social entrepreneurship, in emerging countries. With 8 years of experimentation, the Foundation now draws lessons and presents ideas for the development of social business through this White Paper.

Operator of excellence and a recognised expert in its field, the Grameen Crédit Agricole Foundation disseminates a responsible vision of the liberal economy. It works in partnership with public and private development institutions, as well as Crédit Agricole Group entities and subsidiaries.



MICROFINANCE KEY FIGURES AS OF SEPTEMBER 2017

27

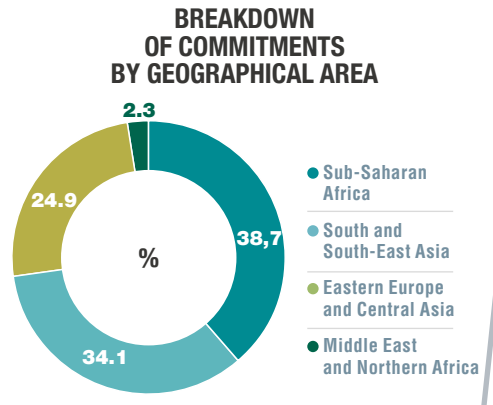
Countries of operation

€53.8M

Total amount of commitments

58

Number of partners



78.5%

of female customers

78.8%

of rural customers

78.7%

of investments in local currency

SOCIAL BUSINESS KEY FIGURES AS OF SEPTEMBER 2017

11*

Countries of operation

15

Number of partners

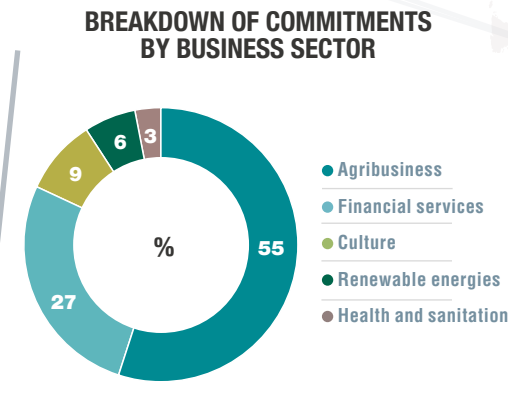
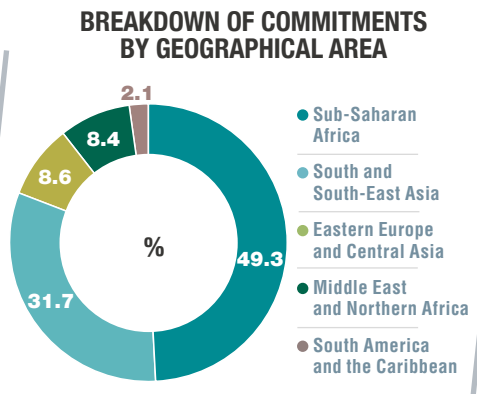


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Microfinance & Social Business

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ENTREPRENEURSHIP AND COMMITMENT FOR SOCIAL UTILITY

Éric CAMPOS

Managing Director of the Grameen Crédit Agricole Foundation

Half of the world's economic wealth is held by 1% of the population. The concentration of wealth in the hands of a few has never been so high ⁽¹⁾ and it continues to increase. This observation is harsh and outrageous. It challenges the basis of our economic and social beliefs: in the law of the markets the sum of personal interests does not lead to a naturally fair equilibrium; no, the sum of special interests does not converge towards the best possible general interest ⁽²⁾.

Finance is a regulated tool at the service of the economy, but we must admit that it feeds a mechanism that does not spontaneously lead to an equitable distribution of wealth. Making the rich richer does not benefit the largest number. The so-called "trickledown" effect is not as prevalent as one would imagine. On the contrary, recent studies ⁽³⁾ show that in order to achieve economic growth, it is better to seek to reduce poverty directly. . Although extreme poverty has declined in recent years, inequality remains a real danger that undermines our democracies.

It is a sensitive topic that we are addressing because it questions a historical principle of our modern economies: should the proceeds of capital benefit, first and foremost, the one who owns it? If we stick to this definition, the created value is not - cannot - be equitably shared among all stakeholders. These operating principles related to contemporary capitalism have certainly underlain a long era of economic development, albeit mainly through the exploitation of exhaustible resources.

The limits of our planet make us reconsider our production models, in order to control their environmental consequences, to seek renewable resources and, on a human level, to face the social consequences of our activities. We have reached an era of an economy that is now trying to combine the development of economic, social and environmental values.

Social and business: two words that everything seems to oppose. In the old economic paradigm where individualism triumphed and its consequence was general marginalisation, these two words were as a contradiction, a paradox -the whim of an idealist. And yet, their encounter, no matter how peculiar it is, is a key to the future, to rethink and redefine a more responsible form of capitalism and a voluntarily inclusive economy.

What is "social business"? Also referred to as social entrepreneurship, this is an undeniably renewed vision of the company. Experience shows that this model can be a great tool for social transformation, subject to the way it is implemented.

The "social business", like any company, is primarily a structure, an organisational framework for conducting a project. In the same way, it seeks to fulfil a prerequisite, which is to achieve financial profitability. Finally, like any other company, it operates a production tool, intervenes on a market, buys, transforms and sells, employs individuals, grows.

Equity investments with a social impact have often announced great stories, double-digit returns and miraculous effects. Experience suggests we should use common sense and good judgement through a more accurate reading of reality.

Microfinance institution **Komida** (Indonesia)

The social company is therefore classic in its search of profitability. It is also very different: because **social utility is its primary purpose**. Its way of creating lasting value does not lie in its ability to meet a market need, if possible with a competitive advantage, but rather in pursuing its social mission, the project of collective utility at the origin of its creation.

The concept of utility as a “service to the customer” is inherent in any commercial enterprise; it is also the driving force behind the creation of wealth. Sometimes, utility even has a social content, for example when proposing a low-priced offer to reach out to low-income customer segments. However, for companies, this remains a market utility, an efficiency strategy – which is not tantamount to social entrepreneurship projects.

The social business company exists only by and for its social mission. To this end, it includes its objective in the very establishment of its founding charter, that is to say, its articles of association. It is this first criterion that sets the company on the path to be a social business. It also has to commit itself to measuring the external effects it generates. The fulfilment of this second criterion is equally important.

Social utility is not just a goal. It is also an agent of change. It penetrates and permeates the company in the depths of its operation until it reaches its genetic heritage. As an additional gene, it “adds” a new capacity to the company: that of acting no longer in its sole interest but in that of the society as a whole. Its social mission becomes its *raison d’être*. This translates into a sort of contract the company concludes with its ecosystem, a starting point to build a future together.

This enrichment of the company’s genome structures the entrepreneurial dynamics. The search for a more balanced redistribution of value among stakeholders becomes an operating rule. The company naturally develops a governance and performance model that includes other temporalities than its own and modifies the evaluation of its results: social performance is added to financial performance, in a measurable form. At the same time, the ecosystem will also influence, by porosity,

the company, which, in turn, will transform its own internal functioning because it monitors and measures the externalities it generates. These behaviours are the vectors of a change - a mutagenesis - favourable to the emergence of a new capitalistic and entrepreneurial model.

Theorised by Professor Yunus, 2006 Nobel Peace Prize laureate, and mediated for the first time at the 2009 Davos Forum, social business has been tested as such for a decade now. Companies that meet its principles have been created and developed in many parts of the world. A still new and very diverse experience that continues to evolve.

Alongside Professor Yunus, the Grameen Crédit Agricole Foundation, of which he is a director, has played, from the beginning, a pathfinder role. The Foundation has often worked in partnership with other early players such as Investisseurs & Partenaires, Danone Communities or Engie Rassembleurs d’Énergies. Over the past 8 years, the Grameen Crédit Agricole Foundation has invested in the capital of fifteen social business companies around the world, mainly in the form of shareholding stakes. It got involved in a pioneering economic adventure.

In emerging markets, impact investing has often announced great stories, double-digit returns and miraculous effects. We affirm, without ambiguity, that this promise is an illusion, a pipedream. With some exceptions, social enterprise goes back a long way. To lead us to believe that one can reconcile business project, financial short-term, high returns and lasting social impact is simply unrealistic.

Successful social companies in the context of an emerging economy represent tremendous hope in terms of the man’s ability to reverse negative economic trends. But it is very demanding and requires to overcome countless obstacles. In addition to strict loyalty to the social contract, developing a social enterprise calls for humility, tenacity, stakeholder commitment ... and substantial equity. However, when the positive effects settle in their ecosystem, they bring us the hope for the renewal of the liberal economy.

We are today convinced that social companies open the door to reconciliation between the economic and the social. In a spirit of transparency, sharing and sincerity, we want to assess the results of our years of practice, imagine prospects and provide input for a debate because we believe in a model of social entrepreneurship that knows how to combine financial constraints and societal benefits.

This White Paper is our contribution for all those who do not wish to stumble over the obstacle of liberal scruple and who are concerned by the social business concept. ●

1 “Insatiable wealth: always more for those who have already everything”, Oxfam, January 2015, published ahead of the Davos Economic Forum

2 Models theorised by many economists, including Adam Smith and the theory of the “invisible hand”

3 IMF survey: increasing by 1% the income of the richest 20% tends to reduce GDP by 0.08% in five years, while increasing by 1% the income of the poorest 20% tends to increase the GDP by 0.38% (Report “Causes and consequences of income inequality: a global perspective”, IMF, June 2015). Another OECD survey also shows the negative impact of too much inequality on growth (Report “All concerned: why less inequality benefits all”, OECD, May 2015)

EXPERIMENTATION: THE KEY TO STRENGTHEN THE MODEL



Social business does not follow "turnkey" rules: there are almost as many models as there are situations. From the project to its realisation, the approach is primarily empirical.

A social business is a company that generates a clearly affirmed social utility, integrated in the core of its governance and operations. This utility is defined in annual objectives. They evolve over time, but the double measurement of financial results and social goals is always what determines the performance of the entrepreneurial project. The fairness in the distribution of value among stakeholders is also a fundamental component of the model.

A definition based on three criteria

What is social business, and how can it be defined? Eight years of a pioneering experience have allowed the Grameen Crédit Agricole Foundation to observe the fundamental principles. Also known as social entrepreneurship, social business is a corporate project where value and performance correspond to a collective dimension with a common goal, that of solving a social problem, while working in the best interests of all stakeholders.

Today, the Grameen Crédit Agricole Foundation provides its definition of the social business company through three criteria, three essential conditions that must be found at the very root of the business project:

1. A social mission at the core of its utility, its assets, its governance and its operations.
2. The development of annual objectives that outline the social mission and a rigorous assessment of the results achieved.
3. An equitable distribution of the value created.

In establishing its status, and therefore its *raison d'être*, the social enterprise is obliged to be accountable not only for the quality of its financial results but also for the nature and performance of the positive effects it generates.

A company in favour of social inclusion

Like any company, the social business has a capital, resources, and a production tool. It also seeks financial profitability. However, rather than creating wealth for its own benefit, it acts to the benefit of others by ensuring the equitable distribution of value among stakeholders, including its shareholders but also employees, upstream suppliers, downstream clients, funders, etc.

For social utility to be generated, it is imperative that the company create lasting value. This is its priority: its finances, its income statement must be balanced and its management sound. A financially fragile company, negative accounts, insufficient equity capital would necessarily reduce the ability of positive social externalities of the project, or even jeopardise it. Let us state it loud and clear: **the viability, performance and sustainability of the social company's financial model are the prerequisite for the fulfilment of its social mission.**

A company slightly different from the others

All companies generate externalities, i.e. effects on the ecosystem: local job creation, development of new technologies used in other sectors, carbon footprint, etc. A conventional business that respects the law is not accountable. By contrast, a social business company is accountable for the utility for which it commits itself. Some conventional businesses operate in emerging economies by targeting a clientele with very low incomes. Their activities may have a positive impact on the population (increase access to banking services, improve access to water...) but this effect is the result of their business model, not that of their objective. As far as it is concerned, the social enterprise considers that its financial performance is only a lever to achieve its objective of social utility.

The viability, performance and sustainability of the social company's financial model are the prerequisite for the fulfilment of its social mission.

The wide-ranging entrepreneurial activities of social business

Social business reflects the determination to change the established order so that the utility of the company and the value it creates benefit as many people as possible. Local issues and initiatives determine the diversity of companies.

Here are some examples:

- In **Cambodia**, as in other Asian countries such as India and Bangladesh, many rural areas have only arsenic-contaminated wells. Over time, daily consumption of this water causes diseases that affect the daily life of children (chronic dysentery preventing them from going to school) or even ones that are more serious (skin cancer, cancers of the bladder, kidney, lungs, gangrenes, vascular diseases, diabetes ...). To combat this scourge, **the social enterprise 1001fontaines** is installing mini-water treatment stations operated by microentrepreneurs recruited from village communities. These social entrepreneurs sell drinking water in 20-litre bottles: the proceeds from sales create jobs and ensure the technical and sanitary maintenance of the facilities.
- **Haïti** is experiencing massive deforestation due to the intensive use of firewood, leading to soil exhaustion and disastrous consequences for food supply. People are overexposed to combustion residues and harmful fumes in homes, particularly women and children. **The social company Palmis Enèji**, created by the NGO Entrepreneurs du Monde in Port-au-Prince, designs solar lamps and non-toxic cooktops at affordable prices and sells them via a distribution network adapted to the local economic fabric.
- In **Kenya**, 75% of the population lives off agriculture, most often subsistence farming, restricted by poor access to inputs and suitable technologies, high dependence on climate and low access to finance. **The social company Vert** is dedicated to promote small local producers: it provides technical assistance, brings them together and certifies organic labels. This allows them to sell their production on the European markets, which considerably improves their incomes and their living conditions.

As we can see, business models are not lacking. Some concentrate their actions on supply and processing, others adapt distribution systems, products, services. All have in common an incredible inventiveness, a certain genius that characterises frugal economies.

Major obstacles: market and competition

In a few years, social business projects launched here and there around the world have come face to face with reality. The initial inspiration - and perhaps a certain idealism - has given way to many difficulties: lack of infrastructure, lack of capital, the cumbersome nature of investments to be borne, the fragile situation of the sector or that of commercial outlets, etc.

How, indeed, in a liberalised and globalised market, can a company pursuing a mission of social transformation claim to be competitive against competitors who do not care? If social business is full of great stories, it also reveals, behind the scenes, difficult to reach financial breakeven and balance sheets as red as social operational impacts claim to be green.

This observation is not inevitable. It is part of the life of most businesses, especially those in the start-up phase. Using the same methods as start-ups, social business projects can also turnaround, transform and find ways of resilience through successive evolutions. As in all wise investments, we must look towards the future. ●

Social enterprise **Vert Limited S.A.** (Kenya)



ANALYSIS OF OUR PORTFOLIO OF SOCIAL BUSINESS INVESTMENTS

Immediate social effects...
For a still too fragile financial model

Social companies seek to transform the world by creating positive effects. It is a nice idea. The Grameen Crédit Agricole Foundation has analysed its equity portfolio: social results have indeed been attained but full accomplishment is proving complex and the projects' lifespan unclear.

A “crazy” challenge

When you want to improve the world whereas your competitors are looking to exploit it, you start off with a significant handicap. To use an analogy: you are the reckless marathon runner on the starting line who deliberately opts to take on extra weight. In other words, strong support will be very valuable to you.

Because it sets itself an additional moral mission, the social company must necessarily overcome more obstacles than a classical one. One way or another, it consumes more energy to achieve its goals.

Social entrepreneurs often wonder about the impossible equation that characterises this “crazy” bet on which they embarked. They have doubts about themselves and their project. They need to be reassured: all social companies we know face great, even very great difficulties. This is a foreseeable consequence of their project: reversing the established order while creating sustainable value requires supernatural energy.

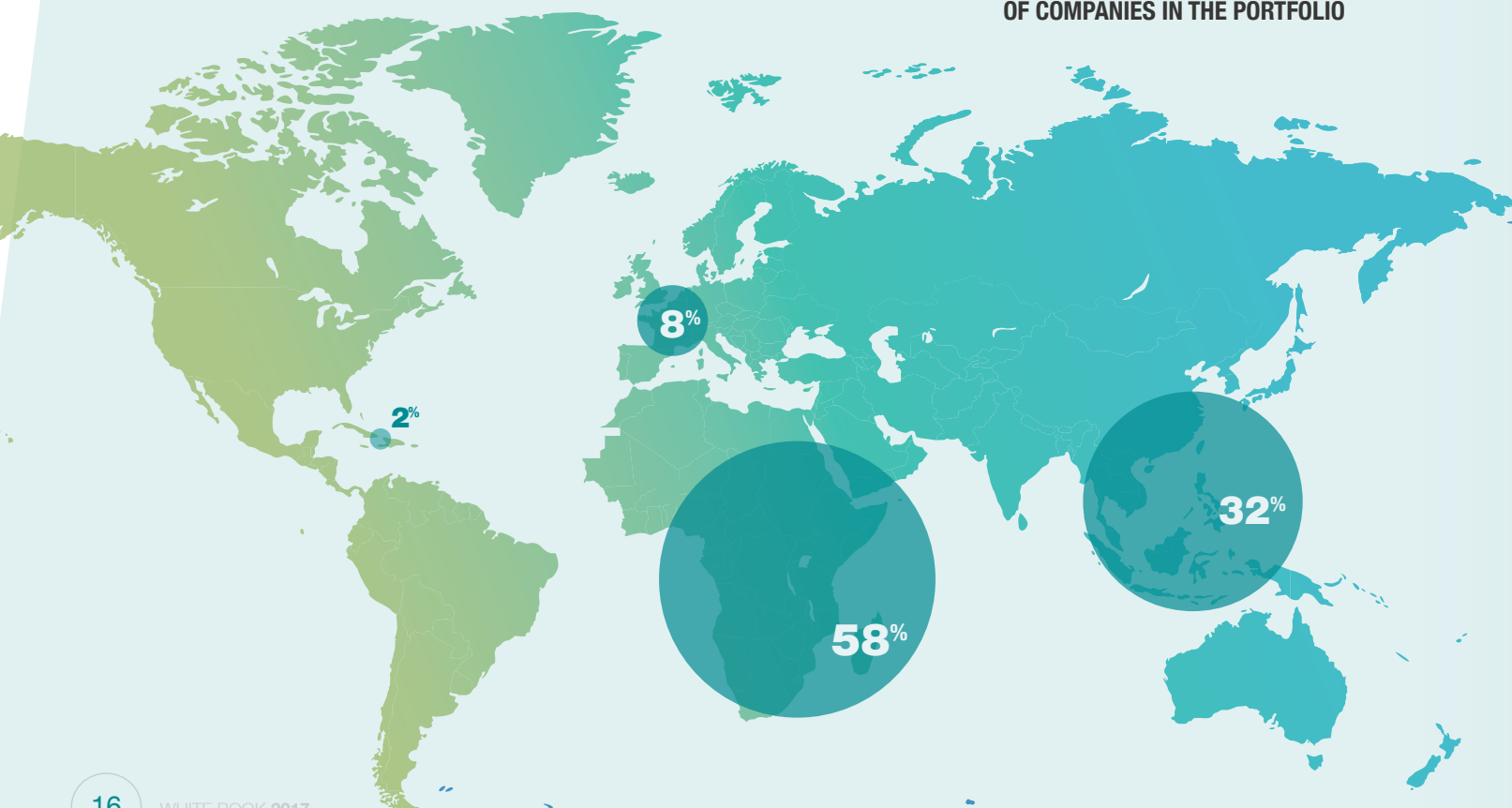
We can never stress this enough: social entrepreneurs are the heroes of modern economy.

Difficult profitability and losses

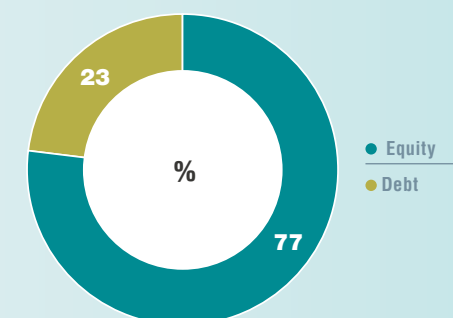
In 8 years, the Grameen Crédit Agricole Foundation has committed €6.2 million to 15 social companies, mainly in Africa and Asia. In each one of them, it has a position of active minority shareholder, which represents between 4 and 20% of the capital, and sits on the Board of Directors. In addition to its funding in the form of equity or loans, the Foundation is involved in the governance of these companies and is committed to supporting projects and business leaders as well as creating favourable environments for the development of activities. For the Foundation, experimenting social business is a fundamental work guided by a relationship that is extremely demanding, human and partnership-based.

Foundation investments: a diversified portfolio

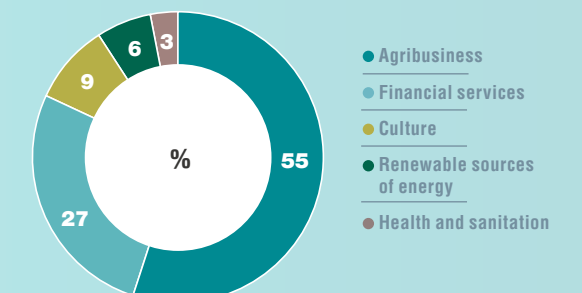
GEOGRAPHICAL BREAKDOWN OF COMPANIES IN THE PORTFOLIO



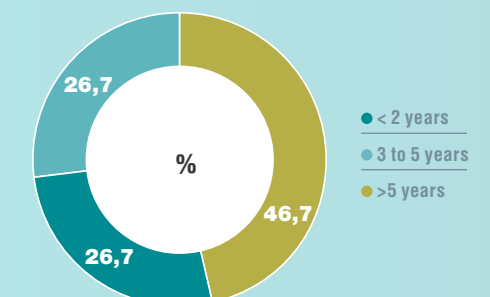
BREAKDOWN BY FINANCIAL INSTRUMENT



BREAKDOWN BY BUSINESS SECTOR



SENIORITY OF THE SOCIAL BUSINESSES AT THE INVESTMENT DATE

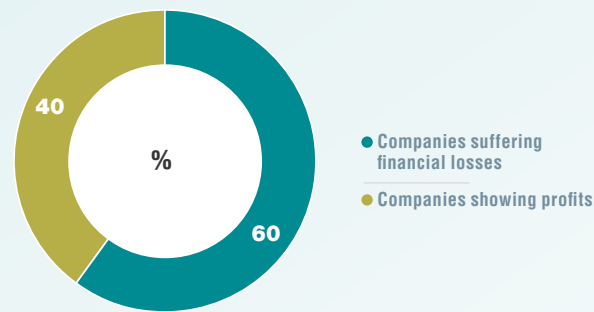


It takes time to achieve profitability in social businesses

60%
of companies
still post negative
net income

Of the 15 social companies in which we have invested, only 6 are now profitable. By restating exceptional accounting items, we can agree that one-third of the portfolio is potentially in a position to achieve a medium-term financial equilibrium. One-third is in a difficult situation, but we believe that the situation can be improved by taking strong corrective actions. The remaining one-third emerges as being in a compromised financial situation.

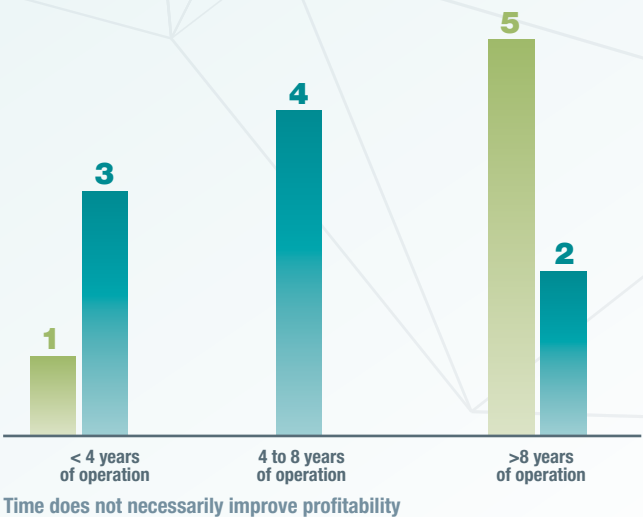
FINANCIAL PERFORMANCE*



All new companies suffer losses
There is no correlation between financial performance and line of business

* only two MFIs in which we have invested show profits (33% of profitable businesses are MFIs)

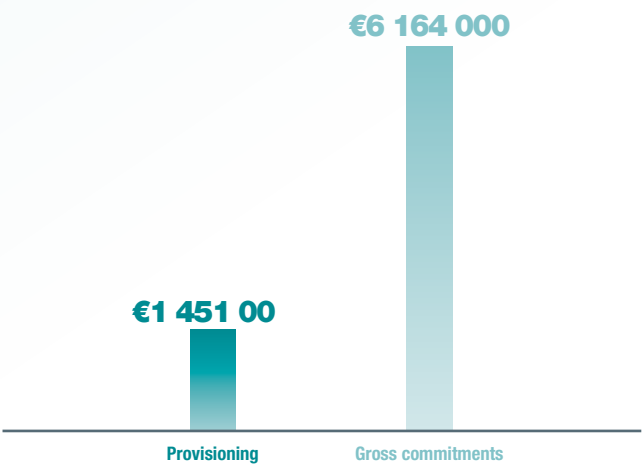
FINANCIAL PERFORMANCE BASED ON LIFE CYCLE



Investing in social business is more exposed to the risk of execution

In the investment sector, it is not common to show mixed results. And yet, this is what we chose to do. As of 31 December 2016, we have recorded provisions amounting to €1.45 million to support the foreseeable losses, i.e. 24% of the value of our portfolio. It is a statement of transparency, but food for thought. Contrasted profitability must be nuanced by many appreciations, which in turn lead us to redefine the social company and the potential interest it represents for the economy.

24% of the total amount
of our investments
has been provisioned



Microfinance Institution Chamroeun (Cambodia)

In social business, social utility is quickly demonstrated

Taking into account direct, indirect or collateral effects for all activities combined, the companies in which we are shareholders have already improved and continue to improve the living conditions of 2.6 million people (2016 data).

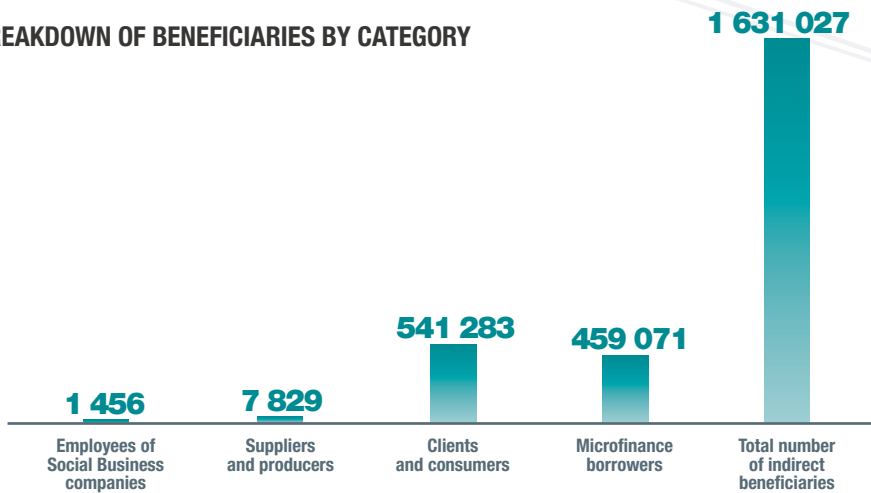
The number of beneficiaries varies between sectors: microinsurance (1 company) affects 1.8 million people (68% of the total impact); non-financial businesses (9 companies) impact 591,000 people (22% of the total); financial institutions (2 microfinance institutions and a crowdfunding platform) impact 253,000 people (10% of the total).

Our breakdown is the following:

- ▶ Direct beneficiaries represent 38% of the total impact: they are employees, suppliers, consumers and customers working with our partners.
- ▶ Indirect beneficiaries represent 62% of the total impact: they are the families of the economic beneficiaries (families of employees, suppliers and borrowers) insofar as they benefit, directly or indirectly, from the direct impact.

2.6 million direct and indirect beneficiaries in 2016

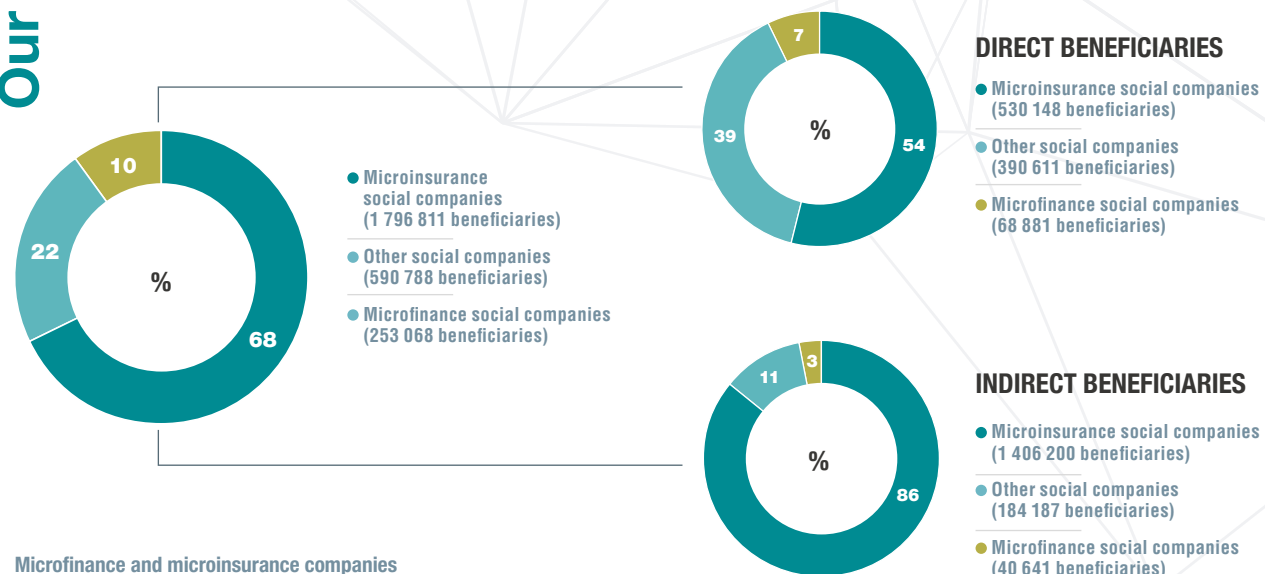
BREAKDOWN OF BENEFICIARIES BY CATEGORY



Our Analysis

Microinsurance has a very significant impact, in terms of beneficiaries

68% of the social effects of our portfolio, based on the number of beneficiaries, are generated by microinsurance



Our social business activities target both ends of the value chain

Upstream, social companies create jobs (1,456), often in isolated areas, generate or stabilise the income of producers or suppliers they help structure (7,829), and in some cases, finance micro-activities (459,000). Income-generating activities have a positive effect on families (1.6 million indirect beneficiaries), and help raise levels of social protection, health and education.

Downstream, the activities we support contribute to the improvement of living conditions of final consumers (541,283), for instance, by improving nutrition or allowing access to energy to light homes at night, cook, etc. At different levels, we help communities live better.

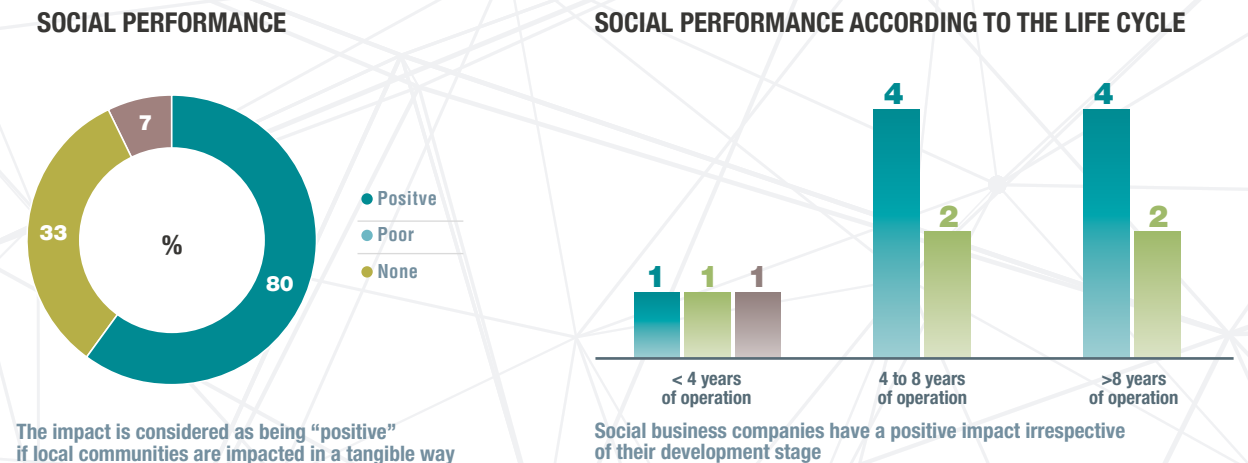
As a positive and inclusive approach, social business is a real success. The results obtained in terms of beneficiaries should be viewed in connection with the investment committed by the Foundation, i.e. €6.2 million.

The question of sustainability is, on the other hand, a major challenge for social business companies, who, very often, find it nearly impossible to find their balance, namely financial breakeven. The difficult progress towards profitability is often exacerbated by anxiety related to cash management to cope with current expenses and unforeseen events. However, although our experience does not necessarily reveal a miraculous recipe, it allows us to see some promising mechanisms.



Our Analysis

Social business companies have a social positive effect throughout all their life stages



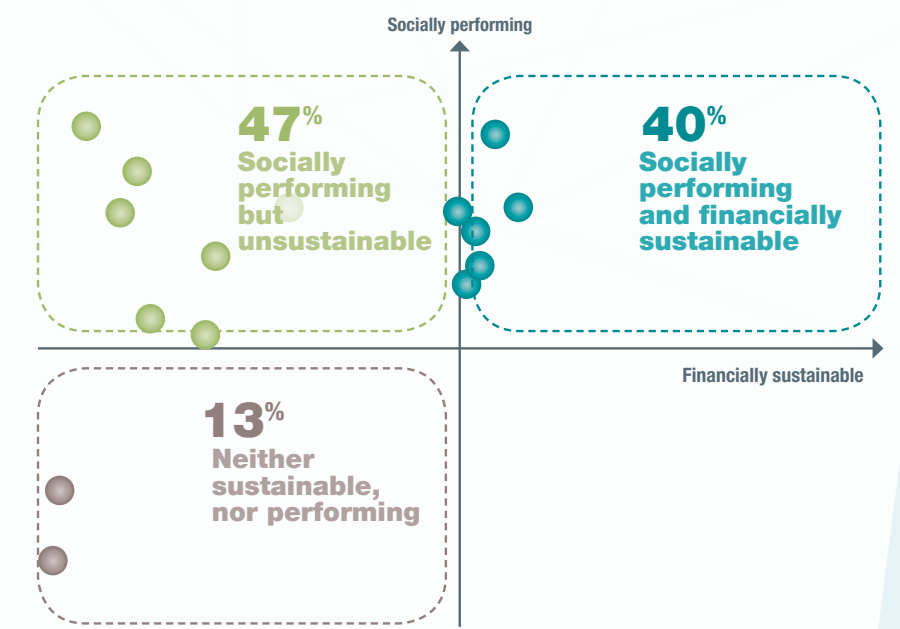
Most companies are socially efficient but need to be consolidated

Our Analysis

87% of social business companies in our portfolio generate positive impacts in their ecosystems

Agriculture and agribusiness, financial services, energy, health...

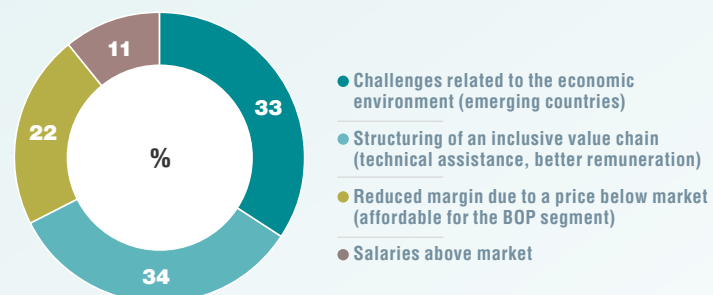
Emerging countries have strong needs. But whatever their activities, our social companies remain fragile.



Social business companies bear additional costs related to their social mission

The difficulties are caused by costs related to the achievement of the company's social objectives. Social business companies must reach their break-even point with specific constraints related to their social commitment (constraints on selling price, on stakeholder remuneration...)

TYPE OF OVER COSTS
FOR SOCIAL BUSINESS COMPANIES



Microfinance institution LOMC (Sri Lanka)

The pursuit of the company's social mission has to cope with many unforeseen events

Social companies face challenges at both ends of the value chain. Some of them are committed to bear upstream social cost (for example, structuring an inclusive value chain, choosing social rather than economic competitiveness).

Others seek to create downstream social value, by structuring an inclusive distribution chain or by ensuring access to basic needs for people excluded from the market (affordable selling prices, inclusive distribution networks...).

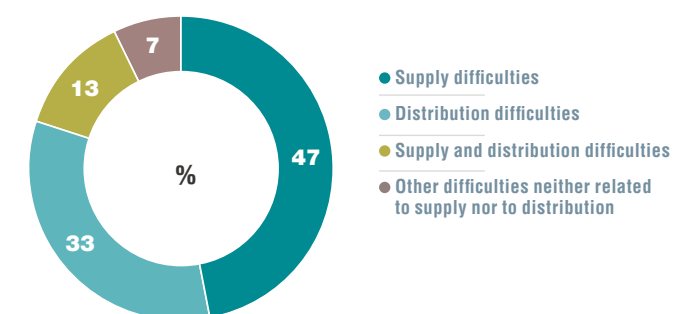
60% of our social business companies have to cope with unforeseen operational expenses

67% of our social business companies incur additional costs related to the structuring of an inclusive value chain, in addition to the conventional costs incurred regardless of the type of business

Social business companies frequently face supply or distribution difficulties

Seven social business companies face supply difficulties and two face distribution difficulties. Five companies face difficulties in both areas whereas a single company faces no such difficulties.

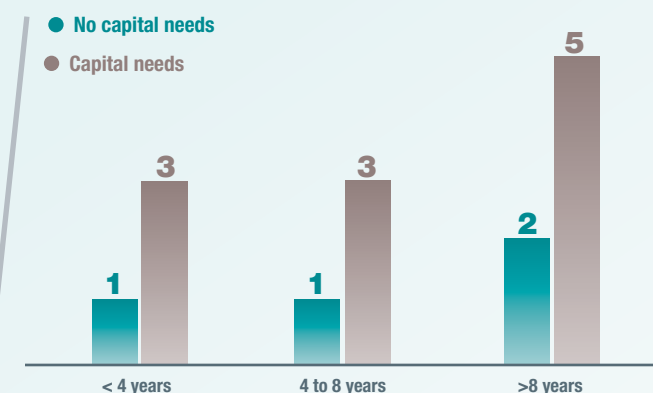
DIFFICULTIES ENCOUNTERED
BY SOCIAL BUSINESS COMPANIES



Crowdfunding platform **Babyloan** (France)

Social business companies have capital needs that do not really decrease over time

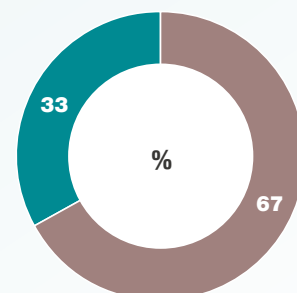
71% of our companies in operation for over 8 years still have capital needs



Even after 7 years, a social business company seems to have high capital needs

73% of our companies still have capital needs

Social entrepreneurship is helpful, inclusive and fair. It operates within the framework of an economic model that aims to be sustainable. Financing can be mixed, in the form of public subsidies or private investments, but people are always key.



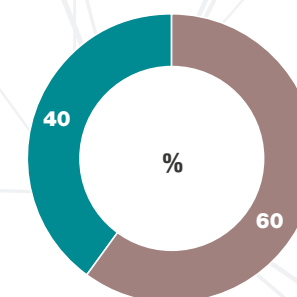
CAPITAL CONSUMPTION REQUIRES PATIENT INVESTORS ABLE TO PROVIDE IN ADDITIONAL FUNDING

● Normal capital consumption
● Overconsumption of capital

- ▶ Among our 15 social business companies, 10 need a capital increase (equity injection) to cover their losses due to negative net income during the first years of operation of the company
- ▶ Five companies did not need any capital increase

Business plans of social business companies are economically justified but their achievement remains complex

Our Analysis



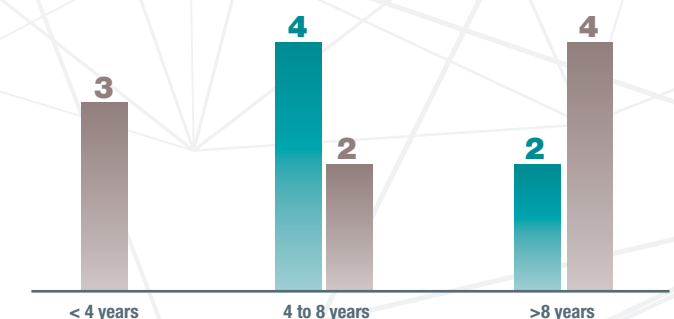
INITIAL BUSINESS MODEL IMPLEMENTED

● Yes
● No

60% of our social business investments have not yet implemented their initial business model. Of the 40% that have done so, four out of six businesses are financially balanced.

These findings certainly illustrate the economic appropriateness of the social business approach, but the difficulty in implementing it remains considerable

IMPLEMENTATION OF THE INITIAL BUSINESS MODEL BASED ON THE LIFECYCLE

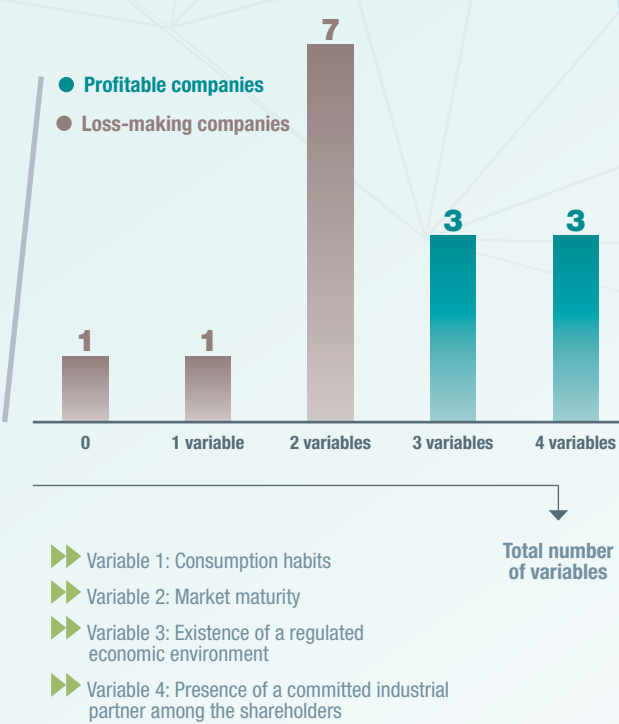


Time seems essential in implementing the initial business model but without it being an obvious guarantee of success

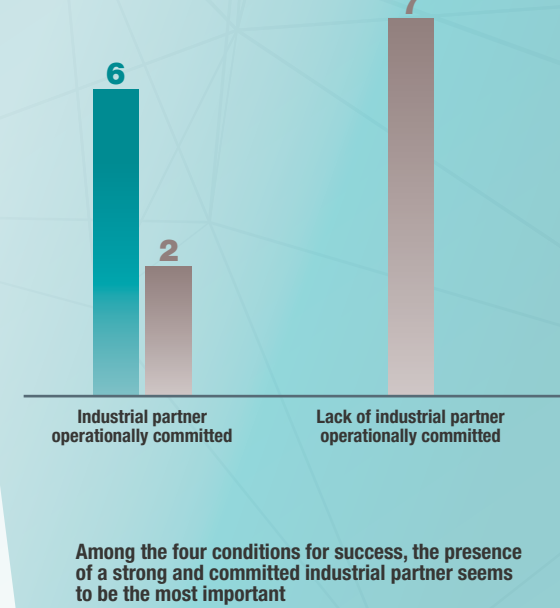
Microfinance institution **Findev** (Azerbaijan)

**A key of success in social business:
to meet the four requirements of profitability**

PROFITS AND LOSSES BASED ON THE NUMBER OF VARIABLES

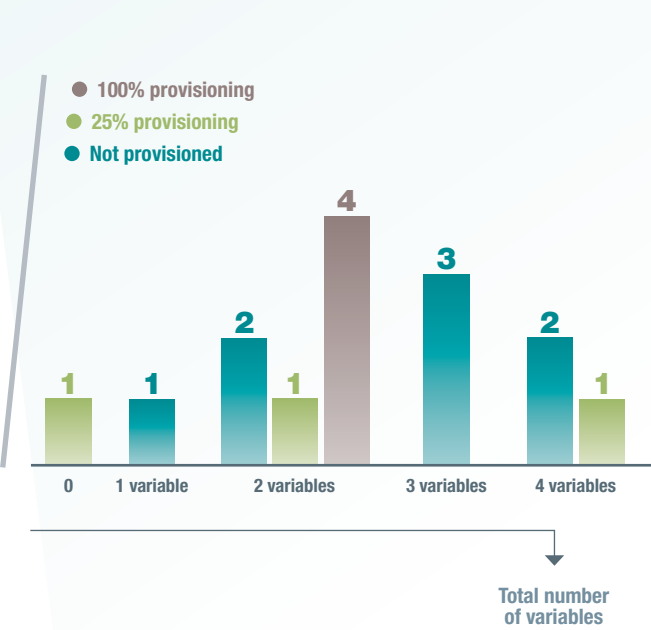


PROFITS AND LOSSES BASED ON WHETHER THERE IS A COMMITTED INDUSTRIAL PARTNER AMONG THE SHAREHOLDERS

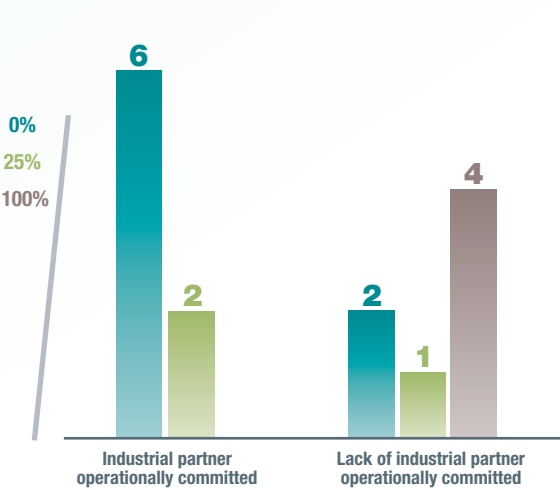


The valuation of social business companies also depends on these four variables

PROVISIONING OF THE SHARE VALUE BASED ON DE NUMBER OF VARIABLES



PROVISIONING OF THE SHARE VALUE BASED ON THE WHETHER THERE IS A COMMITTED INDUSTRIAL PARTNER AMONG THE SHAREHOLDERS



The right equation for success:

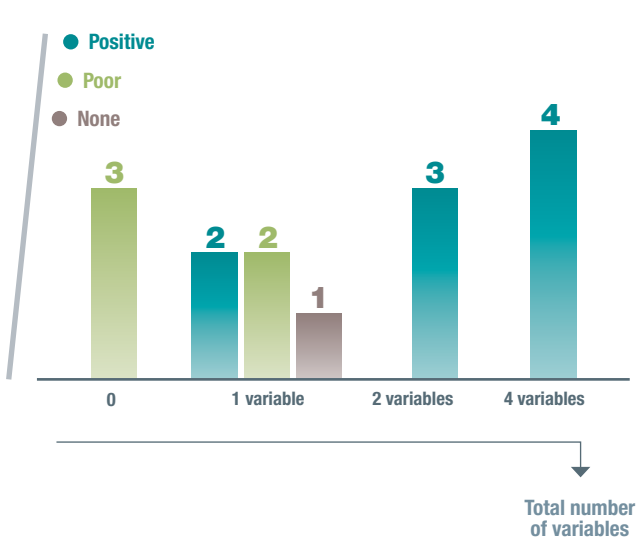
An existing and structured market
+ an existing value chain
+ the presence of a committed industrial partner
+ a buoyant economic environment
= Ua resilient, protected and supported social company



Microfinance institution **Faten** (Palestine)

**Social performance does not depend on these four variables.
It is immediate, albeit strengthened by a stable economic environment**

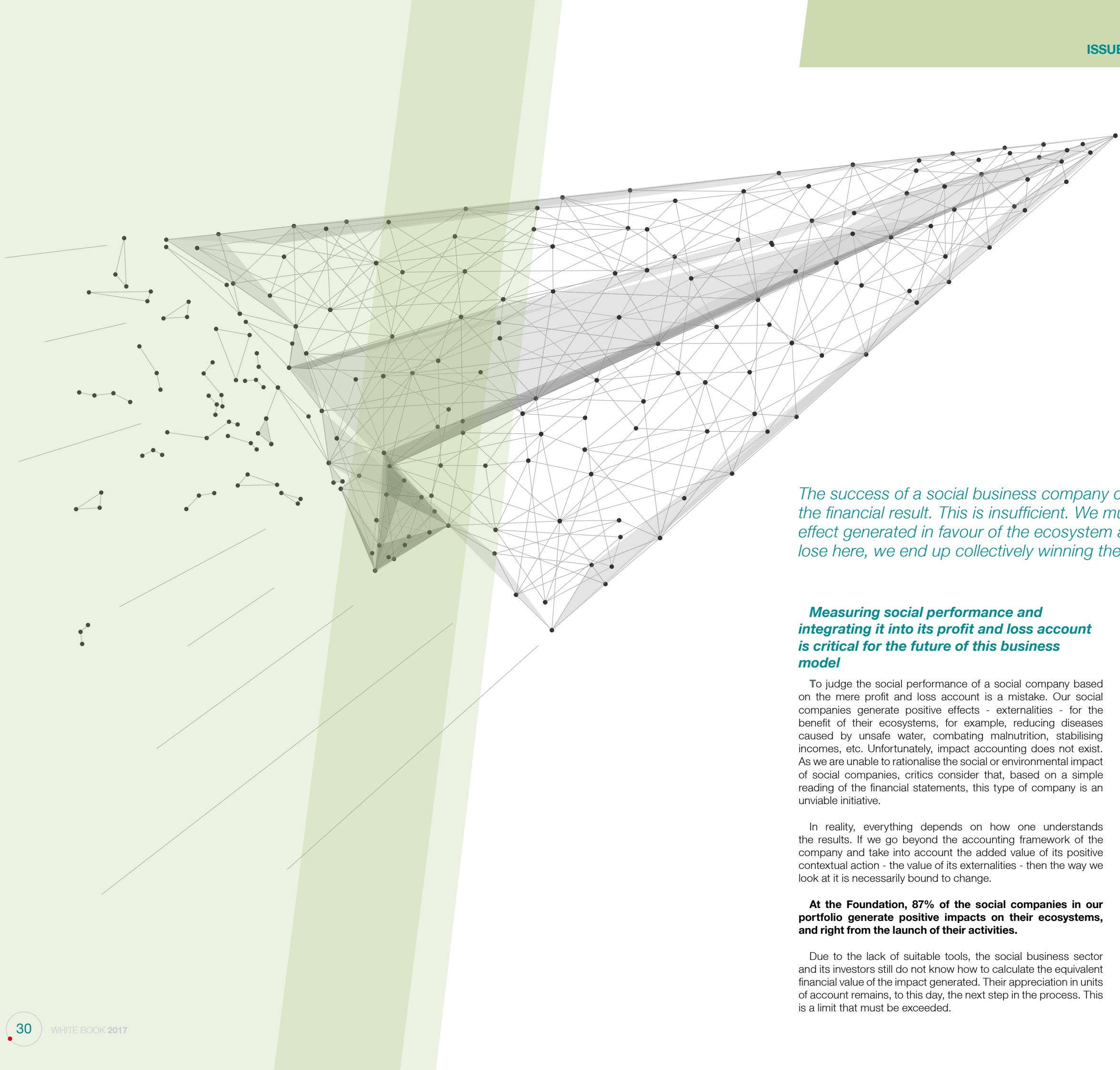
SOCIAL PERFORMANCE BASED ON THE NUMBER OF VARIABLES



In social business companies, positive social effects are immediate. This is logical because the mission and the objectives are the starting point of the projects. We observe that financial breakeven and profitability condition the intensity of social effects. When the company has the means to devote itself to its social utility, thanks to its profitability or to its own funds, the effects will be significant. On the other hand, such effects will decrease or stagnate from a lack of means. But each time, we have seen great ingenuity from entrepreneurs "to cope" within their means, sometimes limited, and maximize the social utility of their social business company.

Regulatory (and sometimes political) stability of countries also plays a role, either as a brake or as an accelerator on economic development, which tends to hinder or facilitate the success of the company's social mission. ●

ISSUES, CONSTRAINTS AND FRAMEWORK FOR ACTION



The success of a social business company cannot be evaluated solely in the light of the financial result. This is insufficient. We must also take into account the positive effect generated in favour of the ecosystem as a whole. What we individually believe to lose here, we end up collectively winning there.

Measuring social performance and integrating it into its profit and loss account is critical for the future of this business model

To judge the social performance of a social company based on the mere profit and loss account is a mistake. Our social companies generate positive effects - externalities - for the benefit of their ecosystems, for example, reducing diseases caused by unsafe water, combating malnutrition, stabilising incomes, etc. Unfortunately, impact accounting does not exist. As we are unable to rationalise the social or environmental impact of social companies, critics consider that, based on a simple reading of the financial statements, this type of company is an unviable initiative.

In reality, everything depends on how one understands the results. If we go beyond the accounting framework of the company and take into account the added value of its positive contextual action - the value of its externalities - then the way we look at it is necessarily bound to change.

At the Foundation, 87% of the social companies in our portfolio generate positive impacts on their ecosystems, and right from the launch of their activities.

Due to the lack of suitable tools, the social business sector and its investors still do not know how to calculate the equivalent financial value of the impact generated. Their appreciation in units of account remains, to this day, the next step in the process. This is a limit that must be exceeded.

A patient investment, subject to strong uncertainties

Low profitability, even negative in the early years, strong social dimension... **For social business companies in emerging countries, achieving financial equilibrium requires time.** Their specificity often leads to a rapid and high use of equity. This is an effect inherent to their dual social and economic objectives, which are also characterised by a significant focus on support throughout the company's development cycle.

Similarly, experience shows that the business plans of social companies are always too ambitious on two main areas: time and profitability. It takes a long time to reach a profitability generally lower than that promised by the promoter. We do not say that it is impossible to develop social companies; we simply affirm that uncertainty in terms of forecasts is inherent to this kind of projects... and that the social business does not seem to us to be the Eldorado of short-term investors.

With regard to social investment funds, the needs assessment highlights the necessity to have a range of mechanisms which are suited for patient financing: equity and risk-sharing mechanisms; guarantees and first losses mechanisms; institutional investments with moderate profitability requirements over a period of 10 to 15 years. ●

Seven challenges

In the light of the investments made by the Grameen Crédit Agricole Foundation, several obstacles characterise social business projects for an equity capital investor.

1 The small size of entrepreneurial projects

The needs of SMEs vary from €10,000 to 2 million. Remote appraisal and management of this type of financing project is complex and financially unattractive (high monitoring costs) except for local investment funds.

2 The strong dependency on the project initiator

From strategy to implementation, the entrepreneur is often the key person in the projects. In order to avoid the hazards of life, including relational ones, it is prudent to develop a team that will collectively lead the company, with stability.

3 The vital need of support for SMEs

To grow, these companies need to be supported in their strategic, managerial or technical structuring. In addition to funding, technical assistance through, ideally, a local presence is to be included in the financial package. Some large groups have skills-based sponsorship programmes or pro bono consulting schemes. Yet another reason to involve them in projects.

4 The dependency on the regulatory environment

A stable local investment code is essential to the sustainability of the project. A change in customs fees can exacerbate competition from imported products or, on the contrary, protect the emergence of a local industry. These are endogenous factors to be taken into account.

5 The contextual constraints

In the agricultural sector in particular, contextual constraints will add up and make the success of the project very complex to achieve. This is particularly true, for example, of irrigation infrastructures, access channels, transports, and access to energy. In the agricultural sector in emerging countries, investment or operating surcharges usually weigh on the project, over and above the additional costs related to its social mission.

6 The dependency on the value chain

In agribusiness, one of our fields of competence, social companies are generally positioned as processors. They therefore depend on both their upstream (supply) and downstream (distribution) chains. Their success can only be considered by taking into account all the variables. A complete analysis of the value chain is needed to validate the resilience of the whole¹ :

- ▶▶ Strengths and weaknesses of the value chain;
- ▶▶ Stakeholders, direct or indirect actors in the sector;
- ▶▶ Strategic positions, feedback effects, cooperation;
- ▶▶ Bottlenecks and intersectoral linkages;
- ▶▶ Formal and informal competition;
- ▶▶ Costs, final price determination, profitability calculation.

A study of the industry is not limited to economic analysis. It should also be geographical, sociological, and political because these are factors that will have an impact on the project's life.

7 The low profitability and high execution risk

As any innovative model, social business projects represent an important risk factor. Alongside institutional investors, the presence of an industry leader will promote a better technical implementation. For the Grameen Crédit Agricole Foundation, we consider the presence of such an actor as a precondition to our commitment.

Many investment proposals have interesting social impact perspectives. But the levels of profitability that can be expected are generally low and uncertain, especially with regard to the costs of related surveys and the level of support to be provided. Consequently, the recapitalisation during the life of the project needs to be widely anticipated.

¹ Source FAO

CULTIVATE THE GROUNDS FOR SUCCESS

The focal points of a social business governance

Women and men in social business are at the heart of the project. The members of the Board of Directors have a decisive role that goes far beyond that of the director of a traditional company. They are often consulted: strategic decisions, tactical considerations, operational or technical matters. All this requires a high level of cooperation. A strong convergence on their part around three key points is desirable:

1

Share a common vision for the future

The social company, by its very nature, benefits from a positive “aura”; it attracts all the energy, the driving forces. This is critical to overcome the pitfalls coming down the road. To maintain the existing momentum and find the appropriate answers to solve difficult situations, directors and shareholders must maintain regular contacts and exchanges, which alone will guarantee the necessary time for discussion and convergence, especially in times of crisis. For that purpose, and to have a sufficient level of expertise, it is better for investors to choose projects in connection with their own values or with their core activities.

2

Support the entrepreneur while maintaining a high level of excellence

Like a demiurge, he or she usually is usually a driving force of the project. It is a strength, thanks to the charisma and leadership, but also a weakness, because of the isolation of a single leader. The support of the members of the Board of Directors is crucial to strengthen or consolidate a qualified team over time.

3

Ensure the link between the territory and the community of players in the industry

A social business is often the project of a community, which itself is part of a geographic or cultural territory. A social business must be in harmony with and linked to its ecosystem. It must adapt to local rules and practices, and understand the challenges facing economic actors. Being closer to targeted communities to understand their needs and integrate them is a promise of stability.

As Board member of social business companies, the Grameen Crédit Agricole Foundation draws lessons on social business governance and shares.

Good practices of the investor in social business equity

By setting social goals in addition to its financial obligations, the social company faces a twofold constraint. This usually results in additional costs that have to be incorporated, reduced, and off-set by all possible means. For that purpose, innovation and inventiveness are the key to success. To provide additional insights for investors interested in social business, we have tried to identify good practices, especially for projects in the agricultural or agri-industrial sectors:

► **Ensure the presence of an industrial partner** in the capital of the social company as well as that of other investors with sufficient financial capacity. The presence of a high-profile industrial player seems indeed to us to be a decisive factor for social companies in the agricultural sectors, especially when their activity involves processing. This partner operator must demonstrate significant presence, be a 25% to 35% shareholder at the start of the project, sit on the board of directors and act as an expertise relay to speed up the technical or technological mastery of the project. This operational support role is a major factor of success.

► **Analyse the financing structure of the sector: upstream (supply) and downstream (distribution).** Many of our social companies are processors of agricultural products: milk, rice, fruits or vegetables from which they produce value-added products that they distribute into the local or international market. Positioned as the central component of their value chain, our companies have to face the classical problems stemming from lack of funding in their sectors, upstream (producers) as well as downstream (consumers). A better distribution of funding across the value chain is a resilience factor.

► **Check the existence and functioning of of contractualisation mechanisms.** In the agricultural chains, contractualisation mechanisms reinforce and secure the financial flows between the players in the industry and contribute to the fairness of the value distribution. Contractualisation is a commitment by the processor to purchase the harvest at a price set in advance and agreed between the parties. It secures the income of the producer, allows the pre-financing of production costs while guaranteeing commercial outlets.

► **Identify innovative digital practices enabling secure exchanges.** Experiments are taking place in Africa to gather producers, funders, processors and even end-buyers on the same digital platform. These systems link financial and physical flows, thus ensuring accurate monitoring and adequate funding. We believe that these experiments are extremely virtuous.

► **Avoid investing in single-product or single-segment social businesses.** Achieving a positive impact for the most vulnerable people does not mean them as the sole target. Due to the very low purchasing power of customers at the bottom of the pyramid, it is difficult to leverage selling price and thus absorb the increase in manufacturing costs. We strongly encourage social businesses to avoid the pitfall of a single-product or single-client strategy. The company will more easily reach balance by broadening its offer, by disseminating a variety of products, some at low prices and margins, others at higher prices and margins, destined for well-segmented customer bases. ●

How to improve our own practice

We believe that the effectiveness of investment funds is determined primarily by their own knowledge of the sectoral and geographical aspects. This is why specialisation seems to us to be the essential condition of a good support to the companies we finance. For our social business activity, we will have to strengthen our technical assistance capacity to offer specific coaching and operational support (technical, marketing, administration, risk management). This capacity building can be implemented in the form of partnerships with other inclusive finance actors.

As regards our investments, we have already reoriented our commitment strategies by a limitation to two clearly defined priority sectors:

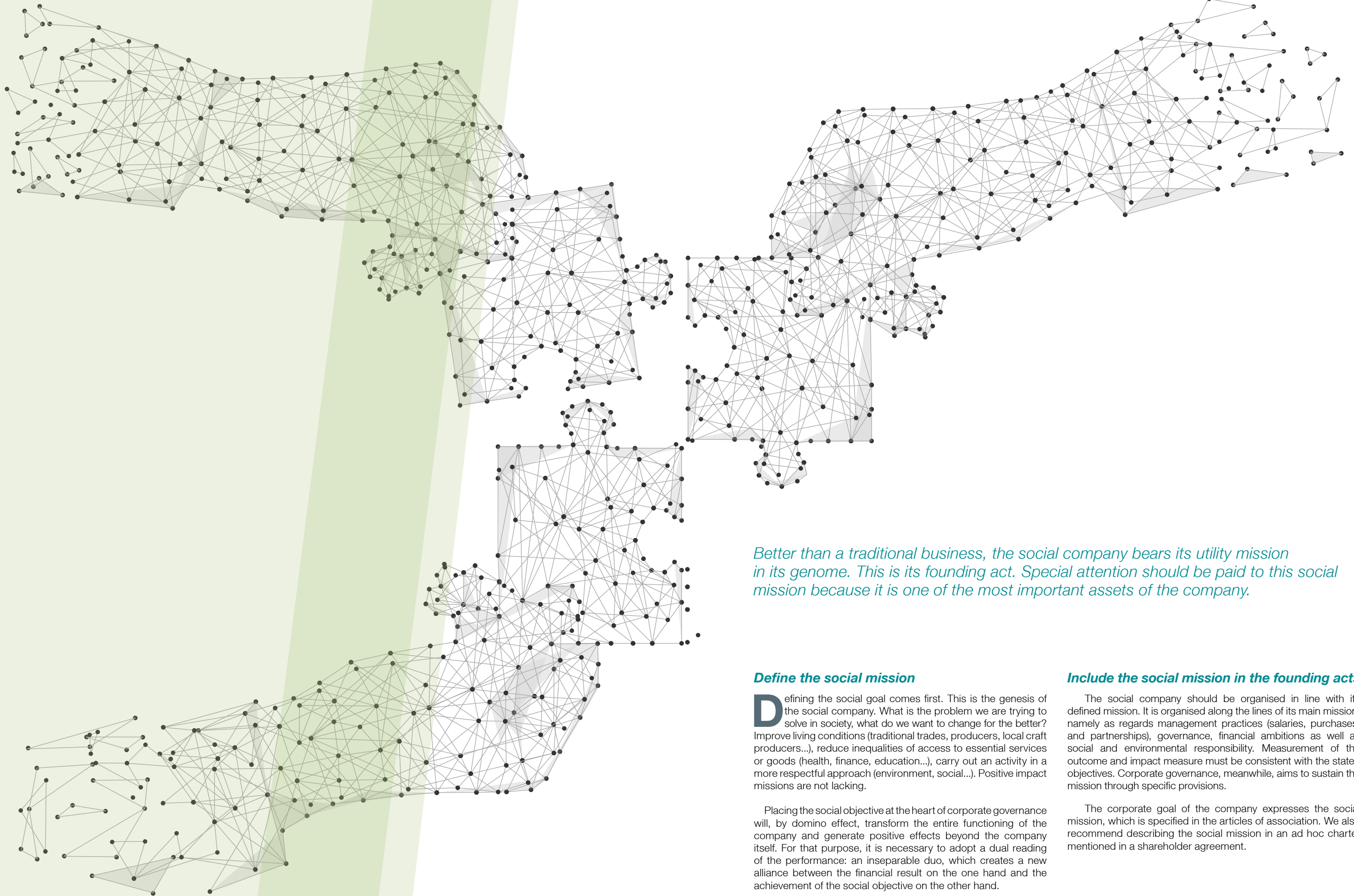
- ▶▶ **Inclusive finance companies** that promote the financing of income-generating activities in rural areas with high levels of social performance.
- ▶▶ **Agricultural processing companies** that structure, strengthen and develop inclusive agricultural value chains.

We have also decided to control our operations better by paying particular attention to three aspects:

- ▶▶ **Seek for and increase partnerships:** the success of a social business is often the result of successful cooperation and coalitions; Cooperation with its environment because the social project itself is useful for its territory and brings together the efforts of the operators present on the market: NGOs, companies, donors, local authorities and representatives. The interaction and collaboration between different actors is fruitful and leads to innovation by implementing different practices through contacts with stakeholders that propose complementary approaches. These benevolent influences are very often beneficial to the social entrepreneur.
- ▶▶ **Ensure a global approach:** investments in social business are evaluated on the quality and viability of the economic model and social objective. But our approach now covers the entire value chain. It is an essential step to identify any points of weakness that would end up hindering the social business.
- ▶▶ **Social performance measurement:** the measurement of social and / or environmental value must be embedded upstream of the project. The approach should ensure that the frequency of measures, responsibility and governance (creation of an ad hoc committee within the company) are identified. For this purpose, the Foundation pursues its commitment to working with impact investing actors. ●

Microfinance institution AMK (Cambodia)

STRUCTURE, PROFESSIONALISE AND AFFIRM THE SOCIAL MISSION



Better than a traditional business, the social company bears its utility mission in its genome. This is its founding act. Special attention should be paid to this social mission because it is one of the most important assets of the company.

Define the social mission

Defining the social goal comes first. This is the genesis of the social company. What is the problem we are trying to solve in society, what do we want to change for the better? Improve living conditions (traditional trades, producers, local craft producers...), reduce inequalities of access to essential services or goods (health, finance, education...), carry out an activity in a more respectful approach (environment, social...). Positive impact missions are not lacking.

Placing the social objective at the heart of corporate governance will, by domino effect, transform the entire functioning of the company and generate positive effects beyond the company itself. For that purpose, it is necessary to adopt a dual reading of the performance: an inseparable duo, which creates a new alliance between the financial result on the one hand and the achievement of the social objective on the other hand.

Include the social mission in the founding acts

The social company should be organised in line with its defined mission. It is organised along the lines of its main mission, namely as regards management practices (salaries, purchases, and partnerships), governance, financial ambitions as well as social and environmental responsibility. Measurement of the outcome and impact measure must be consistent with the stated objectives. Corporate governance, meanwhile, aims to sustain the mission through specific provisions.

The corporate goal of the company expresses the social mission, which is specified in the articles of association. We also recommend describing the social mission in an ad hoc charter mentioned in a shareholder agreement.

The social business charter

To bind shareholders around the social goal, we recommend establishing a charter that formalises principles and commitments. The former are the definition of social objectives and are grouped into generic topics, while the latter are the means to that end and are therefore described in terms of commitments that are specific to each business project. As an example, here is a model charter:

- ▶▶ **Principle 1:** the aim is to help reduce poverty through a business model. Commitments: the company secures the income of its producers, implements protective mechanisms and structures a production chain.
- ▶▶ **Principle 2:** the company ensures its economic and financial sustainability but the aim is not the maximisation of profits. Commitment: reinvesting a significant portion of the profits in the business to help strengthen its equity and prepare for the future.
- ▶▶ **Principle 3:** the company respects its environment. Commitments: development of production methods using renewable energies.

▶▶ **Principle 4:** the company contributes to the fulfilment of its employees. Commitments: employment stability, equal pay, training programmes, female employment.

▶▶ **Principle 5:** the company monitors and evaluates its commitments and their impact on communities. Commitments: definition and monitoring using indicators with the support of NGOs or experts.

Too often, commitment to social impact or monitoring is limited to its statutory character. In fact, we have not paid enough attention to the social impact achieved in our portfolio. We must go further by proposing that shareholders finance the impact study or that a company or an NGO certifies the impact, adopting the standardised and evolving methods of rating agencies.

This charter can be improved. Its implementation is one of the challenges. Social business companies often do not have the resources, the time or the means to carry out a deep analysis and a proper monitoring of their social performance. ●

The shareholders' agreement

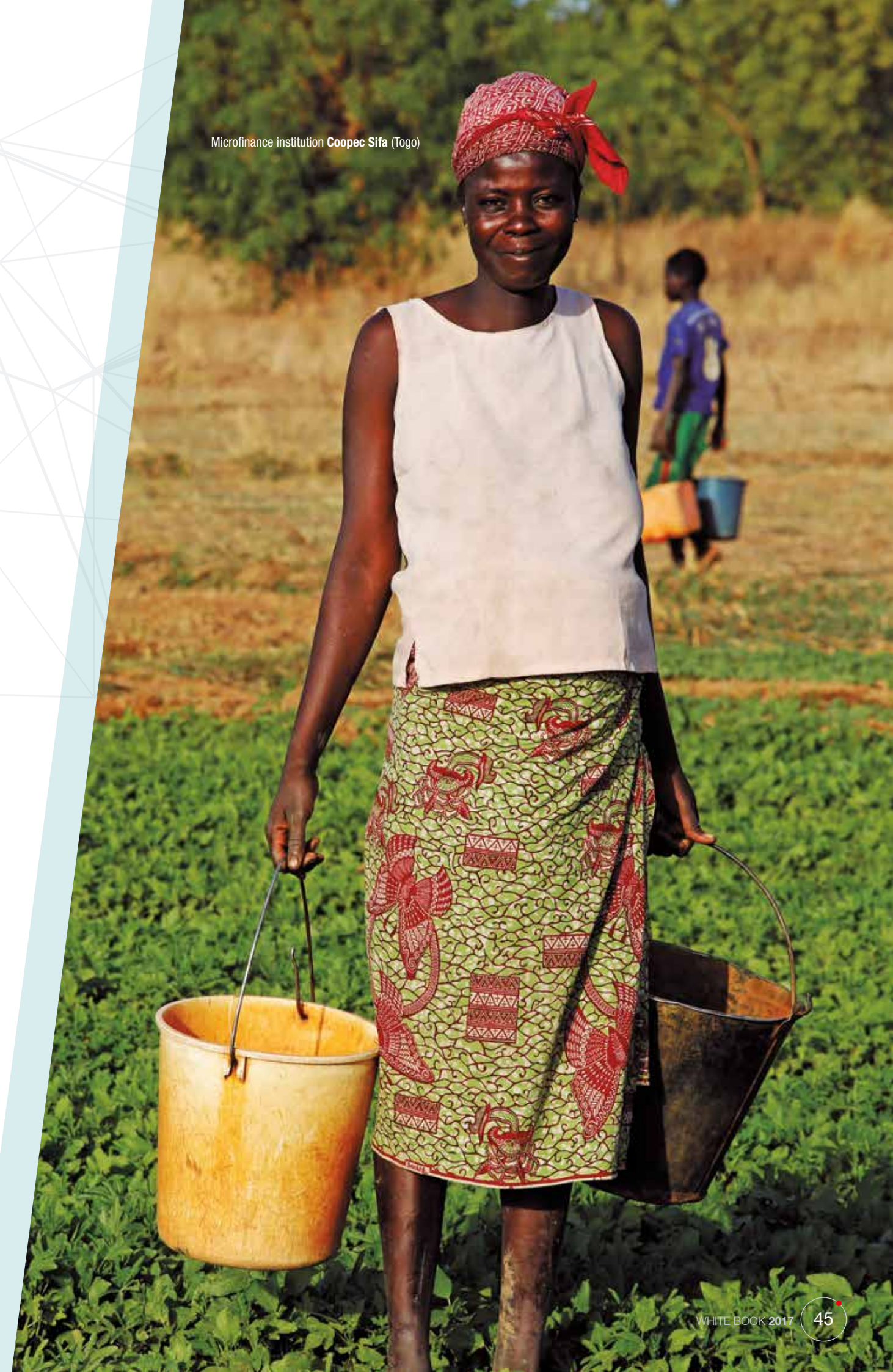
The shareholders' agreement, that complements the articles of association of the company, defines the relationships between partners. It is not made public but plays an important role: it defines the rights and responsibilities of shareholders towards one another. Its content is free and can include very different clauses. To secure the shareholding of a social enterprise, here are the points that seem essential to us:

- ▶▶ **Corporate governance:** composition, terms of appointment and dismissal, powers granted to the management and supervisory bodies (these clauses are also included in the articles of association).
- ▶▶ **Committee for monitoring the social or environmental mission:** the board of directors can appoint a director, ideally independent, who will be the guarantor of the social mission. A social performance monitoring committee can complement this system to good use.
- ▶▶ **Dividend clause:** in the event of a positive net result at the end of the fiscal year, a "very reasonable" distribution of dividends as fair remuneration of the capital and the cost of risk, while ensuring that this does not affect the priority social mission, the long-term capacity of the company, its assets, its reserves, the salary conditions. In our view, the proposal for the distribution

of dividends should be made by the Social Mission Monitoring Committee, which would submit it to the Board of Directors.

- ▶▶ **Social indicators:** the question of evaluating, and eventually standardising the social performance of the company is today at the heart of the considerations of social business players. Social companies need to establish measurable social and / or environmental objectives as part of their priority tasks and integrate them into the shareholders' charter. These objectives must be part of the criteria for the performance evaluation of the management team. Social business companies need to measure and monitor their practices, in order to pilot projects that are often innovative and socially ambitious, and ultimately to ensure the right direction has been taken. As such, measurement tools and normative assessments must be adopted with caution, as each method may be useful at some point during the life of the project or company. In addition, the multiplicity of business sectors, societal goals and business models often requires specific indicators. The system used to measure and monitor social performance must therefore be fully integrated and adapted to the working methods of the company. Tools such as the "social business Scorecard" developed by the association CERISE suggest initial working leads. ●

Microfinance institution Coopec Sifa (Togo)



OUR SEVEN PROPOSALS



Based on its experience, the Grameen Crédit Agricole Foundation offers ideas for improving the efficiency of the social business model.

As an interface between the economy and society, social entrepreneurship demands a high level of excellence. It must make its activity viable in a complex competitive environment while providing the extra effort to pursue its social and environmental impact goals. A continual injection of equity or debt to finance this double constraint may well be necessary but it cannot be the key to a sustainable social business, because the investor would then be nothing more than a hidden patron.

Thanks to its social commitment, the social company can become a business model open to the economic world. It binds itself to report on the societal impact it generates and cannot shy away from it. This transparency is a core part of its mission; it fits into the very reason for its existence. In terms of social and environmental responsibility, this gives it a decisive advantage over many other organisational forms. This, undoubtedly, will be the path upon which the social company develops and achieves its potential.

To reinforce its model, of which we have seen how it stumbles against invisible walls, we think that the answer lies more in a set of coherent, pragmatic and, sometimes, innovative solutions. All possible options to relieve the inherent tension of the social business must be taken into consideration: optimisation of costs, search for disruptive processes, financial engineering, industrial or technical relays, different forms of aid. Currently, the Foundation is working on the digitisation of inclusive services, the adjustment of business models to climate change or the benefits that social business can draw from contract-based farming. These are some possible solutions among others.

The ideal set-up takes a holistic approach, on a case-by-case basis, tailor-made, encompassing projects in their contexts and in their value chains. It is a real Swiss Army knife combining agronomic, industrial, financial, human, managerial, political and technical capabilities, which has to be used with skill. In addition to these considerations, here are our seven proposals for changing and strengthening the social business. ●

Proposal 1

Create the status of company “with a social utility contract”

For the Grameen Crédit Agricole Foundation, there can be no social company without a contractual act that commits the societal objectives of the projects. To continue in this direction, we propose to change the notion of social company to that of a company “with a social utility contract”, i.e. with a commitment that, on the one hand, characterises social objectives while binding the contracting parties on the other hand.

In this way, an institution – a State, a community, an NGO, a funder, but also, why not, a whole industry, a sectorial group of companies, a business community – could secure the societal benefits that it wishes to generate. It would guide and target its budget commitments more easily, all in a more sustainable economy.

We propose to create a status of a company “with a social utility contract” according to three criteria: the commitment to solve a problem within the context of a social contract with the ecosystem, the governance of performance and measurement of results achieved and the fair distribution of the added value.

► **First criterion:** *the social company or social business places social utility at the heart of its mission. This mission is integrated in the articles of association and in a specific charter. This social commitment is also clearly affirmed and placed at the heart of its governance and operational functioning.*

► **Second criterion:** *the social company affirms its commitment and translates it in one or more social utility contracts, concluded with the public authority*

or its representatives, integrating quantifiable, measurable, monitored and public objectives. These objectives can evolve over time, but the double measure of financial results and social objectives is always what defines the performance of the social company. This contract is included in the company's financial statements. It can be pre-financed by appropriate banking mechanisms.

► **Third criterion:** fairness in the allocation of value among stakeholders must be fully part of the social company's performance model and governance. As such, we strongly recommend not to use a speculative capital remuneration model. We recommend instead to draw on the cooperative model that provides for a fixed remuneration of company

shares calculated using the average yield of private sector bonds published in the three years preceding the date of the general meeting, with a remuneration premium of up to two points depending, where applicable, on the risk of the sector. Such capping of the remuneration of capital seems to us an inherent element of the social commitment.

Through companies with a social utility contracts, some grants or subsidies paid to companies can be made to evolve into a contractual system for achieving results. The social utility contract thus becomes a tool for social performance (or public policy within a community).

thus benefit from provisions inspired by public service delegation or, more recently, public proceedings known as Global Performance Procurement ⁽⁴⁾. It would ensure a structured framework to successfully carry out a social utility mission, which would be financed by the territorial authorities.

In addition, we propose to refer to the "carbon credits" mechanism to quantify social utility in financial terms. In doing so, a social company could directly include units in its accounts and balance its books by issuing "social utility" credits. These credits should be expressed in a single type of units of account so that they are comparable, tradable and recoverable, as with carbon credits (valued in CO₂ emission quantities). For that purpose, independent actors would be mandated to evaluate and certify the social utility of a company.

By accepting the principle of implementing a "Social Benefit Account in progress", the social company could receive financing from funders and / or benefit from tax exemption, depending on the context. This recognition would allow the company to hold a debt in the making that would make it eligible for conventional financing but now focused on its social transformation activity. In addition, social companies could consider the assignment of receivables (factoring...) as pre-financing of their mission.

In a second phase, social impacts could lead to securitisation mechanisms to become tradable and exchangeable financial products. This would support the mobilisation of significant capital without the company having to bear the burden of a debt or liability in its balance sheet. To continue in this direction, we could also move towards a notion of a progressive impact contract: as the company reaches its objectives, the value of its impact contract, and therefore of its assets, could grow.

⁴ Public procurement associating all or part of project design, building, operation and maintenance in order to meet quantifiable performance targets.

Provide tax incentives to transform associations into companies with social utility contract

Hybrid financing combines equity investments with debt and support in the form of grants, donations or sponsorship. Social companies often perform public interest missions. In this respect, some of them have benefited from a first phase of financing, adapted to their social mission, supported by specific aids.

Social businesses need to resort to hybrid funding (donation / debt packages) because the particularly low margins of their business models generally cannot cover investment costs. It is thus often necessary to subsidise the costs of implementing the activity so that only the operating costs are borne by the company.

Some social companies have indeed emerged as associations before transforming into social businesses. It is a very interesting approach. During the initial phase, the social mission is very important; the associative structure has access to financial aids, grants or donations that match this type of organisation. Then, the association can do a "spin off" to develop a profitable business and generate incomes for the associative activity. At the Foundation, we have an excellent example of adjustment

of the entrepreneurial structure according to the nature of the activity. It is Phare Circus (PPSE), of which we are a shareholder of up to 15.5%. This circus is based in Cambodia and seeks to perform all over the world. Originally, Phare Ponleu Selpak (PPS) is a non-governmental organisation created in 1994 by nine young Cambodians, along with their French drawing teacher they met in refugee camps in Thailand. In 2013, Phare Performing Social Enterprise (PPSE) was created by the PPS Association in order to perpetuate the action carried out by the association in Cambodia. The company produces professional shows mixing circus, dance, theatre and music. PPSE pursues three complementary social missions: provide a stable and remunerative job for the students of Phare Ponleu Selpak once their studies are completed; financially support the activities of the parent association; and participate in the revival of Cambodian artistic culture. In 2016, for the first time, PPSE paid dividends to PPSA. These hybrid packages participate fully in financing the business plan during the launch phase, by alleviating or relieving structural costs.

Promote social utility to include it into the profit-and-loss account of the social company

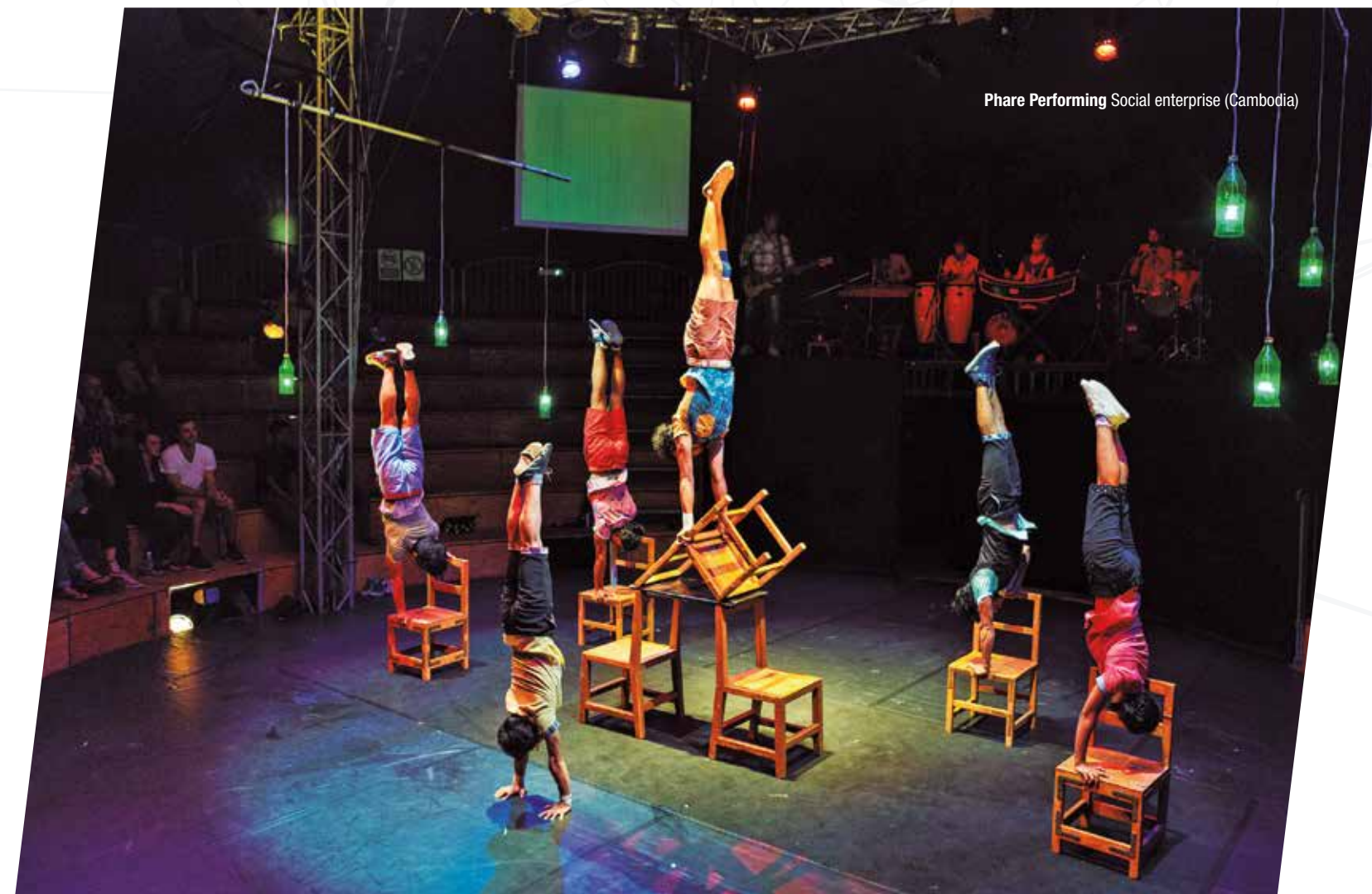
The social business company needs appropriate funding. Cash management is one of its daily challenges. We believe that the implementation of financing specifically designed for social companies is essential to the development of the model. This type of financing involves evaluating and measuring social utility. Valuation would require identifying and estimating the social and environmental impacts of the company in order to translate them into units of account. This approach requires the implementation of normative methods, which we think is technically feasible.

The valuing of social utility is essential to the strength of the social company model because it determines the perception of its performance by third parties and allows the setting up of a funding mechanism structured accordingly. It would allow the social company to integrate either an additional income in its income statement or an intangible asset in its balance sheet.

The intangible assets we are talking about could be called the "Social Benefit Account in progress" or the "Realised Social Benefit Account". For it to be created there must be a creditor and a debtor. The creditor would be the social company carrying out or having completed its mission of social utility; the debtor would be the public authority or one of its representatives. The contract would be formalised after the achievement of the objectives previously negotiated between the two parties.

This valuing of the social utility contract enables the implementation of an inventive risk deferring mechanism. In return for its mission, the successful social entrepreneur receives payment for the service performed. To avoid the pitfall of "all or nothing", it is possible to imagine social performance thresholds that would trigger the payment of services even partially provided. In such a context, the company would commit to modifying or improving given social issues with, if successful, payment of the utility contract by the contractor. A social business could

Proposal 3



Phare Performing Social enterprise (Cambodia)

Proposal 4

Create public-private partnerships in rural areas to promote access to essential goods

1.8 billion people in the world still do not have access to drinking water. It is the leading cause of infant mortality. Ten thousand people die every day from waterborne diseases. The public-private partnership (PPP) is a method of financing through which a public authority invests in infrastructures then calls upon private service providers to finance and manage the equipment under the public service delegation contract. This funding method is used in many countries, in various forms.

With regard to public-private partnerships in developing countries, water distribution systems are part of the large

infrastructure financed through this channel. These are mostly networks installed and operated in urban areas; very few serve rural areas.

However, a social company located in rural areas can perfectly take over from public action and become eligible for a suitable PPP format. That applies to the 1001fontaines social business. Its operation, in the form of small drinking water treatment units in villages, is quickly profitable. However, it struggles to absorb its investment and equipment costs. In this case, it seems to us that a PPP-type scheme adapted to rural areas would make it possible to finance initial investments. These would then be entrusted to an operating company that would disseminate the economically balanced and financially sustainable model.

Disseminate low-tech patents in open source

Low-tech has spread as opposed to high-tech, a symbol of triumphant capitalism. The name refers to simple, economical and popular techniques, that can recycle obsolete machines. The use of low-tech is also a state of mind, with a desire not to give in to technology-driven trends, considered mercantile and less than rational from an environmental point of view. In this respect, low-tech companies tend to have a lower grey-energy budget than high-tech ones.

Open-source low-tech patents (free of rights) are one of the keys to developing smaller and local economies in emerging countries. Social companies cannot afford to

develop patents. Their talent often consists in adapting a know-how to the specific environment which is their own. They are, in a way, start-ups of frugality: their meagre means fuel their ability to innovate. Opening a low-tech open source patent allows the entrepreneur to focus on exploitation and adaptation.

This solution also has the merit of limiting initial investments. From the investor's point of view, low-tech processes are used to focus on empirical approaches, test-and-learn, creativity and experimentation to lead to solutions that will grow the whole project.

Sociale Enterprise **Teuk Saat 1001**
(Cambodia)

A success story: Teuk Saat 1001, a social business created by the French NGO 1001fontaines in Cambodia. Its operation, in the form of small drinking water treatment units in villages, is quickly profitable.



Social enterprise **Laiterie du Berger** (Senegal)

Proposal 6

Use deconsolidating financial packages in agricultural value chains

As we have seen, many of our social companies act as processors in agricultural value chains such as milk, rice, fruit or vegetable, from which they produce value-added products that they distribute to local or international markets.

Positioned as a central link in the agricultural sectors, these companies have financing needs that exceed their traditional needs and cause their debt-to-equity ratio to explode. They frequently support the additional funding requirements of the upstream (producer funding) and downstream (distribution to the end customer) actors.

A better distribution of funding is therefore a resilience factor. Producer funding, which can be implemented under contractual agreements with microfinance institutions or banks specialising in local financing, greatly alleviates the cash flow tensions in the sector. Contractualisation secures the producer's income, allows pre-financing of the production costs, and also ensures an economic

outlet to the production. Developing a trusting relationship through contractualisation strengthens and structures the agricultural value chain.

We believe that it would also be interesting to set up deconsolidation mechanisms for agri-industrial assets, especially those intended for storage before processing.

This proposal is inspired by the mechanism developed by the National Rural Support Program (NRSP) in Pakistan. Established in 1991, the NRSP is the largest rural support programme in the country in terms of outreach, staffing and development. NRSP works with nearly 3.5 million poor households organised into a network of over 200,000 community-based organisations. The project finances paddy storage silos. The package involves a third-party financial company that carries overall investments and ensures the operation and maintenance of equipment. The company is capitalised by private investments and, thanks to solid contractual agreements, it plays an active role in the development of the agricultural sector.

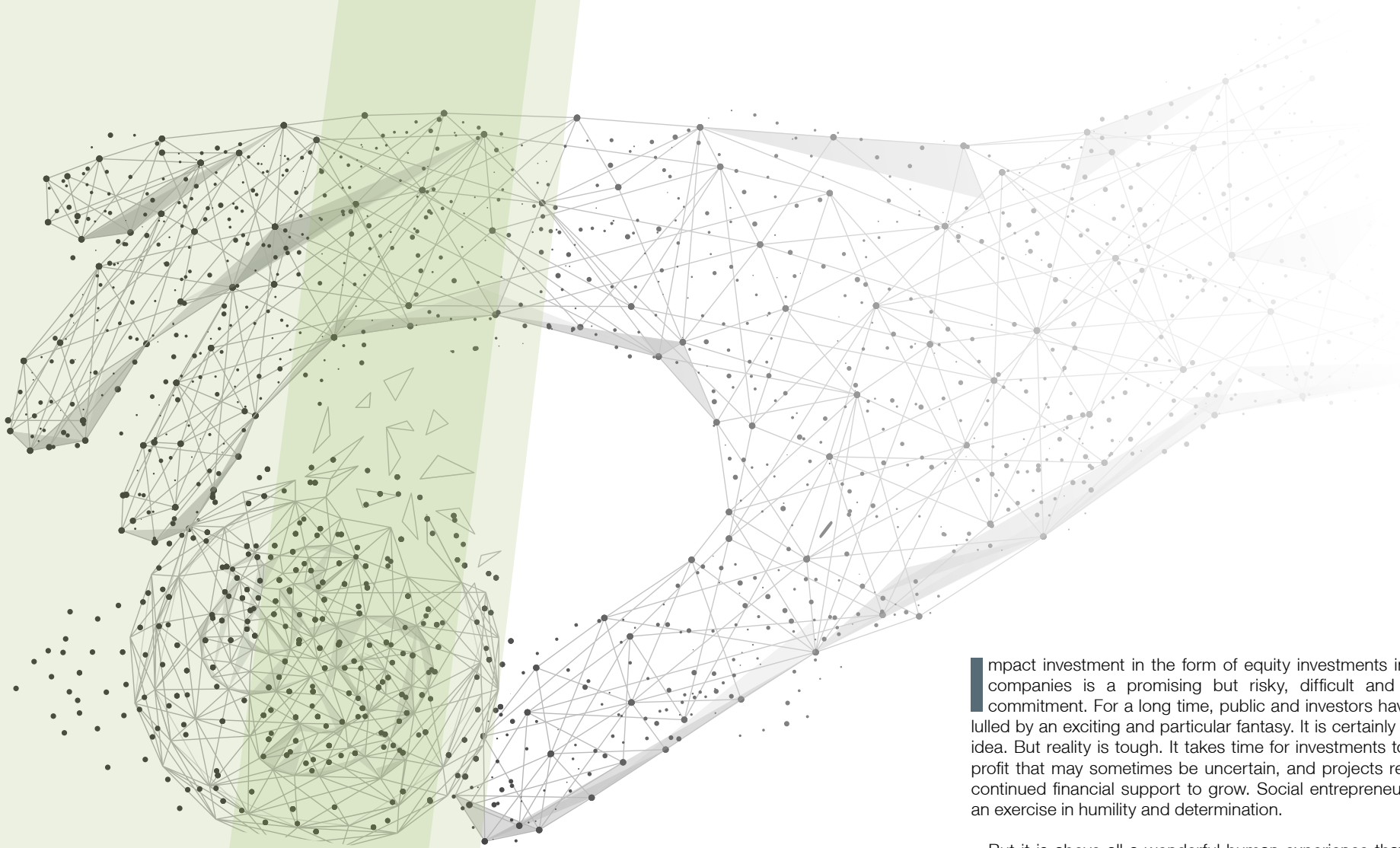
Proposal 7

Rely on proximity relays

The geographic dimension of social business is a factor to remember: in many cases, social companies are located in countries far from investors and Directors. While projects require close support, in every sense of the word,

this distance can be a hindrance to their success. For this reason, the Foundation is recommending to draw locally on an investor, member of the Board of Directors. His / her presence will facilitate operations and governance.

CONCLUSION



Impact investment in the form of equity investments in social companies is a promising but risky, difficult and patient commitment. For a long time, public and investors have been lulled by an exciting and particular fantasy. It is certainly a lovely idea. But reality is tough. It takes time for investments to turn a profit that may sometimes be uncertain, and projects require a continued financial support to grow. Social entrepreneurship is an exercise in humility and determination.

But it is above all a wonderful human experience that brings hope. Beyond an encounter and an opening that transcends the company's boundaries, it has positive effects, promotes fairness, and produces concrete and beneficial changes for the greatest number of people. Social business reconciles the entrepreneurial dynamic and the desire to make this a better world in the same convergence of interests. This pragmatic approach helps mend the world, and make it fairer and more balanced. In the area of capitalistic entrepreneurship, it is even one of the most successful organisational forms for developing an impact project.

Thanks to its pioneering commitment, the Grameen Crédit Agricole Foundation is in a good position to keep moving forward and today, wishes to develop social entrepreneurship towards more successful models.

We believe that social business contains the basis of an economic transformation. Experience up to now is still in a very early age, still an attempt. While few reach financial success, many have proved to be great amplifiers and distributors of a renewed vision of the company, inspired by the energy and the desire to enhance social and environmental situations of concern. Based on our achievements, we intend to pursue our commitments in social business companies, while promoting a new generation of projects, better reasoned and structured.

Social business requires specific financing tools just as much as adapting to the conventional financing methods of mainstream banks. We therefore promote the idea that social utility can be expressed by a financial equivalence that can be recorded in the company's income and its financial statements. This is a key condition to align entrepreneurship and social utility. It will contribute to a better reading of the company's performance and can then be taken into consideration better by stakeholders, including non-specialists, in the business world.

Accepting this integration means accepting a real paradigm shift in dealing with the social economy. We are aware of it. But it is probably one of the only ways to spread the social business model, by taking it out of the perimeter of the solidarity-based economy sector and its specialised funders. To enhance social usefulness, a utility contract must be drawn up between the social company and the public authority. This contract must be executed as part of a business process whose efficiency will be sought by the social company. By being recognised, it may be booked as a government debt. The social company will be able to display more clearly its operational performance, to compare itself to others and to mobilise traditional bank financing more naturally.

The path which social entrepreneurship has invited us to follow for 8 years is that of a world that is deeply in need of regeneration. Social business is an expression of capitalism, one of its voices, the word of those who wish to discover the new sources of a useful entrepreneurship. We are convinced that it is the way ahead, the direction to follow: a liberal economy renewed in the light of a reasonable, responsible and sustainable exploration. ●



***Social business,
the path to entrepreneurship
for the common good***

To promise that impact investing generates high and fast returns while producing positive effects on the world is an illusion. We must stop believing that the matching between these two mechanisms is naturally possible.

The Grameen Crédit Agricole Foundation is a pioneer investor in social entrepreneurship in emerging countries. Its results are clear: the positive effects are tangible but financial sustainability remains a daily challenge. In the long term, social business will not develop without adapting its model.

To achieve this, the Grameen Crédit Agricole Foundation proposes solutions and offers promising prospects through this White Paper. From identifying success factors to structuring the social performance of projects, it lifts the veil on a singular economic approach.

To better share value with all and to transform society through a more responsible capitalism, the Foundation calls for a new “social contract”.

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