How Bangladesh can profit from social business

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Bangladesh is one of the few developing countries that has made significant stride as far as social sector development is concerned in recent decades. This has been widely captured in literature on social development with much appreciation that with relatively low per capita income countries can improve their social indicators. Nobel laureate Amartya Sen, an authority in this field, often cites Bangladesh's successes in his write-ups and public seminars.

In a recent column on "Quality of Life: India vs. China" published in the New York Review of Books, Sen compared the social indicators of China and India. In this connection he also contrasted India's standing vis-à-vis Bangladesh. The indicators clearly indicate that Bangladesh has outshone India in many social benchmarks with merely half of its neighbour's per capita GDP, in comparable units of purchasing power. Indeed in achieving gender parity Bangladesh's stride is much better than two Asian economics giants- China and India. One key reason for this success is where the state or market failed in delivering the basic needs to the excluded, numerous NGOs and social activists have had intervened with various social safety nets.

While Bangladesh's success in social development has widely been emulated in many parts of the world -- reflected in Grameen and BRAC's global expansion -- the country stands to benefit in many ways banking on the ideas that are emanating from its social sector. Muhammad Yunus' vision of social business, for instance, that has its origin in microcredit, is increasingly attracting global attention. One of the basic principles of social business is that investors and owners can gradually recoup the money invested, but cannot take any dividend beyond that point.

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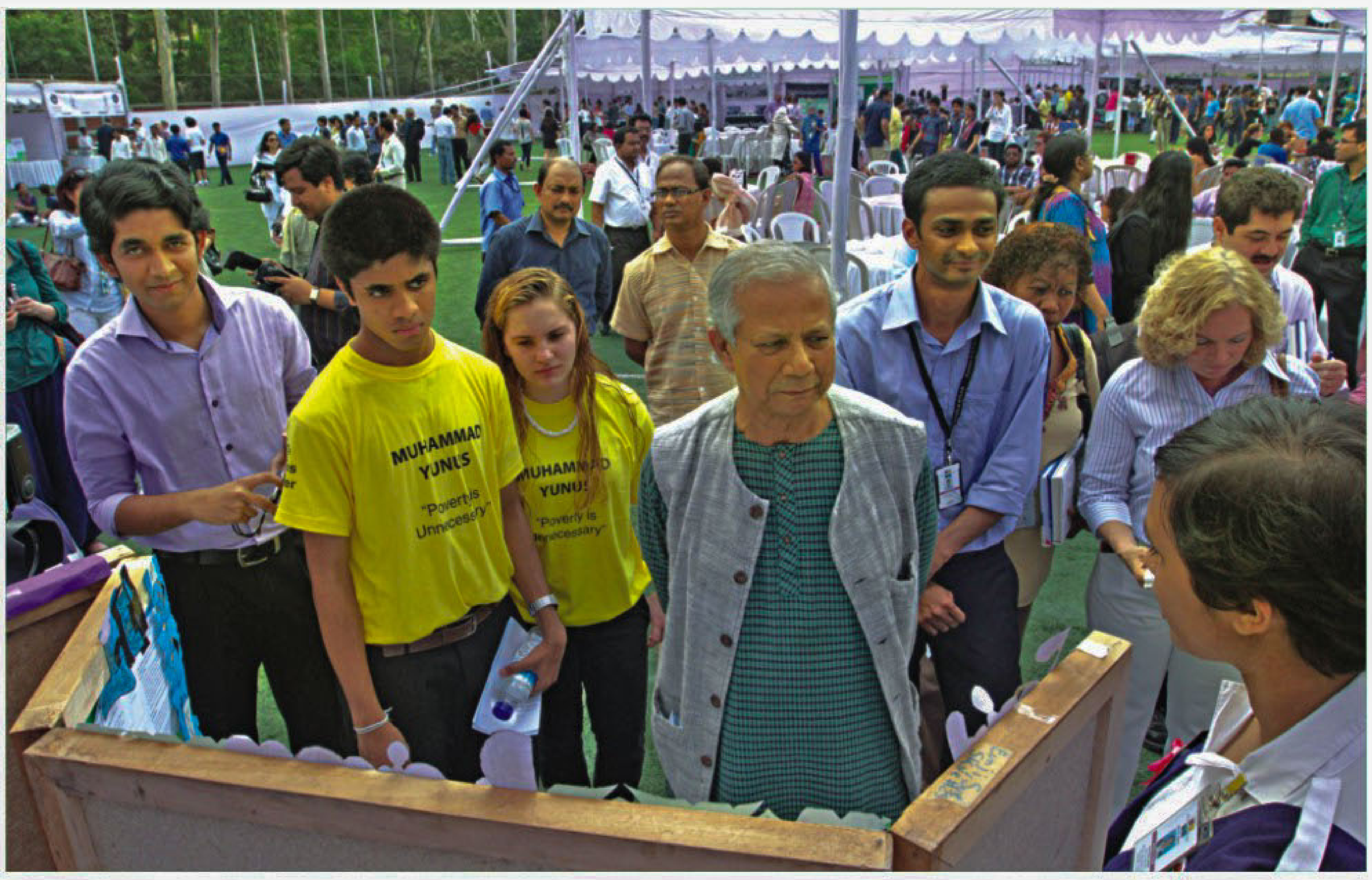

SHAWKAT JAMIL

Nobel laureate Prof Muhammad Yunus listens to a student about her social business project at an event on the premises of American International School, organised by the school and Yunus Centre in Dhaka on March 23.

Corporate conglomerates that are often subject to criticism for their profit maximising behaviours generally seek refuge in corporate social responsibility or charity to confront their critics. Such rather ad hoc and lump-sum donations might help the poor to some extent but they are less potent that on creating a sustaining and lasting impact on poverty or other social needs. Corporate houses have found social business as a new avenue to spend their money and share their technology and expertise in more meaningful ways. Such an endeavour could ease social tensions facilitating the progress of both traditional profit-maximising and social businesses hand in hand.

Academics and universities around the world see social business as a niche area to conduct research. Some leading universities have already instituted research centres to institutionalise the idea. Social media (facebook, twitter etc) is quick to spread the concept from Dhaka to Durban.

Nevertheless, the idea of social business is no more limited to thinking. Several companies based on these ideas have been launched in Bangladesh. Some leading global brands such as Danone, BASF, Adidas and Uniqlo, among others, have been working with Grameen to develop some essential products such as yogurt, mosquito nets, shoes and clothes at an affordable price.

Grameen-Danone, a joint enterprise between France's food conglomerate and Yunus, is already recognised as a successful social business model. In her new book on 'Design Revolution: 100 Products That Empower People', Emily Pilloton, the founder and executive director of Project H Design, identified Grameen-Danone's first product Shoktidoi, a yogurt designed to nourish Bangladeshi children at an affordable price, as one of the 25 products that might change the world.

The design of Shoktidoi brings to mind of the invention of Oral Rehydration Therapy (ORT), a simple treatment for diarrhoea. ORT, a mixture of sodium and glucose, invented in a public health research lab (ICDDR,B) in Bangladesh in the late 1960s saved 50 million lives around the world, according to the World Health Organisation. If one trusts the calculation of the leading economist Paul Romer, the dollars-and-cents value of this simple invention is a few times higher than Singapore's GDP! At a seminar in Singapore in April 2008 Romer cited this remarkable success story to explain how breakthroughs in the development of non-rival goods have been the hallmark of civilisation.

Like ORT, Shoktidoi may not be non-rival goods as the cost of providing it to a marginal (additional) individual is greater than zero. However, economists may agree that it is a quasi-non rival good given its far-reaching impacts to address the malnourishment problem at minimal cost. The economic and social cost of malnutrition is simply staggering. A study conducted by the Unicef shows that an estimated 200 million children under five years in developing countries suffer from stunted growth due to lack of adequate food. Every year roughly six million children die because of nutrition-related illness. It is appropriate that this year's theme of the Social Business Day, to be observed in Bangladesh on today, is Achieving the Millennium Development Goals through Social Business.

The Grameen-Danone initiative is just one example of the immense possibilities of social business. Similarly, thinking out of the (shoe) box Grameen-Adidas social venture aims to minimize the barefootedness problem by producing shoes that cost no more than one euro. Grameen-BASF is planning to produce mosquito nets. The Grameen-Veolia Water Ltd aims to supply clean and safe water accessible to villagers in the poorest parts of Bangladesh. The list goes on.

That said, while the global brands around the world are seeking Professor Yunus's advice on how to develop successful social business models and some social ventures have already been instituted in Bangladesh, this opportunity can also be capitalised to do something bigger.

Bangladesh draws minuscule amount of foreign direct investment (FDI) due to, among other factors, the institutional drawbacks and political risks. This costs the country in many ways. FDI flows bridge finance gap, generate employment and narrow the technology gap, inter alia. The interest generated by social business can be an important channel to narrow all these gaps to a large extent. Moreover, the potential innovation in various projects is likely to generate huge positive externalities, greatly benefiting the society.

While the emerging economies are spending billions of dollars and offering various incentives to host the multinational companies (MNCs), the virtues of social business are prompting them to set up units in Bangladesh. The government is not required to spend a single penny. If the dozens of joint venture initiatives that Garmeen has undertaken are proven to be financially and socially sustainable businesses then hundreds of social entrepreneurs can come forward emulating the model.

What should then be the role of the government to help make social business successful in Bangladesh? It should ideally play a facilitator's role by easing cost of doing business, removing legal barriers, protecting intellectual property rights and offering other incentives to draw the global brands. Social business zones can also be instituted to support the MNCs and local entrepreneurs.

To sum-up, Bangladesh's progress in social sector offers enormous social and economic opportunities. The interest that has been generated by social business has to be seized upon for the interest of the poor. While Professor Yunus, dozens of leading global brands, numerous universities and hundreds of volunteers have contributed immeasurably to assist the excluded by social business, the government should also play its due role. The combination will render Bangladesh an important hub of social business. That again could be Bangladesh's international brand.

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Euro's fate is Merkel's dilemma

REUTERS, *Brussels*

On a rainy Friday night in Berlin, sometime in the next 18 months, Angela Merkel receives a telephone call from the president of the European Central Bank. Let us imagine the scenario. Any resemblance with reality, as they say in the movies, is purely coincidental.

Greece has once again fallen behind on its deficit reduction targets because of its inability to collect taxes. Privatisation plans are behind schedule and investors are shunning the asset sales because of labour unrest and political instability.

A second EU/IMF bailout cobbled together in September 2011 and forced through reluctant parliaments is falling apart.

The International Monetary Fund's board is no longer willing to release more aid for Athens, which will run out of cash within days, causing the euro zone's first sovereign default.

"Madame Chancellor, it's not looking good. There was a run on a Greek bank today with savers queueing to withdraw their euros," ECB President Mario Draghi tells Merkel. "There is carnage on the financial markets. It's hitting the bond spreads of Spain, Italy, Belgium, even France.

"We have been pumping liquidity into the Greek banking system but we cannot go on. If there is no European decision by Monday, Greece will default next week. And if Greece goes, it will hit banks across Europe, spread panic in the stock and bond markets and drag down other stressed euro zone sovereigns."

Further calls follow from IMF Managing Director Christine Lagarde and European Commission President Jose Manuel Barroso, confirming that Greece has reached the end of the road and saying European leaders must decide within 48 hours how to protect the euro from the consequences of a Greek default.

"Since last year we have declared we would do everything it takes to preserve the euro. Well, now's the time," Barroso says, suggesting that EU leaders hold an emergency summit on Sunday.

No one is recommending a third bailout for Athens after the first two failed to put the country's public finances back on a sustainable path. All now recognise that Greece is insolvent.

AFP

German Chancellor Angela Merkel gestures as she waits for the beginning of a meeting with the leadership of her conservative Christian Democratic Union party yesterday in Berlin.

Around midnight, U.S. President Barack Obama calls Merkel.

"The fate of the global economy hinges on what you in Europe do this weekend. If you take bold action to resolve the crisis, America will support you, Madame Chancellor," he says.

GRIM OPTIONS

The options facing Merkel are all grim.

How will she explain to voters in parliament next week that perhaps half of the 35 billion euros she pledged in bailout loans to Greece will be lost, not to mention the extra money needed to recapitalise German banks exposed to Greek debt?

Just imagine Monday's screaming headline in mass-circulation Bild: "Broke Greeks burn our billions."

Will she be blamed for her hesitation early in the crisis, when Greece might have been saved at a much lower cost, and go down in history as the former East German who sank the euro?

How can she reassure Germans, haunted by their 20th century traumas of hyperinflation and a worthless currency, that their money is still safe?

Will she succumb to fierce domestic pressure to force Greece out of the euro area, and at what political and financial cost?

Or is there a way out of the crisis that could strengthen the euro for the future and mitigate the huge losses inevitable in a Greek default?

Finance Minister Wolfgang Schaeuble, the most fervent pro-European in Merkel's cabinet, raises an idea which has been discussed quietly but intensively among an inner core of EU finance officials for months despite public denials.

To limit the market meltdown and restore confidence in the wider euro zone, why not swap Greek government debt at a heavy discount for bonds issued by the euro zone's rescue fund, the European Financial Stability Facility (EFSF)?

These new instruments would be jointly guaranteed by euro zone member states and accepted by the ECB as collateral in its refinancing operations, keeping Greek banks alive.

Greece's debt mountain would be roughly halved to 80 percent of its annual economic output in a restructuring deal with creditors. Banks and insurers would take a steep haircut, as write-downs are called, but would get new bonds underwritten by the EFSF. Most private investors will be well prepared by then.

OUTCRY

There would inevitably be an outcry in Germany. "Eurobonds through the back door," "Merkel accepts transfer union," critics in her centre-right coalition and the media would howl.

Merkel's liberal FDP coalition partners might walk out of government, but they are a dwindling force anyway. Rebels among her Christian Democrats could try to bring her down, but they have no obvious alternative candidate.

She would find support among the opposition Social Democrats and Greens if she chose the route of European bonds.

Based on her government's record during the crisis, there are grounds to believe she might ultimately choose the Eurobond solution "to save the euro" on that fateful weekend.

"(The German government) always signal they'll go national but in the end they go European at the very last second," says Henrik Enderlein, professor of political economy at the Hertie School of Governance in Berlin and at the pro-European end of the German debate.

Merkel vowed not to bail out Greece before doing so. She insisted there would be no general bailout fund, only to accept one. She said the EFSF would be temporary, then allowed a permanent rescue mechanism. She demanded compulsory private sector involvement in future bailouts but settled for a voluntary solution.

Up to now, she has vehemently rejected the idea of jointly issuing common euro zone bonds, but that too could change in extreme circumstances.

"There is no real constraint on Germany as long as there is pro-European leadership," says Enderlein, "They wouldn't call it Eurobonds but EFSF bonds."

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