

innovations

TECHNOLOGY | GOVERNANCE | GLOBALIZATION

Special Edition for the World Economic Forum Annual Meeting 2009

Social Innovation in a Post-Crisis World

Lead Essays

Social Innovation in a Post-Crisis World Klaus Schwab & Hilde Schwab

Social Ventures as Learning Laboratories J. Gregory Dees

Macro Impact on Microfinance Roshaneh Zafar

A Bank as Courageous Investor Ellen Seidman & Ron Grzywinski

The Upside of the Downturn Peter Blom

Cases Authored by Innovators

Power Play Rory Stear and Kristine Pearson

Ending Dependency Cosmas Okoli

Empowering the Rural Poor to Develop Themselves Bunker Roy

Garden in the Desert Ibrahim and Helmy Abouleish

From Fear to Hope Karen Tse

Perspective on Policy

The Resilience Imperative Philip Auerswald and Debra van Opstal

innovations

TECHNOLOGY | GOVERNANCE | GLOBALIZATION

Introduction

- 3 Philip Auerswald and Mirjam Schöning
-

Lead Essays

- 7 Social Innovation in a Post-Crisis World
Klaus Schwab and Hilde Schwab
- 11 Social Ventures as Learning Laboratories
J. Gregory Dees
- 17 A Bank as Courageous Investor
Ellen Seidman and Ron Grzywinski
- 23 Macro Impact on Microfinance
Roshaneh Zafar
- 29 The Upside of the Downturn: How Sustainable Banking Can
Deliver a Better Future
Peter Blom
-

Cases Authored by Innovators

- 33 Power Play: Freeplay Energy and the Freeplay Foundation
Expand Access to Energy, Information, and Education
Rory Stear and Kristine Pearson
- 61 *Case discussion:* Freeplay Energy and Freeplay Foundation
Johanna Mair and Kate Ganly
- 67 *Case discussion:* Freeplay Energy and Freeplay Foundation
Christopher Bull
- 71 Empowering the Rural Poor to Develop Themselves:
The Barefoot Approach
Bunker Roy
- 98 *Case discussion:* Barefoot College of Tilonia
John Elkington

- 107 Ending Dependency: MAARDEC Takes a Multi-Dimensional Approach to Rehabilitation of Disabled Nigerians
Cosmas Okoli
- 121 *Case discussion:* MAARDEC
Amos G. Winter and Amy Smith
- 125 Garden in the Desert: Sekem Makes Comprehensive Sustainable Development a Reality in Egypt
Ibrahim and Helmy Abouleish
- 153 *Case discussion:* Sekem
William J. Baumol
- 160 *Case discussion:* Sekem
Ayman El-Tarabishy and Marshall Sashkin
- 169 From Fear to Hope: Upholding the Rule of Law via Public Defenders
Karen Tse
- 195 *Case discussion:* International Bridges to Justice
Kenneth Neil Cukier

Perspective on Policy

- 203 Coping with Turbulence: The Resilience Imperative
Philip Auerswald and Debra van Opstal

About *Innovations*

Innovations is about entrepreneurial solutions to global challenges.

The journal features cases authored by exceptional innovators; commentary and research from leading academics; and essays from globally recognized executives and political leaders. The journal is jointly hosted at George Mason University's School of Public Policy, Harvard's Kennedy School of Government, and MIT's Legatum Center for Development and Entrepreneurship.

mitpress.mit.edu/innovations

Social Innovation in a Post-Crisis World

The current financial crisis has clearly demonstrated our global interdependence. It has also shown us that the economy and society are closely interconnected, with impacts reaching even the most marginalized populations in society. The economy is not in an independent realm, contained and limited in its impact on society. It is, in fact, integral to society. We therefore need to reshape our economy to serve society more broadly. We have already been provided with revolutionary social innovators who have been reshaping this relationship between society and the economy. To support these social entrepreneurs and promote their vital models of sustainable social change, we established the Schwab Foundation for Social Entrepreneurship ten years ago. Pioneering social innovators from the Schwab Foundation's community of leading social entrepreneurs have shared their perspectives in the special edition of this journal.

The considerable economic difficulties facing the world in the coming years will have an impact on our collective efforts to address social and environmental issues. Given the turbulence in the global financial system and its consequences for the global economy, even more people around the world will be facing such devastating problems as unemployment, poverty, and hunger as global trade shrinks. With economies in recession or with diminished growth, and with an increase in government debt from financial bailouts in many countries, it is likely that expenditures on local and international social programs will diminish and new projects will be shelved for several years.

In the present era of concurrent economic, social, and environmental challenges, the need for innovation is greater than ever to offer resilience in turbulent times and seek new opportunities and strategies for social transformation. Despite agreement from public and corporate sectors alike on the need for innovation to solve the complex national, regional, and global challenges, significant barriers remain. As the world's institutional, legal, and regulatory frameworks are reviewed, we should seek to understand how to facilitate the work of innovators, particularly social entrepreneurs who innovate in the broader public interest.

Professor Klaus Schwab is the Founder and Executive Chairman of the World Economic Forum and Co-Founder of the Schwab Foundation for Social Entrepreneurship. Hilde Schwab is the Chair and Co-Founder of the Schwab Foundation for Social Entrepreneurship. KickStart, ShoreBank, Aravind, and Narayana Hrudayalaya are all part of the Schwab Foundation's community, representing a group of 154 leading social entrepreneurs from 45 countries.

In its efforts to depoliticize international problems and reform the way that multilateral negotiations take place around global challenges, the World Economic Forum has proposed a new global cooperation system that leverages technology, diversity, and trust to support, not replace, existing governance structures and international institutions. The World Economic Forum has created a Global Agenda Council of experts selected by peer review, which includes scientists, economists, academics, business and civil society leaders, to address 68 of the most pressing issues. The intention is to create a network of around 1,000 Global Agenda “trustees” who will develop into a central intelligence hub to provide early warnings and solutions to major international problems. Already, 700 global

experts have come together, at the Summit on the Global Agenda in Dubai in November 2008. While there is significant promise in bringing together the foremost experts on each one of the issues, the real breakthrough was in cross-linking all the experts from different disciplines and sectors, given the inter-linked nature of the challenges the world faces. Social entrepreneurs stand at the nexus of many of these

The economy is not in an independent realm, contained and limited in its impact on society. It is, in fact, integral to society.

issues.

Social entrepreneurs can readily provide key insights into many of these global challenges, as they have proven solutions that have already been implemented at significant scales where many experts and international agencies have failed in the past. In addition to a dedicated Global Agenda Council on Social Entrepreneurship, the Schwab Foundation has strategically positioned social entrepreneurs in numerous other councils, in addressing issues including water, energy security, health care, and financial empowerment. They can connect global decision-makers to a rapidly changing world that today is more bottom-up than top-down.

In the financial services sector, where derivatives and other financial instruments received much attention from investors seeking new frontiers for profit, many important social innovations have emerged over the last few decades, creating enormous social and economic value. Novel banks, such as the Grameen Bank in Bangladesh, have led many others in the field in providing microfinance at scale to millions of borrowers who would not be deemed creditworthy by most traditional banks. Meanwhile, in the U.S., ShoreBank began as one of the original lenders of housing credit to poor communities and provided financial backing to invest in and regenerate communities. "In Europe, Triodos Bank has flourished on the principle of sustainable and ethical banking. In this journal's special edition, Peter Blom elucidates why Triodos is somewhat impervious to the current downturn and continues to prosper.

All three of these financial institutions developed long-term relationships of trust with their clients and investors, motivated by principles of trust, transparency, and sustainability. The reason the banks existed was to serve their clients, not only to enrich their shareholders. In other words, they were mission driven, not profit driven, and they realized the importance of remaining solvent and liquid with a healthy balance sheet. As a result of these trust-based relationships and a focus on the broader impact of their investments, all three institutions continue to prosper despite the international banking crisis we are experiencing today.

Will such socially or ethically oriented businesses, and those that serve the economic groups at the base of the pyramid, prove to be resistant to or even thrive in the current downturn in the global economy? As yet, there is no evidence of the downturn's impact on social entrepreneurs—and the microfinance industry has not reported any negative impacts—it may be partially resilient to the current volatility, as its clients at the lower end of the global income scale show robust reliability.

In this special edition of *Innovations*, Ellen Seidman and Ron Grzywinski describe ShoreBank's resilience and innovation in dealing with the housing and mortgage crisis in the U.S. The ShoreBank Corporation, headquartered in Chicago, is a US\$ 2.6 billion company that owns, operates, invests in, and advises development banks around the world. In 2007, as the signs of the housing market collapse became evident in the U.S., ShoreBank realized it needed to intervene early in order to protect its communities from facing foreclosures as payments increased. To refinance many home loans that had been issued by unscrupulous non-bank lenders, it launched its Rescue and Prevention Loan Program, reaching out to those at risk and doing in-depth underwriting. Default rates in its portfolios have remained below 2% and the bank continues to turn a profit; its mission-focused lending is also its most profitable.

Although the current economic downturn will create further challenges for social entrepreneurs in gaining access to credit, working capital, and philanthropic funding, it is also a time of opportunity for social innovators. The world now recognizes that it needs revolutionary and ambitious approaches to revitalize our societies and economies. Traditional philanthropy or corporate social responsibility may become more attracted to the strategies of social investing because of its emphasis on cost-effective social impact and preservation of capital. Social entre-

Our belief in the power of social innovators lies not only in the direct impact of the goods and services their organizations deliver, but particularly in the role they play as catalysts for broader social transformation.

preneurship provides a powerful opportunity to deliver meaning at a time when other “returns” seem less appealing.

The past year saw turbulence beyond the financial sector, with insecurity and violence emerging afresh in places like Kenya, Pakistan, and India, in addition to the ongoing conflicts around the world. There is also much to learn from studying social entrepreneurs working in these environments, who have developed strategies of resilience and have had to innovate to continue their missions under such conditions.

This journal has previously profiled KickStart and its founders, Martin Fisher and Nick Moon. KickStart designs, produces, and sells appropriate technologies to rural entrepreneurs in some of the world’s poorest markets in Kenya, Tanzania, Mali, and Burkina Faso, allowing them to start small-scale businesses. It has helped to start 73,821 new businesses and has created US\$ 81 million a year in new profits and wages as people in Africa use its products.

When the post-election violence erupted in Kenya, hundreds of thousands of people were displaced; farming ground to a halt, and severe food shortages resulted. Even more people lost the ability to support their families and were driven into poverty. Although the violence was politically motivated in Kenya, it emerged from poverty and inequity and a sense of despair. Many companies would have packed up and left amid this turmoil. Instead, KickStart launched a major new program called *Imarisha Maisha* (Swahili for “improve” or “strengthen your life”) to help Kenya get back to work and to kick-start the recovery. By collaborating with relief agencies in the areas most impacted by the violence, using live demonstrations and radio advertisements, it got the “back to work” campaign well on its way to supporting over 17,000 people through the irrigation of 5,000 acres of land. The increased food production from this land also helps to lower the cost of fruits and vegetables for hundreds of thousands of Kenyans.

Our belief in the power of social innovators lies not only in the direct impact of the goods and services their organizations deliver, but particularly in the role they play as catalysts for broader social transformation. ShoreBank arose out of a housing crisis in the U.S. in the 1960s; as the first community development financial institution in the U.S., it served as the model for a federal program that spearheaded the proliferation of such community development banks across the US. Meanwhile, in India, two leading social innovators have proven that low-cost models of private health care can be sustainable and profitable: Dr. Govindappa Venkataswamy established Aravind Eye Hospital, and Dr. Devi Prasad Shetty built Narayana Hrudayalaya for cardiac care.

Social innovators have proven to be models of success in uncertain market conditions and in unstable environments. Their accomplishments and resilience are a guiding light in a dark time when we desperately need ways to tackle multiple economic, social, and environmental challenges. All of us—governments, business, academia, and citizens—must commit to bolstering innovations in the public interest to guide us through these turbulent times.

Support for Production of the *Innovations*

Special Edition for the World Economic Forum Annual Meeting 2009

Provided by the **Schwab Foundation for Social Entrepreneurship**



INNOVATIONS IS JOINTLY HOSTED BY

**GEORGE MASON
UNIVERSITY**

School of Public Policy

**Center for Science and
Technology Policy**

HARVARD UNIVERSITY

**Kennedy School of
Government**

**Belfer Center for
Science and International
Affairs**

**MASSACHUSETTS
INSTITUTE OF
TECHNOLOGY**

**Legatum Center for
Development and
Entrepreneurship**

with assistance from

The Lemelson Foundation

The Ewing Marion Kauffman Foundation

The Ash Institute for Democratic Governance and Innovation, Harvard University

The Center for Global Studies, George Mason University



School of Public Policy



mitpress.mit.edu/innovations
editors@innovationsjournal.net