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**Social entrepreneurship as a tool for development Aid agencies to generate
sustained local economic development.**

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Introduction

Despite efforts that have been made throughout the last decades and recent accomplishments in the fight against poverty, four billion people around the globe suffer from the effects of poverty. The world's poor lack the skills necessary to bring development to their communities on their own. In the past years several studies have been published highlighting that development Aid agencies have an inefficient structure towards localizing the money spent on projects to communities in need. Therefore through the analysis of the economic behavioral effects of poverty and the research of social entrepreneurship tools we develop a strategy to be used by development aid agencies that will ultimately, involve the community, generate financial education and promote local economic development.

The first step in our approach to tackle this task will be to analyze the historical background of how development aid has been delivered in the past 70 years. The second step is to understand what are the goals set by the United Nations for this new millennium in the fight against poverty. By gathering this background knowledge we will be able to identify the pitfalls of the development aid process and the trends for the next decades. The third step of our work will be to support our work with theories such as behavioral economics, game theory and concepts such as the bottom of the pyramid and the leaky bucket. This will provide us the necessary knowledge to develop a sound strategy for the development Aid agencies.

In the following section we will introduce the concept of social entrepreneurship, present examples of social enterprises around the world and propose how development aid agencies can incorporate social entrepreneurship in their actions using their current cost structure. By analyzing different models of social enterprises and contrasting with the agenda set by the United Nations in the post 2015 development goals we will develop a strategy which development agencies can use in order to generate community involvement, promote financial education, create local enterprises and retain wealth in the poor communities.

The goal of this thesis is not to completely solve the complex problem of the effectiveness of Aid funds but to give a new direction, the first step that can be taken by these organizations towards ensuring sustained local economic development. This will ultimately enable the transition from an aid-based economy to an entrepreneurial economic mind-set. In this transition it is key to disseminate this entrepreneurial mindset across the population, that is why this is the first step to ensure this achievement.

1. Introduction to Development Aid

1.1 The historical background of AID

The modern development Aid history starts at the end of the colonial period, more specifically in the post-war period. Consequently its foundations were greatly influenced on one side by the social and structural challenges that were descriptive of former colonial nations and on the other by the political and ideological division of the period leading up to the cold war (Inada, 2004).

This political scenario and the economic state of former colonies led to a more inward-look amongst policymakers to develop strategies to overcome the development gaps faced by these nations. It is also relevant to note two interesting characteristics during this period, a certain aversion towards the influence of the former colonizer country and the political chess play of the post-war era (Führer, 1996).

There is a clear influence throughout the evolution of Aid policies of political and economic interests, influencing the development agencies and its projects across the world. In the following paragraphs we will highlight the characteristics and instruments for delivering Aid, starting from the 1940's up to current times. This historical background will give us the ground knowledge for analyzing the development goals highlighted in the United Nations' Post-15 development agenda (United Nations, 2015).

1.2 The development thinking in the 1940's -1950's

In the Political Arena, American president Harry Truman in his inauguration speech in 1949 made what is commonly known as the Four Point Speech. In this speech, made as the world emerged from the Second World War, he laid out the foundation on which modern foreign aid policy was constructed.

I hereunder present the four famous points, and I quote: (Truman, 1949)

- i. "We will continue to give unfaltering support to the United Nations and related agencies";

- ii. “We will continue our programs for world economic recovery”;
- iii. “We will strengthen freedom-loving nations against the dangers of aggression”;
- iv. “We must embark on a bold new program for making the benefits of our scientific advances and industrial progress available for the improvement and growth of underdeveloped areas”.

Through this speech we can clearly identify the path of development that was sought out by the USA, an international development strategy of creating new economic markets and focusing on heavy industrialization while evidencing the political use of Aid policies.

During this period the main toolkit used by economists was a set of strategies that underlined the idea that economic growth and modernization would bring development and social benefits as a complementary result of GNP growth (Anderson, 2006).

GNP growth was the main goal of the development strategy during the period and the main economists at the time highlighted the need for large and discrete investment to drive growth.

With this idea in mind the role of aid during the 1950’s was to transfer enough resources to allow the developing countries to obtain a high savings rate that would kindle self-sustained growth (Dollar, 1999). The basic assumption behind this strategy was that the population in poor countries did not have enough income to enable them to generate savings. With this assumption and the Harrod-Domar (Anderson, 2006) model of growth which defines economic growth rate as a function of levels of saving and productivity of capital and calculates the “financing gap” i.e. the amount of capital necessary to achieve the desired economic growth (Keeley, 2007). To eliminate this gap, foreign AID and investment was required and as a result economic development would be attained (Kharas, 2007).

As already discussed, industrialization, both in the political and economical side was the main strategy to pursue development. Therefore throughout the following decades we will see massive money transfers towards industrialization projects focused on import substitution

products and a undermining of agricultural and primary industry, as it was believed that the later would be able to grow with the development of the local economy.

This strategy however while helping tilt the commercial balance through the substitution of imported items, did not focus on developing export products and creating a strong agricultural base in order to gain alimentary self-sufficiency. The long run effects of this strategy led to countries with structural economic problems that further hindered the development progress.

Nevertheless, despite any economic progress or setback, the political aspect of the role of AID was already clear as the programs from the U.S and Western Europe were aimed to block the threat of communism expanding to more nations (Dollar, 1999).

1.3 The development thinking in the 1960's

During this period economic thinking evolved from the development doctrine of the previous decade to a dual-economy model where the economic growth performance would be depended of the coordination between the agricultural sectors and modern industry.

Following this economic thinking, during this decade the agriculture sector gained relevance as one of the drivers of development (Dollar, 1999). This is evidenced by the flow of resources directed to generate a greater agricultural output and increase productivity.

During this period there was two theories presented that had an important influence on the topic the “balanced” Vs. “unbalanced” growth theories (Keeley, 2007) Nurske in his balanced growth theory highlighted the need of sectorial output growth to accompany new demand as income rises. On the other hand, Hirschman (Dollar, 1999), in the unbalanced growth theory underlined the lack of decision-making ability by the public and private sector as the main holdup for development. Hirschman's theory is that instead of focusing on import-replacing industries a country should focus on having industries that generate a chain of investments in the supply chain, thus generating a greater impact and creating the need for further investments in social overhead projects (Keeley, 2007).

What is important to note that despite these two different approaches, the common ground of these theories is that there was a key need for interaction between the industry and the agricultural sectors in the process leading to successful economic growth.

The central idea of the economic development models designed in the 1960's was that constraints of skills and constraints of savings are the main constraints for economic growth. Therefore during this period the objectives for economic development were centered on GNP growth and a focus on the balance of payments.

The strategy for development AID during this period was greatly influenced by this economic thinking approach and followed a neoclassical approach to "regulate" or better said "fine tune" the economic mechanism of a country, i.e. commodity prices, taxes, subsidy rates, etc. (Dollar, 1999). The purpose was to remove market imperfections and establish sound commercial policies.

Following this focus to overcome this gaps the policies put in place during this period were focused on financial aid to tilt the foreign exchange gap and the inter-sectorial development specially focusing on the agriculture development which had been largely neglected during the previous decade (Anderson, 2006).

1.4 The development thinking in the 1970's

By the beginning of the 1970's official development assistance as we presently know had been already been acting for two decades and serious development issues and setbacks were being identified (Keeley, 2007).

During this period several structural problems in the society were identified, such as underemployment or completely lack of employment, unequal income distribution, increasing number of individuals under the poverty line, mass urban migration and consequent collapse of urban infrastructure. All of these problems allied to an alarming rise in the debt and the inability to pay its loans was chocking the economic performance of the developing countries (Dollar, 1999). With this painted scenario a shift in the preference of approaches by the developing countries was taken and a greater attention was directed towards reducing income inequalities and lifting people above the poverty line. Alongside that was the fall in disuse of GNP as a synonym for social and economic development (Führer, 1996).

In order to overcome the issue of distribution of wealth and create growth, an increase in investment projects that generated benefits to the poor was needed. This was a change in the mindset that welfare policies not growth alone would overcome this gap. The two main beliefs in relation to the basic needs that every human being should have were:

- i. Adequate food, shelter and clothing;
- ii. Drinking water, sanitation, health and education.

With this scenario in mind and as a result of the research conducted by the World Employment Programme (Keeley, 2007) new types of investments and forms of interventions were needed. This highlighted the change in perception that economic growth was not exclusive attained by domestic and external savings.

During this period it can be clearly seen the shift taken by the World Bank and USAID, regarding their investments. Former investment projects in telecommunication, power and transport were replaced by efforts in housing, health, education, rural development and technical assistance projects. (Brown, 1990)

This was the beginning of the tactic to deliver AID in a package combining technical knowledge and support, and investment. This strategy aimed directly to strengthen the traditional rural sector population and secure their welfare.

Furthermore the approach taken during this period to foment the rural agricultural, not only led to the green revolution in India (Dollar, 1999), but by focusing on labor-intensive technology it laid the ground for a “bottom-up approach” in the development. This contrasts the former approach adopted in the previous decades of importing technology and capital and implementing the solution without giving space for the learning process and local adaptation to take place.

1.5 The development thinking in the 1980's

It is needed to mention that during the 1980's the macroeconomic scenario was shaking up economies all around the globe (Dollar, 1999) and the whip is always felt more intensely in

the least developed countries and or in the least resilient economies. This was the case for the great majority of developing economies during the 1980's, with evidences appearing in the deficit of the balance of payments in the emerging economies and an economic recession in the developed world inducing a rise in the interest rates (Dollar, 1999). This was the recipe for an international financial crisis that molded and forced a shift in the economic development strategy for this period. The main economic development objective for the period was to stabilize the country's balance of payment, have a budgetary and monetary internal restructure and focus on efficiency. Only after these actions were take, the economic growth and poverty alleviation programs could be resumed (Inada, 2004).

During this period where numerous amounts of market imperfections and failures were highlighted, one important concept to mention is the influence of the "New Institutional Economics" (NIE) (Dollar, 1999). This field of study analyses the impact that individuals and organizations have on in economic development. The impact of culture, legal systems and political institutions in the development of economies was long simplified in previous decades, but what they really are is the informal and formal rules of the society, it is the "rule of the game" (Anderson, 2006).

This theory reinforces the need for coordinated solutions and a need for a coordinated effort on the aid strategy programs, there is no one-stop solution too often countries have envisioned a "home-run" strategy to win the fight against underdevelopment.

This evidences the way on which the developing community should follow towards building institutions that strengthen the "rules of the game" in each country and that offers a fair playing field for entrepreneurship and development to flourish. With this new approach during these period several non-market exchange program settings, i.e.co-operatives and group organizations were implemented specially in the rural area (Dollar, 1999)

Another characteristic of this decade was the improvement of data measurement and tracking techniques, providing a good source of information for a more detailed and strategic economic development strategy. One major statistical program conducted during this period was the Living standard measurement surveys, ran by the World Bank (Keeley, 2007)

We are able to observe that the shift from the active strategy of development aid during the 70's of redistribution of wealth gave place to a scenario of fiscal adjustment packages and financial recovery and analytical role of development aid during the 1980's.

The role of Aid during this period of time was largely criticized and with the tensions raised due to the financial crisis and an increase in pro-market rhetoric (Anderson, 2006) it was largely believed that government Aid flow should be terminated and that Aid should rely on private capital flows. What kept Aid capital flows rushing to the veins of the developing economies was the dependency of the international economy on these new consumer markets (Keeley, 2007). Nevertheless, this conturbed scenario was the one on which we observed the first efforts of donor countries to create private agencies to deliver Aid projects, a trend that would only increase in the next decades.

1.6 The development thinking in the 1990's

During the first half of the 90's we can still observe the same fiscal adjustment policies being put in place and acting as the main target for the economies around the world. Nevertheless evidences of deep corruption problems in the developing world and the need to implement new market institutions in the former communist countries, strengthened the belief that these were the key barriers that hindered growth (Anderson, 2006). However during the second half of decade, the Development AID strategy continued to be influenced by its tag-tail tale of always being one step behind of the problem and never being ahead of it. Therefore poverty alleviation programs where the main priority especially due to the deterioration in the socio-economic conditions in the former communist block. Allied to that was the still ongoing financial assistance to the economies suffering shakedowns from global markets and an urgent need to remodel the international monetary and financial systems (Dollar, 1999) to adapt to the new rules of the game emplaced by a globalized economical system.

During this decade there is one important concept that generated an impact on the development mindset, i.e. social capital (Keeley, 2007). The concept of social capital is the one that through the relationships build between individuals and between organizations,

appear synergies and opportunities that can be used to foster growth and development. In the book *The New Economy: Beyond the hype*, the author highlights the importance of this concept, and I quote: “*Social capital provides the glue which facilitates co-operation, exchange and innovation*”. (Keeley, 2007)

This lack of “relationships” described as social capital creates a development “trap” from which the peoples under the poverty line struggle to break loose and end up unable to build this social capital that can provide instruments for growth.

The more analytical approach undertaken in the 80’s kept its trend during the 90’s and the economical development thinking arena of the decade was greatly influenced by the East Asia miracle and the report made by the World bank on which it analyzed the factors of success of these economies and what could be mirrored to other developing economies around the world to achieve the same results (Keeley, 2007). They can be resumed in 5 main points:

- i. Balanced budgets and competitive exchange rates;
- ii. Political stability;
- iii. Export and market oriented economy;
- iv. High investment on human capital;
- v. Technological acquisition.

Despite the fact that the effectiveness of Aid programs was strongly challenged and criticized by private and public opinion, a common ground was found when supporting the opinion that Aid allocation should prioritize poverty alleviation programs. As evidenced in the study on Aid allocation and poverty reduction (Dollar, 1999), despite the coherence in the method of Aid allocation the same is extremely inefficient with respect to the goal of reducing poverty. It also shows that investment made to finance new institutions has a low effectiveness rate and the most efficient results are attained in programs with direct benefit to the population.

This scenario of Aid fatigue, after 60 years of diverse approaches towards development strategy was the norm for the development strategies in the beginning of the 20th century.

1.7 The development thinking in the 20th Century

With the rise of the new millennium and the experience accumulated over the previous decades of development AID programs, the United Nations and its members gathered in a general assembly in 2000 to outline the main objectives and goals of global development (General Assembly, 2000). Following this initial action, a series of meeting were held until 2015 in order to track the progress of the objectives for the century and to readjust the strategies accordingly to the fast-pace changing world.

1.7.1 United Nations Millennium declaration

In what it is commonly know as the Millennium declaration (General Assembly, 2000) the UN and its member, restate the notion of shared responsibilities for the social and economic development of the world. This declaration was at that point in time groundbreaking. Unlike the previous decades of uncertain and volatile development policies and goals, this decade starts with tangible goals for development that can be measured and assess the performance of the development strategy. The main goals that are relevant for our research are presented hereunder: (General Assembly, 2000)

- i. To halve, by the year 2015, the proportion of the world's people whose:
 - a. Income is less than one dollar a day;
 - b. People who suffer from hunger;
 - c. People who are unable to reach or to afford safe drinking water;
- ii. To ensure, by the 2015, that children everywhere, will complete a full course of primary schooling;
- iii. To reduce, by the 2015, the maternal mortality by three quarters, and under-five child mortality by two thirds, of their current rates;
- iv. By 2020, to have achieved a significant improvement in the lives of at least 100 million slum dwellers as proposed in the "Cities Without Slums" initiative.

While in the social development side the millennial declaration is very clear and has a set objective, in the economic and financial development side it is very vague and contains a fair

amount of idealism in terms of its requests towards trade and debt. To make it clearer, I quote three main points (General Assembly, 2000):

- i. To implement the enhanced program of debt relief for the heavily indebted poor countries;
- ii. Cancel all official bilateral debts of those countries in return for their making demonstrable commitments to poverty reduction;
- iii. To adopt a policy of duty- and quota-free access for essentially all exports from the least developed countries.

This approach towards the financial and economic side of development assistance follows the same thinking of the previous century and does not good towards empowering the local population. This approach provides no incentives to develop an entrepreneurial attitudes and towards the construction of solid institutions in the poor countries.

1.7.2 The Monterey Consensus

Having realized that there were shortfalls in the resources to achieve the goals in the Millennium declaration, in 2002 heads of state from all over the world gathered in Mexico to discuss the financing strategies for global development (United Nations, 2003) The main goals to follow are: to achieve sustained economic growth, promote sustainable development and eradicate poverty.

Among other benefits about this meeting and the declaration that resulted from it, was a more realistic approach towards the financial strategies to achieve the development goals, underlining the primary responsibility of each country to achieve its own financial and social development. The leading actions of this meeting were (United Nations, 2003):

- i. Mobilizing domestic financial resources for development;
- ii. Mobilizing international resources for development: foreign direct investment and other private flows;
- iii. International trade as an engine for development;

- iv. Addressing systemic issues: enhancing the coherence and consistency of the international monetary, financial and trading systems in support of development.

Apart from these financial goals it is important to highlight one important topic emphasized during the meeting, which is the necessity to have continuous involvement (United Nations, 2003).

In the international development arena there is too much talk and too little action and while after every assembly or meeting the goals and objectives look good on paper, very little results is achieved in reality.

1.7.3 The Paris declaration of Aid effectiveness

Following the goal of the Monterey consensus of staying engaged and the heads of state and global institutions met in 2005 in Paris to keep on the path of coherence, coordination and cooperation (OECD, 2008).

The main goal was to establish indicators to be achieved by 2010, measuring AID effectiveness and strengthening the roles of cooperation amongst institutions and between donors and recipients.

1.7.4 The Accra Agenda for Action

In September 2008, developing and donor countries met in Ghana to keep track of the implementation strategies that were set in Paris. The scenario painted at the time was that countries were making progress towards the millennial development goals, however at a slower pace than necessary to achieve the targets set in Paris by 2010 (OECD, 2008).

With that in mind the Accra meeting had actions directed towards the acceleration of progress on aid effectiveness. They most relevant ones are (OECD, 2008):

- i. Strengthening Country Ownership over Development;
- ii. Strengthen their capacity to lead and manage development;
- iii. Reduce costly fragmentation of aid;
- iv. Deepen our engagement with civil society organizations.

These actions follow the trend of the development concept of the 21st century and focus on the three main points to be addressed in the development strategy, i.e. individual empowerment, coordination, accountability and results.

1.7.5 Meetings and actions taken from 2009 until 2015

During this period, following the trend of the previous years, two main meetings focused on tracking the actions towards achieving the Millennium development goals were held; keeping the promise, 2010 and the future we want, 2012. The resulting reports from these meetings do not present any major changes from the previously discussed meetings and their main role is to highlight the progress made up to the point on achieving the 2015-millennium goals and reinforcing the need for international cooperation and efficient action directed to reducing poverty.

1.8 Lessons from history

After having an overview of approximately eighty years of development aid policies we can clearly see the path of evolution it has taken. With this overview we are also able to visualize the trend of development to where the arrow is pointing and the most efficient strategy to achieve the economic development.

We started from a post-war development strategy that stressed the need of high investments in industrialization projects and undermined the agricultural sector (Dollar, 1999). Evolved to an integrated economy approach during the 60's, where industrialization and agricultural enterprises would evolve together to generate growth (Anderson, 2006). Realized during the 70's that growth in the national income alone was not sufficient to measure success of economic development and an approach directed towards providing social welfare and focusing on small rural areas were key to impeding the growth of poverty (Inada, 2004). During the 1980's and most of the 90's we experienced a great financial crisis among the developing countries and a high level of debt which required several debt-relief and financial

rescue. This period also provided a great learning process for the global economy and a lot of criticism towards the Bretton wood Institutions, i.e. the World Bank and the International Monetary Fund (Keeley, 2007), as being the ones responsible for the economical struggle of high indebted economies.

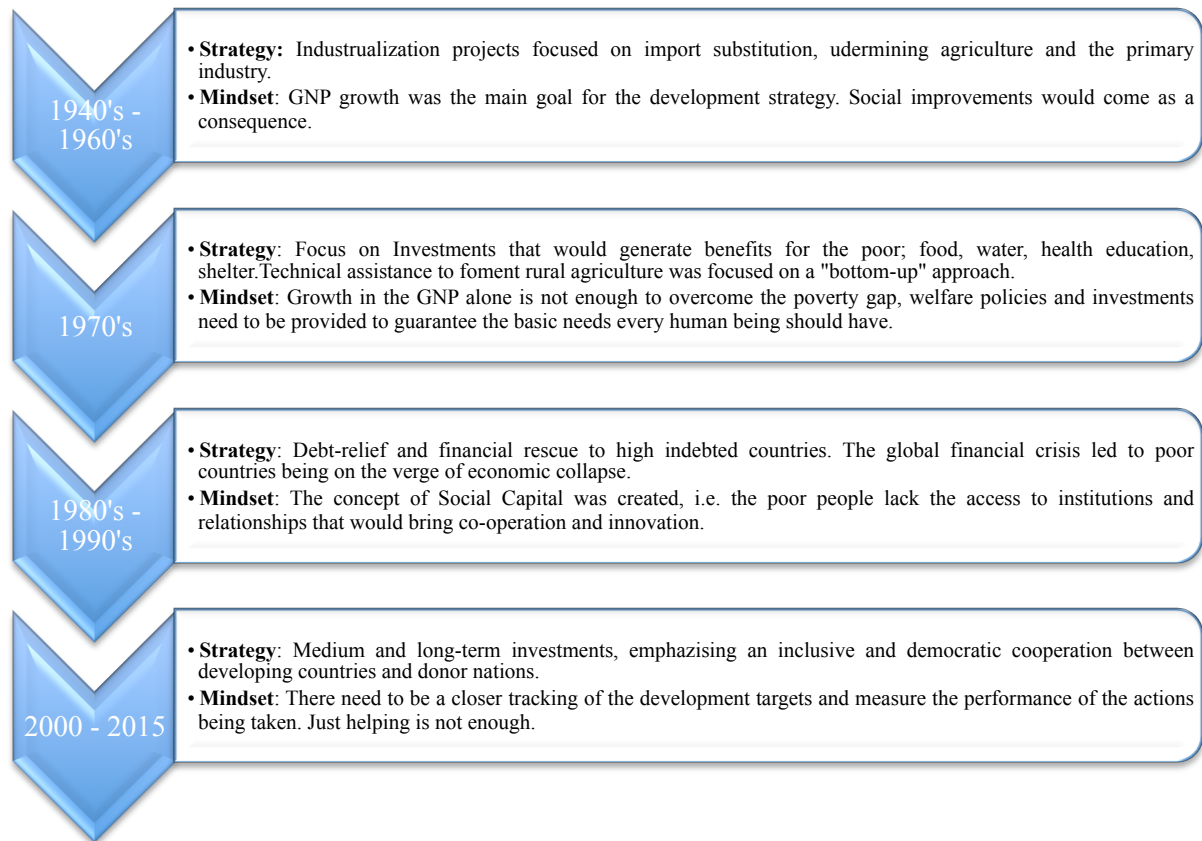
All along the evolution of the development strategies from the 1940's up to the end of 1990's, we can observe that there was always a trait of developing actions that were lagging the problem and never were ahead of them. These abovementioned traits bred a mindset of looking for short-term policies to solve problems and never to generate sustained development solutions.

With the start of this new century we can clearly see a renewed and practical approach towards the development aid strategies. A shift from policies focused on achieving fast results and with a top-bottom approach, to the establishment of medium and long-term development goals that emphasized an inclusive and democratic cooperation between developing countries and donor nations (REF).

This can be clearly observed in the United Nations millennial development goals (General Assembly, 2000) and in the succeeding meetings that were held to track the development targets, to measure the performance of the actions and to re-adjust the engagements accordingly to the current technological and social evolution of the world.

To sum up, the development aid's track record analyzed allows us to identify the trend of the development agenda for the 21st century pointing towards a bottom-up approach, empowering and including the population from developing countries to be accountable and develop own strategies for development. This trend will be seen in the form of developing mechanism that provides opportunities to foster economic growth through entrepreneurship. In TABLE 1 we will be able to have an overview of the development strategies across the decades.

TABLE 1: Evolution of the Development Aid strategy and mindset



Source: Created by the author inspired by (Inada, 2004)

2. What to expect from the future?

With the deadline of the millennium goals in sight a set of seventeen Sustainable development goals (SDGs) were proposed in 2015 to be approved by the United Nations in September 2015 (United Nations, 2015). The lenses with which we will analyze the SDGs will be one of entrepreneurial mindset, looking for elements that need to be solved and evidencing the need for innovation and entrepreneurship.

2.1 Post 2015 Agenda - Sustainable development Goals

The post 2015 agenda covers seventeen points that show what will be the targets for social and economic development until 2030. Through analyzing the goals we can observe the need for an integrated approach, this diverse set of goals can only be accomplished in total if there

is a coordinated action between donor institutions to increase the efficient use of resources and the empowerment of developing countries.

The seventeen points of the post 2015 agenda are (United Nations, 2015):

- i. End poverty in all its forms everywhere;
- ii. End hunger, achieve food security and improved nutrition and promote sustainable agriculture;
- iii. Ensure healthy lives and promote well-being for all at all ages;
- iv. Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all;
- v. Achieve gender equality and empower all women and girls;
- vi. Ensure availability and sustainable management of water and sanitation for all;
- vii. Ensure access to affordable, reliable, sustainable and modern energy for all;
- viii. Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all;
- ix. Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation;
- x. Reduce inequality within and among countries;
- xi. Make cities and human settlements inclusive, safe, resilient and sustainable;
- xii. Ensure sustainable consumption and production patterns;
- xiii. Take urgent action to combat climate change and its impacts;
- xiv. Conserve and sustainably use the oceans, seas and marine resources for sustainable development;
- xv. Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss;
- xvi. Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels;

- xvii. Strengthen the means of implementation and revitalize the global partnership for sustainable development.

We can observe from these goals a trend towards some key points such as sustainability and innovation. It is possible to summarize the main points of the development goals for 2030 with three key concepts:

- i. Sustainability in the energy generation, environmental conservation and consumption;
- ii. Provide Health, Food, Education and Sanitation for all;
- iii. Inspire the population to foster economic empowerment and development.

Therefore to fulfill these three main concepts we need to have a strategy that first and foremost enables entrepreneurship and incites the need for self-responsibility. We need to be able to allow the population in the bottom-of-the-pyramid to generate solutions that will go one step closer towards solving the aforementioned gaps.

There is no easy-fix solution for the development gap that poor countries face, as we have already learned from over 80 years of development aid history. The only solution is to provide a pulverized action through small ecosystems of entrepreneurial activities in each region that will empower local citizens to take responsibility for development in their own hands, driving ultimately the desired sustainable development.

2.2 How aid is delivered and types of aid

It is relevant and important for us to understand what are the mechanism that are used to transfer money to developing countries, what are types of aid, how they deploy their resources and what are the most recent approaches in delivering aid money.

The starting point of our analysis is to present to the reader the different segments of Aid and how each one of them is structured (Keeley, 2007).

Aid can be divided in three main segments, **Relief or Emergency Aid** that is provided when a natural disaster or a major political or economical problems take place; **Multilateral Aid**, is provided through multi-national government and non-government institutions with the goal of

providing change and help to structure basic needs change in the countries affected. **Bilateral Aid** is the type of support that is provided by agreements established between two countries, a donor and a recipient country. These relationships involve goals to implement governance changes and introduce free market strategies and tools in the economies (Steven Dukeshire, 2002)

In the analysis we will not consider social entrepreneurship tools for Emergency relief aid as we consider being a topic that focus more on being fast and effective in solving the problem than to structure a long-lasting change.

2.2.1 Payment by results approach (PBR)

Some development aid agencies have started to develop initiatives to establish missions where the budget is provided according to the results achieved, named the Payment by results approach (PBR) (Nancy Birdsall, 2010).

This approach affects the supply-side and the demand-side of the system. First, government and agencies need to use the money efficiently and achieve results. Second, the populations and society need to be familiarized with the feeling and culture of entrepreneurship. This ultimately creates a market oriented system thinking and not an AID mindset in every player in this industry, the institutions that deliver AID, the government and the population.

The Norwegian development agency has established a fund that is focused on delivering aid by performance results, it is called the Health Results and Innovation Trust Funds (HRITF) (Mæstad, 2015) through which it establishes key performance indicators to be accomplished in each country and monitors the results achieved by each mission. From the results obtained it pays the agreed amount and draws a new action plan to increase or improve the effectiveness of the service (Linstad, 2013). This approach has a direct impact on how local governments and agents treat the problems and the actions. This is a clear example of how it can change the mindset of the population. It affects the behavior of everyone involved and gets everybody one-steps closer to achieving sustained development growth.

To give a Birdseye view of how aid is delivered in Table 2 we have a flowchart that summarizes the types of Aid that is organized in three main pillars: Emergency Aid, Bilateral Aid and Multilateral Aid.

TABLE 2: Types of Aid



Source: Created by the author

2.3 Current Trends in the development Aid arena

Nowadays we have an increasing awareness directed towards issues such as environmental preservations and fight against corruption, these items are increasingly being clustered together with the traditional AID definition of providing help for poverty reduction (Dreher, 2012). This highlights an important trend among the donor countries that AID funds are increasingly being considered as part of the Foreign Policy Strategy (USAID, 2014). This action evidences a clear scenario of trade-off between clear poverty-reduction actions and countries using money to play a leading role in topics that concern the world's well being. This is clearly evident in study made to asses the effectiveness of Norwegian aid in poverty reduction (Linstad, 2013) where it is presented the evidence that during the period of 2010-2011 the country that received the most AID from Norway was Brazil, a middle-income country that is located far from the least developed countries in the World. The reason for that is that amongst Norway's foreign policy strategy is the need to fight climate change and to preserve the rainforest, therefore Brazil as having the largest rainforest in the world received 13% of the total aid funded distributed by Norway (Mæstad, 2015). This signals the current change in the concept of how countries are delivering AID and highlight the fact that AID is being used as a foreign policy strategy to address the world's needs.

These factors play a big role in how grants are allocated nowadays. Indicators such Poverty Gap Indexes, Gini Inequality Coefficient, GDP, etc. are all taken into considerations but are not determining in defining where the money goes (Kharas, 2007). Aid being used for

political use or to attend specific supplier contracts and industry needs is becoming a more common practice amongst donor countries.

2.4 Relevant topics involving Development Aid

2.4.1 Behavioral effects of Aid

There are several behavioral characteristics resulted by the establishment of an Aid-based economy. Donors are used as scape goats for poor economical results, it is as if you are taking the risk out of the equations and providing a “carrot-and-stick’ habit of money and conditionality and this does not provide long-term behavioral change towards entrepreneurial attitude (Dan Ariely, 2009)

Studies have shown that AID instead of inciting economical development it reduces overall economic freedom and reduces the share of manufacturing in the country’s economic base it is somewhat similar to the Dutch Disease (Anderson, 2006). Not only does this generate a barrier for industrial development it creates the wrong incentive where countries and governments instead of pursuing economic growth they prefer to slow-down reforms and delay infrastructure investments in order to keep the flow of money coming to the country (Dollar, 1999).

The challenges does not stop in providing the right incentives but also in generating a change in the mindset of the political leaders and the population to have a middle to long term perspective for their future, switching from strategies focused on immediate gain the ultimately worsen the corruption scenario to new concepts that promote change.

This mentality has also to change among the institutions that are the agents responsible for delivering the AID of multilateral and bilateral funds. If we stop to think bout the objectives of a development agency that is to provide growth and development to countries in need, if they successfully achieve that objective in the long run they would be out of a job. This is a rather extreme argument but it at least shows that there is a somehow lack of incentives for high performance results in those institutions. For example employees of these organizations

receive higher salary according not only to the position they occupy but also according to the risk of the mission that they are in (Keeley, 2007), while these incentives are effective in attracting skill labor to those difficult work conditions there are no incentives for performance results for the individual worker and for the mission that is established. This lack of goals and performance results provides no incentive for innovative thinking and inhibits the strategic analysis of the results and the development of new strategies (Dan Ariely, 2009).

This is always a very tricky topic because in the end the results always are nice to hear, because if you are saving one life is more than saving none and when you start to talk about how more efficiently Aid be delivered you will eventually be pointed out as insensitive or cruel because you are trying to put a value on each life saved.

2.4.2 Effectiveness of Aid

There are several articles and discussions about the effectiveness of AID as a way to deliver economical growth and fight poverty. Based on several authors and results from scientific findings, we are going to consider for this analysis that AID has a positive impact on providing economic growth and reducing poverty, however it's effectiveness and achievements are well under the potential given the amount of funds that are provided annually around the globe 170 billion dollars (Kharas, 2007). This highlights a certain inefficiency of how funds are used; some authors attribute that to the poor choice of the receiving country that lacks political stability or government institutions that provide the environment for sustainable growth (Dollar, 1999).

Efficient Aid needs to focus on pro-poor growth, i.e. sustainable growth, reducing inequality and providing income distribution. We also need to pay attention if the economic growth that is being generated in the country is addressing a social need, if it is improving the living conditions such as Health care, education, basic sanitation, etc. (Acumen, 2015). We often overlook investments in those segments with the justification that it only generates costs and do not provide economic growth, however investments in those sectors generate a direct impact on the disposable income by the poorest segment of the population, which with more

disposable money in their pockets will buy other products that are needed and stimulate the economy.

It should exist a strategic thinking approach on defining where the money should be placed, dimensions such as the Quality of Government, Corruption, Law & Order, Bureaucracy, should be taken in highly consideration before defining where to give aid (Kharas, 2007). Nevertheless this is always a topic where lines are not easy to be drawn; usually the countries that most need help are the ones with the biggest problems in terms of corruption, peace, law and order.

A tailored approach on how the Aid should be delivered according to each country is the main goal in order to achieve sustainable development growth. To find ways to overcome these barriers while providing insights about entrepreneurship and long-term perspectives is what is going to define the transition from an aid-based economic o an entrepreneurial socially aware economy (REF).

It is also important to make the distinction between aid that will generate sustainable growth and relief-aid, the later is responsible for solving and emergency a humanitarian crisis caused by a natural disaster or by a war conflict that affects a huge number of people. The investments made on these actions cannot be considered, in our point of view, in the discussion of the effectiveness of aid allocation because the main purpose of those actions is not to provide economic growth but to save lives.

2.4.3 recent evidence of lack of efficiency

In a recent article there by Pro Publican named “How the Red Cross Raised Half a Billion Dollars for Haiti -and Built Six Homes” it highlight the inefficiency in delivering the aid on the ground (Pro Publica, 2010). This among many problems highlights the lack of capability of this non-profit organization to have high performance employees that can deliver the expectations. Mathew Scharpnick describes in the article “The Charity Trap” that governance rules force NGO’s to have low overhead costs (Scharpnick, 2012) and while in the Red cross’ example they excel in raising funds they lack the qualified manpower that is highly costly to implement those strategies and be successful.

We need to find a way that organizations can ultimately pursue a flexible funding strategy, allowing them to choose the best strategy to deliver the results and by that allowing them to choose how to use the money. We need to align the incentives, for NGOs, funders and society.

2.4.3.1 the one who want to help Africa should not give money

James Shikwari a Kenyan economist in an article to a German newspaper described the effect that AID has in Africa, I quote:” Aid creates a network of Corruption. People take initiative to grab a bite of the AID pie because that is the only “food” (Money Source) that there is around. The main message that we need to get across is that AID creates an attitude of lack of responsibility, lack of sense of ownership, it is to some extent the surrender of the leadership role in the political governance and economy (Shikwari, 2007).

This AID based economy creates a network of political influence, where a lot of energy is directed towards political games that ultimately leads to corruption schemes and that is what Africa needs the least The effect of simply Aid is that it reduces the market incentives for production and it creates a barrier for the inception of new businesses. Why instead of eliminating trade barriers for raw coffee production we create a policy that gives incentive for the export of processed coffee bean? Aggregating more value to the economy and localizing the resources. This is just one of the simple questions that we can ask to shed light on a topic that can change the structure of the country’s economy because in the end the question that we need to ask is where does the money stay? I deliver food in Africa but where is it produced? Where does the money ultimately go? The challenge is to only provide aid but use the money directed to this action to foment the local economy.

One angle that we can look at is China’s approach towards their investments in Africa. They basically avoid the politically correct talk about democracy and good governance and just say: Here is the money, give us the oil (Shikwari, 2006). With that approach and the increasing money inflow from China towards Africa this has put the AID development strategy out in the open and has raised a lot of questions regarding what is the best strategy to follow. Do we

provide aid and set the rules how they should develop themselves or we just pay the price for the product or natural resources we want and let them figure the rest out themselves?

In another article named the economic progress and development aid in East Africa, James Shikwati mentions that the AID expands the political elite as opposed to the business elite. For example the over-reliance on aid sustains the short-term approach to food policy, disorganizing political and economic systems. When it comes to food Aid, Skiwarii is even starker in his arguments, highlighting that a country that cannot feed itself cannot claim to be on the path of development (Shikwati, 2007)

It is important to note that AID as a whole involves a great dilemma and conflicting emotions because ultimately it involves human lives, therefore we have to think of a balanced way to attend to the most pressing humanitarian needs but at the same time start to plant the seed for self-leadership that will ultimately drive the change in the country and change the economy. If we cannot manage to find a new approach we will have to bear with opinions that say: Foreign 'aid has been identified as the main source to lack of economic freedom in poor countries. The Fraiser report states that instead of the "Berlin wall" we have the "AID wall", on which poor nations are supposed to escape from poverty from top-down approached (Fraiser Institute 2014) The opinion about these thinkers is that government-to-government AID eroded Political and Economic Entrepreneurship in Africa.

2.5 What approach to be taken

As we can see from the literature there is a lot of discussion regarding the effectiveness of AID, some scholars and economist says it I the right path others say it is a Band-Aid that only pretends to solve the problems (Linstad, 2013). Nevertheless despite the interesting discussion and innumerable research topics that can be developed from this topic we will restrain ourselves to take into consideration the arguments from both sides regarding what are the issues that Aid brings and the benefits it provides and based on these points we will develop a strategy on how the Aid can be better implemented and the resources provided for the mission more efficiently used, ultimately accomplishing more results ad long lasting change. Our

approach will be to think in ways of innovative business interactions between Aid agencies and the local population to create the incentive for them to develop social enterprises, with this approach we want to plant the seed of self-leadership and long-term thinking on the population and at the same time create valuable improvements in the quality of life of the community, through business ideas that solve the community's most pressing needs.

There are a couple of dimensions we need to keep in mind when developing this strategy, first we have the people, the local population that in general terms have low levels of formal education and lack basic resources, second we have the economic dimension the market pressure and how the local economy is set up and the environment it provides for businesses, third we have to take into account the political set-up of the country in terms of political stability and governance level, fourth we have to take into consideration the Foreign Aid agencies in terms of how flexible they are when trying new approaches towards Aid implementation and its distribution. All these dimensions need to be taken into consideration together when developing an approach to drive innovation in the developing countries. The solution to the problems will lie in finding a strategy that overcomes all these barriers and ultimately deliver the business mindset orientation to the population and provides the basis for this bottom-up economic revolution.

3. Theory Support

In order to sustain the proposition of creating an entrepreneurial strategy and mindset for development we will sustain this initial hypothesis with four key theories that will support the proposed idea in the following chapter. The four main pillars that will be analyzed are: Behavioral Economics, Game Theory, and Bottom of the pyramid, leaky bucket.

First we will analyze the behavioral aspects of the individuals that live under poverty and how their financial decisions affect this situation.

Second we will look at coordination in the game theory, how integrated actions between agencies can act towards delivering more efficient results.

Third we will look at the bottom of the pyramid theory, showing the economic power and the characteristics and needs of this market. Muhammad Yunus, the founder of the Grameen Bank and winner of the Nobel Peace Prize defines that charity takes initiative away from the poor (Abu-Saifan, 2012) Therefore we need a bottom up revolution, an approach that comes from the bottom of the pyramid and provides change through social innovative ideas that address social needs (Vernis, 2014).

Fourth we will take a look at the leaky bucket theory, evidencing how despite a lot of resources being poured in the economies of developing countries, the impact generated is far too low because all of the wealth does not stay in the region, the money flies to suppliers that are located either in the developed world or in other countries, therefore the capital does not stay in the local economy (Bernie Ward, 2002).

After this analysis we will be able to jump to the practical side of explaining social entrepreneurship and how it can help achieve the post 2015 Sustainable Development goals (United Nations, 2015).

3.1 Behavioral Economics

Recent Studies about behavioral economics are starting to address poverty; a study by Gregory Berns in the Neuro-economics field says that when given a chance people prefer to work for rewards rather than to be just given rewards. He goes on to say that even rats prefer to work to receive food than to be fed without working for it. (Dan Ariely, 2009) (Gerhard Fehr, 2014)

3.1.1 Introduction

The field of Behavioral economics has come a long way in terms of trying to explain consumer choices and identifying what are the key points that contribute to the customer's decision-making process (Fehr, 1999) The concepts of this field of study are especially

present in the development of the pricing strategies, such as price framing and price anchors (REF). In the next pages we will present to you some key concepts of the behavioral economic thinking over the years and of its studies about development and poverty. This will help consolidate and support the strategy that will be presented to structure social entrepreneurship ideas in the development Aid arena.

3.1.2 Rational Choice

The first concept that we want to introduce is the one of the Rational Choice. During the 1970's Gary Becker presented in the book "The economic approach to human Behavior" the above-mentioned theory. The main concept of this school of thought is that humans have constant preferences and always engage in a maximizing behavior (Becker, 1976)

The concept of the "rational man", which was supported by the neoclassical economists, holds true under the assumption that in the ideal world price frames and anchors would have no effect on consumers choice and that the choices made would be optimal decisions made by comparing the costs and benefits of a certain choice (Becker, 1976). He derived this thinking from the concept of Jeremy Bentham of the pleasure-pain calculus, and I quote: "Nature has placed mankind under the governance of two sovereign masters, pain and pleasure. It is for them alone to point out what we ought to do, as well as to determine what we shall do (...) they govern us in all we do, in all we say, in all we think." (Bentham, 1907)

Becker goes on to conclude and I quote: " I have come to conclude that the economic approach is a comprehensive one that is applicable to all human behavior." (Becker, 1976)

These above mentioned concepts and thinking could be summarized as the inside-out approach towards decision-making.

3.2.3 Prospect Theory

While in one side of the spectrum there was the economic rationality thinking of the economists during the 70's. On the other side psychologists such as Amos Tversky suggested an outside-in approach, which shows that decisions are not always optimal and that our decisions are context dependent (Tversky, 1979).

In the Article named An Analysis of Decision Under Risk, Tversky and Kahneman present the Prospect Theory. This concept undermines the expected utility theory that was at the time largely adopted as the model of choice for rational choice and the descriptive model of economic behavior. (Tversky, 1979)

This theory states that behaviors are different, depending whether we frame the situation as a possible gain or a possible loss. They go on to conclude that the reason behind this behavior is that giving something up is more painful than the pleasure we derive from receiving it. (Samson, 2014)

These two pillars can give us some ground to further explore the interesting elements of behavioral economics and showcase some studies that have been made that tried to identify the reasons for underdevelopment.

3.2.4 Social Dimensions

Now that the basic concepts have been presented we will take a deeper look into the Social Dimensions of Behavioral economics. The social forces and influences such as trust, fairness and commitment, which affects the decision-making process and behavior in underdeveloped nations. In the process of decision-making we need to consider the fact that humans do not make choices in isolation (Dan Ariely, 2009). These social forces act as major influencers, especially in the least developed parts of the world.

3.2.4.1 Trust

Examples can be found in the effect of solid and transparent institutions that promote growth and stabilize the country in the macro-economic level. Trust in these institutions has a profound effect in a country's investment rate, especially in the inflow of foreign capital (OECD, 2008).

3.2.4.2 Fairness

Is shown to have a positive effect on human behavior. Studies made by Fehr and Schmidt show that people have inequality aversion; they prefer fairness to inequality in many contexts. (Fehr, 1999)

3.2.4.3 Consistency

Studies have shown the needs of humans to always reassure a self-image that is consistent and positive. This can also be applied when establishing programs that require future commitment, establishing publicly stated goals is a common approach used to overcome the inertia and coerce people to act towards keeping their commitment. (Strecher, 1995)

3.2.5 Pro Social Behavior

In an article named “Doing good or Doing Well”, Dan Ariely describes the image motivations and the monetary incentives to behaving prosocially (Dan Ariely, 2009) This concept is specifically important for our analysis because it sheds light onto the Donor’s attitude towards donations and therefore it impacts the funding of agencies.

Contrasting to the current thought in our society that people are less engaged in social causes, a research made in 2001 shows that 44 percent of the American adults volunteer and 89 percent of households donate money every year. (Dan Ariely, 2009)

The motives for this behavior can be structured in three main categories: Intrinsic, Extrinsic and Image Motivation. Intrinsic motivation can be understood as altruism, while extrinsic motivation can be exemplified as a material reward or benefit of giving, e.g. tax break.

Now image motivation can be defined as the attitude towards signaling to others that one is good or that they are doing well (Dan Ariely, 2009). This can be identified not only in the individual acts of donations but also in the Country level as the country committing large amount of help to development programs as a sign of its economical power and technology or simply for the fact of being a “good Samaritan”.

This concept reflects the social dimension of Consistency that was addressed earlier in the text point out the social pressure that is felt towards maintaining a good image and behavior in the long run (Strecher, 1995)It is important to observe that to often times this is the defining argument for a country or a development aid mission to define its development strategy or project in which they will act. For example, the Scandinavian nations have a consistent approach for opting for development projects that involve health and environmental preservation (Mæstad, 2015)This consistent approach overtime builds their

reputation and image, but it also forces them to take action whenever a great crisis involving these areas are happening, due to the social pressure and the need to maintain consistency (Strecher, 1995)

3.2.6 On the Psychology of Poverty

The numbers of poverty are astonishing and as seen in the Post-15 development goals it remains as the most pressing problem that the world has to face. Aside from the visible effects of poverty in education and life expectancy, there are evidences of the effects of poverty towards shortsighted investments and risk aversion attitudes (Dan Ariely, 2009) this is a great blow towards the strategies and efforts towards building sustained economic development. The above-mentioned study by Johannes Haushofer helps us understand the effects of poverty on risk taking and time discounting. This is extremely relevant to our approach of designing a new development strategy and directly connected to two important topics in behavioral economics named Status quo and Bias Inertia in decision-making and the temporal dimension in human evaluations and preferences (Fehr, 1999).

Poverty is reflected in the evidence that people living under this condition have a low tendency to take risks and forgo current income in favor of future higher income, i.e. households living under poverty have higher discount rates than wealthier households. This also affects the ability to make long-term commitments, such as the adoption of a new technology or to invest in education and health.

The question comes now to why are these people acting in such way? One of the reasons that can explain the higher discount rate is the fact that people living under poor conditions have no access to formal credit markets (Compartamos Banco, 2015). Therefore they need to borrow money from informal sources, increasing the rate of the loan and restricting the amount of money available for them. Consequently he is willing to give in way more to forgo a future income over a present one because his source of capital is more expensive than traditional available sources (Dan Ariely, 2009) This evidence is one that in real-life increases the wealth gap between poor and rich, the financial gap between formal and informal sources

of money can be exploited by the contractor and generate a further economical gain for the wealthier part with access to a lower rate financial market..

Another issue that individuals under this circumstances face is risk-aversion. Too often times poor individuals face liquidity issues and high background risks that are not measureable and non diversifiable (Dan Ariely, 2009), such as the effect of a flood devastating the year's harvest. Under those circumstances he is less likely to take risks, to invest in technology to increase his yields due to the fact that if something happens he loses it all and consequently is trapped in his current income level.

3.2.7 Main take- away

The above-described patterns of economical behavior, specially the high discount rates and high-risk aversion creates a loop-action that has no clear improvement for the poor. The lack of resources to overcome these barriers can make the climb out of poverty very strenuous or even impossible. (Johannes Haushofer, 2014)

Through the theoretical concepts of Behavior Economics and the practical examples mentioned above we can start to grasp how a traditional way of providing aid can create a hurdle towards overcoming poverty. This scenario will grim the possibility of enterprising new ideas and as a consequence and inertia towards changing the status quo. Therefore on the Behavioral economics perspective we can see a clear motive for the development a new strategy.

3.3 Game & Coordination Theory

Due to the characteristics of the development Aid arena, it is relevant for us to understand the dynamics of this sector behind the lenses of game theory and contracts coordination. In this field we have several players, e.g. Donor Countries, Development Agencies, NGOs and recipient nations, which ultimately should be working cooperatively to achieve a common goal, i.e. generating development. Therefore we need to introduce a couple of concepts of the game theory by Nash, Von Neumann and Morgenstern, and contract coordination based on

the work by Gerard Cachon, that will be used to gain perspective on the efficiency gap of the development agencies' strategies and actions.

3.3.1 Noon-Cooperative Games

The concept of these types of games is one that the players should choose their strategies simultaneously and need to commit to it (Gerard P. Cachon, 2004) Another characteristic is that each seat of a player's strategy should be independent from the one from another player and players are unable to establish agreements before choosing their strategies. If we consider that every player is looking to maximize its own result and he is able to predict the action of the other player, we have a set of "best response" outcomes that when selected by each player will generate a noon-cooperative solution for the game, i.e. Nash Equilibrium. (Nash, 1950) There are some further concepts of the Nash Equilibrium (NE) that is relevant for us to be aware, such as non-credible threats, non-existing equilibrium and multiple equilibrium. Cachon states that due to the fact that the system optimal solution does not need to be a Nash Equilibrium, a decentralized decision making generally introduces inefficiency in the supply chain." (Gerard P. Cachon, 2004)

This concept is specifically relevant for us to analyze when looking towards the actions of the players in development aid industry. When fund raising by multiple agencies, public and private, starts, they are looking to gather the maximum amount of resources possible for their own mission. At this moment the "common shared goal" to help the most people is undermined for the "fight for resources." If we consider the suppliers of resources as being Governments and private individuals, and considering that the resources directed towards these actions are limited. There will be an unbalanced distribution of funding in the sense that one agency might draw all the resources available in the market and leave another one underfunded therefore limiting the impact that the players could do on the field. Another effect that could happen is that the donors might feel over demanded by the several simultaneous requests of funding and end up giving less than they would in the optimal system solution. In this painted scenario the outcome of the equilibrium would be a set of

strategies that are on the Pareto frontier, where each player can be made better only if some other player is made worse off. (Gerard P. Cachon, 2004)

3.3.1.1 Dynamic Games

Contrary to the previous concept, this one relate to interactions which decisions are made over time. The first notion that we want to introduce is the Stackelberg Equilibrium Concept (Gerard P. Cachon, 2004), where in a duopoly model we have a leader and a follower where the leader processes a certain power over the follower. To put in simple terms the one who gets to make the first move will choose the best possible outcome according to the best response function of the follower. It's a sequence of static decisions that need to be made over time.

3.3.1.2 Differential Games

Following the notion of decisions that are made over time, this concept addresses the strategies that involve continuous decision making processes. Within this topic, for the purpose of our study, it is relevant for us to mention the notion that in differential games we have a number of players that select control variables that may affect the payoffs of all players, therefore this concept is associated with the optimal control theory (Nash, 1950). These control variables can be presented in two strategies, open loop and feedback. The open-loop strategy is when the players choose their control variables at the beginning of the game and no not change them over; this can commonly be seen in a company on the employee's targets for the year. On the other hand in the feedback strategy the player's choose their actions according to the time and state of the player's (Gerard P. Cachon, 2004).

3.3.2 Cooperative Games

This topic in the setting of our work is the most relevant in the game theory, because it mainly focuses on the value that can be created through the cooperation between the players within a certain setting. This will help us understand what can we achieve through cooperation between players in the development aid industry and gain insight on how to trace a new strategy.

In cooperative games, we have the concept of coalition, i.e. the group of players that are working towards making the pie bigger and then dividing it among them (Nash, 1950). The value that can be created in a coalition is independent of the non-coalition members' action, e.g. synergies that can be obtained from merging two companies are independent from the competition.

3.3.2.1 Shapley Value

Since we are talking about cooperation and coalition we need to introduce the concept of the Shapley Value, i.e. the added value of player in a coalition, his marginal contribution (Gerard P. Cachon, 2004). This gives us a base to assess the value of the coalition with the player and without him.

3.3.2.2 Biform Games

This type of interactions can be understood as a mix between non-cooperative games and cooperative games. This can take place for example when retailers are competing for a certain product with limited supply that incurs cost. Therefore in the first stage they ask for as much as they can get, even if it is above what they have forecasted, engaging in a competition with the other retailers (Gerard P. Cachon, 2004) On the second stage, after they have received the resources and better adjusted the demand, the retailers engage in a cooperative game to redistribute the excess stock amongst them to where the demand is located, avoiding the cost of having left-over inventory.

3.3.3 Bayesian Game

In this concept we have players that have private information and that cannot be observed through their action overtime, unlike the signaling and screening types of games (Gerard P. Cachon, 2004). For example we have one single supplier with finite resources and multiple retailers that only have information about their own needs. Therefore if the supplier is over demanded and has an allocation rule of distributing resources proportionally to the order, all the retailers will tend to tune up their orders, creating a bidding effect. This can be applied to the example shown on the non-cooperative games section regarding the fight for resources

among aid agencies. Since they know the resources are finite and there are several other competing players demanding the same resource, they just ask for as much as they can get despite their actual needs.

3.3.4 Main take- away

A lot can be drawn from the concepts of the game theory that were presented above and their presence in the interactions among the players of the development aid industry can be easily observed.

As we have already exemplified within the discussion of each concept of the game theory there is a clear inefficiency in the process of Aid funding, first the isolated actions of each player in the industry in its fundraising quest generates a non-cooperative game a selfish demand for resources hindering the possibility of making the pie bigger. By not sharing their information and demanding a limited resource (money) with no cost of acquisition or holding they engage in a Bayesian type of game.

It is true that some agencies that have extra budget, distribute their surplus by hiring other institutions to perform other projects, as seen on the example of the Red Cross in Haiti (Pro Publica, 2010). What can be analyzed as being a Biform Game, first they fight for resources then they cooperate in applying them. However this does not generate efficiency for the industry, first overhead costs are charged every time the money jumps from one institution to the other, second the time that is lost by other under funded institutions that cannot operate because of lack of resources.

The game strategy can also be observed in the action by recipient governments and individuals, in order to keep the inflow of aid to the country they tend to delay or not to make necessary investments in infrastructure and avoid sharing information about the living conditions of the population. This is played in a way to make sure that no reduction of aid will be suffered due to a indicator that was improved, this can be understood somehow as a differential game where the donor country (the leader) lays out the rules but the recipient (follower) can play with it, therefore the results achieved are a subset of the optimal outcomes (Gerard P. Cachon, 2004) In the end in a game that is supposed to be a win-win for society it

ends up with a bitter feeling of not being able to make the most out of it. Therefore we conclude that a strategy that incites cooperation needs to be considered in order to boost efficiency in the industry.

3.4 The Bottom of the Pyramid

In order for us to rethink a way to fight poverty and generate growth we need to bypass the usual convention of poverty eradication programs (Akula, 2008). This topic named the Bottom of the Pyramid, from here onwards-just BoP, relates to a market segment that comprises the individuals who are on the base of the wealth and income pyramid. This segment of the population has gained a lot of attention from private and public initiatives in the last 15 years and is extremely relevant for our study because it will help us understand the real market potential of the wealth that can be generated by these individuals and for them (Prahalad, 2014)

3.4.1 Microfinance

It is unsuitable to introduce the BoP without at least briefly introducing the concept of microfinance, which in my opinion is the main catalyst for the spike in the attention of the broader public towards this segment of society. (Prahalad, 2014)

Microfinancing is a financial service that is provided for individuals who do not have access to the formal banking system and that don't have any assets to put as collaterals in order to obtain loans (Compartamos Banco, 2015). Through microfinancing, extremely poor and low income individuals can have access to small loans at very low interest rates, which can be repaid with as little as one dollar a month. This enables small improvements in the quality of life and income levels to be made.

3.4.2 Structuring the BoP

To put in short terms, basically the BoP is the denomination to address the individuals who are on the bottom of the wealth and income pyramid (Akula, 2008). They are the poor individuals around the world that development aid programs try to help and they are the subjects of the UN Post-15 development goals. Since we are going to be looking at this

segment of the population with an entrepreneurial mind it is important for us to present a segmentation of the BoP for the reader to understand what constitutes in terms of size and money the market size of the BoP. A very consistent article published by the Harvard Business Review, named “The Globe: Segmenting the Base of the Pyramid” will be the guideline of the information presented under this topic. With this in mind we will present to you the BoP by two main segmentations, first by living conditions and after by the potential of value creation. (V. Kasturi Rangan, 2011)

3.4.2.1 Segmenting by Living Conditions

First we have to bear in mind that within the BoP we have different groups that we can structure in three levels. First the individuals who live with less than a U\$1/day they constitute approximately one billion humans. Second the 1.6 billion individuals who live on U\$1 to U\$3 a day. Third the population of 1.4 billion that are living daily with U\$3 to U\$5 (V. Kasturi Rangan, 2011).

Less than a U\$1 a day

People living under these conditions they lack all the basic needs, such as sufficient food, clean water or shelter. Due to lack of alternatives they are often forced to work as bonded laborers and the limited education, poor health and lack of skills shut them out of the economy (V. Kasturi Rangan, 2011).

From U\$1 to U\$3 a day

These individuals usually share the traits of being temporary workers in urban areas or working as migratory farmhands in the rural zones. They are poorly educated and do not have access to a bank account. Therefore they have to rely on informal moneylenders that, as explained before in the topic the psychology of poverty, charge extremely high interest rates (V. Kasturi Rangan, 2011).

From U\$3 to U\$5 a day

The 1.4 billion people living with this income are also called, low income. They typically have access to formal job markets and work as construction workers or low-level staff in public or private establishments. They have secondary education and have managed to move out from the worst living conditions. Families living under these conditions possess consumers good such as electronic appliances and are striving to obtain higher education (V. Kasturi Rangan, 2011).

3.4.2.2. Segmenting by Value Creation

Having segmented the base of the pyramid in terms of needs we also need to structure how we can create value together with these individuals as clients, partners or consumers.

Clients

If we observe the one billion living with just one dollar a day we can clearly see their needs and that there is a room for improvement, however at the same time they lack the resources to live in decent let alone to be consumers. Therefore in this case we need to take a look at their potential in the entrepreneurship scope as being clients of potential business ideas that will work as an agent to gather resources and deliver life improvement (V. Kasturi Rangan, 2011). An example can be a company that provides basic health care to unattended individuals and gets paid by agencies or a government in a Payment by results method (Mæstad, 2015).

Consumers

If we revisit the segmentation by living conditions we can clearly identify that the individuals living with up to U\$5 dollars a day they are needy of better service and tailored solutions for their needs. This segment of the population already has access to some goods that are available to the wealthier part of the population, but they often turn out to be paying a premium for it, not only in price but also in the time lost due to the inconvenience of access. With that in mind we can see that there are great opportunities for both traditional business and new enterprises to build an innovative business processes that are focused on lowering costs and improving quality.

Partners

Another possibility to create value in the segment of the wealth pyramid is by promoting business ideas that use the population as part of the solution and as the generator of wealth. A business model that works together with local farmers providing technology to improve their yields and consequently generating more wealth can be an approach to be taken (Prahalad, 2014). Another example could be to train the individuals with basic sales techniques in order for them to become door-to-door salesman in the slums.

3.4.3. Business Challenges at the BoP

The main business strategy for any endeavors at the BoP is the one widely promoted by C.K. Prahalad (Prahalad, 2014), that believes that the low-income markets are best accessed through a strategy focused on high-volume, low-price and low-margin. (Simanis, 2012)

Despite this main business strategy showing some success with some multinational companies, the reality is that in order to achieve a high market i.e. at least one third of the market the companies need to overcome two main challenges i.e. the lack of logistics infrastructure and the need for sales effort that works closely to the clients to overcome the slower adoption process (Simanis, 2012). These two challenges represent a high need for investment and a slower growth rate. These obstacles if not met with innovative business ideas will most certainly divide the companies who thrive and the ones who not.

3.4.4 Main take- away

We have seen the size of the population that is living with less than five dollars a day, more specifically we have been able to observe the pressing needs that the individuals under these conditions have. The three different segmentations by living standards has helped us identify the clear need for each of the income levels and also defines what kind of enterprises can be created in order to create wealth within the BoP and provide solutions for their problems (Akula, 2008).

The BoP is not to be seen as the next frontier of untapped consumer base by the traditional way of looking into business, instead it is a market segment for companies and ideas that blend commercial and social value (V. Kasturi Rangan, 2011).

For the individuals living under these conditions every step forward towards building wealth and improving living standards is a hard one to take but an easy one to fall back. Therefore when designing the business interactions, it is important to keep in mind that their responsibilities are not over once they provided a service or good.

The wealth to be attained at the BoP is only going to come out through transparent and long-lasting business relationships.

3.5 The Leaky Bucket

We need to understand and have a grasp of how money flows in the poor communities and why wealth is not accumulated. Recent trends of providing money transfer programs have emerged such as the New Deal for Communities in the United Kingdom (Bernie Ward, 2002) or the Bolsa Família in Brazil, however despite alleviating people from extreme poverty these programs are not generating long-term development. To explain this phenomenon we will introduce a topic named the leaky bucket theory. This will help explain how the money that is poured into a community is not spent there, hindering local business endeavors and trapping the community in poverty (Cunningham, 2011).

3.5.1 Introduction

We need to try to view the local economy as a Bucket and all the wealth that the individuals in the community possess is the water inside that bucket (Cunningham, 2011). Now every time we spend the money in products and services located in the community the money stays in that bucket and when we spend the money somewhere else, e.g. utility bill, a hole is pierced in the bucket. The more money spent outside the community, more holes are pierced and the outflows of resources are greater. The goal here is to try to mend the leaks and develop community economic conscience and entrepreneurial capacity to explore the market opportunities.

3.5.2 Local Multiplier Effect

It is of our knowledge that value is created and the economy flourishes when money changes hands and in our modern economy setting it will, because we are not isolated from the market, unless you are living entirely off-grid in the wild a.k.a. wild hippies.

Since we know the money is going to change hands we need to develop a conscience in the community to think about not only how much they are spending but also where (Cunningham, 2011). When for every hundred dollars that one receives, one manages to utilize eighty percent in local shops and these shops also source the same percentage of their supplies from the community, we manage to multiply the money within the community and localize wealth.

3.5.3 Educating the community

The leaky bucket is a easy to assimilate analogy and while it cannot be perceived by economists as a rigorous econometric tools it has the possibility to serve as a great educational tool for the community to understand in simple terms how the money flows in the economy (Bernie Ward, 2002).

In Ethiopia a local NGO conducted a leaky bucket exercise with a local community that has as its main economic activity focused on food crops and dairy products. (Cunningham, 2011) During their findings they identified the community's main inflow and outflow of resources. In relation to the inflows there were no surprises, all the money came in from the crops and livestock, however when analyzing the outflow they were surprised to see that a huge part of their money was going towards buying fertilizers and alcohol consumption (Bernie Ward, 2002). This evidence triggered a discussion in the community and inside the households, which ultimately lead the farmers to find alternatives for the industrial fertilizers such as pit composting and reduce the consumption of alcohol in the festivities. (Cunningham, 2011)

This process of drawing and quantifying the flows of money can be very effective to educate the community on what is happening with their money and explain why despite the hard work they are putting in the long-dreamed results never come. This first step of educating the society is the key tool to create an "Aha" moment and generate discussion, which will ultimately lead to new business ideas.

3.5.4 Main take- away

The process of raising awareness and changing a community behavior, especially where the vast majority of the population has no formal education and are living in hard conditions, is a very strenuous problem (Bernie Ward, 2002). We can clearly observe that community involvement and leadership is not only necessary it is the key component in defining the success rate of any action toward generating effective impact on the community (Cunningham, 2011).

In that sense there are a couple of steps that we consider are key in this process:

First, create a core group that represents a cross-section of the community in order to get a complete understanding of the dynamics. Second, Identify what are the specific needs of that community, what they value and how can we adapt the message to generate involvement. Third, attract key partners public and private that can help generate value for the community and fourth, set goals and track the progress (Cunningham, 2011).

These might be intuitive steps to take in any process but it very important to stress out the need for the community involvement and led discussions. By taking these steps, the Ethiopian community presented above managed to achieve after five years of work the following results: (Cunningham, 2011)

- Result: 90% Reduction of food purchased outside the community.
Effect: Increased local production of food
- Result: 30% Reduction of consumption of industrial fertilizers.
Effect: No reduction on the yields per hectare.
- Result: Overall Increase in household savings.
Effect: 50% Increase in investment on children's education.

The reasons for these accomplishments were not only due the involvement in the community level but also, inside every household, they manage to change spending patterns and channel their savings into productive activities (Cunningham, 2011).

To conclude we clearly identify the needs explained by leaky bucket concept therefore it will be extremely relevant and one of the corner stones of our work towards the development of a strategy to generate sustained local development.

3.6 Knowledge gathered from the theory

We have covered the concepts that represent the four main pillars of our work that will ultimately help develop a well weaved strategy to generate economic growth through the development aid agencies using social entrepreneurship ideas.

In our theory overview we can divide our structure in two main segments, first the more scientific theories, such as Behavioral Economics and Game theory. In the second segment the more “social” theories, such as the BoP and the leaky Bucket concept.

In the first segment we have identified clear patters of behavior that affect people facing poverty and how these behaviors may lead to a poverty trap (Dan Ariely, 2009). By revisiting the main authors of the game theory and analyzing the studies made by development aid programs we gained relevant insight about how the relationships between the players in the development aid arena can tend to be non-cooperative and achieve a non-optimal result (Gerard P. Cachon, 2004).

On the second part we have seen how the BoP has very specific needs and challenges that need to be overcome, companies that need to help them achieve their goals and ultimately the potential to create wealth and social change. Through the analysis of the leaky bucket theory we have seen how important it is to generate wealth within the community and to keep the money inside it, generating a multiplier effect and an economically conscious community.

This gathered knowledge gives us great capacity to go on to the following part of our work and present the main social entrepreneurship concepts and examples in order for us to conclude by presenting an idea on how development aid agencies can use social entrepreneurship tools to generate sustained economic development.

4. Social Entrepreneurship

In this chapter we are going to introduce the concept of social entrepreneurship. We will begin by introducing the concept, what are the main reasons and goals behind, define its boundaries and we will finish this section by presenting a couple of social enterprises that have been acting around the globe. This will provide us some key perspective about the disruptive business model characteristics needed to innovate and generate social impact.

4.1 Introduction

In the academic literature a lot has been discussed about social entrepreneurship, however there is still to be an unanimous concept of what comprises social entrepreneurship and its difference from Philanthropists institutions, NGOs, etc. (Abu-Saifan, 2012) Despite the several theoretical definitions of the term we will consider social entrepreneurship as being; the entrepreneurial actions where its success is measured not only by their financial sustainability but also due to the social impact that it provides. (Dees, 2001)

To give a further of definition of what defines a social entrepreneur we will base our concept in the definition made by Same Abu-Saifan where he analyzed all the research made on the topic and defined a social entrepreneur as, and I quote:

“The social entrepreneur is a mission-driven individual who uses a set of entrepreneurial behaviors to deliver a social value to the less privileged, all through an entrepreneurially oriented entity that is financially independent, self-sufficient, or sustainable.” (Abu-Saifan, 2012)

With this in mind we can define social entrepreneurship and its agents, both individual and companies as being dedicated to delivering social value, entrepreneurially oriented and financially independent (Skoll Centre for Social Entrepreneurship, 2015). By social value we

understand as being all the necessities faced by the individuals at the different segments of the Bottom of the pyramid (Akula, 2008) described earlier in the text and defined in UN Post-15 Development goals (United Nations, 2015).

4.2 Boundaries of Social Entrepreneurship

In this Section we will give some scope in our analysis of Social entrepreneurship in order for the reader to grasp the line that divides endeavors with a great social mission although having no financial independency and companies with financial sustainability but that are simply extremely social responsible. (Skoll Centre for Social Entrepreneurship, 2015) (Dees, 2001)

When defining the boundaries of what constitutes a social enterprise we have to ask a couple of question such as:

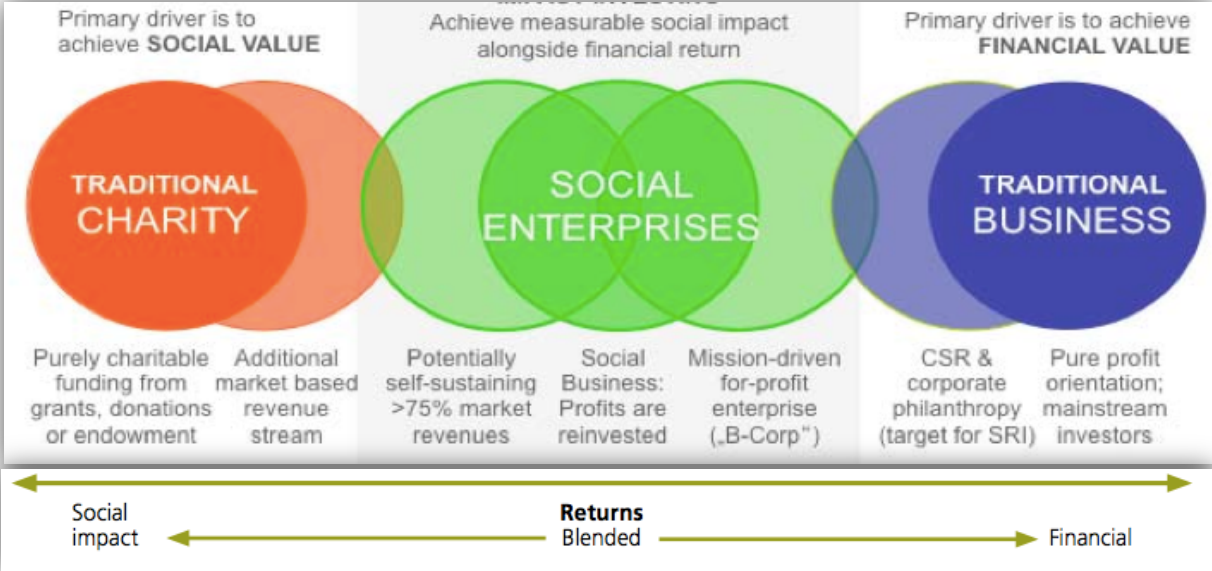
- Are they for-profit companies or non-profit companies?
- Are they mission-driven toward solving a pressing need?
- Are they depended on external funding?
- Are they scalable?

The answers to those questions will enable us to position the social enterprise in a spectrum of entrepreneurship, where we can identify the traits of social enterprises described earlier.

In order to illustrate our point and make the reader more comfortable with the concept let us segment the entrepreneurship spectrum in three parts (Abu-Saifan, 2012); **Traditional Charity** where the traditional objective is to achieve social value and the funding comes most commonly from donations or through an additional market based revenue stream; **Social Enterprise** where social impact is achievable and measurable alongside financial return; and **Traditional Business** that has its primary focus on the financial profit and generating returns to its investors, they can also at the same time be engaged in CSR or corporate philanthropy actions although its not their main objective. (Vernis, 2014)

The image below will help us position the segmentation above mentioned and will be useful for the examples of social enterprises that will be give in the next few pages.

Figure1 Spectrum of Organizational Models (CAF Venturesome , 2010)

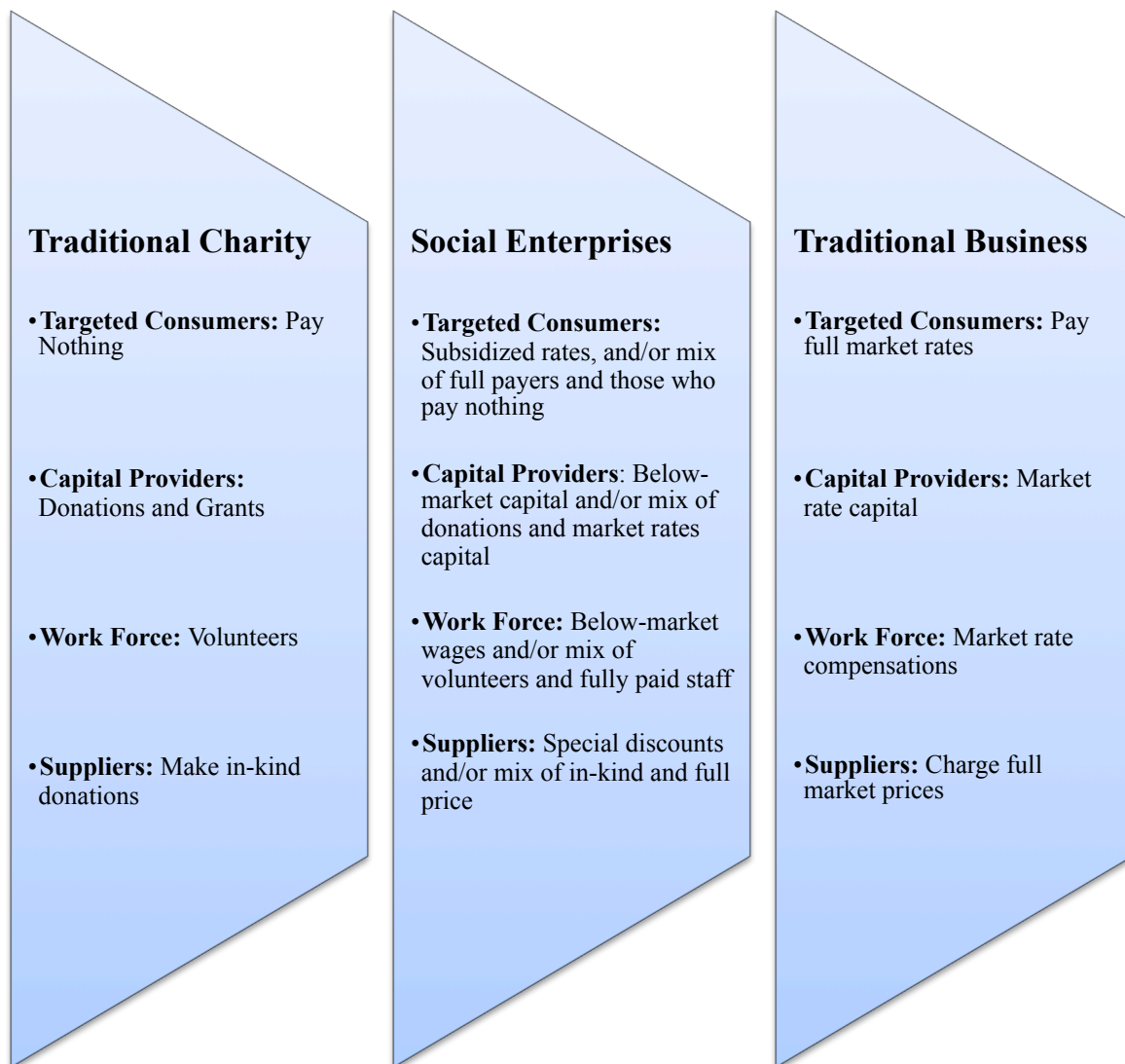


Source: Adaptation from (CAF Venturesome , 2010) and (Vernis, 2014)

As it can be observed above there are some overlaps between the types of organizational models and their social impact or financial return. For the purpose of our work we will focus on Social Enterprises, in order to gain knowledge about current endeavors that have been working around the world and that can be used as a tool to inspire us in the development of the strategy to localize social entrepreneurship as a tool for self-driven development.

To further understand the dynamics of the social enterprises we are going to show in the following table the roles of the key stakeholders in the value chain (Porter, 1985).

TABLE 3. Types of business and Key Stakeholders



Source: Adaptation from (J. Gregory Dees, 2006)

Observing the table above, we can identify that Social enterprises relates in a unique way with its key stakeholders, and this diverse sets of relationship combinations is what gives the broad array of possible innovative business solutions that can be created. (J. Gregory Dees, 2006)

As we can observe from the information given in this chapter, defining the boundaries of a social enterprise is no easy task and in my opinion it gives a lot of room for interpretation of what is considered a social enterprise or not depending on with which economical lenses one

views the economy. Therefore In order for us to sum up this concept and make it easier for the reader to understand what we will be looking for when proposing the innovation in the AID delivery process, let us keep in mind three main characteristics of Social enterprises: Create Social Value, Financially Sustainable and has a potential for large-scale Impact. (J. Gregory Dees, 2006)

By differentiating Social enterprises from other types of organization we do not want to infer that one is better than the other, each has a role according to the economical, legal and social environment it is acting.

4.3 Examples of Social Enterprises

To put the reader into perspective of the types of business solutions that are being generated by social entrepreneurs around the world, we will provide some quick examples of Social enterprises briefly explaining their project, the problem they address and their profit engine. In order to not extend ourselves we will divide the examples in six sectors, Finance Institutions, Agriculture, Education, Health, Water and Sanitation.

4.3.1 Financing Institutions

In the financial sector we have two types of institutions that we need to explain and detail with examples, they are Impact Investment Funds and Microfinance Institutions.

4.3.1.1 Impact Investment funds

It can be defined as an investment fund with patient and long-term debt or equity investments (Acumen, 2015). Their investments are directed towards social enterprises that are providing sustainable and scalable solutions. One example of Successful Impact Investment is the Acumen Fund.



Acumen Fund

- **The Project:** Provide financial capital through investments in social enterprises that are addressing pressing needs.
- **Their Mission:** Change the way the world tackles poverty by investing in companies, leaders, and ideas.
- **Profit Engine:** Receive charitable donations and make debt or equity investments in social enterprises that are scalable. They usually exit the investment in seven to ten years and recycle their returns in new investments.

Source: (Acumen, 2015)

4.3.1.2 Micro Finance

As explained earlier in the text micro finance institutions are in practical terms banks that lend small amount of money to individuals in the BoP who have no access to traditional sources of financing and have nothing to use as collaterals (Compartamos Banco, 2015).




Banco Compartamos

- **The Project:** Provide financial services to Individuals in the BoP that otherwise have no access to traditional financial institutions and therefore need to rely on informal loan agents.
- **Their Mission:** Eradicate financial exclusion in Mexico.
- **Profit Engine:** Small loans are provided at bellow market interest rates and repayment is made in small weekly or monthly installments.

Source: (Compartamos Banco, 2015)

4.3.2 Enterprises in the Education sector

Education is one of the biggest gap generators in the long-term development success of a community or country. Around the world many developing countries try to provide free and universal education to its populations but the effectiveness of this endeavors fall short of profiling the education needed to drive growth (Acumen, 2015).



Edubridge

- **The Project:** In India over 180 million students have no access to formal employment. With this in mind Edubridge seeks to provide training and job placement services to unskilled students living in rural areas.
- **Their Mission:** Eliminate the education gap and shortage of skilled labor in India.
- **Profit Engine:** A fee of ninety dollars per student is charged and the payment can be done in a pay-per-use system.

Source: (Edubridge, 2015)

4.3.3 Enterprises in the Agriculture Sector

Rural areas around the developing countries are one of the biggest strongholds of poverty. The usually high-fertile soils are contrasted with low agricultural yields that can be as much as 60 times lower than in developed nations. (Acumen, 2015)



Mekelle Farms

- **The Project:** In Ethiopia indigenous chicken breeds produce low quantities of eggs and are very susceptible to diseases. Mekelle Farms aims to provide improved chicken varieties that can withstand the harsh environment mature quicker and produce more eggs.
- **Their Mission:** Reduce child malnourishment and improve the income of rural families.
- **Profit Engine:** Sells chicks to rural farmers through an efficient production and delivery process.

Source: (Mekelle Farms, 2015)

4.3.4 Enterprises in the Water and Sanitation Sector

As explained in the United Nations development goals, the lack of access to drinking water and access to sanitation affect over one billion individual around the world, therefore social enterprises have been coming up with innovative and sustainable solutions to address these issues (Acumen, 2015).



Sarvajal

- **The Project:** In India over 80% of the rural population and slums inhabitants lack access to clean drinking water. With this in mind Sarvajal created a low-cost water treatment and distribution technology that sells water at a low cost to the population.
- **Their Mission:** Clean and Safe drinking water for all.
- **Profit Engine:** Water is sold in 24/7 water “ATM” and is paid per liter, with 10 liters of water costing ten cents of dollar.

Source: (Sarvajal, 2015)



X-Runner

- **The Project:** People living in slums often live without access to sewage systems or sanitation, with this necessity in mind X-Runner created a business model that provides sustainable low-cost sanitation solutions to low-income households.
- **Their Mission:** Improve the daily lives and create a cleaner, healthier environment for the entire family.
- **Profit Engine:** A water-free toilet is installed in the home and a monthly fee is charged in order to collect the waste generated every week.

Source: (X-Runner, 2015)

4.3.5 Enterprises in the Health Sector

Diseases and severe illness has a strong effect on every human being, but when this hits the poorest sector of the population that does not have access to affordable medical care it can drive a whole family to the poverty. Social enterprises have been aiming to provide low-cost affordable health care to the BoP (Acumen, 2015).



Vision Spring

- **The Project:** Around half a billion people around the globe suffer from poor eyesight and many of them cannot afford a pair of glasses. Vision Spring provides a service in the village that checks the eyesight and sells the reading glasses.
- **Their Mission:** Affordable vision care for the poor.
- **Profit Engine:** Each pair of glasses is sold for a price between two and four dollars. The company maintains its distribution costs low by establishing micro franchises and leveraging from established local networks.

Source: (Vision Spring, 2015)

4.4 What Can Be learned from these Social Enterprises

After having an overview about the definition of social enterprises, its boundaries towards other types of traditional business models that we are more accustomed to and having seen several examples of social enterprises in different sector of the society we can identify as the main characteristic of these endeavors. Social enterprises need to not only be financial sustainable but also solve the pressing needs in the health, education, agriculture, etc., sectors (Abu-Saifan, 2012).

All of these enterprises they address a need that ultimately helps the individual at the BoP to break free from the reinforcing loop of poverty (Dan Ariely, 2009). When a woman that does not have proper sanitations is affected by a urinary infection she cannot go to work and therefore loses income. When farmers work long hours every day and despite their efforts their yields are irregular and the proceeds are only enough to pay their costs. When individuals cannot have access to a 10-dollar loan to buy another goat or chicken and sell more milk or eggs, he is stuck in that income level. All of these social enterprises they provide solutions that also help individuals grow and retain financial resources and ultimately improving their quality of life and income level (Abu-Saifan, 2012). With this in mind we

will address our project idea in the next chapter and propose an approach to bring social entrepreneurship and efficiency to the aid delivery model.

5. Proposed Idea

We have observed throughout the information presented in this paper several issues that affect the impact of the development aid actions around the globe. We have seen throughout the historical background of aid that the delivery process has been focused on donor led process where the local communities are usually just the beneficiaries and have no role as change makers. We have also observed through the concepts of behavioral economics the effects that aid-dependency has on the individuals' motivational and financial mindset (Becker, 1976). By bridging on the dynamics of the Aid industry and Game theory we can clearly identify a lack of Coordination that does not generate an optimal outcome. The BoP and Leaky Bucket Concepts, both support the need for a new approach to finding innovative solutions and driving innovation with the input of the local community.

All this knowledge gathered and the observations made through the article in the learning process have led us to develop and propose the following line of action for the development agencies.

The approach should be followed in three steps:

First step is for the development agencies to identify communities or individuals living in conditions that need to be improved and together with them define what are their most pressing needs and what impact both financial and social, that has on their daily lives. From this moment on, with the help of the development agency the individuals that will be impacted by the project will form an association. This community leadership, together with the development agency will select the project to be implemented and how it should be adapted to their reality.

Second step is to create the first social enterprise that will serve as a tool for the development agency and the community towards the implementation of the given project. A community bank and a community currency will be created in order to work as financial educator and retain wealth in the community (Bernie Ward, 2002). Through the community bank, the development agency will invest the money needed for the project in the community bank. Each member of the community leadership association will receive a share of this money with a “tied” condition on the investment on the project, where they will need to go to the bank to make the investment towards the community project, enabling them to become “owners” of the project.

Third step is to analyze the project’s value chain (Porter, 1985). Through the analysis of the value chain we will be able to identify which parts of it can be localized and perceive business opportunities to create new enterprises using the resources available in the community. These new enterprises created will act to supply the main project elected, maximize local resources and retain wealth in the community.

This three-step process might seem vague but if you analyzed it with these three simple actions we are able to address the 4 issues raised during the theory analysis of our work. Through the action of developing the chosen project together with the community we are able to tackle the behavioral aspect of the lack of motivation and engagement generated by poverty and outside-in Aid approaches. By creating a community bank you enable the community to become more educated towards finance, create a possibility of microloans and by making them investors of the project through the “tied” money transfer we keep on improving the behavioral side of the individuals and we address the issue of coordination raised in the game theory section (Nash, 1950). When we take the third step and localize parts of the value chain of the project to through community led enterprises, we are able to not only create an entrepreneurial mindset but also to retain wealth. This creates an environment within the community members where they can not only work towards improving their reality but we also address the problem explained with the leaky bucket concept, through wealth creation in

the community and the multiplying effect the money circulating in the region (Bernie Ward, 2002).

The objective of this process is to address the four main issues identified as we just explained and also enable a community led approach where the development agencies will act mainly where they are really good at, as coaches and investors. We realize that the implementation process of those actions are hard and require a long time frame, nevertheless in the following chapter we will try to make clear for the reader how this process can be implemented by illustrating a theoretical project and which tools would be used in the implementation process. At this point we are also aware that one might raise several limitations in the three-step process described earlier, we are also aware of the limitations and we will discuss them further in the proper section of the paper.

It is worth mentioning that development agencies around the world have been making improvements towards driving innovation and applying a bottom-up approach in the way the Aid is delivered. However despite having this awareness of the behavioral aspect of how Aid impacts the individuals, the actions are falling short to create community leadership and maximize the use of the resources available. Consequently the development programs fail on delivering the promised help and creating long-term sustained economic development for the community. What makes our approach different from what already is been trying is that we aim to use the funds available not only to create the hospital, school, water well, etc., but also to use the resources needed for the project as a market demand for the creation of local businesses. Allaying that with the community bank and the tied money transfer towards investment in the project, we will be able to create the leadership much needed in order to drive the quest for prosperity in the BoP and in the least developed parts of the world. The solutions that will work for the BoP does not need to be state-of-the art, they need to be simple, cost-efficient, reliable and ultimately solve the problem of the community (Akula, 2008)

6. How to Implement the Idea

In this section we will make clear to the reader what is the traditional way of how an AID project is run and how our three-step method would look like in a real process. First we will present to you a project developed by the Norwegian development agency in Kenya (Magomana, 2013) that ended up short to achieve its purpose and second we will present how we would approach the same problem using our proposed idea.

6.1 How it is traditionally done

Despite efforts that have been done in the latest years about trying new approaches and involving the communities in the process of implementing the project, the design and decision-making of the interventions are mainly made from the top-down. As we have been discussing throughout the text this model has implications in terms of the final success rate, and this was the case in the project of Lake Turkana's fish processing plant (Magomana, 2013).

6.1.1 Lake Turkana Fish Processing Plant

In the Northern part of Kenya in the sub-Saharan region there is one of the greatest alkaline lakes of the region (Yuretich, 1979). The lake according to studies has shown to hold large quantities of fish and be sustainable (Kolding, 1993) and the population living on its shores shows one of the highest rates of poverty in the Sub-Saharan Africa (Keane, 2006). This laid out scenario seems to be an easy catch, you have people hungry living right next to a lake with huge fishing potential and this was exactly what the Norwegian Agency for Development Cooperation (NORAD) thought.

With this in mind NORAD decided to build a fish processing plant in the lake where all the fish caught would be processed, packed and exported in order to generate wealth for the community and bring development in the form of schools, hospitals, etc. (Magomana, 2013). However after pouring in over 150 million dollars in over 20 years the project was declared a failure, the reasons are as follows: (Cocks, 2006)

First, the Turnaka people are pastoralist semi-nomadic tribes that traditionally don't fish and in their concept if you have to fish it is because you are poor and possess no livestock (Kolding, 1993).

Second, to run a fish processing plant directed to export a cold supply chain from source-to-end is needed and this was proven to be very expensive specially considering the remoteness of the place and its poor access to roads and cheap energy sources (Magomana, 2013).

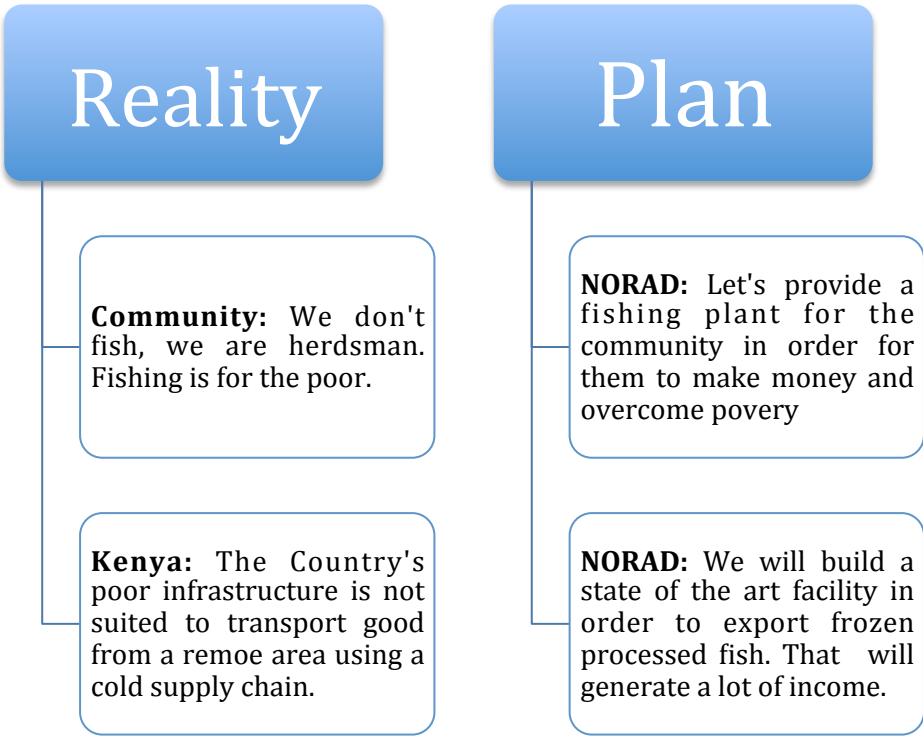
Third, political problems between former Kenyan president and the Norwegian government have caused both countries to cease diplomatic relations and therefore the flow of all AID money was halted (Cocks, 2006).

All of these factors led to the abandonment of the project and it's failure and at least two of them could have been easily avoided if this traditional top-down approach of decision-making had not been taken. By not listening to the community and not properly identifying the value chain of the business model they where proposing they ended up building a white elephant in the middle of the Kenyan desert.

In FIGURE 1 we can clearly observe the gap between the plan vs. reality, generated by taking a Top-down approach and how it led to failure. By top-down approach we

understand as the process of decision-making where all the decisions, goals, targets and funds is defined by the one who is on top of the hierarchy in this case the development agencies. A Kenyan government officer, named Cheanati Wasiki summarized the project in the following sentence, and I quote: “The lake was identified by outsiders as a resource but they never consulted the Turkana, never asked them what they thought of fishing it.” (Trade Aid, 2013). In FIGURE 1 we summarize the main differences about what was planned and how the reality was.

FIGURE 1: Differences between reality and theory.



Source: Created by the author

6.2 How we propose aid should be delivered.

Now that we have seen an example of a top-down approach of delivering AID we will use the same example involving the Turnaka tribe and show how we would develop an intervention in this community using our proposed three-step process.

The first step would be taken by deploying a pair of development agents that would first understand the needs of that community, how they think and what they want. During this process the hierarchical structure of the community should be identified, in order to identify who are the key decision-makers in the tribe (Kolding, 1993). As an outcome of this process of cooperation between the development agents and the community a project aiming to improve the quality of life of the population would be defined, always taking in consideration what the community wants. In the specific case of the Turnaka lake fish processing plant and based on the information provided in the article of F. Keane (Keane, 2006) and T. Magomana (Magomana, 2013) we would suggest that the best project for this community would be one that enabled them to enhance their livestock management and secure strategies for them to survive the drought periods.

Once the project is defined and is agreed by both parties, a community association should be formed amongst the community leaders in order to manage and keep track of all the further steps of the project.

The Second step of action would be to implement the first social enterprise, i.e. the community bank, which will act as the base for the management of the AID project and will be the center of the community's financial education process. By establishing the

community bank we suggest also to be create da local currency (Akula, 2008) with which the individuals living in the community will be able to use around the community and learn how the money is managed, as explained in the leaky bucket theory (Bernie Ward, 2002). Once the community bank and the community currency are created, the development aid will transfer all the funds needed for the project to the community bank. In order to build on the strategy of empowering the locals and generating involvement we would use the community association created in the beginning of the process and make them the “investors” of the project. Through conditional money transfer on their names where all the money that is deposited on their local community bank account can only be used to invest in the project. One might think as irrelevant to transfer the money to the villagers only for them to transfer back towards the project, but what this creates is a sense of ownership and pride in terms of being the ones who are driving the change.

In the third step, as we have already established the community relationships and the financial conscience in the community, we will work towards delivering the agreed project. However during the process of constructing the project, the whole value chain (Porter, 1985) needed in order to deliver it will be analyzed and all the opportunities to localize the resources needed by the project will be taken through the creation of social enterprises under the same investment model described in step 2.

We believe that through this three step approach, we create a constant community involvement and establish a feed-back loop where we can identify early on what are the problems with the project and guarantee a high success rate of the interventions made by development agencies. This method of making the individuals of the community the ones responsible to make the investments provides the greatest instant feedback possible. In the case the villagers don't invest the money in the project, we have mainly two possible reasons: one is because they don't want the project, or the second is

because they are not used how the money system works. In both scenarios there is a great information input and a possibility for a learning process and a change of course, generating a win-win situation for both the community and the development agencies.

7. Limitations of the project

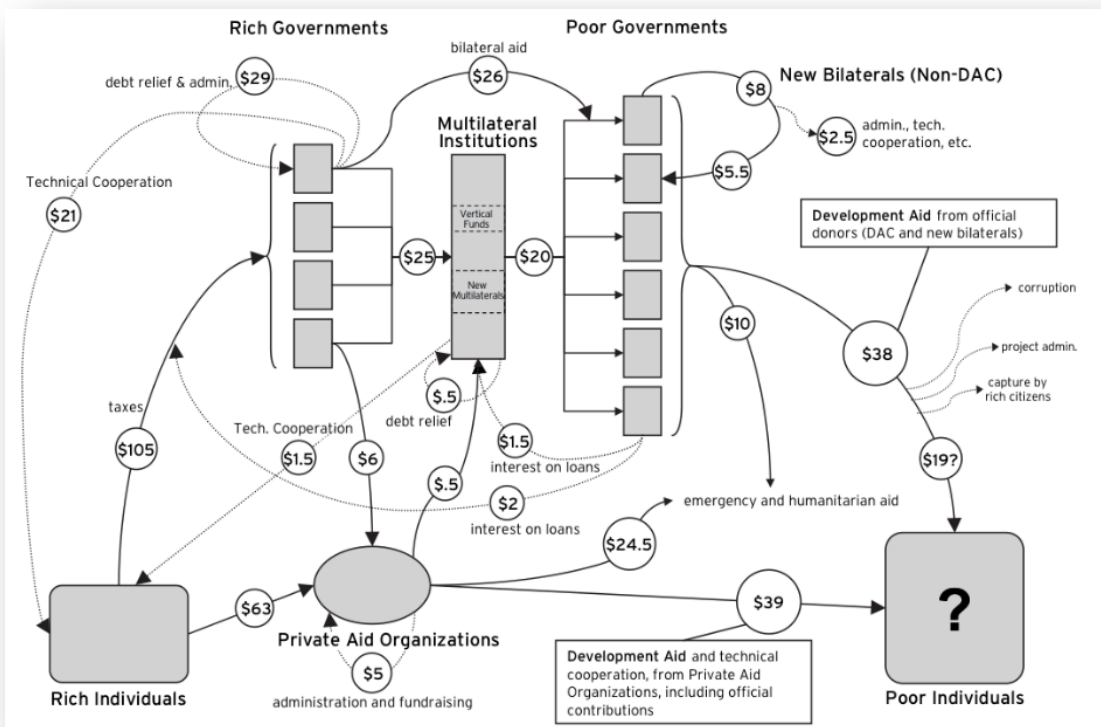
7.1 Aid Architecture

It is worth mentioning that several development agencies are making improvements towards localizing the resources they are receiving and reducing overhead costs (Kharas, 2007), however if we take a quick look at how the money flows from Government funds through development agencies and how they spend their money, we can quickly see how even small overhead costs can accumulate real fast. The consequence of this aid flow is not only the bureaucracy and the inefficiency that is caused by these actions, but also the amount of money that reaches the poor. (Kharas, 2007) It estimated that only around one third of the total money disbursed by rich individuals reaches the poor. Honi Kharas in his paper about trends and issues in the development AID shows the example that in 2005 rich individuals donated 105 billion dollars of tax revenues to official aid development systems, however it is estimated that only 38 billion dollars are able to reach local governments and from that amount only around 19 billion are delivered to the final beneficiaries. (Kharas, 2007).

In reality what happens is that most of the money donated gets trapped in the form of debt relief, administrative costs, interest rates, salaries of western workers that provide technical assistance, external audits and corruption (Kharas, 2007). This crude reality is what separates the good intentions of trying to deliver change in the least developing countries to the real outcome of development aid being another industry designed to work towards the rich countries' own economic benefit.

In the figure bellow we can observe the several traps in the way that development aid institutions are set up and that prevent most of the money to reaching the ones in need.

FIGURE 2: Flow of the Aid Money



Source: Homi Kharas (Kharas, 2007)

7.2 Development Aid as a Foreign Policy Strategy

Despite several developments that have been made throughout the years and especially with initiatives led by the United Nations since the declaration of the UN Millennium Goals, we still observe a large influence of the donor nation foreign policy strategy in the decisions towards development project (USAID, 2014).

This can be clearly observed in the Strategic Plan 2014-2017 of the United States development agency, USAID. I share with you the four strategic goals for the period: (USAID, 2014)

- i. Strengthen America's economic reach and positive economic impact;

- ii. Strengthen America's foreign policy impact on our strategic challenges;
- iii. Promote the transition to a low- emission, climate-resilient world while expanding global access to sustainable energy;
- iv. Protect core U.S. interests by advancing democracy and human rights and strengthening civil society.

We can clearly see that despite the experience accumulated throughout the historical background of AID development, countries still put their interests first when deploying resources towards development of poor countries. Their strategic interests political, military and economic will always prevail when developing a development strategy. Therefore a solution that seeks to localize the maximum amount of resources towards the local impoverished communities goes in the way of a country's goal to strengthen its economic reach.

7.3 Community Involvement

We have also to bear in mind that the new modern and much praised community involvement approach towards of development AID in real life is hard to develop.

The reality of poverty and difficulty on which many of the poor communities around the world and the individual at the BoP are living is very traumatic. The lack of education and resources can create an environment of hopelessness and generate a feeling among the individuals of loss of hope and distrust. (Steven Dukeshire, 2002)

The poor individuals living in any underdeveloped country have faced over the several years several failed attempts of local government initiatives that sought to help alleviate poverty, but always falling short of success (Dreher, 2012). This generates a lot of distrust towards

new ideas and in the most extreme cases they just don't want any more help, as said by Acumen Fund's founder (Acumen, 2015) "We have to accept that sometimes some people just do not want to be helped."

Therefore despite planning an intervention focusing on the community and their needs, this scenario above mentioned places itself as a great barrier towards the success of this type of strategy.

8. Discussion

We started our work with the hope to find a way to incorporate social entrepreneurship tools in the strategies development agencies to generate local economical development. We have been able to analyze the historical background of how Aid has been delivered over the last seventy years and identified identify some key patterns on the flow of AID such as: Being used as foreign policy strategy and a tool to expand the economic reach of the donor country (USAID, 2014). Another characteristic observed is the methodology used in the project implementation, a top-down approach is usually the way projects are implemented and communities are rarely involved (Kolding, 1993). These identified patterns led us to believe that there was incongruence in the objectives of the development Aid agencies and the way they are running their projects. They were aiming to generate development without involving the local players and without retaining wealth in the community (Bernie Ward, 2002).

With this idea in mind we were able to look at the relevant theories in the literature that could support the belief that the simple approach of giving charity and providing aid without any kind of coordinated action to retain wealth in the poor regions is not the best one. The current way of delivering aid only creates a reinforcing loop of poverty (Prahalad, 2014) where individuals at the base of the pyramid keep on struggling to find new ways to generate wealth (Samson, 2014). This has given us the knowledge necessary to develop an approach that would overcome the behavioral effects of poverty (Becker, 1976), coordinate the actions between donors and recipients (Gerard P. Cachon, 2004), adapt the strategy to the reality of the individuals living at the BoP (Akula, 2008) and retain wealth in the community in order to generate sustained local development. (Bernie Ward, 2002)

The examples of social enterprises such as microfinancing institutions and the success cases of other social enterprises shows us what is needed for a successful approach

directed towards de BoP just like the company X-Runner (X-Runner, 2015) sanitation project in Peru, an innovative approach that attends the demand of the population.

Through the analysis of the economic behavioral effects of poverty and social entrepreneurship tools we develop a strategy to be used by development aid agencies that will ultimately, involve the community, generate financial education and promote local economic development.

First, agencies should identify a community in need and together with them understand their needs and develop an intervention project according to what they need the most. Second, a community bank should be created in order to provide financial education to the community, the community will receive a tied money transfer from the development agency to invest in the community project, becoming the investors of the project. Third, in the process of implementing the project, its value chain (Porter, 1985) will be analyzed in order to identify which parts can be localized in order for social enterprises to be created to attend that demand.

This approach developed is consistent with the gaps identified earlier in the text and provides a strategy that aims for community involvement, financial education, coordination among donor and recipient and the generation and retention of wealth. Despite the fact that this approach has yet to be proven in the field, the success cases of community banks and social enterprises initiatives around the globe lead us to be confident that this can be a successful approach towards bridging the gap of inefficiency in the development aid industry.

9. Conclusion

Social entrepreneurship is not only a relevant tool to be used by development aid agencies but it is a necessary one. If we want to achieve the UN Post-15 development goals we need to push for a new approach that will stop with the inefficient way of managing development projects. The implementations of a mixed approach, using AID money and market mechanisms in the form of social enterprises can create projects that are adapted to the needs of the local communities and are able to generate and retain wealth in the communities. It has come the time to let the poor individuals try to run the show and development agencies should resign themselves in the role that they are good at, providing technical assistance and providing funds.

We encourage further studies to be done in order to verify the viability of the implementation of this three-step process and the possibility of running a pilot test in a community in order to verify the findings. The cross studies of development aid and social entrepreneurship is still not broadly explored by recent studies and therefore there are a lot of knowledge to be gathered and build towards finding new alternatives for sustainable local economic development.

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