

Whose Innovation? The Challenge of Managing Social Innovation in the Aid Industry

A short history of business innovation

Innovation is the driver of modern business. Traditionally, firms created new technologies to cut costs and increase profit. Others created new products to capture markets before they even existed. This innovation, known as *manufacturer innovation*, was conducted by firms, and was profit-driven. Next came the rise of *user innovation*. This was faster and even more effective, because it was driven by need: consumers capable of developing innovations responding to their own needs.¹ Through improved communications and readier access to investment capital, not forgetting a more educated and empowered population, ordinary people started becoming innovators.

Joseph F Engelberger, the ‘Father of Robotics’ and thus one of the best examples of a market-based innovation leader, once summarised that only three preconditions were necessary for innovation to take place: an identified need, capable people with relevant technology, and financial support.² Increasingly in the modern business environment, we find these conditions met: on one evening in October 2006, I watched an enthusiastic entrepreneur called Roark McMaster pitching his new invention on the BBC’s primetime entrepreneurship show, *Dragons’ Den*. Roark had identified a clear problem which affected him – the molding of cucumber-ends – and had used his access to capital and sparkling intelligence to develop a prototype of his Q-Top cucumber plug. He was now pitching his idea to five interested investors worth over £500million combined.³ Did he get his cash? Of course not, but we saw need, technology, and money – all Engelberger wants – all coming together. In the UK, it seemed, anyone could ‘have a go’ at being an entrepreneur.

This essay is focused outside the business sphere, where need for innovation is great, but the ability of users to innovate is not. US\$2.3 trillion has been spent by the global North on international aid in the last five decades.⁴ Nevertheless, close to half of the world’s population still live in poverty. One in five live in extreme poverty. Aid is not working as well as it should. Unless we can inject the spirit of innovation into this industry, the poor people we try to help will continue to remain poor.

Innovation outside the business arena

Social entrepreneurship is becoming such a common term in many developed economies, that even this form of innovation is becoming ‘a norm’. The new British coalition government’s social vision – tagged the Big Society – is based on the concept that social entrepreneurs and a new class of community organisers will innovate solutions to the UK’s social ills – either as pure altruism, for profit, or as a social venture, but crucially, not expecting the state to deliver for them. This is certainly a big ask, but the innovation-friendly environment is primed to encourage it – the needs are identified by a wealth of people empowered enough to make their thoughts heard, an educated population of social entrepreneurs are capable of developing new policies and technologies, and there is cash available, through the Big Society Bank, or countless other financing institutions. Barack

¹ See Eric von Hippel (1994) *The Sources of Innovation* (USA: Oxford University Press).

² Joseph F. Engelberger (1982) ‘Robotics in practice: Future capabilities’ in *Electronic Servicing & Technology Magazine*, August.

³ See <http://www.mustget1.com/qtop-cucumber-lemon-cap-as-seen-on-dragons-den-p-273.html>

⁴ William Easterly (2006) *The White Man’s Burden: Why the West’s Efforts to Aid the Rest Have Done So Much Ill and So Little Good* (New York: Penguin Press), p.4.

Obama's Social Innovation Fund offers similar opportunities to bring innovations to scale in the US. But while social enterprise is thriving in the UK and elsewhere, what about where these preconditions are not so well met; namely, where there is a clearly identified need, but there are neither the capable people to communicate this, come up with a solution, or bankroll the response?

Innovation in international development

The focus of this essay, is the challenge of fostering social innovation in an environment poorly primed to produce it; that is, the aid industry in the global South.

The developing world has always been a playground for new innovations. Some of these were tested products, exported to a new place with some new branding – the extreme form of free marketism employed by Milton Friedman's protégés, the Chicago Boys, in Chile in the 1970s for instance – while some were targeted development initiatives intended to work specifically within a certain geographical and economic context – an example being the 26 structural adjustment loans given to Côte d'Ivoire between 1980 and 1999.

While many of these innovations defined a generation of developmental practice, the clear successes were few, and the failures many. Côte d'Ivoire recorded negative performance across a range of macroeconomic indicators in the period since these loans were received, including a GDP per capita growth rate of negative 1.4%.⁵ This is not the forum to investigate the pros and cons of these innovations in depth, but the bottom line is that none of them have provided any form of golden ticket to development. Why could we not do any better?

Simply put, because *we* are not the users; these were developed by the guys with the cash, not the *users* (the poor people we are trying to help). These were *manufacturer* innovations, which also often failed to understand the users. Peter Drucker observed, 'In all recorded history there has not been one economist who has had to worry about where the next meal would come from.' *We* don't understand that feeling, yet continue to lead aid decisions, at the macro level (developed countries still have more than 50% voting power at the World Bank), and at the micro-level, with most poverty reduction projects by Non-Governmental Organisations (NGOs) funded from abroad, and often designed in offices in Washington or London.

That is not to say that these top-down approaches are not well-thought out. Increasingly, international aid initiatives are guided by thorough research. Nevertheless, this is still *manufacturer innovation*; the user's only role is having a need, which the manufacturer identifies and designs a response – or 'product' – for. Furthermore, the development agenda is driven politically, so that even if the need and solutions were identified, the money may not be available in the right place at the right time to enable real innovation.

There are of course exceptions.

Bangladesh is the home of probably the most famous innovation in the history of poverty reduction. In 1976, a smart young economics lecturer from the University of Chittagong named Muhammad

⁵ William Easterly (2002) 'What did structural adjustment adjust? The association of policies and growth with repeated IMF and World Bank adjustment loans', *Journal of Development Economics*, Vol.76, No.1, February, p.19

Yunus identified a need. Having witnessed the severity of Bangladesh's famine in 1974, and the predatory money lending which hindered most rural poor from developing any significant form of income-generating activity, Yunus delved into his own pocket to give a small loan of US\$27 to a group of 42 families. These families made a profit of about US\$0.02 each, and Yunus got all his money back. His experiment developed into the Grameen Bank, which gives out small loans to groups of poor individuals and groups, and by 2009 had disbursed US\$8.7 billion to almost 8 million individuals, in Bangladesh alone.

This microfinance innovation has changed the lives of a generation of Bangladeshis, not to mention the estimated 665 million people who have taken out microfinance loans around the world since.⁶ How was microfinance able to expand at such a rate? Quite simply, because there was a gaping need for innovation. It wasn't necessarily the dream solution, but it worked, and most importantly, was led by a smart guy with the financial capital – US\$27 – to put his money where his mouth was.

In the global south, we want more innovation like this; we want more Grameen Banks. Unfortunately, we only get more *Grameen Banks* – replications of the same thing. There are now more than 3,000 different microfinance institutions around the world,⁷ and as long as microfinance is delivering results with a large enough percentage of the poor (more than 40% of Bangladesh's population is still classified as poor), there is little incentive to push innovation outside of this proven comfort zone. However, microfinance, much like any innovation, cannot do everything. Critics in Bangladesh have fiercely attacked it for its failure to improve the lives of the extreme poor. Due to their specific social and economic characteristics, these individuals regularly default on their loans, and are accordingly often refused credit.⁸

To solve the problem of extreme poverty, we need some very creative solutions. But to encourage innovation in this space – what needs to change?

The problem is that the typical person who can identify these problems, the *user*, is not in a position to do anything about it. Poor and socially marginalised, these extreme poor in Bangladesh are unlikely to even be deemed eligible for a \$10 loan from Grameen Bank, let alone be entrusted with a significant enough investment to make a difference on a bigger scale. Compare this to the US, where users compete for multi-million dollar funding for their ideas from Obama's Social Innovation Fund. What can we do to promote social innovation in the global South? Can user innovation be managed, to 'harvest' ideas, and ensure that bright, creative, problem solvers can get access to funding?

Case Study – Managing innovation for the extreme poor in Bangladesh

The Shiree/Economic Empowerment of the Poorest (EEP) Challenge Fund is funded by UKaid from the Department for International Development, and its goal is to sustainably 'graduate' more than one million extreme poor Bangladeshis from poverty by 2015.⁹ The Challenge Fund concept works by setting up a 'challenge', and inviting people – individuals, NGOs, private companies – to compete to

⁶ Robert Peck Christen, Richard Rosenberg & Veena Jayadeva (2004) *Financial institutions with a double-bottom line: implications for the future of microfinance*. CGAP Occasional Paper, July.

⁷ Ibid.

⁸ Syed Hashemi (1997) 'Those left behind: A note on targeting the hardcore poor,' In Geoffrey D. Wood & Iffath A. Sharif (Eds.), *Who needs credit? Poverty and finance in Bangladesh* (London: Zed Book).

⁹ See www.shiree.org

best respond to this challenge. Through this system, it hopes to bring the need, the solutions, and £65million in cash, closer together to develop the necessary innovations which can enable the extreme poor, for whom microfinance and other traditional development projects has failed, to develop livelihood opportunities.

Can innovation be managed in this way? The next section highlights how shiree/EEP has been able to promote responsive *manufacturer* innovation, but has ultimately struggled to foster the development of true *user* innovation.

The shiree/EEP fund is divided between three pots; the first – the Scale Fund – supports large-scale proven methods of reducing extreme poverty; the second – the Innovation Fund – supports novel, untested, and in some cases radical ideas with smaller grants; the third pot is for research, lesson learning, and advocacy – an attempt to better develop and promote new technologies, as well as getting the needs of the extreme poor more clearly heard.

The innovation-friendly environment that shiree/EEP aims to create uses a system very similar to that purported by Engelberger. The Innovation Fund has recently completed its third round of funding, and has already had to refine its approach to innovation management. The first two rounds of funding had mixed results in terms of innovation – although the applying NGOs were geographically closer to the reality of extreme poverty, they were still outsiders, somewhat ill-placed to identify new innovations. The third round of funding took a much more hands-on approach. First, it identified a need. Through consultation with major stakeholders, shiree/EEP identified that marginalised groups – including the physically challenged, ethnic minority groups, and street dwellers – constituted a disproportionately high percentage of the bottom five per cent and remained untouched by traditional development interventions. These people *needed* innovation.

In addition to highlighting a need, shiree/EEP worked to encourage the development of solutions – or *innovations*. The first two rounds of funding highlighted, that while applying NGOs (or ‘challengers’) had a strong institutional capacity and knowledge on extreme poverty in their local contexts, their conceptual understanding of innovation lacked the rigour, originality and level of experimentation which was originally envisaged by shiree. For the third round of funding, shiree therefore developed an ‘Ideas Entrepreneur’ system to provide a platform for people with ideas – *users* as well as other smart individuals – to share thoughts, processes, and ideas on poverty reduction, with institutions familiar with local needs, and capable of implementing projects in Bangladesh. The final product – a website of ideas inviting institutions to develop them – was fed by an awareness campaign with institutions in Bangladesh and abroad, and received over 7,600 web hits from more than 90 countries in just 3 months.

Figure 1: Table of shiree/EEP's tactics to foster an innovation-friendly environment

Innovation-friendly condition	shiree/EEP's efforts to foster this condition
Identified need	<p>Extensive research on the extreme poor in Bangladesh</p> <p>Consultation with key stakeholders experienced in working with the extreme poor</p>

Advocacy efforts highlighting these needs	
Appropriate technologies or solutions available	Ideas entrepreneur system developed
Cash	Grants of up to £300,000 available for worthy applications (decided by an independent panel of experts)

So what was the success of this model? Mixed.

From the thousands of web hits, 39 ideas were submitted. A small return certainly, but still a significant number if all became systems-changing innovations worth of funding. Unfortunately, they weren't. Five ideas were taken up by NGOs and submitted. Two of these reached the Project Concept Note stage of selection. None reached the last round of selection, nor received funding.

Why is this? What does it teach us about innovation?

One thing it highlights is what Drucker would tell us and what we already know – that innovation involves more than an idea.¹⁰ It needs to be an idea which is relevant; a good idea which genuinely responds to a need. Great ideas coming from universities and think tanks did not catch on with the local implementers, who did not feel that those ideas responded to the need, or were appropriate for the cultural setting.

Furthermore, and possibly most crucially, innovation needs someone driving it. Genuine innovation is not something that catches on easily; by definition, it challenges an existing practice, and is not going to convince everyone immediately. Behind every Microsoft there is a Bill Gates, behind every Q-Top cucumber plug there is a Roark McMasters, and behind every Grameen Bank, there is a Muhammad Yunus. One of the most long-standing principles of innovation is that an idea is nothing without an entrepreneur, and shiree/EEP's experience suggests that the same applies in this context.

The dilemma of this is that we are left where we started – how can the *users* become these entrepreneurs, or develop these necessary innovations, unless they are empowered to make their needs heard, capable of developing solutions, and financed to do so?

Conclusions and Recommendations

Given the minimal confidence and ability of most extreme poor individuals to think critically about their situation, as well as their lack exposure and education – two ingredients we may take for granted, but which are key to innovative genius – shiree/EEP's experience suggests that a purely grass roots approach may not work at this time. Luckily, it also gives some guidance on what does work.

Let's look at who received funding from Innovation Fund round 3. Which innovations were deemed worthy of receiving investment from UK taxpayers' money?

¹⁰ Peter Drucker (1985) *Innovation and Entrepreneurship: practice and principles* (London: Heinemann).

Those best ideas were those which were developed 'closest to home' – developed by NGOs with significant experience and understanding of their target groups, or *users*. One successful NGO, which developed a system to train disabled people to work in garments factories, has been working with physically challenged individuals in Bangladesh for more than ten years. What's more, 56% of the staff are physically challenged themselves.

Likewise, two successful international NGOs working with street dwellers and street children, have been working in Bangladesh with those populations for almost ten years each, and currently work with 17,000 people from these marginalised groups combined. Each of these three NGOs worked with the target group to develop their ideas, conducted community-participation-driven research, and while one couldn't say that this is true *user innovation*, it may be the best form of *manufacturer innovation* we can ask for at the moment in a difficult environment. The experience does lead us to avenues for further investigation though:

1 – Invest in individuals as well as ideas

Much of the challenge falls back to the issue of users, and their ability to communicate needs and develop solutions. Rather than trying to force the ideas, we can support the users who may one day develop those ideas; support the development of the next Muhammad Yunus. We can learn from experience of institutions such as Ashoka, which aims to catalyse social change through identifying and investing in social entrepreneurs working in potentially systems-changing areas of innovation.

2 – Keep lines of communication open

Drucker famously wrote, 'The single biggest problem in communication is the illusion that it has taken place. Users' needs constantly change. What we learned last time may not be appropriate when a new round of funding is available. In order to avoid missed flashes of genius, we must keep our ears to the ground, as users' ideas can come and go in a day. Through a continued global commitment to good education, and social engagement of all people, users' potential to develop solutions can be increased.

3 – If seeking innovation, avoid rigid funding systems

As Drucker pointed out, many of the sources of innovation come from the unexpected, or from unpredictable changes in perception, technology, or demographics (the users themselves). Funding systems must be flexible enough to be available when needed or called upon – a Big Society Bank is on the right direction with this – so that we get real needs, rather than flavour-of-the-month ideas. If we ask someone to pitch an idea the day after eating a mouldy cucumber, what more can we hope for than the Q-Top cucumber plug?