A Background Paper on the Performance and Impact of Social Entrepreneurs

Wolfgang Hein / Robert Kappel
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Summary

This background paper to the SAMforSE (Self-Assessment Manual for Social Entrepreneurs) questionnaires has been produced at the request of Siemens Stiftung as an input to the Research Conference on Social Business on 25th and 26th November 2014 in Mexico City. It is primarily based on visits to eight social enterprises, four each in Latin America and in East Africa, and intends to offer an interpreted list of critical questions for a self-reflecting discussion among teams of social enterprises. This is achieved by interpreting our experiences in the framework of the on-going discussion about the "Third Sector" and the rapidly growing literature on social entrepreneurship.

Chapter 1 gives a short introduction to the historical roots of the recent discourse on social enterprises, reaching back to the concept of the "Third Sector" (neither public nor private) from the 19th century, i.e. cooperative welfare organizations initiated by churches or the labor movement. Based on these insights we discuss the background context to specific characteristics of contemporary social enterprises. The second part of the chapter introduces the social enterprises visited by the authors of this paper in mid-2014. Four of the firms are active in Latin America (Peru, Chile and Uruguay), working on various aspects of waste management and recycling as well as on the innovative use of telecommunication for mobile medical diagnosis services. These include efforts to organize labor for previously informal workers in the waste-picking industry, and one enterprise focusing on mobile medical diagnosis services in remote regions. The other four social enterprises are situated in Africa (Burkina Faso, Kenya, Uganda and Rwanda), producing low-cost sanitary pads for girls and women, low-cost and locally produced eyeglasses, organizing waste-collection and resource recycling in Nairobi, and distributing energy from renewable sources. These businesses give an idea of the diversity of social enterprises supported by Siemens Stiftung.

Chapter 2 raises a number of basic issues for the self-understanding of social enterprises, and on various fields which are important for their success, especially considering the broad range of entrepreneurial and associational forms in which they work. This chapter takes up important points discussed in the literature on social enterprises as well. These are issues which will be raised in this background paper and in the SAMforSE questionnaires:

• How social enterprises define themselves and their ethical foundation,

• various economic issues related to the success of social enterprises (mobilizing financial resources, organizing the enterprise, creating social, political, and economic networks, and positioning the business in appropriate value chains),

• the relation to the state,

• their contribution to poverty reduction and inclusive growth, and

• the complex problems of evaluating the impact of a social enterprise on social "change-making".

Chapter 3 links the issues discussed in the previous chapter to our observations on the eight projects we visited (see Chapter 1.2) and introduces concrete questions about specific social enterprises. We illustrate how they deal with the challenges previously analyzed by providing concrete examples in the form of short focus statements, supplemented by some short explanations and information boxes where necessary. This demonstrates that various types of challenges are handled quite differently by social enterprises in different social, political, and economic environments.

Chapter 4 will present the conclusions of this background paper. This chapter gives a summary of the main conclusion of our analysis on what we consider to be the most important challenges for the establishment and the success of social enterprises. This is based on our interviews with the eight social enterprises and the examination of their experiences, as well as on the literature on social enterprises and the "Social and Solidarity Economy" presented in Chapter 1. Our main focus is on the performance and the impact of social enterprises with respect to scaling-up their activities and achieving social and environmental changes. In particular those issues are raised in connection with the challenge of "change-making" toward a more sustainable world, which is another form of concluding that a project has had a discernable impact on social life. Change-making does not only depend on the successful expansion of the business as such (without losing sight of its social purpose), but also on contributing to the whole ecology of local development (including fighting for appropriate public regulations and their implementation) and finally on contributing to social and political dialogues for sustainable development.

We added to the main text a list of useful addresses for social entrepreneurs and two appendices offering a short typology of social enterprises concerning their different positions between commercial enterprises with a social purpose and non-profit organizations (Appendix A) and a more academic text on linkages and value chains (Appendix B).
1 Social enterprises as agents of change

This introductory chapter will be devoted to three issues:

(a) The discourse on the so-called Third Sector and on the rise of social enterprises.
(b) New questions to be raised in this background paper.
(c) Introduction of the enterprises visited by the authors.

We will not focus on specific fields in which social enterprises are working, but concentrate on overarching questions about the performance and the impact of social enterprises; background papers and manuals for self-evaluation processes linked to specific fields have already been published by a number of social enterprises and individual authors.

1.1 Social enterprises: a new phenomenon?

Publications on social enterprises (closely linked to the terms of “venture philanthropy” and “impact investment”) link capital investments to social purposes and a measurable social impact. The overall economic argument is based on one aspect of prionordial importance: discounting future social costs (Martin 2014: 604-635). This calculation has been done many times in the context of cost-benefit analyses. It is simple to understand this in the field of health: various institutions have calculated the future costs of diseases, while at present the costs of health interventions to prevent these diseases are considerably lower (Commission on Macroeconomics and Health, Sachs 2001).

Still, the terms used imply complex problems: “impact measurement”, defining “future social costs” (normative base; anticipation of political processes and constellations etc.); delimitation from and cooperation with “normal” for-profit firms. It should be taken into account that the social and economic structure of a capitalist society is based on the activities of for-profit enterprises, albeit with interaction with specific forms of social organization and political entities. This means that norms, standards, and innovative strategies by “normal” firms create the field in which social enterprises operate. On the other hand, in the social sector many norms are also set by the activities of social entrepreneurs, by transnational enterprises and civil society actors, by supra-national bodies, and by national and international law.

This more recent discussion on social enterprises is distinct through its basic liberal framework from the discourse on the “Social and Solidarity Economy” (Utting et al. 2014 and other publications by the UN Research Institute for Social Development, UNRISD) which is anchored in the history of social movements and a “social economy” (Sozialwirtschaft in German). Nevertheless, both discourses are closely linked by their common focus on the social and environmental aspects of market failures. This refers to instances where social needs and the consumption/destruction of environmental resources are not adequately transformed into effective demand and monetary costs.
various forms of community-based schemes associated with solidarity finance, risk management, basic needs provisioning, and the management of common pool resources;

and the emergence of millions of self-help groups, often comprising primarily women.

There are a number of associations and networks which have been built to support cooperation and coordination in the SSE, in particular in the broad sense as discussed in the UNRISD paper (Utting et al. 2014).

Social Platform is the largest platform of European rights and value-based NGOs working in the social sector (financially supported by the European Union). It constitutes an association for Social Economy actors at the European level.

“Social Economy actors are economic and social players ( associations, cooperatives, foundations and mutuals) active in all sectors of society to respond to people’s needs. They are characterized by a different way of doing business: a form of entrepreneurship which is driven by the general interest or by a social objective rather than by economic performance, and which embodies the principles of solidarity and social justice, with a strong element of participation, co-decision (staff, users, members), and democratic governance.”

The social and cultural context of most of these organizations is certainly quite different from those of present-day social enterprises, but it must be taken into account that a considerable part of the societal work done in Western societies takes place outside of the for-profit and state sectors.

The new discourse on “venture philanthropy” and “impact investment” is more related to the entrepreneurial than to the associational element of SSEs. The European Venture Philanthropy Association (EVPA) identifies the following sub-types of social enterprises among EVPA members. These included social enterprises that:

- are led by a social entrepreneur, applying entrepreneurial solutions to solve social problems;
- grow up within or alongside charities, usually with the purpose of supporting the charity through trading activities;
- trade extensively with the public sector;
- are private sector businesses with a social purpose;
- form part of a broader, integrated program for social benefit;
- share a legal form recognized in individual countries as social enterprise (Maretich and Bolton 2010: 7). As the common denominator the authors identify “the creation of social value” (ibid.: 13).

So, what is different in the new discourse on social enterprises? Up to which point do “our” social enterprises fit into the new discourse? Social Platform’s definition of “social enterprises” includes both types of approaches, which are characterized by competing on a market for social services but are not primarily profit-oriented (if they are profit-oriented at all). Instead, there is at least an equal focus on social (and/or environmental) goals. While the traditional Third Sector strives to make an important good or service accessible for a specific community, such as the members of that social group themselves (religious, social, or political), social enterprises are primarily based on the “impact investment” of individual or small group social entrepreneurs. These entrepreneurs are guided by the purpose of creating social value; a value beyond profit for the group of investors.

It boils down to a new trust in market mechanisms, even when it comes to issues that exist as a consequence of market failures. Modern “social investors” will be attached to particular social purposes, have specific qualifications, and be part of a supporting network, but it seems that most of them are working as entrepreneurs primarily in large and complex markets. They need capital, workers, equipment, marketing, etc. (Salamon 2014). This, however, has to be adjusted to the specific social purpose they are pursuing. Why should they be more successful than the self-organization of the groups concerned, such as waste-pickers, or local communities that demand better access to health services? One hypothesis may be supported by our interviews: the growing gaps (in terms of income, but also in terms of technologies and the organization of work) between traditional and modern solutions makes it increasingly difficult for self-help organizations to succeed through easily accessible technologies, and also more difficult for the state to bridge these gaps. Social investors are much more flexible to experiment with innovative solutions to pursue inclusive strategies.

There have been a number of important institutional developments around the conceptualization and the support for social enterprises and the creation of “social value”. Ashoka, founded in 1980, is among the oldest networks of social entrepreneurs worldwide, providing start-up financing, professional support services, and connections to a global network across the business and social sectors. It also provides a platform for people dedicated to changing the world. Other such networks are the Schwab Foundation of the World Economic Forum and the B Lab, a non-profit organization headquartered in Wayne, Pennsylvania, which created the Benefit Corporation certification for for-profit organizations in 2007. The B-Lab certification is a third party standard requiring companies to meet social sustainability and environmental performance standards, achieve accountability standards, and to be publicly transparent about the score they receive on the assessment. B-Lab certification

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1 See more at: http://www.socialplatform.org/what-we-do/service/social-economy-and-entrepreneurship/#sthash.DW4MlEnQ.mAtjSScW.dpuf. Members include Caritas Europe, European Confederation of Workers’ Co-operatives, Social Cooperatives and Participative Enterprise; European Public Health Alliance, etc.

2 “Social enterprises include some social economy organisations and other legal forms that have a primary social objective, reinvest profits to achieve social objectives, and are run in a democratic, transparent and participatory way.”
Applies to an entire company across all product lines and issue areas.

According to Ashoka (https://www.ashoka.org/social_entrepreneur), social entrepreneurs "are individuals with innovative solutions to society’s most pressing social problems. They are ambitious and persistent, tackling major social issues and offering new ideas for wide-scale change". It can be stated that social entrepreneurs share the vision, creativity, and determination of business entrepreneurs to create new products, services, or even entirely new industries, and that social entrepreneurs use these qualities to create sustainable market-based solutions to social problems. While business and social entrepreneurs share the idea to create viable and sustainable businesses, the social entrepreneur uses his/her business to find solutions to problems in communities. Therefore, social entrepreneurs focus on creating social value in addition to economic value. Social entrepreneurs are change agents and the driving force behind sustainable social innovation, transforming fields such as education, health, environment, and enterprise development.

It is important to understand that despite this focus, social entrepreneurs differ from social activists and advocates. They use entrepreneurial skills and business methods to build concrete and sustainable for profit or non-profit organizations which become vehicles for achieving their social objectives (Ashoka 2013; Abu-Seifan 2012).

Another approach has been recently developed by Christian Felber, an Austrian who initiated the concept of an "Economy for the Common Good" (ECG) in 2010 and developed the project of a "Bank for the Common Good." The initiative has been supported by NGOs, politicians, private individuals, and companies. In fact, there are now more than a thousand companies officially supporting the initiative.

The ECG-concept is defined on the systemic level: "An Economy for the Common Good is an alternative economic system built on values that promote the needs of the entire population. It is a tool for economic, political, and social change — a bridge to a better future." It defines the "Common Good" as the six dominant values featured in all European democracies, namely: human dignity, solidarity, ecological sustainability, social justice, and democratic co-determination and transparency. In contrast to Ashoka, the "change-making" is not only related to changes in particular social or environmental fields, but to an "alternative economic system". The ECG-system has also created a "Common Good Balance Sheet", which allows an assessment of individual companies according to the five values mentioned above.

Inspired by the experience of how much can be achieved by lending a small amount of money, the Grameen Bank in Bangladesh was founded for the purpose of lending money (microcredits) to people who had no access to capital. Grameen describes the very character of the social business philosophy - starting small. The Grameen Bank became a great success and enabled many people to get out of poverty.

Another approach was also developed by the Grameen Bank. Grameen has fostered new entrepreneurial solutions to the problems of the poor. They do not only need access to capital, but many other things to work their way out of poverty: health and education, clean water, good food and access to electricity, transport, and education. Various kinds of social businesses are dedicated to address these issues. Grameen formulated 7 principles of social business:

1. Business objective will be to overcome poverty, or one or more problems (such as education, health, technology access, and environment) which threaten people and society; not profit maximization.
2. Financial and economic sustainability.
3. Investors get back their investment amount only. No dividend is given beyond investment money.
4. When investment amount is paid back, company profit stays with the company for expansion and improvement.
5. Environmentally conscious.
6. Workforce gets market wage with better working conditions.

Based on the discourse we have summarized so far, we propose the following definition given by the Social Business Initiative of the European Commission (2011), although we will see when referring to the social enterprises (or projects) we visited that we have to start with a broader concept. A "social entreprise" is defined as "an operator in the social economy whose main objective is to have a social impact rather than make a profit for their owners or shareholders. It operates by providing goods and services for the market in an entrepreneurial and innovative fashion and uses its profits primarily to achieve social objectives. It is managed in an open and responsible manner and, in particular, involves employees, consumers and stakeholders affected by its commercial activities".

A social enterprise is typically created when a social entrepreneur or founding group of citizens who share a specific and well defined social goal succeed in translating it into a new organization that has some key features: the activity it performs is of general interest and it is managed in an entrepreneurial way, striving to maintain a constant balance between the social and the economic dimension. The novelty introduced by social enterprises is their capacity to bring an entrepreneurial and commercial dimension to the provision of general interest services and to the solving of social issues. This ability enables these organizations to operate in a space that in many countries was previously thought to belong solely to the domain of the public sector. Social enterprises have made it possible to provide social and general interest services in a way that is economically sustainable, and in many ways more effective and efficient than what could be done by the public sector alone.

3 https://www.ecogood.org/en/what-economy-common-good
Social enterprises are addressing not only the needs of their owners or members of a supporting organization, but also of the entire community, including the needs of the most fragile segments of society. Therefore social entrepreneurs are very much part of a wider approach aimed at reducing poverty, stimulating inclusive growth, and achieving environmental sustainability.

1.2 New questions on social enterprises

There is no generally agreed-upon normative framework about what social enterprises should or should not do. This means that every auto-evaluation will be linked to discourses about the role of social enterprises and the positioning an organization’s own project in the broader field of strategic options. These discourses are part of a search for definitions and solutions to problems, which cannot be captured in a catalogue of norm-based questions. In spite of the growing discussion there is still no clear consensus about what social enterprises “really” are, or, to put it another way, what is the most useful definition in order to distinguish social enterprises in our understanding from “neighboring” concepts such as the traditional “Third Sector” or the concept of Corporate Social Responsibility (CSR) as a claim by society toward for-profit corporations (for a comprehensive treatment see Aras and Crowther 2009).

Concerning the “Third Sector” or the “Social Economy,” these organizations share with the contemporary social enterprises the social purpose and the need to sustain their work in the face of competition from other competitors offering similar or identical products or services. Third sector organizations, however, are generally founded by and embedded in relatively large social groups, such as religious communities or (parts of) the labor movement, and are focused on the survival/inclusion of disadvantaged groups within the capitalist economy. In contrast, social enterprises are mostly founded by socially-engaged entrepreneurs. The CSR-idea, as expressed in the UN Global Compact (launched in 2000; see United Nations 2014), is in its general orientation rather close to the idea of social enterprises: Maximizing profits cannot be the only and absolute objective of an enterprise; social responsibility has to become an inherent element of for-profit enterprises, too. Therefore, it is important to distinguish between the social purpose of a social enterprise and the social responsibility of a conventional corporation, especially in light of the fact that a number of social enterprises cooperate in various forms with large corporations, basically as a legitimation of the social responsibility of the latter. Finally, as we have seen when comparing the B-Lab concept with the “Economy of the Common Goods,” there are differences among the change-making purposes of social enterprises that focus on specific social and/or environmental targets (B-Lab) and those that focus on “an alternative economic system” (ECG).

Based on our own definition and our research, this background paper will take up these issues on two different levels: first, a more general level of basic issues in the field of social entrepreneurship, and second, a more specific level related to the enterprises visited for the preparation of this study.

1.3 The social enterprises visited

The authors visited a number of social enterprises (and other actors cooperating with them) which are part of the group of the empowering people.Network (http://www.empowering-people-network.org) conducting intense discussions with each.

The experiences of the following enterprises constitute a very important source for this background paper:

Ciudad Saludable

Ciudad Saludable © Wolfgang Hein

Ciudad Saludable promotes the development of recycling markets for solid wastes and the formalization of informal waste-pickers into collectively-owned micro and small enterprises at the level of (and in cooperation with) district administrations. Ciudad Saludable helps waste collectors receive better prices by cooperating with large enterprises buying recycled materials. The organization also helps improve the workers’ social security situation. Ciudad Saludable itself has been working for the most part as a non-profit organization, but recently has established the firm Peru Waste Innovation as a for-profit social enterprise (environmental consulting to the public and private sector). Ciudad Saludable is also active in other Latin American countries and in India.

TriCiclos
(Gonzalo Munoz, Santiago de Chile/ Sao Paulo, Chile/Brazil). Activities: waste collection, separation and recycling. Budget and employees: 111 employees with a budget of $85 million (2015, planned).

TriCiclos operates in waste collection, separation, and recycling. It expanded and has broadened its activities in recent years and is now a large firm. It is also in the process of spreading its business activities to Colombia and Brazil, where a new headquarters is being built. The focus of the enterprise’s activities is on recycling domestic waste, and installing and operating 60 recycling stations in Chile, the so-called “Puntos Limpios”. The recycling stations are sold to supermarkets and/or the Corporate Social Responsibility (CSR) divisions of large corporations. Through their “social model” TriCiclos supports street waste pickers and
turns them into micro entrepreneurs, operating Puntos Límpios on their own. Employees are trained as “environmental educators” to convey environmental consciousness and knowledge on recyclable materials. TriCiclos has been the first Latin American company to receive “B corp certification” (by the US non-profit organization B(enefit) Lab) (see above).

TRIEX  (Ana Luisa Arocena; Montevideo, Uruguay). Activities: collection and treatment of hazardous waste. Budget and employees: slightly over $1 million (2015, planned), and 35 employees.

TRIEX collects and recycles hazardous waste and has established a global network of contacts to take care of treatment if it cannot be done in Uruguay. Since 2009 TRIEX is a joint venture of an older small firm (built-up by Ana Luisa Arocena and Ruben Martínez) concentrating on special wastes and a larger firm (CIEMSA), working in the fields of energy, water and sewage systems. As an enterprise, TRIEX can be categorized as a mid-size enterprise.

A new project run by TRIEX, Neosit, concentrates on the management of waste from electrical and electronic equipment; it develops new strategies with public support (in particular, a network-based international coordination of recycling electronic waste). TRIEX also plays an important role in organizing waste-management firms in Uruguay (Cámara de Empresas Gestoras de Residuos) and pushing for effective regulations on hazardous wastes in that country.


EHAS is building up mobile medical diagnosis services through the innovative use of telecommunication. The main technical innovation consists in closing the communication gap between rural medical outposts staffed by paramedics, and larger, physician-run medical centers by increasing the range of WiFi technology from the standard 300m range to a much longer 100 kilometer range. In 1995 the company started research cooperation with David Chávez Munoz of the Pontificia Universidad Católica del Perú. The activities were funded by EHAS (Enlace Hispano-Américano en Salud), which allowed it to channel financial resources of various origins into telecommunication research in health. The system was tested in various locations on an experimental basis. The activities focus on pregnant women: a health package comprising three ultrasounds, two urine tests and one blood test for $30 paid for by the public health system in certain Peruvian contexts and in Guatemala.

The aim for 2014 and 2015 is to create national EHAS entities (services to be negotiated with and sold to national ministries of health in Peru, Ecuador, Colombia, and Brazil) in partnership with key university departments to work with local medical staff and implement the technology on the national level. In addition, the group hopes to secure the maintenance and the improvements of micro-networks. In 2014, a Peruvian enterprise (“Enlace Salud”) was created, and EHAS owns 75% of the capital. In the other countries, the system will be sold through a franchise system (3% of income to EHAS) with about 60-65% of funds from local entrepreneurs and the rest from international investors.
MakaPads
(Dr. Moses Musaazi; Kampala, Uganda). Activities: low-cost hygienic protection for girls and women. Budget, employees: from $56,000 in 2012 to $410,000 in 2015 (planned), 220 employees.

MakaPads provides effective, low-cost hygienic protection to every girl and woman. The sanitary pads are made from papyrus and paper waste. The fibers are beaten, dried and softened using no electricity. They are assembled with a moisture barrier and mesh covering. MakaPads can be purchased with or without an adhesive that slips into knickers with special elastics to hold the pad in place. The advantages of MakaPads are that they have a higher absorption capacity than other pads, it can be used for 8 to 10 hours, and the material is 95% biodegradable. It also sells for half the price of other brands.

The project concept was funded by the Rockefeller Foundation, and UNHCR in Uganda supported this project by buying from MakaPads because of the opportunity to give jobs to refugees while also procuring environmentally-friendly products to help keep girls in school. In 2006 the company opened a production site at the Kyaka II refugee settlement in south-east Uganda that today is run by a refugee and employs an additional 50. As of today, MakaPads counts three factories in two refugee camps of Western and Eastern Uganda, and one factory in Kampala to cover for the demand of the UNHCR. MakaPads employs about 220 workers, most of whom are women, and it has set up its own supply chain, from the collection of papyrus to its softening, processing and solar drying. All tasks are manual, and solar energy is used for the sterilization at the end of the process.

TakaTaka Solutions

TakaTaka Solutions is a Nairobi-based waste collection and resource recycling business ("TakaTaka" is the Kiswahili word for 'waste'). By recycling and composting 80-90% of collected waste, TakaTaka Solutions is able to offer affordable waste collection services across all income areas. At the same time, the company offers employment to underprivileged youths from lower income areas. TakaTaka Solutions’ end-to-end waste management approach is achieved through its various brands:

Collecting waste: Taka Collect services are distinguished by the fact that they are provided for all income levels, achieve high environmental friendliness with 80-90% of collected waste recycled, modern collection infrastructure and trucks, provision of different bins to clients, and the training of clients in waste separation. The initial separation of waste into two fractions (organic and inorganic) by the clients enables TakaTaka to separate further and recycle the various waste components into valuable resources.

Taka Compost: Taka Compost is made from source-separated organic waste. It is produced with state-of-the-art technology, ensuring appropriate sanitization and hygiene. Taka Compost is certified under the Kenyan Organic Fertilizer Standard.

Taka Textile: TakaTaka Solutions collects source-separated waste, including textiles, from all income groups. After collection TakaTaka Solutions sorts the textiles into different groups based on the type and quality of the materials. The textiles are washed, and repaired if possible. The higher-quality textiles are then reintegrated back into the system through second-hand textile markets. The lower quality textiles are sold to recycling industries who re- and up-cycle the textiles into new products.
**Taka Glass**: The company has created a special line of glass products made from the bottles that were collected from different customers. The company cuts, sands, and polishes the bottles and repurposes them to make wine glasses, tumblers, and other household items.

**OneDollarGlasses** *(Martin Aufmuth, operating in various countries)*. Activities: glasses for low-income population. Employees: 18.

OneDollarGlasses consists of the first and second chairman and a treasurer. Several volunteer members also have leading positions in different organizational areas. Worldwide, approximately 150 million people would need a pair of glasses, but cannot afford them. They cannot learn, cannot work and cannot provide for their families. The OneDollarGlasses offer a solution. The glasses consist of a lightweight, flexible-spring steel frame and prefabricated lenses that can be locally manufactured with simple bending machines. Costing only $1 to make, the glasses are sold for between $2 and $7, meaning OneDollarGlasses opticians can earn a living by selling the glasses. The spectacles are made by hand on a specially designed bending and milling machine, which requires no electrical power. The machine is virtually maintenance-free and is designed to work in the most remote villages. So far the company produces in Burkina Faso.

**African Renewable Energy Distributor (ARED)** *(Henri Nyakurundi; Kigali, Rwanda)*. Activities: provide and supply stable energy solutions (mobile cell phone charger).

ARED is a solar energy distribution start-up based in Rwanda. Founded in 2012, ARED seeks to provide and supply stable, reliable energy solutions to rural and urban areas in East Africa.

Less than 20% of the population have access to electricity in East Africa, but over 60% of the population have a cell phone. The mobile solar kiosks offer a convenient charging solution at low cost. It employs innovative technologies like the Mobile Solar Cell Charger (MSCC) and Concentrated Solar Power. The Mobile Solar kiosk is a one-stop shop solution for mobile users. ARED is using a low-cost franchise business model. The goal is to promote entrepreneurship at the base of the pyramid. Franchisees can charge any type of electronics, sale products or electronic vouchers. Eventually, the kiosks will offer wireless internet access. One of the key features of the kiosk is its mobility, which helps keep the costs down.

To summarize the activities of the social enterprises analyzed for this paper:

These enterprises are characterized by a large variety of activities and forms of organization:

- **different constellations of social purposes**: non-profit engagement and a for-profit component.
- **different social fields**: such as waste recycling or access to specific medical services.
- **different financial bases**: The money comes from transnational companies, telecommunication enterprises, international foundations, local banks, micro finance institutions, NGOs, charity organizations, etc.
- **different links to communities and other enterprises**: local administration, NGOs, research institutes, large enterprises, sub-contractors, international development aid agencies, etc.
2 Basic issues to be discussed in a process of self-evaluation

2.1 Self-definition: correcting market failures, doing better than the state while considering legitimacy and accountability

Social enterprises are increasingly important to identify a different way of doing business, which occurs when enterprises are created specifically to pursue social goals. The entrepreneurs’ main objective is to achieve social impact rather than make a profit for their owners or shareholders.

The concept of “social purposes” refers to results in what is essentially a market- and profit-driven economy characterized by social inequality and the inability of large parts of a population to participate in whatever is understood as “social progress”. In many cases, this includes an inability to even fulfill basic needs. Achieving results is to overcome the exclusion of parts of the population from social progress and to produce inclusive growth. Results may also mean improving on the over-exploitation and/or destruction of the natural environment. Traditionally it has been seen as the task of the state to pursue social and environmental policies, but the criticism of public interventions that are inefficient (mainly due to political power-relations) and frequently aggravators of inequality is as old as the discourses on the state as the protagonist of social policies. Still, state authority is needed to redistribute tax income and to effectively implement binding regulations.

For this reason, there are some fundamental questions on the relationship between social enterprises, for-profit enterprises and the state. These include, for example, the legitimation of social aims within a national society through due majorities in voting processes, primarily in representative institutions. It also implies links between defining state regulations, implementation and social enterprises, and pushing for-profit firms to support social purposes. At the same time, for-profit firms should also have an impact on the social and environmental quality of their economic activities: improving working conditions, innovations in environmental management, etc. Increasingly, we find forms of hybrid cooperation in policy fields which have previously been considered the domain of the public sector. It is an interesting question to discuss the advantages or disadvantages of cooperation between social enterprises and the state.

Questions and issues:

What was your primary motivation when you began working in the field of your current project?
Did you aim primarily at contributing personally to solve a social/environmental problem, or did you want to push public institutions to become more active in the field?
Or do you think that these goals cannot be separated?
Do you see yourself more as an entrepreneur or as a facilitator of the creation of small enterprises that improve the social situation of the population?

How do you think about the proliferation of public-private cooperation or parallel activities of the same kind undertaken by public institutions and by private enterprises?

Ethics, legitimacy and accountability

When a private enterprise or project is started to pursue specific social or environmental goals, it raises the question about who has assigned these tasks to the enterprises, and who is seeking to benefit from the project. For public institutions in democratic societies, legitimacy is based on the political decision process, and the acting institutions will be held accountable through the respective representative bodies. These questions are closely linked to the ethical considerations for social enterprises: Who decides about the desirability (and priorities) of specific social purposes? Who sets the moral standards proper and improper conduct, and what are their implications on social responsibility?

In recent years, there has been a growing discussion on the legitimacy of the mandate of civil society organizations and concerning the social purposes of social enterprises.

This discussion has led to several questions which can now be raised here. Some questions will be addressed later on in the text.

Questions and issues:

How can it be safeguarded that the activities of social enterprises are considered legitimate by those affected by them?
Who decides about the desirability and priorities of specific social purposes?
What role do the great ideas of the founders of social enterprises play?
Does the possibility of raising substantial financial means from philanthropic institutions and/or Corporate Social Responsibility (CSR) programs of big corporations play a decisive role?
To whom are these social enterprises accountable? To the local community? What about the cooperation of social enterprises with firms that are themselves responsible for creating environmental problems?

This latter aspect points to a rather general problem of cooperation:

How narrowly should a social purpose be defined?
Where are the limits of financial sourcing and of other forms of cooperation when pursuing a social purpose that might be broadly accepted?
Does it matter where the money comes from? Does it matter which companies you are presenting on your webpage as supporters of your enterprise?

Is the somewhat populist response of “doing good” a sufficient ethical legitimation for pursuing specific social purposes?
If we take into consideration controversies around ostensibly “good” actions (such as giving money to beggars; activities which substitute state social policies but are not sustainable, etc.), social purposes should also be an issue of accountability.
How much should social enterprises be held accountable for defining and pursuing their social purpose? Is it just a matter of ethical considerations within the project?

Should the business explicitly formulate and disclose the ethical, social, and environmental standards that guide their activities and invite peers and civil society groups to critically discuss their activities (see standards for corporate reporting; for Corporate Social Responsibility, etc.).

2.2 Mobilizing resources for a social enterprise

Every social project depends on the ability to mobilize resources. There are many different ways to become a social entrepreneur, from investing a small amount of private savings all the way to using the services of social investment agencies to mobilize resources from venture philanthropy institutions or from ethical investment funds.

A social enterprise operates by providing goods and services for the market in an entrepreneurial and mostly innovative fashion and primarily uses profits for reinvestment and/or to achieve social objectives. It is managed in an open and responsible manner and involves employees, consumers, and stakeholders affected by its commercial activities. This is why social entrepreneurs play a fundamental role in economic development. They create jobs and implement new ideas, or adopt existing ideas to local contexts, and therefore crucially contribute to productivity enhancement and overall economic growth, which constitutes inclusive growth and shared activities.

Helping small firms in marginal areas of poor countries get started and move toward consolidation is one important field of social enterprises, especially given the fact that most social enterprises are themselves mostly small and medium sized enterprises. This is not an easy target to hit as the situation of most small and medium enterprises (SMEs) in poor countries is precarious.

The following paragraphs deal with SME development. They do not address micro entrepreneurs or self-employed entrepreneurs, which are estimated to make up between 20 and 50 percent of the non-agricultural labor force. SMEs constitute a major source of employment, income creation, and output in developing countries. While many social enterprises themselves are small and medium enterprises (see the predecessors of TRIEX or TakaTaka Solutions) they frequently play a role in supporting the foundation of viable and legally constituted micro and small firms (see in particular Ciudad Saludable, TriCiclos with its “social model”), or they support homeworkers (MakaPads), sub-contractors (MakaPads), or small franchise enterprises (ARED).

Given the high relevance of SMEs for social enterprises, a key question is identifying the main constraints that need to be alleviated in order to spur SME growth and productivity improvement in developing countries. Of course SMEs face a plethora of constraints to business development. They typically operate in fragile environments characterized by a poorly developed physical infrastructure, political and macroeconomic uncertainties, and often have high exposure to corruption and other institutional deficits.

The main constraints for enterprise growth and inclusive growth are: Limited capital and access to finance, inadequate provision of public infrastructure and services (this affects private investment and results in high transport and transaction costs), unfavorable systems of taxation, high regulatory burdens, administrative bureaucracy, and high corruption. Other factors are narrow markets, constrained knowledge and technological transfer due to low turn-over and profits, limited access to differentiated markets (which might be related to a lack of forward linkages), and the concentration of SMEs in low-quality production and easy-entry market segments. It should be mentioned that there are often little trust, minimalistic entrepreneurial strategies, low education, and poor managerial and skills competence.

Many SME owners in developing countries do not keep business records or separate between household and business funds. They are often unaware of basic accounting and marketing practices. The lack of these practices can strongly affect profitability. Many have no access to formal credit due to insufficient business records. There is also ample evidence that many SME owners have only poor financial knowledge, and often do not properly understand or are unfamiliar with the range of existing financial products and services available to them.
Another potentially important constraint to firm growth and productivity improvements that has (re)gained increasing attention is the lack of basic managerial skills and knowledge. In the context of SMEs, managerial skills can be understood as basic knowledge about financial planning and the relevant market. This also refers to familiarity with standard business practices, such as record-keeping, managing cash-flow, accounting, inventory management, marketing activities, customer care, and the capability to innovate. Better managerial skills could encourage the implementation of better business practices, such as the regular maintenance of machinery to reduce the probability of failure. Entrepreneurs with strong managerial skills may also be better able to motivate their workers and to more efficiently coordinate working tasks.

Expanding access to finance and improving managerial skills have become key pillars of development policies worldwide over the last twenty years. This is reflected in the sharp rise of microfinance institutions since the beginning of the 2000s, which is mainly based on the premise that relaxing financial constraints will spur economic growth and development. Similarly, there is a growing recognition of the importance of financial literacy and business training in order to promote SME development and general financial inclusion.

These general observations about SMEs are typical in some ways for many social entrepreneurs, but there are key differences. Raising funds for social entrepreneurs to grow is often very difficult. Social enterprises are driven by markets and a social mission, but traditional financial institutions tend to believe that “social” means “soft” and is usually a polite word for “loss-making”, leading lenders to deny a stable, long-term source of finance.

In most cases, the conventional financial system is not available for the needs of enterprises serving a social mission. Commercial funders (banks, micro credit organizations, donor agencies) rarely offer financing terms that the majority of social enterprises can meet. The lack of funding opportunities is one of the major disadvantages social enterprises face. A conventional business can use its balance sheet and business plan to offer different combinations of risk and return to many different types of investors: banks, micro finance institutions, equity investors, or venture capitalists, for example. Not so for many social enterprises. But an increasing number of social entrepreneurs and investors are coming to realize that social enterprises can also generate financial returns that will make them attractive to the right investors – in particular those that are also driven by social concerns (ethical investments). This realization will dramatically increase the amount of capital available to enterprises. Many social enterprises survive only through family donations, government subsidies, funding from charitable foundations, contributions from large corporations as parts of their Corporate Social Responsibility programs, and individuals who...
will make donations or accept lower financial returns on their investments in social projects. The ability of those enterprises to provide their products and services rises or falls with the availability of capital from these sources, and their fundraising efforts consume time and energy that could be spent on their social missions.

Questions and issues:

How can the previously mentioned market constraints and the bureaucratic obstacles be tackled?

What can be done in order to get support from associations, communities, state bodies, intermediaries, etc., in order to reduce these constraints?

How can access to finance be improved? Which financial instruments are available?

Should social enterprises be organized as a charity and seek donations? Or, as a business looking for commercial funding?

2.3 Organizing a social enterprise

As mentioned above, beyond the lack of access to capital, some social entrepreneurs lack managerial skills. This can be addressed in two ways. In the early stages of a social enterprise, organizational support can be of great help, and various networks of social enterprises play an important role. Conversely, a number of social enterprises offer business training to groups of SMEs that they support in the field (such as an association of waste pickers).

A social enterprise can be formed in many different ways, as evidenced by the enterprises we visited. Sometimes, social enterprises will grow out of activities of NGOs, which have worked for a certain period in a specific policy field such as fighting poverty or environmental issues. The field of waste collection, classification, and recycling links social and environmental aims. Similarly, technological innovations related to one or another area of social policy (such as communication technologies and health in the case of EHAS) might go through a phase where they need financial support from charity organizations or civil society before they can run a commercial enterprise. Other activities, such as those which include the production of specific goods (glasses, sanitary pads), can be organized as a social enterprise quite early on.

There are a number of considerations to keep in mind when setting up a social enterprise. They include aspects of leadership (related to personal experience and training, but also to individual qualities such as a certain degree of charisma), cooperation with supporting institutions (such as AVINA\(^4\)) and the building of social, political, and economic networks, concepts of creating linkages and inserting the enterprise in value chains (access to raw materials and other inputs as well as the relationship to the market) including the work with sub-contractors, and concepts for expansion (cooperation with foreign firms in the same field; franchise systems). We will discuss the aspect of linkages in Chapter 2.5 and most other aspects in a more practice-oriented form (including examples from the enterprises we visited) in Chapter 3.

Questions and issues:

Which is the best organizational form to pursue a specific project?

In which form will the services be provided?

Who are the customers/buyers of these services/products? Are these states which aim to fulfill obligations toward the population, such as health (EHAS), or individual poor customers?

Which form of leadership is practiced by the inventor and/or the founder of the enterprise, and what is this person’s personality?

How do you organize your operations, employment, the relationship between central office and operational units? (see associations of waste recyclers or “Puntos Limpios”, or TakaTakaSolutions in Nairobi).

What is the best legal form of the enterprise?

How is your enterprise organized? How do you interact with sub-contractors, how do you organize your franchise system? Or do you have conventional seller-buyer relations?

Which institutions support your activities? International networks like (Ashoka and Siemens Stiftung, System B, Schwab Foundation; Rockefeller Foundation; UNHCR, Economy of the Common Goods) or/and local intermediaries?

How do you deal with competing projects or cooperation partners? (for example TriCiclos: competition; Ciudad Saludable: cooperation).

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\(^4\) AVINA was founded in 1994 to strengthen the initiatives of social and business leaders seeking to create more sustainable forms of development. It is financed through an entailment (Fideikommiss) of $1 billion and it adjusts its portfolio of impact opportunities in the region based on an evaluation of institutional capabilities to contribute to changes of significance together with allies over a period of five to 10 years (http://www.avina.net/eng/timeline_entry/#sthash.gZTTn1UU.q4eTuN4c.dpuf).
2.4 Social, political, and economical networks and the role of value chains

Networking is a central feature of social interactions and of governance in present societies. Networking is a way to overcome obstacles produced by political and administrative boundaries or by established ways of doing things. In its most straightforward definition, networking simply serves to link different capabilities which are essential to reach a specific goal. In our interviews, four types of networks can be distinguished:

(a) Networks as the foundation of a pragmatic approach to pursuing social purposes: This consists in an exchange of information and a material cooperation between people, enterprises, and social and political organizations to reach a common goal, including educational aspects (e.g. in the environmental field) and technological learning. There are very different forms of cooperation depending on the specific goal and on the institutional context of a specific project. Therefore, general criteria are only applicable on an abstract level. The principle of shared activities refers to networks with trust, diversity, and brokerage, where you can raise your level of information from what you know to whom you know.

(b) Networks as a means of improving political coordination and increasing political power to push public regulations and to get state support for the social purposes pursued. This includes lobbying, but also an exchange of political ideas about regulations and public responsibility at local and national levels.

(c) Networks as a means to assert social purposes and to prevent "mission creep" toward a dominance of the profit orientation of a social enterprise: In order to remain accepted in the respective community, a company has to abide to its own proclaimed standards and to the norms dominant in the community. These might be informal networks, but also include networks such as Ashoka.

(d) Economic networks in the production and distribution of goods and services have been intensively analyzed in the context of the discourses on linkages and value chains, which we summarize in the following paragraphs.

Linkage Approach and networking

Social enterprises are – like all companies – embedded in a variety of interconnected linkages to other economic actors. They depend on suppliers, they depend on the market, on cooperation with others, and on a favorable economic environment. Linkages are of major importance for the survival and the development of a social enterprise. The concept of linkages gives some insight into the dynamics of a market, and also shows how social entrepreneurs can use the mechanisms of linkages for their own activities and for a successful engagement in local, regional, and even international markets while simultaneously engaging in social activities. Participation in a value chain might help social entrepreneurs to be profitable, gain better access to technology, knowledge, finance or managerial skills, and also to realize social objectives. The concept of linkages also helps relate the activities of social entrepreneurs to processes of poverty reduction and inclusive growth.

Linkages are referred to as all transactions between economic agents, through the market or outside it. They are non-homogeneous since they involve economic agents with different levels of resources and market power, different number of actors, and are conducted in different economic environments (e.g. stable/volatile market, homogeneous/heterogeneous customers). Different levels of cooperation and governance structures emerge to co-ordinate transactions, hence the diverse classes of linkages.

In the following passages, we will take up some important points and refer readers who are interested in a more complete introduction to this topic to Appendix B (for a summary of the different cooperation models and an overview of the value chain typology according to governance structure).

When enterprises get involved in transactions with organizational (e.g. trading firms, retailers, manufacturing firms) or individual consumers, they incur transaction cost, which is viewed as the cost of governing the relationship between transacting parties. Transaction costs have varying different magnitudes which result in two types of inter-organizational governance structures (market or hierarchy) that emerge to control, coordinate, and ensure effective and efficient inter-organizational transactions, which is why there are market- or hierarchy-oriented linkages. When transaction costs are high due to high investment in relation-specific assets (high uncertainty), the governance structure that emerges to govern linkage relationships is hierarchy. Transactions characterized by low transaction costs are governed by arm’s-length market relations. These structures are identified by different names, but are very similar. Three different forms of value chains are relevant types in addition to hierarchy and arm’s-length market relations: modular, relational, and captive governance:

1. Modular value chains: These develop in cases where products have a modular architecture. Their elements are, to a large extent, produced separately and assembled on the basis of standardized interfaces. The suppliers produce customized products, retaining, however, full responsibility for the process technologies used.

2. Relational value chains: Here, complex interactions between buyers and sellers are in place; often, they lead to a high degree of mutual dependence. Mutual trust, family ties, and ethnic ties support the function of these chains.

3. Captive value chains: Smaller suppliers depend to a great extent on large clients. Changing to other buyers would induce prohibitive costs. These chains are often characterized by a high degree of monitoring and control by the lead firms.

The entrepreneurs’ main objective is to stay in the market, to be profitable, and to have a social impact. They provide goods and services for the market in an entrepreneurial and innovative fashion and use profits primarily for future investment and to achieve social objectives. They create jobs and implement new ideas, or adopt existing ideas to local contexts, and therefore make a crucial contribution to productivity enhancement and overall economic growth, which is inclusive growth and shared activities.
Poverty reduction and inclusive growth

Inclusive or shared growth means that the social enterprise creates jobs (specifically jobs for disadvantaged and poor people). This is one way for social enterprises to contribute to poverty reduction. There are three dimensions of poverty: income poverty includes indicators considering per capita income below the poverty line; subjective well-being poverty addresses the views of the people in relation to the life they live in; and capability poverty which includes physical functioning (considering health, literacy, investment/savings) and social functioning, which accounts for the ability to avoid shame, to maintain self-respect, and to participate in decision making for issues related to the society. Poverty is related to resources, which includes access or lack of access to basic infrastructure and services: education, shelter, piped water, electricity, wastewater disposal, and solid waste collection.

The three dimensions of poverty as presented above are interrelated. When people earn a relatively high income that is sufficient to meet their basic needs, they will be satisfied with the life they live. There is a positive relationship between income and well-being. On the other hand, people will be satisfied with the life they live if they are healthier, educated, and have some investments/savings (known collectively as physical capability functioning), and are able to avoid shame, maintain self-respect, and to participate in decision making for issues related to the society they live in (known as social capability functioning).

There are contradicting views regarding the relationship between poverty and the informal sector, where the majority of people in developing countries try to survive. On the one hand, informality seems to trap its actors in poverty, while on the other hand it contributes to poverty reduction by offering employment and income to poor people.

There are groups of people in the informal sector who are well off. While entrepreneurs in the informal sector in transition to formality and in the dynamic informal sector do not normally belong to the community of the poor, some of their employees do. Furthermore, groups of people (mainly women, the disabled, and the poorly educated), who cannot find jobs in the formal sector engage in subsistence activities for survival. The majority of these are self-employed (work on their own account).

The informal sector offers jobs that are low quality and entail poor working conditions, and therefore do not contribute much to poverty reduction. Workers in the informal sector are poorly remunerated, underemployed, and lack social protection; their rights are not respected, and they are excluded from social dialogue and decision making.

Social enterprises focus their poverty reduction activities or their employment of poor people in a different manner. The following basic components of an inclusive growth agenda are:

- Employ disadvantaged and disabled persons.
- Cooperate with informal enterprises: sub-contracting, franchise, and other.
- Engage in community life, focusing activities on education, vocational training and health, training the young generation.
- Environmental activities.

Social enterprises provide an innovative approach. They provide goods or services with the explicit aim of benefiting the community. Social enterprises are conceived of as meeting both economic and social goals within the Third Sector. Social enterprises can complement the roles already displayed by other actors (including public agencies, traditional cooperatives, and advocacy organizations). These include delivery of basic services (such as welfare, education, water and electricity) and the creation of additional opportunities for employment generation.

The contribution of social enterprises to socio-economic development can be seen from various perspectives:

- providing access to basic services (social, educational, and health) to local communities, which includes people who are unable to pay; contributing to a more balanced use of local resources encouraged by wide participation of local stakeholders;
- contributing to the promotion of inclusive governance models that empower the local community in strategic decision-making; creating new employment as a result of the new services supplied and favoring labor market integration of disadvantaged people (minority groups, single women, people with disabilities, etc.) otherwise excluded from income-generating opportunities; contributing to enhance social capital at local levels (based on broad ownership and local participation), which is of crucial importance;
- contributing to take informal activities out of the underground economy by regularizing the situation of formerly illegal workers on the black market, for instance.

Research in this field has shown that by supporting transition processes from informal to formal economic activities, by creating linkages to the formal sector, and by including SMEs in larger value chains, a significant contribution to poverty reduction can be achieved.

Questions and issues:

How important is networking, in particular at the national level?
How do you participate in networks, and which of the proposed criteria are of importance for your “shared activities”?
How much does networking help increase productivity, innovative capacity, and social influence?
How much does networking provide a framework to increase accountability?

How do you tackle poverty in your community?

Which disadvantaged and poor people do you employ?

What do you do in order to engage sub-contractors in the informal sector?

How do you contribute toward improving the communal situation?

2.5 The social enterprise and the state/intermediaries

The discourse on social enterprises argues that they provide a more effective institutional form than the state to pursue many social aims (“to act upon market failures”), which are traditionally seen as tasks of the state as the primarily responsible institution to deal with market failures (through regulations and through supporting social “victims”, or activities to act on environmental consequences).

The principle requirement is to create a legal context that does not put social enterprises at a disadvantage in comparison with conventional for-profit business organizations. In order to avoid criticism of unfair competition, the measures implemented to facilitate the entrepreneurial activities of social enterprises vis-à-vis constrained small- and medium-sized enterprises should be based on the merit of the products and/or services delivered, and an overall evaluation of externalities for the community.

Second, the social dimension of activities carried out by social enterprises should be supported through fiscal and other measures. Social enterprises can overcome problems faced by public agencies and for-profit providers such as the beneficiaries’ inability to pay and problems stemming from information asymmetries between providers and beneficiaries. Under such circumstances, social enterprises often represent a more efficient way of providing goods and services than for-profit and public organizations. Public authorities should consider compensation in the form of fiscal advantages.

Major arguments that justify the granting of fiscal advantages to social enterprise are:

1. Unlike the case with traditional enterprises, fiscal advantages should aim to compensate for the disadvantages faced by social enterprises (such as disadvantaged workers that have been integrated into the workforce).

2. Fiscal advantages should be granted to social enterprises when they contribute to the public interest and well-being of communities. In both cases, social enterprises should benefit from fiscal exemptions on the non-distributed profits (this is a means to sustain social enterprise capitalization), while additional advantages should be granted and fiscal measures adopted with the aim of reducing the cost of the activities carried out.

3. The institutional context should be adapted to ensure that social enterprises can have access to equivalent (financial, product, and service) markets as SMEs, despite the different goals pursued and different modes of operation.

4. The institutional context in which social enterprises operate should be supported so that self-regulatory federal bodies can represent the interests of the sector, and financial and business support bodies can be developed to increase the capacity and effectiveness of social enterprises. Such self-regulating federal structures might also take on the task reducing corruption.

Beyond specific conflicts in areas where social enterprises intersect with state obligations and services, there are large spaces in the field of business support and research where public institutions are offering services that could be supportive of social enterprises, in particular in the field of business development services in cooperation with universities and research institutes.

Business Development Services (BDS)

BDS are defined as non-financial services and products offered to entrepreneurs at various stages of their business needs. These services are primarily aimed at skills transfer or business advice. Business development services are important because they can help entrepreneurs run their business more effectively.

BDS are defined broadly to include a wide array of business services. This implies a variety of markets through which such services may be provided, with different structures (competitive or concentrated), patterns of evolution, and implications for how to intervene. The delivery of BDS as part of business-to-business relationships – including supplier/buyer, subcontracting, and franchise and licensing relationships – is particularly common for smaller firms.

There are three main groups of activities which are of importance for social entrepreneurs:

1. Create and improve the capacity of social enterprises:
   
   - Improve the organizational capacity, which refers to the capacity to have an optimal internal organization with competent staff, Human Resources Management (HRM) policies, relevant planning and strategies, sustainable income, and supportive infrastructure: financial support (access to credit, diversification of resources, financial viability); managerial support (business plan, market analysis, human resources, skills).
   
   - Improve the institutional capacity. This requires communication and networking capabilities, recognition, and credibility from outside stakeholders. We distinguish between three dimensions of institutional capacity of importance: networking with other organizations, social accountability (towards membership), and advocacy toward the government.
   
   - Improve the adaptive capacity in order to adapt to the challenges and opportunities in the internal and external environment (e.g. being innovative, learning or knowledge
management, dynamic, flexible, evaluation and monitoring training, etc.)

- Improve development capacity, referring to the capacity to meet the developmental and social objectives of the organization or sector. This can be direct (such as providing services to the beneficiaries), or indirect (through advocacy and lobbying).

2. Improve the attitude or culture towards social entrepreneurship. Social entrepreneurship is understood as a general attitude or culture where social needs are addressed in an innovative way. Consequently, BDS that are directed towards improving the broader culture of social entrepreneurship may involve the following activities:

- the legal framework for social enterprise start-ups (statutes, legal structure, registration);
- the visibility of social enterprise initiatives to improve public opinion or the stance of government actors on the issue;
- the exchange between potential social entrepreneurs and conventional businesses to exchange opinions on how to deal with certain social problems;

3. Improve the technical knowledge in the fields in which social enterprises are working.

Questions and issues:

How are the services/products you (want to) offer related to public sector activities (such as health or social policies)?

In what way are you taking part in political processes on the development of new regulations, or on changing of existing regulations, in the field of your project?

In which way can you strengthen the position of your firm/project in this process?

Are you advocating the development of networks to have an impact on regulatory processes?

In which way do public institutions (on the national, regional or local level) either support the activities of social projects/enterprises or are unsupportive and/or rather obstructive regarding the project?

How much does government (national and local) support the social enterprise by reducing taxes (for using solar energy, for instance), and by granting easier access to electricity, land, market rights, grants, etc.?

Is there any subsidization from institutions at the local and national level?

2.6 Impact evaluation and change-makers

There is a broad academic discourse on problems of and methodological approaches to impact analysis. This is closely linked to evaluation in development cooperation and to non-profit/philanthropic projects. There are, however, also a number of texts that discuss venture philanthropy/impact investment as a form of social movement. In a text by the British Department for International Development, impact is defined as "positive or negative, primary and secondary long-term effects produced by a development intervention, directly or indirectly, intended or unintended". (DFID 2012: 2.2.). The authors point out: "Evaluators are at their best when links between 'interventions' and policy goals are relatively direct and short term; and when policy interventions are relatively self-contained -- parallel and overlapping interventions make it difficult to disentangle causes from effects". (DFID 2012: 1.10.).

The Kellogg Logic Model approach has been frequently implemented in program planning and evaluation practice in the non-profit sector:

"A logic model (also known as a logical framework, theory of change, or program matrix) is a tool used most often by managers and evaluators of programs to evaluate the effectiveness of a program. Logic models are usually a graphical depiction of the logical relationships between the resources, activities, outputs and outcomes of a program. (Wikipedia: "Logic model"). This is certainly a formalistic conception of social change, but it is important to realize that output has to be clearly distinguished from impact. We have to take into account the complexity of social change and the role of systemic/societal dynamics."  

This model, also frequently used in political science, distinguishes between output, outcome, impact and sometimes also outreach:

- **Output**: The volume of work accomplished by the project.
- **Outcome**: Benefits or changes for participants during or after project activities, such as increased skills and social security or growing income.
- **Impact** (sometimes called "effectiveness"): The long term consequences of the intervention, for example the effect of the operation of the social enterprise on the performance of clients, or the broader economic and/or social effect of the intervention.
- **Outreach**: the proportion of the target population that uses the service. This definition is focused on enterprise clients, and is more restrictive than the broader sense of "coverage of underprivileged groups" such as the poor or women. Where the target population is limited, and therefore smaller than the total population of SMEs locally, outreach should then also be expressed in terms of actual numbers of SMEs reached.

When we are looking for the social impact of a project or enterprise, the following variables are critical: reduction of poverty, access to jobs for women, access to jobs for refugees, wages higher than legal minimum wage, and community development. On the environmental side these variables can be supplemented by: reducing garbage, waste separation and recycling, impact of awareness campaigns, and a change of mindset.

If long-term changes among the target population can be observed, the problem of attribution frequently remains:

- Are these changes attributed positively or negatively to the intervention analyzed?
- How can the complex interactions within a social system be adequately taken into consideration?

An important issue concerns the interests of customers of a specific good and their relation to the social purpose pursued. If a transnational company buys one of TriCiclos’ Clean Points, the corporation is not doing it for the sole purpose of improving the recycling of solid waste, but also to improve the company’s image. As long as the company’s customers think it is good and important that a soft drink producer is doing something for the public good, the link is there.

Questions and issues:

Which aspects are important for legitimizing the work of a social enterprise?
Which role do evaluations play for shareholder accountability, but also for civil society supporters and society as a whole?
To what extent does your enterprise use cost-benefit analysis?

Change-makers: analyzing the complexities of social change

In the long-run, taking into account the issue of “outreach”, scaling-up successful projects is not a sufficient condition for a positive “change-making” impact. For “positive change” to be sustainable, projects should convey the ability to adapt to changes in the social and natural environment and to promote innovations on their own beyond the original activity.

Questions and issues:

How do you take into account the different social and political environments when you consider scaling-up your activities by moving into other countries?
How do you take into account adapting to long-term social and economic changes (e.g. possible trends for using advanced waste separation technology instead of small waste recycling associations)?
In your relationship with large companies who support your social enterprise in their CSR-programs, do you take into account the activities of civil society organizations which attack these companies because of their (presumably) damaging social and environmental impacts?
When cooperating with governments in specific programs, do you consider the general social and environmental impact of government strategies in other fields?
3. Social enterprises: issues based on eight cases

3.1 Mobilization of resources

The development of every social enterprise depends on the possibility to mobilize resources. For a small start, this can be modest amounts of money collected relatively easily from an informal group of people or a committed NGO member (this was how Ciudad Saludable was started), a few partners looking to launch a small enterprise (TRIEX), or assistance from micro-finance institutions. Depending on the original intent of the project, however, it can also mean to raise larger amounts of finance institutions. Depending on the original intent of the project, however, it can also mean to raise larger amounts of capital (which was the case with TriCiclos, ARED, and MakaPads). In the case of social entrepreneurship this entails specific challenges as well as opportunities and has some inherent problems:

- Own resources: Many entrepreneurs starting a new business have their own funds, or have access to resources to start a business.

- Many enterprises that expand their activities have resources from inside the firm.

- Starting a small enterprise is frequently planned in cooperation with friends, or using membership fees or voluntary contributions within an NGO. Volatility in membership or in positions/strategies among members could certainly create problems. If this is the case, the quantity of capital which can be raised is quite limited if there is no large NGO or a wealthy private financer who supports the foundation of the enterprise.

- Donations or loans from a supra-national organization or philanthropic organization (in the case of loan, there is the risk of not being able to repay) create accountability relations towards this organization. This can be positive (MakaPads), but also problematic, depending on the closeness of the goals between the social enterprise and the financing philanthropic organization and/or the flexibility of the latter.

- Donations or loans from development aid organizations: There is a problem of different standards (flexibilities) of evaluation in international bureaucratic organizations compared to those of a social business. There were, for example, problems with a credit from the Inter-American Development Bank (IDB) for a grassroots organization in Uruguay. The reasons given, why the building-up of the planned recycling businesses did not proceed according to the project time schedule, were not acceptable to IDB criteria. (Information by TRIEX on the Organización San Vicente Obra Padre Cacho, a neighborhood organization for the promotion and development of the local community).

- Cooperation with commercial for-profit firms (up to the point of creating a common firm: see TRIEX): This could create financial dependence, producing problems if conflicts about goals arise. As the social enterprise will probably be the junior partner in such a constellation, the social purpose has to be accepted by all partners. In the case of TRIEX/CIEMSA, the cooperation works well.

- Mobilization of resources from CSR-funds of large corporations: In most cases, these large corporations will not be social enterprises, which could create problems relating to the social purposes of that enterprise. An example would be a project promoting forms of “healthy living” being supported by a transnational company producing alcoholic drinks, for example.

- If non-profit status is an essential part of a project, a commercial firm can be set up to strengthen the economic basis of the NGO (see: consulting firm in the case of Ciudad Saludable; OneDollarGlasses).

- Mobilization of resources for helping to set up micro- or small businesses: This moves the entrepreneurial challenge to groups of poor and marginalized people, whose “formalization” and “integration” is the primary social purpose of the project (the case of waste recycling in Ciudad Saludable and TriCiclos). The project itself can be organized as a business or as an NGO.

- Mobilization of resources by supra-national organizations or important foundations in order to invent a product which helps to improve the lives of poor or disadvantaged people (MakaPads, Uganda).

<table>
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<th>Box 1: Fair Finance</th>
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Fair Finance raised funds through its own financial instrument, one tailored exactly to the needs of the business. Fair Finance raised a loan offering a modest rate of interest and a flexible repayment profile which is based on a percentage of the profits produced by the business over the next seven years. If the business does well, the loan will repay quicker. If the business experiences a slow-down, the loan takes longer to repay, but cannot default.

- Fair Finance was able to find socially-minded investors to back such an instrument. The funding enabled Fair Finance to then secure additional bank lines, and has meant that it can now access many times more capital than could previously have been raised through grants alone, helping it achieve sustainability and begin expanding.

- Corporate organizations with deep pools of financial and business expertise such as law firms, banks, and consultancies can play an invaluable role, utilizing their skills to help social entrepreneurs develop new sustainable business models to support their social mission, and then find the funding to support those business lines.
Focus statement 1: How can small and medium enterprises mobilize resources to grow from small to large?

*MakaPads* in Uganda has expanded its activities in recent years. It started with a very small business, and can be seen now as a medium-sized enterprise with huge growth potential. Finance comes from different sources:

- support from MakaRe University in Kampala;
- empowering people Award;
- support from Rockefeller Foundation (financing the innovation);
- bank loans;
- support, funding from GIZ and other donors;
- the United Nations High Commission for Refugees (UNHCR) buys over 90% of the entire production of the enterprise.

*OneDollarGlasses* started expanding its activities in Burkina Faso and some other African countries. So far it is a small enterprise but has plans to expand during the years to come. Finance comes from different sources:

- support from NGOs;
- empowering people Award, and other awards;
- donation from individuals;
- activities to get big foundations involved in financing the expansion of the enterprise.

Focus statement 2: Mobilization of financial resources for waste-picker associations

One of the fundamental obstacles to create formal enterprises for people living from informal activities lies in the lack of access to financial resources needed for basic equipment to be legally accepted as a formal business. Social enterprises can take over the role of guarantors for microcredits. Ciudad Saludable has a fund which guarantees loans requested by waste-picker associations from the formal credit sector and helps the associations, if necessary, to manage their finances in a way that allows them to reliably service their debt. TriCiclos follows a similar strategy for supporting waste pickers associations, which follow their so-called "social model." Through TriCiclos's guarantees, the enterprise helps the waste picker associations gain access to credit lines from CORFO, the public Chilean Development Corporation. In the case of one association interviewed, this amounted to 23 million Chilean Pesos, around $38,500. Furthermore, TriCiclos organizes support by Codelco (the Chilean State Copper Corporation) and the Fundación de la Familia (public foundation to support the most vulnerable families in Chile) which help community groups buy clean points and support them until they are in a position (with knowledge, links to buyers of recyclable materials, financial resources) to buy the CP and establish a microenterprise. TriCiclos also offers recyclers to use their national platform to sell separated waste to large recycling firms, which helps them get a better price than they would selling small quantities.

Graph 2: Mobilizing funds for large social enterprises

<table>
<thead>
<tr>
<th>INSTITUTIONS IN THE TRADITIONAL CAPITAL MARKETS</th>
<th>INSTITUTIONS IN THE SOCIAL CAPITAL MARKETS</th>
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</thead>
<tbody>
<tr>
<td>COMMERCIAL BANKS</td>
<td>VALUE BANKS</td>
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<tr>
<td>INVESTMENT BANKS</td>
<td>SOCIAL INVESTMENT ADVISERS</td>
</tr>
<tr>
<td>STOCK EXCHANGES</td>
<td>SOCIAL STOCK EXCHANGES</td>
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<tr>
<td>VENTURE CAPITAL FUNDS</td>
<td>VENTURE CAPITAL FUNDS</td>
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<td>INVESTMENT FUNDS</td>
<td>INVESTMENT FUNDS</td>
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<tr>
<td>RESEARCH &amp; RATING AGENCIES</td>
<td>RESEARCH &amp; RATING AGENCIES</td>
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</tbody>
</table>

Source: Achleitner and Spiess-Knafl 2011: 6
Box 2: Cash flow

Avoid an unrealistically rapid increase in sales that generate cash. Most businesses experience a gradual increase in sales. A sudden unexplained change will stand out and will not project a credible appraisal of your business.

Include effects of seasonal variations and business cycles in all cash flow projections.

Do not underestimate cash flow needs: This can lead to underfunding, which means that your funds will prove inadequate for meeting your obligations.

Avoid large cash flow categories that are lumped together without backup information about the components. Always provide backup notes from items in the cash flow.

Compare planned and actual figures: Cash flow plans are living tools and must be constantly modified as you learn new things about your business and your customers. Since you will use the cash flow forecast to regularly compare each month's projected figures with each month's actual figures, it will be useful to have a second column for the actual figures alongside each column of the planned figures. As the true strengths and weaknesses of your business unfold before your eyes, patterns of cash movement emerge. Look for significant discrepancies between “planned” and real figures. For example, if the figures of the business fail to meet your cash revenue projections for three consequent months, this is an unmistakable signal that it is time to revise the year's projections. Never leave cash inflow to chance.

Using cash surplus: A cash surplus is a situation when the cash coming into the business exceeds the cash required for covering the expenses of your day-to-day operations. How you handle your cash surplus is just as important as the management of money going in and out of your cash flow cycle. Two of the most common uses of surplus cash are paying off debt and investing elsewhere. Deciding how to use your cash surplus requires some planning and is also part of the business planning process.

Improving your cash flow: Cash outflows and inflows rarely occur at the same time. More often than not, cash inflows lag behind your cash outflows, leaving your business occasionally short of cash. Think of this money shortage as your cash flow gap. The cash flow gap represents an excessive outflow of cash that might not be covered by a cash inflow for some time. Although business, large or small, may experience a cash flow gap from time to time, it does not necessarily mean that the business is in financial trouble. Preparing a cash flow budget is the best way to eliminate cash flow gaps in your business. Improving your cash flow means increasing or accelerating your cash inflows or decreasing or delaying your cash outflows. The most obvious measure is to minimize expenses, such as the amount of operating expenses.

Source: http://www.businessdictionary.com/definition/cash-flow.html

Box 3: Organizing a business

- Study the market and respond to its needs.
- Complete the inventory of assets first. Then, develop a product.
- Consider all ideas, and pick two or three potential ventures. Some of the criteria for selection are included in this assessment document.
- Start a business with programs, people, positions, and property you have, some of what you need to start a business.
- Activities, equipment, skills, and property use ebb and flow. Analyze your resources, determine “down time” and sell it. Sell to people, other non-profit organizations, businesses, or government.
- Selling what you already have and what you already do have great advantages. It minimizes risk, increases resource use, and reduces up-front start-up capital required for a business. Such a formula means profits will happen earlier.
- Analyze your true costs to sell the product/service.
- Determine your “opportunity cost”. If you do one thing, you have chosen not to do another — could your time and capital be invested somewhere else at a higher return?
- Supporting institutions (international networks like Siemens Stiftung, System B, Schwab Foundation, Rockefeller Foundation, UNHCR).
- Defining ways to deal with competing projects (and in the case of different political concepts, potential conflicts).

3.2 Organizing a social enterprise

The enterprises/projects we visited are organized very differently. In Appendix A of this paper, we classify the main characteristics of different types of social enterprises which relate to the legal form of their organization, their social purpose, and the relative importance of different parts of the enterprise.

As many social enterprises begin to consider profit-making activities, they initially consider businesses in which they often have some experience. In most cases, the businesses that are the easiest to establish with the lowest initial risk are those businesses that use existing knowledge, skills, and other assets to develop products and services that you can sell.

This classification list can serve as a starting point for possible products that make use of those resources and build upon existing capacities which can be provided to expanded or new markets. It can also be used to identify ventures that should have early priority consideration.
Competence development and the organization of social enterprises

The specific difficulties in starting a project with a social purpose should not conceal the fundamental idea that a social enterprise strives for an economic return sufficient to autofinance the expansion of the project/firm. This gives a high priority to an adequate organizational structure of the venture, which is likely to effectively link with smoothly functioning economic management.

Focus statement 3: Competence development in social enterprises. On the job training

**OneDollarGlasses.** Local trainees are given the opportunity to learn the skills of producing the glasses. The optician training can be completed in 14 days, and further practice perfects their work.

**ARED** trains their franchise partners in a three-day workshop. There is also a controlling system that allows for permanent adaptation of the franchisee’s activities to the needs of the customers.

**MakaPads** trains their homeworkers, workers, and sub-contractors with partial focus on production and partial focus on environmental aspects of the production process. Training includes quality control, hygienic control, and learning new techniques, but also cost control and just-in-time transport to the main offices. The sub-contractors also get training in finance.
Focus statement 4: Formation of waste recyclers by Ciudad Saludable

Ciudad Saludable (CS) is assisting the organization of formerly informal waste pickers in self-managed associations at the level of administrative districts (lower administrative units, such as parts of Lima; more extended areas in the countryside). Financed by international cooperation, the support of some large corporations, as well as by public funds, CS developed an extended program called Pro Reciclador. This includes the publication of materials (such as the “Manual para la Formalización de los Recicladores...”), materials for sensitization, videos, technical assistance, and education programs for the recyclers. The latter includes courses on access to credit and social programs, and for the development of entrepreneurial capacities among the recyclers. The qualification courses, offered by CS in the framework of the public institution for professional formation and capacitation SENATI (Servicio Nacional de Adiestramiento en Trabajo Industrial) includes the following modules: integrated management of solid waste, occupational health in the separation of solid wastes, and social competence and personal development. CS is now extending its ProReciclador Program into other Latin American countries, starting with the Dominican Republic and Brazil (Sao Paulo).

Focus statement 5: Franchise and Subcontracting

There are many different options for social entrepreneurs to organize their business. Some of them use franchise systems, while others use subcontracting arrangements and also independent partners.

Franchise system

ARED cooperates with 25 franchise partners in Rwanda. ARED leases the right to use a firm’s successful business model and brand for a prescribed period of time. For ARED, the franchise is an alternative to building “chain stores” to distribute goods, thereby avoiding the investment and liability of a chain. The AREDs Mobile Solar Kiosks (MSKs) enable local people to get energy where they live. The MSK utility is highly mobile and can be easily set up on a daily basis in anticipation of high traffic areas. The franchisor’s success depends on the success of the franchisee. The franchisee is said to have a greater incentive than a direct employee because he or she has a direct stake in the business. Essentially, and in terms of distribution, the franchisor is a supplier who allows an operator, or a franchisee, to use the supplier’s trademark and distribute the supplier’s goods. In return, the operator pays the supplier a fee.

EHAS, the Hispano-American Health Link, has produced a health package for reducing maternal mortality in distant rural/jungle regions. In 2014 they founded an enterprise in Peru (Enlace Salud, ES), which sells a service package to the Peruvian health service, including (a) renting the system (a kit for a solar-powered ultrasound, etc.), (b) training of health personnel and (c) quality control, based on the extension of wireless telecommunication links (see Focus statement 12). This system is leased to the Peruvian health service for $30 per pregnant woman. Now, the whole package is offered to franchise partners in Colombia, Ecuador, and Brazil. 60-65% of the funds for the national business are meant to be provided by local entrepreneurs, with the rest coming from international investors. EHAS will receive 3% of the franchise partner’s income.

Sub-Contracting

In addition to a production plant with paid workers, MakaPads has sub-contracting arrangements with mostly women who produce the basic input for the MakaPads. They have their own site or work from home. The subcontractors are the managers and producers of MakaPads, either utilizing simple machines based in their own homes or at one of several small production points throughout Uganda. Their income depends on their respective production of the pads. They are also responsible for transport and delivery.

Independent Partners

OneDollarGlasses: Opticians get their inputs from OneDollarGlasses and work independently. They are able to sell glasses for anywhere from $2-7 per pair, allowing them to cover their material costs and earn enough to feed their families. Additionally, production can be done at home, which allows women to work while simultaneously taking care of their children, providing them with a great opportunity for home-based income generation.
3.3 Social, political, and economical networks and the role of value chains

Networking and value chain integration play a crucial role in the development of social enterprises. The same applies to strengthening inter-firm linkages. At the heart of value chain development is the effort to strengthen mutually-beneficial linkages among firms so they work together to take advantage of market opportunities. Most value chain development initiatives work with a range of business types to strengthen both vertical linkages – among firms that buy from and sell to each other – and horizontal linkages among firms that serve the same functions in the value chain. Vertical linkages are the links in the core value chain that bring inputs to producers and processors, and take products to market. Innovation is occurring in work with lead firms and with small-scale intermediaries. In order to capitalize on market opportunities and realize a more competitive market position, value chain businesses usually need to upgrade by improving processes or products, taking on additional value-added functions, or shifting to a different market channel to reach higher-value or higher-volume markets. Firms at all levels of the value chain may need to upgrade in order to reap maximum benefits. Upgrading enterprise production is one critical way that enables social entrepreneurs to offer higher value, potentially leading to higher returns.

Upgrading is inherently risky, and companies are learning to customize their strategies to fit the risk tolerance and reward drive of their business partners and the target population. Some enterprises are risk-takers and want to become more sophisticated. Others are risk averse. They are willing to invest in change, if it means more efficient or more lucrative activities.

Focus statement 6: Linkages in social enterprises

All social entrepreneurs are linked to many other enterprises and governmental or non-governmental organizations, either through forward or backward linkages, or horizontal linkages. These linkages can be used to lower costs (and transaction costs) on the one hand, and to change standards on the other. These may include labor standards, quality standards, environmental standards, and social standards, such as employing disadvantaged labor or informal businesses. MakaPads is a company that has developed these linkages; they have so far been mostly local. There are plans for exporting the model to neighboring countries as well. MakaPads is the key player in the value chain. It governs standards (incl. hygienic standards), it has set the norms for the quality of the product, it organizes contracts with supermarket chains, and it has also very important horizontal chains (universities, government support). MakaPads is more than a typical enterprise with sub-contractors because of one important aspect: It has created a brand name, and although the price of the product is low, it yields high returns, which are mainly re-directed into research and developing new products and new markets.

Focus statement 7: Networking and the development of value chains in recycling

In some recycling projects, there is an established value chain between firms, shopping centers, and other waste providers, the organized waste recyclers, a process of waste marketing through the respective social enterprise, and large firms that use the recycled materials. The recycling of paper products by Ciudad Saludable and Protisa (Productos Tissue del Peru S.A.), provides an example of that. The recycled paper is used for the production of hygienic tissues or for exports. TRIEX supported the Organización San Vicente in a similar project recycling waste from a supermarket.

TRIEX also developed the NEOSIT project which focuses on the recycling of electronic waste. Due to the nature of that type of waste, this is usually done manually. A Belgian company buys the electronic waste through intermediaries. In this context, traceability of where the materials end up is important. The origins of the collected parts are identified through internet/email communication with electronic firms. This process needs continuous software updates to identify origins of electronic parts and to find firms interested in recycling them. By replicating the model in other facilities, the ultimate idea is to support the development of a network-based international coordination of electronic waste recycling. Eight people are working at TRIEX on this form of e-waste management.

NEOSIT is based on eight years of experience with recycling electronic waste. TRIEX has been developing a system of e-waste management since 2012 (first successfully presented to the Siemens Stiftung/CIDG group) called RAEE (residuos de aparatos eléctricos y electrónicos), see http://www.residuoselectronicos.net/wp-content/uploads/2011/11/URUGUAY-Seminario-RAEE-2011.pdf. In 2013 NEOSIT won the first prize in a business ideas contest, and the project was presented in 2014 to the Uruguayan National Research and Innovation Agency (ANII).
Innovation and technological changes
Following the increasingly important discussion on innovation in developing countries, the model of an innovation process is based on the assumption that entrepreneurial activities in this field are not cost-neutral. On the contrary: They constitute investments in physical and human capital. This process is characterized by insecurities and considerable entrepreneurial risk.

Technological development and inventions are major factors for starting and running a social enterprise.

- How did the process of inventing the product or the service start?
- How was it funded? Who were the main actors (for example, in the case of MakaPads, the Rockefeller Foundation and UNHCR)?
- Was it a social enterprise from the beginning, starting with an invention in the respective country (like ARED, OneDollarGlasses, MakaPads)?
- How does the enterprise tackle competition and imitation from within the country, and from external imitators and competitors?
- How can the social purpose stay on the agenda? With additional products and new inventions and innovations?
- Is there a risk that the social enterprise becomes dependent on bigger companies that first use ideas and take stock of the whole process, then use the social enterprise to gain market access, before eventually taking over?

Focus statement 8: MakaPads – Innovation as a source of growth. Using local products, producing for poor women and changing the lives of many

Many young girls miss three to five days of school per month while they are menstruating. This is due to negative taboos regarding periods, lack of privacy while at school, and most notably, a lack of access to feminine hygiene products. In Uganda, for example, the average income is roughly $1.25 per day, while a regular pack of sanitary pads is double the cost. As a result, the majority of women cannot use proper sanitary pads while on their period, which can have negative and damaging effects on a woman’s body.

MakaPads produces an all-natural, chemical-free, and 100 percent biodegradable sanitary pad, using local papyrus plants and recycled paper products. Using local products helps keep costs low, as no imported materials are needed. After being processed, the papyrus acts as a natural absorbent. The pads are fitted with a mesh covering for comfort, and come with the option of an adhesive strip that helps fit the pad into undergarments. After being packaged, ultraviolet lights are used to sterilize the materials and ensure that they are safe for personal use. All of the electricity used in production of the MakaPads is produced through solar power, which contributes to their sustainability.

MakaPads are currently distributed in both Uganda and Sierra Leone. They are produced at an extremely low-cost, which makes them easily affordable for the women who use them.

Focus statement 9: OneDollarGlasses. Glasses for the poor

The World Health Organization (WHO) estimates that globally, 285 million people are visually impaired. This condition has significant social and economic effects, particularly in developing countries where eye care is often inaccessible. OneDollarGlasses invented a simple idea put into motion by a single person to address the problem of inaccessible eye care for low income people, which is now being implemented in four African countries. The OneDollarGlasses Association is attempting to reach millions of people with simple technology and local training, starting in Africa.

The OneDollarGlasses concept was developed by Martin Aufmuth, a German mathematics and physics teacher. Aufmuth began experimenting and eventually developed a pair of glasses with material requirements of $0.80 per pair that take only 12 minutes to produce (after some practice, of course). He called these OneDollarGlasses.

The frames are lightweight and flexible, made from rustproof, hypoallergenic 1mm-spring steel wire. OneDollarGlasses opticians are supplied with a box of 25 lenses, varying in strength from -6.0 to +6.0 diopters in steps of 0.5 diopters. Lenses are made of polycarbonate, which is much more resilient than more commonly used glass or resin. OneDollarGlasses are then produced on a specially designed bending machine that requires no electrical power and is virtually maintenance free. Frames can be produced in three different sizes – children’s size, medium size and a larger size. A simple hand bending device curves the frames once they have been sized, and there are even colorful beads available to slip on for some added uniqueness. Lenses are simply clicked into the frame by hand and can be easily replaced. Because they are so lightweight, they do not require traditional nose bridges. For added comfort, transparent tubes are shrunk onto the temples of the glasses using the heat of a traditional clay oven. The total manufacturing process for one pair of glasses takes anywhere from 10 to 30 minutes, depending on the type of glasses and the experience of the optician.
Poverty and employment
Reducing poverty is one of the main challenges in many countries. Social entrepreneurs have been involved in many activities aimed at poverty reduction. They employ poor segments of the population, create jobs for young people, provide training.

3.4 Links to the public sector
The discourse on social enterprises argues that they provide a more effective institutional form to pursue many social aims, which are traditionally seen as tasks of the state as the primarily responsible institution dealing with market failures.

Links between social enterprises and the public sector have a number of dimensions, which can be conflicting as well as complimentary. They are basically related to four different fields: (a) regulations which may hinder the activities of social enterprises, but also to regulations demanded by SEs (environmental regulations, such as waste control and disposal, or labor standards), (b) cooperation on specific projects (health, formalization of waste-pickers, etc.), (c) education and research (teaching by members of social enterprises, use of public research facilities) and (d) public business development/support services (BDS). In particular in fields (a) and (b) these links are frequently mediated by networking processes (NGO networks in environmental politics; cooperation in business associations).

Focus statement 10: OneDollarGlasses reach the poor
OneDollarGlasses can make simple eye tests and corrective lenses available to people in villages who would not otherwise have access to eye care. The bending machine and all the necessary tools and equipment fit into a 30 cm² box, making distribution fairly easy. Because electricity is not required, units are able to work in the most remote villages, and eye tests are done with a simple chart that can be attached to a wall or a tree. Opticians can travel with their equipment to people in villages who do not have money to travel, thereby circumventing one of the largest impediments to care for those in need. The glasses are affordable even for very low income families who may have never previously had the opportunity for improved vision.

Social entrepreneurs and decent work
Generally, working conditions in social enterprises are more favorable than in the average firm in the respective sector.

Focus statement 11: Decent work, how does it work in social enterprises?
The support of decent working conditions in the "waste business" is a basic concern of Ciudad Saludable (CS), TriCiclos and TRIEX. Ciudad Saludable is organizing capacitation programs for the recyclers’ associations (see Focus statement 3) and supports the associations to realize decent working conditions. They help the associations organize access to social services and to improve the prevention of diseases through vaccination against tetanus and hepatitis. TriCiclos and TRIEX employ workers in their businesses (clean points and treatment plant for special wastes) at favorable wage rates and with flexible working conditions, which benefit single mothers, for example. The standards of TriCiclos imply that the highest paid worker will never make more than 11 times what the lowest paid worker earns. People working in the clean points receive 25% more than the minimum salary and there is an equal division of one third of the profits among all employees. They are trying to employ more women and to be flexible toward women with small children. There is a project to employ disabled people as well (TriCiclos).

Focus statement 12: TRIEX and the regulation of special wastes in Uruguay
Ana Luisa Arocena, the director of TRIEX, is a pharmaceutical chemist and has been working in the field since the 1990s. In 2001 she founded the firm MA&A which established the first efficient system to manage hazardous waste in the country. TRIEX is a joint venture with CIEMSA, a larger enterprise which is managing the water and sewage system in Montevideo. Ana Luisa has been very actively lobbying for improving public regulations in areas such as toxic waste by pushing the establishment of CEGRU (Cámara de Empresas Gestores de Residuos en Uruguay: Chamber of Enterprises Managing Residuals in Uruguay) in 2014, CEGRU organizes firms dealing with residuals from hospitals, landfill management companies, and transport firms in the sector, including the consortium which is responsible for municipal services in central Montevideo. While so far there have been few regulations on toxic wastes, CEGRU is preparing proposals for a national law on residuals and municipal regulations on special wastes.

Therefore, TRIEX is playing an important role in coordinating pressure for public regulations on special wastes in Uruguay. The presence of the leader of a social enterprise in business associations and NGOs helps to push for improved regulation and implementation.
The example of Ciudad Saludable shows the importance of social enterprises for implementing public strategies to organize informal waste-picking into small enterprises.

**Focus statement 13: Cooperation Peruvian state/districts/Ciudad Saludable**

In 2002, Albina Ruíz created a non-profit organization called Ciudad Saludable, building on the support of a group that has existed since the 1990s. The group around Albina has supported the organization of waste-pickers and actively accompanied the process of legislation and regulation of a public program to develop a nation-wide concept to organize waste-pickers in associations at the district level. In 2000, the General Law of Solid Residuals was adopted. It stipulates that "municipal and sector authorities establish favorable conditions for those persons or entities which develop activities to minimize and to separate materials at the source". In 2009, a law was passed to "Regulate the Activity of Recyclers", and in 2010, the associated implementing regulations followed. Already in December 2008, Ciudad Saludable had firm up an agreement with the Inter-American Development Bank (IDB), the Asociación Atocongo (CSR organization for Peru’s largest cement company), and Pepsico to "organize the market for the integral management of recyclable solid waste". On the basis of these developments Ciudad Saludable has developed a comprehensive program to support recyclers and their associations and the development of "value chains of recycling in their overall context".

**Focus statement 14: University research in telecommunication as a foundation for a social enterprise**

EHAS, the Hispano-American Health Link, originated as a research and development program in research done by Andrés Martínez at the Politecnic University of Madrid (UPM) (Telemedicine Group) and David Chávez Muñoz at the University of California, and later at the Pontificia Universidad Católica del Perú (PUCP). They came together in the late 1990s to test the idea of extending wireless networks over larger distances in the Peruvian Amazon region, which has resulted in a large program to reduce maternal mortality (see chapter 1.2) in cooperation with local/national health services. In order to work with funds coming from outside scientific funding institutions (like AECID, the Spanish Agency for International Cooperation, IDB, and others) and not be constricted by university bureaucracy, the Fundación EHAS was founded in 2004. The foundation’s board of trustees is made up of UPM, PUCP, two other universities, and ONGAWA (original name: Ingeniería Sin Fronteras-Asociación para el Desarrollo), an NGO which helped to establish the link between Andrés Martínez and David Chávez.

The work of EHAS has been published in international research fora and is linked to master and doctoral theses, mainly in engineering. Since 2008, EHAS has supported the introduction of a "Máster Universitario Oficial en Redes de Telecomunicaciones para Países en Desarrollo" at the Universidad Rey Juan Carlos.

**Focus statement 15: Makerere University Kampala and MakaPads**

Makerere University has been contributing to the development of MakaPads. The product was innovated by Dr. Moses Musaazi of the College of Engineering, Design, Art and Technology (CEDAT). The university fostered innovation as a research project that turned into a product. The invention was partly financed by the university and by the Rockefeller Foundation so that Dr. Musaazi and his colleagues could start working on it.

Cooperation with universities and research institutes

There are a number of links between social enterprises and research on the one hand, and teaching and other ways of knowledge transfer (lectures, training courses, consulting, and publications) on the other. In a few cases, university research played a decisive role, as with the case of EHAS. In that instance, innovative use of telecommunication for connecting remote areas to health services was based on technical research at universities in Madrid, California, and Lima.
3.5 Upholding/extending social purposes

There are a number of social mechanisms which, beyond the ongoing determination of the entrepreneurs themselves, can help maintain or even extend the social purpose:

– Social and political networks are important as a kind of self-control of social enterprises ("critique that hurts", in particular, if expressed by peers).
– Internal rules and standards within social enterprises are helpful to maintain orientation on social purposes.
– A firm’s image in the competitive field of social enterprises can be damaged through assertions that they neglect social goals or are too dependent on partners with a bad reputation, such as a steel producer involved in the production of weapons.

Focus statement 16: MakaPads work with refugees in a UNHCR Camp in Uganda

MakaPads cooperated with UNHCR when it was set up in 2008. The MakaPads project has not only transformed the livelihoods of its employees, it has also made sanitary pads available for tens of thousands of refugees living in settlements in south-western Uganda. In the Kyaka II refugee settlement, the pads are produced by refugees, purchased by UNHCR, and distributed among refugees. Inside the 209 km² Kyaka II refugee settlement, the MakaPads project is run at two sites, employing dozens of (mostly female) refugees. According to UNHCR, the Kyaka II MakaPads project has the potential to become self-sustaining. MakaPads employs women in refugee camps that harvest the papyrus for the production of the pads. The pads are made at both the camp site (using solar-powered machinery) and a manufacturing site in Kampala. MakaPads purchases excess pads produced by the refugees, giving them a source of income. The financial status of the women from selling pads improves their lives.

Focus statement 17: Tackling environmental degradation

The social enterprises working in the field of waste management (classification, recycling, and treating special wastes) are closely linking social and environmental aims. Reducing waste at the source, and responsible and traceable recycling, are the basic principles, and they are supplemented by aspects of hazardous waste treatment in the case of TRIEX. They are all active in education and sensitization programs and awareness campaigns aiming in general at changing mindsets in the communities and include educational activities related to specific issues of waste separation and recycling. The firms also push for stronger public regulations in the field of waste avoidance, separation, and recycling.
4 Conclusions: Performance and impact of social enterprises as change-makers towards sustainable development

"Social responsibility" is gaining importance in contemporary entrepreneurship. This refers to social enterprises but also includes increased recognition of Corporate Social Responsibility (CSR) in large corporations. However, there still is a big difference between recognizing CSR at large corporations and social enterprises that have social purposes at the center of their activities. This, however, also implies a certain responsibility for social enterprises in terms where their financing comes from and the whole field of their networking activities.

Our case studies on eight social enterprises in South America and East Africa show how social enterprises deal with their specific issues and problems. They also show how they successfully organize their social activities and the development of their companies.6

The following aspects summarize issues important to improving the performance of social enterprises, taking into account ways to allow knowledge-based foresight on the long-term impacts of their activities in social, political, and ecological terms.

4.1 Impact evaluation is methodologically a complicated field

Approaches to impact evaluation do exist in the projects visited (Ciudad Saludable, TriCiclos). Ciudad Saludable has produced a "Manual para el Programa de Formalización de Recicladores y Recolección Selectiva de Residuos Sólidos del Ambito Municipal", which includes a chapter on monitoring and evaluation. TriCiclos presents an annual "Reporte de Sustentabilidad" which seeks to comply with the standards of the Global Reporting Initiative. In addition, a social impact assessment for 2013 was produced and published in cooperation with the HEC (École des Hautes Etudes Commerciales de Paris, TriCiclos 2013). It certainly makes sense to use external experts to develop a scheme of evaluation for an enterprise. It might be desirable to embark on more in-depth evaluations, but for most social enterprises it would likely consume too many resources, which could detract from the primary purpose of the endeavor.

Annual reports essentially refer to the output of a social enterprise. Successful scaling over a longer time-period indicates outcomes of social enterprise projects: A growing demand for the goods and services offered has been created, and the goals of the enterprise have been accepted within society at large. The performance of the social enterprise is a precondition for significant impact toward reaching its social purpose. The impact of a specific social enterprise on solving a problem, however, is difficult to determine, as it depends on changes in the overall social and economic environment: A growing supply of cheap sanitary pads is not necessarily the effect of a successful expansion of MakaPads, but could also result from other providers of cheap sanitary products entering the market. Even an extremely well-performing social enterprise might not have the long-term impact envisaged if faced with adverse dynamics in the social and economic environment. For example, high prices for metal scrap securing a reasonable income for individual informal waste-pickers might cause problems to convince them to create cooperatives of integral waste-management.

4.2 Social enterprises are important social and environmental policy innovators in developed and developing countries

Social enterprises play a prominent role as agents of change and providers of inclusive growth and sustainability, in both the developed and developing world. The problems faced by developing countries with regard to improving healthcare, education, unemployment, and poverty alleviation are ideally suited to the mission of the social enterprise. Increasingly, due to fiscal stresses at the national, state, and local levels, developed countries are facing pressure to meet their own healthcare, education, and unemployment needs — and are reluctant to increase their foreign aid. Social enterprises can help to fill the gap left by a lack of public funds. Operating in fields with lower administrative barriers and less narrowly defined rules, social enterprises are more flexible and creative when it comes to developing innovative solutions to social and environmental problems.

Depending on the size and the existing networks of a social enterprise, the enterprise’s policy influence is mostly on the local and national level, but it goes beyond that in some cases. This depends not only on the scale of their activities, but also on the participation in transnational networks. It also depends of the impact of their examples, and the stories they have to tell about the activities of social entrepreneurs in other countries.

4.3 Recognize the role of social entrepreneurs as key players to poverty alleviation

One of the objectives of social entrepreneurship is the creation of rewarding and sustainable jobs, which is an essential tool for poverty alleviation in addition to being a key component of economic growth. Social entrepreneurship can therefore address two important aspects of the UN Millennium goals: economic development and poverty alleviation (by reducing unemployment for example, in particular for disabled and disadvantaged people).

Furthermore, many social enterprises are contributing to poverty alleviation through the nature of their product, goods or services, which are affordable and useful for poor people.

6 For a broader overview on social enterprises in four countries (Colombia, Mexico, Kenya, South Africa) see Hanley et al. (2015).
4.4. Recognize the role of social entrepreneurship in formalizing informal economic activities

For a large part of the population in developing countries, informal economic activity secures survival, but only few of them escape poverty. A number of the social enterprises visited showed successful methods of helping people to gain access to public benefits and legal security that are frequently out of reach for the informal sector. We have presented some case studies which may encourage others to follow these examples. If social enterprises are successful in scaling their activities and intensively contributing to political discourses, they could play an important role in stimulating policies which facilitate the formalization and growth of micro- and small enterprises, thereby strengthening the social inclusion of the informal sector.

4.5 Build partnerships, coalitions, and networks for the support of social enterprises

Most social enterprises work with partners, associations, networks, and local communities. This provides benefits for both partners and can be an effective way to reduce some of the risks associated with starting a social enterprise.

Providing start-up financing: There are different forms of start-up capital available for small or medium-sized social enterprises. Access to risk capital for innovative entrepreneurs is also important, as well as seed capital coming from foundations and charity organizations which foster socially acceptable entrepreneurial projects.

Professional support services: Small enterprises in particular are in need of support for the founding and running of a company. They need technical, financial, and organizational expertise, along with market knowledge and a team to support the founding entrepreneur. Business development services can play a role, in particular regarding training, access to finance, etc.

Connections to global networks across the business and social sectors: These are especially significant, because very often the entrepreneurs are in dire need of access to technical knowledge, contacts to customers, and/or integration into value chains, which link the entrepreneur to regional or even global markets. Global networks offer platforms for people dedicated to changing the world, which allows for an exchange of views, building of trust, and a starting-point for various forms of cooperation.

4.6 The role of social enterprises in local and regional development

The activities of social entrepreneurs are closely intertwined with local development. Local government authorities and community organizations are the primary, and sometimes only, contact point for accessing social and economic development services for social enterprises. Local government and civil society organizations are ideally suited to delivering interventions that address localized social dialogue and inclusion, economic development and employment promotion, as well as social protection. Local development strategies offer opportunities for multifaceted and comprehensive approaches to upgrading economic units. This includes: setting up basic infrastructure, establishing streamlined regulatory environments and zoning regulations, supporting SME development, facilitating public contracts and tendering processes, fostering public-private partnerships, and targeting support to the especially disadvantaged (such as women and youths). As a result, social enterprises need to focus their business employment activities on jobs for women and young males so they can join the labor force.

Despite its potential, local development strategies are inadequate to support enterprise upgrades at the local level. Local authorities should realize that successful social enterprises could be beneficial to them since they can help solve social and environmental problems and ensure greater social cohesion.

In this sense the interaction between social enterprises and local governments plays a central role in supporting inclusive development processes by implementing public rules and organizing cooperation with NGOs and social enterprises. A positive example is the active cooperation of municipal districts in Lima with the organization of waste recyclers. Service delivery in urban and peri-urban settings, access to support such as market information, business development services, training, and labor administration should be extended in quantity and quality. Unclear and complex business registration and licensing processes for micro- and small enterprises should be overcome. Social enterprises develop services in these fields and strengthen political demands for an adequate support infrastructure and an improvement of administrative processes and public regulations, thereby helping to facilitate this necessary transformation.

4.7 Scaling-up and achieving social and environmental changes

“Change-making” means transforming society at least in the field in which a social enterprise is working. It implies a number of issues related to aspects of scaling-up an enterprise and achieving a lasting impact as discussed above:

- Review carefully the form of local, national, and international expansion: Expansion could be based on creating subsidiaries of the original business, on sub-contracting, and/or on franchising. If there are other social enterprises tackling similar problems, spreading the idea should be more important than expanding one’s own organization. Imitators should be welcome.
- Strengthen the capacity of local authorities to foster local development: This includes in particular local development processes supporting investments with a social and environmental orientation and with a focus on provision of jobs, upgrading the local skills base, creating an enabling environment for small and medium enterprises at the local level, and improving social protection.
- Invigorate social and political dialogues for sustainable development, including the need for environmental orientation and the setting of environmental regulation, to support political pressure toward implementing the changes called for above. This can produce the social, political, and economic environment necessary to allow a lasting impact of social enterprises.
Useful Contacts

International

4Di Capital, Africa
is an independent seed- and early-stage technology venture capital firm based in Cape Town, South Africa, founded by Justin Stanford. Using tried and tested international venture capital best practices, adapted for local use, they believe in agile entrepreneur-friendly finance without frills, and in working as a team with our investees to achieve their true potential. The 4Di Capital Early-Stage Technology Fund 1 targets startup investment opportunities with high growth potential at the seed- and early-stages in the mobile, enterprise software and web sectors.

Belmont Square
Belmont Rd.
Cape Town 7708
South Africa
Tel +27 21 659 2042
http://www.4dicapital.com/

ACCIÓN
is a global non-profit that supports microfinance institutions in their work to provide financial services to low-income clients. ACCIÓN also engages in impact investing initiatives to support start-ups that are working to create models for improving the efficiency, reach and scope of financial services for the poor. Today, it works with an active network of 29 microfinance institutions in 23 countries found in North America, Latin America, the Caribbean, Africa, and Asia. As of March, 2014 those institutions were collectively serving 4.96 million people with microloans and 3.64 million people with savings products.

10 Fawcett Street, Suite 204
Cambridge, MA, 02138
USA
Tel +1 617 625 7080 | 800 931 9951
Fax +1 617 625 7020
info@accion.org
https://www.accion.org/

Acumen Fund
is a non-profit that raises charitable donations to invest in companies, leaders, and ideas that are changing the way the world tackles poverty. $81 million today; $150 million since 2001.

76 Ninth Avenue, Suite 315
New York, NY 10011
USA
Tel +1 212 566 8821
Fax +1 212 566 8817
http://acumen.org/

AVINA
was founded in 1994. AVINA’s main objective is to contribute to concrete and relevant changes that lead to more sustainable development in Latin America. AVINA contributes to changes of significance in specific key areas (fixed for 5 or 10 years), including sustainable recycling, sustainable cities, energy, access to water, and migration. Avina operates in 21 countries in the Americas. The regional headquarters is located in Panama:

Calle Evelio Lara, Casa N°131-B
Ciudad del Saber, Clayton
Panama
Tel +507 317 0657
Fax +507 317 0239
http://www.avina.net/eng/

Bamboo Finance
is a commercial private equity firm specializing in investing in business models that benefit low-income communities in emerging markets with offices in Luxembourg, Geneva, Bogota, Nairobi and Singapore. It uses a market-oriented approach to deliver social and environmental value and provide attractive financial returns to investors. To date, they manage $250 million; representing two global funds and a combined portfolio of 46 investments operating in 30 emerging market countries.

Jean-Philippe de Schrevel, CEO
Rue de Malatrex 32
1201 Genève
Switzerland
Tel: +41 22 544 20 70
info@bamboofinance.com
http://www.bamboofinance.com/

Enterprising Non-Profits. Social Enterprise Canada
A Canadian program supporting non-profit enterprises based in Vancouver; produces the “Canadian Social Enterprise Guide” (by David LePage).

810-815 W. Hastings Street
Vancouver BC V6C 1B4
Canada
seCanada@enterprisingnonprofits.ca
www.enterprisingnonprofits.ca
http://www.socialenterprise.canada.ca/en/gettoknowus/nav/aboutus.html#sthash.J7sYFqm0.dpuf

FINCA (Foundation for International Community Assistance)
is a non-profit microfinance organization, founded by John Hatch in 1984. It provides clients with a wide range of the financial products and services that micro-entrepreneurs need including savings accounts; group and individual loans; credit life, short-term disability, and hospitalization insurance; and money transfers.

1201 15th Street NW
8th Floor
Washington, DC 20005
USA
Tel +1 202 682 1510
info@FINCA.org
http://www.finca.org/
ICMSE
ICMSE is an international platform for microfinance and SME development and promoting social businesses for fighting poverty and improving living conditions of the low income population. ICMSE was launched in 2006 by Dr. Mostaq Ahmmed, who is an expert in microfinance and social business, having long working experiences with ASA, FINCA International and Planet Finance and provided technical support and training to hundreds of microfinance institutions and banks in 32 countries.

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Bangladesh
Tel +88 02 88 36 856 / +88 01712 20 44 73
http://www.icmse.org/-ICMSE-

Omidyar Network
is a philanthropic investment firm dedicated to harnessing the power of markets to create opportunity for people to improve their lives. They invest in and help scale innovative organizations to catalyze economic and social change. Omidyar Network, which makes investments in for-profit companies as well as grants to non-profit organizations, with social impact being the unifying criterion for investment.

1991 Broadway Street
Suite 200
Redwood City
California 94063
USA
Tel +1 650 482 2500
info@omidyar.com
http://www.omidyar.com/

Root Capital
is a non-profit social investment fund that grows rural prosperity in poor, environmentally vulnerable places in Africa and Latin America by lending capital, delivering financial training, and strengthening market connections for small and growing agricultural businesses. Across its loan portfolios, Root Capital disbursed $121 million to its clients in 2012. The Sustainable Trade Fund, the primary portfolio, achieved 80% operating self-sufficiency. They spent $11 million growing its programs and investing in internal systems to support them.

955 Massachusetts Ave./5th Floor
Cambridge, MA 02139
USA
Tel +1 617 661 5792
http://www.rootcapital.org/

Skoll Foundation
is a social entrepreneurship foundation based in Palo Alto, California, with a mission to drive large-scale change by investing in, connecting, and celebrating social entrepreneurs and other innovators dedicated to solving the world’s most pressing problems. It invests in social entrepreneurs through its annual “Skoll Award for Social Entrepreneurship” and makes grants to support the ecosystem around social entrepreneurs, including the “Skoll Centre for Social Entrepreneurship” at Oxford.

250 University Ave, Suite 200
Palo Alto, CA 94301
USA
Tel +1 650 331 1031
Fax +1 650 331 1033
info@skollfoundation.org
http://www.skollfoundation.org/

Village Capital
sources, trains, and invests in impactful seed-stage enterprises worldwide. Inspired by the “village bank” model in microfinance, Village Capital programs leverage the power of peer support to provide opportunity to entrepreneurs that change the world. The investment process democratizes entrepreneurship by putting funding decisions into the hands of entrepreneurs themselves. Since 2009, Village Capital has served over 300 ventures on five continents building disruptive innovations in agriculture, education, energy, environmental sustainability, financial services, and health.

419 7th Street NW/Suite 300
Washington, DC 20004
USA
info@vilcap.com
www.vilcap.com

Virtue Ventures
The Virtue Ventures team has first-hand experience designing, launching, and managing social enterprises and non-profit agencies. They have produced, among other publications: Managing the Double Bottom Line. A Business Planning Reference Guide for Social Enterprises (by Sutia Kim Alter).

Portland
USA
FAX +1 206 600 2992
www.virtueventures.com
National

Chile

CORFO, Corporación de Fomento de la Producción de Chile (Chilean Development Corporation)

CORFO has various programs that are of interest for social entrepreneurs: Loans for micro- and small enterprises, entrepreneurial innovation, support of linkages between enterprises, network of entities, and organizations facilitating loans and subsidies.

Moneda 921
Santiago
Tel +56 2 2631 8200
http://www.corfo.cl/

Kenya

Ashoka East Africa

Concert House | First Floor
Wood Gardens, off Wood Ave
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East Africa Social Enterprise Network

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Kenya Associations of Manufacturers

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http://www.kam.co.ke/

Micro and Small Enterprise Authority

Utalii House/10th Floor Left Wing
Nairobi

Tel +254 0 202 3340006; +254 0 700 666 000 (Safaricom);
+254 0 770 666 000 (Orange)
http://www.mseauthority.go.ke/

Small and Medium Entrepreneurial Resource Centre

SME Business Centre of Excellence
Argwing Kodhek Road Hurlighum
Nairobi?
Tel +254 020 804 8985/6
Mobile 0723 355 408
http://www.smeafrica.co.ke/

Peru

IPES. Promoción de Desarrollo Sostenible

IPES supports sustainable development by supporting participation and multilateral concentration in strategic projects through strengthening capacities, the use of appropriate technologies, support of respective policies and norms, and the management of knowledge.

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San Isidro, Lima 27
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Rwanda

Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH

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International Finance Corporation

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Rwanda Development Board

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Uganda

Butterfly Young Social Entrepreneurs Uganda
http://startsomegood.com/Venture/butterfly_project_uganda/Campaigns/Show/butterfly_young_social_entrepreneurs_uganda

**Gesellschaft für Internationale Zusammenarbeit (GiZ)**

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**SME Association of Uganda**

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www.smeuganda.com

**Uganda Manufacturers Association**

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Fax +256 414 220 285
http://www.uma.or.ug/

**Uganda Investment Authority**

The Investment Centre
Plot 228 Lumumba Avenue,
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PO Box 7418
Kampala
Tel +256 414 301000
info@ugandainvest.go.ug
http://www.ugandainvest.go.ug/index.php/sme-activities

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Uruguay

CEGRU, Cámara de Empresas Gestores de Residuos en Uruguay
(Chamber of Enterprises Managing Residuals in Uruguay)

Newly established organization dealing with responsible waste management, with an emphasis on dangerous materials, and regulation of special waste management (negotiating public regulations, implementation of rules).

c/o Ana Luisa Arocena Domicilio
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Appendices

Appendix A: Types of social enterprises

The enterprises/projects we visited fit more or less into the concept of a "social enterprise" used in the discourses on venture philanthropy and impact investment; the importance of organizational forms varied significantly among them. In some cases, the entrepreneurial aspect had in fact been dominant since the start of the project (TriCiclos, TRIEX; although there were considerable differences within this group). In other cases, there was a rather long period of research and development (financed by philanthropic organizations or IGOs) before an enterprise was set-up (MakaPads, EHAS, ARED). In another case (Ciudad Saludable) the main activities remained at the non-profit level, but supporting the foundation were a larger number of small and micro-enterprises of waste-collectors (or distributors of OneDollarGlasses) which were increasingly supported by an entrepreneurial wing that gained income through consultancy work.

Important elements to characterize the firms are linked to their field of activity and relate to the strength of their focus on innovation and/or on shaping the development of public regulations in the field.

Table 1: Main fields of activity, strength of impact in innovation and in political processes to develop public regulations in the field

<table>
<thead>
<tr>
<th>Enterprise since start</th>
<th>Towards enterprise</th>
<th>Mixed</th>
<th>Primarily non-profit</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Very large</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TriCiclos</td>
<td>(Reg 1, Inno 3, waste, em)</td>
<td>[MakaPads: preceding R&amp;D phase]</td>
<td></td>
</tr>
<tr>
<td>MakaPads</td>
<td>(Reg 1, Inno 3, health, em)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>large</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EHAS</td>
<td>(Reg 1, Inno 3, health, com)</td>
<td></td>
<td>Ciudad Saludable</td>
</tr>
<tr>
<td>OneDollarGlasses</td>
<td>(Reg 0, Inno 3, health, em)</td>
<td></td>
<td>(Reg 2, Inno 1, waste, em)</td>
</tr>
<tr>
<td><strong>medium</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TRIEX</td>
<td>(Reg 3, Inno 2, waste)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TakaTaka</td>
<td>(Reg 1, Inno 3, waste, em)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>small</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ARED</td>
<td>(Reg 1, Inno 3, com)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Key:
- Recent changes
- Impact on national regulation: 1: small; 2: medium; 3: high
- Inno(vation): 1 – 3
- Social and environmental field of main activity: health, waste, em(ployment), com(munication)

Source: Own design by the authors
Appendix B: Linkages and value chains

Linkages are referred to as all exchange or transactions between economic agents, through the market or outside it. They are non-homogeneous since they involve economic agents with different levels of resource endowment and market power, different number of actors (bilateral/multilateral), and are conducted under different economic environments (such as stable/volatile market, homogeneous/heterogeneous customers). As a result, different levels of cooperation and governance structures emerge to coordinate transactions, resulting in diverse classes of linkages. These classes are addressed in the following paragraphs as advanced by cluster literature and economic geography, transaction cost theory, and value chain analysis (see graph 1 for different approaches).

Graph 3: Different global chain approaches

Passive vs. active linkages. Based on the level of cooperation viewed dichotomously, the cluster literature (e.g. Nadvi 1999; Schmitz 2004) classifies linkages as passive or active. According to this literature and economic geography drawing from Marshallian concepts of external economies, passive linkages seem to arise when transactions between clustered firms are conducted under arm-length market relations, therefore characterized by limited co-operations. In contrast, active linkages entail transactions coupled with cooperative/joint actions consciously pursued by firms in order to overcome competitive market challenges. These are further classified into bilateral vertical and horizontal linkages and multilateral vertical and horizontal collaborations. Bilateral vertical linkages are related to formal or informal contractual transactions, coupled with active collaborations: investment sharing, technology transfer, training, and financial support between two separate entities (buyer and supplier/subcontracted firm). The horizontal bilateral linkages are characterized by cooperation between two or more local firms aiming to undertake joint investment or to share transaction costs (e.g. joint product development, joint marketing of products, joint purchase of inputs, sharing of capacity, or common use of specialist equipment which a single producer might not be able to afford).

Graph 4: Vertical and horizontal linkages

Hierarchy vs. market oriented linkages. When enterprises get involved in transactions with organizational firms (in trading, retail, or manufacturing, for example) or individual consumers, they incur transaction costs (TC), which are viewed as the cost of governing relationships between transacting parties. According to the transaction cost theory, the TC is determined by investment in relation-specific assets and internal and external uncertainty. The varying magnitudes of these factors (result in two types of inter-organizational governance structures, market or hierarchy, that emerge to control, coordinate, and ensure effective and efficient inter-organizational transactions, thereby creating market- or hierarchy-oriented linkages. When TC is high due to high investment in relation-specific assets (high uncertainty) the governance structure that emerges to govern linkage relationships is hierarchy; while transactions characterized by low TC are governed by arm’s-length market relations.

Graph 5: Multilateral linkages

7 Some of the formal contracts may be easily breached because of poor enforcement of the rule of law, while other informal contracts between parties with strong social capital in terms of trust may be more binding.
Between hierarchy and market oriented linkages. The role of market power and investment in information technology in determining TC as well as the need for increasing flexibility and the focus on competitive advantages while reducing risk of vertical integration have resulted in the emergence of the governance structures between the two extremes, arm’s-length market relations and hierarchy. These structures are identified by different names8, but the discussion here centers on the classification by Gereffi et al. (2005) which tries to integrate the classifications of other scholars. In addition to hierarchy and arm’s-length market relation, they present three governance structures. The first is modular and is related to a supplier’s ability to make a product according to a customer’s specifications, a supplier’s responsibility for competencies surrounding a process technology, and capital outlay for material inputs when providing “turn-key services”, and the use of generic machinery that limits transaction-specific investment. The second it relational and is characterized by a high level of interactions and mutual dependence between a supplier and a buyer and a high level of asset specificity managed through reputation or family and ethnic ties. The final structure is captive and relates to small suppliers being transactionally dependent on larger buyers, suppliers’ high switching costs, and a high degree of monitoring and control by leading firms.

The recent discussion of value chains has arrived at a basic typology with different dimensions: Governance structure: types of governance structures concerning the distribution of financial, material, and human resources within a value chain and their influence on the cooperation of firms. Spatial patterns: distribution of value chain activities across various regions or countries and their effects on the distribution of return flows and regional development. Institutional framework: regulations for the interaction of individual levels of value creation in a national and international context.

Governance. Particularly since the mid-1990s, the studies of governance structures have received the largest degree of attention of the four dimensions. A conceptual distinction is usually made between the governance of a value chain and its coordination. Whereas governance describes the power relationship between the actors and other participants (at least in the context of the value chain approach), coordination refers more to the transition management of tangible goods and products at the segment interfaces of a value chain.

Governance of a value chain covers four steps in the value chain approach (Kaplinsky/Morris 2001: 67-73): the setting of rules, support of the other actors in a chain in order to facilitate compliance with the rules, the monitoring of compliance with the rules, and the punishment of violation of the rules.

Opinions differ on whether individual firms or several actors set the parameters. Gereffi, Humphrey, and Sturgeon (2005) claim that in modern value chains, individual firms’ domination over others gives rise to the development of asymmetrical relationships. The governance of value chains occurs via the setting of parameters concerning the product, processes, and logistics. Other studies point out that one firm does not necessarily hold the most powerful position in the value chain; rather, several actors have a significant impact on the shaping of specific chains.

We follow Gereffi here, who makes a distinction between two types of hierarchical chains: buyer-driven value chains and producer-driven value chains. Buyer-driven value chains (BDCs) are labor-intensive production chains in which the producers hold a subordinate position to the lead firms. These lead firms are, in most cases, global trade or marketing chains and brand producers. They produce the design and organize the marketing, which plays a key role in these chains. The decentralized production networks are predominantly located in developing and transition countries as the entry barriers are relatively low. Often, lead firms have no production facilities of their own. According to Gereffi, BDCs consist of, among others, the clothing and toy industries and foodstuff producers. In producer-driven value chains (PDCs) multinationals (lead firms) play the dominant role. Here, it is a matter of capital and technology-intensive production, for example, the manufacturing of cars, airplanes, and computers. PDCs may consist of thousands of companies. The lead firms themselves handle the largest part of the capital-intensive production. Subordinate firms manufacture more labor-intensive parts. The lead firms usually belong to global oligopolies.

Graph 6: B-vertical linkages and chain governance

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8 Humphrey and Schmitz (2000), Messner and Meyer-Stamer (2000) referred to value-adding partnership as network chain governance; Sturgeon and Lee (2001) identify three types of governance structures: commodity suppliers that provide standard products through arm’s-length market relationships; captive suppliers that make non-standardized products using machinery dedicated to the buyer’s needs; and turn-key that produces customized products for buyers and uses flexible machinery to pool capacity for different customers.
In more recent accounts, a further typology of value chains based on their governance structure, such as the type of relations among the actors within the value chain, has been developed. The two most well-established distinctions, by Humphrey and Schmitz (2002) and Gereffi et al. (2005), are based on one another and highlight three different forms of value chains as relevant types:

1. **Modular value chains**: These develop in cases where products have a modular architecture; that is, their elements are, to a large extent, produced separately and assembled on the basis of standardized interfaces. The suppliers produce customized products, retaining, however, full responsibility for the process technologies used.

2. **Relational value chains**: Here, complex interactions between buyers and sellers are in place; often, they lead to a high degree of mutual dependence. Mutual trust, family ties, and ethnic ties support the function of these chains.

3. **Captive value chains**: Smaller suppliers depend to a great extent on large clients. Changing to other buyers would create prohibitive costs. These chains are often characterized by a high degree of monitoring and control by the lead firms.

Table 1 summarizes the discussion and the different cooperation models, providing an overview of the value chain typology according to governance structure (cooperation form).

**Table 2: Overview of cooperation models**

<table>
<thead>
<tr>
<th>Cooperation models</th>
<th>Description</th>
<th>Cooperation forms, governance structure</th>
<th>Sectors (examples)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market coordination</td>
<td>Arm’s-length sales contract</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Horizontal cooperation (networks)</td>
<td>Cooperative, stable relations; legally independent, but economically dependent firms; symmetrical dependency</td>
<td>Joint ventures: establishment of a joint, legally independent firm; Strategic alliance: contractual agreement</td>
<td>Car industry</td>
</tr>
<tr>
<td>Vertical cooperation (value chains, strategic networks)</td>
<td>Long-term between legally and economically independent firms; mutual dependencies develop with time; asymmetrical dependency</td>
<td>Modular value chains: Lead firms set product and quality guidelines; smaller firms, however, produce independently and take full responsibility. Relational value chains: Complex interactions leading to strong mutual dependencies. Captive value chains: Characterized by a high degree of monitoring and control by one or more lead firm(s); small suppliers are, to a great extent, dependent on lead firms (licensing and franchising contracts)</td>
<td>IT, pharmaceutical industry, consumer goods, electronics. Consumer goods, biotech. Car industry, consumer goods, foodstuffs, clothes</td>
</tr>
<tr>
<td>Vertical integration (hierarchy)</td>
<td>Integration causes loss of legal independence of hitherto only economically dependent firms; asymmetrical dependence</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Author’s own compilation
Literature


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Further Reading


