

**Social Enterprise:
A Typology of the Field
Contextualized in Latin America**

Sutia Kim Alter

THIS WORKING PAPER IS BEING PUBLISHED WITH THE SOLE OBJECTIVE OF CONTRIBUTING TO THE DEBATE ON A TOPIC OF IMPORTANCE TO THE REGION, AND TO ELICIT COMMENTS AND SUGGESTIONS FROM INTERESTED PARTIES. THIS PAPER HAS NOT GONE THROUGH THE DEPARTMENT'S PEER REVIEW PROCESS OR UNDERGONE CONSIDERATION BY THE SDS MANAGEMENT TEAM. AS SUCH, IT DOES NOT REFLECT THE OFFICIAL POSITION OF THE INTER-AMERICAN DEVELOPMENT BANK.

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This working paper is being published with the sole objective of contributing to the debate on a topic of importance to the region, and to elicit comments and suggestions from interested parties. This paper has not gone through the Department’s peer review process or undergone consideration by the SDS Management Team. As such, it does not reflect the official position of the Inter-American Development Bank.

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1. Introduction

1.1. Why a Monograph?

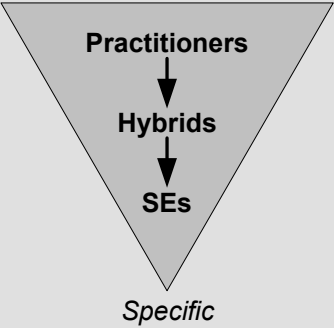
The purpose of this publication is to distill the concepts, trends, and best practices in social enterprise development developed through case studies into models and guidelines for building new partnerships that will revolutionize the field in the decade to come. Our intent is to promote a theory-from-practice approach linked to larger bodies of existing research in order to formulate a conceptual framework and typology for social enterprises that will lead to a new burst of creativity and investment.

This monograph is intended to break down the traditional boundaries between the public and the private sector and between the for-profit and nonprofit institutional arrangements that color our view of development. It explores the dynamics of an entirely new institutional entity, the social enterprise, and the role it is playing in the development of Latin America. It explores how institutions have combined a mix of social values and goals with commercial business practices and how they have come up with ownership models, income and capitalization strategies, and unique management and service systems designed to maximize social value. The logical framework and case studies within the monograph provide an opportunity to develop an illustrative typology with models. These tools are the ingredients that will help the Bank, through this publication, to improve the effectiveness of its efforts to finance innovative economic development projects.

1.2. How To Use This Monograph

The monograph is designed to navigate readers through the ill-defined and dynamic landscape of social enterprise. Beginning with a broad view of the field, the monograph looks at the origins, concepts, and evolution of social enterprise and contextualizes it in Latin America. The paper then narrows, examining the different forms, operational models and structures of social enterprise, which it also classifies and labels in a “typology.” The typology has two parts: first, a theoretical probe of value and its relationship to social enterprise forms; and the second, a focus on the wide variety of social enterprise structures and mechanics (see Exhibit A on next page). Case studies serve to illustrate social enterprise models in practice. A section follows on methodology and key issues, which is meant to inform the operational aspects of social enterprise and instruct design.

Exhibit A: Sections of the Typology

Value Orientation and Form (Section 2)	
<p>Value Spectrums</p> 	<ul style="list-style-type: none"> ○ Organizes practitioners on a spectrum by their philanthropic versus their commercial orientation (“general”). ○ Examines notion of “hybrid” or “dual purpose” entity, which creates both economic <i>and</i> social value. ○ Reviews the range of players on “hybrid spectrum;” social enterprise is classified as a subset of the hybrid organization. ○ Identifies and labels “forms” of hybrid entities relative to their value orientation and motives. ○ Organizes social enterprises on a spectrum and categorizes them into three main types based on their purpose.
Social Enterprise Map (Appendix A)	<ul style="list-style-type: none"> ○ Summarizes relevant topics and value themes covered in typology narrative into “at a glance” tables.
Mechanics and Structures (Sections 3, 4 and 5)	
Archetypes	<ul style="list-style-type: none"> ○ Deduces that all social enterprises can be grouped into one of three main structural categories or “archetypes.”
Operational models	<ul style="list-style-type: none"> ○ Diagrams common social enterprise operational models according to interplay between several variables, such as: clients, market, social service programs, etc.
Structures	<ul style="list-style-type: none"> ○ Examines social enterprise structures as they relate to parent organizations, as well as legal status.
Summary of Typology (Appendix B)	<ul style="list-style-type: none"> ○ Summarizes graphic presentation of operational models categorized by archetype.

A word on language: this paper uses the term “nongovernmental organization (NGO)” to refer to the wide variety of nonprofit organizations, non-state organizations, community-based organizations, member associations, private voluntary organizations, charities, and other groups that fall outside the purview of government and business sectors. These organizations are also referred to as “Civil Society Organizations” (CSOs) or “nonprofit organizations.” Occasionally, “nonprofit organization” or “nonprofit” is used interchangeably with “NGO” in the narrative or diagrams; in either case, the meaning is the same. The choice to use one term over another was a practical matter: NGO is a widely accepted and commonly used nomenclature within the Inter-American Development Bank and broader international development community.

1.3. Landscape

Latin America stands at a critical juncture in its history. The boundless optimism of the 1990s has waned, and the economic landscape is evolving, conditioned by globalization and its benefits and drawbacks. Although frustration with economic policies that have yielded few tangible benefits runs deep, most of the economic dynamism in the region comes from local and regional forces when businesses step in where there has been state failure or collapse in the provision of social services. In the midst of this process of change, Latin America is breaking away from its old paradigms by rethinking and redefining its public-private sector roles in producing social services.

Latin America's current situation coincides with some pertinent global trends. Little by little, over the last 30 years there has been a growing awareness and consideration of the social impact of development, business, government policies, and the actions of individuals and businesses. The result is a narrowing continuum between social service organizations and private business. No longer polar opposites, the social and private sectors are borrowing lessons, tools, and practices from one another to achieve their objectives and create value in society. Nongovernmental organizations (NGOs) are launching business ventures, while companies are engaging in social ventures and philanthropy to tackle poverty, social exclusion, unemployment, and boost their financial bottom lines. The resulting trend is that organizations are leveraging available resources and applying market-based approaches to solve social problems for the public good. Two such phenomena are influencing the Latin American landscape today:

- Corporate Social Responsibility
- Social Entrepreneurs and Social Enterprise

1.3.1. Corporate Social Responsibility

The social responsibility of business leaders, which once was exercised through charity at its best, is now becoming a multifaceted way of doing business that takes into account all the stakeholders involved and the businesses' duty of good citizenship within their communities. The spotlight is on businesses to demonstrate social responsibility, especially those operating in politically or environmentally sensitive regions. Business for Social Responsibility defines corporate social responsibility as

“achieving commercial success in ways that honor ethical values and respect people, communities, and the natural environment.”¹

In other words, it implies acting responsibly in all stakeholder relationships, not only with shareholders. The wide range of issues encompasses employment, environment, human rights, communities, and business relationships. A good example of corporate social responsibility is the case of AVINA, a Swiss Foundation with a business arm in Central America, which has taken a long-term view, striving to be a leading industrial group operating in a framework of ethics, environmental preservation, and social responsibility that generates economic value and improves the quality of life of its neighbors. Mr. Stephan Schmidheiny, founder of AVINA, believes that alliances are crucial and NGOs are essential to creating them. He describes

¹ Business for Social Responsibility, www.bsr.org.

numerous examples of AVINA initiatives where NGOs received financing and organizational skills, and private businesses earned the respect of employees and consumers. Certainly AVINA has earned a leadership position, working in partnership with civil society and business leaders in their initiatives towards sustainable development throughout the region.

Social Enterprise²

Shifting stakeholder expectations of nongovernmental organizations (NGOs) to achieve larger scale social impact while also diversifying their funding has been credited as a major factor in the appearance of the “hybrid organization,” part for-profit and part NGO.³ “Social enterprise” falls into the hybrid organization category. The defining characteristic of the social enterprise is that it uses market-based approaches to earn commercial income and accomplish its mission. Subsequently, the definition has developed around its hybrid nature to create both social and economic value.

As early as 1996 The Roberts Foundation Homeless Economic Development Fund⁴ defined social enterprise as “a revenue generating venture founded to create economic opportunities for very low income individuals, while simultaneously operating with reference to the financial bottom-line.”⁵ NESsT, on the other hand, uses the term social enterprise to refer to “the myriad of entrepreneurial or ‘self-financing’ methods used by nonprofit organizations to generate some of their own income in support of their mission.”⁶ Both definitions capture the social and financial characteristics of the social enterprise; however, The Roberts Foundation’s definition emphasizes social enterprise as a program approach, whereas NESsT’s definition stresses it as a funding approach. These definitions underscore two schools of thought among practitioners and pundits. The Inter-American Development Bank definition takes a broader perspective while still capturing social and economic components in its definition: “combines social outcomes with innovation and the commercial performance of the organization.” In 2003 the Social Enterprise Alliance fused existing meanings into an all-encompassing definition to include both types of practices: *“Social enterprise is any NGO revenue-generating business, venture, activity, or project, founded for the dual purpose of earning income and contributing to a social cause”*.⁷ In its widespread usage, “social entrepreneur” is the individual and “social enterprise” is the organization. Therefore, social enterprise is an institutional expression of the term social entrepreneur.

² The field of social enterprise is emerging, and thus its lexicon is evolving; with it definitions are also bound to change. During the penning of this paper a new discussion paper was released on the topic, and debates ensue about the direction of the field. For more information on the definitions, subtleties, and distinctions of social enterprise and social entrepreneurship see: Bochee, Jerr and Jim McClurg, “Toward a Better Understand of Social Entrepreneurship: Some Important Distinctions,” Social Enterprise Alliance Website (www.se-alliance.org) 2003

³ Adapted from Tom Reis, “Unleashing New Resources and Entrepreneurship for the Common Good: A Scan, Synthesis, and Scenario for Action.” W.K. Kellogg Foundation, January 1999.

⁴ The name was changed from The Roberts Foundation Homeless Economic Development Fund (HEDF) to The Roberts Enterprise Development Fund (REDF) in 1997.

⁵ Jed Emerson and Fay Twersky, *New Social Entrepreneurs: The Success, Challenge and Lessons of Nonprofit Enterprise Creation*, The Roberts Foundation Homeless Economic Development Fund, 1996.

⁶ Definition provided by NESsT (www.nesst.org); in 1997 NESsT began referring to “self-financing”—what today is referred to as social enterprise.

⁷ Social Enterprise Alliance, an international membership organization for social enterprise practitioners and supporters.

2. Orientation of Social Enterprise Value and Relative Forms

2.1. Social Enterprise: An Emerging Field

Social enterprise has a lengthy private history, but a short public one. Nongovernmental organizations (NGOs) have long engaged in income generation and businesses to either supplement or complement their mission activities.⁸ Yet it is only in the last 15 or 20 years that academics, practitioners, and donors have begun studying and recording cases of NGOs adopting market-based approaches to achieve their missions. The growing practice of social enterprise is fueled by both social needs and by NGOs' quest for sustainability, particularly in current times when funding and support from traditional, philanthropic, and government sources is declining and competition is increasing. NGO leaders understand that only by establishing an independent means of support can they be a going concern. At this juncture practitioners and thought leaders alike are working to advance this emerging field, distilling "good practices" and sharing lessons among organizations committed to developing the social enterprise practice.

Although contemporary methodology is credited to the West, notably the United States and United Kingdom, NGO businesses, self-financing schemes, and economic development programs have existed overseas for years. Indeed, cooperatives functioned as a means to fund socioeconomic agendas as early as the mid-1800s. From a sustainable program perspective, microfinance institutions are a common social enterprise in the development arena. They made their appearance in the 1970s, at about the same time that US nonprofits were experimenting with enterprises to employ disadvantaged populations, and Community Development Corporations (CDCs) were gaining popularity. In theory, social enterprise application transcends traditional NGO sectors and applies as equally to health, humanitarian, or education organizations as it does to economic development or job creation programs. Internationally, however, civil society organizations have made the strongest advancements in adopting modern social enterprise tenets and approaches and applying them in emerging market environments in former Soviet countries and Latin America. Economic development organizations, on the other hand, are relatively new proponents of social enterprise, though in essence, they have been long-time practitioners of many of the conventions social enterprise espouses.

Although every business environment is unique, the laws of market forces and business response are relatively ubiquitous; hence social enterprise implementation in developing countries is surprisingly similar to that in developed nations. Regardless of country context, social enterprises must be designed to correspond with the specifics of their environment, which include considerations of legal and regulatory environments, markets, access to capital, and expertise. Practitioners face advantages and disadvantages in both contexts. In developed countries market economies are mature and business know-how is readily available, yet distribution channels may be restricted, and competition is sophisticated and well-capitalized, which poses challenges to NGO-run businesses. In developing countries markets are opened but the legal environment often creates obstacles. Practitioners globally argue that they lack access to sufficient funding. Gains have been made internationally in a subset of social enterprise—microfinance, wherein there is now broad acceptance of NGOs' borrowing capital to fuel business growth. However, for

⁸ Adapted from Sealey, Sealey, Boschee and Emerson, *A Reader in Social Enterprise*, 2000.

the majority social enterprises, globally this concept is slower to be adopted by NGOs and donors alike.

To date, social enterprise has made the strongest show in emerging markets and transitional economies. This is due in part to the rapid development and proliferation of civil society organizations, followed by the drop-off in donor support; thus NGOs have tremendous pressure to look for alternative sources of funding or self-finance. Leadership and resources have enabled social enterprise development; additionally, in Latin America, IDB has played a key facilitation role by providing financial and technical support. However, some of the most innovative and entrepreneurial cases of social enterprise can be attributed to NGOs operating under some of the direst circumstances.⁹ Social enterprise has a vast, albeit disjointed, global presence.

The Inter-American Development Bank began supporting social enterprises (cooperative and NGO) through the Small Projects Fund prior to its investments in microfinance and long before there was a field associated with these types of organizations. In 1998, the Social Entrepreneurship Program (SEP), which replaced the Small Projects Fund, was created to promote social equity and the economic development of poor and marginal groups. In its 25-year history, the Bank has supported numerous projects that fall under the rubric of social enterprise through this program. Today, social enterprise has come full cycle within the Bank, its reexamination inspired by the success of microfinance and entrepreneurial innovations occurring in mature microfinance institutions. To this end, the SEP has become a key IDB instrument used to drive local economic development within the context of a strategic regional vision. This innovative instrument has made it possible to consider both social impact and economic return to promote the advancement of microenterprise in Latin America and the Caribbean.

IDB Social Entrepreneurship Program (SEP) Support to Social Enterprise

Invests US\$10 million annually to develop and strengthen innovative institutions.

Provides low interest loans of up to US\$1 million and grants of up to US\$250,000 for technical cooperation.

Supports financial services and business development projects with a special emphasis on poor and marginalized groups.

Provides average long-term loans of US\$500,000.

2.2. IDB's Social Entrepreneurship Program (SEP)

The SEP grants low interest loans of up to US\$1 million; in addition, it offers technical assistance grants of up to US\$250,000, which are allocated to the development and strengthening of innovative institutions. SEP uses its resources strategically and funds a limited number of representative projects; such operations must be capable of promoting learning between

⁹ Etchart, Nicole and Lee Davis, "Unique and Universal: Lessons from the Emerging Field of Social Enterprise in the Emerging Market Countries," NESsT, 2003.

countries or of being emulated in other parts of the region. This instrument is used to promote business operations that generate social benefits and help community organizations encourage microenterprise development.

SEP is a highly competitive program, providing US\$10 million annually to finance projects in 26 Latin American and Caribbean countries. Government agencies, bilateral funds, and multilateral donors have joined forces with IDB and the Social Entrepreneurship Program to strengthen that assistance. Several trust funds, such as the European Union Special Fund for the Financing of Small Projects in Latin America, the European Union Special Fund for Financing Microenterprise in Latin America, the Swedish Trust Fund for the Financing of Small projects, the Norwegian Fund for Small Projects, the Norwegian Fund for Microenterprise Development, the Japan Special Fund, the Swiss Technical Cooperation and Small Project Fund, and more recently the Italian Trust Fund have contributed, channeling support to rural and minority groups, and providing technical assistance to strengthen NGOs. The IDB Group is committed to contributing to the success of this new type of social enterprise and supporting projects that offer financial and business development services as well as social and community services in a sound, efficient, and sustainable way to benefit low-income people, indigenous groups, women, youth, and other marginalized groups.

2.3. The Hybrid Organization

At the intersection of business and traditional NGO activity is the “hybrid.” It is herein, part business, part social service organization, that the social enterprise lies.

Exhibit B: Spectrum of Practitioners¹⁰

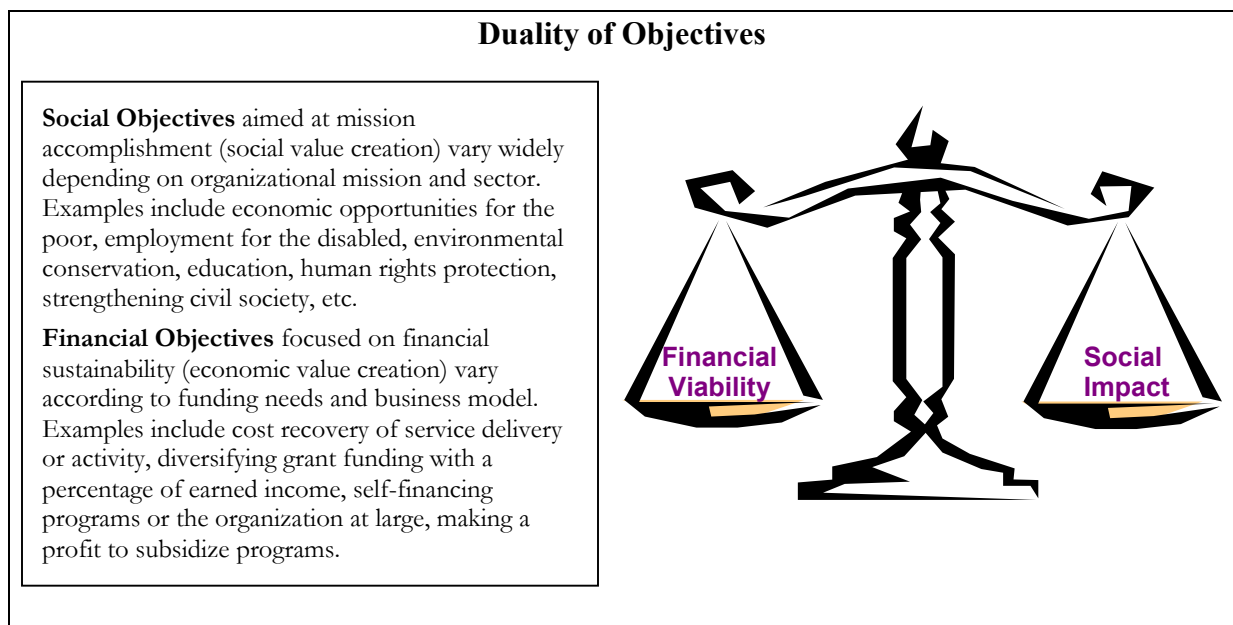
	Purely Philanthropic	Hybrid	Purely commercial
Type of Organization	Traditional NGO	NGO enterprise or socially responsible business	Traditional for-profit
Motives	Appeal to goodwill	Mixed motives	Appeal to self-interest
Methods	Mission-driven	Balance of mission and market	Market-driven
Goals	Social value creation	Social and economic value creation	Economic value creation
Destination of Income/Profit	Directed toward mission activities of NGO (required by law or organizational policy)	Reinvested in mission activities or operational expenses, and/or retained for business growth and development (for-profits may redistribute a portion)	Distributed to shareholders and owners

¹⁰ Adapted from Gregory Dees, “Why Social Entrepreneurship is Important to You,” from *Enterprising Nonprofits: A ToolKit for Social Entrepreneurs*, John Wiley and Sons, 2001; and Lee Davis and Nicole Etchart, *Profits for Nonprofits*, NESsT, 1999.

2.3.1. Double Bottom Line Concept¹¹

As a hybrid, the social enterprise is driven by two strong forces. First, the nature of the desired social change often benefits from an innovative, entrepreneurial, or enterprise-based solution. Second, the sustainability of the organization and its services requires diversification of its funding stream, often including the creation of earned income.¹² Distinguished by their double bottom line—financial and social objectives—social enterprises have the following characteristics:

- Use business approaches to achieve social objectives
- Blend social and commercial capital and methods¹³
- Simultaneously create social and economic value
- Generate income from commercial enterprise to help fund mission
- Are market-driven, but balance market opportunities against social costs
- Measure financial performance and social impact



2.3.2. The Blended Value Proposition¹⁴

The concept of “blended value” arises from the notion that value has within it three component parts: economic, social, and environmental. While traditionally people have thought of

¹¹ Many proponents of social enterprise, social investing, corporate social responsibility, and venture philanthropy subscribe to the “triple bottom line” which includes “environmental impact” along with economic and social impact. The intent of this typology is to simply the concepts, rather than to discount the significance of environmental impacts. For our purposes environment impacts have been included within social impact category.

¹² Reis, Tom. “Unleashing New Resources and Entrepreneurship for the Common Good: A Scan, Synthesis, and Scenario for Action.” W.K. Kellogg Foundation, January 1999.

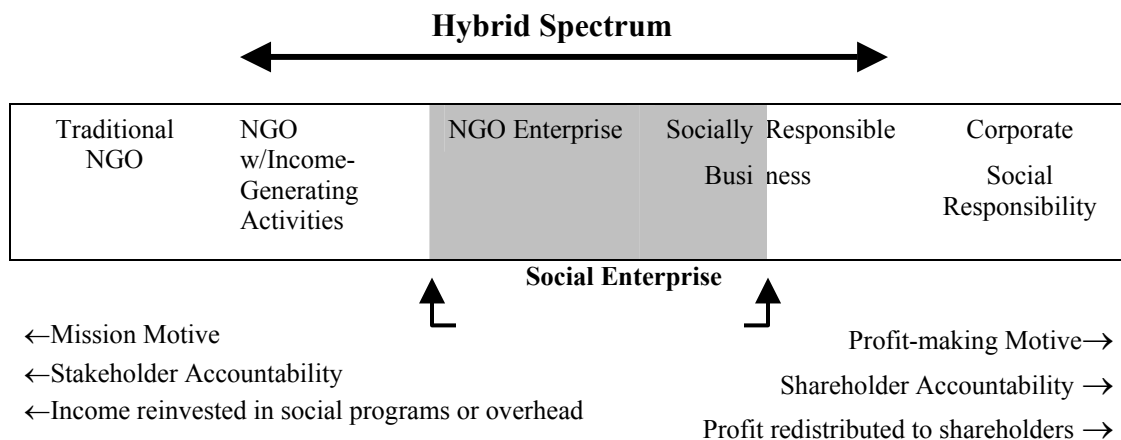
¹³ Adapted from Gregory Dees, “Enterprising Nonprofits,” *Harvard Business Review*, January-February 1998.

¹⁴ For more information see, “Blended Value Proposition: Integrating Social and Financial Returns,” *California Management Review*, Vol. 45, No. 4, Summer 2003.

nonprofits being responsible for social and environmental value and for-profits for economic value; in fact both types of organizations generate all three value sets. The rise of social enterprise, corporate social responsibility, social investing, and sustainable development are all examples of how various actors are pursuing a blend of financial, social, and environmental value.¹⁵ The blended value proposition is drawn from the belief that “value” is inherently whole; hence this school of thought is moving from measuring multiple bottom lines to focusing on a single value sign—blended value—or “total value” creation. “What is becoming increasingly clear is that nonprofit organizations create economic value and for-profit companies have social impact and worth. Therefore the notion that a for-profit is not also a social enterprise or a nonprofit does not try to maximize economic value creation opportunities is simply untrue.”¹⁶

2.3.3. *Social Enterprise Spectrum*

Though all hybrid organizations reside on the same spectrum, they are organized by “generalized degree” of activity as it relates to: 1) motive, 2) accountability, and 3) use of income, for the purpose of classification in this typology. On one end of the Social Enterprise Spectrum lie socially responsible businesses, for-profit entities that operate with reference to social objectives. The socially responsible company’s motives tend toward profit-making, and the designation of income to its profit-seeking shareholders. On the opposite end are NGOs with income-generating activities, whose primary motivation is to contribute to social causes by using earned income to underwrite social programs dictated by shareholder mandate.¹⁷ NGO enterprises (“social enterprises”) fall squarely in the middle.



2.3.4. *Not Considered Social Enterprises*

Traditional NGOs—subsist on grants, charitable donations, volunteer labor, and in-kind support to sustain their mission activities. Traditional NGOs are not considered social enterprises since they do not earn commercial revenue in the open market.

¹⁵ Excerpted from “Mapping the Blending Value Proposition,” Jed Emerson and Sheila Bonni, 2003.

¹⁶ Jed Emerson interview, August 2003.

¹⁷ Adapted from Etchart, Nicole and Lee Davis, “Profits for Nonprofits,” NESsT, 1999.

Corporate Social Responsibility—for-profit businesses whose motives are financially driven, but who engage in philanthropy. “Strategic philanthropy” helps companies achieve profit maximization and market share objectives while contributing to public good. A private company or corporation engages in socially beneficial activities such as grant-making, community involvement, volunteering company personnel, and sponsorship as a means to improve public image, employee satisfaction, sales, and customer loyalty. Corporate social responsibility is not classified as social enterprise, although philanthropic activities may support social enterprises, make a positive social impact, or contribute significantly to a public good.

Amanco: An Example of Corporate Social Responsibility

Amanco, part of the Nueva Group based in Costa Rica, produces and markets piping for irrigation construction, infrastructure, and industry in 13 countries of Latin America. Amanco Argentina has two plants, including one at Pablo Podestá where the company started a community integration program in 2000. They are working with the Agrupación Ecológica Oasis (Oasis Group), which brings together needy youth for local activities, including reforestation and tree planting, and collecting aluminum, glass, and newspaper that they sell to recycling companies. The money is used to buy school supplies, tools, seeds, and other items. The company provides them with a space to create a library and meeting center, for which Amanco employees collected the first books. Employees will also teach classes. Amanco identified community leaders who will be trained to continue the work organized by the Oasis Group, and plans to bring other companies in the region into the program, which will be expanded to work with other local community groups.

Earned Income Activities—NGOs that incorporate some form of revenue generation through commercial means into their operations. Income-generating activities are not conducted as a separate business, but rather are integrated into the organization’s other activities. There are two types of income-generating activities, delineated here by purpose:

- **Cost Recovery (discrete)**—a means to recuperate all or a percentage of the costs to deliver an NGO service or fund a discrete activity related to the organization’s mission. Special events, conference fees, paid training, and fee-for-service are examples.
- **Earned Income Strategy (ongoing)**—provides a stream of unrestricted revenue to the organization, generated through activities both related and unrelated to the mission. Membership dues, sales of publications, and other products are examples. Earned income activities may evolve into social enterprises.

Diverse Organizations Join Forces for the Common Good in Chile

In recognition that over 50% of the Chilean workforce (some 2.5 million women and men) is employed by small- and medium-sized enterprises (SMEs, or PYMES, in Spanish), a unique consortium designed to further social responsibility among PYMES has been established in Chile. The project is an effort to “build bridges” between otherwise disconnected efforts among the business, NGO, and academic community to promote social good through the application of business and entrepreneurship. The project includes representatives from more than 10 institutions, among them: FUNDES (an organization providing business development support to SMEs (PYMES)), NESsT (an organization providing financial and capacity-building support to social enterprises), and Acción Empresarial (an organization promoting corporate social responsibility).

The project partners are initially working directly with 20 individual SME (PYME) entrepreneurs in the Santiago metropolitan area to develop a set of social responsibility “indicators.” Each of the enterprises will then integrate these standards into their business model and management. Some of the enterprises may be owned and operated by NGOs (to create employment for disenfranchised people and/or generate resources to support the NGO’s other mission-related programs); others may be businesses that themselves promote an environmental or social cause through entrepreneurship.

The primary catalyst behind the initiative, businessman Hugo Vergara, CEO of Travel Andes in Santiago, believes that though each of the project partners has its own distinct mission, strategy, and constituents, the challenges faced by social enterprises, socially-responsible businesses, and SMEs/PYMES are similar, and that by combining forces there is great potential to demonstrate a unique model of employment creation and growth for Chile: “...*the inclusion of a corporate social responsibility initiative within these enterprises, between them, and in the community will enable them to promote development models that are more fair and promote solidarity, within these enterprises as well as in relationship to their environment and community.*”

2.3.5. Sometimes Considered Social Enterprises

- **Socially Responsible Business**—for-profit companies that operate with dual objectives—making profit for their shareholders and contributing to broader social good. Ben and Jerry’s and Body Shop are examples of this type.¹⁸ In socially responsible businesses the degree to which profit-making motives affect decisions and the amount of profit designated for social activities ranges, and determines whether the business falls into the social enterprise category or not. Socially responsible businesses are willing to forsake profit or make substantial financial contributions rather than distribute earnings privately, and frequently place social goals in their corporate mission statements. In some literature the socially responsible business that is also considered a social enterprise is referred to as a “social purpose business”¹⁹ to denote the subtle differences.

¹⁸ Young, Dennis, “Social Enterprise in the United States,” 2001.

¹⁹ Berenbach, Shari, “From SRI to Community Investment,” Calvert Foundation, 2002

Determining whether or not a socially responsible business can also be classified as a social enterprise is not a scientific endeavor, and must be considered case by case. Some proponents of social enterprise argue that a for-profit without a legal relationship to an NGO cannot be classified as such. On the other hand, there are several excellent examples to the contrary (see below). Due to complex legal issues, which vary widely in Latin America, the view is that legal structure is often happenstance, a function of the environment, and does not impact the enterprise's motives.

Socially Responsible Business: Good for the Environment and Local Communities

Green Mountain Coffee Roasters (GMCR), based in Vermont, is a classic example of a socially responsible company. At GMCR every business decision is anchored in the company's core values concerning the environmental impact of its business action. In 1989, GMCR established an environmental committee comprised of employees to explore the many ways its corporate environmental vision could affect its business practices. The Committee also supervises the company's extensive on-site recycling program. In 1992, GMCR launched its "Stewardship" line of coffees, which are grown and harvested with proper care and respect for the land and the workers in Hawaii, Mexico, Costa Rica, Peru, Guatemala, and Sumatra. Green Mountain employees travel to coffee farms to evaluate the farm management and quality of the coffee, establishing strong relations with the growers. In 1997 Green Mountain funded construction of a "beneficio and hydro" plant for 16 coffee-farming families in Peru. Then in 1998, the Company provided funding for a Coffee Kids micro-lending project in Huautsco, Veracruz, Mexico. This project has already grown to include over 270 participants. In addition to these socially responsible business activities, GMCR contributes 7.5% of its pre-tax earnings, the highest amount allowable by law, to social and environmental organizations such as Conservation International.

2.3.6. Social Enterprises

- **NGO Enterprises** are double bottom line businesses created: 1) to generate commercial revenue to fund social programs or the organization at large; or 2) as a sustainable program delivery model. Either way, NGO enterprises must manage financial and mission objectives. NGO enterprises may be structured within the organization as a department or as a separate legal entity, NGO, or for-profit subsidiary.

For this typology, NGO enterprises are divided into three categories based on their mission orientation, or purpose. Again, these are generalizations used as guidelines to aid in understanding social enterprise forms.



- **Mission-Centric**—enterprises central to the organization’s social mission. Sometimes referred to as “social purpose enterprises,”²⁰ these social enterprises are created for the express purpose of advancing the mission using a financially self-sufficient model. The client is a recipient of enterprise operations, either as the target market, a direct beneficiary, or employee. NGOs created to employ disadvantaged populations (employment development) and microfinance institutions are examples of this type of social enterprise.

Social Problems Offer Business Opportunities for One Mission-Centric Enterprise

The mission of the Movement Paysan de Papaye (MPP) in rural Haiti is “*to establish at the community level cooperative enterprises that allow the peasants to advance economically.*” To this end, MPP started several community-based enterprises, which not only provide economic opportunities, but also serve as a vehicle to mitigate the myriad of social problems its clients—local peasants—face. The community’s high unemployment, food insecurity, lack of knowledge of sustainable farming techniques, and access to agricultural inputs provided several business opportunities. In 2001, MPP began a bakery that makes and sells traditional Haitian flat bread locally, which also provides access to a secure supply of food. The bakery has been so successful that it has not been able to keep up with demand. Currently it provides jobs for 12 clients; this figure is projected to double in the next year when operations expand. MPP also opened a store, which provides jobs and sells basic supplies and agricultural inputs for the region. The third business is a very successful 50-acre farm that grows produce and animal feed and raises livestock, also enabling food security in the local population and providing dozens of jobs. In addition to providing nearly 200 jobs and supplying vital goods and services to the community, the three businesses earn surplus income to fund some of the costs associated with MPP’s numerous social programs: literacy, advocacy, micro-loans, agricultural education, etc.

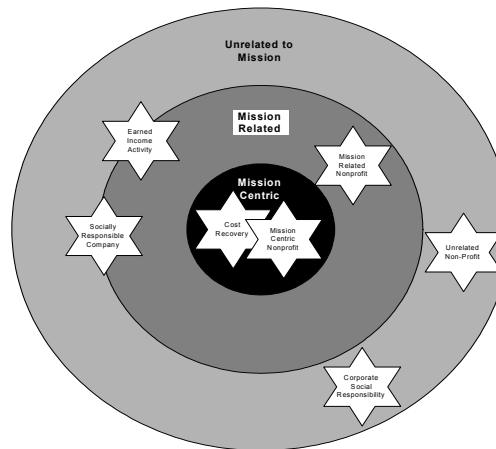
- **Mission-Related**—enterprises related to the organization’s mission or core social services. Mission-related social enterprises treat their business activity as a profit center, using income to subsidize social programs or the organization. Generally, these enterprises leverage the organization’s tangible and/or intangible assets for revenue generation, such as proprietary content, relationships, brand equity, physical space, or equipment. The client is the beneficiary of income but may or may not be directly involved in the enterprise’s implementation.
 - *Commercialization of social services* is a common form of the mission-related social enterprise. One example is a senior service organization that provides meals to the elderly who have no economic resources, then starts a home delivery catering business to a market niche within the elderly segment that can afford this service.
 - *Mission expansion* is another type of mission-related social enterprise. An example is a women’s economic development organization that offers fee-based childcare services to self-employed women to enable them to focus on their business.

²⁰ Roberts Enterprise Development Fund coined the term “social purpose enterprise” and uses the term in its literature.

- **Unrelated to Mission**—enterprises not intended to advance the mission other than by generating income for the organization's social programs. These enterprises frequently leverage the organization's tangible and intangible assets for revenue generation. Examples include: a youth organization that “sells” its client relations by organizing focus groups for advertisers trying to reach the youth market; organization-owned real estate rented to commercial or residential tenants; and the sale of products (museum stores, Girl Scout Cookies, Save the Children ties and trinket business, real estate holdings).

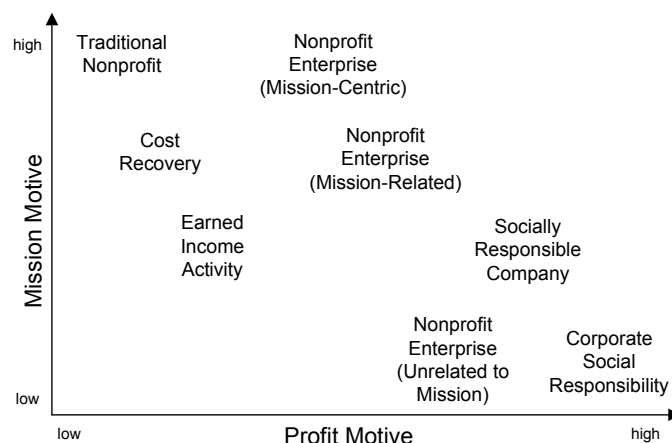
Exhibit C: Mission Orientation and Social Enterprise Forms

Relevance of Purpose in Form



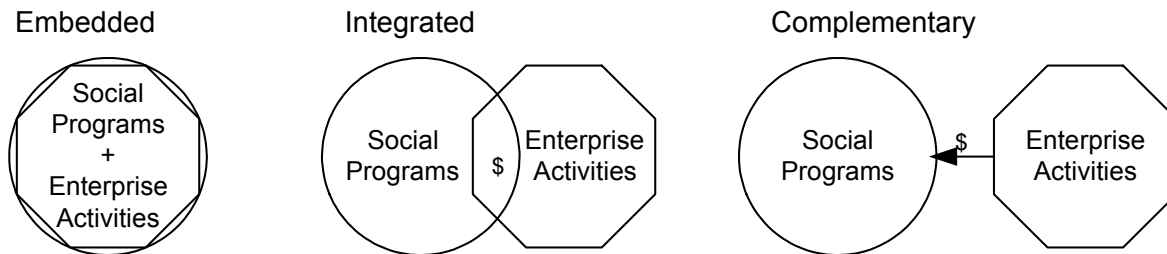
Clearly, in the social enterprise, money and mission are intertwined like DNA; however, they are not always equal partners. Indeed, in practice, financial and social objectives are often in opposition or competition with one another. The initial decision to engage in social enterprise is frequently motivated by financial need or mission benefit. Many practitioners who launch a social enterprise purely for financial benefit find that the commercial activity enhances their social mission as well as their financial bottom line. The corollary is also true, that the mission-driven or programmatic enterprise may enjoy the benefits of a lucrative business as it accomplishes its social objectives. Therefore, social enterprise purpose plays a key role in determining its form. The diagram to the right shows the relationship between mission orientation and form; whereas the scatter diagram below shows relationship of form relative to motive.

Exhibit D: Social Enterprise Forms Relative to Motives



3. Social Enterprise Archetypes

All social enterprises fall into three main structural categories or “archetypes” based on their operational model.



3.1.1. Embedded Social Enterprises

Social programs and business activities are one and the same. NGOs create social enterprises expressly for programmatic purposes. The enterprise activities are “embedded” within the organization’s operations and social programs, and *are central to its mission*. Due to their mission focus, most are structured as NGOs to protect against mission drift, but may also be registered as for-profits, depending on the legal environment. “*Mission-centric*” social enterprises are commonly organized as embedded structures.

3.1.2. Integrated Social Enterprises

Social programs overlap with business activities, often sharing costs and assets. Organizations create integrated social enterprises as a funding mechanism to support NGO operations and mission activities. In some cases they serve as mission extension to increase the organization’s social impact. These social enterprises leverage existing NGO capacities and infrastructure to reduce costs and to diversify income. Enterprise activities are “integrated” on some level with operations. The integrated social enterprise may be structured as a profit center or “enterprise department” within the NGO or separate legal entity. “*Mission-related*” social enterprises are commonly organized in integrated structures.

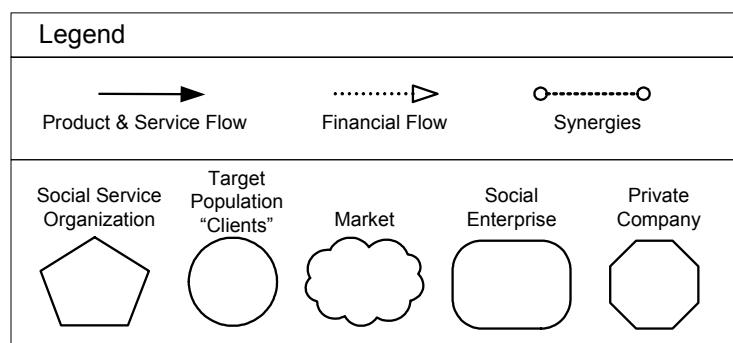
3.1.3. Complementary Social Enterprise

Social programs are distinct from business activities. NGOs create complementary social enterprises as funding mechanisms to support social services. Enterprise's activities are separate from the organization’s operations, but “complement” social programs by providing financial support. The complementary social enterprise may be structured as a for-profit division, profit center, or subsidiary (NGO or for-profit) whose activities are not necessarily related to the mission nor do they pursue a social benefit. Legal status is often a function of the regulatory environment in which the social enterprise operates, or is necessary to access capital, loans, or equity investments. “*Unrelated mission*” social enterprises are commonly organized as complementary structures.

4. Operational Models

The following section elaborates possible operational models of social enterprises. The diagrams should not be confused with depictions of organizational structures or legal entities. Rather, they illustrate configurations used to create social value (measurable impact) and economic value (income). The diagrams may represent service delivery systems within an organization or organizational structures themselves. Operational models are designed in accordance with the social enterprise's objective, marketplace dynamics, client needs or capabilities, and legal environment. The various options for operational models allow for maximum creativity and flexibility for the practitioner; however, they can be difficult to grasp in a theoretical construct. Indeed, the black-and-white representation of the models does not accurately capture the world of social enterprise, which regularly operates in a grey area. Operational models may change over time; new models may continue to evolve; and mature social enterprises commonly implement several enterprises simultaneously.

The legend shows how the symbols can be used to interpret the diagrams' financial and product flows in relation to the social enterprise, the market, and the clients.



One determinate of the social enterprise's operational model is its archetype; hence all social enterprise models can be classified under one of the archetype categories.

4.1. Embedded Social Enterprise Models

Embedded social enterprises generate both social value and economic value and are evident in operational models where: 1) social and economic activities are unified; 2) social mission is the central purpose to the business; and 3) the target population (clients) is integral to the model as recipients of social services *and* either the market (paying customers) for the enterprise or its employees.



4.1.1. Entrepreneurial Support Model



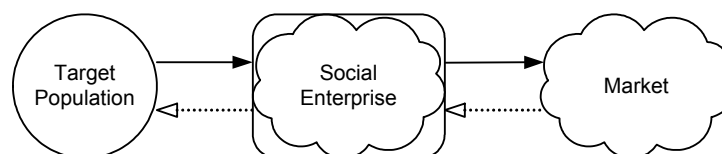
Description: The entrepreneurial support model of social enterprise sells business support and financial services to its target population or “clients” (self-employed individuals or firms). The paying customer (market) is the same as the target population. Clients sell their products and services to an external market, which may be individuals or firms. The social enterprise uses income to cover program costs and to reinvest in its business. In the entrepreneurial support model the program *is* the business: its mission is crafted around facilitating clients’ financial security through entrepreneurial activity, and achieving sustainability through the sales of services. Microfinance institutions as well as many business development service (BDS) programs commonly use this model.

Example: A manufacturer and distributor of low-cost irrigation pumps sells pumps and agriculture extension services to low-income rural farmers. The capital asset enables farmers to dramatically increase the productivity and profitability of their land. Income earned by the social enterprise is used to cover operating costs (including high transaction costs of marketing to rural, small scale farmers), investing in new product R&D, and educational marketing to farmers.

Banco Solidario Invests in Micro and Small Entrepreneurs

Banco Solidario in Ecuador provides working capital loans to microentrepreneurs, who invest the capital in productive activities such as retail trade or small-scale production and sell their products in the open marketplace. Despite the economic collapse of the Ecuadorian economy and a costly war with Peru a short two years after it opened its doors, Banco Solidario has proven its commitment to micro and small entrepreneurs by increasing its lending by a whopping fivefold, from about US\$4 million in 1998 to some US\$20 million in 2000. Banco Solidario, a commercial bank specializing in lending to micro and small entrepreneurs in Ecuador, has confirmed its commitment to this market segment, and its loan allocations increased from 10% in 1998 to 60% in 2000 to this important segment. Banco Solidario became Ecuador’s most profitable bank in early 2000, and last year it was ranked as one of the country’s five best banks.

4.1.2. Market Intermediary Model



Description: The market intermediary model of social enterprise provides product development and credit services to the target population or “clients” (small producers). The intermediary purchases client products, in some cases providing them with a guaranteed market. The social enterprise then sells client products to an external domestic or export market at a mark-up. Business activity is combined with the social program components of assisting clients in development of marketable products and achieving financial security. Income earned from the sales of products is used to cover operating costs and social costs of rendering services. Fair trade, marketing supply cooperatives, agriculture, and handicraft organizations frequently use this model.

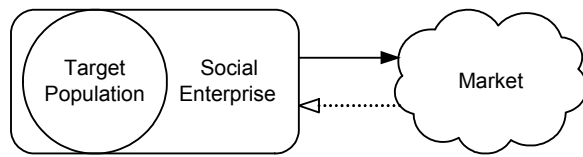
Example: A craft marketing cooperative creates economic opportunities for rural artisans by purchasing their handmade rugs, baskets, and sculptures and then marketing them overseas. The cooperative buys the products outright at fair prices then sells them at a significant mark-up to cover operating expenses and business growth. Earned income is also use by the cooperative for social activities tied to business success: helping artisans with product development and quality assurance, and providing working capital loans to its clients to purchase raw materials and supplies in order to produce quality art.

Traders Open New Markets for Latin American Rural Communities

Equal Exchange is a US-based fair trade coffee company structured as an employee-owned cooperative. Equal Exchange purchases coffee beans and cocoa from rural farmers in developing countries at fair trade prices (substantially higher than market rate) and uses educational marketing campaigns to raise awareness of fair trade products among consumers. Equal Exchange’s social programs are embedded within its business activities: consumer education, technical assistance, and credit to small producers, and new fair trade products. Equal Exchange’s financial motives are viability, not profit; in 2002 the company had \$10.4 in sales, which translates into \$1.6 million in above market premium for small producers. Equal Exchange works in eight Latin American countries and represents a new generation of social enterprises that are using market-based tools and business practices to help marginal Latin American rural communities improve their living standards by increasing productivity and access to export markets.

Crecer is an interesting marketing initiative in Central America, Mexico, and the Caribbean that provides consulting services to small producers in farming and non-farming sectors. IDB gave Crecer support to carry out a program to help artisan associations in the region use electronic commerce to expand into foreign markets. Programs such as Equal Exchange and Crecer are opening niche markets based on innovation, quality, and ecological attributes and are offering bigger markets to Latin American farmers and microentrepreneurs so they can achieve financial security.

4.1.3. Employment Model



Description: This type of social enterprise provides employment opportunities and job training to its clients (disenfranchised, poor, disabled, vulnerable, at-risk youth, etc.) and then sells its products or services to an external

market. The mission is centered on creating employment for the target population, but services and support for employees not available in private sector jobs may be included; hence the social program is embedded in the social enterprise. The type of business is predicated on the appropriateness of jobs it creates for its clients as well as commercial viability of the product or service. However, employment social enterprises must choose businesses consistent with clients' capabilities as well as their limitations. Income is used to cover operating costs, social costs of employing clients, and adjunct social programs, such as healthcare or housing. The employment model is widely used by disabilities organizations. Popular types of employment businesses are janitorial and landscape companies, cafes, bookstores, thrift shops, messenger services, woodworking, and mechanical repair. **Example:** A wheelchair manufacturing social enterprise is run by clients—victims of landmine accidents—who face discrimination and marginalization in the open market. Workstations are specially fitted to accommodate clients' handicaps. Clients learn marketable skills such as welding, casting, and assembly. The social enterprise sells wheelchairs to hospitals and medical supply companies. Income is used to reinvest in the business, fund public education campaigns on landmines, and cover the social services costs of physical therapy and counseling.

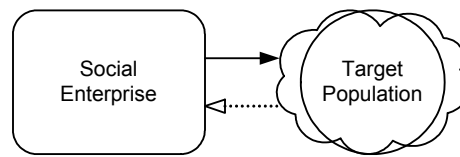
Jobs for Peru's Domestic Workers

Although many organizations in Peru and across the Latin American region work to defend the rights of domestic workers, few of these focus on young women and girls, who make up approximately 5% of this workforce in this country. It is in this environment that the Center for Integral Attention for the Domestic Worker (established by Josefa Condori, an Ashoka Fellow) in Cusco, Peru, provides job training and education services for domestic employees, focusing particular attention on girl workers from rural areas, who learn how to bake, do top quality housework, wash clothes, etc. During their training period, these young women work at a local tourist hotel, allowing them to learn the trade and earn an income. The organization is planning to open a bakery and commercial laundry shop so that young girls can also learn basic management skills. The Center opens the possibility of a brighter future for these girls and sheds the light of public awareness on these invisible workers, thus protecting them better.

The Employment, Environment, and Economic Development “Miracle”²¹ The Mazunte Natural Cosmetics Factory is situated in the village of its namesake on Mexico's Pacific Coast. Until a few years ago, Mazunte was an obscure village of 1,000, most of whom were employed in the sea turtle trade. When the Mexican government first banned the slaughter of sea turtles, this closed the town's sole employer—Mexico's largest sea turtle slaughterhouse—Mazunte's population was devastated. Today, the cosmetics factory is known as the “Miracle of Mazunte,” because it replaced jobs lost by the slaughterhouse. The small, cooperatively-owned social enterprise produces and distributes environmentally friendly products, and in doing so, provides dozens of manufacturing jobs, sales, and management jobs in the community. The impact, or miracle, proved greater than first expected: the Cosmetics Factory has become the cornerstone of the region's economy. The cute, palm-shaped adobe factory is a tourist magnet, and has sparked the development of a numerous tourist related eco-businesses in the area.

²¹ Information on the Mazunte Natural Cosmetics Factory was provided by Ashoka (www.Changemakers.net).

4.1.4. Fee-for-Service Model



Description: The fee-for-service model social enterprise commercializes its social services, then sells them to clients or constituents (individuals, firms, or communities). The social program is embedded in the enterprise, and fees charged for its services are a cost-recovery strategy for the organization to underwrite the expenses associated with delivering that service. Surpluses (net revenue) may be used to cover overhead or subsidize social programs that do not have a built-in cost-recovery component. Fee-for-service is a commonly used NGO model; however, many organizations treat fee-for-service as an income-generating activity rather than as a scaleable business. Even when run as a business, in many cases fee-for-service activities cannot cover all the organization's costs and must be supplemented with other income activities or grants. Membership organizations and trade associations, schools, museums, hospitals, and clinics are typical examples of fee-for-service social enterprises.

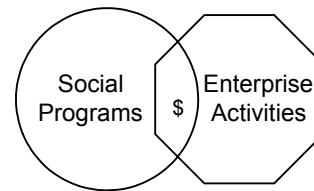
Examples: A university charges tuition fees for its educational service that cover a large portion of operating costs, such as professors' salaries, and building and ground maintenance. However, fees from students are insufficient to cover new facilities or fund academic research; therefore, the university supplements tuition income by securing several scientific and engineer commercial contracts with pharmaceutical and technology companies.

Fee-for-Service Turns Water into Watts

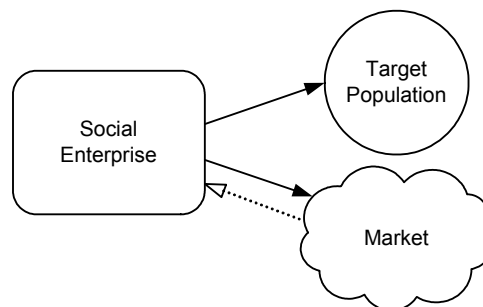
Almost all developing countries are under political and social pressure to supply electricity to scattered rural areas. Rural electricity supply is often constrained by low population density and the very low purchasing power of rural people, which limits the choice of commercially viable decentralized supply options. In Peru, ITDG has developed 13 small-scale hydroelectric plants, harnessing energy from running water into cost centers through a successful fee-for-service business that targets up to 150 rural microenterprises, provides a direct benefit to more than 10,000 rural inhabitants, and promotes the creation of new productive microenterprises. The ITDG business model revolves around a small-scale hydroelectric center that can generate between three and 150 kilowatts, benefiting a group of 20 to 3,500 people with a total investment between US\$10,000 and \$240,000. The major costs of these plants are site preparation and the capital for equipment. In general, unit cost decreases with a larger plant and with high heads of water. Collection rate success has typically reached more than 96% in this program. By continuously improving the business model, ITDG expects to complete a robust business concept, adding 17 more centers and bringing the total hydroelectric centers in this area to 30. ITDG thus plays an important role in the economic development of these remote rural areas for industrial, agricultural, and domestic uses through direct mechanical power that enhances the productive activities of village entrepreneurs.

4.2. Integrated Social Enterprise Models

The integrated social enterprise generates economic value and may create some social value; however, it is the social services that generate the social value for the organization. Integrated social enterprises are evident in operational models where: 1) social and economic activities overlap; 2) synergies exist between the social activities and the economic activities, such as cost-sharing, leveraging of assets, and enhancing systems; 3) economic activities are often mission-related (or enhance mission), but this is not always the case; 4) the target population (clients) is a direct beneficiary of income earned from the social enterprise vis-à-vis financing social programs, but the clients are usually not enterprise employees or customers.



4.2.1. Service Subsidization Model



Description: A service subsidization model social enterprise sells products or services to an external market and uses income generated to fund social programs. In this model, business activities and social activities overlap, sharing costs, assets, operational components, and income. Although the organization's business mandate may be separate from its social mission, the business activities may enlarge or enhance the latter. This model leverages its tangible assets (building, land, or equipment) or intangible assets (methodology, know-how, relationships, or brand) as the basis for its enterprise activities. Commercialization of core social services leads to enterprise activities that are close in nature to the organization's social programs; whereas leveraging physical assets to sell to the public may result in an enterprise that is very different from the organization's social programs. Service subsidization is one of the most common types of social enterprises and may conceivably grow into an "organizational support model" social enterprise if it becomes profitable and is able to throw off additional income to the parent organization.

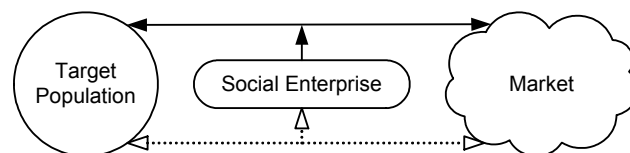
Example: A senior service organization has two social enterprises that generate income to subsidize its social programs serving frail indigent seniors. The organization's "eldercare business" commercializes case management services it renders free of charge to its clients. This social enterprise sells "premium eldercare" services, using the organization's expertise in nursing, therapy, and wellness monitoring in markets where either seniors (or their adult children) have financial means to pay full fee, or are insured by a company that covers the service. In this case, the enterprise enhances the organization's mission by reaching a larger

number of seniors, though not identified as the organization's clients. The organization's second enterprise leverages its 10 passenger vans that carry clients on outings, to doctors' appointments, and shopping. The organization leases the vans at night to an NGO that works to reduce drunk driving by contracting to bars and driving clients home after last call. The two businesses combined generate 45% of the organization's budget, covering a large portion of its service costs.

Social Publisher Boosts Economic Benefit²²

In the areas of Brazil where Associacao Nacional de Cooperacao Agricola (ANCA) works, illiteracy rates are as high as 80% of the population. This educational and agricultural NGO provides opportunities for children, adults, and community activists. ANCA's social enterprise, Editora Expressao Popular (Popular Expression Press), produces training and educational materials for labor movement leaders. Editora Expressao Popular also imports, exports, and sells periodicals, audiotapes, and publications to other markets. The social enterprise serves to enlarge ANCA's mission by providing educational materials not only to facilitate literacy, but also to function as tools for social change. Editora Expressao Popular is integrated into ANCA as a division of the organization. In 2002 the enterprise sold 7,000 books, up from 4,500 the year before. Financial objectives are to achieve self-sufficiency of the press, earning additional income to support literacy programs and catalyze social change.

4.2.2. Market linkage Model



Description: This type of social enterprise facilitates linkages between the target population and external market. It functions as a broker connecting buyers to producers and vice versa, as well as providing market information to both. The social enterprise charges finder's fees to the buyer and/or seller, and charges for market information and market research services. Unlike the marketing intermediary model, this type of social enterprise does not sell or market clients' products. The market linkage model can be either embedded or integrated. If the enterprise is stand-alone, meaning that the mission revolves around providing market access and social programs support this objective, it follows a fee-for-service model. If the enterprise is mission bound, yet its income covers market access services as well as other social programs, it follows the integrated model. Many trade associations, cooperatives, and BDS programs use this model of social enterprise.

Example: An agricultural cooperative began a market information and research social enterprise. This business sells information on several types of fruits, vegetables, grains, and animal products, and domestic and export markets, prices, export duties, shipping, and requirements

²² Case study provided by Calvert Foundation, Bethesda, Maryland (www.calvertfoundation.org).

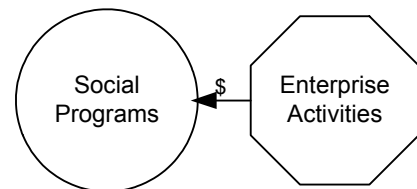
regarding chemical and fertilizer use and storage, etc. There are two main services: database search and market information updates that can be purchased individually or by subscription; and market research services: feasibility analyses, market studies, and business plans. Most of the cooperative's clients are farmers, other cooperatives, or small agricultural product firms, such as food processors. The cooperative uses the income produced by its social enterprise to cover the operating costs associated with the service as well as subsidizing educational services on crop improvement, animal husbandry, etc.

Quality Makes the Difference in Linking Markets

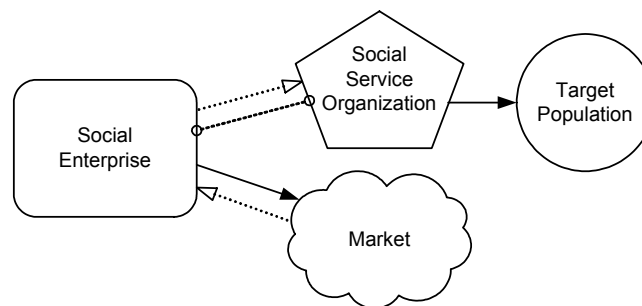
The Slow Food movement of Turin, Italy, awarded a prize to the Cooperativa Agropecuaria y Artesanal Union Quebrada y Valles (CAUQUEVA) for its commitment to quality production and preservation of agricultural and cultural practices in its community. CAUQUEVA was founded in 1996 in the Jujuy province of Argentina to improve and market products to local buyers and international markets. With the IDB Group's support, the cooperative created an economic chain that combines farming production, training, technical assistance, packaging, distribution, and a marketing strategy for vegetables, fruits, and other Andean products. Positioning its products in market niches has been the result of a long learning process and has had important effects on the regulation of consumer supplies and products. The end result has been a 25% increase in the price of its products. CAUQUEVA is now planning for the next step: using the Internet to market products from the region.

4.3. Complementary Social Enterprise Models

A complementary social enterprise generates economic value, and social service activities generate social value. Complementary social enterprises are evident in operational models where: 1) economic and social activities are linked via their NGO ownership and funding relationship; 2) motivation for economic activities is as a funding mechanism for social activities; and 3) economic activities are often unrelated to mission, although may also be mission-related if they are “social purpose businesses”; and 4) the target population (clients) is a direct beneficiary of income earned from the social enterprise vis-à-vis financing social programs.



4.3.1. Organizational Support Model



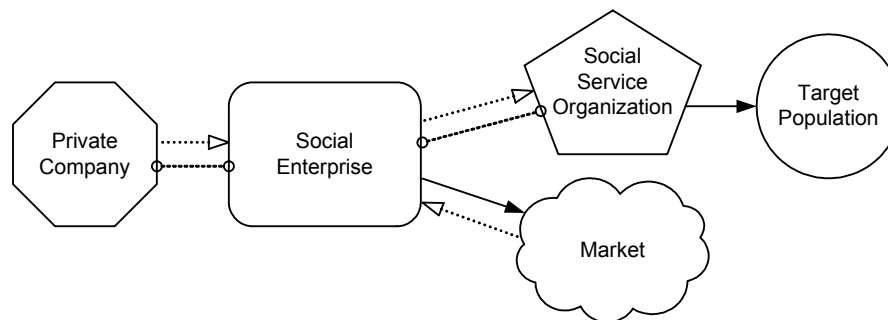
Description: The organizational support model social enterprise sells products and services to an external market (business, target population, or general public); net revenues from the social enterprise are used to cover or subsidize social program costs and operating expenses of the NGO “parent organization.” Similar to the service support model, this social enterprise is created as a funding mechanism for the organization and is often structured as a subsidiary business (an NGO or for-profit entity). The type of enterprise in this model may or may not be mission-related. Very successful examples of this model cover all or contribute to a major part of the parent organization’s budget. The organizational support model is commonplace among civil society organizations and western NGOs.

Examples: An environmental organization created a separate for-profit subsidiary that contracts with the government to conduct environmental monitoring and compliance evaluations of private companies. The business is very profitable and after covering operating expenses, it funnels profits to its NGO parent, an environmental education organization. This income represents a major funding source and is allocated to the NGO’s overhead, and environmental protection and educational programs.

Pharmacies Solve Financial and Physical Ills

In many rural areas in Guatemala, residents lack access to basic health services, inputs, and medicines. Barriers include: mountainous topography with few roads, poor distribution systems for health inputs, urban flight of medical professionals, and few sources of stable funding for community clinics. Para la Salud, a national health organization, started a chain of village pharmacies to address this problem. The pharmacy social enterprise was designed as a sustainable distribution model for health inputs in rural areas as well as a means to generate funds to subsidize rural clinics. Para la Salud received funding for the start-up costs of the social enterprise from the World Bank’s Social Investment Fund. Para la Salud centralized the purchasing function whereby medicines and supplies are ordered in bulk and shipped to Para la Salud’s headquarters in Guatemala City before being sent to rural pharmacy distributors. The organization has also worked hard to counter the effects of brand marketing by US pharmaceutical companies through educational campaigns that promote lower cost generic drugs. Their business model has streamlined systems, centralizing purchasing, inventory management, order fulfillment, and delivery to lower the high transaction costs associated with serving rural areas. The pharmacies have an average profit margin of 20% to 25%, and profits are used to cover the costs of neighboring health clinics. To date, this village pharmacy model enables the community to self-fund clinics without external subsidy in four to five years. Currently, Para la Salud operates 43 village pharmacies serving poor communities in 13 departments in Guatemala.

4.3.2. Private-Sector Partnership Model



Description: The private-sector partnership model of social enterprise is a mutually beneficial partnership or joint venture between a for-profit company and an NGO. The partnership often results in the creation of a new entity, or a profit center located in either the for-profit partner or NGO partner. The social enterprise may or may not be mission-related and leverages NGO intangible assets, such as relations with target populations of the community, brand, or expertise. For the for-profit, the partnership yields one or more of the following benefits: lowers costs (cheaper labor in developing countries); offers fewer restrictions (no FDA or strict regulatory oversight); improves community relations or public image; or makes money. Partnership benefits for the NGO are financial return, and in cases where the activity is mission-related, social impact. The relationship may be structured as a joint venture, a licensing agreement, or formal partnership. The market is most often external, but examples exist where the paying customer and the client are one (Grameen Phone). Although private-NGO partnerships have been encouraged in development, in practice these marriages are unusual, mainly due to cultural differences between for-profits and their NGO counterparts.

Example: An environmental organization forms a partnership with a tourist company to create a new “Eco Enterprise.” The NGO provides environmental education, consulting services, and access to land conservation trusts under its control. The tourist company handles marketing, and manages tourists and the touring logistics. The two organizations share the returns; the NGO uses the proceeds to fund its social programs and the company retains or distributes the profit. The for-profit gains access to the eco-tourist market, conservation land, and is able to improve its public image. The NGO gains a new vehicle for promoting its social programs—through the tourist market. Both make money.

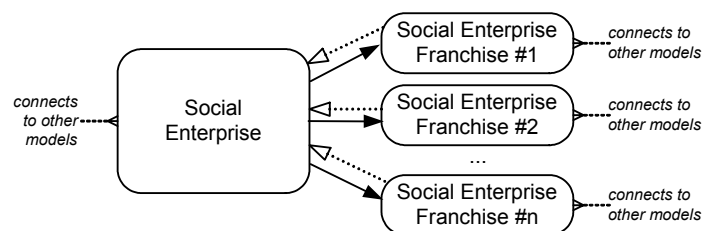
Private-NGO Partnerships Open New Markets and Enhance Reforestation Efforts

Helados Bon, a prestigious and forward-looking ice cream company based in the Dominican Republic, discovered a market for macadamia at its doorstep. The company's interest in diversifying its ice-cream flavors led to the introduction of a new flavor, macadamia, and the potential to help the country's ecology. The business idea, although quite simple, leveraged each of the participants' knowledge and assets—marrying Helados Bon's knowledge of the ice cream market with Plan Sierra's conservation efforts—into a leading partnership that has helped local farmers grow macadamia trees and reforest farmland. While Plan Sierra managed and coordinated the farmers growing macadamia nuts, Helados Bon gave Plan Sierra one peso for each double macadamia ice cream it sold to continue the NGO's conservation efforts. Plan Sierra has used the revenue generated by this social enterprise to promote further development of macadamia growing and the general improvement of community facilities. Macadamia trees, which are capable of growing to a height of over 500 meters on less fertile land, have proven to be ideal for reforestation and the conservation of natural resources. The partnership has proven to be a win-win proposition for all of those involved: Helados Bon has increased its sales; Plan Sierra has achieved the reforestation of more than 140,000 hectares with macadamia trees; and farmers have benefited with higher paying jobs and marketable crops.

Joint Means to Expand Access to Health Services in Bolivia

Amid the near collapse of the public health sector in Bolivia during the mid-1980s, a cutting edge public-private partnership initiative developed a successful network of clinics catering to low- and middle-income clients. The network of health centers has grown from two in 1985 to 33 centers in 2000, offering an integrated, client-centered approach that has effectively expanded the access, quality, and coverage of health services to over half a million Bolivians, representing about 13% of the urban population of the country. This prototype program has provided access to primary healthcare services to under-served communities and developed a cross-subsidization strategy, through which those who can afford to pay for services subsidize services for those who cannot. Fees for curative services also subsidize free preventive services, and revenues from clinics in better-off areas help support clinics in poor areas. Moreover, the model has complemented the Bolivian government's efforts to reform the health sector, and the initiative has shared its expertise in developing a private-public initiative to provide high quality and affordable health services within and outside of the Latin American region.

4.3.3. Franchise Model



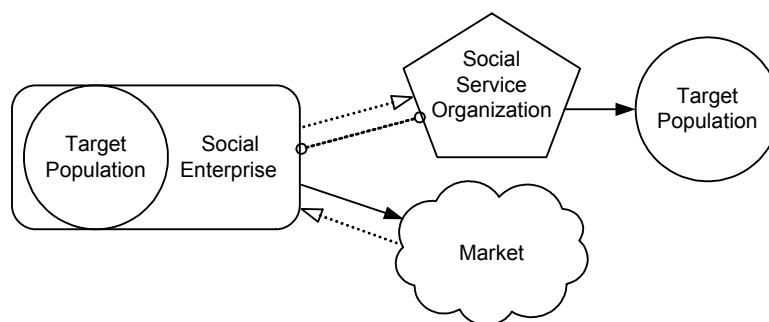
Description: This type of social enterprise sells its “proven business model” to other organizations to run as their social enterprises. The franchise itself can be any successful social enterprise that is replicable. The franchise model achieves scale and creates social value through its replication strategy, as well as functioning as a revenue strategy. Purchases pay franchise fees to receive the business model, methodology, etc., and ongoing technical support from the franchiser. Buying a franchise can be a good option for many NGOs, enabling them to focus on running the operations, without worrying about launching a successful business, product quality, or what products it will sell. The social enterprise model may be any of those listed, depending on the type of business and objectives.

Examples: An integrated microfinance organization sells its trademarked methodology, which combines health and business education with financial services, to credit unions in developing countries. The parent organization, US headquarters, provides consulting and ongoing technical support to franchisees. This approach enables the organizations to earn money, achieve larger social impact, and keep costs low by leveraging the infrastructure of existing credit unions.

Bridging the Digital Divide through Franchising in Latin America

The Committee for Democracy in Information Technology (CDI) is an NGO with a two-fold mission: to promote digital inclusion and create awareness of citizen’s rights principles through the use of information technology. CDI works in partnership with schools and community-based associations through a social franchise model providing free computer equipment, software, and educational strategies. Each school is managed as an autonomous unit and is self-sustainable through contributions made by students, who provide the necessary funds to cover the maintenance costs and the instructors' salaries. Its methodology was developed by CDI in partnership with specialists from the Campinas State University in Brazil, which operates in 19 Brazilian states. CDI is continuously expanding its national and international network and is presently located in Brazil, Colombia, Chile, Uruguay, Mexico, Guatemala, and Honduras. This educational approach to information technology has also been complemented with extensive job training and an internship program in high-tech related fields, catalyzing a powerful multiplying effect in improving the lives the students and their communities. An interesting example is a group of CDI students from the shantytowns of Rio de Janeiro who first interned with StarMedia Brazil and later went on to secure positions teaching technology and Internet skills to youth with Globo.com and elsewhere.

4.3.4. Complex Model



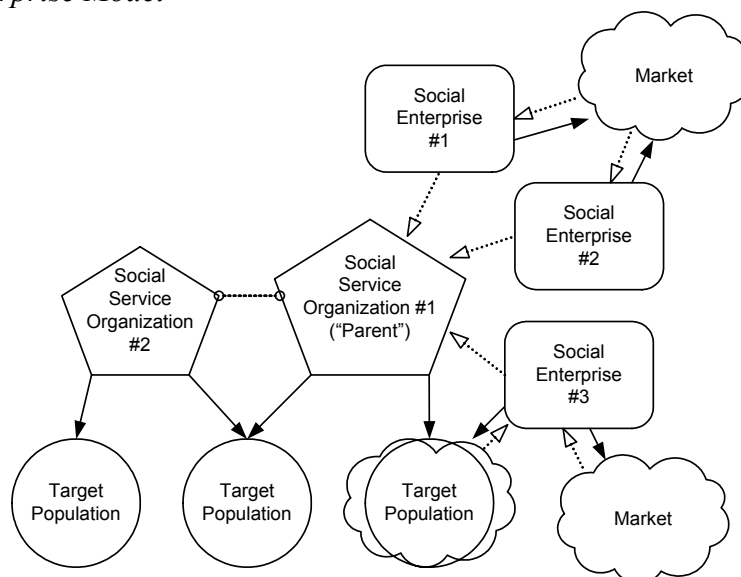
Description: A social enterprise that uses a combination of more than one model—i.e. employment and organization support model (as shown above). These models often combine embedded or integrated enterprises with complementary models. The social enterprise may have the objective to use the business to meet a social need while generating sufficient income to subsidize the parent organization or other social programs. Complex structures are not limited to employment-based enterprises, but may combine any another embedded model, such as an entrepreneur support model or marketing intermediary, with an integrated or complementary enterprise.

Example: A horticulture social enterprise grows and sells hybrid roses in export markets, while employing a large number of low-income and unskilled people. Profits from the rose business are used to subsidize operations of the parent organization, including some staff positions and underwriting costs of the organization's main social services: a horticulture school and clinic for indigent local residents.

A Multifaceted Social Enterprise Preserves a Community

In 1999 a new paved highway opened along Mexico's formally isolated coastal fishing villages in Nayarit State to tourists, and consequently, to large developers. The result was a dramatic shift in the local economy from fishing and agriculture to tourism and infrastructure development. The shift displaced local residents, most of whom are poorly educated peasants and lack the know-how and capital to capture the changing market. In response, Cambiando Vidas—"Changing Lives," an educational organization, launched a comprehensive, multifaceted rural development program with complementary enterprise and social service components to preserve the local community and provide new livelihoods for its residents. Cambiando Vidas built a "tool lending library" where residents can borrow hand and power tools and use them as implements in economic activities tied to tourism and construction. The second social component is a vocational training program that teaches construction skills—masonry, electric, plumbing, and carpentry—to unemployed youth and adults in the community. The library supplies tools for the vocational training program. On the enterprise side, Cambiando Vidas has initiated a B&B project and built (so far) six comfortable tourist rooms above residents' homes. Income from room rental is divided between owners as family income and a revolving loan fund to build more B&B rooms. Apprentices from the vocational training program provide the labor to build the B&Bs and gain work experience in the process. Next, Cambiando Vidas will create local employment by launching a construction business and bidding directly on small building contracts, where it has identified a viable niche, as well as subcontracting to large developers. Profit from the construction business will be used to fund the secondary education and vocational training program.

4.3.5. Mixed Enterprise Model



Description: Many social enterprises are multi-unit operations that run with different financial objectives and funding structures. A museum might have both a for-profit catalogue business and highly subsidized research and acquisition operation.²³ Mixed enterprises come in a variety of forms depending on the organization's maturity, enterprise experience, and social and financial objectives. The diagram is representative of complexity, not conformity of organizational form. In mature social enterprise organizations, mixed enterprises are the convention, not the exception.

For-Profit Connections Provides Funds and Services for Community Clinics

Council of Community Clinics (CCC) is a San Diego-based nonprofit membership organization comprised of community clinics serving poor, largely Mexican and Central American populations in the region. CCC is an example of a mixed model of social enterprise, which "*serves the growing number of uninsured by reducing cost, improving quality of care, and strengthening the capacity of community health centers to improve community health*" through three linked but separate entities. CCC is primarily an advocacy organization working on the legislative front to protect at-risk populations and strengthen the health safety net for uninsured and underinsured constituents. Under the umbrella of CCC is another nonprofit, Community Clinic Health Network (CCHN), which provides technical assistance services to build capacity of community clinics in several areas of healthcare and management. The third structure is a for-profit, Council Connections, a wholly owned subsidiary of CCC. Council Connections is a group purchasing business that buys bulk pharmaceuticals, office supplies, medical surgical supplies, and laboratory services at a discounted volume-based prices, then sells them to community clinics at a slight mark-up, but still substantially cheaper than retail prices. Council Connections customers are both member and nonmember clinics. The clinics realize substantial savings, which helps to lower overall cost structures, and Council Connections generates money to cover its operating costs as well as providing significant income (nearly \$1,000,000 in 2001) to the two nonprofits, CCC and CCHN. Council Connections' success has encouraged expansion: CCC is planning to take its group purchasing business national using the Internet to generate more dollars for clinical services to the uninsured and underinsured.

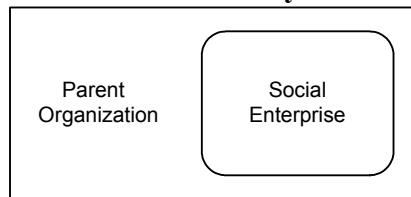
²³ Dees, Gregory, "Enterprising Nonprofits," *Harvard Business Review*, January-February 1998.

5. Social Enterprise Structures

A social enterprise may be incorporated either as a for-profit or NGO. A social enterprise may be structured as a department or profit center within an NGO and lack legal definition from its so-called “parent organization.” It may be a subsidiary of its NGO parent, registered either as a for-profit or NGO. Many organizations use different structures simultaneously.

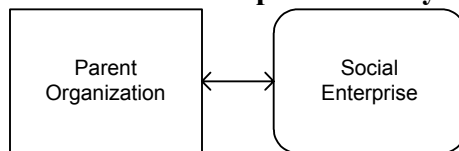
The following diagrams illustrate the social enterprise structure vis-à-vis its relationship to the parent organization; the parent may be a local NGO or an international NGO depending on the context.

Structured Internally



Social enterprise is structured as a department or profit center within the parent organization. The social enterprise may (or may not) physically share space with the parent. From a legal, financial, management, and governance perspective the enterprise is internal to its NGO parent. Shared systems, back office, staff, and leadership are integrated.

Structured as a Separate Entity



Social enterprise is structured as a separate legal entity, either a for-profit or an NGO. In this case, the social enterprise may not (or may) physically share space with the parent. From a legal, financial, management, and governance perspective the enterprise is external to its NGO parent. If staff, overhead, or back office are shared, this is done so on a formal (contractual) basis.

5.1. Legal Status

It is important to recognize that social enterprises are not defined by their legal status. In the world of social enterprise, legal status is almost arbitrary. The decision to incorporate the social enterprise separately from the parent, and then to do so as a for-profit or NGO is driven by one or more of the following factors:

- Legal Environment—The law does not make provisions or recognize the social enterprise structure (income-generating NGO) as legitimate or legal. In many countries, NGOs risk losing their NGO status and associated privileges by launching a social enterprise or any income-generating activity. Other countries have a special legal registration for social enterprises. Legal issues are complex and vary widely. The environment is more enabling in some countries than in others; however, there is still work to be done around the world on this issue. Generally speaking governments regulate social enterprise according to: 1) nature of business activities (related or unrelated to organization’s mission); 2) use or destination of earned income (to mission activities or other purposes); 3) source of income; 4) the amount of income earned through social enterprise (caps placed on either monetary amount or percentage of budget; or (5) a combination of these. In any case, the legal situation must be analyzed on a country-by-country basis.

- Access to Capital—Social enterprises are capitalized through a variety of different instruments: grants, loans, charitable contributions, program-related investments (soft loans, etc.), or a combination thereof. The type of funding a social enterprise is able to obtain depends on its maturity, availability of funding (NGO capital market), and legal structure. On the latter point, an organization may choose a legal structure that is consistent with the funding it seeks. For-profit organizations are often barred from receiving philanthropic funds and soft loans, whereas NGOs have difficulty obtaining commercial funds. In this case, legal status may be guided by the requirements for the most suitable type of funding.
- Capitalization—Undercapitalization is a common problem in private business as it is for social enterprises, particularly for capital intensive enterprises such as manufacturing. For-profits have the ability to raise equity investments that, depending on the local laws, are not an option for NGOs, whose assets are considered publicly owned. Some social enterprises opt to incorporate as a for-profit (many mature NGOs convert their legal status) in order to capitalize the business with private funds in exchange for equity. In the early stage, social enterprise incubation usually occurs within an NGO parent, which also serves to capitalize the nascent enterprise.
- Leadership Decision—Frequently the board or executive director will opt to incorporate the social enterprise as a separate legal entity simply out of preference. Integrating business practices and income-generation into an NGO rocks institutional cultural and capacity, potentially threatening core social service programs of the parent organization or causing internal strife or mission drift. Also, when the business is unrelated to the organization's mission, it can be difficult to gain stakeholder and staff support. In these instances, leadership may prefer to separate the entities both physically and legally.

6. Case Studies²⁴

Throughout this paper a variety of social enterprise forms and operational models are presented in a theoretical framework. In this section, detailed examples of social enterprise initiatives in the Latin America region illustrate the framework in practice. Each example is written as a case study and describes the unique account of how and why—the carrots and the sticks—the organization was motivated or driven to launch its business activities in the first place. The particulars of market, business types, organizational structure, and finally financial and social achievements are as different from one another as the countries they come from—making for interesting story-telling. Some cases are of old friends from the microfinance and BDS disciplines. Others, usually housed under the label of “civil society,” are making a rare appearance in economic development.

The purpose of telling their stories is to push the envelope on economic development approaches—to demonstrate the vast potential of creative solutions to pressing social and economic problems across the region. The case studies provide insight into some of the complexities and struggles in the field of social enterprise as well as some of the benefits. Mostly, the cases are meant to help readers visualize new possibilities, encourage “out-of-box thinking,” and ultimately inspire innovation in program design.

The cases herein represent only of the tip of the iceberg of the social enterprise work transpiring in the field in general and Latin American specifically. They were selected for the social enterprise models and forms they exemplify as well as the lessons they teach. Several cases are from IDB’s SEP social investment portfolio; others are from the region.

Cases	Model Represented
The Foundation for the Promotion and Development of Microenterprises (PRODEM)	Complex
Cepicafé	Market Intermediary
CIEM	Organizational Support
Accion Diálogo de Gestiones (DdG)	Franchise
Flores del Sur	Employment
Carvajal Foundation: “	Mixed

²⁴ Cases studies used in this typology focus exclusively on social enterprises in Latin America and the Caribbean and are drawn from the work of the Inter-American Development Bank, NESsT, Ashoka, and Virtue Ventures LLC. For additional social enterprise cases studies see: the Roberts Enterprise Development Fund (www.redf.org), which has several books and articles chronicling US-based social enterprises; NESsT (www.nesst.org), which has Case Series from Latin America and Eastern Europe; Ashoka, whose online magazine www.changemakers.net has articles and profiles of Ashoka Fellows; and Virtue Ventures LLC (www.virtueventures.com), which has Case Studies from Ukraine and Haiti.

6.1. The Foundation for the Promotion and Development of Microenterprises (PRODEM): “Complex Social Enterprise”

Joining Social Concerns With Private Enterprise

Organization name: PRODEM

Social Enterprise Model: Complex enterprise model

Sector: Economic development

Program area: Microfinance and business development services

Location: Bolivia

Products: Financial Services and business development services

Financing method: Income is generated principally through interest, fees, and consulting services

The Foundation for the Promotion and Development of Microenterprises (PRODEM) has reversed conventional development practices and catalyzed an innovative family of related enterprises that have done well by doing good in one of the poorest countries in the Western Hemisphere, Bolivia. PRODEM, a non-governmental organization established by a group of Bolivian businessmen, has spearheaded a family of enterprises that has made its mark in business provision to micro, small, and medium enterprises. PRODEM’s complex structure of for-profit and not-for-profit businesses has been able to achieve remarkable results in the depth, breadth, and financial viability of their operations.

PRODEM Foundation has catalyzed the creation of a diversified family of businesses, which provide both financial and business development services. Among the businesses that have spun off from this earlier venture and currently operate as independent business entities are BancoSol, a commercial bank specializing in the provision of financial services for micro, small, and medium (MSMEs) enterprises; and PRODEM, a private financial fund that has pioneered lending to rural MSMEs enterprises. PRODEM’s latest ventures include market development activities for the small and medium (SMEs) enterprise market through strategic investments in three different private sector enterprises: Llamactiva, an enterprise operating with natural fibers particularly in the camelid sector that develops very fine products of llama wool mixed with pima cotton; Aguactiva, which provides productive water management services; and Irupana, which develops and commercializes organic food products. The common thread among all of these business initiatives is their focal point on the micro, small, and medium enterprise market as well as a business culture that is focused on the double bottom line and recognizes that more can be accomplished by joining social concerns with private enterprise.

PRODEM Results to Date

- Project has spun off the creation of two independent companies working in the area of financial services and is currently investing in three small and medium enterprises.
- Through its two financial enterprises, it has reached more than half a million families.
- Its savvy investments have yielded a tremendous growth in its asset portfolio, which has increased from an initial investment of US\$300,000 14 years ago to approximately US\$16 million dollars.
- To date PRODEM has invested US\$6.6 million in microfinance and US\$1.7 million in business ventures financing small and medium enterprises.
- PRODEM's microfinance activities have enabled the poor to accumulate assets, either by savings mobilization or the productive investment of loan capital, so that they can increase their standard of living and improve their quality of life.
- PRODEM's interventions in its three business ventures are contributing to the articulation of supply chains in critical subsectors of the Bolivian economy and beginning to increase exports and diversify the supply of products, thus reenergizing this stagnant economy and generating employment.

A New Type of Social Consciousness

PRODEM grew out of a nonprofit joint venture created in 1986 by prominent members of the Bolivian business community and ACCION International. The latter contributed leadership and seed capital, while the former provided the initial technology and methodology needed to ensure the success of their first social enterprise venture. This interesting NGO-private sector partnership contributed to the development of a new kind of social consciousness and business paradigm in Bolivia that has sparked positive social change and played a part in the emergence of innovative social enterprises.

PRODEM's leaders and social investors are interested and engaged in working on social problems and finding viable businesses solutions. The PRODEM family of related businesses has proven that businesses that target small and micro enterprises can be mission-driven, self-sustaining, and profitable. Indeed, PRODEM has contributed to the development of a Bolivian movement of savvy young entrepreneurs like the many individuals who have been the champions behind each of these businesses initiatives, such as Fernando Romero, President of PRODEM and former finance minister of Bolivia, who has been involved with this venture since its early beginnings; Pancho Otero, Germann Krutzfeld, and Kurt Koenigfast at BancoSol; Eduardo Bazoberri at PRODEM; and Maria Elena Querejazu at PRODEM Foundation, for whom making a difference is as important as making a profit. The social capital that has been developed in Bolivia has played an important role in addressing the problems of poverty and unemployment, generating a dynamic process of economic growth.

Winning Ideas Combined With a Pioneering Social Vision

Cognizant that in Bolivia the overwhelming majority are self-employed, PRODEM has focused its business energy in building on what exists, taking it to higher levels, and bringing energy and vitality into its work through innovative and cost-effective business solutions. One of the distinguishing characteristics of PRODEM-related businesses is a well-rounded set of business services that support the creativity and energy of Bolivian micro, small, and medium entrepreneurs, creating an enabling environment and empowering institutions. PRODEM has applied the rigors of business and commercial solutions to the social problems of Bolivian small enterprises, providing the vision and business expertise that have made these businesses grow, while at the same time providing a valuable service and reinforcing the idea of a double bottom-line.

Social Enterprises Take Shape With Critical Interventions in the Financial Sector

Since credit creates economic and social power, the first area of focus for PRODEM was the provision of financial services. PRODEM understood the social power of credit and perfected innovative lending products and institutional delivery channels such as BancoSol and the Private Financial Fund PRODEM in its first decade of operations promoting creative efforts to deliver credit to all. Many factors contributed to PRODEM's initial success in providing financial services. The most important were the organization's commitment to total quality, including 100% repayment, investment in training employees, and a powerful management information system. By the end of 1991, PRODEM had accumulated a portfolio of US\$4 million and realized that despite its success, it was only reaching approximately 10% of the market that needed its services.

The enormous demand, coupled with PRODEM's desire to provide savings services to its borrowers and to access capital markets for funds, moved PRODEM's leading investors toward a new goal, to transform this nonprofit institution into a fully chartered private commercial bank specializing in microfinance — the first in the world. It took nearly two years of work, and then BancoSol opened its doors in 1992 with a client base of 14,300 transferred from PRODEM and a \$4 million portfolio in exchange for shares, making PRODEM the largest shareholder of this newly formed bank. Other shareholders included ACCION International, Calmeadow from Canada, Fundes from Switzerland, and ICC, the Inter-American Development Bank's private arm.

The split into a commercial wing – BancoSol – and a not-for-profit wing marked a new era for PRODEM, which continued as a nonprofit institution committed to introducing innovative financial services in rural and peri-urban areas, undertaking research, training, and experimental activities – particularly in rural areas. The spin-off of BancoSol enabled PRODEM to serve the needs of urban and rural clients in a more specialized manner. During the next few years, PRODEM made tremendous progress, perfecting its products and achieving wide coverage in peri-urban and rural areas within Bolivia while obtaining great financial results. This second groundbreaking result sparked another transition for PRODEM, as it spun off a second financial institution as a private financial fund (PFF), a new banking category created by the Bolivian government with lower capital requirements and limits on unsecured lending. These new regulations influenced the expansion of microfinance in Bolivia and injected a competitive

environment among financial institutions for the business of the poorer strata of the Bolivian population.

Indeed market failures among the traditional Bolivian banking system offered opportunities for microfinance institutions to make markets, and do well by doing good. PRODEM responded accordingly, innovating with profitable institutions and financial products and contributing to the establishment of a financial market for micro, small, and medium enterprises and toward the development of a market economy, to the social benefit of the poorer strata of the Bolivian population and to its own profit. The invisible hand worked its way through the Bolivian market in the 1990s developing a viable business model that targeted the poorer segments of its population with financial services, turning microfinance activities into an attractive business for commercial lenders who also downscaled into this market. PRODEM's social ventures with BancoSol and PRODEM PFF yielded a positive bottom line, benefiting more than half a million Bolivians and in the process developing a nascent industry and a competitive market.

Amplifying Mission: From Financial Services to Market Development

As PRODEM intervened with much success in the financial service markets for MSMEs, spinning off two successful financial institutions, the business model for the institution became reinventing itself after each success. After its second ground-breaking intervention in microfinance and 14 years in this market sector, the institution wanted to find a new social enterprise model to support small entrepreneurs, enabling them to modernize so they could be competitive both in internal and external markets.

The institution decided to intervene in a more direct and focused manner in some critical economic sectors with a large presence of small and medium enterprises, amplifying its original mission "to achieve social development through the enforcement of sustainable business activities." The way forward for PRODEM has been to synthesize the raw creativity, innovation, and energy of Bolivian entrepreneurs with market-oriented concepts in management, finance, and, more recently, marketing. PRODEM enlarged its original mission statement: *"to promote the modernization of micro and small entrepreneurs, mainly in rural areas, assuring a quantitative and qualitative improvement in its institutionalization process, its competitiveness and its access to more dynamic markets, so as a whole, it would increase significantly its contribution to the country's sustainable development."*

PRODEM's amplified mission and new business model with a significant presence in rural areas and in critical business sectors has allowed it to carve out a niche in today's increasingly competitive market and effectively improve the odds of earning revenue as well as contributing toward the economic development of the country. PRODEM's innovative business model has focused on small and medium enterprises, coordinating their production, linking them up with more dynamic markets, and supporting them through innovative market development strategies to confront the challenges of competitiveness, so that they can more effectively contribute to the sustainable development of their country.

PRODEM's Holding Company Model

Under its new business model, PRODEM operates as a holding company, utilizing its financial assets and those of other institutions to invest in social enterprises. The investment strategies pursued by PRODEM to earn income include two principal activities:

1. Strategic Investments: these include investments in sustainable and profitable enterprises, seizing existing business opportunities to obtain financial gains.
2. Business Ventures: these are investments in small and medium social enterprises and in the development of suppliers to complete the productive chain in important subsectors of the Bolivian economy, generating growth and profitability.

Strategic investments and business ventures are carried out simultaneously. The institution has as its policy not to invest more than 49% in the equity of any single institution as well as undertaking an extensive due diligence process behind each of its investments, ensuring that these companies can demonstrate that PRODEM's investments will result in gains that are equal to the opportunity cost of the PRODEM's resources. Some of the first steps the institution took in preparation for its capitalization include a valuation of the enterprise and the contributions of its members, and the development of a business plan. The business plan is used to manage and monitor costs and revenues of each initiative, its activities, clients, and employees.

How Does It Actually Work?

Through its business ventures PRODEM capitalizes small and medium enterprises so that they can sell their production to local and international markets, securing the sustainability of their business intervention, and providing secure and permanent markets for microentrepreneurs, which enables them to increase their income potential through an increase in sales volume and quality improvements of their products.



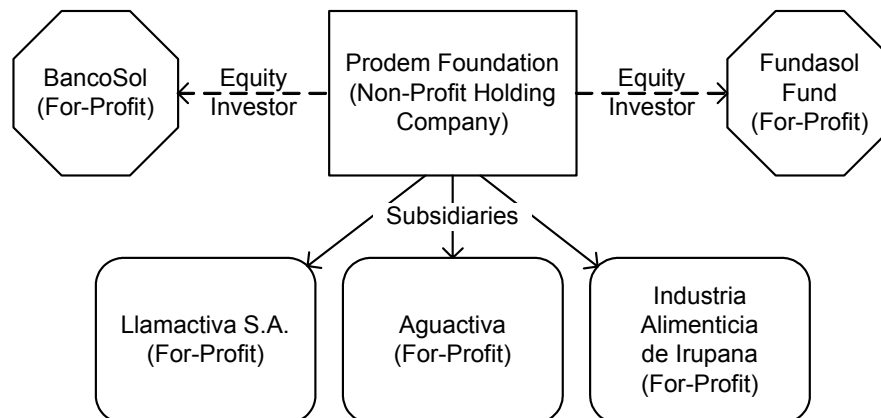
But what can a small business produce and export? And what must it do to be able to export? The global market is too big and the businesses are too small. There has to be a focus, and market analyses have to be conducted of the products to be exported, seeking to identify those that have high added value. PRODEM has just done that, conducting an exhaustive market analysis of various sectors, identifying potential productive chains, and studying the options. This has led the institution to make a series of strategic investments in three critical sectors: natural fibers, water management services, and organic food products.

Another innovation that PRODEM has introduced to its business ventures revolves around clusters, which are concentrations of small and medium businesses that are located in the same region or organized around a similar product. Clusters work together to supply goods, participating in either domestic and/or international export chains. The concept first emerged in Italy where micro and small enterprises have thrived by forming producer groups that purchase supplies and market goods jointly. Today, PRODEM is trying to replicate this concept in Bolivia

by identifying productive chains with a large number of microentrepreneurs involved that could be articulated through participation in a small or medium enterprise.

What Companies Has PRODEM Invested in So Far?

The Foundation has identified that the best way to achieve its mission is to invest in small and medium enterprises that obtain raw materials or services from microenterprises. In this manner it is able to achieve its objective to develop markets for microentrepreneurs. To date PRODEM has undertaken three business ventures and committed a total of 1.6 million dollars in direct investments toward these small and medium enterprises.



Llamactiva S.A. is a private enterprise recently created by PRODEM to develop the economic potential of the camelid sector in Bolivia. This initiative seeks to build the missing links in this important sector, taking advantage of Bolivia's natural resources and unique raw materials by integrating the breeding of llamas into a more dynamic and competitive economic market. Llamactiva S.A. will gather, classify the fiber, add value to the product, and commercialize it in international markets. PRODEM hopes that its US \$1 million dollar investment will give a boost to the camelid sector and to one of the poorest communities of Bolivia, Uyuni. PRODEM projects that Llamactiva will invest a total of up to US \$2.2 million, reenergizing this poor community and boosting the income potential of many microentrepreneurs

Aguactiva is also a private sector company, created in 2000, which is focused on water management services. The mission of this enterprise is to expand the productive uses of water in agriculture and the livestock industry to increase competition in these areas and the productivity of rural entrepreneurs. To date, some of the activities have included the development of networks for irrigation, irrigation of farming plots, and training and technical assistance in irrigation projects.

Industria Alimenticia de Irupana is a social enterprise that buys certified organically grown produce directly from indigenous farming families across Bolivia, cutting out the middleman, providing farmers with market access. By integrating indigenous farmers into the national agricultural value chain, Irupana has been able to develop 11 product lines with more than 70 products, ranging from coffee to honey and whole flours, which it has commercialized with great success. Irupana has achieved both financial returns as well as social gains, fostering an

attitudinal shift, transforming peasants who were formerly dependent on NGO handouts into microentrepreneurs from which it sources its products. Irupana intervenes at both the macro and micro levels to provide an alternative to coca-growing and stimulate environmentally sound agriculture practices, thus combining resourcefulness and innovation to create financial and social value.

Social Impact and Financial Self-Sufficiency

To date PRODEM holds an asset base of US \$16 million, of which US \$6.6 million (41%) is invested in microfinance and US \$2.7 million (16%) has been committed to business ventures to support small and medium enterprises. In the past two years, the institution has made three strategic investments totaling 1.9 million of its total 2.7 million in available resources, which have been provided to the three companies described above. PRODEM expects that these strategic investments will prove the viability of these small and medium business ventures and catalyze additional investments that can be used either for the capitalization of these enterprises or toward replication, reenergizing the agricultural and livestock sector of Bolivia, and with this, the destiny of this country.

Upcoming Challenges

PRODEM foresees two important challenges in its upcoming activities in market development. From the investment side, the challenge is to create a stock market that facilitates the exit of PRODEM from the enterprises. This implies both generating an industry with a considerable number of operations and transforming the enterprises from “family management” structures into corporate businesses. On the supply side, the company expects productive chains to develop into sustainable mechanisms, capable of generating synergies between enterprises and their suppliers, narrowing the gap between big businesses and SMEs with a view toward creating a more systemic relationship.

6.2. Cepicafé: “Market Intermediary”

Conscious Consumption and Triple Impact

Organization name: Cepicafé (Central piurana de cafetaleros)

Social enterprise model: Market intermediary

Sector: Coffee production

Program area: Economic development/fair trade

Location: Piura Mountains, Peru

Products: Sales coffee

Financing method: Fees paid by members (per quintal marketed)

Cepicafé is a great example of a new generation of social enterprises that are using market-based tools and business practices to help marginal Latin American rural communities improve living standards. This association of small coffee-producer organizations in the Piura Mountains²⁵ of Peru promotes “fair trade,” trying to secure growers higher prices for their coffee by helping them establish more direct and equitable links with wholesalers, retailers, and consumers.

The fair trade model has enabled coffee producers such as Cepicafé to confront sluggish growth on the demand side and mounting global competition, which have made coffee prices fall to all-time lows. Associations like Cepicafé have become valuable links for hundreds of thousands of Latin American coffee growers whose livelihood depends on coffee. Cepicafé’s strategy has been to respond to competition with high quality coffee grains, bypassing middlemen and obtaining direct access to local and international markets. The association acts as a market intermediary between foreign importers and local coffee producers and provides its members with education, increasing their productivity and quality while reducing their farm’s ecological impacts. Fair trade premiums are used to improve the lives of member families. Better housing, new clothes, shoes, improved diets, and access to medicine are just a few of the positive impacts that fair trade has achieved in these isolated communities in the western slopes of the Peruvian Andes.

Cepicafé Results to Date

- Cepicafé has 51 grassroots member organizations.
- Organization membership is approximately 2,200 small-scale coffee producers, 18% women.
- Cepicafé achieved a net profit of US\$100,000 in 2002.
- Cepicafé has been selling its members’ coffee at higher prices than they could get otherwise, most of the time above the prices quoted in the New York Stock Exchange.
- Cepicafé has played an important role in changing coffee producers’ mindset about credit through an advance payment system and establishing a business culture.
- It has most recently established a private sector commercialization company called ECOCAFE, with Cepicafé holding a majority ownership.

²⁵ 75% to 100 % of the population has basic necessities unsatisfied; 40-80% of children suffer from malnutrition.

Contributing to Stabilizing the Region

The failure of coffee cooperatives in the 1980s left the producers abandoned, without opportunities to increase their standard of living, as the state and other institutions were nearly inactive in the Piura region. This led the NGO PIDECAFE (Programa Integral Para el Desarrollo del Café) to encourage the association of small-scale producers to specialize in agro-ecological growing techniques and catalyzed the establishment of a new cooperative, Cepicafé. Eighteen grassroots organizations of small-scale coffee producers formed Cepicafé on March 26, 1995, as an association to represent, direct, and provide various services in Piura. The association achieved immediate success, as it was created at the critical point when consumers' increasing social and environmental awareness was creating greater demand for products from around the world — particularly coffee — that benefited communities and the environment.

As an organization of coffee producers, Cepicafé has played a critical role by implementing ecological farming systems and marketing quality coffee, thus helping members meet their economic, social needs, and aspirations while also protecting the environment. As the association expanded so did the number of services it offered, its contact with other associations, and its affiliation with other support organizations. Cepicafé's success encouraged more and more coffee growers to organize and join the fair trade movement.

Today Cepicafé has 51 member organizations, with a membership of approximately 2,200 small-scale coffee producers. Family units with an average area of 1.5 hectares grow all of the coffee. They receive assistance in coffee-growing techniques through a strategic partnership with PIDECAFE, which enforces product diversification and natural resource protection. This NGO contributes to the implementation of machinery and infrastructure materials for the production process, with an emphasis on the “post-harvest.” It also searches for credit sources for the member organizations and Cepicafé itself.

Cepicafé started promoting the organization and the introduction of new techniques in the coffee sector, while beginning to buy coffee from producers and find markets to sell it, i.e., working as a market intermediary. Since its origins, Cepicafé has been selling its members' coffee at higher and higher prices, most of the time above the prices quoted in the New York Stock Exchange. This is possible due to its international certification as organic or “fair trade” coffee, which has allowed exports to markets like the United States, Holland, Germany, and Belgium. As a result, Cepicafé has been paying the producers prices 60% to 80% higher than they could otherwise get locally and living up to its mission to *“Represent, manage, and provide a wide range of services to the coffee producers in Piura in order to improve their standard of living and contribute to the sustainable development of the area. Cepicafé works to fight rural poverty and the lack of opportunities by creating economic alternatives that combine social development with sustainable environmental management.”*

From the Highlands of Peru to Your Coffee Cup: Promoting Conscious Consumption

Coffee is an ancient tradition in Piura and a notably labor intensive crop. It takes one to three years before a tree produces 2,000 cherries, which is only enough to make a single pound of roasted coffee. At harvest time, whole families handpick coffee cherries, as it is crucial to do so at just the right time or the quality suffers. Following the positive experience of Cepicafé, coffee

cooperatives began springing up all over the mountainous Andean region of Piura in the 1990s. Families who have grown coffee for generations can continue a tradition by growing washed arabica beans (95% typical variety) at altitudes ranging from 900 to 1,500 meters above sea level under agroforestry conditions. Cepicafé's coffee is exported around the world and organically certified by firms with international reputations in the fair trade business such as BIOPLATINA and NATURLAND. This isolated rural cooperative has gone as far as developing its own organic coffee label, which it has called "Pidcafe OKO," enabling it to diversify its markets and influence trends in the coffee industry by raising the reputation of individual origin.

The key for Cepicafé has been to know how to sell the right coffee to the right people. Since its early beginnings, the association has targeted consumers that are no longer satisfied with corporate social responsibility being equated to charitable giving. Product marketing has focused on environmentally sound and ethical production, emphasizing the concept of fair trade. Cepicafé members' assets have grown steadily: by 68% in 2001 and 48% in 2002. They have also achieved tremendous gains in their total income, which has increased from US\$1.1 million in 2000 to US\$1.68 million in 2002, providing each of the families with a household income of US\$840. The net profit has also increased; Cepicafé generated a net profit of US\$54,000 in 2000, US\$75,000 in 2001, and US\$100,000 in 2002.

Cepicafé's Economic and Social Innovations

In less than a decade of operation, Cepicafé has accomplished remarkable results, developing an association on the cutting edge of the national coffee industry and a strong cooperative movement, becoming stronger socially, economically, and technically. On the economic front, Cepicafé has diversified its credit programs to finance the coffee harvest in the best and least expensive way. Looking after members, the organization has devised an advance system against their output, so growers don't pre-sell their crop. This way, members can work on their parcels free from the anxiety of having to wait to be paid so that they can buy the provisions they need to support their families.

To contribute to members' social development, Cepicafé has devised competitive and high quality services, integrating the processing and sales of coffee and other products to promote grassroots development and business acumen of its member organizations. Some of the leading social innovations introduced include the following:

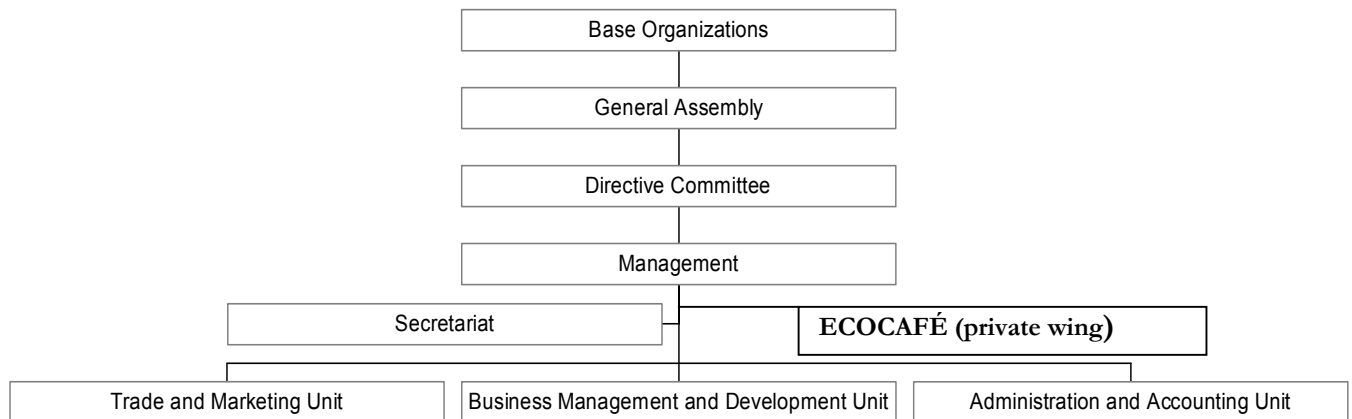
- **Company Store:** Cepicafé has created a "company store" for members and non-members to increase competition and lower basic prices.
- **Training:** Technical cooperation and training are available for members. To make this training more easily accessible to producers, radio programs spread knowledge about coffee growing techniques and prices, making the process of setting product prices more transparent. Management training is implemented in collaboration with Oxfam UK, and a newsletter and other technical materials support the training.
- **Services for the Community:** The association builds and refurbishes common meeting places, housing, roads, schools, and health centers. It has created a new communal library and provides community health prevention programs.

As the general manager explains, "The above-market premiums earned from fair trade have enabled our members to invest in improving their farms and acquire small machinery, all of which helps to improve coffee quality. In addition, this added income allows us to fix up our homes, cover medical expenses, and provide an education for our children."

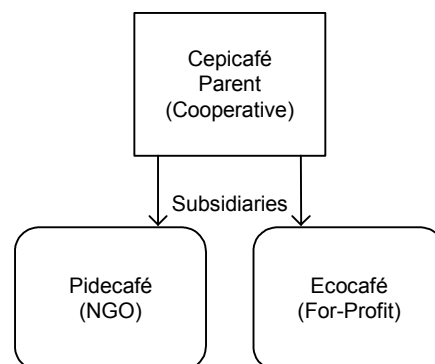
Structure

As an association, Cephacafé is a democratic and participatory organization that encourages equity and equality. Cephacafé represents the coffee producers before governments and other institutions. It promotes coffee producers' participation in the organization itself and in local government. Cephacafé's influence also goes beyond its member organizations. Other organizations, including universities, guilds, and investigation centers, are modeling their structures on Cephacafé's.

Cephacafé started its activities in 1990, although it was legally established in 1995. It is an apex association structure that performs second-tier functions. The members of Cephacafé are currently 51 coffee organizations (associations, cooperatives, enterprises, and producer committees) in the Piura Mountains, Peru. Their organizational culture permeates through its participatory structure:



One of the latest financial endeavors of the association has been the establishment of a company, Empresa Comercializadora de Café S.A. (ECOCAFÉ), that serves as the commercial wing of Cephacafé, which holds the majority of the shares in this private sector business.



Financial Situation

Cepicafé's main source of funding is fees paid by members per quintal marketed. Total revenues in 2002 were US\$1.1 million. Those funds allow Cepicafé's institutional strengthening. The association is able to keep a low-cost structure because many duties, such as quality control, storage, and product selection, are performed at the base level. This also has a positive impact on the members' attitude toward Cepicafé, as they feel that the income they receive is the result of their own efforts.

The net profit of the association has risen in the past two years: US\$54,000 in 2000, US\$75,000 in 2001, and US\$100,000 in 2002.

At the end of 2002, the association's assets accounted for US\$1 million (a 62% increase from 2001), the liabilities were US\$715,000, and equity was US\$286,000 (a 48% increase from 2001).

The association received funding in the amount of €421,089 (US\$473,136)²⁶ and €136,290 (US\$153,135) in technical assistance from the European Commission in 2003. The funding is a reimbursable amount to increase Cepicafé's credit portfolio, to finance new producer needs, and invest in fixed assets for the association (new stores, machinery, and technology). The technical assistance focuses on updating and strengthening coffee marketing strategies, and on helping in the management of the association's credit portfolio.

Triple Impact

From the economic perspective, Cepicafé has helped producers to position their crops in the organic and gourmet markets. The absence of middleman allows the producers to receive double the selling price of the national average.²⁷ The association has helped consolidate relations with key fair trade partners, and has also increased credit portfolio and financial resources. Credit prevents the producer from selling the final product too far in advance at a lower price than that of the market. Finally, Cepicafé has played an important role in changing recipients' mindset about credit and establishing a business culture.

In terms of agro-ecologic impact, Cepicafé has increased producers' knowledge and implementation of organic farming, which protects the environment and is beneficial for future crops.

Among its social achievements, Cepicafé has improved self-esteem and social justice for farmers, and has included women in the decision-making processes, in particular representing and managing the committees (18% of the members are women). The association has given greater consideration to education as an investment, offers lower prices for basic products at the "company store," and improved diet for the population by encouraging producers to grow a wider variety of crops.

²⁶ Exchange rate: US\$1.00 = € 0.889996, on July 31, 2003.

²⁷ In 2001 Cepicafé members received \$62.50 per 100 pounds of non-organic and \$74.50 per 100 pounds of organic coffee compared with the national average of \$32 per 100 pounds.

Looking into the Future: Cultivating Consumers Rather than More Coffee

While the markets for ecologically and socially conscious coffees are growing and constitute important means for channeling value added to producers, they are likely to remain niche markets in the near future. The most important challenge for Cepicafé is to utilize this window of opportunity to diversify its products and establish new markets in Europe and North America. Although fair-trade coffee represents a valid alternative for small growers like Cepicafé's producers, it also has its limits. Currently consumers are motivated by the desire to help people who live thousands of miles away like Cepicafé's members; maintaining high standards will be essential to keeping them as clients. However, farmers and microentrepreneurs will have to harness these opportunities and continue to look toward niche markets, diversifying their products and building upon the lessons they've already learned, which include innovation, quality, purity, and ecological attributes. Applying these lessons to other products can potentially offer them even bigger markets than coffee. Among possible initiatives, Cepicafé's next planned step is to focus on developing internal and international markets for brown sugar, and achieve certification from the Fair Trade Labeling Organization (FLO).

6.3. CORPORACION CIEM ACONCAGUA ²⁸: “Organizational Support Model”

Furthering Organizational Mission Through Self-Financing

Organization name: Corporación CIEM Aconcagua

Social enterprise model: Organizational support model

Sector: Community and rural development

Program area: Training, arts and culture, environment

Location: San Felipe, Chile

Products: Trainings, theater, café, shop, rentals

Financing method: Product sales, fees for service, rental, ROI, government contracts, donations

CIEM Aconcagua, founded to give technical assistance to microenterprises, has responded creatively to threats and opportunities and branched out into numerous enterprises.

Not only has it turned its original training methodology and services into a money-making enterprise aimed at clients who can pay, CIEM has also leveraged its primary asset, the lease to an old convent, into numerous new enterprises, including an arts and cultural center, a crafts shop, a theater, a café, and a print shop. In addition, CIEM rents its equipment and facilities, and has added environmental trainings to its schedule.

Revenues from these activities have allowed CIEM to diversify its funding base and decrease its dependence on government contracts. The activities that are most closely linked to CIEM's mission have been most financially successful and have created less tension in the organization's internal culture.

Results to Date

- Craft store has helped hundreds of local artists find an outlet for their wares.
- Hundreds of microenterprises have participated in workshops and trainings.
- Each year, hundreds of people, particularly youth, attend culture and art appreciation courses and events.
- Self-financing income from CIEM's various enterprises has increased steadily over the past four years as a percent of total annual income, to 52% in 1998 and 72% in 2000.

²⁸ - Case study provided by NESsT (www.nesst.org). This is an excerpt from the case study “CIEM Aconcagua: Furthering Organizational Mission Through Self-Financing” (NESsT: Santiago, 2002), a part of the NESsT Case Study Series (*Serie de los estudios de casos NESsT*).

A New Way of Doing Business

CIEM was founded in 1995, at a time when international support to nongovernmental organizations (NGOs) in Chile was decreasing and the national government began to fund projects for execution by the private sector. CIEM received funds for training and technical advisory services, and management and marketing support to microenterprises. The features of such funding, however, limited CIEM's autonomy and failed to ensure institutional sustainability.

CIEM began to undertake other projects with the support of the Roman Catholic bishop of the diocese. Later the same year the bishop assigned the parish facilities at El Almendral to CIEM under a "gratuitous loan agreement" (i.e., CIEM can use the building at no cost for a specified period of time). Together with CIEM, the bishop obtained funds to restore Centro El Almendral as part of the parish church restoration project when the church was declared a national monument.

At the Centro de Artes y Oficios El Almendral (El Almendral Arts and Trades Center), which operates in an old restored Roman Catholic convent located close to San Felipe, CIEM conducts workshops and courses for unemployed, at-risk young people in such trades as ironwork, carpentry, and gold- and silversmithing. In addition, CIEM coordinates events and courses at the center and in the community to foster appreciation of local culture and art. Courses include painting, film appreciation, drama, ceramics, and sculpture. Furthermore, Centro El Almendral is a tourist attraction that promotes the area and offers visitors an opportunity to purchase local handicrafts. The organization also develops projects in environmental education and protection addressed to different audiences. The center also rents its audiovisual equipment to local establishments.

Taking Advantage of a Valuable Asset

This situation and the establishment of the Arts and Trades Center at Almendral led CIEM to initiate particular enterprises. The Bishopric of San Felipe, which owned the house, assigned it to CIEM for the organization's use and enjoyment. As a result, CIEM has at its disposal a high-quality fixed asset with many usage possibilities and extension into the community. Indeed, in the entire area (three provinces) there is no other cultural center of such architectural value or offering such a variety of artistic and cultural expressions.

The new strategy required substantial investment in rehabilitating the site where the center was to operate, which is very old and was in sad condition. An ambitious restoration plan is being carried out in stages with the aid of the bishop and contributions from CIEM.

When CIEM began offering government-funded capacity-building courses in construction trades to unemployed young people in 1995, the first project they worked on was the El Almendral restoration.

A Growing Need for Independence

Enterprise activities emerged from CIEM's desire to become independent from government funding tied to services. Such funding imposes a large number of administrative and management restrictions and does not allow for evaluation of results and impact or for the implementation of lessons learned. In addition, funding of this nature is unstable over time and usually does not include support for operational expenses.

Although it still generates a substantial percentage of income from government contracts, CIEM gives priority to projects that strengthen and expand its mission and refrains from entering into areas that differ from this mission. CIEM's approach is to implement a diversified funding strategy to support its programs and activities.

A Plethora of Products and Services

CIEM has developed a number of its own income-producing activities. An attempt was made to market items made by the students and teachers in the iron and carpentry workshops. Local demand for such products existed, but the high costs of producing high-quality products made this an unprofitable activity, which eventually was abandoned.

CIEM opened a handicrafts shop in 1997 that sells products made by local artisans to the community and tourists. Since local artisans lack the capital to put their products up for sale indefinitely, CIEM purchases a limited quantity from those interested in marketing through Centro Almendral. If the items are sold reasonably quickly, CIEM orders more from the artisan. If not, CIEM stops purchasing from that particular artisan. CIEM makes the initial purchase with resources from its revolving fund, which provides a certain amount of capital that is subsequently repaid from sales. If the items do not sell, the loss is minor and easily covered by other sales.

Another business CIEM began after the first stage of restoration was a café designed for tourists and visitors, next to the crafts store. Managing the café proved too difficult for CIEM staff, however, and the organization decided to lease it to a knowledgeable operator. In this way, CIEM is no longer responsible for the day-to-day management of the café but still receives a percentage of its revenues.

The art gallery earns income from commissions on sales of paintings exhibited there. Works donated by exhibiting artists to CIEM become part of the organization's endowment. Gallery operating costs are very low and are subsidized by a microenterprise (now a medium-sized company) that once received technical assistance from CIEM. With these various sources of income, the gallery adequately covers its costs.

CIEM opened the movie theater as part of a project designed to foster film appreciation among the local community, financed with funds contributed by Fondo de Desarrollo del Arte y la Cultura (Fund for Development of Art and Culture), or FONDART. Ticket sales do not cover the costs of operating the movie theater; however, the center is able to recoup costs by renting equipment for open-air film shows organized by the local community.

CIEM also rents center facilities for various educational events, which are screened by CIEM to ensure that they fit its mission. CIEM has refused requests to use the premises for training purposes unrelated to its mission (e.g., a course in driving instruction). CIEM rents sound and video projection equipment to city councils, utilities, and other organizations, as such items are scarce in the area, and CIEM's rental terms are favorable.

CIEM's experience with capacity building allows it to offer training courses addressed to a public that can afford to pay. CIEM has also provided advisory services to organizations on how to meet environmental standards, a new issue under Chilean legislation.

In late 2000, CIEM received a donation of a high-quality offset printer and established a printing shop as a new fee-for-service area. This equipment opens the prospect of teaching courses in graphic arts and printing, reducing promotion costs by producing self-printed leaflets and brochures, and offering high-quality, artistic printing services to businesses and institutions in the area. With these possibilities, sustainability for the new enterprise seems assured.

In 2000, CIEM received a three-year donation from a foreign foundation (AVINA) for an institutional development and consolidation project that covers three areas: 1) An arts and trades school to be located in the rear courtyard of the center, including current workshops; 2) an extension program of workshops for youth focused on culture; and 3) an ecological tourism project that will foster appreciation for the natural and cultural heritage of the Aconcagua Valley, to be carried out in conjunction with other organizations in the region. With support from the NESsT Venture Fund, CIEM is also in the process of completing a complete business plan for its social enterprise activities.

Structure

In legal terms, CIEM is organized as a private nonprofit corporation. It has an assembly of members, composed of 16 persons, and a board of directors consisting of six distinguished community leaders and local personalities linked to the Roman Catholic Church, banking, and other professions.

As a nonprofit organization, CIEM is exempt from first-category (corporate) tax. Its transactions, however, are subject to value-added tax (VAT). Profits are nonexistent as such—all surpluses or earnings must be fully plowed back into the institution's activities. CIEM may grant tax-deduction certificates for cultural donations from businesses; with regard to its own business operations, however, it must pay taxes like any other business. CIEM must file a VAT return monthly and annual taxes apply to any profits. So far Centro El Almendral is exempt from municipal license payments because it is a cultural center, but it is subject to licensing on activities of a commercial nature. CIEM has not applied for an exemption from these license fees for which it may be eligible.

In 1998 the staff numbered 23 full-time and 8 part-time members. In 1999 and 2000 finances were very tight, and the number of staff had to be reduced; those who stayed, including the director, worked shorter hours. The institutional development program that began in 2001 helps to pay for the salaries of the core staff.

Financial Information

CIEM's income for 1998 totaled approximately US\$221,014. Of this total, 48.1% came from donations, of which 31.6% were from international donors and 16.5% from domestic public funds, mainly from Fondo de las Américas (Fund for the Americas). The balance (51.9%) came from self-financing activities: fees for services (41.5%), sales of products (8.0%), rental of assets (0.1%), and returns on investments (2.3%). In 1999, the figures did not differ greatly. Income totaled approximately US\$256,060, of which 32.2% came from donations from national public funds; the remaining 67.8% came from self-financing activities: fees for services (49.9%), sales of products (10.9%), rental of assets (3.9%), and dividends on investments or savings (3.1%). Of the 49.9% in fees for services, 45% was from sales to public agencies and the remaining 4.9% was from sales directly to private clients and visitors to the center.

Lessons Learned the Hard Way

CIEM's self-financing efforts are designed to strengthen its mission and to avoid activities that could cause the organization to stray from that mission. In fact, self-financing has allowed the organization to enter the area of art and culture, an area which is difficult to fund, and therefore has enabled CIEM to expand its mission.

As already mentioned, the effort in 1997 to produce and sell custom-ordered wood and wrought-iron furniture failed. The products were not of high quality because the work was done by trainees, and since CIEM is devoted to training young unemployed people, it was not feasible to achieve better quality without straying from the mission. Activities closer to the mission, such as providing training workshops and advisory services to organizations for a fee, have proved to be more profitable.

The furniture experience helped CIEM to deal more realistically with another of its enterprises, the café. CIEM staff had no experience in café management, so at first the café was not profitable. The organization decided to franchise the café, giving up direct management but retaining a percentage of revenues earned. This structure has proved to be more effective, yielding steadier revenues for the organization. The movie theater and art gallery, on the other hand, demand less management effort, easily cover their own costs, provide services that are directly related to the promotion of culture, and entail skills that are found among the professional staff.

Given the small number of staff and limited revenues for business investment, CIEM learned that it was better to keep enterprises close to the mission.

Enterprise activities have required hiring specialized staff with experience in sales and commerce; however, CIEM has had difficulty striking a balance between commercial experience and commitment to institutional mission. The team as a whole has had to adapt to and learn from the challenges of running businesses. This has required ongoing internal analytical reflection on their work as well as external evaluation of the concrete results of their efforts. The team is constantly seeking to keep the content of income-generating activities in line with CIEM's mission and the needs of its constituents.

Social Impact

The level of self-financing achieved to date has given CIEM greater autonomy. First, the organization obtained the ongoing use of an asset (Centro Almendral) without running into debt for restoration and equipment. The income obtained from activities at the center can thus be plowed directly into the mission or into expanding enterprises. Second, in comparison with alternative sources of funding available to CIEM, mainly a growing number of government contracts, the revenue generated from businesses at Centro El Almendral can be spent freely. Finally, the fact that center operations are open to the public positions CIEM as a significant local actor, with its own place in the community, improving its relationship with other actors. It possesses its own capital, image, and prestige, as well as enterprises; it can therefore negotiate on an equal footing with parties demanding its services.

Managing enterprises has expanded and diversified CIEM's relations with the public significantly. Activities at Centro El Almendral have attracted growing numbers of people, and organizational clients have expanded beyond direct beneficiaries of workshops, courses, and advisory services.

Another major impact of enterprises has to do with donors and their relationship with CIEM's financial diversification strategy. In general, both government and foreign donors require some form of contribution of local matching funds. Hence, having independent means is key to obtaining other forms of funding.

These combined strategies have increased both CIEM's autonomy and its management efficiency, while consolidating the institution as a major local and regional actor. Basically, self-financing has allowed CIEM to sustain and expand the programs that it offers its clients since the activities are, for the most part, all mission related and generate new untied revenues for the organization.

Upcoming Challenges

Apart from the reserve fund, CIEM has no endowment-building strategy, and though the team is interested in reaching that stage it has made no move yet in that direction. This may limit future sustainability.

Moreover, CIEM continues to obtain funds in the form of domestic or international donations, which may recede as international assistance continues to withdraw from Chile. CIEM also receives government contracts, a source of income that the organization itself would like to see decreased because of the bureaucratic difficulties and lack of autonomy such contracts entail.

CIEM currently has no system in place for evaluating the profitability of individual activities or the advisability of approaching new areas. CIEM is currently receiving technical assistance from the NESsT Venture Fund to develop a financial and performance tracking system to allow the organization to clearly see the results of each social enterprise separately.

6.4. Accion Diálogo de Gestiones (DdG): “Franchise Model”²⁹

Turning Training Expertise into a Sustainable Franchise

Organization name: Centro Accion (Diálogo de Gestiones)

Social enterprise model: Franchise

Sector: Economic development

Program area: Microenterprise business development services

Location: Bogotá, Colombia

Products: Business training

Financing method: Licensing (franchise) fees, royalties, and material sales

Centro ACCION has succeeded where other attempts at business training have fallen short. Through the creation of its social enterprise, Diálogo de Gestiones, Centro ACCION has devised a large-scale, sustainable microenterprise training program capable of global replication. Diálogo de Gestiones is an extraordinary example of a financial self-sufficiency strategy implemented through a franchise model. Historically, few training services targeting low-income microentrepreneurs have developed viable models. Some reasons vary by organization, yet are consistently due in part to the low purchasing power of the target market and the inability of training programs to realize economies of scale. Diálogo de Gestiones circumvented these traditional market constraints by targeting institutions instead of individuals and creating an efficient franchise model to distribute its training program.

Diálogo de Gestiones Results to Date

- As of May 2003, 41 franchise partner institutions have been implemented: 22 license operators (national coverage) and 19 sub-license operators (local coverage).
- Program has expanded to fourteen countries across Latin America.
- 66% are operationally self-sufficient without research and development costs to product training.³⁰
- 52% are self-sufficient including R&D and production expenses.³¹
- Program has trained more than 500 facilitators and trainers.
- 81,430 microentrepreneurs have participated in training. As of May 2003, there were 244,288 “attendances.” On average, each microentrepreneur takes three modules (69% are women and 20% indigenous people).
- Diálogo de Gestiones won the IDB Microenterprise Special Award for Excellence in Non-Financial Services (October 2000).

²⁹ Information and facts for this case were compiled through the following sources: interviews with Centro ACCION conducted in July 2003; and from reports by USAID (Geoffrey Chalmers), written in October 2002.

³⁰ Figures of as October 2002.

³¹ Figures of as October 2002

Service Gap Paves Way for New Product

ACCION had already enjoyed tremendous success as a microfinance network by 1991 when 40 of its affiliates united to found Centro ACCION Microempresarial. The new organization's mandate was to support a massive expansion of microcredit in the region. Over time, Centro ACCION's vision evolved with the emerging belief that financial services were an essential, but incomplete, poverty reduction method. The organization concluded that a more comprehensive approach was needed and in response, it created a basic training program aimed at improving clients' microenterprises, as well as their ability to manage credit. Centro ACCION's practically oriented pilot training program flew in the face of numerous tried and failed experiments with "mini MBA" courses for microentrepreneurs but ultimately proved groundbreaking. The payoff was the receipt of approximately two million dollars in technical assistance from Inter-American Development Bank-Multilateral Investment Fund to develop Centro ACCION's microenterprise training concept and conduct market research for the product in six Latin-American countries.

The task at hand was to adapt the practical yet dynamic training program so that it could be replicated in other countries. The objective was to work with one MFI per identified country. The overarching goal of the training program is to reduce barriers to education for microentrepreneurs. Literacy, culture, academic approach, and cost are some of the hurdles microentrepreneurs face to accessing education. In combating these issues, Centro ACCION designed its curriculum to accommodate microentrepreneurs' learning needs and styles. The training modules are participatory and teach practical business tools contextualized in real-life situations to help clients develop their management skills and increase their businesses' competitiveness. They use culturally sensitive images, video, simulations, and applied methods to overcome conventional limitations of the target population.

An Ironic Market Opportunity

The intention was for Centro ACCION to develop its training program into a stand alone product and a sustainable distribution model that could reach a large number of microenterprises. This was a daunting undertaking, considering the perception of many microfinance practitioners that demand — the willingness and ability to pay — did not exist for business training from microentrepreneurs. Another question hovered: even if a market existed for the products, could costs of providing training be recovered? Training programs are often lost leaders for organizations, used as a marketing strategy to cross-sell other services, because the high development costs can rarely be recouped from fees. This problem is exacerbated in a market where the paying customer has few financial resources and opts for "hands-on" learning in lieu of paid training. Indeed, 75% of Centro ACCION's market is poor and run subsistence enterprises. Given the preference, most clients would spend money on a productive asset or product diversification before paying for training. In a word, ACCION Centro microenterprise training program faced enormous obstacles.

It seemed the impossible was needed: an efficient, low-cost distribution model and a market with money to purchase the training. The date was 1999, which coincided with another phenomenon — the microfinance market was leveling and competition had increased, and with it, greater rivalry for customers and resources. Ironically, the plethora of new microfinance players provided the market for Centro ACCION's training. They would understand the limitations of credit programs

and appreciate the need for business training. The combination of market conditions and Centro ACCION's ability to leverage its training methodology as a productive asset sparked the creation of Diálogo de Gestiones, an innovative franchise, to function as distribution mechanism for the training program.

The Making of a Social Enterprise Franchise

Initially the program focused on the sustainability of microfinance institutions' (MFIs) training programs; however, it quickly became apparent that Diálogo de Gestiones needed a self-sufficiency plan itself. A franchise seemed to be a solution for achieving objectives of scale and efficient delivery, as well as viable revenue model. The franchise is structured as follows: Diálogo de Gestiones (DdG) licenses the program to microfinance institutions for three years. There is a license, or franchise fee of \$10,000. This fee is paid only once. DdG achieves some of same goals of a Business Development Service (BDS) facilitator; however, its ongoing program development and support role as well as its commercialization process differentiates the franchise model from that of a BDS facilitator.

In exchange, the institution receives not only the right to use the program, but also 40 hours of training for facilitators, a detailed business plan, a system for evaluation and statistics, program curricula updates, technical assistance, access to franchisees' online community and virtual support services, training curriculum and support materials (workbooks, visual aids, exercises, games, audio tools and facilitators guides), training of trainers (TOT), and technical assistance for the three years.

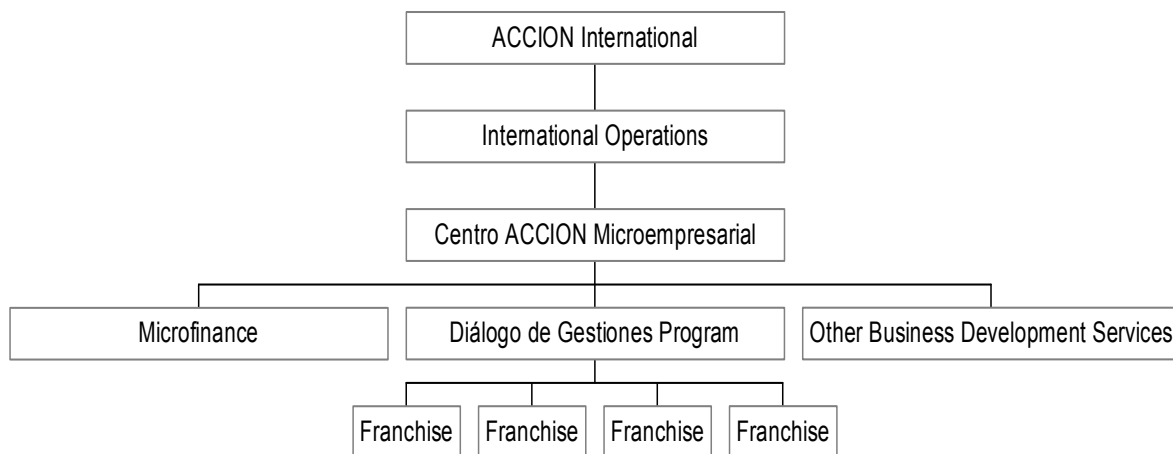
- **The Mission:** *“to provide microentrepreneurs with a quality training program that teaches business basics in a way that is accessible and practical.”*
- **The Product:** Diálogo de Gestiones course content consists of six training programs comprised of 50 subject modules, which cover such topics as: competition, customer service, marketing, pricing, quality control, etc. Set-up, initial training, technical support, and distance learning are all part of the franchise package.
- **The Market:** The primary market was MFIs, and the original intent was to work through one MFI in each country. However, DdG has expanded into new institutional markets; its 21 franchisees include NGOs, universities, chambers of commerce, and private businesses. The rationale behind this strategic shift was to diversify risk associated with relying too heavily on one target market, and too few customers. From its customer base, DdG has trained more than 500 individual facilitators and trainers. Geographic expansion has occurred as well, from the original six Latin American countries to 15, with plans to expand throughout the continent and into other regions such as Africa.
- **Research and Development:** the creation of new training products/modules and materials are based on customer demand. DdG conducts market research to inform product development and pilots new products in test markets before including them with other franchise materials.
- **Demand Creation:** as with any introductory product, the purpose of marketing efforts is to get customers to “try the product.” To this end, DdG uses educational marketing

campaigns to inform customers of the training products' benefits and to stimulate demand for product.

- **Franchisee Support:** although initial training and set-up are conducted in person by DdG technical assistance staff, the bulk of the ongoing support is conducted virtually. DdG has created an online learning community that links its franchisees across Latin America (www.Diálogo degestiones.com), facilitating technical assistance to trainers and providers.

Structure

Fundación Centro ACCION is a private nonprofit headquartered in Bogotá, Colombia, and the parent organization of Diálogo de Gestiones. Centro ACCION is a second-tier microfinance institution and wholesaler of DdG franchise. DdG headquarters hosts technical support staff and other business functions: finance, marketing, and administration to support franchisees.



Social Bottom Line: Impact

DdG regularly measures results of its business training program using the following:³²

- **Customer satisfaction:** surveys ascertain customer satisfaction; 99.9% of entrepreneurs responded that the training modules were relevant and applicable to their businesses.
- **Change in Business Practice:** 77% of entrepreneurs responded that they gained specific knowledge and practice from the training that they applied in their businesses.
- **Increase in Income:** 62% of entrepreneurs reported an increase of between 10% and 20% in business income, associated with the skills learned during the training.

³² Numbers are current as of July 2003.

Financial Bottom Line: Self-Sufficiency

Diálogo de Gestiones' largest business expenses are the costs associated with maintaining its technical assistance team, and new product development. On the revenue side, DdG's major source of income is franchise fees. Institutions administering DdG's training program pay a fee of \$10,000 to implement it locally. The franchise fee entitles customers to receive the curriculum; facilitator training to learn how to deliver the modules; set-up assistance; and ongoing technical support. Franchisees also purchase the program materials, for which DdG receives royalties. In Colombia, profit margins on sales of materials and course notebooks are 22% and as high as 50% in other Latin American countries. In October 2002, course notebooks sales reached 70,000, and 2003 sales are anticipated to reach 190,000. After only three years of operating the franchise training business, in October 2002, DdG had already achieved 66% operational self-sufficiency, without adding research and development costs to product training; and 52% self-sufficiency including R&D and production expenses. At the end of 2003 Diálogo de Gestiones is expected to achieve operational self-sufficiency (without R&D).

Lessons Learned

- Training programs can be commercially viable, provided the products are demand-driven and sold in targeted customer markets.
- Franchising achieves high operating efficiencies and large-scale social impact.
- DdG model can be replicated in other regions and countries.
- Training products must be practical, and adapted to the microentrepreneurs' needs and capabilities.

Looking into the Future: Challenges and Possibilities

In addition to the usual difficulties of running a franchise business, DdG faces the challenge of sustaining its operations in the long term. This means not only breaking even, but also generating a profit in a tough business where few before DdG have dared to tread. To intensify matters, unfair market conditions abound in microenterprise training businesses. Most external funding is earmarked for microcredit rather than business development or training services, and secondly, there are plenty of organizations willing to provide subsidized training programs. In the latter instance, product quality is variable, and the duration is based on resources, yet this situation distorts the market for full-fee services, threatening DdG's ability to become a going concern.

On the upside, the future looks bright for DdG. The organization's adaptability to the market is a proven strong suit, and once again DdG is looking to new markets and customers to expand its business, diminish threats, and identify opportunity. DdG has translated materials into Portuguese to sell its franchises in Brazil, as well as into English with eyes on Africa's massive market potential.

6.5. Flores del Sur: “Employment Model”³³

Growing Income And Employment Through Social Enterprise

Organization name: Flores del Sur

Social enterprise model: Employment model

Sector: Community development

Program area: Employment generation, women, training

Location: Cañete, Chile

Products: Flowers

Financing method: Product sales, government funds, national and international investments and donations

Flores del Sur was founded in 2000 to provide employment and job training to women heads of household living in extreme poverty in the VIII region of Chile, one of the poorest regions in the country.³⁴ Flores del Sur not only generates employment for unemployed and/or underemployed women in the area, but it promotes social justice through its employment practices. As a social enterprise, Flores del Sur ensures its workers fair salaries and benefits, a safe and healthy working environment, and involves them in key decisions of the business. The business impacts not only the economic lives of these women, but provides a vehicle for them to become active and respected members of their families and communities.

Since its inception Flores del Sur was conceived as an income-generating venture to support Pachamama, a non-profit organization created in 1991 to integrate women who are below the poverty line into the socioeconomic development process of the country by providing them with technical and entrepreneurial skills while at the same time preparing them to become active social change agents at both the household and society levels. Pachamama works with women in the depressed former coal-mining region of Coronel and Lota. The ultimate aim is to involve this target population in their own development on an egalitarian and democratic basis. The activities of Pachamama include a variety of social, legal and economic programs that are delivered through training and active participation.

Flores del Sur has proven to be central to the mission of Pachamama, although it has not yet generated a profit to support Pachamama’s programs. It is anticipated that in 2004 Flores del Sur will be completely self-sustainable. Once Flores del Sur generates a profit, it will contribute to the sustainability of Pachamama’s programs, such as skills training for unemployed women, personal development workshops and a domestic violence shelter (the only one in the area).³⁵

³³ Case study provided by NESsT (www.nesst.org)

³⁴ 41% of the population of this region are under the poverty line, and 15% are living in extreme poverty.

³⁵ Pachamama reaches approximately 150 women per year. To date Pachamama has assisted 369 women and their children in the shelter.

Results to Date

- Has generated employment for 24 persons, 19 of which are women—95% of those women are heads of household.³⁶
- Has indirectly affected over 96 people in the community of Cañete through its employment and training program for women.
- Has increased self-financing as a total percentage of funding steadily since it began in 2001, making it 100% self-sustainable in 2004.

A Growing Need for Independence

Flores del Sur was founded in 2001, at a time when international support to nongovernmental organizations (NGOs) in Chile was increasingly difficult to receive. The enterprise activities of Flores del Sur emerged from Pachamama's desire to become independent from restrictive and unstable funding. While Pachamama had been financed for ten years by various international agencies, the staff felt the growing need to guarantee the continued existence of the institution and its programs. In order to do this they needed the necessary financial resources to support their programs. It was with that intent that Flores del Sur was created. While Flores del Sur has not yet generated funds for Pachamama, it has strengthened its mission and will ultimately contribute to its autonomy and institutional sustainability.

The project of Flores del Sur began in part due to a funding opportunity from private foreign investments (Belgian and Dutch) interested in supporting social programs that were self-sustainable, and in part to local agricultural conditions. The climatic and agricultural conditions in the area around Cañete proved favorable to flower cultivation, and a member of the team had previous experience with flowers as a professional agronomist. Traditionally Cañete is an area where potatoes and cereals are grown, yet in the last few years these crops have lost a large part of their value due to slow incorporation of new technology and value added post-harvesting, making them less lucrative.

In this scenario the development of pioneering projects in the area have not only produced direct affects of employment, but also represent an innovative example for agriculturists and business people to drawn on, opening a space for transformation of the productive sector in Chile.

Product

Flores del Sur is an agricultural social enterprise dedicated to the production of fresh flowers, primarily high quality carnations, grown in a distinctive variety of colors. The business is currently focusing primarily on the production of carnations, given local expertise in production and marketing of this variety. Once this part of the business has been consolidated, Flores del Sur plans to further diversify other profitable and delicate flowers, like lilium and other bulb species.

³⁶ During harvest time four additional women are trained and employed.

Currently Flores del Sur has planted one hectare of greenhouse carnations, and recently expanded their market to include one hectare of lilium.

Structure

In legal terms, Flores del Sur is organized as a private company. It has an assembly of stockholders, and a board of directors consisting of distinguished community leaders and local personalities.

As a private company, Flores del Sur must pay first-category (corporate) tax. Its transactions are subject to value-added tax (VAT). Currently no profits are being made, but once they are, Flores del Sur anticipates contributing half of them to support the programs of Pachamama.

In 2003, the staff numbered 24 full-time and 4 temporary members during harvest time. Flores del Sur has plans to increase its staff to include at least four more people with the next expansion. Priority is given to hiring women heads of household from the Cañete area.

Lessons Learned

Pachamama's self-financing efforts are designed to strengthen its mission. In fact, self-financing has allowed the organization to generate employment for women under the poverty line, as well as create a model for other organizations. Yet Flores del Sur has not yet been able to fulfill one of its major goals, untied revenue generation to support Pachamama. This is due in part to the fact that Flores del Sur initially lacked organization in terms of strategic planning. It was started as an income-generating venture in 2001, yet without a business plan. Because of this it suffered many problems that could have been avoided with some anticipated planning. Staff learned the value of this type of planning and is now working on the business development process with support from Fondo Nido (NESsT Venture Fund) in Santiago to produce a full business plan.

Enterprise activities have required hiring specialized staff with experience in sales and commerce; however, Flores del Sur has had difficulty striking a balance between commercial experience and commitment to institutional mission. The team as a whole has had to adapt to and learn from the challenges of running a flower business. This has required ongoing internal analytical reflection on their work as well as external evaluation of the concrete results of their efforts.

Social Impact

The self-financing achieved to date has strengthened the mission of Pachamama and in coming years will offer it greater financial autonomy. It is a model social enterprise in terms of its responsible environmental and labor policies for its workers. Workers are paid fixed salaries at 10% above the market rate; it offers an incentive program for meeting production and quality control goals; and it provides on the job training, which covers technical topics, as well as information on labor legislation.

This enterprise has a strong social impact in the community of Cañete, especially related to gender. By employing unemployed women heads of household, Flores del Sur promotes the development of self-esteem and leadership qualities of marginalized women. Ultimately this

empowers women on many levels within their household and the community, recognizing their skills as important in society. They are respected for having a job and are given a more active role in family and community decisions. In addition, these women are given marketable skills, both technical and personal, to foster their social and economic integration in the community.

Upcoming Challenges

As with any relatively new enterprise, Flores del Sur faces its share of trials and tribulations. Maintaining the high level of social impact upon the community of Cañete is a challenge that requires careful planning and prioritization of the social component of the program, while not compromising the quality of the product. Flores del Sur would like to increase the number of positions it can offer, while continuing to provide workers with an integral training during the workday that includes personal development with a gender perspective, in addition to the techno-productive skills training.

The main challenge in relation to Pachamama is to increase sustainability by generating untied revenue to be used to support Pachamama's programs. This ultimately will require a larger investment to produce higher profit margins, allowing Flores del Sur to not only break even, but to generate a profit.

Finally, Flores del Sur must overcome the need for increased working and investment capital to ensure growth while covering social costs and increasing mission impact. This unique model requires a delicate balance between social and corporate, requiring a large investment in time, creativity and dedication from staff. While the enterprise's targets are ambitious, they are at least now clear and articulated in Flores del Sur's new business plan which helps both staff to understand their goals and strategy for achieving them and for articulating them clearly to donors and investors.

6.6. Carvajal Foundation: “Mixed Enterprise Model”

Encouraging Self-Help in Colombia

Organization name: Carvajal Foundation

Social enterprise model: Mixed enterprise model

Sector: Economic opportunities and community development

Program area: Economic opportunities and community development

Location: Colombia

Products: Various programs primarily in health, home improvement, and education

Financing method: Fees paid by members

The Carvajal Foundation, established in 1961, is one of the oldest and best examples of social enterprise in the Latin American region. The foundation was launched through a sizeable donation by the Carvajal Family, which donated 35.54% of its shares in its successful Colombian operations. For more than four decades, the foundation has engaged in social development, mobilizing volunteers and large donations to catalyze change in the poorest communities across Cali. Carvajal’s accomplishments include community-based programs at the local level as well as national programs, all of which have developed promising practices and economic development models that have been shared and replicated by other business and community groups in Colombia and elsewhere in Latin America.

As a social enterprise, the Carvajal Foundation has a firm commitment to its social mission to combat poverty on all fronts, delivering solutions that address community problems. The foundation’s mission to realize the full development of individual potential is achieved mainly through education, entrepreneurial development, health care, housing, culture and arts, and environmental programs, and incorporates business criteria into its activities, seeking to maximize operational efficiency and effectiveness. Its activities and methodologies have garnered it a national and international reputation and have been supported by international public and private organizations.

One of Carvajal’s most notable lobbying efforts was the development and support of a National Plan for Microenterprise Development (NPMD) in 1984. The NPMD initiative, spearheaded by Carvajal, launched one of the first private initiatives in the region, leading to the creation of a private corporation, Corporación Mixta para el Desarrollo de la Microempresa, to co-finance training and support centers for microentrepreneurs’ credit and marketing activities. Today the Foundation continues to play a leading role in the Latin American region, providing and creating innovative support services for the poor, and adapting the institution to Colombia’s changing social and economic environment.

Carvajal Foundation Results to Date

- Carvajal was ranked one of the three leading foundations in a survey of 301 Colombian businesspersons by *Dinero Magazine*.
- Carvajal is one of the oldest and foremost social enterprises in Colombia and Latin America.
- The foundation spearheaded the creation of a National Plan for Microenterprise Development in 1984.
- Basic Service Centers have been developed into successful delivery channels for housing, health, banking, and entrepreneurial training, which have been replicated both in Colombia and elsewhere in the region.
- Carvajal programs have reached more than 50,000 microentrepreneurs in the city of Cali and more than 5,000 in rural areas.
- Business development services (BDS) methodology has been transferred to more than 167 NGOs (50 in Colombia and 117 in Latin America and the Caribbean).
- Carvajal has trained more than 3,443 trainers, exerting a multiplier effect in the dissemination of BDS across the country and the region.

Leveraging Assets to Promote Policy Changes and Financial Resources

From the outset, Carvajal Foundation understood the growing importance of the informal sector of the economy and led important national and local initiatives to strengthen the microenterprise sector. At the policy level, the foundation has played a pioneering role in focusing attention on the contribution of the microenterprise sector to Colombia's economic production and employment. Working with the local Chamber of Commerce, the Foundation became a major promoter of microenterprise in Colombia, and particularly in the city of Cali.

The approval of the National Plan for Microenterprise Development has had a major impact in the future of Carvajal, the microenterprise sector, and on Colombian philanthropy. The plan has allowed foundations to leverage their resources for development work by tapping into funding from the Colombian government, basically on a 1-to-1 ratio. Once the plan was approved, the Inter-American Development Bank (IDB) provided more than US\$7million in financing that was matched with US\$3 million from national resources. In the 1990s these resources would double. The plan also gave foundations more decision-making power by allowing them to influence the orientation and distribution of economic resources. As a result, the small and microenterprise sector in Colombia has grown and been strengthened and today comprises more than 3 million entrepreneurs who contribute approximately 25% to 30% of the gross domestic product of this country.

Spearheading Program Innovations

The Carvajal Foundation was able to benefit from its own resources as well as those available through the national plan and thus spearhead a wide variety of programs. During the past four decades the foundation has played a critical role in promoting both the infrastructure and the culture necessary to support the microenterprise sector in Colombia: educating, informing and supporting entrepreneurial initiatives with a scale and scope that have gained the foundation both national and international recognition. Carvajal is recognized as one of the most important foundations in the country. Additionally, private philanthropy in general has received important social recognition.

The Carvajal Foundation has, in conjunction with other organizations, designed a series of programs and strategies that focus on training and education to combat poverty on all fronts. These programs have contributed toward the development of individual potential, mainly through education and the creation of healthy communities, providing greater opportunities for growth and participation in the economic prosperity of the country. Some of its leading programs include the following:

- Social housing: A housing and urban environment program that seeks to improve the quality of life of communities with scarce economic resources through the creation of “social interest housing” within their reach. The program aims to support communities in the design, planning, and execution of their housing, providing them with training in the administration of construction in order to reduce costs and completion times, develop small businesses in the community, contract credit with banks, and provide training in citizenship and family values.
- Basic services: The program gathers goods and services in order to satisfy the basic needs of low-income communities. Among the services offered in these centers are food and groceries, construction materials, banking and health services, educational support, and adult education such as microenterprise training, technical assistance for self-construction, and more.
- Entrepreneurial development: The entrepreneurial development unit works to improve communities’ quality of life by offering services that enhance human potential and promote sustainable small business development. The action areas include training and counseling in managing small business, institutional strengthening of social organizations, business development models, attention to refugees, socioeconomic diagnosis, and adult education.
- Education: This unit aims to build a more just society by offering better educational opportunities. It provides training in basic competence, apprenticeship support through new technologies, increase in real time dedicated to study, broadening, and improvement of initial education; updating and improvement of educators’ professional skills; and educational management and school administration.
- Primary health care: The health system in Cali is one of the few in the world that has put into practice the primary health strategy proposed by the World Health Organization. This integral health model is reflected in the programs and activities carried out by the

Carvajal Foundation in alliance with the Universidad del Valle and its Health Faculty, with the Health Systems of Cali, the state of Valle del Cauca, and with private corporations such as Coomeva.

- Culture and arts: On the principle that art, as well as recreation, is a basic element in the development and welfare all communities, the Carvajal Foundation's radio station broadcasts classical music and cultural programs in several cities of Valle del Cauca.
- Environment: The Carvajal Foundation's projects are planned and executed based on respect for the environment. The Foundation has implemented specific projects to protect the environment and gives technical assistance to environmental organizations. In addition, it contributes to the Premio Ecológico Rosa Cadavid de Arboleda, an award for contributions to the environment in southwest Colombia.
- Social Management: The Carvajal Foundation has been leading an initiative to create the Escuela para la Gerencia del Desarrollo Social (Egedes), a school of social management aimed at creating a Master's in social development.

Encouraging Self-Help and Fulfilling the Dream of Homeownership

Since the early 1980s, Carvajal's area of activity has been the district of Aguablanca, a very poor district of Cali that is home to some 420,000 people living in an area of less than six square miles. Most of Aguablanca's residents are migrants who have been displaced from rural areas as a result of violence and economic difficulties in Colombia. In response to economic need and a lack of opportunities in the traditional labor market, many microbusinesses have emerged in Aguablanca. Here, with assistance from Carvajal Foundation, the informal sector has become a stabilizing force for Aguablanca residents.

In providing development assistance to the residents of Aguablanca, the Foundation's strategy has been to observe what people were doing to improve their living conditions and what obstacles they faced. Most of Aguablanca's housing consisted of shacks illegally constructed by residents on government-owned or privately-owned land. Building a house or even improving an existing structure was very expensive. Residents could only buy construction materials at nearby locations where prices were high because there were many intermediaries between the manufacturer and the final retailer.

To assist residents, the Carvajal Foundation built a warehouse in the middle of the squatter area to provide space for manufacturers to sell construction materials directly to residents at wholesale prices. In the beginning, convincing manufacturers to sell their goods in Aguablanca was difficult because they thought that low-income residents would not have money. However, the poor did demonstrate that they had money, and they had it in cash, which was attractive to the merchants because they did not have to sell on credit. To profit, however, the merchants had to be open on weekends and holidays, when the residents could shop. In addition, the Foundation provided insurance and agreed to handle the money to alleviate merchants' fears of handling large sums of cash. The Foundation charged a commission of about 2% to cover operating costs.

The Foundation was also the catalyst for the development of simple, modular houses designed by architectural students. Under the modular construction scheme, residents could start with a single space and a bathroom and then expand into a fully developed house as resources allowed. The basic starter house is 17 square meters; the fully developed house is 90 square meters. Designs for a house with a workshop and a house with a small store were also developed.

Eager to involve government agencies in its effort, the Foundation also convinced the city to approve the building plans and to set up a small office at the warehouse where residents could obtain building permits. Having pre-approved building plans and easily obtainable permits was a valuable incentive for residents to build legal, affordable structures. The government-owned Central Mortgage Bank also opened an office in Aguablanca, which encouraged residents to open savings accounts and obtain construction loans for their homes. Residents could make a down payment of 50,000 pesos (US\$600) and then take out a 10-year loan. The monthly payment for a basic single-space house with bathroom was 20,000 pesos (US \$250), which is less than the average rent in the district. The success of the Carvajal Foundation's original program inspired a private developer to develop 3,000 lots in another part of the city. Nearly 11,000 families applied for the program, and 2,500 lots were sold in the first week. In 1992, the city of Cali adopted the same model and launched a program, the Ciudadela Desepaz, for 28,000 minimum-wage families. About 3,000 lots were developed by the municipality to relocate families from high-risk areas; the remaining lots are being developed by the private sector.

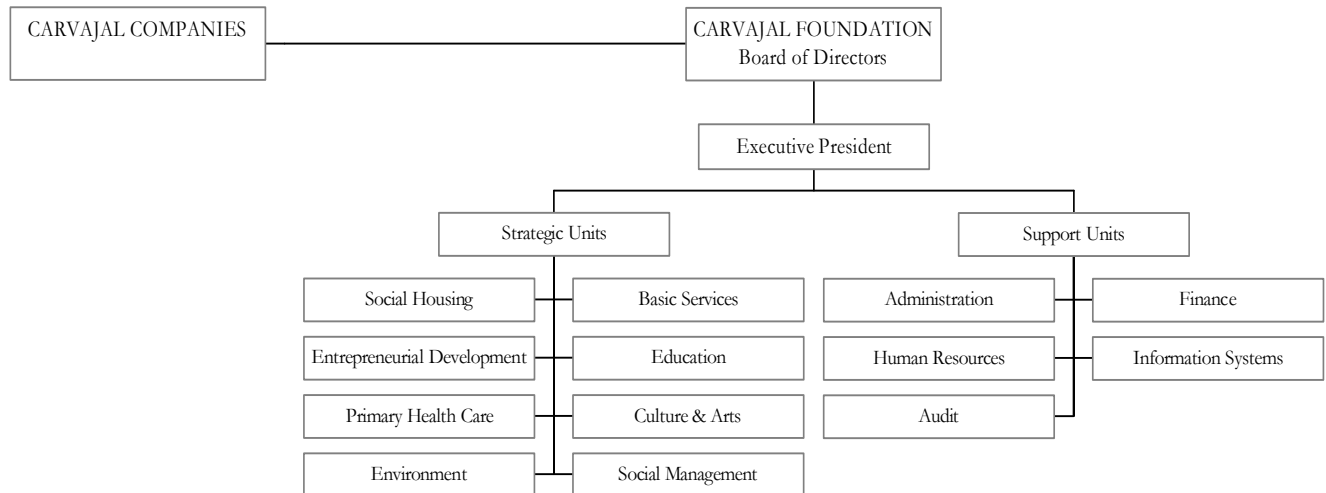
Utilizing the Self-Help Model to Strengthen Microenterprises

Carvajal utilized the same philosophy and a similar self-help model with microenterprises to increase productivity and strengthen support for shopkeepers in Aguablanca, providing them with a training and administrative guidance program that is the first of its kind in Latin America. The program guides store owners in gaining first-hand knowledge of their business, making plans to improve their shop's organization, setting a salary for themselves, controlling costs, and learning about ways to access microcredit and stimulate their shop's growth and stability.

The Foundation has utilized the same delivery channels for the operations of its Basic Service Centers (known by their Spanish acronym, CSB). The three centers offer a variety of business services to microentrepreneurs. Each CSB houses branches of microfinance institutions (Women's World Banking and Banco Caja Social), various services for businesses and individuals (computers, photocopying, public utilities), supply units that sell inventory for neighborhood shops, and "materials banks" for self-help housing. These centers have become an important lifeline for the more than 7,000 shopkeepers in Aguablanca. Nearly 3,500 of these merchants regularly purchase 60% of their merchandise from these units

Structure

The Foundation has a board of directors composed of five main members: the Archbishop of Cali and four members of the Carvajal family.



Financial Information

The Foundation charges fees for business development services, receives co-funding for projects from international organizations, NGOs, and development banks, and gets dividends from the Carvajal companies to fund its activities.

Social Impact

Carvajal Foundation has been providing business services in Colombia since 1977. Up to December 1999, the program had assisted 44,471 microentrepreneurs in Cali and 4,294 rural microentrepreneurs. Its BDS methodology has been transferred to 50 NGOs in Colombia, 92 NGOs from different Latin-American countries, and 25 NGOs in the Caribe.

7. Social Enterprise Methodology

Social enterprise methodology centers on achieving social impact through socioeconomic value creation. Simply put, the social enterprise incorporates commercial forms of income generation into NGOs as a means to accomplish mission (social value) and achieve financial sustainability (economic value). The crux of methodology, however, lies in the specifics of its dual objectives—depth and breadth of social impact to be realized, and amount of money to be earned—as well as its capacity to deliver on both accounts. Mission drives social value creation, which is generated through NGO programs. Purpose drives economic value creation, which is delivered through financial models—business or income generation. In the course of starting an enterprise, the NGO must build organizational capacity, in order that both can be managed effectively. The organization must integrate business tools and practices to strengthen effectiveness and performance. In doing so, the traditional NGO undergoes a culture transformation and emerges as a more entrepreneurial, market-driven “businesslike” organization. Another lens through which we can view social enterprise is a group of four linked aspects of successful value creation: 1) program strategy; 2) financial strategy; 3) organizational capacity; and 4) culture.

Program strategy for affecting social impact and mission accomplishment (social value creation).	Financial/fundraising strategy for generating income through commercial activities as a means to achieve sustainability.
Capacity Building Strategy for strengthening organizational capacity, performance, and efficiency.	Cultural Strategy to transform organizational culture into being more entrepreneurial, innovative, and market-driven

7.1. Program Strategy

This typology looks at social enterprise as a program strategy to affect mission accomplishment in two discrete sectors of international development: economic development and civil society.

7.1.1. *Economic Development*

Economic development is a sector that uses social enterprise as a sustainable program strategy to create economic opportunities and community wealth-building to enable poor people to attain economic security for themselves and their families. In many cases, business activities are “embedded” within the economic development organization; the social enterprise *is* the program—the means to effect social impact. Some of the possible social impact goals include increased household income, asset accumulation, investments in productive activities, job creation, increased school attendance, improved health, and quality of nutrition.

Economic Opportunities

Social enterprises are created for the express purpose of creating fair-wage jobs, skills development for job placement, or opportunities that foster self-employment. Social enterprises

may be single-focused or integrate auxiliary social services such as insurance, literacy, health education, etc. Programs that foster microenterprise development—microfinance and business development services—fall into this category.

Community and Rural Development

Community-based social purpose enterprises aim to provide local jobs, increase purchasing power, reduce urban flight, and increase community wealth. These social enterprises may be designed as community businesses intended to benefit the entire community by investing surplus revenue in wells, schools, libraries, community centers, gardens, etc., or as more traditional small and medium scale enterprises (SMEs).

Market Development

Social enterprise encompasses business development services (BDS) as sustainable “facilitator” organizations. Social enterprises can be important players in market development strategies. As mission-driven businesses they will operate ventures in underdeveloped or under-served markets unattractive to the private sector due to high market penetration costs (often related to rural distribution and educational marketing), slim margins, or both. Like BDS, social enterprises working in market development consider private sector competition or cannibalization an exit strategy. Socially responsible fair trade organizations also serve to develop markets, but do not seek to exit markets based on emerging competition.

Access in Under-served Markets

In markets unattractive to the private sector, but where social need and demand coexist, the social enterprise fills a vital niche by providing access to products and services. Poor and rural markets are largely under-served due to high transaction costs, low purchasing, and low margins, making access difficult for many people in need of products and services, such as medical services, health inputs, financial services, etc.

Employment Development

Employment development creates employment and vocational training for disenfranchised or at-risk populations. These so-called “hard-to-employ” people earn a livable wage and develop marketable skills through their employment in the social enterprise. Employment development models of social enterprises were popularized in the US, and have proven successful in Latin America.

7.1.2. Civil Society³⁷

Unlike economic development social enterprises, which, though varied, utilize relatively straightforward models, civil society social enterprises are wildly diverse and therefore, much trickier to classify. In the world of social enterprise, civil society enterprises frequently overlap with employment development and community development. For civil society organizations, social enterprises are largely auxiliary activities that serve to complement or expand the mission and core social activities, but are usually not the program itself. Often enterprise activities are “integrated” within the civil society organization. Social impact is effected by building

³⁷ This typology classifies “civil society” to include a broad range of international development sectors: health, arts and culture, education, social welfare, children and youth, disabilities, environment, etc. Within the context of this paper, “civil society” does not include economic development or agriculture sectors.

organizational capacity to improve program performance, increase funding, and incorporate programmatic aspects such as employment or educational marketing.

Environmental Conservation

“Eco enterprises” offer a wealth of creative methods to both raise money for, and awareness of, environmental issues. Eco-tourism’s growing popularity provides lucrative opportunities to social entrepreneurs interested in capturing intrepid travelers. The tourist market, unlike many NGO “client markets,” has money; therefore this business easily marries the social enterprise’s financial and social objectives. Many environmental social enterprises also sell products, such as shade-grown coffee or items made from recycled materials. In other examples, environmental social enterprises operate organic markets or home delivery food businesses to finance sustainable agriculture and education programs.³⁸

Social Welfare

In some social welfare organizations, there is crossover with employment development programs, whereby the social service organization creates jobs and develops skills for clients—homeless, physically and mentally disabled, and at-risk populations—through a social enterprise. In other cases, the social welfare organization may commercialize its social services to a private pay market to fund its programs.

Cultural Preservation

Within the context of the cultural organization, social enterprise offers a range of possibilities to serve social and financial objectives. Selling cultural products through outlets such as an art gallery, cinema or theater; or educational services such as art, drama, music, cultural history, etc. are common social enterprise examples.

Health

In the health sector, NGOs have been incorporating social enterprise for many years. Hospitals and clinics are common examples. Pharmacies, medical supply companies, and group-purchasing businesses are also widely applied models. Selling health services is a growing industry in NGO social enterprise: nutrition counseling, physical therapy, mental health counseling, care management, and alternative therapies.

³⁸ Etchart, Nicole and Lee Davis, “Unique and Universal: Lessons from the Emerging Field of Social Enterprise in the Emerging Market Countries,” NESsT, 2003.

Exhibit E: Social Enterprise as Program Strategy

Civil Society Organizations	Examples	Purpose
Social welfare	In the 1980s Chile led the region in establishing a new pay-as-you-go system where workers pay 10% of their monthly earnings into an individual retirement account run by a pension fund management company. The payment is mandatory for employees and voluntary for the self-employed. Workers pay a monthly administrative fee averaging 1.76% of salary; an additional 0.64% of wages goes to survivors and those with disabilities. The retirement benefit is payable at 65 for men and 60 for women, and the amount of the pension is based on the individual contribution.	To introduce individual retirement savings accounts intended to complement or replace defined benefit state sponsored pay as you go social security pensions.
Cultural	The National Center for Social Communication provides services to citizens' groups and the commercial media to become effective partners in the democratization of Mexico. The Center helps NGOs become professional communicators—to have and to implement a coherent media strategy as an integral part of their work. It opens the commercial media to the “newsworthiness” of the emerging citizen sector through a range of creative “citizen sector engagements” with journalists. Finally, the Center serves as a highly specialized news agency that collects, organizes, and disseminates strategic information relating to key social indicators—such as human rights violations or public opinion on national policy. For example, the Center led the effort to utilize media in the national citizen referendum in 1995 on the government policy toward the Chiapas Zapatista rebellion. Through the media campaign associated with the referendum, sufficient publicity was generated to garner one million votes.	To reshape social communications in Mexico by enabling citizens' organizations to utilize the media, and each other, more effectively.
Community and rural development	CIEM Aconcagua (San Filipe, Chile) operates a café, gallery, cinema, and printing company to generate income to support its programs to promote local culture, education, environmental conservation, and employment in the region. ³⁹	To increase local employment and tourism; and to generate significant income to fund mission.
Environmental	EcoLogic Enterprise Ventures (EEV) is an NGO that operates as a "green" loan fund, offering affordable financing to eco-enterprises located in environmentally sensitive areas of Latin America. Targeting the rural credit market, EEV provides small business loans to support productive activities that foster biodiversity conservation and grassroots economic development.	To build a portfolio of community-based enterprises that foster biodiversity and conservation.

³⁹ Etchart, Nicole and Lee Davis, “Unique and Universal: Lessons from the Emerging Field of Social Enterprise in the Emerging Market Countries,” NESsT, 2003.

Economic Development Organizations	Examples	Purpose
Market Access	Aided by a market-based strategy, this private enterprise acts as a commercial intermediary between Nicaraguan craftsmen and international buyers. PROARTE has successfully penetrated the competitive handicrafts market.	To provide producers with services to facilitate the entry of their products into more profitable markets.
Community economic development	Across the rural areas of northern Cajamarca in Peru, Intermediate Technology Development Group (ITDG) is providing electricity through hydroelectric power, creating employment, and increasing income in these communities.	To improve living conditions of rural communities in Peru by increasing access to electricity through the establishment of sustainable microenterprises that generate power from renewable energy sources.
Market Development	The Mennonite Economic Development Associates (MEDA) spearheaded the cultivation of a new crop—edible beans—among small-holder colonizer farmers in the eastern lowlands of Bolivia. This new crop led them to open the first export markets for Bolivian beans to Brazil, sparking the interest of various producer groups. This led them to the formation of a national association of bean producers, ASOPROF. The program kept growing and, in 1993, ASOPROF and MEDA joined forces to invest in a commercial marketing company called ASOMEX to process export orders for ASOPROF and to seek markets for other products in local and export markets. ASOMEX has built links with export markets, diversifying into marketing corn and rice, and has begun exporting furniture, wood products, and blue jeans produced by microenterprises to Argentina and Paraguay.	To develop a for-profit marketing company to improve the profitability of bean production as an alternative crop and increase the exportable production and incomes of small producers in the rural areas of Bolivia.
Access for under-served markets	The economy of Coto Brus, one of the most remote areas of Costa Rica, is primarily dependent upon coffee cultivation, which makes the smallest producers extremely susceptible to price fluctuations as well as seasonal employment and income streams. Producers in the region have begun to diversify their production with some success, cultivating various types of vegetables and tubers, but require access to financing and technical assistance.	To promote diversification efforts in agricultural production through commercialization and technical assistance.

Economic Development Organizations	Examples	Purpose
Economic opportunities	Through a national business plan competition for youth start-ups, PROBIDE reviews and screens the best projects. A guarantee panel made up of PROBIDE, private companies, and financial institutions selects the projects. The winning projects gain access to bank loans that Probide's corporate backers guarantee. Prize-winning projects in recent years have included a rustic campsite for tourists on a northern beach, paprika processing for export, and a cyberspace café in a provincial city.	To strengthen and expand a pilot mechanism for promoting and financing sustainable start-ups by Peruvian Youth.
Employment development	SERVOL provides daycare services through a network of crèches (daycare facilities) for thousands of infants in Trinidad Tobago, as well as education, job training, and computer literacy programs for teenagers. Guided by an integral approach to human development, SERVOL has also started parenting, hygiene, and civics classes for its adolescent beneficiaries. The organization has also spearheaded a SERVOL affiliate microloan program to alumni of the internship program to help them open small shops and businesses and give them training in basic management skills and advice on production and marketing techniques.	SERVOL aims to raise the aspirations and achievements of disaffected adolescents from 16 to 19 years old who dropped out of school or did not benefit from a formal education.

7.1.3. Social Impact

Social enterprise impact is predicated on the organization's mission, the social objectives it intends to achieve, and what impacts can be measured. Social enterprises, like all social programs, have direct as well as indirect impacts. The following exhibit provides some examples of social enterprise impact measurements and corresponding indicators.

Exhibit F: Social Enterprise Impacts and Indicators

Type of Program	Impact	Indicators for Social Impact
<i>Employment development</i>	<ol style="list-style-type: none"> 1. Livable wages earned by for low-income workers 2. Learned transferable hard skills—technical/functional 3. Gained soft skills⁴⁰—communications, punctuality, ability to work with team, stable mood/frame of mind, concentration 4. Wealth accumulation 5. Increased contribution to tax base due to employment 	<ol style="list-style-type: none"> 1. Amount of wages (proxy: minimum wage/inflation/cost of living) 2. X, Y, Z workplace skills acquired; applicable in P, Q, R other jobs 3. Increased workplace function 4. Value of assets accumulated, including savings deposits 5. Total taxpayers; and new tax receipts collected
<i>Economic Development</i>	<ol style="list-style-type: none"> 1. Increase in sustainable economic opportunities 2. Income adequacy at increasing levels 3. Increased income per client 4. Increased prosperity in a community due to economic development 5. Increased economic security through home ownership or expansion 6. Improved food security and quality of diet 	<ol style="list-style-type: none"> 1. Number of jobs created or work hours created 2. a) Unable to meet basic needs; b) beyond basic needs; c) beyond basic needs + savings 3. Net income per client 4. Purchasing power (consumer spending, sales volume of local businesses, etc.) 5. Home purchase or building/addition 6. Number of meals per day, protein eaten per week, quality/nutritional value of food eaten

7.2. Financial Strategy

Social enterprise is a means to achieve sustainability through earned income; however, it is important to note that financial objectives differ among organizations. Unlike the microfinance field, the financial objective of a social enterprise is not by default *viability* (generating sufficient income to cover all costs). Social enterprises don't need to be profitable to be worthwhile. They can improve efficiency and effectiveness of the organization by 1) reducing the need for donated funds; 2) providing a more reliable, diversified funding base; or 3) enhancing the quality of programs by increasing market discipline.⁴¹ NGOs have varying financial motives for incorporating social enterprises into their organizations, ranging from income diversification to full financial self-sufficiency.

7.2.1. Financial Self-Sufficiency

Financial self-sufficiency is achieved by increasing NGOs' ability to generate sufficient income to cover all or a substantial portion of their costs or fund several social programs without continued reliance on donor funding. Organizations seeking to maximize profit will opt for

⁴⁰ Soft skills are social and interpersonal skills that clients may lack due to their disadvantaged circumstances.

⁴¹ Dees, Gregory, "Enterprising Nonprofits," *Harvard Business Review*, January-February 1998.

“complementary” subsidiaries expressly for the purpose of funneling money back to the parent organization. Experienced NGOs may use complex structures and have multiple mixed enterprise and income streams.

7.2.2. *Income Diversification*

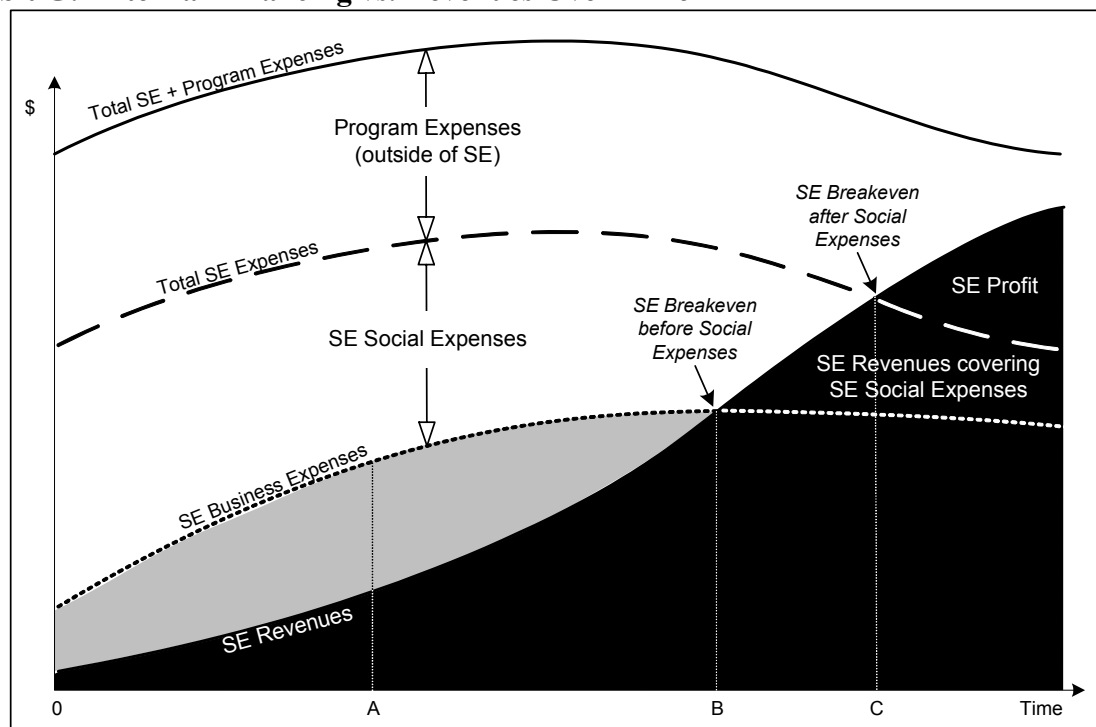
For many NGOs, social enterprise serves as a strategy to diversify their funding base, decrease reliance on donors, and recover or subsidize program costs. In these cases, the social enterprise offers a means to reduce program deficits and employ resources more efficiently. Organizations seeking means to diversify income may set modest financial objectives. For example, the costs of a program previously 100% grant-funded now covered 40% by earned income is success for many organizations.

7.2.3. *Cost Savings and Resource Maximization*

This financial objective is usually combined with the first or second type and is concerned with optimizing resources and leveraging assets for economic, social, and community development.

- Cost savings—is achieved by sharing back office functions, optimizing systems, and streamlining efficiencies to increase business performance and margins.
- Resource maximization—is achieved through leveraging NGO financial assets, tangible assets (space, equipment, plant, building, etc.), and intangible assets (proprietary content, methodology, relationships, goodwill, name recognition, skills, and expertise).

Exhibit G: External Financing vs. Revenues Over Time⁴²



⁴² Inspired by Alter, Sutia Kim, *Managing the Double Bottom Line: A Business Planning Resource Guide for Social Enterprises*, Pact Publications, Washington, DC, 2000.

Notes to Diagram

Social Enterprise = SE

Y Axis = Money

X Axis = Time

External Financing = all financing (grants, loans, contributions) minus revenues (internal financing)

Total expenses can be divided into three subcategories (moving upward along the Y-axis):

1. SE Business Expenses include all costs found in similar businesses that are strictly for-profit, with no consideration for social impact and mission.
2. SE Social Expenses comprise additional expenses incurred because of the social focus of the SE, such as special workplace or benefits requirements. Together, the SE Business Expenses and the SE Social Expenses total the total SE expenses.
3. Program Expenses, in this context, represent expenses incurred to support social programs outside the SE.

From Time 0 to Time A (moving along the X-axis), the SE goes through a start-up phase requiring a lot of external financing. Expenses increase faster than revenues. This is a critical phase during which decision-makers must carefully weigh business expenses based on their potential for generating future revenues.

From Time A to Time B, the SE goes through a growth phase during which external financing is still required, but revenues grow at a faster pace than expenses, leading the way to traditional financial sustainability.

The SE reaches its first breakeven point in Time B, at which point the SE becomes sustainable as a *traditional* business (a business that does not incur additional social expenses). The difference between all Business Expenses and Revenues between Time 0 and Time B represent the total business investment over that period of time (light gray area on the chart). Even the best management team implementing the best business model cannot succeed in bringing a business to that critical point if decision-makers fail to recognize (and budget) the level of external financing that will be required over that certain period of time, both of which can vary greatly based on a variety of factors (all of which are considered during the business planning phase).

From Time B to Time C, the SE still requires external financing, but only to cover part of its Social Expenses (part of which is also covered by SE Revenues). Depending on the model, some social enterprises never grow beyond that point, in which case they serve in a context in which both SE Revenues and external social subsidies can be effectively leveraged to create social impact.

In Time C, the SE might be reaching a second breakeven point, at which all SE expenses are covered by revenues. Additional SE revenues now generate a profit that can fund social programs outside of the SE.

7.3. Financial Spectrum

The level of social enterprise self-sufficiency is based on financial objectives, the type of enterprise, and its maturity. Social enterprise methodology does not dictate breakeven or profit-making; rather, financial performance is appraised by the ability of the social enterprise to achieve the financial objectives it has set. For this reason, the chart below does not represent gradation from one stage of development to the next, unless the social enterprise's express objective is to move across the continuum and performance is a question of maturity.

Exhibit H: Financial Spectrum of Social Enterprise⁴³

	Traditional NGO	Social Enterprise			
	Full Philanthropic Support	Partial Self-Sufficiency	Cash Flow Self-Sufficiency	Operating Self-Sufficiency	Financial Self-Sufficiency
Level of income	No earned income. Relies on subsidies for financial support to sustain operations.	Earned income covers a portion of operating expenses or recovers some program costs.	Earned income covers operating expenses of enterprise at lower than market rates.	Earned income covers all operating expenses without full market-based costs (capital & investments).	Earned income covers all operating and investment expenses at market rate.
Subsidy	100% subsidy.	Enterprise and/or parent organization mostly subsidized.	Bridges deficit between earned income and expenses, capital investment and growth subsidy.	Cost of capital, partial subsidies for loans, and capital expenditures.	No subsidies.
Viability through earned income	Not viable. Requires continued external financing (grants). Cost recovery is often seen as a side benefit rather than an expectation of the program.	Not viable. Organization is dependent on grants and donations for survival; may self-fund isolated services or activities.	Approaching viability. Covers direct costs; cost structure and growth subsidized; revenue covers daily operations until breakeven.	Viability expected. Operational breakeven; no surplus revenue, subsidies diminish; revenues cover all operating costs.	Viable to profitable. Revenues cover all operating and financial costs; retained earnings finance growth. NGO may change its legal status to that of a for-profit entity.
Type of subsidies	<ul style="list-style-type: none"> Philanthropic donations Grants In-kind support Volunteer labor 	<ul style="list-style-type: none"> Philanthropic donations Grants In-kind support Volunteer labor Parent organization support 	<ul style="list-style-type: none"> Grants to fund deficit Discounts and tax advantages Volunteer or below market labor (interns) Below market interest rates Parent organization support Preferential contracts 	<ul style="list-style-type: none"> Discounts and tax advantages Below market interest rates Parent organization support Bridge/gap funds; grants for specific cost costs Preferential contracts 	<ul style="list-style-type: none"> Tax benefits allowable by law if organization maintains NGO status Preferential contracts

⁴³ Expansion on spectrum idea presented by Gregory Dees, "Enterprising Nonprofits," *Harvard Business Review*, January-February 1998. Adapted from, Alter, Sutia Kim, *Managing the Double Bottom Line: A Business Planning Resource Guide for Social Enterprises*, Pact Publications, Washington, DC, 2000.

7.3.1. Methods of Income Generation

Social enterprises use a variety of methods to generate commercial income to sustain operations. At any given time, a social enterprise may use one or a combination of methods, based on the type of enterprise and business strategy.

Exhibit I: Methods of Social Enterprise Earned Income

<i>Methods</i>	<i>Examples</i>	<i>Examples</i>
Fee-for-service	Charging constituents or clients for social services in order to recover costs of service provision.	Museums charge entry fees; microfinance institutions sell financial services; rural clinics collect sliding scale fees for doctor visits.
Products	Earned income through manufacturing and product sales, or through mark-up and resale of products.	Horticulture cooperative sells flowers wholesale to suppliers; a fair trade company imports cocoa beans and manufactures them into chocolate products to sell in western markets; a handicraft marketing company sells artisan products through a catalogue and takes a commission on sales; a café employing disabled people sells coffee and snacks to the public.
Services	Commercialization of a skill or expertise to a market willing and able to pay.	Hunger relief organization sells catering services to schools and institutions; children's education organization provides daycare service for a fee; mental health organization sell psychotherapy and counseling services; a national microfinance institution sells management consulting services to other NGOs interested in starting credit programs.
Membership Dues	Fees collected from members of a group, association, or organization in exchange for services such as a newsletter, discounts, conferences, insurance, etc.	Dairy subsector trade association provides market information and linkages to its paying members; organization of social enterprise practitioners receives newsletter, listserv, industry reports, job listings, and an annual conference in exchange for an annual fee.
Tangible Assets	Generating income by renting or leasing a tangible asset such as office space, building, land, vehicles, or equipment.	Human services organization leases its idle office space to another NGO; a community development organization rents its trucks to a moving company on the weekends; an environmental conservation organization leases its land to an eco-touring organization.
Intangible Assets	Generating income by leveraging an intangible asset such as proprietary content, methodology, brand, reputation, relationships, goodwill, etc.	International Children's organization licenses its logo and brand name to a clothing line; a university obtains research contracts for scientific study from technology companies; a membership organization sells its mailing list; a youth news agency sells its print content to an online educational service targeting young people.
Investment Dividends	Passive income earned from investments.	Interest income and dividends from bonds, stocks, savings deposits, and other investments.
Unrelated Business Activities	Revenues from a business unrelated to the organization's mission and created for the purpose of funding specific social activities or the organization at-large.	Museum shop or retail store of an environmental organization; Girl Scout cookies; a catalogue trinket business supporting a public radio station; NGO real estate holdings.

7.3.2. Social Enterprise Markets

Social enterprises, like private businesses, may sell products and services in a variety of markets. Many economic development income-generating models, such as microfinance and business development programs, are designed so that the paying customer is also the client. In this model the clients are poor people, which limits income potential of the enterprise. In many civil society programs, such as arts and environmental organizations, the clients are not defined by their economic status and may have considerable purchasing power, thus clients do not limit the revenue potential per se. In short, social enterprises may serve any type of customer, depending on how financial and social objectives are welded into a business model. In social enterprises intended to create maximum economic value, then the market sought is that with the greatest ability to pay and where margins will be the highest. A social enterprise where social and economic value generation are intertwined may elect to serve clients, forsaking profit in favor of social impact. The following chart provides a list of potential social enterprise customers and corresponding examples.

Exhibit J: Social Enterprise Market

<i>Market</i>	<i>“Customer”</i>	<i>Examples</i>
Target Population	The “client” of the social enterprise and “customer” (user) of the service or product are the same.	Clients of microfinance institutions purchase financial services from the MFI. Small producers who are also clients buy product development and marketing training from a BDS provider.
Third Party Payer	The “payer” of the product or service is not the same as the “user,” who is the client. Social enterprise third party payers are donors (voucher programs), insurance companies, or government (Medicaid).	Social welfare program pays for health services rendered to indigent people by a community clinic. A local donor provides low income working mothers vouchers to pay for childcare services from an NGO childcare organization.
General Public	Customers in the open marketplace who buy social enterprise goods and services. In some cases their purchases may be socially motivated.	The public pays admission fees to see a cultural exhibition by an arts organization. Consumers buy used clothing from a thrift store run by a disabilities organization.
Business and NGOs	“Business-to-business” NGOs or businesses buy products and services from the social enterprise.	A national ice cream manufacturer buys brownies from a bakery staffed by recovering drug addicts, which it uses in some ice cream flavors. Socially conscious businesses purchase renewable energy sources from an environmental organization.
Government Contracts	Government buys services and products from the social enterprise.	Area circuit courts purchase a referral service database from an NGO for substance abuse organization. A local government agency purchases janitorial and grounds maintenance services from a disabilities organization.

7.3.3. *Philanthropy*

Philanthropy in Latin America has evolved at a rapid pace over the past 25 years. Traditional forms of giving focused on charitable deeds have matured into a vibrant locally grown landscape of foundations that are interested in promoting sustainable social progress through strategic investments. The most forward thinking of those institutions have already begun pushing the frontiers of strategic investment into what has become more widely known as venture philanthropy.

The emergence of strategic philanthropy as an alternative to charitable giving has been catalyzed by three trends.⁴⁴ The first was the increase in wealth in Latin America, albeit a poorly distributed one, which led to the emergence of more local foundations. This included the emergence of a significant number of corporate foundations.

Growth in Numbers of Foundations⁴⁵

	Number Foundations in 1980	of Number Foundations in 2000	of % Endowment in 2000	with Private Foundations	Corporate Foundations
Brazil	16	31	16.1%	38.7%	61.3%
Ecuador	6	21	60%	71%	29%
México	25	74	64%	77%	23%

The second trend that affected the growth of strategic philanthropy in Latin America was the improved climate for partnership and dialogue across different sectors and levels of society. This trend exhibited a new phenomenon, which saw growing numbers of "cross-over" individuals with one foot in government or business and another in civil society organizations who also had a talent for bringing different groups together. It was sustained by a third trend, which affected strategic philanthropy—the emergence of community foundations. These foundations are basically operating foundations rooted in their service to poor communities who have the ability to source capital from multiple donors. By integrating their boards with people with private sector backgrounds and exposing them to community development issues needing philanthropic support, they have educated a previously undereducated segment of the population about the issues facing their society and how they can make a difference. These people in turn have brought their business skills to the governance of these organizations and helped to educate a new generation of NGO managers. These trends helped to lay the foundations for the social enterprise movement and led to a new form of philanthropy, which is much more recent and still in its nascent stages: venture philanthropy.

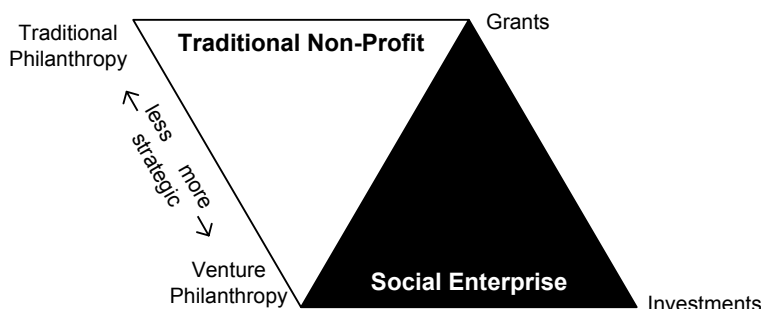
⁴⁴ Dulany, Peggy and David Winder, "The Status of and Trends in Private Philanthropy in the Southern Hemisphere," 2000-3, The Synergos Institute (www.synergos.org).

⁴⁵ Ibid.

7.3.4. Venture Philanthropy

Venture philanthropy, also call “strategic philanthropy,” is inspired by the thinking and practices of venture capitalists.⁴⁶ It is a style of giving that not only views a grant to a social enterprise as a form of investment in its equity; but also aims to have the organization that made the grant become more deeply involved in providing the support needed by that social enterprise to successfully grow and transition to other forms of investment over time. Most venture philanthropists, like venture capitalists, like to be intimately involved in the business planning and monitoring of the social enterprise through a more engaged investment of their time in the governance of the organization. They also intend their investments to serve as unrestricted core funding to the institution and tend to be averse to funding “projects” that deal with only one aspect of an operation over a limited period of time. They are driven by results-oriented frameworks and push for more sophisticated performance metrics that allow them to understand if their investments are paying off in terms of both the financial viability of the social enterprise, but more importantly, the social return on investment that has been generated through its services. They also do not plan in three- to five-year project time frames but develop their time horizons relative to the business plans of the organization through which they identify the most appropriate points for transitioning the organization to new sources of capital and according to which they plan exit strategies. Finally, like venture capitalists, they are not averse to risk and understand that perhaps 10% to 20% of the social enterprises will generate the major impacts they are looking for while others will fail and the rest will muddle along. Venture philanthropists are the breed of investors best suited to meet the needs of social enterprises.

Exhibit K: Venture Philanthropy vs. Traditional Funding



7.4. Organizational Capacity

Social enterprise applies contemporary private sector and organizational development tools, constructs, and practices to strengthen NGOs in the following areas: operational, financial, and marketing management; human resource, leadership, and governance; outcomes measurement and accountability; and decision-making, strategic planning, and communication.

⁴⁶ The 1996 *Harvard Business Review*, "Virtuous Capital: What Foundations Can Learn from Venture Philanthropists," defines venture philanthropy by six characteristics drawn from venture capital practices: 1) investment risk is analyzed vis-à-vis its return and managed. 2) Performance measures track growth, impact, and monetize social and economic return (social return on investment—SROI). 3) Close relationship: venture philanthropists are often directly involved with their investees' operations, providing management and technical assistance to build their investees' capacity. 4.) Amount of funding is sufficient to fully develop concepts, including overhead and operational costs. 5) Duration of involvement with their investees is several years. 6) Exit Strategy with investees is established at the point of entry.

7.4.1. NGO Performance

NGO performance is improved by strengthening organizational capacity to accomplish mission and generate income. Planning processes, management tools, and measurement instruments essential in businesses but often lacking in NGOs are easily adapted and integrated into the social enterprise. The double bottom line context crosscuts all functions; thus social enterprises operate within a well-developed framework to both manage and be accountable for their social and business objectives.

7.4.2. Operational Efficiency

To achieve operational efficiency, social enterprise should:

- Leverage organization's core competencies and assets through the commercialization process.
- Require responsiveness and adaptability to opportunities and threats to capitalize on the market and exist as a going concern in the face of competition.
- Increase cost-effectiveness through cost-sharing, leveraging assets, and streamlining systems and processes in order to maximize earnings by reducing costs and waste.
- Encourage market discipline of strategic thinking, planning, rapid decision-making, creative solutions, flexibility, and perseverance.
- Increase accountability through cost accounting, particularly in time-based services and performance-based management tools (i.e. Balanced Scorecard); and the use of standard business performance and financial measures.

7.4.3. Social Impact Tracking and Measurement

Social enterprise methodology calls for tracking and measuring social impact and social value creation. The methodology sets targets for achieving both financial and social objectives and incorporates private sector measurement tools. Examples include Social Return on Investment (SROI), which measures economic value creation and monetizes social returns; and Ongoing Assessment of Social Impacts (OASIS), a comprehensive measurement system.⁴⁷

7.4.4. Financial Management

Social enterprises develop capacity to strengthen financial discipline and manage finances. Enterprise operations require adopting standard accounting principles and practices, producing financial statements, and learning how to use them to inform decision-making. Financial rigor is used to discern social program costs from business performance; social enterprises incorporate cost accounting as a means to segregate subsidies and social costs from actual business performances.

⁴⁷ Both SROI and OASIS social impact measurement systems are products of the The Roberts Foundation Enterprise Fund, a pioneer and leader in the social impact measurement methodologies in the field of social enterprise. (For more information see www.redf.org.)

7.4.5. *Leadership and Human Resource Management*

Operating a social enterprise enhances management's ability to think strategically and to function in a dynamic market. It also necessitates hiring business professionals, functional managers, and industry experts whose experience and perspectives influence the social service side of the organization, and work to improve overall efficiencies, accountability, and results. Social enterprise managers are tasked with managing social interest, assets, and investment, and thus must apply business approaches throughout their organizations. In fact, the social enterprise field is breeding a new type of manager, who, like the hybrid organization they represent, blends skills and experience from the social and business sectors.

7.5. **Organizational Culture**

Introducing social enterprise rocks organizational culture on several levels, all of which must be addressed in and throughout the transformation process. Overriding issues are resistance, fear of change, and fear of losing sight of the mission. Many NGO leaders are uncomfortable integrating business into their practices; most, however, understand the need for money, which is a good motivational starting point. The transformation process results in a cultural shift in the following key areas:

- Innovation: “Thinking outside the box,” the organization finds new and creative approaches to solving social and financial problems and generating social value.
- Entrepreneurship: Risk-taking and market-oriented decision-making are based on market opportunities and threats.
- Change Management: The organization learns to both embrace and manage change, rather than to fear or resist it, becoming more adaptive and flexible in the face of change.
- Results Oriented: By integrating standard business practices and tools, the organization becomes more focused on results and accountable to achieving them.

7.6. **Risks and Benefits**

Social enterprises can provide significant benefits, including increased income; a diversified funding base; greater flexibility in allocating income; improved organizational planning, management, and efficiency; improved relations with philanthropic donors; increased and improved benefits for stakeholders; increased self-confidence; and greater value placed on work.⁴⁸ By the same token, integrating social enterprises into NGOs produces risks that must be either managed or avoided. Risks and benefits are analyzed in accordance with the methodological aspects of social enterprise.

⁴⁸ Etchart, Nicole and Lee Davis, “Unique and Universal: Lessons from the Emerging Field of Social Enterprise in the Emerging Market Countries,” NESsT, 2003.

Exhibit L: Risks and Benefits

	Risk⁴⁹	Benefits
Financial	<ul style="list-style-type: none"> • Lose money • Start-up costs higher than willing to commit • Traditional NGO funders may decrease support • Opportunity cost (earned income vs. fundraising) 	<ul style="list-style-type: none"> • Generates sustainable source of income • Diversifies revenue streams • Reduces donor dependency • Leverages existing assets • Unrestricted funds • Cost savings in shared back office • Increases credibility with funders
Mission	<ul style="list-style-type: none"> • Mission and reputation could be compromised if the venture is seen as a sell-out by stakeholders • Organization has difficulty balancing mission and money, causing mission drift from core social activities to business • Enterprise could have negative impact on clients 	<ul style="list-style-type: none"> • Sustainable programming vehicle • Accountability for achieving social objectives • Leverages mission activities and core competence
Operations	<ul style="list-style-type: none"> • Venture may divert management and staff attention • Increased organizational complexity • New systems required to support enterprise add costs • Business skills needed for enterprise may necessitate hiring new staff 	<ul style="list-style-type: none"> • Incorporates organizational development and business tools throughout NGO • Provides double bottom line context for management that crosscuts all functions • Requires organizations to manage social interest, assets, and investment • Enhances strategic thinking to function in a dynamic market • Increases efficiency and cost-effectiveness <p>Improves market responsiveness</p>
Culture	<ul style="list-style-type: none"> • Cultural differences social programs and enterprise may cause tension • Staff may leave due to “business culture” • Board and staff may feel sold out • Resistance to change 	<ul style="list-style-type: none"> • Innovation • Entrepreneurship • Change management • Market orientation • Results orientation

⁴⁹ Adapted from Community Wealth Ventures “What are the Risks,” 1998, Washington, DC.

7.7. Key Issues

Several common themes and challenges exist among NGOs incorporating social enterprise into their organizations.

7.7.1. *Mission Drift*

The inherent challenge of operating a social enterprise is managing to its dual objectives. In practice, the business of generating social and economic value means decisions and actions are in frequent opposition. This translates into calculated trade-offs: decisions to forsake social impact to gain market share or increase profit margins; or conversely, expanding the scope of social good at a financial cost. Problems occur when an organization's enthusiasm to meet its financial goals begins to overwhelm its social mandate. NGOs' long history of struggling to secure funding can, in the advent of earned income, threaten to swing the pendulum too far in the other direction. In the early days of microfinance, donors and practitioners toiled to set parameters on "how far is too far" on the mission-money spectrum by quantifying loan sizes, duration of client relationships, and interest rates before arriving at a model that was both viable and scaleable.

The concern many NGO practitioners and donors face is that incorporating commercial approaches into an NGO will compromise the organization's mission or social services by causing a "drift" too far into the for-profit camp. The feared results of the "drift" (real or perceived) are: 1) drift may damage the reputation of the organization among stakeholders and the public; 2) the social enterprise may jeopardize funding because donors either misunderstand its dual-intention social enterprise or believe donations are now unnecessary; 3) it may threaten organizational culture by applying market-based approaches and bringing in business professionals and industry experts; and 4) finally, some fear that the organization will lose focus, and stray too far into the commercial realm, neglecting its social mission.

Running a social enterprise is a balancing act, which requires vigilance and a clear understanding of the organization's purpose and priorities: what *is* the social impact that the organization is trying to achieve, and how much money does it need to make? It means strong market discipline coupled with an equally strong sense of ethics and integrity—and leadership consensus about limits on "how far is too far" in any direction. Generating economic value, or making money, is not an evil act; on the contrary, it's a tool for generating social value in a way that is more sustainable than relying on donor funds. The social enterprise model and design will largely inform how its dual purposes are achieved; it is up to the leadership to manage the tensions. The following exhibit shows this relationship in the product and market mix.

Exhibit M: Product—Market Matrix

High	Existing Product; Existing Market <i>Income directly from social programs</i> Income is earned directly from NGO program activities. NGO sells existing social service and products to its target market or to a third party payer on behalf of target market. Income covers the cost of service delivery and may fund all or a portion of overhead. Example: a microfinance institution sells micro-loans to low income microentrepreneurs. Income from interest and fees is used to cover the service delivery costs as well as the operating and financial costs of the microfinance institution.	New Product; Existing Market <i>Income from extension of social program</i> Income is earned by enhancing NGO program activities. NGO sells new products and services to its existing target population or constituents. Income covers the cost of service delivery and may fund all or a portion of overhead. Example: in addition to its educational and advocacy programs, a biodiversity organization adds an exhibit hall to its offices. Visitors pay admission fees, which fund the operating costs of the exhibit as well as a portion of the organization's overhead.
	Highest mission relevance; lowest risk	High mission relevance; medium risk
Low	Existing Product, New Market <i>Income related to social program</i> An NGO commercializes its existing social services or products and sells them in the open market to the general public or businesses (other than to clients/constituents). Income subsidizes social programs and parent organization overhead. Example: a senior services organization provides grant-subsidized care management services to poor seniors, and sells the same services in its eldercare business to a private pay market. Income generated from the private eldercare business is used to subsidize social program costs and a portion of the parent organization's overhead.	New Market, New Product <i>Income not related to social program</i> An NGO sells new products or services in a market other than to its target population or constituents. The decision to use this mix is financially motivated. This type of social enterprise most often takes the shape of auxiliary or unrelated businesses, and its income is used to fund social programs and the parent organization at-large. Example: a youth organization owns a real estate holding company with several commercial rental properties. Space is rented to tenants that have no relationship with the commercial activities of the youth organization. Profit from the real estate business is used to fund the youth organization's overhead and programs.
	Medium mission relevance; medium risk	Low mission relevance; high risk
Low		High
RISK		

7.7.2. *Capital*

Social enterprises, like any other business—micro or corporation, need capital to grow. It's not only a question of financing, but also of the right kind; capital must correspond to social enterprise financial needs, business cycles, and maturity. Furthermore, like any other business, the best make good use of borrowed capital and their own risk capital.

Access to capital, however, is a constraint social enterprises continue to face. The reasons are fourfold: 1) Nonprofit capital markets are immature and underdeveloped, and there is little availability of financial instruments appropriate for capitalizing nonprofit businesses. 2) Ownership and regulatory issues bar nonprofits from access to financing—they cannot issue equity or distribute profits. 3) Nonprofit managers are financially risk adverse and hence often steer clear of options to leverage or borrow funds in order to capitalize their enterprises. 4) For the nonprofit manager willing to borrow, the lack of collateral, credit history, or financial competence are other factors that prohibit access.

Market maturity and limited available resources present significant problems. Agencies such as the Inter-American Development Bank and social investors such as Calvert Foundation or Partners for the Common Good have worked to fill funding gaps with low interest loans and innovative financing programs, such as SEP. On the other hand, few donors have come to the table to fund start-up or early stage social enterprise with grants. In cases where donors have funded social enterprises, the philanthropic funding cycle is typically slower than the social enterprises' business cycle (production and sales cycle), which can further challenge capitalization. To exacerbate matters, there is the worrisome misconception that once an organization has launched a social enterprise, it no longer needs grants for social programs, when in fact early capitalization of the enterprise dictates the opposite. There is also the misperception that social enterprises only need loans. Capitalizing a nonprofit social enterprise may take four or five times longer than its private sector counterpart, due to the social costs and encumbrances of supporting dual objectives. These financial limitations hinder efforts of many social enterprises to take their activities beyond the start-up stage and to stabilize, expand, and diversify.⁵⁰

Appropriate funding instruments and greater awareness of capitalization issues is needed to facilitate the growth of the social enterprise field as a viable sustainability strategy for nonprofits. Assisting the development of social enterprises' capital markets is a role that IDB and donors, philanthropists, and local governments can play. The following exhibit shows the range of funding across the nonprofit and for-profit spectrum. Many of the same funders support both traditional nonprofit and hybrid nonprofit enterprises; however, greater participation and diversity of funding instruments are needed in the latter if this field is to emerge as a mainstay of international development.

⁵⁰ Etchart, Nicole and Lee Davis, "Unique and Universal: Lessons from the Emerging Field of Social Enterprise in the Emerging Market Countries," NESsT, 2003.

Exhibit N: Funding Spectrum⁵¹

Type of organization	Traditional NGO	Social Enterprises	Socially Responsible Companies	For-Profit
Capital	Grants and donations	Mix of grants and below market capital No interest or low-interest loans	Market rate capital (including responsible investments)	Market rate capital
Sources of Capital and Investors	Foundations and government programs Multilaterals Bilaterals Individuals	Foundations Local government Community Development Financial Institutions Program related investments (PRIs) Bilateral and multilateral lenders NGO social investors Individuals	Socially screened funds Shareholder activism Socially screened and traditional venture capitalists Investment banks Individual investors Stock	Traditional venture capitalists Investment banks Other investment assets Individual investors Stock
Investment Objective	High social return—no expected financial return	High social return with below market or no financial return	Market rate of financial return and some social return	Full market rate of financial return and no expected social return

7.7.3. Measurements

When it comes to *measurement*, social enterprises face the challenges of both for-profit enterprises and nonprofit organizations. From for-profits, social enterprises inherit the challenges of measuring the process whereby investments are converted into revenues. For-profits are *result-driven*, and therefore continually measure and improve the process by which they achieve results. Simply put, for-profits need to know that what they are doing is done in the right way. For this reason for-profit measurement methodologies are *process-oriented*. From NGOs, social enterprises inherit the challenges of measuring their impact on society. NGOs are ultimately *action-driven*, and therefore measure the outcomes in order to justify their actions. Simply put, NGOs need to know that they are doing is the right thing. For this reason NGO measurement methodologies are *outcome-oriented*. Since social enterprises are taxed with doing the right thing (*outcome*) in the right way (*process*), their measurement methodologies need to be both *process-oriented* and *outcome-oriented*.

Challenges of Combining Process-Oriented and Outcome-Oriented Measurements

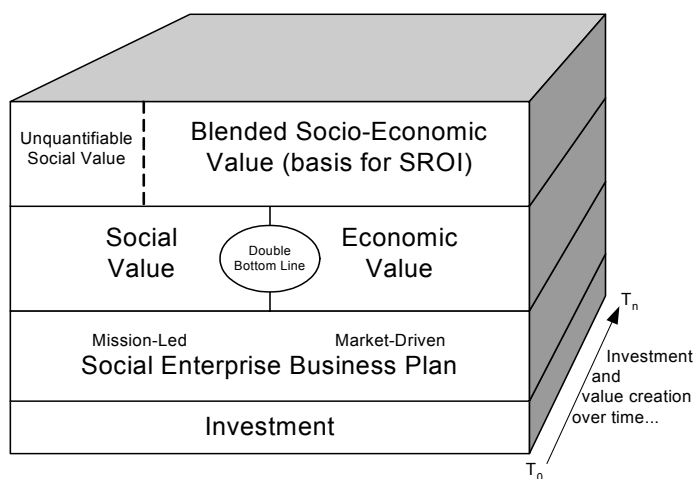
⁵¹ Adapted from Emerson, Jed and Sheila Bonni, “The Blended Value Map: Tracking the Intersects and Opportunities of Economic, Social and Environmental Value Creation,” September, 2003, www.hewlett.org.

Social enterprises must differentiate between business costs and social costs in order to measure and benchmark their business processes. In theory social costs can be categorized as costs that a similar for-profit operation with no social orientation would consider as unwarranted (because a lower cost alternative is available). In practice, however, differentiating between business and social costs is no easy task because the differentiation rarely occurs along clear dividing lines: expenses related to training, equipment or supervision, for instance, are likely to be found in both categories, depending on the rationale behind each specific expense.

A number of social outcomes can potentially be tracked. NGOs commonly measure outcomes relating to employment, education, wages, housing, use of public assistance, use of social services, reduced medical needs, increased quality of life, or changes in behavior and attitudes. A biased view of positive indicators can quickly label a methodology as an overall success, making it the doctrinal panacea to all social ills. A biased view of negative indicators can label a methodology as an overall failure, turning it into the black sheep from which no lesson can be learned. Social enterprises must learn to stick to the plan during good times and bad times, and select and track social indicators relevant to their own definition of success within their business model. They need to recognize that their overall success depends on their ability to capture both successes and failures, reinforce or revise their business model and processes, and grow stronger.

Exhibit O: Social Enterprise Measurement Paradigm⁵²

Measurement methodologies need to encompass all layers of the social enterprise paradigm:



- **Investment:** views grants and subsidies as investments in relation to the overall capital structure of the social enterprise.
- **Business Plan:** to be effective, measurement methodologies must be designed to inform the work of practitioners over time: ongoing measurement and assessment tools are a critical element.
- **Value proposition:** a successful measurement methodology must balance social purpose and enterprise value creation.

- **Economic Value:** traditional value creation in for-profit businesses (profit).
- **Social Value:** traditional value creation in nonprofit organizations, leading to improvements in the lives of individuals or society as a whole.
- **Socio-Economic Value:** builds on the foundation of Economic Value by adding Social Value that can be quantified and expressed in economic terms (monetized), either as cost

⁵² The Roberts Enterprise Development Fund, *Investor Perspectives: Social Purpose Enterprise and Venture Philanthropy in the New Millennium*, The Roberts Foundation, San Francisco, 1999.

savings (e.g. reduced need for public assistance) or increased revenues (e.g. increased tax paid).

- **Unquantifiable Social Value:** place measurement methodology in larger context of value creation that include qualitative aspects that cannot be monetized or even quantified (e.g. quality of life issues).
- **Investment and value creation over time:** recognizing that overall success cannot be determined by a snapshot approach, but only by ongoing tracking and measurement of investment and value creation over time.

7.7.4. *Leadership and Capacity*

NGO capacity building has long been a focal point of international development agencies and practitioners. Incorporating commercial activities into a NGO adds another dimension to capacity-building efforts. Capacity in a social enterprise may determine whether the organization makes or loses money. Business acumen is a new skill for many NGOs, which are accustomed to designing social programs around clients' needs, rather than in accordance to dynamic market forces. As a result, many NGOs lack strategic thinking, business planning, product development, marketing, and other marketplace survival skills.

Strengthening business-specific skills and managerial capacity to pursue commercial opportunities is a function of both hiring the right people—entrepreneurs or business professionals—and providing technical assistance, training, and career development opportunities. Hiring for a social enterprise can be challenging. Management must possess the same “schizophrenic” hybrid qualities as the double bottom line social enterprise. The socially-oriented business professional or the business-oriented NGO leader, like the social enterprise itself, is an unlikely pairing; however, a new breed of social entrepreneurs is emerging with the field. In addition to general business management, social enterprises need functional skills and industry expertise, meaning that it is essential they hire someone with experience in the business they are entering—be it a bakery, cosmetics factory, organic farm, or consulting firm. Traditional NGO capacity-building efforts may be coupled with social enterprise modules, which address risk, benefits, and implications for staff and management's specific jobs. This type of capacity-building, however, can stress organizational culture and create internal conflicts centered on balancing financial and social objectives. Microfinance suffered such growing pains as the field increasingly moved toward commercialization, and social enterprise can profit from this experience as it charts its capacity development.

7.7.5. *Tax Status and Regulatory Environment*⁵³

While the legal environment varies from country to country, a general lack of clarity in the law about the legality and tax treatment of NGOs engaged in economic and commercial activities in emerging market countries (including those in Latin America) results in a variety of practical and ethical challenges for many NGOs.⁵⁴ Many social enterprises operate in “legal grey areas,” fearing that their commercial activities will jeopardize their NGO status. Attempts to remain “off

⁵³For more information pertaining to social enterprise legal issues in Latin American and emerging markets see: Etchart, Nicole and Lee Davis, “Legal Series: Chile and Columbia,” 2002; and *Profits For Nonprofits*, NESsT, 1999, chapter 3 “Legal Issues” as well as: International Center for Not-For-Profit Law (ICNL), for a list of publications and information see: www.icnl.org.

⁵⁴ Etchart, Nicole and Lee Davis, “Unique and Universal: Lessons from the Emerging Field of Social Enterprise in the Emerging Market Countries,” NESsT, 2003.

the radar screen” of local authorities forces social enterprises to remain small and thus unable to maximize their profit potential or achieve scale. In some instances, local authorities or “tax police” take advantage of the ambiguous laws and extort social enterprises, requiring them to pay bribes or exorbitant taxes that can threaten the survival of both the enterprise and the NGO. In other cases, governments have eagerly looked to social enterprises as a new mechanism for building the tax base, and charged high taxes on earned income, crippling social enterprise performance and preventing them from achieving their purpose of funding social activities. Where the laws are clearer, reporting requirements can be burdensome, penalties harsh, or tax incentives nonexistent. Furthermore, the lack of clarity in the law presents an ethical dilemma for NGOs as they struggle to promote and preserve a reputation of transparency and accountability to their constituents, donors, and public-at-large, while also trying to identify the most favorable tax treatment for their social enterprise.

Although the microfinance field has made inroads into creating an enabling environment for NGO financial service businesses and raising awareness about NGO income generated as a means to achieve sustainability, the legal environment for social enterprise development can still be strengthened. Advocacy efforts have the opportunity to dovetail with the work of microfinance, broadening governments’ understanding of social enterprises not as a mechanism to build the tax base, but rather as an instrument to replace government funds that draw from taxes. An unambiguous and favorable legal environment, such as tax incentives to social enterprises, would not only foster growth in this field, but would also serve to increase integrity and clarify ethical questions and public misperceptions regarding NGO commercial activities.

7.8. Conclusion

The purpose of this typology is to elaborate the rich mosaic of highly differentiated and creative models of social enterprise, and by doing so, to inspire innovative approaches to create greater value for people and the planet. The piece is also intended to help advance the field of social enterprise and IDB’s work by organizing diverse approaches and strategies into a common framework. The occupation of identifying and defining operational models and legal structures is simply to provide a conceptual framework for efforts occurring in the international development context and within IDB’s Social Entrepreneurship Program. A basic premise used in this typology is that of a spectrum, which avoids bifurcating the landscape into opposing functions: one, the for-profit world whose *raison d’être* is to create economic value; and the other, the NGO world whose purpose is to create social value. In practice, these dichotomies are increasingly coming together through the application of methods that marry market mechanisms to affect *both* social *and* economic value resulting in *total* value creation. The emergence and the subsequent propagation of corporate social responsibility and social enterprise evidences this trend, and the social enterprise lens brings into focus this convergence through its methodological paradigm. Value creation is the backbone of social enterprise and serves as a fundamental and unifying principle between different economic development approaches. To this end, the typology is not intended to straightjacket practitioners into a prescribed set of formulas, but rather recognize and embrace the abundance of variation under the umbrella of a larger vision.

Within IDB, the typology will contribute to operations in several ways: first, by improving IDB’s understanding of social enterprise; second, by providing IDB with a framework to systematize the operations undertaken by the institution through its Social Entrepreneurship Program (SEP); and third, by helping to inform SEP operations in its project design and implementation efforts.

Most importantly, the typology will help IDB to maximize the contributions of its social investments and support to innovative programs that will continue to advance and shape field of social enterprise.

Today we stand at a juncture: the market for social enterprise is vast, yet the current pool of self-identified social enterprises is small, fragmented, and somewhat elite. A large group of NGO leaders and organizations are either unfamiliar with the term or do not see the validity of analyzing the market for potential social enterprises.⁵⁵ Paradoxically, at the practitioner level, whether born out of financial necessity or program innovation, the phenomenon of social enterprise is exploding. Herein lies an extraordinary opportunity to build the field, and IDB is well positioned to lead these efforts in the Latin American region. The strategies in this paper are intended to maximize impact and value in economic development using social enterprise as a vehicle. IDB can play a critical role in bringing social enterprise to the next level by fostering the application of these strategies and challenging practitioners to explore new social enterprise value creation models.

At this time there is a need to coordinate the existing efforts of organizations that have begun to experiment in this realm as well as invite interested bystanders into the conversation. This typology represents an early attempt to provide content for, and stimulate, these discussions. Much can be gained through educating and raising awareness: sharing information and resources, distilling and disseminating best practices. IDB case studies, which illustrate SEP's 25 years of funding experience to a diverse social enterprise portfolio, illustrate the typology's essential elements. This document and the many organizations' whose work it draws upon highlight the interrelationship of critical issues such as capacity building and appropriate resources that are required to support the development of this nascent field.

Ultimately, social enterprise is a means to a more just and equitable society. Through its value maximization properties, social enterprise addresses one of the most pressing issues facing international development today—how to achieve *ongoing sustainable impact*. This prospect is social enterprise's promise as well as its future. Whether or not social enterprise is brought to bear as a mainstream development strategy rests on the participation and commitment of international development practitioners and funders. In a word, it will take a substantial investment of time, resources, and money along with the willingness to expand horizons into unknown territories. As seen in this typology, many social enterprises defy neatly labeled boxes. The sprawling nature and diversity of the field could easily intimidate the risk averse implementer yet delight the intrepid architect. The current state of the social enterprise field is not unlike that of early microfinance: many of the obstacles and challenges it faces are similar. Dovetailing on the success of more than 20 years of microfinance, social enterprise is poised to enter the market in full swing. Social enterprise might just be the new approach needed to augment other economic development work toward the unified goal of solving age-old inequities and injustices in the developing world.

⁵⁵ Spinali, Lisa and Hayley Mortimer, "A Scan of the Not-For-Profit Entrepreneurship: Status of the Field and Recommendations for Action," Kauffman Center of Entrepreneurial Leadership, January 2001.

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9. Appendices

- **A: Social Enterprise Map**
- **B: Summary of Archetypes and Models**