

SCHWAB FOUNDATION FOR
SOCIAL ENTREPRENEURSHIP

WORLD
ECONOMIC
FORUM

COMMITTED TO
IMPROVING THE STATE
OF THE WORLD

Breaking the Binary: Policy Guide to Scaling Social Innovation

In collaboration with InSight at Pacific Community Ventures, the Initiative for Responsible Investment at the Hauser Center for Nonprofit Organizations at Harvard University, and SK Group

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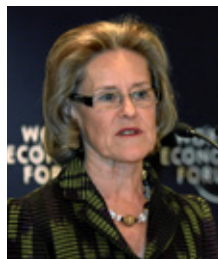
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Foreword



Hilde Schwab
Chair and
Co-Founder, Schwab
Foundation for Social
Entrepreneurship

My husband Klaus Schwab and I started the Schwab Foundation for Social Entrepreneurship over a decade ago because, although the World Economic Forum had engaged leaders from traditional civil society organizations for many years, we sensed that a distinct, more entrepreneurial approach to alleviating problems associated with poverty was beginning to take hold. We saw a new generation of social entrepreneurs, often well educated, some with promising private-sector careers, who were experimenting with business models, innovating new distribution and replication methods, and holding themselves accountable for results.

Too often, however, especially in those early years, they worked in relative obscurity in their home countries. Often they had trouble accessing high-level decision-makers who could help them scale their efforts, and they were frequently misunderstood by the press and the general public, who viewed them as traditional charities.

To change this, the Schwab Foundation worked with media companies and with search and selection partners in nearly 40 countries, holding annual "Social Entrepreneur of the Year" competitions to raise awareness about the concept of social entrepreneurship and, for the winners, providing unparalleled visibility and recognition among all participants of World Economic Forum events. We currently have nearly 250 social enterprises from 60 countries in the Schwab Foundation community, working on everything from renewable energy and sanitation to job training and access to higher education.

Today the situation is entirely different. Social innovation is rising to the top of the international agenda. The diffusion of proven models and policy experimentation across the globe is accelerating. The World Economic Forum and the Schwab Foundation are regularly contacted by governments and large corporations that want to learn from the social enterprise models in our network and to understand what policy environments and partnership structures are most conducive to lasting success.

That is precisely why this guide is so timely. I can attest from countless personal conversations that there is tremendous global interest among policy-makers at the highest levels to better understand social innovation and how it can be nurtured from a policy perspective. This guide aims to answer both of these questions.

While this guide presents a broad set of policy tools for governments to consider as their circumstances dictate, social innovation is fundamentally about changing our value systems and our mindsets. No single sector of society has the ability to solve today's complex, urgent challenges, which is why the multistakeholder collaboration that has been at the heart of the World Economic Forum's mission for over 40 years is needed more than ever.

All citizens – especially the younger generation – need to feel empowered and incentivized to apply their talents and creativity to generate more inclusive, sustainable growth. Governments alone cannot solve social problems, nor can the private sector, despite their respective resources and capabilities. But we can all collaborate to identify, nurture and scale models that have the greatest promise to transform opportunities and livelihoods for billions of impoverished or vulnerable human beings.

I hope that you will join us in this transformation.

A handwritten signature in black ink that reads "Hilde Schwab".



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How to Read This Report

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Do we really just have binary choices – between public or private provision of education, health and other social services; between charities and aid agencies focused only on dire needs or corporations focused only on maximizing profits; between investors who can choose only to maximize their returns or make philanthropic donations? Is there a middle way? Is there a model that embraces the financial disciplines of market capitalism but also provides opportunity and support for the vulnerable, the dispossessed and the downright unfortunate?

There is. Social enterprises balance a social mission with financial viability and sustainability, existing between the public sector and private markets in both the developed and developing world. We need to unleash a whole new wave of social entrepreneurs and help existing models with proven impact grow to scale much more effectively. If we get this right, the economic historians of the future will look at this generation of leaders and be grateful. They took the risk and transformed the prevailing model. They helped create a world that enriched the many and not just the few.

”

Nick O'Donohoe, CEO, Big Society Capital, UK; Vice Chair of the Global Agenda Council on Social Innovation

Breaking the Binary: Policy Guide to Scaling Social Innovation

is intended to add a perspective to the global conversation already under way about how we move beyond binary choices in crafting responses to social, economic, and environmental challenges. Fundamentally, it is about leveraging private enterprise and capital for public benefit.

We refer to this as social innovation, which we define as “the application of innovative, practical, sustainable, business-like approaches that achieve positive social and/or environmental change, with an emphasis on low-income or underserved populations.” And while social enterprises do not hold a monopoly on social innovation, they are a critical but under-utilized part of the social innovation ecosystem.

There are many reasons for this, but chief among them is that our current economic system is designed to stimulate growth through a market mechanism that historically channels investment capital based only on financial results, while government seeks to address market failure through spending and aid. As neither conventional businesses nor traditional charities, social enterprises blur existing boundaries and “fall through the cracks” of existing policy frameworks, forcing them to navigate a multitude of challenges along their path to scale.

What sort of challenges do social enterprises face and why is scaling them so difficult? Corporate legal forms do not recognize dual-purpose business models, for example, and tax systems rarely distinguish between companies that benefit society and the environment and those that damage it. Regulation is designed to protect investors from excessive financial risks but never recognizes that their decisions may be influenced by a desire to seek positive social or environmental impact.

Overcoming these challenges is vital to moving beyond the goodwill of individuals and delivering on social entrepreneurship’s promise as a sector, and well-designed policy tools and incentives clearly serve as the foundation. The ecosystem that will support and stimulate the growth and development of social enterprises and the financial infrastructure that will fund their replication and scale will not just happen without catalytic policy support.

So what role can and should government play to catalyse social innovation? The first section of this report attempts to answer that question, articulating a framework for credible, realistic policy action that governments can take to turn social entrepreneurship into a major force for innovation. Recognizing that a “one size fits all” approach does not work for countries and regions in different stages of development, with vastly different social problems, the framework does not aim to be prescriptive. In other words, the six broad steps are analogous to the “pieces of the puzzle” necessary for social innovation to flourish, while the case examples under each one are akin to a “menu of enabling tools” that policy-makers can choose from and adapt as their circumstances dictate.

In addition to case studies in the US, UK, and Australia, we profile efforts under way in Senegal, Colombia, India, China, and elsewhere. The fact that there is so much policy experimentation under way around the world is a significant indicator of forward momentum in only a few short years. At the same time, because the policies and institutions profiled in this guide are relatively young, they have limited track records on which to evaluate

success or failure. We should, therefore, emphasize that although these policies hold tremendous promise, we are not asserting that they represent best practice, as we simply do not have enough data to make any conclusions regarding performance.

Rather, the case studies should be interpreted as proof points of what we see as a clearly emerging global trend: governments are increasingly experimenting with ways to harness the power of mission-driven private enterprises to create public good. Public sector innovation is a long and arduous process, but it is a critical enabler to enhance and scale the impact of social innovation models pioneering solutions to many of the most entrenched social and environmental problems we face today. Our hope is that these cases not only provide a comprehensive snapshot of where the policy frontiers lie today but also that they stimulate a broader debate about how much farther we can move the needle in the months and years to come.

For those who are familiar with the principles of social entrepreneurship, the value they create for society are obvious, and the case for encouraging more of this kind of enterprise development is intuitive. But for the majority of people who have heard these terms thrown around in many different contexts and situations, the significance might still be unclear.

For that reason, the second section of this guide profiles leading social enterprises in the Schwab Foundation network working in specific domains: education, health, employment, urban development and rural development. In profiling proven social innovation models, our aim is to showcase the realities of social enterprises, bring the abstract concepts of “social entrepreneurship” and “social innovation” to life, and inspire the next generation of social entrepreneurs to build off of these models and apply them to different problems or cultural contexts.

For policy-makers, too, we hope that the social innovation models profiled in the second section demonstrate how social enterprises occupy the grey space between governments and markets, how they deliver products and services that lead to improved outcomes for poor people, and thus why it is in the overwhelming public interest to encourage the growth of these models through appropriate policy tools.

From our point of view, the trend lines are extremely encouraging. A confluence of factors – including reduced government expenditure, a greater emphasis on evidence-based interventions, growing consciousness among investors, and a new generation of talented social entrepreneurs who are pushing boundaries and developing disruptive solutions – all point to a window of opportunity that cannot and should not be missed. There is a greater openness for cross-sector dialogue and for experimentation with new approaches than at any time in recent memory.

We hope this guide helps to advance the debate beyond a general recognition that policy change is a necessary ingredient for inclusive growth and stimulates robust national discussions about concrete steps that governments and policy institutions can take to accelerate the innovation already beginning to take root.



A Framework for Government Action

Introduction

Public policy-makers play an important role in promoting social innovation. They can support or partner with the types of social enterprise models highlighted in the second section of this report, and they can also enable the development of impact investing strategies that channel private capital to create measurable social and environmental benefits.

Government has a critical stake in new business models that provide public benefits. As a result, government is sometimes an early provider of resources to new enterprises through grants and investments or a customer through the procurement process. And for the intermediaries and infrastructure on which social enterprises depend, government can provide stability for nascent markets. Policy-makers may see these new markets as a way to leverage and maximize limited resources and to deliver public services as efficiently as possible. But this work requires close coordination between public, private and civil society stakeholders to move from policy goals to practical results, which can be complex.

This guide outlines a set of 12 case studies in 10 different countries in which policies have been enacted to support the development of social enterprise and related impact investments (also referred to as social investment). These cases are organized under a framework that highlights the range of approaches for such policies, herein called the **Framework for Government Action**. The Framework, and corresponding cases, is intended to provide clear entry points for policy-makers interested in developing opportunities for social enterprise in their own political, cultural and economic contexts.

While policy is not the only solution to bolster this emerging sector, it can play a catalytic role in mobilizing effective resources to build a supportive system, encourage innovation and ensure the effective delivery of public benefit.

The Case Studies

These 12 policy snapshots – drawn from Africa, Asia, Australia, Europe, North America and South America – share the explicit objective of engaging the private sector to address social and environmental challenges. They illustrate the range of actions that government can take as a market catalyst, including investing directly in social enterprises and intermediaries alongside private investors; providing resources for capacity building and technical assistance; acting as a central hub for programme administration and stakeholder convening; and setting the rules of the game through tax and other regulatory policies.

The policies in this report were selected for inclusion because they target social enterprise and impact investing directly. The current abundance of policy experimentation, providing a range of options from which to choose, indicates significant forward momentum in recent years. But because the policies aim to develop these emerging fields, they are also relatively recent with limited performance track records on which to evaluate success or failure.

The policies should therefore be considered indicative of increasing governmental efforts to harness the power of private enterprise for public good, but they are neither the only solutions available to policy-makers nor necessarily the best solutions. For many of the policies, there is simply not enough data to make any assertions regarding performance, although that was not the goal.

It is important to note that the policy snapshots embrace a broad conception of social enterprise and entrepreneurship. On a local or national level, the activity of social enterprise can include anything from the delivery of socially-beneficial goods or services, to an operational strategy grounded in social purpose by being located in, hiring from, or otherwise engaging with disadvantaged areas.

Ownership structure and corporate form are also distinguishing features of social enterprise in some places. And while the snapshots do not include a specific example of an innovation in corporate form, such as Community Investment Companies in the United Kingdom or Benefit Corporations in the United States, it is an area of emerging policy interest, albeit more specific to country context.



¹ These policies and actions were outlined in the 2011 report entitled *Impact Investing: A Framework for Policy Design and Analysis*. Available at: <http://www.pacificcommunityventures.org/reports-and-publications/impact-investing-a-framework-for-policy-design-and-analysis/>.

Six Policy Drivers of Social Innovation

Taken together, the 12 examples are intended to provide readers with entry points into the policy process for developing social enterprise at all stages – from idea to implementation.

The cases are valuable in their own right as windows into the dedicated efforts of government to support social innovation. However the **Framework for Government Action** also links the 12 cases together to look beyond the historical, political, social and economic particularities of the single country in which each is grounded. In this way, each policy highlights a fundamental role in the cultivation of social enterprise and innovation – from identifying social innovation through stakeholder engagement, to developing capacity for public-private initiatives, to attracting private investment for public benefit and providing technical support that helps make enterprises investable.

The **Framework for Government Action** includes six elements of public effort to bolster social enterprises, incorporating a sequential logic that may be helpful to readers. However, in practice the interaction between stages of policy development is multidirectional, such that readers should consider each on its own merits and according to its applicability to their own country context.

Engage Market Stakeholders

Social enterprise crosses many sectors, industries and bureaucracies; a crucial role government can play is breaking down the existing silos that prevent growth and promoting the generation and sharing of ideas. Engagement can take various forms, from catalytic gatherings to longer-term initiatives, but a unifying component to any policy is the development of structures that allow communication and coordinated action between investors, entrepreneurs, civil society and policy-makers.

1. **The Impact Investing Working Group of the Presidential Investment Council in Senegal** resulted from the tenth session of the Council, at which over 400 representatives from government, the private sector and development partners met to discuss the question, “What reforms are needed to strengthen the social impact of private investment?”
2. **The National Innovation Council in India** was created in 2010 to develop a “National Roadmap for Innovation” over the next decade, acting as a catalysing agent to engage stakeholders and encourage innovation across industries and geographies.



Develop Government Capacity for Action

To ensure effective and efficient implementation, policy-makers must **clarify the need for government action and align internal resources**. Depending on the specific policy needs of a country, this capacity can be developed by consolidating existing government activities or developing new departments; the ultimate goal of either approach is providing a hub for innovative partnerships with the private sector.

3. **The Department for Social Prosperity in Colombia** is the central agency managing government programmes that aim to compensate victims of conflict, reduce poverty and promote peace. As such, the Department plays a critical role in strategically introducing concepts of social innovation and entrepreneurship.
4. **The Office of Social Innovation and Civic Participation in the United States** coordinates activities of the public and private sectors to support social innovation. The Office also acts as a policy advisor to the US President on issues related to social enterprise and social innovation, helping to create and implement new policies by identifying solutions and evaluating best practices.

Build Market Infrastructure and Capacity

Successful social enterprise requires the support of a larger system. Government can help build that network by **developing and capitalizing intermediaries** that capture market data, link stakeholders on specific projects and serve as financial vehicles for investing with social and environmental impact.

5. **Big Society Capital (BSC) in the United Kingdom** is a cornerstone in the development of a UK market for social enterprise and innovation. Leveraging a combined £600 million (over US\$ 900 million) in funding from dormant bank accounts and four of the largest High Street Banks, BSC invests in financial intermediaries that provide funding to social enterprise.
6. **The Venture Capital Trust Fund (VCTF) in Ghana** has leveraged approximately US\$ 58 million to develop and fund Venture Capital Finance Companies that, in turn, provide critical and previously unavailable capital and technical assistance to small and medium-sized enterprises (SMEs). The VCTF is also tasked with developing the investor networks and market infrastructure necessary to grow SMEs in Ghana.

Prepare Enterprises for Growth

To scale the innovations of social enterprise, government can help businesses build capacity, attract capital and increase demand for their products. Again, a variety of policy tools are available to prepare enterprises for growth, from technical assistance to direct investment; the appropriate policy solution should be grounded in an **understanding of the needs of entrepreneurs and their current obstacles to scale**.

7. **The Investment and Contract Readiness Fund in the United Kingdom** is a cross-sector fund managed by a third party, The Social Investment Business, providing grants for technical assistance to social enterprises seeking new forms of investment or competing for public service contracts.
8. **Mi Chacra Emprendedora in Peru** develops the capacity of rural entrepreneurs and households living in poverty by expanding and diversifying income-generating activities and encouraging farmers to bring new products to market.

Grow and Direct Private Capital

Capital is a crucial component to develop and scale social enterprises. Government can **incentivize private investors to participate in the social investment market** by using policy tools that create new channels for private investment in social enterprise, introduce subsidies to support expanded capital flows or remove regulatory barriers that prevent interested investors from participating.

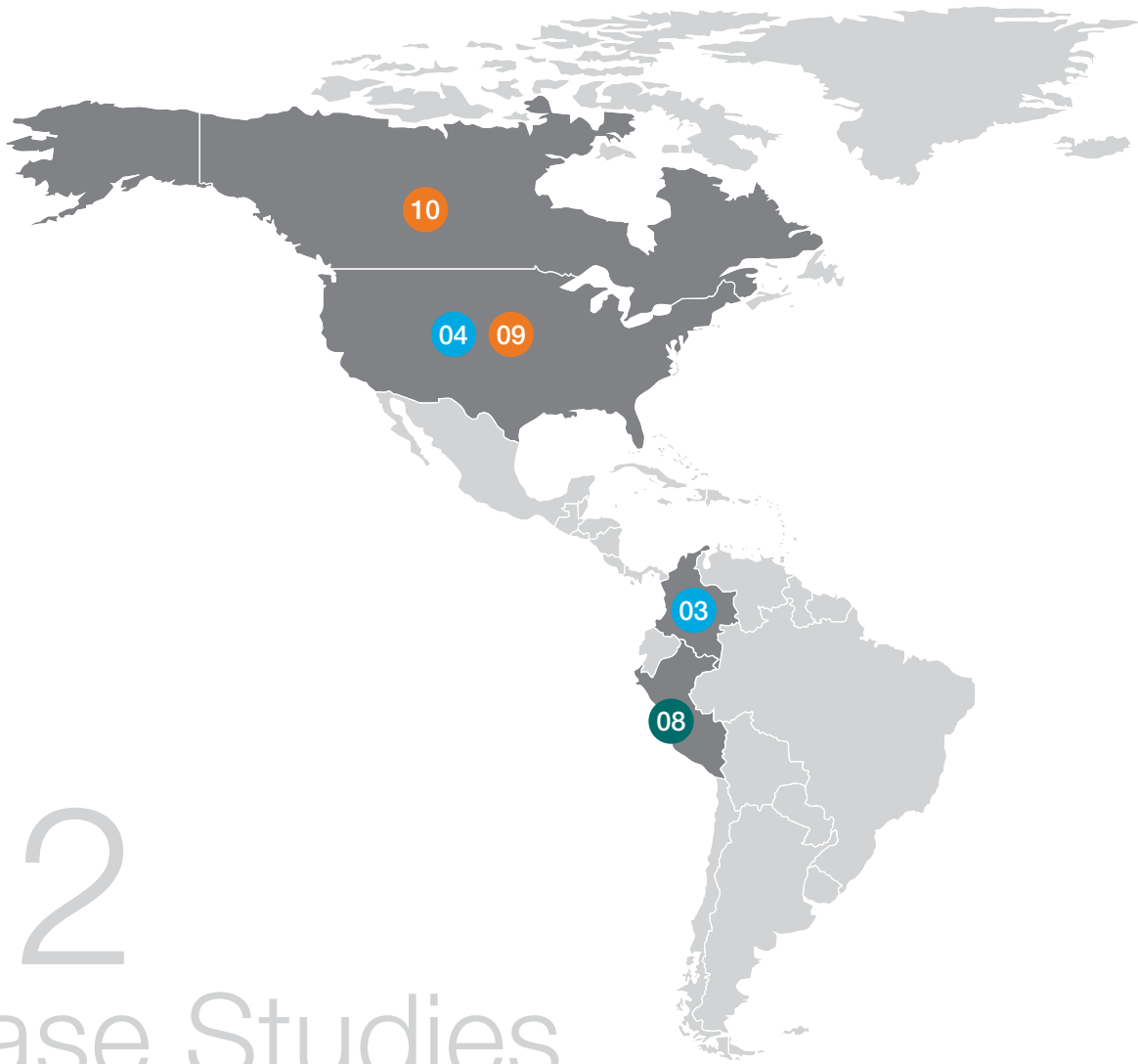
9. **Program-Related Investments in the United States** expand the pool of capital available to social enterprises by allowing foundations to count below-market rate investments against the annual payout they are required to make in order to retain their tax-exempt status.
10. **Community Economic Development Investment Funds in Canada** provide new funding options to local businesses and social enterprises by pooling capital from the sale of tax credits to individuals.

Review and Refine Policy

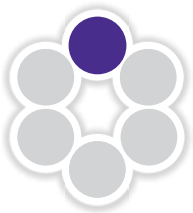
To ensure that the intended impact is met, government can build systems for **evaluating performance and efficiently revising policies**. This step must be repeated throughout the policy design process, from the outset and at regular intervals after implementation. The willingness of a government to review and refine policy is imperative to success.

11. **Social Benefit Bonds in Australia** modified a social investment product first implemented in the United Kingdom, creating a similar product tailored to the local context in the state of New South Wales. As the Social Benefit Bonds policy continues to be developed in Australia, evaluation and refinement have been key to its implementation.
12. **The Micro-Credit Company Pilot Programme in the People's Republic of China** has been developed and refined from the experience and challenges identified in the initial programme. Today Micro-Credit Companies provide improved lending regulations and financial services for entrepreneurs in rural areas throughout the country.

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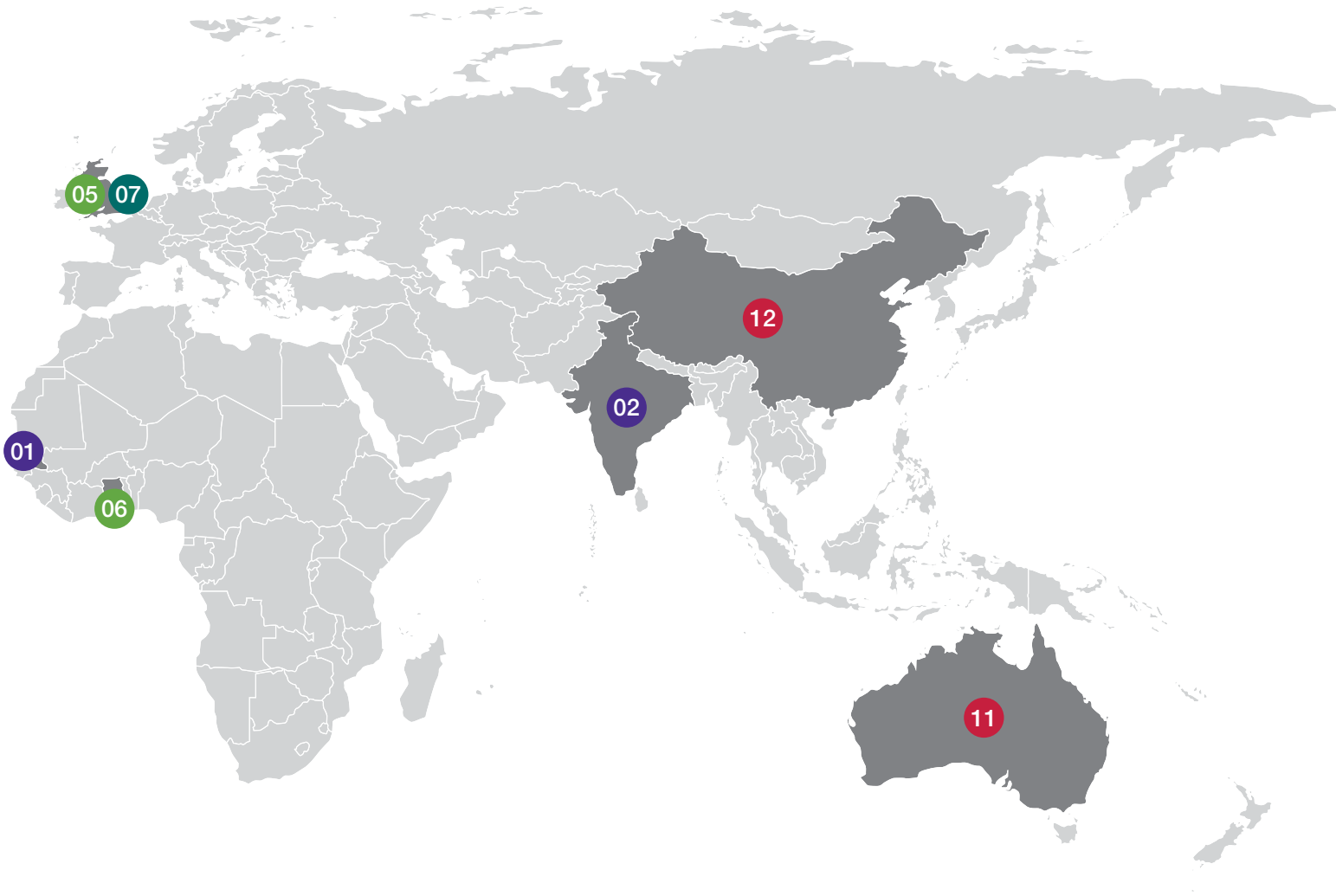
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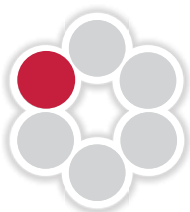
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Overview



Geography: Senegal

Toolkit step: Engage Market Stakeholders

In Brief: Created in 2002, the Presidential Investment Council (CPI) is responsible for identifying and addressing the constraints faced by businesses in Senegal. Its goals are to increase private-sector investment and contribute to sustainable economic growth and poverty reduction. The CPI engages international and domestic investors, policy-makers and entrepreneurs to formulate and implement policy reforms.

CPI members meet annually to assess progress and discuss specific themes related to the development of Senegal's private sector. In 2011, for the Council's 10th annual session, over 400 guests from various industries met for a day of dialogue and exchange around the question, "What reforms will strengthen the social impact of private investment?" Following these discussions, the Impact Investing Working Group was established to propose reforms to increase opportunities for impact investment and social entrepreneurship in Senegal. The lessons learned from the process include:

- **Develop a common understanding of key terms and concepts to provide a starting point of discussion between various stakeholders**
- **Leverage media and public relations opportunities to introduce social enterprise into the national, public conversation**
- **Identify the appropriate organizational structures that facilitate the exchange of ideas and incorporate diverse perspectives**

Policy Goals and Development

As a result of structural adjustment programmes promoted by the World Bank and International Monetary Fund in the 1980s and 1990s, Senegal became heavily indebted, relying on development assistance and lacking the business conditions to attract private investment. To remedy the situation, with support from the World Bank and International Monetary Fund, the President of the Republic of Senegal created the Presidential Investment Council.

The government's primary objective in establishing the CPI was to institutionalize a framework for dialogue with the private sector to encourage and drive economic growth and reduce poverty in Senegal. The CPI identified constraints and adopted a series of reforms related to access to finance, physical infrastructure, human resources and good governance. For example, the CPI succeeded in lobbying for certain "pro-business" changes in Senegal's tax code, including lowering the corporate tax rate from 33% to 25%, eliminating a tax on the informal sector and lowering the consumption tax on tourist industries from 18% to 10%.

The President of Senegal heads the CPI and moderates its annual sessions with support from the following groups:

- **Senegal's Investment Promotion Agency, APIX**, plays the role of the CPI Secretariat, taking responsibility for coordinating and organizing the Council's activities. This role has been made permanent to ensure continuity as political appointees and private businesses transition.
- **Working groups** comprise 30-50 representatives from public and private institutions. Each group is tasked with an issue in the Senegalese business environment, for which they propose new approaches and reforms. All representatives are invited to participate on a volunteer basis by APIX who identifies key stakeholders and experts related to each group's topic.
- **The Inter-Ministerial Council**, within the Prime Minister's office, provides answers to questions and reflections on matters raised by the working groups. It is responsible for leading the implementation of the agreed action points.
- **The Monitoring Committee**, composed of government representatives, coordinates and implements the recommendations proposed by the working groups and shares feedback on progress, difficulties and concerns. It also prepares work plans for the Inter-Ministerial Council.

Policy in Action

In 2011, the CPI focused on the issue of unemployment in Senegal. The government recognized that although the volume of private investment had increased over the years, 47% of the population continues to live below the national poverty line.¹ Thus the theme of the 10th annual session in December 2011 was, "What reforms will strengthen the social impact of private investment?"

The key participants in the 10th annual session, in addition to the broad base of usual attendees, were impact investors, social enterprises and international development partners. For example, representatives from Danone, a private company that has worked to expand its business to poor communities in Senegal, were invited. Emerging from the

¹ World Bank Date, 2011. See: http://data.worldbank.org/country/senegal#cp_wdi.

Impact Investing Working Group on the Ground

Proplast

To facilitate discussions for strengthening the social impact of private investment, APIX invited Proplast, a social enterprise, to present to the Working Group. Proplast collects, recycles and re-sells plastic waste in Senegal. At the time of its presentation to the Working Group, Proplast was already working with 600 collectors to recycle more than 150 tons of waste per year. The presentation highlighted how government currently does not recognize “social business” and therefore provides no specific incentives or benefits to such businesses entering the market.

Creating a national definition/framework for impact investment in order to incentivize entrepreneurs in the space is one of the key action items in the Working Group’s action plan.

10th session, the Impact Investing Working Group was established with representatives across sectors (including social entrepreneurs and investors, and from industry associations, government ministries and universities, among others² to propose specific reforms to strengthen the social impact of private investment.

In 2012, in parallel to the efforts of these groups, APIX worked in partnership with Dalberg Global Development Advisors, a consultancy firm, to implement a grant from the Rockefeller Foundation to explore the role of Senegal’s government in catalysing impact investment in the country.³ The research from APIX and Dalberg directly informed the Impact Investing Working Group’s discussions and incorporated the participants’ input and feedback.

The Impact Investing Working Group met frequently throughout the second half of 2012. During these meetings, impact investment was seen as a key to addressing not only the problem of unemployment but also various social challenges faced by youth, women and other marginalized groups. During the Working Group’s meetings, social entrepreneurs made presentations to the group on their business models and growth challenges (see the “Impact Investing Working Group on the Ground” box in this section for an example of one such presentation). Dalberg also shared its research findings on impact investing and social enterprises in Senegal, along with examples of efforts by other governments to support similar activities.

As a result of the Working Group’s deliberations, specific recommendations and action points were agreed upon and presented at the CPI’s 11th annual session in December 2012. Recommendations included:

- Develop and adopt a national charter defining impact investment
- Create a national fund, leveraging existing funds focused on impact investment
- Organize a forum on impact investment
- Promote business plan competitions focused on impact/social enterprises and create and support incubators in partnership with universities and local governments to uphold these businesses
- Support the creation of a regional stock exchange for small to medium-sized businesses
- Undertake case-by-case analyses on sector-specific barriers to impact investment
- Implement a resource centre of expertise on impact investment



² For full list of Impact Investing Working Group participants, see: http://www.cpi-senegal.com/sites/default/files/groupe_4_rapport_11eme_session_cpi.pdf, pp. 10-11.

³ See the “Assessment of Impact Investing Policy in Senegal” report available at: http://dalberg.com/documents/Impact_Investing_Senegal_Eng.pdf.

As in all CPI sessions, some points met disagreement, particularly regarding how to define impact investment, which was seen as the key starting point in developing a suitable policy framework to catalyse the sector.

Impact to Date

Coordinated by APIX, the creation of a national impact investment fund is already being discussed and other recommendations, such as the adoption of a national charter, are expected to be addressed in 2013. To ensure consistency with the government's national development objectives (e.g. the Millennium Development Goals and the national poverty reduction strategy) and to allow sufficient time to undertake the necessary actions, APIX has proposed a timeline through 2015 to implement all the recommendations.

The Working Group recognizes that further research, analysis, discussion and debate are needed to effectively implement the action plan. To that end, the Impact Investing Working Group will continue to meet to engage in extensive discussions on the role of impact investment and social enterprise.

Policy Recommendations for Scaling Social Innovation

By creating a broad-based framework for dialogue at the highest level of government, the private sector has been able to effectively engage in the issues of Senegal's development. Other countries may consider a similar approach to engaging stakeholders, taking into consideration lessons from the experience in Senegal:

Develop a common understanding of key terms and concepts to provide a starting point of discussion between various stakeholders

The Working Group members were from very diverse institutions with different priorities and approaches to the issues at hand. It was important for the stakeholders to take ownership of the concepts and tailor them to the Senegalese environment. A challenge for the Working Group was to reach consensus on the concept of social enterprise and impact investing. The research and insights from APIX and Dalberg provided a strong starting point and foundation to identify a path forward.

Leverage media and public relations opportunities to introduce social enterprise into national, public conversation

The main success of the Working Group's activities was to increase public awareness of impact investment and social enterprise, and to engage the private sector in addressing Senegal's social and economic challenges. Through newspaper and television coverage, impact investment and social enterprise were brought to the forefront of national conversation, firmly placing the activities of the Working Group on Senegal's reform agenda.

Identify the appropriate organizational structures that facilitate the exchange of ideas and incorporate diverse perspectives

The Working Group involved a broad range of over 60 stakeholder groups that were engaged at varying degrees in its activities and meetings. To improve the Working Group dynamics and to better accommodate this diverse group, it might have been more effective to create smaller sub-groups with specific expertise that could then have brought their findings to the larger group for discussion and consolidation. For example, microfinance institutions were a key group missing from the Working Group as they have a deep understanding of the challenges in the communities they serve and are key players in the impact investment space.

02 The National Innovation Council, India



Overview



Geography: India

Toolkit step: Engage Stakeholders

In Brief: The President of India declared 2010 to be the start of the “Decade of Innovation”, with a specific focus on addressing issues of poverty. To progress this national agenda, the National Innovation Council (NInC) was created in 2010 to develop a “National Roadmap for Innovation” over the next decade.

While the impact of the NInC’s initiatives is still being gauged, its initial efforts demonstrate important policy components to build direct linkages with India’s poorest – the over 30% of India’s population of 1.2 billion who is living on less than US\$ 1.25 per day.¹

The NInC provides several insights for policy-makers looking for an example of how to engage stakeholders, including:

- **Position engagement efforts outside of partisan politics**
- **Encourage local resourcefulness and generational change by allowing stakeholder autonomy**
- **Democratize information so that government initiatives are accessible at all levels**

Policy Goals and Development

Like many developing nations, India faces extreme issues of economic and social inequality. However, despite the challenges that India’s poorest face, its population also provides enormous potential to drive the nation’s growth and provide entrepreneurial solutions. The NInC began with a vision driven by Sam Pitroda, a highly-regarded entrepreneur who was behind the Indian telecom revolution. The NInC’s vision was to reorganize the Indian model of innovation from a culture of ad hoc innovation, or “Jugaad”, driven by scarce resources and customers’ needs, to a system based on strategic approaches that incorporate sustainability, durability, affordability, quality, global competitiveness and local needs. The NInC does not disregard the innovations of India’s poorest to meet their day-to-day challenges but focuses on building structures and policies that enable the government to identify, organize, support and scale these innovations.

The NInC sits within the Office of the Adviser to the Prime Minister on Public Information Infrastructure & Innovations, led by Pitroda. At the national level, the NInC includes 13 members from diverse fields, including technology, healthcare, the arts and social entrepreneurship. For example, Devi Prasad Shetty, a cardiac surgeon and pioneer of affordable quality healthcare and micro health insurance in India and recipient of the Schwab Foundation Social Entrepreneur of the Year award in 2005, sits on the NInC.

The NInC also comprises dedicated member representatives from the National Planning Commission, which ties it to government planning more broadly, for example to the national Five Year Plan² and budget allocation processes. This connection to other government activity is apparent in the Indian Finance Minister’s announcement to allocate US\$ 1.1 billion to science and technology and its request that the NInC advise on its management and application.³

Policy in Action

The NInC was established as the central hub to administer government activity in support of innovation, providing assistance via human, financial, social and intellectual capital to the following components:

- **State, City, Sectoral and City Innovation Councils:** The NInC facilitates the creation of these councils, which are structured similarly to the national hub with seven to nine members representing stakeholders or experts across local geographies and industries.
- **Cluster Innovation Centres:** India has an estimated 6,000 small and medium-sized enterprise industry associations (known as clusters) across the country; these associations are crucial to job creation for India’s poorest. However, they have largely remained unorganized as independent worker-based support networks, and businesses remain dependent on cheap labour, often providing inhospitable working conditions that cause serious health and environmental hazards. The NInC identified a huge potential for social and economic impact by providing these associations with support to innovate and stay relevant in today’s globalized world. To provide this support, the NInC created Cluster Innovation Centres (CICs), modelled on a public-private partnership that connects the industry associations to research and development organizations, industry experts, government programmes and financing institutions. For an example of how CIC delivers social and economic impact see the “NInC on the Ground” box in this section.

¹ See UNDP Human Development Indicators, available at: <http://hdrstats.undp.org/en/countries/profiles/IND.html>.

² See <http://planningcommission.gov.in/plans/planrel/12thplan/welcome.html>.

³ See The Economic Times “Budget 2013” article, available at: <http://economictimes.indiatimes.com/tech/budget-2013-govt-announces-rs-2000-cr-fund-for-scientific-innovations/articleshow/18728843.cms>.

- **India Inclusive Innovation Fund:** The NInC has focused on building market infrastructure by establishing a US\$ 91 million early-stage venture fund to invest directly in social enterprises that generate moderate financial returns for the investor (projected 12% annual return), along with measurable social impact. The Indian Government is providing seed funding (20%) with the balance being raised from banks, insurance companies, financial institutions and development agencies. The fund is likely to be launched by mid-2013 with a life of 10 years, extendable to 13. Examples of potential investments include low-cost healthcare enterprises, clean energy social enterprises and inclusive mobile finance companies.
- **“One MP – One Idea” Initiative:** India has the largest electorate in the world. The National Parliament includes 790 elected ministers of parliament (MPs), representing constituencies across the federal Indian state. To spur innovations across the country, the NInC developed an initiative that encourages elected representatives to identify innovations from their constituencies. “One MP – One Idea” is a NInC initiative that allows MPs to give cash awards (funded through the federal budget) to up to three innovations selected from within their constituencies each year.
- Other initiatives: These include **Innovation in Education**, which creates new models for learning, and the **Global Innovation Roundtable**, which organizes events to spur collaboration between policy-makers and experts across geographies.

Impact to Date

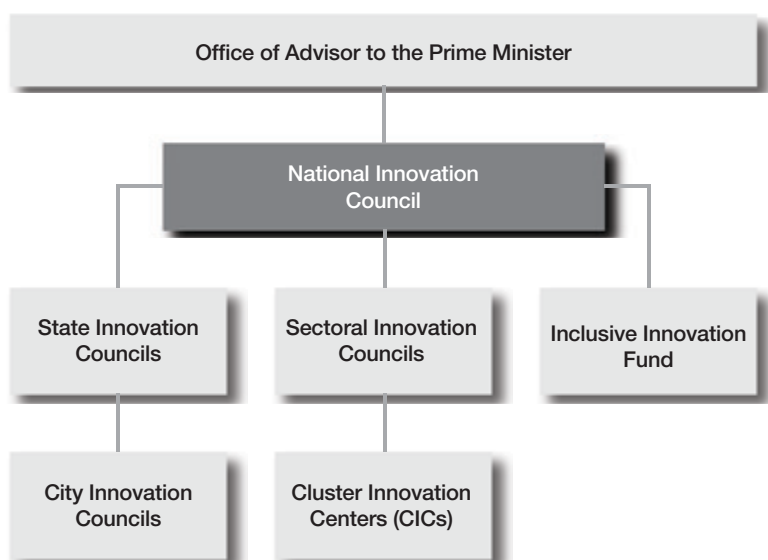
The NInC’s programmes are still in their infancy. However, considering the complex task of engaging stakeholders in a country as diverse as India, creating such a dynamic structure and template for engagement is in fact a notable success in and of itself. The majority of NInC initiatives appear to be on track to meet their stated individual goals. For example, since 2011 the NInC has launched seven CICs across geographies and industries. These seven pilot CICs have involved 85,000 small and medium-sized enterprises, leveraged 39 public-private partnerships, created 1,000,000 jobs, and generated over US\$ 4 billion in business revenue in poor communities. The NInC plans to build an additional 80 to 100 CICs by the end of 2013.

NInC On the Ground

Brassware Industry Cluster Innovation Centre

Moradabad (also known as Brass City) is a town in the state of Uttar Pradesh and home to one of the oldest brassware industry associations (known as a cluster) in India. Traditionally, production is based out of artisans’ homes and requires coal-based furnaces and cyanide-based solutions to melt brass and finish the products. These techniques generate harmful air pollutants that lead to increased respiratory diseases and cancer among the artisans and their families. Despite taking on these health risks, artisans in the cluster make very little profit. In Moradabad, the brassware industry has faced serious challenges from global competition, experiencing a drop of over 80% in export orders in the past decade.

The NInC intervened to remedy this situation, creating a CIC in the form of a physical hub in Moradabad to foster innovation in the brassware industry. The Cluster Innovation Centre builds the community ownership of ideas and reduces bottlenecks in both production and service delivery by pooling resources for research and development. These efforts have resulted in three vital innovations for the brassware artisans – improved coal-based furnaces, ready-to-use lacquer and cyanide-free solutions. These innovations increased daily incomes per furnace by 80% and improved the quality of products and working conditions for the artisans in Moradabad.



Policy Recommendations for Scaling Social Innovation

The NInC has built a model that cuts through issues unique to Indian culture and politics, yet the broad framework of the NInC could be applicable to any country focused on engaging all levels of stakeholders in the social innovation process. The NInC provides policy-makers looking to India as an example of how to engage stakeholders with several considerations for implementing similar reforms in other countries:

Position engagement efforts outside of partisan politics

The Indian federal government includes multiple political parties representing vast social-ethnic diversity. From inception, the NInC was designed to cut through these barriers and establish a direct link with India's poorest communities and entrepreneurs. The "Decade of Innovation" declared by the President of India provided a 10-year vision for the role of the NInC and separated it from partisan politics. Furthermore, the NInC is led by Sam Pitroda, who is seen as an entrepreneur and innovator rather than as a bureaucrat in India.

Encourage local resourcefulness and generational change by allowing stakeholder autonomy

The NInC's strategy is to act as a "catalysing agent" to bring about a long-term cultural change. Rather than independently implementing initiatives, the NInC acts as a consultant and facilitator, reducing bureaucratic bottlenecks and bridging market disconnects. This work increases the ownership of initiatives and empowers many more stakeholders to participate in identifying and developing innovation. For example, by working with local enterprises to develop CICs, the NInC has engaged existing business associations to facilitate public-private partnerships. This facilitation connects small and medium-sized businesses to critical resources, helping them to independently develop new innovations that increase profits and improve the social and environmental conditions of their communities.

Democratize information so that government initiatives are accessible at all levels

A vital aspect of engaging stakeholders is to ensure access to information for every cultural and economic demographic. The vast and diverse Indian landscape poses a serious challenge; in response the NInC has focused on leveraging technology, for example, providing Internet connectivity to 250,000 village-level governing bodies and connecting all major knowledge institutions in India with high-speed connectivity. The NInC has also launched a crowdsourcing competition to identify innovative solutions in local communities. Such networks and platforms provide new avenues for collaboratively identifying solutions.



Overview



Geography: Colombia

Toolkit step: Develop Government Capacity for Action

In Brief: Created in 2011, the Department for Social Prosperity (DPS) develops, coordinates and enacts all governmental policies that aim to compensate victims of conflict and reduce poverty. The DPS provides a central hub for private-sector activities that help to reduce poverty and strategically introduces concepts of social innovation and entrepreneurship across government initiatives in Colombia.

While the DPS is still in its infancy, the Department's initial reform efforts demonstrate important operating principles, including providing public services with a private-sector approach and addressing macro problems through micro strategies.

The DPS provides several insights for policy-makers looking to Colombia as an example of how to build public capacity, including:

- **Empower leaders to drive innovation within government**
- **Focus efforts to support social entrepreneurship in areas where unique, national priorities or challenges would be most impacted by innovation**
- **Identify where business currently interacts with government and how a new structure could streamline, expedite and amplify these synergies**

Policy Goals and Development

The Department for Social Prosperity (DPS) is one component of the institutional and structural government reforms that have stretched over many political administrations in Colombia, making the country “a regional leader in narrowing the [economic] gap with the world's most efficient regulatory practices”, according to a recent report from the International Finance Corporation and the World Bank.¹ These reforms have included implementing a faster enrolment process for healthcare services, simplifying tax compliance, streamlining paperwork for business registration, restructuring government agencies and now addressing poverty.

This comprehensive, structural approach to reducing poverty has taken shape in a new Sector for Social Inclusion and Reconciliation. The Sector is tailored to Colombia, as the country continues to face extreme issues of social inequality due to the ongoing 40-year armed conflict between the Colombian government and guerrilla groups. With the understanding that those affected by the conflict are often also economically underserved, the Sector consolidates attention and efforts around supporting the victims of violence and poverty, a combined population that accounts for approximately one-third of all Colombians.

President Santos created the DPS in 2011 via a special presidential decree. His decisive action in support of the DPS is part of the Prosperity for All national development plan on which he campaigned. The Department was created as the central hub for all government activity aimed at poverty reduction and peacekeeping and is a central entry point where beneficiaries, non-governmental organizations and the private sector can easily engage in achieving the Sector's goals.

Policy in Action

The DPS consolidates many social service programmes by directly administering several divisions and overseeing other offices that have been reassigned to the Department.² The DPS provides advocacy and technical assistance to its divisions and assigned offices, while direct funding is typically provided by Congress and the Ministry of Finance. Throughout, the DPS provides support according to the unique needs of each programme rather than taking a “one-size-fits-all” approach. Below are three examples of how different programmes reside within the DPS structure:

- As a **programme within a Division of the DPS:** The pre-existing Families in Action programme has been redesigned and is now administered through DPS's Social Income Division. Building off of similar initiatives in other Latin American countries, the programme offers a new model for the provision of welfare by issuing direct payments to families upon successfully enrolling their children in school and health services.³
- As an **initiative of the DPS:** To coordinate the activities of several programmes aimed at improving the conditions for entrepreneurial development among its beneficiaries, the DPS will soon be launching its private-public alliance strategy, including initiatives to increase impact investing and social enterprise.
- As an **agency assigned to the DPS:** The National Agency for Overcoming Extreme Poverty (ANSPE) is tasked with identifying and implementing strategies to support the most impoverished regions of Colombia. The ANSPE achieves this goal through several programmes, including the Social Innovation Centre for which a dedicated office comprised of 45 staff is working to identify and disseminate new products, services and management practices throughout the national government. In addition, ANSPE is responsible for operating the Red UNIDOS programme (see the “DPS on the Ground” box in this section for more on that programme).

¹ See <http://doingbusiness.org/~media/GIAWB/Doing%20Business/Documents/Annual-Reports/English/DB13-full-report.pdf>, p. 26.

² See <http://www.dps.gov.co/portal/default.aspx>.

³ See the Los Angeles Times article “Families in Action pays mothers to improve health”, available at: <http://articles.latimes.com/2011/jun/08/world/la-fg-colombia-money-transfers-20110608>.

Due to the armed conflict, many DPS programmes necessarily provide more traditional peacekeeping and welfare services. However the DPS is also identifying and exploring new innovations in the delivery of those services. Two core operating tactics underpin these efforts: providing public services with a private sector approach and addressing macro problems through micro strategies.

The first tactic is reflected in the private sector experience of many DPS leaders. President Santos and the Director of the DPS, Bruce Mac Master, are often identified as technocrats themselves, setting an entrepreneurial and apolitical tone. This leadership lends to the Department's credibility within the private sector and fosters a business-minded approach to the management of the more than 20,000 employees and millions of beneficiaries under the Department's programmes.

In addition to using modern technology and communication practices, the DPS has created several decision-making structures that improve internal management. For example, the DPS Director leads a weekly meeting with all the directors of DPS agencies, each of whom is invited to raise their most pressing issues to troubleshoot together, with the goal of achieving better coordination.

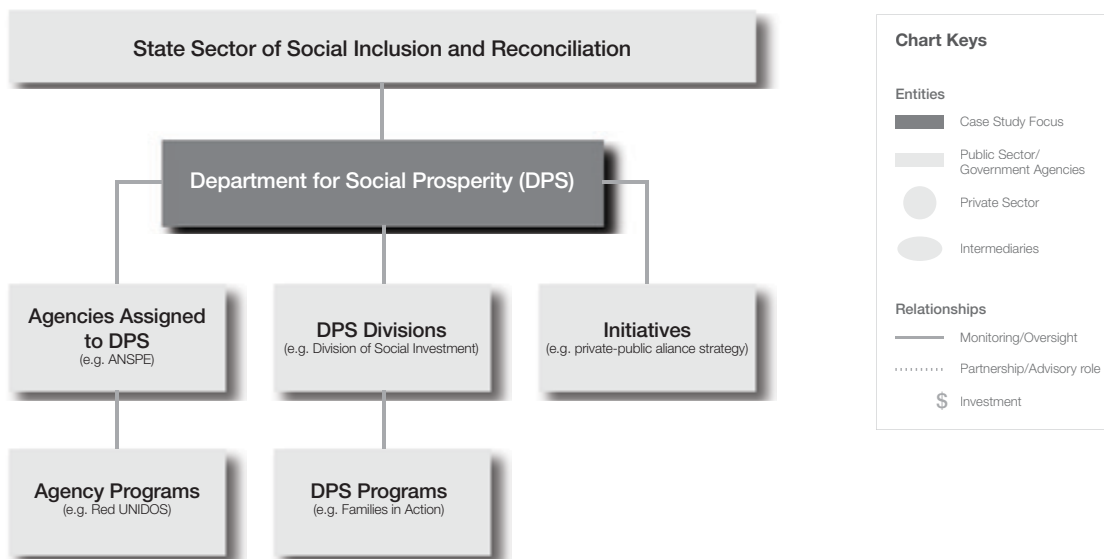
Through its second tactic to address macro problems through micro strategies, the DPS approaches Colombia's poverty issues holistically, but recognizes that most solutions will be implemented at the micro level. The DPS is designed explicitly to be a partner with the private sector, non-governmental organizations and individual citizens on the ground. To that end, most DPS programmes require local beneficiaries to participate.

This local focus is also exemplified by the DPS leadership. For example, the Routes to Prosperity initiative requires that all DPS programme directors travel each month to a different Colombian region in need of special intervention. The directors meet with local government officials and leaders, and work together to design a customized plan to improve the conditions of that community.

DPS On the Ground

Red UNIDOS

A programme within ANSPE (an agency assigned to the DPS), Red UNIDOS identifies opportunities for social innovation and strategic partnerships between local communities, government entities and the private sector. The programme pairs families with mentors who assess their needs based on 45 indicators that cover all aspects of prosperity, including education, health, housing, working conditions and access to judicial systems. The results of the assessment directly inform the types of support provided to the family. They are also aggregated at a community/ regional level to help government agencies and the private sector better understand how to target their corporate responsibility efforts to increase the prosperity of the areas in which they work.



Impact to Date

The programme is still in its infancy and is therefore difficult to evaluate. Most of the DPS's activities appear to be on track to meet their stated goals; however, observers caution that a mid-term perspective is necessary to assess the Department's success. When restructuring government systems, and particularly in a scenario like the DPS where pre-existing programmes are organized under one department, addressing issues of entrenched bureaucracy and corruption can be challenging. Similarly, developing a new coordinating department runs the risk of creating more of the bureaucracy that the Department was tasked with eliminating. The DPS will continue to provide an honest and transparent evaluation of its programmes to encourage ongoing iteration and, therefore, innovation.

Policy Recommendations for Scaling Social Innovation

The DPS is unique to Colombian culture and politics. However, the Department addresses many broader issues, providing a model from which other governments can learn:

Empower leaders to drive innovation with government

An underlying DPS philosophy is that to combat poverty, a country cannot only dedicate financial resources but must also direct human capital to the problems. This sentiment is echoed by DPS Director Bruce Mac Master, who strongly believes that the most creative and intelligent minds should be dedicated to the task of reducing poverty. The Department's operating tactics can be attributed directly to its exceptional leadership.

Focus efforts to support social entrepreneurship in areas where unique, national priorities or challenges would be most impacted by innovation

A public priority in Colombia is repairing the damages of the armed conflict. With this uppermost in their minds, political leaders understand that violence and poverty go hand in hand. The DPS was created to address both and is therefore seen as the best approach to creating long-term peace and prosperity, allowing for comprehensive, cross-sector collaboration. When considering which of the DPS's components might be applicable and replicable in other countries, governments should first identify the specific issues that would benefit from ideas of social entrepreneurship and innovation. In identifying these issues, policy-makers should consider both the practical factors of efficiency and efficacy and the broader social and political agenda to which social entrepreneurship and innovation can be tied.

Identify where business currently interacts with government and how a new structure could streamline, expedite and amplify these synergies

The private sector can now engage with government to reduce poverty through one central portal, the DPS. In assessing the need for similar action in other countries, it is important to first understand where the private sector is currently working with government to meet public-sector goals, and then determine how a hub-like structure could act as facilitator for those activities.



Overview



Geography: United States

Toolkit step: Develop Government Capacity for Action

In Brief: The Office of Social Innovation and Civic Participation (SICP) is an entity within the United States' executive branch of government that advises the US President and Executive Office on policies that encourage collaboration and innovation around such significant national challenges as poverty and education. The Office's policy priorities include promoting service and volunteerism, increasing investment in new solutions with demonstrated outcomes and encouraging the formation of cross-sector partnerships. The Office's focus on community-based solutions draws on a presidential mandate based on the belief that government can best support social innovation by finding and scaling existing solutions.

For Policy-makers considering implementing a similar advisory office, SICP provides the following considerations for implementation:

- Place policy offices where champions already exist
- Create opportunity for creativity and innovation by cutting across existing sectors and silos, being mindful of bureaucratic barriers
- Be politically astute and willing to make adjustments as long as core tenets are not compromised

Policy Goals and Development

The Office of Social Innovation and Civic Participation (SICP) was first proposed as the Office of Social Innovation in 2007 by staff at the Center for American Progress (CAP), an independent think tank focused on progressive ideas. The idea for developing SICP reflected an understanding by CAP staff that, globally, social entrepreneurs who engage with policy-makers are more successful than those who do not. The goal behind developing the Office of Social Innovation was to create a high-profile entity within the federal government to foster a policy environment that supports social innovation, social entrepreneurship and solutions to intractable social problems “without creating a new bureaucracy that runs counter to the culture of social innovation and entrepreneurship”.¹

The proposal for an Office of Social Innovation explicitly called for the office to be created within the White House to “leverage the president’s platform to highlight the importance of relying on social entrepreneurs and nonprofits to solve social problems where both the private sector and government have failed”, at the same time elevating non-profit leaders’ voices in public policy debates.²

The idea for SICP pre-dated the 2008 presidential campaign but gained traction during the run-up to the election, fuelled by the interest that then-candidate Barack Obama had in social innovation and community-based solutions. The transition of the Office into reality was due in no small part to the influence of a number of prominent CAP staff who served on the presidential transition team and subsequently in staff positions with the Obama White House. The creation of SICP was officially announced by the White House on 5 May 2009.³

In response to a variety of political realities, the Office was reconceptualized to include a civic participation agenda alongside social innovation, focusing on engaging Americans in volunteer and other service opportunities. The broadening of focus resulted from a combination of President Obama’s interest in promoting public service, staff capacity constraints and the opportunity to leverage Congressional momentum behind the Serve America Act, one of the first bills to pass under the Obama administration, which deals directly with volunteerism and civic participation.

The Office resides within the Domestic Policy Council, an entity within the White House Executive Office. SICP is led by a dedicated commissioned officer, a high profile staff classification within the White House. Both its White House position and its high profile leadership lend SICP added stature within the government and serve in theory as a signal of the importance of SICP’s agenda. Importantly, however, SICP is not a permanent office; created at the bequest of President Obama, it is an entity that came into being by executive order rather than through legislation, such that without continued presidential support SICP could disappear in future administrations.

¹ See http://www.americanprogress.org/wp-content/uploads/issues/2008/03/pdf/ssir_spring2008_jolin.pdf.

² Ibid. and also see <http://www.americanprogress.org/issues/economy/report/2007/12/21/3706/investing-in-social-entrepreneurship-and-fostering-social-innovation/>.

³ See <http://www.whitehouse.gov/the-press-office/president-obama-request-50-million-identify-and-expand-effective-innovative-non-pro>.

Policy in Action

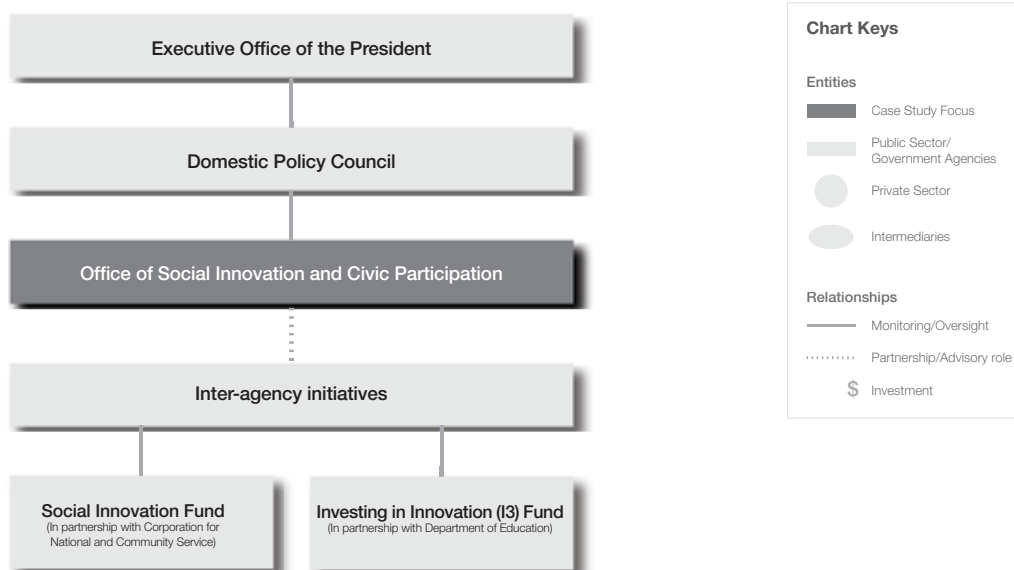
The Office of Social Innovation and Civic Participation functions as a policy advisor to the US President. As with other White House offices, the work that SICP helps to develop is either carried out by federal agencies or written into legislation and passed by Congress (for example Program-Related Investment regulation revision and the Social Innovation Fund, respectively). The Office also has the power to advise the US President on policies and programmes, and to liaise within the federal government and with a broad stakeholder community, but SICP is not primarily involved in managing, implementing or lobbying for legislation or new projects.

When initially conceived by staff at the CAP, SICP's goals focused exclusively on growing social enterprise and innovation by developing funding opportunities, nurturing cross-sector partnerships and exploring regulatory barriers. Since implementation, its goals have expanded to include civic participation and engaging Americans in volunteerism. As a result, SICP organizes its efforts around the following three areas of work:

- Encouraging public service through the development of new and the expansion of existing public volunteer programmes, partnerships and public service opportunities in communities throughout the United States
- Increasing investment in social innovation, including hosting gatherings and providing policy advocacy around tax reform, encouraging transparency in corporations and non-profit organizations, supporting impact evaluation efforts, supporting the better utilization of public funds and promoting policies that leverage private capital for social purpose. Part of this work comprised launching the Social Innovation Fund (see the “SICP on the Ground” box in this section)
- Exploring public-private partnerships as a way to encourage social innovation, including work on the Social Innovation Fund, agency-led public service programmes and sector-specific issues like the Educate to Innovate programme that supports science, technology, engineering and mathematics education

The Office views social innovation as solving old problems in new ways, no matter where the idea originates. It is less concerned with definitional agreement on what social innovation means, focusing instead on supporting and highlighting work and organizations – whether private or public, for-profit or non-profit – that have scalable solutions to such pressing problems in the public interest as unemployment, education, and health, among others.

Since no institutional mandate for social innovation exists, despite its White House location, SICP depends on staff in other agencies and throughout the federal government to implement the social innovation policy agenda. Other social innovation policies, like the programmes SICP helps to put in place, may have longer staying power than SICP if the political winds shift, particularly if they have garnered legislative approval. It is important to note, however, that in politically challenging times, legislation may not be a viable route.



SICP On the Ground

Social Innovation Fund

The Social Innovation Fund, a programme supported by the Office of Social Innovation and Civic Participation, was established as part of the Edward M. Kennedy Serve America Act, signed into law by President Obama on 21 April 2009. Managed by the Corporation for National and Community Service and subject to Congressional appropriation, the US\$ 50 million Social Innovation Fund provides grants to “grantmaking intermediaries” like community foundations that in turn provide matching grants to innovative, successful non-profit organizations in low-income communities. Both the intermediaries and their non-profit grantees are required to match funds they receive from the Social Innovation Fund dollar for dollar. Since inception, the Social Innovation Fund has leveraged US\$ 350 million in additional private funds, supporting 201 non-profit organizations in 34 US states.⁴

⁴ See <http://www.gpo.gov/fdsys/pkg/PLAW-111publ13/pdf/PLAW-111publ13.pdf> and <http://www.nationalservice.gov/about/programs/innovation.asp>

Impact to Date

To date, the Office has primarily leveraged the convening power of the White House to organize cross-sector events focused on social innovation, supported the implementation of related policies across the federal government, and assisted in the development of policies that support non-profit organizations and social enterprises. Highlights of SICP's work include:

- Developing a US\$ 50 million Social Innovation Fund at the Corporation for National and Community Service to leverage US\$ 350 million in private money in support of social innovation⁵
- Advising a US\$ 650 million Investing in Innovation (i3) Fund at the Department of Education⁶
- Supporting an interagency working group on impact evaluation⁷
- Co-hosting a conference on using prizes and challenges to spur innovation⁸
- Advising on the development of agency-led innovation challenges such as the Department of Commerce's i6 Challenge and NASA's Innovation Incubator Initiative⁹

The Office has additionally supported innovation in the private investment space by encouraging the adoption of Pay for Success bonds (the US equivalent of social impact bonds), contributing to the revision of US Program-Related Investment regulation and discussing the use of bonds to support infrastructure development.

Policy Recommendations for Scaling Social Innovation

The Office elevates the social innovation discussion and agenda of social entrepreneurs within the US government. It was specifically designed to sit within the White House as a way of lending legitimacy and importance to social innovation conversations without saddling conversations with bureaucratic constraints that could stifle innovation or be politically infeasible. Policy-makers or stakeholders considering implementing a policy advisory office within government could consider the following:

Place policy offices where champions already exist

The implementation of SICP was heavily reliant on the existence of key decision-makers who cared about the idea, including the US President. Creating a policy office, particularly within the executive branch, is difficult without key decision-makers to support it.

Create opportunity for creativity and innovation by cutting across existing sectors and silos, being mindful of bureaucratic barriers

Because SICP's agenda does not fit squarely within existing social, financial or economic policy areas, it runs the risk of being overlooked. The freedom to have policy discussions with, for example, health, education and finance agencies can cultivate creativity and openness, but working with government staff whose roles are tied to existing bureaucracy can pose a challenge.

Be politically astute and willing to make adjustments as long as core tenets are not compromised

CAP staff members close to the development of the ideas behind SICP were strategically placed to follow through on the execution of these ideas as part of the presidential transition team, with a president who was amenable to the office's underlying ideas. The incorporation of a civic participation agenda reflected pragmatic decision-making, solidifying SICP's existence with minimal to no mission drift by incorporating one of the President's priorities with a close enough conceptual alignment to allow the Office to pursue its goals while maintaining crucial presidential support.

⁵ See <http://www.whitehouse.gov/administration/eop/sicp/initiatives/social-innovation-fund>.

⁶ See <http://www2.ed.gov/programs/innovation/index.html>.

⁷ See <http://www.whitehouse.gov/administration/eop/sicp/initiatives/measurement-evaluation>.

⁸ See <http://www.whitehouse.gov/administration/eop/sicp/initiatives/prizes-challenges>.

⁹ See <http://www.nasa.gov/offices/oct/home/index.html> and <http://www.whitehouse.gov/blog/2010/05/03/commerce-launches-new-challenge-bring-your-ideas-market-faster>.



Overview



Geography: United Kingdom

Toolkit step: Build Market Infrastructure and Capacity

In Brief: Created in 2012 as the culmination of more than a decade of cross-party government efforts in the United Kingdom to strengthen social investment markets, Big Society Capital (BSC) serves as a “wholesaler”, deploying assets to social investment intermediaries. Big Society Capital’s ultimate objective is to provide social-sector organizations with access to new sources of finance and to bolster, in part, an overarching government effort to have more services delivered by voluntary, community and social enterprise organizations. BSC, which will grow to an estimated £600 million (US\$ 912 million) in coming years, is also charged more broadly with increasing the awareness of and confidence in social investment by promoting best practices and sharing information, improving links between the social investment and mainstream financial markets, and working with other investors to embed social impact assessment into their investment decision-making process.

BSC provides important insights for policy-makers looking to the United Kingdom as an example of how to build market infrastructure and capacity, including:

- **Garner consensus and collaboration across parties, political bodies and the public and private sectors to mobilize a unified vision, over time**
- **Identify a champion who understands and can represent both public and private sector interests**
- **Develop complementary policies to support the market’s balanced and sustainable growth, covering both the “supply” and “demand” sides of social investment**

Policy Goals and Development

Big Society Capital is the outcome of the UK Government’s focused effort over many years to reach the country’s poorest communities through “social investment”, i.e. investment for social and financial return. The different governments in power have expressed a commitment to social investment going as far back as 1997. However, in April 2000, the grounds shifted; the UK Social Investment Forum, an independent membership association, established a Social Investment Task Force chaired by the prominent UK venture capitalist Sir Ronald Cohen. The Task Force was endorsed by Her Majesty’s Treasury as a formal “observer” and charged with making an “urgent but considered assessment of ways in which the UK could achieve a radical improvement in its capacity to create wealth, economic growth, employment and an improved social fabric...”¹

The resulting Task Force report² provided recommendations for increasing investment, enterprise and wealth creation within the UK’s poorest areas, and stated that a “wholesale intermediary” specifically focused on the United Kingdom’s community development finance market would be a powerful stimulant to the social sector. These findings triggered more than a decade of government and policy innovation that would ultimately result in the creation of Big Society Capital. Within the UK Cabinet Office, the Office for Civil Society (formerly the Office of the Third Sector), established in 2006, in part supports, guides and administers the government’s interest in social investment.³

Another important milestone in Big Society Capital’s establishment was initiated in 2005 with the government’s creation of the Independent Commission on Unclaimed Assets, also chaired by Sir Ronald, to consider how unclaimed assets (money sitting untouched for over 15 years in dormant bank and building society accounts) could best be used for social benefit. The Commission’s final report in 2007 recommended creating a “social investment bank” that is independent of government and uses reclaimed deposits to act as a wholesaler of capital. The recommendation was memorialized in 2008, when the UK Parliament passed the Dormant Bank and Building Society Accounts Act, formally recognizing a wholesale bank as one of three allowable uses for unclaimed assets. In 2010 the UK Government committed to using all dormant account money available for spending in England to establish a social investment wholesale institution.

In 2011 Sir Ronald, along with BSC’s Chief Executive Officer Nick O’Donohoe, then the Global Head of Research at JP Morgan, submitted an outline to the government for a “Big Society Bank”, which they developed after substantial consultation with social-sector organizations and in close collaboration with the Cabinet Office. In April 2012, the “Bank”, now known as Big Society Capital, was officially authorized by the UK Financial Services Authority and launched by the Prime Minister.

¹ For more information see: www.socialinvestmenttaskforce.org.

² See *Enterprising Communities: Wealth Beyond Welfare*. Available at: http://www.socialinvestmenttaskforce.org/downloads/SITF_Oct_2000.pdf.

³ The UK Cabinet Office has a broader mandate to support the Prime Minister and Deputy Prime Minister and ensure the effective running of government. See <https://www.gov.uk/government/organisations/cabinet-office/about>.

Policy in Action

Big Society Capital serves as a “wholesaler”, deploying assets to social investment intermediaries, which are organizations that provide appropriate and affordable finance and support to the social sector (i.e. frontline charities, social enterprises and voluntary organisations). For an example of an intermediary, Nesta Investment Management, see the “BSC on the Ground” box in this section. Big Society Capital’s primary objective is to invest in and strengthen these intermediaries, which it does through the usual means of building relationships and a pipeline of deals and conducting due diligence led by an investment team of 10 professionals. Big Society Capital is expected to accrue £600 million (US\$ 912 million) over the next five years, including £400 million (US\$ 608 million) recovered from unclaimed bank deposits in the United Kingdom and £200 million (US\$ 304 million) from Britain’s four largest retail banks, Barclays, HSBC, Lloyds Banking Group and RBS.

Of particular note is BSC’s commitment to self-sufficiency and, overtime, delivering a small return to its shareholders. Big Society Capital will make investments with risk and return characteristics comparable to the broader financial market and is not permitted to subsidize the returns of private investors – or, put another way, to take a riskier position than any other investor in the same deal, for the same financial return. In a market where many social-sector business models have been shown to be not financially viable without subsidy, this implies either that business models will change over time – responding to the government’s efforts to deliver further public services through voluntary, community and social enterprise organizations – or that BSC will be restricted to achieving its mission through a relatively narrow universe of investable opportunities. BSC is expected to be catalytic in the provision of cornerstone investment for new funds and intermediaries, subordinate debt and equity, and guarantees.

At the heart of BSC is a relatively complex set of governance arrangements that guarantee the institution’s independence from government. This includes:

- A mechanism to transfer the £400 million (US\$ 608 million) in dormant accounts over the next five years through a separate fund.
- The creation of Big Society Trust to represent the interests of dormant assets and to ensure that BSC remains true to its mission. The Trust has its own board on which the government has one seat.
- Big Society Capital itself, with its own separate board and five shareholders: Big Society Trust with 60%, and Barclays, HSBC, Lloyds Banking Group and RBS each with 10% stakes. While the banks have 40% of the shares, they will never have more than 20% of the vote, which helps to preserve BSC’s social purpose.

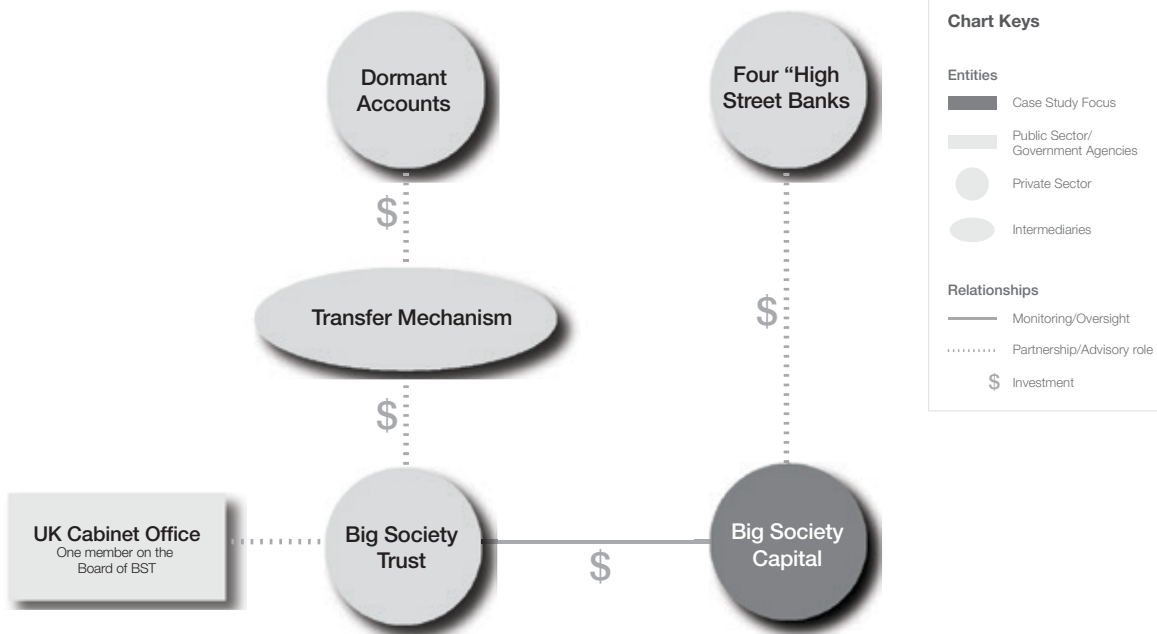
BSC On the Ground

Nesta Investment Management

Nesta Investment Management LLP (NIM) is a UK private equity fund manager that has raised Nesta Impact Investments 1 (NII-1), a limited partnership investing in innovative social ventures using technology to make a positive impact on the well-being of an ageing population, the education and employability of young people, and the social and environmental sustainability of communities.

In February 2013, NII-1 stood at £17.6 million (US\$ 26.7 million) and was capitalized with £8 million (US\$ 12.2 million) from its parent, the charity Nesta, an £8 million (US\$ 12.2 million) co-investment from BSC, and £1.6 million (US\$ 2.4 million) from Omidyar Network.

BSC was not the sole cornerstone investor in this example, but it helped NIM refine its investable universe and is expected to be an ongoing source of deal flow. NII-1 reached a first close in October 2012 after just six months of fundraising, a milestone that would not have been attained as quickly without BSC’s support.



Big Society Capital is operationally independent but its interests are closely aligned with those of the national government and its push for outcome-based performance in public-service delivery, including by developing vibrant new social ventures in health, welfare, education, criminal justice and other sectors. Because BSC emerged from the UK Cabinet Office, close connections remain between the two institutions, enabling access to the latest thinking on public-service reforms that support BSC's investment capacity. Big Society Capital has also attracted an exceptionally talented team of professionals precisely because it exists as an innovation in public-private partnership and plays a uniquely high-profile role.

Impact to Date

As of December 2012, BSC had made £55 million (US\$ 83.5 million) in investment commitments to five generalist social funds, six social impact bonds and two market infrastructure providers: Clearly So, which brokers relationships between social entrepreneurs raising capital and investors, and the Social Stock Exchange. Big Society Capital's initial commitments have been matched 1:1 by other private and charitable co-investors.

Policy Recommendations for Scaling Social Innovation

BSC exists thanks to a combination of political will, and the right champion, the right opportunity in the market and conditions specific to the United Kingdom's political, economic and social environment. While it has been in operation for just one year, its conception and structure provides important lessons to policy-makers outside of the United Kingdom:

Garner consensus and collaboration across parties, political bodies and the public and private sectors to mobilize a unified vision, over time

The United Kingdom has benefited from a long history of public innovation and experimentation in social investment, bridging political administrations. Big Society Capital emerged as a result of this activity, building on the lessons from precursors. One precursor, for example, was the FutureBuilders Fund, which was created in 2003 with £125 million (US\$ 190 million) to provide loan financing, grants and professional support to social enterprises and to help them deliver public-service contracts.

Identify a champion who understands and can represent both public and private sector interests

Sir Ronald Cohen has been a constant presence throughout BSC's development. Sir Ronald's personal credibility as a highly respected investor and social-sector visionary made him the ideal champion.

Develop complementary policies to support the market's balanced and sustainable growth, covering both the "supply" and "demand" sides of social investment

Alongside BSC, and to help build a strong pipeline of investible propositions in the social investment market, the Cabinet Office has implemented numerous other policies to bolster the "demand" for capital and investability of social ventures. This includes the Investment and Contract Readiness Fund (also profiled in this report), a £10 million (US\$ 15.2 million) grant programme supporting social ventures in obtaining new forms of capital and competing for public-service contracts, and the Social Incubator Fund, another £10 million grant programme for organizations known as incubators that work to make early-stage social ventures viable.

06 The Venture Capital Trust Fund, Ghana



Build Market Infrastructure
and Capacity

Overview



Geography: Ghana

Toolkit step: Build Market Infrastructure and Capacity

In Brief: The Government of Ghana's Venture Capital Trust Fund (VCTF) aims "to provide financial resources for the development and promotion of venture capital financing for Small and Medium Enterprises (SMEs)".¹ Since its creation in 2004 by the Venture Capital Trust Fund Act (Act 680), the VCTF has deployed US\$ 17 million, financing 48 SMEs through five intermediary funds, in addition to providing technical assistance for investors and entrepreneurs.

Social enterprise is a growing subset of Ghana's emerging SME market. In a developing economy such as Ghana, many SMEs supported by the VCTF provide employment for previously jobless individuals and often improve access to basic services in healthcare and education. In addition, the VCTF has advocated for industry infrastructure development, including an angel investor network, a research programme and a partnership with the Ghanaian stock exchange.

The VCTF provides several considerations for implementing similar reforms for policy-makers looking to Ghana as an example of how to build market infrastructure and capacity, including:

- **Craft legislation providing flexibility to achieve field-building goals**
- **Identify appropriate sources of seed funding that leverage limited government resources to ensure programmatic sustainability**
- **Provide technical assistance to stakeholders throughout the market ecosystem**

Policy Goals and Development

In 2004, SMEs represented 90% of all registered businesses in Ghana, employing more than 60% of the workforce and comprising 30% of GDP.² However, as a 2004 UN Industrial Development Organization report explained: "Long term financing in terms of equity capital, needed by growth-oriented mainly small and medium companies, is virtually non-existent."³ Previous government-run SME financing programmes – such as the Export Development and Investment Fund (EDIF) – attempted to address this financing gap. These programmes met several challenges, including strict regulatory restrictions and a lack of supporting market infrastructure, but illustrate the Government of Ghana's commitment to close the SME finance gap.⁴

Following these initial programmes, a group of international development finance institutions (DFIs) and local Ghanaian investors suggested the Government of Ghana consider formal legislation that would not only provide financing options to SMEs but would develop the supporting market infrastructure. In response to these suggestions, the Government convened an advisory group of bankers, private investors and international DFIs to explore various incentives and policy reforms to boost the venture capital industry.

The advisory group's efforts informed the Ghanaian Parliament's passage of Act 680 in 2004, establishing the VCTF. Between 2004 and 2006, 22.4 million Ghana cedis (at the time, US\$ 22.4 million)⁵ were raised for VCTF programmes through a 25% commitment from the National Reconstruction Levy. This Levy was created to fund government-run development programmes and faced opposition by the business communities on which the tax was imposed. In addition to the Levy, Act 680 indicated that additional VCTF funding could be raised through other private investments or donations.

Following the passage of Act 680, the President of Ghana appointed VCTF's Board of Trustees, comprised of government and private sector representatives. Shortly thereafter the President also appointed a chief executive officer to the VCTF, a government official responsible for updating the ministry on the operational status of the VCTF.

Policy in Action

Using Levy funds, the VCTF invested in market infrastructure by developing intermediaries, known as venture capital finance companies. By the end of 2006, the first two of these finance companies were launched – Activity Ventures and Gold Venture Capital. Each was seeded with approximately US\$ 4 million from the VCTF and US\$ 6 million from other local investors (mainly banks and insurance companies). With these first finance companies, the VCTF was actively involved in developing business plans and setting investment criteria standards for investing in SMEs with social or environmental missions. The inaugural funds provided a reference from which subsequent financial service providers were able to submit proposals in line with VCTF objectives.

In 2007, the VCTF launched two more finance companies, Bedrock Venture Capital and Fidelity Equity Fund II⁶ (see the "VCTF on the Ground" box in this section). By the end of 2007, the VCTF had raised a total of US\$ 47.2 million, including both Levy dollars and private investment that leveraged tax incentives for investing in the finance companies. In 2009, a fifth finance company was established, Ebankese Fund Ltd.

¹ The Parliament of the Republic of Ghana, Act 680: Venture Capital Trust Fund Act. 17 November 2004. Available at: <http://www.venturecapitalghana.com.gh/LinkClick.aspx?fileticket=B82UoT%2Bg7S4%3D&tabid=36&mid=375>.

² Mensah, Sam, "A Review of SME Financing Schemes in Ghana, Presented at the UNIDO Regional Workshop of Financing Small and Medium Scale Enterprises, Accra, Ghana, 15-16 March 2004". Available at: <http://www.semfinancial.com/publications/SME%20Financing%20Schemes%20in%20Ghana.pdf>.

³ Ibid., p. 6.

⁴ Ibid.

⁵ Due to an increase in exchange rates, today this amount equals approximately US\$ 12million. Because the VCTF is structured on the US dollar, the exchange rate has had a significant impact on VCTF funds.

⁶ Fidelity Equity Fund II is the second fund of an already established local investment manager, Fidelity Capital Partners, wholly independent from the US firm, Fidelity Investments.

In keeping with the second mandate of Act 680, the VCTF continued to build the Ghanaian venture capital market, developing a network of private stakeholders to support its fundraising and technical assistance activities. To initiate connections between the SME community and investors, the VCTF held joint investor/SME roundtables across the country. In addition, VCTF staff realized that more than 60% of SMEs applying for capital from finance companies came from the Greater Accra Region, which represented only 12% of the country's population.⁷ In 2010 the VCTF began a countrywide "road show" to educate entrepreneurs in other regions about their services. Furthermore, in 2011 it established the Ghana Angel Investor Network to formally organize wealthy individuals to invest in and mentor entrepreneurs.

The VCTF was instrumental in creating the Ghana Alternative Market (GAX), an alternate listing on Ghana's stock market specifically for SMEs, scheduled to open in 2013. As the entry cost into the primary market exchange is too expensive for smaller businesses, the GAX will offer a more accessible option for SMEs to attract investment. The VCTF is also working with the Ghana Stock Exchange to establish a fund dedicated to helping SMEs cover the upfront cost required to list on the Exchange.⁸

By 2012, the VCTF raised a total of US\$ 58.2 million, deployed as investments into finance companies and used to support VCTF operations. However, the main source of VCTF funding, the Levy, was repealed in December 2006 due to opposition from large corporations. As a result, the VCTF has not had sufficient funding to launch another finance company since 2009. Moving forward, the VCTF is looking for new funding opportunities with DFIs and other international financial institutions with the hope of raising additional capital and achieving sustainability.

Impact to Date

As of spring 2013, the five venture capital finance companies have invested more than US\$ 17 million into 48 SMEs across various sectors of the Ghanaian economy, including in healthcare, education and agro-processing enterprises producing items such as inexpensive packaged foods and filtered water. These SMEs provide more than 1,000 direct jobs and an estimated 3,000 indirect jobs through the expanded operations of portfolio companies.

The VCTF has placed Ghana at the forefront of the African venture capital field. Due to the VCTF's awareness-building activities and groundwork, other venture capital funds have begun to emerge in Ghana. Further expanding its work, in 2012 the VCTF received a US\$ 150,000 grant from the Rockefeller Foundation to develop the impact investing market in Ghana. This funding will be used to perform a comprehensive landscape of the country's impact investing marketplace and to establish the Ghana Institute for Responsible Investment.

VCTF On the Ground

Fidelity Equity Fund II and Adehyeman Savings and Loans

Adehyeman Savings & Loans Limited (ASL) is an Accra-based microfinance company serving underserved entrepreneurs by providing the financial services necessary to grow their microbusinesses. ASL's clients include entrepreneurs like Ellen Osei Owusu who, through two loans for a total of GHC 3,500 (US\$ 1,800), has been able to develop her business selling locally printed cloths. Using the ASL loans, she has contributed to the growth of the local artisan economy by opening a second shop and is planning to apply for a third loan to pursue designing her own fabrics.⁹

Fidelity Equity Fund II (a VCTF finance company) invested a total of US\$ 1.5 million in ASL in February 2008 to fund branch expansion, managerial capacity building and technology upgrades. With this investment, ASL has been able to grow from one branch to six, greatly expanding its geographic reach and social impact.



⁷ Annual report 2009, 2000 Census population statistics

⁸ See <http://www.venturecapitalghana.com.gh/LinkClick.aspx?fileticket=ApLL6TwCd3o%3D&tabid=36>.

⁹ See <http://www.adehyeman.com/details.cfm?tblNewsCatID=42&prodcatID=8&tblNewsID=108>

Policy Recommendations for Scaling Social Innovation

The VCTF is in many ways a unique model specifically designed to work within the Ghanaian market. However, the organization and the Act that established it address many broader issues from which other governments can learn:

Craft legislation providing flexibility to achieve field-building goals

Key to the expansion of the VCTF was the flexibility granted through the second clause of Act 680, permitting it to use funds to “promote venture capital financing in general”. While the Board of Trustees is composed of government appointees who must report to the Ministry of Finance and Economic Planning, the second clause allows them to make programmatic decisions independent of government. The industry’s growth necessitated new solutions unforeseen at the time of the VCTF’s establishment and this flexibility allowed it to adapt, for example by creating an angel investor network and an SME-specific stock exchange.

Identify appropriate sources of seed funding that leverage limited government resources to ensure programmatic sustainability

While the Government of Ghana continues to support the VCTF and the role it plays in Ghana, it is not able to provide adequate funding without the repealed Levy. To facilitate a strong, sustainable programme, the VCTF is seeking a longer-term and more consistent source of seed funding that leverages limited government resources in order to attract additional private funds and enable the programme to have far greater reach.

Provide technical assistance to stakeholders throughout the market ecosystem

The VCTF takes a comprehensive approach, providing technical assistance to investors, fund managers and SMEs. This is seen through the VCTF’s work in establishing the first venture capital finance companies, training fund managers to choose investments with social or environmental benefits and facilitating the Ghana Angel Investor Network. These programmes have provided a foundation for the growth of the venture capital market, allowing the VCTF’s efforts to be sustained, replicated and multiplied.



Overview



Geography: England, UK

Toolkit step: Prepare Enterprises for Growth

In Brief: The Investment and Contract Readiness Fund (ICRF) is a three-year £10 million (US\$ 15.2 million) fund launched in 2012 that provides grant support to social ventures for the purpose of better equipping them to secure new forms of investment and compete for public-service contracts.

The ICRF offers important insights for policy-makers looking to Ethe UK as an example of how to prepare enterprises for growth, including:

- **Develop intermediaries alongside social enterprises**
- **Create opportunities for formally engaging and leveraging all key stakeholders**
- **Understand that the availability of resources to implement a policy will influence its design**

Policy Goals and Development

The Government of the United Kingdom has focused in recent years on developing its social sector, recognizing that a larger and more sustainable universe of social ventures, including charities, social enterprises, mutuals¹ and community interest corporations (a specially-designated business with a social purpose), could drastically improve the UK's poorest communities.

This effort has led most notably to the creation of Big Society Capital, a £600 million (US\$ 912 million) independent “wholesale” investor in social finance intermediaries intended to expand the supply of capital for social ventures (also profiled in this report). The Government also instituted a suite of programmes to strengthen social ventures directly.

According to market participants, social ventures that could use this new capital lacked investment readiness.² In fact, social entrepreneurs themselves stated that support for building internal business capability was a more pressing need than the provision of finance itself.³ Similarly, many social ventures lacked capacity to successfully bid for government contracts, a challenge to a related and parallel effort to open up the provision of public services to more competition from the social sector.

As a result, the Office for Civil Society, a unit within the UK Cabinet Office with the remit to work with and support the social sector, launched the Investment and Contract Readiness Fund in 2012 to ensure social ventures are better equipped to secure new forms of investment and compete for public service.

Policy in Action

The Investment and Contract Readiness Fund (ICRF) is a £10 million (US\$ 15.2 million), three-year grant programme. ICRF grant amounts range from £50,000 (US\$ 76,000) to £150,000 (US\$ 228,000) and are available to social ventures that have the potential to provide their services and positive social impact at scale, but are not yet in a position to take on loans. Eligible social ventures include charities, social enterprises, community interest corporations and mutuals. The grantees can use ICRF funds to purchase professional advice from approved “investment and contract readiness providers”. As a direct result of the providers’ support, grantees are expected to achieve one of the following two outcomes:

- Raise over £500,000 (US\$ 760,000) in private capital
- Bid on government contracts of over £1 million (US\$ 1.5 million)

The ICRF is actively managed by The Social Investment Business (TSIB) on behalf of the UK Government. TSIB is a specialist independent fund manager that was selected as administrator of the programme following a public tender process. As ICRF manager, TSIB is tasked with overseeing all aspects of the programme, including approving and marketing support providers, soliciting, assessing and administering grants, making payments and measuring success.

A central feature of the ICRF is TSIB’s establishment of an investor panel to review and approve applications. This structure ensures that the fund supports social ventures believed to be the most viable, based on real investment criteria and perspectives. It also directly aligns the grant-making decisions of “today” with one of the policy’s core objectives for “tomorrow”, i.e. the raising of private capital within two years. The Cabinet Office has non-voting representation on the panel and only helps guide decisions where there are opportunities to align ICRF activities with wider government policy.

¹ Defined by the Cabinet Office as “an organisation which has left the public sector (also known as ‘spinning out’) but continues to deliver public services. Mutuals are organisations in which employee control plays a significant role in their operation”. For more information, see: <http://mutuals.cabinetoffice.gov.uk/what>.

² See the Cabinet Office’s February 2011 report, “Growing the Social Investment Market: A vision and strategy”. Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/61185/404970_SocialInvestmentMarket_acc.pdf.

³ Office of the Third Sector, Social Investment Wholesale Bank: Summary of responses to the consultation, 2009.

TSIB is also expected to take advantage of the flexibility the Cabinet Office built into the programme. The most prominent example is an expected shift in 2013 to make some portion of the grants repayable, consistent with the desire to better align incentives. In effect, cash support for social ventures will partially be structured as zero-interest loans repayable on investment raised. Repayable awards will deliver greater market discipline to application budgets and will be accompanied by outcome performance awards for providers.

Core programme components implemented by TSIB and consistent with the original proposal include:

- In partnership with approved support providers, social ventures apply to the ICRF through a competitive process
- Grants provided to social ventures range between £50,000 and £150,000
- A maximum of 40% of any ICRF Grant can be used by a social venture to implement support provider recommendations; the bulk of monies is passed through to support providers
- Funded activities can span up to 18 months; the majority of awards cover three- to nine-month periods
- Support providers are approved through a separate application process

While the UK Government has succeeded in implementing the ICRF at a time of austerity, the relatively modest payment to TSIB as administer of the programme – 3% of grant funds, or £300,000 (US\$ 456,000) over three years – has impacted some components of the ICRF programme. With fewer resources to provide due diligence on applications before elevating them for a final decision to the investor panel, TSIB has relied on the volunteer efforts of panellists more than anticipated. The willingness of these experts to commit significant time to the ICRF is testament to the perceived importance of the fund as an anchor in the UK market and evidences the Government’s influence as a catalyst and convener.

TSIB has also invested less heavily in pipeline development, relying on the crucial and established relationships between approved providers and social ventures for deal flow. When it has been able to invest – through meetings, briefings and feedback – TSIB has focused on enhancing the quality of applications, with positive results. And finally, there is limited capacity for documenting and disseminating lessons from the programme, and its detailed impacts. These insights are expected to be among the ICRF’s most valuable contributions to the field.

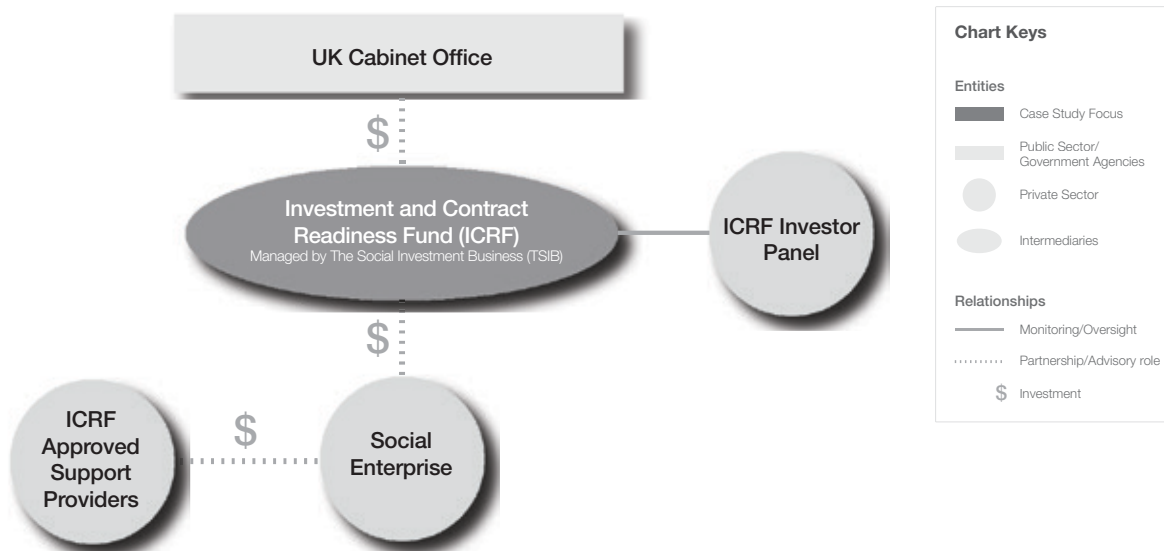
ICRF On the Ground

Social Finance and Shared Lives

Social Finance is one of ICRF’s approved support providers and, at the end of December 2012, had successfully secured funding for five out of six of its investment readiness applicants. One of these enterprises, Shared Lives, was announced in September 2012 as among the first eight recipients of funding from ICRF.

Shared Lives is a national network of small, community-based care and support solutions for disabled adults. Shared Lives will use ICRF funding to assess the potential for social investment in the expansion of their program. Without support from ICRF, Shared Lives could secure alternative funding, but not as quickly or as early in the organization’s development, according to Social Finance.

The first eight recipients of ICRF funding, totalling 1m (US\$ 1.5 million), are expected to leverage a total 23m (US\$35 million) in private investments and public contracts.



Impact to Date

The ICRF has been successful so far in its core objective of distributing funds to growing social enterprises for the explicit purpose of taking advantage of new opportunities in the market. Twenty-seven enterprises had received funds as of 31 January 2013, with a total of £2.6 million (US\$ 3.95 million) in grants awarded, in line with the Government's objective of distributing £4.5 million (US\$ 6.8 million) in year one, that same amount again in year two, and £1 million (US\$ 1.5 million) in year three.

Approximately 65% of ventures have received support for investment readiness against 35% for contract readiness – a split that reflects the tendency for investment readiness to be more rigorously documented in applications and more easily assessed. Contract readiness, on the other hand, is subject to greater uncertainties in the public commissioning environment.

The ultimate success of the programme will be determined by the demonstrated ability of enterprises to raise private capital and win government contracts. With the first grants distributed in late 2012, the ICRF does not expect to see results before late 2013 or 2014.

Policy Recommendations for Scaling Social Innovation

The ICRF is an example of how government can play an important role in developing investable opportunities. It offers insights to policy-makers interested in providing similar support and capacity building:

Develop intermediaries alongside social enterprises

The ICRF's most important legacy may be to build intermediary infrastructure, with 28 providers currently approved to supply advice to enterprises and apply jointly for ICRF funding. These providers are the programme's primary source of deal flow and grant applications. In addition, the ICRF's funding provides a critical source of income. For example, one of the providers, Social Finance (see the "ICRF on the Ground" box in this section), expects to derive around 10% of its operating revenue from the ICRF in coming years.

Create opportunities for formally engaging and leveraging all key stakeholders

By convening the investor panel to allocate ICRF grants, TSIB facilitated a critical innovation. As investors, the panellists have a clear incentive to allocate grants only to the most promising of enterprises, by default ensuring that government funds are more efficiently deployed. Separately, the panellists have benefited significantly from exposure to the applications, gaining a unique insight into the pipeline of future investees in the UK social investment market, and from engagement with the expertise and perspectives of their peers.

Understand that the availability of resources to implement a policy will influence its design

Although seemingly obvious, the availability of resources is worth mentioning; changing economic environments or political priorities, for example, could have practical implications. The modest resources available for managing the ICRF have required some creativity to ensure quality programme execution.

08 Mi Chacra Emprendedora, Peru



Prepare Enterprises
for Growth

Overview



Geography: Peru

Toolkit step: Prepare Enterprises for Growth

In Brief: An initiative of the Peruvian Cooperation Fund for Social Development (FONCODES), Mi Chacra Emprendedora (My Entrepreneurial Farm) develops the capacity of rural entrepreneurs and households living in extreme poverty by expanding and diversifying income-generating activities and encouraging farmers to bring new products to market. Mi Chacra Emprendedora demonstrates the opportunity within marginalized communities to develop rural enterprise and innovations with long-term potential for economic growth and investment in new geographies and sectors.

Mi Chacra Emprendedora provides several insights for policy-makers looking to Peru as an example of how to develop and support rural entrepreneurs, including:

- **Identify opportunities for cross-sector partnerships to ensure programmatic sustainability**
- **Introduce programmes with cultural awareness to leverage communities' resources and achieve local approval**
- **Incorporate rural enterprise development into a long-term, strategic vision for economic growth**

Policy Goals and Development

The Peruvian Cooperation Fund for Social Development (FONCODES) was established in 1991 to invest in small infrastructure projects (such as educational centres and footbridges) that would contribute to the growth of poor and marginalized regions. As FONCODES has evolved, it has also incorporated capacity-building programmes to develop the human capital in the communities in which they work.

In 2011, the Ministry of Development and Social Inclusion (MIDIS) was created to coordinate between social policies and programmes across different sectors and levels of government to bridge the long-standing exclusionary gaps in Peru.¹ Included under this new ministry were programmes that provided immediate support to impoverished households (such as the conditional cash transfer programme, Juntos) as well as longer-term infrastructure and capacity-building initiatives within FONCODES.

Under the new ministry, FONCODES has begun to work more closely with local governments to develop public-private partnerships that create opportunities for economic growth. One component of this approach, Mi Chacra Emprendedora (My Entrepreneurial Farm), was based on the outcomes of a pilot initiative that ran from 2009-2010, Mi Chacra Productiva (My Productive Farm).

The Mi Chacra Productiva pilot introduced simple technologies and techniques that helped to expand families' income-generating activities. With a budget of 10 million nuevo soles (US\$ 3.9 million) from public funds, the pilot worked with 6,592 households. Seventy percent of the households involved were also families participating in the conditional cash transfer programme, Juntos, demonstrating the strategic coordination between government initiatives.

According to a third-party evaluation of Mi Chacra Productiva conducted in 2011 by the non-profit organization, Swisscontact, the pilot was on track to achieve its original objectives.² For example, one of the programme's goals was to ensure that 75% of participating households produced a surplus from their farm to bring to market. While the programme didn't achieve this rate, it did prompt a significant increase; approximately 45% of households brought some surplus products to market. The evaluators determined that these numbers would increase as the interventions had more time to take effect.

In their evaluation, Swisscontact suggested that Mi Chacra Productiva be replicated in other regions, providing several recommendations for improving the initiative, including:

- Extend the implementation period from 9 to 18 months to allow the full effect of interventions to be realized
- Identify more public and private funding partners to address limited budgets and heavy staff workload
- Allow for more flexibility in the adaption of technologies to the diverse geographies of Peru
- Expand income-generating activities beyond basic farming

¹ See: MIDIS, A Policy for Development and Social Inclusion in Peru, available at: http://www.midis.gob.pe/files/doc/midis_politicas_desarrollo_en.pdf

² See <http://www.calameo.com/books/0015486367d32f1f42970>.

Policy in Action

Building on previous experiences and incorporating Swisscontact's recommendations, in 2012 FONCODES leveraged funding from the Food and Agriculture Organization of the United Nations and the Action Against Hunger Foundation to develop Mi Chacra Productiva in five districts. In June of the same year, two more pilots were developed using public funds. Finally, in October 2012, FONCODES launched Mi Chacra Emprendedora, the second iteration of Mi Chacra Productiva, in nine additional districts (in the regions of Apurimac, Cusco, Huancavelica and Ayacucho) with public funding from the Equality Fund. For an example in one region see the "Mi Chacra Emprendedora on the Ground" box in this section.

To develop the capacity of rural entrepreneurs and households living in extreme poverty, Mi Chacra Emprendedora incorporates four components³ derived from Mi Chacra Productiva:

- Improve farming production systems by providing technical assistance to implement simple, low cost technology innovations. FONCODES has identified 10 basic technologies that can be implemented and adapted to the local economic and cultural context (e.g. irrigation, organic fertilizer and improved stoves)
- Develop and maintain healthy housing, such as safe kitchens, water and solid waste management
- Promote inclusive rural businesses by helping farmers organize into business associations, prepare business plans and pursue grants by participating in competitions
- Build financial capacity by helping to develop savings plans, particularly in households receiving assistance from the conditional cash transfer programme, Juntos

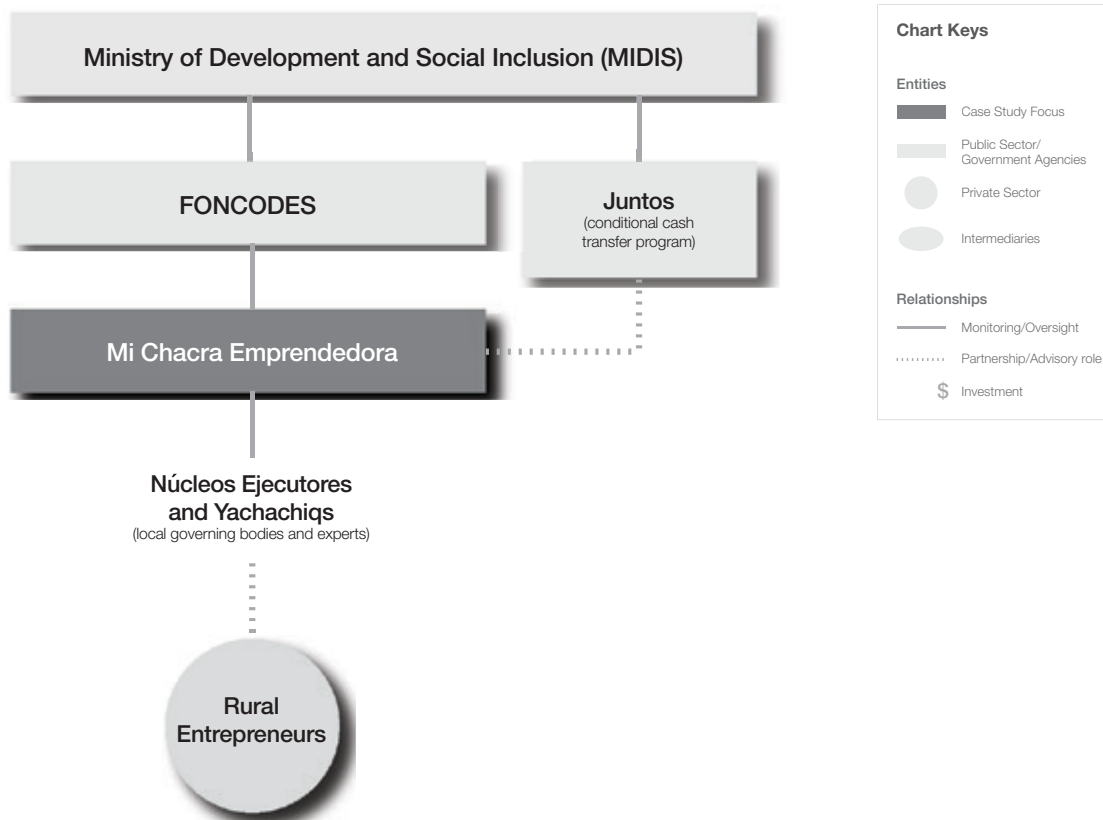
These new initiatives are implemented throughout population centres of 100 households and directed by governing bodies called "Núcleos Ejecutores", comprised of a president, secretary, treasurer and local government representative. These governing bodies are responsible for programme implementation and recruit local experts called "Yachachiqs" (the Quechua word for "teacher") who work with approximately 35 households on the four programme components. The role of Yachachiq is central to Mi Chacra Emprendedora, and the initiative proactively solicits their feedback and engagement by sending FONCODES representatives from Lima to the local communities for knowledge exchanges. Funding from FONCODES is provided for these activities through Central Núcleos Ejecutores, providing a structure for effective community involvement, monitoring and supervision.

Mi Chacra Emprendedora On the Ground

Enterprise Development in the Urpaypampa Community

In October 2012, Mi Chacra Emprendedora began work in the community of Urpaypampa in the Ayacucho region. One local family worked with a Yachachiq to upgrade their technology, including their stove and irrigation systems. They also received training on how to grow more vegetables, and alfalfa to feed their guinea pigs. As a result of this technical assistance, the family increased their farm production significantly; formerly maintaining barely enough for sustenance, the family now produces enough to sell guinea pigs at local markets.

The family also developed a business plan, winning grant funding in a business plan competition. In the future they hope to sell their guinea pigs (and vegetables as they continue to improve production) at larger, regional markets.



³ See FONCODES website: <http://www.foncodes.gob.pe/portal/index.php/programas/programas-chacra>

Impact to Date

Mi Chacra Emprendedora is now under way in 11 districts. With current funding, the programme will be extended over the next three years to 3,247 households. In 2013, MIDIS plans to contribute 66 million nuevo soles (US\$ 25 million) to scale the programme to an additional 50 districts. These activities will be tracked by a third party who will conduct an independent evaluation of the programme's success.

Currently much of the surplus generated by the participating rural entrepreneurs is only being sold informally; however, FONCODES has begun to identify potential partners (such as supermarkets) who can purchase products from the local communities. Other avenues for revenue generation include rural tourism development and brand marketing to increase the value of the rural products.

To ensure the programme's sustainability, FONCODES is working on a proposal under the "Results-based Budget" scheme of the Ministry of Economy and Finance. This proposal will ensure funding over the next three years along with measurable indicators for success. FONCODES is also working with the Network of Urban and Rural Municipalities to build capacity in local government and business so the programme is maintained beyond the initial intervention.

Policy Recommendations for Scaling Social Innovation

Building on the Mi Chacra Productiva pilot, Mi Chacra Emprendedora created a system and structure that is easily replicated and adapted to other regions in need of strategies to develop rural enterprise. Several lessons from Mi Chacra Emprendedora include:

Identify opportunities for cross-sector partnerships to ensure programmatic sustainability

In the transition from Mi Chacra Productiva to Mi Chacra Emprendedora, limited financial and human resources were one of the largest barriers to scaling the programme; many of the Yachachiqs and local experts were overloaded with demands for technical assistance. In addressing this constraint, FONCODES leveraged the cross-sector appeal of Mi Chacra Emprendedora. To further the mission of food security, Mi Chacra Emprendedora's first financial partners were agriculture and hunger-oriented organizations. FONCODES has also identified other potential partnerships with private, multinational companies working in Peru. For example, it is currently working with a Canadian mining company to fund the work of Mi Chacra Emprendedora in the regions in which the company works.

Introduce programmes with cultural awareness to leverage communities' resources and achieve local approval

In a country with incredibly diverse geographies and cultures, Mi Chacra Emprendedora is intentionally introduced to local communities in a way that encourages their acceptance and support. This intentionality is demonstrated through language; for example, an alternative Quechua name is used for the initiative – Haku Wiñay. Additionally, many of the other programme components are in the local language. Local approval is also achieved through the financial structures of the Núcleos Ejecutores that dictate the way funds are spent. Mi Chacra Emprendedora requires that the funding provided by the Núcleos Ejecutores be somehow matched by households. Depending on local conditions, this matching could constitute paying for a percentage of the technologies or, in areas of extreme poverty, contributing their time, labour and construction materials (e.g. adobe for bricks).

Incorporate rural enterprise development into a long-term, strategic vision for economic growth

Within the MIDIS, obvious synergies between programmes like Mi Chacra Emprendedora and Juntos exist. In projecting that vision into the future, efforts like the promotion of rural enterprises' participation in formal markets can provide a jumping-off point for the next phase of rural development. While the participants in Mi Chacra Emprendedora are not yet ready for traditional investment, the capacity and innovations currently in development set the groundwork for those opportunities in the future.



Overview



Geography: United States

Toolkit step: Grow and Direct Private Capital

In Brief: In the United States, Program-Related Investment (PRI) is a category of philanthropic investment, designated by the US Internal Revenue Service, that allows foundations to make concessionary (below-market rate) investments and count them towards their annually mandated philanthropic giving, provided that the investments meet specific requirements. PRIs allow foundations the flexibility to make patient, low-cost and/or higher-risk investments in support of their mission. However, policy-makers must take into consideration several challenges in implementing PRIs.

PRIs provide several insights for policy-makers looking to the US as an example of how to grow and direct private capital to social enterprise and innovation, including:

- **Identify the philanthropic or other potential investors that would benefit from preferential treatment for concessionary investments**
- **Determine whether there is sufficient demand for concessionary investments to merit the development and dissemination of a new type of investing practice**
- **Consider complementary policy interventions that can leverage and expand the limited capital catalysed through a PRI-type programme**

Policy Goals and Development

In the United States, foundations historically have played a critical role providing no-cost capital in the form of grants to underserved communities. According to US tax law, foundations are tax-exempt organizations that must distribute at least 5% of their total assets each year to maintain their tax-exempt status. Such distributions are dispensed primarily through grant-making. During the 1960s, several large foundations became interested in making patient, low-cost and/or higher-risk investments in support of their mission, investments that were challenging to justify under existing tax and investment law. In 1969, at the urging of these foundations, the federal taxing authority – the US Internal Revenue Service – created a new category of investment for foundations, Program-Related Investments (PRIs).

This new investment category allowed foundations to count PRIs towards their annual 5% distribution mandate, giving them the flexibility to make investments in support of their mission. PRIs also have a multiplier effect; unlike grants, they aim to return the principal amount of the investment back to the foundation and, once returned, dollars used for PRIs must be recycled into other charitable purposes, whether reinvested as a PRI or awarded as a grant.

PRIs offer several potential advantages as a philanthropic tool. For instance:

- By taking on risk, or providing concessionary capital, PRIs can be used to leverage private-sector investment and bring social interventions to scale.
- Longer-term or higher-risk capital can help direct market activity towards areas where, due to market failures or social conditions, the market would otherwise be inactive.
- The rigour of underwriting and servicing PRIs can build capacity in the end users of capital, transforming innovative practices into durable institutional structures. For social enterprises particularly, PRIs can support investees as they scale and grow to a size where they can attract more traditional capital.

The repayment of PRIs allows foundations to leverage their resources more effectively. Early PRI adopters provided low-interest loans to build affordable housing or support small-business development in low-income communities. Over time, PRIs have grown to play an important role in the larger US community development field. They have also been used in support of environmental goals, such as land preservation, energy efficiency programmes and alternative energy production. More recently, supported by additional guidance from the IRS, PRIs have been used to fund social enterprises and other emerging social innovations.

Policy in Action

PRIs can come in a variety of forms, including loan guarantees, subordinated debt, senior debt and equity investments. They may be made as investments in non-profit or for-profit entities, or directly to individuals. Their unifying characteristic is that they are made for an explicitly social purpose, on terms that private-market actors may not normally accept.

The Internal Revenue Service applies three tests to confirm that a PRI qualifies as part of a foundation's 5% distribution mandate:

- The primary purpose of the investment is to accomplish a charitable purpose as defined by the US tax code.
- The financial return of the investment is the mechanism to create social benefit, not the goal in itself.
- The investment is not associated with political lobbying.

Shortly after PRIs were established, the IRS published a set of examples meant to give guidance on the sorts of investments that meet these tests. An update in 2012 added nine

new examples for guidance, reflecting changes in foundation practice and highlighting issues such as the acceptable risk-adjusted rates of return for PRIs, their applicability to non-US investees and the range of charitable considerations (beyond disadvantaged communities) that were acceptable for PRIs, including environmental considerations and the advancement of science and the arts.¹

While the updated list of examples helps clarify the range of potential PRIs, the burden is still on foundations themselves to ensure that any given PRI meets IRS requirements.

Impact to Date

PRIs have been an established form of philanthropic investment for decades and have grown significantly over time. The Foundation Center, a research organization that studies philanthropic activity, has reported that the cumulative dollar value of PRIs between the period of 1990 and 2009 was US\$ 3.7 billion and, further, that the use of PRIs is increasing. For example, the number of foundations that reported having made a PRI in 1998 was 122 versus 172 in 2007. Similarly, the number of unique PRIs distributed in 1998-1999 was 581 versus 705 in 2006-2007. Cumulative PRI investments to date likely total well over US\$ 4 billion. As previously mentioned, the range of areas in which PRI investments are applied has also expanded.

In addition to their immediate impact, PRIs have also helped support the development of a broad array of investment intermediaries, for example community banks or loan funds, that blend public, private and philanthropic capital, especially in the field of US community investment. PRIs have helped these institutions build investment track records and infrastructure. For an example of this practice, see the “PRIs on the Ground” box in this section.

However, PRIs are not yet central to US philanthropic practice. Only a small percentage of foundations use them, and few use them to a significant extent. A variety of reasons explain the low levels of implementation. PRIs remain relatively unknown and, where known, are somewhat daunting to foundations. For example, the investment underwriting process can be challenging and unfamiliar, requiring expertise in business management, lending or financing, which foundation staff may not have. Smaller foundations may not feel that they have the internal capacity to manage PRIs. Further, depending on the level of complexity, PRI execution may require greater expenditures, such as for legal review to ensure that the PRI in question fits within the IRS definition, and longer-term monitoring and oversight than most grants.

PRIs On the Ground

The Kresge Foundation

One key issue that has attracted the attention of US foundations is the lack of access to primary healthcare in poor communities. In tackling this problem, the Kresge Foundation, in conjunction with the Local Initiatives Support Corporation (LISC) and Morgan Stanley, recently built an impact investing fund that will aggregate US\$ 100 million in capital to build community health centres and affordable housing with integrated health treatment.

The Kresge Foundation was able to use US\$ 6 million of PRI investment to mitigate the risk for conventional investors, leveraging institutional capital from private markets. At the same time, the fund benefits from several complementary public policies, including new opportunities created by federal health legislation – the Affordable Care Act passed in 2010.



¹ See <http://www.gpo.gov/fdsys/pkg/FR-2012-04-19/pdf/2012-9468.pdf>.

Policy Recommendations for Scaling Social Innovation

In sum, PRI legislation in the US has helped create a network of investors and investment intermediaries with specialized skills in serving underserved populations. Relatively limited PRI usage in the foundation community suggests that there are real transaction costs, but the long-term efficacy of programmes across a number of foundations indicates that PRIs have helped provide an important and unusual source of low-cost and/or risk-bearing capital that the market would not otherwise have. Policy-makers interested in adopting PRIs in other countries should consider several lessons from the US experience:

Identify the philanthropic or other potential investors that would benefit from preferential treatment for concessionary investments

This policy is moot in places without a relatively vibrant philanthropic community. Policy-makers should make sure, however, that foundations exist in such a number and are open enough to the potential of PRIs that this policy will be used and useful.

Determine whether there is sufficient demand for concessionary investments to merit the development and dissemination of a new type of investing practice

In the United States, the philanthropic sector devoted resources to create investable opportunities and generate demand for investment. Without these additional philanthropic efforts that helped to foster social enterprise, the opportunities for PRIs would be much more limited.

Consider complementary policy interventions that can leverage and expand the limited capital catalysed through a PRI-type programme

PRIs have been particularly effective in combination with other policies – including the US Government's Community Development Financial Institution (CDFI) Fund and tax expenditures such as the Low Income Housing or New Markets tax credits, both of which offer incentives for private-capital participation in the development of affordable housing and investment in underserved communities. Additional policies can help foundations use their concessionary capital to continue to leverage private-sector dollars more effectively.



Overview



Geography: Nova Scotia, Canada

Toolkit step: Grow and Direct Private Capital

In Brief: Initiated in 1999, Community Economic Development Investment Funds (CEDIFs) were designed to stimulate economic growth, provide new employment opportunities and rejuvenate existing economic sectors in the province of Nova Scotia. To achieve this impact, the CEDIF model provided individual investors a 30% tax credit on investments into local communities. Since the programme's inception, the tax credit has been raised to 35% and has directed over CAD 49 million (US\$ 48 million) to support locally-owned and operated businesses and social enterprises.

The experience in Nova Scotia provides several insights for policy-makers looking to CEDIFs as an example of how to grow and direct private capital, including:

- **Reduce the transaction costs of investment opportunities**
- **Reinforce current investment activities by incorporating other innovations**
- **Identify opportunities to engage new investors and generate larger supplies of capital**

Policy Goals and Development

In 1992, a Nova Scotia citizens' advisory group identified the need for new financing tools to support local community economic development, recommending the provision of tax incentives to spur new investment in local business. Resulting legislation, the Equity Tax Credit Act passed in 1993, permits individuals to qualify for a tax credit when investing in businesses located in and hiring from Nova Scotia, thus allowing fellow citizens to support entrepreneurs in their own communities.

Despite these initial efforts, the tax credit was underutilized. Aware of this problem, a working group with representatives from the Nova Scotia Securities Commission, Finance Department and Department of Economic Development and Tourism identified several barriers to participation, including the cumbersome documentation required of enterprises and the lack of community infrastructure to support the tax credit. In 1999, following the activities of the working group, the Community Economic Development Investments Funds (CEDIF) programme was established through an amendment to the 1993 Act to address the barriers identified.¹

The CEDIF programme simplifies the offering process, allowing businesses and communities to raise equity capital through local investment funds rather than undertaking the onerous prospectus documentation process typically required. While the original Act established legislative incentives for investors to invest in local communities, the CEDIF programme has become the vehicle through which they can more readily do so. As a result, more investors, businesses and communities have been utilizing the programme to stimulate local economic development and social enterprise.

Policy in Action

Key components to the CEDIF model include:²

- **Local enterprise:** Investments are directed into local corporations, cooperatives or associations with the specific purpose of generating profitable revenue streams and stimulating economic growth in regions throughout Nova Scotia. Currently social enterprise is not a legally recognized corporate structure in Canada; however, social enterprise has leveraged the CEDIF programme to raise equity capital. For example, fair trade and energy-related ventures have successfully raised equity capital in ways previously not met by traditional market or philanthropic mechanisms.
- **Investors:** Currently, only individual investors are eligible to receive the 35% tax credit, which can be carried forward up to seven years or be applied to tax returns up to three years in arrears.
- **Community:** All funds raised through CEDIFs are directed towards businesses and social enterprises established in local communities throughout the province. This focus helps stimulate local economic growth through creating jobs, generating a new tax base and providing the opportunity for local capital (human, social and economic) retention within a region.
- **Provincial government:** The provincial government regulates and approves all activity related to CEDIFs.

The CEDIF programme is housed at the Ministry of Economic and Rural Development and Tourism but requires close collaboration between the Ministry of Finance and the Nova Scotia Securities Commission (NSSC). The programme is built with three distinct policy levers to encourage community investment. First, the NSSC provides CEDIFs with

¹ Perry, S. and Loewen, G. 2010, "Equity Tax Credits as a Tool for CED", Making Waves, Vol. 20:3, 21-25. Available at: <http://communityrenewal.ca/sites/all/files/resource/MW200321.pdf>.

² Ibid

a simplified filing document, alleviating the otherwise cumbersome and expensive investor prospectus process.³ Second, the Ministry of Finance provides investors with the income tax credit once their investments have been registered with the NSSC. Finally, investors are able to register their investments through self-directed Registered Retirement Savings Plans (RRSPs), which qualify investors for further federal income tax deductions.⁴

CEDIFs can be initiated by a single enterprise looking to access direct equity capital or by a local intermediary with a broader community development mission. In the first option, a single organization takes on the form of a CEDIF to raise equity capital for its specific business objectives. In the second option, CEDIFs can be developed as a “blind pool” where investors’ funds are aggregated and provided to local businesses on a rolling basis by the intermediary, which then provides a single return to the investors. New Dawn Enterprises provides a useful example of the blind pool option working for social enterprises (see the “CEDIFs on the Ground” box in this section for more details).

Impact to Date

Having been in existence for over 10 years, the CEDIF programme provides a unique example of a long-term government intervention in support of social enterprise. As of 2012, more than CAD 49 million (US\$ 48 million) has been raised from over 4,000 residents throughout the province, a notable success for Nova Scotia considering its population of less than 1 million residents. Additionally, throughout the duration of the programme, only three business ventures out of the more than 120 that received investments have failed.

Since its inception in 1999, total funds raised have grown at a 44% average annual growth rate. In 1999, CEDIFs across the province raised CAD 1.1 million (US\$ 1 million) from 261 investors, compared with CAD 7.5 million (US\$ 7.4 million) from 914 investors in 2012.⁵ The programme continues to gain traction among individuals throughout Nova Scotia as it becomes a demonstrated and viable investment option.

CEDIF ‘On-the-Ground’

New Dawn Enterprises

New Dawn Enterprises is Canada’s oldest dedicated community economic development corporation, established in Sydney, Nova Scotia in 1976. Founded to confront the socio-economic challenges in Cape Breton’s coal and steel industries, New Dawn identifies and addresses community needs by developing and operating local businesses.

New Dawn Enterprises has participated in the CEDIF programme since 2004, acting as a local intermediary for investors from Cape Breton looking to invest in their community. In seven years New Dawn has raised nearly CAD 7 million (US\$ 6.9 million) from 792 investments, averaging CAD 8,690 (US\$ 8,540) per investment. What makes New Dawn unique is its commitment to pay investors dividends of between 2.5% and 4.23% semi-annually in addition to redeeming investors’ shares after 5 years.

New Dawn’s investments have employed 175 local community members in businesses that serve over 600 people per day, creating an economic impact estimated to be in excess of CAD 150 million (US\$ 147 million).



³ CEDIFs bring together securities and tax regulations through the Equity Tax Credit Act. The legislation can be found online at: <http://nslslegislation.ca/legc/statutes/equitytx.htm>.

⁴ RRSPs are a tax incentivized retirement savings programme that promotes early savings by making investments tax deductible, comprised of an array of investment products, including mutual funds, labour-sponsored investment funds, guaranteed investment certificates, bonds, mortgages, etc.

⁵ Government of Nova Scotia, 2012, “CEDIF Funds”. Available at: <http://www.gov.ns.ca/econ/cedif/funds/>.

Policy Recommendations for Scaling Social Innovation

The CEDIF programme has successfully fostered social innovation and social entrepreneurship within Nova Scotia's local context and provides several insights for policy-makers exploring ways to grow and direct private capital:

Reduce the transaction costs of investment opportunities

The CEDIF model has proven to be a powerful financing tool to develop local deal flow and investment opportunities in communities underserved by traditional financial institutions. One of its core contributions is that it reduces transaction costs for investors and investees by providing simplified offerings for local businesses seeking equity, encouraging stakeholders to engage in the market.

Reinforce current investment activities by incorporating other innovations

Given social enterprises' use of the programme to raise equity capital, a valuable opportunity to apply the CEDIF model towards new social investment products exists. Specific interest has appeared around the incorporation of social impact bonds to address the unique financing needs of social enterprise. Additionally, this vision to develop a supportive environment for social enterprise is seen in recently enacted legislation, the 2012 Community Interest Companies Act. The Act aims to support social entrepreneurs through new legal designations and corporate forms. This legislation will undoubtedly complement the CEDIF programme and continue to provide new opportunities for social enterprise in Nova Scotia.

Identify opportunities to engage new investors and generate larger supplies of capital

The programme could grow in scale and scope by opening up eligibility to corporate and institutional investors. While increasing the pool this way could raise costs and require more training to financial and investment professionals, it could also provide innovative tiered-investment structures and allow for the development of new financing tools to fund public infrastructure projects, an activity currently not permitted through CEDIFs.

⁶ Government of Nova Scotia. (2012). "New Opportunities for Social Entrepreneurs," Available: <http://novascotia.ca/news/release/?id=20121128010>

Overview



Geography: Australia

Toolkit step: Review and Refine Policy

In Brief: The Australian experience in New South Wales to adapt the United Kingdom's Social Impact Bond (SIB) model demonstrates the need to review and refine policy throughout the process – from planning, design and implementation to evaluation. SIBs have been highlighted as a new product to fund social enterprise and an alternative approach to the government's provision of social services.

However, for the purposes of demonstrating the Framework component of review and refine, this case study does not focus on specific SIB innovations. Instead the case seeks to understand what is required to adapt and iterate such a policy, providing several insights for policy-makers in other countries, including:

- **Strive for simplicity but recognize that often the “devil is in the details”**
- **Set distinct milestones, continually creating opportunity for review**
- **Acknowledge the risks associated with being the first**

Policy Goals and Development

A Social Impact Bond (SIB) or Social Benefit Bond is a partnership in which private investors provide capital for non-profit organizations and social enterprise to achieve desired objectives. Government agrees to repay investors dependent on the realization of specific, previously agreed upon social outcomes. Through this partnership model, SIBs provide cost savings to government and present enormous opportunity for social enterprise.¹

In 2010, the first SIB was launched in the United Kingdom with the goal to reduce the recidivism rate of prisoners at a jail in the city of Peterborough. The financial advisory group Social Finance UK managed the investment of private, primarily philanthropic funds into three non-profit entities working with prisoners. The UK Government committed to repay the initial investors only if the non-profit programmes achieved specified targets to reduce the rate of recidivism. Enormous interest in this new model led to exponential growth of the country's SIB marketplace. Today, 28 SIB projects are under way in the United Kingdom and the Government has since created a new Centre for SIBs.

Interest in the new funding model has not been contained to the United Kingdom; since 2010, SIBs have been considered or developed in the United States,² the European Union,³ Israel,⁴ Canada⁵ and Australia. The development process began in Australia after the New South Wales (NSW) Government commissioned the Centre for Social Impact at the University of New South Wales to conduct a feasibility study for SIBs in their jurisdiction. With a successful track record in cross-sector convening and thought leadership around social enterprise, the Centre for Social Impact was well positioned to conduct this initial study.

In partnership with several organizations familiar with SIBs (including the United Kingdom's Young Foundation) and with the input of Social Finance UK, the Centre for Social Impact published the feasibility study in February 2011. The study identified appropriate conditions for a SIB in New South Wales, drawing heavily on the experience in the United Kingdom and identifying where the model could be replicated or modified.

Certain components, such as identifying a third-party assessor to measure the success of the programme and the target sectors in which to use a SIB, were determined to be replicable in the Australian market. However, the Centre for Social Impact recommended several alternatives for other components of the SIB. For example, in the United Kingdom the investors were only repaid if the social goals were met. However, many potential SIB investors in New South Wales did not have the same philanthropic motivations as the original UK participants. Therefore, the Centre for Social Impact proposed that the NSW Government create a more attractive investment opportunity by guaranteeing some return to investors.

The study concluded that SIBs would be viable in New South Wales, but that developing a “deep and iterative engagement between the host non-profit organizations and NSW Government is a critical step in the development of the pilot SIB”.⁶

¹ <http://www.socialtraders.com.au/sites/www.socialtraders.com.au/files/Les%20Hems%20-%20Social%20Impact%20Bonds.pdf>

² <http://www.americanprogress.org/issues/economy/news/2012/11/05/43834/new-york-city-and-massachusetts-to-launch-the-first-social-impact-bond-programs-in-the-united-states/>

³ http://ec.europa.eu/enterprise/newsroom/cf/_getdocument.cfm?doc_id=7048_p49

⁴ http://www.portlandtrust.org/sites/default/files/projectdocs/social_finance_israel_-_2_pager_-_nov_12.pdf

⁵ http://www.horizons.gc.ca/doclib/2011_0061_Jagelewski_e.pdf

⁶ http://www.csi.edu.au/assets/assetdoc/0b6ef737d2bd75b9/Report_on_the_NSW_Social_Impact_Bond_Pilot.pdf

Policy in Action

In September 2011, the NSW Government released a Request for Proposals for the design and development of “Social Benefit Bonds”⁷– the Australian name for Social Impact Bonds. In March 2012, following a “healthy response to the Request for Proposals”, the NSW Government announced that it would work to develop proposals submitted by three partnerships of non-profit organizations and investors as part of a Joint Development Phase.⁸

Throughout the Joint Development Phase, the NSW Government has collaborated with each partnership to negotiate various investment structures and divisions of risk and return. The NSW Government also appointed a Social Investment Expert Advisory Group, composed of industry leaders and policy-makers, to provide guidance and feedback throughout the development process.

As the first Social Benefit Bonds (SBBs) in Australia, this Joint Development Phase has allowed each of the partnerships to explore innovative and out-of-the-box solutions. However, coming to an agreement on final SBB structures has proven to be complex and time-intensive, given the level of detailed and careful work necessary to develop feasible SBBs.

In September 2012, almost one year after the Request for Proposals, the Centre for Social Impact hosted the inaugural Social Finance Forum with a focus on Social Impact Bonds.⁹ The investors and non-profit organizations working to develop SBBs participated along with members of the Social Investment Expert Advisory Group, the NSW Government and representatives from the United Kingdom. At the time of the Forum, no finalized SBB was presented, as negotiations between the NSW Government and Social Benefit Partners were still under way.

Instead, the Forum provided the opportunity for the various stakeholders to share their experiences, maintaining momentum and formally documenting the conversations occurring throughout the development process. Forum participants recognized the importance of such a process, noting, “We are not slavishly following the examples of the UK or the US. We are developing a proposal that suits our particular opportunity. There are no rules in this area, we are making this up as we go.”¹⁰



⁷ See <https://tenders.nsw.gov.au/?event=public.rft.showArchived&RFTUID=B2567E4F-E1D9-2CBC-4B2198AFDC30AC36>.

⁸ See http://www.treasury.nsw.gov.au/_data/assets/pdf_file/0005/21794/SBB_-_Request_for_proposal_outcome.pdf.

⁹ See “Social Impact Bonds: An Australian Snapshot”. Available at: http://www.csi.edu.au/site/Knowledge_Centre/Asset.aspx?assetid=f74ab922e6b00299.

¹⁰ See “Perspectives from the Social Finance Forum 2012: An Australian Snapshot, Social Impact Bonds”. Available at: <http://www.csi.edu.au/assets/assetdoc/f74ab922e6b00299/Social%20Impact%20Bonds%20-%20An%20Australian%20snapshot.pdf>.

Impact to Date

In March 2013, the NSW Government announced that the first Social Benefit Bonds Agreement in Australia had been executed with UnitingCare Burnside (for details see the “Social Benefit Bonds on the Ground” box in this section). In addition, the NSW Government is continuing its negotiations with the other partnerships. While the negotiation process has been lengthy, delivery of such a new product takes time. In addition to developing the first SBBs in Australia, the Joint Development Phase has allowed for new collaborations between the public and private sectors.

The activities in New South Wales have also been an important contribution to the national conversation in Australia around social enterprise. In June 2012, in response to recommendations made by a Senate Economics References Committee report,¹¹ the Australian Government released a document describing where they see opportunity in the Committee’s recommendations. In response to the recommendation that government examine the plausibility of creating SIBs in partnership with state governments more broadly, the government stated it is “closely monitoring the social impact bond pilots in New South Wales. These pilots provide an opportunity to test the factors likely to be associated with successful social impact bonds in Australia.”¹² Many governments throughout Australia are awaiting results in New South Wales to determine what role SBBs will have in supporting the non-profit and social enterprise sector.

Finally, the experience in New South Wales has informed future iterations of SIBs around the world. The lessons learned through the Joint Development Phase have guided subsequent requests for proposals and development processes in the United Kingdom and New Zealand. By exploring the various structural and risk-sharing options through the New South Wales process, it is now easier to identify a standard set of SIB components (such as areas of definition, measurement and accountability for results), which can significantly shorten what otherwise can be a lengthy negotiation process.

Policy Recommendations for Scaling Social Innovation

The Australian experience in New South Wales to adapt the SIB model provides several insights for policy-makers exploring ways to review and refine policy:

Strive for simplicity but recognize that often the “devil is in the details”

Many involved in the New South Wales process have stressed the importance of keeping the structures developed for SIBs/SBBs as simple as possible. As observed in the Joint Development Phase, however, negotiating the small details such as the percentage of risk each party is willing to take or the key metrics for success can take longer than originally anticipated. Reflecting on the need to be mindful of details, one participant at the Social Finance Forum stated, “Innovation has become one of those sexy terms...It’s about getting the small things right – that’s innovation.”

Set distinct milestones, continually creating opportunity for review

While the process in New South Wales has been prolonged, several milestones have provided the groups involved with opportunities to reflect and maintain momentum. For example, the Social Finance Forum set a fast-paced timeline for progress and provided an important opportunity to exchange ideas and discuss challenges. The materials resulting from the Forum also provide important resources for others to reference as they undertake their own activities to develop SIBs.

Acknowledge the risks associated with being the first

Anticipating the challenges that will be encountered when developing and establishing an entirely new idea is difficult. Short-term results may be disappointing because project infrastructure is not yet fully formed. In these developmental phases, recognize and manage the risk associated with these initial challenges.

Social Benefit Bonds On the Ground

UnitingCare Burnside

Announced on 27 March 2013, the NSW Government signed a contract with UnitingCare Burnside for Australia’s first Social Benefit Bond. Funding from the SBB will help expand an already successful programme to support families with children in foster care and group homes. If the UnitingCare Burnside programme performs as expected, the NSW Government will reach approximately AUD 80 million (US\$ 83 million) in reduced expenditures. When announcing the SBB, NSW Treasurer Mike Baird explained, “Not only are we tapping into a new source of funding by partnering with social investors, but we have the potential to create better social results, while providing cost savings for the NSW Government and delivering for investors.”

UnitingCare Burnside, in partnership with Social Ventures Australia which will attract and manage investors, was selected by the NSW Government through the Request for Proposals process. The two organizations worked with the NSW treasury to develop the final bond structure. The AUD 7 million SBB (US\$ 7.3 million) provides financial terms (including a guarantee to return 75% of any given investment) intended to appeal to a broad array of private and institutional capital providers.¹³

¹¹ See <http://www.foresters.org.au/images/stories/investing-for-good.pdf>.

¹² See the Australian Government’s “Government Response: Senate Economics References Committee Report—Investing for good: the development of a capital market for the not-for-profit sector in Australia”. Available at: <http://www.dpmc.gov.au/publications/docs/government-response-investing-for-good.pdf>.

¹³ For more information see: http://beta.afr.com/ff/free/markets/capital/cfo/unitingcare_burnside_takes_first_JXUxiCgVV4XueVxuUdBil and <http://www.theaustralian.com.au/news/breaking-news/first-social-benefit-bond-signed-in-nsw/story-fn3dxiwe-1226607556891>.

Overview



Geography: People's Republic of China

Toolkit step: Review and Refine Policy

In Brief: To address the lack of financial services available to entrepreneurs in impoverished rural regions, the Micro-Credit Company (MCC) Pilot Programme began in 2005 to implement trials providing new financing resources in five Chinese provinces. In 2008, taking into consideration lessons learned from the trial provinces, guidance was issued for the development of MCCs throughout the country. Currently close to 6,000 MCCs in China are playing a crucial role in supporting the development of rural business and social enterprise in the country.¹ As the programme develops and expands, the Chinese Government continues to evaluate its success and apply additional policy reforms to increase support for rural development.

The experience in China provides several considerations for policy-makers looking to the MCC Pilot Programme as an example of how to review and refine existing policies, including:

- **Start small, developing new policy interventions in stages**
- **Identify policy overlaps and disconnects**
- **Allow for local adaptation while maintaining coherence**

Policy Goals and Development

Rural farms and enterprises in China have historically received insufficient financial support and services.² This lack of investment has, in part, contributed to the huge disparities in income between rural and urban communities.

In 1998, noting the success of microcredit initiatives of several non-governmental organizations, the Chinese Government began looking to microcredit as a tool to address rural poverty. Initial microcredit programmes through the Agricultural Bank of China struggled with poor loan repayment and performance, in part because the Poverty Alleviation Office managed the programme and many farmers treated the funding as donations rather than loans.³

Following these initial attempts, in 2003 new leadership brought a renewed focus to development in rural, impoverished areas. Recognizing the lack of existing financing options in these regions, in 2004 the Chinese Government issued policy directives known as “NO.1 Documents”. The directives emphasized the need to develop infrastructure for microcredit and encouraged the development of innovative models for rural finance.

As a result of the recommendations in the “NO.1 Documents”, the People's Bank of China (PBC) launched a pilot programme of seven Micro-Credit Companies (MCCs) in five provinces in 2005. The individual MCCs were intended to provide financing to farmers and rural enterprises, while the pilot programme more broadly aimed to develop a financial and supervisory framework for the growth of private finance in rural areas. Loans provided by MCCs are very flexible, not requiring collateral from the rural entrepreneur and can be as large as 100,000 yuan (approx. US\$ 16,000). To accommodate this flexibility, interest rates are typically around 20%; however, limits were set at four times the PBC rate so rates could not become predatory.⁴

The MCC Pilot Programme was an important first step to creating financial infrastructure that supported rural enterprise. However, the PBC framework was extremely strict. For example, MCCs could not generate funds to loan through the collection of savings deposits, nor could they borrow and leverage capital from other sources like a typical commercial bank. The majority of funds loaned by the MCCs were generated through private channels (i.e. investments or donations from individuals and companies), greatly limiting the number of loans that could be provided. Additionally, MCCs had no recognized legal status, creating uncertainty about how the model could be expanded and replicated.

Policy in Action

Working with the pilot regions to understand the issues faced by the MCCs, the PBC and the China Banking Regulatory Commission (CBRC) revised the MCC guidelines in 2008. Under the new guidelines, MCCs are still not allowed to take savings deposits, but they may now borrow from other banks as long as the total amount borrowed does not exceed 50% of the MCC's total funds. The new guidelines also addressed the uncertainty around MCCs' legal status, providing concrete designations and processes for their creation.⁵

¹ See: <http://www.wantchinatimes.com/news-subclass-cnt.aspx?id=20121119000116&cid=1106>

² A survey from the University of Tsinghua in Beijing estimated a 1 trillion yuan capital gap existed within the rural financial market in 2007. See <http://www.forbes.com/2009/07/30/china-rural-bank-markets-financial-reform.html>.

³ See <http://www.planetfinancechina.org/resource-center/microfinance-in-china>.

⁴ See <http://www.microfinancegateway.org/gm/document-1.9.24203/12.pdf>.

⁵ See http://world-finance-conference.com/papers_wfc/444.pdf.

Along with the issuance of these new guidelines, the PBC and CBRC expanded the geographic scope of the programme, responding to significant demand from private investors to develop MCCs throughout the country. These investors included individuals, non-profit organizations and institutions both from China and abroad. An example of how one international investor used the new guidelines to support rural enterprise is presented in the “MCCs on the Ground” box in this section.

With this expansion, the guidelines also decentralized the regulatory power and responsibility to provincial governments, a significant development towards a national regulatory infrastructure. Provinces now determine how the guidelines are implemented; each government has the freedom to place its own conditions for MCCs as it deems appropriate for the region. For example, the province of Inner Mongolia has adopted the PBC guidelines exactly, while the province of Zhejiang has imposed tighter regulations.

Alongside the MCC development process, in 2006 the CBRC also issued new regulations regarding the development of another rural financial institution, Village Banks.⁶ Village Banks are fully licensed and highly regulated, and are allowed to take savings deposits and provide financing, like a traditional commercial bank. Following these 2006 regulations, many large multinational banks such as Citigroup and HSBC began operating in rural China, providing additional financial services in those communities.⁷

While MCCs tend to lend to riskier, start-up rural enterprises, Village Banks face much stricter compliance requirements and are structured to make more conservative investments. Thus to attract greater investment, grow their operations and offer new products, certain MCCs showed interest in adopting the additional regulatory requirements to become Village Banks. Recognizing this potential overlap, guidelines issued by the PBC and CBRC in 2008 provided basic requirements for the conversion of an MCC into a Village Bank. These guidelines were clarified in 2009 regulations that detailed the full requirements and process for the conversion.



⁶ A document was released in December 2006 entitled, “Some suggestions about adjusting and relaxing access policy of banking financial institutions in rural areas to better support the construction of the new socialist countryside”.

⁷ See http://english.gov.cn/2008-01/10/content_854688.htm.

Impact to Date

In the eight years since their inception, MCC policies have evolved to address the needs and challenges of the market and have provided a clear path for private investment in underserved rural communities. Starting with just seven MCCs in 2005, close to 6,000 now exist, with 540 billion yuan (US\$ 87 billion) in outstanding loans. In 2012 alone, MCCs provided 50 billion yuan (US\$ 23.83 billion) in loans to support rural enterprise and development.⁸ Compared to the approximately 500 Village Banks operating or under construction,⁹ the scale achieved through the MCC model is impressive.

Room for improvement still exists, however. For example, a major challenge for MCCs is the tax burden they face. In the current structure, MCCs must pay a 5.6% business tax in addition to a 25% personal income tax on all returns paid to its investors. As a result, MCCs have had to rely on high interest rates on their loans to remain profitable. These high rates in underserved communities limit the scope of further rural development as well as the level of social impact they are able to achieve.

Another challenge faced by MCCs is raising funds to loan. Many groups recommend that the amount MCCs are permitted to borrow should be raised. Often an MCC will lend out initial funds within months of opening, threatening its financial stability and leading many companies to raise funds illegally, for example by taking savings deposits from their borrowers. These challenges can be addressed through ongoing policy review and refinement.

Policy Recommendations for Scaling Social Innovation

MCC policies have created an efficient way to develop wide-reaching financial infrastructure that can be adapted to China's diverse regions. In addition, the MCC Pilot Programme provides several lessons for policy-makers interested in developing and refining financial infrastructure in underserved areas.

Start small, developing new policy interventions in stages

The small pilot in 2005 allowed the Chinese Government to develop a basic understanding of the structures and conditions required for MCCs to be successful on a larger scale. The revised guidelines of 2008 benefited from the policy's initial experiences, leading to successful expansion throughout the county.

Identify policy overlaps and disconnects

Crafting guidelines that allowed certain MCCs to become Village Banks provided a seamless regulatory process for the development of rural financial institutions. However, gaps in the Chinese microcredit industry remain, which MCCs and related policy can help to fill. For example, the loans provided by MCCs tend to be too large and expensive to support more impoverished farmers and rural entrepreneurs. A policy opportunity thus exists to identify financial innovations that serve these particular communities.

Allow for local adaptation while maintaining coherence

The 2008 revised guidelines that allowed the decentralization of regulatory power and responsibility were important to the policy's success as they allowed MCCs to be tailored to local investors and enterprises. In permitting local adaptation, however, policy-makers run the risk of loosening a unified understanding of the policy. If policy coherence is not maintained, confusion and hesitancy on the part of potential investors can ensue.

MCCs On the Ground

ACCION Microfinance China

ACCION Microfinance China, one of the first foreign-funded MCCs in China, was launched by Accion International, a global non-profit organization whose mission is giving people the financial tools they need to improve their lives. Accion's MCC operates in Inner Mongolia, where 40% of the population remains below the poverty line. Through its lending, Accion has been able to support entrepreneurs like Ya Rong Ma, who received a 12-month US\$ 6,200 loan for her business, a shop that sells traditional items like Buddha statues and educational books. Accion's loan not only helped Ya Rong Ma turn her struggling business around by allowing her to purchase additional inventory but also preserved an important cultural resource for her community.

The work of ACCION Microfinance China demonstrates the opportunity MCCs provide to a range of investors in rural communities. Prior to the PBC's guidelines, no legal mechanism enabled international investors like ACCION to work in such areas as Inner Mongolia where their services create important social impact.¹⁰

⁸ See <http://www.wantchinatimes.com/news-subclass-ent.aspx?id=20121119000116&cid=1106>.

⁹ See http://news.xinhuanet.com/english2010/china/2011-07/27/c_131013818.htm.

¹⁰ For more information see: <http://www.accion.org/Page.aspx?pid=2075> and <http://www.accion.org/ourimpact/asia/ya-rong-ma>.





Social Innovation Models Explained

“

We can no longer count on governments alone to provide all of the services a person needs to thrive. We probably never could. Nor can we leave it to the markets alone. This next chapter in history must start with a commitment to justice for all of the world's people and be spurred on by our collective courage to innovate and experiment with new models that don't sit neatly within government or market forces alone.

We have it within our grasp to identify, support and grow solutions where markets have failed and governments alone have fallen short. What it requires of us is moral leadership and the recognition of fundamental human values of dignity, choice and opportunity. Our interconnected world demands leaders who take risks and look for pragmatic, not ideological solutions, and see investment as a means, not an end. Fundamentally, this is about whether our generation can use the tools, skills and technologies available to us, and create a global society where all individuals have the chance to flourish and contribute.

”

Jacqueline Novogratz, Founder and CEO, Acumen Fund; member of the Global Agenda Council on Social Innovation

For those who are familiar with the principles of social entrepreneurship, the dividends they create for society are obvious, and the case for encouraging more of this kind of enterprise development is intuitive. But for the majority of people who have heard these terms thrown around in many different contexts and situations, the significance is still unclear.

For that reason, part two of this report profiles 20 case studies of how social innovation models achieve positive social and environmental change, just as part one showcases 12 case studies of how governments and policy-makers are trying to stimulate and scale social enterprise activity. The social innovation models profiled in the pages that follow are drawn from the Schwab Foundation's global network of social enterprises and address diverse challenges in education, health, employment, urban development and rural development.

Despite these differences, they share some compelling commonalities. They help to catalyse markets for underserved populations by aggregating demand and reducing risk. They think creatively about how to achieve better outcomes with existing resources. They design their processes and products for affordability and develop “sliding scale” pricing structures. They realize that a new technology is only half the battle and devote significant energy to creating the distribution channels and incentive structures to spur adoption.

And very rarely do they act alone. If there is one overriding message of the case studies, it is that social enterprises are able to “punch above their weight” because they are intensely strategic about collaborating with corporate and government partners who help them to replicate their idea and reach more beneficiaries.

We hope the models profiled in part two demonstrate how social enterprises occupy the grey space between governments and markets, how they deliver products and services that lead to improved outcomes for poor people, and thus why it is in the overwhelming public interest to encourage the growth of these models through appropriate policy tools.

What is Social Entrepreneurship?

- The application of innovative, practical and sustainable approaches to benefit society in general, with an emphasis on those who are marginalized and/or poor. The **innovation** can take the form of a new product or service, a new production or distribution method, a new labour supply, the reformulation of an existing product for an underserved population, or new organizational structures or funding models.
- The **use of business methods** and practices to generate direct social and/or environmental impact.
- The optimization of **financial value creation as a secondary objective** and a means to reach more beneficiaries, not as an end in itself. This should be codified in a social enterprise's governance structure or by-laws.
- A **learning process** that involves conceiving a more effective way to address a poorly met or emerging need; testing and refining the initial concept; mobilizing the resources and partners necessary to scale the model; and continual improvement through rigorous impact measurement and an openness to incorporate feedback.
- Perhaps most importantly, social entrepreneurship is strongly rooted in values – such as dignity, access to opportunity, transparency, accountability, fair pricing, and empowerment of beneficiaries – regardless of sector or organization type.

Categories of Social Enterprises

Leveraged non-profits engage a cross-section of society, including government agencies, civil society, or the business sector, to drive forward the innovation through a multiplier effect. Leveraged non-profit ventures continuously depend on outside philanthropic funding, but their longer-term sustainability is enhanced given that their partners have a vested interest in growing the impact.

Hybrid non-profit ventures include some degree of cost recovery through the sale of goods or services to a cross-section of institutions, public and private, as well as to target population groups. Often, this requires the establishment of several legal entities to distinguish revenue-generating activities from charitable expenditures. While public or philanthropic funding is generally required to sustain some portion of the organization's activity, specific initiatives might be appropriate for soft loans or even quasi-equity.

Social business ventures are set up as a for-profit entity or business to provide a social or ecological product or service. While revenues are generated, the main aim is not to maximize financial returns for shareholders but to grow the social impact and reach more people in need. The entrepreneur of a social business venture seeks investors who are interested in combining financial and social returns on their investments.



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Education

At A Glance



Social Enterprise: PlanetRead

Social Entrepreneur(s):
Brij Kothari

Founded:
2004

Sector(s):
Education, Media

Location(s):
India

Website:
www.planetread.org

The Innovation

Repurpose an existing technology to meet a social need.

The Innovation Explained

Closed captioning, the display of text synchronized to the audio portion of a TV program, has been around since the 1970s for the benefit of hearing impaired audiences. Similarly, the technology of subtitling is used in karaoke bars around the world, prompting singers to sing along to their favourite songs.

Same Language Subtitling (SLS), the innovation pioneered by social enterprise PlanetRead, repurposed this simple yet powerful tool to reinforce reading for people of all ages. In SLS – where what you hear is what you read – the words are lit up or synchronized in real time with the audio. When SLS is applied to popular films and Bollywood songs, millions of functionally illiterate Indians learn to read as they consume their daily entertainment. As Brij Kothari, the founder of PlanetRead, explains, “Whether we subtitle or not, people will be watching Bollywood anyway. By subtitling, reading practice becomes a by-product of entertainment.”

PlanetRead partners with India’s national television network, Doordarshan, to provide 5 hours of SLS programming across 10 different programmes each week – in ten of India’s major languages. This critical partnership enables PlanetRead’s innovation to reach over 200 million weak-reading viewers each week.

Why This Matters

India, where PlanetRead was born, has low literacy rates. A third of India’s age 6+ population, or 300 million people, are illiterate; another 600 million are officially ‘literate’ but half of whom are actually ‘functionally illiterate.’ With 22 official languages and a population spread across 645,000 villages, reaching people with reading matter presents a major logistics challenge as well.

TV, however, is already accessible to 750 million Indians. By leveraging this existing pathway into citizens’ homes, SLS is not only a robust tool to improve literacy, it is extremely cost-effective. The estimated cost to provide SLS on all aired film songs, in all the official languages in India is US\$1 million per year, relatively miniscule compared to other literacy programs. And when you consider the staggering figure that 27 million Indian school children complete primary school each year as “non-functional readers,” SLS serves as a remarkably effective home-based complement to reading lessons at school, especially in areas where access to books is scarce but TV viewership is high.

Practical Advice

Recombine passion and technology to achieve social objectives. “Subtitling is an existing technology, and TV is obviously an existing channel of communication,” said Brij Kothari. “What we did is add Indians’ existing passion for Bollywood movies and shows into the mix, and we recombined all three of those existing elements for huge educational impact.”

Back up your work with rigorous data to convince funders and policy makers. For nearly a decade, PlanetRead has collected data and supported rigorous research efforts, including third party evaluations. Multiple studies attest to the efficacy of SLS. Regular exposure to SLS, even as little as 30 minutes a week over a period of three years, significantly increases people’s functional literacy. “Any serious partner wants documented evidence, so research must be at your core,” said Brij Kothari. “With our solid research base, no one can dismiss this idea as ineffective. Certainly we would not have moved the policy establishment in India or abroad without robust data.”

Learn from the best of what’s out there. “Do not be driven by your own set of solutions,” said Brij Kothari. “It’s so easy in the information age to look for and find the best solutions that exist already. Give me 30 minutes on Google and I can find several social entrepreneurs tackling any social problem – most of whom would be willing to set up a skype call within days. Have a conversation and see what existing solutions you want to build on. It’s so easy to do today but we don’t do it enough.”

Education

At A Glance



Social Enterprise: **First Book**

Social Entrepreneur(s):
Kyle Zimmer

Founded:
1992

Sector(s):
Education, Youth

Location(s):
US and Canada

Website:
www.firstbook.org

The Innovation

Incentivize the private sector to serve low-income markets by eliminating their risk.

The Innovation Explained

Through intensive research, First Book founder Kyle Zimmer discovered inefficiencies in the publishing industry that helped explain why new books are too expensive for lower-income Americans. A retail book price includes not only royalties, printing, shipping costs and profit margin, but also the cost of all unsold books that retailers return to the publishers. As a result of this major industry risk, publishers are locked into a pricing strategy that almost exclusively targets the upper 10-15% of the market.

Therefore, First Book designed a win-win model that gets new books to disadvantaged children for an average of just US\$ 2.50 per book (average US\$ 8.00 retail) and provides publishers access to a new market (the lowest 30% of the socio-economic pyramid), while eliminating the industry's risk. Its flagship innovation, First Book Marketplace, buys large quantities of books at discounted pricing from 90 US and Canadian publishing houses on a non-returnable basis; this removes the publishers' risk.

First Book then amassed a previously unserved consumer segment and offered a market expansion strategy to publishers, who had experienced years of flat sales results. To aggregate the consumers, First Book created a national network that now numbers over 50,000 classrooms and programmes, which collectively serve 3 million disadvantaged children. This network is growing at a rapid rate and should reach self-sustainability within three years. To date, First Book has distributed more than 100 million new books, totalling over US\$ 750 million in retail value.

Why This Matters

Getting books and quality educational materials into low-income, resource-starved classrooms and programmes is critical. Studies confirm the link between access to books and educational performance, and demonstrate the correlation between children's book ownership and their future income.

The fundamental innovation of the First Book model (eliminating/reducing industry risk for entering a low-income market) has almost limitless applications. "You can leverage market designs ... for any product that is an essential good but suffers from a significant error in pricing, like clothing, food and medicine," says Zimmer. As an example, the same principle of providing a guaranteed market is at the heart of ongoing efforts to develop vaccines for infectious diseases common in poor countries.

Practical Advice

Forget the myth that entrepreneurs are born, not taught. Explains Zimmer: "...it's handy to have good business instincts, but nothing substitutes for doing your homework. I had to plough through hundreds of articles on the publishing industry and reams of data about who buys books. Logging the hours is the only way you come to know an industry inside and out."

Identify how you can add value to your partners. "Social sector organizations sometime view corporate departments as sitting on unlimited resources," says Zimmer. "[This is] not true. You need to understand everything about a company: who its customers are, who its competitors are and what you can offer it of value that also serves your mission. Understand the motivations of the person sitting across the table – then the conversation focuses on what you can build together, rather than what you can extract from them, and that's enormously powerful."

Ask for help. Zimmer adds: "When you're a start-up you don't necessarily have legal or accounting expertise, so you're forced to wing it and sometimes you make bad decisions. Whenever I stumble onto a challenge ... I make a list of the top 10 brilliant minds on that issue, [for example], on branding. I rehearse ahead of time ... and I call them up and say, 'I have a branding issue and I'm not sure how to think it through. What would you do?' You will be surprised how often people will step up and help you out."

Education

At A Glance



Social Enterprise: **Lumni**

Social Entrepreneur(s):
Felipe Vergara

Founded:
2002

Sector(s):
Education, Youth, Financial Inclusion

Location(s):
Peru, Colombia, Mexico, Chile, US

Website:
www.lumni.net

The Innovation

Allow low-income students to invest in their college education using the value of their future income.

The Innovation Explained

Lumni is pioneering a novel financing instrument for low-income students called “human capital contracts” that both reduces risk for the student and offers the promise of expansive access because no collateral or co-signer is required. “Rather than committing students to paying a fixed amount of money every month regardless of how much they earn,” explained Felipe Vergara, “we finance their education and ask them to pay back a fixed fraction of their income for a fixed number of months when they have a job.”

To reduce the potential for attrition – up to 70% of low-income students drop out of university – Lumni researches students’ academic track records and requires them to submit applications. For those with demonstrated ability who are accepted, Lumni provides them not only financing but also orientation and coaching as well as assistance with their job search upon graduation.

“Students have the freedom to choose whatever job they want,” said Vergara. “If, for instance, a student financed by Lumni committed to pay back 10% of her income during 50 months, and ends making US\$ 3,000 a month, she will pay the fund US\$ 300. And if she then decides to work for a non-profit and make US\$ 1,000 a month, she will pay the fund US\$ 100 until her number of months is up and her obligation ends. We are a partner for your success, and you pay back proportionally to how well you have succeeded.”

To date, Lumni has raised and obtained fund commitments for more than US\$ 50 million from over 150 investors, serving 3,500 students whose projected annual incomes have increased between 50% and 300%.

Why This Matters

A good education is widely accepted to provide a high return on investment – both in higher lifetime earnings for the individual and in greater economic productivity for society. But in developing economies in particular, most high potential students from low-income backgrounds are literally priced out of a university education. Even among those who do attend university, the dropout rate among the poor is very high, with a majority of dropouts citing inability to continue paying as their primary reason.

While student loans are the conventional form of student financing today, they are generally short term, accessible only to fraction of the student population and typically come with collateral and repayment requirements that put them out of reach for most. “Banks don’t give student loans based on the talent of the student,” said Vergara. “They provide money based on the guarantee collateral provided by the parents. What we are providing is a long-term capital investment based on the potential of an individual.”

Practical Advice

Keep inspiration alive. “A lot of people think you can build an organization in two or three years,” said Vergara. “I’ve been here for 10 years and I’m at 1% of where I want to be. You have to be persistent not to give up, find a way to inspire others and keep the inspiration alive and learn as the world evolves. Twenty or 30 years down the road, I believe there will no longer be a social enterprise or a traditional enterprise – we are all going to be accountable for creating social, environmental and economic value.”

Build a strong team and a strong board. “It’s very hard to become a world-class organization if you do not develop a world-class team,” said Vergara. “Often, the main threat to a social enterprise is the founder himself. So it’s very important to have self-awareness, know your weaknesses and import structures from dynamic start-ups but also from the traditional corporate sector, like robust governance mechanisms.”

Education

At A Glance



Social Enterprise: **College Summit**

Social Entrepreneur(s):
J. B. Schramm

Founded:
1993

Sector(s):
Education

Location(s):
United States

Website:
www.collegesummit.org

The Innovation

Identify students who exert the greatest social influence in any high school and enlist them to persuade friends and fellow students to apply to college.

The Innovation Explained

College Summit partners with high schools in low-income neighbourhoods to raise their college enrolment and persistence rates. Together with the principal and teachers, they nurture a college-going culture in these schools to dramatically increase the percentage of high school seniors attending college. This is based upon a truth parents know well: teenagers are more heavily influenced by their peers than by parental figures or teachers.

Using this insight, College Summit maps the social networks in each school and encourages the students who are leaders of those networks (roughly 10% of each class) to become Peer Leaders. “We’re not after the top academic performers necessarily,” explains J.B. Schramm. “We hone in on the influencers and work with them to get them to apply.”

Peer Leaders attend College Summit’s four-day residential camp, where they interact with Peer Leaders from other schools, complete college applications and receive leadership training. Peer Leaders return to their schools energized and motivated to encourage a college-going culture among classmates and spearhead college application campaigns. At the same time, all students in the school take part in a college and career-planning course. “We explore what kind of lifestyle they want to live in the future, and help them understand how the choices they make in school affect the future options they have,” says Schramm.

This year, College Summit is working with nearly 50,000 students from 180 high schools in 13 states in the United States, 90% of whom are African-American or Latino. University enrolment rates have increased by 20% over the baseline rate for participating schools, while their college persistence rate of 75% matches that achieved by students from all income groups.

Why This Matters

Studies demonstrate that economic growth is driven by the college attainment rate of the adult population. Yet over the past two decades the United States has fallen in international rankings from first to twelfth position in the population percentage that achieves a university-level education. In low-income school districts, 50% of ninth grade students never graduate from high school, further contributing to the growing gap between the rich and poor.

Additionally, the US Government’s educational reform is focused on transparency and holding public schools accountable. This is “shifting the goal ... from high school graduation rates as the goal, to sending more students to college as the goal,” according to Schramm. “And influential students are the most under-utilized educational resource in schools. School districts with scarce public funding available can’t afford to leave the biggest tool of potential education reformers on the side-lines any longer.”

Practical Advice

Empower students to be active drivers of change instead of passive beneficiaries.

“Rather than thinking of young people in school as vessels to be filled with knowledge, think of them as drivers of change,” says Schramm. Peer-to-peer influence has a greater effect than any top-down programme.

Develop strategic corporate relationships that leverage a company’s core expertise. College Summit collaborated with Deloitte to build a data management system for high school principals; it tracks how many of their students complete their federal financial aid forms and submit college applications. “We were able to bring those scorecards to policy-makers and show them how schools can make progress when young people set higher goals for themselves,” explains Schramm. “This is a great example of how a company can apply their technical, quantitative skills in a strategic way, resulting in policy influence.”

Health

At A Glance



Social Enterprise: Naya Jeevan

Social Entrepreneur(s):
Asher Hasan

Founded:
2007

Sector(s):
Health

Location(s):
Pakistan

Website:
www.njfk.org

The Innovation

Leverage corporate supply chains to build bottom of the pyramid markets.

The Innovation Explained

Countless health insurance products targeting low-income people are offered through microfinance institutions, NGOs, major insurers and others, with varying degrees of success. Major design challenges include educating people who have never been exposed to insurance before, convincing them to spend extremely limited disposal income today to cover a health problem they may have tomorrow, and creating a monthly payment mechanism cost-effective enough to keep premiums down.

In collaboration with the global insurance company Allianz, the Naya Jeevan team designed a health plan targeted towards low-income workers in Pakistan who typically earn less than US\$ 6 per day, such as drivers, nannies, cleaners, security guards and cooks. “We want to completely change the way that healthcare is financed in South Asia,” said Asher Hasan. “If private corporations, schools and upper-income households employ huge numbers of low-income informal workers, it seems to me that we can institutionalize a system whereby people who have resources can co-finance the health coverage of people who don’t. And we can do it in a way that meets both of their interests – what I call a strategic cross-subsidy.”

For less than US\$ 2.50 per adult and US\$ 1.50 per child per month, the Naya Jeevan health plan provides catastrophic health coverage up to US\$ 1,800 a year (benchmarked to cover heart bypass surgery), 24/7 mobile phone access to designated family physicians, preventive health services, annual medical check-ups, and cashless access to a nationwide network of 190 high-quality private hospitals.

Naya Jeevan currently works with five insurers, offering them a strong value proposition. “Based on current utilization patterns, they’re making decent profits,” said Hasan. “But the biggest value we offer insurance companies is educating low-income communities about the concept of insurance. We conduct intensive orientation sessions and provide preventive health education and general physician support in which our doctors navigate patients through a complex healthcare system. All of these services greatly minimize the business development costs that insurance companies would normally incur in building these markets.”

And because door-to-door collection of monthly premium payments is cost prohibitive, Naya Jeevan partners with HR departments of major corporations such as Unilever and P&G to enrol their low-income workers and collect any co-payments from them. Employers typically co-finance the premium as a part of their corporate social responsibility programme or as a market-based approach to building loyalty among suppliers, distributors and retailers. “Scaling our product through corporation distribution systems is very cost-effective,” said Hasan. “We have one collection point: the corporation or the school. And for them, it’s easy to deduct the employee or subcontractor’s contribution directly from their wages.”

To date, Naya Jeevan has partnered with seven multinational corporations in Pakistan, enrolling 43,000 low-income people into various health plans. It is expanding into India and Latin America, and is developing a strategy to engage the South Asia diaspora in Europe, Middle East and the US.

Why This Matters

There are over 800 million people in South Asia who do not have access to affordable, quality healthcare – both because public health systems are under-resourced and overwhelmed and because quality health insurance products are virtually non-existent. Ninety-seven per cent of Pakistan’s citizens pay out of pocket for healthcare costs, which in the case of a major health crisis such as a stroke, heart attack or pregnancy complication, can bankrupt a low-income family.

“What happens is that families pull their children out of school to supplement family income or they take high-interest loans from loan sharks, or both,” said Hasan. “This has a huge effect on the next generation, on a family’s ability to come out of poverty and on the social fabric of entire societies.”

Practical Advice

Engage corporations strategically to create shared value. “It’s so much more efficient and cost-effective to piggyback off of existing platforms, distribution channels and corporate supply chains,” said Hasan. “Collaborating with corporations to explore the creation of shared value is a powerful way to come up with products and services that can meet the needs of the bottom of the pyramid.”

Know when to take the plunge. “The early years are very challenging financially when your organization is still in its infancy and pre-revenue,” said Hasan. “I put myself and my family under a lot of financial stress and in retrospect I wouldn’t do it the same way again. Don’t quit your day job until you’ve raised sufficient working capital!”

Health

At A Glance



Social Enterprise: **Aravind Eye Care System**

Social Entrepreneur(s):
Thulasiraj Ravilla

Founded:
1976

Sector(s):
Health

Location(s):
India

Website:
www.aravind.org

The Innovation

Start by acknowledging that 'zero' is a legitimate price point to allow universal access; achieve maximum efficiencies to drive down operational costs; and offer tiered pricing so patients who can afford treatment subsidize those who cannot.

The Innovation Explained

Aravind Eye Care System is the largest eye care centre in the world, treating over 2.8 million patients a year in India, and globally renowned for providing world-class treatment to the rural poor. Aravind comprises several hospitals, dozens of eye clinics, a research foundation, a manufacturing centre for ophthalmic products, an eye bank and a resource training centre to spread its model. As one of the most scaled social enterprises in operation, the Aravind model has been the subject of many studies for nearly 40 years. Its innovations are too numerous to elaborate; however for Executive Director Thulasiraj Ravilla, two in particular stand out.

The first is its "assembly line" approach to operational efficiency, targeted with moving patients from check-in to post-operative care within two hours. Early on, Aravind realized that surgeons were the resource that limited the number of patients per day, so they trained less expensive staff to specialize in administration and patient counselling, thus allowing doctors to spend time exclusively on surgeries. Today, Aravind employs information technology systems to monitor patient flow and review processes to ensure that no facility, staff or medical equipment is left idle; this drives down costs for the customer. Such process efficiencies allow Aravind to charge less than US\$ 1.00 for a diagnostic consultation.

The second innovation lies in product differentiation. "We can't compromise on the core service, but paying customers need to feel there's a difference," explains Ravilla. "It's like business class and economy class on an airplane." All patients receive the same excellent surgical care regardless of ability to pay; but paying patients can choose private rooms, air-conditioning and other technology options, whereas non-paying patients recover in large dormitory-style wards. "What's important is to be very transparent about the pricing. We have a detailed chart outlining the cost of various treatments and post-operative care options so patients can pick and choose." Thanks to this cross-subsidization model, Aravind treats over half of its patients virtually for free, while paying customers more than cover those costs and ensure financial sustainability.

Why This Matters

Strategically and persistently, Aravind has focused on proactively reaching out to "non-customers", poor people who are overlooked and not participating in the market. Through decades of innovation and expansion, the core value of the business model remains universal access. According to Ravilla, "Whether you are talking about cardiac care or education, the fundamental question is: How do you provide it for everyone?" Today, 60% of Aravind's nearly 3 million patients are treated free of cost or at highly subsidized rates.

The Aravind model has successfully turned non-customers into clients by introducing efficiencies to drive down costs, without sacrificing quality. As Ravilla explains, "Patients who can afford to pay the full cost of care come to us because our service is still better and less expensive than what is offered in the market."

Practical Advice

Design a model for sustainability within your operating constraints. "Some customers can afford a price point of zero, the majority can afford a little bit, and a small portion has enough disposable income to pay full price," says Ravilla. "These are the boundaries that will define how much revenue you can generate. If your goal is to provide a service at terms your customers can afford, you have to figure out how to offer your services at price points such that your aggregated costs are lower than your aggregated revenues."

Work backwards. "When advising others," explains Ravilla, "I say [you must] first define the problem. What's the size? What intervention is required to solve it? Then do a mapping analysis to understand what exists currently. Is there easy access? What are the entry points? Where are the current gaps in infrastructure, technology or human capital? From there, you can work backwards to determine how best to fill in the holes, which ultimately becomes your plan for intervention."

Health

At A Glance



Social Enterprise: Health Leads

Social Entrepreneur(s):
Rebecca D. Onie

Founded:
1996

Sector(s):
Health

Location(s):
US

Website:
www.healthleadsusa.org

The Innovation

Retool common practices in emerging markets – such as alternative healthcare workforces – for developed country contexts and, in the process, redefine what constitutes healthcare and who can provide it.

The Innovation Explained

US primary care physicians are overwhelmed with patient caseloads, especially in low-income areas, spending as little as 13-15 minutes per patient. While these visits are adequate to generate a diagnosis – asthma, say, or diabetes – and prescribe a particular course of treatment, the fundamental drivers of patient health are left unaddressed. Can the family afford adequate nutrition? Have their heat and water been shut off due to lack of payments? Have they been evicted from their home? “Physicians are fully aware that addressing these basic resource needs is equally if not more important than any prescription they can give,” said Rebecca Onie, Co-Founder of Health Leads. “But they say, ‘We weren’t trained for this. We don’t know how to secure housing for our patients. We just don’t have the capacity in our clinics to address those needs.’”

Health Leads set about to change this, embarking on a similar path to well-known models such as Partners in Health in Haiti and Associao Saude Crianca in Brazil, which tap into a large workforce of community health workers to complement physicians’ care. In the Health Leads model, that workforce is the student population in local colleges and universities. “It turns out that if you map the density of [low-income] Medicaid patients against the density of college students in cities across the country, those two populations line up,” said Onie. “And it turns out college students are the perfect workforce: they are energetic, tech savvy and tenacious at information retrieval.”

Health Leads’ student Advocates, as they are known, undergo a competitive recruitment and training process on college campuses, committing up to 10 hours per week for a minimum of one year. The Advocates are stationed in the waiting rooms of Health Leads’ partner clinics and, after an initial needs assessment, help patients access any of the 50 basic resource needs relevant for their circumstances, such as food assistance, childcare vouchers, GED programmes – even negotiating with the utilities company to get their heat turned back on. Advocates follow up on a weekly basis until the patients have secured the basic resources they need. Last year, Health Leads’ 1,000 Advocates served nearly 9,000 patients and their families, servicing 21 partner clinics in six cities.

Why This Matters

Both developing and developed countries alike face constraints in delivering high quality healthcare – such as a limited number of trained physicians – even as pressure mounts to improve health outcomes while keeping costs manageable. Managing acute health episodes among low-income populations rather than focusing on prevention by addressing underlying root causes is widely recognized as an important driver of healthcare costs.

Addressing these systemic challenges “isn’t about more money,” said Onie. “It’s about expanding our definition of what healthcare products are, re-imagining the clinic as a place not only to treat illness but to prevent it, and creatively deploying alternative workforces.”

Practical Advice

Look to emerging markets for solutions and practice reverse innovation. “In the global health context, it’s pretty much taken for granted that traditional medical care will ultimately be ineffective unless you simultaneously address the social context of patients’ lives,” said Onie, citing models in Latin America, Africa and elsewhere that cope with a shortage of doctors and nurses by training community health workers. “There are countless models that re-imagine healthcare providers in a more expansive way. We are just one of the few doing it in the US.”

Leverage existing resources in new ways. As Onie recalled, “We asked ourselves, ‘How do we cost-effectively expand the capacity of existing clinics serving low-income patients?’” Regardless of the issue you are trying to solve, she recommends “identifying the untapped human and physical resources that exist already, and figure out how to utilize them in new and unanticipated ways to improve outcomes.”

Health

At A Glance



Social Enterprise: **CIES**

Social Entrepreneur(s):
Roberto Kikawa

Founded:
2008

Sector(s):
Health

Location(s):
Brazil

Website:
www.projetocias.com.br

The Innovation

Complement existing healthcare services with financially sustainable mobile units focused on providing free or highly affordable world-class specialized care.

The Innovation Explained:

Many countries utilize mobile health units to improve access to quality healthcare, especially in remote regions or slums where there are very few doctors per thousand inhabitants. Very few such units offer specialized care and even fewer use world-class technology and equipment. For the most part, mobile units are restricted to general check-ups or to offering one single specialty at best. Plus they have high operating costs, meaning they require perpetual subsidies.

In contrast, CIES has developed mobile health centres offering services in more than 10 medical specialties, including gastroenterology, cardiology, urology, mammography, endoscopy and more. Its health truck is billed as the world's "biggest clinic on wheels", incorporating exam and surgery rooms that can treat up to 250 people a day with specialized care at an average cost of BRL 19 (US\$ 10) each.

CIES has developed two additional models to complement the health truck. Its Health Box is a container-like structure measuring 7.5m x 2.5m, easily transportable by a tow truck, catamaran or raft to treat populations accessible only by river in places like the Upper Amazon Basin. It consists of a stand-alone mobile health system capable of addressing four to seven specialties and incorporates a 28m² living space. Finally, its Health Van is a compact unit with equipment for digital radiology exams, ultrasounds and echocardiography that is specifically adapted for narrow streets, mountainous regions and steep terrain.

But building mobile units alone will not relieve enough pressure on the public health system. "We work in close partnership with local governments to influence public health policy," explained Roberto Kikawa. "We deploy our units strategically, adapting the specializations on offer based on each population's needs, and only after conducting a consultation process with many local stakeholders. Our aim is to complement primary healthcare and reduce the need for conducting diagnostic tests at small and medium-sized hospitals, freeing them up to focus on effective treatment of patients."

In addition, to ease the strain of too few qualified specialists, CIES partners with research universities to train doctors. "A hospital will have an electrocardiogram machine, for example, but local doctors don't know how to read it," said Kikawa. "So we partner with university hospitals to train these doctors and provide continuous support."

To date, CIES has treated over 120,000 patients and trained more than 5,500 health workers in 28 cities across six Brazilian states. Its model has attracted interest from 50 other cities in the country and abroad.

Why This Matters

In Brazil, 148 million people (76% of the population) depend upon the overburdened public health system. The disparity in medical service between regions is growing, putting remote populations at an increasing disadvantage. For example, in the Amazon region there is only one general practitioner per 8,000 inhabitants.

The state of specialized care in many emerging markets is even worse. Many patients must wait months or years to get specialized medical attention at public hospitals in larger cities, often at great personal cost.

Practical Advice

Localize to replicate. Kikawa said, "The first step to replicating your model is to understand the local conditions. You need to develop knowledge about the local community's habits, culture, social and economic conditions. Only then can you work alongside them and adapt your services."

Ensure an alignment on vision and values with your investors and partners. "We have to make sure that potential investors are investing in us because they want to invest in a company with a social mission," said Kikawa. "And it's reflected in our governance. One investor came to study us, to look at our cash flow, our financial results, and asked to replicate our model in another country. Even though they said they prioritized our social mission, it quickly became clear they wanted to focus on growing the profits of the company rather than on the benefits to the community. So I said no."

Employment & Enterprise Development

At A Glance



Social Enterprise: Education For Employment

Social Entrepreneur(s):
Jamie McAuliffe and Ron Bruder

Founded:
2002

Sector(s):
Youth, Education, Employment

Location(s):
Egypt, Jordan, Morocco, Palestine,
Tunisia, Yemen

Website:
www.efe.org

The Innovation

Put the business needs of the private sector “front and centre” in the design and delivery of the solution.

The Innovation Explained

Education For Employment (EFE) addresses two problems simultaneously: the skill gap resulting from educational systems that fail to prepare graduates for private-sector needs, and the opportunity divide facing low-income, talented youth who do not have the contacts or the soft skills to enter the job market.

When EFE enters a country, it assembles a stellar Board of Directors from the national business and educational communities who are personally and publicly committed to tackling the youth unemployment crisis. The Board members leverage their networks and credibility to raise EFE’s visibility in the business community, and send an important market signal to the major employers.

In each country EFE conducts market research to determine the future growth industries that suffer from a shortage of qualified job applicants. EFE then makes this offer to major employers in those sectors: “We will give entry-level candidates the skills they need to be ready to work on the job from day one. In return, you pre-commit to hiring a certain number of low-income youth who successfully graduate from our training programme.” Staff members of EFE’s employer partners also volunteer to mentor EFE trainees.

EFE’s training programme focuses on developing both hard and soft skills. It adapts world-class training modules on the hard skills required by specific industries and couples them with soft skill training to boost confidence, develop critical thinking and navigate professional work environments. These include modules on time and stress management, teamwork, public speaking and making presentations.

To date, EFE has placed 70% of its graduates into jobs at over 900 companies. In these jobs, graduates gain further access to continuing education and training, civic engagement opportunities and mentoring from professionals in their field, including other EFE alumni.

Why This Matters

With 25% of young Arab women and men unemployed, the Middle East and North Africa (MENA) has the highest rate of youth unemployment in the world. While many vocational programmes exist in MENA and elsewhere, few are tailored to the needs of the private sector, assist in job placement or hold themselves accountable for placing youth in retainable jobs. By acting as a full-solution model that provides integrated services of youth recruitment, training, job placement and ongoing mentoring, EFE provides a critical service that most companies lack. And because partner companies pre-commit to hiring EFE graduates, the model minimizes the transitional fallout between training and employment.

Practical Advice

Keep a razor-sharp focus on what you do best. “As many organizations grow, they bring on new partners or donors who want them to do new things,” explains Jamie McAuliffe. “But chasing those dollars can lead to a diffusion of services and, ultimately, impact. We think of ourselves as a plug-in solution for the skill gap; [we] stay focused on training youth, placing them in jobs and supporting them through our alumni network so they can succeed, providing our business partners with the kinds of employees they are looking for.”

For the model to be sustainable, everyone needs “some skin in the game”. “When we first started, we had a lot of work to do to change employers’ mindsets that there is a huge untapped pool of human capital. So we kept fees very low to reduce barriers to participation. Now we are known for providing a great service, but it’s still at a highly subsidized rate. Our business partners pay about 20% of the cost, and our goal is to increase that to 50% over time, though their expectations need to be managed carefully. Our students, too, have to pay a nominal fee so they have some ‘skin in the game’, but we will need to review this over time while staying focused on the vulnerable population we care about,” says McAuliffe.

Employment & Enterprise Development

At A Glance



Social Enterprise: Friends International

Social Entrepreneur(s):
Sébastien Marot

Founded:
1994

Sector(s):
Youth, Education, Health, Enterprise Development

Location(s):
Cambodia, Laos, Indonesia, Thailand, Honduras, Mexico, Egypt, Myanmar

Website:
www.friends-international.org

The Innovation

Combine for-profit and non-profit arms under one roof to provide a comprehensive set of services for young people.

The Innovation Explained

Friends-International provides social and educational services to protect, educate and equip marginalized children and youth in urban areas. These deeply vulnerable young people are sometimes negatively referred to as “street children” and may be homeless, orphans, victims of sexual or physical abuse or have substance abuse problems. “It’s sometimes more expedient to round up homeless youth begging on the streets and place them in juvenile detention centres away from the public eye,” said Sébastien Marot. “So we try to convince governments that they can improve their public image and mitigate social unrest by investing in this population and getting them into jobs.”

In Cambodia, where Friends-International has a 19-year history, the organization is actively influencing policy, such as designing a five-year plan for the government to foster family cohesion. Each time Friends-International expands its operations to a new country, it leverages allies who enjoy strong local reputations, such as multilateral agencies, embassies and funding entities, to identify a strategic point of entry within the national or municipal government. The Ministries of Social Affairs and Tourism are natural partners, for example. “It’s critical to establish an institutionalized partnership with the government so that we’re not dependent on one high-profile person who may leave office,” said Marot.

Friends International runs several specific interventions. Their education programme helps younger children catch up and mainstream back into public school. For older youth, they provide substance abuse counselling, vocational training, life skills workshops and job placement services. The organization also runs several social businesses, including restaurants, to give youth on-the-job training and provide a stepping stone to a regular job. In the growing hospitality sector, Friends-International works with many hotels and tourism companies to promote socially responsible tourism and encourages them to accept training graduates into entry-level positions.

Today, Friends-International’s programmes impact 60,000 marginalized children and youth, as well as their families, every year. Through its CYTI Alliance and ChildSafe initiative with other international NGOs and government organizations, Friends-International disseminates best practices and creates child protection networks through local and international campaigns.

Why This Matters

There are over 500 million marginalized children and youth in urban areas worldwide due to migration, unemployment, domestic abuse, substance abuse, child trafficking and/or deceased parents. Without sustainable, scalable interventions to help these young people get their lives back and reintegrate into society, they will continue to weigh negatively on public security, economic development and social welfare systems. The Friends-International model leverages contributions from government, civil society and businesses to deliver services and invest in marginalized young people so they become functional and productive members of society.

Practical Advice

Align your organization with the national goals of the country in which you are operating. “Government partners can learn from your organization, become your partners and serve as a resource through which you can channel your programmes,” said Marot. “Being aligned doesn’t mean being in agreement about everything. You’re not there to implement their policy. You’re there to influence it in a better way. It’s extremely difficult to be effective if you’re moving in direct opposition to government planning priorities.”

Give credit freely. Government agencies are prominently credited in Friends-International’s annual reports, publications, posters and signage, and key government officials are invited to co-chair the organization’s high-profile events and meetings. “Gestures like these make it so much easier to build trust with government partners,” said Marot.

Employment & Enterprise Development

At A Glance



Social Enterprise: Hapinoy

Social Entrepreneur(s):
Bam Aquino and Mark Ruiz

Founded:
2007

Sector(s):
Enterprise Development

Location(s):
Philippines

Website:
www.hapinoy.com

The Innovation

Leverage existing infrastructure to introduce new products and services to underserved markets, rather than building a distribution system from scratch.

The Innovation Explained

In poor, rural villages throughout the Philippines, people lack access to life-enhancing goods and services such as medicine, mosquito bed nets, safe drinking water and electricity. When Hapinoy co-founders Bam Aquino and Mark Ruiz looked at this problem, they realized it would be more cost-effective to leverage existing infrastructure than to build a new one to market and distribute such products in poor communities. They reasoned that, just as Coca-Cola is in every village and sold in tiny shops called “sari-sari” stores, they could harness that same distribution network to sell medicine and solar-based energy.

Even with the numerous advantages of this approach, issues had to be resolved. Most of the hundreds of thousands of sari-sari stores are run by uneducated, female microentrepreneurs with no business training. To identify high-potential storeowners receptive to new product lines, they used CARD (their strategic partner and the Philippines’ largest microfinance institution), which had existing credit relationships with thousands of sari-sari storeowners. Once identified, they incentivized storeowners to join the Hapinoy network. By aggregating the demand of several thousand stores, Hapinoy offered a financial incentive in the form of cheaper staples, particularly in deep rural areas. Next, they developed educational content focused on record keeping, store efficiencies and product diversification, to strengthen store operations and increase profits. Hapinoy also built a sense of community, offering storeowners monthly meetings to do peer learning exercises.

Today Hapinoy works with over 10,000 sari-sari stores across 200 communities in southern Luzon. They are actively developing new products and starting a mobile money remittance solution across their network.

Why This Matters

Currently, about half of the world’s population resides in rural areas. In developing countries this represents a significantly large proportion of the poor, who remain isolated from market access due to poor infrastructure and/or remoteness. Many social enterprises that develop a new product or technology (a solar lamp, for example) are tempted to build a proprietary sales and distribution infrastructure, which greatly adds to the cost-per-unit sold.

Organizing the informal economy into a formal network presents challenges, but by strengthening the existing sari-sari store infrastructure (Hapinoy’s core service offering) and outsourcing non-core activities, Hapinoy has achieved significant cost efficiencies and is poised for rapid scaling. It will continue to be an ideal entry point and distribution channel for both large companies and social enterprises eager to enter underserved markets.

Practical Advice

Focus on the core and partner out the rest. “The magic formula of the Hapinoy model is business training, plus access to capital, plus new product lines that have higher profit margins,” says Ruiz. “We do the training, which is what we’re best at, and our partners do the rest. CARD provides the injection of capital that allows stores to improve their current product mix and add additional inventory, leading to cost savings. Companies and social enterprises supply what we call the ‘social impact goods and services’, like medicine and bed nets. And we have a joint venture with a large-scale distribution company (Tao) to manage distribution as we scale.”

Don’t be married to the biases of your model. “At some point we realized we could not scale our existing model because we ended up absorbing the costs of distribution,” adds Ruiz. “We ... realized we would have to shift models, which is what led to the decision to shut down our warehouse and instead create a joint venture with Tao. You have to take an honest look all the time. We’ve made so many zigzags and adjustments I like to joke [that] we are on version 22 of our model.”

Employment & Enterprise Development

At A Glance



Social Enterprise: Endeavor Global

Social Entrepreneur(s):
Linda Rottenberg

Founded:
1997

Sector(s):
Enterprise development

Location(s):
Latin America, Middle East, Southeast Asia

Website:
www.endeavor.org

The Innovation

Enable high-impact entrepreneurs in emerging markets to create jobs and grow their companies by helping them overcome significant barriers to growth.

The Innovation Explained:

Entrepreneurs in emerging markets face tremendous cultural and structural barriers that hinder the growth of their companies – lack of access to role models, contacts, capital and qualified management expertise, to name but a few – which slows not only their organization's growth but also the sustained, broad-based economic growth they could collectively unleash. "Incubators, accelerators and business competitions focus on the start-up phase," said Linda Rottenberg. "But it's really during scale-up phase when entrepreneurs get stuck and need the most support. So we focus on supporting scale-ups, not start-ups."

Currently operating in 17 countries, Endeavor's "pull model" requires engagement by local private sector leaders who pledge their time and money to open an Endeavor affiliate. "We built a franchise system whereby we raise funding, support and board commitments from the private sector before we go into any country," said Linda Rottenberg. "Everyone's using the same strategic plan, the same set of goals and the same global network, but they can adapt and customize it for their country. We co-create with our local boards."

Endeavor developed a six to twelve month selection process whereby candidates applying to any one of the 17 national affiliates must first pass a series of local and regional interviews before being presented to one of Endeavor's international selection panels. Over the last 15 years, Endeavor has screened and provided feedback to over 30,000 candidates and selected more than 766 high-impact entrepreneurs through this process. "Our search and selection process is so rigorous, it's a seal of approval that attracts investors and strategic partners and enables the entrepreneurs to secure resources even beyond what we provide directly," said Rottenberg.

Once selected, the high-impact entrepreneurs have access to an unrivalled network of seasoned business leaders, called the VentureCorps, which they can tap into for mentorship, networks, strategic advice and inspiration. In this way, Endeavor not only selects high-potential entrepreneurial talent but enhances the ecosystem in which these companies operate by connecting them with top local business leaders and creating a comprehensive support system.

Endeavor Entrepreneurs have created over to 200,000 high, value jobs, generating US\$ 5 billion in revenue in 2011 alone and averaging a 69.4% growth rate within the first two years of selection into the Endeavor network.

Why This Matters

The key to unleashing the potential in emerging markets is oftentimes in supporting their entrepreneurial ecosystems. In Silicon Valley, for example, where the environment is well-developed for innovation and entrepreneurial activities, it is not simply a concentration of entrepreneurs, but also a community that actively supports them – from universities with excellent research and development capacity to investors and advisers willing to take risks and get involved.

By promoting high-impact entrepreneurs and creating role models, Endeavor is fostering a larger culture of entrepreneurship in developing countries. As a result, jobs are created, and most importantly, human, social, intellectual and cultural capital are all enhanced, creating pockets of future Silicon Valleys around the world.

Practical Advice

Be clear on what's core and what can be compromised. "I realized I had to give up a lot of control if I wanted top leaders in these countries to contribute a serious amount of their time," said Rottenberg. "It's helpful if you understand what are the things that cannot be changed – in our case, the brand has to be consistent, all entrepreneurs have to be selected through an international panel, things like that – and what are the things you can be flexible and adaptable on."

Collect data to evaluate and improve your customers' satisfaction. "We are very data driven and we are constantly tweaking our services based on what's popular and what's working and what's not," said Rottenberg. "We survey our entrepreneurs several times a year with the Bain Net Promoter System to determine how satisfied our customers are – not overall, but how satisfied they are with every service."

Build a solid team. "Too many social entrepreneurs complain about the 'cult of the charismatic leader syndrome'," said Rottenberg. "I always say, 'You can't be a pop star – you have to be a rock band.' You have to invest the resources to build a really strong senior team so it's not just a one person show. Endeavor has an incredible senior management team."

Urban Development

At A Glance



Social Enterprise: Cinepop / Hormiga

Social Entrepreneur(s):
Ariel Zylbersztejn

Founded:
2004

Sector(s):
Urban Development, Civic
Participation, Technology

Location(s):
Mexico

Website:
www.cinepop.com.mx

The Innovation

Use the hook of free entertainment to attract and emotionally connect with large audiences, expose them to educational messages, and provide a platform to connect them business offerings and government programs.

The Innovation Explained

Recognizing that the \$5USD ticket price put movie theatres out of reach of a majority of Mexican citizens, Cinepop founder Ariel Zylbersztejn created a free outdoor theatre – a giant inflatable screen that could be set up in under two hours in any public plaza or town square. The film screenings provided a much-needed community service in low-income neighbourhoods – all generations of the family came together for an evening of fun entertainment – and proved immensely popular. As many as 3000 people attended each screening.

Quite soon, the Cinepop team realized it had created a powerful asset: the power to empower people by connecting emotionally. Low income customers are difficult and expensive to reach, especially in rural and peri-urban areas. But when thousands of people gather in the town square to watch a movie, the ambiance of light-hearted, family-friendly fun makes them particularly receptive to educational messages packaged in an entertaining way.

Cinepop started producing original content and educational programs, evolving into a deeper platform named HORMIGA. As HORMIGA embarks on an ambitious expansion strategy through a franchise system – it aims to be the most effective platform to connect to the Bottom of the Pyramid market – it has developed a compelling and measurable value proposition for its corporate and government partners, which Ariel Zylbersztejn believes is critical to sustaining the business model.

Local governments provide the physical space, security, and energy hook-ups. In return, they get an extremely efficient communication platform to reach large audiences with targeted messages. HORMIGA incorporates educational programming both before and after the movie screenings on topics such as health, family budgeting, social values, the environment, etc. And at most screenings, HORMIGA rents out space to its corporate sponsors in inflatable stalls to sell products and services designed for the bottom of the pyramid (such as microcredit, low-cost medical consultations, discounted mobile phones, etc.).

Today, each showing attracts 500 to 3000 people. In measuring its impact, Cinepop has found that up to 30% of the people at their movie showing change their habits and behaviours as a result of being exposed to new concepts, services, and products.

Why This Matters

Low-income populations living in municipalities away from the major cities often suffer from an economic, educational, and social divide in Mexico and in other countries. In Mexico alone this comprises 60 million people across 2454 municipalities with a combined purchasing power over \$35 billion. Yet these people are largely neglected by traditional markets and lack access to information, technology, products, and services that could otherwise significantly improve their lifestyles. Often, as a result, they develop dependence on social welfare programs.

HORMIGA has effectively aggregated demand among this population and created the market linkage between them and the traditional market by creating a cost-effective and fun platform for companies, government, and local communities to interact.

Practical Advice

Create an emotional connection with your beneficiaries. “To educate people and help them improve their quality of life, you need to connect emotionally with them,” said Ariel Zylbersztejn. “People love to participate in our platform because they have fun, and then they discover they also learn new things. We actually measure this, and know that 3 out of 10 people who participate in our events change their habits or behaviors.”

Provide a tailored value proposition for each stakeholder. “This is something we have worked on a lot,” said Ariel Zylbersztejn. “We have clear incentives for each partner we work with, and we can actually demonstrate measurable benefits for each one of them.”

Urban Development

At A Glance



Social Enterprise: Waste Concern

Social Entrepreneur(s):
Iftekhhar Enayetullah and A.H.Md.
Maqsood Sinha

Founded:
1995

Sector(s):
Urban Development, Waste
Management, Renewable Energy,
Climate Change

Location(s):
Bangladesh

Website:
www.wasteconcern.org

The Innovation

Turn the waste management problem facing cities into a solution for lower-cost agricultural inputs for farmers in rural areas.

The Innovation Explained

The Waste Concern model addresses three problems simultaneously: the poor nutrient content of over-farmed soil in rural areas; the massive waste management problem facing municipal governments in urban areas; and rising greenhouse gases responsible for climate change. “Bangladesh’s cities and towns generate 20,000 tons of waste a day, and like most low-income countries, 80% of that waste is organic,” said Iftekhhar Enayetullah. “We have developed a technology that converts organic waste to fertilizer at scale, which simultaneously reduces greenhouse gas emissions and gives farmers a higher yield even though it requires much less irrigation.”

Using the slogan “Waste is a resource,” Waste Concern has established a network of 60 decentralized neighbourhood-based recycling and composting plants throughout Bangladesh and has created thousands of jobs for waste pickers, who earn three times their previous incomes and are provided with free lunches and childcare. In Dhaka city, Waste Concern established a large-scale, 150-ton per day capacity compost plant (equal to the amount of waste generated by 400,000 people) and collects and recycles the waste at no cost to the government.

Waste Concern has two revenue streams. The first is from the sale of organic fertilizer, which it sells directly to a large company that markets, distributes and sells the product to over 100,000 farmers across Bangladesh. The second revenue stream comes from the sale of carbon credits. Waste Concern is well on its way to removing 90,000 tons of carbon emissions from the atmosphere by 2015, which it is selling annually to Asian Development Bank under the Clean Development Mechanism of the Kyoto Protocol.

With support from the Bill & Melinda Gates Foundation and UNESCAP, Waste Concern’s model is being replicated in 10 Asian and 10 African cities. The founders have also created a training centre in Dhaka that regularly receives delegations from NGOs, private sector representatives, UN agencies and foreign governments.

Why This Matters

In most developing countries, waste management is a huge problem, as are fast-declining agricultural yields and the increasing vulnerability of farming populations due to climate change. The city of Dhaka alone produces up to 5,000 tons of waste daily, yet less than half of this amount is collected, resulting in a range of serious health and environmental issues in low-income areas where waste is left to decompose on roadsides and in open sewers.

Increasingly, Enayetullah is leveraging Waste Concern’s experience to promote social business concepts in Bangladesh and throughout Asia to solve challenges like these. “If your workforce is low-income people, and if your products are targeting low-income people, you should receive regulatory support,” he explained. “For projects with so many social and environmental benefits, you should not be charged a 14% to 15% interest rate by banks. You should receive concessionary rates of 3% to 4%. We are working with the Bangladesh government on this, because we believe it’s important to have the right enabling environment in place. We are also advocating for a five- to seven-year tax holiday for private sector companies working on these kinds of projects.”

Practical Advice

Facilitate real engagement with partners during proof of concept. “Unless you can prove a concept in different locations, it is very difficult to scale up,” said Enayetullah. “The biggest lesson we learned in Sri Lanka, Bangladesh, Cambodia and Vietnam is that you have to invest a lot of time on the proof of concept. During that stage, it’s very important for private companies to be more than investors – they need to be real partners and to interact frequently with you and with the regulators.”

Local leadership matters. Enayetullah stressed, “Many issues require the support of local or national government to be fully addressed. People matter. If leaders don’t do the right thing, it’s very difficult for managers to do the right thing. That’s why we are focused on a leadership training programme for city officials and mayors. A real partnership with leadership at the city government level is needed so we can have long-term impact on all levels.”

Urban Development

At A Glance



Social Enterprise: **INCLUDED**

Social Entrepreneur(s):
Jonathan Hursh

Founded:
2006

Sector(s):
Migration, Slums, Urban Development,
Education, Employment

Location(s):
People's Republic of China, Nepal,
Bangladesh

Website:
www.included.org

The Innovation

Create anchor platforms in underserved neighbourhoods that centralize service delivery from a range of service providers.

The Innovation Explained

On the micro level, INCLUDED builds dozens of community centres in migrant slums to provide them with better access to education, employment, social services and information. Because migrant slums are inherently unstable, INCLUDED has developed the Community Cubes model, which refurbishes shipping containers to create mobile, modular community centres in these slums.

“These community centres become stable platforms in very unstable and informal environments,” said Jonathan Hursh. “We begin by providing a few anchor services to develop relationships in the community, and then we invite other organizations to plug in their services on top of this platform. The community centres essentially became a mediation point for services into the slums.” Services on offer from INCLUDED and its affiliate partners include after school programmes, teacher training, early childhood development, health workshops and vocational skills.

On the macro level, INCLUDED has created a network of organizations working with migrant populations across multiple strategic mega-cities with the goal of enabling them to share resources, best practices and impact measurement metrics. “As a sector, we need to create agreement on what’s working well and what’s not working,” said Hursh. “We are already tracking three indicators for several core programmes, and we are asking our affiliates across the cities to do the same. Soon we are going to be able to see what’s generating the best results, and we need to focus on packaging that information for different audiences like governments, businesses and academics so they can be more effective in creating inclusive cities.”

In the long run, INCLUDED sees itself as a consultant to governments, helping them to design more inclusive societies where migrants can ultimately have formal access to all city services. “Our primary goal is to help migrants flow from the informal to the formal economy, with the community centre as the vehicle that enables them to engage existing forms of services they should have access to,” said Hursh. “Our hope is to reach a tipping point where governments invest resources and energy into opening 500 or 1,000 community centres and we slip into the role of a supporter and adviser.”

INCLUDED serves approximately 8,000 migrants annually (investing 400,000 contact hours) in partnership with non-profits, community organizations and government agencies.

Why This Matters

Ninety-five per cent of urbanization happens in the developing world and, within a few decades, one in three people in the world will live in a migrant slum. Migrant slums in Asia only take 30-60 years to double in size, and in Africa 15-30 years. This has radical implications for cities and societies, which still depend on migrant workers to fill critical labour gaps.

Yet migrant families often lack access to quality education, basic healthcare and legal services, as their rights are rarely fully recognized. “If we’re honest with ourselves, migrants contribute greatly to the economic growth and diversity of cities across the world,” said Hursh. “Cities would grind to a halt without migrant labour. So legislation needs to reflect this reality. Migrants need to be integrated into the formal economy so they can receive a fair reward for their contribution to our cities.”

Practical Advice

Connect the micro to the macro. “It’s been important for us to stay engaged in the micro work at the community centre level and to create a pipeline so that those experiences connect with and influence macro level policy,” said Hursh. “At the same time, we try to engage the key big players to look at the long-term issues together in a more cohesive perspective.”

Play to the unique strengths of the social enterprise sector. “We as social enterprises are at our best when we identify existing gaps in society – gaps that neither government nor natural market forces are meeting yet,” said Hursh. “Our value-added role is to come up with a workable model to address those gaps, and then bring together the public and private sectors to work in creating broad and sustained social change. We see ourselves as a connection point to bring the key sectors together to work on one of the most pressing issues of our century.”

Urban Development

At A Glance



Social Enterprise: **BioRegional**

Social Entrepreneur(s):
Pooran Desai and Sue
Riddlestone

Founded:
1994

Sector(s):
Energy, Environment, Urban
Development

Location(s):
Europe, China, North America, Mexico,
South Africa, Tanzania, Australia

Website:
www.bioregional.com

The Innovation

To move your innovation from niche to mainstream, focus on replicating your idea rather than scaling your organization.

The Innovation Explained

BioRegional develops practical solutions for communities, businesses, and municipalities to dramatically reduce their carbon footprint. To “show by example”, in 2002, BioRegional built and became recognized for its BedZED ecovillage in London, which encompasses housing and commercial properties powered by renewable energy and based on 10 guiding principles, including using only certified sustainable building materials, local food, extremely efficient water usage, accessibility to public transport and zero waste.

To replicate this sustainable development model globally, the BioRegional team decided rather than building a few small-scale real estate developments per year, it would instead embark upon a strategy to integrate One Planet Living principles into new projects of major real estate developers. Through a series of workshops and consultations, BioRegional explores the context-specific challenges and leads the developer and their team through the One Planet Living principles. “One of the biggest innovations for us is running these workshops,” said Pooran Desai. “We bring together the real estate developers with the city planners and other stakeholders to co-create solutions that incorporate these principles.”

Out of this consultation process, BioRegional devises an action plan, which must be endorsed by a panel of experts, and then supplies the developer with a consultant throughout the design and construction process to troubleshoot as problems arise and ensure targets are met. Under the motto “developing Earth’s greenest neighbourhoods”, BioRegional has advised real estate developers on more than US\$ 30 billion of planned developments and linked projects in the US, UK, Portugal, South Africa, UAE, China, Australia and Canada together under the One Planet Communities rubric.

Why This Matters

The ever increasing strains placed on planetary resources by our housing and consumption patterns are well documented and understood. What is less well understood is how individuals, communities and companies can become more sustainable. The One Planet Living principles are widely applicable beyond housing construction and are increasingly affordable thanks to technological innovations in recent years. BioRegional has developed a practical guide and is providing advisory and training services in sustainable design and practice to governments and companies in other industry sectors, including manufacturing, retail and commerce.

“These principles should be thought of DNA and embedded in the way people think about and design communities, products and services,” said Desai. “We’re also working with manufacturing companies to explore how these principles apply to the manufacturing process. Can you move to 100% renewable energy? Can you get your waste down to zero? What about the food supply in your factories – is that sustainable? Can you make your factory friendlier to wildlife and put a green roof and nesting boxes on it? Can you support a local environmental preservation project? The principles can be applied everywhere.”

Practical Advice

Have fun. Desai said, “I like this quote from Mohamad Yunus: ‘When I see a problem, I see an opportunity for a social business.’ That’s fantastic. The biggest piece of advice I can offer is just to give it a go. You will learn so much along the way, but the most important thing is to keep a sense of fun throughout.”

Integrate sustainability into your organisation’s operating principles. “It is important now to look at the global availability of natural resources and make sure we are creating solutions that are compatible with the way our planet works,” said Pooran Desai. “Scientific concepts such ecological footprint and planetary boundaries are important starting points which all of us must become familiar with.”

Rural Development

At A Glance



Social Enterprise: Landesa (formerly Rural Development Institute)

Social Entrepreneur(s):
Roy L. Prosterman, Tim Hanstad

Founded:
1967

Sector(s):
Rural Development, Land and Property
Rights, Poverty Alleviation

Location(s):
US, China, India, Russia, Africa

Website:
www.landesa.org

The Innovation

Intervene at the policy level for large-scale structural impact.

The Innovation Explained

Landesa works to protect the legal land rights of the poor, especially in rural areas and its innovation is manifested in how it effectively engages governments. “Given the enormity of the land rights problem, it needs a structural solution,” said Tim Hanstad. “Government is the provider, guarantor and defender of land rights, so our approach is to partner with governments to help build a legal framework for property rights.”

In each country where it works, Landesa serves as a bridge between policy-makers and poor farm families, consulting with a wide range of stakeholders and then designing enforceable and politically viable land reforms. “The bulk of our research is out in the field, talking to farmers,” said Hanstad. “But we also spend a lot of time with government officials to build trust and establish a productive working relationship. Our goal is to try to understand what they want to accomplish – not in terms of land rights, because they often don’t think about poverty in that way – but in terms of poverty alleviation and rural development.”

Landesa combines its research on local conditions with its deep expertise on global best practices to make recommendations on improved laws and procedures for land rights, which it presents to government officials. The organization’s role then shifts into advocacy and implementation as governments ratify new laws or endorse pilot initiatives. For example, the Chinese government began guaranteeing all farmers 30-year land rights influenced in part by Landesa’s recommendations, and the organization continues to advise the government on registration and due process in expropriation cases. And in India, Landesa helped design a US\$ 200 million government initiative to provide 2 million landless families with “micro-plots” of land totalling 1/10 of an acre.

Over the last four decades, Landesa has helped secure land rights for more than 105 million families in over 45 countries.

Why This Matters

Three-quarters of the world’s poorest people live in rural areas where land is a crucial asset and a primary source of income, security, opportunity and status. Of those people, more than 1 billion lack the legal rights over the land that serves as their source of food, status and income. Studies indicate that land ownership not only boosts agricultural productivity in the developing world, but is also directly linked with improved health, nutrition and school enrolment outcomes.

Landesa’s model is widely applicable beyond land reform. “Social enterprises and NGOs tend to start with a direct service model, and only when they get stuck on policy constraints do they start to think about policy,” said Hanstad. “But often leveraging policy tools can be the most impactful tactic from the start, and our four-step approach of research-design-advocate-implement is highly replicable.”

Practical Advice

Be pragmatic and not ideological in your approach. Do not enter with any presupposed solutions in mind. “We are very pragmatic and not ideological, which is what distinguishes us from a lot of local partners and NGOs,” said Hanstad. “Rather than impose your values and beliefs on what others need, be humble about what you think you know and recognize you don’t have all the answers. Every setting and every situation is different. Being a lifetime learner and looking at every person you meet as an opportunity to learn is critically important.”

Consider policy as a starting point. “More social entrepreneurs and non-profit organizations should think about policy not as an afterthought, but rather something they consider from the beginning,” said Tim Hanstad. “Often leveraging tools of policy can be the most impactful ways for a social entrepreneur to start.”

Rural Development

At A Glance



Social Enterprise:
SELCO

Social Entrepreneur(s):
Harish Hande

Founded:
1995

Sector(s):
Rural Development, Energy,
Environment

Location(s):
India

Website:
www.selco-india.com

The Innovation

To develop effective disruptive technologies through appropriate financing, market linkages and after-sales service.

The Innovation Explained

SELCO designs solar energy products customized for households and small businesses located in off-grid rural areas. These units, priced from US\$ 160-300, deliver better lighting, additional income for small businesses, and create jobs for rural entrepreneurs engaged in installations and maintenance.

Providing affordable, long-term financing and developing a reputation for excellent after-sales services are core components of SELCO's model. "Our solar units are not consumer products," explains Harish Hande. "They are assets – often the most expensive asset after the house itself – and require long-term financing at affordable interest rates." Therefore, SELCO persuaded local banks to tailor loans for potential customers, whose income fluctuated due to seasonal labour. SELCO further explained the long-term cost savings of solar units, and the economic returns realized through improved educational outcomes, as children gain the ability to study at night. SELCO induced banks to provide terms that allowed poor customers to pay a 10-25% cost down payment, and the balance in instalments over three to five years at a 5-14% interest rate.

Historically, potential SELCO clients have been victimized by unethical people selling faulty products and then disappearing, so SELCO developed a network of 35 after-sales centres to foment trust. These centres train and hire technicians from the community who speak the local language, and this fosters trust in the SELCO brand while demonstrating a commitment to the community. Since a technician can travel two hours on a motorbike, explains Hande, "That becomes our sales radius. We do not sell beyond that area because we promise service within 24 hours."

To date, SELCO has provided customized solar energy solutions and affordable long-term financing to over 600,000 people and small businesses in rural areas in India.

Why This Matters

Energy access is one of the keys to development and poverty alleviation, as it enhances health, education, livelihood opportunities and agricultural productivity. More than 1.4 billion people worldwide have no access to electricity, and a billion more have only intermittent access. Solar energy is a renewable source of energy that can significantly and effectively address the needs of the off-grid population.

Beyond solar technology, SELCO's lessons for applying its model are highly relevant for any social enterprise. "You have to look at your technology product, match it with the appropriate financial product, create the right market linkages and customize it for different customer segmentations," says Hande. "Packaging those pieces correctly is essential, and highly replicable beyond energy."

Practical Advice

Treat the poor as asset creators. Do not think of the poor as merely consumers, but as asset creators. Learn by partnering with them to co-create solutions, and recognize the importance of the one-to-one connection with your customer. "Social entrepreneurs cannot develop a real solution just using a business plan and doing some rural tourism," adds Hande. "Nothing replaces the rigour of being out in the field and actually implementing and refining a solution in partnership with the poor."

Invest in personal relationships. Hande explains: "I keep telling young social entrepreneurs to develop friendships. I became friends with local bank managers and their assistants. I would call them and pop by for a cup of tea. The first breakthrough I got was when one of them got sick of me coming over and said, 'Here's the financing, go and do it.' And now ... many of those local managers have become [the] chairman of their bank, and many of those local bureaucrats are now in national ministries in Delhi."

Rural Development

At A Glance



Social Enterprise: Proximity Designs

Social Entrepreneur(s):
Jim Taylor and Debbie Aung Din

Founded:
2004

Sector(s):
Rural Development, Agriculture,
Technology

Location(s):
Myanmar

Website:
www.proximitydesigns.org

The Innovation

Combine world class design talent with local manufacturing and multiple distribution channels.

The Innovation Explained

In less than ten years, Proximity Designs has built a local manufacturing base from scratch inside Myanmar that produces high quality, affordable agricultural equipment. Even more impressive, it has developed four distribution and sales channels that together cover 80% of the country, despite poor infrastructure and difficult terrain. “Having a local supplier allows you to be very hands-on and implement changes quickly in the design,” said Jim Taylor. “You’re designing for manufacturability, and you can control quality as you scale production.”

Today, Proximity Designs views its design and manufacturing process as tightly integrated. The founders collaborate with leading universities such as Harvard and Stanford, initially commissioning graduate students at the Stanford Design School, who took existing technologies like treadle pumps and irrigation systems and worked directly with farmers to improve their durability and bring down costs. “Our design capabilities are important to our success,” explained Debbie Aung Din. “Since we design on location, it’s pretty easy to take prototypes to users, ask them to try it, and get quick feedback. Our typical product takes 18 months from inception to commercialization.”

But the Proximity Design team quickly discovered that design is, as Debbie Aung Din put it, “10% of the challenge. We have to produce large quantities of consistently high quality, do it on time, and sell them nationally. That’s a huge effort.” Proximity Designs uses four major distribution challenges to get their products to farmers: a sales force of 135 people; a network of 840 independent sales agents, mostly farmers themselves who demonstrated enthusiasm about Proximity Design’s products; agent kiosks, which are mom-and-pop shops in towns and villages that act as ‘sales anchors’ by displaying products in stores; and 1800 village committees.

Different products, like irrigation, agricultural financing, pumps, and solar, are sold to varying degrees across the four channels, but “you have to provide the right incentives for your different channel partners and you have to be careful that they don’t compete directly with one another,” explained Jim Taylor. “There’s a reason why these channels don’t exist for other commercial goods. As a social entrepreneur, you often have to pioneer new channels, the economies of which are really difficult. We are constantly looking at sales by territory to improve the efficiency of our distribution network.”

To date, Proximity Designs has impacted more than 500,000 people, increasing farming income by more than \$170 million.

Why This Matters

Many developing countries have agriculture-based economies, where there is widespread poverty among farming communities. Small-plot farmers are trapped in a downward spiral of declining yields and low prices for their output. To increase their incomes, they need access to technology, financial credit, and markets. Beyond agriculture, Proximity Design’s model illustrates how important – and difficult – it is to get the balance right between global expertise and local knowledge.

“A lot of local NGOs have deep knowledge, but they don’t have international connections to the right kinds of expertise and capital,” said Jim Taylor. “And international organizations often lack the local understanding of problems and issues. In the end, it takes deep knowledge and understanding of a particular context to solve problems of poverty, but it must be connected to the broader world and the best ideas out there.”

Practical Advice

Design is essential. “Design thinking has a lot to contribute to economic development and poverty reduction,” says Debbie Aung Din. “Design is very empathy-based and user-centered. Sometimes engineers and investors create things in a vacuum, but it’s very important to be close to your customers and to be held accountable by them.”

Harness the discipline of the market. “NGOs care about their customers and their products, but because they are not getting signals back from those customers, they can sometimes get away with sloppy services if people aren’t paying for them,” said Jim Taylor. “You need to rely on market signals and business principles. Treat people as customers like any other business would. Make yourself easy to do business with, and ensure strong business experience is part of your organization’s DNA.”

Rural Development

At A Glance



Social Enterprise: Hybrid Social Solutions Inc. (HSSI)

Social Entrepreneur(s):
Jim Ayala

Founded:
2010

Sector(s):
Energy, Rural Development

Location(s):
Philippines

Website:
www.hybridsolutions.asia

The Innovation

Develop practical applications for existing technologies by understanding localized conditions and co-developing new product lines with customers.

The Innovation Explained

Distinct from most solar energy businesses, Hybrid Social Solutions Inc. (HSSI) is neither a product manufacturer nor purely a distributor. Instead, it specializes in developing practical new applications for a range of rural user segments by engaging deeply with rural villages in Solar User Forums to understand localized energy poverty challenges and co-develop solar products.

For example, because some rural villagers were using their household solar lamps to drive away fruit bats and wild animals getting into their crops, HSSI introduced solar powered spotlights that enabled farmers to spot pests from up to 50 metres away, which reduced crop losses up to 30%. Fishermen, on the other hand, typically place two kerosene lamps close to the water to attract fish when they go out to sea at night, but the nightly refills of kerosene fuel can cost up to 40% of their revenue. "We found that particular solar lights work well for attracting the fish, provided they have a certain level of brightness and a certain colour spectrum," said Jim Ayala. "So we incorporated this into the design, along with tough weatherization. And for the fishermen, these lamps only require a two-month payback."

HSSI has also created a solar energy network, the Stiftung Solarenergie (Solar Energy Foundation Network for Rural Development) with member organizations in Kenya, Ethiopia and the Philippines. As a bloc, they can negotiate with suppliers to get exclusive distribution rights for certain products in their respective countries. The network's negotiating and sourcing partner is SunTransfer, which works with suppliers to tailor products for rural villages while negotiating the lowest prices. This allows HSSI to maintain its core focus on understanding the needs and operating environments of customers. "It's very time consuming and expensive to figure out which suppliers make the products we are looking for at the quality and price point we want," said Ayala. "We give SunTransfer the technical specifications and they work with suppliers, especially on product modifications."

Lastly, HSSI places significant emphasis on educating customers on how to increase the product lifespan and get the most out of these technologies. "Education is a key component of our service because a lot of users don't use the products correctly," says Jim Ayala. "We set up the solar user forums to be like a game. People come up with troubleshooting techniques based on their own initial experiences and the group with the best idea wins a prize. We make it fun and practical at the same time."

HSSI's livelihood applications have been found to increase the household cash flow of its customers by 25%, while dramatically improving health and safety conditions by eliminating kerosene fumes, fires and accidental ingestion.

Why This Matters

More than 1.5 billion people worldwide are living in regions off the grid. While renewable energy through solar lighting technology is not a new innovation, the trick is to distribute it effectively. "Last mile access" entails far more than simply getting a product from source to destination.

"It's not really about the technology per se, because there are a lot of solar technologies out there," said founder Ayala. "We go and see what people are currently using, what their problems are, and then we figure out how our product line can help them. It's really about how you understand the challenges facing the end users and help them identify their needs."

Practical Advice

Balance geographical expansion with service depth. Have your core model in place, and anticipate some variation along the way in adapting to different community needs. "At the beginning, we went to many places very quickly, but we were not able to properly support the communities," said Ayala. They decided to slow down, go deeper and better develop the model, especially by investing more time to train local partners to support product servicing.

Develop an understanding of the micro-level challenges. "It's not so much the macro issues, but it's lots of little things – the small barriers and discontinuities – that make it very challenging for the poor to have access to the equipment they need." Market access, import issues and poor design or usability can all add up for customers in remote areas.



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About the Research Partners



Schwab Foundation for Social Entrepreneurship

The Schwab Foundation for Social Entrepreneurship provides unparalleled platforms at the regional and global level to highlight and advance leading models of sustainable social innovation. It identifies a select community of social entrepreneurs and engages it in shaping global, regional and industry agendas that improve the state of the world in close collaboration with the other stakeholders of the World Economic Forum.



InSight at Pacific Community Ventures

PCV InSight is a global research and consulting practice focused on key issues in social impact investing. PCV is a U.S. non-profit organization dedicated to driving capital and other resources to vulnerable communities.



The Initiative for Responsible Investment at the Hauser Center for Nonprofit Organizations at Harvard University

The Initiative for Responsible Investment (IRI), a project of the Hauser Center for Nonprofit Organizations at Harvard University, promotes the development of the theory and practice of responsible investment through research, dialogue, and action.



SK Group

SK Group is one of the leading Korean conglomerates, achieving business aspirations in energy and chemical, telecommunications, trading services and semiconductors.



Rockefeller Foundation

The Rockefeller Foundation

This research was made possible through the support of The Rockefeller Foundation. The Rockefeller Foundation aims to achieve equitable growth by expanding opportunity for more people in more places worldwide, and to build resilience by helping them prepare for, withstand, and emerge stronger from acute shocks and chronic stresses.

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