

Open Symposium I: Challenges Confronting Social Entrepreneurs and Social Entrepreneurship Resource Organizations in Asia

Open Symposium I focused on the challenges confronting social entrepreneurs and social entrepreneurship resource organizations in Asia. The symposium discuss the variety of issues and concerns being confronted by social entrepreneurs in Asia- from challenges of scaling up impact in Bangladesh, the challenges and prospects of social entrepreneurship in China, the environment, and the challenges and prospects of promoting social entrepreneurship in Asia. The roles that research and education institutions can play in helping find solutions were tackled. Ms. Mai Añonuevo, Executive Director of Atikha, Philippines, chaired the symposium.

Confronting the Challenge of Scaling Up Social Enterprise Impact: Lessons from Bangladesh by Mr. Safi Khan¹

In the 1970s, relief and rehabilitation approaches were integrated with community development and specific group targeting approaches. Conscientization (Paulo Freire) efforts were done vis-à-vis economic considerations. There were various reactions from different quarters such as the state, elites, and donors regarding these paradigm shifts. NGOs for their part concluded that mobilization was difficult without economic inputs. In the context of scaling-up, BRAC had exemplary experiences, indicating that small is beautiful but big was necessary.

The meaning of scale in Bangladesh is best illustrated by level of reach of Grameen, BRAC, and ASA. As of May 2006, Grameen Bank has 6.3 million borrowers, 17,887 staff, 2,121 branches, serving 67,670 villages, and with over US\$14.9 million in profit. In the same period, BRAC has 3.9 million borrowers, 34,685 staff, 1,172 branches, serving 65,000 villages, 1 million students, 53,230 teachers, and with over US\$231 million in expenditure. As of April 2006, ASA has 4.4 million borrowers, 15,668 staff, 2,373 branches, 65,489 villages, and a surplus of over US\$40 million.

The scaling up in Bangladesh happened within a context of outdated laws and inadequacy regulators in terms of capacity. Still, development efforts operated within legal frameworks such as the Voluntary Welfare Agencies Ordinance in 1961 (case of GSS) and the Foreign Donations Ordinances in 1978 and 1982 (Case of Proshika).

In the field of financing, innovations emerged such as BRAC's world's first securitization of credit receivables, Grameen's Mutual Fund (channeling rural savings into the capital markets), and raising capital through the Carbon Development Mechanism (Kyoto Protocol). Grameen in particular employed quality certifications (five star branches) in keeping with financial and social bottom-lines. A star (green) was accorded to branches with a 100% repayment records, another star (blue) was accorded to branches which are earning profits, and another (violet) was added for having higher

deposits compared to outstanding loans, another (brown) if children of all borrowers are in school or have completed at least primary school, and another (red) if all borrowers cross over the poverty line.

Human resource challenges were also encountered in the course of scaling up and replication. Literacy rates were low largely due to the decline of education standards and pay level. These adversely affected motivation. The said challenges necessitated the piloting of all initiatives or innovations and the breaking down of work into simple and standardized components. Staff empowerment and training were also done in order to decentralize decision making and to enhance interaction with senior management.

Enhancements were also done in monitoring, computerization, and access to financial and audit reports. BRAC in particular established or strengthened its Internal Control, Audit Committee, and Ombudsman.

The growth of NGO commercial activities were regarded as unfair competition by the private sector. The lack of clarity in taxation rules, use of profits, and separation of commercial entities compounded the misunderstanding between NGOs and the private sectors. A legal case was even filed against BRAC bank. Despite these industry challenges, there were successful NGO-private business partnerships such as the IDCOL and Grameenphone.

Future challenges raise the need to work with government (without being compromised or co-opted), to further enhance corporate governance (succession planning, board leadership), and to continue to innovate and self correct.

Challenges and Prospects of Social Entrepreneurship in China by Ms. Grace Poi Chiew, Tan Ngion²

Disparity between the rich and the poor continue to widen in the country, with 26 million people living in absolute poverty. Environmental, education, and health problems continue to worsen.

Social entrepreneurship is an arena not yet fully explored in the country, corporate social responsibility being explored only in recent years. Civil societies were intended to provide services to society and to promote social ideology, specifically to serve as an intermediary between the government and the business sector.

The role of social entrepreneurship was also viewed in the context of reforming, developing, and building a harmonious society, with the need to integrate political democratization, a market-driven economy, and socialist way of living. Social entrepreneurship is also being situated in the context of managing change from total government control to limited government control, from planned economy to market economy.

Social entrepreneurs in China face various challenges, this include concerns on legality of establishment, bureaucratic procedures, and limited human resources. Financial objectives also override other objective, this raised conceptual and principle issues. There is also the challenge of understanding local culture and social realities in China.

In seven years of exploring social enterprise programs in China, there have been successful programs in 220 villages. Partnerships with government agencies at various levels and with the UN agencies were established. Many of the programs were funded by grant making organizations and corporate foundations such as Western Union.

At the forefront of program implementation and partnership building was the Badi Foundation. The foundation was established in Macau in 1990, and a representative office in Beijing was also established recently. The foundation aims to promote human development by setting in motion learning processes that unleash individual and institutional capabilities for the advancement of society. Further, the foundation aims to develop the innate power and capability of people to contribute to a prosperous and harmonious society, the social enterprises established geared towards enabling groups of people working collectively for the betterment and advancement of society.

The Badi Foundation empowers rural people to be independent, to investigate, to learn, and to work together. The foundation sees to it that rural people eventually take sustainable development into their own hands. This was done through the Environmental Action Program which included the Environmental Action Program Foundation Course, Local Facilitator's Course, Sustainable Farming Course, and the Financial Empowerment Course.

There have been successful social entrepreneurs. Some were able to raise their annual income from US\$120 to US\$6200, and some from US\$3000 to US\$12500. Respectively, the foundation is now assisting 6 families to do the same, and for 10 other families to begin their poultry farms.

The foundation has trained local people to facilitate the courses to other people. They have been able to participate in learning and teaching, becoming an active and responsible participant in social and economic development i.e. becoming social entrepreneurs.

In the process of program implementation, women and men, adults and the youth alike were able to participate in the various initiatives and activities. Social interaction became more meaningful, community learning has become part of the culture of rural villages, and cooperation and consultation have become an indispensable tool for village work.

The role of NGOs/civil societies in China is increasingly becoming more significant. As of December 2005, there have been 319,000 civil societies registered with the Civil Affairs. These civil societies will play a major role in mobilizing the

government and corporate sectors to respond to social and development issues. The government will continue to play a major role in rural development in poverty alleviation. In education, the government would need to provide nine (9) years of free education and companies can provide scholarships to poor students. With regards to environment concerns, a group of about 80 companies has established and financed an NGO that seek to resolve environmental problems in northern China. The government will also continue to be at the forefront of health initiatives in cooperation with international NGOs.

Social Entrepreneurship and the Environment **by Ms. Emma Sandrino-Lim³**

Integrating environmental sustainability parallel with the pursuit for social and economic objectives continue to be a major challenge to all sectors -- public, business, and civil society. The Foundation for a Sustainable Society Incorporated (FSSI) has embarked on an eco-system approach even on the onset. Through the years, it has been promoting and implementing eco-enterprise as its development framework that integrates the triple bottom-line of economic viability, social/community participation, and ecological soundness.

Adopting a sub-sector approach, the FSSI triple bottom-line framework is made operational through its various programs. The Coco-Coir Business Integration Program or COCOBIND involves setting-up unified and integrated business model for coir production and processing. The Sustainable Waste Management Eco-Enterprise Program or SWEEP aims to develop environmentally relevant service, commodity, or technology based enterprises that will help address waste management problems. In the Micro-Finance Eco-Enterprise Program or MEEP, FSSI seeks to respond to the low prioritization of environmental objectives over financial sustainability in micro-finance operations. Likewise, other potential sectors and sub-sectors are supported through the emerging sector program aimed at nurturing equally important sub-sectors such as aqua-marine, food processing, and the crafts sub-sector.

In the context of the experiences of FSSI, there are five key challenges that confront the practice of social entrepreneurship and environmental protection, and these are the following:

The first challenge is developing and strengthening capability in environmental assessment and management. While most NGOs are critical of environmentally harmful businesses, most are not ready with alternative technologies that are economically viable and environmentally sound. Subsequently, current human resources of NGOs are not at par with the competencies that alternative solutions may require, considering that such solutions will definitely have a completely different mix of technology, policy, system, monitoring and evaluation, and organizational requirements. It is imperative that NGOs like FSSI acquire the technical knowledge and skills necessary for implementing and assessing projects that are reflective of the triple-bottom line approach.

The second challenge is greening the financials. FSSI play a dual role as intermediary financial institution and as advocate for eco-enterprise development. It recognizes the challenge of creating a fit between investor values and desired social and environmental gains, encouraging investors to take risks and reduce financial paybacks in exchange of social and environmental concerns. Micro-finance institutions are specifically challenged to develop and create new financing windows for environmentally enhancing projects where micro-finance play a supportive and facilitative role such that on renewable energy, ecological sanitation, and clean air initiatives.

The third challenge is finding economically viable solutions to environmental problems. Solutions such as eco-enterprises and new technologies must be able to pay for themselves. Even with clear long-term environmental benefits, social enterprises need to compete in the market place and economic margins become an important consideration. The social and environmental benefits of a social enterprise also need to be translated into value that the market is capable and willing to pay.

The fourth challenge is expanding the “green market” and enhancing eco-labeling. While important tools such as the Life Cycle Analysis and commendable initiatives such as the efforts of the Organic Certification Council of the Philippines have made inroads into mainstream markets, much remains to be seen in terms of increasing the appreciation of the market i.e. willingness to pay for green products (and their associated social and environmental benefits). Experiences indicate that eco-labeling does not immediately translate to positive economic benefits such as premium pricing and increase in market share.

The fifth challenge is monitoring and measuring impacts to the environment. Environmental cost accounting and other environmental indicators offer tools and systems to measure cost and benefits derived from eco-enterprises; however, the long-term value and impact cannot simply be captured in economic form and it is often difficult to attribute impact to a specific intervention. There is need to put in place an alternative system that can effectively and efficiently monitor and measure expected environmental results.

All told, the challenges are enormous but the social and environmental mission are fundamental to social entrepreneurship. Profit and environmental protection can go hand in hand. Environmental sustainability and economic growth need not be a choice for one the other. It still remains that a sound environment is a sound investment.

Challenges and Prospects in Promoting Social Entrepreneurship in Asia by Dr. Pamela Hartigan⁴

Many of the challenges Asian social entrepreneurs face are similar to those faced by their counterparts in other parts of the world. Namely, there are three and they are interrelated:

1. The first is a lack of understanding about what social entrepreneurship is - and what is not;
2. Because of this lack of clarity, there is an absence of a policy environment whereby social entrepreneurship is nurtured and facilitated; and
3. As a consequence, the third challenge relates to the dearth of significant sources of capital to allow successful social enterprises to achieve the necessary scale to have more widespread impact.

While today social entrepreneurship is far from a household term, in the past few years its use has had a meteoric rise. The problem with its rapid spread is that anyone who does anything that has a social component is now calling themselves a “social entrepreneur”. There is nothing wrong with well meaning people striving to be social entrepreneurs but there is a need to balance our desire to be inclusive without being led to think that all social purpose organizations are examples of social entrepreneurship.

Social entrepreneurs are a rare breed. To be one is to have a vision about the way things could be, and to openly question and challenge the way things have always been done. Most importantly, a social entrepreneur has the ability to put that vision into practice and the courage to stick to that vision and infect others with it and make the vision reality against all odds. In sum, social entrepreneurship is about innovation and system change.

The lack of understanding about the particular nature of social entrepreneurship leads to the second challenge - the dearth of policy frameworks to nurture and facilitate the work done by social entrepreneurs.

The global study done by Schwab in partnership with Linklater found out that no country has a specific coherent legal model developed for the establishment of social enterprises. There is no commonly recognized model of social entrepreneurship as a hybrid between a charity and a profit-maximizing company. As a result, social entrepreneurs must maneuver through a tangled web of legal regulations to identify what benefits/obligations exist in relation to their enterprise.

The study also indicated that the burden of regulations and bureaucracy is excessive and multiple, government bodies at all levels demand reports, and employment legislation is particularly onerous. Social entrepreneurs are also poorly informed about their respective countries’ regime and the benefits they could apply for.

Access to capital is a major issue across countries. Social entrepreneurs are acutely aware of the problem of the “missing middle” - the gap between traditional funding of non-profit ventures through grants and in some cases, debt, and the financing of for-profit ventures through financial capital markets. Social entrepreneurs find themselves trying to bridge the gap - but too many end-up falling into the chasm.

Although it remains a challenge, funds are available to launch and operate social enterprises on a small scale for their start up period. Most social entrepreneurs find that they are able to raise initial, launch funding, but lack access to expansion capital that does not seek a full, market-rate adjusted return on investment.

What makes for success in traditional business development is access to funds that allow the firm to grow and take chances. This same capital is equally necessary to a thriving social enterprise. Neither for-profit nor non-profit social enterprises are able to secure adequate capital to enable them to move from start-up to a second stage or mezzanine level development. The appropriate form of *expansion* stage capital simply does not exist at any scale, regardless of where the enterprise is located.

What lies at the foot of this impasse is the tendency to in all countries and regions, Asia included, dichotomize financial and social value. That is, where you make money and where you “do good” are worlds apart. This mind-set impedes expansion of social ventures.

This predicament is clearly illustrated by the experiences of Hagar, a social enterprise that has soya, catering, and design as its core businesses and serves marginalized women and children in Cambodia. Like all social entrepreneurs across Asia and the world, Hagar is confronted by the challenge of raising capital for expansion. Hagar is constrained from borrowing the capital it needs to grow because no lender wants to extend credit for its growing management team and launch costs in other areas. Investors are risk averse, and venture capitalists and other traditional suppliers of equity are not interested at all in the social venture because there is no chance for a 35%+ annual compound rate of return for the risk they would be taking. While Hagar continues to look for expansion stage capital, a greater number of Cambodian women do not get the benefit of Hagar’s approach. Hagar’s story is the same for many high-performing social enterprises in Asia and around the world.

The responses from Asian countries to the question “How easy is it to obtain a bank loan from your country to start or expand a business venture?” reinforce the case of social ventures seeking funding for expansion. The ranking ranged from a score of 1 which is “impossible” to a score of 7 which is “easy”. Hong Kong topped the list at (still) 5.4 and China was at the bottom at 2.4. Other countries like Taiwan, Pakistan, and the Philippines figured in between.

What about the government’s role in stimulating and providing capital for social ventures? There two aspects to this question. The first has to do with the importance of governments in recognizing the particular role that social entrepreneurs exercise in a society. The second follows on the first and focuses on how governmental regulations, policies, and tax codes have a significant effect upon the degree to which market forces are allowed to work for social ventures.

Governments are confusing many social entrepreneurs and their organizations with subcontractors that can provide a public service that the government no longer can provide or cannot do as effective a job. This defeats the role of social entrepreneurs as

innovators. In a similar context, governments being a major source of funds for social welfare projects do not appreciate the role of social entrepreneurs as social innovators, effectively lessening the rise of innovative solutions needed to solve massive social problems.

Regulatory frameworks and bureaucratic hoops are particularly onerous for the social entrepreneur. Social enterprises continue to be taxed by the government as if they were any business enterprise. But how can Hagar Soya, for example, be taxed at a comparable rate to Nestle? Or why should Cabbages and Condoms (innovative restaurant with focus on HIV and STI prevention) be taxed at a rate comparable to McDonald's? Caught between hefty tax rates and the tax relief that non-profit organizations affords, social entrepreneurs have opted to be constituted legally as trusts or charities, consequently decreasing their ability to access funds from capital markets and investors.

The challenge of raising awareness within the public sector is paramount if social entrepreneurship is to be nurtured and its benefits disseminated to those in need of its innovative approaches.

The modern corporation of today has empowered individual genius and bestowed great social benefits, yet it has also done social harm. Many of the ills of modern life can be traced to corporate lack of responsibility to one or more constituencies. To achieve profits in the short term, corporations exact a "social and environmental price" that is high and rising.

The key to sustainable capitalism is reasonable profits as opposed to maximizing profits. Fortunately, a greater number of investors are waking up to the reality that it is possible to balance social and financial returns. The growth of social equity funds and the sustained implementation of corporate social responsibility initiatives attest to this.

Social entrepreneurs could effectively tap capital markets with a few simple new policy incentives that explicitly recognize social venture contributions to the public and private good. With social entrepreneurs who can show how to uphold social and environmental goals without eschewing financial stability, Asia has an opportunity to lead the way in balancing the three aspects of social, environmental, and economic development.

Open Forum

On social entrepreneurs as individuals vis-à-vis as a team - (In contrast to the social entrepreneur described as an individual, social entrepreneurship students in AIM are taught to build their social enterprise team; that is, successful social enterprises are usually composed of a visionary, a team of managers, and dealers.)

Dr. Hartigan remarked that questions like this are commonly asked by cultures where the individual is seen as less important than the collective. In her opinion, it takes an individual and not an institution to make change happen. She stressed that a team is critically important, and the visionary is needed most of all. However, she noted that there are certain individuals like Pierre Tami who are ready to take risks than others. Dr. Hartigan believes that being a social entrepreneur is not just taught, but is also in the genetic make-up of some individuals. This is not to say that they don't need teams.

In addition, she said that it is just as important to support social entrepreneur as to be a social entrepreneur. They require to be trained because they need to learn the skills.

On the political situation in China in 2008 - (It was observed that in the last 18 months more and more Chinese organizations engaged in the grassroots are emerging in comparison to those from the quasi-government NGOs. There may be changes in the political space particularly because the Olympics will be held in China in 2008. The question is in relation to the opening of Ashoka office in China shortly after the Olympics.)

Ms. Tan noted that the upcoming Olympics have triggered a wealth of volunteerism, adding that the Olympics seem to be a blessing to China because the government is inclined to see things differently.

Recently, the government realized they need to have more NGOs working with them. The NGOs are also foreseen as partners in bringing in funds for the poverty alleviation sector, which has been becoming scarce since several international organizations have left since last year. Ms. Tan stressed the possibility that several legislative changes will be introduced in the next two years. For instance, there's a new law that will come out in July that will allow foreign-funded NGOs in China.

Ms. Tan opined that the Chinese government is doing its best, but it is undergoing extreme difficulty in managing China considering that it is a very huge country with most of its people living in the rural areas. The Chinese government acknowledges this and is in fact turning its attention to rural development in the next five years, such that they have stopped infrastructure projects in the city to reallocate funds to development in the countryside.

On FSSI funding intermediaries for organic producers - (Two years ago, PhilRice conducted a commodity subsystems analysis for organic rice and found out that there are three programs necessary for commodity subsystems: 1) productivity investment, 2) integrity assurance, and 3) market linkage. They also found out that although PhilRice fund production, intermediaries have to be funded also.)

Ms. Sandrino-Lim explained that FSSI has adopted the sub-sector approach, and therefore their assistance extends from production to market linkage. In terms of

organic rice, one of their social enterprises has been mainstreaming organic rice in terms of market linkaging. According to her, they have been channelling support through the OCCP (authorized by the Department of Trade and Industry to issue the certification).

On the frequency and impact of natural disasters in Bangladesh – (In his presentation, Mr. Khan mentioned the reservation of a certain amount of profit for rehabilitation programs.)

Mr. Khan remarked that Bangladesh is famous for several things, including: micro-credit and flood. The concept is really very new, and these funds are useful for when you have major disasters. For instance in 2004 when there was a severe flooding in the country for a very long period. Many credit operations were suspended, and many people lost their livelihood. This rehabilitation fund can be put to use to re-activate economic activities.

¹ **Mr. Safi Khan** finished his MBA at the Victoria University of Technology in Melbourne, Australia and is now a Part-Time Faculty of BRAC University among other things. He has been Resource Person in workshops concerning Governance and his articles have been published in the Daily Star and the Grameen Poverty Research Journal. Since 1998, he has been the Bangladesh Country Representative of Ashoka Innovators for the Public, an organization that supports local entrepreneurs in over 50 countries, and is the Founder and Executive Director of Jamil-Sarwar Trust.

² **Ms. Grace Poi Chiew, Tan Ngion** is the Chief Representative for China of the Badi Foundation in Beijing. Ms. Tan is a Certified Accountant by education who, through her work with the Badi Foundation, developed its social enterprise program for the poor rural areas in Northwestern China.

³ **Ms. Emma Sandrino-Lim** managed the CIDA-funded Philippine Development Assistance Program in 1993-1998. Afterwards, she became Program Manager of the Federation of People's Sustainable Development Cooperatives. She is now the Executive Director of the Foundation for Sustainable Society, Inc. (FSSI) in the Philippines.

⁴ **Dr. Pamela Hartigan** is the first Executive Director responsible for shaping the strategy and operations of The Schwab Foundation for Social Entrepreneurship in Geneva, an organization that puts forward exemplary social entrepreneurs, and build networks between these social entrepreneurs and companies and investors that seek to support them. She is also an Adjunct Professor at Swinburne University in Social Entrepreneurship in Melbourne, Australia, a Visiting Fellow at the Center for Public Leadership at Harvard University as well as a Visiting Professor at the Instituto de Empresa in Madrid. She is currently co-authoring a book on social entrepreneurship that will be published in 2007.