

# Supporting Market Solutions to Inclusive Growth:

The Case for Public Stewardship of the Social  
Enterprise Sector

August 2016

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# Introduction



- Need innovation to achieve access to quality basic services for all
- Large and growing non-state sector, including social enterprises

**Social enterprises (SEs)**  
***Social-mission-led organizations that provide sustainable services to BoP populations***

- High degrees of trust and perceptions of quality
- Advantages in quality, affordability, and equity
- Creation of local capacity

# Defining the research question

## Why should the government support & work with the SE sector to help improve service delivery to the BoP?

- Opportunity for government engagement
  - Recognize & support SEs as partners in a shared mission to improve service delivery for the poor
  - Shape & steward the SE sector to reach its untapped potential and to achieve government objectives for service delivery

# Methodology

## A three step methodology was used to triangulate findings

Approach	Methodology	Purpose
<b>1. Comprehensive literature review</b>	<ul style="list-style-type: none"><li>Resources, reports, frameworks, case studies, and evaluations from IOs, MLOs, NGOs, think tanks, research institutes, SE support organizations, academic publications, government institutions</li></ul>	<ul style="list-style-type: none"><li>To identify key rationales for government support to the SE sector</li><li>To identify existing data and evidence on the scale, scope, and impact of SEs</li><li>To identify gaps in existing data &amp; evidence</li></ul>
<b>2. Data collection &amp; analysis from CHMI, CEI and WB SE database</b>	<ul style="list-style-type: none"><li>R4D's Center for Health Market Innovations and Center for Education Innovations database provided:<ul style="list-style-type: none"><li>➤ Additional data on the nature of the SE sector</li><li>➤ Impact evaluations and promising models</li></ul></li></ul>	<ul style="list-style-type: none"><li>To confirm findings surfaced through literature review</li><li>To fill data gaps in the literature review where possible</li></ul>
<b>3. Key informant interviews</b>	<ul style="list-style-type: none"><li>Interviews with a number of policymakers and government representatives from different countries</li><li>Focus on gleaning policymakers' perspectives on rationales for supporting the SE sector</li></ul>	<ul style="list-style-type: none"><li>To supplement some of the gaps in the existing literature</li><li>To ensure that the perspectives of policymakers were incorporated</li></ul>

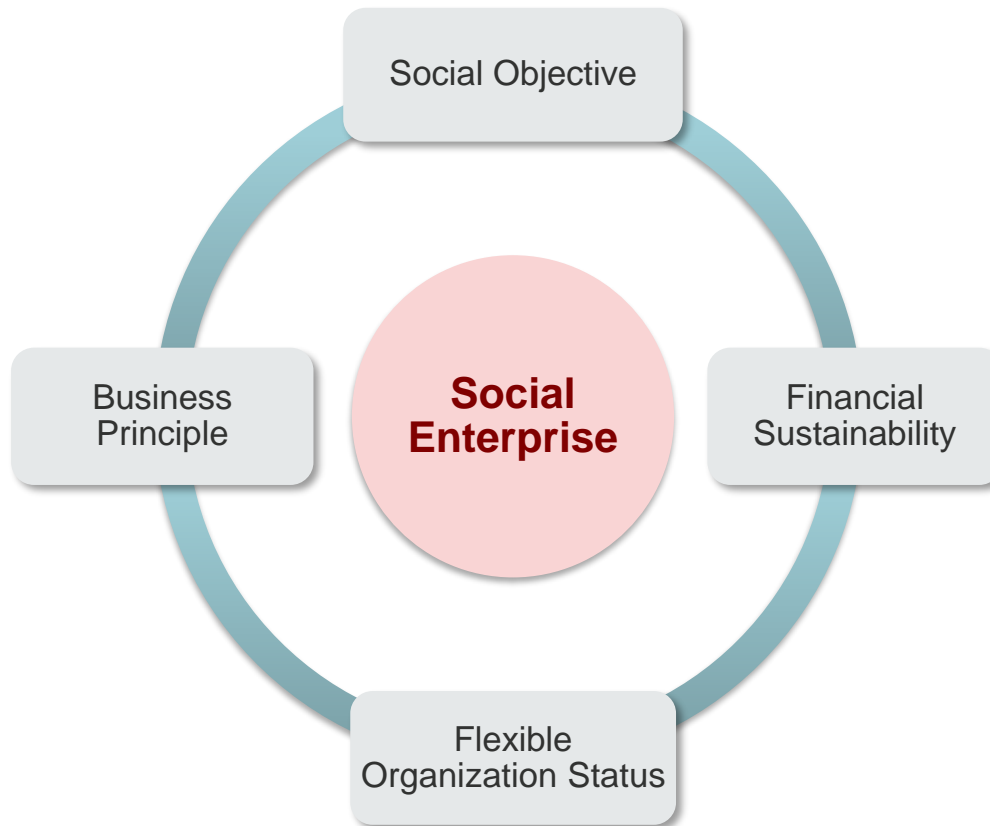
# The private sector\* is a key player in service provision

- Rapid growth of **low-cost private schools** serving the poor in India, Pakistan, Nigeria, and Ghana
- More than 50% of total health expenditures are **private out-of-pocket transactions** in at least 19 countries in Asia and 15 countries in Africa (including Bangladesh, China, India, Nigeria, and Pakistan).
- Private markets of this size are unlikely to disappear in the near future.

\* The private sector is defined as any services or products not entirely publicly or government provided.  
This includes, but is not limited to, social enterprises.



Social enterprises are a recent component of the private sector landscape with unique characteristics.

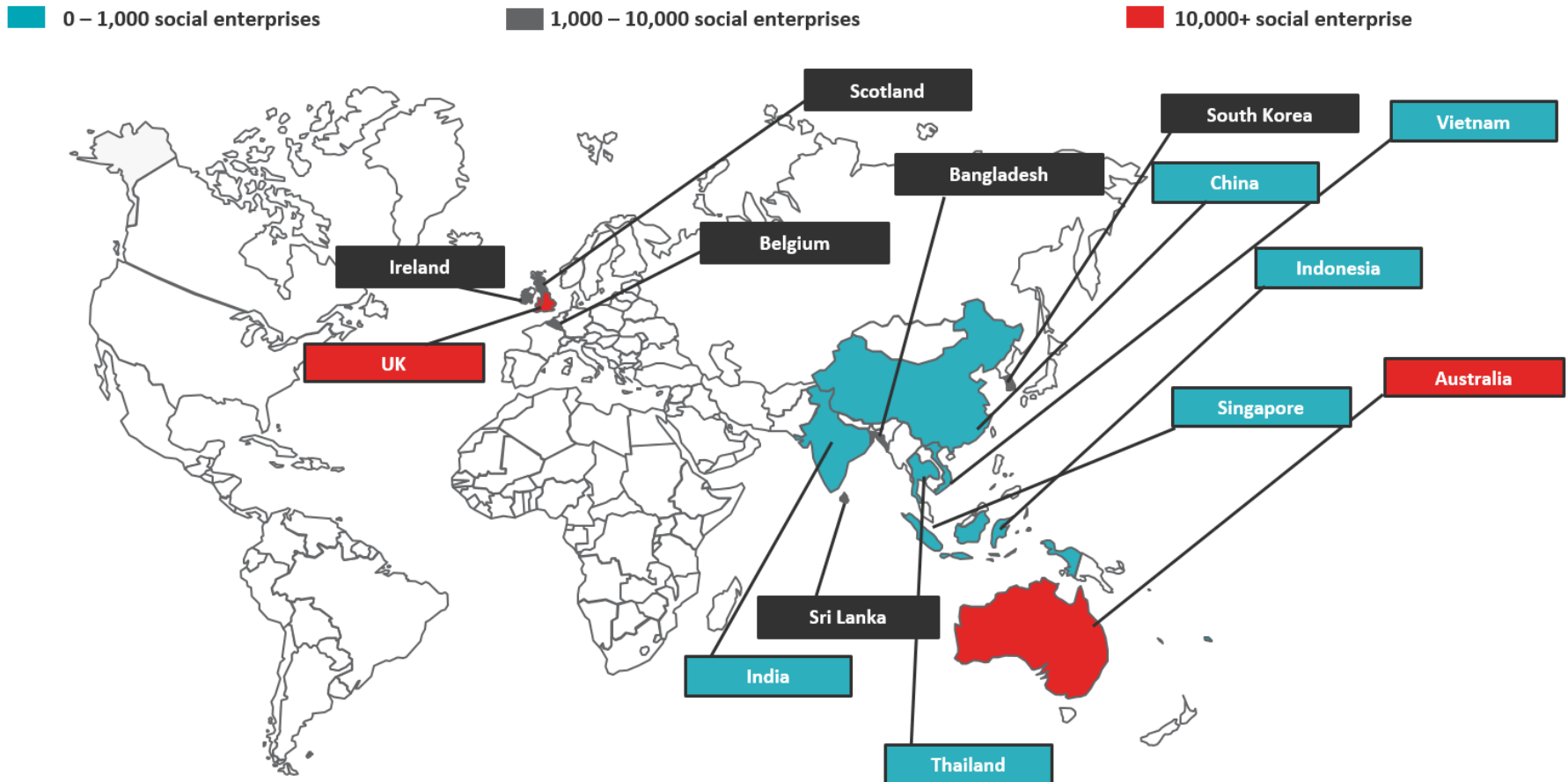


# The social enterprise sector has grown rapidly over the past decade.

- Many **LMIC countries** have increasingly thriving SE sectors: India, Kenya, Uganda, Colombia, Chile, Brazil, Indonesia, Thailand, Vietnam
- Data on the size of the **impact investing sector** reflects the increasing number of SEs worldwide.
  - USD \$9.3 billion invested in East Africa
  - USD \$6.8 billion invested in West Africa
  - USD \$1.6 billion invested in India
- The sector remains **relatively new**.
  - 46% of SEs in India have been active for <2 years
  - Approx. 60% of SEs in East Africa existed for <5 years



# Social enterprises by the numbers



## Sources:

**Australia:** Barraket et al. (2010)

**Bangladesh:** ADB (2011)

**Belgium:** Huysentruyt et al. (2014)

**China:** Lane (2012)

**India:** Yulius et al. (2015)

**Indonesia:** Yulius et al. (2015)

**Ireland:** Forfas (2013)

**Singapore:** Prakash and Tan (2014)

**Scotland:** Social Value Lab (2015)

**South Korea:** Korea Social Enterprise Promotion Agency website (2016)

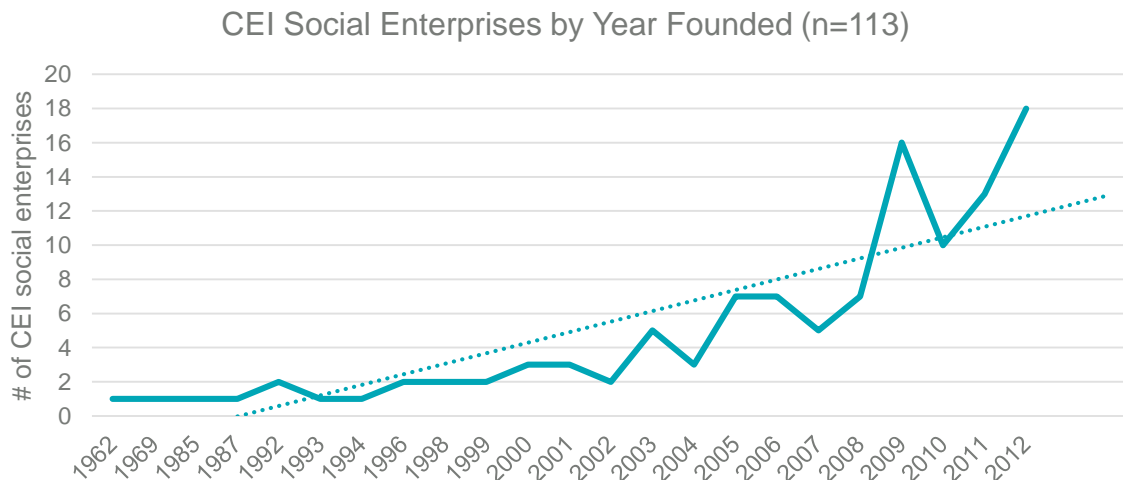
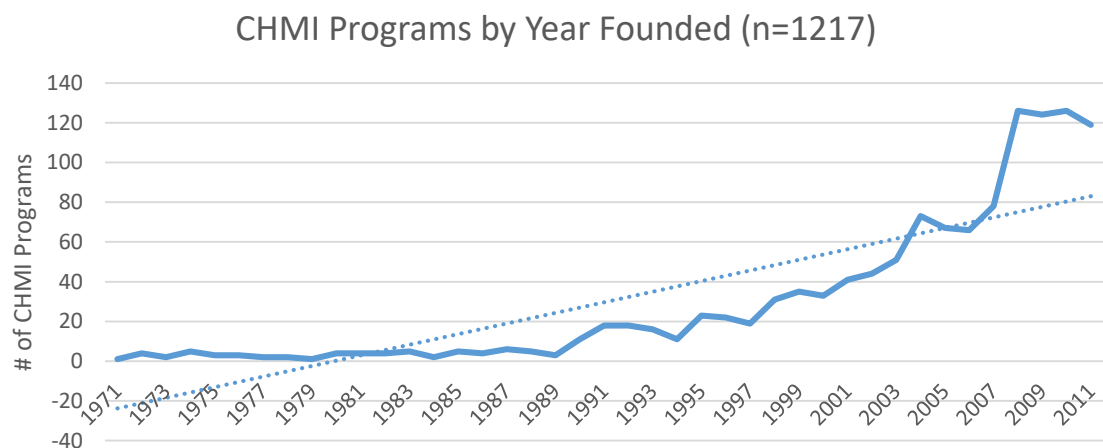
**Sri Lanka:** Social Enterprise Lanka website (Accessed 2016)

**Thailand:** Yulius et al. (2015)

**Vietnam:** Nguyen et al. (2012)

**UK:** SEUK (2015)

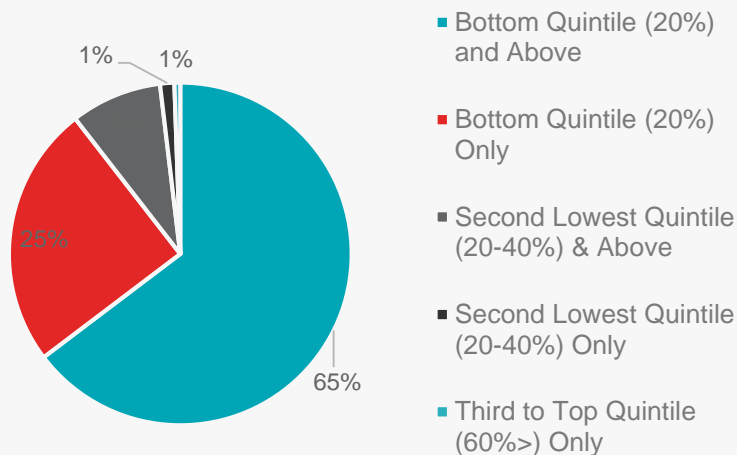
# The social enterprise sector in LMICs has grown over time.



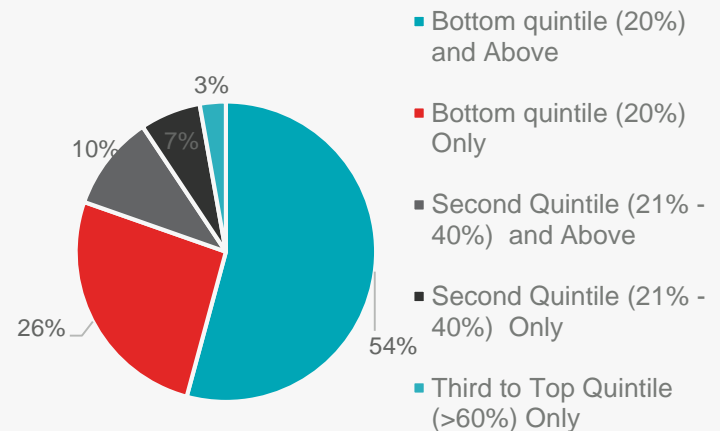
# Social enterprises are showing promise in reaching the BoP

Self-reported data from CHMI & CEI SEs on the income quintiles of their target markets show 90% of CHMI SEs serve the BoP and 80% of CEI SEs serve the BoP

% of CHMI Programs  
Serving Each Wealth Quintile



% of CEI Social Enterprises  
Serving Each Wealth Quintile



# The Government Imperative for Stewardship

- Stewardship is a term used to mean the *market shaping, supporting, and in some cases, regulatory role that governments can play vis-à-vis social enterprises.*
- By playing a stewardship role, governments can:
  - better harness the untapped potential of social enterprises to *align with national development priorities*
  - fulfill service delivery objectives
  - promote progress on the SDGs.
- Without government stewardship, the social enterprise sector may:
  - continue to remain fragmented
  - Make limited contributions to service delivery at scale
  - Experience *potential misalignment with government's long term development objectives.*

# Key Rationales for Government Support:

**Ultimate development objectives of governments in engaging and supporting social enterprises are likely to be different over time.**

## i. Filling access gaps

Harnessing the untapped capacity of social enterprises to deliver services to BoP quickly to rapidly increase access to priority services needed to achieve national development targets

## ii. Improving quality, affordability, and inclusiveness

Utilizing social enterprises to improve the overall quality, affordability, and equity of service delivery through contracting or other government financing mechanisms.

Increasing sustainable employment opportunities within the BoP

## iii. Alignment and Integration

Aligning social enterprises with government priorities.

Harnessing innovative business models for use within the public sector delivery system.

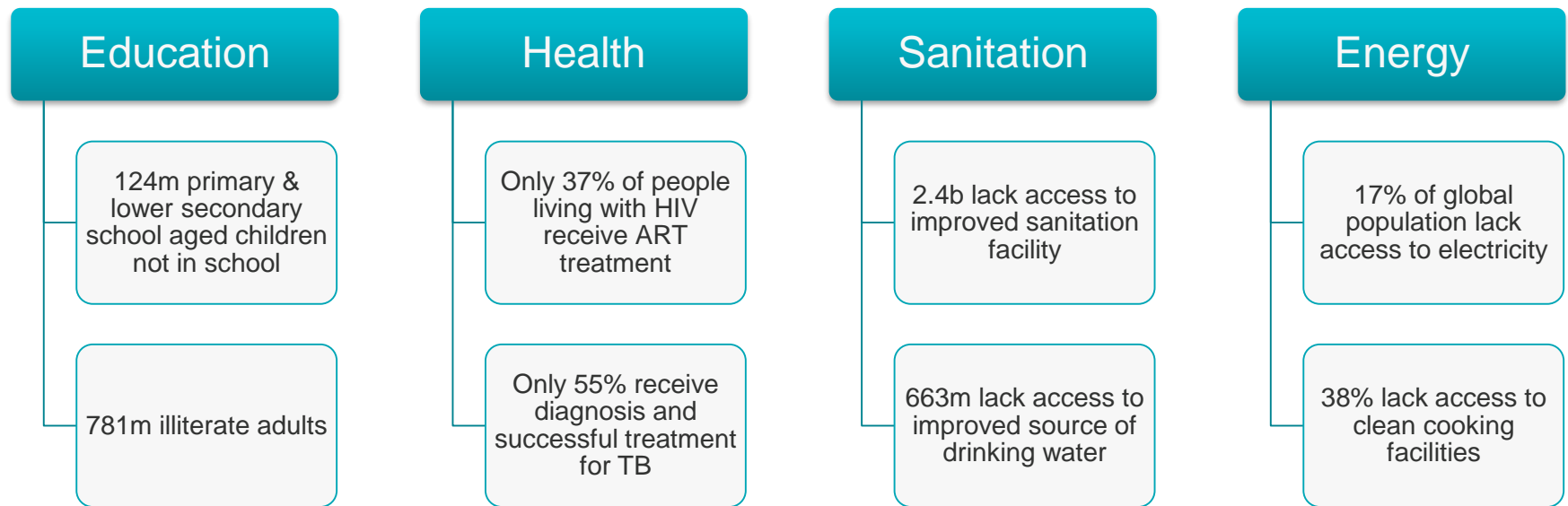
Public good development for public good services to the most marginalized groups, delivered through social enterprises and financed by government.

Can generate positive macroeconomic returns.

# Rationale I. Filling access gaps

## What key challenges do policy makers face in this area?

- Global service delivery gaps exist.
  - 4 billion BoP with no access to quality, affordable basic services
  - 400 million not receiving at least one of seven essential services under the previous MDG areas



# Rationale I. Filling access gaps

## How can social enterprises help?

### 1 Supplement service delivery across a range of sectors

- Social enterprises are rapidly emerging to **respond to persistent gaps** in service delivery across sectors.
- Governments can leverage social enterprises' **existing infrastructure and expertise**.

#### Education

- 73,000 affordable private schools across India's 542m young people.
- The private sector is the main provider of preschool education in 4 poor peri-urban areas of Sub-Saharan Africa.

#### Health

- 69% of rural and 61% of urban population in India are choosing privately delivered healthcare.
- Private health expenditure in Kenya expected to account for 75% of total expenditure by 2025.

# Rationale I. Filling access gaps

## How can social enterprises help?

2

### Provide opportunities for cost-efficiencies

- **BMIs** generated by SEs often create process innovations that lead to greater efficiency and/or lowered costs.
- SEs may be more likely to mitigate opportunistic behavior, **manage overhead and administrative costs** more effectively, and use appropriate technologies to improve efficiency.
- SEs may be more likely to use **technology** to generate efficiencies.

#### Gyan Shala

- Serves 80,000 children in informal settlements at roughly a quarter of the cost of a government school with better learning outcomes.

#### Operation ASHA

- Reached over 6m people through TB treatment centers with cost of treatment “19 times less than the nearest competitor”



# Rationale I. Filling access gaps

## Why is there a need for government stewardship?

- Reduce **barriers to entry & growth** for social enterprise markets
- Improve **overall business environment**
  - Physical infrastructure, transportation costs, power and water, internet connectivity
  - Access to finance, retaining capital, achieving economies of scale, creating recognizable and trusted brands

# Rationale II. Improving quality, affordability, and inclusiveness

## What key challenges do policy makers face in this area?

### Education

- 250m children not learning the basics in reading and mathematics.
- Education expenditure as a proportion of income and monthly expenditure is higher for bottom economic quintile than for the top quintile in Kasoa, Ghana.

### Health

- The richest quintile are 4.8 times more likely to have skilled assistance at delivery, 4.4 times more likely to access antenatal care, 2.3 times more likely for children to have received all basic vaccinations.

### WASH

- Toilet coverage is lower and sanitation products costs are higher due to distance and transportation costs in provinces with higher poverty in Vietnam.

### Gender

- Women and girls are often disproportionately excluded from basic services.
- 31 out of 58m primary school aged out-of-school children are girls.

# Rationale II. Improving quality, affordability, and inclusiveness

## How can social enterprises help?

1

### Provide higher quality services

Type	SE	Description	Quality improvements
Stand-alone	Bridge International Academies (Kenya)	For-profit private school chain	<ul style="list-style-type: none"><li>Bridge students gained equivalent of 252 more days of reading education and 288 more days of mathematics education than peers in neighboring public schools over course of 26 months.</li></ul>
Work within or alongside public service	Ilm on Wheels (Pakistan)	Use satellite equipped van to deliver technology capability directly to public schools	<ul style="list-style-type: none"><li>Treatment students scored 3 times higher than the control group in numeracy exam.</li><li>Costs of intervention was low at US \$14 per child per year, 10% of public school costs.</li></ul>
Enhance the quality of existing private providers	World Health Partners (India)	Links existing health providers to a network	<ul style="list-style-type: none"><li>50% reduction in childhood pneumonia and diarrhea cases; 860% increase in registered tuberculosis patients on treatment.</li></ul>
Lead to quality improvements in overall market	Living Goods and BRAC (Uganda)	Introduced malarial medication into the Ugandan market	<ul style="list-style-type: none"><li>Reduced the likelihood of incumbent outlets selling fake drugs, and reduced the overall share of fakes in the market by 50%.</li></ul>

# Rationale II. Improving quality, affordability, and inclusiveness

## How can social enterprises help?

2

### Enhanced affordability

#### Education

- PEAS schools: chain of low-cost secondary schools in Uganda and Zambia; costs parents 72% of a government school
- Omega Schools: low-cost school chain in Ghana; charges an all-inclusive fee the same cost as informal fees associated with public schools

#### Health

- Lifespring Hospital Chain in India: reduced cost for a doctor-attended, regular delivery to 20-35% of private hospitals
- SalaUno: low-cost eye care chain in Mexico; provides eye care surgeries at 60% lower cost than competitors

#### WASH

- East Meets West Foundation: decreased WASH connection fees from \$47-117 to \$14-38 per household.

#### Energy

- Envirofit's clean cook stoves saved households more than \$96m in fuel costs and saved 18.2m working weeks.
- ILUMEXICO saves customers an average of 18% of total monthly income by displacing other energy sources with solar solutions.

# Rationale II. Improving quality, affordability, and inclusiveness

## How can social enterprises help?

3

### Increased flexibility to meet consumer needs

#### Business model innovations

- “Hub and spoke” approaches allow services to be brought closer to end-users.
- Utilize mobile forms of delivery
- Have natural incentives to be demand-driven to be sustainable, developing products & services that consumers actually want

#### Vehicle for behavior change

- Social marketing
- Medical camps, information campaigns, creation of financial incentives, interactive community engagement
- Partner with local NGOs to build trust and engage in behavior change

#### Ability to reach marginalized groups

- Well-placed to deliver services to marginalized groups requiring specialized services or increased attention
- 47% of CEI SEs report targeting at least one marginalized group (ethnic minorities, linguistic minorities, individuals with disabilities, etc.)

# Rationale II. Improving quality, affordability, and inclusiveness

## How can social enterprises help?

4

### Positively impact the BoP across the value-chain

#### Disadvantaged groups

- 59% of UK SEs surveyed in 2015 employ at least one person who is disadvantaged in the labor market. For 16% of SEs, this group forms at least half of all employees (SEUK 2015).
- 51% of surveyed SEs in India strive to create employment in underserved areas, and 32% seek to improve the livelihoods of low-income producers (Intellectap 2012).

#### Female leadership

- SEs in UK are more likely to be **led by women** than mainstream business – 38% of respondents had a female chief executive, compared with 19% of SMEs (SEUK 2013).
- 50% of SEs in Ghana founded or co-founded by women (Darko 2015).

#### Self-efficiency and economic empowerment

- 90% of people employed by SEs in the US surveyed **received job training**; 56% **retained job** a year later; employees saw a 268% **increase in income** and a threefold **increase in housing stability** (Maxwell 2015).

# Rationale II. Improving quality, affordability, and inclusiveness

## Why is there a need for government stewardship?

- Government financing can provide the necessary support and risk cover for SEs to **better reach the BoP**.
  - Many SEs choose to serve customers at the market segment just above the BoP in order to become more financially sustainable.
- Governments can support the development and enforcement of **quality standards** for the private market, including social enterprises.
  - A lack of quality measure lessens the trust in social enterprise providers and many face challenges in building brand recognition.
- SEs require **additional and differentiated support** from mainstream business due to the particular difficulties they face:
  - Limited access to appropriate capital
  - Volatile markets
  - Legal and regulatory constraints

## Rationale III. Alignment and Integration

### What key challenges do policy makers face in this area?

- Pressing need to catalyze **additional sources of finance** and to leverage government spending on social services
- Increasing need to seek out opportunities for **innovation**
- Invest in **financially sustainable** initiatives
- **Scaling services** especially for the BoP continue to be a challenge
- **Macro-level challenges**: rising unemployment rates, growing youth bulge, and stagnating economies



# Rationale III. Alignment and Integration

## How can social enterprises help?

1

Leverage financial resources to make public spending go further

- Financial sustainability built into SEs' models
- SEs have strong potential to leverage additional financing

- The Shell Foundation has invested \$207m in 274 SEs since its inception. Its non-profit partners have leveraged a total of \$4.87b, and its for-profit partners have leveraged \$684m (Shell Foundation 2015).
- WaterHealth Centres provide access to affordable clean water in peri-urban areas at a cost of 0.20 cents per 20 liters. An early stage equity investment by the IFC of 1.2 million in 2004 has resulted in over \$29 million in external equity financing, a \$15 million loan investment in 2009, and a follow-on \$5 million equity investment in 2010 from IFC's Infrastructure Department (IFC 2011).

# Rationale III. Alignment and Integration

## How can social enterprises help?

2

Develop new business model innovations that can be incorporated or scaled through public systems

Government	Social Enterprise	Description
Liberia	Last Mile Health Bridge International Academy	• Partner to incorporate the SEs' models into fifty public schools and in the national community health worker program
Kenya	Jacaranda Health	• Partner to adapt the SE's quality improvement approach in the public sector
India	GVK EMRI	• Partner to provide ambulance services through a public-private partnership model
Colombia	Escuela Nueva	• Adopted as national Colombian education policy

# Rationale III. Alignment and Integration

## How can social enterprises help?

### 3 Create opportunities for investment in long-term social impact

- By investing in SEs for long-term social impact, governments over time can reduce the need for spending on social benefit programs over the long term.
- Many SEs generate positive social returns with regards to the environment.

Social Enterprise	Country	Social Impact
M-KOPA Solar	Uganda Kenya Tanzania	<ul style="list-style-type: none"><li>• Introduced a pay-as-you-go solar system for off-grid households</li><li>• Impacted many other enterprises to utilize this approach</li></ul>
Eco-Fuel Africa	Sub-Saharan Africa	<ul style="list-style-type: none"><li>• 500,000 acres of forests saved in averted deforestation.</li><li>• About 127,650 tons of CO2 mitigated every year.</li></ul>
Sanergy	Africa	<ul style="list-style-type: none"><li>• 8,571 metric tons of waste safely removed from the community and safely treated</li><li>• 744 jobs created</li></ul>
Pivot	Rwanda	<ul style="list-style-type: none"><li>• The average size factory treats the waste of 1M people per year, produces 14,000 tons of green fuel, and eliminates over 23,000 tons of CO2</li></ul>

# Rationale III. Alignment and Integration

## How can social enterprises help?

4

### Generate additional socio-economic returns

#### Job creation

- Bridge International Academies directly employs 3,000 people with all teachers living in the communities where schools are located.
- The Citizens Foundation employs more than 10,000 people, including 7,700 female teachers.
- 41% of UK SEs surveyed in 2015 created jobs in the past 12 months compared to 22% of SMEs.

#### Cost savings from unemployment

- In Manitoba, Canada, the social enterprise sector contributed \$211 and \$264 million each year in saved costs associated with unemployment (by providing stable employment to those typically excluded from the labor **market**).

#### Contributions to GDP

- SEs in Ireland generate approximately €240 million in revenue, spend €230 million and employ over 9,300 people directly and support a further 5,100 indirectly.
- SEs account for 3.5% of GDP in the U.S., and 10% in France. In South Korea the social economy accounts for 3% of GDP and in Kenya, cooperatives account for 45% of GDP.

#### Revitalize local communities

- SEs are often embedded in local communities and utilize local populations in their employment.
- SEs can build capacity, mobilize local markets, and increase competitiveness of local economies.
- SEs can promote local capacity building by including local populations in their service supply chain.

## Rationale III. Alignment and Integration

### Why is there a need for government stewardship?

- Social enterprises in many countries have grown and proliferated as individual entities; they have not done so as a cohesive sector tightly **integrated with public sector delivery** and government policy.
- SEs may end up focusing on problems that are not **aligned with government priorities**
- Opportunity to **scale promising BMIs** through the public sector

# Summary of Key Rationales

	Filling access gaps	Improving quality, affordability, inclusiveness	Alignment and integration: building a cohesive system
<b>What challenges do policy makers face?</b>	<ul style="list-style-type: none"> <li>Ongoing service delivery gaps, particularly for the BoP</li> </ul>	<ul style="list-style-type: none"> <li>Low-quality, unaffordable, or inequitable services, particularly for the BoP</li> </ul>	<ul style="list-style-type: none"> <li>Funding gaps</li> <li>Need for greater innovation</li> <li>Scaling services for the BoP</li> </ul>
<b>How can social enterprises help?</b>	<ul style="list-style-type: none"> <li>Address immediate service delivery gaps across sectors in a cost-efficient way</li> </ul>	<ul style="list-style-type: none"> <li>Improve quality</li> <li>Enhance affordability</li> <li>Flexibility to better meet the needs</li> <li>Promote inclusive business</li> </ul>	<ul style="list-style-type: none"> <li>Leverage additional resources</li> <li>Develop new BMIs</li> <li>Long-term social impact</li> <li>Macro-level returns</li> </ul>
<b>Why is there a need for government stewardship?</b>	<ul style="list-style-type: none"> <li>High barriers to entry in market and obstacles for growth</li> </ul>	<ul style="list-style-type: none"> <li>Financial struggles</li> <li>Lack of quality standards</li> <li>Additional obstacles from mainstream business</li> </ul>	<ul style="list-style-type: none"> <li>Proliferate as individual entities in an ad-hoc way that is not integrated with public sector delivery</li> </ul>
<b>How can governments provide support?</b>	<ul style="list-style-type: none"> <li>Accreditation, legal status</li> <li>Overall business environment</li> <li>Consumer education and awareness</li> </ul>	<ul style="list-style-type: none"> <li>Finance at early-stages</li> <li>Quality standards</li> <li>Incentives and platforms</li> <li>Support intermediaries</li> <li>Improve regulatory environment</li> </ul>	<ul style="list-style-type: none"> <li>Hackathons, incubators, challenge funds</li> <li>Work with intermediaries</li> <li>Contracting and financing mechanisms</li> </ul>

# Implications

## **Agenda to advance policy dialogue on the social enterprise sector**

- Standardize definitions
- Invest in data collection and management
- Analyze comparative countries' social enterprise sectors
- Develop objectives and a results framework
- Identify local intermediaries or industry facilitators

# Annex: Examples of existing government support

## Improving policy and regulations

- Incorporating SEs into policy agendas
- Creating government agencies dedicated to SEs
- Creating a specific legal form for SEs
- Providing tax incentives
- Establishing public-private partnerships and public procurement

## Access to financing

- Grant funds: government grants, guarantee funds, government bonds
- Commercial funds: impact investment funds, impact investing incentives
- Consumer finance: end user subsidies, conditional cash transfers

## Capacity building and human capital

- PPP for infrastructure development
- Business advisory services (incubators, accelerators, co-working spaces)
- Entrepreneurship skills training

## Information and networks

- National networks such as SEUK, KoSEA, TSEO raise awareness and run campaigns for the SE sector.
- Research and knowledge sharing
- Advocacy