

## CHAPTER

# 1

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# SOCIAL ENTREPRENEURSHIP

### INTRODUCTION

Social entrepreneurship – born out of the cooperative movement that began in nineteenth-century Europe – gained traction in the 1980s and 1990s with the emergence of the social innovation and social enterprise schools of thought and practice. However, the principles of social entrepreneurship have guided the actions of philanthropists, including those who are now called venture philanthropists, for centuries.

William Drayton, the founder of Ashoka: Innovators of the Public, a non-profit organization that fosters social entrepreneurship, is largely responsible for the popularization of the term social entrepreneur and is a prominent contributor to and proponent of the social innovation school of thought. Established in 1980, Ashoka is committed to mitigating income inequality through social entrepreneurship and supporting local social entrepreneurs. Drayton contends that social entrepreneurs can be a driving force for social change. Catalytic capital investment therefore needs to be directed towards those putting forward innovative sustainable and replicable ideas and models. Importantly, the social innovation school emphasizes social outcomes rather than income generation, drawing a clear distinction between social entrepreneurship and standard commercial ventures. This “changemaker” approach has been adopted by organizations such as Ashoka, Echoing Green, and the Schwab Foundation for Social Entrepreneurship.

During the 1980s, Edward Skloot and others advanced the social enterprise school of thought, building on the principle that



organizations to some extent use earned-income strategies to pursue social impact goals. Over the past several decades, much of the focus of the social enterprise school has been on earned-income activity among non-profits. Skloot wrote a number of influential books, including *The Nonprofit Entrepreneur: Creating Ventures to Earn Income*, and founded New Ventures, a consulting firm specializing in helping non-profits diversify their revenue streams and maintain financial viability.

The two schools of thought continue to influence the field of social entrepreneurship and how it is defined. Importantly, both emphasize the value of measuring social impact in social entrepreneurship financing.

Muhammad Yunus and the Grameen Bank have also played a prominent role in the rise of social entrepreneurship. With the founding of Grameen Bank in Bangladesh in the 1980s, Yunus helped bring global attention to the importance of pro-poor financial services and products in the fight against poverty. Grameen Bank provides microcredit and microfinance support for low-income entrepreneurs who would otherwise be unable to secure business loans, but it also encourages its members to generate a positive impact by becoming actively involved in the politics and development of their communities and country. In 2011, Yunus and three colleagues co-founded Yunus Social Business, a for-profit and non-profit venture fund seeking to transform philanthropic donations into investments in sustainable social enterprises.

Most schools of thought support the idea that social entrepreneurship is best served by harnessing approaches and tools from commercial business to create self-sustained enterprises dedicated to addressing human problems and reducing poverty — and thereby contributing to the achievement of the Sustainable Development Goals.

## 1.1 THE RISE OF SOCIAL ENTREPRENEURSHIP

The rise of social entrepreneurship should be examined within the context of the broader paradigm shift in business and employment. An important aspect of this change relates to the growing importance of both internal and external social capital for enterprises in general. Social capital can be viewed as “the links, shared values and understandings in society that enable individuals and groups to trust each other and so work together” (OECD, 2007, p. 102).

Organizations are “increasingly judged on the basis of their relationships with their workers, their customers, and their communities, as well as their impact on society at large [...]. In many ways, social capital is achieving a newfound status next to financial and physical capital in value” (Social Enterprise Alliance, 2018, p. 2). Reports suggest that business leaders in many countries are embracing this new paradigm and now view their businesses more as institutions “integrated into the social fabric of society” (Bersin, 2018). A number of experts cite the role of the 2008-2009 global financial crisis in accelerating this shift.

The rising influence of social capital on the success of commercial enterprises is pushing business leaders not only to develop and maintain positive relationships with a wide array of groups, including local communities and customers, but also to seek their feedback to guide enterprise development. In other words, commercial businesses are increasingly focusing on external relations to guide their internal decision-making processes.

The growing importance of social capital is also linked to the relatively low (and declining) level of trust in public and political institutions,<sup>1</sup> with business

<sup>1</sup> The 2018 Edelman Trust Barometer reported that 52 per cent of people worldwide trusted businesses “to do what is right”, compared with a corresponding rate of just 43 per cent for trust in government institutions (see <https://www.edelman.com/research/2018-edelman-trust-barometer>).



leaders increasingly seeking – or being asked – to fill the perceived leadership void. In parallel to this, growing numbers of young people are questioning traditional assumptions regarding the role of the private sector. Enterprises are aware that the paradigm shift is creating new expectations among young people and that it can generate a whole new set of opportunities.

Governments have traditionally played a central role in social and economic development but are under increasing pressure due to fiscal imperatives and sluggish growth. Many have been compelled to implement cost-cutting measures, including the privatization of public responsibilities. Such public belt-tightening has had a significant impact on charitable organizations and other NGOs dependent on grants and subsidies. Social enterprises are moving into the space that charities and NGOs once occupied in great numbers. Over the past three decades, several organizations, funds, training programmes, conferences, and other scaffolding mechanisms have been established to support social entrepreneurs and are now part of the public domain (Bornstein, 2012).

Broadly speaking, the private sector is best positioned to complement, rather than replace, public sector development efforts (Lecy and Van Slyke, 2013). This approach is aligned with the guiding principles of the 2030 Agenda, in particular Sustainable Development Goal 17, which focuses on strengthening the means of

implementation and revitalizing the global partnership for sustainable development.

Although a significant number of global and national actors assert that social entrepreneurship is on the rise, major data gaps make it impossible to measure regional or worldwide trends with any degree of accuracy. However, surveys undertaken by the Global Entrepreneurship Monitor (GEM) in 2009 and 2015 provide recent snapshots of the state of social entrepreneurship (Bosma and Levie, 2010; Bosma and others, 2016).<sup>2</sup> The findings of the 2015 survey may be summarized as follows:<sup>3</sup>

- Overall, social entrepreneurship remains comparatively rare (relative to commercial business), though prevalence rates vary widely within and between regions<sup>4</sup> and among countries at similar stages of economic development (see **figure 1**). Relevant data need to be examined more closely to generate a proper analysis and understanding.
- Overall, 3.2 per cent of working-age individuals in the 58 countries included in the survey are engaged in social entrepreneurship in the start-up phase (nascent social entrepreneurial activity), with country figures ranging from 0.3 per cent in the Republic of Korea to 10.1 per cent in Peru. “By comparison, the rate of start-up commercial entrepreneurship averages 7.6 per cent in the world and ranges from 13.7 per cent in Viet Nam to a high of 22.2 per cent

<sup>2</sup> It is not possible to compare the results from the two waves of the GEM survey on social entrepreneurship owing to changes in the methodology used to collect data and identify social entrepreneurs (see Bosma and Levie, 2010; Terjesen and others, 2009; Bosma and others, 2016).

<sup>3</sup> The 2015 GEM social entrepreneurship activity research is based on interviews with almost 168,000 individuals aged 18–64 years in 58 countries (see Bosma and others, 2016). The results reflect respondents’ self-identification as social entrepreneurs; it is noted by Rivera-Santos and others (2014), however, that contextual dimensions affect self-perception in relation to social enterprises in sub-Saharan Africa, resulting in an underrepresentation of the social entrepreneurship phenomenon in that area.

<sup>4</sup> A broad measure of commercial, social and overlapping entrepreneurial activity in the major world regions is shown in figure 4 of the *Global Entrepreneurship Monitor 2015 to 2016: Special Topic Report on Social Entrepreneurship* (Bosma and others, 2016, p. 13). “The broad measure considers individuals who are starting or currently leading any kind of activity, organisation or initiative that has a particularly social, environmental or community objective. The narrow measure imposes the following restrictions: that this activity, organisation or initiative (i) prioritises social and environmental value over financial value; and (ii) operates in the market by producing goods and services. The narrow definition is available for 31 economies” (ibid., p. 5).

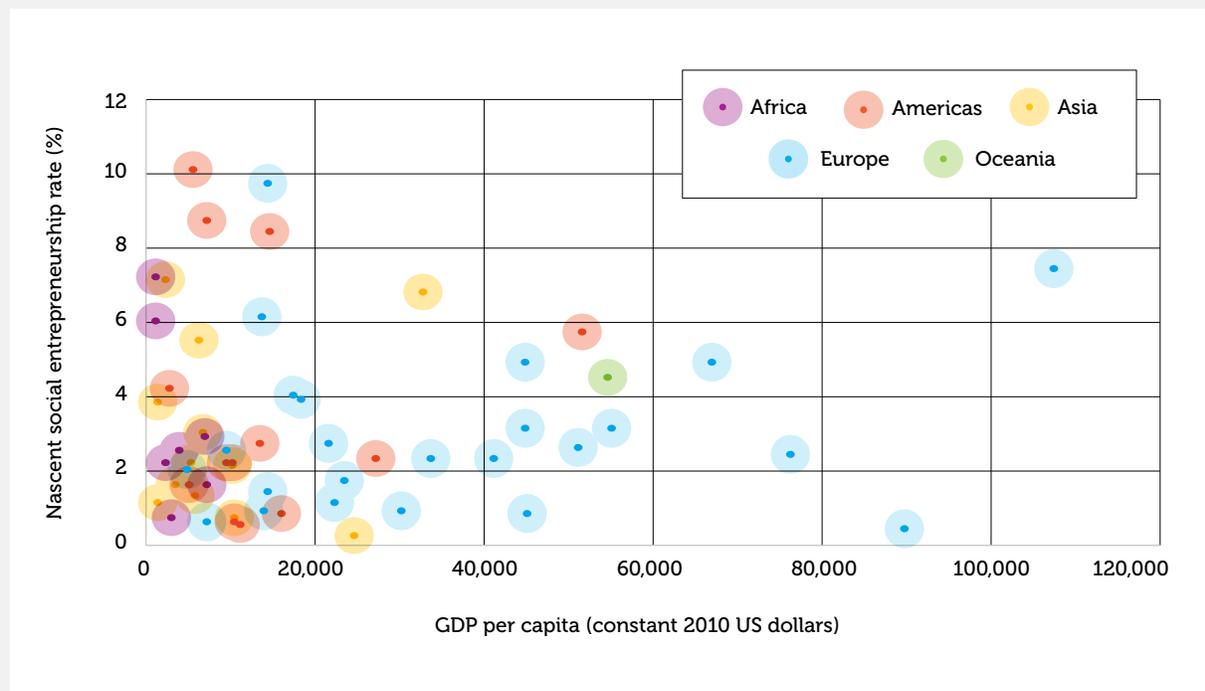


in Peru” (Bosma and others, 2016, p. 5). The average prevalence rate for operational social enterprises (those past the start-up phase) is 3.7 per cent, ranging from 0.4 per cent in the Islamic Republic of Iran to 14.0 per cent in Senegal (ibid.).

- Social entrepreneurship is often associated with youthful idealism. Among individuals between the ages of 18 and 34, “there is a greater representation of nascent social entrepreneurs than nascent commercial entrepreneurs in three of the world’s regions – namely the Middle East and North Africa, sub-Saharan Africa and Western Europe” (ibid.). Nascent social entrepreneurs are those who have

taken concrete action in the past 12 months to start their respective ventures and are currently involved in social entrepreneurial activity. It is interesting, given the employment challenges faced by youth in the three regions, that more young people appear to be pursuing social entrepreneurship than commercial entrepreneurship. One possible explanation is that young people are assigning equal value to the dual benefits of social entrepreneurship, seeing it as a way to both generate their own employment and help address development challenges faced by their communities. Among operating (non-nascent) initiatives, social entrepreneurs outnumber commercial

**FIGURE 1. GDP PER CAPITA\* AGAINST THE NASCENT SOCIAL ENTREPRENEURSHIP RATE, 2015**



Sources: DESA, based on Bosma and others (2016); World Bank, World Development Indicators (<https://datacatalog.worldbank.org/dataset/world-development-indicators>).

\* Constant 2010 United States dollars.

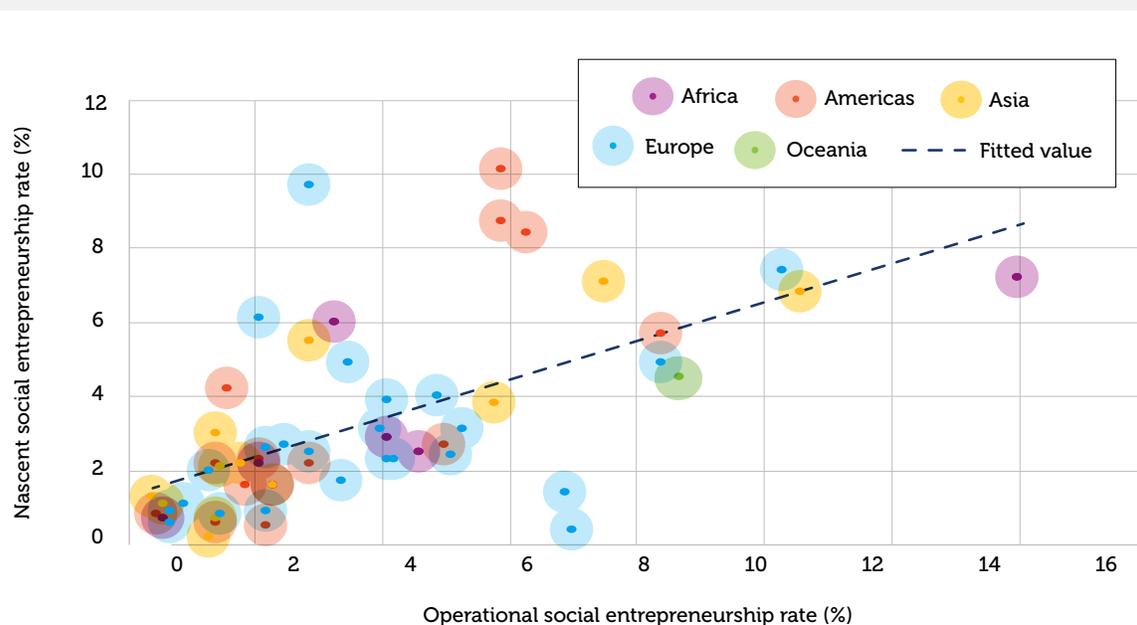


entrepreneurs in all global regions except Latin America and the Caribbean (ibid.).

- Although there are gender gaps in social entrepreneurship in most regions, they are narrower than those found in commercial entrepreneurship (ibid.).
- In every region except sub-Saharan Africa, social entrepreneurs tend to have a relatively high level of education (ibid.).
- Half of the social entrepreneurs involved in broad social entrepreneurial activity at the operational stage reinvest profits in their social enterprises (ibid.).

Operational social entrepreneurship rates are positively correlated with early-stage or nascent social entrepreneurship rates (see **figure 2**). In other words, having more active social entrepreneurs is associated with having larger numbers of social entrepreneurs in the start-up phase. This may suggest that countries with more active social entrepreneurs have more supportive systems and an enabling environment conducive to the expansion of new social entrepreneurial activity. It is also believed that the growing visibility of social enterprises serves as a source of inspiration, making social entrepreneurship a more appealing option for aspiring entrepreneurs. While descriptive in nature, these associations suggest

**FIGURE 2. RELATIONSHIP BETWEEN NASCENT SOCIAL ENTREPRENEURIAL ACTIVITY AND OPERATIONAL SOCIAL ENTREPRENEURIAL ACTIVITY**



Source: DESA, based on Bosma and others (2016).



that supportive entrepreneurship ecosystems and visible examples of successful social entrepreneurial activity can potentially empower and encourage young social entrepreneurs. The growth of social entrepreneurship in an area is also likely to provide more opportunities for peer support and horizontal exchange.

## 1.2 DEFINING SOCIAL ENTREPRENEURSHIP

While social entrepreneurship is enjoying increased visibility and garnering more interest around the world, the concept lacks a widely accepted framing definition, due in part to an underdeveloped theoretical base as well as the strong influence of highly variable surrounding contexts on the nature of social entrepreneurship activities. The existing body of research on social entrepreneurship is relatively sparse. There are a limited number of empirical studies, and most of these are rather narrow in scope (Hoogendoorn, 2011; Short, Moss, and Lumpkin, 2009). Some researchers acknowledge that having a more comprehensive definition increases applicability while reducing specificity (Bacq, Hartog and Hoogendoorn, 2013). On the ground, however, the impact of the surrounding context on the nature of social entrepreneurship activity has contributed to the development of a wide variety of models, making the adoption of an agreed-upon framing definition difficult (Kerlin, 2010; Mair, 2010).

A key building block of any definition is “entrepreneurship”, defined by Gries and Naudé (2011, p. 217) as “the resource, process and state of being through and in which individuals utilize positive opportunities in the market by creating and growing new business firms”. However, the core element defining social entrepreneurship is the intentionality of social change or social value creation rather than wealth creation (Dees, 1998). For instance, social entrepreneurship may emerge in response to unfavourable contingencies such as economic crises

to compensate for the reduced availability of resources (Molina and others, 2018).

Essentially, social entrepreneurship seeks to create value or generate a positive impact on society by offering services or products that answer unmet needs or by offering different solutions to social challenges. Social entrepreneurship is often perceived as a mechanism for addressing unfair situations that contribute to exclusion, marginalization or suffering within segments of society that are not empowered to change these situations on their own. The main “customers” of social entrepreneurs are marginalized or disadvantaged groups or individuals who do not possess substantial financial means.

Although profits matter to social entrepreneurs, they do not represent the impetus behind their endeavours. The financial goals of social enterprises are in place to support and maximize the intended social impact. Typically, most of the profits generated are reinvested in a manner that will further support the social impact goals and sustainability of the social enterprise. A limited proportion of the profits may be distributed among the members involved in social enterprises, though decision-making processes are not tied to capital ownership (Bidet and Spear, 2003).

Researchers have been known to use the term “blended value” – reflecting a combination of financial, social and environmental objectives – to describe social enterprises (Emerson, 2003). The concept of blended value circumvents the common binary and therefore reductive perception that the overarching objective of an enterprise must be either financial or social. As blended-value entities, social enterprises seek to maximize the full range of potential returns and impacts. Within this context, value creation could include not only superior service delivery but also socioeconomic empowerment and systems innovation. “This is conceptualized in the notion of blended value that combines fully monetized



Photo: Pezana Rexha



**“Pana Storytelling Furniture”, a social enterprise created by a young Albanian architect, uses reclaimed wood to create furniture. Pana Storytelling Furniture trains and employs members of society who would normally have difficulties finding a job, such as persons near retirement and persons with disabilities.**

social impacts with more conventional financial data to judge the outcomes of a social venture” (Nicholls, 2008, p. 18, citing Emerson, 2003, and Nicholls, 2004).

The analogous concept of “profit with purpose” has gained traction among both academics and practitioners. While enterprises seeking both financial and social gains can take several forms, they all endeavour to achieve a balance between profitability and the fulfilment of a social mission.

<sup>5</sup> A value chain is a series of activities — including development, production, marketing and post-sale services — that add value to a product or service.

Social entrepreneurs find purpose in creating social impact not only as a result of an operational process but often through the process itself. They seek opportunities to add social impact along the entire value chain, frequently employing and training disenfranchised groups as part of their social mission or revitalizing depleted community resources such as housing stock. The process of social entrepreneurship may thus be characterized by a range of social missions that are addressed at different points in the value chain used by entrepreneurs seeking to generate a social impact (Bidet and Spear, 2003, p. 8).<sup>5</sup>

Another feature of social entrepreneurship is its embeddedness within local communities and its capacity to nurture long-lasting relationships with local stakeholders (Bidet and Spear, 2003). These relationships are key to ensuring that the social impact, or social value, generated by a social enterprise is on target and sustainable. Some experts prefer the expression “societal impact” to describe the wide-ranging impact of social entrepreneurship, as this broader term more accurately reflects the fact that social enterprises generate economic, social, environmental and other types of impact (Ebrahim and Rangan, 2014).

As noted previously, contextual factors play a critical role in social entrepreneurship. Local needs and opportunity structures influence the emergence of social entrepreneurship and the development of relevant value propositions that contribute to meaningful change in behaviour and attitudes, relationships between social groups, and the social order over time. It follows that social enterprises do not organize or centre their activities primarily around the need to generate substantial financial profits (Nicholls, 2008).



Social entrepreneurs can bring about positive change in the larger community directly through their activities but also by involving marginalized individuals in their operations (Bidet and Jeong, 2016). Participatory governance and democratic management are often exercised, reflecting close collaboration with community members the social enterprise seeks to serve. In other words, social enterprises tend to leverage existing local resources to create a new situation or new stable equilibrium to address the exclusion or marginalization of the target group.

The legal structure and status of social enterprises vary widely – a reflection of both the (supportive or obstructive) ecosystem in place and the (limited or abundant) means at the disposal of social entrepreneurs. In operational terms, social enterprises are generally described by experts as being somewhere between commercial businesses and non-profit entities.

As the foregoing illustrates, significant variability characterizes virtually every aspect of social entrepreneurship, making the formulation of a universal definition extremely difficult. The lack of definitional clarity may be impacting the present legitimacy of social entrepreneurship, which Nicholls (2010) refers to as “a field of action in a pre-paradigmatic state that currently lacks an established epistemology”. It has been put forward that “if the social entrepreneurship field is to progress, the next two decades should be characterized by unity in construct definition and by examining the social entrepreneurship construct through a variety of established theoretical lenses with clear boundary conditions” (Howaldt, Domanski and Schwarz, 2015, pp. 92-93, citing Short, Moss and Lumpkin, 2009, p. 173).

In the present *Report*, social entrepreneurship is understood to be entrepreneurial activity with the explicit objective of addressing societal problems. The following

core elements, drawn from Bidet and Spear (2003), can be said to characterize social entrepreneurship:

- An initiative launched by an individual or group of individuals;
- An explicit aim to benefit the community;
- Decision-making power not based on capital ownership;
- Participatory governance involving those affected by the venture;
- Limited profit distribution.

This definition includes formally and informally constituted organizations and activities launched by individuals and teams. It underlines the relevance of local contexts and communities, as well as the centrality of the social mission. Importantly, the definition integrates internal processes such as decision-making and human resource practices, as they are an integral part of the social value proposition.

### 1.3 COMPARING SOCIAL ENTERPRISES WITH OTHER ENTITIES

The unique nature of social enterprises derives from their hybrid structure, which represents a fusion of traditional commercial firm and charitable/non-profit organization. This generally has positive implications for financing. In many cases, their legal status and related regulatory requirements allow social enterprises to take advantage of funding opportunities offered to for-profit operators. The use of market mechanisms to achieve financial self-sustainability is the main difference between social enterprises and charities/NGOs, as the latter – while also focused on social impact – rely almost exclusively on donations, subsidies or grants to support their operations. Because of their social mission, social enterprises



can also utilize many of the same sources of funding as NGOs and charities, including grants and donations (UNIDO, 2017). However, unlike NGOs and charitable organizations, which usually depend on limited sources of funding, social enterprises can more flexibly turn to loans and equity capital and to blended/mixed forms of financing (Hanley, Wachner and Weiss, 2015). The diversification of revenue streams means that such enterprises generally have greater freedom in investment decisions geared towards the achievement of social goals and missions. A good portion of the literature affirms that social enterprises aim to be financially sustainable by not relying primarily on grants and similar subsidies.

In the area of finance and investment, social enterprises often enjoy certain advantages over commercial corporations. Commercial enterprises are compelled to generate dividends or other forms of revenue for their owners, whereas social enterprises typically reinvest most of their profits in the running of their operations and create social value (Bidet and Spear, 2003). Social entrepreneurs are able to approach “social investors” and global organizations willing to relax their return expectations to support a social cause and can also partner with public investors, private philanthropists, and third-sector development entities (Hanley, Wachner and Weiss, 2015). Socially oriented ventures can also benefit from the support of intermediary organizations offering information and incubator services or platforms that match funders with social businesses. The public sector is often another important source of support. Government procurement strategies might favour social enterprises over purely commercial endeavours. Depending on their size, social enterprises might be eligible to take advantage of micro-finance services or to compete for social investment or social impact bonds introduced by Governments.

In many respects, the actions of social enterprises overlap with those of commercial enterprises, but social enterprises need to take additional steps related to their

social impact focus. These include developing a business plan that considers community needs in addition to market needs, building a marketing and branding strategy that is inclusive and adapted to the target population, managing finances and keeping accounts in a way that ensures compliance with all regulations relevant to both for-profit and non-profit organizations, measuring performance based on social impact as well as income and revenue, and managing human resources in a way that both attracts and retains talent and empowers vulnerable groups.

Social enterprises and a growing number of commercial enterprises are engaged in some form of social action. The main difference is that corporate social responsibility (CSR) programmes add a social angle to commercial business without making social impact the primary mission. The first priority of commercial enterprises is to generate profit for their owners or shareholders, and this often entails a cost to society or the environment. Along with the increasing corporate focus on social impact, commercial enterprises are also starting to create stronger relations with their clients.

Many commercial and social actors have incorporated strategies associated with social entrepreneurship to create a wide array of hybrid models designed to leverage social capital. In the same manner, social entrepreneurs have borrowed practices from other entities in the commercial and social spheres to develop models of value creation guided by the principle of sustainable development.

Essentially, social enterprises occupy an intermediary space between the private and public sectors; in the latter context, they may be said to operate within the third sector and the social and solidarity economy. Social enterprises comprise a wide range of entities with diverse structures and purposes seeking to leverage private resources for public good.



UN Photo / Logan Abassi

**Young residents of Léogâne, Haiti, check for their names on voting lists before casting their ballots in the country's presidential elections. Social enterprises can contribute to young people's desire to express their views and have an impact on society.**

The services offered by social enterprises are meant to alleviate social problems and to enhance the public good. For instance, by reducing youth unemployment, social enterprises can help ease the frustration felt by young people and contribute to increased political, social and economic stability in their regions or countries. Operations such as these are important for the well-being of society at large, but they also come with a number of financial advantages. They are engaged in social development but aim to be self-sustainable. In broader terms, by creating employment, social enterprises effectively reduce government expenditures on social support, and the different mechanisms through which social

enterprises stimulate the economy translate into higher State income through increased taxation (Haugh, 2006) – though this is possible only if social enterprises operate in the formal sector, which is proving to be a challenge in a number of countries and contexts.

Because the mission of social entrepreneurs is the betterment of society, they may be led to invest in sector-level capacity and may actually encourage or enable complementary or even competitor organizations to grow to further a shared social mission – rather than focusing primarily on capturing a greater market share for their own organizations.



## 1.4 SOCIAL ENTREPRENEURSHIP AND THE 2030 AGENDA: A FIRST LOOK

Increasing attention is being directed towards social entrepreneurship as a means to address key sustainable development challenges in developed and developing countries (Seelos, Ganly and Mair, 2006). As outlined Sustainable Development Goal 17, which focuses on strengthening the means of implementation and revitalizing the global partnership for sustainable development, a multi-stakeholder approach delivers better economic, social and environmental results than does any single organizational entity acting alone (Tinsley and Agapitaova, 2018). Target 17.17 encourages and promotes “effective public, public-private, and civil society partnerships, building on the experience and resourcing strategies of partnerships”. Within this framework, social enterprises offer international organizations and national Governments an additional partner in scaling up efforts to achieve the 2030 Agenda.

Recent estimates indicate that the implementation of the 2030 Agenda requires a substantially higher level of funding than initially projected. Current assessments show that financing needs for the Sustainable Development Goals total around \$6 trillion annually, or \$90 trillion over 15 years.<sup>6</sup> Sluggish-to-moderate economic growth and divergent political interests are impeding international financial cooperation on sustainable development initiatives. In the present economic and political climate, the efficient mobilization of existing resources and the employment of innovative approaches are crucial to the achievement of sustainable development. By both supporting and integrating the development efforts of Governments, NGOs, civil society and commercial entities, social entrepreneurship offers a

financially and operationally efficient means of advancing sustainable development.

Evidence shows that social entrepreneurship can contribute to sustainable and inclusive job creation and overall local development (OECD, 2018b). Recent estimates indicate that in 2016, social enterprises benefited 871 million people in nine countries in Europe and Central Asia, providing services and products worth €6 billion and creating employment, particularly among the most marginalized social groups (SEFORIS, 2016). Social enterprises in Australia have already generated 2-3 per cent of GDP, creating jobs for 200,000 people, and there are indications that these figures may rise to 4 per cent of GDP and 500,000 jobs within the next 10 years (Smith, 2017).

Social entrepreneurship contributes to the economic growth and competitiveness of countries and regions (Amorós, Fernández, and Tapia, 2012; Audretsch and Keilbach, 2004; Audretsch and Keilbach, 2008), revitalizing local economies and enhancing the potential for progress in the societies in which they operate (Harding, 2004). Young people, in particular, tend to have a strong awareness and appreciation of the manifold benefits of social entrepreneurship, recognizing that it offers as a way of both doing valuable work and making a living (Perić and Delić, 2014).

Social enterprises can engage in both internal and external job creation, with many providing job opportunities for people other than the owners. In the United Kingdom, for example, where the social entrepreneurship sector is relatively well-established, around 100,000 of the 470,000 existing social enterprises employ individuals other than the owner (Stephan and others, 2017). When social enterprises establish operations in geographic areas that are not attractive to commercial companies,

<sup>6</sup> Included in the opening remarks of Peter Thomson, President of the General Assembly of the United Nations, at the High-Level SDG Action Event: SDG Financing Lab (see United Nations, General Assembly, 2017).



Photo: © ILO / Marcel Crozet

**When social enterprises establish operations in geographic areas that are not attractive to commercial companies, they can help revive local economies and create new job opportunities.**

they can help revive local economies and create new job opportunities (Commission Expert Group on Social Entrepreneurship, 2016). Social enterprises may also be able to provide jobs in situations in which commercial entities downsize in order to meet financial goals (Molina and others, 2018). Because social enterprises have a social mission and a strong connection to the local community, they are ideally positioned to push for expanded development in areas in which they are most needed.

In regions characterized by high levels of poverty and chronic underemployment, especially among young people, the impact of social entrepreneurship can be considerable (Schøtt, Kew and Cheraghi, 2015). Social entrepreneurship may be undertaken to fulfil a specific local need or mission, but it can also contribute to broader strategies and interventions aimed at reducing

unemployment and poverty. In developed countries with traditionally large welfare systems, for example, social entrepreneurship can complement ongoing initiatives or help compensate for declining welfare provisions (Choi and Majumdar, 2014).

Because social entrepreneurs must make prudent use of limited resources, they often find alternative ways to service the community, including capitalizing on personal networks, combining inputs, repurposing tools, and drawing from resources that can be secured at no cost or with minimal investment (Baker and Nelson, 2005). They often utilize public spaces or other cost-effective premises for novel purposes. They attract volunteers to work for their ventures and encourage participants to stretch their skills and apply them to new endeavours or in new domains (Sunduramurthy and others, 2016). They



develop innovative organizational and service structures characterized by flexibility and adaptability (Hlady-Rispal and Servantie, 2018), adjusting their operations as needed to maintain their ability to operate in the market (Azmat, Ferdous, and Couchman, 2015). Importantly, social entrepreneurs working with marginalized populations develop innovative solutions that are precisely aligned with the needs of the target group (Tinsley and Agapitaova, 2018). Solutions must be economical and provide value for money, which means that social enterprises tend to invest in high-quality but comparatively simple products and services. By focusing on simplicity and affordability, social enterprises can achieve profitability using an operational model that effectively disrupts prevailing industrial practices (Grohs, Schneiders, and Heinze, 2015).

As social enterprises are actively engaged with the people they aim to support, this model is particularly appealing to marginalized communities seeking both economic opportunity and social inclusion. The social benefits for the various groups of stakeholders associated with the social enterprise and for the community as a whole are abundant but are very difficult to measure. The success of a social enterprise can hardly be determined using standard quantifiers such as return on investment (ROI). Alternative tools and indicators need to be developed and uniformly adopted to obtain a clear and complete picture of the impact of social entrepreneurship on those it serves. This important topic is explored further in section 1.6.

Social entrepreneurs have to develop a business model that adequately balances the dual goals of pursuing a social mission and making business operations financially sustainable (Moizer and Tracey, 2010). Financial sustainability not only derives from investment and operational decisions but is also influenced by the broad environment in which social enterprises operate. Further, as these hybrid businesses have both financial and social goals, social enterprises face the peculiar challenge of convincing their stakeholders of both their financial

viability and their commitment and ability to cater to the social cause.

Social enterprises often operate in rapidly changing environments and must be agile enough to make timely adjustments in products or services while also maintaining financial viability. To be nimble and impactful at the same time can be a tall order. If a social enterprise lacks solid financial or operational footing, a change in the environment can result in business collapse. Finding steadfast and enduring financial partners can be a challenge. Investors are interested in financial returns; those who are dedicated enough to sacrifice a portion of their returns for the sake of social impact must make a long-term commitment – which may not be aligned with their standard investment approach.

The financial yields of necessity-based entrepreneurship rarely match those of opportunity-based entrepreneurship (Kautonen and Palmroos, 2010). The willingness to compromise on profit-making is not enough to support a sustained, long-term contribution to social development, however. To continue to have an impact, social entrepreneurs must maintain the viability of their business ideas. Social enterprises must be driven by innovation and creativity if they are to make an effective and long-lasting contribution to sustainable development (Iwueke and Blessing, 2014).

Relatively speaking, the social enterprise sector lacks visibility and legitimacy, and this can limit the ability of social entrepreneurs to obtain funding, access markets, attract talent and scale up their activities (De Simone and Tora, 2016). Social enterprises working with marginalized and stigmatized groups find it particularly challenging to form strong relationships with suitable partners and often end up networking solely with other social enterprises (Tracey and Phillips, 2016). Many social entrepreneurs find it difficult to secure investment funding during both the inception and growth phases of their ventures. The



investor community may perceive social enterprises to be burdened by regulatory controls or constraints and may thus see them as a higher risk and potentially less profitable than other types of businesses. Some social enterprises are outside investors' target groups because they are too small or too large (Dichter and others, 2013). Ultimately, even those social enterprises that are considered for or able to secure funding might have relatively little bargaining power with the investors.

## 1.5 SOCIAL ENTREPRENEURSHIP AND INDIVIDUALS “AT THE LAST MILE”

The fruits of economic and social development are not enjoyed by all. In many remote and rural areas, urban slums, and other underserved areas, residents lack basic facilities and services such as water, food, power, education, health services and safe housing. These conditions, together with inadequate opportunities for decent work, prevent affected populations from being able to improve their living situations. Young people are often among the most vulnerable in these settings. The increasing frequency and severity of natural and man-made disasters is likely to further jeopardize the livelihoods of youth, particularly those who experience displacement or reduced access to natural resources (UNDP, 2013).

Individuals at the last mile are members of vulnerable, marginalized or other disadvantaged groups who live in extreme poverty in remote locations, informal settlements or other hard-to-reach areas and usually receive little or no development aid or State support. Those at the last mile are by no means a homogeneous group. It is important to recognize the intersections of identity based on gender, ethnic group, economic status, sexual orientation, and other factors, as these characteristics influence the challenges and needs of last-mile populations. Societal norms, stereotypes and legislation can

make individual characteristics a source of multiplicative disadvantage and limit legal protection or opportunities to participate in local decision-making. The last mile is perhaps best defined as “not only the poorest of the poor, but also the people, places and small enterprise levels that are underserved and excluded, where development needs are greatest, and where resources are most scarce” (Pedrajas and Choritz, 2016, foreword).

As alluded to above, the intersecting forms of exclusion faced by those at the last mile require careful consideration. Individual forms or manifestations of discrimination or inequality in access to opportunities have a negative impact on specific groups. However, certain groups are burdened by multiple disadvantages that further deepen their exclusion and lack of access to opportunities, and this often extends across generations. According to the *Report on the World Social Situation 2016 – Leaving No One Behind: The Imperative of Inclusive Development*, these groups “are statistically invisible – that is, omitted from the sample design of household surveys and population censuses – [and] are frequently those at the highest risk of being left behind” (United Nations, 2016, p. 56).

It has been pointed out that “targeting the last mile is different from promoting sustainable development overall and hoping that the most excluded and marginalized benefit” (Pedrajas and Choritz, 2016, p. 84). Where the challenges experienced by those at the last mile are most severe, Governments often face financial and institutional constraints that undermine their ability to address the needs of marginalized groups, and commercial enterprises – even those inclined to support social development – often shy away from countries and contexts characterized by high risk and low profit potential (Tinsley and Agapitaova, 2018). Social enterprises, with their focus on social impact, can help bridge this gap by providing customized services for those suffering from intersecting inequalities, many of whom are at the last mile.



**A view of the Kutupalong Rohingya Refugee Camp in Cox's Bazar, Bangladesh. In many remote areas, residents lack basic facilities and services. Social enterprises, with their focus on social impact, can help bridge this gap by providing customized services for those suffering from intersecting inequalities, many of whom are at the "last mile".**

Social enterprises can carry out initiatives that complement broader structural responses to the challenges faced by those living at the last mile, creating a "multiplier impact effect" as they help vulnerable groups and generate positive externalities (Santos, 2012). Social enterprises may support and implement interventions focused on a wide range of development goals, including poverty reduction and environmental sustainability (Azmat, 2013).

As part of their social mission, social enterprises can provide or support the provision of basic goods and services that enable local communities to make a living or improve their livelihoods (Seelos, Ganly and Mair, 2006). Tinsley and Agapitaova (2018) have identified 40 effective

market-based solutions that social enterprises have developed to serve the poor; examples include low-cost chain schools providing highly standardized education, mini power grids that are designed to connect remote communities without existing electric grids, telemedicine-based health care, community-level waste collection systems, and serviced toilets that improve sanitation in urban slums. Other social enterprises might aim for different but equally important outcomes, focusing primarily on goals such as achieving empowerment or deepening cultural embeddedness. **Boxes 2 and 3** provide examples of initiatives that have targeted marginalized populations in Jordan, Lebanon and Malawi.



## BOX 2.

## THE ORENDA TRIBE: ART FOR HOPE IN JORDAN AND LEBANON

Established in 2016 by a young man from Jordan with just a few hundred dollars, the Orenda Tribe is a value- and purpose-driven enterprise that uses art and storytelling to empower children in vulnerable situations. Engaging in what is referred to as “artivism”, the Orenda Tribe holds tailored art workshops for children that focus on fostering empowerment, breaking barriers and developing life skills while also raising awareness about different social issues.

Revenue is generated through the sale of lifestyle products such as T-shirts and tote bags with designs inspired by the art created by children attending the workshops. Under the Tribe’s Art For Hope initiative, art workshops are offered in refugee camps, orphanages and under-resourced schools in Jordan. For every T-shirt sold, one child from a marginalized community is enrolled in (and receives art materials for) an art workshop designed to empower children in difficult situations. To date, the Orenda Tribe has undertaken 31 projects in 12 communities in Jordan and Lebanon and has touched the lives of 5,404 children.

This social enterprise was recently recognized by Causeartist, a leading consortium of impact investors, as one of seven brands\* impacting the world through helping alleviate the refugee crisis (Trahant, n.d.). On the Tribe’s website, Orenda is defined as “a mystical force present in all people that empowers them to affect the world, or to effect change in their own lives”.

Source: The Orenda Tribe (see <https://www.theorendatribe.com/>).

\* The other six brands recognized were Starbucks, LinkedIn, Airbnb, SITTI Soap, Joggo and 734 Coffee.





1. The Orenda Tribe's team is painting a mural meant to inspire children to pursue their dreams. The mural is painted inside a public school located in a governorate in Jordan called Ma'an. This project is part of The Orenda Tribe's initiative of spreading purposeful art into marginalized areas.
2. Girls from a Gaza Refugee Camp in Jordan, during the ice-breaking activity in a workshop that the Orenda tribe was running at the camp.
3. In a girl's public school in Naour, Jordan. The Orenda Tribe transformed a landfill into a garden and safe space for children. The Orenda Tribe upcycled tires, planted plants, and added furniture and paint. The flowers in the background include inspirational words written by the children.
4. The Orenda Tribe beautifying the main yard of a girl's public school in Naour, Jordan, with artwork from the students themselves. The artwork was created during an art workshop that The Orenda Tribe implemented earlier in that school on the topic of bullying and during which the students were asked to draw what a bully-free environment would look like.

Photos: Zaid Souqi



## BOX 3.

**TIWALE: HELPING WOMEN IN MALAWI**

Malawi, one of the world's poorest countries, is landlocked and relies primarily on agriculture. About 80 per cent of the residents live in rural areas, and more than 60 per cent subsist on less than \$1 per day. In many cases, girls and women face additional challenges in the areas of development and empowerment; only 16 per cent of girls complete primary school, and women are particularly vulnerable to hardships deriving from low socioeconomic status, higher-than-average rates of HIV and AIDS, and one of the world's highest rates of maternal mortality.

Ellen Chilemba — at the age of 18 — established Tiwale, a for-profit social enterprise committed to improving the lives of women in Malawi. Tiwale means “let us shine/glow” in Chichewa, a Bantu language spoken in parts of Malawi and in Mozambique, Zambia and Zimbabwe. Since 2012, Chilemba and her team have trained 150 women as entrepreneurs while also offering grants, loans and training aimed at helping participants achieve empowerment and independence.

One of the Tiwale programmes provides women with tie-dye skills, which they use to produce traditional tapestries. Some of the revenue from the sale of their handiwork is used to fund other programmes offered by the organization that give women opportunities for self-sufficiency. Among the initiatives funded are a school grant programme (covering fees, transportation costs, and school supplies and offering a small living stipend) and the flagship microfinance loan programme. The latter is essentially a business plan challenge: innovators with the best ideas receive \$70 interest-free loans to help transform their vision into action. The loans must be repaid over the course of 10 weeks, but that has not been a problem for any of the 30+ winners — all of whom have successfully launched their own profitable small businesses, with some earning as much as \$7 per day.

In 2015, Ellen Chilemba was named one of Forbes Africa's “30 Under 30”.

Source: Tiwale (see <https://www.tiwale.org/>).



2.

1. Tiwale offers workshops led by a team aged 14 to 19 years old.
2. Opening of the Tiwale Community Center, after 5 years of meeting outside.
3. Tiwale team member Lydia Tembo making a face mask to be distributed in Malawi during COVID-19 pandemic.
4. One of the Tiwale's programmes provides women with tie-dye skills which they use to produce traditional tapestries. Tiwale uses a portion of its tapestry sales profit to fund other programmes offered by the organization that give women opportunities for self-sufficiency.

Photos: Tiwale Community Based Organization



3.



4.



A number of social entrepreneurship models have been developed to serve marginalized groups in developed countries; many have been successfully deployed to meet the needs of the homeless (Teasdale, 2010). Social enterprises provide services (such as housing or other accommodations), training, employment and opportunities for participation, and they engage in awareness-raising among the broader stakeholder groups. The refugee situation in recent years provides an example of the type of role social enterprises can and do play in such contexts. The influx of refugees and asylum-seekers from the Syrian Arab Republic, Afghanistan and Iraq into European countries has highlighted the need for additional support

(Commission Expert Group on Social Entrepreneurship, 2016). Public authorities have developed services to support the arrival, survival and integration of these migrants, but the magnitude of the refugee crisis has been such that State-led responses have proved insufficient. Social enterprises have been quick to react, complementing public interventions and advocating for the integration of migrants (Benton and Glennie, 2016).

By contributing to both economic and social well-being, social enterprises can complement and support government actions and policies aimed at addressing the needs of marginalized groups (Zahra and others, 2009).



UN Photo / Sahem Rababah

**A young boy at the Zaatari Refugee Camp in Jordan. Social enterprises have often been quick to react, complementing public interventions supporting refugees and internally displaced people.**



## 1.6 MEASURING THE SOCIAL IMPACT

Vulnerable communities are affected by complex issues involving multidimensional factors and numerous actors. Addressing such issues requires substantial financial and human resources from multiple partners, including the Government and the private sector. Social entrepreneurship can play a key role in coordinating these resources by attracting both private and public funding (for limited profit-making, reinvestment in the enterprise and self-sustainability), by contributing to and supporting the achievement of national development objectives, and by advancing a model of value generation that is socially minded and aligned with the framework and goals of the 2030 Agenda.

It is important for social enterprises to identify and communicate the nature and magnitude of the challenges they seek to address, as they need to demonstrate the benefits their products and services bring and the impact they have on target communities (Schwab Foundation for Social Entrepreneurship and World Economic Forum, with Bertha Centre for Social Innovation and Entrepreneurship, 2017). Without the appropriate tools to measure both the level of social need and the impact of remedial measures, social entrepreneurs may fail to convince shareholders, partners and stakeholders to provide sustained support for their endeavours. Measurement of impact is also needed to ensure that social enterprises, which often have a lot of operational freedom, act in a sustainable and ethical manner (Zahra and others, 2009). In the long run, the lack of accurate and consistent means of measurement could have a negative impact on the legitimacy, replicability and magnitude of social entrepreneurial activity (Littlewood and Holt, 2018).

The measurement of social impact has become a widely studied topic, and there are many models that assess the activities or outcomes of businesses focusing

on a single industry or on multiple sectors (Rawhouser, Cummings and Newbert, 2019). Overall, it is possible to distinguish four main clusters of measurement models that each serve a different purpose (Grieco, Michelini and Iasevoli, 2015). First are models that focus on quantitative indicators of social impact; these are also helpful in identifying the costs involved in producing that impact. Second, a large body of models identifies key qualitative variables that help organizations take a critical look at their own activities. Third, there are models (such as the global reporting initiative, or GRI) that use both qualitative and quantitative measures to assess the achievement of objectives. Fourth, there are different types of certificates that typically require both qualitative and quantitative data but differ from reporting due to their emphasis on ongoing data collection.

Most social enterprises are keen to measure their social impact as reflected in their core mission. Along with financial figures, social entrepreneurs tend to report both social and environmental indicators (Nicholls, 2009). These and other relevant indicators – which are often produced from an assessment of the relationships between inputs, processes, outputs, outcomes and impact – are often used to measure the efficiency and effectiveness of social entrepreneurship (Zappalà and Lyons, 2009). In 2016, Sonen Capital developed a special framework for social enterprises to link investment strategies to the achievement of the Sustainable Development Goals and to measure the social, environmental and financial performance of investments in relation to those Goals. The framework builds on the metrics used in the Global Impact Investing Network approach (IRIS+) and connects those with the long-term targets of the 2030 Agenda to assess the impact of social enterprise on the realization of the Sustainable Development Goals.

Another widely used measure is social return on investment (SROI), which goes beyond economic indicators to provide a cost-benefit analysis focusing on outputs



generated by individual projects. SROI assesses the social, economic and environmental outcomes generated by an enterprise relative to the capital investment and aims to evaluate the venture's contribution to an important development process. Quantitative metrics such as SROI can be useful for comparing the operational efficiency and outcomes of different projects and social enterprises.

The wide use of SROI across different types of initiatives and programmes can pose challenges for the assessment of social value, however (Kroeger and Weber, 2014; Pathak and Dattani, 2014). Social entrepreneurship delivers a number of intangible benefits, including improved community cohesion and self-belief. It may not be possible to measure those benefits objectively. However, qualitative information can be valuable, allowing assessors to recognize the importance of social enterprises that address individual life situations in depth. In sum, while economic indicators are more easily quantified and measured, the analysis of social impact and change is somewhat more challenging and requires the use of mixed methods that include both quantitative and qualitative indicators.

Another consideration in assessing social impact is the distinction between high reach and high transformation (Alvord, Brown and Letts, 2004). Although some social enterprises do not reach many people, they often make a fundamental difference in the lives of those individuals selected for their programmes. Very few social enterprises achieve both high reach and high transformation; for this to happen, multi-layered innovation is needed to catalyse high levels of social transformation reaching millions of people. However, social enterprises have the potential to generate high transformation in the communities they work with. This type of impact should not be underestimated.

As an extension of this, attention should be given to the challenges linked to measuring the scope of

social impact. For example, how can intergenerational outcomes generated or activated by social enterprises be measured? How is it possible to capture the diffusion of the impact from the immediate circle of stakeholders (beneficiaries, employees, donors and partners) to the wider society? What approaches can be used to identify the role a social enterprise – or the social entrepreneurship sector in general – has played in the advancement of broader systemic changes that involve individuals, communities and Governments? (Schwab Foundation for Social Entrepreneurship and World Economic Forum, with Bertha Centre for Social Innovation and Entrepreneurship, 2017)

In assessing social impact and social change, it is necessary to identify the values and priorities underlying the choice of what to measure and the type of metric to be used (Arvidson and others, 2013). Deciding on the optimal equilibrium between financial input and social outcomes is ultimately a question of political will, societal norms and individual values. Hence, stakeholders and external actors evaluating social enterprises must be clear on their purpose for measuring impact and how to obtain information on the aspects that are valuable to them.

Identifying appropriate measurement tools and approaches is not the only concern. The fact is that many social enterprises do not have the resources or capabilities for extensive measurement, and the evaluation processes may represent a substantial administrative burden for them. It is important that social enterprises be supported in designing and implementing effective measurement and monitoring systems, and that the social indicators are not developed solely for funders and public officials but can be used to help social enterprises shape their strategies and decision-making (Hanley, Wachner and Weiss, 2015).

As "double bottom line" organizations, social enterprises must be concerned with both economic and



social profitability, and measuring the latter poses the greatest challenge (Dart, Clow, and Armstrong, 2010). Since social impact plays such a central role in evaluating the success of a social enterprise, measuring it properly is crucial not only for decision-making processes but also for financial stability. Having a clear grasp of social impact, especially in terms of benchmarks, supports the efforts of social enterprises to establish realistic objectives, monitor and evaluate performance, make informed decisions, and attract investors in a competitive manner. However, social entrepreneurs often have limited human and financial resources to invest in the measurement of social impact. Furthermore, some contributions have intangible value that is difficult or impossible to measure because impact-assessment logic and metrics cannot be applied.

Social impact assessment plays a key role in attracting and ensuring sustained support for social development activities, so social enterprises facing challenges in this area may remain underfunded or have to shift their focus to addressing needs and pursuing outcomes that are more easily measured. The definition of success and how it is measured and evaluated thus have important implications for the agenda of social entrepreneurs. It should be emphasized, however, that while social impact can help social entrepreneurs attract funding, measurement should not be guided primarily by investor needs or priorities (Noya, 2015). In fact, performance measurements designed for commercial businesses, such as ROI, do not factor into the embeddedness of social enterprises, their mission with multiple stakeholders, or the involvement of stakeholders in social impact assessment. Adopting measurement models because of potential returns can drain resources and result in the failure to identify the actual impact and outcomes achieved by social enterprises (Luke, Barraket and Eversole, 2013).

Social enterprises need a logical and consistent framework that guides and informs how problems are

addressed and objectives are achieved. This framework needs to identify how social enterprises contribute to societal change (Ruebottom, 2013). Successful social enterprises can engage experts to advance the legitimacy of their cause and enhance its visibility (Korosec and Berman, 2006). They can engage in political advocacy focused on the interests and perspectives of a broad range of stakeholders with whom they collaborate (Hanley, Wachner and Weiss, 2015), and tools can be created and formal practices established that institutionalize cooperative arrangements and make them more long term. Broad support from corporate actors, government entities, educational institutions, citizen sector organizations and local communities is needed for novel or innovative practices to be accepted and successfully implemented.

The emergence of collaborative and circular economic processes in mainstream business activity and policy debates can be attributed at least in part to transformation practices initiated by social enterprises and other actors in the social economy (Commission Expert Group on Social Entrepreneurship, 2016). Beyond shaking up normative approaches and frameworks, social entrepreneurs often seek to eradicate institutional bottlenecks affecting their operations and/or the societies in which they live (Hogenstijn, Meerman, and Zinsmeister, 2018). Some social entrepreneurs have even been successful in getting obstructive laws or regulations modified or repealed (Sunduramurthy and others, 2016). In countries such as Morocco, young social entrepreneurs have increasingly started to resist the prevalent, pronouncedly market-based approach to addressing social needs (Cohen, 2017). They have used social entrepreneurship as a way to bring together people from different socioeconomic groups, pressuring local governments and generating change at the local level. Indeed, social entrepreneurs may seek to build and strengthen a movement by leveraging external relations (Alvord, Brown and Letts, 2004).



## 1.7 OVERVIEW OF SOME CHALLENGES

The context in which a social enterprise is created and operates influences its structure, legal status, funding base, governance, and virtually all other aspects of its existence. The availability and sources of financial support and the social issues that need to be addressed vary greatly within and between countries, creating a very broad social enterprise landscape.

The potential for creating (and the actual establishment and maintenance of) financially sustainable youth

social enterprises may be seriously affected by funding insufficiencies and by legal restrictions and administrative burdens such as unsupportive tax regimes, business registration costs, regulatory changes, and complex bureaucratic procedures. In the least developed countries, social enterprises may also face obstacles deriving from the structure of global trade and the role large corporations play in enabling sustainable development in the poorest regions of the world. Social enterprises operating in extreme conditions or conflict zones or serving those at the last mile find it very difficult to strike a balance between maintaining their financial independence and



Photo: UN Women / Joe Saad

**Sandy Lyen is a young artisan woodworker and entrepreneur from Beirut, Lebanon. Like many young, educated Lebanese women today, Sandy is creating new and innovative opportunities for self-employment by tapping into Lebanon's growing market for locally-made artisanal goods.**



remaining faithful to their social mission (Galvin and Iannotti, 2015).

As noted previously, many social entrepreneurs find it difficult to secure investment funding for enterprise creation or growth. Within the investor community, social enterprises are often perceived as victims of regulatory overload, and the potential obstacles associated with compliance may reduce the appeal of such enterprises. In some cases, the nature of the venture renders it unsuitable or less suitable for debt or equity investment, as it may be riskier and less profitable than other businesses. Some social enterprises are not approved for funding because they are too small or too large or fail to meet other specific investor criteria. Depending on their legal structure and status, social enterprises may have little bargaining power with funders.

While innovation and individual effort certainly influence the success of social entrepreneurship, they are only part of the overall picture. Factors such as the level of economic development and institutional support, cultural circumstances, and whether the social enterprise operates within an urban or rural infrastructure all play a critical role as well. Entrepreneurship ecosystems are examined in some detail in a subsequent chapter of this *Report*; it is sufficient to mention here that the entrepreneurial environment varies widely across countries at different stages of development, as an economy may be factor-driven, efficiency-driven or innovation-driven (Martinez-Fierro, Biedma-Ferrer and Ruiz-Navarro, 2016).

Access to the Internet and information and communications technology (ICT) influences the incidence and success of social entrepreneurship. Although digital technologies have become more available and more widely used (especially by young people) in the global South and

have facilitated local innovation and entrepreneurship, studies have found that access to these technologies has been restricted by powerful players in ICT industries in regions such as Africa (Counted and Arawole, 2016). What this means is that local realities in Kenya, for example, do not support technology entrepreneurship as it is practised in more developed environments (Ndemo and Weiss, 2017), and this places entrepreneurial youth in such countries at a distinct disadvantage relative to young entrepreneurs in the Western world.

Social entrepreneurs may struggle to find partners willing to work with an entity that deals mainly with marginalized groups, given the stigma often attached to such groups (Tracey and Phillips, 2016). This is why it is important for social enterprises to build tight networks among themselves.

It is important to add a final note urging prudence, pragmatism, and a genuine understanding of customer needs within local contexts. Several experts encourage aspiring entrepreneurs to distinguish between perception and reality in considering the challenges and merits of social entrepreneurship and what is needed to create and operate a sustainable enterprise (see **box 4**). In recent years, there has been a focus on individual success stories featuring “unicorns” (privately held start-up enterprises valued at over \$1 billion)<sup>7</sup> or “gazelles” (high-growth enterprises that started with a revenue base of at least \$1 million and have increased their revenues by a minimum of 20 per cent annually for four years or more). The disproportionate attention given to such stories – which reflect the resounding and well-publicized success of the highlighted social enterprises – creates unrealistic expectations among budding entrepreneurs and can also interfere with efforts to explore the processes of entrepreneurial success and failure and thereby

<sup>7</sup> The term was coined in 2013 by venture capitalist Aileen Lee, who chose the mythical creature to represent the statistical rarity of such successful enterprises.



limit the understanding of how social enterprises work (Light, 2006). “Lone wolf” models fail to communicate the full picture or broader realities associated with social entrepreneurship, including the widespread involvement of a broad range of individuals, thus diminishing the

importance of community knowledge, participation and empowerment in successful social entrepreneurship (Light, 2009). Moreover, the heroization of individual entrepreneurs may obscure opportunities to learn from the ups and downs of the entrepreneurial process

## BOX 4. AGRUPPA

Agruppa was a social enterprise established in Bogota, Colombia, in 2014. The idea was conceived and developed as part of a university project undertaken at the London School of Economics the year before, when co-founders Carolina Medina and Verena Liedgens and their team participated in the Hult Prize start-up challenge, the world’s largest student social enterprise competition (with entries from more than 100 countries). While the team did not win the Prize — \$1 million in start-up capital — the competition served as the launchpad for what was later to become Agruppa by enabling the team to work on the business idea for three months full-time while completing their graduate studies.

The team identified an opportunity in the small “mom and pop” shops in Colombia, which sell around 70 per cent of the food consumed in the country. Most of these shops are located in lower-income neighbourhoods that are home to the majority of the national population. Taken together, these small shops exercise enormous market power. However, each one is the last link in a long intermediary supply chain between the farm and the city.

An awareness of the inefficiencies in the supply chain is what led to the creation of Agruppa, a virtual buying group for small urban shops that could aggregate the demand for fruits and vegetables in order to buy directly from the farm, bring produce to a distribution centre in the city, and distribute to the shops based on their orders. With the reduced transport and produce costs, Agruppa could save each shop owner up to six minimum-wage salaries per year (approximately \$1,700) while at the same time giving the farmer direct access to a market in the city.

*continues*



**The Agruppa team in their warehouse in Bogota, Colombia, before their daily round of deliveries.**



– including failure (Light, 2006). The heroic lone social entrepreneur phenomenon has actually contributed to a shift towards individual entrepreneurship training as a solution to poverty alleviation, placing unachievable expectations on the very people such programmes

are designed to support. Models such as these often ignore (and thus effectively undermine) the role every person can play in promoting social change and places the onus on individual innovative thinkers acting alone (Kruse, 2019).

*Box 4 continued*

As a nascent social enterprise, Agruppa faced a common challenge: raising capital, especially impact investment, is practically impossible without some traction. That is why Carolina and Verena focused on grants and started Agruppa operations as soon as they were awarded their first one. Soon after, they secured a contract with the World Bank and ran a seven-month pilot, proving that Agruppa was much more than just an idea. With this early traction, they caught the attention of impact investment funds that financed the expansion of the enterprise.

Despite the team's continued efforts to achieve long-term sustainability, Agruppa closed down in 2018 due to a shortage of capital. At that point, they had sold produce worth over \$1 million to more than 1,200 mom-and-pop shops in Bogota. However, raising funds continued to be a major challenge, and the enterprise was also negatively affected by changes in the macroeconomic context.

The Agruppa experience offers an important lesson. Although the social impact of the service provided had been confirmed through rigorous evaluation, not enough shop owners valued the service sufficiently to stop shopping at the central market altogether, making the business model unsustainable. This mismatch between objective social impact and perceived value within the target group highlights the importance of seeing the poor as customers with distinct needs and preferences that are not necessarily aligned with development theory.



**2.** The Agruppa founders in their warehouse in Bogota, Colombia.



**3.** One of the first Agruppa customers on the streets of Bogota, Colombia.

Agruppa Photos



## 1.8 WHAT ABOUT YOUNG PEOPLE?

The intersection of income generation and social impact makes social entrepreneurship particularly appealing to youth. Global statistics indicate that social entrepreneurs tend to be fairly young (youth are 1.6 times more likely than adults to be engaged in entrepreneurial activity), male (55 per cent of social entrepreneurs are male and 45 per cent are female), well educated (social entrepreneurs involved in operational activities are 1.7 times more likely than commercial entrepreneurs and the adult population to have a high level of education), and in a higher income bracket than the overall adult population (except in sub-Saharan Africa, the incomes of social entrepreneurs are in the highest third of household incomes). (Bosma and others, 2016, pp. 21-22)

Generally, young people show significantly higher levels of entrepreneurial initiative than do adults; however, among operational enterprises, adult participation is substantially higher than that of youth. This gap between intention and action points to the need for enhanced support for young entrepreneurs at the policy level and in areas such as skill-building and business development.

What motivates young people to choose social entrepreneurship in the first place? One hypothesis is that young people in many countries have experienced unprecedented prosperity and are thus more likely to value non-material goals and want to engage in meaningful work. In other contexts, young people are turning to social entrepreneurship out of necessity, as there are not enough formal jobs available for their cohort. High levels of youth unemployment represent a limitation for the growth of youth social entrepreneurship, in part because acquiring the necessary skills and confidence

when unemployed is particularly challenging. This topic is further explored in **chapter 3**.

Numerous challenges are faced by both necessity entrepreneurs and opportunity entrepreneurs; however, there are significant differences in terms of contexts and needs. Those who become entrepreneurs by choice deliberately select this type of remunerative activity to boost their income and become more financially independent. Subsistence entrepreneurs are effectively forced into this line of work by necessity; with few formal employment opportunities available, they find themselves pursuing entrepreneurial activities that will allow them to survive. In developing countries, barriers to decent employment often push young people to start their own businesses, though the environment in which such businesses are launched may not be conducive to the sustainability of business operations. Large segments of the youth population may not be in a position to take advantage of social entrepreneurship as a personal career option (Chigunta, 2017), as family and other responsibilities may compel them to pursue lower-risk economic activities that provide a steady income.

The challenges faced by young social entrepreneurs are linked to a number of structural factors but also to individual characteristics such as age, gender, origin and education. Young women, for example, continue to encounter gender-based barriers – including cultural practices and social norms, a limited voice and low representation, and the unequal division of household responsibilities – in their efforts to start and grow social enterprises. Nonetheless, with the many barriers young people face with regard to civic and political participation (Elsayed, 2018) and as an option for meaningful employment (ILO, 2019), social entrepreneurship may represent an appealing model for youth engagement and development.



## CONCLUSION

Social entrepreneurship must be seen as one of a wide range of development strategies, and it comes with a number of caveats. Indeed, “successful entrepreneurship is rare, with the vast majority of entrepreneurs failing to provide the major innovations or creative destruction that can drive economic growth” (Azoulay and others, 2018, p. 2). It follows that promoting social entrepreneurship, and especially youth social entrepreneurship, is not a simple endeavour. With the appropriate support, social entrepreneurship may be a viable option for many youth, but it is not a panacea for the development and employment challenges young people face.

The reasons behind encouraging young people to become social entrepreneurs need to be carefully examined, and further discussion is needed to determine how entrepreneurial development resources can best be deployed to support youth in this area. Young people should not be forced into a line of work that may not suit them and where there is a high chance of failure, especially in challenging contexts (Wiger and others, 2015). However, where levels of interest and prospects of success are such that social entrepreneurship represents a viable option, the State must extend support that goes far beyond providing entrepreneurship training – which alone is unlikely to produce a positive outcome (Chigunta, 2002). Policymakers and key government agencies and institutions must play a pivotal role if social entrepreneurship is to become more widespread and

have a greater impact on society. It is especially important that the State and other relevant actors be prepared to provide long-term support, as potential entrepreneurs – particularly young people – need time to learn and build the necessary skills and experience to sustain successful social enterprises.

Businesses started in the informal sector run the risk of remaining there, and young entrepreneurs operating in this environment may find themselves involved in unsustainable or abusive trading schemes (Decent Jobs for Youth, 2017). To encourage youth to formalize their entrepreneurial activities, policymakers can provide opportunities and incentives or apply more coercive methods such as penalties for informal activity. In choosing the approach(es), policymakers should be aware of the wide range of identities and motivations characterizing these young entrepreneurs and where their businesses lie on the formal-informal spectrum (Williams, 2014).

This chapter has examined how social entrepreneurship can empower disadvantaged individuals and communities and more broadly contribute to efforts to realize the Sustainable Development Goals. It has also explored how social entrepreneurship can support efforts towards making development more inclusive and achieving large system change. The following chapter addresses youth development and how youth social entrepreneurship can make a difference both in the personal and professional development of young people as individuals and in the development of their communities.



Photo: ILO / Marcel Crozet