Working paper

Mixing business and social

What is a social enterprise and how can we recognise one?

Andrew Rogerson, Michael Green and Gideon Rabinowitz

December 2013

December 2013

Working paper

Mixing business and social

What is a social enterprise and how can we recognise one?

Andrew Rogerson, Michael Green and Gideon Rabinowitz

Abstract

This Working Paper seeks to clarify what is a social enterprise in a developing country context. It is written from a broad public interest perspective rather than one of an investor in such enterprises. We review some of the alternative descriptions in the literature to offer a relatively narrow definition, combining the primacy of the enterprise's social intent with robust financial viability thresholds. We then propose a rough-and-ready questionnaire tool and scoring scale that tries to locate candidate enterprises on these twin axes of social impact and financial sustainability. We apply this tool to a first small batch of relatively well-known cases, and then draw some preliminary lessons as to its potential wider applicability. We conclude that this modest effort illustrates both the difficulties and the value of clarifying concepts and definitions, and suggest it be extended to broader portfolios of candidate enterprises to refine the methodology.

Acknowledgements

We are grateful to Shelagh Whitley, also of ODI, and Chris West, CEO of the Shell Foundation, for their insightful peer reviews, and to other colleagues from think-tanks and the impact investing industry for their informal advice and comments. A partial version of this paper appeared as a blog on the Business Fights Poverty website in July 2013: http://community.businessfightspoverty.org/profiles/blogs/michael-green-andrew-rogerson-mixing-business-and-social-what

Table of contents

Abbreviations

Abbreviation	Description
BIA	Bridges International Academies
DFID	Department for International Development
GIIN	Global Impact Investing Network
HPS	Husk Power Systems
IRIS	Impact Reporting and Investing Standards
MDGs	Millennium Development Goals
NGO	Non-Governmental Organisation
OAF	One Acre Fund
OECD	Organisation for Economic Cooperation and Development
SE	Social Enterprise
WSC	Western Seed Company

Introduction

A clearer, generally agreed definition of what constitutes a social enterprise (SE) is needed for several reasons. First, despite manifold efforts,[1] mapping and tracking this supposedly booming set of institutions remains unfeasible without a consistent working definition. This generates avoidable and costly uncertainty. Second, lingering ambiguity around the definition makes it that much harder for 'real' SEs that could make a substantial contribution to poverty reduction to promote themselves effectively to customers, investors and regulators and to stand out from the 'also-rans'. And third, potential funders further afield, including official aid agencies and the taxpayers behind them, could benefit from better metrics on how they might identify SEs for possible support.

This Working Paper takes a 'public interest' perspective to try to understand what kinds of SEs we can look to deliver a significant contribution to poverty reduction. This is in contrast with much of the existing literature, which is written from the perspective of investors in SEs and providers of support to investors. Although these perspectives are not necessarily contradictory, we cannot assume they are identical. We treat SEs here as entities distinct from their external investors, regardless of legal forms.

We are therefore not focusing on investors' portfolios as such, although we hope these can also derive some benefit from our analysis. As a general proposition, any foundation investing primarily in SEs could be viewed as an SE in its own right. We do not pursue this discussion here because we are limiting our attention to SEs operating not just in/on developing countries, but also from a developing country home base. That said, some home-grown impact investment foundations are also expanding within developing countries.

[1] See Whitley et al. (2013) for detailed analysis of this point.

1 Defining a social enterprise

The definition of social enterprise/entrepreneurship is much debated in the literature. Box 1 presents some examples of the definitions in use in the academic and policy communities. These have been selected to illustrate the wide variety of approaches and the parameters of the concepts employed, helping us understand why the community of actors working with SEs faces a challenge in developing a clear and focused conceptual approach.

Box 1: Selected definitions of social enterprise/entrepreneurship

- Yunus (2009) defines an SE as a 'non-loss, non-dividend company that is created to address and solve a social problem'
- Whitley et al. (2013): 'An organisation committed to social and/or environmental returns as part of its core business while seeking profit or return on investment'
- BIS (2011): 'Businesses with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community'
- Dees (2001) states that 'Social entrepreneurs play the role of change agents in the social sector', including an emphasis on their 'recognizing and relentlessly pursuing new opportunities to serve that mission'
- Bornstein (2007) focuses on the character of social entrepreneurs, who are 'Transformative forces: people with new ideas to address major problems who are relentless in the pursuit of their visions…the social entrepreneur changes the performance capacity of society'

In deciding on a definition of SEs to use for this piece of research, we drew on these precedents and the broader literature in this area. Filtered through our public interest lens, this led us to focus on a relatively narrow definition of the term:

'An organisation intended primarily to pursue social impact, which is also financially viable.'

We note that this definition is asymmetric, combining intent on the social dimension with fact on the financial one. Social impact is the objective here, and achieving minimum financial viability the constraint. (However, as self-identification of social purpose is open to abuse, we do combine it with factual tests of social impact in our assessment tool below).

In focusing on the primacy of SEs' social purpose (consistent with the definition of Yunus and the UK government), this approach contrasts somewhat with those (e.g. Whitley et al., 2013) that ask only that the social mission of such enterprises be explicit and significant, and of lesser, or undetermined, importance relative to their financial goals. The combination of this primacy with a focus on achieving a minimum threshold of financial sustainability also seems compatible with the alternative term of 'social business', which is often used to address this field of endeavour.

As illustrated in Box 1, a broader tradition goes back to the work of Greg Dees, who focuses on SEs as *change makers*, and David Bornstein, who emphasises the focus of SEs on *transforming society*, neither of which highlights financial viability. However, our interest in the potential of SEs to attract new resources for development – additional (in at least a modest and gradual way) to both philanthropic and government grants – led us to choose our narrower interpretation.

This still leaves us with the not inconsiderable task of unpacking what we mean by the terms 'social impact' and 'financial viability', in order to present a full picture of the definition we are using.

1.1 Defining social impact for social enterprises in a development context

'Social impact' is a term that is always hard to define in the abstract. Given that we are addressing these questions from the perspective of global development and poverty reduction, as enshrined in, for example, the Millennium Development Goals (MDGs), we think it has two dimensions:

- Reach. First, if a SE is to achieve important social impact within an MDG context, its target group should be large – in the thousands at least, preferably much larger yet. It should also ideally contain at least the same share of poor people as the region or country as a whole, a measure that helps identify how well the SE focuses on supporting the most disadvantaged groups. We define 'the poor' as those living on less than $2 a day – the global moderate poverty line. We chose an income per capita measure rather than one focused on marginalised or under-served groups because this is easier to apply and also has widespread use in the development sector. In choosing an intermediate income level of $2 a day, we wanted to resist the limited ambitions of a higher threshold (of, say, $4, below which the vast majority of many developing countries' populations live), yet not restrict the scope of SEs too much by selecting the $1.25 global extreme poverty line.2

- Depth. The second dimension relates to the idea of an SE helping generate substantial, rather than marginal, social or environmental value for all they serve, which is consistent with the goals of most development agencies. This notion of substantial value we interpret as significantly (ideally by one-third or more, see below) improving access to, affordability of or income generated by goods and services

[2] One reviewer of this paper noted that SEs may begin by serving the non-poor, to establish themselves in the market, and then expand towards the bottom of the pyramid, cautioning that focusing exclusively on affordability for the poorest may lead to an overemphasis on lowering price through subsidy rather than quality/durability of product. We use the $2 a day poverty line to address this, recognising that it may be only after a transitional period that an SE will penetrate the poorest segments of the market.

> consumed or produced by the poor, as compared with current alternatives after adjusting for major quality changes and environmental impact.

Some experienced SE observers would prefer to go further than this, conferring the SE brand only on those who *transform* the whole market equilibrium in their areas,[3] and classifying the rest in a lesser category of 'social providers'. We do not go that far, although we agree it would be useful to try to identify the minority of SEs that are *also* transformative in this larger sense.

Similarly, using our definition of social impact helps identify SEs as businesses designed *primarily* for this purpose. But we can accept that for-profit businesses created for other primary purposes (such as generating maximum value for shareholders) could potentially also create massive social value, as in Michael Porter's 'shared value' hypotheses (Porter and Kramer, 2011). We treat these as a case apart, not as SEs.

Setting a benchmark for measuring social impacts is particularly problematic. As businesses, SEs rightly focus on gathering data that are useful for operations or for reporting to investors. Yet, as a result, SEs' reporting of social impacts is often hard to compare between SEs or between impact investment funds. The Impact Reporting and Investing Standards (IRIS), propagated by the Global Impact Investing Network (GIIN), offer a relevant benchmark for the sector, although we accept that there are significant issues about both the effectiveness of these metrics as measures of social impact and their adoption by SEs.

1.2 What is the financial 'acid test' for a social enterprise?

Our definition of financial viability is that an SE must be able over the medium term (say five to ten years) to, as a minimum, break even, service reasonable debts, set adequate funding aside as a cushion for shocks and expansion and, ideally, provide acceptable returns to investors. However, as enterprises are at different stages of their trajectories to viability, in our assessment tool we define various intermediate thresholds. We also identify another two areas where SEs need to meet particular standards in order to satisfy a test of financial sustainability. First, as a test of whether the SE can operate sustainably without external support, the pay of its managers should be neither too far below (an implicit subsidy) nor too far above (often underpinned by external assistance) market rates. We also require SEs to generate their income predominantly from commercial activities. How are all of these standards different from those one would set for any for-profit business? They are not intended to be, although a purely commercial start-up may not have quite so patient funders. Since it may be a quality of at least some SEs that they require patient capital because they will take significantly longer than a non-SE to reach financial viability, we recognise that our timeframe for break even, at five to ten years, may be demanding.

We faced a challenging further set of questions in exploring whether to set standards for the level and use of profits as part of the definition of an SE. The case for a profit ceiling would be based on a concern that there is a trade-off between profit and impact, as Muhammad Yunus has highlighted with regard to microcredit (Yunus 2011), and may be the motivation for a number of high-profile impact

[3] This is a theme proposed by Bornstein (2007); it is also a theme the US Agency for International Development (USAID) is trying to emphasise through programmes such as Development Innovations Ventures.

investing actors to pursue below-market returns.[4] As regards the use of profits, a number of SE regulatory bodies in Organisation for Economic Co-operation and Development (OECD) countries,[5] as well as Yunus (in stating that SEs should be 'non-dividend'; see Box 1) believe the owners of SEs should be focused on reinvesting profits in the company rather than extracting them, a characteristic they seem to view as a test of their commitment to a social mission.

We decided not to apply such standards for profit levels or the use of profits in our definition of an SE, for both theoretical and practical reasons. As regards profit levels, we do not feel there is a sufficiently strong basis for setting a profit ceiling, given that the trade-off between profit and impact is much disputed. For example, IGNIA defends its support for microfinance companies achieving competitive market returns on the basis that such an approach helps microcredit expand more quickly and sustainably and increase its impact.[6] Second, in relation to the issue of use of profits, there are many other ways that surpluses can be extracted from a company – in addition to dividends, one could use an Initial Public Offering or high levels of executive pay – and addressing each of these in assessing the operations of SEs would be very difficult indeed. A final point to make here is that we do not feel such standards on profits are necessary, once the primacy of the social intent of an enterprise (a central element of our definition of SEs) is established, independently of its finances.

Are we therefore left relying too much on how an organisation self-identifies, and risking accepting at face value highly profitable businesses that happen to assert some social purpose? We should not (and we do not in what follows) rely solely on the mission statements of SEs, but also scrutinise their operations so as to verify the reach and depth of their social impact. However, we accept that the way most SEs and impact investors report on how the balance is struck between the social and the financial is far from being clear or consistent. Our findings must therefore be seen within the constraints of publicly available sources and our best judgements from limited information. We discuss next steps to mitigate the risks of this approach below.

[4] This is the case, for example, with the stated policies of the UK Department for International Development's (DFID's) new Impact Fund, Omidyar Network (below risk-adjusted market returns) and Acumen (which seeks to achieve a 1x gross return of capital invested, with maximised social impact).
[5] Qualification for the Social Enterprise Mark in the UK requires that at least 50% of profits are reinvested; Social Traders in Australia includes reinvestment of the majority of profits as one of its standards for SEs; and the Korean Social Enterprise Promotion Agency requires that two-thirds of profits be reinvested.
[6] Álvaro Rodríguez Arregui, Co-founder and Managing Partner of IGNIA Partners, made this point in a presentation at the 2013 Skoll World Forum in April 2013.

2 Pilot questionnaire tool and scoring scale

Our next step is to propose a simple questionnaire-based assessment tool to help assess the characteristics of SEs and to judge the degree to which they meet the core definition and standards we have established in relation to social impact and financial sustainability.

Table 1: Social enterprise classifications – GRR pilot questionnaire and scoring scale

Social impact standards	Financial sustainability standards
• Organisation is intended primarily to pursue social impact • Large target group • Beneficiary group contains at least the same share of poor people as the region or country as a whole • Reports regularly and robustly on its impacts • Supports deep improvements in the affordability of (or income generated by) goods and services consumed or produced compared with current alternatives	• Able over the medium term to achieve positive gross margins, break even and provide acceptable returns to investors • Sustainable levels of pay for senior management • Generates majority of income from commercial revenues

Note: GRR is used for the authors' names, for ease of reference.

The experimental questionnaire we propose is presented below. It consists of a set of 10 multiple-choice questions, 5 on social intent and impact and 5 on financial viability (see Table 1).

2.1 Part A: social impact dimension.

1. Does the enterprise set for itself the aim: (a) primarily of achieving social impact; (b) of achieving social impact as a goal that is equally important to that of to achieving financial returns; or (c) primarily of achieving financial returns?
2. Does it regularly publish and report against social impact indicators: (a) publishes and reports in an internationally recognised format[7]; (b) publishes and reports in its own format (c) does not publish and report (but may collect for its own use)?

[7] This could be based on registering its impact data with IRIS or other internationally recognised standard-setting networks. The key principle, however, is transparency: the SE volunteers to have its impact compared regularly with that of others in similar contexts, as against making data available only on a subjective, limited basis.

3. Roughly how many people are expected to derive benefit directly from its services when it reaches full development in say, five to ten years (a) hundreds of thousands or more; (b) thousands; (c) hundreds or fewer?
4. What proportion of its direct beneficiary group lives below the absolute ($2/day) poverty line: (a) significantly more than the national share (b) about the same as the national share; (c) significantly less than the national poverty share?
5. In terms of the affordability of the enterprise's products and services and / or support to income, does it deliver clear improvements compared with the beneficiaries' best alternative option (adjusted for quality and environmental impact where relevant[8]) of: (a) significantly more than 33%; (b) between 20% and 33%; (c) less than 20%?

2.2 Part B: business viability and sustainability

6. Does the enterprise (or its external sponsors) offer its top managers a remuneration package that is (a) about at local market benchmarks[9]; (b) well above local market benchmarks[10] (c) well below local market benchmarks?[11]
7. Does the enterprise, once it has finished the start-up phase, generate all or most of its cash flow from sales of goods or services to third parties: (a) yes (b) no, but it expects to do so within about three years (c) only later, if at all?
8. Is it expected to make a positive gross margin (before financing costs): (a) within five years of start-up; (b) within 10 years of start-up; (c) later, if at all?
9. Will it also cover its financing[12] costs, and provide at least a zero real return to equity and quasi-equity, without external subsidies (a) within five years of start-up (b) within ten years of start-up (c) beyond ten years, if at all?
10. Does the SE expect to expand over five to ten years from start-up primarily: (a) by relying on internally generated resources, owner/manager equity, or franchising; (b) through capital market mechanisms, including public offerings and/or mergers and acquisitions, or market-rate debt instruments; (c) by recourse to investors who accept below-market returns?

Scores for all questions: (a) 10, (b) 5 (c) 0

2.3 Thresholds for total scores

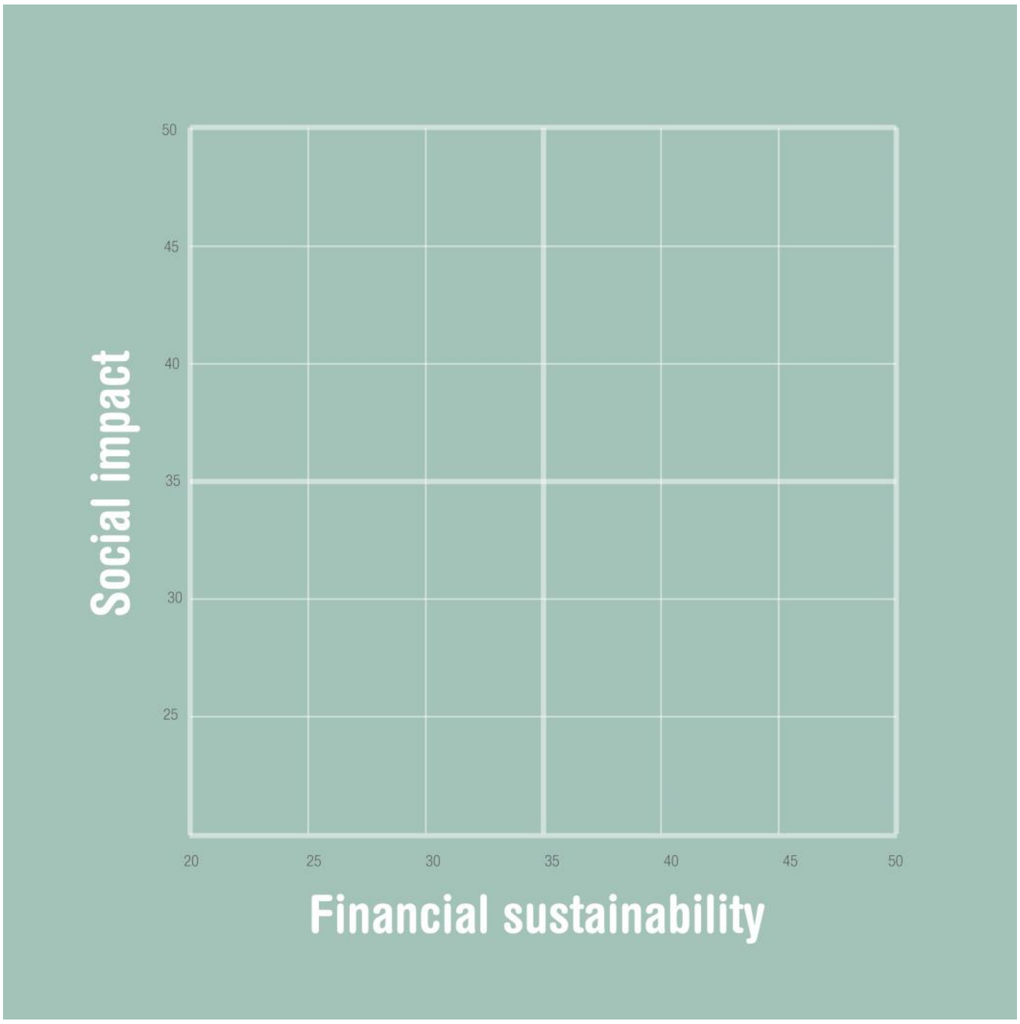
Scoring matrix
The scoring scale has a maximum possible total score of 100, within which we suggest the following thresholds:

- 70 or above, with 35 or more on **both** Part A and Part B, implies a fully validated SE.

[8] We recognise that adjusting for quality improvements is very challenging, especially where an SE has introduced a truly transformative good or service.
[9] Here, we use local businesses as the benchmark. We recognise that this may be lower than salaries in international non-governmental organisations (NGOs) and official aid agencies that are fishing in the same talent pool.
[10] We judge (ii) as preferable to (iii) as risky start-ups often have to use higher incentives to attract talent.
[11] Ideally, this issue needs to be viewed over a reasonable transition period, with credit given for a credible exit strategy for attracting replacements on market-based terms.
[12] In the sense of ITDA = interest, taxes, depreciation and amortisation. Accounting definitions vary across countries, but the principle is that the enterprise is ultimately able to service its debts, set aside adequate funds for renewal of assets and at least preserve if not remunerate investor capital. A distinction is also drawn here between equity, which offers a claim on future income streams, and subsidies/grants, which do not.

- 60-65, with 35 or more on Part A (hence 30 or less on Part B) implies an organisation with significant enterprise features, bordering on an SE but tending towards ‘non-profit trading activities’.
- 60-65, with 35 or more on Part B (hence 30 or less on Part A), implies a sound business with significant social dimensions, bordering on an SE.
- 50-55, with 25 or less on Part B, implies a non-profit with trading activities with limited financial sustainability.
- 50-55, with 25 or less on Part A, implies a business enterprise with limited social impact.
- 45 or less, that is, a maximum score of 20 on at least one dimension, raises major doubts about the validity of the enterprise’s business model and/or its social impact.

Figure 1: GRR scoring matrix



In presenting the GRR questionnaire tool, we want to highlight some significant health warnings relating to it. First, and most obviously, **a number of aspects of our scoring system are not empirically grounded and are to some degree necessarily arbitrary**. This critique applies to our boundaries for the scoring on most of the questions we ask, a prime example of which is Question 5, where our proposed boundaries for price/income/quality improvements achieved by SEs, though plausible, have no empirical basis. It also applies to the thresholds we apply in the total scoring and categorising of the enterprises in question. We have no fix yet on the mean and variance of such scores in the wider world of potential SE candidate enterprises, and therefore on whether the thresholds are being pitched too high or too low. The scoring system should therefore be viewed as a conscious effort to model what relatively strong performance on both social and financial dimensions looks like, using a non-representative pilot group of enterprises we had reason to believe would perform well, perhaps much better than many others. We hope to have the opportunity to conduct multiple further tests, and thereby examine trends across a larger cohort.

Second, we tried to limit as much as possible the scope for subjective judgment, hoping that such assessments could readily be replicated by others with quite similar patterns of results. In fact, this endeavour proved hard for some questions (e.g. on remuneration of senior staff, Question 6) and may introduce unintended distortions for others. So, for example, we asked whether enterprises published performance against social impact indicators using international standards such as IRIS (Question 2), published performance against their own standards or simply did not publish them, and scored these answers in declining order. Ostensibly, there is relatively little wriggle-room for judgement here, and this approach reinforces incentives for universal tracking against accredited benchmarks. However, it is entirely possible today that an SE publishes performance against different, maybe non-compliant but perhaps nonetheless more meaningful, impact indicators. It could only be recognised as such after a detailed investigation, which would be prohibitively costly to carry out on any great scale. In the results by enterprise below, we show those questions where we faced the greatest uncertainty. (Incidentally, we used consensus scoring involving all three authors for each question and case, which helps raise the objectivity bar.)

Third, we tried to use consistent timelines looking forward three, five and ten years ‘from start-up’, but in practice some of the best-publicised cases already have track records going back one or even two decades. Rewinding to their early histories, which are often not web-documented, made little sense. For these, therefore, we looked to the most recent information available and made our assessment on the basis of this. This meant that, in the case of organisations with a long history, financial viability and successful expansion were much more likely to be assured, achieving maximum points. At the other end of the scale, although we did not see an example of this within our candidate enterprises, would be a ‘paper tiger’, still at the design or early piloting phase, with little track record to go on. Unfortunately, using our approach, cases in the middle maturity stages – with high turnover but not yet breaking even – might be penalised. Suggestions on how to mitigate this particular bias would be gratefully accepted.

3 Our social enterprise assessment tool: the GRR questionnaire

In order to provide a practical illustration of the SE assessment tool we present in this paper, this section attempts to apply it to assess six enterprises that are currently being supported by impact investors, based on publicly available information about them. It is not clear how many of these enterprises are currently promoted by their owners and/or investors specifically as SEs; however, they appear from published descriptions to be the type of organisation that can be assessed using this tool. What follows is an overview of the results of our assessment of these enterprises (the **question number** and **points awarded** are presented thus in the brackets following each relevant piece of information):

3.1.1 Aravind Eye Care (Total: social 40 points; financial 50 points)

- What? Established in 1979, Aravind is a network of eye hospitals in India working to widen access to treatments relating mainly to cataracts, especially for the poor (Q**1:10 points**).
- Social performance – not listed as an IRIS user but reporting some data; (Q**2** – **5 points**); the roughly 40% of its patients who pay for its services provide revenues to deliver a high-quality service for the other 60% (**Q4** – **5 points**), 'non-paying' poor, patients (Q**5** – **10 points**); in 2006/07 Aravind performed over 270,000 surgeries (Q**3** – **10 points**).
- Financial performance – strong indications it relies on regularly employed staff (Q**6** – **10 points**); its operational revenues have exceeded its operational expenses since its first couple of years of operations (Q**7** – **10 points**, **Q8** – **10 points**, **Q9** – **10 points**); it expanded on the back of its own resources rather than donations (which were 10% of income and 20% of surplus generated in 2002/03) (Q**10** – **10 points**).

Source: Rangan and Thulasiraj 2007; IE 2010

3.1.2 Bridge International Academies (Total: social 45 points; financial 40 points)

- What? Established in 2007, BIA is a network of private (currently) pre-primary and primary schools in Kenya (although it is beginning its expansion into other countries) targeted at communities of people living on less than $2 a day (**Q1** – **10 points**).
- Social performance – not listed as an IRIS user but reporting some impact data (**Q2** – **5 points**); focus is on quality (mostly higher than that achieved by government schools) at a cost of $5 a month, lower than 70% of private schools (**Q5** – **10 points**); 46,900 children have

enrolled to date (**Q3 – 10 points**); specifically targets communities of people living on $2 a day (**Q4 – 10 points**).

- Financial performance – some international technical assistance involved, but seems to be strong push towards localisation (**Q6 – 10 points**); generating most of its revenues from operations (**Q7 – 10 points**); not clear to what degree it is yet achieving gross margins and prospects for covering full costs, although support from private equity suggests a promising model (**Q8 – 5 points, Q9 – 5 points**); expanding through franchising model (**Q10 – 10 points**).

Source: BIA 2013

3.1.3 Husk Power Systems (Total: social 35 points; financial 50 points)

- What? Established in 2007, HPS provides electricity to off-grid communities in India (**Q1 – 10 points**), generated by processing rice husks.
- Social performance – not listed as an IRIS user but reporting some impact data (**Q2 – 5 points**); has now installed 84 plants that serve over 200,000 people (**Q3 – 10 points**); communities targeted are off the grid so likely to be poor, but it is not clear to what degree it is serving those living on less than $2 a day (**Q4 – 5 points**); it is claimed that customers save 30% compared with their next best alternative (e.g. burning kerosene for light); there are also potential health benefits from stopping burning kerosene in the home (**Q5 – 10 points**).
- Financial performance – an indigenously founded organisation, so likely to be using market-comparable pay structure (**Q6 – 10 points**); we did not find conclusive evidence on its financial performance, but International Finance Corporation (IFC) analysis suggests its plants have achieved good revenues and margins (**Q7 – 10 points; Q8 – 10 points**) and the company is moving towards self-sufficiency; also, has attracted funding from development finance institutions so is likely to have good profit prospects (**Q9 – 10 points**); expanding through franchising (**Q10 – 10 points**).

Source: IFC 2011; HPS 2012

3.1.4 One Acre Fund (Total: social 45 points; financial 20 points)

- What? OAF is a non-profit established in 2006 to support small-scale farmers (**Q1 – 10 points**); it provides a package of farming inputs (both physical and technical) facilitated through microcredit to small-scale farmers in a number of East African countries.
- Social performance – not listed as an IRIS user but reports significant amounts of impact data (**Q2 – 5 points**); OAF is currently working with 135,000 farming families (**Q3 – 10 points**) and claims its farmers increased take-home farm income by 100% per acre in their last harvest (**Q5 – 10 points**); not clear who the farmers are in terms of levels of poverty, but given that they are smallholders most are likely to be earning below $2 a day (**Q4 – 10 points**).
- Financial performance – some international technical assistance involved, but seems to be strong push towards localisation (**Q6 – 10 points**); in 2010, farmer repayments were covering 60% of field costs (**Q7 – 5 points**); by 2012 this figure was 84% (**Q8 – 5 points**); it aims in the long run to sustain programmes with farmer repayments and rely on donor contributions only for programme expansion (**Q9 – 0 points; Q10 – 0 points**).

Source: OAF 2013a; OAF 2013b

3.1.5 Western Seed Company (Total: social 30 points; financial 40 points)

- What? WSC is a company established in 1990 which produces high-quality improved stress-tolerant hybrid seed for farmers in mid-altitude regions of Kenya; it manages all parts of the value chain from research and development to production, marketing and distribution (**Q1** – **5 points**).
- Social performance – not listed as an IRIS user and reporting very limited data (**Q2** – **0 points**); in 2011, 360,000 smallholders bought products from WSC (**Q3** – **10 points**); its customers are typically smallholders who utilise 2-6 kg of seed a year, which is possibly more upwardly mobile farmers (**Q4** – **5 points**); seeds are marginally more expensive than from the dominant company in the market (part owned by government) but are higher yielding; WSC's improved seed is cheaper than that of multinationals; claimed overall income benefit from hybrid seed is $94 per acre (**Q5** – **10 points**).
- Financial performance – has increased its salaries to above that of competitors since new investment, but indigenous company and unlikely to be substantial differential (**Q6** – **10 points**); revenue doubled 2007-2011 (**Q7** – **10 points**); as of 2011, was achieving an annual 11% return to its investors (**Q8** – **10 points; Q9** – **10 points**); WSC was funded internally on a relatively modest scale until 2007, when funding from below-market rate investors began (**Q10** – **0 points**).

Source: PCP/Gatsby 2011

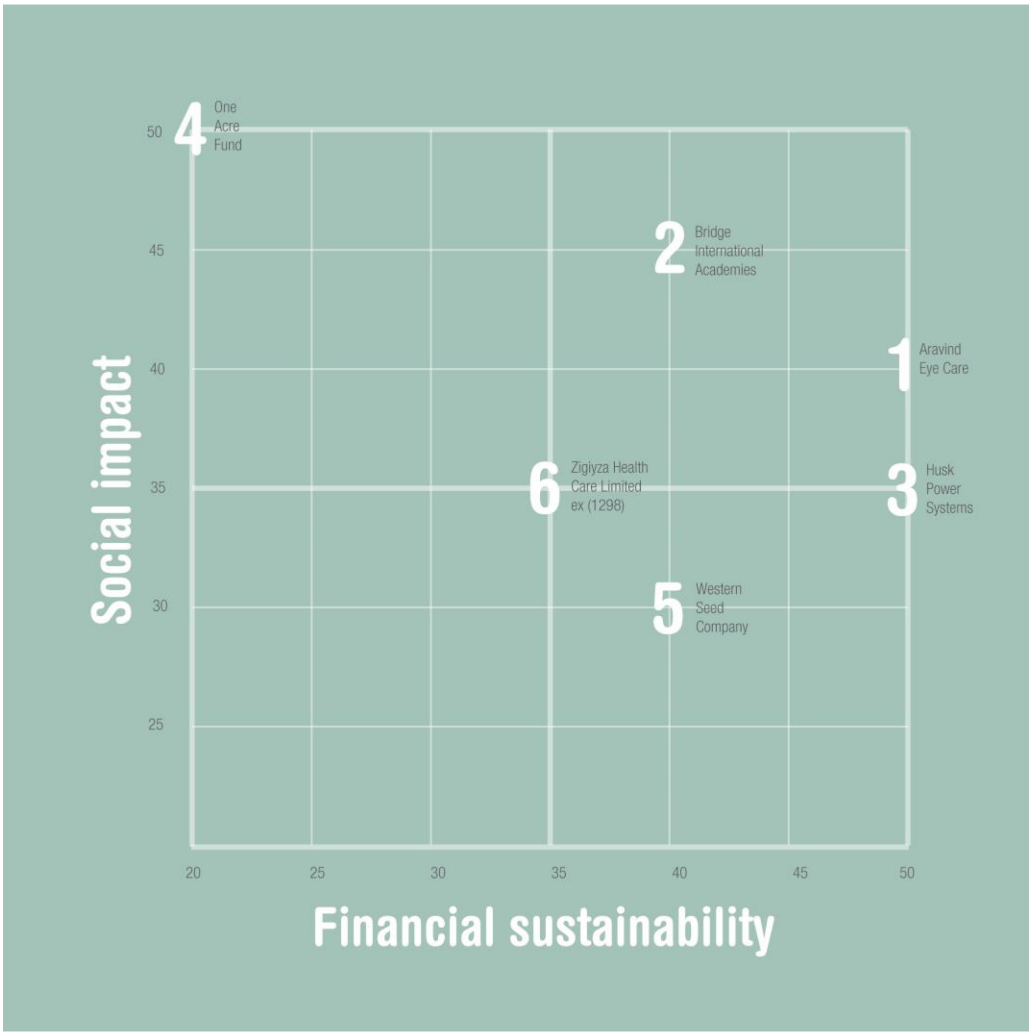
3.1.6 Ziqitza Health Care Limited (ex 1298) (Total: social 35 points; financial 35 points)

- What? Established in 2002, Ziqitza is a private ambulance service in India, with differential prices for poorer clients.
- Social performance – operates through a cross-subsidisation approach, with patients going to state hospitals pay half the rate than those going to private hospitals; c20% of patients pay these lower rates, 80% pay full price (**Q1** – **5 points**); not listed as an IRIS user, but reporting some impact data (Q**2** – **5 points**); claims to have served 228,000 people to date (**Q3** – **10 points**); only 20% subsidised, so most likely to be on incomes above $2 a day (**Q4** – **5 points**); not clear how it compares with alternative options, but does seem to be filling a gap in the market (**Q5** – **10 points**).
- Financial performance – indigenous company so management pay likely to be at market rates (**Q6** – **10 points**); it has attracted some significant mainstream private equity investment since 2007 so revenues and margins likely to have been reasonable (**Q7** – **5 points; Q8** – **5 points**); it is reported to have broken even in 2011 (**Q9** – **5 points**); most of its turnover is now through public–private partnerships with a number of state governments (**Q10** – **0 points**).

Source: GlobalLens 2010; Entrepreneur 2012

To further illustrate these cases, Figure 2 shows the overall rating each achieved on both social impact (on the y axis) and financial sustainability (on the x axis), with the zones for overall categorisation also marked out.

Figure 2: Assessment scores and categories for test social enterprise cases



3.2 Summary of results

At least three of the six cases achieved the scoring threshold on both dimensions to qualify as SEs. These were **Aravind Eye Care, Husk Power** and **Bridge Academies**, all at 80 overall, with high scores on both counts.

One, **Ziqitza,** gets just the minimum amount in both dimensions (35) to qualify as an SE, with 70 points overall. However, this score must still be considered finely balanced, given the question marks against, in particular, its financial sustainability. Ziqitza has expanded recently, mainly by taking on large government service contracts, receiving associated vehicles apparently off its own balance sheet, which suggests we may have been pessimistic about its ability to cover financing costs and continue to thrive unsubsidised. Our information is not yet sufficient to firmly judge this.

The fifth case, **One Acre Fund**, with a slightly lower aggregate score (65), has lopsided results and fails to reach the SE category because of its low financial sustainability (20), even though it attains very high marks for social impact. OAF is a social endeavour with significant commercial features. To move to SE status, it would need to show it could credibly break even and make modest profits to cover financing costs etc. on some near horizon. This is presumably possible, but not easy, especially given that its delivery model is based on a given ratio of farmers to extension staff.

The sixth case, **Western Seed Company**, just misses the full SE standard at 70, with concerns from the direction of a clear social impact primacy (30). Here moreover the question marks, if removed, would most likely have an upside effect on its scoring as against downside effect.

As can be seen from the results of this analysis, there is an inherent bias towards relatively more successful would-be SEs. This is because we wanted this questionnaire to be based entirely on information in the public domain, which pushed us towards those organisations that sponsors/investors have been publicising more substantially – that is, their 'poster children'. However, it can also be seen that we found considerable variation within even this small initial group, with a couple of decidedly borderline cases and one out of six that did not reach the SE threshold. This made us think – we return to this in the final section – that 'true' SEs are not so frequently found in nature.

4 Conclusions and next steps

We can make no claim to have developed a silver-bullet solution that allows for an accurate and low-cost triage between SEs that clearly deserve public attention and support as such (if only in terms of political goodwill) and perhaps less deserving representations by either (i) non-profits that do not yet have a fully viable business model, but hope to get there eventually; or (ii) commercial businesses whose primary focus remains shareholder value.

Nonetheless, we feel this exercise is a valuable one, based on two fundamental purposes it serves: (i) bringing attention to the importance of deepening debate about the role and nature of SEs in order to bring more rigour to this area of policy and practice; and (ii) illustrating the types of practical tools that can be used to assess SEs and inform research, sector monitoring and investment decisions.

4.1 Debate on the role and nature of SEs

In proposing an approach to assessing SEs, we hope this paper will make a contribution to clearing up some of the most troubling ambiguities in the discussion of social enterprises, social businesses or 'social first' versus 'finances first' ventures. However, we realise its most important contribution might be to stimulate further debate about the importance of and how to address the wide variety of issues we raise. Among those that seem to be most fundamental and requiring of urgent attention are:

- **Timeframes for financial sustainability:** In selecting a suitable timeframe for SEs to become financially sustainable, we had sympathies for the position that this is a unique area of investment requiring more patient long-term perspectives. However, this is clearly an issue that requires further debate.
- **Models to pursue social impact:** We decided against prescribing standards for how enterprise owners deal with surpluses and profits (an approach SE regulatory bodies favour), in favour of taking an agnostic approach to business models pursued and setting standards for actual social impact achieved (an approach impact investors favour). This leaves open the question whether these perspectives can be combined in some way
- **Transparency:** As highlighted in our assessment of the test cases, there are some important limits to the information publicly available on organisations' operations, especially in relation to finances. This poses obstacles to those trying to understand and engage with the activities of such organisations and suggests there will be benefits to encouraging greater transparency in the functioning of organisations working in this space.

- **Impact measures:** None of our test cases seems to be formally applying the GIIN's IRIS, although many are reporting extensive impact data of their own. We penalised all of our test cases on this basis, given the concerns this raised about the standards their impact reporting meets. We are aware that this is an unsatisfactory approach and that it suggests there may be benefits to introducing a more widely applied quality mark for the impact reporting of organisations working in this space.

4.2 Proposing a practical tool for assessing SEs

The second contribution we feel this paper makes is in giving illustration to the type of practical tool that could be used by actors eager to engage with and/or support SEs to identify their targets. As indicated earlier, the GRR scoring tool may come across as too simplistic for impact investors who possess much more information on the target SEs and have, in addition, set up very specific limits for what level of financial returns they seek and for any trade-offs they are willing to accept between social and financial return. We do hope some of them, and perhaps the specialised network secretariat GIIN, will be able to adapt and improve our tool nonetheless.

4.3 Next steps

By way of next steps, we intend, first and foremost, to make ourselves available for desk reviews of other sets of SEs (and of course corrections on our scoring of the six first cases). This could be done on a strictly confidential, anonymised basis if individual foundations were willing to share their information, with the results published subsequently only in terms of averages, perhaps by region or sector. This would greatly improve our ability to set better threshold scoring levels, for example.

Second, we intend to use this definitional framework in research ODI is already undertaking on private models for social innovation more generally and on the case for public support to such models.

References

BIA (2013), BIA website, accessed November 2013 at: http://www.bridgeinternationalacademies.com

BIS (Department of Business, Innovation and Skills) (2011) *A Guide to Legal Forms for Social Enterprise*. London: BIS.

Bornstein, D. (2007) *How to Change the World – Social Entrepreneurs and the Power of New Ideas*. Oxford: Oxford University Press.

Dees, G. (2001) 'The Meaning of "Social Entrepreneurship"'. Durham, NC: Center for the Advancement of Social Entrepreneurship, Duke University.

Entrepreneur (2012), 'Ziqitza to the rescue', article in Entrepreneur, online magazine, published 29th October 2012, accessed at: http://entrepreneurindia.in/people/social-entrepreneur/ziqitza-to-the-rescue/16101/

GlobalLens (2010), 'Ziqitza Healthcare Limited: Scaling Emergency Medical Services across India', GlobaLens, The William Davidson Institute at The University of Michigan.

HPS (2012), 'Husk Power Systems – Power to Empower', Husk Power Systems, Bihar, India.

IE (2010), 'Aravind Eye Health Care Operations', IE Business School, Basel, Switzerland.

IFC (2011), 'Inclusive Business Models: Guide to the Inclusive Business Models in IFC's Portfolio – Husk Power Systems', pp28-29, IFC, Washington DC.

Martin, R. and Osberg, S. (2007) 'Social Entrepreneurship: The Case for Definition'. *Stanford Social Innovation Review*, Spring: 28-39.

OAF (2013a), OAF website (results-dashboard section), accessed November 2013 http://www.oneacrefund.org/results/dashboard/

OAF (2013b), 'One Acre Fund - Year-End 2012 Performance Report', One Acre Fund, Bungoma, Kenya.

PCP/Gatsby (2011), 'Impact investment – Understanding financial and social impact of investments in east African agricultural businesses', Pearl Capital Partners and The Gatsby Charitable Foundation

Porter, M. and Kramer, M. (2011) 'Creating Shared Value'. *Harvard Business Review* 89(1&2): 62-77.

Rangan and Thulasiraj (2007), 'Making Sight Affordable', V. Kasturi Rangan and R.D. Thulasiraj, Innovations, Fall 2007.

USAID (US Agency for International Development) (2013) 'FY2013 & FY2014 Development Innovation Ventures Annual Program Statement'. Washington, DC: USAID.

Whitley, S., Darko, E. and Howells, G. (2013) 'Impact Investing and Beyond: Mapping Support to Social Enterprises in Emerging Markets'. London: ODI.

Yunus, M. (2009) *Creating a World Without Poverty: Social Business and the Future of Capitalism*. New York: PublicAffairs.

Yunus, M. (2011) ‘Sacrificing Microcredit for Megaprofits’. *New York Times*, 14 January.

ODI is the UK's leading independent think tank on international development and humanitarian issues.

Our mission is to inspire and inform policy and practice which lead to the reduction of poverty, the alleviation of suffering and the achievement of sustainable livelihoods.

We do this by locking together high-quality applied research, practical policy advice and policy-focused dissemination and debate.

We work with partners in the public and private sectors, in both developing and developed countries.

ISSN (online): 1759-2917

ISSN (print): 1759-2909

Cover image: Flickr/World Bank

Overseas Development Institute
203 Blackfriars Road
London SE1 8NJ
Tel +44 (0)20 7922 0300
Fax +44 (0)20 7922 0399

ODI is the UK's leading independent think tank on international development and humanitarian issues.

Our mission is to inspire and inform policy and practice which lead to the reduction of poverty, the alleviation of suffering and the achievement of sustainable livelihoods.

We do this by locking together high-quality applied research, practical policy advice and policy-focused dissemination and debate.

We work with partners in the public and private sectors, in both developing and developed countries.

ISSN (online): 1759-2917
ISSN (print): 1759-2909

Overseas Development Institute
203 Blackfriars Road
London SE1 8NJ

Tel +44 (0)20 7922 0300
Fax +44 (0)20 7922 0399

Cover image: Flickr/World Bank