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Conference Paper

Growing the social economy in a fiscal crisis

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The Global Society

Growing the Social Economy in a Fiscal Crisis

The Challenges

The financial crisis in the western financial system seems to have past its apex and the banking system, especially certain large investment banks, appear in nearly rude health. However, the cost of the rescue has been borne by governments, or more specifically the taxpayer.

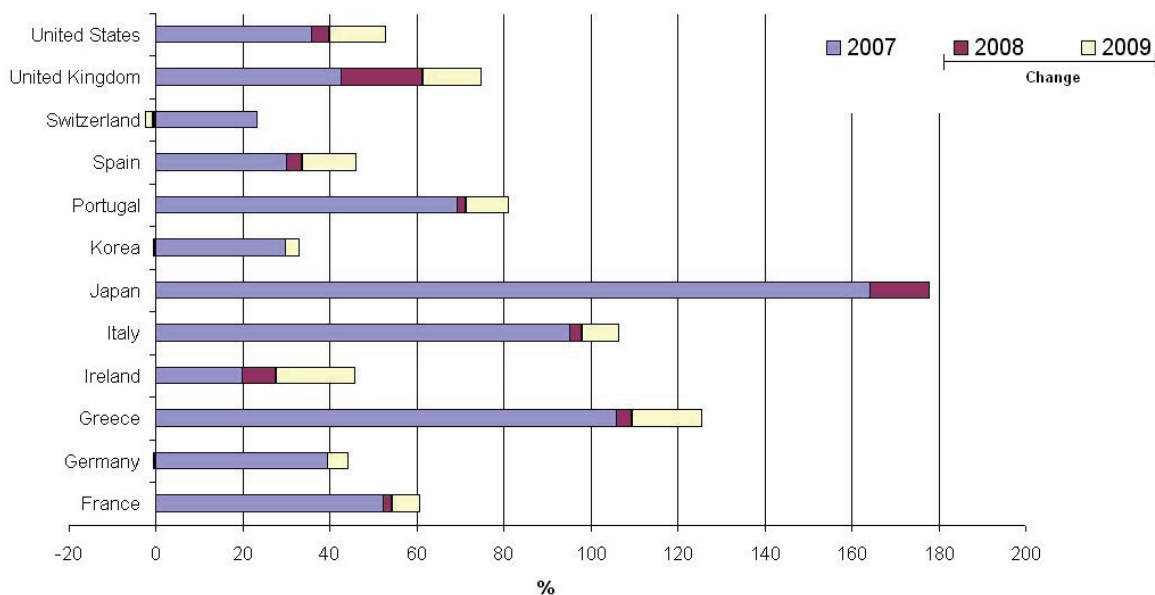


Moreover, the deep recession caused by the meltdown has severely depressed corporate profits, reducing tax intake, and government efforts to stimulate the economies has seriously depleted fiscal reserves.

A number of western countries (and the Euro) have been pushed to the brink of collapse, with many European countries in serious state, owing to governments' financial positions and the response of bond, currency and share markets. As actions unfold to cope with the crisis, citizens in countries such as Latvia, Iceland and Greece have engaged in mounting civil unrest. Domestic tranquility is threatened as the extent of public service delivery and state welfare systems are likely to be reduced.

Into this brink step social businesses and enterprises. Introduced conceptually to last year's GES, these organizations contain considerable advantages in public service delivery—especially with respect to funding and input costs, especially labor. They deploy their creativity, skills and hard work to utilize the methodology of capitalism for social outcomes.

Growing public debt during the credit crisis





However, the sector, though it has grown fast is still very small; at best 5–10% of GDP. Although its activities save governments millions in expenditure, this benefit is hard to capture and incentivizing its generation is problematic. Moreover, many social enterprises have relied on governmental largesse, and the financial structures in which they reside have been highly subsidized. How can the sector see its scale increase massively, for the public benefit, while at the same time reducing its state reliance, or becoming a net contributor to the public purse? This raises important questions, including:

- What role can private capital flows play in social investment, and how can this be encouraged or facilitated?
- The corporate sector is already fostering social innovation; how can this be accelerated?
- What can governments do from a legal and fiscal perspective that is revenue neutral or better to address problems in poverty alleviation, transport infrastructure, health, education and training, criminal justice, the environment and welfare provision?
- Are academia, civil society and the non-governmental organization (NGO) sector promoting socially entrepreneurial solutions? How can this be made more effective?

Proposed Solutions

Minou Fuglesang

Founder and Executive Director, Femina HIP

Femina—10 years to reach 10 million

Solution to creating nation wide citizen engagement and building social capital

Femina HIP, the citizen media initiative, started as a small project in Tanzania in 1999. By 2010, Femina had become the country's biggest media platform, and a significant shaper of contemporary culture and values, reaching 10 million (out of 40 million) people in Tanzania, with over 300 distribution partnerships reaching across the country.

The original aim was to initiate popular education about healthy lifestyles, embracing sexual and reproductive health and rights as well as HIV transmission. The focus was on young people and the approach was “entertainment education”—the drama of everyday life, good feature journalism, popular columnists, letters from readers, participatory production of photo novels, all enabling people to share their own experience. It also made use of a variety of media vehicles. It started out with print, but TV, radio and internet were soon included, as were the new social media and SMS text messaging. The approach was an instant hit—no other media resonated with people's lifestyle challenges.

Although we started by focusing on healthy lifestyles, the agenda has gradually expanded as regular feedback from our audience has revealed a desire for a greater focus on issues of income generation and employment. Every year, a million young people in Tanzania enter a labor market where few will find employment. There is also a startling absence of an entrepreneurial mentality and the skills to help young people become self-employed.

Femina has as a consequence embarked on a “combination prevention agenda.” Young people need to stay healthy, but they also need entrepreneurial skills and financial education, and exposure to business ideas and opportunities. The entry point in a time of climate change is via sustainable development models, in other words green jobs, clean energy and better natural resource management. One way of moving into new opportunities has been through strategic partnerships with other organizations. In 2009, Femina ran a “solar light” campaign, cre-



ating awareness among young people about solar energy entrepreneurship and ensuring access by working in partnership with a company that produces affordable solar lamps. Connecting young people to the supply chain and encouraging them to get involved in the distribution as solar entrepreneurs is a challenge in which we have found mass media to be indispensable.

Femina has harnessed the opportunity to go to scale and become the largest citizen media organization in the country, educating people on vital social issues. A combination of factors—or “pathways to scale”—have made this possible:

Creating a new culture among young people: The bottom-up approach of “entertainment education” has been immensely popular as it speaks directly to people and enables them to participate.

Long-term investment from a group of committed donors who have understood the need to build an infrastructure for communications. This has translated into a wide spectrum of collaborations, distribution partnerships and an audience base.

Opening the media platform to new partner organizations who have “discovered” the logistics of scale and reach of an established media channel, which is in turn transforming our multi-media group into a force for economic and societal change.

The Femina HIP experience over the past decade has proved that it is possible to create a civil society-driven media platform and to take it to scale. Communication and education initiatives are many in Tanzania but often small-scale, operating in relative isolation and with a limited time line. There has been little effort to coordinate and create common media platforms. A media platform that enables partners to come together on a cost-sharing basis to get their messages across has huge potential to further enhance communication for social change and systems change generally, and a large pool of connected agendas as diverse as entrepreneurship, deforestation, access to renewable energy and financial literacy skills.

For more information: www.feminahip.or.tz

Melisa Kozak

Senior Investment Manager, Quest Management

Multilateral development organizations should use metrics to measure their social performance and enhance their efficiency

Multilateral development banks and financial institutions such as the World Bank, EBRD or EIB have tremendous investment resources, reach, and experience and can be effective in catalyzing the market for social investments. These institutions, which manage mandates on behalf of their shareholders or third parties, implement market-based financial instruments but, due to their public owners and development missions, are inherently social institutions. If asked how they are doing in accomplishing their respective missions, for instance, in alleviating poverty, improving transport infrastructure, health, education and training, it is ironic that we actually can not know, because most of these institutions do not measure progress in achieving their social objectives.

Having worked for a number of years for a multilateral development bank that had both financial and social objectives, I understand the difficulties in performance attribution for the social side. Some form of metrics is nonetheless fundamental for every public institution, indeed even more fundamental than for a private institution; since institutions set up with public funds are accountable to contributors who are not free to choose where, or whether or not, to allocate resources. In an effort to be transparent and consistent, many institutions take a balanced scorecard approach to social and/or environmental considerations. However, a scorecard is



not useful as a monitoring tool since it is generally used in the framework of an approval process to highlight risks in the form of potential negative consequences of a project. Similarly, reliance on negative screening or adherence to a code of ethics is a minimum step but is not meaningful because these are simply indicators of what an institution is not doing, as opposed to using metrics to measure where an organization is pro-actively achieving an objective or impact.

If such multilateral development institutions could define their results beyond their financial return, an understanding of what is and what is not working would emerge, and public finances could be implemented more efficiently by these potentially very powerful organizations in the social economy.

Melisa Kozak

Senior Investment Manager, Quest Management

Promote the concept of social investment for lasting value creation

In searching for the root causes of the global financial crisis, attention should be paid to investors' shortsighted approach to shareholder value in the run-up to the crisis. As investors, we must question the ability of company managers to create intrinsic value when performance horizons of 12-months and the maximization of dividend payouts solicit aggressive valuations on estimates of future value. Such a short-term, profit-maximization outlook has two consequences: First, it makes value creation not intrinsic but externally affected and highly volatile since it is driven by market cycles; and a second consequence is that it becomes even more challenging for companies to grow their intrinsic value if their balance sheets are eroded by dividends to be paid on such virtual values of assets.

For the above reason, instead of shareholder value, investors today are left with stakes in companies where the long-term value of balance sheets was sacrificed for the purpose of generating short-term and unsustainable investment returns.

As a solution to the prevailing crisis, and to prevent financial markets from pursuing this route again, the concept of lasting value creation needs to be promoted in the investor community. Lasting values are derived from a pro-active approach to the environment, the community or from socially responsible business behavior. Such a responsible approach to investing does not mean sacrificing financial returns but rather the contrary, because businesses that anticipate the needs of society in their business model will be the winners of tomorrow. Likewise, a business that flourishes today at the expense of society, for instance, a business that does not optimize the use of scarce resources, will soon be marginalized by competition. Social investment is hereby a key to generate greater and more sustainable investment returns with less volatility.

Marthe Nyssens

Professor of Economics, Catholic University of Louvain

Introduce a required course on social entrepreneurship and social enterprise in every master of economics and management

Since a long time, private entrepreneurial dynamics driven by social aims have existed in societies besides traditional for profit enterprises and public enterprises. When looking at this debate, what is striking is the diversity of concepts which have been used across different contexts in space and in time to describe these entrepreneurial behaviors with social aims: "voluntary sector," "social economy," "non-profit venture," "non-profit entrepreneurship," "social-purpose



endeavor,” “social innovation,” “social-purpose business,” “community wealth enterprise,” “social enterprise”, “social cooperative”... Since a dozen years, the debate is fastly growing. If the concepts of “social enterprise,” “social entrepreneurship” and “social entrepreneur” were rarely discussed, they are now making amazing breakthroughs on both sides of the Atlantic, especially in EU countries and the United States. They are also attracting increasing interest in other regions, such as Eastern Asia (especially South Korea, Japan and Taiwan) and Latin America.

However, surprisingly, most of the students graduated in economics and management did not receive any training in this field. The dominant image carried out by the curricula developed by the universities is still the following: The only aim of an enterprise is making profits by maximizing the financial return for shareholders. This market logic may face some failures; in this case it is the role of the state to overcome these failures. The State is not viewed as an economic actor as such, its role being more “social.” So the economy is seen as the set of the for profit enterprises. The (re)discovery of entrepreneurial dynamics driven by social aims arose primarily in response to basic needs that had been inadequately met, or not met at all, by public services or for profit enterprises. More particularly, the persistence of structural unemployment in many European countries, the need to reduce state budget deficits, the need for tackling the increasing exclusion of some groups (such as long-term unemployed people, low-qualified people, people with social problems, etc.) from the labor market or more generally from society served as a background for most new social entrepreneurial dynamics as responses to those challenges.

Major universities have developed research and training programs. In 1993, for instance, the Harvard Business School launched the “Social Enterprise Initiative.” International research networks have been set up, like the EMES European Research Network, which has gathered, since 1996, research centers from most countries of the EU-15, and the Social Enterprise Knowledge Network (SEKN), which was formed in 2001 by leading Latin-American business schools and the Harvard Business School. However, most of the universities do not yet include this kind of training. So a major step, from my point of view would be that every student, professional of tomorrow, would be required to participate to a course in the field of social entrepreneurship and social enterprise in order to open his/her eyes on the diversity of entrepreneurial activities whose motives can not be reduced to the sole search for profit.

Tony Pigott

President and CEO, JWT Canada

This idea is offered in the spirit of Peter Drucker who said, famously, that there are two essential things in business; innovation and marketing. Everything else is an expense!

The solution

There is a new, global marketplace; the marketplace of social change. If they are to thrive and compete in this marketplace, social enterprises and ideas need a new level of effectiveness in marketing and partnership development.

The demand and appetite for social change ideas—market based and otherwise—continues to expand. It is evident in the public’s expressed levels of concern on issues ranging from climate change to extreme poverty. It is evident in their expectations for leadership and action from corporations and governments and their impressions that such leadership is woefully lacking. Paradoxically, it is increasingly evident in the pronouncements if not the actions of leading corporations who are trying to find the right, strategic and business enhancing approach to their now broader role in the world. With governments, it is evident in their struggle to address deepening, often longer term social and cultural challenges within the ever tightening constraints of their tax base. Meanwhile, there is a torrent of social enterprises and programs



flooding the market and typically they are under marketed and poorly presented. There is often a lack of clarity about their value proposition; what makes them different, better, inspiring and compelling is often buried or lost. This undermines the very future of the enterprise and the chance to effect long term change. Most often, they are competing for a finite pool of funding, partners and resources in order to scale up and deliver their social mission. Meanwhile, companies, governments, foundations and in some instances, the public, struggle to find the right ideas, the right partners and the right fit.

Add to this the fact that the world spends over US\$500 billion a year advertising consumer products and you begin to see the import of clarity and distinctiveness.

The idea: Launch a brand and marketing agency to serve this market. Its role would be to help multiple social enterprises sharpen their positioning, their value proposition and identity and to develop scale up and partnership sales strategies. Set it up through one of the major marketing communications groups (i.e., publicis, WPP). Fund the start up through grants from leading global institutions with matching commitments from the participating holding company. Revenue would be derived through three sources; finder's fee or commissions from the successful completion of a client/social enterprise partnering, the downstream consulting and communications work that would flow from such partnerships and finally, equity in the social enterprise. Governments and corporations could also hire said agency to find the right social enterprise or idea and shape it to their strategy.

Rodney Schwartz

CEO, ClearlySo

1. "Tilt" the tax system

Specifically, rebalance the playing field so that all costs and benefits to society (positive and negative externalities) are taken into account. By punishing the negative, even more than we do now, as in the case of "polluter pays" models, and giving credits to those business that generate positive externalities, such as social businesses, we can make society wealthier on a fiscally neutral or even lower tax basis.

2. Share the upside

Insist that Governments share some of the savings associated with social investment with those who undertake such investments. For example, in the UK the government is experimenting with "Social Impact Bonds." These share any reductions in governmental savings with investors into programs that reduce prison re-offending rates. Governments save considerable sums if successful social investments are made, and the fact that such savings are partly shared with the social investor encourages more social investment, at the margin. It also incentivizes the selection of competent partners who can deliver on clearly established metrics over those who have political "connections."