



Report

Social enterprise: constraints and opportunities – evidence from Vietnam and Kenya

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Social Enterprise:

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Key messages

- The concept needs to be clearly defined if governments and donors want to give preferential support to social enterprises.
- Mainstream business can have positive social impact. 'Social' enterprise is best distinguished by a hybrid business model - not good intentions or outcomes.
- The social enterprises covered in the survey were often small, personality driven, and internationally supported.
- Social enterprises face special constraints linked to their hybrid business model: access to finance, human resources, legal status, difficult markets, and management weakness.
- Market and state failure creates niches for social enterprise: serving disadvantaged communities, managing public infrastructure, and creating environmental benefits.
- Governments, donors and promoters should assess the niche for social enterprise in specific market contexts in place of blanket promotion of the concept.

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Abbreviations

ANDE	Aspen Network of Development Entrepreneurs
CCHCPS	Centre for Community Health Care and Health and HIV/AIDS Preventative Support
CIDA	Canadian International Development Agency
CIEM	Central Institute for Economic Management
CSIP	Centre for Social Initiatives Promotion
EASEN	East African Social Enterprise Network
IPM	Integrated Pest Management
KACE	Kenya Agriculture Commodities Exchange
KCA	Kenya College of Accounting
KCT	Thai Binh Environment and Agriculture Science Development, Application and Consulting Centre
MRC	Market Resource Centre
MTTS	Medical Technology, Transfer and Services
NGO	Non-governmental organisation
ODI	Overseas Development Institute
SIDA	Swedish International Development Co-operation Agency
SNV	Stichting Nederlandse Vrijwilligers (Foundation for Netherlands Volunteers)
VAT	Value added tax
VRAT Ltd.	Safe Fruit and Vegetable Production and Supply Company Ltd,
VUSTA	Vietnam Union of Science and Technology Associations
KSIX	Kenyan Social Investment Exchange (KSIX)
ICT	Information and communications technology
CIC	Climate Innovation Centre

1 What is social enterprise?

1.1 The purpose of a social enterprise definition

People mean many different things when referring to ‘social enterprise’ and it is not easy to agree on a clear definition. However, from many perspectives, the need for a clear definition is crucial. From a research perspective, it is obviously important to know what is the subject of research and what are the boundaries which define the research topic. From the point of view of governments, donors and promoters, it is important to know what it is meant by social enterprise so that regulation and support is properly targeted and also tailored to the needs of the targeted enterprises. Governments and donors may want to support social enterprise using a range of instruments: regulation, grant subsidy, technical assistance, subsidised access to finance, tax breaks and others. So, as a matter of public or donor policy, it is necessary to establish objective eligibility criteria for such support, based on a clear definition. From a client perspective, definition is also important. Members of the public may also want to know what it means when they buy goods and services from a social enterprise – just as they want to know what fair trade really means or whether products have been ethically produced. For the enterprises themselves, a definition may not matter in their everyday operations. What matters to them is the strength of their business and the impact that they have. However, enterprises may also realise that to use the social enterprise label to appeal to clients, support organisations and governments, there must be some clearly defined features which distinguish them from mainstream business. In order to develop a meaningful definition of social enterprise, however, it is helpful to understand the two different traditions from which the concept arises and therefore the confusion over its current usage.

1.2 The social enterprise tradition

The term social enterprise has gained recent popularity but the concept itself is not a new one. It is important to look at some of the antecedents of the current idea to understand it better. There is a strong strand of belief in the idea that enterprise operating within a free market is socially beneficial. Businesses provide jobs, create wealth that is shared within society and generate revenue for governments. The market, operating within a strong framework of state regulation and rule setting, enables this to happen most efficiently with competition ensuring that the strongest enterprises grow and develop. Adam Smith expressed the idea that an individual pursuing his own self-interest tends to also promote the good of the community as a whole perhaps more than those actions nominally born of higher motives: “By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it.” (Wealth of Nations, 1776).

There are also, however, long standing counter beliefs that some aspects of conventional business operations are not socially beneficial and need to be modified in some way to optimise their impact on society. These beliefs have given rise to a long history of what might now be described as ‘social enterprises’ where the commercial orientation of the enterprise is modified with the aim of achieving greater social benefit.

Some of these ideas are religious in origin. In Islam, *riba* or usury is considered to be one of the seven deadly sins and has given rise to modified form of Islamic banking deemed to be more socially beneficial than conventional banking. A variety of modifications to standard practice have been developed such as *Mudharabar* or profit-sharing in which lender and borrower agree to share the risk of profit and loss from an investment in place of a fixed interest rate payable whether the investment fails or succeeds. There is debate on the significance of some of the modifications adopted in Islamic finance, particularly with products which reclassify interest payments as lease payments such as *murabahah*, but shariah compliant

finance is nonetheless a longstanding and major economic sector which clearly lies within the social enterprise tradition.

Christian ethics likewise provided a strong underpinning of the co-operative movement in Europe in the 19th Century. The Rochdale principles which still govern the co-operative movement include a range of modifications to business operations aimed at improving social impact, including: limitations on member compensation and appropriate use of surpluses, democratic control, education and training, concern for community. The co-operative is perhaps the most enduring and widespread manifestation of social enterprise developed globally.

Other social enterprise movements have been inspired by more secular motives. The Fair Trade movement which developed particularly in Europe and the US after the Second World War was inspired by the belief that free trade between developing and developed countries could have greater social impact if modified through various mechanisms, including guaranteed minimum prices paid to developing country suppliers and premiums above market prices used to finance collectively controlled funds used for the benefit of producer communities.

The fair trade concept is also partly inspired by the widely held 'evil intermediary' belief, which deems the intermediary market functions (trading, storing, sorting, processing), often carried out by non-majority ethnic groups, as exploitative of 'honest' producers. Fair trade seeks to replace these intermediaries with a socially certified fair trading scheme which maximises benefits to producers.

Similar beliefs have inspired the microfinance movement which emulates many aspects of private moneylending (local service, streamlined procedures, quick response, reputational rather than asset collateral) but which modifies the business model with the aim of maximising social benefit. Modifications introduced include the cap on interest rate spreads earned by the lending institution (e.g. Grameen Bank), non-profit structures, cross-financing of a range of social, educational and empowerment programmes from interest income.

In summary, the current social enterprise movement is heir to a long tradition of belief that business is socially beneficial but that to optimise its social impact, its commercial orientation should be tempered or modified to support and protect those deemed to be weaker or poorer members of society.

1.3 Private sector development

Current discussion of social enterprise, however, also draws on a separate strand of development thinking which places a more central emphasis on the role of business in generating social benefits and seeks to enhance, rather than temper, the opportunities for private enterprise to grow. This is the private sector development approach which aims to promote greater competition, reduce barriers to entry and costs to business through regulatory reforms and improvements in the business environment. A whole set of new terminology is associated with this approach. It holds that, within a conducive environment, businesses will seek out profitable opportunities at the 'bottom of the pyramid' which will benefit poor producers and consumers. The answer is seen to lie in applying commercial logic in a wider range of markets that will spread benefits to more people; for example opening up telecommunications markets to electronic money transfers, opening up education markets to low cost private schools, or reducing state subsidies on agricultural inputs to develop sustainable input supply markets. In general, the private sector development approach sees the role of governments and donors primarily in terms of improving the business environment so that businesses themselves can take these opportunities. However, it is also commonly held that donors and government can assist by: brokering the sharing of information on 'inclusive business' opportunities, subsidising discrete costs on a short term basis to remove barriers and mitigate risks that may constrain innovation within the market (product development, piloting costs).

This belief that business can have a positive impact on society in a wider range of fields has also led to the application of the term 'social enterprise' to a much wider range of businesses with a fully commercial orientation. In turn, this has made differentiation between social enterprise and mainstream enterprise rather difficult. For example, Safaricom and the M-Pesa mobile money product is sometimes cited as an

example of social enterprise. Given the assumptions of the private sector development approach, the term starts to lose explanatory power. The situation has been further complicated by the adoption and usage of various other related terms: social business, impact enterprise, inclusive business, sustainable business, social purpose business, which can be hard to distinguish from each other.

It is not the purpose of this study to comment on the validity or otherwise of these approaches. The working hypothesis of the research corresponds with the private sector development approach – that mainstream enterprise can contribute enormously to economic and social development and that governments and donors should prioritise inclusive private sector development in their work. The question addressed here, however, is what the specific roles and opportunities are for *social* enterprise, and what the constraints are to its development.

1.4 What is social enterprise?

A wide variety of definitions of social enterprise have been developed, some focusing on social impact, others specifically on use of surpluses. Elements of these have been used to come up with a definition that focuses particularly on what distinguishes social from mainstream enterprise but that is broad enough to include a wide variety of different distinguishing features. The definition used in this study is:

‘a business operation which has social or environmental objectives which significantly modify its commercial orientation’.

A ‘business operation’ here is defined as a non-state entity which derives a significant proportion of its revenue from selling goods or services. Forms of modification of commercial orientation typically fall into a number of categories. Business operations may exhibit one or more of the following types, or other types, of modification:

- Sharing of financial surpluses with customers by including them as co-owners of the enterprise to achieve a social objective.
- Purposefully reducing financial surpluses by paying above-market premiums or guaranteed prices to suppliers, above market wage rates to employees, restraining business margins within fixed limits in order to achieve a social objective.
- Purposefully cross-subsidising a specific category of customer as part of core business practice in order to achieve a social objective.
- Seeking a long term partial subsidy from a government, donor or NGO source in order to sustain a business which would not otherwise be viable in order to achieve a social objective. The subsidy may be provided in the form of direct financial subsidy or privileged or protected access to markets (e.g. government procurement contracts).

The research focuses on social enterprises defined by a hybrid business model rather than their financial or social performance or social impact. A number of implications follow from this definition. The definition can include a wide variety of business and legal forms, including private and co-operative ownership, non-profit or for-profit status, as long as the enterprise’s social objectives, in some specific and significant way, modify its commercial orientation. The definition still requires subjective interpretation, particularly in terms of understanding of ‘significant’ modification to commercial orientation and agreement on what are ‘social’ objectives. The definition does not make any *a priori* assumption that social enterprises are, in terms of their impact, more socially beneficial than other enterprises.

The study will seek to assess the potential role for social enterprises of this type in the agriculture and health fields and identify specific markets, activities or circumstances where the hybrid model may have validity. It will try to identify the drivers of social enterprise and the specific constraints faced by this sector. In some cases, the validity of the social enterprise model will be compared with more fully commercial ‘inclusive business’ models.

2 Background to the case studies

The aim of this research is to ‘examine the *objectives, practices and challenges* faced by social enterprises and explore ways of overcoming these challenges’. It sought also to ‘consider *opportunities* for new ways of working and business opportunities in the sectors surveyed’.

The research was based primarily on case studies in two diverse, developing country contexts with active social enterprise sectors: Kenya and Vietnam. The countries were chosen in conjunction with local partners with the aim of using examples from both Africa and Asia and to include countries with very different political and economic environments, in order to assess the extent to which these conditions effect the development of social enterprise. In both countries, the work focused on to two sectors where social enterprises are particularly active: agriculture and health.

The research involved the following activities:

- Literature review of social enterprise activity in the sectors and countries concerned.
- Analysis of data from networks of social enterprise in these sectors/countries.
- Overview of current regulatory frameworks and obstacles faced by social enterprises in legal registration.
- Survey of 12 social enterprises in Vietnam and 16 in Kenya, focusing on objectives, practices and challenges faced.
- Semi-structured interviews with business development service providers and other stakeholders (government and donor agencies, private providers of finance) in the selected sectors to assess current role and new opportunities for social enterprise.

Case studies were prepared by local organisations with particular expertise in the sector and with a capacity to use and implement the findings. In Vietnam, the study was carried out by the SPARK Centre for Social Entrepreneurship Development. The Kenya study was undertaken by the Bertha Centre for Social Innovation and Entrepreneurship at the University of Cape Town, in conjunction with the East African Social Enterprise Network based in KCA (Kenya College of Accounting) University. ODI co-ordinated the research, contributed to initial desk-based review, prepared final outputs and will facilitate dissemination of results.

3 The enterprises

This section summarises the main findings of the two case studies. Section 3.1 on social enterprise environment includes something of the country context, the regulatory environment and the infrastructure of support organisations that aim to promote and assist social enterprise. Section 3.2 describes the social enterprises covered in the study and outlines some of the main characteristics of these enterprises.

3.1 Social enterprise environment

3.1.1 Vietnam

Context. The term ‘social enterprise’ is a very recent import to Vietnam, gaining recognition only from around 2010 onwards. Its arrival is strongly associated with the establishment of two specialised support organisations funded by donors and NGOs: the Centre for Social Initiatives Promotion (supported by the British Council) and the SPARK Centre (initially supported by the Dutch NGO, SNV). Interest in the concept was also spurred by changes in international donor activities. As Vietnam achieved lower middle income status, donor grant funding to NGOs also started to reduce, leading many NGOs to look for alternative sources of income, particularly the sale of goods and services, within a social enterprise framework. A 2011 survey listed around 200 organisations identified as social enterprises. The figure provides some indication at least of the scale of enterprises which self-define in this though is clearly not definitive due to the problems of definition.

While the term may be new, the concept is not and it is interesting that as donor interest in the concept increases, a number of existing organisational types have started to consider re-defining themselves using this language. The most obvious are the co-operatives. Collectivisation of agriculture and industry in northern Vietnam in the 1960’s led to the establishment of production and marketing co-operatives on a massive scale. Primarily instruments of state control over the means of production, co-operatives increasingly gained a very poor reputation for inefficiency and corruption particularly during the economic crisis of the 1980’s. In the 1990’s, the government promoted the transformation of remaining co-operatives and the establishment of ‘new co-operatives’ under the more mutualist provisions of the 1992 Co-operative Law. These ‘new’ co-operatives included credit co-operatives (People’s Credit Funds), agricultural co-operatives and co-operatives that managed state infrastructure such as irrigation canals or milling machinery. Some of these co-operatives are now starting to identify themselves as social enterprises, perhaps as a means of garnering external support from social enterprise promoters.

The other category of existing organisations that have started to redefine themselves as social enterprises are NGOs that began to develop in the 1990’s. Some of these were set up by international organisations or individuals (Hoa Sua School, Craftlink, Mai Handicrafts). Many of them are more indigenous in origin – often organisations registered under the Vietnam Union of Science and Technology Associations (VUSTA) or as ‘independent’ centres established by government bodies. Even these organisations, however, are sometimes dependent on funding from international donors. This study covers some VUSTA NGOs/enterprises in this category (KCT, New Light). More recently established enterprises, while still having to register under existing legal forms, have been more self-conscious in their self-description as social enterprises.

Legal framework. Social enterprise does not currently exist as a separate legal category in Vietnam. Social enterprises register either as an NGO, a co-operative or a company under respective legislation. NGO registration is a more difficult and lengthy procedure and entails greater government supervision and limitations on borrowing internationally. Commercial registration is simple and quick but, with 23% tax on net income, is disadvantageous in tax terms, compared with both NGO and co-operative status. Co-operatives enjoy some tax preference (land taxes and tax on net income) but are subject to very specific

governance requirements. The Ministry of Planning and Investment in Vietnam is planning to propose an amendment to the Enterprise Law under which existing legally registered enterprises will be able to seek additional registration under a new social enterprise category. This change is currently under discussion and drafting.

Operating environment. Two aspects of the operating environment are perhaps of more import than the legal framework in determining the space for growth of social enterprise. One is the relative dominance and effectiveness of the state in provision of services in health, agriculture and other sectors. State run health clinics operate nationally down to the commune level, the lowest administrative level in Vietnam and all communes have at least one agricultural extension worker paid for by the state. While there have been moves to ‘socialise’ the provision of some services, contracting out provision of services to NGOs or social enterprises remains very limited, reducing the space for social enterprise growth. Secondly, the continued dominant role of the Communist Party in society and reticence in promoting independent associations and NGOs has reduced the pool of civil society organisations from which the social enterprise community would typically grow.

Support organisations. As discussed above, there are two main support organisations specifically promoting social enterprise in Vietnam. The Centre for Social Initiatives Promotion (CSIP), supported by the British Council, focuses particularly on support of new start up social enterprises and in advocating with the government for measures to promote social enterprise. The SPARK Centre for Social Entrepreneurship Development focuses on more established enterprises and, like CSIP, provides seed funding, mentoring and information services to a national network of social enterprises. The US based Thrive programme provides support to social enterprises in Vietnam through two local NGO partners, disbursing US\$760,000 over nine years to 81 projects, including 16 social enterprises. Oxfam Novib is now also starting a new incubation programme for social enterprises.

International impact investment funds such as Unitus, LGT and Small Giants have sought to invest in Vietnam but have not developed significant portfolios as most Vietnamese social enterprises remain too small scale and structures for introducing and intermediating between funds and enterprises are limited. The Central Institute of Economic Management (CIEM), a research institute belonging to the Ministry of Planning and Investment, has carried out a number of research studies on social enterprise in Vietnam in collaboration with the British Council and is responsible for drafting the provisions on social enterprise in the new Enterprise Law.

3.1.2 Kenya

The Kenyan environment for social enterprise shows some similarities and some differences with Vietnam. Economic restructuring in the 1980’s and 1990’s led to reduced government expenditure on social services and safety nets and encouraged a growth in service provision by non-state actors; NGOs and commercial actors. With competition for donor grant funding, however, there has been a recent shift within the NGO community to explore business models to raise revenue. As in Vietnam, the social enterprise sector has been spurred by changes in international donor behaviour. Also as in Vietnam, this trend is encouraged by signs of government distrust of international donor funding, evident for example in the provisions of the October 2013 Miscellaneous Amendment Bill which prevents ‘public benefit organisations’ from receiving more than 15% of their funding from international donors. Through its Kenya Vision 2030 programme, the Kenyan government has set ambitious targets for economic growth within the framework of inclusive growth which recognises the important role of the private sector. While, the vision does not explicitly mention social enterprise, officials from the Vision 2030 organisation believe that if social enterprise could be better defined and if enterprises could organise to interact collectively with the government, there could be room for engagement.

Legal framework. As in Vietnam, no separate legal category exists for social enterprise. Social enterprises register either as NGOs or as companies, or as both. The 1992 NGO Act sought to introduce a single authority for registration and regulation of all NGOs in Kenya and introduced an NGO Code of Conduct in 2005.

Support organisations. International organisations supporting social enterprise are more prominent and active in Kenya than in Vietnam. For example Ashoka, the Acumen Fund and the Schwab Foundation have been active in Kenya since the early 2000's, providing financial support, mentoring and advocacy support primarily on behalf of individual social entrepreneurs. In terms of indigenous organisations, the establishment of the East African Social Enterprise Network (EASEN) in 2010, hosted by the KCA University in Nairobi, was an important step in terms of networking, information sharing and establishing an identify for social enterprise.

A range of support organisations exist now in Nairobi. SocEntLab - a social enterprise and think tank based in Nairobi - started in 2011 with the aim of building an eco-system for entrepreneurship in Africa. The Kenyan Social Investment Exchange (KSIX) was launched in 2011. Incubators, often focused on ICT, but with social emphasis, also began to spring up. iHub is an incubator that supports the development and prototyping of technological innovation, many of which have a social impact focus. Incubators for social enterprise include organisations such as the Climate Innovation Center (CIC) and Nailab. Universities are also increasingly providing incubation space and social enterprise curriculum for social and environmental innovation such as Jomo Kenyatta University's UniBRAIN, KCA University's Centre for Entrepreneurship and Leadership, Strathmore University's iLabAfrica research centre and Kenyatta University's Chandaria Business Innovation and Incubation Centre.

3.2 Sectors and activities

As discussed above, the enterprises examined in this research both in Kenya and Vietnam do not form a representative sample. This is inevitable given that there is no clearly delineated category of social enterprise in either country. The enterprises were selected by research partner organisations in country. In Kenya, the selection was based mainly on the literature review. In Vietnam, selection reflects the approach, reach and focus of the local partner organisation.

3.2.1 Agriculture

The research covered six agricultural enterprises in Vietnam and eight in Kenya. Agricultural enterprises are involved in the following main types of activity:

- Input supply – technical advice – marketing. In both countries, the most common activity of social enterprises in agriculture was a combination of physical input supply (seedlings, fertiliser), sometimes on credit, supplying technical and market information and training and, in some cases, marketing of agricultural produce. Enterprises focus on a wide variety of crops: introducing potato cultivation to northern Vietnam, commercial dairy production amongst Khmer ethnic minorities in the Mekong Delta, 'edible landscaping' services in Kenya etc. Some enterprises focus particularly on one stage of the value chain. KACE for example focuses on providing market information to farmers and advice on marketing of produce (Examples: KCT, Evergrowth, One Acre Fund, Kick Start, Plant a Fruit, KACE)
- Financial services. Some of the enterprises focused more specifically on provision of specialist financial services for agriculture – including crop insurance, savings and credit services, equity for agricultural related businesses (Examples: Lien Nghia PCF, Kilimo Salama).
- Managing infrastructure. One of the Vietnam enterprises was involved in managing a canal system and provision of water for irrigation. (Example: Huu Duc Co-operative,)
- Producing environmentally friendly products, such as organic fertiliser or organic vegetables (Examples: Huong Hoa Cassava Starch Factory; VRAT Co.; Real IPM)

These types of service are by no means unique to social enterprise. Attempts by agri-business to strengthen vertical integration of smallholder suppliers through input supply, extension advice and

marketing services, is a clear trend in Vietnam, supported by the government through such initiatives as the ‘large field’ programme in which smallholders are encouraged to establish voluntary associations that will facilitate linkage with agribusiness.

In terms of target clientele, the enterprises generally do focus on smallholder farmers or on other enterprises that serve smallholder farmers. Many of the Vietnam enterprises operate in relatively poor, rural areas and some are explicitly focusing on serving ethnic minorities (Huu Duc Co-operative serves Cham clients and Evergreen Co-operative Khmer clients). In Kenya, Kickstart focuses on providing irrigation tools to poor farmers and One Acre Fund delivers inputs, extension services, storage advice and access to markets to farmer in remote areas. However, in many cases these enterprises are operating in environments and serving clients similar to those served by local, small-scale, mainstream business.

The features of the business model which differentiate social enterprises from mainstream business include:

- Sharing of net income with client members in a traditional co-operative structure (Evergrowth Co-operative, Lien Nghia People’s Credit Fund, Huu Duc Co-operative). Evergrowth Co-operative, for example, spends 40-60% of net income on dividends to members.
- Re-investing a significant proportion of net income in subsidised support services for farmers, sometimes within a non-profit format (KCT Thai Binh, VRAT Company).
- Offering inputs or services at lower than market prices to member farmers. Huu Duc Co-operative offers seedlings to farmers on interest free credit. Juhudi Kilimo offers asset finance at below market rates to clients.
- Cross-subsidising a specific category of client. Sidai, for example, charges lower franchise fees to client enterprises in more challenging environments.
- A number of enterprises acknowledged that their business model was dependent on on-going donor support. Huu Duc co-operative could not afford external organic certification costs without donor support. Real IPM specifically seeks donor support to expand activities from large scale farmers to the wider community.

However, it is also notable than in some cases, identification of the business as a social enterprise was not clear cut. In the case of Vietnam, at least one enterprise (Huong Hoa Cassava Starch Factory – SEPON) was identified as a mainstream commercial enterprise implementing an inclusive business model.

Table 1: Agriculture Social Enterprises Interviewed

Vietnam				
Name of enterprise	Legal form	Location	Date established	Main activity
KCT Centre in Thai Binh	NGO	Thai Binh	2009	Provides technical support and high-quality potato seedlings for farmers in Thai Binh and neighbouring provinces and marketing of potato harvest.
VRAT Co. Ltd.	Company	Thanh Hoa	2008	Provide technical support and high quality seedlings for ‘organic’ vegetable production by farmers in Hoang Hoa district, Thanh Hoa. Sells produce to supermarkets and schools.’ Also manufactures organic fertiliser.
Huong Hoa Cassava Starch Factory (SEPON)	Company	Quang Tri	2004	Produces organic fertiliser from cassava starch waste, and sells to cassava farmers at reduced prices. Sources cassava from

farmers via farming contracts, collecting at farm gates.

Lien Nghia People's Credit Fund	Cooperative	Lam Dong	1998	Savings and credit services to farmer members.
Huu Duc Cooperative	Cooperative	Ninh Thuan	1979	Provides fertiliser inputs, manages a canal system for crop irrigation and offers soil preparation services at low price to farmers.
Evergrowth Cooperative	Cooperative	Soc Trang	2004	Provides dairy calves, feed and inputs for dairy production and training. Purchases and processes milk from farmers.
Kenya				
Sidai	Limited Company		2011	Offers comprehensive package of support to franchisees to ensure business success and quality of services delivered to farmers. Services include veterinary services at farm gate and free agricultural extension services.
Juhudi kilimo	Company		2004 (as NGO) 2009 (as company)	Provides credit: asset financing. Facilitates access to insurance, training (free and mandatory financial literacy, budgeting and planning). Links to markets and other service providers such as insurance.
Kilimo Salama	Project within Sygenta foundation		Set up in 2011	Uses technology to provide affordable micro-insurance products to smallholder farmers scattered throughout Africa. Also provides free financial literacy training.
One Acre Fund	US non-profit; private company in Kenya		2006	Provides farm inputs on credit. Facilitates access to insurance and extension services (agronomic skills and input use). Provides training on post-harvest practices to allow farmers to store produce longer and fetch higher prices).
KACE - Kenya Agricultural Commodity Exchange	Company		1998	Connects farmers and buyers in different markets and facilitates the sale of goods by collecting and disseminating market information (commodity prices, quantity and location) via various platforms such as Soko Hewani, a mobile platform. Operates through Market Resource Center franchise (MRCs). Provides other services such as transportation, quality checks and product consolidation all at a fee.
Kick Start	Not for profit NGO		1991(as ApproTEC), 2005 as KickStart	Provides affordable irrigation tools for poor smallholder farmers in sub-Saharan Africa. Facilitates access to credit and extension services (agronomic skills and input use). Offers training on entrepreneurship.

Plant a fruit	Not for profit NGO	2009 (self-help group) 2012.	Provides inputs and technology to farmers - grafted fruit seedlings. Includes extension and other services (edible landscaping).
Real IPM (Integrated Pest Management)	Private company	2003	Integrated Pest Management solutions and extension services.

3.2.2 Health

This research project covered six health-related social enterprises in Vietnam and eight in Kenya. Reflecting perhaps the differences in national health care systems, the scope of enterprises differs widely between the two countries. In Vietnam, social enterprises focus particularly on more ancillary services such as counselling, ambulance services and traditional medicine. In Kenya, social enterprises are providing more mainstream inpatient and outpatient hospital services as well as comprehensive clinic services in local areas.

In the health sector, social enterprises tend to resemble income generating social organisations more than socially oriented businesses. Within the more business oriented enterprises, however, there is a clear emphasis on a ‘no-frills’ service in order to reduce costs for low income clients. This approach is clearly common with any mainstream enterprise which seeks to enter the low income market.

The features which distinguish social enterprises from mainstream businesses include:

- Some of the enterprises have quite separate and (largely) unrelated business activities, the profits from which are designed to fund social programmes. The Safe Living Company in Hanoi and Ho Chi Minh City, for example, funds a café which helps to fund services provided to people living with HIV/AIDS. Alive and Kicking in Kenya uses profits from football manufacturing to fund health awareness raising programmes.
- A number of the enterprises remain dependent on continuing external subsidy to cover their costs. Centre for Community Health Care and HIV/AIDS Prevention Support, for example, is largely dependent on donor support. Medical Technology Transfer and Services – which produces low cost medical equipment for hospitals derives 75% of income from grants and 25% from product sales.
- Cross-subsidy of poorer clients by those with greater ability to pay is a common feature of many health social enterprises, in some cases combined with on-going subsidy from donor or government sources. The New Light Centre’s programme of reproductive health services for the disabled, for example, offers counselling services at three different rates, depending on ability to pay. Melchidezek Hospital in Kenya similarly cross-subsidises poorer clients with lower ability to pay.

Table 2: Health Social Enterprises Interviewed

Vietnam				
Name of enterprise	Legal form	Location	Date established	Main activity
New Light - Light Institute for Development and Community Health	NGO	Ha Noi	2013	Provide sexual healthcare and prenatal care services for people with disabilities.
Medical Technology Transfer and Services (MTTS)	Limited Company	Ha Noi	2003	Produce and provide affordable and easy-to-use medical equipment for pediatrics with special devotion to newborn babies.
Center for Community Health Care and HIV/AIDS Prevention Support in Hai Phong	NGO	Hai Phong	2006	Provide vulnerable groups, especially HIV infected people, with medical examination and treatment services.
Tri Duc Joint Stock Company	Joint. Stock Company	Yen Bai	2009	Provide high-quality ambulance service.
Truong Sanh	NGO	Ben Tre	2010	Provide traditional medical examination and treatment services.
Safe Living Company	Company	Ho Chi Minh City	2010	Provide package of services to HIV/AIDS people with business skills and knowledge for them to start up business; Sell quality condoms at low cost.
Kenya				
Access Afya	Company limited by guarantee		2012	Primary care in low-income areas provided through micro-clinics – which would traditionally have been built and run by the state.
Alive & Kicking	Company limited by guarantee		2004	Profits from manufacture of footballs used to fund health education and awareness through sports, especially focussing on HIV/AIDS.
Melchizedek Hospital	Company limited by guarantee		2001	Uses cross-subsidisation to provide comprehensive hospital-based healthcare, both in-patient and out-patient, that is affordable and accessible to low and middle income groups.
Metropolitan Hospital	Company limited by guarantee		1994	Comprehensive hospital-based healthcare, both in-patient and out-patient, that is affordable and accessible to low and middle income groups. Fully integrated, self-designed software system to increase efficiency and reduce costs.

Sproxil	Company limited by guarantee	2008	Verification of authentic drugs through mobile technology to combat drug counterfeits in the market.
Upper Hill Eye & Laser centre	Company limited by guarantee	1998	Provision of specialist eye care to areas where such services are not otherwise available.
Viva Afya	Company limited by guarantee	2008	Affordable, accessible primary healthcare via micro-clinics in poor areas made sustainable through the use of a 'hub and spoke' model where one larger, more equipped 'hub' supports and provides more specialised services to a number of 'spoke' clinics.
Zana Africa	Company generates profits which endow a foundation	2000	Provision of re-designed sanitary wear to make it more affordable and appropriate for low-income environments. The enterprise also supports women's health awareness and education programmes.

3.2.3 Enterprise characteristics – agriculture and health social enterprises

Size

In most cases, the social enterprises covered in this study are relatively small. In the Vietnam sample, for example, all enterprises except one (Huong Hoa Cassava Starch Factory) employed between 3 and 28 staff (part time and full time).

In terms of financial size of the enterprises covered, it is hard to give more than an indicative picture as respondents were sometimes reticent in sharing this information and, in the case of some smaller enterprises, standardised financial reports were not available. In Vietnam, three of the more well-established enterprises reported turnover in 2012 of \approx US\$750,000 (KCT); \approx US\$500,000 (MTTS); \approx US\$140,000 (CCHCPS). Two enterprises appeared to be operating on a larger scale: Evergrowth Dairy Co-operative reported revenue in 2012 of \approx US\$ 3.6 million. Huong Hoa Starch Flour Factory annual turnover was reported as US\$20 million, though this figure refers to the whole factory output rather than just the organic fertiliser business referenced here as an 'inclusive business model'.

Reach

Despite their small size, some of the more well-established enterprises have been able to expand their customer base. Five of the twelve enterprises in Vietnam reported impact on between 9000 and 15,000 people, in some cases as direct clients (e.g. KCT, Lien Nghia People's Credit Fund) or as indirect beneficiaries (e.g. of medical equipment provided by Medical Technology Transfer and Services). Some of the newer enterprises were serving much smaller numbers of clients: in two cases only 50-60 clients at present.

Development stage

In general, social enterprises covered in Vietnam tended to be slightly younger than those in Kenya: 9 out of 12 established in the last 10 years, compared with 9 out of 16 in Kenya. Both cases studies used a system for classifying the development stage of the enterprises covered and the classifications confirm that the Kenyan sample of enterprises is more mature. In the Kenyan study, 13 of the 16 enterprises were classified as belonging to the 'growth' or 'break-even' stages, while in the Vietnam study, 8 of the 12

enterprises were classified in the ‘start-up’ and ‘growth’ stages, compared with only 3 described as ‘established’, ‘expanding’ or ‘mature’.

Growth

Information on growth of individual social enterprises covered in the study is patchy due to data issues and informant sensitivity. In Vietnam, three of the six agricultural enterprises provided figures on business growth between 2009 and 2012, with high rates of growth in turnover of at least 20% per year in all cases. Health enterprises were less able to provide information – with CCHCPS showing strong growth in revenue of over 20% in 2012 and the Tri Duc Joint Stock Company (ambulance service) showing quite sharp volatility in revenues between 2010 and 2012.

Legal status

Table 3: Summary of legal status of social enterprises interviewed

	Vietnam	Kenya	Total
Co-operative	3	0	3
Domestic company	5	11	16
NGO	4	3	7
Mixed – company and NGO combination	-	2	2
Total	12	16	28

Though this is not a representative sample, some interesting features are apparent in the adoption of different legal status by social enterprises. Overall, registration as a company is the most common form, particularly in Kenya and particularly in the Kenyan health sector. The co-operative form has a long history in Vietnam which is reflected in the incidence figures here. In two instances, organisations have tried to capitalise on the advantages of both commercial and charitable legal forms by registering two related legal entities.

No separate legal category of social enterprise exists in either country, though the Ministry of Planning and Investment in Vietnam is planning to propose an amendment to the Enterprise Law under which existing legally registered enterprises will be able to seek additional registration under a new social enterprise category. This change is currently under discussion and drafting.

Owners

With the need to combine social and business objectives within a single organisation, it is perhaps not surprising that many social enterprises are quite dependent on the skills, experience and charisma of individual founders and owners. In the Vietnam study, eight of the social enterprises were established by experienced individuals who still manage their operations: only three had recruited professional managers on a contractual basis, two of which were co-operatives. In Vietnam too it is interesting that founders/owners ranged in age from 37 to over 60 – contrasting somewhat with the picture of younger, idealistic ‘social entrepreneurs’ portrayed in western countries. Some of the owners (e.g. KCT and New Light) were retired but experienced government staff who wanted to continue to contribute their experience and knowledge outside of the inevitable constraints of working within a government institution. Many of the owners and founders exhibited strong personal commitment to achieving the social objectives set out by the organisation.

The Kenya case study found that a number of enterprises that were founded by ‘social entrepreneurs’ motivated by a strong mission to contribute to Kenyan society. For example Dr. Adrian Muhebi returned from studying overseas to set up Kenya Agricultural Commodity Exchange. He was determined to empower farmers through providing price information – motivated by his family’s experience of perceived exploitation by agricultural middle-men.

International links

One of the most striking features of the social enterprises covered by this research is the frequency and strength of international ownership and links, particularly in Kenya, though this may be a result of the sample selection. Some were set up by international NGOs or Foundations (Sidai, Kilimo Salama) or by expatriate individuals (One Acre Fund, Kick Start, Real IPM). In Vietnam, foreign ownership or management is much less common though international donor funding and technical input is common (CIDA supported the Evergrowth Co-operative; SIDA the VRAT company; various donors have supported the HIV/AIDS organisations). However, there are a number of clearly and wholly indigenous social enterprises within the Vietnam study – including two of the co-operatives and companies providing traditional medicines and ambulance services.

4 Constraints

If running a mainstream business is difficult, then running a social enterprise is even harder. Many of the constraints voiced by respondents are common to those experienced by mainstream business. In the Kenya case study, enterprises frequently mentioned issues such as poor road infrastructure affecting the delivery of inputs and marketing of agricultural produce by social enterprises. Poor security in rural areas affects the operation of clinics. Political instability, partly caused by the process of decentralisation of powers to the 47 county governments, creates uncertainty and bureaucratic delays. However, because of the hybrid nature of their business, social enterprises may be impacted more severely by some of these constraints and may be subject to particular difficulties not faced by mainstream enterprise.

4.1 Access to finance

The difficulties of accessing finance were given high prominence by respondents in both Vietnam and Kenya. In Vietnam, eight of the interviewed enterprises had received some form of grant assistance from donors and NGOs. None of them had borrowed from a bank. In Kenya, likewise, enterprises were dependent primarily on internal resources and grants. Limited access to commercial finance is perhaps inevitable for enterprises which have modified their business orientation to meet social objectives – particularly those who have chosen to register as NGOs. More debatable, however, is the issue of why social enterprises have found difficulty in accessing social forms of finance – be it government subsidised finance, donor finance or impact investment. In the Vietnam case, this seems to be because many social enterprises are small in size and therefore have limited absorptive capacity. Mention was also made of the lack of intermediaries that could introduce social enterprises and social investors. This is amplified by the difficulties enterprises faced in terms of developing and presenting a business case to investors due to lack of skills within their workforce. A number of specialised investors have investigated the market, such as Unitus, Small Giant and LGT, but few investments have been made to date.

The Kenya case study reports that impact investors and lenders are present but enterprises claimed that it was difficult for start-ups and smaller enterprises to access capital as impact investors focused particularly on established and commercially viable enterprises. It was also claimed that enterprises may not have access to sufficient information about potential investors or lenders, suggesting weakness in the intermediary function bringing potential investors and investments together. However, an alternative view was also expressed that support organisations often were able to help enterprises put together a business case to investors but that the problem lay in insufficient investors being ready to make the deal. Respondents mentioned that there is a particular problem raising funds at the middle stage after start-up but before profitability. Enterprises are looking for concessional loans at this stage when impact investors are usually likely only to consider funding already profitable enterprises.

4.2 Human resources

Social enterprises face special constraints related to human resources that also result from the special characteristics of hybrid organisations.

- Many are established by highly committed and charismatic founders who may find it difficult to hand over and institutionalise responsibility for the organisation. In the Vietnam study, it was remarked that only 3 of the 12 enterprises were run by managers recruited and contracted by the organisation. Most were still run by their founders and in a number of cases enterprises were quite dependent on them (KCT, Tri Duc, Evergrowth). It was also remarked that none of the enterprises, except for the Evergrowth Co-operatives, paid much attention to governance structures and procedures. Evergrowth is a co-operative set up with Canadian technical assistance where particular attention was paid to instilling standard co-operative forms and procedures.

- Hybrid institutions do require people with hybrid skills which are often hard to find in combination. For many enterprises originating from an NGO background, lack of business skills and orientation is an issue. Truong Sanh Company has staff with specialist skills in traditional medicine and its manufacture but has had difficulties in establishing commercial distribution channels.
- As social enterprise profits are usually significantly constrained, enterprises may find it difficult to pay competitive salaries and may have to rely on staff commitment to the company's objectives to make up for this. MTTTS, which manufactures low cost medical devices, commented that it was difficult to recruit staff who were committed to strict quality control. In the Kenyan survey, respondents mentioned the problem of poaching of staff from social enterprises by commercial enterprises able to pay higher salaries.
- In Kenya, the issue was also framed in terms of social enterprises finding it difficult to recruit staff to work in poorer and more remote areas. This may be a function of the difficulties faced in paying market rates of pay but may also reflect social and cultural preferences where young people in particular want to live in urban areas, irrespective of salary level.
- In Kenya, another general labour market factor was having particular impact on social enterprises in the health sector. The trend for trained Kenyan doctors and nurses to seek employment overseas has resulted in a shocking understaffing within the Kenyan national health system. Government figures quoted a total of only 728 qualified doctors working in Kenya in 2008, with only 477 of these working within the government system. Clearly, this trend impacts particularly hard on social enterprises serving poor and remote communities.

4.3 Markets

Social enterprises tend to focus on niche markets, particularly those at the 'bottom of the pyramid'. It may not always, however, be easy or possible to exploit the fortune concealed there. Or, to revive a well-used maxim, there may be a gap in the market, but there may not be a market in the gap. The case studies in Vietnam and Kenya revealed a number of commonly expressed reasons for, and examples of, this:

- Some enterprises are trying to open up new markets where customers have not been used to paying for services before. This is clearly the case for HIV counselling services in Vietnam. Enterprises find it costly to provide education on the rights of people living with HIV/AIDS and to simulate demand for such services. Stigma remains high and there are clearly inherent limits to the ability and willingness of many to pay for counselling services.
- Potential clients may also be reluctant to pay for goods and services if they have been used to free or subsidised provision by government or development agencies. This was mentioned by agricultural social enterprises in Kenya where free supply of inputs to farmers is common practice in government programmes. In low income markets, social enterprises are often competing against subsidised government competition.
- Enterprises in Kenya also mentioned the need to build up trust in rural communities – particularly where communities perceive that they have fallen victim to past deceptions in the form of faulty or overpriced products and services. Overcoming this distrust may be too costly and time-consuming for social enterprises to succeed.
- Some markets are difficult to penetrate because the technological requirements for uptake by poor communities are quite high. In Kenya, enterprises mentioned the impact of widespread illiteracy in limiting the uptake of market information services and extension efforts. In Vietnam, the introduction of potato cultivation to 10,000 farmers by KCT required significant efforts to overcome scepticism caused by past failures from government programmes and the private sector. KCT needed to provide intensive training and support, particularly in terms of cold storage of seed potatoes and timing of planting and harvest. While social enterprises may succeed in such endeavours, as in the case of KCT, the risks are clearly high.

4.4 Legal status

Evidence from the case studies on whether legal status acted as a real constraint to the growth of social enterprises varies. The example of two enterprises registered as NGOs in Vietnam may be instructive in this regard. Both KCT and New Light were registered as centres under the Vietnam Union of Science and Technology Associations. The director of the KCT found this status basically conducive and had no plan to transform into an enterprise. The centre was not subject to VAT and its net income was not taxable. Accounting requirements were therefore quite straightforward. The only constraint faced by the centre as a result of its legal status was difficulty in bidding for work tendered by the provincial government when only registered companies were eligible. The director of New Light, on the other hand, complained of harassment by local tax officials confused by the charitable status of the organisation when paying customers formed the mainstay of the operation.

Differences in experience and viewpoint may in fact be determined by very local circumstances. The director of KCT was the previous director of a provincial government department and also had close relations with the provincial branch head of the Vietnam Union of Science and Technology Associations who was very supportive of the centre's activities, introducing them to work, for example, in other provinces. The director of New Light was also a senior doctor retired from government service but was not able to secure equivalent government support for the organisation. Both agreed, however, that a new legal framework would entail uncertainty and risk and, for KCT at least, continuing to navigate existing legal inconsistencies was a preferable option. Calling for more new government legislation and regulation carries risks with uncertain gains.

Similarly divergent views were expressed in the Kenyan case study. Some organisations felt that the existing situation allowed enterprises flexibility in terms of establishing their own organisational structure and that existing company and NGO legislation gave them sufficient leeway to operate. Others felt that the development of a new legal category for social enterprise would lead to greater government recognition and the possibility of preferential policies targeted at social enterprise.

4.5 Management and organisation

Management issues are common to all enterprises. However, this constraint is particularly evident for social enterprises that have converted, or are in the process of converting, from NGOs into businesses, where a different set of management skills and requirements are needed. The human resource issues particular to social enterprise described above clearly also impinge on the strength of management within social enterprises. Specific difficulties mentioned by enterprises included:

- Business planning. Enterprises such as CCHCPS in Vietnam, which provides health care and support to people living with HIV/AIDS, drug addicts and sex workers in Haiphong, acknowledged that they needed support in designing a business model that could start to effectively cover their costs. Truong Sanh enterprise also found difficulties in establishing marketing channels for its traditional medicines in southern Vietnam.
- Accounting was mentioned as a problem particularly by enterprises in Vietnam that are registered as companies. The Safe Living Company, for instance, complained of difficulties in producing financial reports for the tax authorities.
- Social impact measurement. This constraint was mentioned by enterprises in the Kenyan study in relation to reporting to social enterprise supporters and investors. In particular, concern was expressed that donors and social investors placed strict conditions on their support in terms of impact reporting but that these requirements were often inflexible and not necessarily consistent with the internal information monitoring needs of the enterprise. Moreover, as there is no common methodology for assessing social impact, some social enterprises may face multiple different reporting requirements from different donors or investors.

In both case studies, lack of technical assistance and other support services to address the management issues described above is listed as a constraint experienced by enterprises. It could be argued that this is an equally, if not more important, constraint for mainstream business. Organisations such as EASEN, CSIP and SPARK do at least exist to provide technical and business support to social enterprises. However, clearly it would be beneficial if social enterprise support organisations could widen their reach, co-ordinate their efforts more effectively and adjust the services offered to make them better tailored to social enterprises.

4.6 Sector specific constraints

Some enterprises voiced concern about issues specific to their sector of focus. These may be difficulties experienced by mainstream enterprises operating in the sector too but are more severe for social enterprises because of the nature of their work:

- MTTTS – the enterprise producing low cost medical equipment and devices complained of difficulties in relation to patenting of their devices, procedures for importation of specific parts, lengthy and complex public procurement procedures imposed on hospitals purchasing their products.
- Truong Sanh enterprise faced difficulties and a one year delay in securing permission to start producing traditional medicines for sale on the market from the provincial authorities in Ben Tre.
- Innovative models and regulatory barriers – for example, challenges of operating in informal settlements (e.g. Access Afya).
- According to one of Nairobi's innovation incubators, all forms of ethanol gas are highly taxed. One social entrepreneur discovered that the type used for household cooking was safer for the environment and lighter on emissions. However, the high tariff hinders the social enterprise from using the ethanol as household fuel, thus failing to compete with the less environmentally-sound kerosene stoves. Lobbying efforts are ongoing to reduce tariffs on ethanol used as household fuel.

4.7 Other issues

The Kenyan case study also suggests that lack of familiarity with the term social enterprise may also act as a constraint to social enterprise development if it inhibits access to government, donor and public support. In a similar way, the lack of definition of social enterprise and the lack of a strong co-ordinating body or central organisation for social enterprise is cited as an inhibiting factor. It could be argued, however, that as current usage of the term tends to be very broadly defined and all-encompassing, it is not a very useful means of categorisation in its present form and perhaps also a rather too broad foundation on which to establish a co-ordinating body or central organisation. It is suggested here that work on tightening the definition, for example to focus on hybrid business models, could provide greater clarity for regulators and promoters and a sounder basis on which to discuss common issues and solutions.

5 Opportunities

Social enterprises operate in a complex environment. Some may be competing against fully commercial businesses and some against state subsidised services. It is clear from the survey evidence in Vietnam and Kenya, however, that social enterprises tend to gather around niche markets to which their hybrid business models are best suited and where competition from the state and market is less forceful. It may therefore be helpful to try and identify niche areas where greatest opportunities for social enterprise may exist and, incidentally, where the efforts and resources of social enterprise promoters may be most justified and most useful.

These niches are not clear cut or static. Fully commercial enterprises continually push the boundaries to find profitable opportunities in low income and more marginal markets. The extent of state involvement in the provision of subsidised services also waxes and wanes in response to political and economic trends. In Vietnam, since the 1980's, the reform of central planning, known as 'doi moi', has led the state to withdraw from monopoly control of service provision in some key areas (irrigation, primary health care) and to push for 'socialisation' of service provision, creating opportunities, or at least a mandate, for social enterprises to enter new markets. In other areas, increased state provision of services (such as financial services for the poor) has resulted in shrinkage of market space for social enterprise.

The types of market niche filled by social enterprises include:

- *Markets serving the very poor*, where business margins are low and risks tend to be high. In some sectors, such as microfinance, there is on-going debate as to whether a fully commercial operation can fulfil the needs of the poorest client groups more effectively than modified NGO models. Though clearly commercial microfinance has pushed the frontiers of financial inclusion, there is still consensus that hybrid models are needed to reach the poorest of the poor. In the health sector, a niche clearly exists for hybrid service models in areas where state provision is lacking and ability to pay full market prices is not widespread in the community. Examples of social enterprises in the study which are operating in this market niche include:
 - Micro-clinics run in low income areas (Access Afiya, Viva Afiya)
 - Selling affordable irrigation tools to poor, smallholder farmers (Kickstart)
- *Other new and challenging markets* where high costs may be incurred to stimulate demand and create new opportunities due to the need to overcome stigma, acclimatize clients to more complex technology, challenge perceptions that services should be provided by the state. It is possible that such conditions may not be permanent (e.g. stigma against people living with HIV/AIDS reduces so that special efforts to target and serve such clients are no longer necessary). Most social enterprises surveyed, however, are dealing with relatively intractable social problems where the barriers to mainstream business are long term. Examples of social enterprises in the study which are operating in this market niche include those:
 - Providing counselling services to people living with HIV/AIDS and other socially marginalised groups (New Light, CCHCPS).
 - Providing microinsurance products to farmers (Kilimo Salama). Microinsurance products are typically very hard to sell to low income clients on a fully commercial basis because of lack of familiarity with insurance concepts.
 - Providing relatively intensive support for farmers to adopt new and unfamiliar crop cultivation techniques (KCT – potatoes).

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- *Management of infrastructure* which the state no longer has the resources to maintain and operate but which would be hard to operate on a fully commercial basis. Though only one example was covered in the survey, there are many examples of state transfer of assets to management by non-state entities in Vietnam, including management of rice milling equipment by agricultural co-operatives and canal systems by Water User associations. These organisations operate as social enterprises, charging fees for service to cover operating and maintenance costs. Examples of social enterprise from the study operating in this market niche include those:
 - Managing the operation and maintenance of irrigation canal systems (Huu Duc co-operative).
 - Markets for products producing *environmental benefits* but which may not be fully commercially competitive. Clearly, many environmentally beneficial business lines are fully commercially viable. Others however, will continue to be marginal and remain particularly suitable for hybrid social enterprise models. Examples of social enterprise from the study operating in this market niche include those:
 - Setting up production and marketing of certified, organic vegetable products (VRAT Company). In many markets, organic vegetable production may be fully commercially viable but in the context of the Vietnamese domestic vegetable market, certified organic production remains highly marginal.
 - Producing organic fertiliser from crop waste (Huong Hoa Cassava Starch Factory). This process makes use of waste from cassava flour production and generates income for the factory. However, it requires support from a DFID Challenge Fund to make the initial investment in the plant required.
 - Training poor farmers to reduce use of chemical pesticides (Real IPM). Integrated pest management is a profitable option for large scale farmers but the company's efforts to promote the technique amongst smallholders requires on-going subsidy.

It may seem counterintuitive to suggest that these more difficult and marginal markets constitute opportunities for social enterprise but this highlights the issue that social enterprises are not well placed to compete with mainstream business in more competitive markets.

In the case studies, a whole range of other factors were identified as opportunities for social enterprise that are clearly important but also common to mainstream enterprise as well. These include:

- Macro-economic growth and stability, in both Vietnam and Kenya, providing a positive business environment for social enterprise.
- Advances in information technology which can bring down transaction costs (for example in payment of microinsurance premiums) and open up new opportunities (for example, dissemination of market information). In Kenya, the high penetration levels of mobile phones and the innovative use of mobile phones for financial transactions and collaboration (including Mpesa, iHub and mLab) has allowed social enterprises to create new processes and develop models and products to meet social needs.
- Improved business environment in Vietnam with quicker and easier procedures for establishment and registration of businesses.

6 Recommendations

6.1 To government and regulators

- One of the key observations from this study is that social enterprise is, as yet, not a clearly defined concept. It is recommended, therefore, that regulators do not rush in to establish a new legal category or legal status for social enterprises unless a clear and objective definition can be agreed at a national level. Poor regulation is worse than no regulation. Any potential benefits or preferences that may arise from legal recognition as a social enterprise could be disputed and abused if eligibility criteria are not clear and transparent.
- Government, however, can play an important role in promoting hybrid social enterprises in specific sectoral contexts.
 - In some cases, this would only involve creating *a level playing field* for social enterprises registered under existing legal frameworks. For example, there may be instances where tendering processes to select non-state providers of public goods exclude the legal entities under which social enterprises are registered. This was noted by one of the respondents in the Vietnam study in the case of bidding to carry out certain state funded agricultural extension programmes.
 - Government policies on *management of public infrastructure* will also impact on the space available for the development of social enterprise. Instances of local governments contracting out the management, operation and maintenance of public infrastructure such as irrigation systems, roads or waste recycling facilities were not found in the survey's enterprise sample – except in one case of a co-operative in Vietnam. However, this is clearly an important mechanism through which government can promote social enterprise and improve management of public assets.
 - *Controlled use of government subsidy*. Particularly in response to political pressures, governments (and donors) often provide price subsidies for goods sold or provided to key population groups which are already efficiently provided by the private sector. Often this subsidy is limited in time or amount but its distorting effects can be highly destructive, including in markets where social enterprises operate. The most common example is provision of free or subsidised agricultural inputs – undermining local input suppliers (including social enterprise) and creating an expectation and dependence amongst their clients. Most of the agricultural enterprises covered in this study are involved in trying to establish sustainable systems of input supply to poor farmers. The role of government intervention in markets of this type is a matter for political decision but certainly short term, politically motivated changes in subsidy policy should be avoided in order to protect private sector companies from unpredictable and unfair competition.
 - *Government support – financial or non-financial* – can also play a role in supporting social enterprise. It was also noted in the Kenyan study that local governments sometimes assist social enterprises through public support to their organisation or validation of their products, helping the enterprises to gain trust of local communities. The Vietnam case study also mentioned a specific case of government financial support to a social enterprise venture which enabled it to succeed: state support for investment in seed potato cold storage facilities. Examples such as this show that, within the context of specific sectors and activities, governments can play an important role in both facilitating and promoting the activities of social enterprise.

6.2 To support organisations

- For similar reasons, it is recommended here that support organisations – donors, technical assistance providers, incubators, social investors – also make a *distinction between private sector development activities and support for hybrid social enterprises*. Both are valid approaches which can have positive social impact. However the two approaches are different. In mainstream private sector development, external support is typically limited and time bound to enable a commercially viable to get off the ground and then quickly start to make a profit. For hybrid social enterprises, operating in more difficult markets, with lower margins, lower (or non-existent) profit, support may need to be more intensive and longer term. It is important for supporters to be clear about when this is justified and when it is not. Including a full range of mainstream and hybrid enterprises in a wide definition of ‘social enterprise’ risks donor support and social capital migrating mainly to safer, already profitable, mainstream enterprises, potentially displacing market sources of finance that these enterprises could access. It is the hybrid enterprises operating in really marginal markets which desperately need more preferential sources of support.
- It is recommended that donors and social investors deliver their support within an analysis that is grounded in the specifics of the *sector and the local context* - rather than blanket support for the concept of social enterprise *per se*. As has been discussed elsewhere, opportunity for social enterprise lies in spaces between those most effectively served by mainstream business and the state. That space varies depending on the sector and the political context. In short, social enterprise is not the answer to all problems and it is important to think about where the social enterprise concept is most applicable. This is familiar within, for example the financial services sector, where the role of commercial banks in promoting growth and economic development in developing countries is clear and where banks have also tended to ‘downscale to serve lower income clients. Nevertheless, in most countries, the niche for socially oriented microfinance remains in the most difficult and marginal areas of the economy and is one where external support is most needed.
- There is an important role for *local support organisations* that provide technical assistance and information for hybrid social enterprises. It is important that such organisations understand the specific challenges faced by social enterprises, many of which have been outlined in this report. Organisations like SPARK Centre in Vietnam and the East African Social Enterprise Network (EASEN) have been doing a valuable job of advising enterprises on appropriate revenue models that enable enterprises to cover their costs, along with specific advice on accounting and financial management. This is particularly valuable for enterprises transforming from an NGO model dependent mainly on grant support. It is recommended that donors support the development of intermediary organisations which have strong local roots and understand the spaces in which social enterprises can operate in the local context. Such support organisations may well also develop specific sectoral expertise which would be valuable in providing advice to enterprises. This is important in order to ground the concept of social enterprise and avoid the perception of social enterprise as an alien, donor inspired concept.

6.3 To social enterprises

- Given the conclusions drawn above for government and regulators, social enterprises themselves may also want to think carefully before advocating for greater government involvement in recognition and *regulation* of social enterprise. Lessons may be learnt from the microfinance sector in Vietnam where microfinance institutions lobbied for regulation, motivated primarily by a general desire for recognition and support from the government. When their wishes were granted, however, in the form of Decree 28 in 2005, problems ensued in the form of disagreements over definition, new barriers to entry and unpopular regulatory requirements.
- *Business planning*. Enterprises seeking to develop and grow in what are often very marginal markets need to pay particular attention to realistic business planning both to ensure that there

really is a market opportunity that they can fulfil and also to gauge the extent to understand the cost of the modification of commercial orientation they propose. The planning needs to take into account potential competition from mainstream business and from state providers.

- *Weak management* has been noted as a common characteristic of social enterprises, often for many diverse reasons (the dominant role of inspirational founders; low margins earned and therefore low salaries paid; the social development background of the staff that social enterprises attract et cetera). It is important for social enterprises to recognise the need for strong management, establish strong governance structures within the organisation, budget to pay market rate salaries for key personnel and make use of training and support resources that are available. Social enterprises that are transforming from grant dependent NGOs may need to compromise in terms of defending the founding ethos of the organisation.
- Operating in marginal markets as many hybrid social enterprises do, access to grant funding or concessional loans is important. In addition to demonstrating sound management and financial reporting, social enterprises seeking to access these concessional forms of finance will also need to be able to show evidence of their *performance and impact against social indicators*. This is not a simple task but, from the outset, enterprises should take care to collect basic data on their clientele and operations that at least provides some indication of the effectiveness of their targeting and, if possible, impact.

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Cover image: A farmer in Bungoma South, Kenya, shows the difference in sorghum production from two One Acre Fund trial plots. The trial tested the impact of different fertilizers on sorghum. Photo courtesy of Hailey Tucker, One Acre Fund.



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