Lisa M. Hanley / Aline Margaux Wachner / Tim Weiss

TAKING THE PULSE

OF THE

SOCIAL ENTERPRISE LANDSCAPE IN DEVELOPING AND EMERGING ECONOMIES

INSIGHTS FROM
COLOMBIA, MEXICO, KENYA
& SOUTH AFRICA

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ABOUT THE PUBLISHERS

The survey is part of the International Research Network on Social Economic Empowerment (IRENE | SEE) initiated and sponsored by Siemens Stiftung and coordinated by Zeppelin University.

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Zeppelin University (ZU) is a privately endowed institution of higher education, officially recognized by the federal state of Baden-Württemberg and accredited by the German Council of Science and Humanities since 2003.

As a 'university between business, culture and politics' it undertakes both education and research in an interdisciplinary, individualized and international spirit. Zeppelin University's Civil Society Center | CiSoC was established in 2010 to undertake research into social innovations, social developments and social enterprises in particular, with financial support from numerous foundations such as Stiftung Mercator, Siemens Stiftung and JP Morgan Chase. Currently, with five staff headed by Prof. Stephan A. Jansen and many international partner universities, it runs national and international empirical projects in postgraduate programs. The Zeppelin University staff working on the International Research Network on Social Economic Empowerment is composed of Lisa M. Hanley (project manager), Aline Margaux Wachner and Tim Weiss (PhD candidates).

Siemens Stiftung operates in the fields of basic services, education and culture. As a hands-on foundation, it develops its own projects and implements them with a view to the long term.

In its working area Basic Needs and Social Entrepreneurship, Siemens Stiftung empowers people to lead independent and dignified lives. The goal is to reduce existential care needs and strengthen necessary social structures. In developing and emerging countries, Siemens Stiftung focuses on the use of simple yet innovative technical solutions and combines these with training and social entrepreneurial solutions in its project work. Beate Grotehans is the Senior Project Manager of IRENE | SEE.

FOREWORD

Good entrepreneurs can make a big impact and good researchers can make a big impact, but when both groups work together, truly great things can happen! Only when there is exchange, when there is a common reflection on and understanding of the challenges we are facing and on the ways and values with which we want to solve them, will we be able to truly innovate with a purpose that can serve entire societies.

Siemens Stiftung and Zeppelin University know this first hand. In 2011 we created IRENE | SEE – the International Research Network on Social Economic Empowerment – with doctoral candidates from African and Latin American countries focusing on specific questions about social economic empowerment. The aim of the project is to research organizational approaches that foster Social Economic Empowerment – understood, in this context, as the process of economic self-empowerment through professional assistance. The main focus lies on entrepreneurial solutions to social problems such as social enterprises, which in recent decades have increasingly been considered as a promising complement to traditional development cooperation.

When we started to work with IRENE | SEE in Africa and Latin America, qualitative and quantitative research on the actual impact of social enterprises was difficult to find. We recognized that it would be useful to take the pulse of the social enterprise landscape in developing and emerging markets in order to derive practitioner-oriented recommendations mainly for social entrepreneurs and social investors in these areas. The present study was consequently conducted by Lisa M. Hanley, Aline Margaux Wachner and Tim Weiss from the chair of Prof. Stephan A. Jansen at Zeppelin University, who all contributed equally. Now, with the publication of the study, we welcome thoughts and ideas on its results, key points and recommendations from social entrepreneurs, social investors and researchers.

PROF. STEPHAN A. JANSEN
Zeppelin University

ROLF HUBER
Siemens Stiftung

THANK YOU

FROM THE AUTHORS

The authors would like to gratefully acknowledge the contributions of a number of individuals and organizations that generously dedicated their time and energy to making this research project possible.

We would like to thank Siemens Stiftung for their generous financial support over the course of the IRENE | SEE project. Our program manager, Beate Grotehans, could not have been more encouraging of our endeavor to carry out this project. Beate Grotehans not only provided us with flexibility, but also with encouragement, reassurance and confidence. We would also like to thank Sabine Baumeister who graciously provided us with access to 'her' entrepreneurs through the Community Impact and Development Group; Carola Schwank with regard to the 'empowering people. Network'; and David Hoffmann, who was always there to provide assistance when we needed it. At Zeppelin University, Professor Stephan A. Jansen always proved an excellent sparring partner and provided our research team with guidance and inspiration. Our colleagues at the Civil Society Center, Ramona Kordesch, Clemens Mast and Wolfgang Spiess-Knafl, provided constructive criticism and always challenged us and helped us think through our ideas. A number of Zeppelin University students worked on this project as research assistants. Their help, particularly with developing the databases, was invaluable. We would like to thank: Thorge Ketelhodt, Michael Mandery, Allan Rodriguez Aristizabal, Janina Schlecht, Daniel Schulte-Hillen, Mirjam Stegmaier and Teresa Stumpf. Of our research assistants – several stand out in terms of their time and commitment to the project: thank you Jan van Meegern, Alejandra Tijerina and Samanth Lutz.

A number of other individuals and organizations contributed not only to developing the database of social enterprises and social investors, but also to framing the research project. In no particular order: Emily Darko of the Overseas Development Institute (ODI); Abhilash Mudaliar, Global Impact Investing Network (GIIN); Angelika Roth, Mirielle Eaton, Scott Wofford and Stephanie Schmidt, Ashoka Mexico and Central America; Simon Stumpf, Ashoka Kenya; Susana Garcia-Robles and Gabriela Torrez, Inter-American Development Bank; Alexis T. Shenfil Smart, Root Change; Jayaram Uparna, Northwestern University; and Felipe Tibocha Cala. We are particularly grateful for the continuous and valuable support provided by Saurabh Lall of the Aspen Network of Development Entrepreneurs (ANDE) with regard to conceptualizing and disseminating the research. In addition, we would also like to acknowledge Katia Dumont and Jenny Everett from ANDE as well as Christopher 'Spencer' J. Arnold from Santa Clara University for their assistance.

This research project is embedded in a larger research network, IRENE | SEE. We would like to thank our colleagues in the network: Meshach Aziakpono and Alfred Mthimkhulu, University of Stellenbosch, South Africa; Roberto Gutierrez and Julia Diaz, Universidad de los Andes, Colombia; Gerardo Lozano and Mario Davila, EGADE, Mexico; Fikru Arja, Adama University, Ethiopia; and Peer Ederer, Zeppelin University. Special thanks to Leah Florence for copy editing the report and to Patrick Wachner and Kristina Nifer for design and layout.

We would also like to thank those close to us who have sacrificed time together as they supported and encouraged our efforts as we saw this project through. Lisa Hanley would like to thank Andreas, Sebastian and Victoria. Aline Wachner would like to thank Bastian Laucke who has supported her ceaselessly for many years. Tim Weiss sincerely thanks the numerous individuals and dearest friends who accompanied the process. Finally, we would like to thank all the survey participants, the social entrepreneurs and social investors who not only took time to fill out the survey, but also engaged in discussions and debates to help us improve our investigation. Though this list is not exhaustive, the authors sincerely thank all those who assisted and contributed to this work, as reports such as this are always collaborative ventures.

STRUCTURE OF THE STUDY

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EXECUTIVE SUMMARY

IN SUM

The goal of this study is to ground the debate on the opportunities and limits of social enterprises and their ecosystem in four specific countries – Colombia, Mexico, Kenya and South Africa.

Social enterprises in developing and emerging economies provide a promising solution to a variety of poverty-related issues. At the same time, they remain largely under-researched. The findings of the study therefore relate to two areas, the way social enterprises meet basic needs and contribute to poverty reduction and the dynamics in their ecosystems that enable or constrain social enterprises in accomplishing these objectives.

BASIC NEEDS AND POVERTY REDUCTION

The study shows that social enterprises deliver their products and services within a broad range of sectors. Most social enterprises that have received social investment work in sectors such as education and training, environment and information and communication technology. In comparison, sectors that directly provide **basic goods and services are underrepresented in the focus of social enterprises that have received social investment.** Water and sanitation, for instance, receive disproportionate attention (Chapter 1, p. 16). This suggests that sectors related to basic needs provide less market opportunities for financially sustainable social business models, especially because **end consumers are social enterprises' most important revenue source** (Chapter 7, p. 31). In order to remain financially sustainable, social enterprises need to target customers that are able to pay. This often times hinders them from serving the lowest income tier.

However, the study highlights that differences emerge between the types of social enterprises; it is social enterprises with a hybrid structure (for-profit and nonprofit) that succeed in serving lower income segments. They use innovative cross-subsidization strategies that combine profitable and socially oriented activities to ensure that their products and services reach the poorest of the poor. Alongside such innovative strategies, national plans that promote social enterprises and longterm contracting across the public, the private and the third sector (e.g. foundation, NGOs) are needed in order to increase social enterprises' involvement in basic needs sectors and enable them to reach the lowest tiers of the Base of the Pyramid (BOP).

Managing the innovative business models of social enterprises furthermore requires a specific skill set. Entrepreneurs not only need to build a sustainable business under the challenging conditions of developing and emerging markets, they also need to navigate through multiple stakeholder demands, particularly from funders and customers. Given this background, the study's findings indicate that **social entrepreneurs originate from the educational elite** (Chapter 8, p. 36): about 75% have at least a master's degree. Moreover, social entrepreneurs have pertinent professional backgrounds; 38% were former entrepreneurs, 22% were employed in the education sector and 15% worked as consultants. Educational background and prior work experience are thus important signals to receive social investments. This, however, leaves aside important opportunities to gain knowledge from low-income entrepreneurs whose educational background may be more limited, but who can contribute to building solutions for their communities. Inclusive business models (e.g., social franchising) are a promising way to

'Social entrepreneurs originate from the educational elite: about 75% have at least a master's degree.'

‘Sectors related to basic needs provide less market opportunities for financially sustainable social business models, especially because end consumers are social enterprises’ most important revenue source.’

involve entrepreneurs from the BOP. Social investors should therefore rethink their selection criteria in order to become more accessible for a wide range of entrepreneurs. In addition, umbrella organizations as well as policy makers are important actors in promoting training and mentoring programs that prepare entrepreneurs from all educational backgrounds to access funding.

‘The study highlights that differences emerge between the types of social enterprises; it is social enterprises with a hybrid structure (for-profit and nonprofit) that succeed in serving lower income segments.’

Social impact measurement remains one of the key challenges in the social enterprise landscape. The study illustrates that 84% of social entrepreneurs define their social impact metric either alone or jointly with the social investor. However, when social enterprises were asked whether the social impact data they have collected was useful for strategic decision-making, 63% of all respondents left the question unanswered. This points to a **misalignment between social impact metrics and intra-organizational processes** (Chapter 9, p. 38). However, it also opens up important spaces for strategic initiatives from social investors as well as umbrella organizations to redesign reporting requirements and reduce overly bureaucratic reporting procedures in collaboration with social enterprises.

ECOSYSTEM DYNAMICS

This study allows a unique view into the dynamics of a nascent ecosystem, including the funding patterns of social investors as well as differences in the social enterprise landscape across countries. One of the most important findings is the growing importance of hybrid structures over the last few years, which reflects a shift towards market-orientation in the focus of funders that seek to promote social and economic development in developing and emerging markets. Of all surveyed social enterprises, 19% operate under dual legal forms (for-profit and nonprofit), allowing them to accommodate funding from various sources with varying return expectations. **In addition for-profit legal entities are increasingly being recognized as legitimate recipients of social investments. In consequence, the number of nonprofits receiving funding has declined over the last years** (Chapter 3, p. 22). While this trend yields opportunities for innovative market-based approaches to social issues, policy makers, social investors and umbrella organizations are also called to establish organizational structures and accountability mechanisms that embrace blended value creation and preserve the social mission.

Looking at social enterprises’ funding sources further explains the shift towards for-profit. **By far, the most common funding source for social enterprises is ‘free cash’** (Chapter 6, p. 28), which includes grants, donations and prize money. Overall, more than 66% of social enterprises – including for-profits and hybrids – received ‘free cash’, a source traditionally accessed by nonprofits. This, however, affects particularly nonprofit social enterprises as the study findings also show that they primarily rely on a single funding source. Nonprofits’ capital structure is more limited and makes them more vulnerable if one funding source dries up. For-profit and hybrid structure social enterprises, in contrast, are better able to hedge risks, since the majority access multiple funding streams, including grants, loans and equity capital, as

‘For-profit legal entities are increasingly being recognized as legitimate recipients of social investments. In consequence, the number of nonprofits receiving funding has declined and the number of hybrid structures has increased over the last years.’

well as innovative blends. This shows on the one hand, that social enterprises, particularly nonprofits, need to make use of the full funding spectrum to diversify and increase the number of funding streams in order to strengthen their sustainability. On the other hand, it also emphasizes the need for social investors, umbrella organizations and researchers to develop financial products that help social enterprises, particularly nonprofits, to overcome diversification challenges as well as reach lower income segments of the population in a financially sustainable way.

The study furthermore locates social enterprises in the dynamics between the public, the private and the third sector across the countries. Social enterprises primarily compete with the private sector (56%), implying that they mainly operate in spaces where the public and third sectors are not well engaged. Overall, the study suggests a **limited overlap between social enterprises’ and the public sector’s activities in developing and emerging economies** (Chapter 2, p. 18). 52% of the social enterprises state that they don’t receive any government support and 14% even indicate that the government hinders their operations.

However, country differences in cross-sector dynamics could be observed (Chapter 5, p. 26). South African social enterprises are less likely to enter into partnerships with the public sector in comparison to their counterparts in the three other countries. Furthermore, while the private sector is overall the most important funding source for social enterprises, the third sector ranks second in Colombia, Kenya and South Africa. Only in Mexico does the public sector play a larger role than the third sector. Looking at cross-sector dynamics also sheds light on the co-investment patterns of social investors. The need for co-investments between different social investors has repeatedly been stressed in order to facilitate a collaborative approach to tackling complex social problems in developing and emerging markets.

The study indicates that a large majority of social investors (97%) co-invest; however, not all types of actors are involved in co-investments (Chapter 4, p. 24). While foundations, philanthropists, social impact funds, development agencies, NGOs and commercial investors are the most popular co-investment partners, only a minority co-invest with governments, accelerators and incubators, banks and private companies. Therefore developing frameworks that facilitate social investment partnerships, and prioritize co-investment, particularly in the early stages of social enterprises are essential.

Based on these elaborations, the authors have derived a set of recommendations to strengthen the ability of social enterprises to meet basic needs and contribute to poverty reduction in developing and emerging markets (Conclusion and recommendations, pp. 39–41).

RECOMMENDATIONS FOR SOCIAL ENTERPRISES

FIG. 01
OVERVIEW OF RECOMMENDATIONS BY TARGET GROUP

	Social investors	Social enterprises	Policy makers / public sector	Private sector	Third sector	Umbrella organizations	Researchers
01 Foster long-term contracts for provision of basic goods and services to lowest tiers of the BOP *Develop national plans that promote social enterprise & encourage long-term contracting across the public, the private and the third sector in order to increase involvement in basic needs sectors.*	●		●	●	●		
02 Diversify funding streams *Make use of the full funding spectrum to diversify and increase the number of funding streams to strengthen social enterprise sustainability, particularly nonprofits.*		●					
03 Adapt financial products to the needs of social enterprises *Design financial products that help social enterprises to overcome diversification challenges as well as reach lower income segments of the population in a financially sustainable way.*	●					●	●
04 Develop frameworks for cross-sector partnerships *Develop frameworks and social investment partnerships that facilitate, support and prioritize co-investment, particularly in the early stages of social enterprises.*	●					●	●
05 Establish criteria to support social enterprises and preserve social mission *Define organizational structures and accountability mechanisms that embrace blended value creation and harmonize the expectations of various stakeholders to preserve the social mission of social enterprises and safeguard the balance between profit and social value creation.*	●		●			●	
06 Promote inclusion of social entrepreneurs from all educational backgrounds *Adapt social investors' selection criteria, increase training and mentoring opportunities and promote business models that include entrepreneurs originating from the BoP.*	●	●	●			●	
07 Move towards strategic impact measurement *Intertwine strategy and impact measurement tools to work systematically towards poverty reduction & financial sustainability.*	●	●				●	

INTRO

EXPLORING THE SOCIAL ENTERPRISE PROPOSITION

Social enterprise and social investing draw on the strengths of the private, public and third sectors and have received considerable attention in recent years, as governments around the world struggle with the amplitude of social problems in their countries.

As we approach the deadline for the Millennium Development Goals and the population living at the Base of the Pyramid (BOP) keeps on growing, consciousness about the need to amplify and better coordinate efforts to tackle the world's most pressing problems remains essential to alleviate poverty. This report seeks to ground the debate on social enterprise and social investment. It takes the pulse of these organizations in Colombia, Mexico, Kenya and South Africa, in order to better understand the landscape in which these organizations work and the approaches they employ to meet social and economic challenges.

DEFINING A SOCIAL ENTERPRISE

Social enterprises, in this report defined as organizations that receive support from social investors and seek to solve societal problems in a market-oriented or entrepreneurial way, provide a promising complement to traditional development approaches as well as opportunities to tap into new markets. In contrast to purely donation-financed organizations, they often seek to build innovative and financially sustainable or profitable business models that provide durable solutions to societal problems.

THE ROLE OF SOCIAL ENTERPRISES

Commercial investors, foundations, development organizations and public entities, among others, have therefore identified social enterprises as target recipients for their financial and technical support. In 2013, the G8 countries launched a Social Impact Investment Taskforce aimed at catalyzing social investment markets across the G8 nations,[1] and in 2014 the US National Advisory Board on Impact Investing stressed the need for a more intentional and proactive partnership between government and the private sector if impact investing is to reach massive scale.[2] Policy directives to promote social innovations have furthermore been enacted at a national level in developing and emerging economies; for example, the Colombian Center for Social Innovation was founded in 2011 as part of the Colombian National Agency to Overcome Extreme Poverty (ANSPE).[3]

Yet, a profound understanding of the landscape is needed to better inform the debate. This report contributes to answering the following questions in an effort to define the role of social enterprises and social investors in developing and emerging economies:

- **What are the characteristics of social enterprises?**
- **Which sectors do social enterprises focus on?**
- **Which segments of the population do social enterprises target?**
- **How do social enterprises contribute to social and economic development?**
- **Who provides social enterprises with financial and technical support?**
- **How do funding landscapes and products influence social enterprises' emergence and behavior in the long run?**
- **How do social enterprises and social investors integrate into the network of organizations that seek to promote development?**

DEFINING SOCIAL INVESTMENT

Umbrella organizations such as the Aspen Network of Development Entrepreneurs (ANDE) and the Global Impact Investing Network (GIIN) are key actors in shaping the field of impact investing – a specific form of social investing made in companies, organizations and funds with the intention to generate social and environmental impact alongside a financial return.[4]

‘Various funders including commercial investors, foundations, development organizations and public entities, have identified social enterprises as target recipients for their financial and technical support. We need a profound understanding of this landscape to increase social enterprises’ contribution to poverty alleviation.’

This report broadens the scope by using social investing as an umbrella term for various investment logics and investor rationalities that explicitly seek to foster social and economic value creation in developing and emerging economies.[5]

ABOUT THE STUDY

This report is based on the belief that the boundaries between different investment approaches within the field of social investing are loosely defined and in fact loosely enacted. Impact investors, venture philanthropists or foundations often share similar goals, and also often target the same organizations with their support. Furthermore, in developing and emerging economies, the public sector traditionally doesn‘t succeed in sufficiently meeting basic needs, thus creating new market opportunities. Actors from the public, the private and the third sector are therefore seeking customers and funds in the very same markets. However, empirical studies about social investments and social enterprises have so far generally treated those sectors as separate areas.

This report summarizes the findings of a study conducted between summer 2012 and summer 2014, drawing on data collected from social enterprises and social investors in four countries: Colombia, Mexico, Kenya and South Africa. Through the International Research Network on Social Economic Empowerment (IRENE | SEE), initiated by Siemens Stiftung and Zeppelin University in 2011, the authors established one of the first independent large-scale databases on social investors and social enterprises in developing and emerging economies. Social investors were included in the study when they explicitly stated that they foster market-oriented solutions to address social problems. Subsequently, the portfolio organizations of these social investors – the social enterprises receiving their financial or technical support – became part of a separate sample. With this, the study differs from most other research approaches on social enterprises. Instead of applying a set definition of social enterprise and identifying organizations that fit into this definition, this study followed a self-referential approach. Organizations were included in the sample if they had been successful in acquiring social investment and hence had been identified as appropriate target recipients for social investors.

Focusing on four markets – Colombia, Mexico, Kenya and South Africa as four programmatic countries of Siemens Stiftung – enabled the authors to contextualize the data. While social investing and social enterprise can be seen as global phenomena on the rise, the local embeddedness of organizations is of crucial importance. The context for social enterprise undoubtedly influences its occurrence. The availability of resources from the public, the private and the third sector as well as the type of social issues differ per country – resulting in varieties of social enterprise landscapes.

1) http://www.socialimpactinvestment.org
Access date: January 2015
2) http://www.nabimpactinvesting.org
Access date: January 2015
3) For further information on policy directives to support impact investing, see the report ’ Breaking the Binary: Policy Guide to Scaling Social Innovation‘ by Schwab Foundation for Social Entrepreneurship and World Economic Forum (2013); see ANSPE website for further information: www.anspe.gov.co
4) http://www.thegiin.org/cgi-bin/iowa/resources/about/index.html
Access date: January 2015
5) Nicholls, A. (2010): The Institutionalization of Social Investment: The Interplay of Investment Logics and Investor Rationalities. Journal of Social Entrepreneurship, Vol. 1, No. 1, 70-100.

METHODS
THE RESEARCH DESIGN

The study seeks to ground the debate on the role of social enterprises in developing and emerging markets. Four specific countries were selected to allow for a contextualization of social enterprises and their ecosystem.

Four specific countries were selected for the study: Colombia, Mexico, Kenya and South Africa. In these countries, the authors benefited from improved research access through their membership in the International Research Network on Social Economic Empowerment (IRENE|SEE), personal contacts and expertise. Colombia, Mexico, Kenya and South Africa are particularly vibrant countries with regard to social investment and social enterprise activities in Latin America and Africa. However, acknowledging the differences between those countries was a crucial part of this study, which seeks to contribute to a better understanding of variations between social enterprises and social investors in different country settings. This section will provide a brief overview of the four countries included in this study.

COLOMBIA

With a GDP of 378.1 billion USD, Colombia is Latin America's fourth largest economy.[6] Since 1990, the country has fostered economic liberalization reforms, which increased the country's attractiveness for investors. Private enterprises and nongovernmental organizations (NGOS) compete and collaborate with public entities in several areas such as health, education and energy. Colombia furthermore has a long tradition of corporate social responsibility (CSR) across many industries, mainly targeting students, children, populations vulnerable to Colombia's armed conflict, victims of violence and the environment.

The United Nation's Development Program (UNDP) classifies Colombia as an upper middle-income level country, with a high Human Development Index (HDI) of 0.711. However, recent studies reveal that 8% of the Colombian population is multidimensionally poor,[7] and another 10% is near multidimensional poverty, meaning that they suffer from deprivations in several areas at the same time, including health, education and living standards. The contribution of these three areas to poverty in Colombia is relatively equally distributed. Multidimensional poverty, however, is lower than income poverty in Colombia, suggesting that people living below the income poverty line of 1.25 USD per day may still have access to non-income resources, including public services or the ability to convert income into outcomes such as good nutrition. In Colombia, access to public services is particularly salient in health, as the country's health sector has established a privatized but publicly managed system that reaches health coverage of approximately 93%.[8]

In recent years, several globally active social investment funds, such as Bamboo Finance and Acumen Fund, have opened regional offices in the Colombian capital Bogotá, suggesting an increasing attractiveness and growth of the field in Colombia.

MEXICO

Mexico is Latin America's second largest economy with a GDP of 1.261 trillion USD.[9] The country has been open to foreign direct investments (FDI) in most economic sectors for many years and has consistently been one of the largest recipients of FDI among emerging markets. A number of key sectors in Mexico, however, are characterized by a high degree of market concentration and public ownership, including telecommunications and electricity.

Mexico's human development is high according to UNDP, with an HDI of 0.756: 6% of the population is multidimensionally poor, and 10% live in conditions that are near multidimensional poverty. Similar to Colombia, shortcomings in health, education and living standards equally contribute to poverty in Mexico. In contrast, however, Mexico's multidi-mensional poverty index (MPI) exceeds the income poverty level by 5 percentage points.

FIG. 02
COMPARISON OF MULTIDIMENSIONAL POVERTY INDEX (MPI)
by sample country

				Population share (in %)			Contribution to overall poverty of deprivation (in %)		
	Survey year	MPI value	Head count (in million)	Near poverty	Severe poverty	< income poverty line of 1.25 USD	Health	Education	Living Standards
Colombia	2010	0,032	7,6	10,2	1,8	8,2	24,7	34,3	41,0
Mexico	2012	0,024	6,0	10,1	1,1	0,7	25,6	31,4	43,0
Kenya	2008/9	0,226	48,2	29,1	15,7	43,4	32,4	11,2	56,4
South Africa	2012	0,041	10,3	39,6	1,3	13,8	61,4	8,4	30,2

This implies that individuals living above the income poverty line of 1.25 USD per day may still suffer deprivations in education, health, and other living conditions.

The ecosystem of social investing and social enterprise in Mexico has been considerably strengthened through the joint efforts of various actors, including domestic foundations, the Inter-American Development Bank and the social enterprise incubator New Ventures. Initiatives such as the Global Impact Investing Map (GIIMAP), piloted in Mexico, have for instance contributed to a better understanding of the field.

KENYA

Despite persistent social challenges and weak infrastructure, as well as recurring political instability in the country, Kenya looks back on a long history of economic leadership in the region. With a GDP of 55.24 billion USD,[10] it is the study's smallest economy. However, for investors interested in the East African region, Kenya remains the main entry point – a fact that the Kenyan government tries to maintain through investment promotion of opportunities that earn foreign exchange, provide employment, promote backward and forward linkages and transfer technology. Investments are only constrained in a few sectors such as infrastructure, e.g., power and ports, where state corporations still enjoy a statutory monopoly. However, there has been partial liberalization of these sectors, particularly through the privatization round that took place at the end of 2013 – the third privatization round since independence in 1963.

Kenya is classified as a country with low human development (HDI of 0.535): 48% of the Kenyan population is multidimensionally poor, while an additional 29% is near multidimensional poverty. Furthermore, MPI is 5 percentage points higher than income poverty, which, similarly to Mexico, implies that individuals living above the poverty line may still suffer deprivations in education, health and other living conditions. Health and living standards are the strongest contributors to poverty in Kenya.

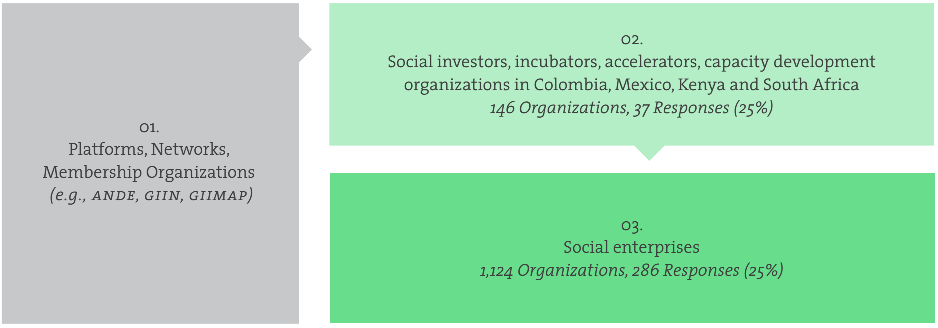
Kenya, particularly Nairobi, is a hub for social investing and social enterprises in the East African Community. The country has a comparably innovative capacity, ranking 50th worldwide.[11] Innovations in ICT such as the mobile money transfer system M-PESA, are globally recognized and have established a base on which further innovative business models with social and economic impact can be based.

SOUTH AFRICA

In 2013, the GDP of South Africa amounted to 350.6 billion USD, making it the second largest economy of Africa.[12] The government is generally open to green field foreign investments as a means to drive economic growth. Only certain sectors require government approval, including energy, mining, banking, insurance and defense. The post-apartheid regime has liberalized trade and enhanced international competitiveness, among others through privatization measures and reforms of the regulatory environment.

A unique policy directive in South Africa's regulatory framework is the existence of the so-called BBBEE scorecard – standing for 'broad-based black economic empowerment' . This affirmative action program aims to improve the conditions of historically disadvantaged South Africans by fostering their participation in the economy. The BBBEE scorecard rates a firm's commitment to economic transformation using seven different dimensions – ownership, management, skills development, employment equity, preferential procurement, enterprise development

FIG. 03
SAMPLING PROCEDURE



and socioeconomic development. Besides the benefits for a company to improve its social responsibility, points on the BBBEE scorecard also enable a company to participate in public tenders and licensing processes.

According to UNDP's human development index, South Africa is categorized as a country with medium development: 10% is multidimensionally poor and another 17% is near multidimensional poverty. As in Colombia, multidimensional poverty is lower than income poverty (4 percentage points), suggesting that people that live below the income poverty line have access to non-income resources, including public services or different abilities to convert income into outcomes. When compared to the other sample countries, South Africa depicts the most alarming health conditions, as health appears to contribute to overall poverty deprivation by 61%.

Although the private equity market in South Africa is the strongest in the sub-Saharan region, few investors were identified as explicit social investors at the time of the study. It is expected, however, that the ecosystem will start to grow in the next years as umbrella organization such as ANDE are increasing their efforts in South Africa.

CREATING THE SAMPLE

At present various definitions of social enterprises and social investors co-exist. This significantly complicates the identification of organizations, in particular since in most countries social enterprises lack a specific legal form.[13] Instead, they take the form of for-profit and/or nonprofit entities. Existing studies on social enterprises therefore often rely on anecdotal evidence such as case studies of successful social enterprises or seek to explore national nonprofit directories. Most social enterprise surveys to date have focused on establishing set criteria for the social enterprise sector and have taken place primarily in North America and Europe. Recent efforts from the Global Entrepreneurship Monitor (GEM) have tried to fill this gap by investigating social entrepreneurship across a number of countries, in Latin America, Africa and Asia. However, these results focus solely on the entrepreneur. As a result, large-scale studies about the nature, scope and needs of social enterprises as organizations remain scarce in developing and emerging economies.

A three-step process (see Fig. 3) was utilized to identify social investors and social enterprises:

1. Identification of main platforms, networks membership organizations: The authors identified networks, platforms and membership organizations in the field of social investing and social enterprise (e.g., Aspen Network of Development Entrepreneurs, Global Impact Investing Network, Global Impact Investing Map) through desktop research, snowball sampling, expert consultation and personal knowledge of the authors.

2. Selection of social investors: Social investors were included in the sample when they explicitly expressed the objective of contributing to social and economic development. Their websites were filtered by using keywords such as 'impact investing', 'social investing', 'blended value', 'market-based development', 'base of the pyramid' or 'venture philanthropy'. With this self-referential empirical approach, the data focuses on organizations that are endorsed as investors from resourceful or powerful organizations and thus socially legitimized as members of the field of social investing. The resulting social investor sample includes 146 organizations that provide financial and technical support to social enterprises in Colombia, Mexico, Kenya and South Africa. A screening of the social investor sample provided information on their nature. As Fig. 4 illustrates, 46 social investors explicitly labeled themselves as social impact funds, which represent the largest share (32%), followed by 24 accelerators or incubators (16%) and 22 foundations (15%). The

FIG. 04
SOCIAL INVESTOR SAMPLE
BREAKDOWN BY TYPE OF ORGANIZATION[14]
(n=146)

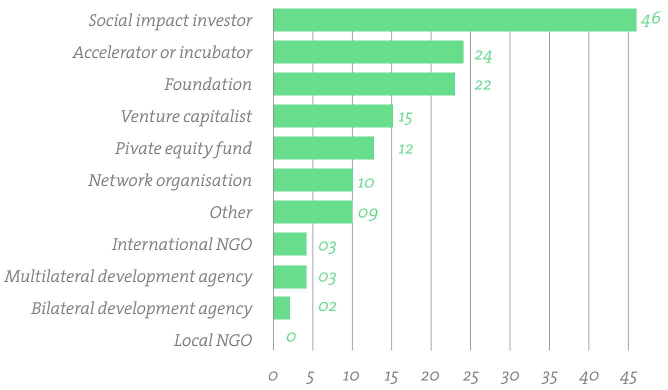
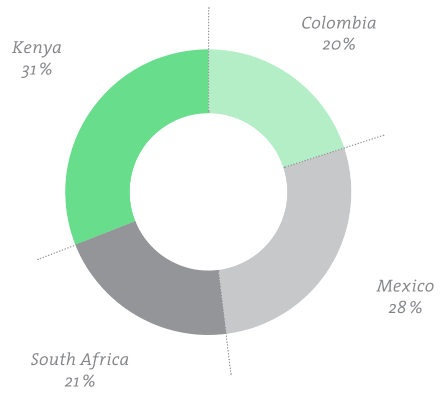


FIG. 05
SOCIAL INVESTOR SAMPLE
BREAKDOWN BY COUNTRY (IN %)
(n=146)



original sample of supporting organizations (Fig. 5) depicted a relatively even distribution across countries. Kenya accounts for the largest share of supporting organizations (31%) and Mexico for the second largest (28%). With 20%, the smallest share of the sample refers to supporting organizations that invest in Colombia, and the second smallest to South Africa (21%).

3. Selection of social enterprises: The portfolio organizations of social investors in these countries subsequently fed into the second sample – the social enterprise sample – containing 1.124 organizations. Consequently, this study focuses on social enterprises that have successfully acquired social investing and are therefore perceived and legitimized as social enterprises by funders. As a caveat in interpreting and reading this report, it should be noted that the study results are not generalizable for all social enterprises, as the report does not account for organizations that may qualify as social enterprises but have not received funding or support.[15] Given this sampling approach, the final sample set is not exhaustive. However, it does reflect the diversity within the fields of social investing and social enterprise. In addition, it provides the first large-scale survey of the social enterprise sector in the four selected countries.

Given the exploratory nature of the study, the survey method utilized a short and standardized questionnaire allowing for fast completion in about 20 minutes. The questionnaires were developed and peer reviewed by four professionals working in social investment and social enterprise organizations. The survey was then revised and tested in each country. Respondents received the invitation via email, which included a link to access the survey online in November-December 2013. Telephone and email follow-up was conducted in January and February 2014. Of the 146 supporting organizations, 37 completed the survey. Of the 1,124 social enterprises, 258 respondents took part in the survey. However, some organizations work in more than one country, resulting in 286 responses. This resulted in a response rate of 25% for the social investors survey and 25% for the social enterprise survey. (Further information about the number of social enterprises that have responded per country is included in the country profiles, pp. 42–45)

6) World Bank (2013).http://data.worldbank.org/country/colombia; Accessed January 2015
7) The multidimensional poverty index developed by the Oxford Poverty & Hu man Development Initiative and the United Nations Development Program in 2010 identifies multiple deprivations in the same households in education, health and living standards.
8) Montenegro Torres and Bernal Acevedo (2013): 'Colombia Case Study: The Subsidized Regime of Colombia's National Health Insurance System.' Universal Health Coverage Studies Series (UNICO), UNICO Studies Series No. 15, The World Bank, Washington, DC. Available at: http://www.worldbank.org/en/topic/health/publication/universal-health-coverage-study-series; Accessed January 2015
9) World Bank (2013).http://data.worldbank.org/country/mexico; Accessed January 2015
10) World Bank (2013).http://data.worldbank.org/country/kenya; Accessed January 2015
11) World Economic Forum (2013): 'The Global Competitiveness Report 2013 – 2014'. Available at http://www.weforum.org/reports/global-competitiveness-report-2013-2014; Accessed January 2015
12) World Bank (2013).http://data.worldbank.org/country/south-africa Accessed January 2015
13) There are some limited examples of legal incorporation, particularly in developed countries. The United Kingdom has a special legal status for social enterprises; in addition, the European Union launched a social enterprise initiative that may encourage the establishment of a legal form in other countries. The United States recognizes the L3C, a low-profit company, but they are regulated in only a limited number of states.
14) In absolute numbers classified by authors
15) See Bloom and Clark (2011) 'The Challenges of Creating Databases for Rigorous Research in Social Entrepreneurship' for further elaborations on the challenges of empirical investigations about social enterprises as well as limitations of different sampling approaches. Available at: http://impactinvesting.marsdd.com/knowledge-hub/resources/the-challenges-of-creating-databases-to-support-rigorous-research-in-social-entrepreneurship; Accessed January 2015

DIFFERENT SECTORS, DIFFERENT OPPORTUNITIES FOR BLENDED VALUE CREATION

01

Social investing and social enterprise have grown globally in recent decades, in part due to their professed contribution to solving the world's most pressing social and economic problems. But what are the topics that social enterprises tackle?

In order to leverage the impact of social enterprises' contribution to poverty alleviation, a deeper understanding of the areas in which social enterprises venture is necessary. Further research is needed to deepen the understanding why social enterprises and social investors enter certain sectors, but decide to avoid others.

SOCIAL ENTERPRISES' SECTOR FOCUS

The major sectors in which social enterprises operate illustrate a diverse pattern, with education and training, environment, agriculture and health ranking at the top (Fig. 6).

This picture suggests that social enterprises operate in sectors that relate to basic needs,[16] such as education, agriculture, health, food security, water and sanitation. These sectors are of paramount importance in emerging countries where the government does not succeed in sufficiently meeting basic needs. However, filling gaps in the provision of basic goods and services is by far not the only area of work for social enterprises. As suggested by the importance of the environmental sector, ICT, culture and arts or financial services, for instance, social enterprises often work in sectors that generate broader societal and economic value. Overall, the data shows that social enterprises work in an eclectic range of sectors. Given that they have been claimed to contribute to solving the world's most pressing problems,[17] essential basic needs such as water, sanitation, transportation and affordable housing are under-represented in this sample of social enterprises that have received social investments.

As Fig. 7 shows, sectors furthermore differ with regard to the type of social enterprises that work in them. Particularly sectors relating to basic needs such as education, health, food security, water and affordable housing, but also culture and arts, media, transportation and politics, are largely dominated by nonprofit social enterprises. For instance, of all social enterprises that work in education and training, 59% are nonprofit organizations. Other sectors such as ICT, financial services, agriculture and energy depict higher shares of for-profit social enterprises. This suggests that sectors provide different opportunities to develop business models that are not only socially but also financially attractive to social investors.

> 'In sectors that relate to basic needs, the nonprofit legal entity predominates, suggesting that the development of profitable business models is particularly challenging in those sectors.'

Social enterprises focus on an eclectic range of sectors. In sectors that relate to basic needs, the nonprofit legal entity predominates, suggesting that the development of profitable business models is particularly challenging in those sectors. This opens up new opportunities and innovation spaces for government involvement, private investment and innovative business models. In certain sectors such as sanitation or tourism, hybrid structure social enterprise, which combine the for-profit and the nonprofit form, already seem to play an important role, suggesting that these sectors are subject to business model innovations.

16) In this report, basic needs draws on the International Labour Organization (ILO) definition of the minimum consumption needs of a family, which include adequate food, shelter and clothing, as well as essential goods and services such as safe water, sanitation, public transport, health care and education. The ILO definition also encompasses access to employment as a means to an end in meeting basic needs, as well as participation in decision-making. The Basic Needs Approach to Development (ILO: Geneva, 1977)

17) See e.g. http://www.giininvestorforum.org, *Access date: January 2015*

FIG. 06
SECTOR FOCUS OF SOCIAL ENTERPRISES (IN %)
Respondents (n=253) could select multiple answers

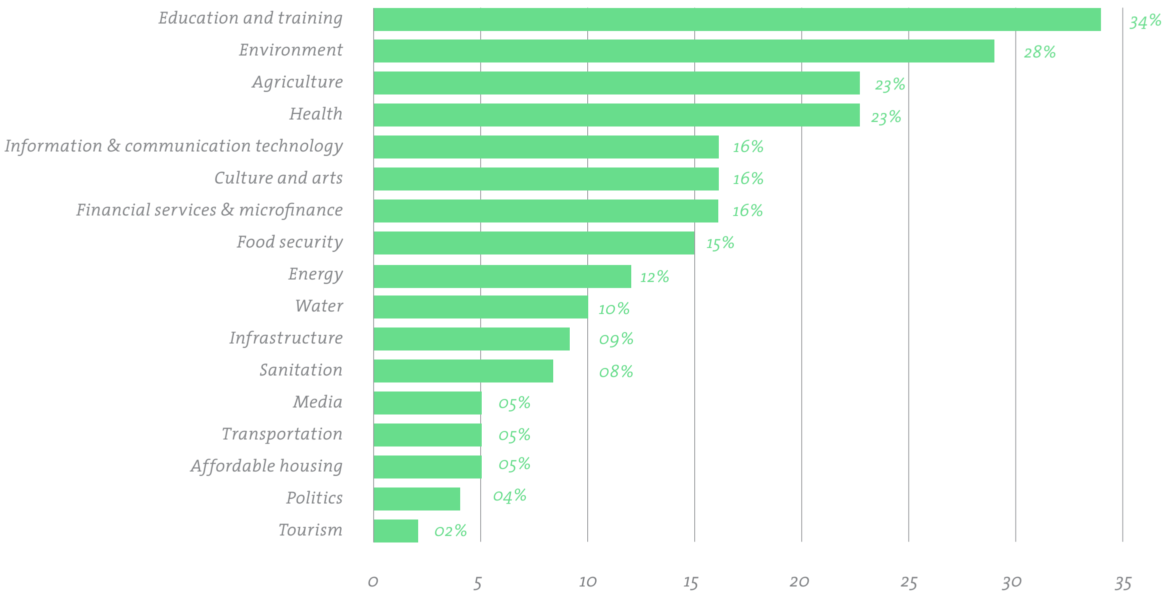
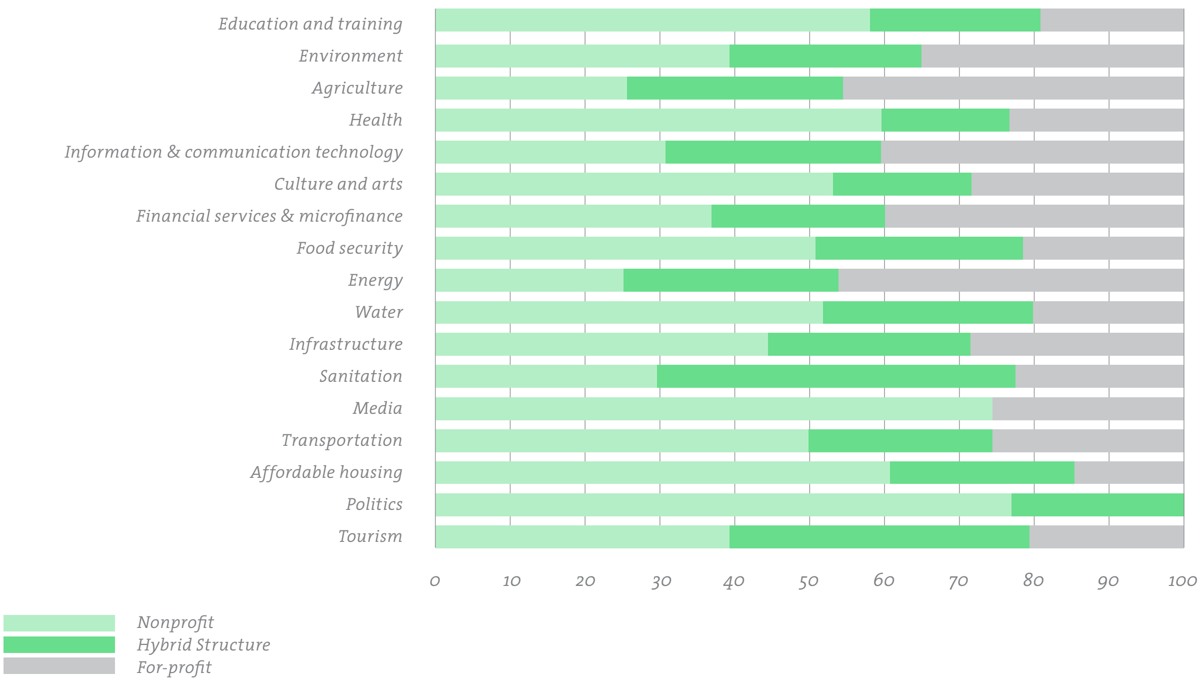


FIG. 07
SOCIAL ENTERPRISES' SECTOR FOCUS BY TYPE OF ORGANIZATION (IN %)
Respondents (n=249) could select multiple answers



SOCIAL ENTERPRISES LOCATE THEIR NICHE ACROSS SECTORS

02

Social enterprises work in collaboration with actors across all the public, the private and third sectors. Cross-sector dynamics, however, differ between countries.

Social enterprises develop innovative business models that allow them to operate at the interstices of the public, the private and the third sector. By doing so they intertwine traditional organizational and financial categories and challenge traditional labor division for social and economic impact in developing and emerging economies.

SOCIAL ENTERPRISE PARTNERSHIPS

As Fig. 8 shows, formal partnerships overall mainly occur with the third sector, but the extent to which they enter partnerships and with which sectors differs by country. South African social enterprises partner least with the public sector. Social enterprises in Colombia and Mexico enter more partnerships with the public sector and the third sector than social enterprises in Kenya or South Africa . And in Kenya, specifically, the private sector tends to be a more important collaboration partner than in all the other countries. Only a small number of social enterprises appear to enter no formal partnerships.

GOVERNMENTAL SUPPORT

Social enterprises receive governmental support (Fig. 9) – particularly to raise awareness for their products or services (24%) and through financial advantages or direct contracts (13% each). However, more than half of all social enterprises don't receive any governmental support for their operations and 14% even indicate that the government hinders their operations. Policy makers around the world have started to design frameworks in order to foster the development of financially sustainable social business models that provide basic goods and services. However, direct governmental support for social enterprises still remains weak. The low interaction with public entities could be an explanation for social enterprises' underrepresentation in sectors that relate to basic needs. Furthermore, it indicates that social enterprises work outside the scope of the public sector.

WITH WHOM SOCIAL ENTERPRISES COMPETE

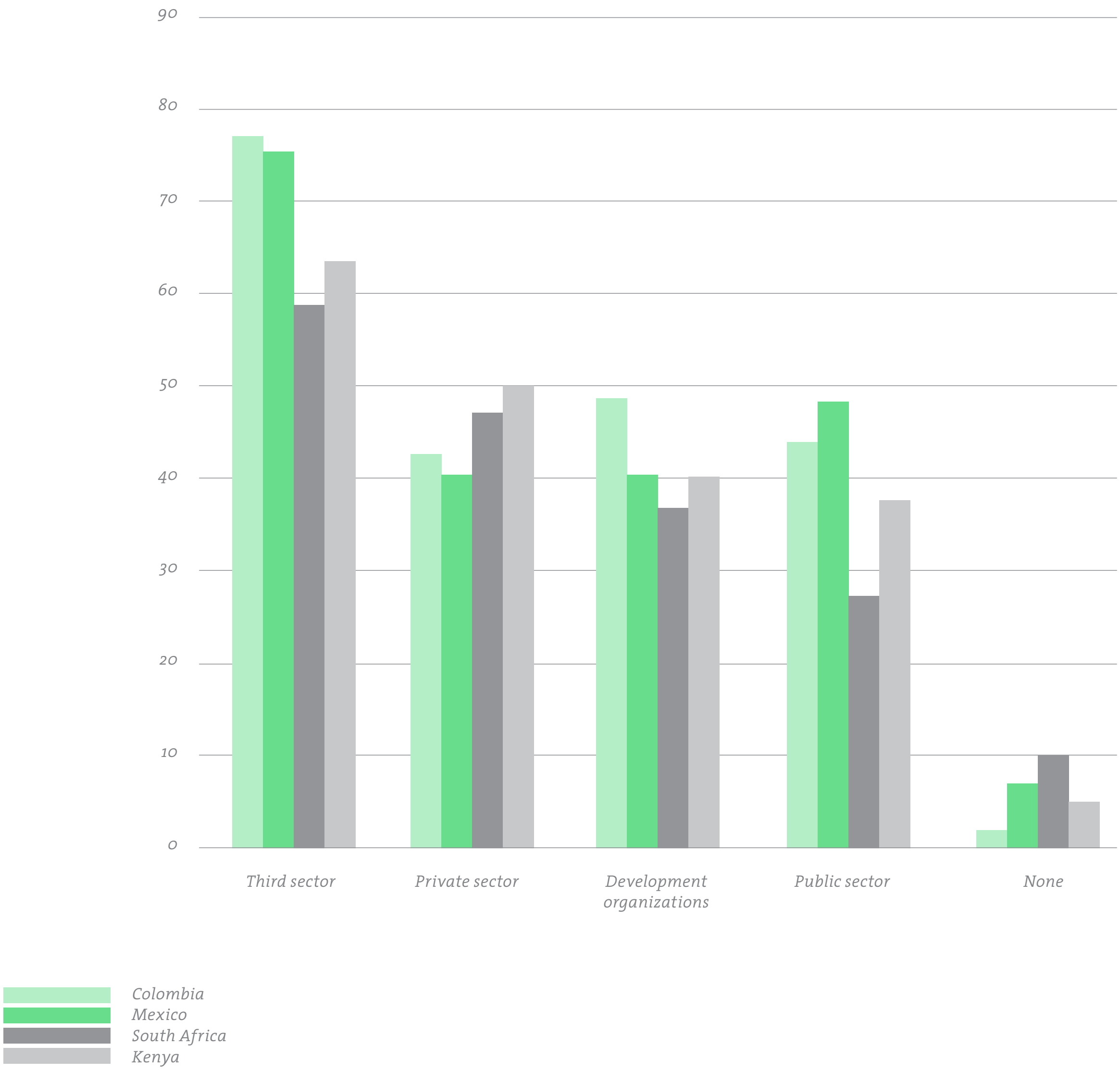
Although social enterprises are often perceived as actors that unlock markets, providing goods and services to people who were previously unserved, the survey responses indicate that the large majority of social enterprises compete with other sectors (Fig. 10). Only 18% state that they don't face any competition. In contrast to common belief, social enterprises in developing and emerging economies therefore don't operate in voids, but rather reconfigure markets. Social enterprises primarily compete with the private sector (56%). Competition with the third sector (11%), the public sector (6%) and development organizations (4%) is much weaker. This contrasts with studies on the social enterprise sector in Germany,[18] for instance, where social enterprises rather compete with the third sector, particularly welfare organizations that play an important role in the service provision of public goods and are largely funded by the state. Furthermore, it implies that social enterprises in developing and emerging economies primarily engage with customers that are currently served by the private sector and where the public and third sectors are not well engaged. People living at the Base of the Pyramid often rely on private sector delivery for goods and services.

Social enterprises therefore make sense of cross-sector dynamics in developing and emerging economies. They find their space in a largely unorganized and diverse landscape of goods and service delivery. At the same time, some social enterprises also use this diversity as a resource and succeed in taking advantage of these dynamics through innovative business models.

INNOVATING BUSINESS MODELS

Social enterprises are frequently described as offering innovative entrepreneurial or market-based solutions to social problems. The notion of financial self-sufficiency or profitability is a central issue in this context, as long-term dependence on grants and

FIG. 08
SOCIAL ENTERPRISES' PARTNERSHIP BY COUNTRY AND SECTOR (IN %)
Respondents (n=226) could select multiple answers



donations is often argued to hinder the establishment of sustainable solutions in developing and emerging economies. This is particularly critical in countries where the durable provision of basic social goods and services is insufficiently ensured. Looking at the different types of innovations (Fig. 11), the survey illustrates that 50% of social enterprises improved product and service delivery through a new process or business model. Other ways to innovate, such as the introduction of a product or service that did not exist before in their market (45%) or serving people who were badly served before (40%), are also well represented. Serving people who weren't served before (34%) or inventing an entirely new product or service (18%) were less represented. Although social enterprises utilize a range of innovations to better serve customers, more radical forms of innovation are not as prevalent.

18) For an overview of social entrepreneurship in Germany, see Scheuerle, Thomas; Schmitz, Björn; Spiess-Knafl, Wolfgang; Schuees, Rieke; and Richter, Saskia, Mapping Social Entrepreneurship in Germany -- A Quantitative Analysis (August 1, 2013). Available at the Social Science Research Network: http://ssrn.com/abstract=2322748 or http://dx.doi.org/10.2139/ssrn.2322748. The article summarizes the main results of a large-scale quantitative investigation of social entrepreneurship in Germany by Zeppelin University and other universities in Germany with the support of Mercator Stiftung. *Access date: January 2015*

FIG. 09
GOVERNMENTAL SUPPORT RECEIVED BY SOCIAL ENTERPRISES (IN %)
Respondents (n=230) could select multiple answers

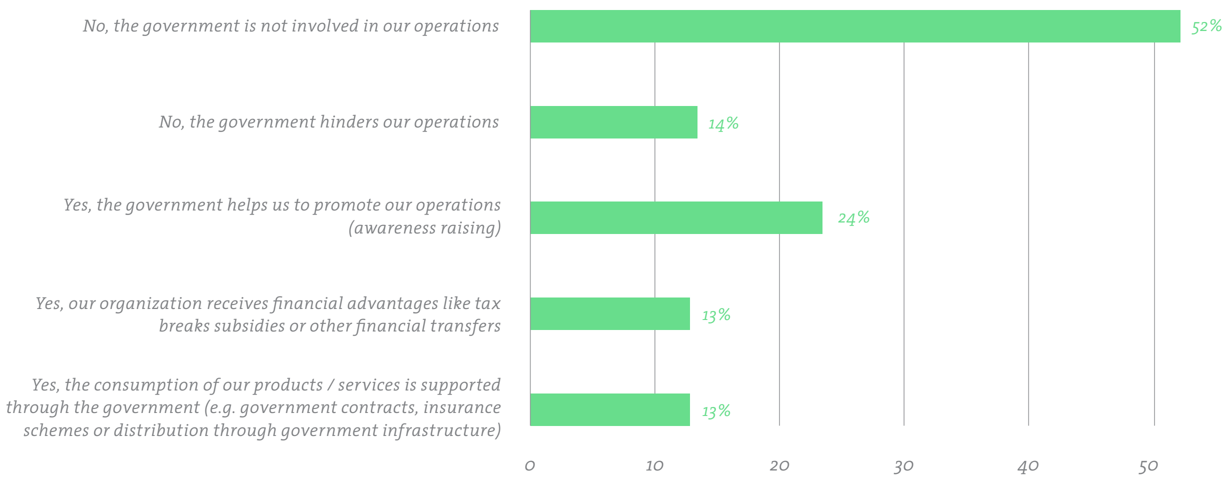


FIG. 10
SECTORS WITH WHICH
SOCIAL ENTERPRISES COMPETE (IN %)
Respondents (n=230) could only select one answer

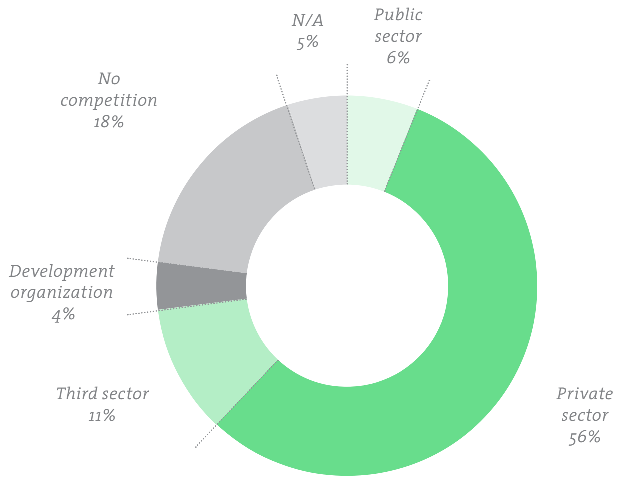
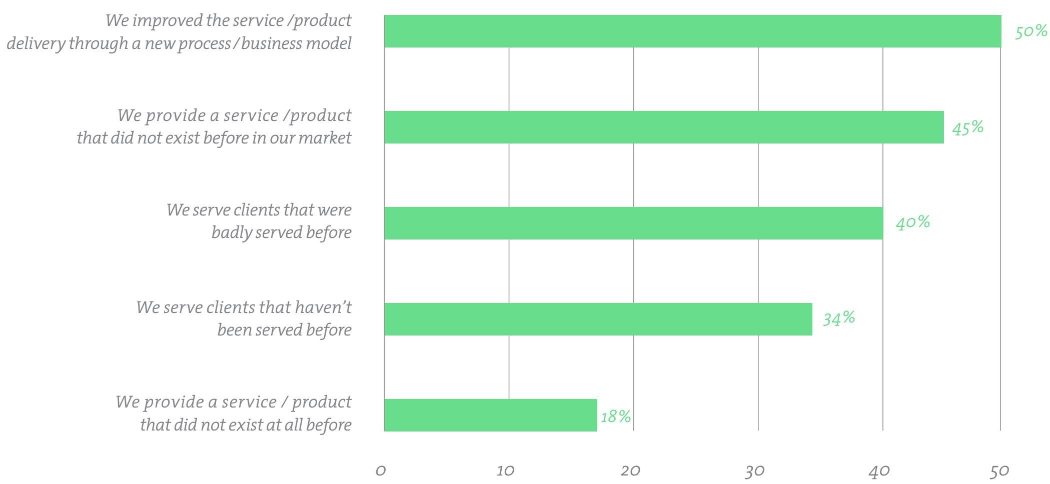


FIG. 11
TYPES OF INNOVATIONS IN SOCIAL
ENTERPRISES (IN %)
Respondents (n=239) could select multiple answers



THE RISE OF THE FOR-PROFIT LOGIC

03

'Doing good' is no longer reserved for organizations from the public and third sector. Today, for-profit organizations are legitimate recipients of social investments that seek to foster social and economic development in the Global South.

Organizations with social objectives increasingly borrow from practices of the private sector. While many areas such as health and education were previously only populated by organizations from the public and third sector, social enterprises increasingly take the form of for-profit companies to achieve their objectives.

SOCIAL ENTERPRISES AS HYBRID ORGANIZATIONS

Social enterprises combine resources from the private, the third and the public sector in order to pursue their goals, which often include the creation of both social and financial – that is blended – value. These resources include grants and donations as well as contributions from a voluntary workforce, which are typical for the third sector, but also include debt and equity capital, traditionally related to the private sector. In order to accommodate these diverse resources, hybrid organizational arrangements have increasingly emerged in recent decades.

As Fig. 12 shows, the for-profit and the nonprofit organizational form are relatively equally distributed among the study respondents. However, 19% of the social enterprises stated that they combine the for-profit and the nonprofit legal forms, either as for-profits with nonprofit subsidiaries, nonprofits with for-profit subsidiaries, or two legal entities side by side.

SHIFTS IN SOCIAL INVESTORS' FOCUS

Fig. 13 illustrates the extent to which social investors have supported the creation of different organizational forms in recent years. Looking at the legal forms of the sample organizations reveals that after 2006 there was a significant shift towards for-profit enterprises and a strong rise in hybrid structure social enterprises as well. The graph furthermore reveals that overall nonprofit social enterprises have been founded much earlier than their for-profit counterparts; while 50% of the nonprofits were founded before 1998, 50% of the for-profit enterprises in social investors' portfolios were founded after 2006.

This trend reflects the increasing legitimacy of the for-profit logic, meaning market-oriented development approaches for both nonprofit and for-profit legal entities in developing and emerging economies. While a decade ago investment in for-profit companies was still considered a less appropriate development approach, recent years have seen a radical shift in this regard. For-profit legal forms and hybrid structures have increasingly succeeded in acquiring funding that aims at fostering social and economic development – whether from investors with philanthropic or commercial origins.

FIG. 12
LEGAL FORM OF SOCIAL ENTERPRISES (IN %)
Respondents (n=250) could select one answer

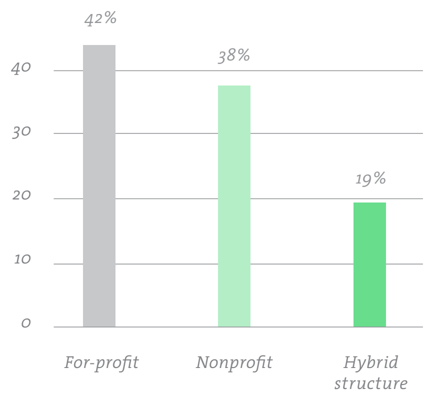
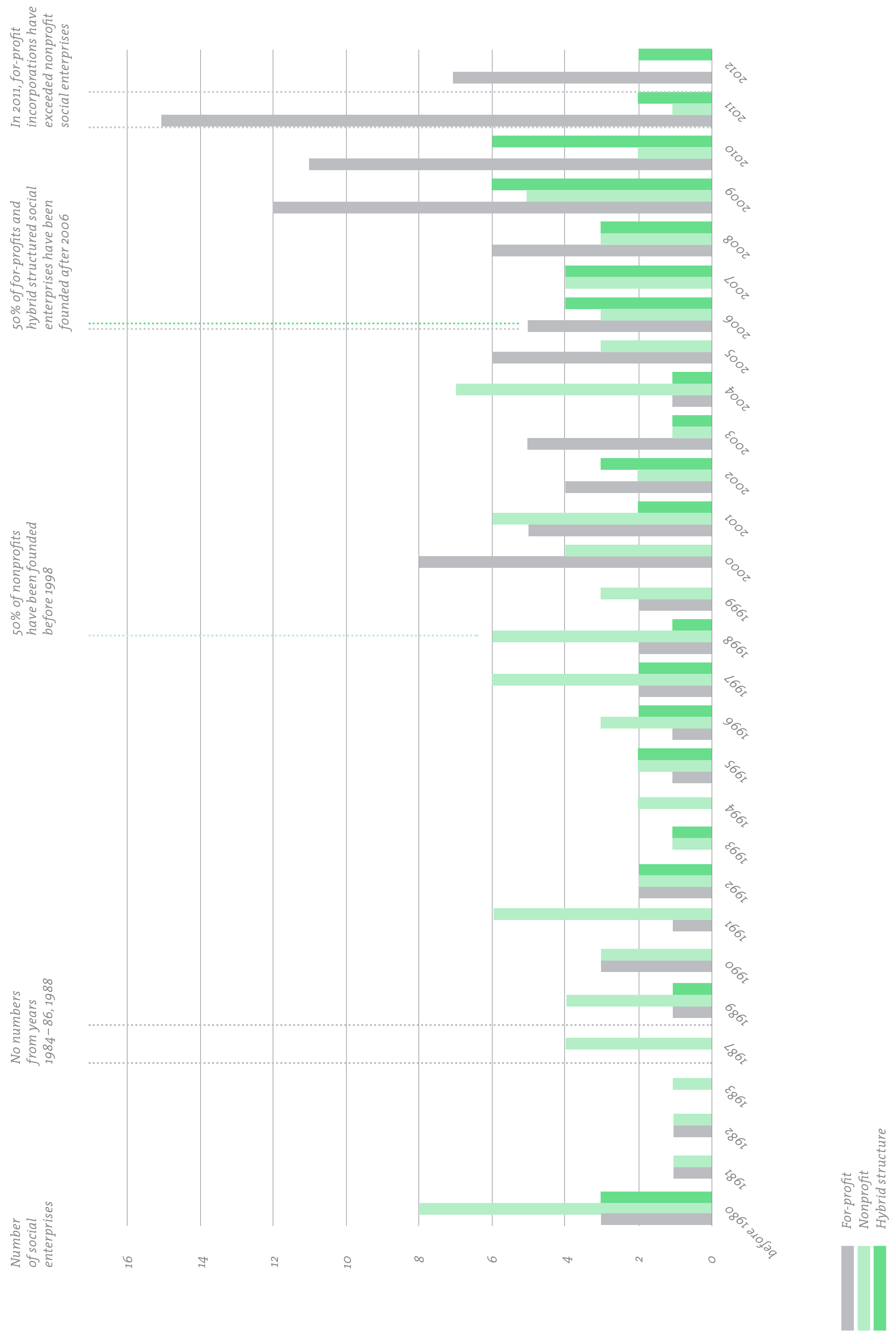


FIG. 13
SOCIAL ENTERPRISES' YEAR OF FOUNDATION BY TYPE OF ORGANIZATION
Respondents (n=246) could select only one answer



TRENDS & CHALLENGES OF POOLING RESOURCES FOR BLENDED VALUE

04

Social investors are 'hybrid' actors that combine practi-ces from the nonprofit and for-profit worlds.

Social investors' hybridity[19] creates opportunities for cross-sector collaboration and the integration of both for-profit and nonprofit organizations in their portfolio.

SOCIAL INVESTORS' PATCHWORK PORTFOLIOS

The blurring of sector boundaries is reflected in the type of organizations that social investors support. As Fig. 14 illustrates, social investors mainly target for-profit social enterprises (62%). This resonates with the widespread goals of social investors to create blended value – meaning that they seek a financial return alongside their social expectations.[20] 30% of social investors support both for-profit and nonprofit social enterprises, suggesting that they rather emphasize other criteria, such as social impact, target group and innovativeness. Lastly, only 6% exclusively target nonprofits, which reflects the increasing legitimacy of market-based approaches.

CO-INVESTMENTS PATTERNS

As the survey reveals, co-investments in the field of social investment are very common. Overall 97% of the surveyed social investors stated that they co-invest – however, with some differences depending on the type of social investor. Of all NGOs in the sample, 25% indicated that they don't seek partnerships in funding their portfolio companies. Teaming up for social investment helps reduce transaction costs in the due diligence process and shares risks across the investment partners. Fig. 15 illustrates how the respondents of the social investor survey (y-axis) co-invest with other organizations (x-axis). Looking at the vertical columns in fig. 15 reveals that the most common co-investment partners across all types of social investors are foundations and philanthropists, social impact funds, development agencies, NGOs and commercial investors. The public sector, accelerators and incubators, banks and private companies are the least important co-investment partners.

This resonates with a report by ANDE and Village Capital revealing that impact investors remain hesitant in entering formal partnerships with accelerators – thereby inhibiting the coordination of social investments along social enterprises' lifecycle.[21] Furthermore, Fig. 15 shows that social investors don't necessarily seek relationships outside their sector – foundations, for instance, mainly co-invest with other foundations and philanthropists (31%). Social impact funds, in contrast, seem to enter co-investment partnerships with actors from many backgrounds.

FIG. 14
LEGAL FORM OF SOCIAL ENTERPRISES IN SOCIAL INVESTORS' PORTFOLIO (IN %)
Respondents (n=37) could select only one answer

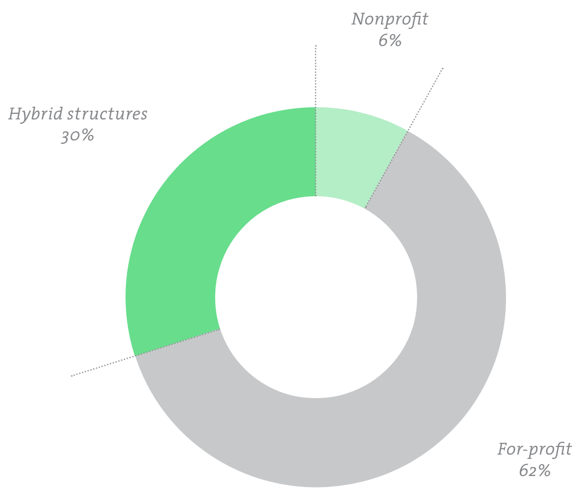


FIG. 15
CO-INVESTMENT PATTERNS OF SOCIAL INVESTORS (IN %)
Respondents (n=36) could select multiple answers

Previous research has called for foundations and philanthropists to increase their engagement – particularly in order to fill the 'pioneer gap',[22] that is the lack of investors that are able and willing to invest in high-risk early-stage social ventures. Due to the primacy of social goals for foundations and philanthropists, they are arguably the best-suited actors to take the risk of investing in pioneers. As the study findings show, foundations and philanthropists are popular co-investment partners for a variety of social investors in developing and emerging markets, suggesting that they are starting to respond to this call.

19) Battilana, Julia; Lee, Matthew; Walker, John; and Dorsey, Cheryl (2012): 'In search of the new hybrid ideal'. Stanford Social Innovation Review. Available at: http://www.ssireview.org/articles/entry/in_search_of_the_hybrid_ideal *Access date: January 2015*

20) Emerson (2003): 'The Blended Value Map: Tracking the Intersects and Opportu nities of Economic, Social and Environmental Value Creation'. Available at: www.blendedvalue.org/bv-map-papers, *Access date: January 2015*

21) Baird, R., Bowles, L. & Lall, S. (2013): 'Bridging the 'Pioneer Gap' : The Role of Accelerators in Launching High-Impact Enterprises'

22) Dichter, Katz, Kho and Karamchandani (2013): 'Closing the Pioneer Gap'. Available at: www.ssireview.org/articles/entry/closing_the_pioneer_gap *Access date: January 2015*

SOCIAL ENTERPRISES BUNDLE CROSS-SECTOR FUNDING

05

For social enterprises, the wide range of actors in the social investment field presents opportunities but also challenges, particularly in certain country contexts.

The range of funding products has never been so ample; however, meeting the various eligibility requirements to access diverse types of funding remains a challenge for social enterprises.

SOURCES OF FUNDING ACROSS COUNTRIES

When social enterprises identified the sources from which they received funding, similar patterns emerged across all countries. The private sector[23] is by far the most important source of funding, as it also incorporates the largest number of different organizations. Social enterprises furthermore attract a large range of private sector investors as they not only provide an opportunity for social value creation but also to tap into new markets.

In most countries the third sector[24] ranks as the second most important source – with the exception of Mexico where the public sector slightly exceeds the third sector.[25] In contrast, the share of funding from the third sector was highest in Kenya combined with the smallest share of public funding across the countries. Development organizations were furthermore found to be the least important source of funding for social enterprises, particularly in South Africa where they played the weakest role.

The public and the third sector as well as development organizations[26] are increasingly venturing into the social enterprise field. Their importance in the funding landscape of social enterprises, however, is low in comparison to the private sector. This can be attributed to their limited ability and hesitance to take risks. The entrepreneurial nature of social enterprise is more aligned with private sector practices of exploring new market opportunities.

Various funders that seek to promote social and economic value creation in developing and emerging economies have added social enterprises to their portfolio of supported organizations. Social enterprises therefore accommodate financing from various types of funders. When looking at the sources from which social enterprises receive financing, differences between countries emerge. As Fig. 17 shows, in all countries the largest share of social enterprises receives funding from only one sector. A considerable share of social enterprises combines financing from two different sectors, particularly in Kenya (28%) and Mexico (27%). And in Colombia, 27% of social enterprises even combine three different sources of financing. Overall, South Africa is the country in which social enterprises least combine cross-sectoral funding sources.

Today, social enterprises can seek funding from private, public and third sector actors. This has not only resulted in a reinterpretation of the playing field in terms of financing and service delivery, it also exposes social enterprises to a diverse stream of financial products ranging from donations to loans and equity capital, as well as innovative blends.

23) Private sector sources include: founder's personal funds, individual donors, family and friends, corporations, social investment funds, individual investors, private local banks,angel investors, crowdfunding platforms, private equity funds, venture capitalists, incubators and accelerators.
Access date: January 2015

24) Third sector sources include: foundations, international and local nongovernmental organizations.

25) Public sector sources include: governments and state banks.

26) Development organizations refer to bilateral and multilateral development agencies.

FIG. 16
SOCIAL ENTERPRISES' FUNDING SOURCES BY COUNTRY (IN %)
Respondents (n=221) could select multiple answers

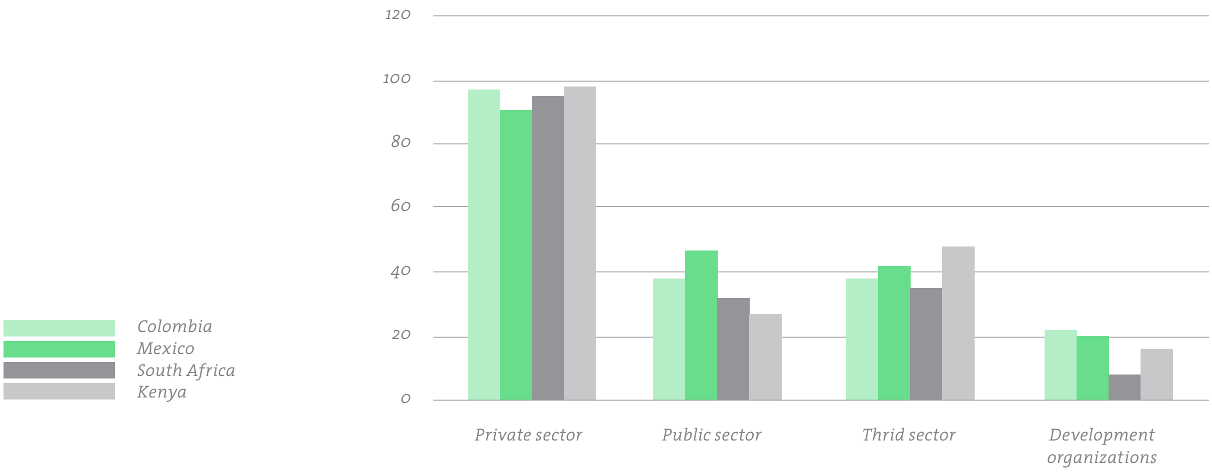
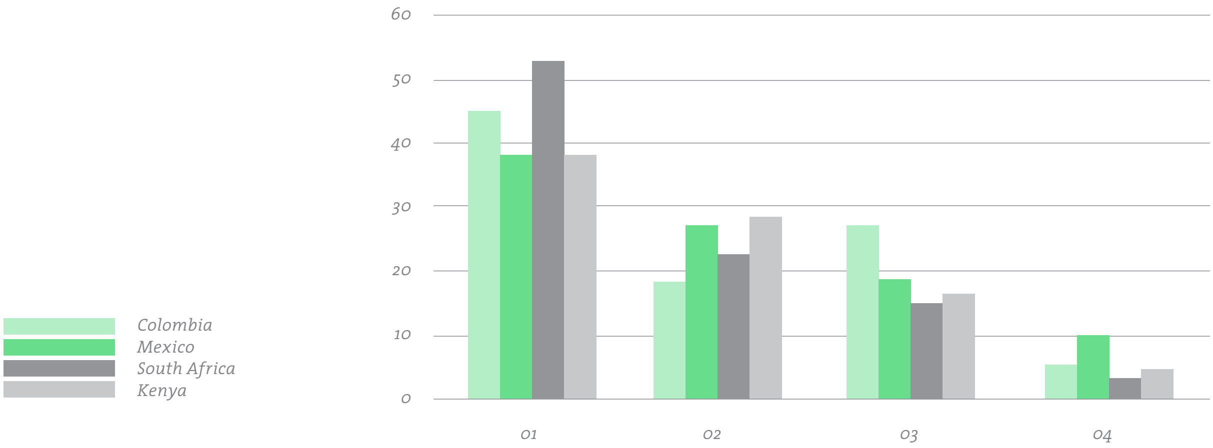


FIG. 17
NUMBER OF FUNDING SOURCES THAT SOCIAL ENTERPRISES COMBINE BY COUNTRY (IN %)
Respondents (n=237) could select multiple answers



'FREE CASH' MATTERS

06

Social enterprises draw on a capital market in which 'free cash', including donations, grants and prize money, mingles with financial products such as equity and loans. This has important implications for their management and ability to achieve their goals.

Social enterprises cannot only choose to apply for project-based financing with international development agencies; they can also attain private equity capital and welcome an external investor on their board of directors. Funding streams are not mutually exclusive; all types of social enterprises demonstrate an ability to accommodate different funding approaches. Each funding stream, however, has different short- and long-term implications for the organization regarding its financial sustainability, governance structure, potential for social and economic impact and, where applicable, its profitability. For example: impact investors that seek a financial return alongside their social expectations and stick to their portfolio company for several years have a different influence on social enterprises than short-term project-focused donors who clearly prioritize the social mission and impact on the target group rather than the financial sustainability of the social enterprise

SOCIAL ENTERPRISES' CAPITAL STRUCTURE

In an ecosystem that is still in its formative stages, it is important to understand social enterprises' capital structure. Out of all social enterprises that were surveyed, clear tendencies can be observed as 66% receive 'free cash'.[27]

Taking an in-depth perspective reveals differences across organizational forms (see Fig. 18). For nonprofit social enterprises, 90% of the surveyed respondents indicated that they tend to rely on free cash. Hybrid structure social enterprises (72%) and for-profits (42%) also rely heavily on 'free cash'; however, they also access loans and equity. In other words, they attract a variety of funding streams, whereas nonprofit social enterprises are heavily reliant on 'free cash' . Convertible debts are the least prominent financial product for social enterprises regardless of organizational form. Nonprofit social enterprises are limited in their capital structure and highly vulnerable if one funding source dries up, whereas for-profit and hybrid structure social enterprises hedge the risk. If nonprofits are to successfully compete in this new ecosystem, designing innovative financial products may prove critical for their long-term sustainability.

FUTURE FUNDING STREAMS

With the premise that the prior experiences of social enterprises will impact their future decision-making, the study sought to understand from which future sources social enterprises would seek to attain funding within the next six months. The answers largely match the findings from social enterprises' current funding streams, as on average 71% seek free cash.

Looking at differences across organizational forms reveals that 91% of all nonprofit social enterprises seek donations, grants and prizes (fig. 19). Slightly lower are the numbers for for-profits and hybrid structure organizations; 71% of hybrid structure and 54% of for-profit social enterprises seek 'free cash'. Loans are equally important for hybrid structure and for-profit organizations. Interestingly, all types of social enterprises increasingly seek equity capital. Even 20% of the nonprofit social enterprises applied for equity funding. This underlines the proliferation of for-profit structures in the nonprofit sector, as receiving an equity investment would require a nonprofit organization to change its organizational form to either a hybrid or for-profit structure. As expected, 'free cash' dominates in both obtained funding and as a potential future source of funding, even for for-profit organizations. This implies that charities and philanthropic foundations, which traditionally used to focus strictly on nonprofit organizations, have included for-profits in their portfolio.

FIG. 18
CAPITAL STRUCTURE OF SOCIAL ENTERPRISES (IN %)
Respondents (n=235) could select multiple answers

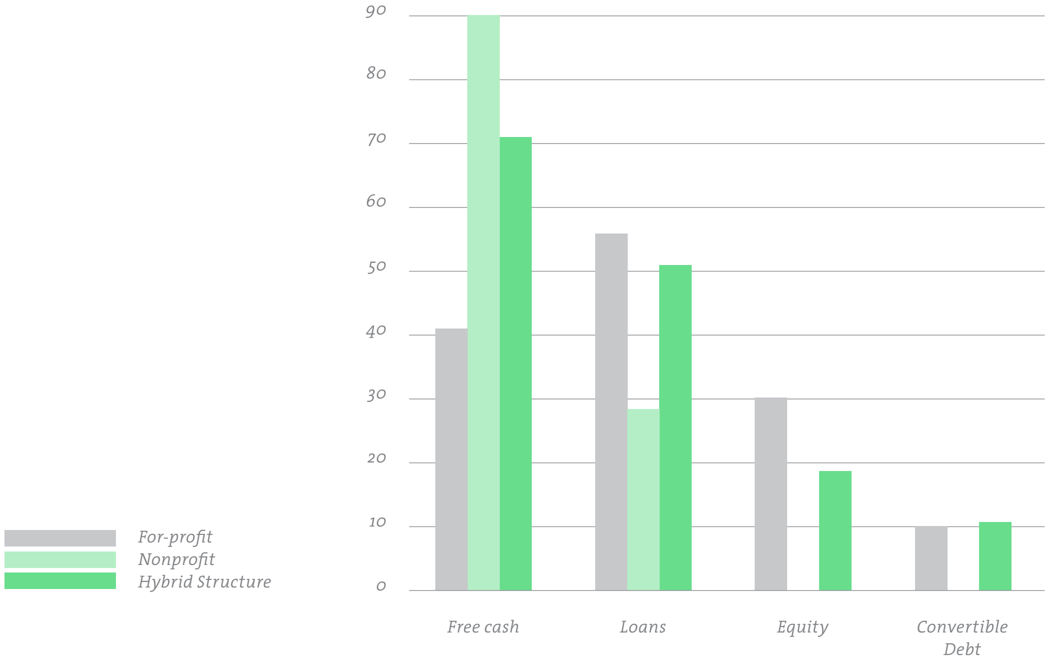
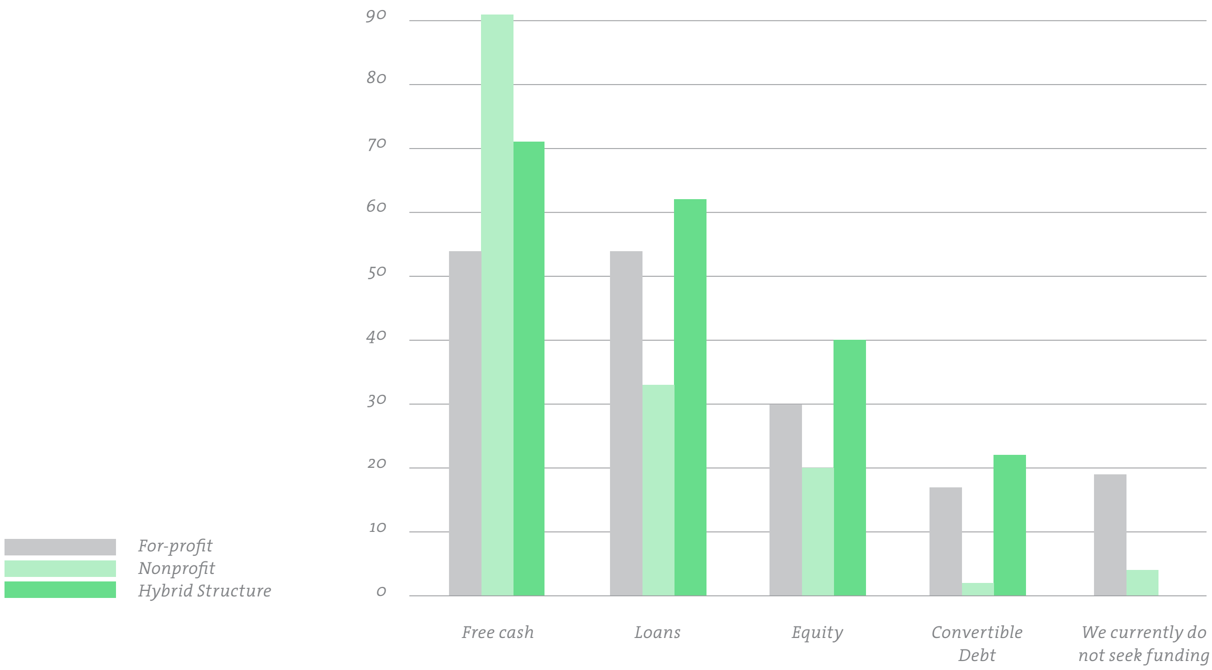


FIG. 19
FUTURE FUNDING STREAMS (IN %)
Respondents (n=224) could select multiple answers



TO DIVERSIFY OR NOT?

Diversification of funding streams has the potential to contribute to long-term sustainability; as one funding stream dries up, others are still available. The survey indicates that the majority of nonprofit social enterprises (73%) focused solely on one funding stream (Fig. 20), closely followed by hybrid structure (55%) and for-profit organizations (53%). Although for-profits and hybrid structure organizations tend to mix funding streams, overall 60% of all social enterprises rely on a single funding source. Even though the range of funding products in the social investment landscape could improve their sustainability through accessing multiple funding streams, currently not all social enterprises seem to be able to seize this opportunity. A closer examination of future funding plans paints a slightly different picture, with less than half (46%) of all types of social enterprises focusing on a single funding stream. Fig. 21 demonstrates, again, that nonprofits (61%) remain focused on one funding source only. In contrast, for-profits and hybrid structure social enterprises attempt to access different sources: 65% of all for-profits and 62% of all hybrid structure social enterprises seek funding from more than one stream.

Although multiple funding streams can provide stability, they may also present challenges. Organizations with multiple funding sources may face the difficulty of servicing varying and oftentimes conflicting demands of their funders. For example, grant capital with its main emphasis on social objectives may be mixed with equity capital that focuses mainly on the growth of the social enterprise. Equity capital has a significant impact on the social enterprise's governance structure as funders usually acquire through an active stake (i.e. board seat) in the organization. Therefore, social enterprises that combine multiple financial products need to make compelling pitches to the varying funding sources and be capable of balancing the demands of each funder within one organization. This requires a set of innovative approaches in the governance structure of the social enterprise in order to successfully accommodate the conflicting social and financial demands that funders may pose.

27) This number references the most common type of funding, but it does not stipulate the monetary amount.

FIG. 20
NUMBER OF FUNDING STREAMS THAT SOCIAL ENTERPRISES COMBINE (IN %)
Respondents (n=235) could select multiple answers

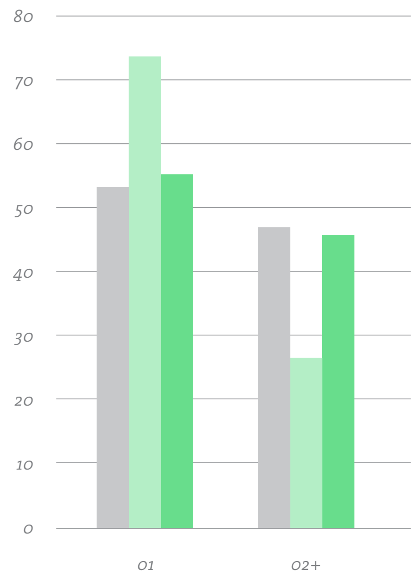
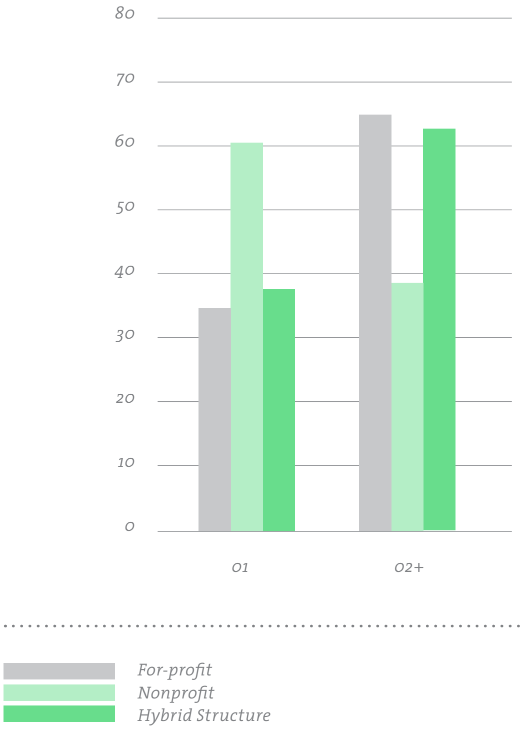


FIG. 21
NUMBER OF FUTURE FUNDING STREAMS THAT SOCIAL ENTERPRISES SEEK TO COMBINE (IN %)
Respondents (n=204) could select multiple answers



END CONSUMERS: THE MAIN REVENUE SOURCE, THE MAIN SOCIAL TARGET GROUP?

07

For many social enterprises, poor people are no longer seen as beneficiaries but as potential customers in need of affordable and essential goods and services. However, serving the lowest income levels while thriving financially remains a significant challenge.

In recent years, the base of the pyramid proposition has gained considerable attention. Based on the idea that the low-income segments of the world's population represent a significant market opportunity, in which commercial actors can benefit financially while simultaneously alleviating poverty, has transformed the way organizations think of developing and emerging economies today. This has not only attracted the interest of commercial players in the Global North that seek to unlock new markets, but also of socially-oriented organizations that strive towards operating in a financially sustainable or even profitable way.

REVENUE SIZE OF SOCIAL ENTERPRISES

Overall the respondent organizations cover the entire range of the spectrum. As can be seen in Fig. 22, the largest share of social enterprises have a total revenue of less than 50,000 USD per year. The second largest share refers to organizations with revenues of more than 2,500,000 USD.

Given the cross-sector dynamics at play in the social enterprise landscape, the survey further investigated the composition of revenue streams.

END CONSUMERS AS KEY REVENUE SOURCE

End consumers who directly pay for the product or service are by far the largest source of revenue for social enterprises in all countries. Overall, 50% of all social enterprises stated that end consumers were their major source of revenue.[28] Fig. 23 reveals some differences across countries. Colombia had the highest share, where 69% of social enterprises primarily generate their revenue from sales to end consumers. This underlines the large number of organizations that follow an end consumer-driven approach to provide social goods and services to the BOP. Revenues generated through the private sector – for example through service provision contracts – are more important for the African sample countries than for those in the Latin America. Both revenue sources, end consumers and private sector, are grouped as 'commercial sector' sources in the graph.

All other sources from the public and third sector – private donors, public entities, development organizations, and non-profit organizations – lag far behind in comparison. This poses considerable risks with regard to the social impact that social enterprises aim to realize at the BOP. Cross-subsidizations from other sources of revenue, such as contracts with governments or third sector organizations, which could lower the price of products and services substantially and allow social enterprises to access more marginalized parts of the population, are constrained under such circumstances. Currently, South Africa is the only country in which direct sales to clients are least important when compared to other countries, with about 40% of all surveyed social enterprises stating that the end consumer is the major source of revenue. The presence of a country-specific regulatory framework that fosters economic empowerment among disadvantaged people – the BBBEE – spurs private sector subsidies and provides a possible explanation for this unique shift.

Differences also emerge when comparing the sources of revenue for for-profit, nonprofit and hybrid structure social enterprises (Fig. 24). The role of private donors as a source of revenue is much more important for nonprofit social enterprises than for for-profits and hybrid structure social enterprises; 21% of nonprofit social enterprises stated that private donors are their main source of revenue.

FIG. 22
SOCIAL ENTERPRISES' REVENUE SIZE IN THE YEAR 2012 (IN %)

Respondents (n=215) could select only one answer

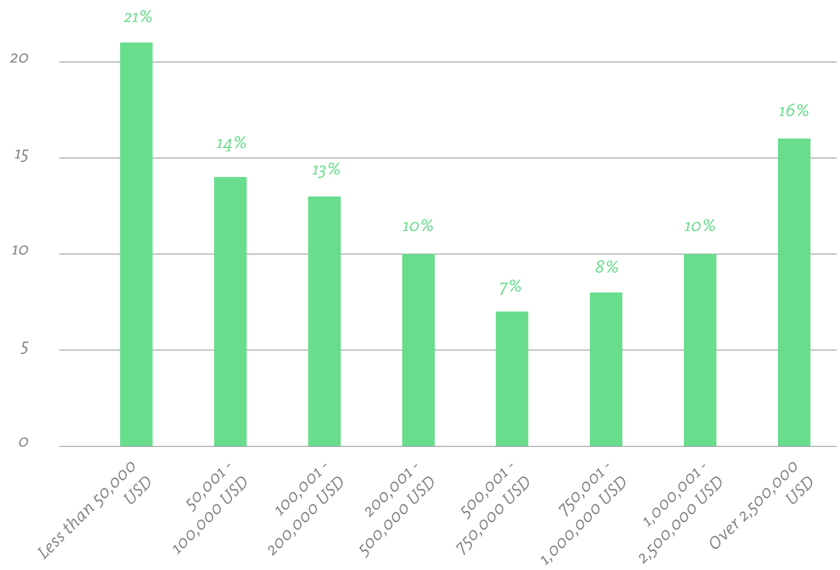
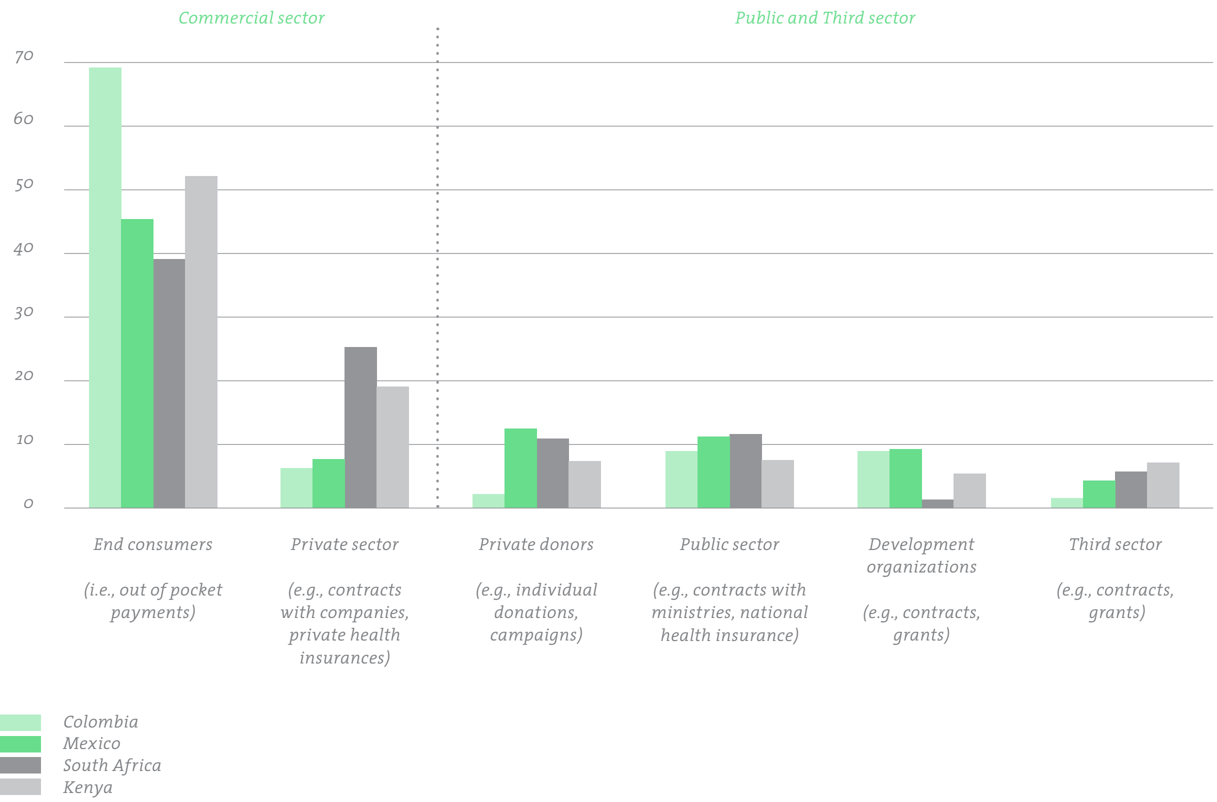


FIG. 23
SOCIAL ENTERPRISES' MAIN REVENUE SOURCE (IN %)

Respondents (n=232) could select only one answer



Revenue originating from the public sector, development agencies and the third sector is also more important for nonprofit organizations and hybrid structure social enterprises than for for-profits. Private sector sources of funding and end consumers play a bigger role in for-profit social enterprises – 66% state that their main revenue source is end consumers and 21% indicate that they mainly rely on revenue from private sector sources. However, overall end consumers remain the most important source of revenue for all types of social enterprises.

INCOME LEVELS OF SOCIAL TARGET GROUPS

Although prior studies frequently suggested that social enterprises in developing and emerging markets focus on the Base of the Pyramid (BOP),[29] our findings reveal that they cover a wide range of income levels, from people living on less than 2 USD a day, to people living on more than 8 USD per day (see Fig. 25). This is reflected in all three types of organizational forms. However, for-profit social enterprises focus heavily on people living on more than 8 USD a day. Hybrid structure social enterprises and nonprofit social enterprises tend to have the strongest focus on people living on less than 2 USD a day when compared to pure for-profits. Given that for-profits rely heavily on end consumer payments, it is not surprising that they focus on the higher end of the BOP. In contrast hybrid structures and nonprofits rely less on consumer payments, which may enable them to focus on lower segments of the BOP

A similar picture emerges when looking at the link between main source of revenue and focal income level. As Fig. 26 shows, social enterprises that generate their revenue by selling to the private sector or to the end consumer directly (referred to as commercial sector in the graph) work across all income levels, with a slight emphasis on those living on more than 8 USD a day. In contrast, social enterprises that mainly generate their revenue through public or third sector sources[32] have the strongest emphasis on people living on less than 2 USD per day. This reflects the trade-off between selling products and services directly to the end consumer and reaching the poorest of the poor. Servicing low-income populations seems to be more feasible for social enterprises that earn their revenue from the public and third sector.

FIG. 24
SOCIAL ENTERPRISES' MAIN REVENUE SOURCE BY TYPE OF ORGANIZATION (IN %)
Respondents (n=231) could select only one answer

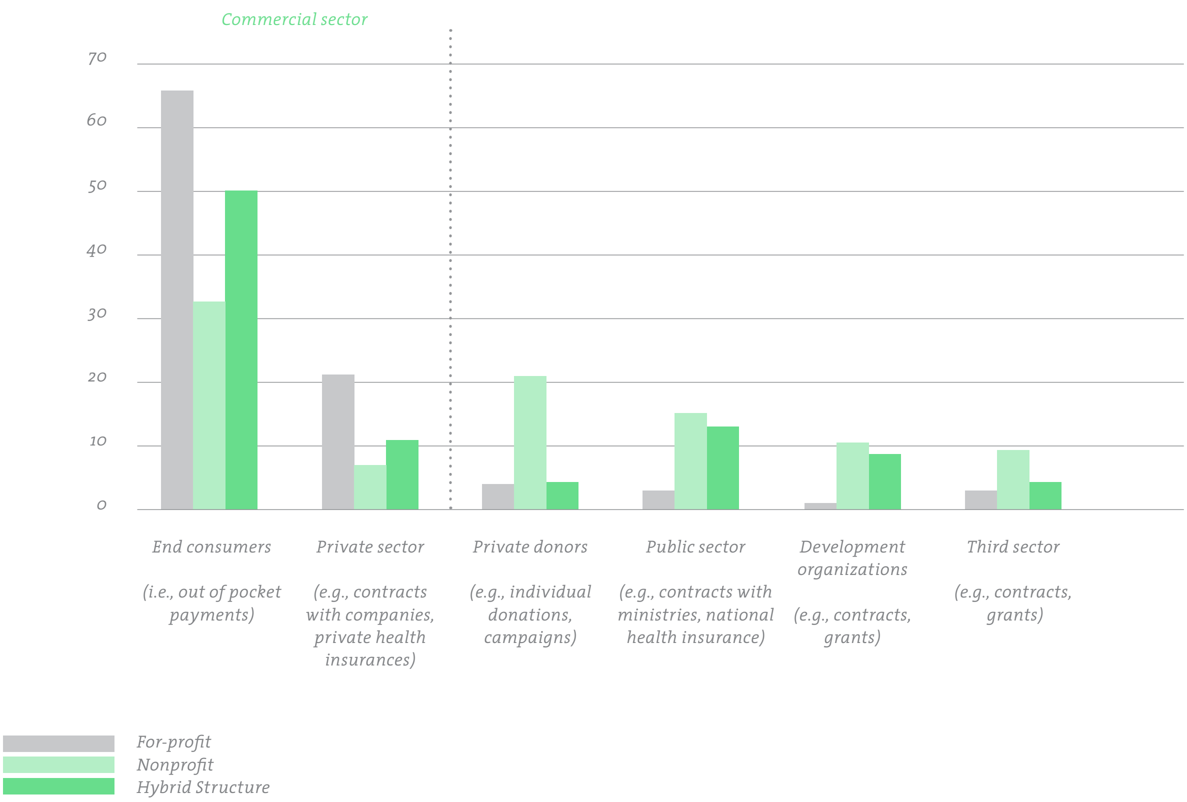


FIG. 25
INCOME LEVEL OF SOCIAL ENTERPRISES' TARGET GROUP BY TYPE OF ORGANIZATION (IN %) [30]
Respondents (n=237) could select multiple answers

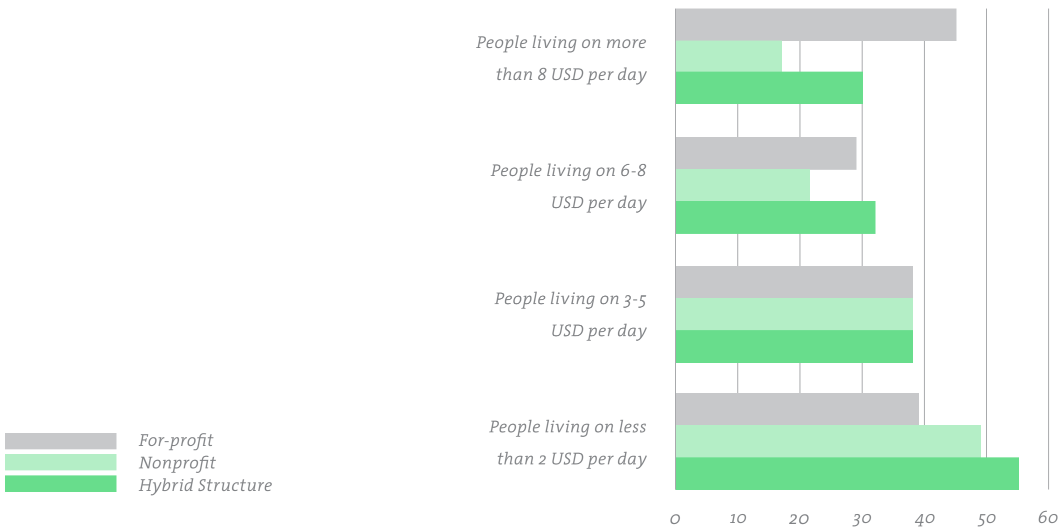
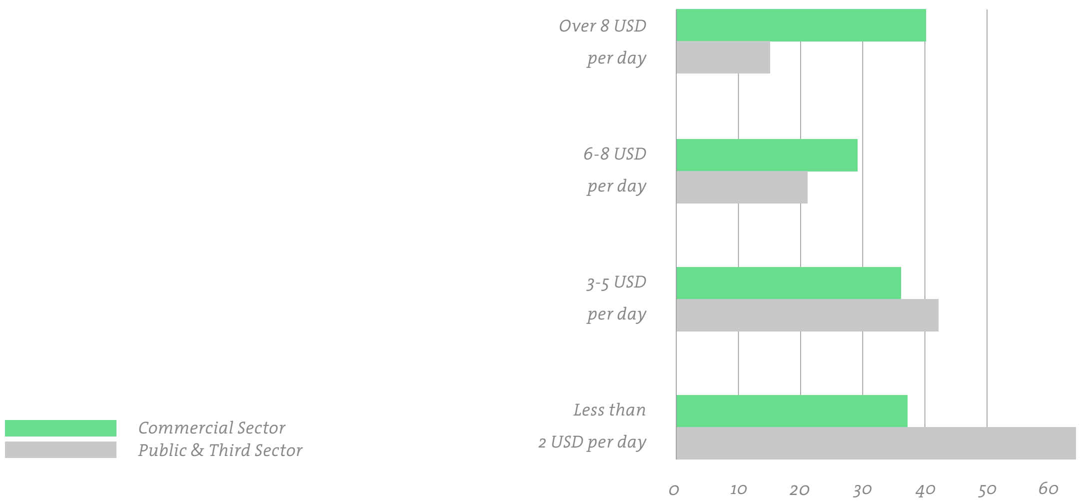


FIG. 26
INCOME LEVEL OF SOCIAL TARGET GROUP BY SOCIAL ENTERPRISES' MAIN REVENUE SOURCE (IN %)
Respondents (n=222) could select multiple answers



Low-income people by definition have limited resources to spend on the products and services they require for a decent standard of living. Most social enterprises face considerable challenges in servicing the poorest of the poor while maintaining their financial sustainability. Subsidizing the demand of low-income people is therefore a key instrument needed to provide products and services that are more affordable than those that they can currently access; and it is also a major incentive for more social enterprises to enter these areas. Innovative mechanisms, such as micro health insurances that pool funds from customers, public and philanthropic sources, are currently being deployed and provide interesting future avenues to subsidize and aggregate the demand of low-income customers.[33, 34]

Social enterprises often target a wide range of income levels at the same time. One of the most common business model innovations for social enterprises refers to cross-subsidization mechanisms between different customer segments. As the survey findings show, hybrid structure social enterprises seem to better succeed in reaching lower income segments when compared to pure for-profits or nonprofits. This indicates that the development of such innovative organizational configurations and business models that combine elements from the for-profit and nonprofit structures provide promising solutions for blended value creation.

28) The previous chapter cited 'free cash' as the most common source of funding. In contrast, this chapter addresses the monetary amount of revenue. Total revenue refers to the sum of sales, interests, royalties, fees, subsidies, donations, grants, membership dues, etc.

29) E.g.,Kubzansky, Cooper and Barbary (2011): 'Promise and Progress: Market-Based Solution to Poverty in Africa', Monitor Group.

30) To simplify data collection and analysis, income levels were collected in US Dollars across all survey countries.

31) As explained on page 31, the commercial sector refers to two revenue sources: out-of-pocket payments from end consumers and contracts with the private sector.

32) As explained on page 31, revenue sources for the public and the third sector here include governmental entities, donations from individual donors and campaigns, contracts as well as grants from development organizations and

33) See, e.g.,Chandani, T. & Garand, D. (2013): 'Lessons learned and good practices in health microinsurance – A guide for practitioners'.http://www.microinsurancenetwork.org/groups/lessons-learned-and-good-practices-health-microinsurance-0 nonprofit organizations.

34) It has to be noted, however, that respondents could check several answer options for questions summarized in Fig. 25 and 26.

SOCIAL ENTREPRENEURSHIP: AN ARENA FOR THE EDUCATIONAL ELITE?

08

A common view of social entrepreneurship portrays the founder as a micro-entrepreneur who is directly affected by the social problem. However, making sense of the dynamic environments in developing and emerging economies requires specific skills from social entrepreneurs.

Social enterprises are often described as bottom-up approaches whereby those who experience the problem identify suitable solution-oriented strategies as they are the ones who possess the indispensable knowledge about what works and what doesn't. However, the complex tasks social enterprises are confronted with require innovative approaches to create blended value and exposes management teams to challenging and at times paradoxical tasks. Making sense of the dynamic environments in developing and emerging economies requires specific skills from social entrepreneurs.

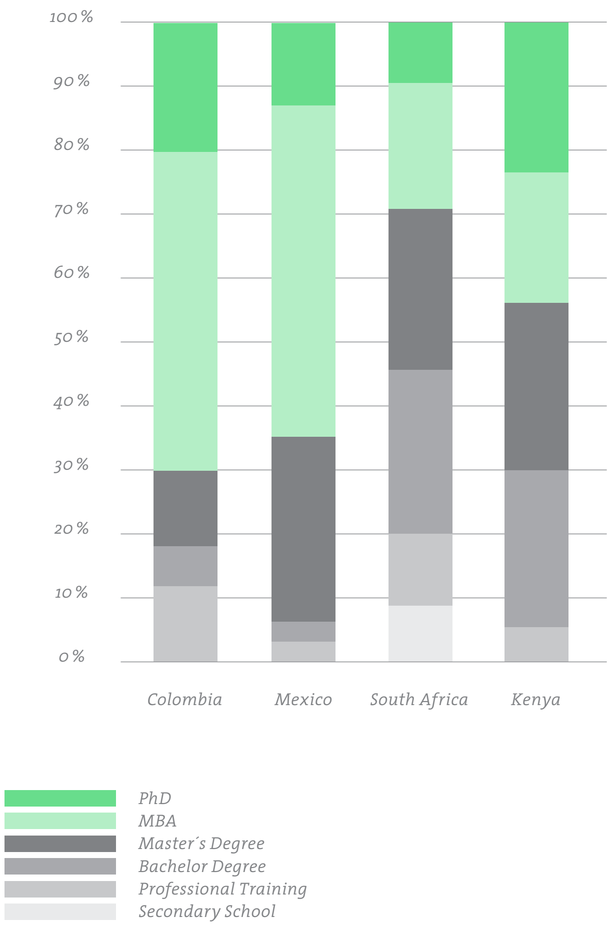
THE EDUCATIONAL BACKGROUND

The data shows that social entrepreneurs are highly educated; on average, 90% of those surveyed have at least a bachelor's degree. Fig. 27 illustrates that an MBA degree (36%) dominates the educational background of social entrepreneurs, whereas on average only 9% have not received any higher education. This dynamic is particularly salient in Colombia and Mexico, where the percentage of MBA graduates is at least 50%. It is only South Africa, where 20% of the founders have no higher education degree and overall, the spread across the different educational categories is more evenly distributed. Interestingly, Kenya, the country with the highest poverty levels in the sample, ranks highest in PHD graduates (23%). The findings create the impression that social entrepreneurs who have received some type of funding or technical assistance are part of the educational elite, rather than micro-entrepreneurs who rise out of the midst of a societal ill.

THE PROFESSIONAL BACKGROUND

The survey also attempted to understand in which professions social entrepreneurs had gained their previous work experience

FIG. 27
SOCIAL ENTREPRENEURS EDUCATIONAL BACKGROUND (IN %)
Respondents (n=246) could select only one answer



(see Fig. 28). The majority were either formerly entrepreneurs (38%), worked in the education sector (22%) or were formerly consultants (15%). Founders of social enterprises are not only highly educated individuals, they also have obtained professional experience, primarily as entrepreneurs.

A closer look at the data illustrates some differences between founders of for-profit and nonprofit organizations (see Fig. 29); for-profit social enterprises were mainly founded by former commercial entrepreneurs, whereas nonprofit social enterprises were mainly founded by people who had worked in the third sector. The largest share of for-profit social enterprise founders tended to have prior work experience in the private sector either because they owned a business (47%) before or were employed in the private sector (20%). For nonprofit social enterprises, prior work experience in the third sector (39%) was more common among founders than in the for-profit (9%) or hybrid structure (17%) social enterprise. In hybrid structure social enterprises, founders were predominantly entrepreneurs (60%) before they started a new social venture.

Previous work experience therefore influences the type of social enterprise a founder chooses to create. Interestingly, the entrepreneurial background was strongest in hybrid structure social enterprises; those organizations that blend two organizational forms and can therefore make use of the full range of funding options.

The data reflects that higher educational degrees and former work experience are positively valued in the ecosystem and are likely to increase the chances of receiving funding. Since social enterprises need to balance both social and financial objectives, as well as mix funding streams to create a sustainable organization, becoming a successful entrepreneur requires a particular skill set. Individuals with professional work experience and a formal academic degree tend to be more likely to be successful in obtaining funding in this ecosystem. On the other hand they are less likely to possess firsthand knowledge and will need to engage in costly procedures to gain understanding on the societal ills that low-income communities are exposed to.

FIG. 28
PRINCIPAL WORK EXPERIENCE OF SOCIAL ENTREPRENEURS (IN %)
Respondents (n=246) could select only one answer

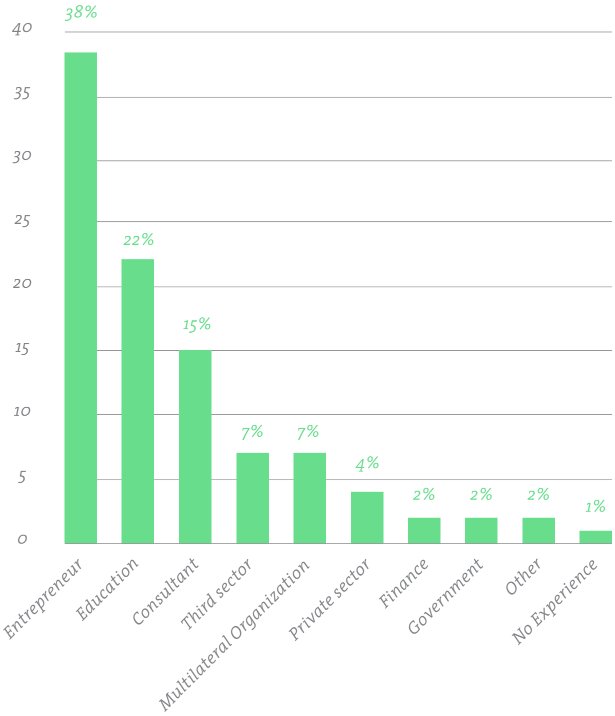
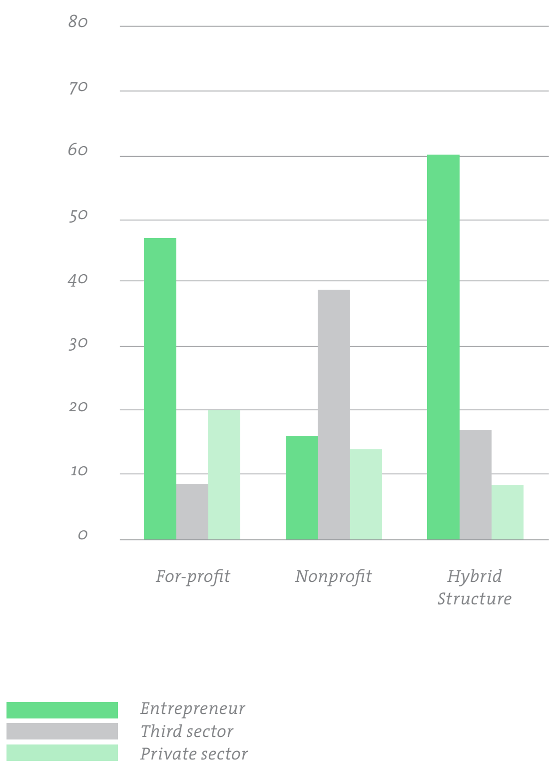


FIG. 29
SOCIAL ENTREPRENEURS FORMER WORK EXPERIENCE BY ORGANIZATIONAL TYPE (IN %)
Respondents (n=245) could select only one answer



09 THE AMBIGUITY OF IMPACT MEASUREMENT

New methods and tools to measure social enterprises' impact have received increasing attention of late. But do these metrics serve social enterprises?

In an effort to create standardized metrics for impact measurement, the development of different tools, such as the Impact Reporting and Investment Standards (IRIS) as well as the Global Impact Investing Rating System (GIIRS) were initiated by the Rockefeller Foundation, Acumen Fund and B Lab. Given these efforts to create standardized metrics for social and economic impact measurement, the expectations for adoption are high.

IMPACT MEASUREMENT TOOLS

In contrast to these high expectations, the survey data in Fig. 30 indicates that the majority of impact metrics are either defined by the social enterprise alone (49%) or jointly with the social investor (35%). Standards such as IRIS or GIIRS, which should allow a comparative assessment of social and environmental performance, are not used universally; only 19% of social enterprises reported using them.

USEFULNESS OF IMPACT MEASUREMENT

In an attempt to understand whether social enterprises find the metrics they generate useful for their strategic decision-making, the survey produced an unexpected response – 63% of the respondents skipped the question, 32% answered they were useful and only 5% concluded that the data is not useful (Fig. 31). Differences across country and organizational type were negligible. This dynamic indicates that strategic alignment of impact data and intra-organizational decision-making requires further adaptation of existing tools in order to achieve the goal – a sector-wide measurement tool that is widely used.

The ability of social enterprises to develop impact metrics either alone or together with social investors may also open up important spaces for learning and innovation. It can facilitate the useful adaptation of metrics to social enterprises' organizational needs and take into account the working environment they are embedded in.

FIG. 30
SOCIAL IMPACT MEASUREMENT TOOLS (IN %)
Respondents (n=229) could select multiple answers

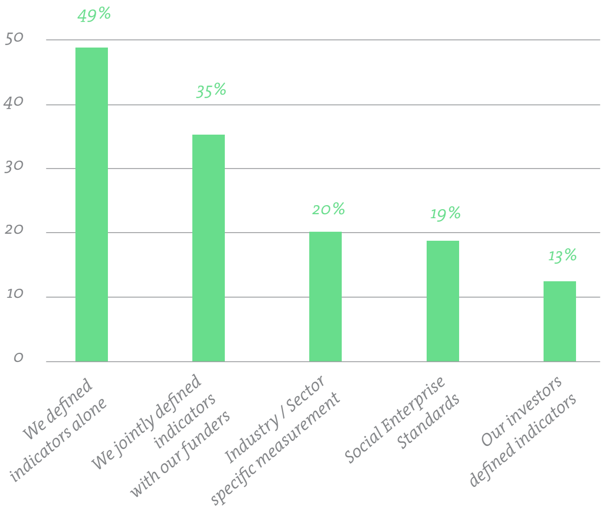
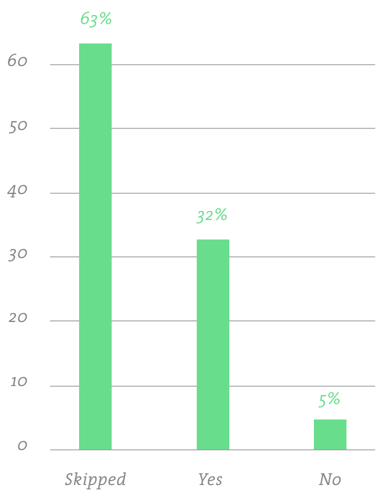


FIG. 31
USEFULNESS OF SOCIAL IMPACT DATA FOR STRATEGIC DECISION-MAKING (IN %)
Respondents (n=258) could select only one answer



ERGO

CONCLUSION AND RECOMMENDATIONS

This report represents an initial profile of the social enterprise landscape in Colombia, Mexico, Kenya and South Africa. The study provided insights into the scope and financing of social enterprises, examining in greater depth how they operate in their markets as competitors and partners, exploring who founds and supports social enterprises, as well as how they measure their impact. The research has been able to identify opportunities and challenges and the authors hope this information will help contribute to designing more effective policies and strategies for improving, strengthening and supporting social enterprise and social investment in developing and emerging economies. In light of the findings addressed in this study, below is a set of recommendations developed from this research.

01 FOSTER LONG-TERM CONTRACTS FOR PROVISION OF BASIC GOODS AND SERVICES TO LOWEST TIERS OF BOP

The research found that although social enterprises work in sectors related to basic needs, they don't predominantly engage directly in the delivery of basic goods and services. Not only is their main source of revenue is derived from the end consumer.

The survey even suggests that social enterprises more strongly compete with private sector organizations; in contrast they are most likely to enter into formal partnerships with third sector organizations. In addition, direct governmental support for social enterprises remains weak. The low interaction with public entities could be an explanation for social enterprises' underrepresentation in sectors that relate to basic needs.

Therefore, developing national plans that both promote social enterprises and encourage government procurement from social enterprises through co-creation and co-design of policies is critical to scaling and engagement in sectors that focus on basic needs. Long-term contracts with public entities, third sector organizations or private companies would enable social enterprises to serve the lower income segments of the BOP and promote the direct delivery of basic goods and services. Development and philanthropic organizations need to expand their programs to encourage social entrepreneurship in sectors that relate to basic needs through a variety of awareness and funding mechanisms such as grants, prizes, contracts or social impact bonds.

02 DIVERSIFY FUNDING STREAMS

Access to funding remains a key challenge for most social enterprises. The survey generates important insights and highlights that the majority of social enterprises don't diversify their funding structure. They tend to rely on just one type of external funding, the most prevalent of which is 'free cash', that is donations, grants and prizes. This dynamic is even more pronounced in nonprofit social enterprises and results in a more limited capital structure for these organizations. **Finding solutions for social enterprises to better diversify their funding streams could contribute to their sustainability.** In particular, nonprofit social enterprises would benefit from gaining a better overview of the full spectrum of available funding options. Overcoming potential reservations towards innovative for-profit oriented types of funding may increase their sustainability. This is especially relevant as this study refers to social enterprises that have already been successful in acquiring social investing. The repercussions of a limited capital structure may be even more pronounced for non-profit organizations that have not yet embraced the social entrepreneurship concept or cannot access funders with an 'investment mindset'.

03 ADAPT FINANCIAL PRODUCTS TO THE NEEDS OF SOCIAL ENTERPRISES

In order to implement their business models for social change, social enterprises often need to leverage the resources of the

‘Particularly nonprofit social enterprises have a limited capital capital structure, which threatens their financial sustainability.’

public, the private and the third sector. This means that they need to balance various types and sources of funding. Especially in a nascent social enterprise landscape, funding organizations should take into account this unintended consequence, hence reduce administrative burdens and their financial products more closely to the needs of social enterprises. In addition, accelerators, incubators and other types of platforms as well as umbrella organizations can help coordinate and streamline the various requirements that come with diversification.

Designing financial products that help social enterprises to overcome their challenges in reaching lower income segments of the population in financially sustainable ways is crucial. ‘Free cash’ is a critical part of the financing mix for most social enterprises. However, it is often not geared towards supporting organizational stability and growth. In order to operate sustainably in the long run social enterprises would need greater access to financial products such as **non-repayable and low-interest working capital or variable payment options like demand dividend.**[35] Furthermore, adopting financial products that have proven successful in other countries (program related investments in the US) could improve the availability of adequate financing for social enterprises.

04 DEVELOP FRAMEWORKS FOR CROSS-SECTOR PARTNERSHIPS

In developing and emerging economies, social enterprises make sense of cross-sector dynamics between the public, private and third sectors. This survey confirms the role of co-investments as a key component of the funding process. The majority of social investors co-invest in order to reduce transaction costs and share risks. However, the research indicates that some social investors don’t necessarily seek relationships outside their sector. Foundations and philanthropists have been identified as important players and have been called upon to increase their contribution to the social investment landscape, in particular to fill the ‘pioneer gap’ – meaning the lack of investors that are able and willing to invest in high-risk early-stage social ventures. Foundations and philanthropists can play a critical role, particularly in supporting early stage social enterprises, as well as in assisting social enterprises to reach the lower segments of the BOP. **Developing frameworks and social investment partnerships that facilitate, support and prioritize co-investment, particularly in the early stages of social enterprises, is essential** Innovative financing programs, such as catalytic first-loss capital programs, in which an investor agrees to bear first losses in order to catalyze the participation of co-investors that otherwise would not have entered the deal, are critical.

05 ESTABLISH CRITERIA TO SUPPORT SOCIAL ENTERPRISES AND PRESERVE SOCIAL MISSION

Some social enterprises exploit the largely unorganized and diverse landscape of goods and service delivery. This can be seen in the innovative business models that have resulted in an increasing number of hybrid structure organizations, which allow social enterprises to accommodate external funding from various sources with varying return expectations. Hybrid structure social enterprises seem to have the most success in reaching lower income segments when compared to pure for-profits or nonprofits. In addition, the study demonstrates a shift towards for-profit and hybrid structure social enterprises in recent years. This shift reflects the legitimacy of profit-making organizations with regard to tackling social issues in develop-

ing and emerging markets. Given this transition, creating governance mechanisms to ensure that social enterprises meet their double bottom line is essential for ensuring that those at the BOP not only have access to basic goods and services, but at a fair price. **Defining national legal frameworks and reaching a consensus through guidelines and criteria from funding organizations is critical. The need for clear organizational structures and accountability mechanisms that embrace blended value creation and harmonize the expectations of various stakeholders can help preserve the social mission and safeguard the balance between profit and social value creation.**

06 PROMOTE THE INCLUSION OF SOCIAL ENTREPRENEURS FROM ALL EDUCATIONAL BACKGROUNDS

Social entrepreneurs tend to be highly educated and have professional work experience. Individuals from the BOP, although being important agents in identifying problems and solutions at the local level, are strongly underrepresented in the social enterprise sample. Finding ways to include these social entrepreneurs in social investors' portfolios would contribute to the diversity of social entrepreneurship. **Adapting social investors' selection criteria, increasing training and mentoring opportunities and promoting business models that include entrepreneurs originating from the bop are therefore important to strategically build on local knowledge.** For example, social franchising or inclusive business approaches with entrepreneurs from the bop are interventions that could facilitate mutual knowledge transfer.

07 MOVE TOWARD STRATEGIC IMPACT MEASUREMENT

Measuring social impact can help determine if social enterprises are achieving their goals of providing more efficient and innovative approaches to solving social and economic challenges in developing and emerging economies. This research shows that social investors and social entrepreneurs both measure social impact and that most social enterprises define their social impact metric either alone or jointly with the social investor. However, the survey also indicates that an alignment between standardized social impact measurement and the benefit for organizational practices has not yet been fully realized. In order to facilitate the strategic development of social enterprise towards increased social impact and poverty reduction over the long term, impact metrics need to be more aligned to their management and strategy-making tools. This calls for strategic initiatives to redesign reporting standards, particularly for actors with bureaucratic reporting processes to adapt their requirements to the operational reality of social enterprises. **Revisiting impact measurement tools and fostering a stronger integration with strategic decision making tools can help to enhance the usefulness of measurement tools for social enterprises and therewith provide an important asset rather than a liability in fighting poverty in developing and emerging economies.**

This report offers a unique glimpse into the social enterprise landscape in the countries studied. However, in order to fully understand the characteristics of social enterprises and social investors in emerging and developing economies, as well as their impact, further research is required. Prioritizing this research, particularly at the national level, would help account for social enterprise activity and impact in order to better understand and recognize the efforts and accomplishments of the landscape, as well as provide visibility to the sector. In addition, comparative studies of developing and emerging economies could illustrate the diversity across countries, as well as patterns and similarities in the social enterprise landscape.

> 'Many social problems in developing and emerging economies can't be solved profitably or require long-term efforts to create markets. Nonprofit organizations are essential for that purpose.'

This could contribute to the effective design of innovative models and policies to encourage social and economic impact. The report also highlights a number of areas that warrant future in-depth research, which include: developing methodologies to better assess social impact performance; conducting research on key success factors that influence the sustainability of social enterprises; improving insights into the factors that facilitate the acquisition of funding; generating insights on the success of innovative financing mechanisms; and analyzing partnerships and competition patterns as well as the unique challenges social enterprises seem to face in meeting basic needs.

The authors hope this work will contribute not only to strengthening the social enterprise landscape, but also to developing policy frameworks and cross-sector partnerships that recognize and foster social enterprise growth. With their twinned goals of social and financial impact, they remain a promising contribution to the ongoing fight against poverty.

35) Santa Clara University (2013):'Demand Dividend: Creating Reliable Returns in Impact Investing'. Available at: http://www.scu.edu/socialbenefit/impact-capital/upload/Demand-Dividend-Description.pdf

COLOMBIA

Capital *Bogotá*
Population *48.014.026*
Currency *Colombian Peso (COP)*
GDP *378.1 billion* USD

Overall, 12% of the consulted organizations work in Colombia, with half of them comprised of for-profit social enterprises. Nonprofit organizations account for 41% of social enterprises in the sample, while hybrid structure organizations represent 9%.

As shown in Fig. 32, the top sector in which social enterprises work in Colombia is education and training (44%), followed by environment (32%), agriculture (24%) and health issues (18%). The fifth sector, ICT, represents 15%.

In Colombia, the three most prominent sources of financing are individual investors (30%), bilateral development organizations (27%) and founder's funds (27%). The three least cited are incubators, venture capital funds and local NGOs (3% each). Overall, most funding originates from the private sector (94%). Only 36% of social enterprises received funding from the public and third sectors, and only 21% from supranationals.

Colombian social enterprises seek funding primarily in ranges of over $2.5 million dollars (25%) and $1-2.5 million dollars (21%). As Fig. 33 shows, the size of funding sought is decreasingly distributed into the lower ranges.

Almost half of the social enterprises in Colombia receive some form of governmental support. In contrast to this and despite the existence of the Colombian Center for Social Innovation, 53% of Colombian social enterprises indicate that they don't receive any governmental support and 13% even state that the government hinders their operations.

With regard to competition, the for-profit sector is perceived as the strongest competitor by the majority of social enterprises, at 63%. Only 13% view NGOs as their main competition, and 12% don't perceive any competition. Development organizations and the public sector represent the weakest competitor (6%).

Colombian social enterprises focus on different social groups with different income levels. As Fig. 34 demonstrates, 48% of the social enterprises target people living on 6-8 USD and 52% target those above 8 USD. People living on 3-5 USD per day and less than 2 USD per day are served by 40% and 44% of social enterprises, respectively.

FIG. 32
TOP 5 SECTORS IN COLOMBIA (IN %)
Respondents (n=34) could select multiple answers

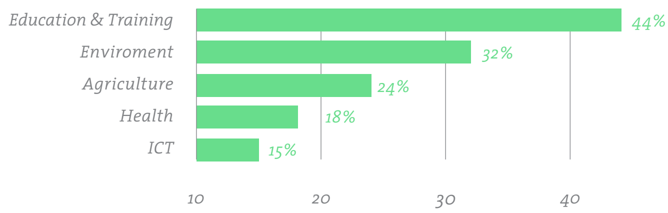


FIG. 33
SIZE OF FUNDING SOCIAL ENTERPRISES SEEK IN COLOMBIA (IN %)
Respondents (n=32) could select multiple answers

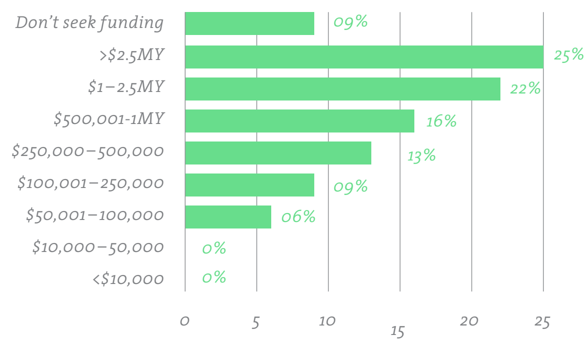
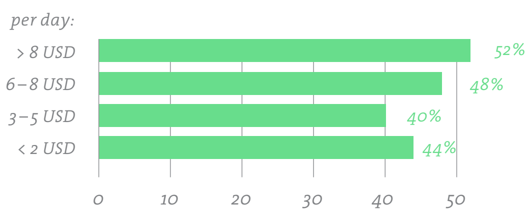


FIG. 34
INCOME LEVEL OF SOCIAL TARGET GROUP IN COLOMBIA (IN %)
Respondents (n=25) could select multiple answers



MEXICO

Capital *Mexico City*
Population *118.395.054*
Currency *Mexican Peso (MXN)*
GDP *1.261 trillion* USD

Of all surveyed social enterprises, 36%, and therewith the largest share of the study's sample, originate from Mexico. Almost half of the social enterprises are nonprofit organizations (47%) For-profit organizations account for 35% of the sample, while hybrid structure organizations represent 17%.

As Fig. 35 shows, the top sector that social enterprises in Mexico focus on is education and training (39%). This is followed by environment (30%), health (28%) and agriculture (22%) issues. The fifth sector, culture and arts, represents 17%.

In contrast to the other countries, the three most prominent sources of financing are the government (45% of social enterprises), individual donors (42%) and foundations (32%). The three least cited choices include venture capital (4%), state banks and incubators (2%, respectively). In the aggregate, however, most funding is received from the private sector (91%), followed by the public sector with 47%. The third and fourth options refer to the third sector (42%) and supranationals (20%).

Mexican social enterprises seek funding in three main ranges: 15% seek more than $2.5 million dollars, 14% seek investments in the range from $500,0001 to 1 million dollars and another 14% seek $100,001 to 250,000 (Fig. 36).

Of the Mexican social enterprises, 44% claim not to receive any government support and 11% state that the government hinders their operation. 61% of social enterprises cite receiving some form of governmental support for their operations.

For 50% of the surveyed social enterprises, the for-profit sector represents the strongest competitor. NGOs, the public sector and development organizations play a weaker role – with 16%, 8% and 5% of social enterprises respectively naming them as main competitor. An impressive 22% of the participants cite perceiving no competition.

As Fig. 37 shows, Mexican social enterprises work across all income levels. Their focus rests on two segments: 48% target people living on 3-5 USD per day and 45% serve people living on more than 8 USD per day. Fewer focus on people with 6-8 USD per day (33%) and the very poor with less than 2 USD per day (41%).

FIG. 35
TOP 5 SECTORS IN MEXICO (IN %)
Respondents (n=101) could select multiple answers

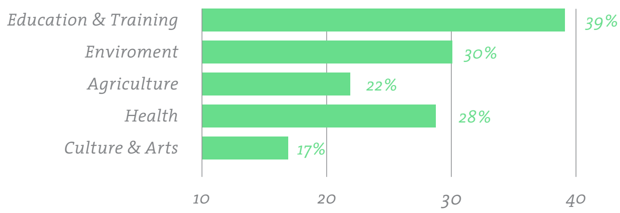


FIG. 36
SIZE OF FUNDING SOCIAL ENTERPRISES SEEK IN MEXICO (IN %)
Respondents (n=95) could select multiple answers

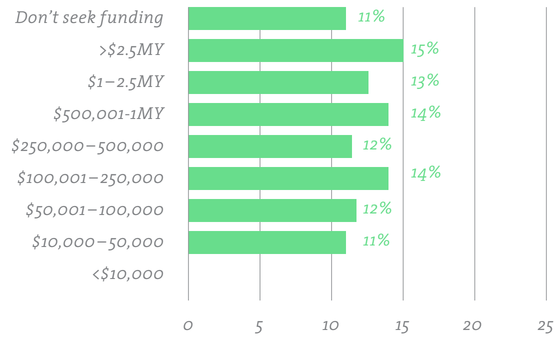
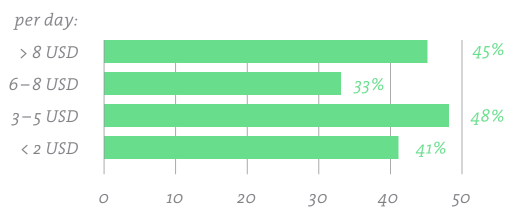
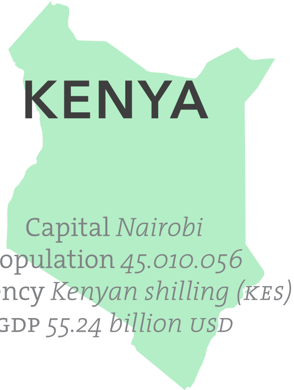


FIG. 37
INCOME LEVEL OF SOCIAL TARGET GROUP IN MEXICO (IN %)
Respondents (n=87) could select multiple answers





KENYA

Capital *Nairobi*
Population *45.010.056*
Currency *Kenyan shilling (KES)*
GDP *55.24 billion USD*

Of the surveyed organizations, 33% work in Kenya. Kenya's social enterprise environment is primarily constituted by for-profit organizations, representing 47% of all respondents. Nonprofit organizations account for 28% of social enterprises, while hybrid organizations represent 25%.

Fig. 38 shows that the top sector in which social enterprises work is agriculture (33%), followed by environment (27%), education and training (27%) and health (22%) issues. The fifth sector, financial services, represents 20%.

The top three sources of financing are founder's funds (58%), individual donors (40%) and foundations (36%). The three least cited options include incubators, private equity funds (6%, respectively) and state banks (1%). These sources originate primarily from the private sector (98%). The third sector is the second most important source of funding with 48%. The least cited options include the public sector (27%) and supranationals (16%).

As Fig. 39 shows, Kenyan social enterprises seek funding primarily in the higher ranges: 22% seek funding in the $1-2.5 million dollar range and 15% in more than $2.5 million dollars.

Most social enterprises (65%) claim that the government is not involved in their operations, and 16% indicate that the government hinders their operations. 52% of the respondents cite receiving some form of governmental support for their operations.

For the large majority of social enterprises (73%), the for-profit sector is the strongest competitor. NGOs, the public sector and development organizations play a weaker role (8%, 5% and 4%, respectively); 11% of the participants furthermore cite perceiving no competition.

Kenyan social enterprises focus primarily on social target groups in the lower income range, with 73% targeting people with less than 2 USD per day and 44% targeting those with 3-5 USD per day. People living on 6-8 USD per day and above 8 USD per day are served by 33% and 26% of social enterprises, respectively (see Fig. 40).

FIG. 38
TOP 5 SECTORS IN KENYA (IN %)
Respondents (n=89) could select multiple answers

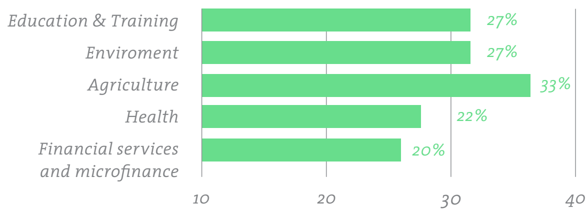


FIG. 39
SIZE OF FUNDING SOCIAL ENTERPRISES SEEK IN KENYA (IN %)
Respondents (n=85) could select multiple answers

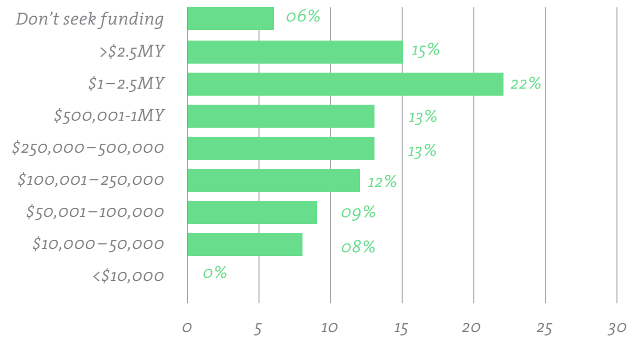
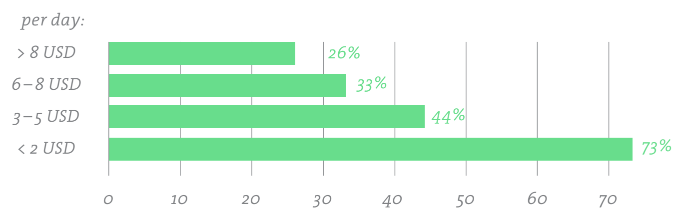
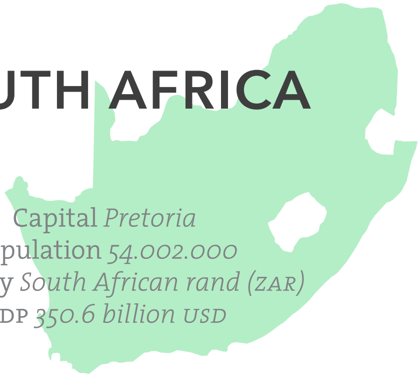


FIG. 40
INCOME LEVEL OF SOCIAL TARGET GROUP IN KENYA (IN %)
Respondents (n=80) could select multiple answers



SOUTH AFRICA



Capital *Pretoria*
Population *54.002.000*
Currency *South African rand (ZAR)*
GDP *350.6 billion USD*

A total of 20% of the surveyed organizations work in South Africa. South Africa's social enterprise environment is primarily constituted by for-profit organizations, representing 49% of the sample. Nonprofit organizations are also prominent, accounting for 35%. Hybrid structure organizations represent 14%.

As Fig. 41 shows, South African social enterprises mainly work in education and training (35%), followed by culture and arts, ICT and environmental issues (23% respectively). Health, in fifth place, is the focus of 19% of social enterprises.

Social enterprises are mainly financed by founder's funds (57%), corporations (35%). and individual donors (32%). The three least cited sources include venture capitalists (5%), incubators and multilateral development agencies (3% respectively). In aggregate, 95% of social enterprises received funding from the private sector and 35% of social enterprises received funding from the third sector. The least prominent funding sources include the public sector (32%) and supranationals (3%).

South African social enterprises mainly seek funding amounts between $250,000 and 500,000 as well as between $100,001 and 250,000 with 14%, respectively (Fig. 42). Interestingly, the most prominent answer refers to social enterprises indicating that they are not seeking any funding (21%).

Of the social enterprises in South Africa, 55% claim not to receive any governmental support and 20% claim that the government is hindering their operations. 37% of the respondents cite receiving some form of governmental support.

As in all the studied countries, the for-profit sector represents the strongest competitor for the majority of social enterprises (52%). Development organizations, the public sector and NGOs play a weaker role (11%, 7% and 5% of social enterprises, respectively, cited them as main competitors); 25% of the participants furthermore cite perceiving no competition.

South African social enterprises focus primarily (56%) on the target group of people living on less than 2 usd per day (see Fig. 43). This is followed by people living on 3-5 USD per day (50%). 6-8 USD per day and 31 % on above 8 USD per day.

FIG. 41
TOP 5 SECTORS IN SOUTH AFRICA (IN %)
Respondents (n=52) could select multiple answers

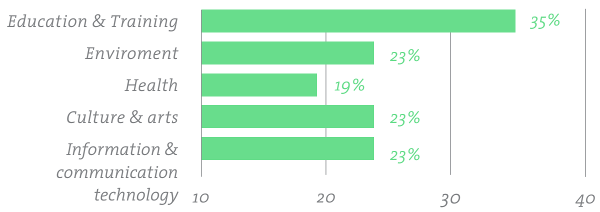


FIG. 42
SIZE OF FUNDING SOCIAL ENTERPRISES SEEK IN SOUTH AFRICA (IN %)
Respondents (n=44) could select multiple answers

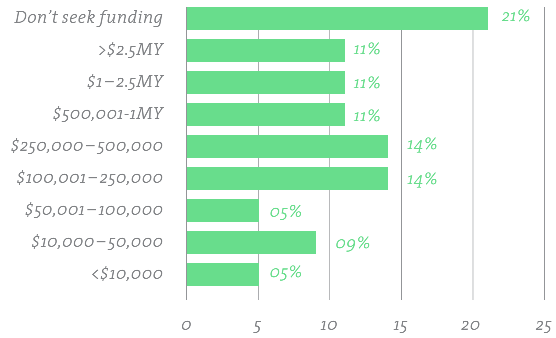
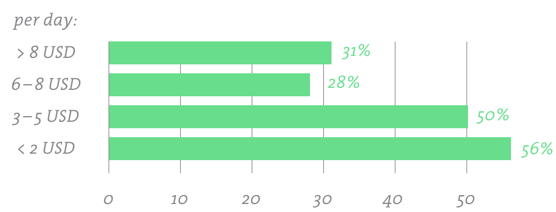


FIG. 43
INCOME LEVEL OF SOCIAL TARGET GROUP IN SOUTH AFRICA (IN %)
Respondents (n=32) could select multiple answers



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ABBREVIATIONS & GLOSSARY

ANDE	Aspen Network of Development Entrepreneurs
BBBEE	Broad-Based Black Economic Empowerment
BOP	Base of the Pyramid
GDP	Gross Domestic Product
GIIRS	Global Impact Investing Rating System
HDI	Human Development Index
ICT	Information and Communication Technology
IRENE | SEE	International Research Network on Social Economic Empowerment
IRIS	Impact Reporting and Investment Standards
MBA	Master of Business Administration
MPI	Multidimensional Poverty Index
NGO	Non Governmental Organization
UNDP	United Nation's Development Program

BASE OF THE PYRAMID (BOP)
The term Base of the Pyramid – or Bottom of the Pyramid – was mainly coined by strategy scholar C.K. Prahalad and refers to the approximately 4 billion people living on less than 2 USD a day, which is the global threshold for moderate poverty.

BASIC NEEDS
In this report, basic needs draws on the International Labour Organization (ILO) definition of the minimum consumption needs of a family, including adequate food, shelter and clothing, as well as essential goods and services, such as safe water, sanitation, public transport, health care and education. The ILO definition also includes access to employment as a means to an end in meeting basic needs, as well as participation in decision-making.

BLENDED VALUE
Blended value refers to the simultaneous creation of social and financial value. Both social enterprises and social investors have adopted the concept.

DEVELOPMENT ORGANIZATION
Development organizations refer to bilateral (e.g., USAID, GiZ) and multilateral development agencies (e.g., UNICEF).

HYBRID STRUCTURE
Hybrid structure social enterprises combine for-profit and nonprofit legal forms by creating two distinct organizations that are strategically linked and are core elements of the overarching business model.

FREE CASH
In this report, the term 'free cash' is used to refer to grants, donations and prize money, which are all non-repayable types of funding.

HYBRIDITY
Hybridity labels organizational practices that combine elements from the nonprofit and the for-profit sphere. Social enterprises are often described as hybrid organizations as they seek to solve social problems with market-oriented or entrepreneurial approaches.

MULTIDIMENSIONAL POVERTY INDEX (MPI)
The multidimensional poverty index, developed in 2010 by Oxford's Poverty & Human Development Initiative and the United Nations Development Program, identifies multiple deprivations in education, health and living standards within the same households.

SECTOR
The term sector is employed in two ways in this report. First, it refers to the commonly used distinction between the public, the private and the third sector. Second, it is also used to designate areas in which social enterprises or social investors operate, such as the education or health sector.

PRIVATE SECTOR
The private sector refers to the sphere of the economy that is run by commercially driven organizations and primarily seeks profit making. It is mainly populated by for-profit organizations, such as private companies and small and medium-sized enterprises (SMEs), but also includes banks, investment funds and individual investors.

PUBLIC SECTOR
The public sector encompasses the sphere owned and run by governmental entities both at the national and municipal level.

REVENUE
Revenue designates the income that an organization generates through its activities. Total revenue refers to the sum of sales, interests, royalties, fees, subsidies, donations, grants and membership dues, among others.

SOCIAL ENTERPRISE
A broad definition of social enterprise is applied in this report, referring to organizations that receive support from social investors and seek to solve societal problems in a market-oriented or entrepreneurial way. They may take the form of for-profit, nonprofit or hybrid structure social enterprises.

SOCIAL INVESTOR
Social investors, in this report, designate all organizations that explicitly provide financial or technical support for market-based development approaches in developing and emerging economies. Social investors include impact investors, venture philanthropists and other types of supporting organizations that seek to promote blended value creation or organizations that provide market-oriented or entrepreneurial solutions to social problems in those countries.

THIRD SECTOR
The third sector designates the sphere between community, market and state, in which particularly nonprofit or civil society organizations emerge in order to promote certain social objectives. These organizations include foundations and nongovernmental organizations (NGOs), for instance. Third sector is often used interchangeably with 'nonprofit sector' or 'civil society'.

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