

Opportunities for the **Majority Initiative**



International Conference on Social Enterprise

Market Infrastructure and Supporting System for Social Enterprise

Korea, March 2009



:: What is the key to successful social enterprises?

Installed Distribution Networks



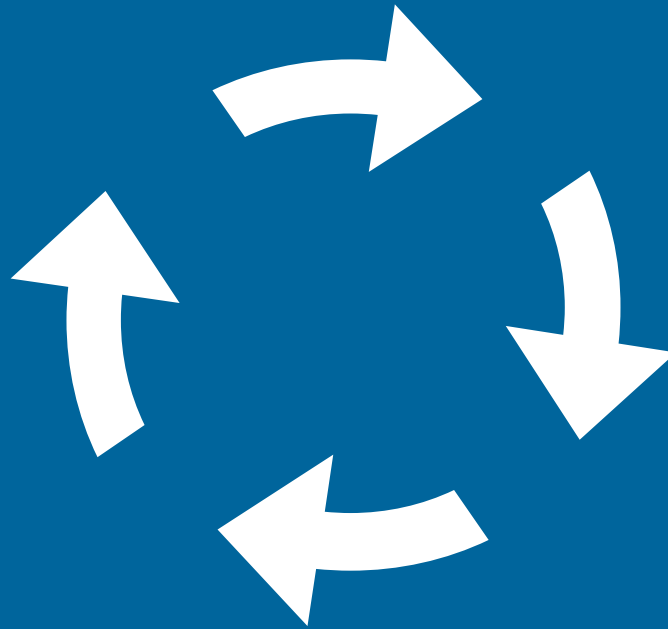
Private Sector Engagement



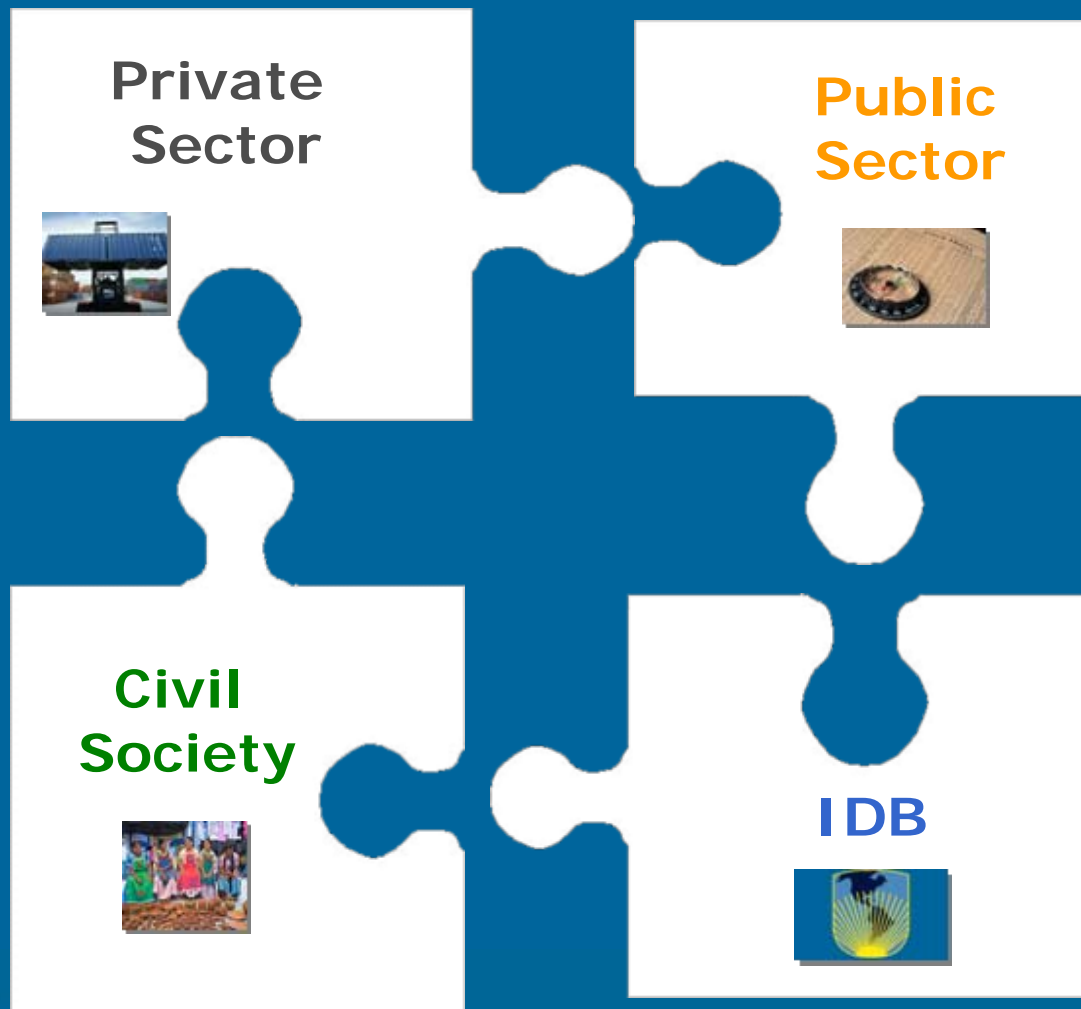
Scale



Development Impact



:: A new way to think about partnerships...



:: The poverty penalty: 10 years to access pavement...

Low income families must wait almost 10 years to have access to paved streets...



*"poverty
penalty"*



Lack of pavement is a serious problem. Families lack transport services and face serious health and sanitary risks...



:: The solution: Mejora Tu Calle...

Mejora tu Calle is an innovative solution that leverages municipal budgets to accelerate delivery of public works...

"Paving the way to a better life in Mexico's barrios"



As a result, low-income families now have access to high quality street pavement and are improving their living conditions. ...



:: Paving the way to a better life in Mexico's barrios...

Mejora tu Calle contributes to the reduction of the street pavement deficit in Mexico through a joint participation effort of municipalities, the private sector and the end-beneficiaries of the project in a co-financing scheme. Through this project CEMEX provides micro-loans to low-income families in selected communities to finance street pavement costs and accelerate low income families' access to pavement.



:: Paving the way to a better life in Mexico's barrios...

CEMEX

- Financing of microloans to cover most of the project's costs
- Providing construction materials and supervision of the work.

Municipalities

- Funding the pre-pavement public work
- Bidding and Supervision
- Permission and regulatory framework

Beneficiaries

- Cover the down payment for the construction work and repay the microloans.

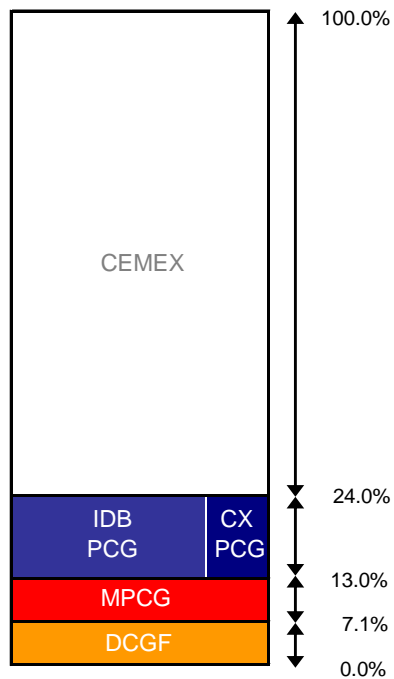
IDB

- Partial Credit Guarantee to mitigate risk

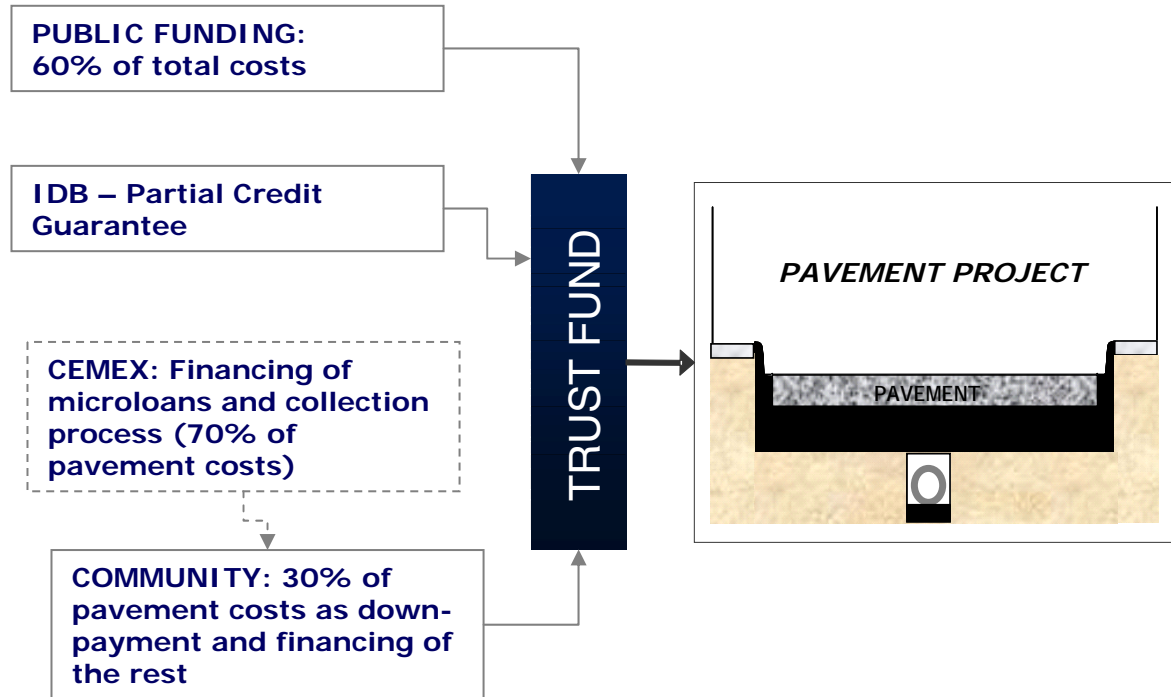


:: The Financing Structure...

GUARANTEES



SOURCE OF FUNDS



:: What are the opportunities for social businesses?



Increase in property value...



Improved security...



Better quality public services...



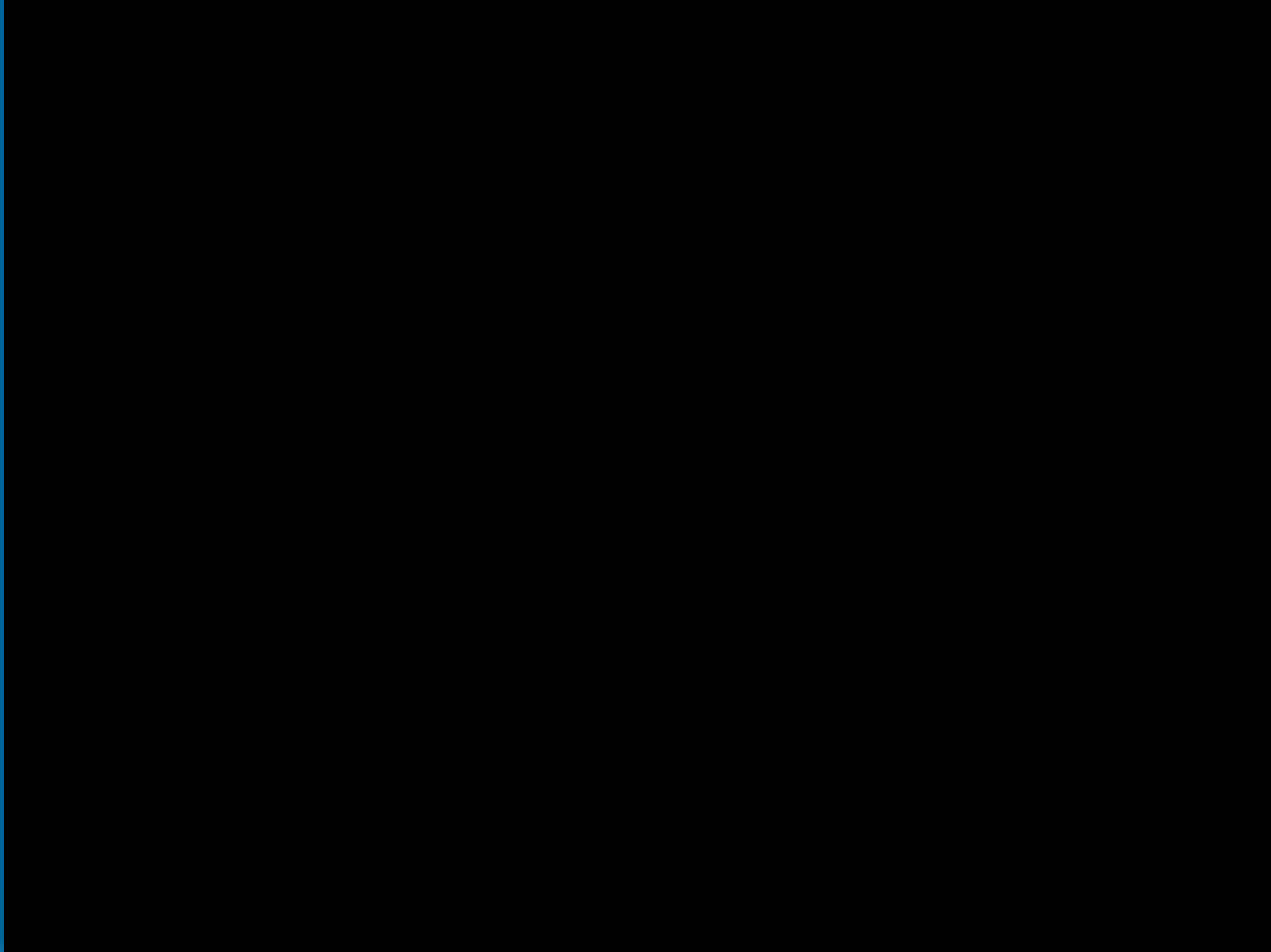
Improved access to transport systems...



General improvement of sanitary and living conditions...



:: Paving the way to a better life in Mexico's barrios...



Comments on “Market Infrastructure and Supporting System for Social Enterprises”

Hyunghwan Joo

Director-General for Growth Infrastructure

Ministry of Strategy and Finance

- **The private sector** should be **in the driver's seat**, while **the government**, both at the local as well as the central level, serves as **an enabler or a facilitator**.

- **Three Key Actions to Create an Enabling Environment for Social Enterprise**
 - (1) **Foster a Culture of Social Enterprise**
 - (2) **Create a Business Support Infrastructure** available to Social Enterprise
 - (3) **Remove the Barriers to Access to Finance** that restrict the Growth of Social Enterprise

- **Foster a culture of social enterprise**
 - **Confusion and lack of understanding** is a major barrier to the growth of social enterprise. In fact, social enterprise is least studied and poorly understood, particularly in Korea, it needs a more recognizable, clearer identity (e.g., confusion over “social entrepreneur” or “social business vs. “socially responsible” firms). **The sector needs to be properly positioned** within the economy, to be more clearly **identified as a credible business option, and distinguished from the voluntary sector**.

 - **A campaign approach** could be adopted to reduce confusion. For example, in Korea, celebrities in various areas of a society are to be nominated as “good will” ambassadors for social enterprises and “one company for one social enterprise” campaign is also to be launched in order to link social responsibility activities of a corporation with support to a social enterprise it selects.

- **To attract new talent to the sector, a segmented approach** is needed to focus on people with strong entrepreneurial business acumen and clear social drive. It is also important to offer programs or courses relating to social enterprise at the business school especially to inspire the next generation to start thinking about the social impact of business.
 - The Korean government's "One Man Creative Business" initiative under consideration will create an on- or off-line market to broker creative business ideas with or without social mission dimensions, among people concerned, and tackle the barriers to starting and operating of one man business activities, including freelancing. It is designed to unleash entrepreneurship in the Korean society and could be linked to the promotion of social enterprises. .
- **Create a business support infrastructure for social enterprises**
- This business support infrastructure should provide and continuously improve the business advice, information and support available to social enterprise.
 - Create a dedicated regional development agency and website providing integrated business support for social enterprise. In Korea, there are six such business support regional development agencies to provide services ranging from identification of pre-start ups to assisting them in achieve a self-sustainable level, in a close partnership with business, business schools, business support providers, and NGOs within each region. "Human bank" would be set up to provide professional business consulting to social ventures by pooling together retired business executives, consultants, and professors etc.
 - The further development of business support for social enterprise should focus on building on what already works. To ensure that social enterprises across the country receive a high quality service relevant to their needs, it is quite crucial to address the need for (i) clarity within each region about which agencies are providing what

support at each stage of development; (ii) consistency of service within and across regions; (iii) the empowerment of social enterprises to select between support programs; and (iv) organized learning and sharing of best practices among all the regional agencies at national and local levels.

- Provide and improve incentives for government procurement of products and services of social enterprise

- Finally, business support should be sensitive to social enterprise needs, context and motivation. In particular, promoting and sustaining social enterprise activity requires proactive specialist support for pre-start social enterprises. The capacity of the business support infrastructure to disaggregate the sector is vital to providing effective support. Business support providers should play an important role in helping social enterprises to understand and use financial products to their full advantage.

➤ **Tackle the barriers to access of finance**

- Organize a conference on social venture investing (e.g., social capital markets)
- Provide seed money / guarantee for a pre-start social enterprises
- Deregulate and fund/guarantee support to microfinance
- Create “Social Venture Fund” in partnership with the private sector
- In light of the fiscal support from the government, it is essential that an effective monitoring and evaluation mechanism be put in place for the improvement of performance and sustainability of social enterprise supported. To facilitate this, the government will construct a data-base for the status of employees, financial conditions, degree/scope of government supports and social objective fulfillment of each social enterprise.

- The rise in social business reflects the times. The social lines and legal norms to recognize and treat for-profit and progressive social or environmental motivations and activities separately have begun to blur and converge as the business world attempts to respond to the social demand that businesses be good stewards of the environment and society.”

- The success of the social enterprise agenda depends upon social enterprises not just meeting needs, but also doing this while thriving in sustainable markets and successfully generating income through trading. One can concede that not all social problems respond well to the for-profit model. But, there is **increasing recognition of and interest in the idea of using business to tackle the social problems**. Often, in solving certain social problems such as providing access to solar energy for people in poor villages, only as a business could a project become large enough to reach the great number of people in a relatively short time span.

Comments: Market Infra and Supporting System for SE

Chang Gyun Park

Chung-Ang University Business School

The Role of Market

- A perspective on "the Invisible Hand"
 - Market outcome is simply the result of interactions among market participants.
 - "Individuals in the market", not the market itself, determines the final allocations of scarce resources.
 - The key element is the incentive structure of market participants.
 - Market is an excellent vehicle through which information on individual incentives are collected and aggregated in an efficient way.
- Compatibility of market and social policy
 - Still suspicious?
 - Shown to be very possible by many courageous and wise minds!

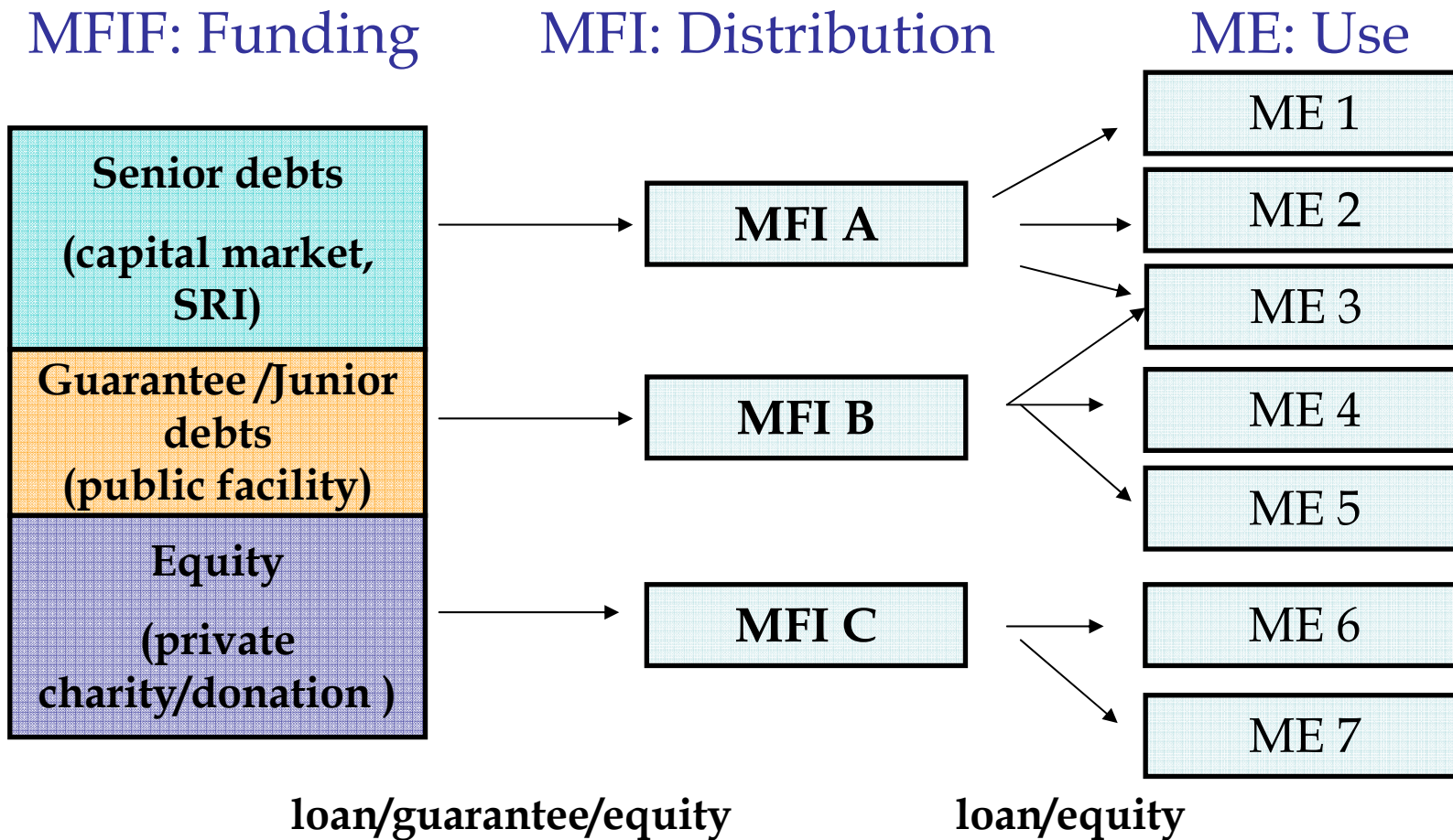
Market and Incentive

- Various agents with diverse incentives
- Question: How to organize diverse agents to achieve a specific social goal?
- A possible answer could be found in taking advantage of the force of market mechanism.
 - Excellent instruments to organize/aggregate/harmonize diverse opinions/arguments from different incentives
 - "Align" individual incentives to contribute to achieving the social goal
 - William Easterly: Planners vs. Searchers

Public-Private Partnership

- The actors with different objectives
 - the government/public sector: no/minimal financial return + maximum social return
 - charity/donation: no/minimal financial return + maximum social return
 - SRIs: moderate financial return to ensure long-term sustainability + reasonable social return
 - private investors: maximum financial return
- Operational principle
 - Each pursues its own objectives under a common business facility operated professional managers clearly mandated by stakeholders.

A Possible Example



Market Infrastructure and Supporting System for Social Enterprise

12 March 2009

C.S. Lee

Chief Executive Officer, Social Solidarity Bank

I. Environment

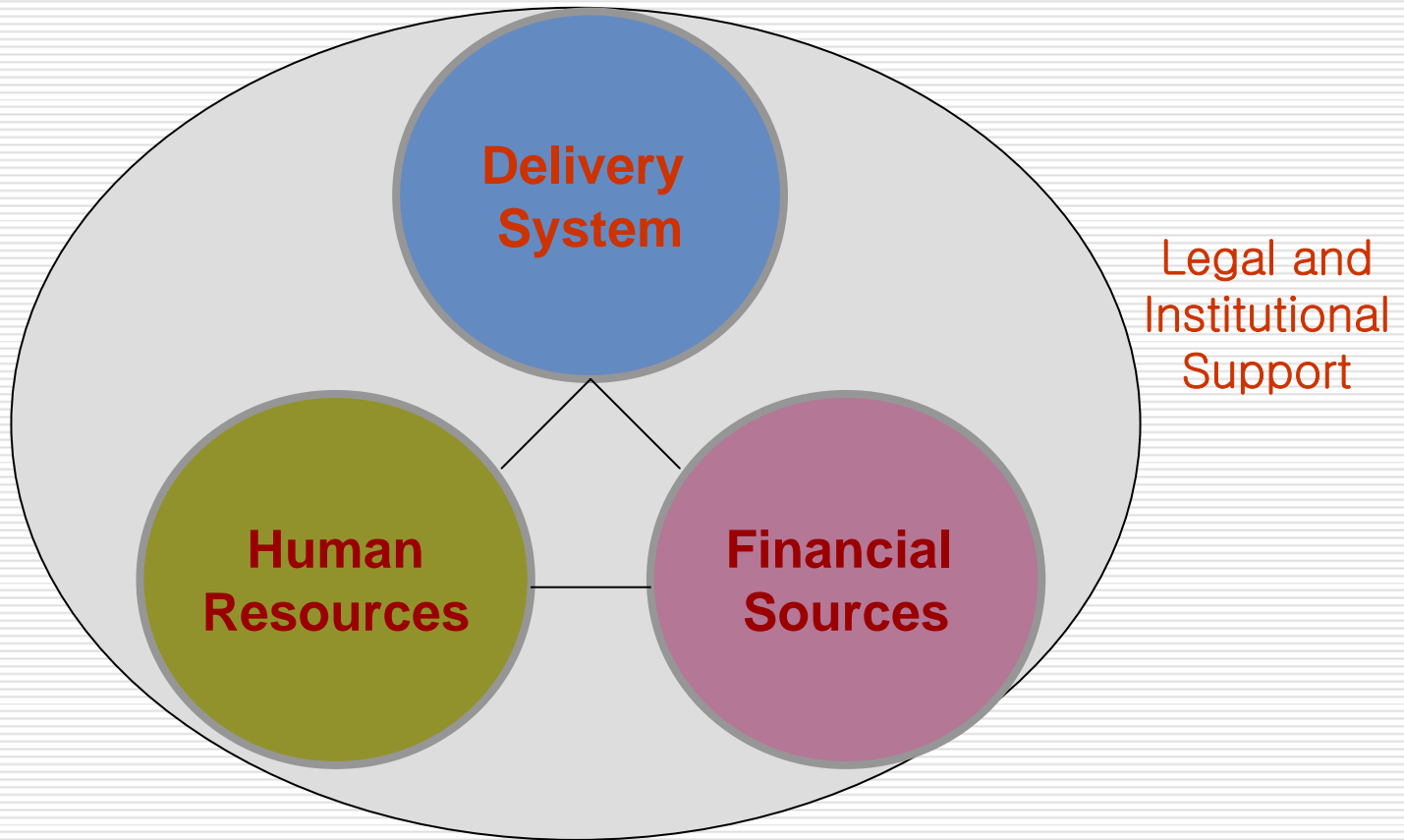
Approaches to solve the social problems:

Welfare → Workfare

Traditional Giving → Utilizing Market based instruments

- Market based tools for social enterprise
 - Financial market tools for social objectives. ie) Microcredit
 - Sustainable solution to address the poverty problem
 - Growing needs for social enterprise using innovative, market-oriented approach
-

II. Key factors for Social Enterprise Support



II. Key factors

1) Delivery System

System to deliver \$ and various services including management consulting, training etc to support Social Enterprises

- Social Enterprises need Entrepreneurship
 - Commercial / Market oriented Approach
 - Role of Public Sector and Private Sector
 - Partnership between Public Sector and Private Sector
 - Community based Networks is essential in designing delivery system
-

II. Key factors

2) Human Resources

Expert Group

- Social Entrepreneur
- Supporting Professionals

Sources

- MBAs – Columbia University
 - Competition – Social Venture Competition
 - Sponsorship – Ashoka Foundation
 - On-going Training
-

II. Key factors

3) Financial Resource

Maybe the most critical factor

How to raise fund to support Social Enterprise

- Donation
- Borrowings
- Investment – Social Venture Capital
- Others – Guarantee, Bond Issue

Social Return vs. Financial Return

II. Key factors

4) Legal and Institutional Support

Role of Public Sector

Legal Frame works for Social Enterprise

- Delivery System, Human Resource and Financial Resource

Tax

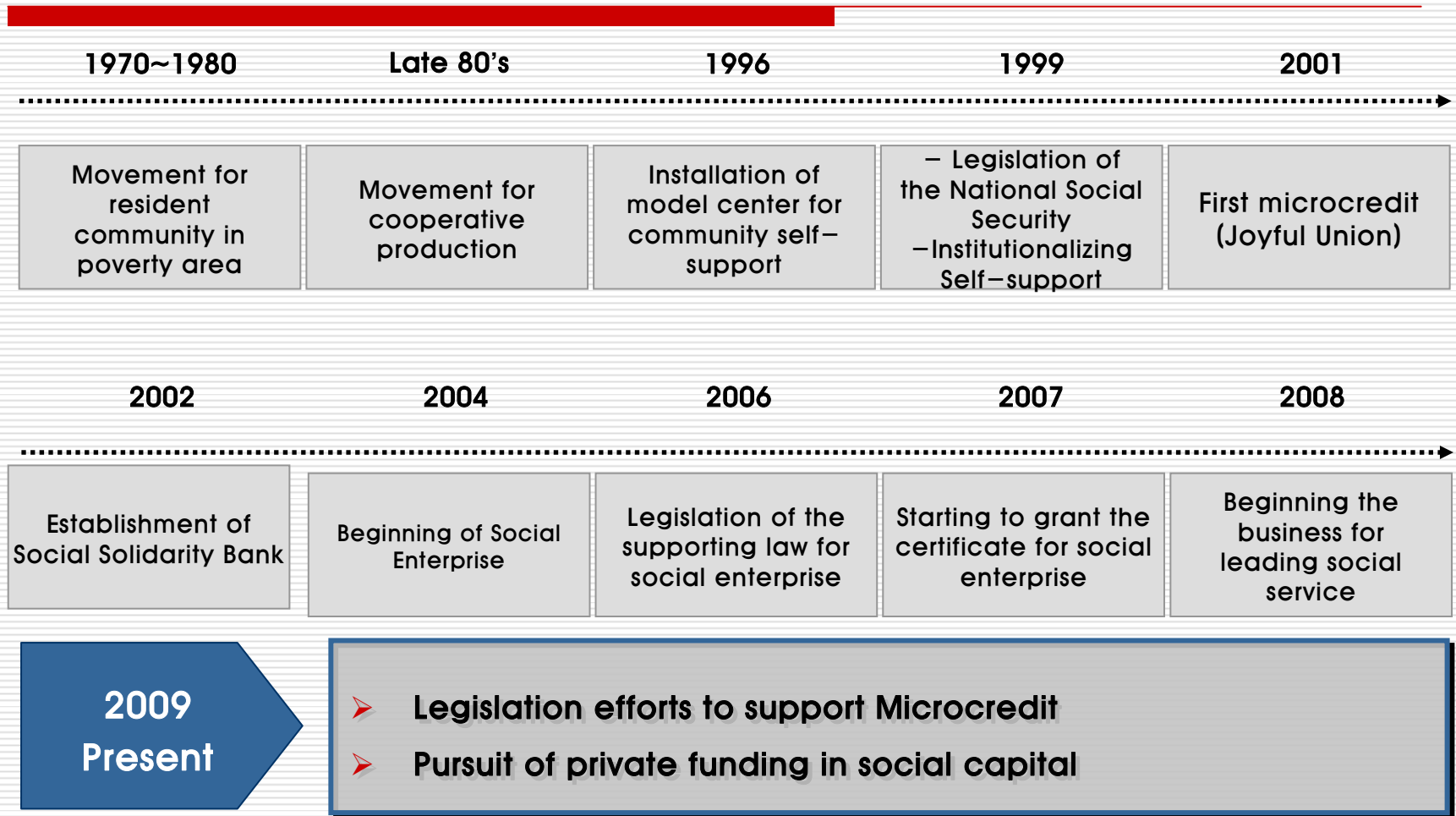
- Favors on Donation / Investment and Corporate Tax

Stock Exchange Market for Social Enterprise

Priority Order in Purchasing goods and services of Social Enterprise

III. Social Enterprise in Korea

1) History



III. Social Enterprise in Korea

2) Diagnosis

- Economic crises in 1997 / Financial crises in 2008
 - Financial exclusion : 7.2 million people
 - Widening gap between poor and rich
 - Unemployment
 - Working poor

 - Growing interest on Microcredit and Social Enterprise as a job creation
-

III. Social Enterprise in Korea

3) Type

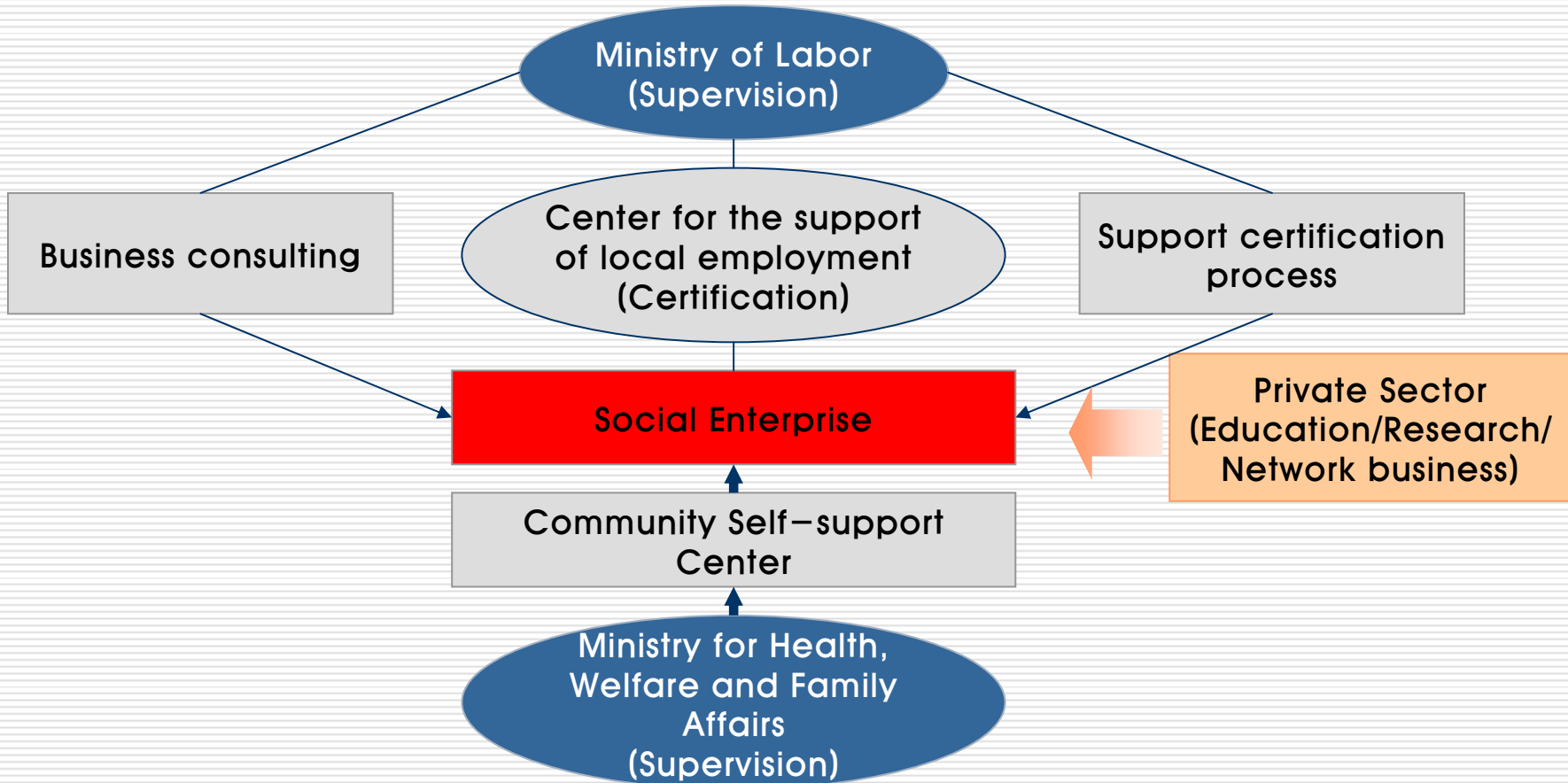
-
- Community Self-support Center
: Ministry of Health, Welfare and Family

 - Social Enterprise Certificate and Support
: Ministry of Labor

 - NGO, Company, University initiated
-

III. Social Enterprise in Korea

4) Delivery System



III. Social Enterprise in Korea

5) Human Resource

- Social Enterprise is just beginning not many experts
 - Social Enterprise training is not institutionalized yet, but growing
 - Social Enterprise Competition, MBA, Major in Univ.
 - Community Self-support Center played major role in establishing Social Enterprise and training people, but need to be strengthened
-

IV. Developing Financial Resources

1) Diversity & Stability

Secure variable and stable financial sources

Diversity

- Private sector' s role is still important
- There are numerous private capital funds with various purposes

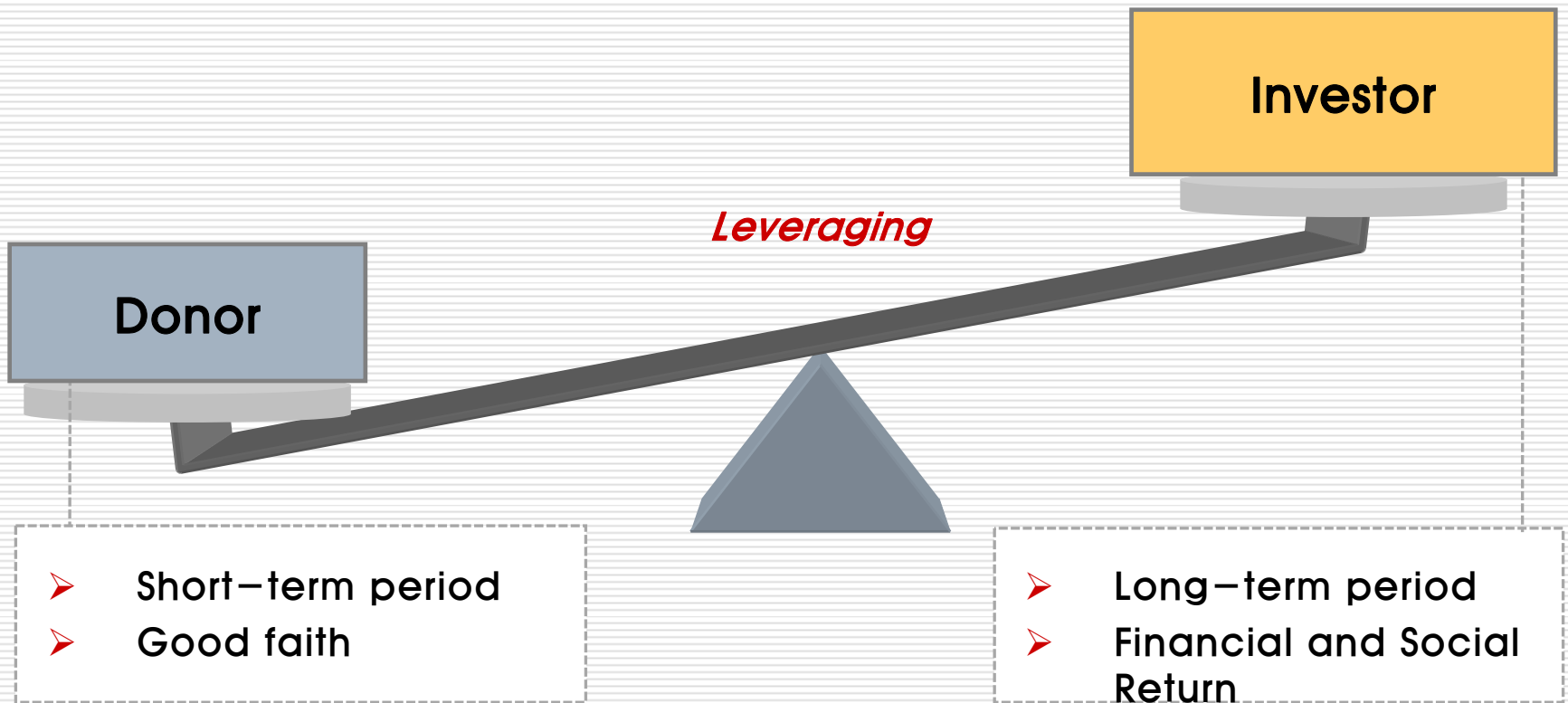
Stability

- Mostly donation and Government fund
- Financial aid dependant funding structure should be changed
- Participation of private sectors aiming for profit is essential

(Source: Prof. C.K.Park, 2009)

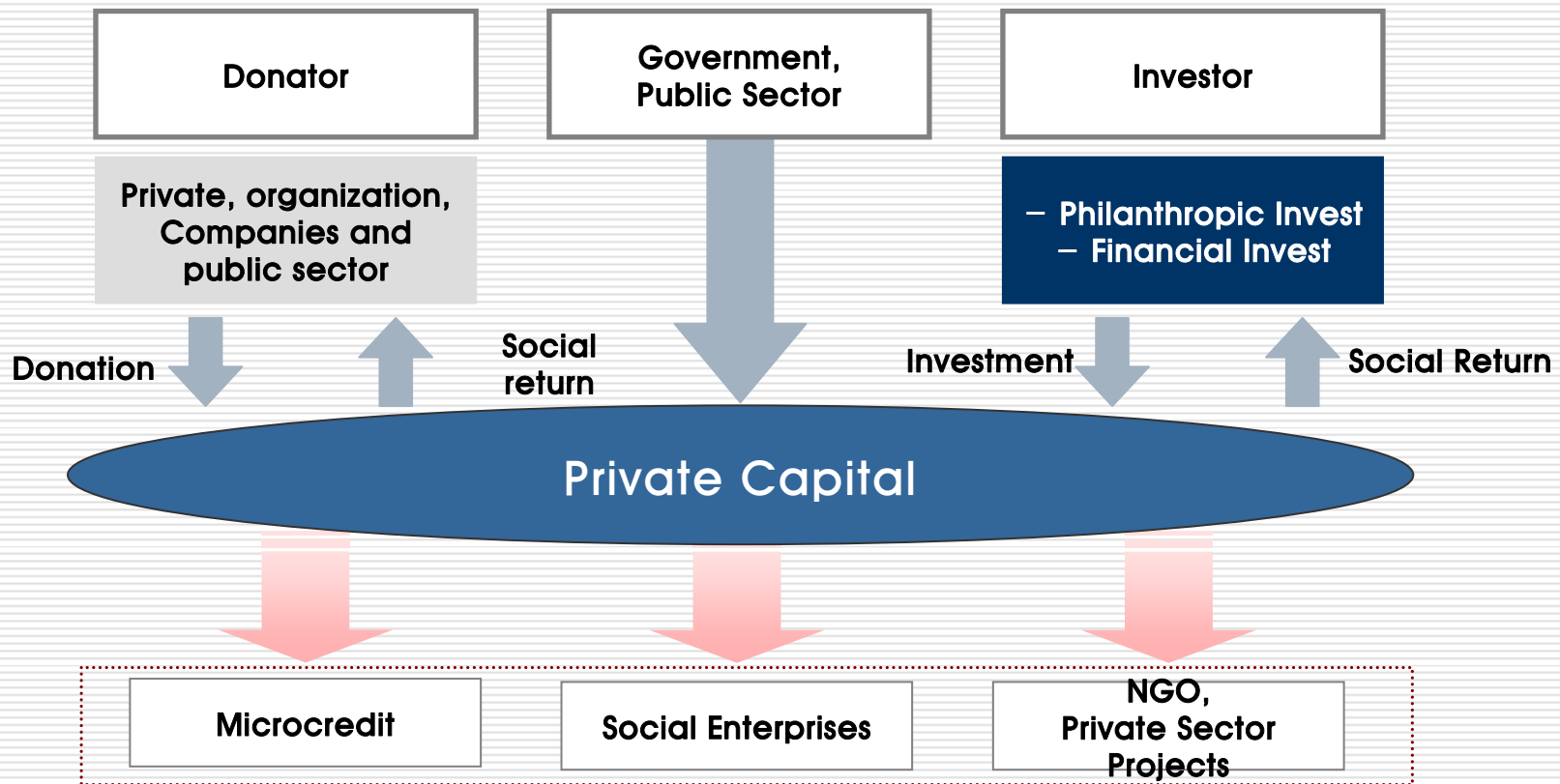
IV. Developing Financial Resources

2) Leveraging



IV. Developing Financial Resources

3) Social Capital Fund



V. Conclusion

