Innovating at the grassroots: the rise of social entrepreneurship in emerging economies

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The failure of the state, the market and sometimes even civil society to meet emergent social needs in a sustainable manner gives rise to social enterprises (SEs). But paradoxically, even the presence of SEs is reduced in extremely marginal or disadvantaged regions or sectors. The recent thrust toward the United Nations Sustainable Development Goals (SDGs) has, however, added vigor to the SE space. Focus on the SDGs, social startups and enterprises has increased recently within the development sector. Many startups, businesses and innovators have been drawn to the sector, enriching the scope and scale of social entrepreneurship. This paper consists of four sections dealing with the stages, facets and parameters of social entrepreneurship. Section 1 distinguishes between a social enterprise and a social business, terms used almost interchangeably within the literature and in developmental dialogues. Section 2 discusses the emergence of SEs and the institutional and individual factors responsible for their rise in emerging economies. Section 3 discusses public policy support within the SE ecosystem. And section 4 identifies the impact and challenges of developing metrics of indicators for successful SEs.

1 Social business vs social enterprise

Social businesses and SEs are both committed to addressing social or environmental issues, but they differ in terms of business models, ownership structures and approaches to profit distribution. Social businesses operate primarily as for-profit entities but decline to share profits with promoters and focus instead on social impact. In contrast, SEs employ a broader range of organizational models and approaches to achieve their social mission.

Social business

A social business – a term popularized by Professor Mohammed Yunus – addresses social or environmental challenges primarily through its commercial operations (Yunus *et al*., 2010). In contrast to traditional businesses, which distribute profits to shareholders in the form of dividends, social businesses are "non-dividend companies" that instead typically reinvest profits back into the business in order to promote its social goal (Yunus *et al*., 2006; Kabanda *et al*., 2019). Generally speaking, social businesses function as for-profit companies and make money using conventional business strategies. Regardless of who owns them, they are usually run in a way that keeps their social objective at the forefront of what they do. In India, technology business incubators registered under section 8 (earlier section 25) of the Companies Act 2013 largely fall under this category; examples are the Venture Centre of National Chemical Laboratory, GIANASTRE (GIAN Association for Sustainable Technology, Research and Entrepreneurship) of GIAN (Gujarat Grassroots Innovation Augmentation Network), Sanctuary of Innovation, Incubation and Entrepreneurship (SIIE), SRISTI-BioNEST, etc; the two commercial arms of Yayasan Inovasi Malaysia

(YIM Professional Services and YIM Technology Resources) have a similar constitution. Most corporate foundations are also set up under this provision.

Social enterprise

A SE may choose to use a broad range of business models and strategies to further its goals, in addition to its goal of addressing social or environmental challenges (Dees, 1998). Some SEs are non-profits or hybrid companies that combine elements of the non-profit and for-profit sectors (Doherty *et al*. 2014). Social entrepreneurs frequently give priority to social impact and long-term financial viability. The governance structure is intended to further the social objective, while balancing the interests of multiple stakeholders. While some social companies may transfer earnings to shareholders or use them to fund community development projects, others may reinvest revenue to further social goals. For example, in India, SELCO, Ekgaon, RUDI-SEWA, Farmveda; in Malaysia, Suri lifestyle, Farm Tokou, Kapitani, Trusmadi farm, Athena holdings; in Colombia, RECON, RADIOGRAFÍA del Emprendimiento Social en Colombia, Innpulsa Emprendimiento Social en Colombia; in the Philippines, Bambike, Rags2Riches; and in Bangladesh, Grameen Bank, Aponbazar, Drinkwell pursue such a mission.

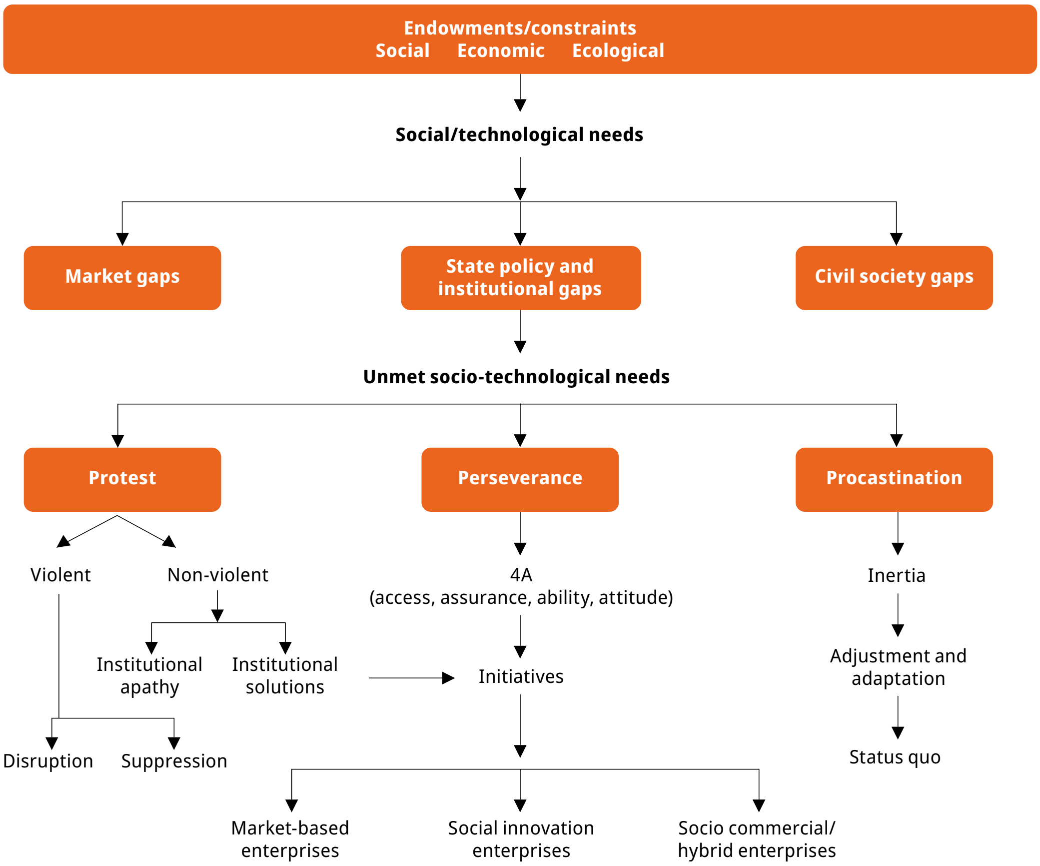
Most grassroots innovators scouted, spawned and scaled by Honey Bee Network and institutions supported by it, such as SRISTI, GIAN and NIF, despite the commercialization of their innovations, have not hesitated in sharing design, process or know-how openly. Thus, while serving local markets, they have made it possible for derivative learning and innovation to trigger other micro-social entrepreneurs into serving local markets. This has led to a high degree of frugality and affordability which has helped entrepreneurs become viable. The literature on SEs has neglected the role of social entrepreneurs who have been instrumental in the widespread and open replication of their innovations on which multiple enterprises have been founded. Mansukh Bhai Jagani, for instance, inventor of the motorcycle-based ploughing machine, having a patent in the United States in 2003 through GIAN, allowed the open replication of his innovation. This led to more than 400 fabricators and social entrepreneurs selling more than 10,000 such motorized ploughs and small tractors to farmers. The literature needs to pay more attention to promoting inclusive open innovations by SEs of different kinds (Gupta *et al*., 2017).

2 Emergence of SEs

Social enterprises emerge when an entrepreneur addresses unmet societal or environmental needs in a viable manner. Viability may not be achieved on day one. This explains the much higher risk underlying such ventures compared to other entrepreneurial ventures. Grassroots innovators and entrepreneurs who solve social or technological problems independently without outside help often constitute a significant segment of micro-social entrepreneurs.

Both endowments and constraints play an important role in the devising of interventions to address unmet social and environmental needs and community challenges (Figure 1).

Figure 1 Evolution of Social Enterprises



Source: Author's compilation, adapted from Gupta *et al*., 2017.

Endowments

Social, economic and ecological endowments collectively shape how individuals, communities, and societies perceive and respond to various needs, challenges, risks and opportunities. *Social endowments* may include factors such as kith and kin networks, social and cultural institutions, formal and informal governance structures (including intra/inter-institutional networks), traditional and indigenous knowledge and wisdom regarding risk, resilience, resources, social and ethical capital, and so on. *Economic endowments* may include land (through intergenerational inheritance or self-acquired property), labour (self, pooled, hired, tenancy), capital (historical savings, assets), access to financial institutions, group finance, migration and inward remittance. Owing to their spatial distribution, *ecological endowments*, for instance, edaphic and climatic conditions and species distribution, or governance structures such as common property resource institutions, essentially represent environmental resources.

Constraints on some social groups deter the pursuit of entrepreneurial initiatives. *Social constraints* include gender inequality, discrimination and marginalization, and social exclusion. Inadequate social support networks, including community and third-party assistance programs, or lack of social skills can leave people vulnerable. *Economic constraints* include factors such as poverty, income inequality, unemployment and a lack of affordable housing. Many poor families may need help to afford nutritious food, education and healthcare services. Lack of access to credit and financial services can exacerbate these challenges. *Ecological constraints*, including environmental degradation, natural disasters and climate change/fluctuations affect the ability of communities to sustain livelihoods and meet basic needs.

Example: In India, PeriFerry[1] upskills transgender people, so that they can find corporate jobs. Neelam Jain grew passionate about the cause. In May 2017, she left her job in order to launch PeriFerry together with Nishant Agarwal to try to get such people jobs in corporates after suitable training.

> **Example:** In Malaysia, Suri Lifestyle is a company employing single mothers. The founder, Sally Ahmad, realised that single mothers struggle to get into jobs, because of maternal responsibilities. Suri Lifestyle first gives free of charge three months' training in sewing and stitching to single mothers, after which they are offered a part-time job. Then, after assessment, they are onboarded as suppliers.

Public agencies design and implement various technological and institutional interventions to address socio-technological needs. The market is another institution that helps meet such needs through technological and business solutions. Some gaps are addressed through civil society organizations. However, gaps persist, because of a weak linkage with agencies, lack of scale, infrastructure or complementary technologies or policies, and so on, which may provoke protest, procrastination or perseverance in response. Non-violent protests may sometimes lead to institutional solutions being adopted; procrastination leads to inertia; and perseverance triggers a toleration of constraints and an attitude of adjustment and adaptation rather than any positive attempt to transcend those constraints. When people persevere and have (i) institutional assurances, (ii) access to resources and technologies, (iii) a desire to change the status quo and (iv) the ability or skills to convert access into investments, they may decide to instigate initiatives. These may be profit-driven, as in commercial enterprises, or completely guided by social aspirations, as in social innovations and/or enterprises. They may combine aspects of both these types of enterprise and be run as a hybrid model.

Innovation investment, adoption and diffusion processes

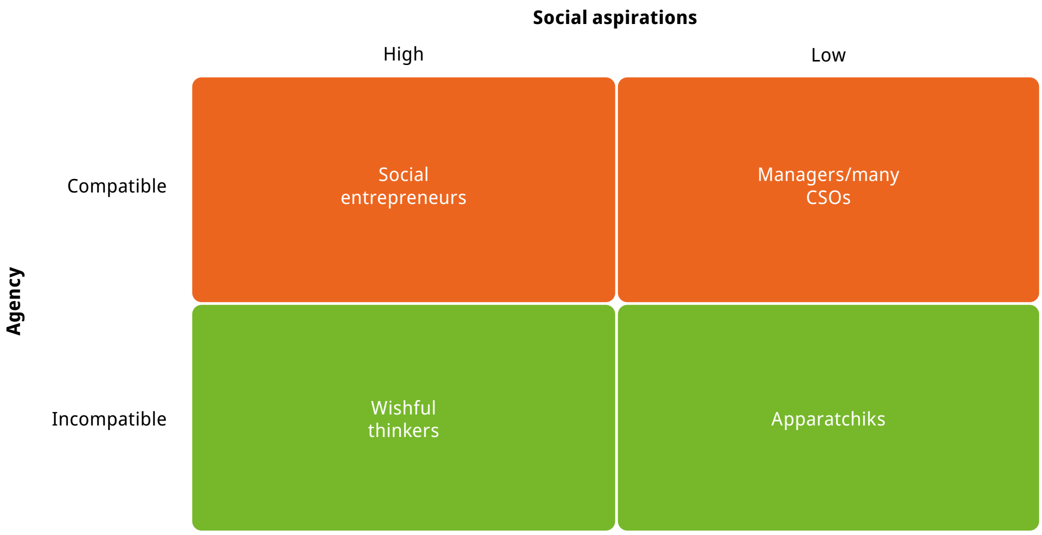
Most impact funds invest in larger blended finance or other opportunities where risks are low, and stakeholders less vulnerable or have risk-absorbing capacities. Hardly any indigenous innovation-based, long gestation-oriented grassroots enterprises have ever been financed by impact funds. The same applies to angel financing, which has declined to invest in grassroots SEs with low returns. Therefore, one needs new kinds of financial intermediation to spur social ventures, particularly when non-profits rely on complementary finance for sustainability. The role of risk capital in inducing transformative changes within information communication technologies (ITCs) and biotechnologies is well known. A similar thrust is needed to encourage the financing of small risky ventures through a stepwise blending of grants, loans, equity and joint ventures. A lot of social ventures will fail, but some will succeed and help in solving social problems. Social needs are diverse, as explained earlier (see Figure 1), thus the scope for uniform solutions that scale widely may be limited.

Take, for instance, the case of energy-efficient cooking stoves. Millions of households still use age-old, wood-burning cooking systems whose combustion efficiency is 15 percent at best. This is because either not many efficient multi-fuel stoves for a variety of cuisines have been developed, or else, if developed, they are unaffordable for the poor. The same is the case for grassroots, innovation-based micro-social entrepreneurs: except for the few supported by the state or central government, they are not in receipt of risk capital at any of the different stages of the entrepreneurial journey. Public and private media needs to focus more on their mass diffusion.

Traits of social entrepreneurs

Before taking a deep dive into the taxonomy of SEs, it is imperative to understand a social entrepreneur's essential traits (Figure 2).

Figure 2 Traits of social entrepreneurs



Source: author's compilation

The social aspirations of people may be high or low, while their agency to solve social problems may or may not be compatible with their aspirations. Agency is the willingness and capacity to achieve latent potential by converting aspiration into action autonomously. When social aspiration is low and the agency incompatible, people are subject to the reinforcing inertia of apparatchiks. However, when aspiration is high and the agency either incompatible or low, people want to change many things but do not, turn their ideas into actions, instead remaining wishful thinkers. When aspirations are high, but the agency is incompatible, for example, owing to the lack of a risk-taking attitude, people remain excellent managers or implementers. When aspirations are high and the agency compatible with the aspiration, people fall under the category of social entrepreneurs and innovators.

2 Taxonomy: drivers and models of SEs

A taxonomy of SEs can be elaborated based on the drivers and models of entrepreneurship found within the sector and the identification of emerging opportunities based on scale, setting and scope. There are micro initiatives that address a local need and are unlikely to scale, because the problem they are addressing is location specific. Some are more generalized, but still at a small scale. Many rural and some urban enterprise promoters lack adequate resources or skills. Policies meant for SEs also do not reach them. Then there are bigger SEs that cut across regional unmet needs and scale up to some extent but cannot afford the professional staff required in order to scale further or reach larger social markets. Finally, there are the very large SEs that are often supported by international and national organizations and can scale to a mega level. The irony is that it is often these very large SEs that play an influential role in shaping the very policies unable to adequately address the needs of small, scattered and socioeconomically weak SEs.

Most so-called impact investment funds/venture capital funds are not interested in high-risk, distributed and innovative SEs, especially if the entrepreneur is a grassroots innovator or not professionally qualified. Even a cursory analysis of their portfolios is sufficient to make this bias evident. This is an area where new innovative financial risk funds are needed. There are four stages at which funding is required:

(a) prototyping, converting an idea into a proof of concept - at this stage, grant funds are most helpful;
(b) product development, which soft loans can support;
(c) market testing may be supported through soft loans; and
(d) market launch and scale up which can be supported through equity investment or social innovation bonds, and so on.

There are also hybrid funds that combine grants and loans or loans and equity.

3 Analysing policies facilitating SE ecosystems in selected countries

Countries worldwide have yet to embrace an exclusive social entrepreneurship policy. Thailand, Malaysia and Singapore have implemented action plans to promote social entrepreneurship, while the Philippines established an Inclusive Business promotion programme between 2017 and 2019. Inspired by the Honey Bee Network, the Philippines also set up the GRIND (Grassroots Innovation for Inclusive Development) program to learn, link, leverage and legitimize social innovations and enterprises.

In India, SEs are supported through some of the schemes supporting the social and economic development of communities. Policies like the startup policy of the central and state governments, Social Innovation Programme for Product Affordable and Relevant to Societal Health (SPARSH) program of BIRAC, Department of Biotechnology, Atal community innovation centres – ACIC (Atal Innovation Mission), Niti Aayog, several programs of the Department of Science and technology, such as the Strengthening, Upscaling & Nurturing Local Innovations for Livelihood (SUNIL) Programme, Technological Intervention for addressing Societal Needs (TIASN), and Technology Acceleration Platform for Rural Innovation and Social Entrepreneurship (TAP-RISE).

A novel initiative by the Indian Ministry of Finance, the Social Stock Exchange was formed within the regulatory purview of the Securities and Exchange Board of India. Under this, SEs and voluntary organizations striving to achieve a social welfare goal are listed, so they can obtain capital in debt, equity or mutual funds. Wherever risk and uncertainty are high, returns are low and there is a long gestation, the impact investing firms are not very interested. In such a context, SEs depend more on public policy support, corporate social responsibility (CSR) and individual philanthropy. India has previously had a legal provision for setting up social innovation companies under section 25 and now under section 8 of the Companies Act 2013.

In 2017, Malaysia launched a Malaysian Ringgit (RM) 3 million Social Outcome Fund (SOF) to address social challenges and boost the country's social economy. This fund empowered corporations and foundations to invest in social impact ventures beyond traditional corporate social responsibility practices. If SEs deliver agreed upon outcomes, the SOF repays impact investors with interest. The Malaysian Government has established a Social Entrepreneurship Unit under the Malaysian Global Innovation and Creativity Centre (MaGIC), with a special allocation of RM 20 million to develop the social enterprise sector (Adnan *et al.*, 2018). Malaysian innovation foundation YIM (Yayasan Inovasi Malaysia) is dedicated to promoting and funding grassroots innovations that have commercialization potential and positively impact a community's well-being.

Viet Nam has a provision for SEs making them a distinct legal entity (British Council *et al.*, 2021). Its definition of a SE is stated thus: "According to this law, social enterprise is defined as 'an enterprise that is registered and operates to resolve several social and environmental issues for a social purpose, and reinvests at least 51 per cent of total profits to resolve the registered social and environmental issues' (Article 10, Enterprise Law)."

In South Africa, formal SEs are classified as beneficiary-centric non-profits or customer-centric social businesses (Bignotti and Myres, 2022, Farhoud *et al.*, 2023). African institutions vary significantly according region and country.

In Colombia, 69.55 percent of the income of SEs is derived from selling goods and/or services. Just 10.03 percent is derived from contributions (RECON, 2023). EcoMicro fund was created to fund clean energy for micro, small and medium-sized enterprises in Latin America and the Caribbean (IDB, 2014).

The need for SEs is significant in developed economies. The Organisation for Economic Co-operation and Development (OECD), Nesta and several other agencies within Europe, the United States of America (US) and other developed countries have dedicated windows for promoting and supporting SEs.

4 Identifying impacts and challenges to developing metrics of indicators for successful SEs

Success in the case of commercial business is measured according to specific parameters such as profitability or return on investment (ROI)/return on assets (ROAs), customer retention ratios, and so on. Social enterprises do not have such well-established assessment parameters. Much of the value they generate may not be quantifiable, and a genuinely successful SE will mean no customers, thus resolving the problem. Indeed, so far as a SE is concerned, customers are beneficiaries who suffer from an unaddressed social or technological need.

Metrics for measuring the effectiveness of a SE

Several dimensions of a SE can be tracked to ensure that the unmet social needs that an enterprise aims to meet remain in focus, delivery stays frugal and effective, and financial sustainability is not compromised by trading that is off purpose with an ethical process. This is the classic struggle between means and ends, so strongly stressed by Gandhi. The rise of such a dilemma is often inevitable, because not all investors appreciate the need to achieve social good through the right means. It is the firm belief that “a change not monitored is a change not desired” (Gupta, 1984).

There are three principal areas to consider when measuring the effectiveness of a SE.

Financial accountability and sustainability:

(a) Within what timeframe can a SE be expected to achieve viability and be able to provide a return on the original investment, even if without extra income or interest?
(b) Has the SE shared the annual accounts and reports openly with local communities and stakeholders in the local language(s)?
(c) How resilient is the SE is in dealing with fluctuations within the market, society and the life of the community? Has the SE made arrangements to absorb to some extent any risks and losses arising from unforeseen circumstances?

Governance

(a) Are the community representatives engaged in policymaking and the process design of the SE?
(b) Does the SE have a consensus about performance indicators among different stakeholders, despite inherent challenges.
(c) Has an ethical code of conduct been shared and complied with by all stakeholders?
(d) How does the SE track innovations being attempted by different members of the social supply chain and share these innovations with others?
(e) Does the SE apply gender fairness and have an inclusive hiring policy?
(f) What has been the shift in the target group, if any, and does this group include more or fewer marginalized people?

(a) To what extent has the “knowledge public goods” been created in order to make the journey of other social entrepreneurs less arduous, requiring a higher upload-to-download ratio?
(b) Has the SE’s success influenced any regional, national or even international policy?
(c) If the unmet need for which the SE was set up has been met satisfactorily, has the SE moved to the next orbit of social development?

Why some SEs fail

There are many reasons why a social enterprise might fail. They include:

(a) a lack of community response, because the memory that earlier projects failed impinges on the current intervention;
(b) a mismatch between the kind of service or product needed and the one supplied;
(c) a failure by people in receipt of grants to sometimes repay the loan;
(d) a failure by the SE team in the field to internalize the ethics and value system needed to maintain the trust of the community;
(e) the ethical values of the founders being hazy and ill-defined;
(f) an inability to compete with alternative service providers;
(g) unrealistic compensation levels for staff;
(h) a public policy shift away from the purposes of a particular SE; and
(i) the retirement or relocation of a founder and the successor being unable to replace the founder’s passion and energy or sustain the focus of the original dream.

More broadly, some SEs fail because the primary need identification was itself not right. One Laptop Per Child (OLPC) is one such case.

Conclusion

Most SEs possess strong local roots and knowledge about social issues, making them an effective tool for fulfilling social goals. Public spending on SEs can enhance efficiency and promote social cohesion and inclusive growth within the national economy. Governmental policies should focus on SE development, by incentivizing and supporting social entrepreneurs, fostering social innovation, providing enabling legal, fiscal and regulatory frameworks, and supporting risk and scale financing, market access, services, training, and research.

Novel mechanisms such as cultural bonds can be utilized to protect the rights of indigenous/ local communities concerning motifs, folksongs, folklores, symbols, and so on. Some new financial instruments like an electronic fund-raising platform, such as the “Social Stock Exchange” of India have been announced recently to help CSOs and SE to raise capital. Many more mechanisms are needed in order to sustain various business models, including those ones where customers may not need to bear the total costs of products or services, and residual expenses are met from alternative sources. A platform like the World Social Innovation and Enterprise Forum (WSIEF) can be formed along the lines of World Economic Forum (WEF) to engage social entrepreneurs, small or big from around the world, and forge partnerships among different stakeholders. Such a platform might give a collective voice in facing future challenges and influencing policies designed to address emerging developmental challenges.

It is evident that at the different stages of the evolution, growth and diffusion of a social enterprise, different kinds of support are required. Because until now most of the focus has been on impact investments often directed toward large SEs with the expectation of substantial returns, the voice of small, scattered and space-based/grassroots SEs has been muted. In this paper, we have tried to highlight the range of different interventions and metrics for ensuring diverse, inclusive and distributed growth and development. Scale should not become the enemy of sustainability (Gupta, 2010). Democratic and inclusive growth needs a diversity of distributed spurs to social enterprise, which means a support system that nurtures numerous small innovation-based SEs.

Notes

1 https://www.periferry.com.

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