

Notes on social enterprises and poverty reduction

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Introduction

- Recent studies have underlined the critical role played by social movements and social mobilization in reducing poverty (*Bebbington, 2007, page 794*). A sub-branch of this discourse argues that *social enterprises*, which may be loosely defined as business organizations with specific poverty reduction and people empowerment objectives, is a vital part of that social mobilization process.¹
- Poverty in this case is described as chronic poverty which refers to the 300-420 million of the more than 720 million people who are still projected to be poor by 2015. (*IBRD-WB, 2007, page 65*) Chronic poverty refers to the temporal dimensions of poverty, i.e., the forms of absolute poverty that are experienced for extended periods of time, mostly located in South Asia and Sub-Saharan Africa, which the Chronic Poverty Report describes as the result of resilient institutions that “drive” and “maintain” poverty, with the following characteristics (*Shepherd, 2007, page 4*):
 - √ poverty experienced by an individual or household for such an extended period that it is unlikely to change (long-term poverty);
 - √ poverty that is experienced during the entire course of a person’s life (life-course poverty); and,
 - √ poverty that is transmitted from parents to children (intergenerational poverty)
- Any study of poverty in the Philippines cannot overlook the fact that Mindanao, specifically the towns and provinces which form part of the ARMM are a clear priority. For purposes of this presentation, let us look at the human development indicators of Muslim Mindanao.² The Table below demonstrates the severity of poverty in the region.

Province/Country	ELB	Poverty	Infant Mortality (per 000)	Percentage of Unemployed
ARMM	52 years	45 %	55 infants	56 %
Philippines	71 years	36 %	49 infants	10 %

Table 1 : Human development indicators: Muslim Mindanao, , UNDP 2005

¹ Definitions of social enterprises vary according to their usefulness in describing or rationalizing the existence of their businesses and organizations.

² Also because the author is most familiar with poverty in Mindanao.

- The literature on social movements and poverty point to at least four (4) paths through which social mobilization may affect the incidence and depth of poverty :
 - a) Movements challenge the political economic foundations (the distribution of power) that underlie the incidence and persistence of poverty;
 - b) Movements rework the cultural politics of poverty (*Chambers, 1997 on "Jodha's Paradox",*);
 - c) Movements help improve the assets (*Amartya Sen, 1988, endowments and entitlements*) of the poor; and
 - d) Movements engage with and bring pressure on states to act on poverty
- In short, social movements dedicated to the reduction of poverty are seen as key weapons in challenging and changing institutions and organizations that lead to its persistence ("persistently poor"). Reducing poverty forces us to act on both the "onset" and the "duration" of poverty, which, like violence and conflict, are two entirely different circumstances.

Social enterprises and poverty : some observations

- Social enterprises find their real relevance and importance when they deal with embedded institutions and organizations that lead to persistent poverty. Preventing the onset of poverty is actually met/addressed by the economic actions of poor individuals and households, avoiding the hierarchies and transaction costs associated with enterprises. There is something to be learned here from Coase's (1937) nature of the firm (or Alchian and Demsetz, 1970 analysis of the costs of metering performance and providing rewards in enterprises) : i.e., transaction costs are the main determinants for the creation of firms.
- Other scholars have pointed to the positive potentials, as well as the risks that social enterprises, sometimes referred to as "solidaristic agencies", present in addressing poverty and other social goals. Brett (1996) notes that several social enterprises operate with flat structures that deny the need for hierarchy. He stresses the need for accountability rather than participation. *"Cooperatives involve team production, which will only succeed where everyone makes a fair contribution to the complex, demanding, and often unpleasant tasks involved"*. Most NGO- run social enterprises which he studied displayed *"heavy overheads, management and commitment were poor, and malfeasance and conflict were common"*. (Brett, 2003)
- Among the four paths, social enterprises appear to create the strongest contributions to improving the assets of the poor. This is particularly resonant in the case of collectively owned enterprises, even if the process of production and value-addition is undertaken under single, or household, management. (cooperatives and other enterprises with individual equity collectively invested, e.g., revolving credit groups)
- In some cases, social enterprises are founded upon, or originate from, a long history of claim-making actions (e.g, ARC cooperative enterprises, rice and corn producer organizations, etc.). By their actions they engage and pressure local and national states to deliver policies, programs, and services that improve their access to land, equipment, knowledge, technology, credit, capital, etc.

- Among the various activities and businesses enumerated in studies of social enterprises (*See Marcos Arruda, 2007, on the solidarity economy*), it has often been argued that the long term impact of social enterprises is to equalize the politico-economic distribution of power and to leverage the rights of the relatively poor and powerless. This seems to have very little difference with the nineteenth-century hopes of John Stuart Mills who saw cooperative enterprises as a form of “non-revolutionary transition to socialism”.
- However, it seems difficult to expect nor anticipate when and how that can happen if social enterprises operate within the same incentive structure that is pegged towards recognizing the dominant political economy. Scholars have tried to (over)analyze social enterprises by distinguishing between entrepreneurship and social goals. Look at Martin and Osberg’s take on entrepreneurship – it prioritizes key capacities such as *“the ability to sense and seize an opportunity, thinking out of the box, and determination”* – capabilities often out of reach by the poor who have the weakest access to information or education, denying them the ability to engage in markets in a sustainable manner.
- Some enterprises collectively owned by women expand their public space, or leverage their rights and access to resources. These follow a multiple path – they strengthen women’s entitlements, they challenge the politico-economic foundations of poverty (especially at the household level), and they rework the cultural politics of poverty. They also underlie a crucial ingredient in social enterprises that has been seldom explored or highlighted in the literature – risk aversion and risk management.
- In 2001, an FAO study of the potentials for “civic entrepreneurship” (Lara, 2001, page 8) in agriculture and rural development assessed the key ingredients that were necessary for spurring agricultural productivity and diversification. It stated that *“current priorities actually lead to more of the same types of intervention that have consistently failed or fallen short of its pronounced objectives... a more holistic approach is required to spur agricultural growth and a fourth “I” will be necessary and perhaps more strategic, namely insurance, or risk-aversion mechanisms.”*³ It pointed to civic entrepreneurship as providing this strategic factor – defining it as *“the institutional process by which market transactions between agricultural producers and other market agents produce mutually and socially beneficial outcomes. It goes beyond the institutional framework that governs the simple functioning of markets. Upholding property rights and enforcing contracts is supplemented by institutional restraints on strategic behavior”*.⁴
- Indeed, social enterprises play a key role in fighting poverty because they enable long-term action that can reduce poverty by distributing risks among its stakeholders and restraining strategic behavior, enabling it to meet or rise above the challenges posed by scholars in their (Martin and Osberg) definition of a “proper” social enterprise.
- Consequently, this discourse also reveals the need to establish new baselines and benchmarks, instruments, and practice to analyze and study the impact of social enterprises.

³ Social entrepreneurs, and scholars of social enterprises should avoid the serious flaws inherent in early studies of agricultural economies, which tended to ignore the risk factor and assume that price incentives were sufficient to provoke agricultural diversification.

⁴ The three previous “I” referred to information, irrigation, and infrastructure.

Going back to Mindanao

Looking back at Mindanao, we need to explore how social enterprises are constituted, the role they play, and their performance in reducing poverty. There are at least two ways of looking at their performance in poverty alleviation.

One approach is to analyze the formal sector and look at the social enterprises established within the region. The story of the rubber plantations placed under cooperative ownership and management in Basilan and Zamboanga seems like a good place to start. I did a study of the sector in 2003 which showed how the agrarian reform beneficiaries improved access to education and health, secure livelihoods for women, and food security through agricultural diversification, while settling deep-seated animosities between Muslims and Christians and sustaining their production and marketing of rubber.

To be sure, this is not the full picture. The study also saw evidence that tended to reinforce the skepticism towards social enterprises – instead of a process of gradual consolidation, expansion, up-scaling, and enhanced competitiveness, I also saw a process which may be briefly described as moving from pulling together, pulling apart, implosion, and bankruptcy.

The causes of their deterioration revealed some of the elements that scholars had predicted : lack of innovation that trumps existing practices and the determination to succeed. However, the inability to address these issues arise out of a more fundamental issue – the problem of accountability when workers wear two hats – as owners and laborers. In short, as owners they wanted immediate dividends, as workers, they wanted higher wages – higher dividends and wages could not be provided except at the expense of the enterprise.

The other approach is to look at the informal sector and recognize how widespread poverty in Mindanao often conceals the nature of the real economy, and the emergence of new forms of social enterprises. In Muslim Mindanao for example, there are scores of these enterprises that emerge from within clan institutions and organizations that are often located within the informal, shadow, or underground economy. They promote group or clan interests, rather than broader social goals, but they cannot be gainsaid because they do improve the interests of Muslims which have been discriminated against, or subjected to violence and conflict for decades.

Conclusion

Some will see their skepticism regarding social enterprises reinforced by these experiences. However, they provide a template for what ought to be done to avoid the pitfalls that befell cooperative enterprises. If there is any lesson to be learned, it is that social enterprises operate at their best when most activities are undertaken at the household level, where transaction costs and the need to discipline and meter performance is easily achieved. There is no sense in establishing solidaristic or collectively owned and managed enterprises if they lead to higher costs. They will not produce anti-poverty results, and may even intensify conflict and division.

The contribution that social enterprises make to poverty reduction needs to be better studied, and instruments to undertake this task need to evolve apace. There is empirical evidence to validate the claims that social enterprises reduce poverty, but it entails looking at the broader definition of poverty. Chamber's admonition that poverty studies should be governed by the question of "whose reality counts" offers a sobering note.

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