

Social enterprise uses capitalism for uplift

It is the profit motive that has driven capitalism over the years, and successfully too. However, a free enterprise model has been less-than-successful in driving social uplift.

The face of entrepreneurship has changed over the years to accommodate non-traditional enterprises and tap markets that are not yet exhausted, with even technological advancements opening up hitherto unknown channels of delivery.

Social entrepreneurship has evolved over the years and given us innovative and profitable ideas that address social problems. With more ideas being incubated and funds flowing into social enterprise, the subcontinent, which already has successful examples such as Amul, Barefoot College, Grameen Bank, etc., has the ability to create many more socially relevant enterprises.

Given that the hub of businesses is guided by economies of scale and is therefore, understandably, centred on cities, the gains of liberalization and globalization have been absorbed mostly at the city level. The consequent shrinkage of income opportunities in rural areas has led to sustained emigration.

In the wake of large-scale migration to urban places, which adds pressure on the overburdened social infrastructure of cities, identification of local enterprises is a crucial way of providing sustainable livelihoods in rural areas.

A localized, self-sustaining social enterprise, through forward and backward linkages, not only has the potential of addressing a contextual problem but also of providing meaningful, continuous employment to the local populace for whom self-employment, many a times at subsistence level, and informal employment are the norm.

According to a 2011 study published by International Proceedings Of Economics Development And Research, 94% of women workers are engaged in the informal sector.

Social enterprises have time and again demonstrated ways of empowering women at the grassroots level by providing them with income-generating activities, adding to a rise in rural household incomes—whether it's engaging local women in the production of local handicrafts in which they have a comparative advantage, or building capacities of women to formalize and manage their self-help groups. By making women economically independent, these enterprises contribute to a tacit shift in power within existing societal norms.

However, in order to be relevant to rural areas, it's important that social enterprises are supported through a market-based model of financing rather than a philanthropic one to ensure their sustainability.

A great positive of social enterprises is the opportunity they afford to people to acquire new skill sets and enhance existing ones. As enterprises adapt themselves to newer products/services, the people involved also adapt and learn new skills. Furthermore, usage and adaptability of ever-changing technologies help improve the existing processes of enterprises, and build efficiency and the social well-being of people, thereby enhancing value for all.

Technological developments also create the need and channels for newer services. The collective effect this has on people associated with enterprises is a shift from traditional enterprises to modern ones.

A big roadblock for social enterprises is obtaining funding and the right backing for the business. Since the enterprise is not “traditional”, and is often a pilot venture, market feedback is not readily available. That is why formal lenders remain apprehensive while lending to such ventures.

The scenario is changing steadily due to fewer restrictions and an increased risk appetite in the formal lending environment, but it isn't growing fast enough. Fortunately, the start-up boom in India has provided a big fillip not just to conventional capitalist ventures but also social enterprises.

The advent of impact investing and of vehicles of finance other than traditional debt and equity channels does look promising because they mitigate the aforementioned challenges. For instance, development and impact bonds that provide a return against actual results to lenders have the potential to be a capital tool, thereby attracting funds to support social ventures.

Not only are these kinds of bonds changing the face of philanthropy, they are also making it worthwhile for investors to support social causes. According to Intellect, in 2000, a capital of \$1.17 million was injected into social enterprises in India; in 2011, this figure rose to \$250 million per annum.

Another issue many social enterprises grapple with at a nascent stage is the weak formal structure of the organization. Many such organizations begin with just an “idea” and individuals driving these usually require handholding at the initial stage.

One of the ways for companies to address these challenges, aside from offering training on skills to budding entrepreneurs, is to offer mentorship support—a way of sharing lessons, insights and foresight gathered through work experience.

The question that perhaps we as a society must ask is what that “new capitalism” should look like. We are surely in a new era of socially relevant economics; the true test will be how nimbly we respond to the idea of change.

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