

Enterprise against poverty: The case for Social Venture Capitalism

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Global Poverty

We all know the statistics. About 50% of the world's population lives on less than US\$2 a day – that is a staggering 2.8 billion people. Of these 1.2 billion live on US\$1 a day. Imagine a population twice the size of USA, Canada, Mexico and Brazil living on the price of a can of coke a day.

On top of the existing poverty, we have the devastating effects of disease in the poorest nations. At the end of 2002, an estimated 42 million around the world were living with HIV/AIDS. 30 million of these live in Sub Saharan Africa.

Add to this the status quo of disparity - the richest 20% of the world's population own 77.3% of the world's wealth whilst the poorest 20% own 1.4%.

Most of us have become numbed towards these kinds of statistics. We have developed '**poverty fatigue**'. Poverty is only a problem when we watch our television screens or when we travel. The odd moments of conscience we may have can be ignored or tolerated. The problem is so insurmountable that we do not feel we can motivate ourselves 'yet again' to think about it, never mind tackling it. We have become highly de-motivated about poverty. Cynicism killed off hope a long time ago. As we are reminded, "the poor you will always have with you", so why bother?

Thankfully for the poor of the world, governments and NGOs have not abandoned them completely. Failed them, maybe. But at least they are trying. Why? Perhaps it is because they are aware that a nation's greatness is not measured by its GDP or military expenditure, but by its compassion towards the poor. Countless foundations around the world give millions to charities each year. We have also seen great waves of generosity under the leadership of celebrities such as Sir Bob Geldof and the Live Aid concerts, Sting and Bono. These are all signs that there is something in all of us that cares about our fellow human beings, about justice and a fairer world for everyone. But despite all these efforts, we have growing poverty in the world. Why? The simplistic answers would be that the poor countries are corrupt and squander most of the aid monies, or that NGOs are inefficient in the distribution of aid or worse still, that the poor are lazy and do not want to help themselves, preferring to live on hand-outs.

The truth however is that global poverty is a complex, multi-factor problem. Sure, some are poor because their corrupt leaders have plundered the country and saddled them with debts as a result of buying armaments and building dams they do not need. They have forgotten that **their poor need medicines, not missiles**. And of course these are debts which can no longer be serviced. And unless there is debt relief and restructuring for these countries, they will remain in this cycle of debt-perpetuated poverty - one of the systemic causes of poverty. In countries where civil wars are raging, there can be no economic prosperity either. Other countries however are poor because their leaders have not embraced technological changes. 30 years ago, Mexico had a higher GDP than South Korea. Today this is markedly reversed. Why? Because South Korea embraced the new technologies whereas Mexico did not. To do so however requires governmental leadership, an educated workforce and inward investments. But what if you do not have any of these? What do you do, apart from despair?

Responses to global poverty

The complexity of the underlying causes of poverty requires a multi-pronged approach.

1. Aid & Development

Traditionally, the development agencies have focussed on providing aid to poor countries as a means of tackling poverty. While aid and disaster relief remain important in helping the developing world, governments and NGOs have recognised that aid alone is insufficient to alleviate the problem of endemic poverty. Likewise, development projects have an important role to play in education, caring for the vulnerable, skills training and community-based handicraft and subsistence-farming. However because they are not self-sustaining projects, many such projects run out of support after a while.

Simon Jenkins of The Times (UK) is a well known critic of aid. In his leader on June 26, 2003 he describes aid as a continuation of the colonial Empire because it assumes the superiority of Western capitalism and governance. The 'poison of aid' Jenkins argues, has led to economic distortion and dependency. It has corrupted even good men such as Zambia's Kenneth Kaunda and propped up the world's worst dictators, from Bokassa and Amin to the modern rulers of Zaire and Zimbabwe.

In relation to Africa, he asks and answers the question: "What would I do? I would impose an arms embargo on Africa...I would restrict foreign aid to health and education projects on the ground. I would treat all past debts as "bad" ones, as morally corrupt. There would be no more construction contracts, no defence agreements, dams or office blocks, no more kickbacks, sweeteners, commissions or skim. **There would be no more telling Africa its business.**

The one help that Africa needs is trade. It needs Western markets open to its primary produce.”

Whilst we may not entirely agree with his prescription, we certainly have a lot of sympathy with his views.

2. Micro Enterprise Development (MED)

Western governments have committed themselves to helping the developing world through supporting MED in developing countries in order to facilitate sustainable development. However, to date it has proved difficult for the governments to focus effectively on MED, with its conflicting funding requirements.

Between 2000 and 2001, the UK's Department for International Development (DFID) dedicated just 4.8% of its budget to fund industry overseas. This is a shame because MED is at least attempting to give the poor some self-reliance and dignity through economic activity. The repayment rate is exceptionally high (usually >90%) especially if loans are made to women rather than men! Surely this is a better way to assist the poor.

3. 'Fair Trade'

All the major governments have signed up to the Doha Declaration of the World Trade Organisation (WTO), which seeks, by 2005, to establish a fair and market-oriented international trading system through a programme of fundamental reform. They propose to 'make trade fair' by lifting artificial trade barriers and reducing subsidies to farmers in rich countries in order to give farmers in poorer countries a fair opportunity to sell their goods both at home and overseas.

Sadly, the failure of the WTO discussions in Cancun, Mexico, in 2003, cast into doubt whether or not the goals of the Doha Declaration will actually be met by 2005. This however is just the kind of help the poor nations need. But it is the one help that they will not get. **The West professes free trade but practises protectionism.** Look at the farm subsidies of the EU and Canada and the USA's steel tariffs. A level playing field in the area of international trade is a mirage.

Furthermore it is doubtful if a reform of international trading laws on its own will automatically stimulate trade. Unless local people are effectively trained, encouraged and supported to get into business, they will be unable to benefit from the immense potential that domestic and foreign trade have to offer. *'Supporting the continued reduction in trade barriers world-wide will not help developing countries greatly unless there is a simultaneous commitment to improve the capacity of those countries to take advantage of new trading opportunities which arise.'* (DFID, *Trade Matters* p.22)

4. Social Venture Capitalism

Alongside these traditional approaches, there is a growing movement to use business enterprise to combat poverty. This movement has grown out of entrepreneurs using the same skills and expertise that have enabled them to build successful businesses and applying their talents and resources to the problem of poverty.

I have called this approach Social Venture Capitalism (SVC). So what is it? Henry Ford once said: "A business that only makes money is a poor kind of business". He should know. Most businesses exist solely to make a profit for their shareholders – that is the financial bottom line. SVC looks beyond that to **the 'Quadruple Bottomline' – financial, social, spiritual and environmental returns**. It is not investing purely for a financial return. That is not to say that it is in it to lose money. Rather, in order for the businesses to be sustainable, they have to be profitable. But SVC does not require the same rate of financial return because it is also looking for social, spiritual and environmental returns. A number of these SVC entities are faith-based. The experience is that faith-based investors are more likely to accept a lower financial return in exchange for higher social returns. They are more able to align their financial interest with their social responsibilities.

The merits of this approach deserve further analysis.

- ***It makes sense:*** Investing in sustainable businesses creates employment in the developing world. Real employment gives people the dignity and self-determinism to transform their own communities. This is in contrast to the dependency culture often engendered by aid. The strategy is to provide a 'hand-up not a hand-out' in order to alleviate poverty. Is it a surprise that poverty is linked to unemployment? **What the poor want is not aid, but jobs** – real jobs, not subsidised ones. This is the dignity and self-reliance they deserve.

One of the problems with aid, is the need to keep asking donors for repeated support. In many cases donor fatigue eventually sets in. With SVC, funds can be provided either as charitable giving, equity investment or loan. **Donors become investors**. And we all know that investors are more likely to take an interest in their investments than donors in their gifts.

- ***It has worked before:*** 30 years ago, the South East Asian countries were economic nobodies, their economies based on low priced commodities. Then Japanese companies started setting up manufacturing plants and were welcomed with open arms by the Asian governments. Why? Because they provided jobs for their people as well as trained them in new technologies.

Within a few years, enterprising Asians, trained by the Japanese began starting their own plants, often in competition with their 'masters'. The rest as they say is history. Today the largest chip manufacturers are in Taiwan, Singapore and Malaysia - all locally owned. This is the Asian Tiger model. Whilst the Japanese companies did not have a social transformational agenda when they invested in Asia, nevertheless it demonstrates powerfully how **enterprise can alleviate poverty**. We are seeing China emerging from being a developing country to join the league of developed nations. This time it is through the Foreign Direct Investment (FDI) of companies from the USA, EU and other Asian countries. If it has worked in Asia, it will also work in Africa. Sadly, Africa with 12% of the world's population has only 1% of global trade. In 2001 only 1.4% of global FDI went to Africa. Strip away oil investments, this reduces to zero. Africa cannot transform itself without trade investments.

- ***It is still working:*** Here are some case studies:
 - ***Kuzuko Game Reserve, South Africa*** (www.jubileereaction.co.uk; www.tbnetwork.org) is a 39,000 acre game reserve situated adjacent to Addo Elephant Park (second largest after Kruger National Park). Its partner is the South Africa National Parks (SANP). The land is now fenced and disease-free animals indigenous to the region are being staged released by SANP. It will offer a 5-star and a 3-star safari experience to tourists. It will employ 100 people directly when it opens. This project combines conservation, job creation, social and spiritual transformation in a region of 70% adult unemployment. And it is in a malaria-free zone. This model has now caught the attention of a number of financial agencies including the Disability Employment Concern Trust, South African Development Bank and the World Bank. The UK Foreign Office is seconding an officer for a year to see first hand the project take shape. With their support, new commercially-viable business opportunities are currently being assessed with the aim of creating further jobs in the area.
 - ***Brains Direct, UK and Moldova*** (www.brainsdirect.com) This is a software outsourcing business. The marketing office is in the UK but the software engineers are based in the tiny country of Moldova in Eastern Europe, where it employs 100 technical people. What is exciting is that these 100 employees are taught new skills, they are learning about how businesses are run and they are taught integrity and the taxes they pay represent more than 5% of the total tax revenue of Moldova with about 4m people.

- ***Small Business Workshops, a former Soviet Republic:*** This is the testimony of the entrepreneur who started this project: 'I went to a former communist country and taught 'Small Business' workshops to some local people. To my surprise most of those attending were pastors and I asked why they were there. They each said, "Unemployment is at 65% percent, and I pray for my people, but one day I'd love to be able to give them a job." The workshops made such an enormous impact. Over the past few years, 81 new businesses have sprung up in the villages and towns where I ran the workshops. These enterprises currently employ over 2000 people, thereby providing for the needs of around 12,000 individuals.'

What is common about these 3 projects? Each was started as a SVC business by an entrepreneur with the vision and the courage to take the risks. No aid was given. Funds were introduced into the businesses either as equity investments or as loans. The businesses operate in the mainstream and are run commercially. The employees understand that they are not working for a charity. Their long term employment is dependent on the success of the companies. Just as the Japanese FDI spawned new local entrepreneurs in Asia, so these projects expect to train and spawn the next generation of entrepreneurs in their countries.

Call to Action

My message is not to suspend aid but to restrict it, in agreement with Simon Jenkins. The message is that long term social transformation can only result when the poor are empowered with the self-determinism they want. And this can only come when they have employment that pays real wages for them to care for and educate their families. The action for governments should be that a portion of their aid budget would now be channelled towards enterprise projects.

But SVC is a tough business. It requires courage. It is riskier than a development project. Trying to get businesses going in the developed countries, with good access to capital and support infrastructures is difficult enough. It will be much tougher 'out there'. There will be failures. But even in failures, people learn new skills and diehard entrepreneurs will try again and again until they succeed. In the USA, they call those who have failed in a couple of ventures 'experienced'. Starting and running businesses require different kinds of skills to those present in the NGO community. Government funding for social enterprise should seek out the SVC organisations including the faith-based ones, to administer such funds for business ventures.

The task looks insurmountable. Individually we are so insignificant, so inadequate for the task. But as Lord Alton of Liverpool has said, 'Landslides happen when small stones begin to move'. Let us begin.