

## Fondazione Centesimus Annus – Malta

### Social Entrepreneurship as a means to fight poverty

#### **Introduction**

Social entrepreneurship offers us a means to ethical capitalism, one that is consistent with Catholic principles and with Pope Francis' call for concrete support for the poor in this Year of Mercy. In embodying human dignity, solidarity and concern for the common good, social enterprise is an important corrective to what Pope Francis has described as the tyranny of unfettered capitalism.

Social entrepreneurship uses business practices to pursue social goals in an ethical manner, with a view to advancing a more just and sustainable world. The success of a social enterprise is measured through its social impact and not through the accumulation of private wealth. The social enterprise movement is growing around the world, gaining recognition and support from the public, private and voluntary sectors. It provides an alternative economic model, democratising capitalism and helping to bring about inclusive growth.

It is typical to define a social enterprise in terms of three dimensions. It is engaged in ongoing economic activity, trading a good or service rather than relying on grants or donations. It has a primary and explicit social purpose, and reinvests most of its profits towards this purpose. Lastly, it has a governance structure which closely safeguards its social purpose and generally involves democratic ownership and management.<sup>1</sup>

#### **Its relevance**

Social entrepreneurship has a substantial contribution to make, particularly in an age of austerity and the social and economic difficulties to which this gives rise. Social enterprise offers a sustainable pathway out of poverty for many people around the globe, with numerous examples that create value in low income communities not only through the profits they generate but through the positive change they bring about in such communities.

In social enterprise, solidarity and subsidiarity come together in an exceptional way to offer hope and dignity to both the entrepreneurs and their customers. Social enterprise is about working with, and not only for, the poor. Both the entrepreneurs, and their customers, are subjects – and not objects – in the co-creation of wealth for the common good. As such, social enterprise can be an important alternative to impersonal aid or benefits which, if poorly administered, can foster dependence and the erosion of self-respect.

#### **Examples of Social Enterprise**

There are countless examples of social enterprises, of various sizes and sectors. BRAC in Bangladesh, for instance, is one of the largest social enterprises in the world that has, from 1972, brought poor people together, taught them literacy and helped them set up their own businesses. In the UK, more than 70,000 social enterprises exist, 50% of which made a profit in 2015<sup>2</sup>. Countless social enterprises exist across the world, operating particularly – though not only – in areas like fair trade, services for the integration of disadvantaged groups, the provision of an array of social services, food processing, culture and recreation, affordable and/or sustainable consumer products, and environmental activities among others.

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<sup>1</sup> European Union: European Commission, *Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions*, COM (2011) 682 final, available at <http://eur-lex.europa.eu/procedure/EN/200972> [accessed 5 April 2016].

<sup>2</sup> <http://www.socialenterprise.org.uk/advice-services/publications/state-social-enterprise-report-2015> [accessed 6 April 2016].

In zones that are recovering from war, where poverty is acute, social enterprise is emerging as an effective complement to international aid in creating incomes and rebuilding communities in a cohesive and sustainable manner. In Kosovo, for instance, international aid has not yet managed to reduce crippling levels of unemployment and attention has turned to social enterprise. The UNDP, for instance, has helped set up a social enterprise for women to earn an income through knitting, while the Danish Refugee Council has helped set up a recycling business among the unemployed.

Although examples of social entrepreneurship abound across cultures, the Catholic Church has played a significant role in catalysing and promoting this model, in three important ways. First, by creating the high-trust value-based networks necessary for the vision and collaboration that underpins social enterprise. Second, through its leadership discourse, including its various social encyclicals which since *Rerum Novarum* in 1891 have denounced the dangers of unrestrained capitalism. *Caritas in Veritate*, in particular, elaborates on the need for “commercial entities based on mutualist principles and pursuing social ends to take root and express themselves” (Benedict VI, *Caritas in Veritate*, 38).<sup>3</sup> Third, local religious leaders worldwide have played important roles in inspiring and mobilising the poor to become agents in their own life and to co-create wealth for the benefit of their families and communities. Many such small scale Church-led local projects have managed to scale up significantly.

The cooperative is a particular form of social enterprise that is worthy of mention. The International Cooperative Alliance in Geneva estimates that 750 million people across the world are involved in some form of cooperative. Since the dawn of the cooperative movement in the mid-19<sup>th</sup> century, thousands of cooperatives worldwide owe their beginnings to Catholic organisations or Catholic seed money. Cooperatives came in for special mention in *Mater et Magistra* when over fifty years ago, St John XXIII spoke of the ways that cooperatives help their members to “fully realise the dignity of their role in society, since by their work, the sense of responsibility and spirit of mutual aid can be daily more intensified among the citizenry, and the desire to work with dedication and originality be kept alive” (1961, 90).

One of the many remarkable stories is the group of Mondragon cooperatives, started by Father Jose Maria Arizmendiarieta in 1941 post-civil war Spain and now a major economic player in Europe with over 100 worker co-operatives, a University, a high technology innovation facility, a bank, and a national supermarket chain.

### **A stronger environment for social entrepreneurship**

Since the turn of the century, approaches to fostering social enterprise have modernised and become more systematic. For instance, the Global Social Benefit Institute – hosted and inspired by the Jesuit University of Santa Clara in the Silicon Valley – has worked with hundreds of social enterprises in the last thirteen years and implements a comprehensive programme for social enterprise capacity development worldwide. The European Union has, particularly since its Responsible Business Initiative of 2011, stepped up its efforts to support and grow the social enterprise sector through, for instance, mapping exercises, policy and programme reviews, pilot projects and financial support.

Social enterprise is not without its risks and challenges. A viable business model may be hard to come by in certain social missions. Undue reliance on the public sector for funding; a lack of commercial acumen or appetite; the lack of competencies for scaling-up; and drifting from the core mission may all endanger the success of a social enterprise. Shortfalls in transparency and accountability have imperilled a number of such enterprises. That said, there are many ways in which the environment for social entrepreneurship may be supported.

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<sup>3</sup> Benedict XVI. *Caritas in Veritate*. 29 June 2009.

Greater awareness is needed of both the nature and the potential of social entrepreneurship. Also critical is the legislative environment. In Europe, for instance, the growing recognition of the potential of social enterprises is reflected in the fact that sixteen of its 28 member states have, to date, legislation that regulates activity in this sector, either through adapting existing legal forms or creating a specific social enterprise status. In the EU, social enterprises may apply under the *Employment and Social Innovation Programme* for investments of up to €500,000 via public and private investors at national and regional level. The encouragement of social (or impact) investment, too, is gaining ground in certain countries where investors provide finance to organisations on the explicit understanding of both social and financial returns, and the measuring and reporting of both. The development of common mechanisms to measure and demonstrate social impact would also help to promote social enterprise among investors and the public alike.

### *Public Policy Recommendations*

As social enterprise cuts across many policy domains, a whole-of-government approach is most effective in supporting the growth of this sector, requiring clear political will and ownership by public authorities. Public policy can support social enterprise at three levels: the individual, the organisational and the inter-organisational levels.

- At the individual level, social enterprise can be supported through entrepreneurship education and skills development, for instance with formulating strategy, business and financial planning. Such support could also involve the inclusion of social entrepreneurship in university curricula, and providing for internships for interested students.
- At the organisational level, a supportive regulatory environment and easier access to finance and to markets are crucial. In terms of the regulatory environment, social entrepreneurs should be helped to (a) manage accountability – often to a broader range of stakeholders than in the case of traditional business and its shareholders; (b) to manage the ‘double bottom-line’ of both social value and profit; and, in view of this, (c) to manage their identity. Enabling access to finance must be based on a lifecycle approach, supporting not only start-ups but also scaling up and sustainability and might include, for instance, microfinance, tax incentives, loan guarantees and eligibility to participate in public procurement.
- At the inter-organisational level, public policy can be supportive through promoting awareness and facilitating networking, technology exchange and innovation, as well as by supporting angel investors and initiatives such as crowd funding.

### **Concluding Note**

Catholic social thought has long held that the sanctity of work derives from the dignity of the human person, and that while markets are important, they do not always embrace those values that are fundamental to a Catholic vision of social justice. Social enterprise is ‘mission first’. It offers potential for human agency and solidarity and respects the universal destination of goods. It is accessible to even the very poorest who, by combining their efforts, can establish businesses that provide personal, social and financial benefits. This third way, between corporate capitalism and collectivism, is not simply theory. It is in practice in every country in the world, is rooted both in natural law and in Catholic teachings and has had notable successes, many owing their origins to Catholic inspiration or seed money. Social enterprise gives form to Pope Francis’ call for mercy to be made manifest in concrete projects. Its potential is particularly salient at a time when post-crisis unemployment is – though declining – still a reality for millions, not least among refugees who while having fled the danger and dire poverty of their own country, undoubtedly have knowledge and skills that could be put to innovative and productive use. Broad public policy commitment to social enterprise, and an enabling infrastructure, are essential to making this growing sector ever more successful.