

SOCIAL ENTERPRISES – ROLE IN POVERTY ALLEVIATION & JOB CREATION:

BRAC's EXPERIENCE AND LEARNINGS.

Let me begin with a quote from an interview given by our Founder Chairperson, Sir Fazle Hasan Abed in 2009:

“BRAC has never shied away from entering into the private-sector domain as a pro-poor actor, to create more secure and rewarding links between the market and the livelihoods of the poor. This has led BRAC to venture into many frontier-market developments that create backward and forward linkages to the enterprises of the poor. BRAC experiments in high-risk ventures, have sometimes shown the private sector, ways to invest in a new area.”

And that in a nutshell, is the BRAC Enterprises & Investments story. The narrative, uncomplicated and arresting in its simplicity, belies the global dimensions of the impact of this concept. This is the genesis of 'sustainable social enterprise' that has become a buzzword today. Sir Fazle's visionary mind conceptualized, executed and created the first of BRAC's sustainable social enterprises, at least, three decades back. In doing so, BRAC also gave the world the true definition of 'corporate social responsibility' or CSR. Businesses that do not consider the long and short term social and environmental impact of their products and processes, and focus primarily in maximizing profit, cannot claim to be socially responsible, irrespective of how much they spend on philanthropy. Setting aside a budget for CSR does not make a business socially responsible. There was a need to create links between markets and livelihood for the poor, to support and sustain a development intervention, whether, in the area of health, education or finance, ensuring in the process, that there is no negative impact on the community or the environment. And it was in this pursuit of 'maximization' of beneficial impact for the community in a 'sustainable' way that BRAC found itself engaged in the 'private sector domain'. BRAC's entry was therefore predicated by the need to ensure sustainability the motive was not profit but social impact. This indeed differentiates social enterprises from purely commercial businesses. I have intentionally started by giving you what we in BRAC believe, is the basis of a Social Enterprise. But we are aware of the debate that surrounds this concept. It is confused very often with CSR or Corporate Social Responsibility and Philanthropy. So, what indeed is a Social Enterprise? Why are they necessary? What about efficiency and optimizing resource allocation? Long term sustainability? At the policy maker level, there has to be a clear and a 'shared' understanding on the definition of a SE if an effective policy response is to be formulated and equally important is the need to define the basic architecture of a SE. Both the issues are fundamental. One addresses the sustainability vs. efficiency and resource allocation issue while the other will determine public policy and both together will determine the level investment flow into this sector. However, it is very important to look at some examples of successful SEs that have reached a scale to make a meaningful impact. I would like to take you ladies and gentlemen, through a

journey of my own and BRAC experience of Social Enterprises and Social Entrepreneurship.

My entry to the world of development and social enterprise is a fairly recent one. My background is over 30 years in the world of banking and commerce! So, for me, the last 6 years and has been a journey. A journey of great discovery: sometimes emotionally involving, at others intellectually engaging, and almost always challenging. I have always had the sense of seeing the world through a new window. It is this personal encounter, and what I have learnt from it about the place of social enterprise at the nexus of development and commercial endeavors, that I would like to share with you.

My first few months with the Social Enterprises at Brac involved a strategic review of all of them. I found that almost all of them had one thing in common: They were not set up as businesses but evolved over time to support and sustain Brac's core interventions like microfinance, to create sustainable livelihoods for poverty alleviation, health services to protect those unable to access them and education to bring learning to disenfranchised poor. Indeed, all were in line with Fazle Hasan Abed, the founder of Brac's vision of 'multifaceted development interventions' to empower the poverty stricken masses. The genesis BRAC's SEs are from these interventions. Let me take you on a quick tour of our four most impact creating enterprises.

First, an intervention that created skill based small entrepreneurs and is leading the country towards greater self sufficiency in milk and is a private public partnership.

The second one played a pivotal role in preserving traditional crafts in Bangladesh;

Third, that emerged as a successful business from an effort to sustain our core microfinance intervention, and

Finally another that pioneered a whole new sector in the country.

To get to the first, let me start with the life transforming story of Bazlur Rashid from Durgapur, Mymensing. Bazlur today is a happy man, respected in his society and earns Tk.20K per month. But his life fell into total disarray in the early 1990s when he lost his job as an 'ameen' or land surveyor due to illness. Today after being trained by BRAC as an Artificial Insemination worker at Bangladesh Agriculture University and being provided with the equipment by BRAC he provides AI and counselling for farmers in his community. BRAC also gave him a loan to buy a motorcycle which enables him to provide quick medical advice to farmers in an health emergency for their livestock.

What made this possible? It was BRAC's livestock extension services that felt that our enormous shortfall in milk cannot be covered with the indigenous breeds. The average milk yield is around 3-4 litres a day, while a breed like Freisian gives between 16-20. We needed to get a breed which is sustainable under our

environmental conditions. This will also in turn create livelihood or enhance livelihood for farmers. AI enterprise thus started as an intervention in 1999 with 200 AI workers. Today 2000 trained AI workers, including, for the first time female inseminators, provide this service all over Bangladesh, providing an average of over 1.1 Million doses meaning at least 1.1million inseminations a year that is 20% of breedable cow population of Bangladesh. BRAC's AI also has an enviable record of 65% success rate. We also are in a partnership with the Govt under a MOU, signed in 2007, under which, the Department of Livestock and BRAC cooperate to exchange information and expertise and also have geographically divided the areas of operation. The AI Enterprise has in effect become a model of a successful Social Enterprise that is fundamentally an intervention for social change that has created 2000 new Skill based Social Entrepreneurs and is also a Public – Private Partnership. It is having a transformative impact in creating greater production and therefore access to nutrition and food in Bangladesh.

Let me now move on to another BRAC success story – Aarong. Aarong, which is a Bangla word for market, was set up to provide sustainable livelihoods for the thousands of craftsmen and artisans in the villages of Bangladesh who were on the slippery slopes of poverty due to mass produced factory goods endangering their trade. With this, the traditional crafts of Bangladesh were also slowly moving towards extinction. In 1978 Brac began exploring ways to engage poor rural women in productive activities. After training these women and helping them by setting up production facilities, Brac provided them access to the urban market by setting up the Aarong retail chain to ensure they get a fair return for their labour. Aarong currently employs over 65,000 women in its 16 production and 650+ sub centres all over Bangladesh. These workers are recruited as unskilled labour and trained. As a part of Brac's package they get access to micro credit, support in livestock and agriculture, free schooling for children, subsidized tube wells/latrines, health check up, health education, skill development training, welfare fund and retirement benefit. I do not know of any commercial business that has developed such a well rounded worker support program. In fact, the present trend, globally, is to outsource similar support services, rather than take the responsibility themselves.

Today, Aarong symbolizes the revival of traditional handicrafts in Bangladesh and has been a pioneering model for combining fair trade production with long-term social impact, while not compromising on business sustainability. What is also important is that it has spawned similar enterprises in providing much needed jobs for rural women. Next, let me introduce our Dairy Enterprise: Set up in 1998, we collect milk from all over the country from our 100 Chilling Centers and 71 Central Container Areas. In 2010 we collected 37M Liters of milk and 32% market share of locally produced milk. Our Dairy enterprise evolved from our attempts to create income generation for the rural poor through providing microfinance loans for the purchase of cows. The result was an oversupply of milk in the small, often isolated village economy. This actually meant our microcredit 'intervention' was becoming

unsustainable. In an effort to address this, we set up chilling stations, now numbering 100 all over the country, to collect the milk at a fair price from the farmers and provide a link to urban markets. We are now the second largest dairy producer in the country with 25% market share and coverage of at least 100,000 farmers.

Finally the Social Enterprise that led to the development of an entire industry in Bangladesh, our Poultry Enterprise. In poultry farming Brac played a pioneering role.

Today, poultry farming has become a large-scale industry in Bangladesh, and small, medium and large farms operate side by side providing livelihoods for millions across the country. Our enterprise, set up in 1996, started out of our efforts to generate livelihoods for farmers who used their microfinance loans to receive day old chicks which were procured from the only state owned poultry farm that existed at that time. Given our initial success, efforts to upscale this business led to the setting up of our poultry farm enterprise, since government farms could not keep up with our increased demand.

The important question that may occur to many of us is: How are these enterprises different from purely commercial ones and how do they really empower the poor?

To answer your question, let me share with you my first encounter with 'BRAC in Business':

While going through a strategic review of our Dairy enterprise, I identified 16 milk collection chilling stations, out of the 60 we had at the time, which were not generating sufficient volume to break even. In fact, these were not even marginal and in my estimate, unlikely to turn around in the next 2/3 years. My obvious recommendation to the Chairperson, Mr. Abed, was either to close down these stations or move them to more viable localities. This would have been, as they say in the commercial world 'a no-brainer', was not quite as simple in this case.... I was told that these 16 chilling stations will have to stay where they are, because they are in 'ultra poor areas' and removing them will deprive many from their only source of earning a fair price for their produce.

The reason I wanted to share this with you is to demonstrate that Brac's enterprises are not run as truly commercial businesses but to implement Brac's mission of "working with people whose lives are dominated by extreme poverty, illiteracy, disease and other handicaps and strive to bring about positive changes in the quality of life through multifaceted development intervention". Let me give you another example of how Brac enterprises' work resonates with Brac's core mission. It also demonstrates that a level of Cross-subsidization is a characteristic of SEs. Aarong, which has established itself as a quality brand for handicrafts, apparel and other products, may appear to the casual observer a 'boutique' for the middle class, but a closer look will reveal how Aarong contributes to the well being of thousands of poor people all over rural Bangladesh. Typically, a commercial business locates its production centers in 'low cost' areas, where infrastructure like roads, electricity,

transport, labour supply is readily available. Aarong's production centers, on the other hand, are all located in semi-urban or rural areas. This, in fact, adds to the cost of production and creates a very complex production process. Again, my 'commercial mind set' had to learn that Brac enterprises do not always operate on a purely commercial basis. My proposal to mechanize and to consolidate production centres from 600 plus to 10 or 15. This would create economies of scale as well as realize the 'proximity synergies.. My proposal was turned down. The reason? It would put thousands of the poor rural workers we employ out of work.

This is not all. For many of the enterprises we have linked support services. For example, we have Artificial Insemination enterprises that provide jobs to around 2000 AI workers. After they are trained, they assist our Dairy farmers through the insemination process. In addition, our veterinary doctors regularly provide consultative services for them. Similarly, for small poultry farmers we provide training in bio-hygiene and bio security, vaccination and advice. Our Feed enterprise ensures that they have access to quality feed for them to rear healthy chickens and get a fair return for their produce. In essence, we are providing training and also quality inputs to help farmers and empower them to maximize their productivity and earn a higher marginal return on their investments.

To sum up: A key distinguishing feature of our social enterprises is our willingness to accept low profit margins and the openness to shouldering considerable market risk. Because the social enterprises have evolved in direct response to a need identified during core programme implementation, there is a demand for the products of these enterprises, ensuring that the enterprise is viable. However, the very nature of Brac's commercial activities and their concentration in sectors where most of the poor are involved acts to contain excessive profit making. Brac persists in running low-profit enterprises because they create transformative benefits for the poor in terms of increased employment, income and opportunities for exposure to improved technology and new methods for processing and marketing. Taken together with access to Brac's healthcare, education and social empowerment programmes, they form a value chain. This value chain is the lever and fulcrum that empowers the poor to lift themselves out of poverty, to paraphrase Archimedes' famous quote on how he could move the earth.

What really sets our enterprises apart also is the fact that we do not have any shareholders, who almost by definition would be focused on maximizing return on investments. We have stakeholders: the poor who are recipients of our services, the community, the employees of BRAC, the donors who support our development programs and the country at large. This puts us in a unique position: None of our stakeholders are driven by solely by profit maximization but mainly by what benefit we are providing to the community and to how strongly we are aligned to the vision and mission of BRAC.

Does this mean we do not encounter the challenge of maximizing efficiency? Far from it, it is indeed the most compelling challenge we face to make our enterprises sustainable. The purely commercial sector competes with us in every area in which we operate and balancing the maximization 'credo' for efficiency and not violating the core values of BRAC is what occupies our minds in all our activities. The commercial sector clearly understands this challenge and realizes that the elegant principle of 'profit maximization' must not be diluted that is precisely the reason why Jonathan Piezer observes, "It's no accident that many corporations set up independent foundations to engage in socially responsible activities on their behalf because they are incongruent with the best business practices of the commercial entity".

Social Enterprise means moving past the 'maximisation of shareholder value' to 'maximisation of stakeholder value'.

Looking back at the SEs of BRAC we see three/four basic characteristics that separate them from purely commercial businesses:

- They address a need – a gap in service – an access issue. Usually, of a kind that is provided by the state and beneficiaries are less or under privileged.
- They evolved into businesses. They were not set up as businesses.
- Profit is necessarily a function of sustainability and not a primary objective of the business
- Some Cross subsidization to ensure overall objective is reached
- It aims at maximizing 'stakeholder' value not at maximizing 'shareholder' value.

I did not intend to make my case a compelling one, but just open a door in your mind so that you ask yourself: does the case of social enterprises warrant interest? Should SEs be promoted and encouraged if so how can policy makers/ private sector/capital & debt markets engage with us to take this forward?

It is in fact to answer these very questions we need to take up the challenge of resolving the issues I mentioned at the outset; to recap:

A shared understanding on the basic character, financial and social architecture and definition of SEs. This is important to the long term development and sustainability of SEs as viable alternative. We need to appreciate the fact that SEs offer a viable and effective 'tool' to deliver public services. It also address gaps in market structures that are left out due to challenges of 'risk of investment' arising from low returns or unknown downsides. Some of the examples given above illustrate the point. SEs therefore need to be facilitated and supported through regulatory, fiscal and monetary incentives that will ensure that investment flows are maintained and enhanced. It may be argued that in delivering certain public services, the SEs take away this burden from the public exchequer and it is only right that the state/community compensate the SEs for this.

The one contentious area that all of us who are interested in SEs need to work on is how do we evidence social impact through economic and financial indicators that markets will accept.. While Commercial world has very clear and accepted parameters of success, this has eluded the SEs. Therefore moving to SCALE which is a necessary condition of impact very often gets choked due to lack of investment. The fact that many technologies that can deliver access to the unserved efficiently, exist, e.g. e-education, e-health, e- banking, but lack of investment to launch these in scale has kept these technologies restricted to a privileged few. We owe it to the underserved, under privileged and the poor in our societies to create a more inclusive society. To do so we need to give them access to health, education and financial services. We also need to protect the environment from further degradation.

Ladies and gentlemen, I would like to end with this thought:

This not about profit maximization but about misery minimization. This is about creating a functional inclusive society so that inherent divisions do not ultimately cause it to degenerate into a dysfunctional community. This is to ensure that we do not leave behind as our legacy, a society divided on the basis of wealth and valued on the basis of individual wealth alone nor an environment , fatally wounded , by our greed.

MUHAMMAD A (RUMEE) ALI
MANAGING DIRECTOR, ENTERPRISES & INVESTMENTS, BRAC

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