



## THE DEVELOPMENT OF SOCIAL ENTERPRISE IN AUSTRALIA AND LATIN AMERICA

Findings of a research project managed by  
Community Works and the Red Argentina de  
Cooperación Internacional (RACI)

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Community Works is a company that provides consulting services to organisations and practitioners working in the fields of human and social development in Australia and internationally. The company specialises in community development, rural and remote services, community mental health, research, evaluation and project management. It offers extensive programs of training and coaching tailored to the needs of practitioners in social development. Community Works represents two international organisations in Australia; BasicNeeds and the International Centre for Social Franchising.

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## 1. INTRODUCTION

### 1.1 Background of the Social Enterprise Models action research program

This publication documents the findings of an action research program entitled 'Developing Social Enterprise Models for Latin America' that brought together twenty representatives of civil society organisations from seven Latin American countries to meet with social entrepreneurs in urban and remote Australia. The program was carried out in April-May of 2014 with the purpose of exploring the theme of social enterprise and approaches to its effective application in Latin America.

The action research program was developed by Community Works with the Red Argentina de Cooperación Internacional (RACI) and received grant funding from the Department of Foreign Affairs and Trade (DFAT) of the Australian Government through individual scholarships under its Australia Awards Fellowships Program. This funding was complemented by support by Community Works, RACI and each of the participating Latin American organisations. Many individuals and organisations in Australia, notably the School for Social Entrepreneurs, contributed their knowledge and expertise to the program.

Program participants were recruited through a process of nomination by RACI and application to DFAT, and represented civil society from seven Latin American countries (Argentina, Bolivia, Brazil, Ecuador, Mexico, Paraguay and Uruguay).

The group was largely comprised of executive directors from different NGOs, with a variety of professional backgrounds including education, human rights, advocacy, disability inclusion, transparency, arts and culture, environment and citizen participation.









## 1.2 The context of Latin America

Latin America is a region known for both its deeply entrenched inequalities, and its extraordinarily active civil society. Composed of 33 countries, the region's three largest cities are Sao Paulo, Buenos Aires and México DF. The four main languages spoken in the region are Spanish, English, Portuguese and French, but over five hundred languages indigenous to the land are still spoken today (AILLA n.d.).

Latin America's inequalities present a serious challenge for development in the region, along with environmental challenges that include soil degradation, air pollution, population growth, the overuse of natural resources and water contamination due to unplanned urban development. The Human Development Index (UNDP 2014) placed Chile as the most highly ranked country in the region (41st), followed by Cuba (44th), Argentina (49th) and Uruguay (50th).

A vibrant civil society has characterised the region's response to these development challenges. Currently, there are 3087 Latin American civil society organizations registered in the UN Integrated System of Civil Society Organizations (ICSO) and many more are registered within each country (DESA 2014).

## 1.3 Social enterprise in Latin America

A situational analysis conducted in preparation for the study tour found that social enterprise plays a more prominent role in Latin America than the researchers expected. A wealth of information on the topic was readily available, including numerous examples of social enterprises and a strong base of well-established organisations and networks supporting them. It quickly became clear that the past decade has seen a rapid growth of activity surrounding social enterprise in the region.

In examining the context and background behind this growth, the situational analysis identified a number of possible contributors stemming from the social, historical, legal, and environmental contexts of Latin America:

- » A relative lack of strength in the philanthropic sector, resulting in more pressure to find economically sustainable solutions.
- » A socio-economic climate marked by great disparities in wealth as well as a growing middle class, enabling 'sliding scale' service models;
- » A cultural mindset oriented toward bottom-up movements;
- » A wealth of natural resources coupled with populations that are aware of how important conservation is to both economic and environmental sustainability;
- » A strong base of organisations, networks, and alliances supporting the development of the region's social enterprise sector.

These factors have led to the rise of a number of enterprise-focused organisations, networks, and alliances that have served to further bolster the region's development of market-based approaches to social and environmental problems. Strategies used by these organisations include capacity-building (Callard 2011); facilitation of 'impact investing' (Comolli 2012); creation of environmental certification mechanisms (Imaflora 2012); and awarding innovative social entrepreneurs and the financial institutions that invest in them (AVINA 2012). Section 2.1 will discuss the proponents of these strategies in further detail.



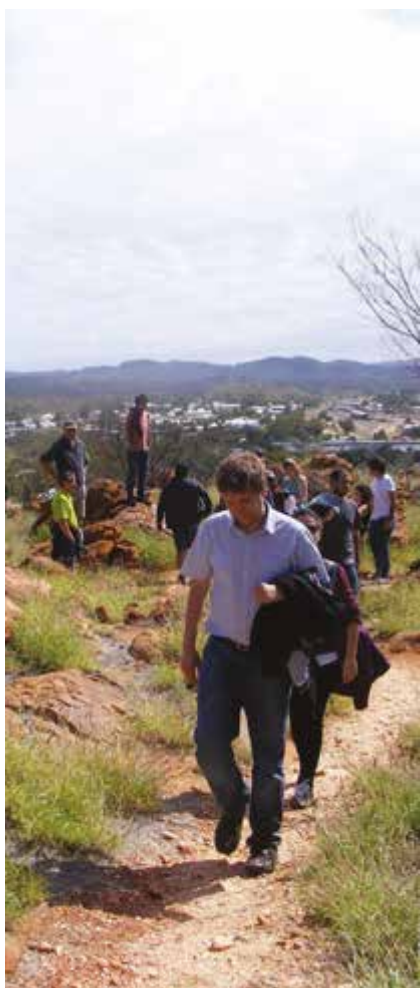
## 1.4 Research methodology

Participants engaged in an action research program that interwove investigation of social enterprise activity in Latin America with site visits to social enterprises in Australia and a series of intensive workshops that allowed participants to explore how the successful elements of Australian social enterprises may apply to the Latin American context.

Key elements of the research program included:

- » Situational analysis of social enterprise in Latin America;
- » Site visits to social enterprises in urban and remote locations in Australia;
- » Workshops and seminars analysing cultural, political, and operational crossovers;
- » Discussion sessions that called on participants to reflect on their observations;
- » Ongoing report-back from participants drawing together key findings.

[For a detailed account of program activities included in the research, see Appendix A.]



As described in the previous section, the situational analysis of social enterprise in Latin America mapped out existing activity in the region related to social entrepreneurship and provided specific examples of enterprises operating in the region as well as key networks and institutions that support them. The analysis served as the starting point for the action research program, providing participants with a general sense of social enterprise activity in the region as a whole, points of reference to compare and contrast with their own specific knowledge and experience, and a series of topics to generate group discussion.

The site visits to social enterprises in Australia enabled the Latin American participants to gain insight by interacting with social entrepreneurs within the context of their local surroundings and circumstances. Visiting sites in both urban and remote desert locations, participants studied a variety of social enterprises of different form, focus, and stages of development. Visits to enterprises in remote areas of Australia enabled participants to see and experience the challenges of developing social enterprises in the context of different cultural opportunities and priorities.

Interspersed with site visits, participants engaged in a series of workshops and seminars to explore themes related to social enterprise and its effective application in Latin America. Although some of these sessions featured expert speakers, all seminars and workshops were participatory in nature and focused on eliciting the knowledge and experience of individual participants to advance group discussions. Topics included legal frameworks, overcoming barriers to social enterprise, achieving and measuring impact, rapid prototyping, and cross-cultural adaptation.

Participants drew together key findings from the study through an ongoing process of analysis, discussion, and record keeping. Analytical exercises following each set of site visits enabled participants to reflect on their individual experiences in a group setting. These exercises understood each site visit as a case study, with participants identifying and recording their findings through group analysis and discussion. These findings culminated in a final seminar led by participants entitled 'Key ingredients for effective social enterprises in Latin America'.

This publication follows up the action research program by presenting the study's findings in a format that is accessible to a larger audience in order to assist emerging social entrepreneurs in Latin America, Australia, and beyond. We will begin in Section 2 by presenting case studies of social enterprise in Latin America identified through the situational analysis that provided baseline knowledge for the action research program. This will be followed in Section 3 by presentation of the key themes emerging from the case studies formed by site visits in Australia, and then in Section 4 by analysis and discussion of the study's findings and areas for future research.

## 2. SITUATIONAL ANALYSIS OF SOCIAL ENTERPRISE IN LATIN AMERICA

In preparation for the Social Enterprise Models action research program, Community Works undertook a baseline study to gain a better understanding of the current situation of social enterprise sector development in Latin America. Information for this situational analysis was gathered from a series of internet searches conducted in both English and Spanish. Using a 'snowball' methodology, key references were explored for further references until a saturation of information was reached.

One of the most important findings of the situational analysis was the prominence of social enterprise activity in Latin America. While social enterprise has become a popular approach in many parts of the world, it appears that its growth in Latin America has been especially rapid in recent years. Despite a relative lack of international attention for the region's strides in this sector (Callard 2011), a recent article in the Financial Times declares that 'when it comes to social entrepreneurship and innovative market-based solutions to poverty and environmental problems, the region is fast becoming a leader' (Murray 2012: 1). The rapid growth in social enterprise activity in Latin America can be partially attributed to a strong base of supportive organisations, networks, and alliances operating in the region. Section 2.1 outlines the work of some of the key players generating opportunities for social enterprise development.

Due to the unexpectedly large volume of information on the topic, not all of the case studies emerging from the research could be presented here. Case studies were chosen based on their ability to illustrate the diversity of social enterprise initiatives in Latin America and represent a variety of countries, contexts, sectors, and business models. Section 2.2 provides examples of social enterprises operating in the region, and Section 2.3 will present key themes emerging from these case studies.

### 2.1 Organisations, networks and alliances supporting social enterprise

#### 2.1.1 Nonprofit Enterprise and Self-sustainability Team (NESsT)

NESsT is a non-profit organisation that acts as a catalyst for social enterprises in emerging markets worldwide (NESsT 2014). The organisation's approach to supporting sustainable social enterprise is based on three key strategies: capacity support; investment; and social capital. NESsT refers to the combination of these elements as a process of incubation.

To support social entrepreneurs in planning, starting up, and expanding their initiatives, NESsT provides a combination of financial capital, training, mentoring, and access to markets and networks. Each phase has specific goals and indicators to determine a social enterprise's eligibility to progress to the next. NESsT has provided training to entrepreneurs from thousands of organizations in 48 countries, invested over US\$8million dollars in social enterprise initiatives, and achieved a \$3 to \$1 return on investment in addition to measurable social impacts such as job opportunities for marginalised workers.

Key social impact areas focused on by NESsT include:

- » **Labour inclusion** - providing training, employment, and placement services for marginalised populations such as at-risk youth, ethnic minorities and people with disabilities.
- » **Sustainable Income** – working with cooperatives or producer associations to increase the income of their members, such as artisans, small-scale farmers and micro-entrepreneurs.
- » **Affordable technologies** - commercializing affordable technologies to improve quality of life for low-income and marginalized communities, such those without access to goods and services to meet their basic needs.

NESsT has designed tools and strategies specifically designed for social enterprise incubation and preparation for scaling including methodologies for gaining impact from enterprise; monitoring and evaluation tools that include indicators of both social and financial performance; and capacity support in leadership, governance, financial management, scaling strategies, investment readiness, marketing, and alliance building. In addition, the organisation has conducted extensive research documenting the experiences of social enterprises through publication of books, case studies, and international forums.





### 2.1.2 Fundación Avina

Fundación Avina is a philanthropic body that generates and supports collaborative processes to consolidate the leadership of social actors to work towards continuous economic growth that would offer opportunities for a greater number of people, while caring for the environment (Fundación Avina 2014). The foundation's mission is to contribute to sustainable development in Latin America by building trust and alliances between social and business leaders in order to create favourable conditions for social enterprise. In doing so, it aims to improve the quality of links and association between the region's entrepreneurs, social enterprises, civil society organisations, academics, and governmental institutions.

Although Avina is very much concentrated on Latin America, its strategy is based on the notion that global perspectives and cooperation are crucial to promoting prosperity, sustainability and inclusion in the region. Principles emerging from this perspective to guide Avina's work include the importance of visibility in global spaces, knowledge exchange, mobilisation of resources (both financial and non-financial), international social capital, and the capacity to engage in global relationships.

Enterprises supported by Avina include those working toward social and environmental goals such as recycling, preservation of the Amazon rainforest, inclusive businesses and sustainable cities. As the foundation's work in multiple Latin American countries continues to grow, Avina maintains a focus on promoting networks and sharing action agendas with diverse actors, while also supporting initiatives that generate new methods for political dialogue and responsibility in public administration. As we will see in Section 3, the findings of the Social Enterprise Models action research program point to the importance of this type of work in creating more favourable conditions for development of the social enterprise sector in Latin America.

### 2.1.3 Social Enterprise Knowledge Network (SEKN)

SEKN is a collaborative network that gathers ten of the most prestigious business schools in Ibero-America and partners with the Harvard Business School and the Avina Foundation to engage social entrepreneurs in research, teaching and networking (SEKN 2013). The organisation's mission focuses on achieving ground-breaking knowledge and practice in social enterprise projects. Core strategies for achieving this include joint research, shared learning, case centred teaching, and strengthening of management training institutions' capacity to serve their communities.

SEKN has created partnerships to develop projects with high social impact and carried out a variety of courses, training seminars and conferences in association with partner organizations. One example of projects developed by the network is the 'Scale and Impact on Social Business in Ibero-America' project, which aimed to provide understanding of the processes involved with expanding initiatives to achieve greater social impact.

The 'Scale and Impact on Social Business in Ibero-America' project involved the participation of SEKN teams from Latin American countries including México, Venezuela, Colombia, Peru, and Argentina. The teams participated in activities such as analytical studies of best practice case studies, presentation of study results at internal seminars, and the development of training courses and workshops supporting social entrepreneurs. Training activities were aimed at entrepreneurs and management teams directly involved in the running of social enterprises, and thus contributed to strengthening the capacity of participating universities to support emerging social business processes, to promote sustainable enterprises in the region, and to build models that could be replicated.



## 2.2 Examples of social enterprise in Latin America

### 2.2.1 Mexfam, Mexico

Mexfam is an organisation with over fifty years of experience providing reproductive and sexual health services such as family planning, clinical care, and sex education to the most vulnerable populations of Mexico: the poor and the young (NESsT 2002). The organisation, based in Mexico City, focuses on three key service areas: sexual health for youth; reproductive and sexual health for people in marginalised urban neighbourhoods and rural areas; and health programs that train, equip, and supervise community health workers.

Mexfam's self-financing activities were initially supported through advice from international partners (including USAID and the International Planned Parenthood Foundation), which helped the organisation develop a business plan and organisational architecture for operating their clinics as social enterprises. These clinics play an important role in the communities, as they are purposefully located in places where low-income people really need them, while providing quality services that can compete with other healthcare options. Mexfam has expanded its entrepreneurial activities over the years to include the sales of products related to their social objectives, such as educational materials and contraceptives. Dividends obtained from investments in their social enterprise projects are reinvested to improve and expand the same project. Self-financing activities now provide fifty percent of Mexfam's income, and generated hundreds of jobs for full-time and part-time workers.

Several key factors have helped Mexfam ensure that its self-financing activities enhance, rather than obstruct, its social objectives. For one, the organisation has maintained a strong focus on its mission, while allowing a high level of flexibility concerning the income generated through self-financing activities. Keeping this income untied allows funds to be used freely within the organisation to keep up with changes in circumstances, priorities and demand. Mexfam's business model has kept the organisation's mission firmly embedded in its work, and the organisation continues to base its expansion on feasibility studies and market research that keeps its work client-driven. Finally, social enterprise activity has enabled Mexfam to gain a certain level of independence as it relies less and less on private donations to continue its operations. This allows the organisation the freedom to make decisions based on what their target population needs, as opposed to what funders demand.



### 2.2.2 La Morada, Chile

The nonprofit organisation La Morada was established in Santiago, Chile as a centre for advancing women's rights through a commitment to reducing domestic violence and workplace discrimination, while promoting public policies that benefit low-income women (William Davidson Institute 2006). One important division of La Morada is a psychological treatment clinic for low-income women, many of whom are victims of domestic violence. Along with the provision of therapy to victims of domestic violence, La Morada also disseminates findings from their practical work through publications, seminars and presentations, and to advocate of behalf of women's rights and health issues.

La Morada's funding sources have changed over its history. With international assistance slowly leaving the country with the fall of the Pinochet regime, La Morada's clinic became heavily reliant on donor funding during its early years of operation. When this support eventually failed to cover its expenses, La Morada solicited advisory help from NESsT to strengthen its financial sustainability and social impact.

While the clinic traditionally provided psychological therapy services at no cost to its low-income patients, transformation to a social enterprise required them to expand their services to higher income clients and use a sliding scale to charge all clients for services. NESsT provided critical technical and financial assistance in diversifying its funding architecture. The management, strategy, and culture of the organisation required significant transformation to successfully apply this knowledge and expertise. Changes included the appointment of a new director, a shift in staff attitudes towards the implementation of service fees, and the development of an innovative business plan.



### 2.2.3 Ingenimed, Peru

Ingenimed is an invention-based social enterprise providing NEO Led phototherapy equipment to treat babies with neonatal jaundice throughout Peru, including rural and remote areas in the Andean region (NESsT 2013). This biomedical company offers an affordable alternative to expensive imported equipment, which is inaccessible to many rural clinics that rely on technology that is often less effective and poorly maintained.

A partnership between NESsT and the Lemelson Foundation facilitated a three-year incubation for the development of this enterprise, supporting the creation of a prototype, market testing, product improvement, business plan development, the launch of the enterprise, and the beginning of a scaling process. Throughout the incubation process, company representatives participated in tailored workshops and received expert advice and training in a range of areas critical to the enterprise's development process. Crucially, Ingenimed earned certification to legally manufacture and sell their equipment, and has plans to produce and sell over 150 machines over the next four years.

Start-up financing that has enabled Ingenimed to build a viable enterprise includes a venture planning grant to fund the development of a solid business plan, in addition to start-up grant funding and 'soft loans', which provide capital with low interest rates and other repayment concessions. This financial support covered significant costs associated with designing and launching the business; without this support, it is unlikely that Ingenimed would have been able to obtain commercial loans.

Further financial assistance and capacity support needed for the scaling phase will be provided by the Lemelson Foundation, which aims to assist social enterprises achieve financial sustainability. The scaling process will involve the consolidation of governance and leadership structures, wider distribution of technology, product diversification and additional market research. It is hoped that enterprises like Ingenimed 'can exist permanently as "agents of change" in the ecosystem in which they operate, becoming role models for both public and private sectors' (NESsT 2013: 5).

### 2.2.4 Projecto CIES, Brazil

Projecto CIES addresses key health threats facing Brazil, including childhood mortality, maternal mortality and non-communicable diseases (Kulkarni 2011b). Despite constitutional rights to healthcare, Brazil's public healthcare system is overburdened and often produces long delays for patients needing appointments and procedures. This situation prompted a Brazilian doctor to launch Projecto CIES, which uses a mobile health centre to provide health services in a variety of medical specialities free of charge to low-income communities.

Projecto CIES is based on a unique business model that features shared management arrangements and complements existing government health programs. Its financial sustainability is based on offering services that are covered by Brazil's national healthcare program. It improves upon previous mobile health units, however, by providing low-income communities with access to a diversity of medical specialists. To ensure that it meets the needs of the communities it serves, Projecto CIES uses a combination of questionnaires and medical examinations to identify key health issues, and develop a specific response strategy in each neighbourhood where it works.



### 2.2.5 Coordinadora Regional de Recolectoras y Recolectores del Bio-Bio, Chile

Coordinadora Regional de Recolectoras y Recolectores del Bio-Bio was developed by a Chilean non-profit organisation with the aim of organising wild food harvesters to increase their income by developing their own business (Koljatic & Silva 2006). This would allow the harvesters to bypass the middlemen and gain a level of bargaining power that they lacked as individual workers. More importantly, it was hoped that the enterprise would transform attitudes toward the traditional harvesting work, as it was often considered a menial task shunned by even unemployed men and delegated to women and children.

Bio-Bio's founding organisation, Taller de Acción Social (TAC), began building the initiative by hosting a series of regional conventions for harvesters. Identifying the lowest-income groups, TAC paid for the harvesters' travel and accommodation in order to hold its first meeting. This meeting was the first step in establishing a collaborative network between people and communities. The need to instil dignity and build value into the harvesters' work were identified as crucial to the enterprise. To address this need, TAC devoted time and resources to help the harvesters reconnect with the history and traditions surrounding wild food gathering practices in order to foster self-esteem and a sense of identity linked to the cultural importance of their work.

TAC also supported the enterprise development process by providing training programs that taught vital business skills. These training sessions involved a range of professional advisors, including agro-industry executives, university faculty members, and local government officials. These sessions helped the gatherers organize themselves into productive units and develop a viable business strategy. With support from TAC, Bio-Bio also conducted an in-depth strategic planning 'SWOT' exercise, which analyses the group's strengths, weaknesses, opportunities and threats. This helped the group to identify where further training and support could enable them to develop a successful business.

Eventually Coordinadora Regional de Recolectoras y Recolectores del Bio-Bio has emerged as a governance entity that manages, markets for and represents eight communities of harvesters. Transparency and accountability is a priority, with leaders sharing information with community members at monthly meetings, and issuing regular public statements of costs and revenues. Representatives from TAC continue to support the enterprise by attending the meetings and collaborating with the harvesters on sales and distribution decisions.

### 2.2.6 Cruzsalud, Venezuela

Cruzsalud is a prepaid health care firm founded to promote a service aimed at Caracas' low-income sector (LIS) consumers (González & Viana 2006). The company's goal was to develop a product that was affordable for low-income groups, with high enough quality to be valuable to higher income groups as well. The enterprise's business model is based on the existence of an extremely large potential market in which one segment of clients with some purchasing power can effectively subsidise services for the lowest-income customers.

A key factor in the success of Cruzsalud has been its process of product design. By designing the care to complement the public healthcare system, existing public services added significant value to the product. Extensive market research in the low-income sector gave the enterprise insight into target market needs, leading to the design of a healthcare package that filled a variety of service gaps and aimed to win consumer trust by delivering a prompt and high-quality service. The end result was a set of health care plans available at low monthly rates featuring round-the-clock access to telephone health consultations, home-visits by qualified medical staff, emergency ambulance and dental services, lab tests, and all supplies required by patients seeking surgical procedures in public hospitals. Monthly fees can be paid conveniently through a prepaid card available at drugstores.

Cruzsalud has built trust among LIC consumer markets by recruiting people from low-income neighbourhoods ("barrio people") for its staff, especially for nurses and salespeople. As the first point of contact, salespeople initiate clients' interaction with the company, and nurses are the first to attend to them when they need care. The experience of Cruzsalud has shown that once clients make use of the service, a degree of trust emerges and contributes to a sense of loyalty that leads to repeat business.

Another key factor that has contributed to the success of Cruzsalud is effective cost control, which is extremely important to the financial sustainability of businesses that provide high volume operations resting on very low margins. Strategic use of information technology has enabled Cruzsalud to track cost control at the level of daily operations.

The future viability of Cruzsalud depends largely on whether it can continue to expand its client base and maintain mass product consumption. Other variables include the quality of state-provided healthcare: if the public healthcare system continues to improve, Cruzsalud may have to adjust its product to ensure that it remains complementary, rather than competing with state-run services.



## 2.3 Key themes emerging from the case studies

The case studies presented above demonstrate social enterprise activities in five countries spanning the Latin American region. One theme that emerged from this research is the diversity of current activity with regard to the sectors these enterprises operate within, the communities they serve, the impacts they strive for, and the organisational models they use to work towards their goals. Sectoral diversity includes activity in the areas of medical health (Projecto CIES; Cruzsalud), mental health (La Morada), community health and education (Mexfam), biomedical engineering (Ingenimed), and agriculture (Bio-Bio). Diversity in the initiatives' target populations includes women, youth, farmers, and Indigenous communities.

The enterprises also aim to fulfil a range of social and environmental objectives, including economic capacity-building (Bio-Bio); promoting dignity and human rights among disadvantaged community-members (La Morada; Bio-Bio); increasing access to basic services (CruzSalud; Proyecto CIES; Mexfam); preventing the spread of communicable diseases (Mexfam); providing life-saving technologies (Ingenimed); and preserving cultural heritage (Bio-Bio).

The case studies also illustrate how these social and environmental impacts can be achieved through a variety of different enterprise models, including:

- » Service-based models, including those that:
  - › Channel funds from government programs, such as national healthcare systems (Projecto CIES)
  - › Provide a low-cost product through prepayment systems to a large consumer base (Cruzsalud)
  - › Cover costs using sliding scale fees (La Morada)
- » Product-based models, including those that
  - › Sell mission-related goods and services to fund non-profit activities (Mexfam)
  - › Generate products with social objectives (Ingenimed)
- » Business-generating models, such as:
  - › Organized business collectives (Bio-Bio)
  - › Businesses that train, employ, and empower people from disadvantaged communities (CruzSalud)

This list has been generated exclusively from examples included in the case studies, and is not exhaustive. Section 3 will present the variety of business models observed in Australia, and discuss whether opportunities exist for similar models in Latin American contexts.

Another theme emerging from the research is the important role social enterprise can play in Latin America's rural and remote areas. Leaders of the region's social enterprise sector have identified rural and remote area work as a critical gap in development (Christenson 2011; Sercone & Vitoriano 2012). While some of the enterprises featured in the case studies work in urban areas, others were chosen to demonstrate ways in which social enterprise can benefit rural and remote communities. This work takes a number of forms, including enterprises that enable rural people to direct their own income-generating activities (Bio-Bio); provide access to technologies that benefit rural people (Ingenimed); and extend their services to rural communities from an urban base (MEXFAM). All of these forms require enterprises to elicit participation from rural communities to identify factors important to the design and implementation of their activities, such as local needs, consumer demand, and cultural appropriateness of service delivery.

The case studies also bring to light a number of challenges facing social enterprise development in Latin America. In the cases of both La Morada and Ingenimed, obtaining start-up funding and other forms of support presented major obstacles in their early days. Both enterprises were able to meet the challenge only through help from philanthropic and civil society organisations, indicating the important role that NGOs such as NESsT are currently playing in the development of the region's social enterprise sector. A related challenge is the struggle to achieve financial sustainability. To meet this challenge, several strategies were demonstrated in the case studies. Looking again at the cases of La Morada and Ingenimed, significant investment in a thorough and prolonged 'incubation' period was key to their strategy, allowing them to build capacity needed to survive in the marketplace. In the cases of Mexfam, Proyecto CIES, and Bio-Bio, investment in field research played an important role, determining information crucial to both social and financial success such as affordability, market demand, and culturally appropriate forms for services. Research was also key to Cruzsalud, which identified beneficial products and services that could be offered to large bases of low-income consumers at affordable prices.

Questions still remain about how regional challenges have affected social enterprise development. For example, the case studies went into little detail about the barriers they have encountered with regard to gaining investment, dealing with legal structures, or operating in restrictive public policy environments. These are topics that will be discussed further in Sections 3 and 4, where we examine the more in-depth case studies conducted in Australia, and draw comparisons between the two regions surrounding the key challenges and success factors of social enterprise.

### 3. ACTION RESEARCH ON EXPERIENCES OF SOCIAL ENTERPRISE IN AUSTRALIA

The central component of the current study examines the experiences of social enterprises in Australia, as seen from the perspective of participants in the Models of Social Enterprise action research program. The following section presents a summary of the Australian social enterprises included in the study (section 3.1) and identifies key themes emerging from participants' observations of these enterprises (section 3.2). Section 4 will then follow-up with discussion of how these observations sit alongside data gathered from other components of the study, and what they mean in terms of social enterprise development in Australia and Latin America.

#### 3.1 Overview of organisations included in the study

Participants in the Models of Social Enterprise action research program visited a total of thirteen social enterprises. Seven of these enterprises were based in the metropolitan area of Melbourne, while six were located in the very different landscape of central Australia. While some of the central Australian organisations were based in the region's largest city of Alice Springs (population 28,000), most of them either work with or operate in rural and remote communities whose majority population is Aboriginal.

The enterprises included in the study represented a diverse range of business models, social objectives, target populations, and cultural contexts. Rather than presenting a detailed case-by-case analysis of each initiative, our presentation of the case studies will draw together key themes emerging from participants' documentation of their reflection and discussion sessions following each visit. This will allow for better understanding of how the participants' experiences and observations built on one another throughout the research process. It will also allow a more complete and concise discussion of the complexities involved with social enterprise development, without getting bogged down in detail.

In focusing on key themes, it is important to note that some of the enterprises included in the action research program do not appear in the discussion that follows. These are not intentional omissions, but rather a product of organising the discussion around the research objectives. [For a complete list of initiatives included in the study, see Appendix B.]

The primary objective of this section is to condense the volume of information gained through the research program into a coherent discussion about how social enterprises succeed in Australia. After presenting the main themes emerging from the site visits, Section 4 will shift to analysing key findings from the study, including comparisons between participants' observations in Australia with their knowledge and experience surrounding social enterprise in Latin America.

#### 3.2 Key themes emerging from site visits

##### 3.2.1 Models of social enterprise

One of the first site visits conducted by participants brought them to Justice Connect, where the diversity of social enterprise models in Australia was emphasised. Justice Connect is a Melbourne-based enterprise that provides legal support to community organisations, including processes related to regulatory issues, trademarking, and constitutional design. Participants learned that the legal frameworks for the social sector are constantly changing in Australia, and that this gives rise to a great variety in terms of models of social enterprise. This is because the models adopted by entrepreneurs are often based on the types of organisation recognised by the legal system at the time of planning, ranging from enterprises consisting of only one person, to companies with specific responsibilities mapped out, to for-profit companies or foundations. Due to the comparatively rigid legal frameworks existing in Latin America, this was considered by participants to be an important point of contrast between the two regions that carries significant implications for their respective social enterprise sectors.

Visits to two more Melbourne-based enterprises, Kinfolk and the Revolution Project introduced participants to two distinct models of social enterprise in the Australian context. Kinfolk is a coffee shop that donates all of its profits to social projects in Australia and Africa. In this case, funds raised through the business are invested to generate impact in areas which are not related to the activity of the enterprise itself. This is sometimes referred to as the 'profit-generator model' (Venturesome 2008). By contrast, the social impact of the Revolution Project forms a central part of its business to form a 'lock-step' model (Venturesome 2008). At the Revolution Project, unemployed young people are trained in sales and online marketing to operate a retail shop that sells high-quality donated clothing.

Observations drawn from both cases indicated broader ideas about social enterprise models that was reinforced throughout the research process.



Maintaining a clarity and centrality of objectives was considered to be a particularly critical principle of social enterprise models in the Australian context. The clear social goals of Kinfolk and the Revolution Project were central to their organisational structure. However, it is important to understand that the lack of a clear definition for the concept of social enterprise more generally has enabled a diversity of models to emerge. The ambiguity surrounding the concept was also understood to be a feature of the Latin American entrepreneurial context.

Further insights into organisational structure were gained from a presentation by Seven Women, a charitable organisation aiming to empower disabled women in Nepal by selling their handicrafts in Australia. At this enterprise, as at Kinfolk, volunteers are central to the successful function of the business model. The diligence and skill of voluntary employees enables maximum funding to be invested in supporting the social objectives of the enterprise. Participants developed a deeper understanding of the importance of organisational architecture, which is closely linked to the subject of social enterprise models.

A very different type of business model was observed at the Olive Pink Botanical Garden in Alice Springs. Set out on a land reserve not far from the city centre, Olive Pink provides a meeting place and crossroads for a range of government and community organisations through its café, seminar programs, and a yearly EcoFair. Diverging from product-based market-competitive enterprises like Kinfolk and Seven Women, Olive Pink is essentially a state government-funded entity that is moving in the direction of self-sufficiency through enterprise. This model weaves a social goal (bringing communities together) into an array of self-financing activities, while still relying heavily on state funding to achieve social and environmental impact.

Kinfolk, by contrast, receives no government funding. Its business model relies, instead, on providing a product that is competitive on the market. Much of the clientele at Kinfolk buys coffee there for its quality, not for charity. Participants noted that 'There is a transformation in the value chain, the staff members are happier and also more productive (in the sense they work harder and with greater quality)' (RACI 2014, p. 9).

Green Collect, another Melbourne-based enterprise, demonstrates another type of business model that works with government, but in a fees-for-services capacity. Green Collect specialises in diverting 'hard to collect' items, such as office furniture, from landfill so they can be reused, remade, or recycled. Central to its social objectives is provision of flexible employment for people from disadvantaged backgrounds. The enterprise gains significant revenue from service contracts with a number of government departments, but also provides collection services for private businesses and sells 'upcycled' products that have been remade from the items they collect. This model rests on diverse sources of revenue that rely on service provision, as opposed to grant funding or charitable donations.







### 3.2.2 Financial sustainability

Achieving financial sustainability was identified as a key challenge in the workshop on 'Barriers to Social Enterprise', which prompted participants to consider the major obstacles hindering social enterprise development in Latin America. Following the visit to Revolution Project, the group agreed that it was critical to consider issues of sustainability right from the beginning of the entrepreneurial process.

With visits to Kinfolk and the Revolution Project in mind, participants considered the challenge of achieving financial sustainability as a key factor in the design of commercially-oriented social enterprises. For Kinfolk this is achieved by ensuring that profits are generated by a large client base drawn by the quality of the product, which is competitive in the market. Similarly, the Revolution Project avoids presenting itself as a charity, instead registering as a for-profit company. It achieves sustainability by minimising expenses that are unrelated to the social objective of training young people in retail.

An important observation made by participants is that the competitive approach in Australia is fostered by the context of a strong economy and supportive policy environment. Emphasising this context is important as it acknowledges that the growth of social enterprises cannot be understood in isolation from the broader socio-political circumstances in which they operate. Indeed, it was noted throughout the research that the sustainability of enterprises in Australia is greatly strengthened by government support.

Most of the enterprises included in the study received some sort of financial assistance from the government. This point was a central to participant discussions following the visit to Mayibuye, a youth-led organisation in Melbourne that uses performing arts to provide educational opportunities and promote healthy decision-making for young people at risk of behaviour-related health and social issues. Like Olive Pink Botanical Garden, Mayibuye enjoys a significant level of financial freedom and flexibility as a result of government funding. Even product-based enterprises that are registered as for-profit companies, such as the Revolution Project, have been able to obtain government subsidies to run training programs for young people.

A diversification of funding sources was also seen to increase sustainability. In the case of Olive Pink Botanic Garden in Alice Springs, financing stems from a number of sources including government grants, private donations, events and crowd-funding. Green Collect also stands out for its diversification of funding, with revenue raised through collection services, 'upcycled' products, and retail shops.

Participants noted that achieving financial sustainability entails becoming familiar with the context of the social enterprise sector and establishing an organisational model that can respond effectively to a variety of possible scenarios. It was clear to the group that the most successful enterprises are the ones that grow stronger through resilience to changing circumstances. In designing a social enterprise model, considerations of sustainability must be carefully weighed alongside the social objectives of the business.

### 3.2.3 Flexibility

A second important consideration regarding organisational structure concerns the issue of flexibility. At two of the retail enterprises visited in Melbourne (Kinfolk and Revolution Project), participants observed that the ability to adapt to changing circumstances was an essential quality of a successful enterprise. As noted above, organisations that are able to survive in a climate of constant uncertainty are ultimately stronger and better equipped to increase their social impact.

This was also identified as a key challenge during the workshop on barriers to social enterprise. During this activity it was emphasised that an enterprise's flexibility is crucial to achieving scalability. The potential to grow and increase impact was highlighted by participants as a fundamental quality of a social enterprise. Considering that scaling for small enterprises requires a certain level of risk, the contribution of government funding was seen to mitigate vulnerability and promote growth.

Participants also found that the notion of flexibility extends to the broader conceptualisation of what comprises social enterprise in Australia. That is, the way in which the term *social enterprise* is understood in Australia 'reflects different organizational models and different requirements regarding the formal and legal structure. More specifically it does not adjust to strict parameters' (RACI 2014, p. 25). In enabling the development of more flexible social enterprises, the government once again plays an important role. Incentives to form social enterprises are provided by an open legal framework, which promotes the inclusion of a commercial component in burgeoning social initiatives. The group learned that public policies in Australia have also helped to generate socially minded activity among professionals from a variety of fields.

The notion of flexibility relates also to the ways in which social enterprises in Australia conceive of and target their social goals. Empowerment is a key principle underpinning the work of Green Collect, which combines this social aim with the environmental objective of promoting sustainability through recycling schemes. The flexible model of Green Collect is reflected in its employment method, aiming to include social groups facing a range of difficulties. It is also worth considering the extent to which the organisation's diverse sources of revenue contribute to its ability to maintain the flexibility needed to provide empowering working conditions for its employees.

### 3.2.4 Impact

Many factors determine the capacity of social enterprises to achieve their desired impact. Importantly, the realisation of social objectives is what defines these initiatives: social enterprises are, by definition, entities driven by an agenda that is not solely commercial. For this reason, the subject of impact received considerable attention from the group throughout its research in Australia.

The presentation by Seven Women focused largely on the positive social impact that this handicraft enterprise has produced for the disabled women forming the backbone of the business. This impact was evaluated on the basis of several major indicators, ranging from the sense of self-determination and sisterhood among the women, to significant improvements in health, vocational training and economic independence. Participants felt that the capacity of women to earn their own income was the most important impact achieved by Seven

Women. This has been made possible through the implementation of an organisational model supported by volunteers selling the products in Australia.

At Kinfolk, where volunteers were also found to be a fundamental component of the enterprise structure, the social impact was less easily measured. There did not appear to be a clear strategy for selecting which development projects would benefit from the funds raised at the cafe. Furthermore, impact evaluation appeared to focus more on indicators relating to the café's volunteers than on measuring how Kinfolk's relationships with recipient organisations affected impact in their communities. This was a theme that recurred throughout the research process, and reinforced the principle that effective impact monitoring is crucial in maintaining an appropriate balance between the social and financial objectives of an enterprise. One of the main conclusions drawn by participants was that impact measurement strategies should measure both outputs and outcomes to generate a holistic indication of scaling, progress and results.

Participants also observed that organisational structure was often revisited and consolidated to heighten the impact of the enterprise. This was most clearly illustrated in the case of the Revolution Project, in which legal advisers recommended that the enterprise register as a for-profit company. This allowed the enterprise's founders to streamline project management without the need for a board of directors, thus enabling them to conserve resources and retain a stronger focus on the initiative's social objectives. This move also ensured that, in the case of liquidation, all assets from the enterprise would be invested in a similar organisation. The founders of the enterprise discovered that changing to a for-profit structure discouraged neither clothing donations nor sales, and the store was still eligible to receive government subsidies for training and employing young workers. As the company continues to grow its revenue, it is able to include more young people and increase its impact.











### 3.2.5 Culture and context

Given the international nature of this study, discussions of culture and context were a prominent feature of the research process. Participants gained an understanding of the cultural, political and legal variables influencing social enterprise development in Australia, as a basis for comparing and contrasting them with their own experiences in Latin America. The strong government involvement in social entrepreneurship in Australia is recognised as a crucial factor enabling positive activity in the local sector. From an economic point of view, the Australian government promotes participation in social initiatives by providing tax incentives, subsidies, and start-up grants. This encourages entrepreneurs to take part in social enterprise, as well as helping to mitigate the risks associated with scaling. A key lesson learned by the group was that the flexible legal framework in Australia is highly conducive to the growth of its social enterprise sector.

The legal context in much of Latin America, by contrast, makes the formation and development of social initiatives considerably more difficult. It was noted during the visit to Justice Connect, for example, that it can take up to two years just to register an organisation in Argentina. Unlike in Australia, the government in Argentina does not implement tax benefits for organisations working to achieve social objectives. Recognising these differences, the group analysed Green Collect as a case study of a successful social enterprise in Australia. Participants raised the question of whether this organisational model could be replicated with similar results in the relatively rigid legal and political context of Latin America.

It was generally agreed that institutional barriers in the region hinders the formation of mutually beneficial relationships between small social enterprises and non-government organisations. The work of Justice Connect testifies to the importance of such relationships for social entrepreneurs in Australia. The group concluded that this crucial distinction, as well as the absence of government support in the form of public policies or financial incentives, contributed to an entirely different entrepreneurial climate in Latin America.

The research process did more than identify the major points of difference between the respective legal and political contexts of the two regions. The activities undertaken also revealed the distinctly cultural character of much of social entrepreneurship in Australia. Emphasising this point, a presentation by Prof Alberto Gomes argued that relevant cultural factors must always be considered in the development of social initiatives. This helps to ensure that due consideration is afforded to cultural diversity, and enhances the practice of the enterprise itself by exploring the perspectives of various groups.

The Purple House, an alternative facility for indigenous patients seeking medical treatment in Alice Springs, is an apt example of a social enterprise that incorporates cultural considerations at the core of its model. The very foundation of this enterprise is based on the awareness that cultural factors are often neglected within contemporary medical services. The Purple House seeks to redress the emphasis on medical attention by promoting cultural consideration as critically valuable to the treatment and recovery of its patients.

Studies of the Olive Pink Botanic Garden and Ninti One in Alice Springs conveyed further insight into the complex cultural background of the social enterprise movement in remote Australia. Ninti One is a knowledge-generating enterprise that employs Aboriginal Community Researchers to expedite research, training and program delivery in remote desert locations. Ninti's 'unmatched, on-the-ground presence' enables them to 'bridge the gap of understanding of the issues that affect economies and lives in remote Australia' (Ninti One, n.d.). A key lesson learned is that communication between different stakeholder groups — particularly those from different cultural backgrounds — is fundamental to the planning and implementation of an enterprise's social objectives. Benjamin Convery, member of the board for the Olive Pink Botanic Garden, explained that their work with local Aboriginal groups through associated community organisations is a crucial element in promoting the key principles embedded in the Garden's functions.

Core values of patience, communication and understanding — seen by participants as imperative to effective social entrepreneurship — were underscored by the group's experience of meeting representatives of Keringke Arts in a bush location outside Alice Springs. This enterprise emerged through a series of arts exhibitions and courses run by the women of Santa Teresa, which is a small community of around 500 people located in the Emily Gap area southeast of Alice Springs. Named after the Dreaming place of one of its founding artists, Keringke means 'Kangaroo Tracks'. The Centre quickly became an influential model for other art projects in the area and is now a vital component of its cultural, social and economic fabric. Here participants were able to experience traditional Indigenous story-telling, and to consider how alternative forms of relating may be applied in modern entrepreneurship. At Keringke, both social and financial value are generated by relating the community's cultural history through creation and dissemination of art.



## 4. DISCUSSION AND ANALYSIS

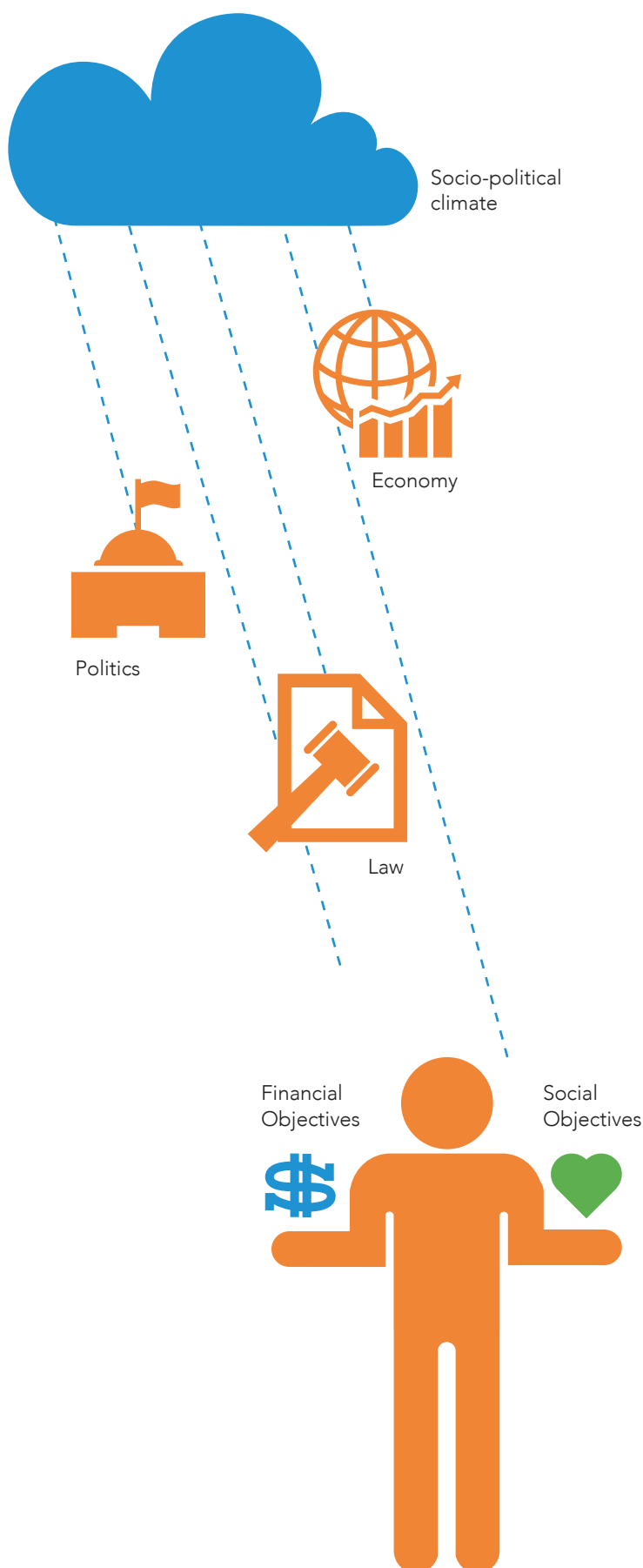
### 4.1 Analysis

During the course of the action research program, participants gathered data from a conglomeration of sources. These include the situational analysis of social enterprise in Latin America, site visits to social enterprises in Australia and workshop sessions led by key experts, as well as in-depth discussions that allowed participants to share with each other their own observations and experiences in both regions.

In order to draw together the key findings from this multifaceted program, questions pertaining to five key research objectives were formulated:

- » What are the points of similarity and difference between social enterprise development in Latin America and Australia?
- » What are the critical success factors that enable social enterprises in Australia to overcome key challenges that they face? Are these challenges similar to those faced in Latin America?
- » What existing business models can be identified in social enterprises in Australia?
- » Which of these models, if any, would work in Latin American contexts?
- » What role has public policy played in the development of social enterprise in Australia and Latin America?

These questions will guide the discussion of the data collected by participants in the Social Enterprise Models research program (Section 4.2), and provide focus to the commentary on what these findings mean in the broader context of social enterprise development in Latin America (Section 4.3).



## 4.2 Findings from the Social Enterprise Models action research program

### 4.2.1 Development of social enterprise: comparing Australia and Latin America

A unique aspect of the action research program was that it allowed participants to identify points of similarity and difference between social enterprise development in Latin America and Australia. Points of comparison were drawn relating to cultural, socio-political, and legal variables, as well as the types social impact achieved by enterprises in the two regions.

Cultural factors were flagged as a crucial matter for consideration when developing social enterprise initiatives. A clear strength of the action research program design was its inclusion of social enterprises serving both urban and remote communities, offering cross-cultural insight on two axes: (1) comparisons between Australia and Latin America; and (2) diversity within each region and country. While the complexity of this subject requires far more discussion than permitted here, several overarching points emerged. Case studies in both Latin America and Australia indicated that careful field research is often necessary to ensure that products, services, employment, and governance systems are culturally appropriate. In addition, clear and careful communication between different stakeholder groups enhances the impact achieved through social enterprise. This is especially important when an initiative involves cooperation between actors from different cultural backgrounds, including rural and urban actors within the same nation. Effective communication may require patience and understanding for both parties to learn new ways of relating to one another.

A number of social and political variables affecting social enterprise development were also identified. Participants noted the strong involvement of government in fostering the growth of social enterprise in Australia. This involvement, at the local, state, and national level, was perceived in sharp contrast to the socio-political environment surrounding the development of social enterprise in Latin America. This point of contrast was particularly important, as participants noted that the social enterprises they deemed most successful in Australia would be impossible to replicate within the current socio-political context of Latin America. For this reason, the role of public policy in the development of social enterprise was earmarked as a key point for analysis (see Section 4.2.5 below).

Participants also observed critical differences between the legal frameworks surrounding social enterprise in the two regions. Australian rules and regulations were seen as more open and encouraging for social initiatives that wish to include a commercial component in their organisational structure. Latin American rules and regulations, by contrast, were perceived as more rigid and restrictive. The flexibility of Australian legal frameworks was seen to support social enterprise development, a point that will be discussed in further detail when we address critical success factors below.

Another interesting point of comparison between Latin America and Australia is the types of social impact achieved through enterprise. A number of social objectives recurred in both settings, including empowering people from disadvantaged backgrounds; fostering economic independence; increasing social cohesion; providing education and vocational training; improving health outcomes; preserving cultural heritage; and delivering basic services. However, some notable points of contrast also emerge. For example, two additional social objectives appeared in the Latin American case studies included in the situational analysis: provision of life-saving technologies (Ingenimed); and prevention of communicable diseases (MexFam). In Australia, several of the enterprises included in the study also worked toward environmental objectives (Green Collect, Olive Pink, and Ninti One). This fits with an overall pattern emerging from the case studies showing a stronger focus on health-related products and services in Latin American enterprises, in comparison to a sector that appears to be more oriented toward social and environmental objectives in Australia.

#### 4.2.2 Key challenges and critical success factors

Central to the action research program was careful examination of the challenges facing the social enterprise sector and critical success factors that enable successful enterprises to overcome them. Understanding the similarities and differences between the challenges existing in Australia and Latin America can help social entrepreneurs determine whether strategies that are successful in one context will achieve the desired results in the other.

The existence of strong, positive relationships emerges as one element that is crucial to the success of social enterprises in Australia. This includes relationships both between government and non-government actors, and between small social enterprises and large NGOs. Participants perceived strained relationships between these different actors in Latin America as intertwined with institutional barriers holding back social entrepreneurs. This combination of strained relationships and institutional barriers was regarded as a key challenge to the development of social enterprise in Latin America.

A related point is the value of communication between different stakeholder groups in planning and implementing the social objectives of an enterprise. Investing time and other resources in careful and enduring communication was seen to enhance the practice of enterprise itself by exploring the perspectives of various groups, including those from different cultural backgrounds. Strong avenues for communication can help enterprises meet the challenges associated with maintaining a strong focus on social objectives while striving for financial sustainability.

Financial sustainability was regarded as both a challenge that each enterprise must face, and a factor that is crucial to an enterprise's ability to achieve social impact. Two main challenges associated with sustainability were identified. The first challenge pertains to both Australian and Latin American contexts: the careful balancing act between making a profit and maintaining focus on social objectives. This forms a key tension that all social enterprises must negotiate. The second challenge concerns the economic and political climate surrounding social enterprise, and was discussed mainly in the context of Latin America. Participants observed that a strong economy and supportive policy environment fostered the growth of competitive social enterprises in Australia. By contrast, the socio-political environment of Latin America was identified as a key barrier to the development of social enterprise in the region.

Participants agreed that considering financial sustainability from the very beginning of the entrepreneurial process is key to maintaining a balance between social and financial objectives. Giving careful attention to financial viability in the early phases of planning and design enable enterprises to embed a balance, sometimes even synergy, between social and financial objectives in the business model. Several strategies for achieving this were observed in Australia:

- » Market competitiveness — products and services are high quality and reasonably priced, so maintain a large client base that patronises the business regardless of its social objectives.
- » Minimisation of overheads — all expenses not related to the enterprise's social objectives are eliminated where possible. Skill and dedication from volunteers, for example, can enable an enterprise to invest maximum funding to support social objectives.
- » Diversification of funding sources — achieving sustainability through a combination of sources such as government grants, philanthropic donations, events provision of products and services, crowdfunding, and others.

Different challenges facing enterprises in Latin American contexts may require different ways of embedding these strategies in the business model. For example, the socio-political climate of the region may require different ways of reaching market competitiveness. The case of Cruzsalud showed how providing a super-affordable service to an extremely large client base formed a successful business model in Venezuela. Latin American case studies also showed the value of a prolonged 'incubation' period in attaining sustainability, but this generally requires external support to provide start-up funding, training, and other types of assistance.



Flexibility was seen as a critical success factor contributing to organisational resilience. Social enterprises that were able to adapt to changing circumstances were observed to be stronger in the face of uncertainty. Flexible enterprises were also better equipped to take on the challenges of scaling, enabling them to grow and achieve greater social impact. Effective impact monitoring is crucial, and should measure both outputs and outcomes to gain a full picture of scaling, progress and results. Comparatively flexible legal frameworks for social enterprise in Australia were seen as an asset, while the rigid structure of legal frameworks in Latin America were seen as prohibitive to the growth of social enterprise in the region. Government support in the form of financial incentives also helped to mitigate risk in Australia, thus contributing to enterprises' ability to be flexible.

Flexibility with regard to organisational models was also seen to be critical. The importance of flexibility begins with the design process, and follows through into all entrepreneurial stages. Several key points to consider include the value of:

- » Creating an adaptable structure paired with a strong focus on social objectives;
- » Engaging in effective impact monitoring that feeds in to evolving organisational architecture;
- » Preparing action plans for a variety of possible scenarios;
- » Maintaining responsive governance that is able to consider demands arising from entrepreneurial and market processes as well as the talents and passions of the people involved.

Business models often need to be revisited and consolidated to heighten impact, such as in the case of Revolution Project, which transformed into a for-profit company. Flexibility and support embedded in the legalities surrounding social enterprise in Australia were seen as crucial in enabling organisations to create innovative and resilient business models.

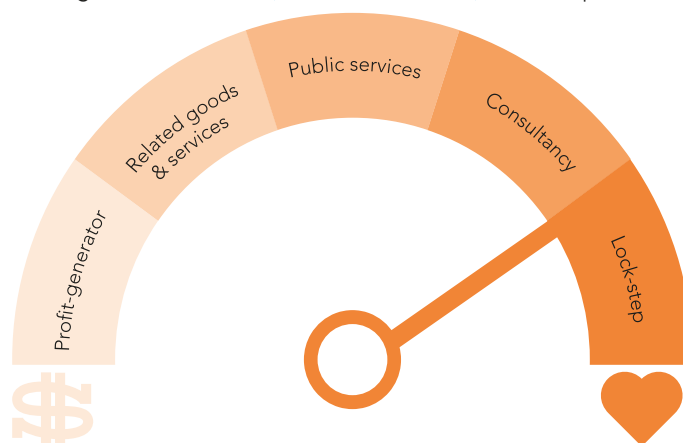


### 4.2.3 Existing business models for social enterprise

A diversity of business models were identified in Australian social enterprises. In order to consolidate an understanding of these, existing business models can be framed in terms of how they are placed on two key spectrums. The first spectrum concerns how an enterprise's profit-making activities relate to its social objectives. The second is based on the level of self-financing built into the business model.

#### 1. Relation of profits to social objectives

Profit-generator model ← → Lock-step model



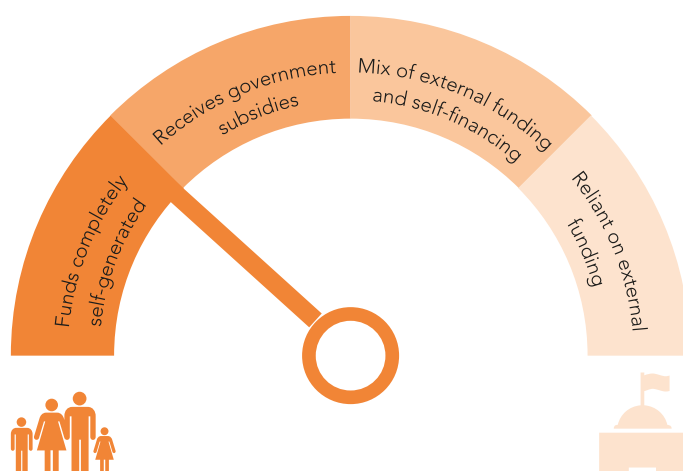
The spectrum of interaction between an enterprise's profits and its social objectives ranges from the 'profit-generator' model, in which the enterprise raises money to fund an unrelated social objective, to the 'lock-step' model, in which the social objective is embedded in the functioning of the enterprise (Venturesome 2008). An example of an enterprise based on a profit-generator model is Kinfolk, where profits from coffee sales are used to support social projects. The Revolution Project, by contrast, is based on a lock-step model, where the retail function of the enterprise gives rise to training and employment opportunities for disadvantaged young people.

Between these two opposite ends, there lie a number of 'in-between' models. For example, some social enterprise models fund social projects by selling goods and services that are related to their mission. Examples of this are Purple House, which sells medicinal products based on traditional healing practices to support its clinical care services, and Mexfam, which sells contraceptives and charges modest fees for clinic services to fund advocacy and HIV prevention activities. A closely related model is based on providing a public service that can be funded through contracts with government entities. Project CIES in Brazil is a prime example of this model, as it has designed its service to complement the national healthcare system which allows the enterprise to fill existing gaps while collecting a fee-for-services directly from the government. Australian enterprise Green Collect provides another example of a model that weaves in government service contracts, but only as part of a broader range of self-financing activities. The action research project also observed business models based on consultancy services, where enterprises provide professional development and advisory services based on knowledge gained through social initiatives. An example of this is Ninti One, where Aboriginal Community Researchers play an essential role in providing insight to improve service delivery and develop demand-responsive social and environmental programs.

It is important to note that social enterprises do not necessarily remain static when it comes to their business model. Indeed, embedding the critical success factor of flexibility sometimes requires social enterprises to move around on this spectrum. For example, Purple House currently sells products based on traditional medicine, but is working on establishing contracts with the government to pay for provision of their medical services. This move would shift Purple House's business model to resemble the public service-based model of Project CIES in Brazil.

## 2. Level of self-financing

Funds are completely self-generated ← → Reliant on external funding



The dynamic nature of business models is even more pronounced when it comes to the second spectrum, which relates to an enterprise's diversification of funding sources. On one side of this spectrum are enterprises where funding is completely self-generated. These enterprises, such as Kinfolk, receive no funding from external sources and generally rely on producing a competitive product that people buy for its quality regardless of the enterprise's social objectives. On the other end of the spectrum, some enterprises rely on funding from external sources to accomplish their social objectives. The business model of Olive Pink Botanical Garden, for example, currently requires significant grant funding from government entities to achieve social impact. Many enterprises like Olive Pink are constantly evolving to move further towards the 'completely self-generated' end of the spectrum.

Most of the business models observed in Australia fall somewhere in between these two ends of the spectrum. Some of the enterprises observed were viable businesses, but did receive funding from other sources. Purple House, for example, describes its model as being based on 'an innovative mix of philanthropic and self-generated funds, and Territory and Commonwealth Government support' (Western Desert n.d.). An important distinction lies between models based on government and philanthropic funding, on the one hand, and those based on fees-for-services revenue, on the other. Green Collect, for example, generates revenue from providing services to customers, which include government entities. This places their model on the 'self-generated' end of the spectrum. A grey area emerges, though, with regard to enterprises that are largely self-sufficient, but receive government subsidies for performing valuable social functions. In the case of the Revolution Project, for example, subsidies were based on their provision of professional development activities for young people.

Participants in the action research program were struck by the fact that almost all the social enterprises they studied in Australia received some form of government involvement ranging from service fees to subsidies to start-up loans and grant funding. This is a point that will be discussed in more depth in section 4.2.5 where we explore the role of public policy in social enterprise development.

### 4.2.4 Application of Australian business models to contexts in Latin America

Which of these models would work in the Latin American contexts?  
(To be discussed in the workshop with participants)

### 4.2.5 Role of public policy in the development of social enterprise

One of the most prominent findings to emerge from the action research program was the crucial role of public policy in the development of social enterprise. A number of factors in the social, political, and legal environment were seen to influence the success of social enterprise in Australia.

Strong government involvement in social entrepreneurship was identified as one crucial factor enabling positive social enterprise activity in Australia. The relative lack of interaction between social enterprises and government bodies in Latin America was, conversely, noted as an inhibiting factor. This disconnect was largely attributed to a climate of distrust between government and non-government actors in the region.

One area in which government involvement was observed to be most crucial was economic policy. In Australia, tax incentives and start-up grants promote participation in social enterprise and help mitigate the risks associated with scaling. Government subsidies enable the emergence of sustainable business models that invest resources in providing valuable social functions, such as the Revolution Project. Absence of similar financial incentives and support were viewed as institutional barriers to the growth of social enterprise in Latin America. To some extent, civil society in the region has reached to fill the gaps in this respect. Non-governmental organisations such as NESsT and the Avina Foundation provide opportunities for social enterprises to obtain low interest loans, start-up grants, and other forms of support.

Legal regulations were also determined as critical to creating an enabling environment for social enterprise. Flexible legal frameworks were seen to promote growth in the social enterprise sector in Australia. Legal frameworks that encourage social initiatives to include a commercial component were regarded as another important feature



### 4.3 Conclusion and implications

The Social Enterprise Models action research program enhanced participants' professional development, specifically with regard to their capacity to start up and maintain successful social enterprises in Latin America. The program sharpened participants' ability to analyse social entrepreneurial activity and apply key ingredients to improve financial viability and increase social impact. Implications stemming from their research findings will shape the ways participants will approach program design, public policy advocacy, and future research on social enterprise.

Implications for program design include a number of important elements to consider in relation to business models, financial sustainability, and ways of maintaining a focus on social objectives. Flexibility has been identified as a critical success factor in building a resilient social enterprise that can grow to achieve maximum impact and withstand changes as they occur both within and outside the organisation. Building and maintaining strong relationships between a variety of stakeholders is another important factor understood as crucial to maximising impact. Organisational architecture should be reviewed regularly to ensure that governance processes and structures allow the enterprise to learn from experience and improve both its financial robustness and its social integrity.

The research also carried important implications for how reforms in public policy could create a supportive environment for social enterprises in Latin America. Observations surrounding social and political factors influencing the development of social enterprise in Australia suggested that greater government involvement could encourage growth in Latin America. Accomplishing this will likely require effort by both government and non-government actors to build stronger inter-sectoral relationships. The principles of mutual trust and two-way communication will need to be carefully nurtured if these relationships are to succeed in removing barriers to social enterprise development in the region.

Several areas for future research also emerge from the present study. Since the present program was primarily educational in nature, a logical next step would be to develop further action research that is more operationally oriented. This would allow participants to apply the principles stemming from this research to start up or improve social enterprise initiatives, and study the process using action research methods. Participants also noted that the Social Enterprise Models program did not include any interaction with Australian government actors. The findings from this study point to the importance of future work to focus more acutely on the role of public policy in fostering social enterprise development.



Design  
enterprise  
models



Financial  
viability



Social  
Impact



Remain  
flexible



Monitor outputs  
and outcomes



Grow



Build  
relationships



Advocate for  
public policy



Research

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## APPENDIX A – STUDY PROGRAM

DATE	ACTIVITY DETAILS
Part One	Context and case studies in urban Australia
Monday 21st April, public holiday in Australia	<p>Rest, briefing and warm-up session about the program, introductions and expectations led by Steve, from 2.00pm.</p> <p>Social walk in Melbourne and some fresh air and exercise.</p> <p>Meal at South Wharf.</p>
Tuesday 22nd April 2014	<p>Introduction to program and participants, brief descriptions of the work and expectations of each Fellow</p> <p>Presentation and discussion of findings of <b>Study on social enterprise in Latin America</b>, produced by Community Works, Steve Fisher/Maria Rodrigues</p> <p>Presentation and discussion on <b>The Social enterprise landscape</b>, Celia Hobson, CEO of School for Social Entrepreneurs</p> <p>Meeting with Seven Women (to be confirmed). Alternatively, workshop on challenges for the sustainability of civil society organisations in Latin America</p>
Wed and Thurs 23rd to 24th April 2014	<p>Visits to four urban social enterprises of different types, maturity, focus and stages of development, meetings with staff and clients:</p> <ul style="list-style-type: none"> <li>» Werribee Migrant Hub</li> <li>» Kinfolk</li> <li>» GreenCollect</li> <li>» Mayibuye</li> </ul> <p>plus reflection time and analytical exercises.</p>
Friday 25th April 2014, public holiday in Australia	<p>Participation in ANZAC Day events (morning)</p> <p>Participatory training workshop on <b>barriers to social enterprise</b>, Maria Rodrigues.</p>
Saturday 26th April	Rest day
Sunday 27th April	Rest day
Monday 28th April 2014	<p>Action learning set on <b>integrating social enterprise into existing organisations</b>; Sofiah Mackay, School for Social Entrepreneurs.</p> <p>Participatory training workshop on <b>legal frameworks</b>; Sofiah Mackay, School for Social Entrepreneurs.</p>

## Part Two

## Context and case studies in remote Australia

29th April to 3rd May – Three full days, two half days plus travel in either direction from Melbourne

Examination of social enterprise in rural and remote settings in Australia through the work of:

- » Enterprise Learning Projects
- » Ninti One community research initiatives
- » Contacts of Central Australia Social Enterprise Hub
- » Local Aboriginal-owned social enterprises
- » Others

The visit will enable Fellows to see and experience the challenges of developing social enterprises in remote areas of Australia, especially in the context of different cultural opportunities and priorities.

Sunday 4th May 2014

Rest day

## Part Three

## Analysis and planning for return to work

Monday

Reflection on Alice Springs visit; Vanessa Angulo

5th May 2014

**Rapid prototyping for social enterprise**, Ian Jones, Project Manager, Social Enterprise Group, College of Business, Royal Melbourne Institute of Technology

Tuesday

Training workshop on **achieving and measuring impact in the social enterprise sector**; Steve Fisher

6th May 2014

Work on action research and planning; Martin de los Rios

Wednesday

Seminar in partnership with Victoria University on:

7th May 2014

**'Cultural crossovers; adapting social enterprise methods to the context and culture of Latin America'**

Led by Julian Waters-Lynch and Juan Caranza

Thursday 8th May 2014

Group work on action research findings and finalise action plans; Martin de los Rios

Also opportunity to get out of the room and do something active, including outdoor team-building work.

Also, possible meeting with Prof. Alberto Gomes, Latrobe University

Friday 9th May 2014

Seminar: **'Key ingredients for effective social enterprises in Latin America'** led by Fellows and with invited audience.

Closing event and certificates

## Part Four

## Support to implementation of action plans

Early 2015

Internet-based communication with Fellows through Skype and email based on plans agreed before they leave Australia.

A seminar to share experience, review process and support further work will be offered in Buenos Aires or another location during early 2015, subject to discussion with Fellows.

## APPENDIX B – INDEX OF AUSTRALIAN ENTERPRISES

### Enterprises in Melbourne

#### Green Collect

Green Collect diverts 'hard to collect' items, such as office furniture, from landfill so they can be reused, remade, or recycled. Central to its social objectives is provision of flexible employment for people from disadvantaged backgrounds. The enterprise also sells 'upcycled' products that have been remade from the items they collect.

[www.greencollect.org.au](http://www.greencollect.org.au)

#### Justice Connect

Justice Connect is a Melbourne-based enterprise that provides legal support to community organisations, including processes related to regulatory issues, trademarking, and constitutional design.

[www.justiceconnect.org.au/](http://www.justiceconnect.org.au/)

#### Kinfolk

Kinfolk is a coffee shop that donates all of its profits to social projects in Australia and Africa.

<http://www.kinfolk.org.au>

#### Mayibuye

Mayibuye is a youth-led organisation that uses performing arts to provide educational opportunities and promote healthy decision-making for young people at risk of behaviour-related health and social issues.

<http://www.mayibuye.org.au>

#### Seven Women

Seven Women is a charitable organisation that aims to empower disabled women in Nepal by selling their handicrafts in Australia.

<http://sevenwomen.org/>

#### Revolution Project

The Revolution Project trains and employs young people in sales and online marketing to operate a retail shop that sells high-quality donated clothing.

<http://docklandspaces.org/projects/project/the-revolution-project>

Werribee Migrant Hub, which provides economic, social, housing and other opportunities for migrants to Australia from other countries.

### Enterprises in Alice Springs

#### Central Australia Social Enterprise Hub

This social enterprise hub, 'desert hub' for short, supports local social entrepreneurs in planning, designing, and scaling social enterprises. Designing the desert hub initiative was a collaborative process led by the Desert Peoples Centre, supported by the Commonwealth Bank of Australia, and featuring input from a range of experts from the nation's social enterprise sector.

<http://desertpeoplescentre.org.au/what-we-do/social-enterprise/>

#### Enterprise Learning Project

The Enterprise Learning Project explores, develops, and grows social enterprise initiatives through hands-on learning and direct support mechanisms.

<http://www.elp.org.au>

#### Keringke Arts

Keringke Arts emerged through a series of arts exhibitions and courses run by the women of Santa Teresa, which is a small community of around 500 people located in the Emily Gap area southeast of Alice Springs. Named after the Dreaming place of one of its founding artists, Keringke means 'Kangaroo Tracks'. The Centre quickly became an influential model for other art projects in the area and is now a vital component of its cultural, social and economic fabric.

<http://keringkearts.com.au/artworks/>

#### Ninti One

Ninti One community research initiatives is a knowledge-generating enterprise that employs Aboriginal Community Researchers to expedite research, training and program delivery in remote desert locations.

<http://www.nintione.com.au>

#### Olive Pink Botanic Garden

Olive Pink Botanic Garden is set out on a land reserve near to the Alice Springs CBD, and provides a meeting place and crossroads for a range of government and community organisations through its café, seminar programs, and a yearly EcoFair.

<http://opbg.com.au>

#### The Purple House

The Purple House is an alternative facility for indigenous patients seeking medical treatment in Alice Springs. The enterprise also sells medicinal goods based on traditional healing practices.

<http://www.westerndesertdialysis.com>



## APPENDIX C – LIST OF FELLOWS

Country	First name/s	Family name	Male or Female	Current employer	Current position
Ecuador	Mauricio Martin	Alarcon Salvador	Male	Fundación Andina para la Observación Social y Estudio de Medios (FUNDAMEDIOS)	Programs director, Legal Advisor
Bolivia	Ivan Walter	Arnold Torrez	Male	Nativa	CEO
Argentina	Gonzalo Matías	Bazgan	Male	Cascos Verdes	Executive Director
Argentina	Guillermo	Correa	Male	Red Argentina para la Cooperación Internacional	Executive Director
Uruguay	Anabel Susana	Cruz Santacroce	Female	Instituto de Desarrollo Cooperativo (IDC) - Institute for Communication and Development	Policy Advisor and Director
Brazil	Sonia Helena	Doria London	Female	Museu da pessoa	Executive Director
Argentina	Paula Lucia	Dotti	Female	Red Argentina para la Cooperación Internacional	Executive Assistant
Argentina	María Victoria	Emanuelli	Female	Change.org	Argentina's Campaigner
Argentina	Maria Eugenia	Fraguas	Female	Asociación Civil Grupo Puentes	Executive Director
Argentina	Daniela	Limongelli	Female	Fundación Cruzada Argentina	Executive Director
Argentina	Diana Noemí	García	Female	Fundación Claritas	Executive Director
México	Raúl	Maza Hernandez	Male	Habitat Creativo	Director For Institutional Development
Argentina	Magdalena María	Olmos	Female	Fundación Reciduca	Executive Director
Argentina	Mario Gabriel	Roset	Male	Wingu	Executive Director
Argentina	Gabriela Beatriz	Sbarra	Female	Inter American Foundation. (IAF)	Program Coordinator
Argentina	Pablo Alejandro	Secchi	Male	Poder Ciudadano	Executive Director
Paraguay	Cristian David	Sosa Maciel	Male	Juventud que se mueve	CEO
Argentina	Paula	Torres Carbonell	Female	Fundación Ruta 40	Executive Director
Argentina	Emilio	Xarrier	Male	Malba – Fundación Eduardo Costantini	Gerente General
Argentina	Mario Fiedotín	Fiedotín	Male	Fundación Metáfora para el Desarrollo Sustentable y la Cooperación Internacional	Director





The development of social enterprise in Australia and Latin America: Findings of a research project



