

Stanford SOCIAL INNOVATION REVIEW

10th Anniversary Essays
Money Is Never Enough
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institutions and businesses. Accountability mechanisms include citizen advisory boards, community councils, participatory budgeting, public expenditure tracking, monitoring of public service delivery, and consumer protection. The underlying premise is that conventional accountability enforcement mechanisms such as elections, public oversight agencies, and the media are falling short; nonprofits are to become the social whistleblowers and advocates for voices that would otherwise remain unheard.

Fourth, nonprofits are seen as a source of innovation in solving social problems. Indeed, nonprofits are assumed to be better at social innovations than governments, because their smaller scale and greater proximity to communities make them creative agents in finding solutions. Governments are encouraged to seek a new form of partnership with nonprofits aimed at identifying, vetting, and scaling up social innovations to build more flexible, less entrenched public responses.

What do these perspectives mean for the nonprofit sector of the future? Assuming that the trends continue, the following scenarios may serve as markers that nonprofit representatives may wish to consider:

NPM Scenario | Nonprofits become a set of well organized, quasi-corporate entities that take on the tasks and functions that previously were the purview of the state, but that are now delivered through competitive bidding processes and contractual arrangements, to maximize the competitive advantages of nonprofit providers in complex social markets. In the end, the nonprofit sector could become the private extension agent of a minimalist contract regime run by government.

Civic Scenario | Nonprofits are the building blocks of a self-organizing and self-correcting community corpus. They are part of a benign civil society in which high levels of individualism and special interest coincide with equally high levels of participation, engagement, and connectivity. The nonprofit sector would form a set of interlocking associational complexes that prevent social ills and detect and correct them before they become “social problems.” Largely the self-governing bedrock of civil society, and supported by philanthropy, nonprofits coordinate their own activities and exist at arm’s length alongside a small, technocratic state.

Accountability Scenario | Nonprofits are a force of and for advocacy. As a source of dissent, and with independent philanthropic resources at their disposal, they challenge and protect—by building and moving political agendas and monitoring government and business. Indeed, they emerge as a countervailing force that serves as a social, cultural, and political watchdog keeping both market and state in check and accountable. The nonprofit sector creates and reflects the diversity, pluralism, and dynamism of modern society.

Innovation Scenario | Nonprofits are encouraged to operate in problem fields that politicians find either too costly or inopportune to tackle themselves. Elected leaders can contend that “something is being done.” Nonprofits are the fig leaf for a political world unwilling to tackle social problems in a serious way. Attracting philanthropic venture capital, and integrated into social investment markets, nonprofits become the “search engine” for

social problem solving in modern societies.

It is, of course, unlikely that any of the four scenarios will prevail exclusively; more likely, one may become dominant, especially economically. In this respect, the NPM scenario will continue to shape the evolution of service-providing nonprofits. It will enable new for-profit/nonprofit hybrids to emerge, not only in the changing health and social care markets but also in fields where public contracting will become more prominent: education and research, environment, energy, and information technology.

The various scenarios outlined above not only cast the nonprofit sector in a different role, they also imply different roles for the state and business. At one level, nonprofits become parallel actors that may complement or even counteract state activities and compete with businesses, as in the NPM scenario. This perspective is very much in line with classical liberalism and is also present in the civil society and accountability scenarios. At another level, the state and nonprofits are part of ever more complex public-private partnerships; they work in complementary fashion with other agencies, public and private.

Both scenarios are possible, as traditional notions of public benefit and public responsibilities shift from the state to other actors, paving the way for nonprofit organizations to be private actors for the public good. The role of the state as “enabler” and “animator” of private action for public service has increased and will continue to do so. This development, in turn, will continue to push and pull nonprofits in all the four directions—amounting, in the end, to a future positioning that is as contradictory as it is dynamic, and as unsettled as it is vital for society.

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MONEY IS NEVER ENOUGH

BY LETICIA M. JÁUREGUI CASANUEVA

Since the 1970s, microcredit has been considered a critical tool for poverty reduction and development. Muhammad Yunus even considers access to credit a human right. After years of research and working hand-in-hand with female entrepreneurs in marginalized Mexican communities, however, I’ve learned that credit is a necessary but not a sufficient condition for success. These women face a multiplicity of challenges, including a lack of social networks, an underdeveloped entrepreneurial business culture, few business skills, no access to mobile technology, and limited contact with professional business development services.

I became a social entrepreneur to help female entrepreneurs

overcome these challenges—to work with women in Mexico’s marginalized communities and offer them tailored and practical business development services to help them succeed. To accomplish that I created Crea, a nonprofit social enterprise I’ve been building for the past 5 years. Through our services we’ve helped low-income women become successful: 88 percent of the women

entrepreneurs have had to overcome our own challenges. This experience has taught me that money, by itself, is never enough. What we need are changes in legal and fiscal regulations, as well as the creation of a solid ecosystem and infrastructure to allow social entrepreneurs to reach their full potential and help solve Mexico’s and the world’s most urgent problems.

One of the biggest problems Mexican social entrepreneurs face is that there are no organizational/legal entities that allow entrepreneurs to run social enterprises *per se*.

—LETICIA M. JÁUREGUI CASANUEVA,
Crea Comunidades de Emprendedores Sociales



we have worked with now have formal accounting systems, up from less than 5 percent when we started; these women have increased their profits 50 percent more than women in similar conditions who don’t work with Crea. Our services have helped these women increase their income and create new jobs and opportunities for people in their communities.

But just like the women I work with, I and other Mexican social

On the legal and fiscal side, one of the biggest problems Mexican social entrepreneurs face is that there are no organizational/legal entities that allow entrepreneurs to run social enterprises *per se*. An organization can incorporate as a nonprofit and justify tax-deductible earned income only if it can prove that the income is related to the social mission. Or an organization can incorporate as a for-profit and donate, with tax deductibility, up to 7 percent of the prior year’s profits to philanthropic or impact activities. But no organization can have it both ways.

The growth and impact of the social sector is limited by the inflexibility of laws that inhibit innovation and investment in social enterprises. To work around the constraints, Crea has had to incorporate multiple entities, increasing our administrative costs but allowing us to operate successfully while complying with regulations. If we didn’t have a board full of lawyers, our strategy would not have been possible.

Many Mexicans are striving to change these regulatory obstacles

SSIR 10 Years Sparking Social Change

For the past decade the *Stanford Social Innovation Review* has been a trusted guide to the world of social change. As social innovation gathers pace we look forward to *SSIR*’s continued insight into our changing world.

Microsoft YouthSpark is a global initiative that aims to create opportunities for 300 million youth around the world during the next three years by connecting them with greater opportunities for education, employment and entrepreneurship.



<http://www.microsoft.com/youthspark>



and show that social enterprises are partners and collaborators in the country's development. Nevertheless, our social innovation sector is relatively small when Mexico is compared to other countries in Latin America, such as Chile. One thing that would help us, and I am sure would help social entrepreneurs in many other countries around the world as well, is enactment of new laws and regulations that would make it easier to create and operate social enterprises. This would be an admirable task for a global NGO to take on.

Another reason the Mexican social sector hasn't evolved and reached its full potential is that the government has long been reluctant to collaborate with organizations such as ours. Because there are few opportunities to develop strategic collaborations between the government, the private sector, and civil society, it becomes hard to scale up the impact and replicate successful models.

Last, there is a dearth of civic and philanthropic culture in Mexico. Very few people seem to understand or care about impact indicators, and the lack of professionalization in the social sector is striking. The kind of educational opportunities and consulting support that could encourage a stronger civic and philanthropic culture are sorely lacking. Data are not yet driving strategic investment and philanthropic decisions, which in many cases limits the impact on the ground. It also prevents the sector from showing how the financial and social impact it does have contributes to the country's development.

Despite these obstacles, I am hopeful about the future. Women are the hidden engines of economic growth. By investing in women we are seeing real social and economic development. And we are not alone. Crea is one of many social enterprises that are creating change in Mexico and around the world.

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STANDING WITH THE POOR

BY JACQUELINE NOVOGRATZ

Ten years ago, as the *Stanford Social Innovation Review* was getting off the ground, the idea of impact investing was also beginning to take hold. The early pioneers, including Root Capital, Omidyar Network, and Acumen Fund, set out to make philanthropic capital more productive in serving the poor. We had seen that neither markets nor top-down government nor aid alone solved problems of poverty. We were encouraged by significant investment and collaboration from the philanthropic community, including the Rockefeller Foundation, the Skoll Foundation,

and a group of forward-thinking people who saw the potential for impact investing to bring something new to the conversation on social change. We had no clear roadmap, so we just started and let the work teach us.

A decade later, we've learned that patient capital works. Our \$80 million in approved investments has created more than 58,000 jobs and affected more than 100 million people. Moreover, more than 200 organizations now work under the impact investing rubric. Some seek high financial returns; others are more focused on social returns. As more funds have been formed, a new sector has emerged. The Aspen Network of Development Entrepreneurs serves as a trade association to professionalize the field and create



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—JACQUELINE NOVOGRATZ, Acumen Fund

a forum to share learning. The Global Impact Investment Rating System (GIIRS) provides metrics to compare results between funds. The Impact Reporting and Investing Standards (IRIS) system, managed by the Global Impact Investing Network, is building standards to make those comparisons more relevant. Ultimately, I believe this pioneering work will affect much larger corporations who understand, as we do, that business as usual is not an option.

As impact investing goes mainstream, I have a lot on my mind. For starters, the work of creating new markets in places where markets have failed and aid has fallen short is long, messy, and difficult. The road to large scale in underserved or nonexistent markets where people earn only a few dollars a day requires not only capital, but also leadership, management support, and strong systems that help support growing companies over time. All of this takes a sort of hard-edged patience and a gritty determination to do what is right, not what is easy.

As I think about the next ten years, I believe that Acumen and the impact investing sector will need to confront several issues head-on. First, we need to have a more nuanced conversation about the types of capital and technical support needed for different kinds of companies at different stages of their development. My colleagues Sasha Dichter and Rob Katz, along with Monitor Inclusive Markets, wrote about this topic in depth in "Closing the Pioneer Gap," in the winter 2013 issue of *Stanford Social Innovation Review*. Suffice it to say here that more philanthropy and more risk-tolerant capital are needed to help early-stage businesses navigate the challenges of creating markets that serve the poor.

Second, we need to articulate clearly what roles government, civil society, and corporations play in creating ecosystems for social